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# Testimony

**of Chuck Wetherington**

President, BTE Technologies, Inc.

*on behalf of the* National Association of Manufacturers

*for the* Hearing of the House Committee on Small Business

*on* “The State of Trade for America’s Small Businesses”

April 11, 2018



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**Before the**

**U.S. House of Representatives  
Committee on Small Business**

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Chairman Chabot, Ranking Member Velázquez and members of the Committee on Small Business, thank you for the opportunity to testify today about the state of trade for America's small businesses.

My name is Chuck Wetherington, and I am the president of BTE Technologies, which is based in Hanover, Maryland. BTE Technologies is widely regarded as the leading provider of advanced solutions for physical testing and rehabilitation. My company's advanced physical therapy equipment improves clinical decision-making, generates measurable outcomes and enhances the success of the modern orthopedic hospital and physical therapy clinic. In addition, our professional services business provides world-class workplace injury avoidance solutions for Fortune 500 companies.

I am pleased to testify today as a member of the Board of Directors and on behalf of the National Association of Manufacturers (NAM), the largest manufacturing association in the United States, representing more than 14,000 manufacturers small and large in every industrial sector and in all 50 states. Manufacturing employs nearly 12.6 million women and men across the country, contributing \$2.25 trillion to the U.S. economy annually. If manufacturing in the United States were a separate country, it would be the ninth-largest economy in the world. More than 90 percent of NAM members are small and medium-sized businesses like BTE Technologies.

**I. Global Trade Is Important to Small Manufacturers in the United States**

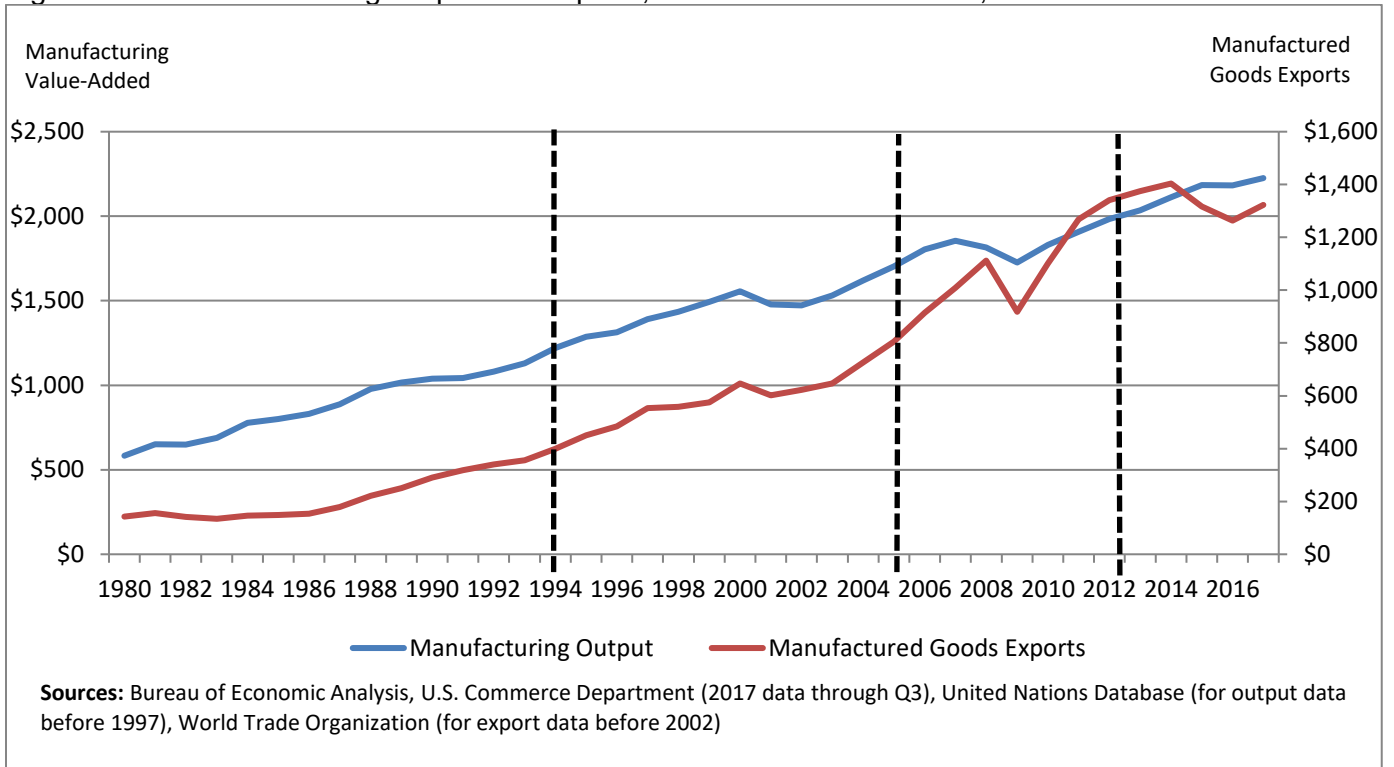
Global economic growth over the past quarter century has created record levels of demand for advanced and high-quality consumer and durable manufactured goods, including the products manufactured by BTE Technologies at our facilities in Maryland and Colorado, as well as many other small businesses. Thanks to global, bilateral and regional trade agreements that have lowered barriers and set basic rules of commerce—and thanks to improved telecommunications and transportation services that better connect global customers and suppliers—small manufacturers in the United States have already been able to benefit substantially from this growth beyond our borders.

U.S. goods exports have quadrupled since 1980 (as shown in Figure 1), and they've more than doubled since the 1990s, reaching nearly \$1.3 trillion in 2017. Overall, U.S.-manufactured goods exports comprised 9.4 percent of global exports of manufactured goods in 2016.<sup>1</sup>

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<sup>1</sup> World Trade Organization, Statistic Database, accessed at <http://stat.wto.org/Home/WSDBHome.aspx?Language=E>.

Figure 1: U.S. Manufacturing Output and Exports, in Billions of U.S. Dollars, 1980–2017



This growth in U.S.-manufactured goods exports is not just important to large companies but also to the small and medium-sized companies that make up the vast majority of manufacturing firms in the United States. Of the nearly 73,000 manufacturing firms in the United States that exported in 2015, more than 70,000 (or 96.4 percent) were categorized as small or medium-sized manufacturers, of which more than 44,000 (or nearly 61 percent) were manufacturers with fewer than 100 employees.<sup>2</sup>

Overall, the United States exports more than half of its total manufacturing output, supporting about half of all—in other words, 6 million—U.S. manufacturing jobs and contributing directly to the success of local communities. On average, manufacturing jobs pay \$82,023 annually, including pay and benefits, 27 percent higher than the average wages of \$64,609 in all nonfarm industries in 2016.<sup>3</sup> Manufacturing in the United States provides rewarding and meaningful careers and supports communities throughout all 50 states, although it is also transforming as it adapts to a changing world at home and abroad. Notably, export-related jobs have also been demonstrated to pay on average 18 to 20 percent more than jobs not related to exports.<sup>4</sup>

<sup>2</sup> U.S. Department of Commerce, compiled from data accessed at <http://tse.export.gov/EDB/SelectReports.aspx?DATA=ExporterDB>.

<sup>3</sup> NAM, Top 20 Facts About Manufacturing, accessed at <http://www.nam.org/Newsroom/Facts-About-Manufacturing/>.

<sup>4</sup> See e.g., U.S. Department of Commerce, “The Role of Exports in the U.S. Economy” (May 13, 2014); Bernard, A. and J.B. Jensen, “Exceptional Exporter Performance: Cause, Effect, or Both?” *Journal of International Economics* 47: 1–25 (1999); Riker, David, “Do Jobs In Export Industries Still Pay More? And Why?” Manufacturing and Services Economics Brief, International Trade Administration, U.S. Department of Commerce (July 2010), accessed at [http://www.trade.gov/mas/ian/build/groups/public/@tg\\_ian/documents/webcontent/tg\\_ian\\_003208.pdf](http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003208.pdf).

## II. Small Business Trade Challenges Are Both Distinct and Similar

While trade is important to many small businesses, less than 1 percent of America's 30 million companies (large and small) export—a percentage that is significantly lower than all other developed countries. Of U.S. companies that do export, 58 percent export to only one country. Many manufacturers, as well as other businesses, would benefit from broadening the scope of their exports to new markets. At BTE, we have consistently focused on expanding to new markets every two to four years, the latest being the Gulf Cooperation Council of six Middle Eastern countries, to which exports in three years have grown from virtually nothing to 20 percent of our exports, or 9 percent of our total product revenues.

Some of the challenges small businesses face are similar to larger businesses, including tariffs and other market access barriers, lack of transparency, discriminatory policies and weak protection of intellectual property. As discussed below, many of these issues can be addressed through well-crafted trade agreements that consider in their negotiation and implementation ways to address the needs of small businesses more directly.

Other challenges are more specific to small businesses, such as access to export credit, payment and receipt guarantees, foreign market intelligence, identification and development of foreign customers and navigating foreign government regulatory approvals and procedures.

As a medical device manufacturer, I find it easy to identify the largest hurdle we face in exports—the myriad regulatory regimes we confront around the world, which often have conflicting guidelines and requirements. As one example, I just returned from China, where the government recently undertook major overhauls to its medical device regulations—but is now rolling those updates out piecemeal, without any clear path to follow toward compliance. Regulatory harmonization needs to be an important part of any trade agreement negotiation and U.S. trade strategy now and in the future.

## III. Global Competition Is Fierce

Just as U.S. manufacturing and trade have grown, so too has world manufacturing production and trade in manufactured goods. Global manufacturing value-added production has grown substantially over the past 25 years, as has global trade in manufactured goods annually. The United States continues to occupy a strong share of global trade in manufactured goods, even as other countries have continued to grow. Even though we represent only 5 percent of the world's population and 10 percent of the global economy, U.S. value-added manufacturing production accounts for 16.9 percent of global manufacturing value-added output.<sup>5</sup>

Countries such as Germany, Mexico and China, however—along with others across Asia, Europe and the Western Hemisphere—have undertaken much more active programs to spur their industries' exports and entry into foreign markets, particularly aiding small businesses, which typically face the largest barriers to exports and sales overseas. These activities include the following:

- **Free Trade Agreements:** Of the more than 270 free trade agreements (FTAs) worldwide, the United States is party to only 14 FTAs with 20 countries. Notably, every member of the European Union (EU) has tariff and barrier-free access to all other 27 EU nations, as well as

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<sup>5</sup> World Bank, World Development Indicators, accessed at <http://wdi.worldbank.org/table/4.3>.

being part of FTAs with more than 40 countries. The EU is also actively negotiating trade agreements with many markets critical for U.S. exports, including an updated agreement with Mexico and a new agreement with Japan, and recently concluded negotiations with Vietnam. Mexico has FTAs with more than 40 countries, while China has FTAs with 20 countries, partial FTAs with another four countries and is in numerous active negotiations.<sup>6</sup> The United States is only currently in active negotiations to modernize the North American Free Trade Agreement (NAFTA) and has not initiated any new trade agreement negotiations with countries beyond existing FTA partners.

- **Export Credit Assistance:** More than 90 countries back export credit agencies (ECAs) that work overtime every day to support the success of their own domestic industries in foreign markets. The ECAs of our top-nine trading partners provided nearly half a trillion dollars in official annual export support, and countries like China, South Korea, Canada and Brazil have increased their ECA export support massively. At the same time, our own Export-Import (Ex-Im) Bank has been hobbled since 2015, lacking a sufficient quorum of members, which—among other problems—prevents the bank from implementing Congress’ reforms or approving loans greater than \$10 million.
- **Other Forms of Export Assistance:** Countries in Europe, Asia and throughout the Western Hemisphere provide other forms of assistance to their industries to enter into foreign markets. Some of the programs are similar to those offered by the U.S. Department of Commerce, the Small Business Administration (SBA), the Overseas Private Investment Corporation, the Trade and Development Agency and other U.S. programs, although many other countries provide more resources, staff, services and emphasis on export promotion than in the United States and easier access to export financing.

#### **IV. Proposals to Improve the Trade Landscape for Small Manufacturers**

As this committee considers initiatives that would help grow small businesses through greater trade engagement, let me propose three key approaches:

##### **1. Negotiate and Implement Market-Opening, High-Standard and Enforceable Trade Agreements**

BTE, like many other small business manufacturers, has benefitted significantly from market-opening agreements, including NAFTA and the U.S.–Korea Free Trade Agreement (KORUS FTA).

For BTE alone, we saw growth in exports to South Korea of 130 percent once the United States ratified the KORUS FTA. Negotiating additional trade agreements to eliminate foreign barriers, raise standards, address regulatory barriers and provide strong enforcement tools to hold other countries accountable will better enable companies like BTE to expand overseas sales and thereby help support manufacturing and grow jobs here in the United States. We look forward to learning more about updates to the KORUS FTA that have been announced.

Of top importance is maintaining and growing strong commercial engagement throughout North America given that the North American<sup>7</sup> commercial market is the most important market in

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<sup>6</sup> Data compiled from World Trade Organization, Regional Trade Agreements database, accessed at <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

<sup>7</sup> For purposes of this submission, North America will refer only to Canada, Mexico and the United States unless stated otherwise.

the world. For that reason, manufacturers are seeking a successful NAFTA modernization. Canada and Mexico are the two largest foreign purchasers of U.S.-manufactured goods, purchasing one-third of all U.S.-manufactured goods exports in 2017, more than the next 10 U.S. trading partners combined. AT BTE, NAFTA is critical for trade in both directions, as we import manufactured subcomponents for our assembly operations in the United States and export finished goods back to Canada. In addition, our workplace safety business has a Canadian subsidiary, which could be greatly affected—positively or negatively—by the modernization of NAFTA depending on the outcomes achieved.

The deep North American commercial relationship has grown with partnerships that manufacturers in the United States have built with businesses in Mexico and Canada, enabling manufacturing in the United States to be more competitive globally than if those partnerships did not exist. U.S. manufacturing output has nearly doubled since NAFTA was negotiated, and U.S.-manufactured goods exports to Canada and Mexico alone support the jobs of more than 2 million men and women in the United States. Most U.S. manufacturing sectors (36 out of 42) count Canada or Mexico as their top foreign purchasers, and Canada or Mexico are also the largest or second-largest export market for manufacturers in 46 U.S. states.

NAFTA was negotiated more than 24 years ago, before many of the major technological and energy innovations that have helped change what and how the United States manufactures here and currently can be updated. To that end, the NAM put forward a 10-point plan in June 2017 to modernize NAFTA in a manner that will eliminate barriers, raise standards and strengthen enforcement to grow manufacturing and jobs in the United States. In particular, the NAM is seeking a modernized and improved NAFTA that will:

- Eliminate remaining distortions and barriers in Canada and Mexico;
- Raise standards to U.S. levels, including with respect to science-based regulatory practices, transparency, competition, the protection of private property and investment overseas and intellectual property;
- Include new digital trade provisions important to small manufacturers and those creating and relying on new technologies;
- Remove unnecessary red tape at the border and duplicative regulations that hold manufacturers back;
- Seek greater collaboration by the United States, Canada and Mexico to take action to stop trade cheating from third countries; and
- Maintain and enhance neutral and strong enforcement mechanisms, including investor-state dispute settlement, so-called ISDS.

Any outcomes from the ongoing NAFTA modernization negotiations must sustain and grow higher-paying American jobs and fuel U.S. manufacturing production, exports and competitiveness. To be successful, a renegotiated NAFTA must also be fully consistent with the substantive Trade Promotion Authority trade-negotiating objectives contained in the Bipartisan Congressional Trade Priorities and Accountability Act of 2015. At the same time, it is vital to ensure that any renegotiation does not set back U.S. manufacturing or manufacturing jobs. Changes to NAFTA that would increase red tape and complexity, substitute government decision-making for the free market or raise taxes, tariffs, merchandise processing fees and other cost barriers—including with respect to rules of origin or concerning restricted access to foreign procurement markets—will undermine, rather than incentivize, manufacturing in the United States and North America more broadly.

The NAM is working with the Trump administration and Congress to support outcomes that will meet these objectives and, in turn, grow manufacturing, improve competitiveness and secure more well-paying jobs across the United States.

Beyond NAFTA, manufacturers are interested in opening markets in Europe, Asia, the Western Hemisphere and beyond.

## **2. Restore the Ex-Im Bank to Full Functionality and Provide Other Export Credit Opportunities**

Export credit remains a real and significant issue for small business exports. For companies like BTE that sell to foreign government-run hospitals, the Ex-Im Bank has played a critical role in our ability to win foreign contracts. Unfortunately, since mid-2015, the Ex-Im Bank has been operating well below capacity, unable to consider loans greater than \$10 million. As a result, manufacturers in the United States have lost billions of dollars in deals, and tens of thousands of American workers have lost opportunities for well-paying jobs supported by the exports that the Ex-Im Bank could have helped secure. Currently, we are pressing the Senate to move forward on the four board nominees awaiting confirmation so that the Ex-Im Bank can be returned to full functionality.

In addition, we support programs like the SBA's State Trade and Export Promotion (STEP) program and other mechanisms that will provide small manufacturers greater access to credit for overseas sales and domestic expansions.

## **3. Tailor and Improve U.S. Market and Export Promotion Assistance**

Manufacturers like BTE Technologies greatly benefit from coordinated commercial advocacy across the U.S. government, improved trade promotion coordination between state and federal governments and better access to user-friendly market data to help promote small business access to overseas markets. Many small manufacturers are, for instance, working with the NAM in its efforts with the Department of Commerce and other U.S. government agencies to heighten the U.S. strategy for addressing differential, discriminatory and nontransparent regulatory regimes and technical standards overseas. More focus on this type of work is needed.

In the past three years, BTE has benefited directly from the SBA's STEP program, receiving grants to offset costs of participating in trade events in Europe and the Middle East. Conservatively, we have seen a return on these endeavors in excess of 100 to 1 for every grant dollar put to work in our company.

## **V. Conclusion**

Trade is vital for our nation's small business manufacturers. We need open markets and strong, enforceable agreements that eliminate barriers and set in place strong rules to promote fairness. Small manufacturers also need to be on a level playing field with our competitors overseas when it comes to export financing and the range of export promotion activities so that our manufacturers can compete and succeed in markets around the world.

Chairman Chabot, Ranking Member Velázquez and members of the committee, thank you for your work on global trade and competitiveness issues on behalf of small businesses and for holding this hearing.