Testimony of Under Secretary for International Trade Francisco J. Sánchez
Before the Senate Committee on Foreign Relations
Subcommittee on Western Hemisphere, Peace Corps and Global Narcotics Affairs
"Doing Business in Latin America: Positive Trends but Serious Challenges"
July 31, 2012

Introduction

Chairman Menendez, Ranking Member Rubio, and members of the Subcommittee, thank you for the opportunity to speak before you today about the Department of Commerce's work to help U.S. businesses succeed in Latin America.

U.S. Exports Lead to Jobs and Opportunities

Two years ago, President Obama launched the National Export Initiative with an ambitious goal of doubling U.S. exports by the end of 2014. At the Department of Commerce, we work every day to help make this effort a success. Whenever more American goods and services reach more markets and more customers, it strengthens American businesses. And stronger businesses result in more American jobs.

In 2011, U.S. exports reached $2.1 trillion in total value, an all-time record. These exports supported 9.7 million jobs, an increase of 1.2 million compared to 2009. As these numbers demonstrate, the work to boost U.S. exports is having an impact for families, businesses and communities. We want to keep this momentum going by maximizing opportunities available to U.S. firms, large and small, in overseas markets. That work leads us to Latin America.

The Importance of the Latin American Market

As President Obama has made clear, the future of the United States is closely linked to the futures of our neighbors in Latin America. We are bound by a rich and shared history, cultural ties, and proximity. As we look to the future, it's critical that we strengthen these ties in a way that benefits all partners.

This is an important effort for U.S. businesses because the Latin American market is full of great opportunities. Proximity to our fast-growing neighbors is a clear advantage in the face of global competition. Looking simply at ocean shipping from, say, New Jersey ports, U.S. cargoes can reach Colombia in 9 days and Panama in 4 days. By contrast, a vessel leaving a New Jersey port can take 29 days to reach China and 35 days to reach Indonesia.

Last year, U.S. merchandise exports to Latin America totaled $367 billion. This represents an increase of 54% since 2009, far greater than the 36% increase with the rest of the world. In one case, annual total merchandise trade with Mexico reached $461 billion in 2011. In fact, $1.3 billion in goods cross our shared border every day, almost double that of a decade earlier.

These numbers are clear: Latin America has been a key part of the U.S. export success story of recent years. Remarkably, there is potential for even more progress and growth.

Commitment to U.S. – Latin America Engagement

To maximize these opportunities, the President has been firmly committed to U.S. engagement with Latin America. Earlier this year, Administration officials, including myself, joined public and private sector partners from across the Hemisphere to participate in the CEO Summit of the Americas in Cartagena, Colombia. The gathering provided a unique opportunity to strengthen old alliances, create new partnerships, and identify new pathways to prosperity.

Clearly, these partnerships are benefiting all sides, and we've got to continue to look for new ways to strengthen regional integration. One notable milestone occurred recently when President Obama announced that the United States and its partners extended an invitation to Mexico to join the Trans Pacific Partnership trade negotiations.

The Potential of the Latin American Market

There are a number of factors that make Latin America an increasingly attractive place to do business. Over time, it has made a transition towards greater democracy, empowering its citizens with new opportunities to succeed.

As a result, over the past decade, millions of people have lifted themselves out of poverty and into the middle class. This amounts to half of all households in the region, and that number could grow to three-quarters within 20 years. Brazil, in particular, is projected to become a top-five global economy in the next five years. Countries like Colombia, Chile, Peru, Uruguay and Panama are also predicted to achieve considerable growth.

Allow me to just give a few examples of the incredible commercial opportunities in these countries. As I mentioned earlier, Brazil is projected to become a top-five economy in the future. Air transportation, telecommunications, oil and gas and mining are all strong growth sectors. It will spend billions on infrastructure development as it prepares to host the 2014 World Cup and the 2016 Olympics.

U.S. companies should play a big part in this growth. There are many unexplored opportunities. Northeast Brazil, for example, is the country's fastest growing region. Its nine states have a population of over 53 million, and four of these states will host World Cup matches. Yet, this area of Brazil has often been overlooked by U.S. firms looking to invest or export. These are opportunities that businesses should seize.

Another example is Colombia. The U.S. – Colombia Trade Promotion Agreement took effect earlier this year on May 15th. U.S. businesses now have unprecedented access to sell their goods in this important market. Colombia will spend at least $26 billion in the next four years on extensive infrastructure projects that will require: project financing, public works subcontracting, logistics, construction equipment, air navigational and port security aids, railway construction, transportation equipment, security and defense items and services, and mass transit systems.

Meeting the Challenges to Doing Business

While we are encouraged by these new market opportunities, we are mindful of the challenges facing U.S. companies doing business in the region. These include inadequate infrastructure, outdated customs procedures, corruption, non-tariff barriers, challenges remaining in intellectual property rights protection and enforcement, and increasing competition from China, just to name a few. Commerce is actively engaged on projects and initiatives to improve the business climates in these markets, addressing these challenges on several fronts. For example:

We co-lead the U.S.-Brazil CEO Forum and lead the U.S.-Brazil Commercial Dialogue, which tackle trade barriers, share best practices, and help strengthen our $74.3 billion bilateral trading relationship.

We work with Mexico (and Canada) on regulatory cooperation and intellectual property rights, and on making North American supply chains more efficient through enhanced border facilitation and infrastructure. Clearly, cooperating with our neighbors has helped to enhance the economic competitiveness of our three countries.

We work with Honduras, El Salvador, and Costa Rica under the auspices of Pathways to Prosperity to support border management reform in Central America.

<u>Promoting the Benefits of Trade Agreements</u>

Our Latin American trade agreements, which cover over 70 percent of our regional trade, do more than just eliminate tariffs. U.S. and Latin American companies benefit from commitments that facilitate transparent rule-making, predictable legal frameworks, strong intellectual property rights protections, and regulatory certainty at home as well as in global markets. Our trade agreements, in a sense, provide a playbook for small companies about how to operate in these markets – they remove tariff and non-tariff barriers, and provide transparency, predictability and recourse.

At the Department of Commerce, we educate the business community, especially small businesses, on how to take advantage of these new market opportunities. In addition, we actively monitor our trading partners' compliance with our trade agreements and assist companies when they encounter obstacles to doing business.

Linking U.S. Businesses with Buyers Overseas and Attracting Investment Back Home

To help American businesses make the most of these opportunities, our Commercial Services staff — located in more than 100 U.S. cities and 73 countries — stands ready to link American goods and services with buyers overseas.

Our talented workforce has in-depth knowledge about the export process, markets and sectors. Entrepreneurs can call our offices, or log onto our website, and we'll help them succeed in the global marketplace. Our Miami office recently provided counseling to Traeger Brothers, a Florida distributor of oil and gas equipment, and helped them secure several export transactions to Petrobras and other Brazilian companies worth over $87,000.

Our Albuquerque, New Mexico office recently provided extensive counseling to the MIOX Corporation, a small manufacturer of on-site water disinfectant generators, which led to an export sale to Mexico valued at $3.5 million.

And in New Jersey, we have helped companies like the ACROW Corporation of America, a client of our Advocacy Center, to secure a $15.5 million contract with the government of Colombia to provide pre-fabricated modular steel bridges. ACROW competed against a British company, which received heavy advocacy from the British Embassy in Colombia, and ACROW believes our assistance was decisive for an open and transparent procurement process.

Successes like these are occurring regularly, and we will continue to work diligently to raise awareness, help businesses navigate through the export process, and ultimately link American-made goods with buyers overseas.

Our Commercial Services team is also on the frontlines of the SelectUSA Initiative. Housed in the Commerce Department, it is the first coordinated U.S. government-wide effort to promote and support business investment in the United States. Brazil and Mexico are among SelectUSA's priority markets in fiscal year 2012 where U.S. and FCS personnel have engaged in proactive outreach to members of the international investor community promoting the United States as the premier destination for capital.

Foreign investment is key to the American economy. U.S. subsidiaries of foreign-owned firms maintain a stock foreign direct investment position in the United States of about $2.3 trillion. These companies employ more than 5 million U.S. workers, which translates to more than $400 billion in wages, and the goal of SelectUSA is to attract more investment.

Our team spreads the word about the desirable market conditions in the U.S. economy, including a hardworking and educated workforce, relatively low taxes and access to an incredible consumer base. Their work leads to increased investment, a stronger America, and ultimately a stronger region.

Helping U.S. companies

I want to thank the Senate Finance Committee for reporting out a bill that would make technical corrections on textiles to the US-CAFTA-DR free trade agreement and will help maintain and create jobs across the United States and Latin America.

The correction on sewing thread alone will help support approximately 1800 jobs in the United States, Central America, and the Dominican Republic. U.S. producers are poised to hire more employees once this package passes. Along with the AGOA Third Country Fabric provision, these urgent changes would build on two key U.S. trade initiatives that support trade, investment, and employment in Africa and the Western Hemisphere.

I urge the Senate to pass this bill immediately.

Conclusion

In the end, the goal of the United States and all our Latin American partners is shared prosperity that is built through partnership, and is guided by shared ideals and values. Latin America is home to some of the most dynamic markets in the world. There are incredible opportunities for U.S. businesses to be a part of this growth.

The Administration is working to help businesses seize these opportunities by increasing engagement, fighting for a level playing-field, linking U.S. goods and services with overseas buyers, and promoting inward investment. These are all ingredients for success. I look forward to working with the members of this committee to help more American businesses succeed in Latin America, both today and for years to come.