



# **TRADE AND THE ECONOMY: A SMALL BUSINESS REPORT**

**House Committee on Small Business, Chairman Sam Graves (R-MO)**

**Prepared by Republican Staff**

**April 2011**

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## **I. Summary**

Small businesses are a critical component of the U.S. economy, with nearly 30 million businesses employing half of the U.S. workforce. Many of these small businesses rely on exporting to increase their sales, grow their business and create new jobs. With 95 percent of the purchasing market outside of the U.S., small businesses understand the importance of opening new markets and competing in the global marketplace. In fact, 97 percent of identified U.S. exporters are small businesses, yet that represents only a fraction of those who could compete abroad.

The opportunities to reach new foreign markets are tremendous, and small businesses rely heavily on the negotiated free trade agreements to ensure lower tariffs and transparent regulations. Like large U.S. companies, small businesses face a variety of trade barriers that limit their ability to compete, including higher tariffs, technical standards, and foreign customs regulations. However, most small firms do not have the resources and capital to navigate the complex trade barriers; therefore many simply do not export.

Studies show most small businesses hesitate to trade due to high tariffs, increased confusion from non-tariff barriers and limited access to financing.<sup>1</sup> The key way to remove these trade barriers and level the playing field for small businesses is to negotiate free trade agreements with other nations. That is why passing the pending free trade agreements with Colombia, Panama and Korea is critical.

As the U.S remains idle, major competitors like Canada and the European Union (EU) are aggressively moving forward to negotiate free trade agreements with other nations. These agreements will reduce the tariff on exports from Canada and the EU, putting U.S. small businesses and farmers at a major competitive disadvantage.

Passing the three pending free trade agreements will provide small businesses with the confidence and ability to compete in the global economy. Lowering trade barriers will spur exports, which will increase revenue and create new jobs.

This report will provide an overview of the impact of international trade on small businesses and the U.S. economy.

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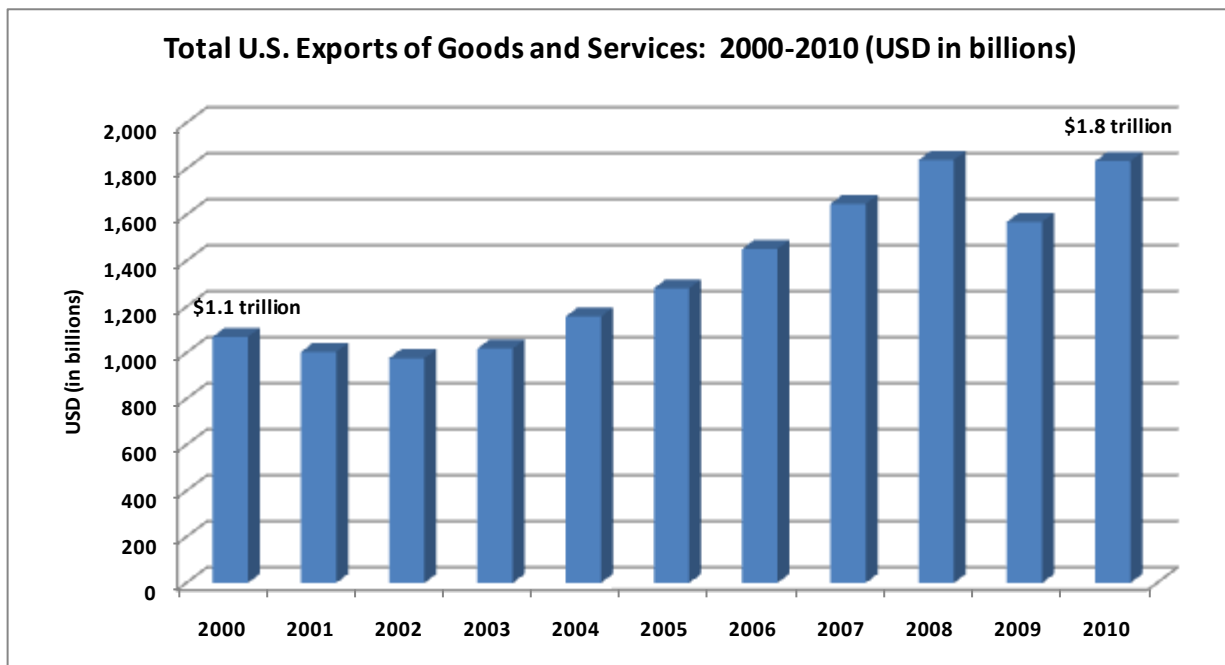
<sup>1</sup> U.S. International Trade Commission

## II. Impact on the U.S. Economy

Free trade is a critical component of growth for small businesses and the U.S. economy. Exports spur job creation and are a major contributor to the U.S. gross domestic product (GDP). According to the U.S. Department of Commerce, exports in goods and services reached \$1.8 trillion in 2010, or nearly 12 percent of the GDP.<sup>2</sup>

Small businesses rely on exports to increase their sales, strengthen their long-term viability and create new jobs. U.S. exports in 2010 supported nearly 10 million jobs, including an estimated four million for small businesses.<sup>3</sup> Both the number of small businesses exporting and the total dollar value of exports are near all-time highs, and passing of the pending free trade agreements with Colombia, Panama and Korea will drive those numbers higher.

- ✓ Total U.S. exports in goods and services reached \$1.8 trillion in 2010, nearly 12 percent of U.S. GDP.
- ✓ A total of 281,668 small businesses exported from the United States in 2008, an increase of almost 9 percent from 2007.<sup>4</sup>
- ✓ Goods exported from small businesses rose to \$359.6 billion in 2008, up 14.5 percent from 2007.<sup>5</sup>
- ✓ Small businesses account for nearly 97 percent of all identified U.S. exporters.<sup>6</sup>



<sup>2</sup> U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

<sup>3</sup> U.S. International Trade Commission (USITC)

<sup>4</sup> U.S. Department of Commerce, BEA

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

### III. Benefits of Exporting to Small Businesses

**Revenue Growth:** Studies show small businesses that export generate more revenue and create higher paying jobs than non-exporting small businesses.

- ✓ A U.S. International Trade Commission's (ITC) report showed exporting small businesses averaged 37 percent revenue growth from 2005 to 2009; compared to a decline of 7 percent for non-exporting small businesses.
- ✓ The ITC also estimates that the implementation of the three pending free trade agreements would add at least \$13 billion to U.S. exports and \$10 billion to U.S. GDP.

**Job Creation:** Passing the free trade agreements is an important tool for job creation by all types of small business owners, including manufacturers, farmers and service professionals. New exports create production demand, which creates new jobs. Many of these small business jobs are supported or created by direct exports and indirect exports. Indirect exports account for the work of small businesses who supply a larger product that is ultimately exported, like the thousands of suppliers for Boeing and Caterpillar.

- ✓ \$1 billion in U.S. exports creates 6,000 new jobs.<sup>8</sup>
- ✓ Exports from small businesses supported about 4 million jobs in 2007.<sup>9</sup>
- ✓ Total U.S. goods and services exports supported nearly 10 million jobs in 2008.<sup>10</sup>



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<sup>7</sup> U.S. Department of Commerce, Census Bureau

<sup>8</sup> U.S. Department of Commerce

<sup>9</sup> U.S. International Trade Commission

<sup>10</sup> Ibid

## IV. Trade Agreements Open New Markets and Lower Trade Barriers

As previously stated, bilateral and regional trade agreements increase the trade in goods and services between nations by lowering tariff and non-tariff barriers. Tax tariffs and non-tariff barriers are a major competitive obstacle for small businesses, and many do not have the capital or resources to navigate these barriers and compete. The pending free trade agreements will help small businesses increase their exports in several ways:

1. They will level the playing field by lowering the high foreign tariffs that are applied to U.S. exports.
2. The agreements will remove the non-tariff barriers, such as national treatment, customs regulations, and technology standards.
3. In addition, they include rules protecting small business' intellectual property rights (IPR), which are a key asset for a majority of small businesses.

Studies show many small businesses are hesitant to export and trade in fear of having their intellectual property (IP) stolen.<sup>11</sup> Intellectual property is the creativity and invention of a new product, service or idea; and is protected in the form of patents, copyrights and trademarks. These ideas are the lifeblood of many small businesses and the key asset that differentiates their product or service from competitors. Negotiated free trade agreements provide strong oversight and protection of IP to give small businesses the confidence to export.



### **Eliminating the Red Tape**

Non-tariff barriers are defined as the non-tax barriers that block exports.

Most common barriers include:

- technical regulations
- minimum standard requirements
- national treatment
- phytosanitary measures (food safety regulations)
- customs regulations

The trade agreements harmonize the non-tariff barriers and help to level the playing field.

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<sup>11</sup> U.S. International Trade Commission

## V. Increased Global Competition

Failing to pass the free trade agreements and opening new markets will put small businesses and farmers at a competitive disadvantage with other countries. Both Canada and the EU are aggressively negotiating free trade agreements with Colombia, Panama and Korea, and small businesses will continue to lose market share to foreign competitors who will enjoy lower tariffs.

- ✓ Between 2008 and 2009, U.S. exports of agricultural goods to Colombia dropped nearly 50 percent due to increased competition from Argentina and Brazil, which have a negotiated trade agreement with Colombia.
- ✓ Agriculture exports will lose even more ground when Canada and the EU trade agreements are enacted on July 1, 2011.



***“While we sit on our hands, other pork exporting countries are moving forward with FTAs of their own with Colombia, Panama and South Korea. In fact both the EU-Korea and Canada-Colombia FTAs are set to enter force July 1 this year. Dr. Hayes (Iowa State University Economist) calculates that we will be out of the Korea and Colombia markets in 10 years if the U.S. fails to implement its agreements.”***

– *Testimony of Phil Wise on Behalf of the National Pork Producers at House Small Business Committee Hearing on April 6, 2011*

## VI. Supply Chain and the “Hidden Exporter”

In addition to direct exporting, thousands of small businesses manufacturer component parts that go into a larger product that gets exported. These businesses are classified as indirect exporters, and are also referred to as “hidden exporters.” While the larger business is identified as the exporter on record, small businesses play a key role in the overall manufacturing of the final exported product.

These hidden exporters also play a key role in U.S. economy. The U.S. International Trade Commission estimated that indirect small business exports accounted for nearly 2 million U.S. jobs in 2007.

“There is clearly a fundamental and inextricable link between small businesses across the U.S. that supply parts or assembled components to the large exporters. Our coalition has undertaken a study to identify the suppliers which support export transactions of five major exporters – Boeing, General Electric, Case New Holland, Siemens Power Corporation and Bechtel, and we discovered over 33,000 smaller businesses that are critical to the manufacture of the products exported by these larger corporations. What this study underscores is that behind every large exporter are literally thousands of smaller companies working with them to produce the exported products.”

– *John Hardy, Jr., President of the Coalition for Employment Through Exports (CEE), April 2011*





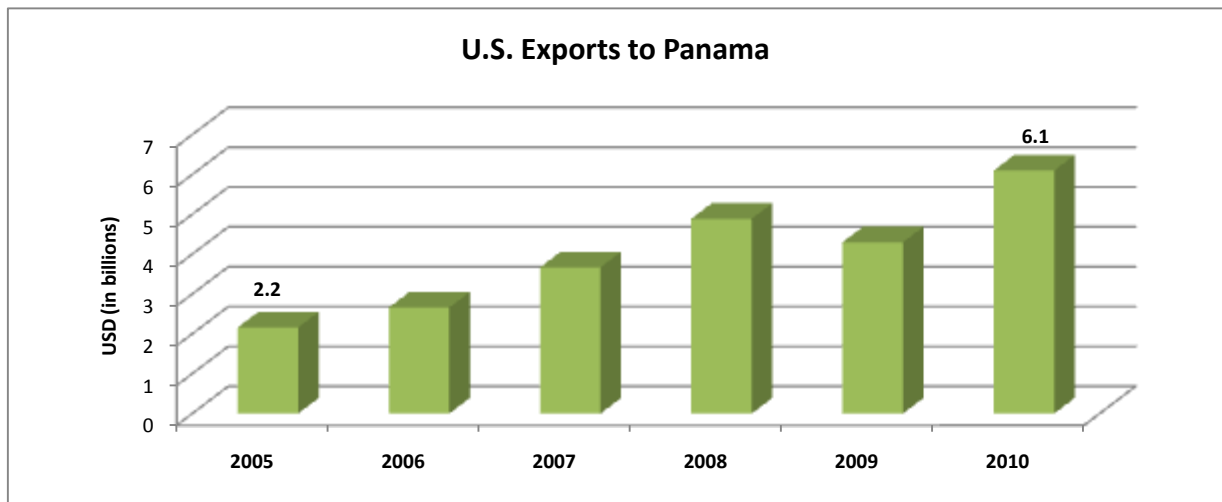
## VII. Fact Sheets on Pending Free Trade Agreements

### The U.S.–Panama Trade Agreement

More than 8,600 U.S. companies export to Panama, and more than 7,200 are small businesses. That results in over \$1.6 billion in exports by small businesses.<sup>12</sup> The U.S.-Panama agreement would open new markets for small businesses to increase their exports and create new jobs. It would allow small businesses to bid on the Panama Canal expansion, which is estimated to cost \$5.25 billion. Panama has already concluded trade agreements with the European Union and Canada.

The U.S. International Trade Commission estimates that implementing the agreement would increase U.S. exports by up to 145 percent. And under this agreement, over 88 percent of U.S. goods would enter Panama duty-free. This would level the playing field for U.S. exporters, as the majority of exports from Panama already enter the U.S. duty-free under the Caribbean Basin Initiative. The trade agreement also would reduce non-tariff barriers and increase transparency and intellectual property rights for U.S. small businesses.

#### *Total Exports in USD (in billions)*



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<sup>12</sup> U.S. Department of Commerce, International Trade Administration

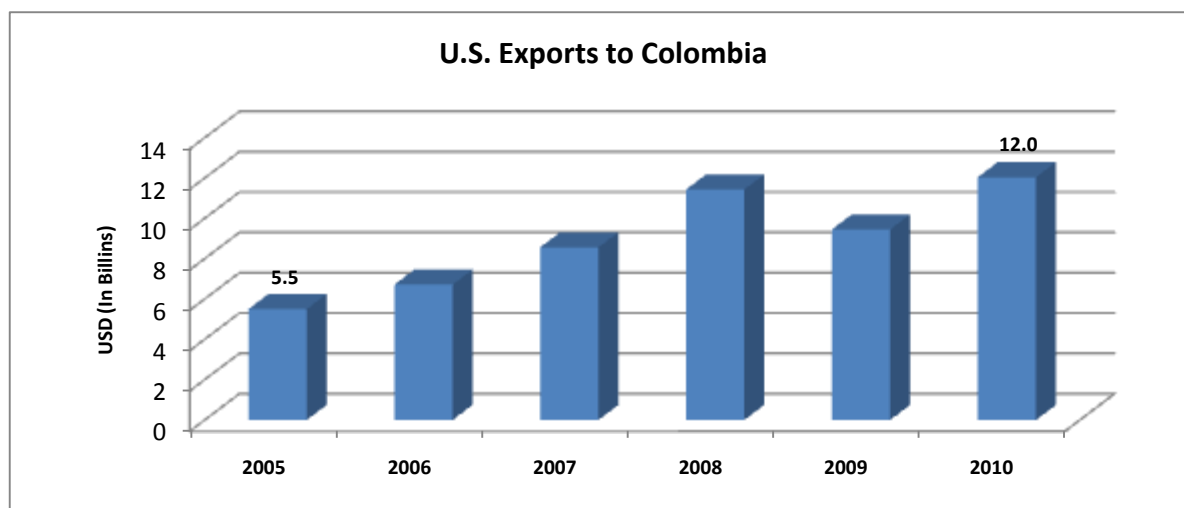
<sup>13</sup> U.S. Department of Commerce, Census Bureau

## The U.S.–Colombian Trade Agreement

More than 13,000 U.S. companies export to Colombia, and more than 11,300 are small businesses. That results in over \$3.8 billion in exports by small businesses.<sup>14</sup> Colombia has concluded trade agreements with major competitors that will put small businesses at a competitive disadvantage. The Canada-Colombia Trade agreement is scheduled for enactment on July 1, 2011.

The U.S. International Trade Commission estimates that implementing the agreement would increase U.S. exports by \$1.1 billion. Like Panama, the majority of Colombian exports already enter the U.S. duty-free, while U.S. exports face tariffs as high as 35 percent. Passing this trade agreement will allow small businesses and farmers to stay competitive and increase their exports.

*Total Exports in USD 2005-2010 (in billions)*



15

<sup>14</sup> U.S. Department of Commerce, International Trade Administration

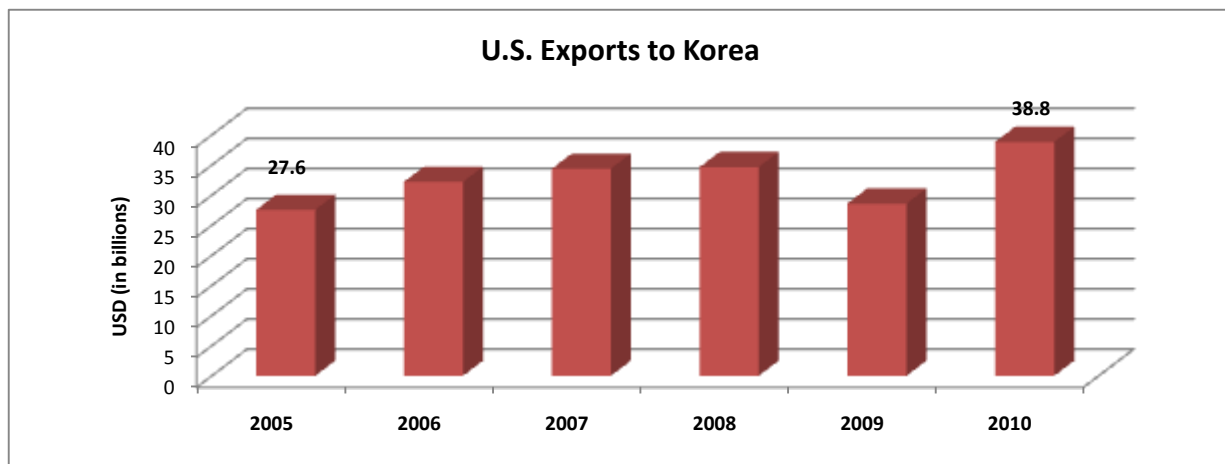
<sup>15</sup> U.S. Department of Commerce, Census Bureau

### *The U.S.–Korean Trade Agreement (KORUS)*

More than 20,000 U.S. companies export to South Korea, and more than 18,500 are small businesses. That results in over \$11 billion in exports by small businesses. Korea is the seventh-largest U.S. trading partner, with over \$38 billion in U.S. exports.<sup>16</sup> Like Colombia and Panama, South Korea continues to aggressively negotiate trade agreements with major U.S. competitors, including the European Union. The Korea-EU trade agreement is scheduled to conclude in July 2011.

The U.S. International Trade Commission estimates the KORUS FTA will increase U.S. exports by \$10 billion, and increase the U.S. GDP between \$10-12 billion. The KORUS FTA will significantly reduce tariffs on over 95 percent of U.S. products, including agricultural products. The trade agreement will also reduce non-tariff barriers to provide transparency and protection for small businesses' intellectual property.

*Total Exports in USD 2005-2010 (in billions)*



17

<sup>16</sup> U.S. Department of Commerce, International Trade Administration

<sup>17</sup> U.S. Department of Commerce, Census Bureau

## **VIII. Export Resources for Small Businesses**

U.S. Small Business Administration: [www.sba.gov](http://www.sba.gov)

U.S. Department of Commerce, International Trade Administration: [www.export.gov](http://www.export.gov)

U.S. Department of Commerce, Bureau of Industry and Security: [www.bis.doc.gov](http://www.bis.doc.gov)

U.S. Department of Agriculture, Foreign Agriculture Service: [www.fas.usda.gov](http://www.fas.usda.gov)

U.S. Export Import Bank: [www.exim.gov](http://www.exim.gov)

Overseas Private Investment Corporation: [www.opic.gov](http://www.opic.gov)

U.S. Department of State: [www.state.gov](http://www.state.gov)

U.S. Treasury Department: [www.treasury.gov](http://www.treasury.gov)

U.S. Customs and Border Protection: [www.cbp.gov](http://www.cbp.gov)

U.S. Census Bureau: [www.census.gov](http://www.census.gov)

U.S. Trade and Development Agency: [www.tda.gov](http://www.tda.gov)

U.S. Chamber of Commerce: [www.uschamber.com](http://www.uschamber.com)

State International Development Organization (SIDO): <http://www.sidoamerica.org/default.aspx>

U.S. District Export Councils: <http://www.districtexportcouncil.com/>