NATIONAL CENTER FOR
THE MIDDLE MARKET

Winning in the Americas

Middle Market Trade and Investment in North, Central, and South America

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET AND FEDEX WITH KATI SUOMINEN OF NEXTRADE GROUP, LLC

IN COLLABORATION WITH

The Ohio State University
Fisher College of Business

SunTrust

Grant Thornton

Cisco

FedEx Express

NEXTRADE GROUP, LLC

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About This Report

THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that employ 44.5 million people and generate more than $10 trillion in combined revenue annually.* The middle market is defined by companies with annual revenues between $10 million and $1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses and sole proprietorships. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs.* The U.S. middle market is the segment that drives U.S. growth and competitiveness.

HOW THE SURVEY WAS CONDUCTED

The National Center for the Middle Market, in partnership with FedEx and Nextrade Group, LLC, surveyed 400 C-level middle market executives actively involved in financial decisions for their organizations and whose companies are already engaged in international markets. The Center, FedEx, and Nextrade Group, LLC designed the survey to identify trade and investment activities of middle market companies in the Americas and understand best practices of internationalized middle market firms. Respondents completed the 15-minute, self-administered survey online between June 20, 2016 and June 27, 2016. This report was jointly designed and prepared by the National Center for the Middle Market, FedEx, and Nextrade Group, LLC in collaboration with author and Kati Suominen, Founder and CEO of both Nextrade Group, LLC and Trade Up Capital Fund; Adjunct Professor at UCLA Anderson School of Management; and Adjunct Fellow, Center for Strategic and International Studies (CSIS).

THE NATIONAL CENTER FOR THE MIDDLE MARKET

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, SunTrust Banks Inc., Grant Thornton LLP, and Cisco Systems. It exists for a single purpose: to ensure that the vitality and robustness of middle market companies are fully realized as fundamental to our nation's economic outlook and prosperity. The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector. To learn more visit: **www.middlemarketcenter.org**.

FEDEX

FedEx Corp. (NYSE: FDX) provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce and business services. With annual revenues of $58 billion, the company offers integrated business applications through operating companies competing collectively and managed collaboratively, under the respected FedEx brand. Consistently ranked among the world's most admired and trusted employers, FedEx inspires its more than 400,000 team members to remain "absolutely, positively" focused on safety, the highest ethical and professional standards and the needs of their customers and communities. For more information, visit **news.fedex.com**.

NEXTRADE GROUP, LLC

Nextrade Group is a Los Angeles-based research and platform company that helps leading governments, multilateral development banks, think tanks, trade associations, and corporations to propel trade and digitization in the 21st century global digital economy. Since its founding in 2013, Nextrade has been hired by such global clients as the World Bank, Inter-American Development Bank, Asian Development Bank, Brookings Institution, the United Nations, U.S. Agency for International Development, and the U.S. Small Business Administration. Learn more at **www.nextradegroupllc.com**.

**Source: Dun & Bradstreet*

Executive Summary

The Americas are the most important international market for U.S. middle market companies, with Canada and Mexico ranking as the first and second most important trading partners. Internationalized middle market companies get more than 16% of their revenue, foreign and domestic, from the Western Hemisphere.

Trade and investment flows between the United States and Latin America and the Caribbean have surged over the past 20 years on the back of economic growth; Latin America's extensive privatization, deregulation, and trade and investment liberalization; and the formation of free trade agreements among the United States and Mexico, Central America, Chile, Peru, and Colombia. Latin America is a significant trading partner for the United States, consistently making up 20-25% of total U.S. exports and imports. Notably, U.S. businesses export over three times more to Latin America and the Caribbean than to China. From 2000-12, U.S.-Latin America trade more than doubled, growing faster than U.S. overall trade and U.S. trade with Asian economies.

With the maturation of the North American Free Trade Agreement (NAFTA) launched in 1994, the United States, Canada and Mexico have increasingly become a single, integrated production zone.

These trends notwithstanding, most U.S. companies have yet to fully exploit growth opportunities in the Americas—and middle market companies in particular are leaving money on the table by not taking sufficient advantage of opportunities to sell and buy in the Western Hemisphere. With global demand slowing and labor costs rising in China, and with Brexit likely to have negative impacts on U.K. and Continental growth, middle market leaders have as much reason to look north and south as they have had to look east and west for new pockets of growth and supply chain efficiencies.

Demand is growing robustly in the economies of many U.S. free trade agreement partners in the Americas; Latin America's planned investments in infrastructure are opening up new export opportunities for U.S. equipment manufacturers and engineering services; and, using smartphones to buy online and having more disposable income, Latin American consumers are an increasingly vibrant market for U.S. retailers. The Trans-Pacific Partnership, which includes U.S. FTA partners Mexico, Chile and Peru, along with the overlapping 300 million-consumer market Pacific Alliance free trade area formed by Mexico, Colombia, Peru, and Chile, would offer U.S companies new production platforms and sales opportunities in Latin America.

While many U.S. middle market companies are already actively tapping these markets, little is known about their performance, future plans, or lessons learned. This report helps fill that gap. This report pioneers in mapping the middle market's existing trade and investment relations in the Americas and globally and to analyze the risks and opportunities that middle market leaders perceive in the Americas. This report also identifies gaps in policy and access to financial and other support that hold back the middle market, and strategies that executives can follow to win more business in the Americas.

Key Takeaways for Middle Market Firms

HALF OF SURVEYED MIDDLE MARKET COMPANIES IN THE U.S. EXPORT TO FOREIGN MARKETS AND HALF IMPORT

Of these internationally active middle market companies, 58% are two-way traders, (i.e. both export and import). Canada, Mexico, Europe and China are the main trade partners as well as expansion targets. Middle market exporters are primarily driven by a desire for market expansion; importers are motivated by cost and access to raw materials.

THE MIDDLE MARKET SEES MOST COUNTRIES IN THE AMERICAS—PARTICULARLY CANADA, THE CARIBBEAN, AND CENTRAL AMERICA—AS RELATIVELY EASY TO ENTER

Mexico is in between these two extremes, viewed as easy to enter by 48% of middle market leaders. Typically high transport costs, political risks, and difficulties in finding the right foreign partners hold middle market companies' foreign expansion back.

MIDDLE MARKET COMPANIES CAREFULLY MANAGE THE RISKS OF GLOBALIZATION

They move step-by-step, staging their entry into international markets, and they are careful to conduct strategic reviews of their international efforts. While they expect internationalization to be difficult, the diligent management of overseas growth opportunities pays off: most middle market companies outperform their export expectations.

PERFORMANCE AND INTERNATIONALIZATION GO HAND-IN-HAND

The most internationalized middle market exporters and importers tend to be the fastest-growing companies. The fastest-growing companies do business in many markets in Latin America; slower-growing firms are likelier to trade with Canada and Mexico only.

MIDDLE MARKET LEADERS GIVE MIXED REVIEWS TO THE ECOSYSTEM OF PLAYERS THAT SUPPORT THEIR INTERNATIONALIZATION

They are largely satisfied with their logistics support and carriers, which are typically large multinational or domestic express shippers. Most, however, are underutilizing or unaware of both private-sector and public-sector sources—especially the latter. Middle market companies seeking information and support for international expansion tend to reach out to their immediate contacts, such as suppliers, customers, and joint venture partners.

A MAJORITY OF MIDDLE MARKET COMPANIES EXPECT EXPORTS TO GROW BOTH WITHIN AND OUTSIDE OF THE AMERICAS IN 2017

Free Trade Agreements (FTAs) are an important tool, especially for exports. The North America Free Trade Agreement (NAFTA) is ranked as most important. While only 60% of middle market companies know about the Trans-Pacific Partnership Agreement (TPP), practically all of them believe that TPP, if approved, would significantly boost their foreign sales and lower supply chain costs.

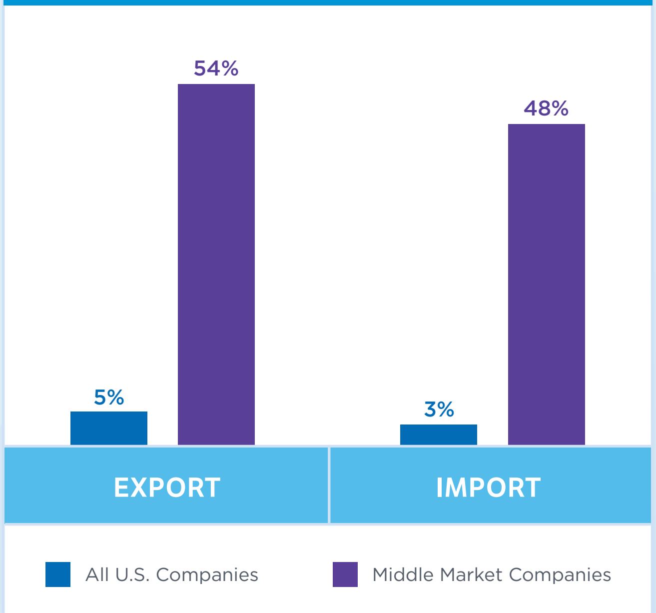
Patterns and Drivers of Middle Market Companies' Trade and Investments in the Americas

Fifty-four percent of the surveyed U.S. middle market companies export to foreign markets and 48% import, thus far outperforming the broader U.S. market, of which some 5% export and 3% import. (Many of these domestic-only companies are small, local businesses—Main Street shops and services.) The results also outpace those of a 2014 National Center for the Middle Market and Brookings Institution study, which found that 40% of middle market companies export.[1]

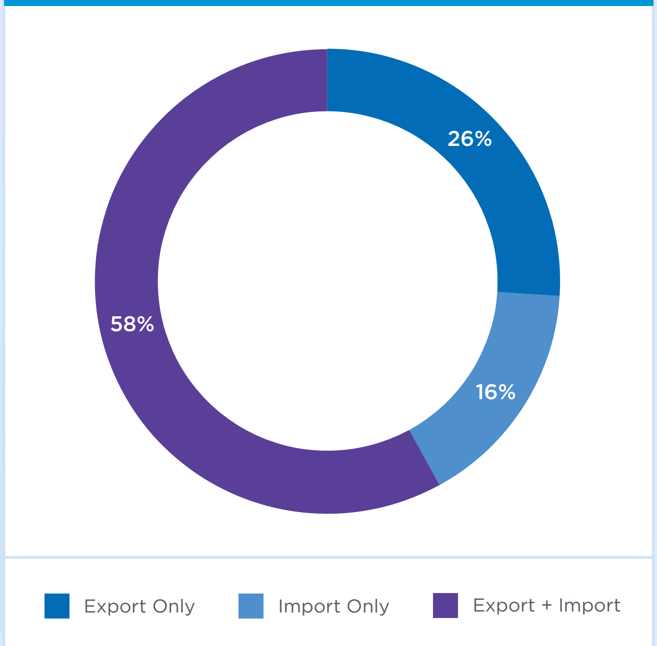
This report focuses only on these internationalized middle market companies. More than one half, or 58%, of these internationalized companies are two-way traders, (i.e. both export and import); 25% only export and some 29% only import. Both exporters and importers have been trading across borders for quite a while. The former have exported for 18 years on average, while importers have purchased from abroad for 16 years on average.

Middle market companies' export activity mirrors overall U.S. trade patterns. Exporting middle market companies receive roughly one-third of their revenue from foreign sales. (This number, too, is higher than in the NCMM–Brookings study.) Canada leads as the destination of foreign sales, making up 9% of companies' total sales and 27% of their exports, followed by Europe (including the U.K.), Mexico and China, which collectively made up about 42% of all middle market exports. A quarter of middle market exporters are particularly heavy exporters—companies that derive more than 50% of their sales from foreign markets.

EXPORT & IMPORT PARTICIPATION BY MIDDLE MARKET COMPANIES VS. ALL U.S. COMPANIES
(% OF COMPANIES EXPORTING OR IMPORTING)



PROFILES OF INTERNATIONALIZED MIDDLE MARKET COMPANIES

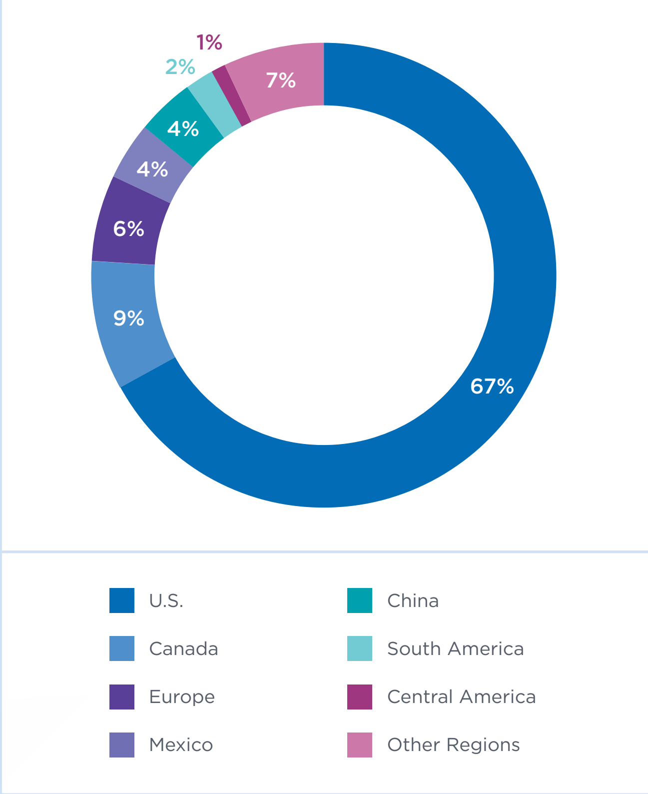


[1] Gootman, Marek, Benjamin Sio, Oded Shenkar and Thomas A. Stewart. 2014. *"Accelerating Exports in the Middle Market: Global Opportunities for U.S. Firms and Metro Areas."* A Report from the National Center for the Middle Market and the Brookings Metropolitan Policy Program <https://www.brookings.edu/wp-content/uploads/2016/06/acceleratingexportsinthemiddlemarket.pdf>.

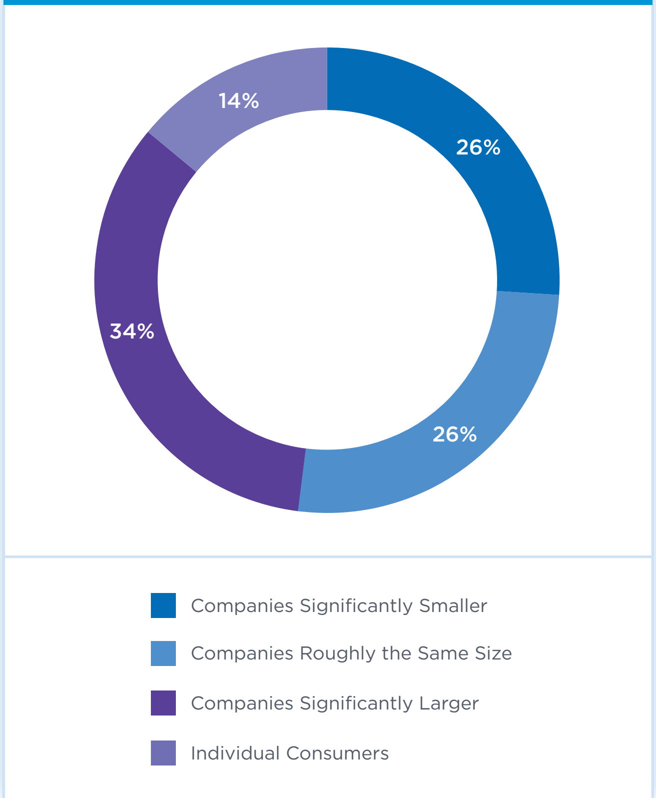
Most middle market companies' exports are finished products; one-third are raw materials and parts. A third of their buyers are large companies, 52% are small companies or other middle market companies; only 14% sell directly to consumers.

Most middle market importers bring in raw materials and parts and components rather than finished products. Imports make up a third of their total raw material purchases. As many as a third of importers are "heavy importers"—that is, more than half of their raw materials and parts and components come from abroad.

INTERNATIONALIZED MIDDLE MARKET COMPANIES' SALES, BY LOCATION



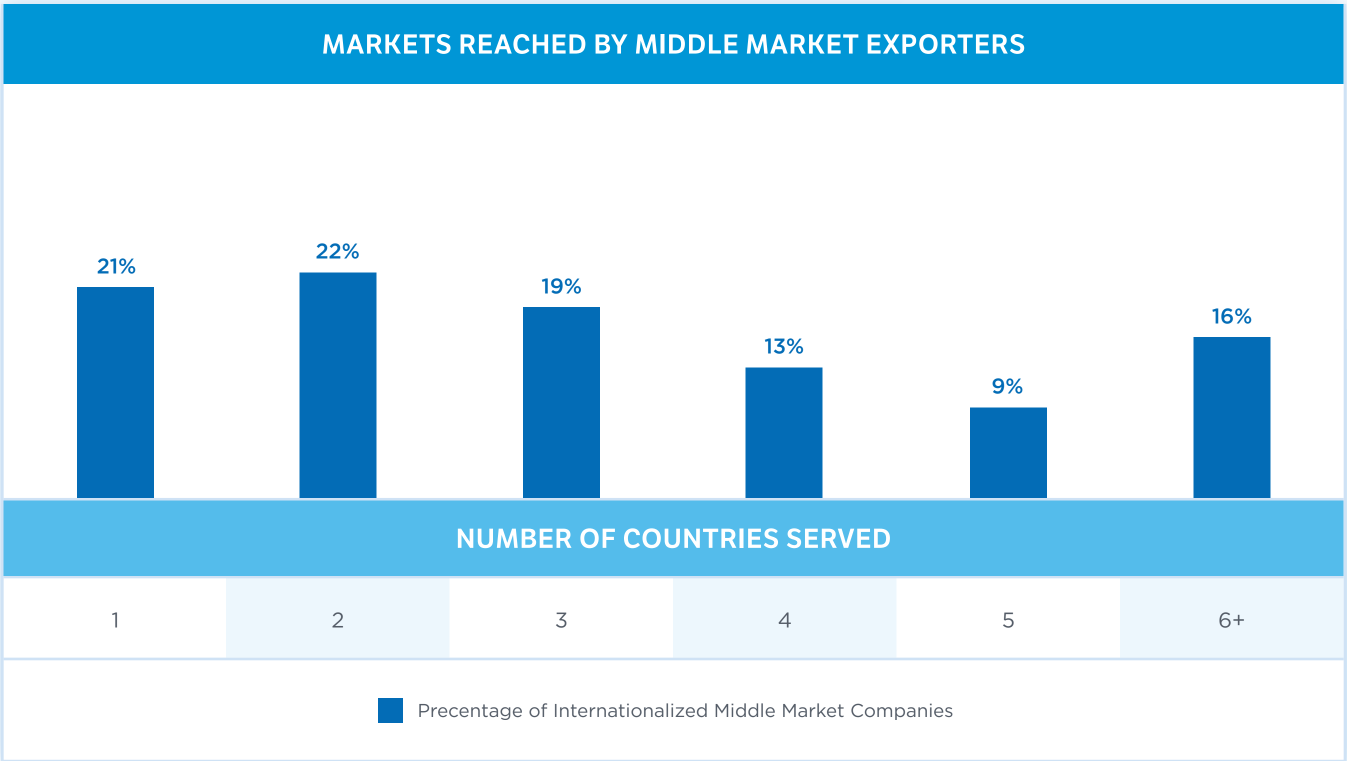
INTERNATIONALIZED MIDDLE MARKET COMPANIES' FOREIGN CUSTOMERS, BY SIZE



Most U.S. exporters are not highly diversified in terms of their export markets. The middle market does somewhat better than the U.S. average: some 43% of middle market exporters sell to one or two foreign markets; 19% sell to three markets, 13% to four, and 9% to five. Some 16% of middle market companies are more prolific exporters, selling to more than five markets. These broad exporters tend to also derive a large share of revenue from foreign markets and be among the more productive companies.

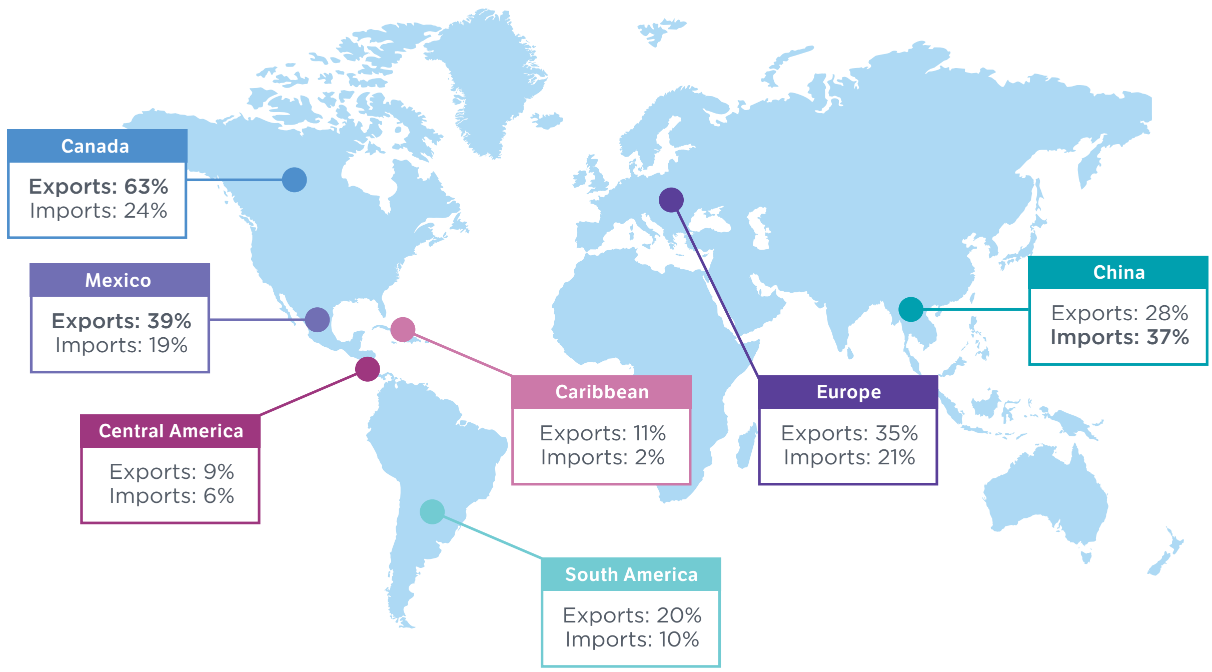
Sixty-three percent of middle market exporters send goods to Canada and 39% to Mexico, making these the top two export markets. Over a third of middle market exporters sell to Europe and 28% to China. As is the case in aggregate trade patterns, China is also the main source of imports in the middle market: 37% of the surveyed companies import from China, 19% from Mexico, and 24% from Canada.

For the U.S. middle market, South America is still a rather unexploited region; 20% of companies export to South America and only 10% import from the region. Brazil is the most important export destination for the U.S. middle market in South America: some 13% of internationalized middle market companies sell there. Six percent sell to Argentina, the same number as sold to China. Because market penetration is relatively small and the region is well covered by FTAs and has cultural affinities with the U.S., South America may represent a significant growth opportunity for the U.S. middle market.



INTERNATIONALIZED MIDDLE MARKET COMPANIES' EXPORT AND IMPORT MARKETS

(% COMPANIES WITH SALES TO OR FROM A MARKET)



Central America	Exports	Imports
Costa Rica	4%	3%
El Salvador	4%	1%
Panama	4%	1%
Belize	3%	1%
Guatemala	3%	2%
Honduras	3%	1%
Nicaragua	2%	1%

South America	Exports	Imports
Brazil	13%	5%
Argentina	6%	2%
Colombia	6%	1%
Chile	4%	3%
Other	3%	1%

Other Locations	Exports	Imports
Other East Asia	15%	12%
Middle East	12%	2%
South East Asia	9%	8%
Australia	9%	2%
India	8%	8%
Africa	6%	3%

How to Succeed as a Middle Market Exporter? Lessons from Paulson Manufacturing

Paulson Manufacturing Corporation of Temecula, California makes products for industrial safety, police equipment, firefighters safety gear and electricians safety equipment. In all there are over 1,000 items manufactured at the California location for sale domestically and on the international market. CEO Roy Paulson started to export from scratch some 15 years ago, initially to the typical countries like Canada and Europe. Today, he exports 25% of his total production. Of the production that is shipped to his domestic accounts, 35% of it is exported – in other words, over half of everything Paulson manufactures is exported.

Paulson built a warehouse and distribution facility in Frankfurt, Germany that handles distribution to the EU market. This organization includes marketing, engineering and warehousing in Germany. The German organization pays all of the tariffs and VAT associated with the import of the products into Germany. This way, the European customers find that doing business with Paulson is just like doing business with a manufacturer located in Germany.

Roy Paulson is highly active in promoting U.S. exports; for example, he is currently the chair emeritus of the National District Export Council. As a board member of the National Association of Manufacturers, he has testified on trade issues on Capitol Hill. He believes U.S. manufacturing is highly competitive and given a level playing field, U.S. manufacturers can compete anywhere. He likes to say, "I have never seen a U.S. manufacturing business that could not export".

As a successful exporter, Paulson Manufacturing has received several accolades; for example, in 2011, the company was named the Small Business Administration (SBA) District Exporter of the Year. These awards focus attention on the business and allow the example of a successful exporter to encourage other businesses to follow this exciting path.

The Latin American market is one of the best markets for developing export sales. There is a high demand for U.S. products and the U.S. standards associated with manufactured goods are generally accepted in this market. Paulson's best repeat business in the Latin American markets have come from partnerships and strong relationships. In many cases they have found that there is no domestic competition for their product in these countries, yet their products are needed and desired.

Roy Paulson's top-three lessons learned on ways to succeed in the export business include:

+ **Lesson 1.** Develop strong relationships with your local distribution in each foreign country. They will represent you and invest into the distribution of your products if you show them the respect they deserve.

+ **Lesson 2.** Visit your customers quarterly and be in communication on a weekly basis. Listen to what they want and provide the product that they need, not just what you want to sell to them.

+ **Lesson 3.** Patience is a virtue and it takes time to develop your international business. However, you must react very quickly to the needs of the international customer or they will find another source.

Paulson Manufacturing supports the Trans-Pacific Partnership (TPP) as a logical extension and modernization of the previous trade deals. Only the Federal Government can execute a trade deal with other nations and these complex agreements take time to come to fruition. As an example, after the Columbian Free Trade Agreement came to force, business has quadrupled for Paulson in that country. The business that Paulson does in Columbia is not just because of the stipulations of the trade agreement, it is also because of the prioritization of working with U.S. companies that came from this historic agreement. We see a similar potential in the TPP, one that will open the door and present opportunities to U.S. companies. The largest potential market associated with the TPP is certainly Japan. The Japanese markets have been traditionally closed or certainly hard to penetrate. With the TPP paving the way into the Japanese markets, we expect a long term and large potential for new business.

The most prolific middle market exporters and importers share further common features: They tend to be the largest and fastest growing companies. One third of middle market companies with 10% or faster revenue growth are heavy exporters (meaning they derive more than 50% of their sales from overseas markets), while only 22% of companies that registered growth rates below 10% are heavy exporters. The fastest-growing companies are also the most prolific importers: 42% of them are heavy importers, whereas only 29% of the slower-growing companies are heavy importers. Of the largest middle market companies, 32% are heavy exporters, while only 21% of the smallest middle market companies claim to be the same.

That outperforming and larger companies are likelier to export than their slower-growing and smaller counterparts is a familiar finding in economics: Such companies are simply better resourced to foot the upfront work and costs required for international expansion, and positive returns from exporting fuel continued globalization.

EXPORT EXPOSURE OF EXPORTERS & IMPORTERS

BY COMPANY SIZE

		50%+ (Heavy)	49%-20%	19%-0%
EXPORTERS	$10M-<$50M	21%	43%	36%
	$50M-<$100M	23%	45%	32%
	$100M-<$1B	32%	43%	25%
IMPORTERS	$10M-<$50M	34%	32%	34%
	$50M-<$100M	39%	32%	29%
	$100M-<$1B	30%	39%	31%

BY GROWTH RATE

		50%+ (Heavy)	49%-20%	19%-0%
EXPORTERS	10%+ Growth	33%	43%	24%
	<10% Growth	22%	44%	33%
IMPORTERS	10%+ Growth	42%	33%	25%
	<10% Growth	29%	36%	35%

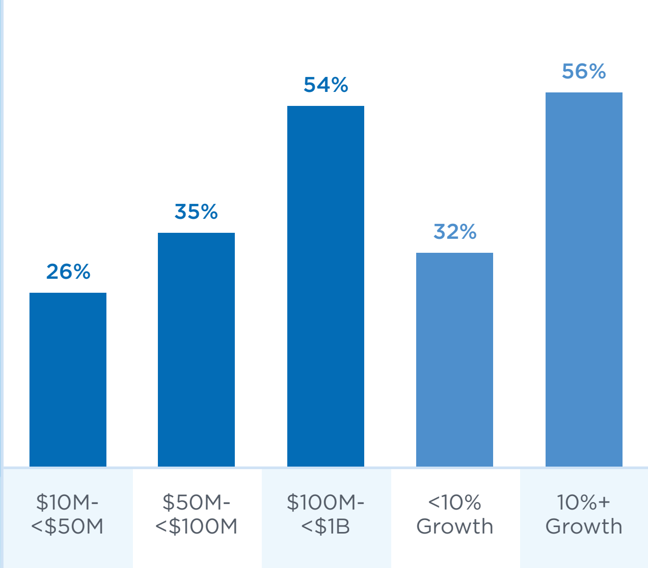
The Power of Heavy Traders: Outperforming Companies Hungry for New Global Markets

The heavy traders also tend to be the largest and best performing companies. However they also share further characteristics:

+ Have international operations in more regions/nations for a longer period of time
+ Are more likely to export than their slower-growing peers
+ Are more likely to expand into Central and South America (i.e. Canada and Mexico)
+ Claim that the challenges they faced were more than they expected, but also that the results they achieved exceeded expectations
+ Are more likely to enter a foreign market using alliances; less likely to set up direct exporting/local sales desk
+ Are more likely to seek and use outside advice and resources
+ Believe the government should actively encourage and provide resources for international business expansion
+ Are more likely to use large multinational shipping companies for exports and imports
+ Claim FTAs increase exports and imports; aware of the Trans-Pacific Partnership and believe it will have positive impacts on trade
+ Are more likely to make investments outside the U.S.
+ More often generate revenue from and make payments for intellectual property transactions outside the U.S.
+ Experienced stronger revenue growth in the past year and expect greater growth in the next 12 months
+ Are more likely to be publicly listed
+ Are more likely to be partially owned by an investor group

On average, 40% of middle market companies that engage in trade also have made investments in production or distribution facilities abroad. The majority of the largest and best performing companies have facilities abroad; two-way traders are likelier than companies that only export or only import to have made an investment overseas, which may suggest they use foreign markets for producing products or components imported to the United States.

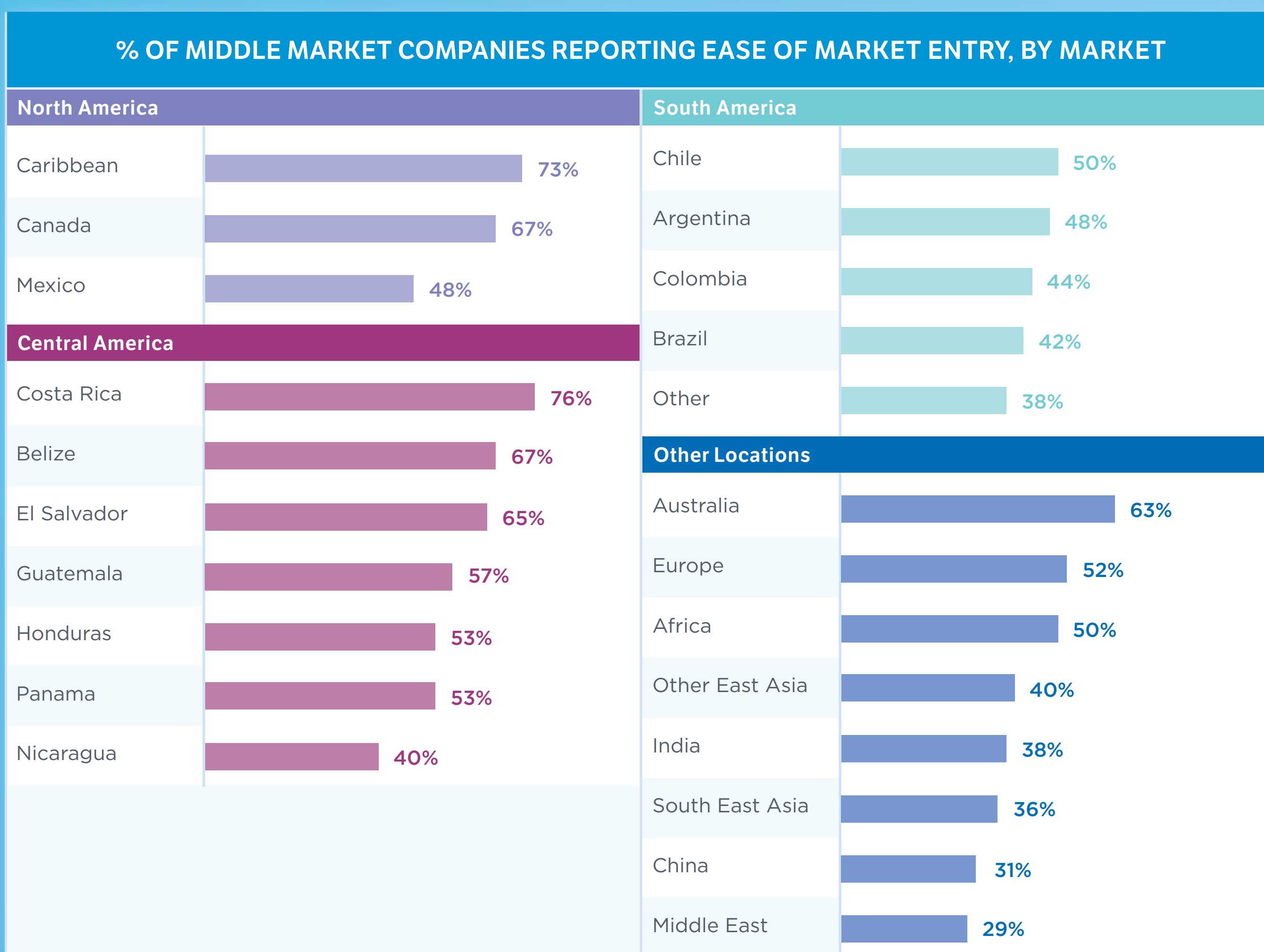
% OF MIDDLE MARKET COMPANIES THAT ENGAGE IN TRADE THAT ALSO REPORT PRODUCTION OR DISTRIBUTION FACILITIES ABROAD, BY SIZE & PERFORMANCE



Middle market exporters that are already exposed to different markets have found it rather easy to enter Canada and the English-speaking Caribbean. Also Costa Rica, Belize, and El Salvador are viewed by the majority of middle market leaders as being rather easy to enter. Brazil has been somewhat harder to crack, possibly due to complex regulations and recent political turmoil. But all Western Hemisphere countries are seen as easier markets to enter than any countries in Asia or the Middle East. The size of some of these markets—China and India particularly—is attractive, but entering them takes more resources than expanding in the Americas does.

What motivates middle market companies to do business abroad? For exporters, the overwhelming reason is the search for revenue. Middle market exporters are overwhelmingly motivated by the search for customers. More than half of exporters cite demand, access to new customers, or the search for larger markets as their reason for going abroad. A significant number, one in five, also cite the value of selling to many markets as a hedge against a downturn in any one of them. Other reasons for exporting include the need to match rivals' moves or the cachet that comes from being known as a global supplier and brand.

Most middle market exporters are achieving these aims. They feel international sales have met their expectations. Only 9% say their exports have fallen below expectations; 47% have hit expectations and 44% either exceeded or far exceeded their expectations.

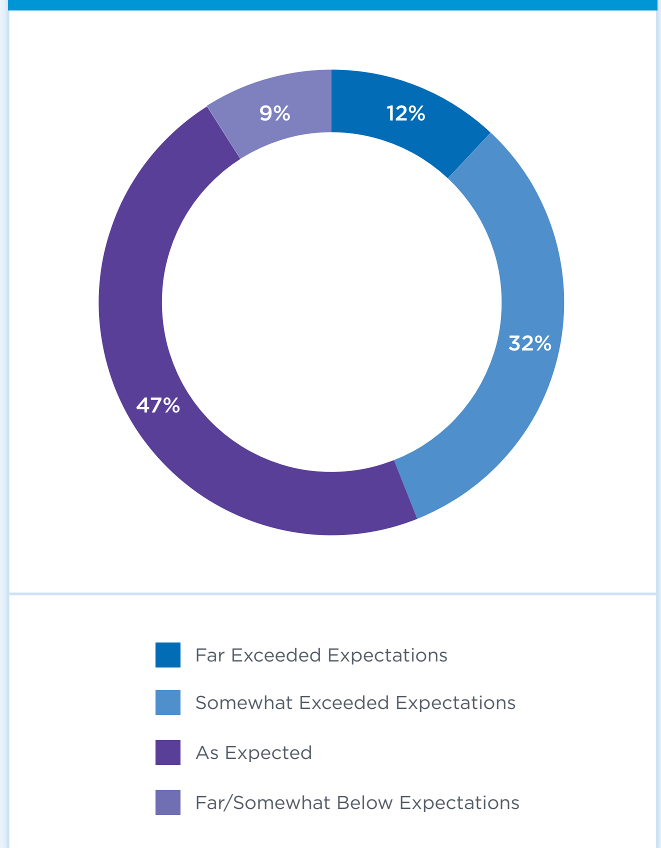


If exports are driven by the top line, imports are motivated by the bottom line. Lower costs and leveraging the strength of the dollar figure high in importers' lists of reasons for their actions, along with gaining access to raw materials, adding backup suppliers to supply chains, and, in some cases, improving the consistency or quality of materials or supplies.

The best-performing middle market companies carefully manage the risks that internationalization involves. They do not rush to many markets at once: they typically internationalize by testing the waters in Canada, Mexico, and Europe. Among the least-seasoned exporters (those with 1-5 years' experience), 74% sell to Canada, 39% to Mexico, and 35% to Europe; of this greenhorn group, only 23% sell in China and 11% in Brazil. Experienced exporters tend to be more exposed to Mexico (53% of companies with 10-19 years as exporters sell to Mexico) and China (33%), respectively.

MIDDLE MARKET COMPANIES' REASONS FOR EXPORTING

PERCEPTIONS OF EXPORTS HAVING MET THEIR EXPECTATIONS



Importers show a different pattern. They tend to deal with China early on; 37% of middle market importers with 1-5 years in importing source from China and 46% from Canada, and only 20% from Mexico. This reflects middle market companies' motivations for cost-savings that have been perceived as significant in China. This pattern may be changing with macroeconomic and trade policy trends that can favor Latin America as a source of supply.

YEARS OF EXPORTING AND TARGET MARKETS FOR EXPORTS

	1-5 YEARS	6-9 YEARS	10-19 YEARS	20-29 YEARS	30+ YEARS
North America					
Canada	74%	72%	76%	75%	78%
Mexico	39%	36%	53%	44%	52%
Caribbean	8%	18%	13%	21%	8%
Central America					
Central America Combined	8%	18%	11%	11%	6%
South America					
Brazil	11%	21%	10%	14%	25%
Argentina	8%	3%	6%	7%	10%
Chile	3%	0%	4%	8%	6%
Colombia	2%	8%	8%	10%	8%
Other	0%	0%	6%	3%	5%
Other Locations					
Europe	35%	26%	36%	60%	44%
China	23%	23%	33%	40%	41%
Middle East	8%	15%	11%	17%	19%
Other East Asia	8%	8%	21%	22%	22%

YEARS OF IMPORTING AND SOURCES OF IMPORTS

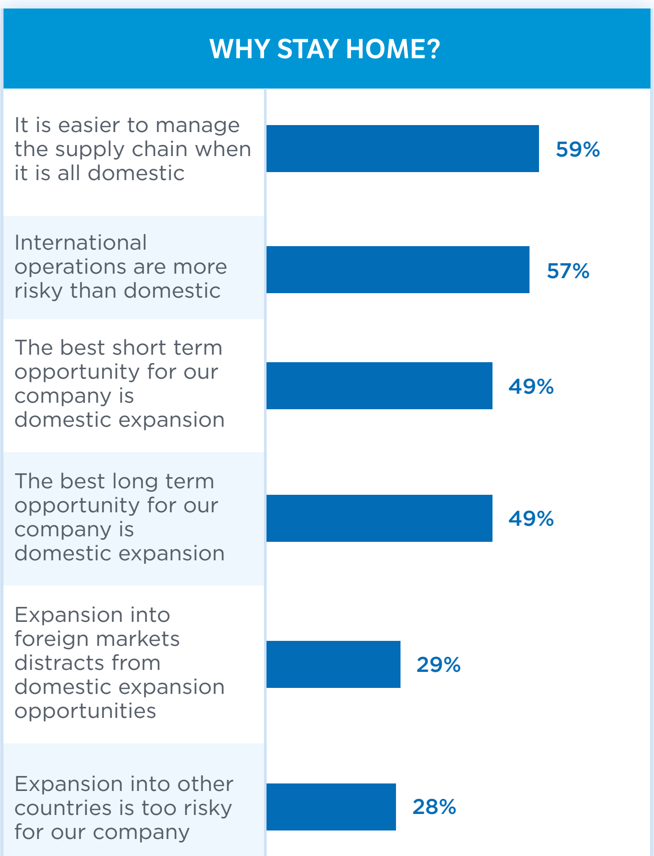
	1-5 YEARS	6-9 YEARS	10-19 YEARS	20-29 YEARS	30+ YEARS
North America					
Canada	46%	32%	26%	32%	25%
Mexico	20%	32%	23%	32%	25%
Caribbean	4%	3%	3%	2%	0%
Central America					
Central America Combined	15%	12%	7%	3%	7%
South America					
Brazil	6%	9%	5%	6%	11%
Argentina	9%	6%	1%	0%	2%
Chile	4%	9%	1%	6%	2%
Colombia	0%	3%	2%	0%	0%
Other	2%	0%	1%	0%	2%
Other Locations					
Europe	20%	41%	22%	34%	34%
China	37%	53%	51%	53%	52%
India	11%	0%	13%	15%	11%
Other East Asia	9%	15%	13%	24%	18%

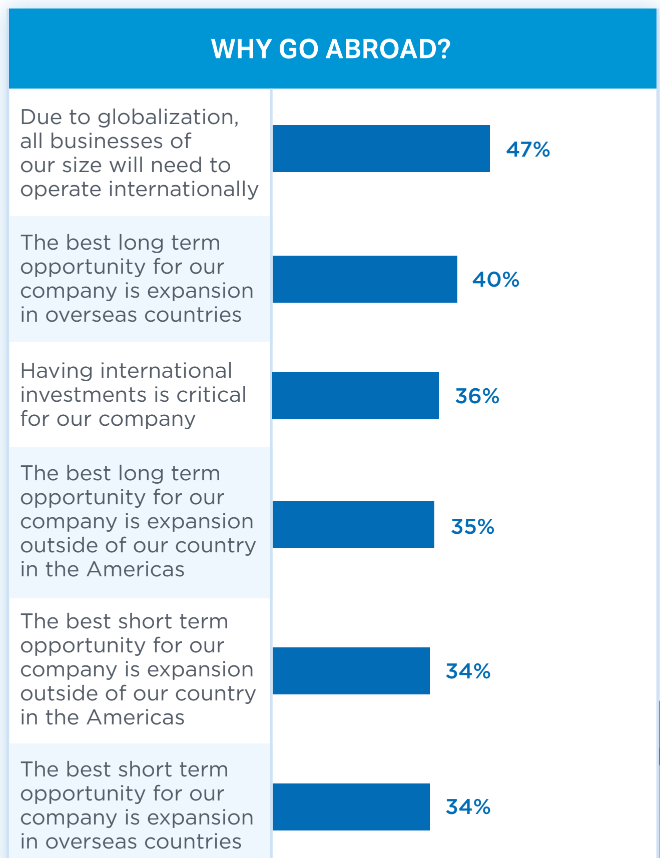
What Holds the Middle Back?

Barriers to Middle Market Cross-Border Activity in the Americas

Despite their current involvement in trade, middle market firms are slightly more comfortable with domestic rather than international expansion. One reason is the perception that it is easier to manage a supply chain located in the United States and that international operations are riskier than foreign ones. Almost one half of middle market leaders also sense strong growth opportunities in the domestic market.

At the same time, middle market leaders recognize the need to globalize: 47% note that due to globalization, eventually all firms will need to operate internationally, and 40% perceive the best opportunities for their companies being in foreign markets. These shares are higher among middle market companies that are most exposed in international opportunities—those that are intensive traders (for whom exports make up over 50% of sales), most diversified in terms of their export markets, and among the fastest-growing.





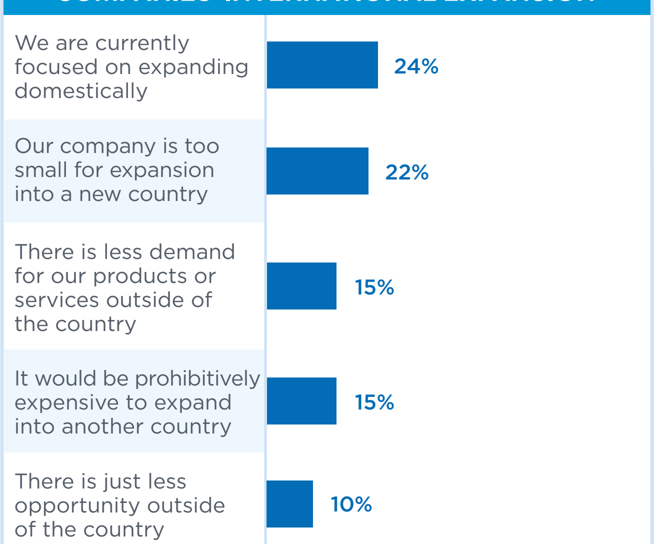
Middle market companies balance these challenges and opportunities by being very deliberate about their international growth planning. Not only do they sequence market entry carefully, they monitor progress. 43% report ongoing planning and 26% periodic reviews of international operations and expansions plans. Only 13% review global growth opportunities only infrequently or never.

There is almost no overlap between the reasons non-traders site for staying home and the obstacles internationalized companies face for expanding abroad. Many of these companies consider themselves too small for internationalization or do not see overseas demand for their products and services. Some also take pride in being fully “Made in America.” Typically companies that do not engage in foreign trade are held back because they have limited resources for finding overseas customers, making and managing export sales, or identifying foreign suppliers.

Companies already trading abroad need to work their way through a different set of obstacles when they try to expand their business. 24% of internationally active middle market leaders single out transport costs, 23% political risks, and 22% difficulties in finding the right partners as the top-2 barriers for expanding their international operations. When asked to identify key barriers to international growth, some 50% of leaders are most likely to name economic uncertainty, poor customs procedures, and corruption.

BARRIERS TO INTERNATIONALIZED MIDDLE MARKET COMPANIES' EXPANSION

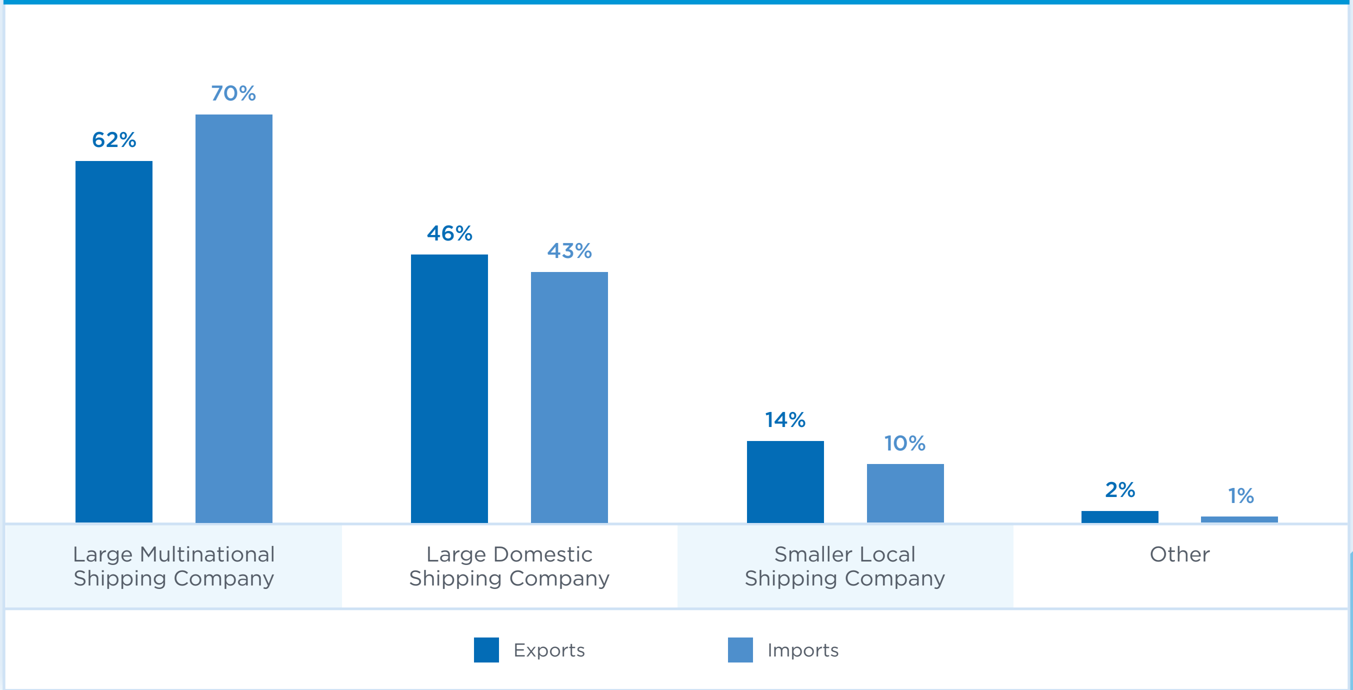
BARRIERS TO DOMESTIC MIDDLE MARKET COMPANIES' INTERNATIONAL EXPANSION



How Middle Market Companies Leverage Services for Cross-Border Operations in the Americas

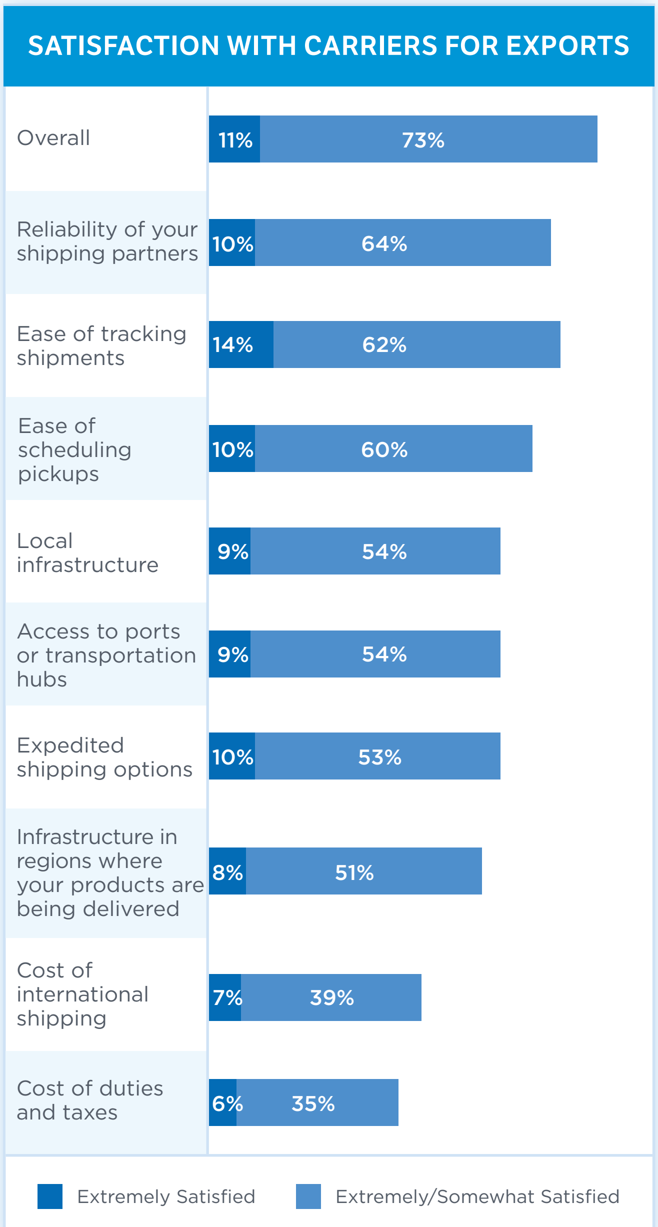
Middle market companies leverage an ecosystem to support their internationalization. Their international shipments are typically carried by large multinational and domestic shipping companies. While sea transport carries 99% of world trade, most middle market companies (68%) ship by air, perhaps because of the prominence of light manufacturers in the sample. Fifty-six percent ship by sea and 54% by ground. One half of middle market companies use the same carrier for both domestic and international shipments.

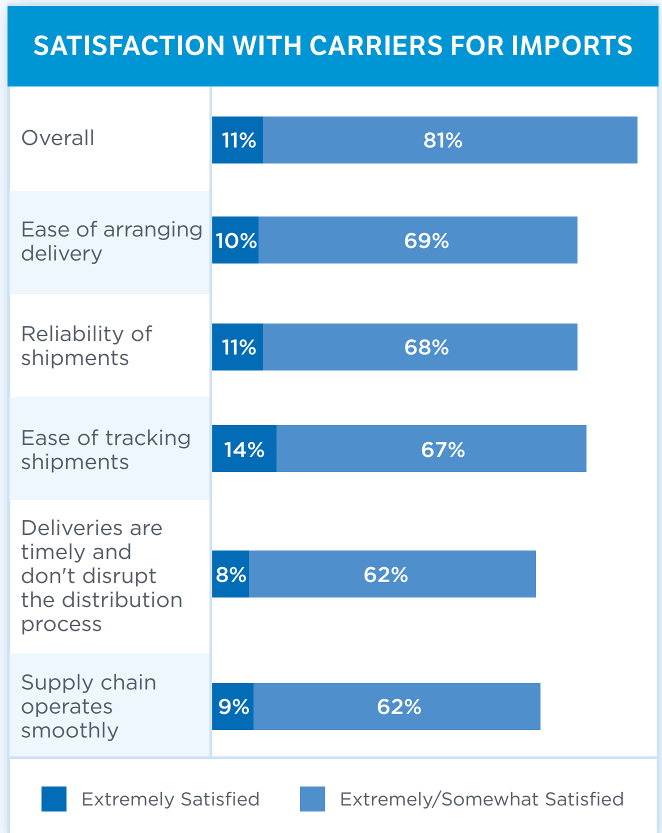
TYPES OF CARRIERS USED FOR EXPORT & IMPORTS



Overall, middle market exporters are satisfied with their carriers in terms of reliability, timeliness, and ease of tracking. However, most struggle with duties and taxes in their export markets or with shipping costs.

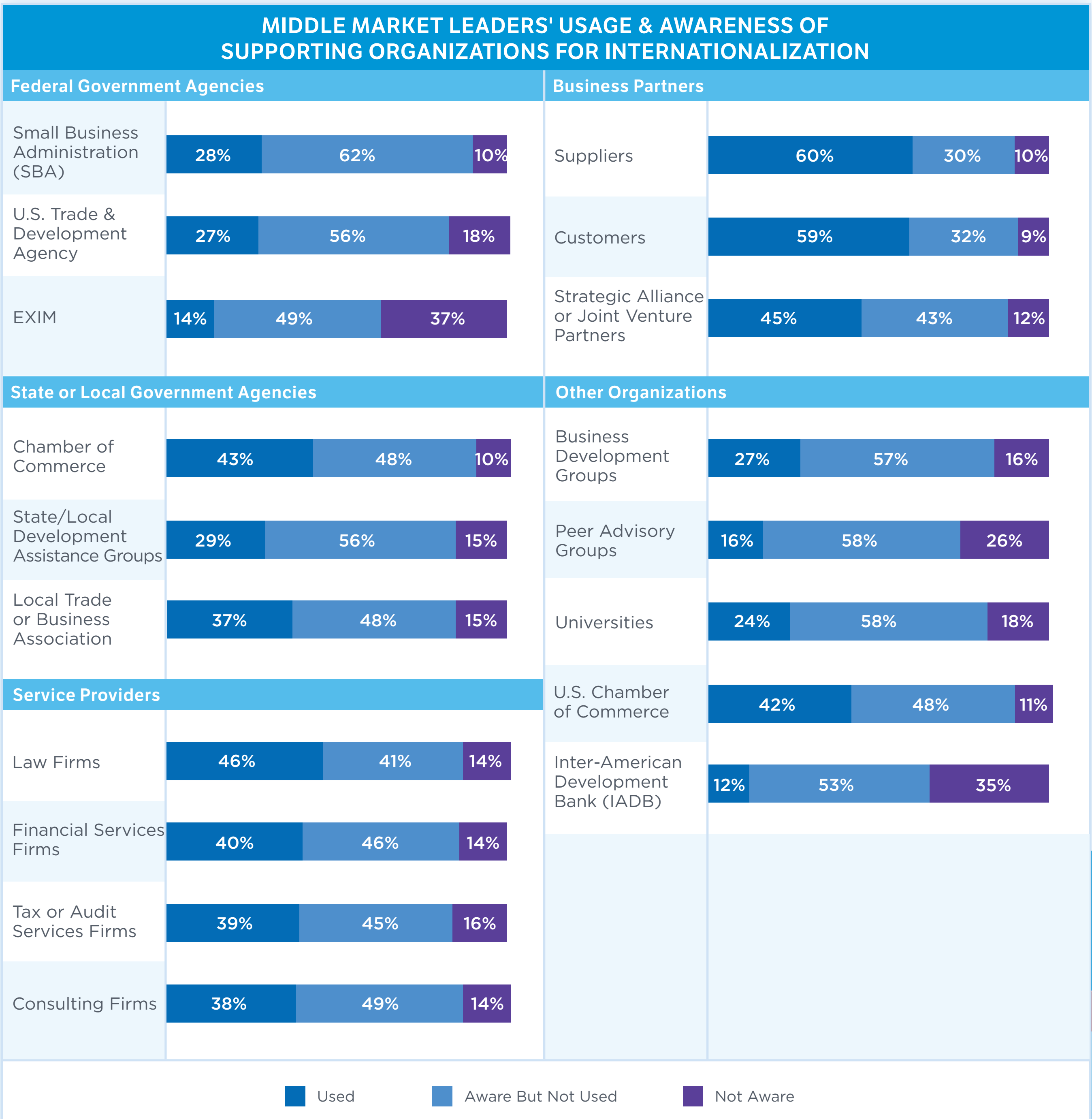
Also infrastructure in export markets is a cause of concern for the middle market. Of importers, 81% are satisfied by their carriers; 62% are satisfied by carriers' timeliness and ability to make supply chains operate smoothly.





Some 88% of middle market leaders are willing to seek outside help for their international expansion, and 85% believe the government should also assist. However, many lack awareness of, or have not used, the key support organizations available. For example, 37% of middle market leaders are not aware of the U.S. Export-Import Bank (EXIM), a critical touchpoint for financing and insuring export sales, and 62% are aware of, but have not used, the Small Business Administration's support systems, such as SBA's international trade loans.

The majority of middle market leaders have not used government or local resources or assistance to internationalize. Rather, executives tend to reach to their immediate contacts: 60% have used suppliers, 59% customers, and 45% joint venture partners to access information and support for international expansion. The more prolific exporters and outperforming companies tend to tap outside support systems more frequently than their peers.



Sources of Government-Backed Trade Finance

The U.S government offers middle market companies several windows of complementary capital and loan guarantees for companies that engage in exports or international projects. One good place to inquire further are U.S. Export Assistance Centers or Commercial Service Offices across the country.

Established in the wake of the Great Depression to boost American exports, **EXIM** offers a number of instruments, such as:

- **Export working capital loan guarantee to incentivize banks to issue loans to exporters**. The policy helps exporters pay for materials, equipment, supplies, labor, and other inputs needed to fulfill export orders.
- **Direct loans for small U.S. exporters.** Direct working capital loans for exporters.
- **Export credit insurance.** Protection for American exporters against the risk that the foreign buyer fails to pay.
- **Financing and loan guarantees for foreign buyers of American products and services.** This policy lowers the hurdles that foreign buyers, especially in emerging markets, face to secure financing to buy U.S. products and services.
- **Project finance.** Financing for large, long-term infrastructure and industrial projects (e.g., airport construction, oil and gas power sector projects, wind turbines).

In 2014, EXIM authorizations supported 3,746 transactions and amounts authorized were $20.5 billion.

Small Business Administration (SBA) offers many similar loan and guarantee products for exporters with fewer than 500 employees:

- **SBA's Export Express Loan Program:** Streamlined financing for export-related purposes up to $500,000.
- **Export Working Capital Program:** Advances funds for export transactions.
- **International Trade Loan Program:** Loan financing for fixed assets and working capital to businesses that plan to start or continue exporting, or that have been adversely affected by competition from imports.

Overseas Private Investment Corporation (OPIC) provides loans and guarantees and political risk insurance to help American businesses expand into emerging markets. OPIC's products are uniquely tailored to assist the private sector in some of the world's most challenging places.

The U.S. Commerce Department supports an excellent trade finance guide that tells exporters more about the various funding instruments. Commerce also has Foreign Commercial Service offices around the United States who help U.S. companies identify clients and partners overseas, and arrange overseas meetings. Commerce, EXIM, and SBA often work together at U.S. Export Assistance Centers (USEACs) around the country.

What's Ahead for the U.S. Middle Market in the Americas?

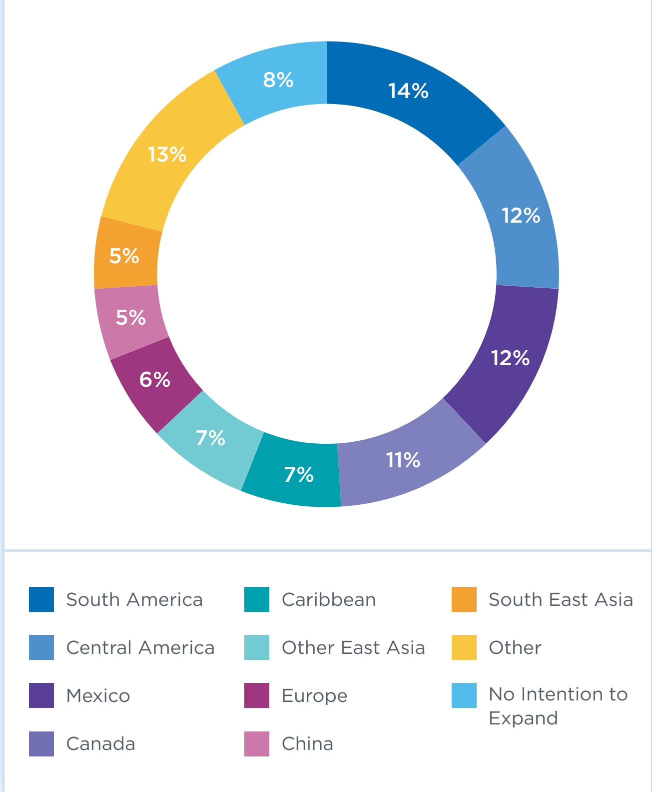
The global economy is projected to expand 3.1% this year and 3.4% in 2017, according to the International Monetary Fund; projections were revised down after Brexit. Also Latin America's growth projections have taken a hit this year. The region's GDP is expected to contract by 1.1% in 2016 due to the crisis in Brazil, a drop in commodity demand and prices many regional economies depend on, and economic contractions in Argentina, Ecuador and Venezuela, which, with Brazil, account for 50% of the region's GDP. This marks the second year of negative growth in the region, a situation that has not occurred since the Latin American debt crisis of 1982–83.

However, U.S. Free Trade Agreement partners in the region are doing much better. Canada is expected to grow at 1.7% in 2016 and 2.2% in 2017. On average, Mexico, Colombia, Peru and Chile will grow 2.5% in 2016-17. Boosted by U.S. demand and low oil prices, Central America is poised for strong 4.3% growth in 2016 and 3.9% in 2017.

Middle market executives are unfazed by the global economic jitters and are particularly bullish about the Americas. As many as 92% of middle market companies intend to expand into new markets outside the United States and over one half, or 55%, look to expand in the Americas, particularly in South America. This contrasts to the mere 5% of companies who see expansion to China as likely.

A substantial 57% of middle market leaders expect international sales to grow within the Americas in 2017, while 55% expect sales growth beyond the Americas. Overall, executives rate the Americas as highly as other world markets for both short- and long-term potential. The perceived opportunity in Latin America as a whole is substantial.

MARKETS MIDDLE MARKET COMPANIES ARE MOST LIKELY TO EXPAND INTO

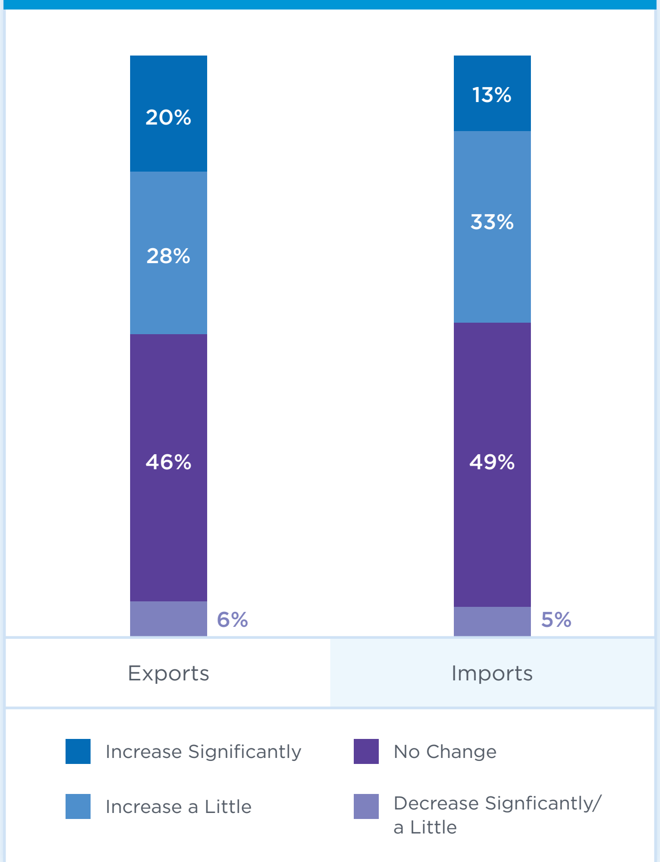


Free trade agreements are an important cause of middle market leaders' optimism about the Americas. Almost one half of middle market executives see FTAs as having played a positive role for them, increasing exports and imports either significantly or a little. Three-fourths see FTAs as having played a key role in shaping decisions on export destinations and import sources.

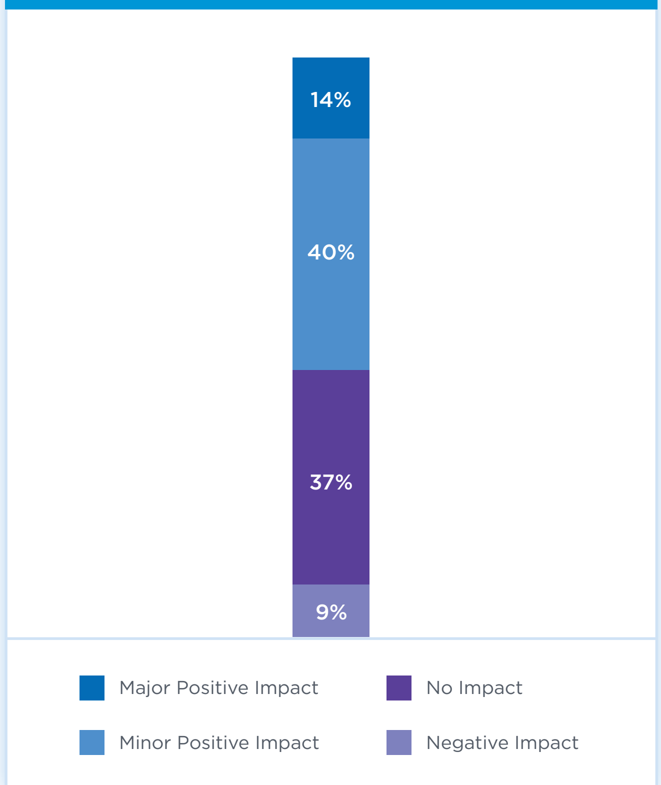
NAFTA is considered the most important FTA for middle market companies. However, many middle market leaders see the TPP negotiated between 12 countries (the U.S., Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru) as second-most important, even before the agreement has entered into force and even though so far only some three-fifths of middle market executives know about it. Fifty-one percent expect TPP to increase their exports.

Over a third of middle market executives are considering new markets for expansion as a result of the TPP and are reconfiguring their supply chains to take advantage of the TPP's market access provisions and rules of origin. Some 28% are considering investments in new markets.

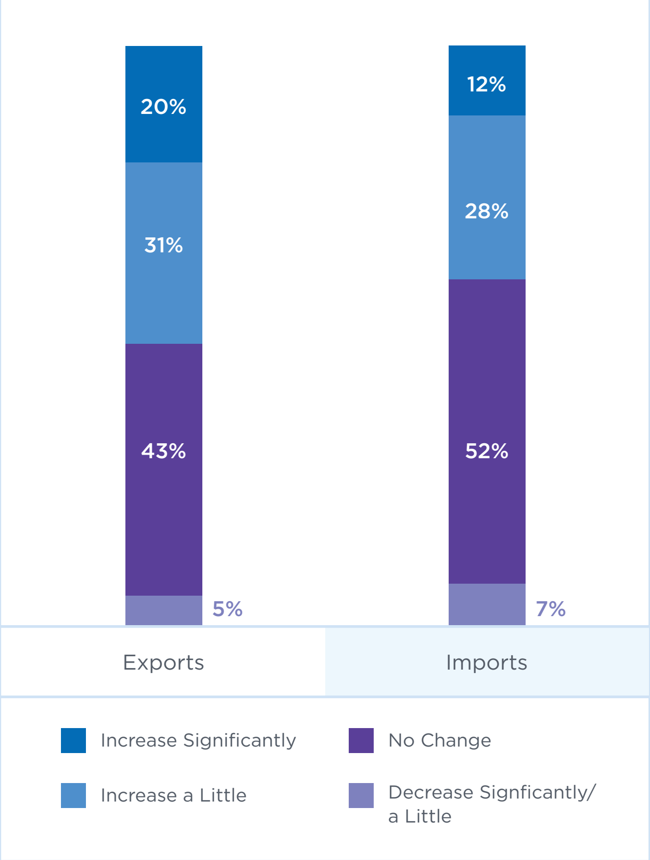
PERCEIVED IMPACT OF FREE TRADE AGREEMENTS ON MIDDLE MARKET COMPANIES' TRADE



PERCEIVED IMPACT OF TPP ON MIDDLE MARKET COMPANIES' TRADE



PERCEIVED IMPACT OF TPP ON MIDDLE MARKET COMPANIES' TRADE



IMPACT OF TPP ON TRADE OF INTERNATIONAL MARKETS

	EXPORTS WILL INCREASE	IMPORTS WILL INCREASE
Canada	45%	25%
Mexico	24%	15%
China	38%	39%
Other East Asia	30%	27%
South East Asia	21%	25%
Central America	25%	20%
South America	25%	16%

How TPP Would Change NAFTA – Or Would It?

The Twelve countries—including U.S. NAFTA partners Canada and Mexico—have negotiated the Trans-Pacific Partnership agreement (TPP), which is pending ratification in U.S. Congress.

The TPP is similar to NAFTA in that it lowers or eliminates tariffs on a wide range of goods and services, creates a mechanism to resolve trade disputes, and is comprehensive, covering such issues as trade in services, foreign direct investment, and intellectual property rights.

However, TPP upgrades NAFTA's rules for labor and environmental standards, incudes measures on state-owned enterprises, and adopts standards for the digital economy and trade, such as protecting U.S. companies against the need to localize their servers in countries where they seek to serve online customers. Negotiated over 20 years ago before such household names as eBay, Twitter, and Facebook were born, NAFTA does not address digital trade issues.

Harnessing Growth Opportunities for Middle Market Companies in the Americas

U.S. middle market companies are bucking the trends: despite a global economic cooling, they remain strongly engaged in international markets as exporters and importers, and are bullish about the Americas region as a future market. This report has highlighted that the fastest-growing middle market companies are also companies with the fastest-growing international sales. All middle market companies can pick up lessons from the playbooks of these outperformers. Some of these include:

+ **Engage in the world.** While global markets seem risky, most of the fastest-growing middle market companies view internationalization as critical for competitiveness in the globalized world economy. They see the best long-terms growth opportunities as lying in international markets.

+ **Think of the Americas.** Successful middle market exporters target first and foremost in the Americas, and the NAFTA region in particular. This is their power base in which middle market companies tend to "learn by exporting," and from which they tend to expand into Central and South America and beyond.

+ **Leverage trade deals.** Outperforming middle market companies see trade agreements as very useful tools for growing their trade and streamlining their supply chains. The TPP is opening up new opportunities for the middle market to gain new customers and lower cost suppliers.

+ **Cultivate talent for international markets.** Internationalization is not easy. Many middle market companies feel they are too small or inexperienced to take the leap into global markets. While initially vision, commitment, direction for international expansion needs to come from the C-suite, middle market leaders need to identify and carefully groom the appropriate talent for driving their international operations. Entities such as Hispanic Chambers of Commerce tend to be rather active with Latin American markets, opening useful touchpoints for middle market executives seeking to expand in the region.

+ **Tap the support systems for growing globally.** Middle market companies are surrounded by vibrant, yet underutilized networks of assistance for internationalization. The fastest-growing middle market companies are most active in tapping these support systems at the local and federal level, leveraging the help of chambers of commerce, the U.S. Export-Import Bank, the SBA, and the U.S. Commercial Service, among others.

While sales to Canada and Mexico still dominate middle market companies' trade, many companies are looking to South America as their next export market. Overall, 92% of internationalized middle market companies are looking to sell more overseas; of those, 60% want to expand specifically in the Americas. The opportunities opened by TPP, Panama Canal, and growth in key U.S. FTA partners should be the key focus of these executives and their peers that have yet to tap international markets for growth and new business opportunity.

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