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## **Raw Deals for Small Businesses: U.S. Small Firms Have Endured Slow and Declining Exports under “Free Trade” Deals**

Large corporations pushing for the Trans-Pacific Partnership (TPP) and Trans-Atlantic Free Trade Agreement (TAFTA), two sweeping deals under negotiation that would expand the status quo trade model, have created a new sales pitch: these controversial pacts would be a gift not primarily to them, but to *small* businesses.<sup>1</sup> The Obama administration has made similar claims that these pacts would help U.S. small firms boost exports,<sup>2</sup> often on the basis that small and medium enterprises (SMEs) comprise most U.S. exporters.<sup>3</sup>

But SMEs comprise most U.S. exporting firms simply because they constitute 99.7 percent of U.S. firms overall.<sup>4</sup> The more relevant questions are what share of SMEs actually depend on exports for their success, and for those that actually do export, how have they fared under the “free trade” agreements (FTAs) serving as a model for the TPP and TAFTA?

Only 3 percent of U.S. SMEs (firms with fewer than 500 employees) export any good to any country. In contrast, 38 percent of large U.S. firms (with more than 500 employees) are exporters.<sup>5</sup> Even if FTAs actually succeeded in boosting exports, which government data show they do not,<sup>6</sup> exporting is primarily the domain of large corporations, not small businesses.

The relatively few small businesses that do actually export have seen even more disappointing export performance under FTAs than large firms have seen. Small firms have endured a particularly steep fall in exports under the Korea FTA (the U.S. template for the TPP), particularly slow export growth under the North American Free Trade Agreement (NAFTA, the U.S. template for the Korea FTA), and declining export shares under both deals.

- **U.S. small businesses have seen their exports to Korea *decline* even more sharply than large firms under the Korea FTA.** U.S. Census Bureau data reveal that both small and large U.S. firms saw their exports to Korea fall in the FTA’s first two years (the latest available data separated by firm size), compared to the year before implementation. But small firms fared the worst. Firms with fewer than 100 employees saw exports to Korea drop 19 percent while firms with more than 500 employees saw exports decline 3 percent. As a result, under the Korea FTA, small firms are capturing an even smaller share of the value of U.S. exports to Korea (14 percent), while big businesses’ share has increased to 67 percent.<sup>7</sup>
- **Small businesses’ exports have lagged under NAFTA.** Corporate and government officials promised that small businesses would be major winners from NAFTA. Instead, growth of U.S. small businesses’ exports to all *non-NAFTA* countries was *nearly twice as high* as the growth of their exports to NAFTA partners Canada and Mexico from 1996 to 2013 (the earliest and latest years of available data separated by firm size). Small firms’ exports to NAFTA partners increased by 39 percent, while their exports to the rest of the world grew by 77 percent, according to U.S. Census Bureau data.<sup>8</sup>

- **Small firms' exports to Mexico and Canada under NAFTA have grown less than half as much as large firms' exports to NAFTA partners** (39 percent vs. 93 percent in the 1996-2013 window of data availability). As a result, U.S. small businesses' share of total U.S. exports to Mexico and Canada has fallen under NAFTA. U.S. firms with fewer than 100 employees saw their share of U.S. exports to NAFTA partners decline from 14 to 10 percent from 1996 to 2013. Had U.S. small firms not lost their share of exports to Canada and Mexico under NAFTA, they would be exporting \$18.6 billion more to those nations today.<sup>9</sup>
- **NAFTA has done nothing to change the fact that a miniscule portion of U.S. small businesses export.** After 20 years of NAFTA, just 0.6 percent and 1.1 percent of U.S. small businesses exported to Mexico and Canada, respectively, compared to 19 percent and 26 percent of large firms (in 2013, the latest year of available data on total firms by size).<sup>10</sup> Selling another FTA as a boon for small business exports contradicts the empirical evidence.

## ENDNOTES

<sup>1</sup> See, for example, Garrett Workman, "The Transatlantic Trade and Investment Partnership: Big Opportunities for Small Business," Atlantic Council, November 2014. Available at:

[http://www.atlanticcouncil.org/images/publications/TTIP\\_SME\\_Report.pdf](http://www.atlanticcouncil.org/images/publications/TTIP_SME_Report.pdf). The report was funded by FedEx.

<sup>2</sup> See, for example, Michael Froman, testimony before the House Ways and Means Committee, January 27, 2015.

Available at: [http://waysandmeans.house.gov/uploadedfiles/testimony\\_ustr\\_012715.pdf](http://waysandmeans.house.gov/uploadedfiles/testimony_ustr_012715.pdf).

<sup>3</sup> See, for example, U.S. Department of Commerce, "Fact Sheet: National Export Initiative," May 24, 2013. Available at: <http://www.commerce.gov/news/fact-sheets/2013/02/19/fact-sheet-national-export-initiative>.

<sup>4</sup> U.S. Census Bureau, "Statistics of U.S. Businesses (SUSB): U.S. & states, totals" U.S. Department of Commerce, 2012, January 23, 2015. Available at: <http://www.census.gov/econ/susb/>.

<sup>5</sup> U.S. Census Bureau, "Statistics of U.S. Businesses (SUSB): U.S. & states, totals" U.S. Department of Commerce, 2012, January 23, 2015. Available at: <http://www.census.gov/econ/susb/>. U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2012 – 2013," U.S. Department of Commerce, Exhibit 5a, April 7, 2015. Available at: <https://www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf>.

<sup>6</sup> Government data show that existing FTAs have actually failed to boost U.S. exports for U.S. firms overall, as exports have grown more slowly to FTA countries than to the rest of the world over the last decade. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed February 11, 2014. Available at: <http://dataweb.usitc.gov/>.

<sup>7</sup> U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2011 – 2012," U.S. Department of Commerce, Exhibit 5b, April 3, 2014. Available at: <http://www.census.gov/foreign-trade/Press-Release/edb/2012/edbrel.pdf>. U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2012 – 2013," U.S. Department of Commerce, Exhibit 5a, April 7, 2015. Available at: <https://www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf>. Figures reflect the inflation-adjusted change in exports to Korea from 2011 to 2013 for U.S. exporters with fewer than 100 employees and U.S. exporters with more than 500 employees.

<sup>8</sup> U.S. Census Bureau, "A Profile of U.S. Exporting Companies, 1996-1997," U.S. Department of Commerce, Exhibit 5a, 1997. Available at: <https://www.census.gov/foreign-trade/aip/edbrel-9697.pdf>. U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2012 – 2013," U.S. Department of Commerce, Exhibit 5a, April 7, 2015. Available at: <https://www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf>. Figures reflect the inflation-adjusted change in exports to Canada and Mexico from 1996 to 2013 for U.S. exporters with fewer than 100 employees and U.S. exporters with more than 500 employees.

<sup>9</sup> U.S. Census Bureau, "A Profile of U.S. Exporting Companies, 1996-1997," U.S. Department of Commerce, Exhibit 5a, 1997. Available at: <https://www.census.gov/foreign-trade/aip/edbrel-9697.pdf>. U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2012 – 2013," U.S. Department of Commerce, Exhibit 5a, April 7, 2015. Available at: <https://www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf>. Figures reflect the inflation-adjusted change in exports to Canada and Mexico from 1996 to 2013 for U.S. exporters with fewer than 100 employees and U.S. exporters with more than 500 employees. Dollar amount expressed in 2015 U.S. dollars.

<sup>10</sup> U.S. Census Bureau, "A Profile of U.S. Importing and Exporting Companies, 2012 – 2013," U.S. Department of Commerce, Exhibit 5a, April 7, 2015. Available at: <https://www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf>. U.S. Census Bureau, "Statistics of U.S. Businesses (SUSB): U.S. & states, totals" U.S. Department of Commerce, 2012, January 23, 2015. Available at: <http://www.census.gov/econ/susb/>. Figures reflect a comparison of firms with fewer than 100 employees and firms with more than 500 employees.