

U.S. EXPORT PROMOTION STRATEGY

HEARING

BEFORE THE

SUBCOMMITTEE ON TERRORISM,
NONPROLIFERATION, AND TRADE

OF THE

COMMITTEE ON FOREIGN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

APRIL 24, 2008

Serial No. 110-193

Printed for the use of the Committee on Foreign Affairs



Available via the World Wide Web: <http://www.foreignaffairs.house.gov/>

U.S. GOVERNMENT PRINTING OFFICE

41-990PDF

WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON FOREIGN AFFAIRS

HOWARD L. BERMAN, California, *Chairman*

GARY L. ACKERMAN, New York	ILEANA ROS-LEHTINEN, Florida
ENI F.H. FALEOMAVAEGA, American Samoa	CHRISTOPHER H. SMITH, New Jersey
DONALD M. PAYNE, New Jersey	DAN BURTON, Indiana
BRAD SHERMAN, California	ELTON GALLEGLY, California
ROBERT WEXLER, Florida	DANA ROHRBACHER, California
ELIOT L. ENGEL, New York	DONALD A. MANZULLO, Illinois
BILL DELAHUNT, Massachusetts	EDWARD R. ROYCE, California
GREGORY W. MEEKS, New York	STEVE CHABOT, Ohio
DIANE E. WATSON, California	THOMAS G. TANCREDO, Colorado
ADAM SMITH, Washington	RON PAUL, Texas
RUSS CARNAHAN, Missouri	JEFF FLAKE, Arizona
JOHN S. TANNER, Tennessee	MIKE PENCE, Indiana
GENE GREEN, Texas	JOE WILSON, South Carolina
LYNN C. WOOLSEY, California	JOHN BOOZMAN, Arkansas
SHEILA JACKSON LEE, Texas	J. GRESHAM BARRETT, South Carolina
RUBÉN HINOJOSA, Texas	CONNIE MACK, Florida
JOSEPH CROWLEY, New York	JEFF FORTENBERRY, Nebraska
DAVID WU, Oregon	MICHAEL T. McCAUL, Texas
BRAD MILLER, North Carolina	TED POE, Texas
LINDA T. SÁNCHEZ, California	BOB INGLIS, South Carolina
DAVID SCOTT, Georgia	LUIS G. FORTUNO, Puerto Rico
JIM COSTA, California	GUS BILIRAKIS, Florida
ALBIO SIRES, New Jersey	VACANT
GABRIELLE GIFFORDS, Arizona	
RON KLEIN, Florida	
BARBARA LEE, California	

ROBERT R. KING, *Staff Director*

YLEEM POBLETE, *Republican Staff Director*

SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

BRAD SHERMAN, California, *Chairman*

DAVID WU, Oregon	EDWARD R. ROYCE, California
DAVID SCOTT, Georgia,	JOHN BOOZMAN, Arkansas
<i>Vice Chair</i>	TED POE, Texas
RON KLEIN, Florida	DONALD A. MANZULLO, Illinois
GENE GREEN, Texas	THOMAS G. TANCREDO, Colorado
JOSEPH CROWLEY, New York	

DON MACDONALD, *Subcommittee Staff Director*

JOHN BRODTKE, *Subcommittee Professional Staff Member*

TOM SHEEHY, *Republican Professional Staff Member*

KINSEY KIRIAKOS, *Staff Associate*

CONTENTS

	Page
WITNESSES	
The Honorable Israel Hernandez, Assistant Secretary for Trade Promotion, U.S. Department of Commerce	16
Ms. Thea M. Lee, Policy Director, AFL–CIO	33
Mr. Franklin J. Vargo, Vice President for International Economic Affairs, National Association of Manufacturers (NAM)	38
James Morrison, Ph.D., President, Small Business Exporters Association of the United States	56
Ms. Daniella Markheim, Jay Van Andel Senior Trade Policy Analyst, Center for International Trade and Economics, The Heritage Foundation	70
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
The Honorable Brad Sherman, a Representative in Congress from the State of California, and Chairman, Subcommittee on Terrorism, Nonproliferation, and Trade: Charts and prepared statement	11
The Honorable Israel Hernandez: Prepared statement	19
Ms. Thea M. Lee: Prepared statement	35
Mr. Franklin J. Vargo: Prepared statement	41
James Morrison, Ph.D.: Prepared statement	58
Ms. Daniella Markheim: Prepared statement	72

U.S. EXPORT PROMOTION STRATEGY

THURSDAY, APRIL 24, 2008

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION,
AND TRADE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m. in room 2200, Rayburn House Office Building, Hon. Brad J. Sherman (chairman of the subcommittee) presiding.

Mr. SHERMAN. I want to thank you all for being here, especially our ranking member, Mr. Royce. Today's hearing is an examination of our national export strategy.

The administration has chosen to paint a rosy, and I believe, misleading picture, claiming just a year ago that the trade numbers tell a very positive story about the state of America's trading relationships with the rest of the world.

A \$700-billion deficit is one of the largest trade deficits in the history of life on earth, exceeded only, I believe, by our trade deficit 1 year ago. Now, while the trade deficit is slightly down, we need to talk about the total trade debt. That is to say, we borrowed over \$700 billion last year on top of the well over \$700 billion we borrowed the year before. Our debt owed to foreign countries is now at \$2.3 trillion.

We have gone from being the world's largest creditor nation in the 1980s to being by far the largest debtor nation in all of human history. And by the end of this year, that \$2.3 trillion figure will be at \$3 trillion, and there is no end in sight until an inevitable crash.

To pay our accumulated debt to the world, we would not only need to bring our trade deficit to zero, a concept that is thought by our foreign policy establishment to be not worth thinking about; but, we would have to do something more. We would have to accumulate \$3 trillion more of additional trade surplus just to pay our debt.

A small portion of our trade deficit can be addressed by proposals which we are allowed to discuss in polite society. One of those proposals we are allowed to discuss is efforts to promote our exports, and that is the focus of today's hearings.

Another approach that can be discussed in polite society is to improve our process for the export of military and dual-use items. That is a subject that this subcommittee has dealt with, both in hearing and in a markup.

Of course, to make a real dent in our trade deficit, we would need to see either a radical realignment of currency; something on the order of \$3 or \$4 per Euro, or radical changes in our trade policy, something approaching ending or threatening to end MFN for China.

The trade and foreign policy establishments, aided by their handmaidens, the press, have decreed that radical approaches cannot be discussed in polite society, and I will do my best to honor that rule here today.

We will hear from the administration about these two charts. Let us make sure the charts are properly interpreted.

The first shows that our FTA trading partners represent only 7.3 percent of the world's economy. But we are running a \$126-billion trade deficit with this 7.3 percent of the world's economy. That is 18 percent of our trade deficit. And we are here being told that FTAs are wonderful because they allow us to take a part of the world that has 7.3 percent of the world's economy, and run \$126-billion trade deficit.

Comparing our current FTAs on the one hand to our—best exemplified by NAFTA, and I will refer to it as the NAFTA approach—to our regular trade policy, best exemplified by MFN with China, is like comparing heroin with crystal meth, and trying to sell heroin as a healthy product because it is not as bad.

It is true our trade deficit of \$126 billion with the FTA countries is not as big as our \$666-billion trade deficit with the non-FTA countries. That is again like arguing that heroin is healthy because it is not as harmful as crystal meth.

It can be argued that the trade deficit, per dollar of trade, is less with the NAFTA countries. That is to say, that \$126-billion trade deficit doesn't represent as enormous a percent of our trade with those countries as the trade deficit with, particularly, China, represents as a percentage of total trade. That is the Bear Stearns approach to running a business: Lose money on every transaction, but make it up in volume.

And an addict should not have to choose between one toxic intoxicant over another. There is a third choice, which is giving up the toxins altogether. America does not have to choose between the NAFTA approach and the MFN for China approach. We could adopt a non-toxic trade policy, but of course, that is too radical to discuss in public.

The harms of our enormous trade deficit and the accumulated debt we have run up to foreigners has yet to come home to roost. We haven't noticed our hollowed-out manufacturing capacity because the world has furnished us with manufactured goods and lent us the money to pay for it. It is only a matter of time before this house of cards collapses.

Until then, some will argue that we should joyfully live beyond our means and rejoice in the supposed strength exemplified by the fact that the world is willing to lend us \$700 billion this year just to finance this year's trade deficit, and of course, to renew the \$2.3 trillion of debt from accumulated trade deficits. I think a lot of homeowners have discovered this year that just because the world is willing to loan you money on increasingly bad terms, that is not

a sign of robust strength, either for the borrower or for the financial system overall.

Now let us look at what we can talk about, and that is our trade promotion practices. A brief look at our competitor nations makes it clear that the U.S. is being both out-spent and out-maneuvered. Nations like Spain, Germany, Canada, Japan, France, and Britain all spend significantly more as a percentage of GDP on export promotion than does the United States.

As a percent of GDP, France and Canada spend five times what we do. Germany and Japan spend double what we do, and Great Britain spends eight times as much on export promotion. It is easy for some in the administration to preach an Adam Smith utopian view, that if we do nothing to promote our exports, other nations will do the same. But the administration has done nothing to cause our competitors to reduce their export promotion programs.

Instead, the administration fantasizes about a world in which no country promotes or subsidizes its exports, does nothing to create this fantasy world, but insists upon running our trade policy as if we live in such a fantasy world.

We live instead in the global economy, where every nation-state promotes their best interests, their industries, and their exports. As a result, nearly every one of our competitors' exports comprises a dramatically greater percentage of their GDP than exports represent of our GDP.

Exports are over 30 percent of Canada's GDP, approximately 15 percent of Japan's, and over 40 percent of Germany's. When we look at the United States, we see only 10 percent of our GDP in exports. Some cite the accurate, but misleading statistic, that we are the largest exporter in the world by volume. That is like turning to my own state of California and saying we buy more ski hats than anyone else. That may be true, which is just because we are so much larger than every other state. It is not because the weather in California is colder than in Maine.

Compared to our imports, our exports are anemic. And compared to the size of our economy, our exports are very disappointing.

In the face—and this is the key statistic, folks—in the face of this poor record, the administration has requested a 10 percent cut in Fiscal Year 2009 funding for export promotion programs. Clearly, we have got to reorient our policy.

Beyond being simply out-spent, we must place a greater national importance on export promotion. We have an export promotion policy stretched out over a dozen agencies, all with different missions. The CRS reported in 2006 on a number of the problems, the first of which is that our various agencies do not share mutual goals based on broad national priorities. The second is that the goals of our export strategy shift from year to year, with very little review of which programs worked well and which didn't.

We do not have an effective system for measuring the success of the goals that were set. And fourth, the priorities that are laid out do not match up with our budgetary request from the administration. How could they? The strategy report for 2008 hasn't been released, but we have already received the budget request for 2009.

Not only do we have these problems, but when we do focus, there isn't really an accurate review of the success. The administration

claims that its focus last year was on fast-growing economies like India, and we did, in fact, see a “75 percent increase” in our exports to India.

But all of that increase is due to one sector: Aerospace. So our entire export promotion policy is focused on selling one product, basically to one country.

In actuality, for two-thirds of the categories for goods and services, we have a trade deficit with India. And for 2008 we have a projected trade deficit of \$7.4 billion with India.

We must better organize our trade promotion strategy and establish goals that benefit American working families. Perhaps, we need to establish a Department of Trade that has the clout and resources to address our trade deficit.

But in the near term, we should focus on getting more U.S. businesses to export for the first time, help businesses that export to only one or two countries to expand to similar markets, and increase our overall efforts at export promotion.

We also have to change the mix of risks and rewards that are faced by our foreign policy establishment, particularly those in the State Department. Every other country tells their Foreign Ministry, Sell our products. Yet, after the first Gulf War, when we saved Kuwait, we sat back and there wasn’t a peep out of the State Department when Gulf States decided to buy French telephone systems. If we had had a French Foreign Ministry for a day, they would have got on the phone and said you can’t, when you dial 9–1–1 on a French phone system, you don’t get the Pentagon. And the Gulf States would have learned, in the wake of the Kuwait War, if they valued their independence, as the Kuwaitis did, they would get a phone system that would work more effectively.

Let me give you another example of how our State Department doesn’t focus on helping American working families. This is a story we heard in this subcommittee, I believe it was last year.

We had in front of us a gentleman who is, I think, acknowledged to be one of this nation’s top diplomats, highly respected. A man who would never make even a modest mistake on anything he thought was important to the United States.

But he was here before this subcommittee telling us how he had helped promote American products. He said he wanted to make sure that South Koreans had a chance to see how good our automobiles were. And he put out on the lawn of the United States Embassy, for a bit, a little fair Daimler-Chrysler products, like the 300M and the Crossfire. I am looking around for the car aficionados here. The Crossfire is made by Daimler-Chrysler, or was at the time, in Germany.

Could you imagine what would happen to a German diplomat who put on the lawn of their Embassy to try to promote sales an American-built car? Their career would be over no matter how good they were at everything else. They could have won a Nobel Prize. They would be out. But here in this country, I am the only one who really focused on even that testimony at all. Because when it comes to prioritizing the interests of working families, the State Department and the other agencies that deal with foreign governments—Commerce, perhaps, an exception—does not prioritize the interests of working families.

And I cannot name a single ambassador who was not hired or promoted because he or she failed to promote the interests of American working families. It is not on their radar screen. They don't teach it at the Woodrow Wilson School. It is beneath them. They are contemptuous of it. And when they deign to do it, they don't bother to check their facts.

I am eager to hear from our witnesses today on changes we can adopt to expand American exports. And perhaps I will also hear an explanation of why, when you are running the largest trade deficit in history, at least looking at not necessarily a particular year, but looking over several years, why when we are running a \$700-billion trade deficit the administration wants to cut our budget for export promotion.

I thank my ranking member for his indulgence of his opening statement, which I always claim lasted only 5 minutes, and I will yield to the gentleman from California.

Mr. ROYCE. Thank you, Mr. Chairman. I want to recognize the work that you and Mr. Manzullo, who is with us here, have been putting in on export control issues. And I understand that your efforts to reform the State Department licensing process is going to move ahead next week, as the committee will take up your bill.

Today's hearing here is on export promotion strategy. The Commerce Department's Inspector General has found that many U.S. agencies tasked with promoting exports aren't coordinating well. I have got to tell you, Mr. Chairman, that I am not surprised that 18 of our Government agencies aren't coordinating very well. I would be surprised if they were.

I question the worthiness of many of these efforts. And let me make a couple of points.

First, with respect to the concept of protectionism and the belief that somehow raising taxes and tariffs on hard-working American families is in their interest. The act of protectionism, blocking trade deals and erecting walls was tried in 1930 in the United States and was one of the most popular bills that Congress ever passed. I don't doubt it.

I think the Hawley-Smoot tariff was so popular that the President of the United States, even though Hoover knew better, signed it. That is just how popular this rhetoric is. That is just how much support it can galvanize. Unfortunately, 25 other countries decided after we passed it that it was popular to engage in that kind of rhetoric as well, and so it became a form of retaliation. But it also is a part of opportunism at home.

This spread across Europe and Latin America. By the time it ended, that 1930s piece of legislation, one of the most popular pieces ever to pass in the United States Congress, according to economists left, right, and center, helped create a world-wide depression, and the Great Depression here in the United States.

As I watch the unanimous condemnation of Hawley-Smoot on the part of economists, and as I watch our great faith in government bureaucracies that we routinely belittle, the belief that somehow, by spending taxpayers' money, when the U.S. is exporting \$1 trillion of manufactured goods a year—over that in terms of goods and services—I hardly think, whether we spent \$335 million out of the

Federal Treasury or \$520 million, like the United Kingdom is doing, that that is going to be the critical difference.

The chairman moved an Overseas Private Investment Corporation Reauthorization bill last year, and I think he improved OPIC without question. But to me, OPIC's essential mission remains misguided.

The Congressional Research Service has given us this report on our desk, it states, "There is little evidence to support claims that subsidizing exports or overseas investment offers a positive net gain in jobs to the U.S. economy." Maybe that is why the 10 percent cut is here as we try to balance the budget.

That is the report of the Congressional Research Department. And the Agricultural Department's Market Access Program underwrites foreign advertising, which underwrites marketing for U.S. agribusiness.

So to use some examples, when wheat is at a record price, does a wheat trade group really want a \$2 million government grant to promote wheat abroad? The Wine Institute received \$8 million last year to pay foreign journalists to do wine-tasting in California, in our state, among other activities.

Yes, if you think every pork project is good, it is good, Don.

Mr. MANZULLO. That is what my thinking is.

Mr. ROYCE. But it is still, you know, if we look at the national export strategy, as the GAO has done, they say the focus of the national export strategies continue to change from year to year with little evaluation of the previous year's effectiveness.

You know, is that a surprise? The burden of proof should be on these agencies to prove that they have unique abilities to pick the best countries and markets to focus on that they offer value-added. Yet their accomplishments are heavy on anecdotes, and nearly impossible to quantify.

In 2005, over 51,000 companies exported goods from my state in California. Relatively very few of them found U.S. Government export promotion services to be important in that.

I have seen enough of government not to expect much from a national export strategy. The national export strategy, though, is on the mark on one point: Its emphasis on free trade agreements. You can't sell the goods if they are taxed out or otherwise boxed out of foreign markets. Whatever the Ex-Im Bank or the Trade and Development Agency might do, until you liberalize those rules, you have got that hurdle.

On the other hand, U.S. exports to countries with which we have struck trade agreements jumped dramatically. We ignore that, but they jumped dramatically.

So we look at Jordan, it jumped 92 percent once we got the trade liberalization through. Singapore jumped 42 percent. Chile, exports jumped 150 percent.

Unfortunately, this Congress has knee-jerk opposed the trade agreements as they come through. So let us look at Colombia. Earlier this year this Congress passed legislation on the Floor allowing most all Colombian exports to enter the United States market tax-free. Yet the majority 2 weeks ago shot down an agreement on the table that would force Colombia to reduce substantially its taxes on

United States goods. So United States exports are going to remain far less competitive than they would be in Colombia.

So I think opponents have to answer a simple question: What is wrong with a two-way street for American businesses? And by the way, the trade deficit, I think about 40 percent of that is oil. Well, if you foreclose the option of drilling in Alaska, if you foreclose the option of drilling offshore, if you foreclose the option for gas, if you foreclose the option for nuclear, I guess we are going to have to import some oil. Either market is going to have us import oil. And that is going to drive up the trade deficit.

Rejecting the Colombian agreement alone won't have large economic consequences. Yes, maybe it is a small trading partner. Maybe, maybe that is fairly small. But the majority's opposition to the Korean Trade Agreement, which would have added between \$10 billion and \$12 billion to our GDP each year, and its opposition to trade in general is of great concern at a time when United States exporters have been described as lifesavers in these tough economic times. And leading U.S. companies, by the way, are generating over half of their sales abroad in exports.

The world, and certainly Korea, will move ahead, by the way, without us. I can share with you that Korea is going to look at doing a deal with the EU. And they will do a deal with Japan, and they will do a deal with China, to our detriment.

So let us give U.S. companies, many facing roadblocks abroad, greater access to markets, not less. By far, that is the best export promotion strategy we have. And dropping back into the kind of rhetoric that allowed us to pass the Smoot-Hawley Trade Act is not the strategy for success for the United States in terms of the world economy.

Thank you very much, Mr. Chairman.

Mr. SHERMAN. I thank the ranking member. I should note for the record that since NAFTA, our trade with Mexico has gone from a surplus to a \$74-billion deficit; and with Canada, from a substantial, well, from basically break-even to an enormous deficit, as well.

Mr. ROYCE. Mr. Chairman, if I could just add to that, if we look at the amount of those imports from Mexico that constitute oil, it is virtually that sum of oil that we import from Mexico.

Mr. SHERMAN. I don't think our country will survive economically if we take the idea that we import oil, but don't export to pay for it. And I will now yield to—I believe it was Mr. Wu who was here first.

Mr. WU. I just want to add a little tidbit to Mr. Royce's comments.

I do believe in two-way highways. And if there is adequate traffic in both directions, well, that is a terrific thing.

But sometimes a one-lane road never should have been built in the first place, and I, for one, am not averse to chipping it up and taking it out. But if we want to build real two-lane highways that are going to be used in both directions, then that is just fine by me.

Mr. MANZULLO. Well, this is sort of a commentary show this morning up here. The whole topic is, is the Trade Promotion Committee. And just a couple things.

I was in China about 3 years ago; had breakfast with the President of Panda, which is a huge—it is an electronics company. And

he said, "Where are the Americans?" And I said, "What do you mean?" He said, "The EU is all over the place. There is a lot of stuff we could sell to the United States," he said, "but you know, sometimes you need somebody here that is on the ground."

And we work with some great commerce people over in China. But if you look at the location of the commerce exporting folks, there aren't that many in China when you compare it to the size of the population.

The second thing is the, if I can just brief my notes here, I have been working on this TPCC for 15 years. And we have all these agencies, especially the Department of Agriculture I think eating up about 40 percent of the money, or more than that. And ag exports are about 7 percent to 10 percent. You know, you wonder, I mean, Mr. Royce was right. Do you really need somebody out there promoting crops when there is a famine going on? And record prices are being hit for crops everywhere.

Here is the problem. In commerce, we already moved toward a resolution years ago when they set up these U.S. Export Assistance Centers, USEACs. We have one in our Congressional District. We have probably 2500 manufacturers in our Congressional District, very heavily industrialized. Most of those are road guys. And you mention exports to the, and they become terrified.

And we have had people come to us, one guy was all excited that he was shipping to Nigeria. I said, "Wait a second, wait a second, wait a second." And before he shipped, we actually had to get the FBI involved in it because it was a giant, a giant scam.

And if it is done right with the USEAC centers, we have one person that is covering, Phil, how many counties? Gosh, almost the northern part of the state of Illinois, just one half. And his office is paid for I think by the community college, and I think his secretary is furnished by local industry or by folks in the area. And that has been a huge assistance, a tremendous assistance, just to be able to take the little guy and say go over here.

I will give an example. At one of our manufacturing fairs there was a lady who was manufacturing a switch. And I said do you, do you export any of that. And she said oh, yes, about 10 percent is going to China. And she had been able to work her way through the system. I think she had less than 15 employees.

But what I have found in, in visiting hundreds of factories in my district, and actually throughout the world, is that there are lots of matches and lots of sales that are waiting to happen; but because the little guys are just terrified that they are not going to get paid, the connections are not made.

Now, what does that mean? It doesn't mean we have to add more money, it doesn't mean we need more bureaucrats. Probably means we need less. John Michael years ago had introduced the Department of Permanent Trade, I think, whose sole purpose it was to simply promote the trade of this country. And now we have 21 Federal trade promotion organizations making up this TPCC.

Congressman Royce, we need to start over on this thing. And I don't believe in trade czars or whatever it is, but I like the model of the USEAC because it is usually just one person getting a lot of community help. And I am sure you are going to be talking about that.

But I just, you know, the TPCC was created in 1992, and has to be elevated to the Executive Office of the President to give it teeth. It should have budgetary input authority over Federal trade promotion and finance operations, sort of the focal point of all the trade going on. And staffing has to be directed or thoroughly detailed assignments to effectively perform oversight of U.S. trade operations. And finally, it has to be linked to the national export strategy.

So Mr. Chairman, what we are looking at here is, is hopefully spending a lot less money, a lot less taxpayers' dollars, but focusing it so that the people who really need the help get the help.

I look forward to the testimony. But I do have to run to a Banking hearing that is about ready to break out into chaos.

Mr. SHERMAN. Thank you for being with us. And Mr. Klein.

Mr. KLEIN. Thank you very much, Mr. Chairman. And I agree with a lot of what Mr. Manzullo just said. And I think that, you know, in terms of efficiencies of our trade promotion, we can do better.

And I think that part of the strategy that we need to do in Congress here is take a fresh look at our trade promotion, and make sure that the efficiencies are there.

I also want to just point out, and I think Mr. Wu sort of was going in this direction, I think we all recognize we live in a world that trades. I mean, we live in a world economy. We can't erect barriers or walls and expect that it is going to be in our long-term best interest.

I don't like policies that just focus on short-term views, and even currency, currency evaluations. They change. You know, right now the dollar is low. I think many of us are uncomfortable that it has been—there is some manipulation going on in other places around the world to affect our trade practices in terms of currency.

But I think we have to look at the long-term view of the United States economy. And I believe the United States economy can be as resilient as it wants to be. We are a very creative people. It doesn't mean we are going to be all things to everybody, it doesn't mean we are going to manufacture officially every product, or agricultural product, for that matter.

But I think that it does require us to have policies which do have open trade arrangements with countries around the world. That being said, there are lots of ways to inhibit trade, and they are not all in the form of tariffs. We all know what they are. There are lots of different assemblage issues, and a dozen creative ways to stop our products in the United States that we manufacture here from going to other countries.

And I think as Members of Congress, we want to do everything we can to help our manufacturers, our producers to be able to sell their products in the United States and anywhere in the world, any country in the world, and not being stopped by some unreasonable inhibitor that we allow those products from other countries to come here, but we don't get that same benefit in other countries.

So I am all for free trade as long as it continues to open the doors on total reciprocal arrangements. And we can accomplish that. I mean, I am fully committed to doing that, and I think that

we can do that. When we get into our corners, in political corners or anything else, to get that done.

I also just want to point out in Table 1 of the report we see here on the top, U.S. Industries with Largest Trade Surpluses and Deficits, there are 10 top trade surplus industries and 10 trade deficit industries.

And again, part of that, if you look at some of these, relate to our internal practices, our tax policies and various other things in the United States. Taxes incent and disincent behavior, and make things more economically or less economically viable.

So as we continue to build our economy and look at these issues, I would just suggest, Mr. Chairman, that we continue to look at our tax policies to make sure that those policies do whatever we can to help American manufacturers. And of course, allowing products to be sold here; we want imported products to compete with our products. And again, I think we can do very well in many industries.

But we don't want to do things to hurt our industries in the United States, whether they be through tax policy or through trade policy.

So thank you, Mr. Chairman, for holding this hearing.

Mr. SHERMAN. Thank you. I just want to make one observation, and then place three charts into the record.

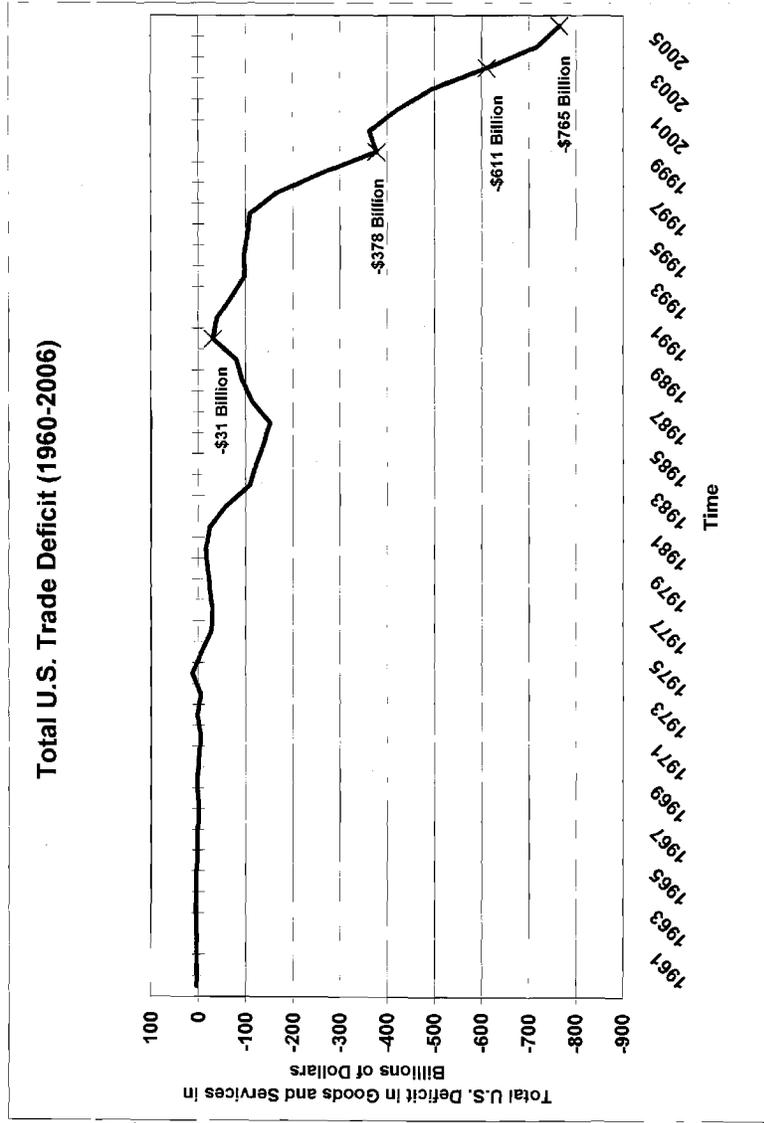
The one observation is that we should not think that their only choices are exemplified by the Colombia Free Trade Agreement, on the one hand, and a continuation forever of the highly unfair and one-sided Andean Trade Preferences Act on the other. We can go beyond two bad choices.

I would like to put in the record, without objection, three charts. The first one here shows the enormous increase in our trade deficit. It shows that our trade was balanced in the seventies, not so bad in the eighties, and then, beginning roughly at the time NAFTA was adopted in the early nineties, has become an enormous trade deficit that will hurt this country and the world for decades to come.

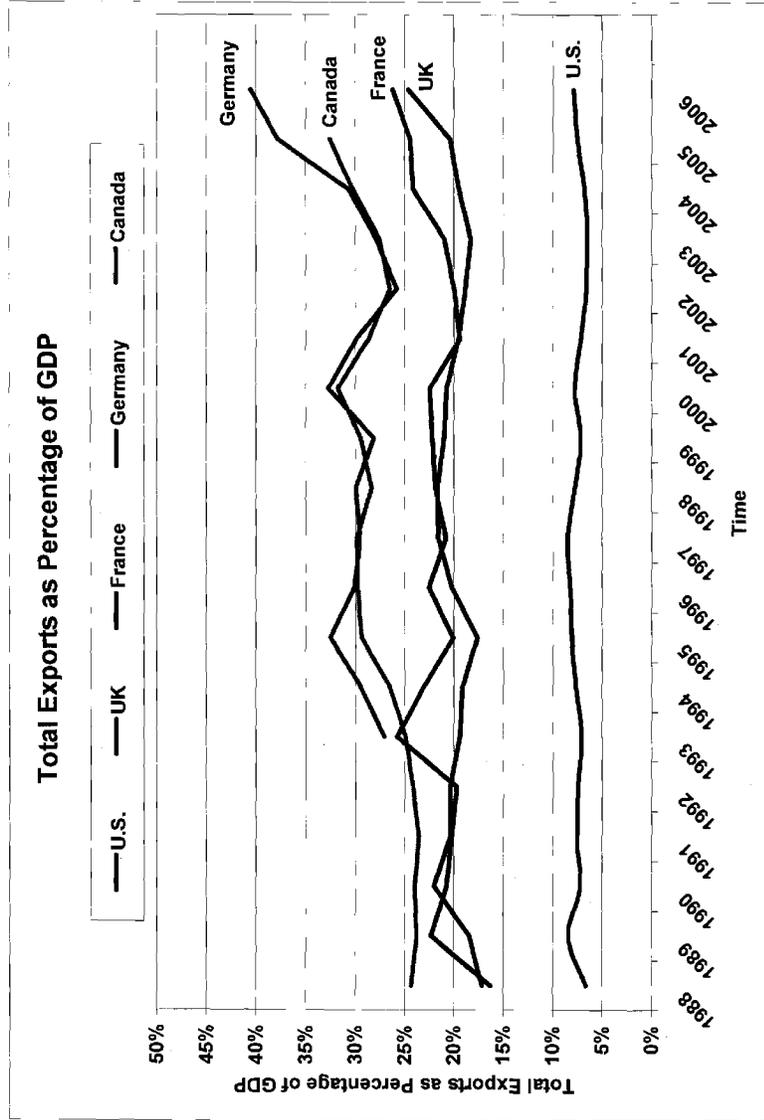
The second chart shows that our exports are a much smaller percent of our GDP than the exports of the UK, France, Canada, and Germany.

And the final chart shows that our spending on export promotion is a very small percent of GDP when compared to the countries of France, Canada, Germany, Japan, and Great Britain.

[The charts referred to and the prepared statement of Mr. Sherman follow:]



Source: U.S. Census Bureau, Foreign Trade Division



These GDP figures are based purchasing power parity. This is the sum value of all goods and services produced in the country valued at prices prevailing in the United States.
 Sources: CIA-WORLD FACTBOOK; TRADESTATS EXPRESS-NATIONAL TRADE DATA, IMF, WTO

Export Promotion Spending, 2007

	GDP 2006 (\$ mil)	Export Promotion Spending (\$ mil)	Spending per Thousand Dollars of GDP
United States	13,201,819	335	0.0253
France	2,230,721	290	0.130
Canada	1,251,463	159.7	0.128
Germany	2,906,681	161.0	0.0554
Japan	4,340,133	255	0.0588
Great Britain	2,345,015	524.7	0.2238

Source: U.S. Department of Commerce data.

PREPARED STATEMENT OF THE HONORABLE BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

Today's hearing is an examination of our national export strategy.

The administration has chosen to paint a very rosy and misleading picture, claiming just a year ago that the "trade numbers tell a very positive story about the state of America's trading relationships with the rest of the world."¹

This overly optimistic view stands in the face of the trade deficit for 2007 which was still over \$700 billion.² While the trade deficit is down slightly from 2006, this news is hardly encouraging given that the U.S. dollar has been hovering near its all-time low.³

We must remember that not only do we have an enormous trade deficit year after year, but we also have a growing total of foreign owed-debt now at \$2.3 trillion.

If we are to ever pay it back our current account deficit we will need to be out of the red for sometime.

That is going to require long-term consistently higher levels of U.S. exports.

A GLOBAL COMPARISON OF EXPORT PROMOTION PRACTICES

A brief look at our competitor nations makes it clear that the U.S. is being outspent and out maneuvered.

Nations like Spain, Germany, Canada, Japan, France, and Britain all spend significantly more as a percentage of GDP on export promotion than does the United States.⁴

After accounting for differences in GDP, France and Canada spend about 5 times as much as we do, Germany and Japan spend about twice, and Great Britain spends about 8 times as much on export promotion.⁵

It is easy for some in the administration to preach a utopian view that if we just do nothing then other nations will do the same. They will stop promoting and assisting their businesses, and they will simply fall in line with free-market absolutism.

But, the administration has done nothing to cause our trade competitors to reduce their export programs.

Instead, they fantasize about a world in which no country promotes or subsidizes its exports, do nothing to bring about such a world, and then run our trade policy as if we live in their fantasy world.

We live in a global economy where nation states still promote their own best interest and their own industries.

As a result, nearly every one of our competitors' exports comprise a dramatically greater percentage of their GDP. Exports are over 30 percent of Canada's GDP, approximately 15 percent of Japan's GDP, and over 40 percent of Germany's.⁶

When we look at the United States, we see only 10 percent of our GDP in exports.⁷ Some cite the accurate but misleading statistic that we are the world's largest exporter by volume,⁸ but compared to our imports we are anemic. What is important is that as a percentage of our national output, we are near the bottom.

In the face of this poor record, the administration has requested a 10 percent cut in FY09 funding for export promotion programs.⁹

THE NEED FOR GREATER FOCUS

Beyond being simply outspent, we simply do not place a great enough focus on export promotion policy.

We have export promotion programs stretched across a dozen agencies¹⁰, all with different missions.

¹"The 2007 National Export Strategy" Trade Promotion Coordinating Committee, Department of Commerce, June 2007, p.1.

²U.S. Census Bureau. Please note that the U.S. trade deficit in goods for 2007 was \$815 billion on a non-seasonally adjusted balance of payment basis

³<http://www.bloomberg.com/apps/news?pid=20601087&sid=ajhtHZZld7NA&refer=home>, Accessed April 2008

⁴Department of Commerce Data.

⁵ibid

⁶CIA World Fact Book; Tradestats Express-National Trade Data, IMF, WTO.

⁷IBID; Note that U.S. Department of Commerce, Bureau of Economic Analysis estimates that exports comprise slightly more than 10 percent of GDP, a slightly higher figure than that used by the CIA.

⁸WTO Data

⁹Congressional Research Service

¹⁰U.S. Department of Agriculture; Department of Commerce, International Trade Administration (ITA); Department of Energy; State Department; Department of the Treasury's Office of

In theory, the Department of Commerce is charged with forming and guiding our trade promotion strategy through the Trade Promotion Coordinating Committee.¹¹ But, what we get is just a report that can be summarized in one sentence: We have no national export promotion strategy.

In fact, I think GAO's report from 2006 illustrates the problem quite well. They had several findings of concern to me:

- 1.) Our various agencies do not share mutual goals, based on broad national priorities.¹²
- 2.) The goals of our export strategy shift from year to year with very little review of which programs worked well and which didn't.¹³
- 3.) We do not have an effective system for measuring success of the goals that were actual set.¹⁴
- 4.) The priorities that are laid out do not even match up with the President's budget request.¹⁵ How could it? The strategy, report, and analysis are not really tied to the budget process. The strategy for 2008 hasn't even been released and we are already well into 2008.

THE WRONG PRIORITIES

When there is no clear plan, one must ask what guides our export promotion efforts?

The administration claims that its focus last year was on fast growing economies like India. And, here, there was some success. U.S. exports to India grew 75% in 2007.¹⁶

This sounds remarkable if you don't check all the numbers.

Nearly all of this growth was due to one sector: aerospace.

In actuality, for two-thirds of all categories for goods and services we have a trade deficit with India.

And for 2008, we still have a projected trade deficit of nearly \$7.4 billion with India.¹⁷

What is truly disappointing about the numbers from India is that we did choose to prioritize our efforts on robust, already developed markets like Europe.

With the dollar trading at an all time low against the Euro, American businesses have a unique opportunity, and we should be doing more to help them export at this time.

AVENUES FOR CHANGE

We must better organize our trade promotion strategy and establish goals that benefit America's working families.

Perhaps we need to establish a Department of Trade that has the clout and resources to address our trade deficit.

But in the near term, we should focus on getting more U.S. businesses to export for the first time.

And, we should focus on helping businesses that export to just one or two countries expand into similar markets.

I am eager to hear from our witnesses today on what changes we can adopt within the current world trade system to promote U.S. exports in the future. I plan to hold future hearings on solutions big enough and radical enough to address the size of the problem.

Foreign Assets Control (OFAC); the Export-Import Bank of the United States (Ex-IM); The Overseas Private Investment Corporation (OPIC); The Small Business Administration (SBA), the Trade and Development Agency (TDA); and the U.S. Trade Representative (USTR).

¹¹The Export Enhancement Act of 1992 established the TPCC to provide a unifying framework to coordinate the export promotion and financing activities of the U.S. Government, as well as to develop a comprehensive plan for implementing strategic priorities.

¹²GAO, "Export Promotion Trade Promotion Coordinating Committee's Role Remains Limited" April 2006, P2

¹³GAO, "Export Promotion Trade Promotion Coordinating Committee's Role Remains Limited" April 2006, P13

¹⁴GAO, "Export Promotion Trade Promotion Coordinating Committee's Role Remains Limited" April 2006, P3

¹⁵GAO, "Export Promotion Trade Promotion Coordinating Committee's Role Remains Limited" April 2006, P12

¹⁶U.S. International Trade Commission: U.S. exports to India were \$17.6 billion in 2007, up from \$10.1 billion in 2006.

¹⁷U.S. Census Bureau Data, Exports, Imports and Trade Balance by Country and Area: Current Year (Based on annualisation of trade deficit for February 2008 of \$613 million.)

Mr. SHERMAN. With that, our first witness, and I would like to welcome here, is Israel Hernandez, assistant secretary for trade promotion, and director general of the U.S. and Foreign Commercial Service. He is the point of contact in the United States Government for trade promotion and business advocacy assistance. Prior to his confirmation, Mr. Hernandez served as a senior advisor to the Secretary of Commerce.

Let us hear from Mr. Hernandez.

STATEMENT OF THE HONORABLE ISRAEL HERNANDEZ, ASSISTANT SECRETARY FOR TRADE PROMOTION, U.S. DEPARTMENT OF COMMERCE

Mr. HERNANDEZ. Chairman Sherman, Ranking Member Royce, who stepped out for a brief moment, and distinguished members of the committee, thank you for the opportunity to speak with you today about the Department's trade promotion efforts. I request that my written statement and testimony be submitted for the record.

I appreciate the committee's interest in trade promotion. And given the growing importance of exporting to our economy, this is a timely topic. Within ITA I have the privilege of being, as you mentioned, the Assistant Secretary of Trade Promotion and Director General of the U.S. and Foreign Commercial Service, arguably the longest title in the Federal Government, I am convinced.

Nonetheless, the Commercial Service is dedicated to helping U.S. companies, especially small- and medium-sized enterprises, compete and win in the global economy. We are a premier field-based network of trade professionals in 107 cities located throughout the United States, and in 76 countries around the world that provide diplomatic and trade promotion support to U.S. companies.

We guide companies through every step of the export process, from shipping to logistics to understanding regulatory and foreign governments. We offer trade counseling, advocacy, trade events, and customized solutions to overcoming exporting hurdles.

As an example of the kind of work that we do, I would like to highlight a company located in Van Nuys, California, called Hirsch Pipe and Supply Company. Hirsch Pipe and Supply is a United States-made plumbing, heating, and industrial supply company. They were counseled by us, the Commercial Service, on the opportunities for their products in the Middle East, particularly Saudi Arabia.

In December a Hirsch representative joined me on a trade mission to Saudi Arabia. Based on that trade mission, Hirsch had its first sale in Saudi Arabia of more than \$900,000 in equipment.

Hirsch is just one of thousands of companies and examples that we have within the Commercial Service, but also throughout the country, that have increased sales and growth through exports.

For 4 consecutive years, U.S. exports have grown at double-digit rates, and the number of small- and medium-sized enterprises that are needed to export has also increased. Last year the U.S. goods and services exports grew by 12.6 percent, reaching an all-time high of \$1.6 trillion. Exports grew faster than imports in 2007.

And although U.S. imports also reached record levels last year, imports grew at a much lower rate. And as a result, the overall trade imbalance improved for the first time in 2001.

An important driver of U.S. exports—

Mr. SHERMAN. Excuse me, Mr. Secretary. Did you say improved for the first time in 2001? Or since 2001?

Mr. HERNANDEZ. Since 2001, thank you. We will correct that for the record.

An important driver of U.S. exports is the reduction of trade barriers through multilateral and bilateral trade agreements. Make no mistake about it: Decades of successful negotiations have helped to make the United States the world's largest exporter of goods and services. And over the last 20 years there have been a steep increase in the number of FTAs, and there is no doubt that the world is on the move. Because worldwide, there are now more than 200 regional FTAs in place. The United States has nine in 14 countries.

In 2007 exports to our Free Trade Agreement partners accounted for nearly 25 percent of the growth of U.S. goods and exports, comprising just 7.3 percent, as you mentioned in your statement, of global GDP if you exclude the United States. Those FTA countries account for 40 percent of U.S. exports. This is a disproportionately high number, and the figures reflect the growth in exports to FTA countries.

We also have a more balanced trade with FTA partners. Only 16 percent of our trade deficit is with FTA countries, compared to 84 percent with non-FTA trading partners, as you mentioned in the two charts I have to my right.

And again make no mistake about it: Free trade agreements are especially important for small- and medium-sized enterprises, because SMEs benefit the most from reductions in tariff rates, regulatory red tape, as well as from general improvements in the commercial environment and business transparency.

For example, the Colombia Free Trade Agreement will open a fast-growing and friendly United States export market with significant potential for future growth. On day one of the agreement, over 80 percent of United States exports of consumer and industrial goods to Colombia will enter, duty free, immediately.

The Colombian Free Trade Agreement will give American small- and medium-sized businesses yet another opportunity to export their products and services. The commercial service is focused on helping U.S. companies that are either new to export, or they are new to market, seeking to expand to multiple companies. Our strategy to accomplish this is to continue to expand our partnerships with cities and states and private-sector providers focused on trade of export services, and to simplify our fees for export assistance to small- and medium-sized enterprises.

Next month, for those products that we offer as a customized solution for a particular company, we will adopt a new fee schedule that will enable more U.S. companies, specifically small- and medium-sized enterprises, to leverage the commercial service global network of trade exports.

Another initiative worth noting is the corporate partnership program that reaches out to American enterprises to engage in activities that touch buyers and sellers around the world, such as ex-

press delivery companies, banks, and Web-based marketplaces. It is through collaboration with these partners that we can reach companies that have not fully explored their full potential to export.

And in conclusion, I would like to note that in just 1 year, last year, in 2007, I would like to list the activities that we recorded within the Commercial Service on Trade Promotion.

We have close to 12,000 export successes helping companies export more than \$58 billion around the world. We had 77,000 counseling sessions with U.S. firms, mainly small- and medium-sized companies. We supported or led 37 trade missions in just 1 year alone; missions to Africa, to China, to India, to CAFTA, to the Middle East and other parts of Asia and the Western Hemisphere.

We brought 355 international buyer delegations from around the world to buy U.S. products at U.S. trade shows. We helped U.S. companies in 107 overseas trade fairs in other parts of the world, and we also hosted more than 560 official visits by Members of Congress, Governors, TPCC agencies, and other trade partners. And with technology, we have had 12 million visitors visit our Web site at export.gov. The numbers speak for themselves.

We know that our early focus of new-to-market and new-to-export companies will result in an increase of export numbers further down the road. And we in the Commercial Service will continue to work and support, with the help of other trade promotion agencies of the Federal Government, to promote more U.S. exports which support U.S. jobs.

And Mr. Chairman, I will be more than happy to answer any questions you or other members may have at this point.

[The prepared statement of Mr. Hernandez follows:]

The Honorable Israel Hernandez
Assistant Secretary for Trade Promotion and Director General of the United States and
Foreign Commercial Service
International Trade Administration, U.S. Department of Commerce
Testimony Before the United States House Committee on Foreign Affairs
Subcommittee on Terrorism, Nonproliferation, and Trade
“U.S. Export Promotion Strategy”
April 24, 2008

INTRODUCTION

Chairman Sherman, Ranking Member Royce, and distinguished members of the Committee, thank you for the opportunity to testify before you today about the Department’s trade promotion efforts. I welcome the Committee’s ongoing focus on this topic, and its dedication to strengthening our nation’s exporters, most of which are small businesses—the backbone of our economy.

The mission of the International Trade Administration (ITA) is to create prosperity by strengthening the competitiveness of U.S. industry, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements that enhance the ability of U.S. firms and workers to compete and win in the global marketplace. This mission has never been more important. With the United States economy expanding 2.2 percent and exports increasing 12.6 percent in 2007, exports are playing a vital role in keeping the U.S. economy growing.

We in ITA work to counter unfair market access barriers that impede U.S. exports. Moreover, when U.S. businesses seek to promote their goods and services around the world our programs smooth the way.

As ITA’s Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service (US&FCS), I have the privilege of leading an organization dedicated to helping U.S. companies, especially small- and medium-sized enterprises (SMEs), compete and win in the global economy. We are a field-based network of trade professionals located in 107 U.S. cities and over 126 overseas posts in 76 countries that provide trade promotion support and commercial diplomacy to U.S. companies. We guide companies through every step of the export process, from shipping and logistics to awareness of applicable foreign regulations. We offer trade counseling and advocacy, trade events, and customized solutions to overcoming exporting hurdles. Here are examples of a few of our more popular programs:

Counseling: Our overseas staff and domestic trade specialists meet with U.S. companies to provide them with personalized counseling at every step of the exporting process – from strategy and planning, to financing and logistics, to market entry and expansion, to advocacy and dispute resolution.

Gold Key Service: Our overseas staff arrange business meetings for a U.S. company with pre-screened local companies who are interested in buying the company's products or services or becoming a product representative for the U.S. company.

International Partner Search: We use our strong network of international contacts to interview potential trading partners in a given country, and we can then provide the U.S. company with a list of up to five pre-screened partners.

Trade Missions: Our domestic staff organizes a group of U.S. companies, often based in the same industry, to visit countries we think provide the greatest exporting opportunities. On the mission, these companies may meet with decision makers in the foreign government and with pre-screened local companies who are interested in buying their products.

For example, Hirsch Pipe & Supply Company, a distributor of U.S.-made plumbing, heating, and industrial supplies located in Van Nuys, California, has received counseling by Commercial Service staff in Los Angeles and Saudi Arabia. In December, a Hirsch representative joined me on a trade mission to Saudi Arabia. With this help from the Commercial Service, Hirsch has already sold more than \$900,000 in equipment to a Saudi importer.

Another example involves Nioxin Research Laboratories, Inc., a manufacturer of professional hair care products located in Lithia Springs, Georgia. Our Commercial Service specialist in Atlanta has provided extensive counseling to Nioxin and as a result they requested a Gold Key Service in Bogota, Colombia, to identify a local representative. Our Commercial Service post in Colombia arranged a number of meetings with local hair shops. This has resulted in its first sales of \$140,000.

In addition to offering these services, the Commercial Service also works to support U.S. exporters by promoting and helping them use other Federal Government trade promotion services. Through the Trade Promotion Coordinating Committee (TPCC), we are able to coordinate our efforts with these other agencies. The TPCC is comprised of Federal agencies involved in trade promotion activities, such as SBA, USTDA, and Ex-Im Bank, and is charged with setting trade promotion priorities. The Secretary of Commerce chairs the Committee, and the Commercial Service also houses the TPCC Secretariat. This has improved the federal government's ability to deliver streamlined and coordinated services for U.S. companies. Because the Commercial Service has a global network of domestic and international trade offices, we are able to more directly influence the priorities of the other TPCC agencies. At the same time, other agencies are able to impact our operations.

TRADE, SME EXPORTERS, AND THE U.S. ECONOMY

U.S. exporters are making an impact on the global economy, with record exports making an increasingly important contribution to overall U.S. economic growth. Faced with continued rapid growth of foreign markets and favorable terms of trade U.S. firms have great potential to make sales overseas. E-commerce continues to shrink distances and transaction costs between buyers and sellers, which will aid smaller firms in particular to do business overseas.

For four consecutive years, U.S. exports have grown at double digit rates. With exports growing faster than the general economy, the share of the U.S. GDP accounted for by exports has steadily increased. In 2003, exports accounted for 9.5 percent of GDP. By 2007, exports accounted for a record 11.9 percent.

In 2007, U.S. goods and services exports grew by 12.2 percent, reaching an all time high of \$1.622 trillion, including record goods exports of \$1.149 trillion (including record agricultural goods exports) and record services exports of \$472 billion. U.S. exports grew solidly in all sectors – manufacturing, services, and agriculture.

Exports also grew faster than imports in 2007. Although U.S. imports also reached record levels in 2007, imports grew at a much slower rate, and as a result, the overall trade balance improved for the first time since 2001. In 2007, the annual increase in the value of exports (\$176.1 billion) overtook the annual increase in the value of imports (\$129.2 billion), reducing the overall trade deficit by \$46.9 billion to \$711.6 billion. As a percentage of GDP, the goods and services deficit was 5.1 percent in 2007, down from 5.7 percent in 2006. The services sector played a major role, showing an impressive \$104 billion trade surplus to offset some of the \$815.6 billion deficit in goods¹. While the bilateral deficit with China grew in 2007, the annual deficits with Canada and the European Union decreased.

In 2007, goods exports increased by \$127 billion over 2006, with records in foods, feeds, and beverages (\$84.2 billion); industrial supplies and materials (\$315.6 billion); capital goods (\$466.0 billion); consumer goods (\$146 billion); and automotive vehicles, parts and engines (\$120.9 billion). U.S. exports to our major trading partners also set records: Canada (\$248.9 billion); Mexico (\$136.5 billion); the European Union (\$247.3 billion); China (\$65.2 billion); South/Central America (\$107.5 billion). The United States also set records in exports to other key emerging markets, including a 28 percent increase in exports to Brazil (\$24.6 billion), a 57 percent increase in exports to Russia (\$7.4 billion), and a 75 percent increase in exports to India (\$17.6 billion).

Services exports increased by \$50 billion in 2007. Increases occurred in private services (\$22.8 billion), which include business, professional and technical services, insurance services and financial services; travel (\$12.1 billion); royalties and license fees (\$8 billion); other

¹ Balance of payments basis

transportation (\$5.3 billion), which includes freight and port services; and passenger fares (\$2.7 billion).

Agricultural trade continues to show a surplus as exports set a record of \$81.9 billion in FY2007, contributing \$11.9 billion to the balance of payments - a trend that has continued since 1959.

The steadily increasing role of exports in the U.S. economy is also evident by the growing share of the business community that is exporting. In 2006 (most recent data), the number of U.S. companies exporting grew 2 percent to 245.9 million firms. Since 2002 the number of exporters has grown 10 percent, reaching a level just short of the pre-September 11 peak in 2000 SME exporter data.

EXPORTING IS EASIER THAN EVER FOR U.S. SMEs

An important driver of U.S. exports is the reduction of trade barriers through multilateral and bilateral trade agreements. Several decades of successful negotiations through the World Trade Organization and its predecessor, the General Agreement on Tariffs and Trade, have helped to make the United States the world's largest exporter of goods and services. The benefits of trade have accrued to our businesses, workers and their families and communities, as well as to our trading partners by lifting millions of people around the globe out of poverty.

During that time, we were not the only country using free trade agreements (FTAs), most of the world's markets have also embraced the importance of negotiations to liberalize trade. Over the last 20 years, there has been a steep increase in the number of FTAs. World-wide there are now more than 200 regional FTAs in place; the United States has nine agreements with 14 countries.

Access to the markets of our FTA partners has contributed to overall U.S. export success. In 2007, exports to our FTA partners, whose agreements were in force, accounted for nearly one-quarter of the growth of U.S. goods exports over 2006. In 2007, trade with all 14 FTA partner countries was much greater than their relative share of the global economy. Comprising just 7.3 percent of global GDP (not including the United States), those FTA countries account for over 40 percent of U.S. exports. We also have more balanced trade with FTA partners. Only 16 percent of our trade deficit is with FTA countries, compared to 84 percent with non-FTA trading partners.

FTAs are especially important for small and medium-sized enterprises (SMEs), which benefit most from reductions in tariff rates and regulatory red tape, as well as from general improvements in the commercial environment and business transparency. In 2006, over 90 percent of U.S. companies exporting to Canada, Mexico and Australia were SMEs. At least 70 percent of all U.S. companies exporting to Chile, Morocco, and the CAFTA countries were SMEs. In a majority of FTA markets, SMEs accounted for a higher share of exports by value than for total U.S. exports.

Another major trend driving trade is the fast growth of the Internet and e-commerce. There are over 1.3 billion Internet users in the world today. The link between the Internet and e-commerce is growing stronger, shrinking the distance between buyers and sellers. A recent online survey² found that 85 percent of the world's online population uses the Internet to make purchases. In two years, the number of online shoppers has grown from 627 million to 875 million – a 40 percent increase.

CHALLENGES

While U.S. industry remains the most productive and innovative in the world, U.S. businesses are not realizing their full export potential. 246,000 U.S. exporters is an impressive number, yet it represents less than one percent of the 26.8 million enterprises in the United States. In addition, the number of U.S. exporters has not kept pace with the overall growth of the business community. Since 1997, the number of all enterprises has grown 28 percent, while the number of exporters has increased by only 15 percent. It is important to note that exporting is not a feasible pursuit for a large share of the U.S. business community. For example, many local service companies like barber shops and gas stations are not potential exporters. Yet, there are tens of thousands of American small business manufacturers, wholesalers, and services sector firms that sell competitive U.S. goods and services but do not export. Among our major industrial competitors, a much higher share of their enterprises export. While it is no surprise that a high percentage of companies export in small industrial European economies like Finland (19 percent) and Denmark (17 percent), we also see high participation in exporting in large economies, such as the United Kingdom (nine percent), Germany (nine percent), Italy (seven percent), and France (six percent). Outside of Europe, we know that 15 percent of Australian firms and eight percent of Canadian firms export.

FEDERAL GOVERNMENT EFFORTS

As Chair of the Trade Promotion Coordinating Committee, the Commerce Department is the hub of government-wide efforts to ensure the Federal Government offers U.S. companies the right exporting expertise in the right markets. The Commercial Service is broadening the base of exporters through strategic partnerships to reach more companies throughout the United States. We are introducing more U.S. companies to FTA markets where trade barriers have been reduced. We are ensuring that exporters, big and small, have the tools to master the uncertainties of doing business in high-growth, but high risk, emerging markets. And we are advancing our commercial relationships with the next generation of growth markets in Africa, Asia, and the Middle East who have made great strides to join the global economy.

The Commercial Service is focusing on the promotion of exporting to U.S. companies that are either new to foreign sales (new-to-export companies) or that are seeking to expand to multiple new foreign markets (new-to-market companies). Our strategy for accomplishing this is to (1)

² Nielson Global Online Survey conducted October to November 2007, www.nielsen.com/media/2008/pr_080128b.html

simplify our fees for export assistance to SMEs, and (2) continue to expand strategic partnerships with cities and states and private sector providers of export services.

In May, the Commercial Service will implement a new fee schedule that will enable more U.S. companies, especially SMEs, to leverage the Commercial Service's global network of trade experts. Under the new fee structure, our customers will now pay the same fees worldwide for a standard service. For instance, a one day Gold Key Matchmaking Service for SMEs will now be \$700 no matter where they do business around the world. The new schedule maintains low fees for SMEs, improving access to Commercial Service export assistance for those that need it most. Further, the new user fee schedule provides an incentive price for qualifying new-to-export companies to try our services for the first time: up to a 50 percent discount for the Gold Key Service, International Company Profile, International Partner Search, or Featured U.S. Exporter service. The goal is to encourage SMEs to export as a way to grow their bottom line. A full description of the Commercial Service new user fee schedule is located at www.export.gov.

The Commercial Service will also continue to build and strengthen strategic partnerships with cities, states, trade associations, and private corporations that provide export services. It is only through collaboration with these partners that we can reach companies that have not yet fully explored their potential to export. We encourage states, cities, and other localities to maintain their own support for export programs. At the same time, we must work together to create opportunities for companies to export, from support for governor and mayor-led trade missions abroad, to joint trade education and awareness programs at home.

The Corporate Partnership Program (CPP) continues to be an effective mechanism for the Commercial Service to engage the SME community. This program reaches out to American enterprises engaged in activities that touch buyers and sellers around the world, such as express delivery companies, banks, and web-based marketplaces. These businesses can be great teachers and facilitators for other American companies wanting to export more, or export better. Twelve great American companies have stepped forward to participate and assist us in our efforts to increase American exports. Companies such as UPS, FedEx and Google generate tremendous touch points with potential exporters through their websites, newsletters, and local offices. Regional banks such as PNC and M&T have joined us in hundreds of local marketing events.

For instance, last fall PNC promoted with us the very successful "ChinaSmart Roadshow." Based upon market data that PNC obtained from its client base, we developed a seven city series of daylong seminars and a webinar about doing business in China. The events touched on a number of issues including China's commercial landscape, assessing and managing risk in the Chinese market, current and emerging issues for U.S. businesses in China; successful sales strategies; and finding, evaluating and motivating your Chinese partner. The key component of the program was the participation of two of our Foreign Service Officers with experience in China. In all, the series reached more than 900 SMEs.

We recently added six new partners: Baker and McKenzie, LLP; City National Bank; Comerica Bank; Commerce Bank; TD Banknorth; and the United States Postal Service.

These private sector partners join our traditional interagency partners, such as the Small Business Administration, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, and state and local governments, in our effort to educate, inform and assist companies. These partnerships work because both the government's and the private partners' goals are achieved when U.S. companies make foreign sales.

CONCLUSION

Over the past year, the Commercial Service recorded almost 12,000 export successes with a U.S. export value of \$58.8 billion. We held 77,000 counseling sessions with U.S. firms, mainly SMEs. We conducted 37 overseas trade missions, including missions to Africa, China, and India among other places; brought 355 International Buyer Delegations to U.S. trade shows; helped U.S. companies in 107 overseas trade fairs; hosted 562 official visits by Members of Congress, governors, TPCC agencies, and other trade partners; and had 12 million visitors to www.export.gov and other US&FCS web sites. While this may seem like a lot, we hope our early focus on new-to-market and new-to-export companies will result in an increase in export numbers further down the road.

Our country and our economy are benefiting from a historic set of favorable conditions for trade, including rising foreign income, changes in exchange rates, and falling costs of tariffs, shipping, and communications. The future for U.S. industry and exporting is bright. The Commercial Service and the other trade promotion agencies of the Federal Government will continue to work with each other and all stakeholders in trade to promote more exports and U.S. jobs.

Mr. SHERMAN. Thank you for your presentation. I will start off the questioning.

You are doing the job you are doing, and you have described it as you obviously think you are doing a good job. As far as I know, you are.

Mr. HERNANDEZ. Thank you.

Mr. SHERMAN. So you think you are doing a good job. You convinced me you are doing a good job with what resources you have. Why is the administration cutting your budget by 10 percent?

Mr. HERNANDEZ. Well, I think the reference you are making is that the reduction—

Mr. SHERMAN. Well, when I say, I mean the budget for all the related agencies that promote trade, the exports.

Mr. HERNANDEZ. The reduction in budget with respect to the Department of Agriculture I think relates to some of the services they feel they did not need, or they felt that at this point was not necessary. And so the reduction comes from the Department of Agriculture. I think for the most part the budgets for other agencies within TPCC have either, have stayed unchanged.

Mr. SHERMAN. Unchanged. So in an inflationary environment, they have gone down in purchasing power; in terms of the world economy, they have declined. Why, if we don't need to support the export of our grain products—and obviously grain around the world is at a very high price already—why are we not shifting those resources to helping the manufacturers that Mr. Manzullo and others have mentioned?

Mr. HERNANDEZ. Well, every agency within the TPCC has a different authorizing committee. So we, at their point, everyone has to go through their own process.

Mr. SHERMAN. I know how Congress works.

Mr. HERNANDEZ. Yes.

Mr. SHERMAN. Why is the administration proposing a net 10 percent decline in our efforts to promote our exports? And if it is appropriate to reduce the amount we spend promoting the export of grain, why have they not also shifted those funds to promoting the export of our other products?

Mr. HERNANDEZ. Mr. Chairman, I think that is a question that really, for the most part, I am focused on what I can do at the Department of Commerce. I can't answer for the Department of Agriculture about funding related to other programs.

Mr. SHERMAN. So what is happening to your budget in the President's proposed budget to Congress?

Mr. HERNANDEZ. It is very much the same from last year.

Mr. SHERMAN. So in terms of percentages of everything, and in terms of purchasing power, it is just like a cut. You come here to convince us you are doing a great job, but the administration is cutting the purchasing power allocated to your agency.

Mr. HERNANDEZ. Well, I think that, what I think the burden that I have is that I have to make sure that the money that I am given is used effectively, and that there is actually effectiveness and efficiency. And before we even dedicate more money to any one program, you have to explain what it is that you do with it.

Now, the great thing about what we do with our budget is that we have found ways to reach more companies creatively and strate-

gically about how is it that we find and change a mindset about companies, because there is a shift that needs to take place within the American business community about what is really taking place around the world.

And so before you bring more money as the reason, as a solution, you have to make sure you have the right strategy in place. And I can tell you that at this point—

Mr. SHERMAN. Sir, let me interrupt you there. I hope you would have, now in the 7th year of the administration, a strategy that the administration likes. And I know that you have not reached out and touched even half of the possible exporters in this country.

So you have got unlimited opportunities to reach out and do more. You have, this administration has spent 7 years developing a strategy on how to do what ought to be done, and you are here to tell us that you are doing a great job with the limited resources you have been given. And we still have a \$700-billion trade deficit, and you are here to defend not doing more of what you say is a very effective thing to do.

Look, you are in a difficult circumstance. You are here representing the administration, and perhaps you would give me different answers in private, but I want to move on to the next—

Mr. HERNANDEZ. No, but actually, if you don't mind, I would love to answer those two points that you raised, one about a strategy and one about the trade deficit.

With respect to the strategy, make no mistake about it. I think there is a very good understanding of what the strategy has been. And you can tell it with respect, whether it is on multilateral agreements, free trade agreements, which I don't think—

Mr. SHERMAN. Well, that is another agency. I am talking about strategy for trade promotion.

Mr. HERNANDEZ. Okay, but—okay, well, let us talk about, well, you raised the issue about a strategy. That is very much what has been in our national export strategy, as well: The implementation of and the execution and the education of free trade agreements, and what it has done for small- and medium-sized businesses.

Now, with respect to the trade deficit, it is no doubt that it did climb for the first time since 2001. It is no doubt that the deficit is a concern, but also—

Mr. SHERMAN. If you could correct the record, I believe that you meant to say that the trade deficit shrunk for the first time since 2001.

Mr. HERNANDEZ. That is what I meant. Yes, sir.

Mr. SHERMAN. Okay.

Mr. HERNANDEZ. Nonetheless, I know that it is a matter of concern. But it is also unfortunate the price of oil has impacted our economy and trade, because 40 percent of our trade imbalance is due to oil. More than \$294 billion. So I think in many ways, I think there has to be several things that you have to address in all ways with the trade deficit.

Mr. SHERMAN. I wasn't holding your agency responsible for the whole trade deficit, just focused on—

Mr. HERNANDEZ. Thank you.

Mr. SHERMAN [continuing]. Trade promotion. You say you are doing a great job, and your bosses say that they are going to slight-

ly decrease, in real dollars, your resources to do it. That is a contradiction. But let me move on.

Is the Trade Promotion Coordinating Committee capable of coordinating the dozen or so agencies involved in export promotion? Or should we move forward to a Department of Trade that would not only deal with promoting exports, but would also have the clout that comes from being the agency that deals with imports, as well?

Mr. HERNANDEZ. You know, in my experience in working with the agencies, and of course we have, there are 19 agencies on TPCC 11 that are our core agencies. There are some that have different mandates, that have different, that come with different solutions, you know. It depends on the markets that they are in; it depends on the parties and the initiatives, and the national export strategy.

We identify free trade agreements. We also identify party markets in India, China, and Brazil. With respect to China, we very much have a very good understanding of what we have to do within the Department of Commerce, and we work quite a bit with other agencies on that particular country.

But it is also the case that USAID and OPIC have very little or no business to do with China. And so OPIC very much can deal with Central America and can deal with Africa, but the Department of Commerce very much is engaged and has a lot of resource with respect to China.

So the point is, you know, with respect to trade promotion, everyone has a very distinct role. It is cross-collaboration. But not every agency is going to focus on every part of the world. And so every agency is going to have a different mission attached to it.

And so moving to one agency, there is going to be one of these discussions about, well, if you talk about USTR, you talk about ITC, you talk about Commerce, you know, some of these are independent agencies that have explained the economic impact. Some of them discuss policy, some are more promotions. So this is a bigger discussion than just export promotion that you are elevating.

Mr. SHERMAN. Thank you for your answer. I do want to point out, because people keep saying oh, it is all about our oil imports, Japan imports far greater percentage of oil than we do, and runs a trade surplus with the world. And to do trade statistics where you count our exports to oil-exporting countries; so, when we sell something to Saudi Arabia, that counts as an export.

But you think of not counting our imports from Saudi Arabia does not get you an accurate statistic. Every dollar we spend abroad on oil is both an opportunity and creates a necessity for us to export. It is an opportunity because whoever we bought the oil from has a dollar in their hands; they could be buying U.S. products. And it is a necessity, because if we are going to import oil, we are going to have to export something else.

So let us not assume that it is okay to run a trade deficit to the extent of our oil imports.

With that, I believe my—

Mr. ROYCE. Thank you, Mr. Chairman. The Japanese economy has been pretty lethargic with its managed trade mechanisms over the years. In particular, with respect to comparing that economy with the United States economy.

I would like, Assistant Secretary, if we could go to this GAO report that I mentioned, that I thumbed through. And in 2006 they looked at the national export strategy, and they said, "The focus of the national export strategies continues to change from year to year, with little evaluation of the previous year's effectiveness."

And I was going to ask you if that is a fair criticism. And if it is a fair criticism, what has been done to remedy that shortcoming.

Mr. HERNANDEZ. I want to be constructive in the way I say this. There is no doubt that GAO made an assessment about the export strategy. The core of TPCC is to leverage the resources, and ultimately to assist companies to export.

And so based on commercial value, based on market access, based on business environment, based on global trends, a national export strategy identifies the priorities that need to be attention for the agencies to navigate their priorities and resources to those directions.

In 2001, when Secretary Evans was—I mean, sorry. From the first administration, Secretary Evans focused on serving 3,000 companies, serving the TPCC agencies about what we could be doing. And in short, there is increased collaboration, there is increased cooperation. The engagement is strategic.

So I think that what GAO was making a point of is we are measuring progress, but we don't measure program performance, which there needs to be a distinction about that.

Mr. ROYCE. I think one of the points, Mr. Chairman, you picked up on and that I also discussed is why focus on wheat, and not machines, at a time of high prices and high demand for wheat?

I think one of my concerns is that the government is not nimble. The market is, but the government is not. That is why overall, if you relieve, and if you manage to reduce tariffs and impediments to trade, you may get a fair amount of success.

But when we are depending upon government to do this, we are going to find that we are up against the kinds of concerns that the Commerce Department Inspector General found last year, in 2007. He said the annual national export strategy does not incorporate many tactical strategic planning elements.

So I would ask you, what would these planning elements be if we were going to try to take a government institution and make it more nimble? It is never going to be as nimble as the market, but could you address that concern on the part of the Inspector General?

Mr. HERNANDEZ. Absolutely. I think that one of the things that we are trying to address, and I think we have done, very much communicated, is the national export strategy is a benchmark for strategic direction. In many ways, it is an opportunity for agencies to understand what it is that we are paying attention to. We also address how we are making companies more competitive as they try to enter the global market.

So in many ways, we can't direct, we can't change agencies' budgets and direct them to pay attention to this. We can only show in many ways what is it, the environment that we are trying to create; how we are trying to create better conditions for companies to enter into foreign markets. And so we address these. We highlight these.

We also highlight priority markets, so that not only the TPCC agencies, but also that states can use to identify priorities in the year to come. So in many ways we do have a strategy. We do navigate and persuade through a vision about what is it that we want to do for agencies to understand what is important.

Mr. ROYCE. Okay. So, Mr. Secretary, I have got one last question for you. In your testimony there when you opened, you said that the U.S. has nine FTAs with 14 countries. Worldwide there are now over 200 FTAs in place. How do these trade agreements affect U.S. exports?

Mr. HERNANDEZ. Wait, without—if you look at this chart, I think what is really fantastic when I talk to companies is that they really look. Because ultimately, 90 percent of the small, those that trade or the small- and medium-sized companies.

What they look for is clarity. They need to understand that when they do business here in the United States, there is an opportunity to do business overseas. These free trade agreements provide an opportunity for them to sell their products in a way that they fully understand.

And so it is no surprise that 40 percent of our exports go to these countries, and that the majority of our exporters are small- and medium-sized companies.

Mr. ROYCE. I understand. But when I am giving you these numbers on the 200 FTAs in place, a lot of these are foreign trade agreements that don't include the United States. I gave the example earlier of how the EU is trying to engage with Korea; again, a very large market. The United States is not in the game with respect to a number of these markets, as we have watched, for example, in Latin America. The liberalization is going on. We have watched the EU come into Latin America.

I am rather proud of the job we did with the African Growth and Opportunity Act. We had a bipartisan coalition that worked on a trade agreement. There were four of us that were the original co-sponsors of that. We saw trade double; we saw our exports double into the African Continent. And we saw a great deal of GDP growth in Africa. It was a win-win.

But I am asking now about the disadvantage that we face competitively as we see the EU, as we see other countries moving forward with these trade agreements to liberalize trade, and we don't perform on that front.

Mr. HERNANDEZ. There is no doubt, I mean, as I travel, and I think you raised this. The biggest question is, Where are the American companies? And the fact is the world is moving, and it is growing quickly. And they have come to understand that one of the things they need to do is create more opportunities, so it is no surprise that a lot of countries in the Western Hemisphere, even in Asia and the Middle Asia, are signing free trade agreements among themselves, doing a lot of intra-trade. And you are going to see that number continue.

So the last thing we need to do, and I don't want to just say this with emotion, but the last thing we need to do is retreat from the world. I think we need to continue moving forward, creating more opportunities. And I think passing the Colombia Free Trade Agreement is another example of us doing that.

Mr. ROYCE. The financial services companies that I met with in Seoul, Korea, and United States financial services companies said they would really be hurt if we don't have an agreement. Not only in terms of access to the market, but also the ability to put together joint financial operations with Koreans, and Korean companies.

So we have everything from financial services industry, the banking industry, a lot of service industries also, that are not getting access to the market because we haven't worked out those free trade agreements.

And again, we see Europe moving on that front. We see Japan trying to work out an agreement there. We hear about China trying to do the same thing.

Mr. HERNANDEZ. Well, you know, in many ways, even the EU is doing a free trade agreement with Colombia would make it, we make our companies less competitive when other countries join the free trade agreements among themselves, and we are not engaged on that front. So there is no doubt that more and more countries—I mean, Chile has more free trade agreements in the Western Hemisphere than any other country here—the amount of growth that is taking place in Chile is astounding. Even without our own free trade agreement.

But there is no doubt that they have come to see that to fundamentally change the economic development and have their industries grow is to find new opportunities for them. And many of them are using the free trade agreement route. Not only in the Western Hemisphere within their region, but throughout the world.

I think I will just close with the observation, the World Bank—and this comes on the heels of our work in Africa, where Charlie Rangel and I and some of the other members have had an opportunity to go and see first-hand the consequences. But the World Bank estimated that eliminating trade barriers in goods alone could boost incomes in developing countries by at least \$142 billion a year, while at the same time boosting incomes here in the United States. We saw that with respect to our trade, our engagement on the African Continent. Because I said before, it was a win-win. It helped American workers help workers on the African Continent.

Thank you very much.

Mr. SHERMAN. Thank you. Now the gentleman from Texas.

Mr. POE. Thank you, Mr. Chairman. I consider myself a free trader, but I am probably more of a fair trader than I am a free trader. I represent southeast Texas, where most of the nation's refineries are all in one area. But also I represent a group of folks that profess to be rice farmers. They grow long-grain rice, as opposed to short-grain rice. And historically, their places of commerce throughout the world in order have been Cuba, Iran, and Iraq. Probably not too good for them, because of the conflicts we have with those three nations.

And their biggest problem is they cannot find markets for that long-grain rice. The Cubans want it, and because of all the trade restrictions with Cuba, it is very difficult to sell them rice. So the Cubans buy rice from Vietnam and Thailand.

And I am still curious why we take China, and we trade with China. We ignore their political structure. And then we have Cuba,

right off our shore, who wants American Texas rice, and we throw roadblocks up against that policy because we are mad at Castro.

Can you explain to me why we still have this, in my opinion absurd policy of keeping agricultural goods out of a nation that wants our rice?

And let me just follow up. These rice farmers, there are fewer and fewer of them every year. They can't make a profit, and so that land is being tilled up and used for subdivisions. And so help me a little bit here, why we still have this hard-headed policy about agricultural goods with Cuba.

Mr. HERNANDEZ. Mr. Congressman, much like I defer currency questions to Treasury, I am going to defer foreign policy questions to the State Department. In many ways, what I do in the Department of Commerce is once we have identified a market and create a commercial dialogue, we absolutely make sure to take aggressive steps to try to build an environment for American companies to understand it, to educate them how they could get into it, and to remind them of what is required of them so they can get in there and be successful.

So in many ways, I would defer to the State Department on the foreign policy question with respect to Cuba.

Mr. POE. So I guess your policy or your department wouldn't help commerce with the Cubans, help Texas get commerce with the Cubans, because that is not your decision?

Mr. HERNANDEZ. Well, sir, I think there is a few industries, there is a few companies that we do help that have been licensed to sell to Cuba in some southern states I know of in Alabama, and a few, and including Mississippi.

But the fact is, we at this point try to support American companies when they try to go into those markets. We can share many ways how it is to do business in that particular market. But with respect to a foreign policy and how we engage in a country, we very much defer to the State Department to create and build that kind of declaration, whether it is Cuba or any other country around the world.

Mr. POE. Can you give any suggestions on our Texas rice farmers on where in the world they can sell their rice?

Mr. HERNANDEZ. I will—why don't I follow up with a response to you following this hearing? All right?

Mr. POE. Thank you, Mr. Chairman.

Mr. SHERMAN. Thank you. It is my understanding that we do allow our farmers to sell rice to Cuba, as long as they get paid in cash. But we do not subsidize such sales or provide good credit terms. And maybe that is—

Mr. POE. That is the difficulty, Mr. Chairman.

Mr. SHERMAN. That is the difficulty. I want to thank the Assistant Secretary, Mr. Hernandez, for coming before us. And let us move forward with the second panel.

Mr. HERNANDEZ. Right. Thank you.

Mr. SHERMAN. I will ask you to take down the charts here, because it is possible that our next panel has their own charts.

Mr. HERNANDEZ. Thank you.

Mr. SHERMAN. While people are coming forward, I will tell you how wonderful they are. The first of our wonderful witnesses on

the second panel is Thea Lee, the policy director for legislation of the AFL-CIO, where she oversees research on international trade and investment policy. Previously, she worked as an international trade economist at the Economic Policy Institute here in Washington, DC.

We also have with us Mr. Frank Vargo, vice president for international economic affairs at the National Association of Manufacturers. I guess we didn't pose this right for the pictures, and have the NAM representative right next to the AFL-CIO representative. But it is good to have labor and business here together.

I also welcome Dr. James Morrison, president of the Small Business Exporters Association of the United States, a non-profit organization devoted exclusively to small- and medium-sized exporters.

Lastly, I welcome Daniella Markheim, the Jay Van Andel senior analyst in the Trade Policy Department at The Heritage Foundation's Center for International Trade and Economics.

With that, let us hear from Ms. Lee.

STATEMENT OF MS. THEA M. LEE, POLICY DIRECTOR, AFL-CIO

Ms. LEE. Thank you, Mr. Chairman and Ranking Member Royce, for the invitation to come here today on behalf of the 10 million working men and women of the AFL-CIO on this very important topic of U.S. export promotion strategy.

This is an area where there is some agreement between labor and business on the need for strong export for the health of the U.S. economy, and the importance to any strategy for creating good jobs at home is going to have to include success in export markets. And we in the labor movement would certainly prefer to close our trade deficit through export growth rather than import reduction.

But it is important that we be as clear as possible about what kind of export growth we are trying to achieve, and how best to get there, and what the role of the government is. And some of these issues have been discussed already this morning.

First, what are we exporting, and to whom? Does it matter what the composition of our exports is? And I think, certainly from the point of view of labor, it does make a difference whether we are exporting waste products and raw materials or high value-added manufactured goods. And so I think that is one issue for us to talk about.

Second, what is the relationship between growth and exports, imports, and foreign direct investments? I don't think it is useful for us to put all the focus on exports and export growth without looking at what the other side of the coin is: What is happening to imports at the same time? We need to take these issues together, and look at them as parts of the same discussion and the same problem.

Third, what is the relationship between export growth and good jobs at home? Are all exports created equal in terms of their net impact on job creation? We don't export for the sake of exporting; we export because we hope to have economic benefits at home, particularly in the area of job creation.

Finally, the focus of today's hearing is what is the proper role of government in promoting exports? Mr. Royce, you raised some of those issues in your opening remarks.

How do we draw the line between the role of government and the role of business and the private sector? How effective is our current export promotion strategy, and how could we improve it? Do we need to have, for example, and should the government provide, export assistance? Should we also provide certain conditionalities with respect to domestic content or job creation or economic impact? And have we done a good job in measuring the domestic content and the economic impact? I would argue that there is definitely room for improvement in those areas.

But the key point I wanted to make today is that the United States does not need just an export promotion strategy. Maybe everybody would agree on that. We need a coherent trade strategy that is connected to a coherent national economic strategy. Any evaluation of government efforts to promote exports must take that into consideration.

In the year 2008, with the United States enmeshed in the global economy—and we are not turning around, we are not going backwards on that—we do need to figure out what other countries are doing, how we can be more effective.

A lot of our current export promotion strategy seems to be focused on disseminating information to potential exporters, which I think is a useful role of government, even in terms of credit and promoting American products abroad. And there is a lot of agreement across party lines, and among both labor and business constituencies, that boosting American exports is a good goal, a worthwhile goal, and the U.S. Government can and should play a role in doing so.

But we don't always agree with each other about whether the trade deficit is a problem. I guess I just wanted to highlight that contradiction: If the trade deficit isn't a problem, then there isn't really any need for the government to play a role in promoting exports. Why would a dollar of export sales be any more valuable than a dollar of domestic sales?

But the AFL-CIO would actually argue that the trade deficit is a problem; and that, for that reason, increasing exports is in the national interest; and that government policy is crucial in supporting the ability of domestic producers to export successfully.

There are macro-economic consequences, as Mr. Sherman pointed out in his opening remarks, of running chronic and enlarge current-account deficits on the order of 5 percent or 6 percent of GDP. This international indebtedness creates an economic instability for the United States, and in fact for the entire global economy, because we are spending beyond our means. We are consuming goods and services that we can't pay for. Eventually, and I think we see the kind of turmoil in currency markets that is uneven right now, that shows that there are long-term consequences to a policy that doesn't pay attention to how we balance our economic integration into the global economy.

Let me just make one broad point about export promotion strategy. There are basic economic relationships that are important, that maybe have more influence on our exports than some of the small programs around advertising at the edges. I would argue that the currency, tax, and trade policy all play a crucial role in determining the export success of U.S. producers.

If the dollar, for example, is over-valued with respect to a particular trade partner or a group of trade partners, then all the seminars in the world cannot overcome the basic competitive disadvantage inherent in that trade relationship.

I would also make one other point, which is that negotiating free trade agreements or pushing for better market access is important to American producers. But if we don't pay attention to currency shifts, then much of the good work that we do in negotiating for lower trade barriers can be swamped by movements of currency. That was, in fact, what happened in the early days after NAFTA was put in place. We negotiated for reductions of tariff on the order of 10 percent, and then we had a 40 percent or 50 percent devaluation of the peso, which really overcame that. I would say, in our trade relationship with China, currency manipulation and undervaluation are more important than some of the tariff reductions that we were able to negotiate for.

Let me just summarize quickly, and of course submit my entire written remarks for the record. But two other institutions—OPIC, the Overseas Private Investment Corporation, and the Export-Import Bank—are parts of the U.S. export promotion strategy. I am familiar with both. I sit on the advisory committee of the Ex-Im Bank.

They are both, in principle, designed to promote U.S. exports and create good jobs at home. But they have a certain amount of schizophrenia, perhaps, with respect to their goals. One of the things that I certainly see with both institutions is that some of the conditionalities and the parameters and the constraints that Congress has put in place with respect to economic impact or job creation are seen widely, both by the staff at those institutions and by the businesses that use them, as nuisance factors. They are constantly trying to eliminate the requirement that there be any domestic content, or that the domestic content be measured in any kind of stringent way.

I would like to argue that the only value of those institutions is that they serve a public policy purpose. Otherwise those companies can get the money from the private sector, if they don't want any constraints, they don't want any strings attached. We need to pay attention to the important role of the public policy constraints.

Let me end by saying we look forward to working with Congress to develop a comprehensive and coordinated set of policies that can address unfair practices abroad, make the necessary investments at home in education, training, technology, and infrastructure, and support and nurture American workers and producers as they engage in the global economy.

I look forward to your questions. Thank you for your time.

[The prepared statement of Ms. Lee follows:]

PREPARED STATEMENT OF MS. THEA M. LEE, POLICY DIRECTOR, AFL-CIO

Mr. Chairman, members of the Subcommittee, thank you for the invitation to speak today on behalf of the ten million working men and women of the AFL-CIO on the important topic of U.S. export promotion strategy.

Strong exports are crucial to the health of the U.S. economy, and to any strategy for creating good jobs at home. We in the labor movement would certainly prefer to close our trade deficit through export growth, rather than import reduction. But it is crucial that we be as clear as possible about what we are trying to achieve, and how best to get there.

First, what are we exporting, and to whom?

Second, what is the relationship between growth in exports, imports, and foreign direct investment flows?

Third, what is the relationship between export growth and good jobs at home? Are all exports created equal in terms of their net impact on job creation?

Finally, what is the proper role of the government in promoting exports? What is the proper role of business and the private sector? How effective is our current export promotion strategy, and how could it be improved? Should the government condition export assistance by requiring a minimum domestic content or through other means? How well enforced are current domestic content requirements and how thorough are economic impact studies?

My key point today is that the United States does not need just an export promotion strategy, but rather a coherent trade strategy that is connected to a coherent national economic strategy. Any evaluation of current U.S. government efforts to promote exports must take this into consideration. It does not make sense to focus efforts on exports, without also considering the impact of proposed policies on imports. Furthermore, we cannot treat trade strategy as separate from domestic tax and investment policies.

According to the 2007 National Export Strategy Report, the U.S. government spends between one and two billion dollars annually to promote exports. Responsibilities are shared between several agencies, notably Commerce, State, Agriculture, Energy, Treasury, the U.S. Trade Representative, the Small Business Administration, and the Trade and Development Agency, as well as the Export-Import Bank and the Overseas Private Investment Corporation. Almost half of total annual expenditures are by the Department of Agriculture.

The 2007 report paints a positive picture of U. S. export performance and competitiveness. "U.S. exports are booming and at an all-time high. International measures of competitiveness tell the same story. . . . All of these factors should boost the confidence of the U.S. business community that American companies can thrive in the global marketplace."

Exports grew at a rapid rate in 2007 as well, hitting \$1.6 trillion. In the end, however, the ultimate measure of competitiveness is neither growth in exports, nor profits of American companies, but rather our trade balance. Our trade deficit in goods and services remains above \$700 billion, while our goods deficit in 2007 was \$815 billion.

Some growth in exports can actually be connected with job loss, rather than job creation. For example, if an auto assembly plant moves out of the United States to another country, exports of capital goods and auto parts might rise. But if the finished automobiles are imported back into the United States, then imports of autos will increase faster than exports of auto parts, and the trade balance will worsen. This is why a narrow focus on export growth can be misleading.

Much of our current export promotion strategy seems to be focused on disseminating information to potential exporters, easing terms of credit, and promoting American products abroad.

There seems to be widespread agreement—across party lines, and among both labor and business constituencies—that boosting American exports is a worthwhile goal, and that the U.S. government can and should play an important role in doing so.

Yet, business and government do not always share labor's view that the U.S. trade deficit is a problem worthy of government attention.

If the trade deficit is not a national concern, then there is no compelling reason why a dollar's worth of exports would be superior—in a business model—to a dollar's worth of domestic sales. It is also not entirely clear why American businesses are considered capable of exploring domestic marketing opportunities, yet in need of government assistance in locating foreign opportunities.

In fact, the AFL-CIO does believe that increasing exports is in the national interest, and that government policy is crucial in supporting the ability of domestic producers to export successfully.

But what are the key obstacles facing U.S. exporters or potential exporters?

We would argue that currency, tax, and trade policy all play a crucial role in determining the export success of U.S. producers. If the dollar is overvalued with respect to a particular trade partner or group of trade partners, then all the seminars in the world cannot overcome the basic competitive disadvantage inherent in the trade relationship.

Much of the recent net U.S. export growth has been to countries whose currencies have appreciated relative to the dollar. In contrast, our bilateral trade deficit with China continues to increase rapidly, largely because of exchange rate manipulation (via reserve accumulation) by the Chinese government.

Similarly, our corporate tax system creates a competitive disadvantage for American-based companies—both in terms of unfair import competition and a disadvantage in export markets. This is true where our trading partners use value-added or border-adjustable tax systems. Under WTO rules, those countries may rebate the V.A.T. on exports and impose it on imports. We cannot make a similar adjustment, since we tax corporate profits directly, and the system we used in the past (the Foreign Sales Corporation tax) was found to violate WTO rules.

Trade policy must also be carefully crafted to promote exports from American soil, not simply to encourage the shift of jobs and investment offshore. That is one reason why the balance between investor protections and labor and environmental standards is so important.

Effective enforcement of our trade laws against unfair trading practices is also crucial. Yet yesterday, a Government Accountability Office (GAO) report found that the office of Customs and Border Protection has failed to collect countervailing and antidumping duties amounting to more than \$600 million since 2001. This is unfortunately only one of several examples of the government's failure to adequately enforce existing trade laws designed to protect American producers.

The Export-Import Bank and the Overseas Private Investment Corporation (OPIC) currently provide loan guarantees or credit for exports or foreign investment projects. Both institutions are charged by Congress to support the creation of U.S. jobs through enhanced exports. Both OPIC and the Export-Import Bank policies could be more explicit and better administered, particularly with respect to the domestic economic impact.

OPIC is backed by the full faith and credit of the U.S. government, and as a public institution, OPIC's role should not be to simply replicate or subsidize the activities of private insurers, financiers and investors. The only justification for OPIC is that it fills a legitimate public need that the private market is not meeting.

To fulfill the need for high-quality, job-creating, development-enhancing foreign direct investment that is currently not being met by the private market, OPIC must set the highest possible standards for investors. OPIC must ensure that the projects it supports are advancing the interests of American workers and promoting real economic and social development abroad. OPIC can do so by ensuring that each and every project it supports:

- 1) strengthens our trade balance and creates U.S. jobs; and
- 2) contributes to sustainable and equitable development abroad based on full respect for workers' rights, human rights, and the environment.

Currently, the OPIC statute directs OPIC to "further to the greatest degree possible . . . the balance of payments and employment objectives of the United States."¹ OPIC is required to decline support to investments where it determines that the investment is likely to cause a significant reduction in the investor's U.S. employees or a significant reduction in employment generally.² In addition, OPIC is directed to refuse to support any "investment subject to performance requirements which would reduce substantially the positive trade benefits likely to accrue to the United States."³ There is no such explicit ban on projects not subject to performance requirements that lack positive net trade benefits. Instead, OPIC is merely directed to "consider" possible adverse trade impacts of investment projects in general.⁴ Finally, OPIC is supposed to report annually on the impact of OPIC-supported production on the production of similar products in the U.S. and on jobs in the U.S.

As with the workers' rights requirements, OPIC enforcement of the jobs and trade conditions consists of a requirement that each investor fill out a short form stating whether or not it has laid off any employees as a result of its OPIC project and listing in which countries its products have been sold. These "business confidential" forms are completely inadequate for ensuring that OPIC projects do not worsen our trade balance or cost U.S. jobs.

Unless mandates for OPIC are strengthened and compliance monitoring made a top priority, OPIC will only be reinforcing the worst trends in the global economy. As a public institution, it must instead set and enforce the highest standards for investors.

The Export-Import Bank also needs to improve and make more transparent its economic impact test, and to ensure that domestic content, and local cost rules are effectively enforced.

¹ 22 U.S.C. § 2191(h)

² 22 U.S.C. § 2191(k) and (l)

³ 22 U.S.C. § 2191(m)

⁴ 22 U.S.C. § 2197(k)

Government programs to ensure that exporters and domestic manufacturers have adequate information to find customers and complete sales abroad are important, but they are not a substitute for addressing some of the root problems with current U.S. policies that disadvantage domestic production.

We look forward to working with Congress to develop a comprehensive and coordinated set of policies that can address unfair practices abroad; make the necessary investments at home in education, training, technology, and infrastructure; and support and nurture American workers and producers as they engage in the global economy.

Thank you for your consideration. I look forward to your questions.

Mr. SHERMAN. Thank you very much. And without objection, the full statements of all witnesses will be entered into the record.

Now let us hear from Mr. Vargo.

**STATEMENT OF MR. FRANKLIN J. VARGO, VICE PRESIDENT
FOR INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSO-
CIATION OF MANUFACTURERS (NAM)**

Mr. VARGO. Thank you, Mr. Chairman. The NAM greatly appreciates being invited to this hearing because trade, the trade deficits are of great concern to our members.

Before, I just have a few brief remarks, and you already indicated you will put my statement in the record. I want to thank the subcommittee for its very good and very careful work on export controls. The NAM has been working on this. You know, we believe it is possible to improve national security and reduce the cost and complications at the same time. So we want to thank you very much. We look forward to working with you.

Mr. SHERMAN. If I could interrupt there, it would be wonderful, if necessary, if this were made a key vote, should it come up and I look forward to tangibilitizing your good wishes. And if anyone else on the panel also wants to indicate that the work of this subcommittee will be among their highest legislative priorities, they are welcome to do so. And their time in making such remarks will not be limited. [Laughter.]

Mr. Vargo.

Mr. VARGO. I certainly take your point. Thank you, Mr. Chairman.

You know, the Almighty did not ordain that the United States had to run a trade deficit. As a matter of fact—and I spent quite a few years in the Commerce Department, not going back to the year I am going to mention. But from 1884, 1886, something like that, to 1972 we had an unbroken string of trade surpluses. After that it has been virtually an unbroken string of trade deficits. And if trade deficits were so good, everybody would want one.

I don't think they are good, and I certainly agree with Ms. Lee on this. And we want to get it down. But the best way to get it down is by selling more, you know. A lot of people say we are importing too much. The other way of looking at it is saying, you know, we are not exporting enough. We are not paying our way in the world.

And in my prepared statement on page 12 I have a graph which shows how much our exports dropped below their long-term trend. And that is an important reason why we had significant impact on manufacturing jobs, and a lot of that was due to the dollar. We have to have a dollar that does not put us at a disadvantage.

Now, it is very difficult to go up and promote exports when companies say I am just not competitive, I can't compete at this dollar rate. Well, now we can. So the time to fix the roof is when the sun is shining, and the sun is shining now. And I think we need a quick expansion of our export promotion programs.

The NAM certainly believes the market should determine things, but we also believe there are market imperfections. And there are so many small- or medium-sized companies that just do not export. I think only about one out of five of our manufacturing firms actually exports.

Now, as has been noted, we have an export promotion program that hasn't grown that much. I would like to highlight that the agriculture promotion budget, at about \$700 million, is twice as large as the program for promoting manufactured goods, even though manufactured goods exports are 10 times as large as agricultural exports.

And I am not saying that the agriculture program is wrong. I think that it is one reason why we export the output of 100 every three acres.

But I do think by comparison with the agricultural program, or by comparison with other countries—Australia, for example, just announced a \$200 million promotion program for their manufactured goods exports, and they export one-sixteenth of what we do. So proportionately, you know, we would have a program that would be in the billions.

I am not proposing any specific budget. I just believe that now is the time for us to accelerate our promotion efforts. I believe marketing is important.

Just a couple of examples. I went out to our members and said, you know, are you getting everything you need from the Commerce Department from the other promotion programs. The answer was no.

And one example was the American gear manufacturers, the mainly small- and medium-sized firms, and they export about 40 percent of their production. They have been trying for 10 years to get certified as a foreign buyers show. They finally did get certified.

What is a foreign buyers show? The Commerce Department brings buyers from overseas to the U.S. show, where the U.S. small- and medium-sized companies are already exhibiting their products. It is a great way of promoting products. Commerce doesn't have the resources to do more than 20 of these a year. And to me, that is a serious deficiency.

The Market Development Cooperative program, where associations like the machine tool people put up two thirds of the funds and Commerce will put up $\frac{1}{3}$, only for 3 years as seed money to get the thing going, appears to pay 100-to-1 payback. But the program, which was started in 1990s at \$2 million, is still \$2 million, and it is so strapped for funds they can't provide for any new cooperative programs this year. Hopefully next year they will be able to. The agricultural program is funded at \$240 million. So again, there is a disparity there.

One of the most beleaguered U.S. manufacturing industries is textiles. Textiles noted to us, the National Council on Textile Organization, that they are unable to get export financing for United

States fabric to go to Central America and Mexico, and their other large markets, because of the trade agreements—to get the benefit they are required to use United States fabrics. This is something that needs to be changed.

I think we need a sea change in our export promotion. I would like to see a commission formed to look at this carefully. You know, Mr. Royce, I know he feels that some of these programs are not needed, are inefficient, and perhaps he is right. Perhaps I am right that some of them need to be greatly expanded.

So we hope that we could have a coming-together of Congress and the administration and the private sector, including labor, and see just where we ought to go.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Vargo follows:]



Testimony

of Franklin J. Vargo
Vice President for International Economic Affairs
National Association of Manufacturers

on behalf of the National Association of Manufacturers

before the House Committee on Foreign Affairs
Subcommittee on Terrorism, Nonproliferation and Trade

on "U.S. Export Promotion Strategy"

April 24, 2008



Testimony of Franklin J. Vargo
Vice President for International Economic Affairs
National Association of Manufacturers
On Behalf of
The National Association of Manufacturers
Before the
House Committee on Foreign Affairs
Subcommittee on Terrorism, Nonproliferation and Trade
Hearing on
“U.S. Export Promotion Strategy”
Thursday, April 24, 2008

Mr. Chairman and Members of the Subcommittee,

I am pleased to have the opportunity to testify on behalf of the National Association of Manufacturers (NAM) this morning on “U.S. Export Promotion Strategy”.

The NAM is the nation’s largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. I am especially pleased to be testifying today on export promotion because exporting is vital to American manufacturing and to the NAM. I want to add that prior to joining the NAM I had a full career with the U.S. Department of Commerce, seeking to do my part to help grow American exports. I particularly applaud this Subcommittee’s active interest in determining how to achieve faster growth for U.S. exports.

At the end of the 19th century, U.S. manufacturers banded together to form an organization to find markets abroad for their products. That was in 1895 and the organization they formed was the National Association of Manufacturers. So you see, recognition of the importance of export promotion is in our organizational DNA at the NAM.

Last year, U.S. manufactured goods exports were \$982 billion, 60 percent of all U.S. exports of goods and services. Services accounted for \$479 billion – 29 percent of the total; and agricultural exports were \$92 billion – 6 percent.

Exports are vitally important to the U.S. economy – in fact last year they accounted for 40 percent of the growth of U.S. real GDP, offsetting the housing decline. Exports are very important to the manufacturing sector, and by NAM estimates, account for over one-fifth of manufacturing output.

Yet the United States runs a huge trade deficit – a deficiency of exports compared to imports. We have been falling short, and will continue to fall short unless our exports close the gap with our imports. On the import side, we have to ensure that imports are fairly traded, and have to deal firmly with subsidies and other unfair trade practices.

I believe, though, that our biggest trade problem is how to get our exports to grow much faster and allow us to pay for our imports through exports rather than by borrowing more from other countries. We cannot go on running such huge trade deficits. Our deficit did fall last year, as export growth exceeded imports, particularly for manufactured goods, in which the deficit fell nearly \$30 billion. For the first two months of this year, it declined another \$10 billion. This, though, is still only a modest improvement and much more is needed.

Given the likelihood of continued large imports of oil and of manufactured goods, we need a huge ramp-up of our exports, most of which of necessity will have to be manufactured goods. The importance of paying attention to U.S. exports is obvious by looking at Exhibits 1 and 2, appended to my statement. Exhibit 1 shows the 1990-2000 growth trend of U.S. exports of manufactured goods and depicts how badly we have fallen behind for the last six years or so because of the severe misalignment of global currencies. Exhibit 2 illustrates more clearly the gap between our past trend and our actual performance, showing the impact on U.S. manufacturing production and jobs. Only in the last few months have we returned to the growth path we should have been on.

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

Importance of Currency

To set the scene for a discussion of export promotion strategy, let me begin by saying that exports reflect a number of major factors. One of the most important of these is currency. When the dollar is excessively strong against other global currencies, U.S. goods become expensive in global markets and exports decline. When the dollar has adjusted to a more realistic value, exports grow. This sounds like common sense, but it is a fact too often overlooked in this discussion.

We have just seen this phenomenon occur over the past decade. During the 1997-2002 period, the era of the so-called “strong dollar”, the dollar ran up to 25% over its equilibrium value. During this period, the trade deficit spiraled upward and U.S. exports dropped off a cliff.

The dollar peaked in 2002 and began the readjustment that we are still seeing today. There is, of course, a lag in the effect of currency on exports, but the export growth we are now seeing is a direct result of this readjustment of the dollar. At the NAM, we hear every day from companies who say the value of the dollar has allowed them to be competitive internationally again and export more. Many companies, particularly among our smaller and medium-sized member firms, have told us the only reason they are doing well at the present time is their export performance.

Although we are not here to discuss international monetary policy, it must be acknowledged as an essential factor in export competitiveness. In fact, an export promotion strategy must be linked with broader strategy to ensure the dollar does not again become excessively strong, to address the elements of our basic international competitiveness, and to continue to reduce foreign barriers to our exports by further trade agreements.

Export Promotion Strategy

As I look at the U.S. export promotion strategy, we must do more to achieve the goal of a sharply increased rate of export growth.

I believe that the future standard of living of the United States depends on a huge increase in exports, one that will substantially eliminate our trade deficit in the next half decade or so. Having a reasonably valued currency and access to foreign markets is necessary, but not sufficient. We also need a sharp shift in export orientation that will lead to U.S. firms placing much greater emphasis on finding and selling to foreign markets.

The first element of an effective strategy is having an ambitious goal. I am not proposing a specific goal, but I believe the goal must be understood to be large and challenging and that it be widely agreed that its achievement is a national priority.

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

Some say that a high-wage nation such as the United States cannot compete in world markets. But this is not so. Germany's manufacturing wages and compensation significantly exceed those of the United States – and did even before the recent spike in the euro/dollar relationship. Yet Germany runs the world's largest trade surplus. Even excluding intra-European trade, Germany ran a \$100 billion trade surplus last year.

What does Germany do that we don't? Germany has a tremendous export orientation. Merchandise exports are fully 40 percent of Germany's GDP (current dollars). Even excluding intra-European Union trade, Germany's merchandise exports are 15 percent of its GDP. U.S. merchandise exports last year were 8.4 percent of our GDP. Were we to export at Germany's 15% GDP ratio just for its exports to countries outside the European Union, we would have not only erased the trade deficit, but achieved a trade surplus of more than \$120 billion last year.

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

In fact it appears to me, at least for manufactured goods, that they have been shrinking. That appears to be the case for the Commerce Department, in real terms. The \$335 million listed as export promotion expenditures for the Commerce Department in 2007 would appear to enable fewer actual promotion resources than the \$326 million four years earlier, given inflation and what I understand to be a huge increase in contribution costs for security at embassies.

Additionally, I think an impartial observer would have to conclude that U.S. export promotion resources are skewed in favor of agricultural export promotion. As a nation we seem to place a higher priority on exporting farm products than manufactured goods. The Department of Agriculture budget for export promotion last year was \$693 million, while the Department of Commerce budget for promoting exports of U.S. manufactured goods was \$335 million. What makes this skewed is that manufactured goods exports are 10 times as large as farm exports, yet the promotion of farm exports receives more than twice the resources as manufactured goods.

Please do not misunderstand me. I am not in any sense suggesting that agricultural export promotion is over-funded and should be shifted to the Commerce Department. We need agricultural export growth just as we do manufactured goods export growth.

But if the Commerce Department export promotion budget were to be funded proportional to agricultural export promotion, it would have been 10 times the agricultural budget, or \$6.9 billion – an amount 20 times the size of the actual export promotion budget for manufactured goods, a rather startling contrast. We are in a global competition, and advertising, marketing, market information, and assistance in finding customers can make all the difference to American exports. It is not a competition we are winning.

Finally, let me point out that the U.S. export promotion strategy has for a number of years been one aimed at increasingly shifting the cost of various marketing research and promotion programs to users of trade missions, market research, participation in trade fairs, and the like. This is in contrast to the support other governments provide their exporters as they seek an expanded share of world markets. I was very pleased to note, however, that the U.S. approach has taken a step toward making promotion services more attractively priced for smaller companies, with the new fee schedule announced for implementation May 1st.

Even this welcome step, though, leaves the U.S. program in contrast to the support that other governments provide. For example, in asking NAM member companies and associations for their views about U.S. export promotion as I was preparing my statement for the Subcommittee, one of our members responded:

“In our industry (packaging machinery) participation in international trade shows is key when entering new markets. Currently our members have to pay a significant amount of money to participate in these events. However we know that competitors from other countries, mainly European, have strong support from their governments based on trade promotion programs. This is leaving our members in a weak position to compete internationally. We consistently find country pavilions at international trade shows that are heavily subsidized by their governments. We have found this mainly from European countries including Spain, Italy, UK and Germany. We have learned from cases where some of these countries pay up to 70% of space, decoration, freight and staff transportation for companies to attend a trade show.”

This member also provided a copy of a new UK Government program that provides funding to British companies that seek to enter new markets, underwriting much of the cost of participating in trade fairs or undertaking other export marketing steps to expand their overseas sales.

My attention was also drawn to an Australian news report of a few weeks ago stating that Australian government export market development grants to exporters will be boosted by \$50 million to a total of more than \$200 million. Australian Trade Minister Crean, in announcing the increase, said that Australia has to engage much better, “with the fastest growing area of opportunity – world trade.” I note that Australia’s exports of manufactured goods last year were about \$60 billion – 1/16th the amount of U.S. manufactured goods exports, so Australia’s \$200 million program is the equivalent of announcing a \$3.2 billion U.S. program.

So while U.S. export promotion programs provide little if any financial assistance to exporters, our competitors have a totally different philosophy about promoting exports. In doing some research for my appearance before the Subcommittee, I have to confess I was startled to learn that it was not only our competitors who were able to provide financial incentives and support to enter trade shows and seek new markets, but also the U.S. Department of Agriculture.

Under the Foreign Market Development Cooperator Program (FMD) and the Market Access Program (MAP) agricultural trade associations engaged in market development and export promotion activities for both generic and branded products are eligible for a range of supports. As part of the MAP, for example, the Export Incentive Program (EIP) provides reimbursement to qualifying small companies for airfare to foreign trade shows, trade show participation costs such as rental of space and equipment, promotional and advertising costs, and packaging costs if necessary to meet importing country requirements. This is quite similar to what is characteristic of the support available to many foreign firms. However, under current programs and funding, none of this is available to U.S. manufacturers seeking to expand their exports.

Export Promotion Programs

It is not my purpose today to evaluate the various export promotion programs the Department of Commerce utilizes. Given the resources available to the International Trade Administration for export promotion, I think they have been doing a very good job in seeking to maximize the returns from those resources. A lot of attention is being given to reallocate and reinvent in efforts to maximize their impact within the budget they have.

Due to budget constraints, the U.S. Commercial Service has recently undertaken a realignment that is resulting in closing a number of its offices and moving positions to other countries. I hope that funding is not so low that the result will be closing some offices but being unable to open others. While increasing resources to emerging markets like China and India is a good idea to help U.S. companies enter these difficult and complex markets, there are important opportunities in the Middle East and other regions that could be missed because there is limited or no U.S. government commercial presence.

I don't question the need to put more resources in markets such as China. In fact the NAM has been urging a massive trade promotion effort in China, as well as pressing for reduction of its non-tariff barriers, effective protection of intellectual property, elimination of illegal subsidies and faster appreciation of its currency. U.S. exports of manufactured goods to China have been rising rapidly, and passed \$46 billion last year. Even so, I note that the increase in U.S. manufactured goods exports to China last year was about \$7 billion, while the dollar increase to the larger, but slower growing, European Union was \$29 billion.

To me, what this means is that we need promotion assistance and resources both in Europe and in China, as well as in other rapidly-growing markets such as the Middle East, India, Brazil, etc. But those resources simply are not available. The NAM believes that with the present value of the euro, we cannot afford to overlook the opportunity to get more U.S. manufacturers to export to more European countries. The NAM is teaming up with the Commerce Department to utilize our outreach resources along with some of Commerce's programs to help find European customers and distributors in what we call "Europe NOW" in the hopes of generating more U.S. export marketing in Europe.

Let me illustrate the opportunity. The European Union is the world's largest market. Even excluding intra-EU trade, it is the largest market outside the United States. Based on the Census Bureau's "Profile of U.S. Exporting Companies, 2005-2006," 85 thousand U.S. companies export to the EU – only 1 out of every three U.S. exporters. And based on that report, I estimate that the average U.S. exporter to the EU exports only to two of the 27 countries that comprise the European Union.

Forty thousand U.S. companies export to the United Kingdom, and we have about a 10 percent share of the UK's imports of manufactured goods (including intra-EU trade). Just 29 thousand U.S. companies export to Germany – meaning there are 11 thousand U.S. companies that export to the UK, but do not export to Germany. And our share of Germany's imports of manufactured goods is about 6 percent. Finally, consider Italy – the fourth largest EU market. The Census data show that 17 thousand U.S. companies export to Italy – less than half the number that export to the UK. That means that only one out of every 2 U.S. companies that export to the UK also export to Italy – A \$500 billion import market. What an opportunity!

We have also suggested to the Commerce Department a far-reaching set of ideas for ramping up export promotion in China, but these ideas are outside the scope of present resource availability. I have appended the NAM ideas for export promotion to China, including establishing American Trade Centers, utilizing the Export Trading Company Act to form China Trading Companies in which groups of U.S. companies would establish marketing and distribution centers, use of creative financing, and the like.

If a sudden increase in priorities and resources for export promotion were to become available, one program we believe could be ramped up very quickly is the Market Development Cooperator Program (MDCP). This program offers grants to vertical trade associations or other groups for programs or promotional offices designed to enhance exports. The grants fund up to one-third of the cost and last for three years. The MDCP program has been a real success, even though it is starved for funds. I understand that Commerce's analysis has shown that for every federal dollar invested, \$100 in exports has been generated. Since 1997, this program has generated \$2.65 billion in U.S. exports, with an outlay of \$20 million or less over that time period. I estimate that amount of exports generated additional tax revenue to the U.S. government amounting to almost \$100 million – not a bad return on the taxpayer's investment – especially since this is seed money for what become self-sustaining promotion centers.

Consider, for example, the experience of the Association for Manufacturing Technology (AMT), an NAM member association representing the machine tool industry. More than 80% of its members are small or medium-sized companies. With the help of an MDCP grant, AMT opened a center in Shanghai, China, which is now one of the world's largest market for machine tools. The Center provides exhibition, meeting and storage space, as well as services such as translation, invoicing and sales for companies that otherwise could not afford to have their own offices in China. Since 2004, the Center has generated \$41 million in sales of U.S.-made machine tools. The MDCP grant totaled \$225,100.

The current budget for the MDCP is \$2 million. When the MDCP was founded in the early 1990's, its budget was \$2 million. Fifteen years later its budget remains the same – in fact the program is so starved for funds that it cannot make any new grants in 2008, although there is hope that some new grants may be possible in 2009. With such a record of success, it is our view that this is a program that should be greatly expanded. By contrast, in 2007, the U.S. government spent \$240 million for two generally comparable programs that promote agriculture exports. A comparably funded program for manufactured goods, which are 10 times as large as agricultural exports, would have been \$2.4 billion – 1200 times larger than the actual budget of \$2 million.

I again want to make clear that my comments are not intended to be a criticism of promotion funds for U.S. agricultural goods. My remarks are meant to highlight the paucity of funding to promote manufactured goods exports and to illustrate what a comparably funded Commerce Department program would be, scaled to the size of exports.

As another example of a promotion program NAM members think could be expanded quickly if there were additional funds is the Foreign Buyers Program. This program promotes foreign buyer attendance at U.S. trade shows, and is an attractive way of promoting small and medium-sized firms' products because these firms don't have to travel overseas to exhibit their products. The prospective buyers come here, to U.S. shows at which the U.S. companies are already exhibiting. Only 20 shows per year qualify for the program, but given its success, I believe it should be considered a key part of any expanded export promotion program. In fact, I would advocate going further than the program already does, and expand it not just to a lot more U.S. trade shows but also expand it by underwriting part of the airfare to bring high prospect foreign buyers here – and would also seek special and expedited visa processing.

Export Finance

Another key factor in export success is export finance and credit. Agencies such as the Export Import Bank and the Small Business Administration offer valuable services and products to U.S. exporters. Each of them also has programs specifically geared to small companies and their special needs. For example, the ExIm Bank under current chairman Jim Lambright, has instituted a new department headed by a senior vice president solely devoted to outreach and service to small companies.

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

National Export Promotion Commission

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

In my view, however, coordination is not the principal problem. To me, the problem is that export promotion is not currently a sufficient national priority and is seriously under-funded. Incremental improvements and greater efficiencies, such as are being sought at the present time, are valuable, but I believe what is needed is a greatly expanded program of export promotion for U.S. manufactured goods, one that is more parallel to what the U.S. government allocates for agricultural export promotion and what other governments allocate to promote their producers' exports.

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

I propose for the subcommittee's consideration that legislation be introduced to form a bipartisan Congressional-Administration-private sector commission to examine the U.S. approach to export promotion, to consider the size of the task, to propose a national export expansion goal, and to formulate recommendations for the nature and scope of an export promotion program that would be likely to achieve that export expansion goal. The commission's report and recommendations would be for the purpose of consideration by the Congress and the next Administration. There should be representation from Congress, from key government agencies, from concerned trade associations, and representatives of large and small companies.

In order to effectively examine U.S. export promotion activities and make meaningful recommendations, the commission should have access to a current study of the practices and funding of foreign government export promotion organizations. As a first step, this subcommittee could request the Government Accountability Office (GAO) or the Congressional Research Service (CRS) to undertake a thorough investigation of the scope of major foreign competitor export promotion programs, focusing on identifying best practices. The National Export Strategy of 2002 provided some limited information on this topic, but to be useful, the report should include greater detail, including funding levels and categories.

Using this study of international best practices and data on current export U.S. promotion programs for goods, services and agriculture, the bipartisan commission would formulate a proposal for a forward-looking export promotion program for presentation to the next Administration and Congress. Should the Subcommittee be interested in moving ahead with this recommendation, the NAM would be very pleased to work with the Subcommittee's staff on a detailed proposal for a report that would be completed by the end of 2008.

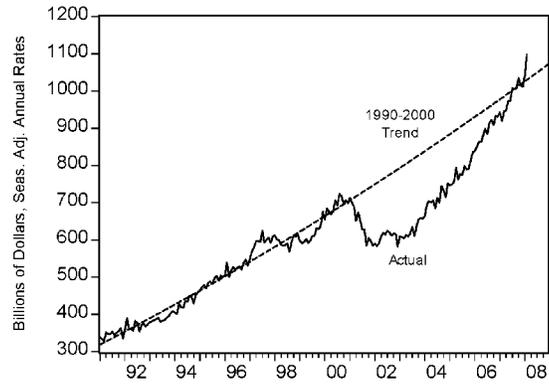
Making exports a priority and a vehicle for substantial economic growth is essential in today's globalized world. The next incoming Administration must be encouraged to do everything possible to increase U.S. companies' participation in the growing markets of our trading partners. This commission could provide a valuable blueprint, one with bipartisan, public-private support, and hopefully the full support of this Subcommittee and the Congress.

Conclusion

In conclusion, Mr. Chairman, I would like to thank you and the members of the Subcommittee again for this opportunity to testify on such an important issue. We are in a globalized world. We don't get to vote yes or no on this. What we can do, however, is to put ourselves in a better position to avail ourselves of the global opportunities in a way that promotes the standard of living of all Americans. Certainly a determined promotion effort that would increase the participation of American firms in world markets must be an important part of this endeavor.

Thank you, Mr. Chairman.

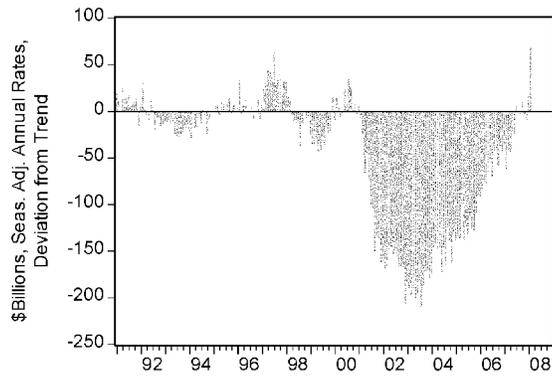
EXHIBIT 1
U.S. EXPORTS OF MANUFACTURED GOODS
Trend and Actual



Source: U.S. Census Bureau, Seasonally Adjusted by NAM,
employing Census X-11 seasonal adjustment program

NATIONAL ASSOCIATION OF MANUFACTURERS

**EXHIBIT 2.
U.S. EXPORTS OF MANUFACTURED GOODS
Deviation from 1990-2000 Trend**



The 2001-2007 gap between what exports would have been and what they actually were shows the extent to which exports were disadvantaged and reduced U.S. manufacturing production and jobs.

U.S. manufactured goods exports did not return to the 1990-2000 trend until the end of 2007.

Source: Census Bureau. Seasonally Adjusted by the NAM.

NATIONAL ASSOCIATION OF MANUFACTURERS

Expanded Export Promotion Program to China

Proposed by the National Association of Manufacturers -- 2004

One of the best ways to narrow the trade imbalance with China is to expand U.S. exports rapidly. As U.S. imports from China are five times as large as U.S. exports to China, it is evident that exports will have to grow very rapidly if they are to begin bringing the trade account into closer balance. China's entry into the World Trade Organization has made the prospects for rapid export growth possible. China has become the fastest-growing import market in the world outside the United States and has become one of the fastest-growing export markets for the United States. Last year, U.S. exports to China grew nearly 30 percent.

However, exports to China are still small relative to total U.S. exports and to the size of China's import market. China represents only 4 percent of America's exports. Moreover, in 2003 the U.S. share of China's import market was only 8 percent -- and the share has been falling. European Union exports to China were more than 50 percent larger than U.S. exports to China.

China is a particularly difficult market for many American exporters. It only recently has begun to liberalize, it has its own way of doing business, it is far away, it is huge geographically, and it requires a considerable marketing investment. Many American companies are unwilling to proceed or uncertain as to how to go about doing so.

We believe this situation poses an opportunity for a massive public-private cooperative effort to boost U.S. exports to China. Such an effort could benefit both large and small American companies and build an important part of the basis for a sustainable bilateral trade relationship. The U.S. government should be asked to take the initiative to develop a huge and radically-different export promotion approach to China, beginning by consulting with large and small American companies and with associations such as the NAM.

This consultation should not be limited on the government's side to the Commerce Department, but should include other U.S. government agencies and Congressional participation as well, particularly from the relevant oversight and appropriations committees.

Recommendations

We propose as a starting place that consideration be given to an integrated program that would feature multi-purpose American Business Centers in China as the key part of a coordinated effort to interest U.S. companies in exporting to China, assisting them in determining how to do so, promoting their products in China, assisting in finding specific buyers or distributors, assisting in obtaining export financing, and resolving market access problems they may encounter. The effort should particularly focus on boosting exports of small and medium-sized companies and would be coordinated by a special China Trade Information Center in the U.S. Department of Commerce in Washington.

We propose the goal be a doubling of the U.S. share of China's import market within the next three years.

China Trade Information Center -- The China Trade Information Center would be the nerve center of the China export promotion effort. It would work with Commerce, Small Business Administration, and other government export promotion offices around the United State to disseminate market opportunity information to U.S. companies, would operate email lists to provide information directly to companies, would have a team of experts to consult with U.S. companies, would provide guidance to Commerce promotion officers in China on what market research and other activities to perform. It would, in sum, be very similar to Commerce's existing and highly-successful Business Center for the Newly-Independent States (BISNIS).

Comment: Commerce has established the China Business Information Center (China BIC) which is composed of an enhanced website, <http://www.export.gov/china/index.asp>, and two individuals here in Washington to handle inquiries.

American Trade Centers -- The key to a huge export promotion program would be American Trade Centers in important commercial centers in China. These would be physical facilities with a storefront to display U.S. products and technologies; temporary office space for visiting U.S. companies; exhibition space for small trade shows or seminars; a contingent of foreign service nationals (Chinese citizens) to find customers or distributors for U.S. companies and to conduct market research; and individual assistance to U.S. companies needing appointments with prospective customers, translation services, etc. Market Development Cooperators, and Export Trading Companies might be co-located in the American Trade Centers.

Market Development Cooperator Program (MDCP) -- This program, which provides funding to assist industry-specific trade associations in opening representation offices, should be greatly expanded to allow a large increase in such association offices to promote exports in individual sectors. Their offices could be co-located at the American Trade Centers.

Export Trading Companies -- The Export Trading Company Act enables groups of companies to form what in essence is an export cartel with anti-trust immunity. The Commerce Department should seek to get groups of smaller companies to band together to hire a sales representative to promote their sales in China. These China Export Trading Companies could have office in the American Trade Centers.

Trade and Development Agency (TDA) -- TDA provides funding for feasibility studies of projects in combination with U.S. firms. TDA has an excellent track record in generating exports, as U.S. companies tend to specific U.S. technical specifications and products. Increased funding should be provided for special China programs.

Export-Import Bank (Exim) -- Exim should develop special programs to provide quick and easy export financing for smaller companies to sell to China, as well as improved credit guarantee programs and lines of credit that are easy for small companies to use. Exim personnel should be assigned to the China Trade Information Center in Washington and at selected American Business Centers in China.

Small Business Administration (SBA) -- The SBA should develop special working capital and export funds that are easy for small companies to use. This should include a set-aside of adequate funds for expanding exports to China. SBA should also be part of the China Trade Information Center.

Regional Programs -- the China Business Information Center should conduct conferences around the country to show the range of programs and information available to help companies export to China. Commerce Department regional offices and export centers should train their personnel so as to be able to offer individual China export consultants who can work with small U.S. companies from beginning to end -- finding customers, advising on shipping and customs procedures, assistance in obtaining freight forwarders and financing, etc.

Mr. SHERMAN. Thank you. I would point out that China and Japan and most other countries do everything possible to weaken their currencies. But in this country of much, oh, showmanship in politics, you stand up and say we have got the biggest army and the strongest currency, and what can I say. You sound like a Viagra commercial, and people cheer.

But the fact is a weaker U.S. dollar, while it is not good across the board, will certainly help our exports.

Mr. Morrison.

STATEMENT OF JAMES MORRISON, PH.D., PRESIDENT, SMALL BUSINESS EXPORTERS ASSOCIATION OF THE UNITED STATES

Mr. MORRISON. Good morning, Chairman Sherman, Ranking Member Royce, and members of the subcommittee. Thank you for inviting me to appear here today.

I am Jim Morrison, the President of the Small Business Exporters Association of the United States. SBEA is the oldest and largest non-profit dedicated exclusively to small- and mid-sized U.S. exporters. We represent about 22,000 smaller exporters, and I think now just about every one of them is whistling a happy tune.

U.S. exports have shot up in the past couple of years, to the point that exports accounted for 41 percent of economic growth in the U.S. in 2007. In fact, with the housing downturn, exports single-handedly kept our country out of a recession last year.

But if there is one constant in international trade, it is change. The dollar won't always be this favorable for exporting. Sustaining and building on this current export boom requires strategic thinking. So it is a good thing that the subcommittee is reviewing how the U.S. can strengthen its export promotion performance.

Other witnesses that you are hearing from today can comment on export promotion strategies that work best for larger companies. That work takes a lot of strategic sophistication and market intelligence, because virtually all of the Fortune 1000 companies and their foreign competitors are already pretty savvy about international trade. But success here can pay big dividends.

With smaller companies, export promotion is a different kind of a challenge. The good news is that as of last year, 239,000 small- and mid-sized American companies exported. Their exports were worth more than \$450 billion, or well over \$1 billion a day. Those are phenomenal figures, and I suspect that few Americans are aware of them.

The bad news, however, is that small business exporters still represent less than 1 percent of the 26 million small businesses in the United States. Most of our major foreign competitors have five times that percentage or more. Also, small business export volume is way below what it could be.

We are not where we need to be for two reasons. One is that most small business exporters make only a handful of export sales to a single country each year. But that is actually a great opportunity for export promotion. Because the hard part of export promotion is getting companies to export for the first time. Getting existing exporters to sell more often to more countries is less of a major change than an incremental process.

If we could get about 25 percent more sales out of these current exporters in their existing markets, and about 15 percent more sales in new markets, we would bring the small business export volume up to \$625 billion, and knock 30 percent off the trade deficit.

If we then doubled the number of small business exporters—a tall order, certainly—but growing it from 1 percent of all small businesses to 2 percent, and if these new exporters were only two thirds as successful as the existing ones, we would just about eliminate the entire U.S. trade deficit. And we would get millions of high-paying jobs here at home.

Export promotion, whether it follows this approach or another one, requires strategy, resources, and coordination. The Commerce Department's Commercial Service is full of enthusiastic and dedicated people. It is a great foundation for whatever future export promotion direction is chosen. But coordination is a problem. Not because TPCC is any less dedicated, but because it lacks the authority and resources to coordinate the 19 Federal agencies that are involved in international trade.

As we explain in more detail in our written testimony, SBEA believes that TPCC should be located in the White House, like similar coordinators, such as the Council on Environmental Policy and the Office of Science and Technology Policy.

TPCC should have some say over the export promotion budgets of the various agencies. Together with OMB, TPCC should be able to reward agencies that achieve pre-established goals, and pull back from those that simply aren't cost-effective in promoting exports.

As smaller exporters, we would like to see a more systematic focus on making the tremendous upside potential of exporting more obvious to smaller companies. Along with steps to make exporting cheaper, faster, simpler, and more reassuring than it is today.

Some agencies are already helping to foster this kind of an environment for small business exporting, and we singled them out for praise in our written testimony. But a strategic and coordinated export promotion effort across the entire government is the ticket to the big payoffs in trade deficit reductions, economic growth, and new job creation that we are seeking.

I would note, in closing, that it is nice to see Ms. Lee again, and to be on a panel with her. One of the great honors that an American exporter has is representing the products made by American workers, products that have a justifiably lofty reputation in foreign markets.

I understand that 20 years or so back there was a partnership between business and labor to promote U.S. exports. SBEA, for one, would love to see that partnership return.

That concludes my remarks. Thank you.

[The prepared statement of Mr. Morrison follows:]



Statement of

James Morrison, Ph.D.

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

Regarding U.S. Government Export Promotion Activities

Before the

**SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION AND TRADE
COMMITTEE ON FOREIGN AFFAIRS
U. S. HOUSE OF REPRESENTATIVES**

Washington, DC

24 April 2008

The Small Business Exporters Association of the United States™

America's Premier Association for Small and Mid-Sized Exporters®

*1156 15th St. NW, Suite 1100 Washington, DC 20005
(202) 659-9320 Fax: (202) 872-8543
www.sbea.org*

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

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

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

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

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

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

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

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

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

I. AN APPROACH TO EXPORT PROMOTION AND SMALL BUSINESS

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

Consider a few basic numbers.

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

The two biggest factors associated with this gap are:

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

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

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

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

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

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

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

Altogether, there are over *220,000* American small businesses that export. This is certainly a remarkable figure – it's about tripled in the last 20 years -- and it's not fully appreciated in this country.

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

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

Conclusion: generating new exporters = getting more small businesses to export.

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

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

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

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

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

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

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

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

That's surely worth making an effort to achieve.

But how?

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

³ Source: *Small Business FAQ's*, U.S. Small Business Administration, 2008.

⁴ The corresponding percentage of small and mid-sized business exporters in many of our major competitors is 5-9%, or orders of magnitude higher than in the U.S.

⁵ *Why Exports Matter*, Institute for International Economics and the Manufacturing Institute, 1996.

⁶ National Association of Manufacturers data, based on the export database of the U.S. Department of Commerce.

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

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

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

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

Surveys recently conducted by major business organizations turned up large numbers of Americans who could not name a single U.S. export. "We see imports," said many of the respondents, "but we never see exports." Not only did the U.S. have over a trillion and a half dollars in U.S. exports in 2007.⁷ And not only is the U.S. the world's largest exporter of goods and services. The U.S. is also the most successful exporting nation in the history of the world. Yet many people can't think of anything our country sells abroad! Of course, that lack of awareness will affect many small businesses. Government and business both need to do a better job of communicating basic facts about our global reality.

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

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

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

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

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

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

3. A small company also will be thinking about its **opportunity costs** when it considers exporting. By definition, most smaller companies have only a few key people who put together transactions. The time that they devote to an export transaction is time that they won't be devoting to some other, probably domestic, transaction. Will it be worth it? A healthy margin affects the opportunity cost calculation. But so does a company's basic estimate of how much time and effort the export transaction will take. Make the transaction happen fast and the opportunity costs drop significantly. In the U.S. that may require the exporter to have access to low-cost specialists and tools, as well as ready financing. Abroad, trade negotiations may be needed to clear away red tape.
4. A related issue for the small exporter is the **learning curve** needed to complete the transaction. For a new product or a new market, the learning curve can be pretty steep. Access to advice from experienced and trustworthy specialists, including export management companies here and foreign distributors in the target market, can make a big difference. Participation in shows and trade missions also can help.
5. Especially for small companies that are "new to exporting" and especially for exotic markets, there is an undeniable **fear factor**. It's just human nature. Networking the new exporter with experienced small exporters who are active in the same industry and / or market is one approach to this. Classes and visits to the intended market are others.

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

II. COORDINATING U.S. GOVERNMENT EXPORT PROMOTION ACTIVITIES

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

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

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

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

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

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

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

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

"National Export Strategy" document providing an overview of export promotion activities by the 19 agencies⁸ that TPCC reviews.

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

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

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

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

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

With respect to small business, the same report noted:

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

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

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

⁸ The total reaches 20 when the Millennium Challenge Corporation is included.

⁹ Note, for example, the comments on internal export promotion coordination in the recent report of the Commerce Department's Inspector General, *Commerce Can Further Assist U.S. Exporters By Further Enhancing its Trade Coordination Efforts*, Final Inspection Report No. IPE-18322/March 2007. Also see similar reports from other Inspectors General at the Departments of Agriculture, State, and Treasury, as well as MCC, SBA and USAID.

¹⁰ *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, GAO—6-660T, April 26, 2006.

¹¹ *ibid.*

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

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

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

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

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

Export Promotion Spending and Staffing, 2007

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

Source: U.S. Department of Commerce data.

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

III. PROMISING AGENCY EFFORTS

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

1. The Commerce Department operates a program for introducing U.S. exporters to foreign buyers and distributors. It's called "**Gold Key**." Exporters pay a fee to have Commercial Service personnel in our Embassies abroad identify and schedule meetings with reputable potential foreign customers and distributors. "Gold Key" permits exporters to fly into a target market, conduct a series of meetings with pre-screened prospects, and fly back out within a few days. "Gold Key" nails many of the factors that SBEA believes are important – it cuts transaction and opportunity costs, it helps minimize fear factors, and it aids in assessing upside potential. Unsurprisingly, virtually every SBEA member who has used the service loves it. After a lengthy dialogue between the exporter community, the Department of Commerce, and OMB about proposed "Gold Key" fee increases, Commerce recently announced a new schedule of "Gold Key" fees. The new fees not only take into account the more limited resources available to smaller exporters, but even offer first-time users of "Gold Key" a lower fee schedule. This is a very equitable and intelligent approach to maintaining a great export promotion program. SBEA salutes the Commerce Department and OMB for devising it.
2. About ten years ago, the Small Business Administration began assigning a group of about 18 **SBA export finance specialists** to selected U.S. Export Assistance Centers across the United States. These specialists not only became well versed in SBA's international trade lending; they also became knowledgeable about the banking communities in their areas. They learned how to structure small business export transactions to fit SBA's requirements and the preferences of local bankers. Last year, just 17 of them underwrote more than \$2.2 billion in small business export sales. This is an astonishing performance when one considers that the average transaction size was under \$200,000. Even when taking into account costs like SBA's salaries and benefits to these specialists, the agency's "back office costs" for processing loans, and the rental fees that SBA pays to Commerce for using USEAC space, this program is delivering more than \$500 in export sales for every \$1 that the taxpayers put into it. We at SBEA know of no better return on investment in any export promotion program in the government. We are pleased that SBA seems ready to add more export finance specialists to more USEAC's.
3. As smaller exporters develop sales in selected foreign markets, they begin looking at options to broaden their customer bases. They often consider steps like opening sales offices, purchasing foreign distributorships, and building warehouses. As a recent study has shown, smaller companies that take such steps to expand their foreign sales are among the top performers in the entire U.S. economy.¹² But when the target country is an emerging market, financing an

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

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

4. Flying to a foreign market takes time and money – two very precious commodities in a small enterprise. In several recent trade agreements, the U.S. Trade Representative has included provisions that **enable electronic commerce**. This not only allows smaller exporters to legally advertise on the Internet in these markets. It also permits deals to be completed over the Internet, and even makes electronic signatures legally valid. Smaller exporters and their customers are saved expenses, hassles and time. Best of all, they are put on an equal footing with larger companies. USTR is also helping to cut shipping costs by harmonizing and **streamlining foreign customs procedures** for U.S. goods. That helps to further lower transaction costs and the breakeven point for small export sales.
5. Delays in financing export sales can cost customers. That's a major concern for exporters of high-value U.S. exports like capital equipment, because buyers of this equipment frequently need financing. The type of financing that is often used for capital equipment sales, called **medium-term guarantees**, has a history of requiring a lengthy approval process by Ex-Im Bank. Responding to exporter concerns and strong encouragement from Congress, Ex-Im Bank has just rolled out a new initiative to allow trained and qualified commercial banks to pre-approve this financing. This promises to reduce approval times from months to weeks, or even days. It's great news for capital equipment exporters, and SBEA commends Ex-Im Bank for getting the program underway.

IV. A KEY PROBLEM AREA

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

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

A U.S. citizen who travels to Germany to consult on a computer installation will probably not have his service export measured by U.S. government trade data. The same is true of a software company that sells downloads over the Internet, or even a self-employed person selling lower-value goods internationally over eBay. Many sales of insurance and financial services are also off the government's export data radar screen. In fact, pretty much any transaction that does not entail the exporter filling out a Shipper's Export Declaration (SED) did not happen, as far as the official export data is concerned. Thus the U.S. reported merchandise exports of \$910 billion

in 2007, about which there is abundant detail. But using broader measures and estimates, overall exports were put at \$1.6 trillion. We know relatively little about the other \$700 billion, which represents over 40% of last year's exports. But we may speculate that much of this is small business exporting. More troubling, there may actually be a layer of exports above the official \$1.6 trillion figure that is not showing up at all, even in the estimates.

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

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

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

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

V. "LABORATORIES OF DEMOCRACY"

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

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

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

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

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

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

Mr. ROYCE [presiding]. Thank you very much, Mr. Morrison.
Now we go to Ms. Markheim.

**STATEMENT OF MS. DANIELLA MARKHEIM, JAY VAN ANDEL
SENIOR TRADE POLICY ANALYST, CENTER FOR INTER-
NATIONAL TRADE AND ECONOMICS, THE HERITAGE FOUNDATION**

Ms. MARKHEIM. Thank you very much, Chairman Sherman, who is gone, Ranking Member Royce, for inviting me here today to discuss the U.S. export promotion strategy.

The Inter-Agency Trade Commission Coordination Committee, or the TPCC, is required by the Export Enhancement Act to develop a government-wide strategic plan for carrying out Federal export promotion, and to submit to Congress annual reports describing the plan and how TPCC member agencies will implement the strategy.

The latest plan describes the government's priorities for 2007, which include supporting e-commerce as a means of boosting exports, promoting greater participation of small- and medium-sized firms in exporting activities, and advancing key projects in select markets.

Fortunately, the annual strategy also gives a nod to the contribution of free trade agreements to such a strategy. One need look no further than the report's chapter on the impact of trade globalization to see that the most effective policy answer to advancing exports is freer trade.

Ideally, free trade would be achieved without any negotiations at all. So pervasive are the benefits of trade liberalization that countries would be smart to lower protectionist barriers unilaterally, irrespective of what other countries do.

It is true that the more widespread such liberalization becomes, the greater the benefits for all. So multilateral trade negotiations should be encouraged.

The expected benefits of the meaningful conclusion to the current Doha Round are significant. Numerous studies have estimated potential gains from between \$1,400 to \$5,000 of additional income per American family, depending on the extent of global trade liberalization that is finally achieved.

FTA as negotiated by smaller groups of countries can be the next best thing to promoting global trade liberalization, and also help developing countries lock in and implement economic reforms to enhance prospects for investment in economic growth.

As of the beginning of 2008, the U.S. has 11 FTAs with 17 countries. While not all of these agreements have yet been fully implemented, the U.S. has already seen impressive results. In 2007, trade with our FTA partners accounted for more than \$1 trillion of two-way trade, or about 34 percent of the total of all U.S. trade with the world.

In 2007, the enacted budget authority for the Trade Promotion Coordinating Committee was a little over \$1.3 billion. These taxpayer dollars go toward financing numerous endeavors, and to boosting U.S. exports, including education, data collection and dissemination, international trade missions, business services, and market research. While some of these activities do certainly add value, much of what is being accomplished can be and is being

done by trade associations, business coalitions, and private business.

The importance of the private sector in enabling the national export promotion strategy is highlighted throughout the report. The Strategic Partnership Initiative is designed to enhance cooperation between private sector exporters and government at all levels.

Recognizing that the Federal Government lacks the resources to reach most companies, the partnership will ideally lead to a phase-out of government involvement in many of these activities.

While OPIC and the Ex-Im Bank may not directly cost U.S. taxpayers as much as some of the other export promotion presented here today, they do impose some indirect costs on the economy as a whole, and do run the risk of costing taxpayers in the future. OPIC's rationale rests on the perception that it can help fill the demand for international financing that the private sector is unwilling to chance, while at the same time boosting U.S. exports. Although that might have been the case in the 1970s, when financial markets and financial instruments were less robust, today that is not the case.

In fact, the U.S. is already the largest source of FDI worldwide, and has more than \$585 billion in direct investment located in developing in other non-OECD countries. In 2006 the level of total FDI group by over \$248 billion from the previous year, with \$87 billion of the increase occurring in developing countries.

In the same year, OPIC projects amounted to just over \$1.9 billion, and total finance, insurance, and investment fund activity, a relatively small fraction of the total amount that flowed without the assistance of the U.S. Government.

Much like OPIC, the Ex-Im Bank was designed to provide financial services when private trade financing was unavailable. Created as America's official export credit agency, it provides working capital, guarantees export credit insurance, loan guarantees, and direct loans to support U.S. exports.

But also like OPIC, the rationale for the bank's ongoing role in facilitating international trade has weakened as private financing sources have developed. The Ex-Im Bank reports that it authorized more than \$12 billion in loans, guarantees, and export credit insurance in support of an estimated \$16 billion of U.S. exports in 2007, just a fraction of the \$1.16 trillion in total exports the U.S. reported in the same year.

In general, policymakers looking to bolster U.S. trade should consider advancing policies aimed at eliminating barriers to trade and investment subsidies and governmental activities that are better provided by the private sector. Some of the more important elements of a successful U.S. export promotion strategy include supporting the successful conclusion of the Doha Round of trade negotiations; passing pending FTAs, as well as pursuing FTAs with other willing partners; and continuing member agency and other Federal Government efforts aimed at bolstering trade capacity and facilitation in developing countries, as well as regulatory reform and strengthened property rights protections in all markets.

Last, also to continue efforts through multilateral and other channels to address anti-competitive and protectionist policies that limit trade flows, with the aim of eliminating these practices.

Thank you very much, and I look forward to any questions you may have.

[The prepared statement of Ms. Markheim follows:]

PREPARED STATEMENT OF MS. DANIELLA MARKHEIM, JAY VAN ANDEL SENIOR TRADE POLICY ANALYST, CENTER FOR INTERNATIONAL TRADE AND ECONOMICS, THE HERITAGE FOUNDATION

My name is Daniella Markheim. I am the Jay Van Andel Senior Analyst in Trade Policy at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

The interagency Trade Promotion Coordination Committee (TPCC) is required by the Export Enhancement Act of 1992 “to develop a government-wide strategic plan for carrying out Federal export promotion and export financing programs” and to submit to Congress annual reports describing the plan and how TPCC member agencies will implement the strategy.¹ *The 2007 National Export Strategy* is the latest plan describing the year’s government priorities of supporting e-commerce as a means of boosting exports, promoting greater participation of small and medium-sized firms in exporting activities, and advancing key projects in “priority” markets—China, India, and Brazil.² While the document lays out more of an agenda of key priorities than a coordinated strategy for implementing agencies to follow, it does provide a look back over the previous year at what activities were accomplished by the agencies to give a general sense of how well they met high-level objectives.

The value of such export-promotion activities to the U.S. economy continues to be debated, especially for certain agencies, including the Export-Import Bank and the Overseas Private Investment Corporation, and for various programs carried out by other member organizations. While it remains difficult to assess how much explicit federal export-promotion programs actually bolster U.S. jobs, economic growth, or overall prosperity, policymakers remain intent on advancing a formal U.S. export-promotion strategy.

Fortunately, the annual strategy gives a nod to the contribution of free trade agreements (FTAs) to such a strategy. One need look no further than the chapter on the impact of trade liberalization and an Appendix tucked in at the end of the document to see the most effective policy answer to advancing exports: freer trade.

FREE TRADE: THE BEST WAY TO PROMOTE U.S. EXPORTS

Ideally, free trade would be achieved without any negotiations at all. So pervasive are the benefits of trade liberalization for the country doing the liberalization that countries would be smart to lower their protectionist barriers on their own, irrespective of what other countries do. It is true that the more widespread such liberalization becomes, the greater the benefits for all, and multilateral trade negotiations, which seem to provide valuable political cover to help politicians do what is best for their country, should be encouraged. However, as the current round of global trade talks ably demonstrates, the pace of such negotiations is slow, and consensus can be hard to achieve.

Yet the expected benefits of a meaningful conclusion to the current Doha Round of multilateral trade negotiations make the effort to reach agreement worthwhile. Numerous studies have estimated the potential gains under various trade-liberalization scenarios. While their results and methodologies differ, these studies consistently show that real economic gains are associated with further trade liberalization:

- The Institute for International Economics has calculated that moving from today’s trade environment to one characterized by perfectly free trade and in-

¹Sec. 2312 (a) (2) of the Export Enhancement Act of 1992, 15 V. C. ~ 4727 (a)(2). Member agencies are the U.S. Department of Commerce, Export-Import Bank of the United States, Overseas Private Investment Corporation, U.S. Trade and Development Agency, U.S. Small Business Administration, U.S. Department of Agriculture, U.S. Department of State, U.S. Department of Treasury, Office of the U.S. Trade Representative, U.S. Agency for International Development, U.S. Environmental Protection Agency, U.S. Department of Defense, U.S. Department of Energy, U.S. Department of the Interior, U.S. Department of Labor, U.S. Department of Transportation, Office of Management and Budget, National Security Council/National Economic Council, and Council of Economic Advisers.

²Trade Promotion Coordinating Committee, *The 2007 National Export Strategy*, at <http://www.ita.doc.gov/media/Publications/pdf/nes2007FINAL.pdf> (April 22, 2008).

vestment would generate an additional \$500 billion in annual income for the U.S., or about \$5,000 per household each year.³

- A University of Michigan study concludes that reducing agriculture, manufacturing, and services trade barriers by just one-third would add \$164 billion, or about \$1,477 per American household, annually to U.S. economic activity. Completely eliminating trade barriers would boost U.S. annual income by \$497 billion.⁴
- The World Bank estimates that the continued reduction of tariffs on manufactured goods, the elimination of subsidies and non-tariff barriers, and a modest 10 percent to 15 percent reduction in global agricultural tariffs would allow developing countries to gain nearly \$350 billion in additional income by 2015. Developed countries would stand to gain roughly \$170 billion.⁵

FTAs negotiated by smaller groups of countries are the next best thing to promote global trade liberalization.⁶ FTAs can provide institutional competition to help keep multilateral talks on track and provide the U.S. an option of pursuing agreements with countries willing to engage in serious liberalization of foreign trade. In the process, FTAs formed with smaller groups of countries can serve as starting blocks to facilitate a transition to broader agreements.

Free trade agreements can also help developing countries to lock in and effectively implement economic and political reforms, spur regional integration, and enhance prospects for investment and economic growth. While some of the United States' trade partners may be small now, over time they will mature into larger, more sophisticated markets more closely integrated with the U.S. economy. As these economies develop, they will demand more and more U.S. products. As the data demonstrate, America has experienced growth in trade with *all* of the countries with which it has formalized free trade agreements.

As of the beginning of 2008, the U.S. has 11 FTAs with 17 countries. Congress has approved free trade agreements with Israel; Canada and Mexico (NAFTA); Jordan; Singapore; Chile; Australia; Morocco; the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua (DR-CAFTA); Bahrain; Oman; and, most recently, Peru.⁷

Even though the agreements with Oman and Peru have not yet been fully implemented, the U.S. has already seen impressive results from the bilateral trade deals. In 2007, the FTAs that are in force accounted for more than \$1 trillion in two-way trade, which is about 34 percent of the total of U.S. trade with the world.⁸ Along with the economic benefits of the agreements, the FTAs have also strengthened the political relationships that the U.S. shares with strategic allies around the world.⁹

In the first year of the U.S.-Singapore FTA, America's trade surplus with that country more than tripled, growing to \$4.3 billion. Just four months after the U.S.-Australia FTA was implemented, America's trade surplus with Australia grew almost 32 percent to more than \$2 billion. Exports to Chile and Singapore expanded by \$4 billion in the first year after implementation of free trade agreements with these countries.¹⁰

³Gary Clyde Hufbauer and Paul L. E. Grieco, "The Payoff from Globalization," *The Washington Post*, June 7, 2005, p. A23.

⁴Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, "Multilateral, Regional, and Bilateral Trade-Policy Options for the United States and Japan," University of Michigan, Research Seminar in International Economics, *Discussion Paper* No. 490, December 2002, and "Computational Analysis of Multilateral Trade Liberalization in the Uruguay Round and Doha Development Round," University of Michigan, Research Seminar in International Economics, *Discussion Paper* No. 489, December 2002.

⁵World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda* (Washington, D.C.: World Bank, 2004).

⁶Edward Hudgins, "Regional and Multilateral Trade Agreements: Complementary Means to Open Markets," *Cato Journal*, Vol. 15, No. 23 (Fall/Winter 1995/96); Fred Bergsten, "Open Regionalism," Institute for International Economics *Working Paper* No. 97, 1997.

⁷Office of the United States Trade Representative, "Bilateral Trade Agreements," at http://www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html (April 8, 2008).

⁸Based on calculations using data from the TradeStats Express National Trade database, at <http://tse.export.gov/ITAHome.aspx?UniqueURL=02dxjrynb2mvcgerd5jd2k55-2008-4-9-3-22-49> (April 8, 2008).

⁹Office of the United States Trade Representative, *The 2008 Trade Policy Agenda and 2007 Annual Report*, at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2008/2008_Trade_Policy_Agenda/asset_upload_file649_14563.pdf (April 8, 2008).

¹⁰Office of the United States Trade Representative, "Free Trade Agreements Are Working for America," at www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file204_7872.pdf (April 8, 2008).

Increased trade is just part of the gains stemming from free trade agreements. Economy-wide, the net number of jobs displaced each year by international trade is estimated to be no more than a relatively small 3 percent of the workforce.¹¹ Far more important in changing the composition of America's workforce have been improvements in technology and shifts in consumer preferences. The combined impact of innovation and reduced barriers to trade has served to help the economy, not harm it. Today, more than 57 million Americans are employed by firms that engage in international trade—roughly 40 percent of all non-farm jobs.¹²

Any negative impact that freer trade may have on job numbers is mitigated by the benefits that trade brings to the economy as a whole. While production may fall in less competitive industries, exporters and domestic producers that use lower-cost imported inputs gain a competitive boost that promotes investment, productivity, and growth in these industries. Lower prices for imported goods also help households to stretch their incomes, enabling them to buy more of everything, including goods and services that are produced domestically. With freer trade, resources flow from less competitive uses to more competitive and efficient uses, creating opportunity and bolstering long-run economic growth and job creation.

U.S. FTAs generally strengthen the transparent and efficient flow of goods, services, and investments between member countries. Trade agreements open markets, protect investors, and increase economic opportunity and prosperity. In short, free trade agreements serve to promote U.S. interests, not to weaken them or to place an unfair burden on Americans.

FEDERAL EXPORT-PROMOTION ACTIVITIES

In 2007, the enacted budget authority for the Trade Promotion Coordinating Committee was \$1.37 billion.¹³ These taxpayer dollars go toward the financing of numerous endeavors aimed at boosting U.S. exports, including education, data collection and dissemination, international trade missions, business services, and market research. While some of these activities certainly add value, much of what is being accomplished can be and is being done better by trade associations, business coalitions, and private business.

In fact, the importance of the private sector in enabling the national export-promotion strategy is stated time and again throughout the report. The "Strategic Partnership Initiative" is designed to enhance cooperation between the private sector, exporters, and government at all levels. Recognizing that "the Federal government simply lacks the resources, marketing channels, and points of contact with businesses to reach most companies," the Partnership will ideally lead to a phaseout of government involvement in many of these activities.¹⁴

The Overseas Private Investment Corporation (OPIC) and the Export-Import Bank of the United States (Ex-Im Bank) may not directly cost U.S. taxpayers as much as other export-promotion programs do today; however, they do impose significant indirect costs on the economy as a whole and run the risk of costing taxpayers in the future. Both programs should be eliminated.

OPIC. First established in 1971, OPIC today provides U.S. government-backed loans, loan guarantees, and investment insurance to U.S. businesses that invest around the world. Today, according to its mission statement:

The Overseas Private Investment Corporation's (OPIC) mission is to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies.¹⁵

OPIC's rationale rests on the perception that it can help fill the demand for international financing that the private sector is unwilling to chance while at the same time boosting U.S. exports. Although it may have been the case that financial mar-

¹¹ Daniel Griswold, "Trading Up: How Expanding Trade Has Delivered Better Jobs and Higher Living Standards for American Workers," Cato Institute *Trade Policy Analysis* No. 36, October 25, 2007, at www.freetrade.org/node/782. Similar results were derived on 2003 jobs statistics in Erica L. Groshen, Bart Hobijn, and Margaret M. McConnell, "U.S. Jobs Gained and Lost through Trade: A Net Measure," Federal Reserve Bank of New York, August 2005, at www.ny.frb.org/research/current_issues/ci11-8/ci11-8.html (April 8, 2008).

¹² Council of Economic Advisers, *Economic Report of the President 2007*, p. 169.

¹³ Trade Promotion Coordinating Committee, *The 2007 National Export Strategy*, Appendix B, at <http://www.ita.doc.gov/media/Publications/pdf/nes2007FINAL.pdf> (April 22, 2008).

¹⁴ *Ibid.*, p. 76.

¹⁵ Overseas Private Investment Corporation, "About Us," at <http://www.opic.gov/about/mission/index.asp> (April 22, 2008).

kets and financial instruments were less able to fulfill development requirements in the 1970s, today's markets are far more robust.

In fact, the U.S. is already the largest source of foreign direct investment (FDI) worldwide and has more than \$585 billion in direct investment located in developing and other non-OECD (Organization for Economic Cooperation and Development) countries.¹⁶ In 2006, the level of total FDI grew \$248.5 billion from the previous year, with \$87.1 billion of the increase occurring in developing countries.¹⁷ In the same year, OPIC projects amounted to just over \$1.9 billion in total finance, insurance, and investment fund activity—a relatively small fraction of the total amount of U.S. investment that has flowed to developing countries without the assistance of the U.S. government.¹⁸

The impact on development itself is also questionable. Because OPIC effectively transfers the risk of an investment venture from the company involved to taxpayers, commercial investment levels will be higher than would otherwise be the case based on market conditions alone. While this seems to support the development component of OPIC's mission, it in fact promotes the continuation of poor economic policy-making in developing countries. Investment that effectively promotes long-term development occurs as a consequence of sound economic reform, not as a reward for poor economic management.

The Export-Import Bank. Much like OPIC, the Ex-Im Bank was designed to provide financial services when private trade financing is unavailable to support an international transaction. It was created in 1934 as America's official export credit agency, and its mission is to provide working capital guarantees, export credit insurance, and loan guarantees and direct loans to support U.S. exports. Also like OPIC, the rationale for the Bank's ongoing role in facilitating international trade by providing subsidized export credit has weakened as private financing sources have developed. The Ex-Im Bank reports that it authorized more than \$12 billion in loans in support of an estimated \$16 billion in U.S. exports in 2007—a fraction of the \$1.16 trillion in total exports the U.S. reported in the same year.

Government subsidies promote neither U.S. exports nor effective economic development. When the government shifts labor and capital from the economy through taxation and then gives it to specific private companies in the form of export or foreign direct investment subsidies, it does so at the expense of the economy as a whole. Rather than flowing toward the most efficient activities as determined by the market, these resources are instead redirected to boost output in less efficient sectors. In the somewhat dated but still very accurate words of the Congressional Research Service, there is "little theoretical support or empirical evidence that supports claims that subsidizing exports or overseas investment offers a positive net gain in jobs to the U.S. economy."¹⁹

Both OPIC and the Ex-Im Bank date from a time when the United States economy was far more insular than it is at present—a time when foreign investment and foreign trade were truly exotic and potentially high-risk undertakings. In the age of globalization, the exotic has become commonplace, and the risks of exports and foreign investment, while perhaps not quite the same as operating in the United States, are both known and manageable.

If we have learned anything from the recent crisis in the sub-prime lending markets, it is that risk needs to be fully accounted for, and fully acknowledged, in pricing investment options. U.S. Government programs that subsidize risk offer above-market returns, in effect privatizing gains while potentially socializing losses. They are not an efficient or necessary use of taxpayer resources.

RECOMMENDATIONS

In general, policymakers looking to bolster U.S. trade should consider advancing policies aimed at eliminating costly barriers to trade and investment, subsidies, and government-run activities that are better provided by the private sector. While it is tempting to embrace subsidies as a means to promote U.S. exports and jobs, in fact the cost of those subsidies on the economy as a whole will be less than the benefit that might accrue to the firms receiving government handouts.

¹⁶ Marilyn Ibarra and Jennifer Koncz, "Direct Investment Positions for 2006-Country and Industry Detail," Bureau of Economic Analysis, U.S. Department of Commerce, July 2007, p. 34, at http://www.bea.gov/scb/pdf/2007/07%20July/0707_dip_article.pdf.

¹⁷ *Ibid.*

¹⁸ Overseas Private Investment Corporation, *2006 Annual Report*, "2006 Investment Activities," at http://www.opic.gov/pdf/OPIC_AR.pdf (April 22, 2008).

¹⁹ James K. Jackson, "OPIC: Employment and Other Economic Effects," Congressional Research Service *Report for Congress*, May 23, 1997.

Instead, the following recommendations embody some of the more important elements of a successful U.S. export-promotion strategy that bolsters both long-term growth and economic opportunity.

1. Advance freer trade policies. Advancing freer trade through a comprehensive and substantive conclusion to the Doha Round of trade negotiations and ratification of the three pending free trade agreements with Colombia, Panama, and South Korea would promote both U.S. prosperity and economic development abroad.

- *Colombia.* The U.S.-Colombia Trade Promotion Agreement was signed in November 2006 and later amended to include provisions stemming from the Bipartisan Agreement on Trade. While more than 90 percent of Colombian exports enter the U.S. duty-free under the Andean Trade Preference Act (ATPA) and the Generalized System of Preferences (GSP), U.S. agricultural, manufacturing, and services exports to Colombia face tariffs and other barriers to trade. The U.S.-Colombia Free Trade Agreement will promote a more balanced economic relationship in which, upon entry into force of the agreement, over 80 percent of U.S. manufacturing exports to Colombia will enter duty-free immediately. An additional 7 percent will be duty-free within five years, and all remaining tariffs will be eliminated within 10 years.²⁰

U.S. agricultural exports will benefit from the agreement as well: More than half of current U.S. farm exports to Colombia will become duty-free immediately, and remaining tariffs will be phased out within 15 years.²¹ Fully implementing the agreement would boost U.S. exports overall by an estimated \$1.1 billion.²²

The agreement would help lock in Colombia's continued economic reform and development and promote investment-essential for the U.S.-Colombia relationship to reach its full long-term economic potential. Moreover, by forging stronger economic ties with U.S. allies in Latin America, America strengthens its strategic position vis-à-vis countries in this important but turbulent region while promoting economic prosperity and opportunity.

- *Panama.* The U.S.-Panama Trade Promotion Agreement was signed in June 2007. Like Colombia, Panama enjoys preferential access to U.S. markets via the Caribbean Basin Initiative and GSP, with approximately 96 percent of Panama's exports entering duty-free.²³

The U.S.-Panama TPA will open Panamanian markets to U.S. firms and farmers: More than 88 percent of U.S. manufacturing exports will be duty-free immediately upon entry into force of the Agreement, with remaining tariffs phased out over 10 years.²⁴ More than 60 percent of current U.S. agricultural exports to Panama will receive duty-free treatment, and remaining tariffs will phase out within 15 years.²⁵

Approval of the U.S.-Panama trade deal would also support further improvements in Panama's economic development and help keep the momentum behind economic reforms high. Panama is yet another important ally in the Americas—one that is more than worthy of a trade deal that advances a deeper relationship with the U.S.

- *South Korea.* The KORUS FTA was signed in June 2007. Given the significant levels of trade and foreign investment already occurring between the U.S. and South Korea, a bilateral trade agreement is a natural and logical step to further strengthen economic and political relations between the two countries. The U.S. International Trade Commission has estimated that the impact of the trade pact would result in U.S. GDP increasing by \$10 billion—

²⁰ International Trade Administration, "U.S.-Colombia Trade Promotion Agreement Sectoral Benefits: Overview of Sectoral Benefits," at <http://export.gov/fta/Colombia/SectoralInfo.asp?dName=Colombia> (April 8, 2008).

²¹ U.S. Department of Agriculture, Foreign Agricultural Service, "U.S.-Colombia Trade Promotion Agreement: Fact Sheet," February 2008, at <http://www.fas.usda.gov/info/factsheets/Colombia/colombia1pager07.pdf> (April 8, 2008).

²² U.S. International Trade Commission, "U.S.-Colombia Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects," Investigation No. TA-2104-023, USITC Publication 3896, December 2006.

²³ Office of the United States Trade Representative, "The Case for the U.S.-Panama Trade Promotion Agreement," August 2007, at http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2007/asset_upload_file192_13310.pdf (April 9, 2008).

²⁴ International Trade Administration, "U.S.-Panama Trade Promotion Agreement Sectoral Benefits: Overview of Sectoral Benefits," at <http://www.export.gov/fta/Panama/mrktaccess.pdf> (April 9, 2008).

²⁵ U.S. Department of Agriculture, Foreign Agricultural Service, "U.S.-Panama Trade Promotion Agreement: Benefits for Agriculture," July 2007, at <http://www.fas.usda.gov/info/factsheets/Panama/Panamaoverall0707.pdf> (April 9, 2008).

\$11.9 billion and result in a significant expansion of two-way manufacturing, agriculture, and services trade.²⁶

In general, U.S. exports to Korea face higher tariffs and tariff rate quotas than do Korean exports to the U.S. The agreement will eliminate all industrial tariffs in the United States and Korea within 15 years of implementation, with most tariffs phased out within 10 years. More than 80 percent of U.S. industrial exports by value to Korea will receive duty-free treatment immediately upon implementation of the agreement.²⁷ U.S. agricultural exports will also benefit: Almost two-thirds of Korean imports of U.S. farm products will become duty-free immediately upon entry into force of the agreement.²⁸ A trade pact would generate significant economic gains and would be the second-largest free trade area for the United States, in terms of dollar value, after NAFTA.²⁹

By formalizing bilateral economic ties with South Korea through an FTA, America also solidifies its ties to Northeast Asia through international trade, providing a counterbalance to China's growing economic influence in the region. The FTA would reinforce the strong and mutually beneficial economic and strategic relationship that exists between the U.S. and South Korea and ultimately serve both countries' national interests.

2. Continue to promote trade capacity building and facilitation, as well as regulatory improvements. Of the various activities advanced in the *2007 National Export Strategy*, member agency efforts focused on providing technical assistance to developing countries to enhance trade capacity and improve the practices and policies supporting international trade in these countries are in line with advancing development goals. As developing countries are able to better engage global goods and services markets, the real potential for trade expansion around the world is improved. U.S. organizations, such as the Millennium Challenge Corporation, which ties investment to proven progress in economic and other important reforms, play an important role in advancing this objective.

3. Continue to work through multilateral and other channels to address anti-competitive and protectionist policies that limit trade flows, with the aim of eliminating such practices rather than relying on retaliation. Claims that U.S. organizations like OPIC and the Ex-Im Bank play a role in counteracting other state-sponsored financing by "leveling the playing field" for U.S. firms ignore the fact that these subsidies are not beneficial to the economy as a whole. Instead of adopting the same "unfair" practices as a response to real or perceived inequities across countries trading in the world's markets, the better approach is to work to dismantle inefficient and anti-competitive programs in the first place.

CONCLUSION

The TPCC's *2007 National Export Promotion Strategy* illuminates some of the best and worst of America's policy approach to promoting trade, growth, and jobs. Policymakers should objectively assess the merit of the various member agencies' activities, especially in light of the evolution of private markets to address the "market failures" of the past. Wherever possible, government endeavors should be phased out in favor of more efficient private-sector approaches to facilitating international trade and investment.

Ultimately, the best export-promotion strategy is one that fosters ever freer trade: More than half a century of gradual trade liberalization has helped to raise U.S. living standards and has led to America's economic preeminence around the world. Congress should take steps to keep the momentum behind dismantling trade and investment barriers moving forward.

Mr. ROYCE. Thank you. I would like to ask Mr. Vargo, and I know this is a question that can't be answered, but you are one of

²⁶U.S. International Trade Commission, "U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects," Investigation No. TA-2104-24, USITC Publication 3949, September 2007.

²⁷International Trade Administration, "U.S.-Korea Free Trade Agreement Market Access Results: Industrial Goods Summary Report," at http://www.ita.doc.gov/td/tradepolicy/sectorreports_korea.html (April 9, 2008).

²⁸U.S. Department of Agriculture, Foreign Agricultural Service, "U.S.-Korea Free Trade Agreement: Benefits for Agriculture," July 2007, at <http://www.fas.usda.gov/info/factsheets/korea.asp> (April 9, 2008).

²⁹Office of the United States Trade Representative, "Trade Facts: Free Trade with Korea," June 2007, at http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2007/asset_upload_file302_11035.pdf (April 9, 2008).

the most qualified people to ask. Just how important have the trade promotion services of the Federal Government been to our exports? And to make the question quantifiable and impossible to answer, what percentage of our exports, manufacturing exports, wouldn't occur if it weren't for one or another of these agencies that promote our exports?

Mr. VARGO. You are right, it is——

Mr. ROYCE. Just give me a precise percentage. [Laughter.]

Mr. VARGO. Well, I am a believer in marketing and advertising, and having a competitive product is not enough, especially when a lot of your potential exporters are small- or medium-sized firms that just don't have the time on their own to go explore foreign markets.

I don't know what percent. I am reminded of the story, when I was back in graduate school many, many decades ago when we had an executive from one of the big soda-pop companies come. And we said, you know, you spend a lot of advertising. Isn't a lot of that a waste? He said, yes, we would love to cut out 90 percent, if we just knew which 90 percent.

I have seen individual instances where companies have started exporting, and they started exporting to new countries. My view is that the figure is relatively small. And part of the reason for that is our promotion program is relatively small.

Mr. ROYCE. You can decline to answer this, but would you say even 10 percent of our exports wouldn't occur if we didn't do anything in the area of promotion? Five percent or——

Mr. VARGO. Well, I used to run the Research Office in the Commerce Department and developed a healthy respect for data. I don't want to give you a number I can't defend. I don't know.

Mr. ROYCE. Anybody else want to answer this question? Mr. Morrison?

Mr. MORRISON. I can just make some anecdotal response to it. Obviously I don't have a study, either. But when it comes to companies, smaller companies that are trying to learn about foreign markets, they go into their USEAC, their local U.S. Export Assistance Center, and they get that information. And it means a lot to them. It eliminates some of the lack of information and the fear factor that they are not going to have eliminated any other way.

It is particularly relevant for companies that need trade finance. Banks will not lend when there is foreign risk without a government guarantee behind it. Trade finance that is provided by SBA and by Ex-Im I believe support sales that would not otherwise happen. In fact, I know they would not otherwise happen for the SMEs.

Mr. VARGO. Mr. Chairman, could I modify a little bit? One of the few programs for which I have seen that is the Market Development Cooperative Program. And my understanding is that it has generated about \$3 billion of exports for an expenditure of \$2 million a year. So you know, if you were to increase that very significantly, I think we would continue to get a 100-to-1 return on our investment, and that would contribute substantially.

Mr. SHERMAN. Ms. Lee?

Ms. LEE. I am also not going to give a figure, but I thought one of the more cost-effective areas that we have is the use of our Em-

bassies and the staff there that are trained, and that are going to be on the ground in any case. If they can take the information that they gather from being on the ground and pass it on to companies that need information about the economy, about the market and so on, that seems to me a good use.

We rely very heavily on our labor attaches in our Embassies abroad. And it is, I think, the same kind of idea that you have the expertise, you have the institution and facilities already there, and they should be used to good effect.

Mr. SHERMAN. I know that those officials at our Embassies who are wearing an economic or a trade hat, you know, give that priority; that is their job. I know we are dealing with anecdotes here; I haven't been able to nail you with a statistic.

Do you have any anecdotes of anyone who is what I will call general State Department? An ambassador, charge d'affaires, any political officer that has ever been promoted, rewarded, recognized by the State Department for what was effective promotion of U.S. exports?

Mr. VARGO. Well, sure. Chuck Fuller, he was our Ambassador to Honduras, I believe, was noted by the State Department for the outstanding job, both at being a manager, as well as export promotion, and promoted to an ambassadorship. We have had a number of other instances, as well.

Now, you know, the promotion program has moved out of the State Department many years ago, and moved to the Commerce Department, which was—

Mr. SHERMAN. But I regard every ambassador as part of that promotion program.

Mr. VARGO. Oh, yes.

Mr. SHERMAN. And you are bringing to my attention someone who was in general foreign policy, and actually worked on trade promotion.

Mr. VARGO. Right. But, you know, I have seen ambassador after ambassador really be a chief trade salesman for American trade.

Mr. SHERMAN. Ms. Lee.

Ms. LEE. Just one quick point, is that we would certainly like to see our staff overseas focus on promoting U.S. exports produced on American soil, and not so much on looking for business opportunities, sometimes even shifting production.

We have seen sometimes what I would call a confusion of mission on the part of some of our overseas people.

Mr. SHERMAN. Yes, I think that there are those in the administration who think that if you can help a corporation make a \$100 million profit by firing all its U.S. workers and moving overseas, that you have done something spectacular because you have increased the stock price of a particular U.S. corporation. Hopefully, we will get the right kind of thinking throughout the administration, or some administration.

Does anyone here want to identify any one of our trade promotion activities or programs that you think should be substantially reduced? And Ms. Markheim, I know you may have an ideological opposition to the group as a whole, and I have heard your comment.

But if you had to cut one of them by 50 percent, does anybody know of one that you don't think is doing a good job? I see no—oh, Mr. Morrison.

Mr. MORRISON. I will dive in.

Mr. SHERMAN. About to make sure none of his members get helped by a particular agency. Mr. Morrison.

Mr. MORRISON. I am not saying that we necessarily have to cut something, but I think we might want to look at the allocation of the export promotion budgets between the Commerce Department and the Agriculture Department.

Mr. SHERMAN. That is clearly true, to the extent that we are promoting grains, which has gone up so high recently.

And does anyone here see a particular one of the many programs you think should be substantially increased? Yes, Mr. Vargo.

Mr. VARGO. I do. There are several. I noted the Foreign Buyer Program, which is a very cost-effective way of boosting exports of small companies, because you bring foreign buyers here.

Mr. SHERMAN. Do those foreign buyers often, I mean, do they even get visas, say, in the same century in which they apply for them?

Mr. VARGO. Well, that is a problem, Mr. Chairman. You know, if I could wave a magic wand, I would get a lot more of these foreign buyer programs, and I would have the State Department expedite visas for them. You are absolutely right.

In addition, I believe that the Program for International Partner Searches, where the Commerce Department had its offices overseas, locate prospective buyers and distributors for American companies, is something that should be increased. I think the new program of the Commerce Department has called, I think, Quick Search or Quick View for Europe, where for a small fee, an American company can have the commercial officers all over Europe in 27 different countries give a view on where they think they might be able to expand. There are a lot of programs.

Mr. SHERMAN. And is that advice limited to how to export American products? Or will, if you pay that fee, and you get these 27 folks working for you, will they send you back a program: Here is how to fire your American workers and make more money? Do they work to maximize profits, or do they work to maximize jobs?

Mr. VARGO. No, they are working to maximize the export of made-in-the-U.S. products.

Mr. SHERMAN. So they are not going to send you a report about how you can move; how the best way to penetrate the Austrian market is to move your production to Croatia.

Mr. VARGO. No, that is not what they are about. That is not what the NAM is about.

Mr. SHERMAN. No, okay. I will go to Mr. Morrison very quickly, because I have one more question and I have already gone over time.

Mr. MORRISON. Just quickly to suggest one thing that is being done and one thing that ought to be done. Small Business Administration has export finance specialists and 17 USEACs. Those people underwrote \$2.2 billion in U.S. exports last year. Average export size is under \$200,000. We are getting a \$500-to-1 return on

the investment in that program. I don't know why it is only in 17 USEACs; it ought to be in dozens of USEACs.

There is also a bill that you have got here in Congress, H.R. 3273, several Members of Congress have co-sponsored with Mr. Larson of Washington, that has a terrific idea in here for a competitive and transparent program to help support United States SMEs that want to go on trade missions to China, which they normally can't afford to do. I think it would be great to do in China, as well as other countries.

Mr. SHERMAN. I believe my time has expired. We may do a second round.

Mr. Royce.

Mr. ROYCE. Thank you. Thank you, Mr. Chairman. When we look at ambassadors overseas and in China, I think they have got 113 staff in China for the Department of Commerce. I think the Foreign Agricultural Service has six offices and 59 staff.

So we look at the—I am thinking back of the ambassadors that I have met and worked with. It seems to me that most of them are focused, I haven't met any yet that—maybe I am wrong—that were focused on trying to set up a system where we entice U.S. companies to go overseas and employ overseas, at the expense of companies here in the United States. That may have happened, but I have never seen an indication of it. What I have seen is indication of an attempt to be focused on opening markets overseas.

But where I have seen a problem is OPIC. What I have seen is OPIC creating an environment in which investors, because of political risk, because of risk of nationalization of a company, investors that might have invested in the United States for their manufacturing or expanded their manufacturing here, instead set up shop, set up a manufacturing plant in an environment where presumably they wouldn't have gone into because they couldn't get the risk insurance to do it.

And so in a way, we are distorting the market. In addition, we are creating an environment in which the pressure isn't there to reform inside that country. In other words, that might be a country where there is a lot of despotism, where there isn't a lot of freedom, especially for labor. For those very reasons, you can't get the risk insurance.

So here OPIC comes in and says okay, we are going to. And I think I was going to ask, I will probably ask Ms. Lee about that, because I saw in a CRS report concern over this same issue. And I have raised this issue in the past, because I think there is a danger when you set up these governmental programs of not thinking through all of the impact it may have on the market.

But going to my point, I was going to ask you for your take on that.

Ms. LEE. Thank you, Mr. Royce. That is an excellent question. And it is one of the concerns we have had with OPIC over the years.

A couple of decades ago, OPIC got in a lot of trouble because they were openly luring American companies to set up manufacturing shops in places like El Salvador.

Mr. ROYCE. Exactly.

Ms. LEE. There were some exposes done. And then OPIC pulled back a lot from the manufacturing, and much more of the focus now is on infrastructure. You know, power plants in Poland and so on, that don't displace United States production.

But we still do see that there is tension, there still is the push to ease up those restrictions on allowing OPIC to fund manufacturing. We would strongly oppose that. We think that is the wrong idea.

The point you raised is kind of interesting: To the extent that there is risk in that market, why is it the job of the U.S. Government to take on that risk?

Mr. ROYCE. To subsidize it.

Ms. LEE. Subsidize investment in a risky market. There is a development component, and you could say maybe there are some worthwhile development goals.

But OPIC's policies with respect to worker rights and the environment and so on are not strong enough, and they are not very well enforced, to ensure that there is going to be a positive development impact. In fact, there have been a few scandals around negative environmental impacts. Just recently, there is an OPIC project in Jordan that the Board has approved, despite the fact that there were some significant questions about the treatment of the migrant workers that might be used to build this pipeline, and that there have been some significant problems in Jordan with the use of migrant workers.

So we would certainly like to see a lot more careful consideration by OPIC. And certainly to keep that focus on the job impact in the U.S.

Mr. ROYCE. And one of the things I was also going to ask is, in your critique on OPIC and Ex-Im in your statement, what gives us the faith, then, to think that the government could engineer this overall coherent national economic strategy?

I mean, one of the things I worry about is looking back in time—and I have raised these issues about OPIC over the years, you know—where this could end up, with OPIC doing exactly what I was concerned it would end up doing. You know, how do we have confidence that this isn't a slippery slope? When we go into government doing this abroad with this strategy, as opposed to—anyway, I will ask you that.

Ms. LEE. With respect to Ex-Im Bank in particular, most of what we hear on this advisory committee is: "Well, every other country is doing it." It is somewhat the point Chairman Sherman made at the outset, that if every other country is providing in some sense subsidies to exporters—reduced credit rates and so on—to spur exports, then U.S. exporters feel they are disadvantaged if they don't have something similar.

One of the things that we have said is that the U.S. should be engaged more effectively in some of the multilateral talks at the OECD, where, to the extent that there should be some discipline—

Mr. ROYCE. I agree.

Ms. LEE [continuing]. On this kind of export financing, then we should do that. I don't think the U.S. is engaged all that effectively at the OECD to ensure that the multilateral rules are respected.

One point I would raise that seems to be sort of a sleeper issue is that China's export credit agency has dramatically increased, by maybe tenfold, the amount of money it is spending. One of the questions we have asked the Ex-Im folks is, Are we really paying attention? Has USTR paid enough attention to that? Are those really—you know, we are not allowed to subsidize exports explicitly.

Mr. ROYCE. Right.

Ms. LEE. But we have these exceptions with the export credit agencies. Where is that line drawn? Is anybody really paying attention?

Mr. ROYCE. I think you raise an excellent point. Because my real concern here is that we would all be better off in the world, on the planet, if we could negotiate a way for the people to cheat through the program. And there is a higher likelihood that China is going to cheat, since they cheat on everything, from my experience, than Western economies, particularly the United States.

So to the extent that we get an ironclad agreement to eliminate these subsidies, it would be the best single thing I think we could do on that front.

I was going to ask Mr. Vargo a question, and that was on your observations on the depreciation of the dollar. You were viewing it from an export perspective, but I would ask whether the downsize in other areas, is there a limit to how low you would like to see the dollar fall?

Mr. VARGO. Oh, absolutely. We would like to see a strong dollar, but one that is commensurate with economic reality. We don't want to see the dollar keep going down and down and down.

But I also think there is no question that other countries, other countries have had their currencies depreciate against the dollar for much too much, and put us at a place where demonstrably we were not competitive. And the reason, one of the principle reasons why our exports are coming back now is a more competitive dollar.

But to the extent to which we can use that time in order to shift the export orientation and get more companies to export more—I think in my testimony I noted that even outside the EU, Germany exports 15 percent of its GDP. And for goods, we export about 8 percent or 9 percent. We need a stronger export orientation. I believe properly constructed export promotion programs can help.

On your point about export financing, you know, this should be a rising concern. China is not in the OECD, there are no disciplines on its export financing. And the same is true, I think, for a number of other countries. Well, so were we.

But even within the OECD, there is this murky area of mixed credits, and other countries do things that we don't. And we certainly want stronger discipline. But while—

Mr. ROYCE. I would just need to interrupt for a second. I watched the export credits out of Italy and Germany and France, you know, into Iran at a time when we are trying to get control of the nuclear program.

Mr. VARGO. Right.

Mr. ROYCE. And in point of fact, I don't think it really nets out, once you take it out of their budget, to a net benefit to these European countries.

They have now begun to reverse engines, and the chairman and I have made a lot of noise about this with respect to our European colleagues, and things are being pressured from a lot of fronts. But we are beginning to see that reversed.

This is just an example of something that really doesn't make sense. The European Government export agencies there threw a ton of money into those programs, and it was sort of life support at a time when they had hyper-inflation in Iran and mass unemployment and everything. Why? Because all the private institutions were pulling out. Why? Because they were saying well, you know, Hezbollah was being financed, right?

But here, the export credits were keeping the goods coming in that otherwise never would have gotten into the market, and Europe lost its pressure on Iran at a time when they were trying to get them to comply.

Mr. VARGO. Mr. Royce, I don't think there is any question that we really need to push harder on this one. But by the same token, our own export financing programs are absolutely vital to so many companies in order to be able to sell while we find this increased pressure from other countries.

But long term, I think our goal should be to get, to get a verifiable system where we go directly to a system where we get the Chinese out of this, because they are the prime offenders, and everybody on a level playing field. I just think that would be more optimum.

But I was going to close with a question to Ms. Markheim. And that was in your view, what is more beneficial, trade agreements or the export promotion services, if you balance the two? [Laughter.]

Ms. MARKHEIM. We are all chuckling; that is going to be an obvious answer.

Certainly not just necessarily the free trade agreements, but freer trade overall. As we have just now been discussing, these subsidies do have and impose a cost on the economies that use them. But the transfer of resources away from the most efficient uses toward ones that aren't necessarily going to advance our economic objectives aren't necessarily going to advance our foreign policy objectives.

So this is something that, while every other country might be doing it, that doesn't mean that we should be doing it, as well. And I think we do need to work very aggressively and starting to eliminate some of the more direct subsidization that is going on, while at the same time enhancing freer trade through the negotiations process, but not necessarily doing this cold turkey.

A lot of these programs would have to be phased out in a way to make sure that there was a private market substitution or ability to fulfill the role that is currently being filled by government. I think that that is feasible.

And also, as was brought up earlier as well, with a mind for the simple fact that we don't necessarily have a lot of information about what the impact of these programs really are. How many manufacturers really would be negatively impacted should OPIC or Ex-Im Bank be transferred fully to the private market sector? This is something we should understand.

But overall, I say fair trade wins, and the U.S. Government should use taxpayer monies either more effectively, or not at all, less of it.

Thank you.

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. SHERMAN. I would like to do a second round, at least myself, and we will see if Mr. Royce wants to, as well.

Ms. Markheim, you speak from a clear, ideologically pure position. Adam Smith—I don't mean the gentleman from Washington, I mean the original Adam Smith—could be resurrected, and I am sure given a fine position there at The Heritage Foundation. And the administration often embraces your rhetoric.

Are you aware of any serious efforts by this administration to push any country to reduce its trade promotion and subsidy efforts? There could be a one-word answer to this.

Ms. MARKHEIM. The answer is no, I don't. However, not being privy to a lot of the conversations that do go on—for instance, if we want to look at China within the SED, some of these are more of the closed-door bilateral talks, there may be something. But I am not aware of anything.

Mr. SHERMAN. Let me let you in on a secret we politicians have. If we ever do anything that we know somebody would really like, we tell them. [Laughter.]

Trust me. If the administration was, in any of its actions, embodying the spirit of The Heritage Foundation, they would let you know.

Ms. MARKHEIM. Well, then, my answer is no, as far as I know, but it should be.

Mr. SHERMAN. Got you. Now let me drift off to overall trade. Because all of our trade agreements are based on process, we will change this regulation, and we want the other side to change its written rules and regulations. And we haven't signed any trade agreements. Talk about results. We will buy a billion bucks' worth of your stuff, you buy a billion bucks' worth of our stuff.

The question is whether a nation that believes in transparency and the rule of law; and independent, free, economically free businesses is insane if it signs process-oriented agreements. And Ms. Lee, bear with me. A question is coming somewhere at the end of this.

In other words, if I am China, I say I will sign any agreement you want. You want to write out tariff laws, fine, we will have Ms. Markheim write out tariff laws. You want us to change this or that regulation, we are fine. We will officially say, in every written document, that every Chinese company is encouraged, or at least allowed, to buy American goods.

But then, when a Chinese company is thinking about American goods, we will just get on the phone and say to a Chinese businessperson, Mr. Wong, we know you won't buy the United States goods even if they look good on paper, because we know, Mr. Wong, that you are a very well-educated man. We hate to think that you need re-education.

In other words, oral statements, hints—didn't have to be this heavy-handed, I just threw that out there for a little comic relief. But the Chinese Government can, through oral statements, hints,

and seats on the boards of the major Chinese companies, say fine, our written regulations will allow everything, but our policy is not to import more than \$10 billion or \$20 billion a year worth of United States goods.

Now, the Europeans are cagey. They will insist that they import their goods, or they won't take ours. But the Americans are ideological purists. They believe in improved processes. It is a country run by lawyers who will say well, you could do, as long as you write the laws, the written laws that we want, then we will love you, no matter what the end result is.

Another approach to this is, at least in dealing with a closed economy like China or a government-controlled economy like China, a cap-in-trade system—that is to say, every time you export goods to China, you get a voucher, every time you want to import goods from China, you need a voucher, there will be a market for vouchers. This is being talked about in the carbon area in Europe, they have got it for carbon. But it could also be applied to trade.

In other words, we could have a results-oriented system, rather than a system that says if the process is improved, we will accept any results no matter how damaging to the U.S. economy.

And what I have seen those who are skeptics of the present trade system do is buy into the process idea, but just say the process idea shouldn't just protect—we don't just need a written law to protect intellectual property; we need a written law that protects labor rights or environmental standards. And you know, again, in this world, written statutes may not matter at all.

And, also, I find that there are a lot of countries that are, though we have enormous trade deficits with, have pretty good labor standards, pretty good environmental standards. I would put German laws up against United States laws on labor—sorry, you can't have those today, but I know the AFL would prefer them.

So should those of us who are willing to depart from the current orthodoxy be trying to improve process? Or should we be shifting to a results-oriented paradigm? I know you came here to talk about—

Ms. LEE. I am always happy to talk about trade policy. If we had another couple hours, we might be able to really get into it.

But I think your basic point is correct, that we have a current model of trade agreements. And it is one model, and the question is whether it really works as well as it ought to; whether it gets the kind of results it should.

We ought to be open to stepping way back from that model. It is not to say we are going to close off trade with the rest of the world, or that we don't want to get trade barriers down with other countries, but have we done it on the right terms, and have we gotten the kind of outcomes we expect?

The example I gave in my opening remarks is that we don't deal with currency in our trade agreements. And yet a big shift in currency, as we saw with Mexico right after NAFTA, can totally change the terms of what we agreed to. Yet we had nothing other than an exit clause out of NAFTA, which is pretty extreme. It is the nuclear option.

And I think, you know, even within the trade agreements, you know, how hard it is, and everyone is talking about how hard it

would be to go back and renegotiate the terms of NAFTA. You would have to get the other two countries to agree on your terms, and not give up too much on their terms.

But maybe, you know, having a results-oriented policy would make more sense. I mean, one example I would say is the Korea FTA, where there has been talk about the concerns certainly of the auto sector, but both, some of the companies, Ford and the auto workers, and some of the Congresspeople has been, We don't trust that we are going to get the kind of access to the Korean market, particularly in auto and in industrial goods. They are just reducing the tariff. That, you know, our trade negotiators have been asked to talk to Korea about market access in autos for 10 years, and they have signed a number of, you know, letters and memoranda, and things have actually gotten worse during the time.

So if we let these same folks go out and negotiate a trade agreement, what makes us think that the outcome is going to be any different, or any better? And so that is one area where Susan Schwab, the U.S. Trade Representative, has said well, you are talking about managed trade here. And it is like a dirty word.

And I think what Chairman Sherman has just said is maybe we ought to sometimes be talking about the outcomes, and not just the process.

And one other example I would give, I am just basically saying that I think that you are right that we should be open to looking at different ways of trying to achieve the outcomes we hope to get out of our trade policies.

Warren Buffet has talked about the trade deficit, and what a huge problem it is, and talking about whether you could do some sort of an auction system that would basically put a higher price on imports. And then everybody who exported a dollar's worth of goods would get a voucher for a dollar's imports, and that—

Mr. SHERMAN. What I am talking about is pretty similar to what he is talking about. Go ahead.

Ms. LEE. So something along those lines, where your outcome that you desire is to reduce the trade deficit. And you do something very direct about that, rather than looking just at the tariff levels.

One of the things we have seen is that the economic models haven't been very good at predicting the outcome of FTAs, because there are investment flows, there are business strategies that don't have to do with changes in tariff rates. Therefore, there is plenty of room for improving the way we negotiate trade agreements in the future.

Mr. SHERMAN. It is my intention to have the hearing on junking the process-oriented approach, and shifting to a results-oriented trade strategy. My problem is that, as I have said, you are not allowed to talk about these things in polite company. And therefore, none of the intellectual resources—and there is tremendous intellectual resources embodied by those before us and many others here in Washington that think about trade—none of them is thinking outside the box of process.

I do want to also comment that we have pending in the Senate, held up by one Senator who will not be named—Coburn—who is holding up everything, including improvements to OPIC that would deal with some of the concerns that have been voiced here.

Mr. VARGO. Mr. Chairman?

Mr. SHERMAN. Yes.

Mr. VARGO. Would you permit me to just make a few comments about process?

Mr. ROYCE. I will go along with that. But Mr. Chairman, I have a Financial Services—

Mr. SHERMAN. Actually, Mr. Royce's time will—oh, okay.

Mr. ROYCE. We are getting notes that we are getting to a vote, so—

Mr. SHERMAN. Okay. Well, you go vote. I will rush in there and cancel your vote out.

Mr. ROYCE. Thank you. [Laughter.]

Mr. SHERMAN. I am also a member of the Financial Services Committee. My notes say I don't need to be there for an hour, so you are going to figure it out.

Mr. ROYCE. You are not going to speak on any of this bill?

Mr. SHERMAN. What?

Mr. ROYCE. You are not going to speak on any of this bill?

Mr. SHERMAN. Your comments will be so incisive and illuminating in there—

Mr. ROYCE. I hope so.

Mr. SHERMAN [continuing]. That they wouldn't need guidance from me.

Mr. VARGO. Mr. Chairman, if I might just take a moment of your time. Because there has been a really dramatic misunderstanding on what has been happening with our free trade agreements.

We don't have a free trade agreement with China, as you know. But a lot of people in this country don't. And they look at our huge trade deficit, and you know, half of our manufacturing trade deficit is with China, and we have got a lot of problems.

Well, when we look at our free trade agreements, you know, the figure was up—we have \$126-billion deficit with them. But what people have failed to note is that if you take out oil—and I am not saying we don't have to pay for that oil—but when we look at a jobs impact, the importation of oil from our free trade partners is not costing us jobs. So we put that aside, and we see that the trade deficit with all our free trade partners is only \$35 billion.

And the interesting thing about that \$35 billion is with those same countries, 7 years ago it was \$40 billion. So the deficit with them outside of oil is very small, and it has been falling.

Now, the reason for this is we have always been a very open country. You know, we started with actually Secretary Cordell Hull, and President Roosevelt began this very open trade policy. So we are very open. Other countries have high barriers, and there is only one way to get them down. And that is to negotiate these agreements with them.

And so I would welcome a hearing on your part, because it would point out—

Mr. SHERMAN. You are looking at their high barriers in their published materials, and you are trying to get those down. Because they fooled you into thinking that the only thing that matters is what is printed. And if you can just bring that down, you are going to have access.

If you are dealing with a country that also has not just its written laws, but its unwritten ways of controlling private activity. You know, if I got on the phone to some business in my district and said don't buy the German goods, it is not good, it is not politically correct; buy the American goods. Either the businessperson would laugh at me, or they would hold a press conference, and I would be looking for a new job.

Now, imagine someone who was one of the more important Chinese officials in Shanghai. They make that call to a business; they are not laughed at.

So as to our free trade partners after the free trade agreement, our trade relationship was worse. And yes, indeed, we should not ignore oil. If we are buying oil from Mexico and Canada, they should be buying our manufactured goods. The idea that spending money on oil is fine, and we are not going to bring those dollars back, would consign us to a worldwide trade deficit as long as we are importing, importing energy.

But I understand NAM is generally, as I understand it, supportive of free trade agreements, although not all of them.

Mr. VARGO. For reasons we believe are very sound. So I would look forward to a hearing.

Mr. SHERMAN. I look forward to a hearing, but I would look forward to some thinking that goes way outside the box. Because the choice is not between heroin and crystal meth, and the choice does not have to be between the Andean free, you know, the Andean preferences and the Colombia Free Trade Agreement. And the choice does not have to be accepting incredible barriers, tariff and non-tariff, to our exports on the one hand, or negotiating a free trade agreement where we are going to get screwed on the other hand. There are other ways to deal with this, and they start by going to, if you want results, you need a results-oriented plan.

So I want to thank you folks for being here. I would thank my colleagues for their patience, but [laughter] their patience has expired. And I look forward to hearings that go more broadly.

We will look very carefully at the specifics that were brought out in these hearings, the particular agencies that deserve additional funding, and see what we can do to push that along.

And thank you very much.

Mr. VARGO. Thank you, Mr. Chairman.

[Whereupon, at 12:20 p.m., the subcommittee was adjourned.]

