The State of Trade and Small Business

Testimony by
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The Honorable Steve Chabot, Chairman
The Honorable Nydia Velazquez, Ranking Member

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Chairman Chabot, Ranking Member Velazquez, and Members of the Committee, thank you for hosting this important hearing today on the state of international trade and small business. The Small Business & Entrepreneurship Council (SBE Council) is pleased to submit this testimony.

My name is Raymond J. Keating, and I am the chief economist for SBE Council, and the author of assorted studies and books, including *Unleashing Small Business Through IP: The Role of Intellectual Property in Driving Entrepreneurship, Innovation and Investment*. Also, for a decade, I taught a variety of courses to MBA students, including, for example, advanced innovation and entrepreneurship.

SBE Council is a nonpartisan, nonprofit advocacy, research and training organization dedicated to protecting small business and promoting entrepreneurship. With some 100,000 members and 250,000 small business activists nationwide, SBE Council is engaged at the local, state, federal and international levels on policies that enhance competitiveness, and improve the environment for business start-up and expansion, and economic growth. For nearly 25 years, SBE Council has focused its work on private initiatives and policies that strengthen the ecosystem for startup activity and small business growth.

International Trade and the U.S. Economy

It is important to start out on a foundational point, i.e., that free international trade amounts to a significant plus for the economy, consumers and small businesses. In fact, the net benefits of free trade are one of the very few points upon which most economists agree.

As for the main points supporting freer trade, they include the following:

First, it is important to keep in mind that governments do not trade; rather, individuals and businesses do. There's no difference between trading across town, across the nation or around the globe. Trade occurs between individuals, between businesses, and between individuals and businesses. And parties would not trade – that is, would not buy and sell products – if they were not made better off by such voluntary transactions. Therefore, trade, by definition, makes people better off.

Second, thanks to lower barriers to trade, competition is expanded and resources are allocated more efficiently. In turn, consumers experience a wider choice of products and lower prices.

Third, entrepreneurs, businesses and workers experience greater opportunity, as more markets are open to their goods and services. Of course, just over 95 percent of the world's population reside outside the United States.

Fourth, as individuals and businesses specialize in those areas where they have a comparative advantage – that is, their largest advantage – and then trade with others, economic, productivity and income growth are boosted.

Fifth, international trade is deeply integrated in and vital to the U.S. economy. Consider, for example, that real total trade (exports plus imports) in 1955 equaled 6.1 percent of real U.S. GDP. That grew to 29.3 percent in 2017. U.S. exports as a share of the economy jumped from 2.7 percent of GDP to 12.8 percent over this period, and imports from 3.4 percent of GDP to 16.5 percent.

Indeed, growth in trade equals or accounts for a significant portion of U.S. economic growth, at least 40 percent in recent times, as noted in Tables 1 and 2.

Table 1: Growth in Trade as Share of GDP Growth, 1980 to 2017

Growth in…	Share of Real GDP Growth
Exports	17.1%
Imports	23.0%
Total Trade	40.0%

Data Source: U.S. Bureau of Economic Analysis. Author's calculations.

Table 2: Growth in Trade as Share of GDP Growth, 2000 to 2017

Growth in…	Share of Real GDP Growth
Exports	20.6%
Imports	23.8%
Total Trade	44.3%

Data Source: U.S. Bureau of Economic Analysis. Author's calculations.

To sum up, free trade reduces costs through enhanced competition and lower trade barriers; expands choices and lowers prices for consumers; keeps U.S. firms competitive; opens new markets and opportunities for U.S. goods and services; expands economic freedom; and feeds economic growth.

On Imports and Trade Deficits. Given the current debate on trade, including policy decisions working against free trade, it is important to quickly point out that imports are not economic negatives, nor are trade deficits.

On the imports front, growing imports correspond with expanding domestic production. That is, when the U.S. economy is growing, it is natural that imports of consumer, intermediate and capital goods commensurately increase. Also, imports aid the economy by boosting competition, which drives domestic businesses to be more innovative and to improve productivity. Again, consumers and domestic business, including small firms, wind up with increased choices and lower prices. In turn, those lower prices free up resources for saving, investing and making other purchases.

Meanwhile, an expanding U.S. trade deficit usually signals strong U.S. economic growth. That is, periods of higher U.S. economic growth generally coincide with shrinking trade surpluses or mounting trade deficits, and economic slowdowns and recessions line up with declines in trade deficits. The U.S. trade deficit shrank dramatically during the most recent recession. The deficit also declined during the poor economy of 1990-91. And during the economic woes of 1979 to 1982, the trade deficit again declined notably, even moving to a trade surplus for two of those years. In contrast, periods of solid growth have seen the trade deficit expand, such as during 1982 to 1986, 1996 to 2000, and 2002 to 2006.

Why is this? First, as noted previously, strong economic growth naturally drives demand for imports by both consumers and businesses. Second, a current account trade deficit (that is, a deficit in terms of goods and services) means there must be a capital account surplus (that is, a surplus in terms of investment moving into and out of the U.S.). That is, foreigners are viewing the U.S. favorably in terms of investment opportunities.

Economist Richard Rahn, in a recent column for *The Washington Times* ("Destructive Information," March 26, 2018), offered an illuminating analysis on why the trade deficit basically is, in effect, irrelevant: "The trade deficit is of little importance, but as we now see, a focus on that number is causing the president and others to impose destructive tariffs and other harmful trade restrictions. The trade deficit, which is officially known as the 'current account

balance,' is merely the residual of many other policies by both the U.S. and foreign governments."

Rahn looked at data for 13 countries, and reported that "there is no obvious relationship between a country's trade deficit, level of prosperity, growth in GDP per capita or tariff rate." He clarified, "Some rich jurisdictions, like Singapore, Switzerland and Hong Kong, have zero tariffs (free trade) and run large trade surpluses. Some high-tariff countries, like Mexico, have run trade deficits, while having had low growth rates, coupled with a low per capita income. China has had a very high rate of per capita economic growth over the last 25 years, and high tariff rates, but still has a relatively low per capita income. Japan and Italy have had relatively low tariff rates, and low growth, but substantial trade surpluses. Italy and Ireland have had the same relatively low average tariff rate (both being members of the European Union), and both run trade surpluses."

Another point from Rahn must be noted: "The U.S. government has been keeping foreign trade statistics since 1790. In the majority of years, the U.S. ran a trade deficit and an offsetting capital surplus (meaning more money was invested in the U.S. than U.S. companies and individuals invested in the rest of the world). The U.S., by productively using inexpensive foreign capital, was able to create the world's biggest and wealthiest economy."

In fact, a growing U.S. economy is fed by investment, including from foreigners, and by expanding exports, with economic growth also reflecting and being further fed by being open to imports. In the end, when U.S. exports and imports are both growing, that's good news for the U.S. economy, no matter what the trade deficit might be.

Small Business and International Trade

Combine the importance of trade in the U.S. economy with the fact that our economy largely is a small business economy – meaning that most U.S. businesses are small and mid-sized enterprises – then it is surprising that most people still seem to assume that trade is overwhelmingly about large businesses.

In reality, though, in terms of the number of firms involved, international trade is largely about small and mid-sized businesses. In fact, the overwhelming majority of businesses involved in international trade are small firms. For example, as noted in Table 3, 76.2 percent of U.S. exporter have fewer than 20 employees, and 86.7 percent fewer than 50 workers.

Table 3: U.S. Exporters 2015:
Percent of Firms by Number of Employees

# of Employees	Percent
Less than 20	76.2%
Less than 50	86.7%
Less than 100	91.9%
Less than 500	97.6%

Data Source: U.S. Census Bureau

The story largely is the same for U.S. importers. As noted in Table 4, 75.2 percent of importers have fewer than 20 workers, and 85.5 percent fewer than 50 workers.

Table 4: U.S. Importers 2015:
Percent of Firms by Number of Employees

# of Employees	Percent
Less than 20	75.2%
Less than 50	85.5%
Less than 100	90.8%
Less than 500	97.2%

Data Source: U.S. Census Bureau

Therefore, policymaking that lowers governmental barriers to trade is unmistakably pro-small business. And in contrast, measures that raise the costs of or limit trade amount to real negatives for the entrepreneurial sector of our economy.

Just as there are clear positives derived from free trade, there are clear negatives from protectionist measures that increase governmental costs and barriers to trade. Consumers, of course, are confronted by fewer choices and higher costs due to the fact that protectionism shields companies from competition, which reduces efficiency, diminishes quality, and limits innovation. For good measure, protectionism not only limits opportunities in the international marketplace for U.S. entrepreneurs, businesses and workers as other nations inevitably retaliate, as we are seeing now, but U.S. businesses and workers pay more for whatever product is being shielded from competition thanks to protectionist policies.

As *The Wall Street Journal* observed ("How to Punish American Workers," February 19, 2018) regarding U.S. proposed tariffs on steel and aluminum imports:

> "Each option would raise prices for U.S. industries such as construction, transportation and mining. About 16 times more workers are employed today in U.S. steel-consuming industries than the 140,000 American steelworkers. Economists Joseph Francois and Laura Baughman found that more U.S. workers lost jobs (200,000) due to George W. Bush's 2002 steel tariffs than were employed by the entire steel industry (187,500) at the time. Job losses hit Ohio (10,553 jobs lost), Michigan (9,829) and Pennsylvania (8,400).
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> "About a quarter of a car's cost is tied to steel, which is also a key component of domestically-produced wood chipper knives used in lumber, sawmills and landscaping. The oil-and-gas industry uses steel in drilling equipment, pipelines, production facilities, terminals and refineries. Aluminum inputs make up nearly half of the cost of a beer can.
>
> "Raising the cost of steel and aluminum inputs would impel many manufacturers to move production abroad to stay competitive globally."

Keep in mind that more than 55 percent of all U.S. goods imports in 2017 were inputs for U.S. businesses, that is, they were intermediate goods or capital goods. So, increasing tariffs or establishing quotas on imports is in effect imposing a tax increase on a wide array of U.S. small businesses, such as manufacturers. In turn, among U.S. manufacturing employer firms, 74.6 percent have less than 20 employees, 93.5 percent less than 100 workers, and 98.5 percent less than 550 employees. It then follows that workers and consumers suffer accordingly.

Small Business and NAFTA

Let's zero in on one trade agreement still generating unwarranted controversy nearly a quarter century after taking effect – the North American Free Trade Agreement (NAFTA).

The U.S. has benefited tremendously from NAFTA. Canada is the U.S. top partner in terms of total trade, including ranking as the top U.S. export market, and Mexico is number three, including being the second largest U.S. export market. For good measure, as estimated in a study for the U.S. Chamber of Commerce, 14 million jobs in the U.S. depend on trade with Canada and Mexico, with 5 million of those net jobs supported by increased trade under NAFTA.

Since free trade accords went into effect with Canada, Mexico and the U.S., export growth from the U.S. to both nations has been strong. The U.S. entered in a free trade agreement with Canada first, taking effect in 1989. From 1988 to 2017, U.S. goods exports to our neighbor to the north increased by 294.3 percent. (Over the same period, inflation (as measured by the GDP price index) increased by 82.8 percent.)

Export growth has been particularly strong with Mexico since NAFTA took effect in 1994. U.S. goods exports to Mexico grew by 484.4 percent from 1993 to 2017. That was more than double the growth in U.S. exports to the world, which registered a 239.5 percent increase over the same period. (Inflation increased by only 56.9 percent over this period.)

Import growth was even more robust. Goods imports from Canada grew by 268.6 percent from 1988 to 2017, and goods imports from Mexico expanded by 686.7 percent from 1993 to 2017. Again, those imports include consumption goods as well as intermediate and capital goods, with U.S. consumers and businesses benefiting from the expanded choices and lower costs that come with lower barriers to imports.

Given the role that small businesses play in trade, NAFTA clearly has been good news for the entrepreneurial sector. In 2015, there were 89,106 firms that were exporters to Canada, as well as 59,428 firms exporting to Mexico. In each case, as noted in Table 5, these overwhelmingly are small and mid-sized businesses. For example, 75.4 percent of firms exporting to Canada and 72.7 percent of firms exporting to Mexico have fewer than 50 employees.

Table 5: U.S. Exporters 2015:
Percent of Firms by Number of Employees

# of Employees	Canada	Mexico
Less than 20	60.1%	58.1%
Less than 50	75.4%	72.7%
Less than 100	83.9%	81.7%
Less than 500	94.6%	93.8%

Data Source: U.S. Census Bureau

For good measure, the growth in the number of U.S. firms exporting to both Canada and Mexico has been dramatic. From 1992 to 2015, there was an 81.4 percent increase in the number of U.S. exporters to Canada and a dramatic 365.5 percent increase in those exporting to Mexico. NAFTA has been a growth engine for small business.

As for imports, in 2015, there were 16,799 U.S. firms that were importers related to Canada, and 15,290 U.S. firms were importers related to Mexico. Once more, the vast majority were small and mid-sized businesses, as noted in Table 6. For example, 54.8 percent of Canada importers and 67.5 percent of Mexico importers have fewer than 50 employees.

Table 6: U.S. Importers 2015:
Percent of Firms by Number of Employees

# of Employees	Canada	Mexico
Less than 20	42.0%	57.4%
Less than 50	54.8%	67.5%
Less than 100	64.4%	74.3%
Less than 500	82.7%	86.7%

Data Source: U.S. Census Bureau

Small Business and Trade with China

As for trade with China – also under fire currently – consider that U.S. goods exports to China from 2001 (the year that China was admitted to the WTO) to 2017 grew by 579 percent. And over the same period, U.S. imports from China – goods for consumers, and intermediate and capital goods for businesses, including for small businesses – grew by 394 percent. That's strong growth – far outdistancing the rise in overall U.S. trade and economic growth.

And growing trade with China has direct positives for the many small businesses involved. As noted in Table 7, in terms of the role of small business and exports, it turns out that 53.6 percent of U.S. exporters to China in 2015 had fewer than 20 workers, 68.6 percent fewer than 50 workers, and 78.3 percent fewer than 100 workers.

Table 7: U.S. Exporters 2015:
Percent of Firms by Number of Employees

# of Employees	China
Less than 20	53.6%
Less than 50	68.6%
Less than 100	78.3%
Less than 500	92.1%

Data Source: U.S. Census Bureau

And regarding the role of small business and imports, as noted in Table 8, 73.2 percent of U.S. importers relating to China had fewer than 20 workers, 84.0 percent fewer than 50 workers, and 89.6 percent fewer than 100 workers.

Table 8: U.S. Importers 2015:
Percent of Firms by Number of Employees

# of Employees	China
Less than 20	73.2%
Less than 50	84.0%
Less than 100	89.6%
Less than 500	96.4%

Data Source: U.S. Census Bureau

Trade with China very much is about American small business. For good measure, from 2001 to 2015, the number of U.S. firms exporting to China grew from 15,054 to 116,115 – a breathtaking expansion of 671 percent.

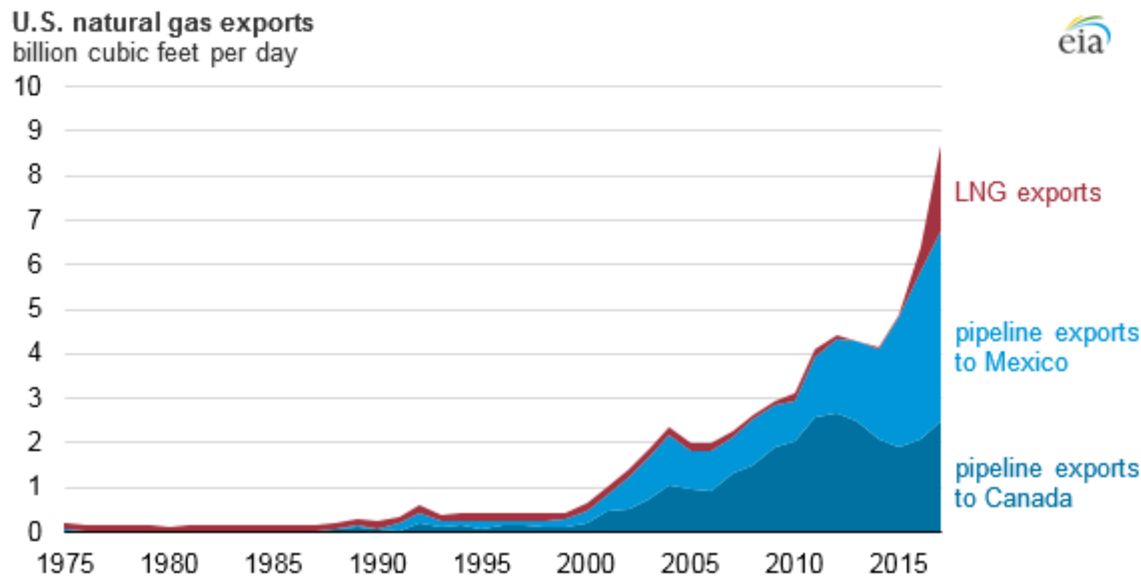
Small Business and Trade in Energy

Beyond looking at trade between U.S. individuals and businesses and those in another country, it pays to also take note of trade in certain sectors of our economy. Let's consider energy, which has been a good news story for more than a dozen years now thanks to entrepreneurship and private investment driving innovation forward. Specifically, we'll take note of four major trends relating to production, trade and small business.

First, U.S. natural gas production continued its dozen years of growth in 2017 (up 1 percent over 2016 and just slightly below the 2015 record level). Natural gas production in 2017 was up 52.4 percent compared to 2005. Also, recall that the U.S. surpassed Russia as the world's top natural gas producer in 2009.

As noted in the following Chart 1 (courtesy of the U.S. Energy Information Administration (EIA)), U.S. natural gas exports have grown dramatically.

Chart 1



On natural gas exports, the EIA reported:

> "U.S. natural gas pipeline capacity into Mexico has also increased over the past few years, driven by growth in demand for natural gas from Mexico's power sector and favorable prices compared with natural gas supplied by LNG shipments. U.S.-Mexico natural gas pipeline capacity is currently 11.2 Bcf/d, with another 3.2 Bcf/d of capacity scheduled to be added later in 2018. Pipeline exports to Mexico have grown along with pipeline capacity, more than doubling since 2014 and averaging 4.2 Bcf/d in 2017.
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> "U.S. LNG exports increased dramatically over the past two years as new liquefaction capacity has come online. The only liquefaction terminal previously operating in the United States—the Kenai LNG terminal in Alaska—ceased operations in 2015. In 2016, as the Sabine Pass LNG terminal in Louisiana began to ramp up operations, U.S. LNG exports increased. Sabine Pass now has four operating liquefaction units, with a fifth currently under construction.
>
> "The Cove Point LNG facility in Maryland exported its first LNG cargo on March 1, 2018. Cove Point is the second currently operating LNG export facility in the United States, after Sabine Pass. Four other LNG projects are under construction and expected to increase U.S. liquefaction capacity from 3.6 Bcf/d to 9.6 Bcf/d by the end of 2019, further increasing U.S. natural gas exports."

The approval and building of LNG export facilities have been big economic plusses for the U.S.

Second, U.S. crude oil production skyrocketed by 86 percent from 2008 to 2017. That included crude oil exports having jumped dramatically since limits of crude exports were lifted in December 2015 (see Chart 2 from the EIA). In fact, crude oil exports nearly doubled in 2017 compared to 2016.

Chart 2

In terms of destinations, the EIA noted, "U.S. crude oil exports went to 37 destinations in 2017, compared with 27 destinations in 2016. Similar to previous years, Canada remained the largest destination for U.S. crude oil exports, but Canada's share of total U.S. crude oil exports continued to decrease, down from 61% in 2016 to 29% in 2017. U.S. crude oil exports to China accounted for 202,000 b/d (20%) of the 527,000 b/d total increase. China surpassed the United Kingdom and the Netherlands to become the second-largest destination for U.S. crude oil exports in 2017."

Regarding crude production and the ability to export, the EIA reported, "Increasing U.S. crude oil production and expansions of U.S. pipeline capacity and export infrastructure facilitated increased crude oil exports. U.S. crude oil production reached 9.3 million b/d in 2017, a 0.5 million b/d increase from 2016."

Third, an EIA analysis zeroed in on U.S. energy exports to Mexico exceeding imports for the third year in a row. But the level of exports relative to imports is not the key economic point. Instead, the standout point in this analysis is the dramatic recent growth in U.S. energy exports to Mexico, with a particular big jump higher in 2017 over 2016.

The key factor is petroleum products, as explained by the EIA: "Petroleum products such as finished motor gasoline, distillate fuel oil, and propane account for most of the value of energy exports from the United States to Mexico. In 2017, Mexico was the destination for more than 1 million b/d of petroleum products, up from 880,000 b/d in 2016. This level was 24% of all petroleum products exported from the United States. These exports were valued at more than $23 billion dollars in 2017. In 2017, petroleum product exports to Mexico rose in both amount and value. Changes in Mexico's utilization of petroleum refineries have created a widening gap between its domestic supply and demand, and U.S. gasoline exports now make up more than half of Mexico's gasoline consumption."

A second significant factor is on the natural gas front: "Natural gas exports to Mexico from the United States—either shipments by pipeline or liquefied natural gas (LNG) cargoes—were 4.6 billion cubic feet per day (Bcf/d) in 2017. This natural gas trade is dominated by pipeline shipments to Mexico, which made up about half of total U.S. natural gas exports in 2017. Increasing shipments of natural gas by pipeline to Mexico are contributing to the United States' emerging status as a net natural gas exporter. Natural gas pipelines currently under construction or in planning stages are expected to nearly double the pipeline natural gas exporting capacity from the United States to Mexico by 2018. Much of this natural gas will likely be used to generate electricity, as Mexico's energy ministry expects to add significant natural gas-fired electricity generating capacity through 2029."

For good measure, Mexico ranks as the top destination for U.S. LNG exports.

Fourth, as we reflect on these energy trade numbers, it must be noted that contrary to many assumptions, the energy business again is overwhelmingly populated by small businesses. Consider the share of employer firms in key sectors (according to the U.S. Census Bureau (2015)):

• 89.6% of employer firms among oil and gas extraction businesses have fewer than 20 employees;

• 77.3% of employer firms among drilling oil and gas wells businesses have fewer than 20 workers;

• 80.7% of employer firms among support activities for oil and gas operations businesses have fewer than 20 employees;

• 58.2% of employer firms among oil and gas pipeline and related structures construction businesses have fewer than 20 workers;

• and 51.5% of employer firms among oil and gas field machinery and equipment manufacturing businesses have fewer than 20 employees.

Increased energy production, thanks in part to expanding export markets and opportunities, is great news for small business.

Railroads, Trade and Small Business

The importance of trade to America's railroads also is worth highlighting.

As noted in a recent SBE Council study ("All Aboard! Entrepreneurs and Small Business Power America's Freight Railroads," March 2018), which I authored, "America's freight railroad system, widely recognized as one of the leading systems in the world, is critical for the health and growth of our economy, including the well-being of U.S. small businesses."

Regarding small business and railroads, we reported that small businesses made up the majority of employer firms in the sectors directly and indirectly impacted by freight railroads:

• "In all but one of the 13 industries highlighted, the majority of employer firms were small businesses with fewer than 20 employees – ranging from 51.2 percent of firms in the warehousing and storage sector to 93.2 percent in the agricultural sector."

• "In all 13 sectors, firms with fewer than 100 employees made up at least 69 percent of employer firms – ranging from 69.7 percent in warehousing and storage to 99.0 percent in construction."

• "And among all 13 sectors, the percentage of firms with fewer than 500 workers ranged from 83.3 percent again in warehousing and storage to 99.8 percent in construction."

In turn, robust international trade is vital to freight railroad. In a March 2017 study ("Freight Railroads & International Trade") from the Association of American Railroads, it was pointed out, "Privately owned freight railroads — an industry that connects and serves nearly every industrial, wholesale, retail and resource-based sector of the economy — offers a distinct perspective on how trade powers our economy." Among the key findings were:

• "42% of rail carloads and intermodal units are directly associated with international trade."

• "35% of annual rail revenue is directly associated with international trade."

• "50,000 rail jobs, worth over $5.5 billion in annual wages and benefits, depend directly on international trade."

It also was noted that due to various data limitations, the "share of rail traffic associated with international trade" actually is "considerably higher."

Among the industries highlighted by the AAR that benefit from rail transportation were steel and steel-related commodities, farm and food products, crude oil, coal, chemicals, forest products, automotive products and much more. AAR correctly concluded: "Robust international trade means more jobs for U.S. railroaders. The rail trade data discussed above implies that approximately 50,000 rail jobs, worth over $5.5 billion in annual wages and benefits, depend directly on international trade. This does not include other significant job-related impacts, including employees at ports who handle shipments moving by rail, jobs at firms that supply goods and services to railroads and others in support of trade-related rail movements, and secondary and tertiary job impacts derived from the expenditures of railroad employees, port employees and their suppliers."

Free trade is good news for freight railroads, and that means it's good news for small business.

Agriculture, Trade and Small Business

American agriculture benefits enormously from free trade, as do, of course, American consumers who, as a result, can choose among a wide assortment of agricultural products from around the globe. That includes, of course, reduced barriers to trade between the U.S., Mexico and Canada thanks to NAFTA.

Consider what Kevin Skunes, the president of the National Corn Growers Association and North Dakota farmer, wrote in a January 23, 2018, article ("NAFTA has helped grow American agriculture for two decades") in The Hill:

> "[I]t is hard to imagine that anything has been as important to America's agricultural community over the last two decades than the sustained success provided by the North American Free Trade Agreement (NAFTA). In 2016 alone, this resulted in $43 billion worth of food and agricultural goods being exported to Mexico and Canada, making those countries the largest export markets for American agriculture.
>
> "The growth driven by NAFTA has been nothing short of amazing. Agricultural exports from the United States to these two countries have grown by 450 percent since 1994 and Mexico is now the top export destination for a long list of U.S.-grown products, including beef, rice, soybean meal, corn sweeteners and apples. With record yields being produced across the United States, we've needed access to export markets more than ever and NAFTA has met the challenge.
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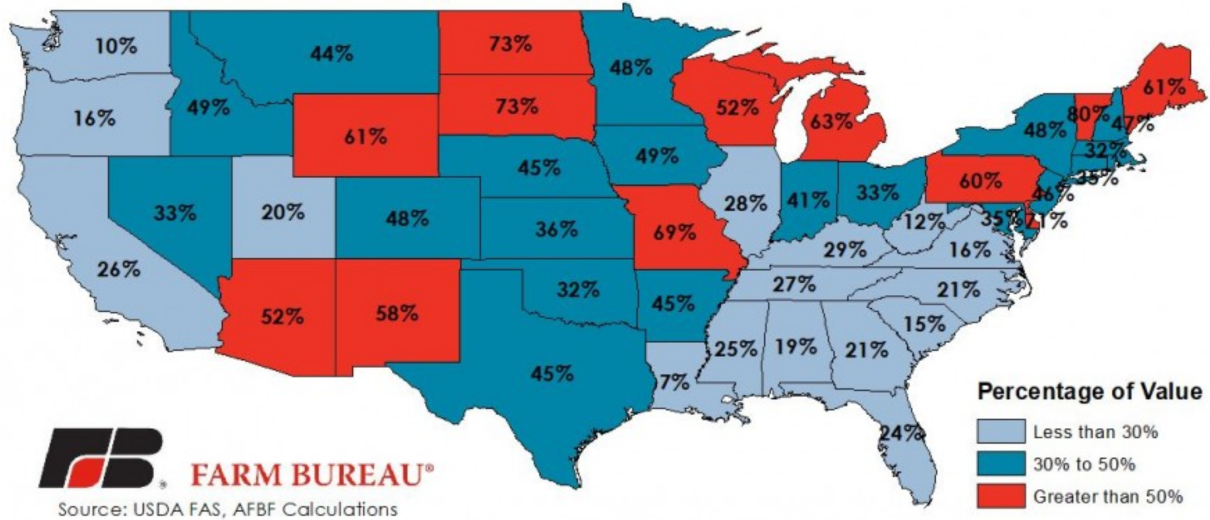
> "The benefits of NAFTA are seen across various sectors within the American economy, however. For example, post-NAFTA, the U.S. food and agriculture industries have flourished and now support more than 43 million jobs and economists say NAFTA has boosted the U.S. economy by $127 billion annually."

A November 2017 analysis ("Importance of NAFTA to Agriculture in Each State for 2016") by the Farm Bureau looked at agricultural exports state by state, highlighting how devastating a withdrawal from NAFTA would be for assorted states. The Bureau reported: "Viewing NAFTA through the lens of what it means in terms of total agricultural exports will help policymakers, industry stakeholders and Farm Bureau members better understand how much our export markets, and U.S. farm income, relies on an integrated North American agricultural market… On average, 30 percent of U.S. agricultural exports are delivered to our NAFTA partners. However, during 2016 two-thirds of states had a higher export percentage to NAFTA than the U.S. average. An additional 13 states had more than 50 percent of their agricultural exports go to NAFTA partners." (See the following Figure from the Farm Bureau's analysis.)



Of course, the agricultural sector of our economy is overwhelmingly about small businesses. If we look at the agriculture, forestry, fishing and hunting sector, as reported by U.S. Census Bureau data (2015):

• 93.2 percent of employer firms had fewer than 20 employees;

• and 98.6 percent fewer than 100 employees.

Once again, free international trade is vital to the agricultural sector of our economy, and that sector is dominated by small businesses.

Free Trade Works Best for the Economy and Small Business

U.S. policymakers should be working to reduce barriers to trade by entering into and expanding free trade agreements. The platform-based economy provides entrepreneurs and small businesses the opportunity to easily extend their products and service offerings to the world, and efforts to lower barriers, reduce costs and complexity would leverage new technologies that help small firms successfully grow their businesses.

Strengthen, Don't Undermine, NAFTA. That includes strengthening and not undermining NAFTA. If NAFTA were to go away, the resulting higher tariffs and other trade barriers would mean reduced U.S. economic, small business, income and employment growth. The same applies to trade policy toward other nations, including recent U.S. decisions for tariffs on steel, aluminum, dishwasher and solar-panel imports; tariffs on goods from China; steel quotas on and extending tariffs on truck imports from South Korea; and leaving behind multilateral free trade accords, such as exiting the Trans Pacific Partnership (TPP).

If the U.S. imposes tariffs and quotas on other nations, it is U.S. consumers and small businesses that pay the price in terms of increased costs, with added burdens and reduced opportunity when trading partners retaliate.

Therefore, on NAFTA, the U.S. should be focused on strengthening the many positives of the agreement, such as the fact that NAFTA was the first international trade agreement obliging parties to protect intellectual property.

Dr. Kristina Lybecker, an associate professor of economics at Colorado College in Colorado Springs, correctly argued in favor of the following ("Renegotiate NAFTA to Make it the Gold Standard in IP Protection," IPWatchdog.com, October 16, 2017) regarding NAFTA renegotiations and IP:

• "The link between international trade agreements and strong intellectual property provisions is a natural one: ensuring that intellectual property rights enforcement corresponds to free trade principles of market access and nondiscrimination. Member countries must protect the intellectual property of other member countries in order to facilitate and encourage trade. NAFTA's Chapter 17 does this and should be strengthened to continue to do so."

• "The renegotiation of NAFTA must: enforce intellectual property rights provisions, strengthen and uphold strong patent law, and demonize illegal trade barriers. Failure to do so creates uncertainty and instability, increasing risk and inhibiting innovation… Accordingly, the renegotiation of NAFTA should include strong patents and regulatory data protection (RDP), in combination with explicit mechanisms to expeditiously remedy disputes."

• "In addition, the renegotiation of NAFTA should reinforce the obligations of member states to eliminate discriminatory and egregious localization barriers. Local content or production requirements violate international trade rules, impair market access, discourage innovation, and deny patients access to medicines."

• "A renegotiation of NAFTA should also prohibit price controls, both explicit and de facto restrictions, a practice that amounts to a backdoor means of eviscerating intellectual property rights protections."

Return to Leadership on Free Trade Accords. As for other multilateral trade agreement, the U.S. needs to return to a leadership role in advancing such accords. Consider that the Trans-Pacific Partnership trade accord with 11 Asia-Pacific countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam) would have, for example, eliminated some 18,000 tariffs imposed on U.S. goods and services, and enhanced IP protections. However, upon taking office, President Donald Trump signed an executive order ending U.S. participation in the TPP. That means that U.S. small businesses and farmers, for example, will have a more difficult time competing in those 11 markets once the TPP is finalized due to facing higher trade barriers than those in effect for trade among the 11 TPP nations. By the way, the 11 participants signed the TPP on the same day that the Trump administration announced new tariffs on steel and aluminum imports in March of this year.

Lead by Example with China. Meanwhile, the answer to dealing with China and its violations of intellectual property, along with other governmental abuses, is not to impose tariffs and quotas that will only hurt U.S. consumers and small businesses.

From a certain perspective, given that China technically remains a communist country, it has made notable advances in opening markets – as illustrated by the tremendous growth in U.S. exports to China and small businesses involved in China trade – but much more, to say the least, is needed.

In the midst of this debate, it is important to understand that China is no longer the world's low-cost manufacturer, and the country is looking to shift to more value-added endeavors. However, that will not be accomplished by government dictates, protectionism, and/or intellectual property theft. Instead, it will require further economic freedom and stronger IP protections. Rather than playing tit-for-tat protectionism, the U.S. would be far better off in standing up clearly for free markets, free trade and property rights, and showing other countries, like China, what the real path to economic growth is. It is critical, and far more constructive, to make clear to China that its intellectual property violations only serve to undermine its own investment and economic growth.

Rather than raising costs to trade with China, the best path forward would be to enter into serious discussions that lay the groundwork for a China-U.S. free trade agreement. Through that process, the U.S. would be able to constructively advance the cause for open markets and property rights in China. And a free trade accord between the world's two largest economies would considerably expand opportunities for entrepreneurs, small businesses and workers in both nations.

In the SBE Council book *Unleashing Small Business Through IP*, I noted that a "free trade agenda must include treaties and other joint efforts at improving IP rights, protections and enforcement in other nations. Not only will such improvements in other nations benefit U.S. businesses and workers competing internationally, but it also will improve economic growth in those nations."

In the end, recent moves by the U.S. toward protectionism are deeply troubling for small businesses. A change in policy direction to advancing a free trade agenda would be a clear positive for entrepreneurs, small business, workers and consumers, and complement the pro-growth accomplishments regarding business tax reform and reining in regulation.

Thank you for your time and attention. I look forward to your questions and further discussion.

About Raymond J. Keating

Raymond J. Keating is chief economist for the Small Business & Entrepreneurship Council. Keating is the author of several books, including *Unleashing Small Business Through IP: Protecting Intellectual Property, Driving Entrepreneurship*, *"Chuck" vs. the Business World: Business Tips on TV*, and a series of thrillers. He also is a regular columnist with RealClearMarkets.com, and for more than two decades was a weekly newspaper columnist with *Long Island Business News*, *Newsday*, and the *New York City Tribune*. For a decade, Keating also was an adjunct professor in the MBA program at the Townsend School of Business at Dowling College. His work has appeared in a wide range of additional periodicals, including *The New York Times, The Wall Street Journal, The Washington Post, New York Post, Los Angeles Daily News, The Boston Globe, National Review, The Washington Times, Investor's Business Daily, New York Daily News, Detroit Free Press, Chicago Tribune, Providence Journal Bulletin,* and *Cincinnati Enquirer*.

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