

**Statement by Maurice Kogon**  
**Before the**  
**U.S. House of Representatives Committee on Small Business**  
  
**Impact of U.S. National Export Strategy on Small Business**

**July 27, 2011**

Chairman Graves, Ranking Member Velasquez, and Committee members. Thank you for the opportunity to testify here today.

My name is Maurice Kogon. I have worked in the international trade field for over 50 years – at the federal and state level, with a U.S. multinational, as a small business owner, and as an educator.

My testimony today raises a basic question about the National Export Initiative (NEI) – specifically, does it adequately meet needs of the thousands of small businesses that are or could be exporting? In my view, it is not yet as relevant or as helpful as it could be to meet needs of this vital constituency.

I have three main points. **First**, the NEI has an ambitious goal to double exports in five years, but not a strategy that will get us there. The strategy relies too much on global economic factors we cannot control, while the programs we can control are not focused enough on the small businesses that most need export help, and also not enough on the services they most need at critical early stages. The NEI's export promotion programs are basically only what the government can afford, not on what can best help small businesses at each stage of their export development. Far too many small businesses with export potential are left to fend for themselves. Claims that the NEI is “on pace,” based on recent large export gains, belie the reality that most of these gains came from recovery in world import demand and would have happened anyway.

**My second point** is that the NEI does not adequately address what I see as our national export “paradox,” – that *while we are a very large exporting nation, we are not a nation of exporters*. Roughly 85% of U.S. manufacturers do not export at all, and over half of the 15% that do export sell only to Canada or Mexico. The NEI addresses the half of the 15%, the “low-hanging fruit,” but essentially writes off the far larger group of potential new exporters in the 85%. U.S. exports would increase significantly if we could get more of the 85% into the export base. For that, in my view, we need to go beyond a low-hanging fruit strategy. We need what I call a “fertilize the tree” strategy to “optimize” exports; that is, to increase exports to our full national potential and capacity as a nation, at whatever level that might be. An optimization strategy would focus not just on getting existing exporters into new markets, but would also cultivate the far larger group of potential new exporters that could most contribute to long term export expansion. It would have two interrelated goals:

**First, we need to increase U.S. exports as a percent of GDP.** Although we are the world's third largest exporter, our exports-to-GDP ratio lags well below our major world competitors. For example, Germany is at 45%, we are at just 13%. Our competitors, with comparable economies and competing in the same global marketplace, are more fully exporting to their capacity. We have the potential to close this gap. We are, after all, the manufacturing powerhouse of the world and the world leader in innovation and technology. And, most of our manufacturers are not even exporting yet.

**Second, we need to increase the number of new exporters.** We could come much closer to our national export potential if more non-exporters were to start exporting. We now have roughly 280,000 actual exporters in the U.S. As noted, they account for only 15% of all manufacturers. Many of the 85% non-exporting manufacturers may well have export potential. Why? For one reason, they have succeeded in the world's toughest market, our own, against the same competition they would face in foreign markets. If they can sell competitively here, they have the potential to export to at least one, or perhaps even many, of the roughly 200 markets outside the U.S.

If my suggested priority on new exporters makes sense, why is the NEI so narrowly wedded to the low-hanging fruit? The reason is, and I agree, they can't afford to do both. Limited resources should be reserved for the export-ready firms able to make the best use of trade promotion and matchmaking services. But that misses the larger point. The new-to-export sector is too important to ignore or write off. The solution is obvious. It is not to stretch federal resources further, but to collaborate with non-federal partners well equipped to fill the gap.

This gets to my **third and final point** -- the need for systematic collaboration with non-federal partners. The vast network of state and local export assistance organizations could be part of an overarching export optimization strategy to both fertilize the tree and pick the low hanging fruit. Centers like mine and others are at the grass roots of potential new exporters. We have the expertise and resources and are ready and willing to engage in a meaningful collaboration.

Unfortunately, I don't see a federal mindset, plan or mechanism to collaborate. The NEI is more concerned with internal collaboration within the TPCC. It gives abundant lip-service to collaboration with others, but not much else. Here's what real collaboration would look like in my view. Non-federal partners would have a seat at the TPCC table. They would help plan and develop a holistic export optimization strategy that shares data on potential and existing exporters, jointly recruits prospects, reconciles programs to reduce wasteful duplication and overlap, and coordinates the seamless delivery of complementary services to both new and existing exporters.

Before concluding, let me emphasize that my concern is with federal strategy, not with the actual programs. They do increase exports, and do have a high ROI to justify their cost. The only problem is that they don't go far enough and don't meet enough small business needs.

Thank you again for the opportunity to share my thoughts. My written submission elaborates on all my points today, including specific needs of small businesses through all export stages, from start-up to getting paid.

## **Committee Questions Responded to by Maurice Kogon**

### **Question by Ranking Member VELAZQUEZ**

Mr. Kogon and all of you, it has been incredibly helpful to us, your testimony, and specifically your experience in the exporting business. Mr. Kogon, you said you do not have any issue with the program but the strategy. In putting together the formulation of the strategy, did the administration reach out to any of you, or do you know of any input that was requested from businesses that are in the exporting business?

### **Response by Mr. KOGON.**

When the NEI was first issued, there was an opportunity to submit comments to the TPCC. I submitted a very detailed white paper saying basically what I said today, but in much more detail and laying out a complete strategy that I thought would be more effective. I do not believe anybody paid any attention to that frankly, and I thank the Committee for recognizing that that paper exists.

### **Question by Ranking Member VELAZQUEZ**

Mr. Kogon, I asked the representative from the USDA the question that the strategy was predicated into the success of trade agreements -- Korea, Panama, and Colombia. What will happen to the strategy if we do not get those trade agreements ratified?

### **Response by Mr. KOGON**

The strategy is multifaceted, including the reduction of trade barriers. However, its success is not dependent just on that. Even without ratification of the FTAs, they are already claiming success of the strategy based on export increases of the past two years. I think that is the wrong and risky measure of success. For example, a couple of years ago, exports went way down, and I do not think they would blame that on bad strategy. So I think strategy is not really the driving force here. It is what we can do to help companies get into exporting.

### **Question by Chairman GRAVES**

For all, how important is it to help exporters with market planning and marketing?

### **Response by Mr. KOGON**

Mr. Chairman, I would like to comment on that. For new-to-export companies, which is my focus today, both are important, but SBA and Commerce are not adequately providing these services. SBA does not have the export competence to do it, and the Commerce USEACs are not interested in helping new-to exports; they are focused on the new-to-markets. However, it is not one thing or two things you can do. That is why our center developed a seven-step export enabler program. We start with assessing whether the company has the potential and readiness to export. Then we train them on how to export. Then we provide the research to identify which markets are most promising and what is the best strategy to get into those target markets. Then we help them develop an export market plan. And the market plan would address the distribution, pricing, promotion, and adaptation strategy in each target market. Then we move to the marketing, the promotion, to implement those aspects of the market plan. So we take them to trade shows or we recommend that they improve their website or they do all the marketing things. And the seventh step is the matchmaking.

Matchmaking through Gold Keys is very important. What you should know is the U.S. and Foreign Commercial Service is no longer able to provide the level of Gold Key support that is needed. And when the STEP Program comes along with more demand for Gold Keys, it is going to be a mess -- there are going to be some problems.