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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:

<u>Counseling</u>: 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 goods[1]. 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 survey[2] 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)

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[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.