

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

Memorandum

To: Members, Subcommittee on Agriculture, Energy and Trade
From: Committee Staff
Date: March 30, 2012
Re: Hearing: Impact of United States Trade Policies on Small Businesses and Manufacturing

The Subcommittee on Agriculture, Energy and Trade of the Committee on Small Business will meet for a hearing titled, "Impact of United States Trade Policies on Small Businesses and Manufacturing." The hearing is scheduled to begin at 10:00 A.M. on April 2, 2012 at the Pittsburgh Technology Council, Pittsburgh, PA. The hearing will provide an opportunity for the Subcommittee to examine the impact of international trade policies on small manufacturers and potential changes to those policies that will improve their competitive stance.

I. Background

The United States has a variety of trade agreements in place that affect how small businesses compete and operate in the global economy. Examples include free trade agreements (FTA), bilateral investment treaties (BIT), trade preference programs, and multilateral trade agreements. These policies are negotiated to create new international market opportunities for domestic exporters, while strengthening trade enforcement and intellectual property (IP) protection.

Nearly every small business is affected by international trade. Whether they directly export a product, import a component part, or sell foreign merchandise, global trade influences their business operation and competitiveness. According to Census data, total international trade in United States' goods and services was over \$4.7 trillion dollars in 2011, up from \$2.5 trillion in 2000.¹

The economic impact of international trade policy can vary depending upon the location and type of industry. On one side, reducing trade barriers allows small business exporters to access new markets and expand their operations. Besides those firms that are directly involved in international trade, numerous other small firms can benefit from increased international trade opportunities, including: component providers to manufacturers that export; banks that provide export financing; or retailers that import goods for sale to American consumers.

¹ BUREAU OF THE CENSUS, FOREIGN TRADE, UNITED STATES INTERNATIONAL TRADE IN GOODS AND SERVICES, available at http://www.census.gov/foreign-trade/Press-Release/current_press_release/ (hereinafter "Census Foreign Trade").

While many firms benefit from expanded opportunities through growth in international trade, some firms may suffer as a result of such trade. Trade barriers that have not been reduced as a result of trade agreements may limit markets for small businesses. In other cases, unfair trade practices, such as exporting goods below their cost of production or failure of countries to protect IP, may have such significant impacts that it could force small firms out of business.

II. Trade Agreements In Place

The foundation of trade agreements and policies starts with the World Trade Organization (WTO). Originally called the General Agreement on Tariffs and Trade (GATT), the WTO was created to serve as the post-WWII international trade organization to help govern and facilitate international trade.² The WTO consists of 153 countries, which represent almost 90 percent of international trade.³ It provides a framework to reduce tariff and non-tariff barriers, enhances transparency, removes discriminatory practices, strengthens protection of IP, and establishes a process to settle trade disputes through consultation and tariff remedies. The countries that are members of the WTO have been negotiating new provisions through the Doha Round⁴ since 2001; there is no clear path to a conclusion of this round.⁵ As the negotiations continue, the United States and other nations have moved forward with other efforts to reduce trade barriers through the negotiations of bilateral and multilateral trade agreements outside of the WTO framework.

Currently, the United States has FTAs with 18 countries.⁶ FTAs with Colombia⁷ and Panama⁸ are scheduled to be implemented later this year.⁹ The specifics of the individual agreements vary but they all aim to reduce tariff and non-tariff barriers thereby improving the likelihood of increased trade between the countries. In addition, the United States Trade Representative (USTR) is currently negotiating another multilateral FTA denominated as the Trans-Pacific Partnership (TPP), consisting of eight nations along the Pacific Rim.¹⁰

As already stated, small businesses face a variety of trade barriers that limit their ability to compete in the export market, including higher tariffs, anti-competitive technical standards, and complex domestic rules

² http://www.wto.org/english/thewto_e/whatis_e/what_we_do_e.htm.

³ WORLD TRADE ORGANIZATION, ANNUAL REPORT 6 (2011) available at http://www.wto.org/english/res_e/booksp_e/anrep_e/anrep11_chap1_e.pdf (herein after "WTO Report").

⁴ Doha Round is a common reference for the ongoing WTO negotiation that was launched in Doha, Qatar in 2001.

⁵ WTO Report, *supra* note 3, at 11. The main barriers to the conclusion of the Doha Round involve persistent differences between developed and developing countries regarding agricultural subsidies, non-tariff barriers, and protection of domestic service industries.

⁶ The countries are: Israel, Canada, Mexico, Jordan, Singapore, Chile, Australia, Morocco, Bahrain, Dominican Republic, El Salvador, Honduras, Nicaragua, Guatemala, Costa Rica, Oman, Peru, and South Korea.

<http://www.ustr.gov/trade-agreements/free-trade-agreements>.

⁷ United States-Colombia Free Trade Agreement, Pub. L. No. 112-42, 125 Stat. 462 (2011).

⁸ United States-Panama Free Trade Agreement, Pub. L. No. 112-43, 125 Stat. 497 (2011).

⁹ <http://www.ustr.gov/trade-agreements/free-trade-agreements>.

¹⁰ The TPP negotiations currently include: Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam. Other countries have requested joining the negotiations, including Canada, Japan, Mexico and China. <http://www.ustr.gov/tpp>.

regulating international trade.¹¹ Of the 275,843 identified exporters, 45 percent have less than 20 employees and 68 percent have less than 100 employees.¹² Given the limited personnel resources, it becomes difficult, if not impossible, for small businesses to navigate the tariff and non-tariff barriers established across the globe in order to export goods and services. As a result, small businesses rely heavily on negotiated free trade agreements to lower tariffs, remove non-tariff barriers, and otherwise streamline the process of conducting international trade.

In 2010, 41 percent of United States goods exported went to FTA countries. More significantly, exports to countries with which the United States has a FTA are growing at a faster rate than the rest of the world.¹³ The chart below illustrates the trade balance of manufactured goods with the FTA countries and non-FTA countries.¹⁴

¹¹ One of the most burdensome domestic regulations is the process of obtaining a federal export license. The Federal government requires certain products and services (e.g., computer chips, high tech software, defense equipment, and more) to obtain export licenses before engaging trade with certain countries. The export of certain items is monitored and regulated to protect national security and intellectual property. To obtain a license, small businesses must navigate multiple federal agencies that can take months to complete. This burden and time consuming process may harm the ability of the small business to complete their export sale for goods requiring such licenses.

¹² BUREAU OF THE CENSUS, PROFILE OF U.S. EXPORTING COMPANIES, 2008 -2009 Exh. 1(a) (2011), available at <http://www.census.gov/foreign-trade/Press-Release/edb/2009/edbrel.pdf> (hereinafter "Census Export Profile").

¹³ <http://trade.gov/fta/>.

¹⁴ <http://www.nam.org/Statistics-And-Data/Trade-Data/Landing.aspx>.

U.S. MANUFACTURED GOODS TRADE BALANCE, NAICS									
Billions of U.S. Current Dollars									
Year-To-Date Data from Jan - Jan									
Country	2005	2006	2007	2008	2009	2010	2011	2011 YTD	2012 YTD
WORLD	-541.4	-558.5	-532.2	-456.3	-319.5	-414.4	-449.0	-36.4	-40.1
North America	-42.7	-40.3	-42.3	-11.4	6.0	-4.9	11.8	0.4	1.7
South America	-3.6	8.2	26.9	49.7	48.0	64.0	70.7	6.0	5.8
Brazil	-6.2	-3.0	3.5	10.7	12.6	18.8	21.1	1.6	1.1
EU27	-117.9	-114.8	-108.8	-99.9	-61.2	-84.1	-107.3	-7.1	-8.7
Asia	-403.9	-446.6	-457.6	-455.8	-366.4	-445.1	-485.2	-39.3	-44.5
China	-205.1	-238.4	-264.1	-277.1	-240.1	-292.8	-319.3	-25.6	-28.4
Japan	-86.9	-92.5	-87.6	-81.4	-50.7	-67.8	-72.3	-5.8	-6.9
Other Asia	-111.8	-115.7	-105.8	-97.2	-75.6	-84.6	-93.6	-8.0	-9.3
Middle East	15.6	23.8	30.6	41.8	31.7	32.8	39.2	2.2	4.5
Rest of World	9.7	10.0	17.6	18.4	22.2	22.7	21.0	1.4	0.9
FTA, TOTAL	-37.8	-32.8	-25.9	21.2	26.1	21.0	49.8	2.9	5.4
NAFTA	-42.7	-40.3	-42.3	-11.4	6.0	-4.9	11.8	0.4	1.7
CAFTA	-0.5	1.7	4.1	6.3	1.9	0.9	2.9	0.6	0.2
Chile	0.6	-0.6	1.7	5.8	5.1	5.4	8.2	0.5	0.9
Peru	-2.5	-2.5	-0.7	0.9	1.3	2.3	3.2	0.1	0.2
Australia	8.5	9.4	10.2	12.7	11.7	12.8	16.9	1.1	1.5
Singapore	5.9	7.7	8.4	13.5	7.1	11.8	13.0	0.8	1.0
Israel	-7.0	-8.2	-8.0	-8.3	-9.2	-9.9	-9.3	-0.8	-0.5
Oth MidEast	-0.3	-0.0	0.6	1.8	2.3	2.6	3.1	0.2	0.2
NON-FTA	-503.5	-525.8	-506.3	-477.5	-345.6	-435.5	-498.8	-39.3	-45.4

III. International Trade and Small Business Snapshot

Total exports of United States' goods and services reached \$2.1 trillion dollars in 2011 or nearly 14 percent of the United States gross domestic product.¹⁵ According to the International Trade Commission (ITC), those exports helped support nearly 10 million jobs, including about 4 million small business jobs.¹⁶ The ITC also calculated that small businesses who exported averaged a 37 percent revenue growth from 2005-2009 compared to a decline of seven percent for non-exporting firms.¹⁷ The benefits of exporting are clear; however, the majority of small businesses in the United States do not export.

¹⁵ The calculation comes from comparing the amount of goods and services exported as enumerated in the Census Foreign Trade, *supra* note 1, and the gross domestic product as calculated by the Bureau of Economic Analysis of the Department of Commerce. <http://www.bea.gov/national/xls/gdplev.xls>.

¹⁶ UNITED STATES INTERNATIONAL TRADE COMMISSION, SMALL AND MEDIUM-SIZED ENTERPRISES:

CHARACTERISTICS AND PERFORMANCE (2010), xiv, available at <http://www.usitc.gov/publications/332/pub4189.pdf>

¹⁷ *Id.* at xi.

The Bureau of the Census identified 269,269 small business exporters in 2009, including 70,331 manufacturers.¹⁸ The number of exporters accounts for only one percent of the small businesses (27.5 million) in the United States.¹⁹ Moreover, of the identified small business exporters, 58 percent export to only one market, and 83 percent export to between one to four countries.²⁰

In Pennsylvania, total trade of goods and services reached \$130 billion in 2011.²¹ According to USTR, 89 percent of the identified exporting companies (13,139) were small businesses.²² Exports increased from \$34 billion in 2008 to \$41 billion in 2011, while imports also grew from \$81 billion to \$89 billion.²³ The top exports include: energy supplies, medical equipment, civilian aircraft parts, and motorcycles.²⁴

IV. Illegal Trade and Enforcement

Unfair trade practices are one of the most important issues for small businesses. Foreign competitors can use a variety of tactics to obtain a competitive advantage against a domestic industry. Common forms of illegal trade include non-tariff barriers, dumping goods at below cost of production, IP theft, and tariff evasion.

One of the key tools available to combat dumping is through the application of antidumping and countervailing duties (AD/CVD). When the federal government determines a foreign product is priced below the fair market value, in an attempt to gain market share, it can apply a countervailing duty on that product.²⁵ The United States Department of Commerce and ITC use a standard calculation to determine whether a foreign manufacturer's goods were sold below the fair market value, therefore obtaining a competitive advantage over the domestic manufacturer.²⁶ A substantial number of such cases involve steel or products containing steel.²⁷ Steel trade violations are so prominent that the Import Administration within the United States Department of Commerce has established the Steel Monitoring and Analysis System to monitor worldwide trade.²⁸

China has emerged as the leader in unfair trade practices, including dumping of steel, market access protection, and IP theft. The ITC estimates that domestic firms lose approximately \$48 billion in annual

¹⁸ Census Export Profile, *supra* note 12, at 6.

¹⁹ UNITED STATES SMALL BUSINESS ADMINISTRATION, OFFICE OF ADVOCACY, FREQUENTLY ASKED QUESTIONS, available at <http://www.sba.gov/sites/default/files/sbfaq.pdf>.

²⁰ Census Export Profile, *supra* note 12, at 3.

²¹ BUREAU OF THE CENSUS, FOREIGN TRADE, STATE TRADE DATA, available at <http://www.census.gov/foreign-trade/statistics/state/data/pa.html> (hereinafter "State Export Data"). The calculation comes from the combined imports and exports of goods and services as enumerated in the Census Bureau.

²² UNITED STATES TRADE REPRESENTATIVE, STATE SPECIFIC BENEFITS, available at <http://www.ustr.gov/about-us/benefits-trade/state-specific-benefits>.

²³ *Id.*

²⁴ State export Data, *supra* note 21.

²⁵ 19 U.S.C. § 1671-73.

²⁶ 19 U.S.C. § 1671-77.

²⁷ <http://ia.ita.doc.gov/stats/inv-initiations-2000-current.html>.

²⁸ <http://ia.ita.doc.gov/steel/license/index.html>.

sales and royalties from theft from China.²⁹ This number does not include the lost manufacturing opportunities for these products. In addition, the United States, Japan and the European Union all recently submitted cases to the WTO³⁰ against China's protection of rare earth minerals³¹ that are used in a variety of high-tech devices like flat screen displays and hybrid car batteries.³² These are component parts that small business manufacturers need to produce competitively priced products.

In the event a domestic company has to release employees due to foreign trade, employees can receive training and funding to find new employment through the Trade Adjustment Assistance (TAA) program within the United States Department of Labor.³³ In 2010, 15,922 employees in Pennsylvania participated in the TAA program, equaling \$43 million in federal funding for training and benefits.³⁴

V. Conclusion

Trade policy fundamentally affects the strategy and outcome of small businesses across a variety of industries. This hearing will provide an opportunity for members of the Committee to examine the impact of trade policies on small businesses. Members will also hear from a panel of government experts on the best practices to increase United States exports.

²⁹ UNITED STATES INTERNATIONAL TRADE COMMISSION, CHINA: EFFECTS OF INTELLECTUAL PROPERTY INFRINGEMENT AND INDIGENOUS INNOVATION POLICIES ON THE U.S. ECONOMY (2011), xiv, available at <http://www.usitc.gov/publications/332/pub4226.pdf>.

³⁰ THE WORLD TRADE ORGANIZATION, DISPUTE SETTLEMENT, DS43, available at http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds431_e.htm.

³¹ Rare earth minerals include lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, and lutetium.

³² <http://www.whitehouse.gov/the-press-office/2012/03/13/remarks-president-fair-trade>.

³³ <http://www.doleta.gov/tradeact/>.

³⁴ <http://www.doleta.gov/tradeact/pdf/PA.pdf>.