

**Testimony**  
**US House Committee on Small Business**  
***Impact of U.S. Trade Policies on Small Business and Manufacturing***  
**Pittsburgh Technology Council**  
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Submitted by:

Peter C. O'Neill, Executive Director  
Center for Trade Development  
PA Department of Community & Economic Development  
400 North Street, 4<sup>th</sup> Floor, Harrisburg. PA 17120-0225  
Ph: 717-214-5453; E-mail: [peoneill@pa.gov](mailto:peoneill@pa.gov)

**Summary:**

- The Obama Administration's National Export Initiative is a timely call for government at all levels and the business community to incorporate the issue of US business competitiveness and export capacity into the strategic national dialogue.
- Fundamental issues remain that block or discourage many US SME's from considering export development as a means to domestic job creation, sales growth, and wealth creation.
- Pennsylvania's Center for Trade Development has been assisting SME exporters for more than 25 years. We have developed the largest and most comprehensive state-sponsored export program in the country, with a proven track record using a result-based methodology and an unprecedented return-on-investment.
- The State Trade Export Promotion (STEP) program, initiated by this Committee and administered by the US Small Business Administration, has proven to be a vital program to bolster existing state trade promotion programs, revitalize dormant ones, and reinforce the need for federal-state collaboration in delivering export promotion help to our SME exporters.
- The number of federal agencies involved in trade policy, regulation and promotion is of concern.

**Background**

In March 2010, President Obama signed an Executive Order authorizing the National Export Initiative, calling on multiple agencies of the US Government to work more closely together and in conjunction with the business community to double exports within 5 years. Long before this call, Pennsylvania's export program sought to understand and address the root causes of export under performance by Pennsylvania small and mid-sized businesses (SMEs). Through the last half of the 20<sup>th</sup> Century, far too many Pennsylvania firms and their employees suffered from the effects of foreign competitors, relocation of manufacturing facilities out of the state and the country, and a lack of internal and external

resources to address the on-going shifts in the global marketplace. Over the last 30 years however, Pennsylvania stands as a unique example of what can be achieved on behalf of its business community and its citizens when the decision is made to invest in a sustained international business development program.

Pennsylvania's Department of Community & Economic Development (DCED) serves as the agency dedicated to the growth and well-being of the state economy. Since 1986, DCED's Center for Trade Development's (CTD) export promotion program has focused on what we believe are four primary impediments to exporting for SMEs: Lack of managerial time to focus on corporate export strategies; lack of corporate funds to explore new market opportunities; lack of reliable and trustworthy contacts at the international level to validate markets, insufficient knowledge of exporting mechanics and regulations, both foreign and domestic. In the menu of export services that CTD has designed, these deficits are addressed to ensure that any PA company with the will and capacity to export their products and services has the opportunity to do so. Since boosting exports is viewed as a strategic driver for domestic jobs creation and business expansion, the state invested in a domestic and international network of export counselors to meet our exporters' needs.

### **PA Center for Trade Development**

Though CTD's program has scaled up and down over the last 25 years due to inevitable budgetary and policy shifts, it now stands as the nation's largest, most comprehensive state-sponsored export program with more than 80 individuals around the world serving our exporter clients. It receives bi-partisan support in the state legislature as it has successfully demonstrated outstanding return on the state investment and the impact at state, regional and local levels.

In 2012, CTD's program will counsel more than 1,200 current and potential exporting businesses each year. Clients are assisted through a 3-tiered structure: 10 regional field offices serving as counselors and single points of contact; 8 Harrisburg-based program managers who design, deploy and monitor trade promotion activities; and 21 overseas contractors who deliver market research, market entry guidance, vetted business to business introductions, and counseling to mitigate the risk, reduce the cost, and collapse the timeline that is often associated with foreign market assessment for exports.

Our program's unique approach to enhance the global reach and capacity of Pennsylvania's small and mid-sized businesses is having a credible, measurable impact on job creation and building a globally aware, competitive and durable exporting business community. This scalable, replicable program enjoys a proven and sustained return on the state government's investment. Some of the key components to our export promotion program include:

**Novelty:** The idea of state-level export promotion is not new: Most US states provide some support to export promotion initiatives though they vary widely in size, and capacity. What makes Pennsylvania's effort unique and effective is the program's breadth, depth, strong operational coordination, and what we refer to as "bullet proof" accountability when reporting the bottom-line impact that we have on individual businesses and the commonwealth's exporting sector as a whole. We are also unique in the targeted special projects that we launch to prompt cluster-focused export initiatives. For example, this year, we deployed TechExport, a 2-year partnership with the Pittsburgh Technology Council to understand how the region's extensive tech-based business community differs from traditional manufacturers when assessing trade barriers and foreign market potential. The Pennsylvania Mining Exports Initiative (PAMEX) is a newly-established consortium of mining

equipment manufacturers that require (but cannot afford) to set up a full-time marketing presence in South Africa to sell machinery into sub-Saharan markets. As we have readily shared information on best practices with other states, we are aware that our program stands out as one fortunate enough to have had stable political and business support to focus on needs-driven programs like these.

Effectiveness: Tabulating and reporting the links between our trade promotion activities and the impact at the state, local and business entity levels is key to our success. Careful tracking and reporting of the services we provide to firms, the actions those firms take as a result of our counsel, and the eventual impact of new markets entered and new export sales achieved are critical to demonstrating program value to government leadership, the legislature and ultimately the taxpayer. Our performance measurement methodology enables us to advise, for example that in 2011, CTD worked with 1,255 clients, relayed 2,456 assistance requests to our overseas Authorized Trade Representatives on behalf of our clients; and track 278 clients who reported export sales during the year totaling just over \$526 million in new, program-facilitated exports. Further, using economic modeling software, we can report 4,277 Pennsylvania jobs were supported and \$22.5 million in local and state taxes were collected. This from a program with a budget of \$4.7 million. There are few programs that can report the return on the state's investment (112:1) with the magnitude and reliability that CTD can. Projections for the state's current fiscal year are even higher.

Significance: Prior to the 2008 economic downturn, the growth of Pennsylvania's exports regularly outpaced the national average by 8-10%. The 12% drop in exports during the height of the recession was followed by a complete recovery in 2010, reaching a record high of \$41 billion in 2011---again beating the national average. More significantly, exports as a percentage of Pennsylvania's gross state product have increased from 4.8% in 2006 to 7.8% in 2010 signaling a growing importance on global markets for domestic jobs and wealth creation. Widespread support, careful project oversight, a constant eye on clients' needs, and the flexibility to adapt to new markets, new industries and shifting dynamics helps this program move the needle on the state's economic capacity to compete in a globalizing market place.

Transferability to Other States: This has already begun. Recent federal funding under the SBA's State Trade Export Program (STEP) to initiate or expand export promotion programs at the state level has aided in this effort. Export promotions staffs from Tennessee, Vermont, Ohio, Michigan and others have approached CTD to better understand how to adapt our methodology to their new or existing state programs. Through regional and national organizations such as the Eastern Trade Council and the State International Directors' Organization, we are able to share our operating procedures on performance metrics, grants management, trade show and trade mission logistics, etc as we see this as good policy. Stronger exporting business communities in other states can only provide additional opportunities to our own clients to sell to other exporters via national supply chains.

For CTD, the end goal is more ambitious than simply to increase the value of Pennsylvania exports to world markets; it is to draw hundreds of SMEs into global markets, where they learn to adapt to global customers' needs and trends, assess and monitor competition, and become globally aware and durable businesses and employers of the 21st century.

### **SBA's STEP Program**

During the inaugural year of this grant program, Pennsylvania was awarded \$1.7 million in federal funds to support on-going and new initiatives in export promotion. These funds could not have come at a better time. In spite of the CTD program's success, the Commonwealth's on-going fiscal situation has required all state agencies to draw back spending since FY 2008-2009. Without STEP funding, CTD was likely to cut back on staffing, overseas offices and events by 20-25% this year. Among the uses of STEP funds, CTD is providing matching stipends to qualifying SMEs to offset international marketing expenses, cover USDOC Gold Key fees, obtain international product certifications, and participate in international trade shows and missions. By fiscal year's end, we will have scheduled, organized, recruited and led 25 trade delegations to international markets and trade shows (*see Addendum, International Trade Missions and Shows Calendar of Events*) and we are able to cut client participation costs by up to 50% to mitigate the financial barriers for many cash-strapped SMEs.

We cannot overestimate the importance of STEP funding for state export programs at a time when, as a nation, we must move tens of thousands of new companies into the international marketplace. We believe states have a unique role to fill in complementing the federal agencies' efforts to work toward the same goal. The scale of the challenge is daunting: In Pennsylvania alone, according to US Census, there are more than 15,000 exporters, and most sell only into 1-2 markets. CTD's program, as robust as it may be, works with less than 10% of the state's total in any given year. It is safe to assume that in the majority of states, the penetration rate is even lower. STEP has certainly helped the states to initiate or re-invigorate trade promotion efforts, but it is incumbent upon us and our federal partners to devise new ways to market, educate and actively assist both new and experienced exporters on a large and sustained scale if the program is to have a meaningful economic impact now and in the future. Pennsylvania strongly supports the continued funding for the STEP program and it is our intention to clearly demonstrate to the SBA, our other federal partners, Congress and the Administration the value and return on this investment.

### **Federal Trade Policies and Their Impact on Pennsylvania**

Staff from CTD and our 10 regional offices regularly works with our partners located in the US Export Assistance Centers in Philadelphia and Pittsburgh. Yet there are issues that prevent a closer working relationship and our ability to deliver federal trade assistance to a larger audience of clients, namely:

US Export Controls: As CTD is putting a new emphasis on working with technology-based firms, the issue of ensuring our clients properly navigate the requirements under US export control regulations becomes of increasing concern. We understand that, through the NEI, the on-going Export Control Reform Initiative is charged with consolidating the control list, licensing and enforcement authorities, and data tracking, and should result in reducing the number of regulated product categories and cutting the time required to obtain judgments on exports of sensitive technologies. It is our intention to work with the appropriate federal agencies to ensure our staff across the state are up to date on these regulations and can refer clients to the appropriate federal contacts as needed.

USCS Post Overload: One of the unintended consequences of STEP funding has been periodic overload of some US Commercial Service Posts as more and more states are requesting export assistance from US Commercial Service posts overseas. The response from our federal partners is to provide 4-6 month's advance notice when requesting assistance from the posts most in demand. That is feasible for trade mission planning but it becomes impractical when addressing the day-to-day needs of firms that require immediate market research, partner search assistance, etc. In CTD's case, we rely on our own network of overseas contractors to perform these tasks in an expedited manner, but it is problematic when assistance is needed in markets where CTD has no coverage. Additionally, SBA's mandate under STEP asks CTD to work closely with the US Commercial Service whenever and wherever possible, but if overseas posts are unavailable, we lose the opportunity to collaborate.

Federal Data Sharing Restrictions: Sharing exporter client information between state and federal trade partners is not happening in any meaningful way due to the legal restrictions put upon our primary federal trade promotion partners. Without individual waivers as authorized by each client, the USDOC and the SBA's Small Business Development Centers are unable to share client data with the state. Though waivers can be obtained, the restrictions do serve as an impediment to the large-scale, free-flow of information between state and federal agencies----the kind of volumes we believe are necessary to make a meaningful impact on our respective programs.

CTD plans to implement a state-wide strategy to identify as many of the 15,000+ Pennsylvania exporters as possible during the next 3 years. This is a large but vital task if we are to elevate our program to the next level. The ability to identify new clients, concentrations and clusters of exporters, and examine buyer/supplier relationships will enhance our ability to increase program efficiency, target firms, and develop regional export strategies. A GIS-based mapping platform to plot and classify exporters is easy; obtaining exporter data is not as there is no one source for such information other than the US Census Bureau which is prohibited from releasing such data. Through the purchase of business information databases and our own field work, we will begin the process this year.

Lack of Flexibility in Federal Trade Strategies at the Regional Level: We urge the federal government to authorize the US Export Assistance Center to develop regional export strategies based on their client's unique needs. We understand the need for national coordination across all USEACS on operating procedures, policies, and a focus on national priorities as they arise. We are interested in seeing flexibility however that permits each USEAC to budget and design export promotion programs specific to the business clusters, local partner capacities, and specific strengths and weaknesses of the area's export sectors.

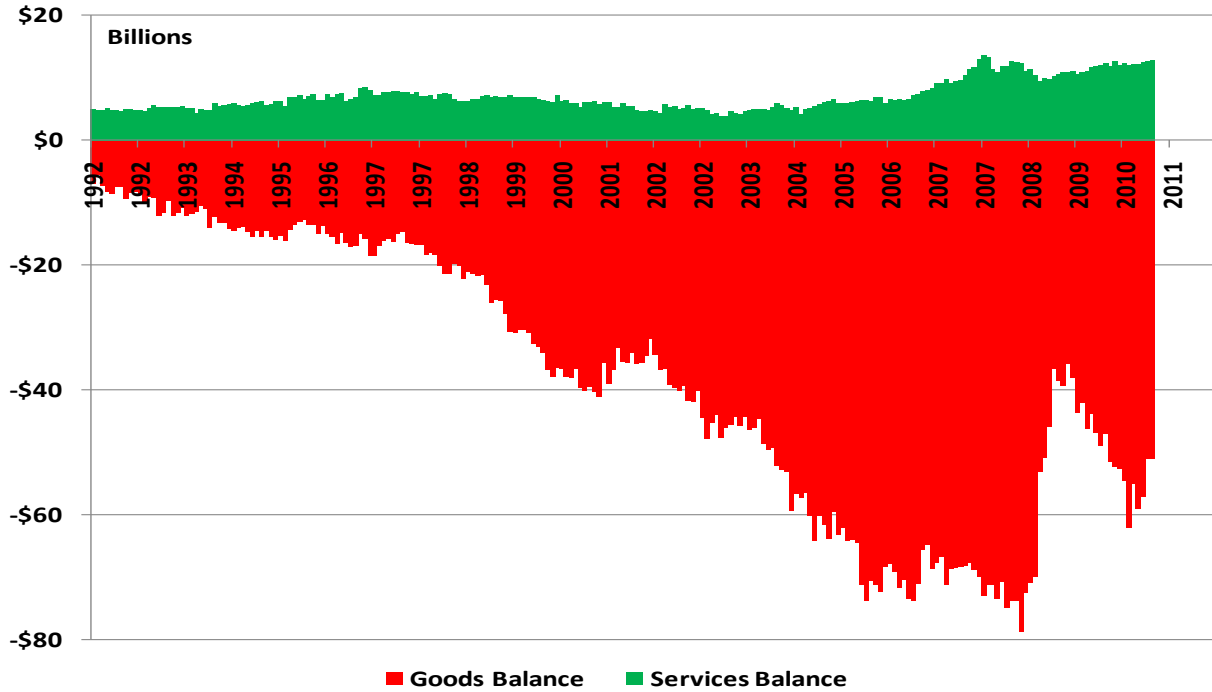
Encouraging Technology-Based Start-Ups to Look Abroad: CTD's long experience working with the state's infotech, life science, energy and other tech-based firms, and our recently launched TechExport program in Pittsburgh has made it clear there are very valid reasons to work with firms that span the technology-based product life cycle spectrum----from start-ups to mature players. We have found tech firms often seek access to international markets and contacts---often well before a product or service is fielded. Identifying foreign-based sources of capital, business and research partners, clinical trial operators, and

government regulators are just some of the reason these firms go global more rapidly than a traditional manufacturer. Like many, we also view those firms that eventually succeed as the 21<sup>st</sup> century jobs creation engines. Though failure rates are certainly higher for this cadre of firms, we believe providing assistance is worth the bet and in fact, their exposure to the international market early on actually increases their chances of success. The issue we raise here involves the "profitability clause" with regard to the SBA's STEP grant and the disqualification of any company that is not classified as profitable. CTD's recent trade delegation to the BioEurope tradeshow and conference held in Amsterdam was comprised of 6 firms, 5 of which did not qualify for STEP funding due the SBA's profitability requirement. We expect good results from our clients' participation but we would like to see this clause removed from SBA's requirements, or, a budget carve-out that permits grantees to use a portion of federal funds to support promising technology-based companies.

**Conclusion:**

Pennsylvania's export promotion efforts have focused on grass roots efforts to reach every Pennsylvania exporter that we are able to identify and deliver very practical assistance to bring about new export opportunities. We consider ourselves "transaction specialists" and do not directly involve ourselves with trade education, or trade policy. With limited resources of our own, our approach to grab the lowest hanging fruit in terms of developing a service suite that rapidly boosts the value of exports and number of US exporters with scarce resources is premised on: 1) Conduct trade operations in the most efficient manner as possible through good data management and close coordination with our federal and regional partners; 2) Eliminate the confusion that clients can often face when trying to discern between the multiple export assistance providers that periodically approach them; 3) Field additional staff to work with our clients given the ultimate basis of building new exporters and strengthening existing exporters is built on trust, credibility and efficacy.

## US TRADE BALANCE FOR GOODS AND SERVICES (1992 – 2010)



An Unsustainable Trend

Affecting US:

- Competitiveness
- Employment
- Balance of Payments
- Interest Rates
- Savings Rates
- US Dollar Value
- Credit Rating