

MR. WILFONG: Thank you very much. Mr. Chairman and members of the Commission, I'll bring your attention to testimony that I submitted for the record. However, it's a little long for the time allotted.

But I wanted to make sure it was complete, and so I have made that available to the Commission, and also a report, the Small Business and International Trade Report, which we created for WTO. (SEE INSERT 4)

I thought it might be good to, first of all, begin to describe the state of small business.

I come to you not only as the Assistant Administrator for Trade at the SBA, but, as you noted, a small businessperson who has been a practitioner in international trade for over 25 years, for the most part, in the winter sports business.

And I grew up in a small business -- it was called a dairy farm -- up in Maine. And so I like to think of myself as having been in business for most of my life.

The state of small business here in the United States is in very good shape. It represents 99.7 percent of all incorporated businesses, which today means about 25 million businesses.

It also represents 50 percent of the gross domestic product of the United States. And small business employs 53 percent of the private work force.

In the last eight years, small business has been responsible for creating nearly 20 million net new jobs in the United States.

In overall trade, we have some recent statistics that came from the Commerce Department, from the International Trade Administration, which are results of work that they did with the Census data.

And we find that 97 percent of all businesses that are exporting are small business. That represents over 202,000 businesses who are involved in trade out of 209,000 total businesses that are involved in export.

The amount of exported value in the last five years has increased by 300 percent. The amount of exported value merchandise value is now 31 percent for small business.

We find that it is successful all across the standard industrialized coast and that -- and I find this to be fascinating -- that the fastest growing segment and the largest segment, nearly two-thirds of

all exporters hire fewer than 20 and fewer people. So truly, small business is involved in this.

They are businesses from all different types of industrial sectors.

And I'd like to bring to your attention two or three businesses that I know about that are really interesting. They have created new business because of globalization, but they have also stayed in business because of globalization.

There is a small business that's in the secondary wood products, near where I live, up in Maine, and it would have been out of business had they not got involved in exports 22 or 23 years ago. Now more than 55 percent of their gross receipts come from exports.

And as I say, this small wood products company would not be in business, as many of the businesses that are around in that area have gone out of business because they didn't take the step to export.

There's a woman that has a small business in Maine called -- her name is Patty LaBlanc, and she exports. She has a little restaurant up in Presque

Isle, Maine, and she makes the best lobster stew that you can find anywhere. And she exports this lobster stew vis-à-vis the airlines.

She takes it to a major airline. It's served in First Class. She has a website that goes with it. And then, she Fed Ex's lobster stew from Maine all over the world. So little businesses that you don't expect are, in fact, exporting.

There is business that we took on a trip to South Africa with us six months ago that's in the service business, they're engineers.

And we took a trip to South Africa last October. And this was a small business, started a year ago with \$300,000 worth of business by May of last year.

They got a \$100 million contract in two countries in Africa as a result of this trip because the principal was very aggressive, very smart, did a great job. And he had never really thought about being in the export business, and now that's the principal part of his business.

In my opinion, small business is the key to doing something with the trade deficit if that's what you want to do, because it is just getting going.

And it is just beginning to roll because of a number of different things, not the least of which is the efforts of GATT and the WTO to bring down the tariff and the nontariff trade barriers which are real impediments to small business operators. They don't have the capital necessary to go over those hurdles.

And it's through these efforts, along with the rise of information technology and the opening of new markets since the fall of capitalism that has allowed small business to really get into the act. And that's why you see a tripling of the number of small business exporters in the last ten years.

It has a major impact, small business and small business exports, on our communities.

At the Office of International Trade, we are trying to filter this through what type of impact do we have on citizens in our communities?

And we want our communities to be more vibrant, prosperous, peaceful places for people to live.

And small business trade helps to bring that about because they are paying 15 percent higher wages, 11 percent higher benefits, they are 9 percent less likely to go out of business, and they create jobs at a 20 percent faster rate.

Small businesses are also, in those communities, day to day, hiring local people, obeying labor laws, health and safety laws, environmental laws.

They are not exporting jobs out of this country. They are creating a lot of jobs in this country. And it is very important that they have open access to markets.

What do we need in small business? Well, we need to increase access to foreign markets, and we can do that in a variety of different ways, which I have elaborated in more detail in my written testimony.

We need to ensure the playing field is level, and we need to advocate for small business internationally, which really means that we need a seat at the ministerial table at WTO for small business, and we need an assistant USTR for small business to be our advocate here in the United States.

The U.S. Small Business Administration has the responsibility in terms of bilateral and multilateral trade negotiations to make sure that small business interests are adequately represented.

But of course, the USTR has the ultimate responsibility for negotiating those interests.

And we stand ready and have been supplying them with policies that we think are fitting for small business. We need to have someone to take that to in the USTR who will take it to a ministerial level position at WTO.

In addition to that, we need to provide access to capital to facilitate exports. The Small Business Administration, Ex-Im, and others are providing that.

We need to provide international trade training to a number of different areas: service providers, banks, and exporters.

I find that when I go out and talk to banks, especially community banks, where small business people do their business, they don't really know much about export finance.

In many cases, they have never heard of the Ex-Im or SBA programs. And so consequently, these programs, although innovative and good, really don't help them without this outreach.

And I found in my short tenure in the Federal Government that we're pretty good at developing programs that may be relevant, but we're not very good at marketing it. We need to do something about that.

And so at the SBA, we're working to provide a continuum of trade support, starting with education, moving to technical assistance, on to risk management, and then, finally to loan programs, and loan programs that meet the needs of various customers.

We are not trying to have a loan program where we take a square peg and fit it in a round hole.

And this is an area where the small business people are moving very fast. They are not waiting for Government.

Government, if they are going to be involved, has to be relevant, and we have to stay right on top of being relevant.

In terms of the trade deficit, well, I'm of two thoughts on that. One of the things, I don't worry

too much about the trade deficit at this level. I think as a percentage of the gross domestic product, it's not much to talk about.

And it's not a zero sum game. It is a game where imports coming into this country create 10 million new jobs, and importers learn the trade game. They learn how to become exporters. That's how I learned to become an exporter, was by being a representative of an importer.

So it's not a zero sum game. Imports have the opportunity to help keep inflation down by bringing goods in at a cheaper price. And by keeping the inflation down, you keep the short-term interest rates down. And that's very important for small businesses who don't have the equity financing that larger businesses do.

The thing that you might have to do is keep a watch on how to manage that so it doesn't get out of balance. I'm not an economist. That's really for gentlemen like yourselves.

I know I'm over my time, but I'd like to take just another 30 seconds if I could, Mr. Chairman.

MR. DUGGAN: You can have my 30 seconds.

MR. WILFONG: Oh. Thanks, Marty.

There is a great opportunity for small business to become more involved in trade than it already is.

The number of small business exporters represent 1 percent of total small businesses. So even if all of them don't have an exportable product, there's a big opportunity there.

Two-thirds of all small business and large business exporters only export to one country. So just think of what would happen to our trade deficit numbers if we started exporting to two and three and four and five countries.

And 31 percent of the merchandise exports, as I said before, are small business exports, and 50 percent of the GDP is attributed to small business.

So what would happen if we bring it from 30 percent up to 50 percent, where we are domestically? This would have a major impact on the trade deficit, as well.

I think there is enormous opportunity for small business. I think it's an unsung hero.

Many times, when people are looking at the big picture, they think we're not part of the big picture.

What I'm here to say is we are the big picture for the future.

And so, with that, I thank you very much, and happy to answer questions when the time is appropriate.

MR. ANGELL: Thank you. Our next panelist is Martin Duggan. He's President and CEO of the Small Business Exporters Association.

Mr. Duggan.

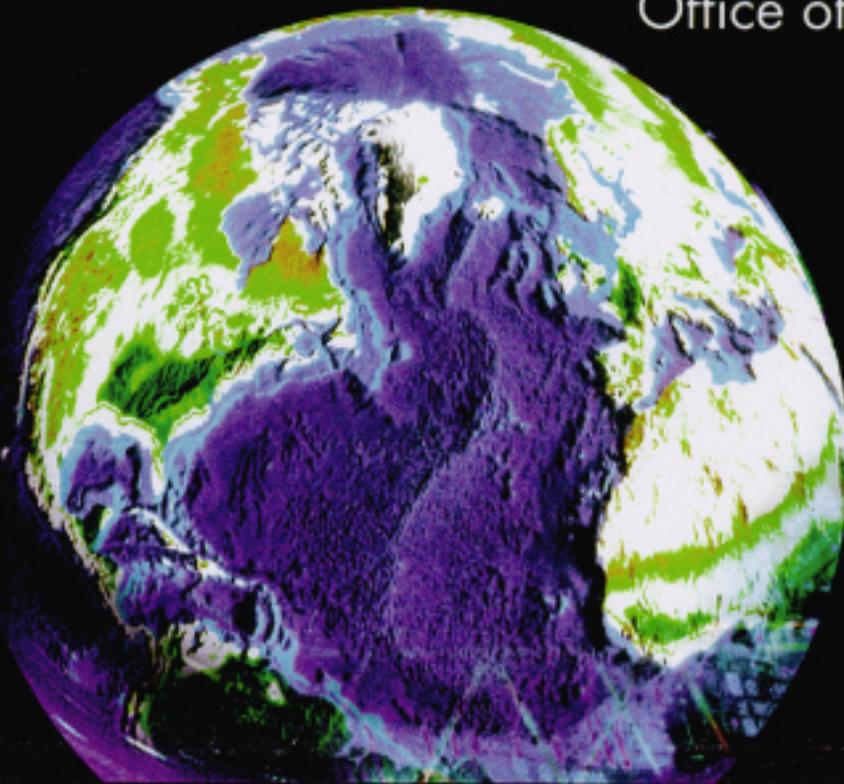


America's Small Businesses and International Trade: A Report

U.S. Small Business Administration

Office of International Trade

November 1999



AMERICA'S SMALL BUSINESSES AND INTERNATIONAL TRADE: A REPORT

Introduction

As we enter the 21st century, the face of America's small business community is changing. It is more diverse, more technologically driven, and much more global in scope than in the past.

In the last decade, the number of small businesses that export has tripled.¹ The dollar value of their exports has soared. Even with this rapid growth, America still faces a large trade deficit. And small businesses are very vulnerable to trade barriers. These are the challenges.

With 96 percent of the world's population and 67 percent of the world's purchasing power located outside our borders, the potential for small business growth in international trade is huge.²

To a large extent, technology has helped to level the playing field for small companies. Today, a small business in rural Maine can export machine parts to 38 countries, using the Internet. A woman in Mississippi can export food products to Canada. Handcrafted bowls from Colorado can be sold in Japan.

The U.S. Small Business Administration has been helping America's entrepreneurs start and grow their businesses since 1953. The Small Business Export Enhancement Act of 1980 directed the SBA to aggressively advance the interests of small business in international trade.

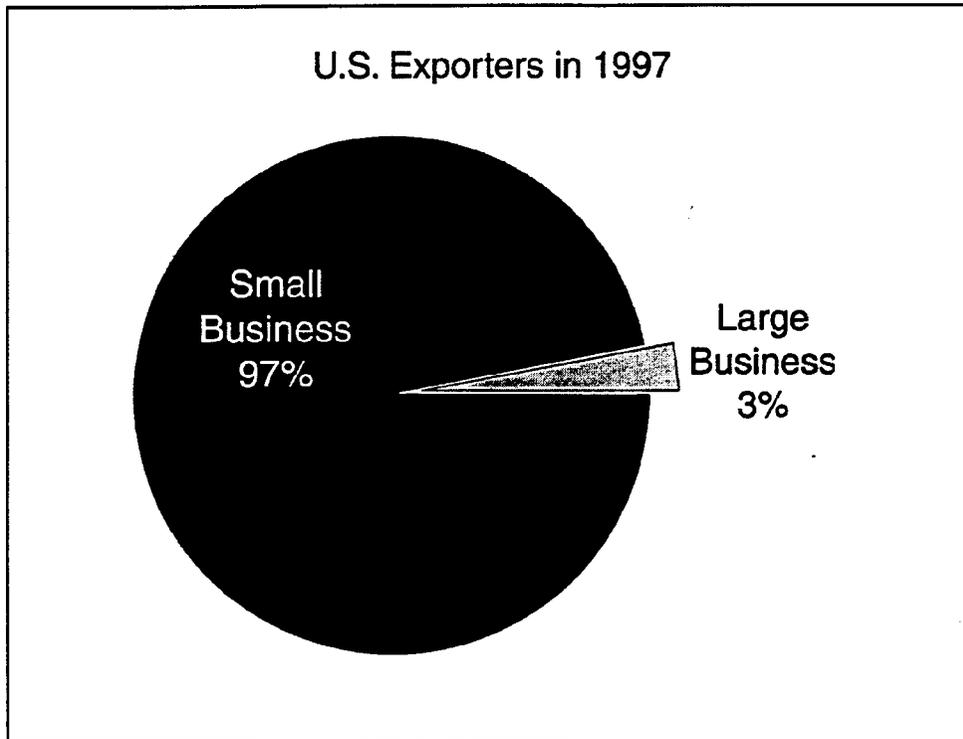
The SBA's mission is increasingly important today because small businesses are driving economic growth in the United States and are "going global" in record numbers.

This report is based on new research conducted for the SBA and the U.S. Department of Commerce.

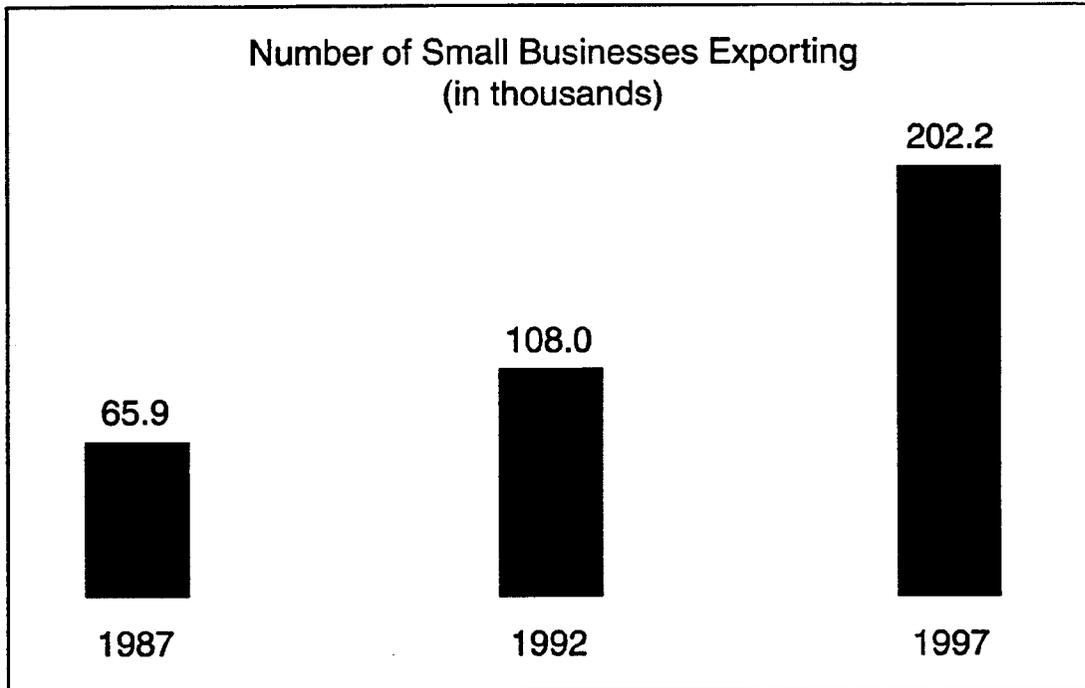
Big News About Small Businesses

America's small businesses are big players in international trade — and their role is growing rapidly.

- 97 percent of U.S. companies that export are small businesses.³



- In 1997 the total number of U.S. exporters reached 209, 500.⁴
- 202,185 of all exporters in 1997 were small businesses.⁵
- Small businesses account for 31 percent of total merchandise export sales.⁶ (There are no comparable statistics for service sales, but small businesses play a big role in service trade.)
- Small exporting companies include all kinds of enterprises in just about every industrial classification.
- Technology and globalization are factors fueling a dramatic growth in the number of small businesses engaged in international trade.
- Between 1987 and 1997 the number of U.S. small business exporters tripled from 65,900 to 202,185.⁷



- The fastest growth has been among very small businesses – those with fewer than 20 employees.⁸
- VSBs represented 65 percent of all exporting companies in 1997.⁹
- The value of small business exports increased by 300 percent between 1992 and 1997.¹⁰

Note: These figures represent merchandise trade. Figures are not available for other types of exported services, such as consulting, training, advertising and more. If these figures were available, most experts believe that they would show a substantially larger share of activity on the part of small business exporters.

In Syracuse, N.Y., Paul Genecco has gone global with his family's fruit and vegetable business. In the past eight years his sales skyrocketed from \$200,000 to nearly \$10 million a year.

The growth in small business trade is encouraging, because small business is the engine of America's economic growth.

- Small businesses have provided virtually all of the nearly 20 million net new jobs added to the economy since 1992.¹¹
- The approximately 24 million small businesses in the United States represent 99.7 percent of all employers and employ 53 percent of the private workforce.¹²
- Small businesses account for approximately 50 percent of the gross domestic product and 55 percent of technological innovations.¹³
- Small businesses are especially concentrated in services and technology, the fastest growing business sectors in the country.¹⁴

An Economic Challenge

Americans are enjoying unprecedented economic prosperity: strong economic growth with low inflation and low unemployment, with a balanced federal budget. Yet the United States still has a sizeable trade deficit.

In 1998 the deficit was \$164 billion, which was up substantially from the prior two years. By August 1999, the U.S. had already eclipsed the 1998 trade deficit.¹⁵

While overall exports are up about 3.7 percent from the same period last year, imports are up 9.6 percent. Only in the services sector, where small business is a big player, will we register a trade surplus.¹⁶

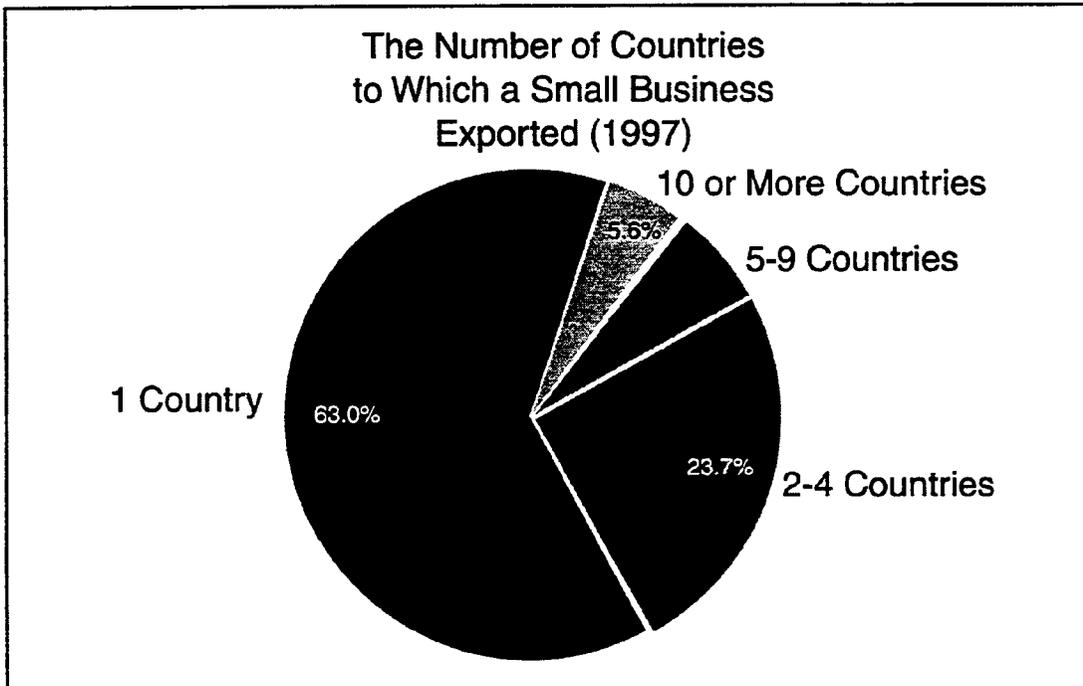
With most of the world's population and purchasing power outside of the United States, America's businesses must fully participate in the international marketplace to enjoy sustained economic prosperity in the 21st century.

In this period of global economic instability, the United States must remain active and engaged. Our economy is the strongest it has been in a generation. We are on the right course. We must work hard to shore up the strength of the global economy and continue to sharpen our ability to compete in it so that we can continue to widen the circle of opportunity as we approach the 21st century.

William J. Clinton
President of the United States

There is a huge, untapped potential for small business growth in the trade arena.

- There are approximately 24 million small businesses in the United States today, and just over 202,000 — or about 1 percent — are currently exporting.¹⁷
- Small businesses account for 47 percent of total domestic sales; and only 31 percent of total export sales.¹⁸
- Nearly two-thirds of these small businesses send their products to just one country.¹⁹ They have room to expand their markets.



- In 1997, 90 percent of them valued their total exports at less than \$1 million each.²⁰

Rachael Cargnan's business, Winderosa, exports machine gaskets to 38 countries. The business operates from a remodeled chicken coop in Peru, Maine. With sales greater than \$1.5 million, Winderosa employs 11 people.

Where Small Companies Do Business

- The top ten markets for U.S. small business exporters are Canada, the United Kingdom, Japan, Mexico, Germany, Australia, Hong Kong, France, Taiwan and Singapore.²¹
- Looking at the rate of growth in exports as a gauge of future market potential, the top ten fastest growing markets for U.S. small business exporters are Brazil, Malaysia, China, Philippines, Canada, Thailand, Israel, Argentina, the United Kingdom and Hong Kong.²²

Benefits to Communities

Small business exporters bring stability and prosperity to their communities.

- Small businesses have a direct stake in their communities and typically remain in their communities, observing labor, environmental, and other state and federal regulations.²³
- Small business exporters tend to pay higher salaries. American workers producing for export earn 15 percent higher wages and receive 11 percent higher benefits than non-export workers.²⁴
- Companies engaged in trade are 20 percent more productive and 9 percent more likely to stay financially solvent. They also experience 20 percent greater job growth than non-exporters.²⁵
- Every \$1 billion in exports of manufactured goods creates an estimated 15,000 new jobs; two to three times that number of additional jobs develop to support the new products and personnel (e.g. new restaurants, construction, etc.).²⁶

As I have traveled to other countries, and met with their entrepreneurs, I realize that small businesses around the world have more that brings them together than divide them Small business has yet to take its rightful place on the world stage!

**Aida Alvarez
Administrator
U.S. Small Business Administration**

Small businesses and their communities have a lot to gain from U.S. participation in the World Trade Organization: opportunity, more efficient use of resources and a more level playing field.

- The WTO is the best vehicle to ensure the fair and free movement of products and services across borders.
- Reducing the cost of doing business overseas allows small businesses, which typically have more limited access to investment capital and are disproportionately impacted by trade barriers, to become global players and grow at a much faster rate.
- Free and open global competition allows U.S. consumers to enjoy benefits such as lower prices, increased purchasing power and keeping inflation in check.

U.S. small businesses have important issues to bring to the WTO table:

- Better protection of U.S. intellectual property rights such as patents, copyrights and trademarks. This is important because a lot of small businesses are involved in technology sectors, and they don't have the resources to go around the world and fully protect their intellectual property rights.
- A better system for the uniform application of product standards. Sometimes, other countries have used arbitrary product standards to keep American products out. It is important to have a rational system of standards that all countries will adopt.
- Making permanent the moratorium on tariffs for electronic commerce. E-commerce has helped to level the playing field for small businesses and to enable them to compete in the global market.

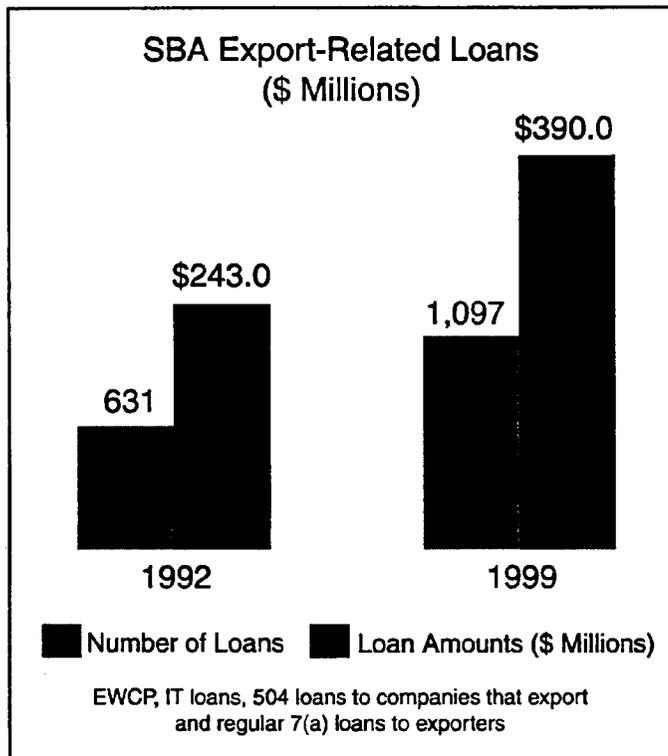
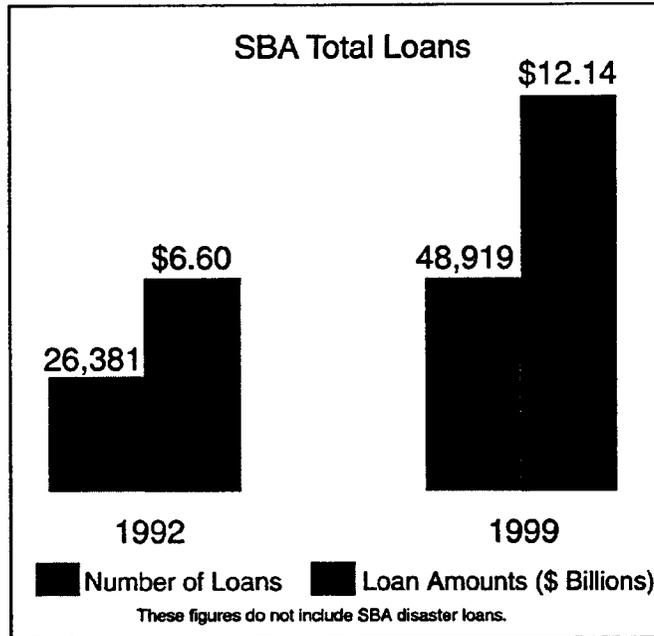
How the SBA Helps Exporters

In addition to its mandated role of representing the small business community in trade negotiations and disputes, the SBA provides financial and technical assistance, and promotes strategic partnerships for exporters.

Financial Assistance

- The SBA's financial assistance to small businesses has grown dramatically since 1992 — particularly to exporters.
- In addition to its regular 7(a) Loan Guaranty Program, the SBA has two loan programs specifically for small business exporters: the Export Working Capital and the International Trade Loan programs. The EWCP helps small business exporters obtain working capital to complete export sales. The International Trade Loan provides long- and short-term financing to small businesses involved in exporting as well as to businesses adversely affected by import competition.

- The SBA's 504 Loan Program can also provide long-term, fixed-asset financing to exporters through certified development companies.



Technical Assistance

- The SBA is a full partner with the U.S. Department of Commerce and the Export-Import Bank in 19 U.S. export assistance centers.
- Each of the SBA's 70 district offices has two district international trade officers — one specializing in finance, the other in trade promotion.
- The Office of International Trade maintains a Web site containing a wealth of information for exporters at <http://www.sba.gov/oit>.
- There are more than 30 international trade centers, located in small business development centers around the country, that focus on small businesses interested in or ready to export.
- Export Risk Analysis-Online, also known as EXR-Online, is an Internet-based, foreign-risk-analysis tool used in conjunction with the Export Working Capital and International Trade Loan programs.
- The Export Technical Assistance Partnership targets export-ready small businesses with customized training and counseling.
- The Export Legal Assistance Network sponsors a free initial consultation with an attorney to discuss international trade questions.
- TradeNet's Export Advisor is a one-stop online information resource for exporting. This multi-agency, multi-resource Web site is located on the Internet at <http://www.tradenet.gov>.

Strategic Partnerships

- The SBA has signed agreements with governments or entities in Ireland, Russia, Argentina, Mexico, South Africa and Egypt to establish trade links between businesses in their countries and small businesses in the United States.

Conclusion

Small businesses create jobs, generate economic growth and help build communities. The SBA's mission is to help those small businesses succeed, both at home and in the global marketplace.

A historic transformation is taking place. Technology and globalization are opening up doors for small businesses across the country and around the globe. Transactions between South Carolina and South Africa could one day be as easy as transactions between California and Connecticut. Small businesses have been involved in trade for centuries, but only now are they taking their rightful place on the world stage.

The challenges inherent in international trade are significant. The opportunities for growth are enormous. The benefits are substantial on many levels. Networks of small businesses trading all around the world will contribute to economic prosperity, stability and security at home and abroad.

Endnote References:

- ¹ Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.
- ² U.S. Small Business Administration, Office of Advocacy.
- ³ Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.
- ⁴ Ibid.
- ⁵ Ibid.
- ⁶ Ibid.
- ⁷ Ibid.
- ⁸ Ibid.
- ⁹ Ibid.
- ¹⁰ Ibid.
- ¹¹ Exporting by Small Firms, A Report on Exporting by Firm Size, U.S. Small Business Administration, Office of Advocacy.
- ¹² Ibid.
- ¹³ Ibid.
- ¹⁴ Ibid.
- ¹⁵ Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.
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- ¹⁹ Ibid.
- ²⁰ Ibid.
- ²¹ Ibid.
- ²² Ibid.
- ²³ Exporting by Small Firms, A Report on Exporting by Firm Size, U.S. Small Business Administration, Office of Advocacy.
- ²⁴ Making U.S. Small Business Big Business in Asia, U.S. Department of Commerce.
- ²⁵ Ibid.
- ²⁶ Ibid.

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