Luncheon Address: The Honorable Francisco J. Sanchez, US Under Secretary of Commerce for International Trade

Dr. Manfred Wilhelmy

Ladies and gentlemen, it is a privilege and an honor for me to introduce Francisco J. Sanchez, Under Secretary of Commerce for International Trade.

We all agree that trade liberalization is a key component of policies to achieve closer integration across the Pacific region. The challenge is not to lose momentum in this dimension at a time of serious concern about a stalling economic recovery or even a relapse in the economic cycle.

The United States is, of course, a key actor in the area of trade policy because of the importance of the US economy in global trade and of this country’s role in promoting trade opening over the long trajectory of liberalization, which includes the GATT, the WTO, as well as in APEC and various preferential trade agreements.

Our speaker is imminently qualified to address the trade issues on today’s agenda. He earned his BA and Juris Doctor Degrees from Florida State University. In addition, he earned a Masters in Public Administration from Harvard University’s Kennedy School of Government.

Secretary Sanchez began his career in government as Director of Florida’s Caribbean Basin Initiative under Governor Bob Graham. He served in the Clinton White House as Special Assistant to the President and Chief of Staff to Kenneth MacKay, Special Envoy to the Americas, where he worked on issues involving economic integration and democracy in the Western Hemisphere. Secretary Sanchez also served as Assistant Secretary for Aviation and International Affairs at the US Department of Transportation.

As Under Secretary of Commerce, he leads the International Trade Administration, ITA, which assists in the development of the U.S. trade policy agenda, promotes international business of companies from the United States. Secretary Sanchez leads initiatives aimed at fostering the competitive position of the United States, continued on page two
addressing issues of market access, administering compliance with US legislation, and undertaking many tasks in the areas of trade promotion and advocacy.

Ladies and gentlemen, Francisco Sanchez, Under Secretary of Commerce.

Hon. Francisco J. Sanchez

Good afternoon, everyone. It is a pleasure to be with you. Dr. Wilhelmy, thank you for that most kind introduction.

I know that you have heard from colleagues of mine in the Federal government. I believe you heard from Deputy US Trade Representative Demetrios Marantis yesterday and from Assistant Secretary of State Kurt Campbell this morning.

I have to tell you that yesterday I was defending Assistant Secretary Campbell’s honor at the National Day of Indonesia where both he and I spoke. Ambassador Dino Patti Djalal, Indonesia’s ambassador to the United States, suggested that Kurt had been around as long as the independence of Indonesia. And I just want to continue to set the record straight by saying that neither Assistant Secretary Campbell nor I was around 66 years ago.

Let me express my appreciation to all of you, the members and supporters of the Pacific Economic Cooperation Council. It is always great to see leaders of academia, government, and of business come together in the spirit of community and cooperation to advance shared interests.

I know that this is only the third time that you’ve held your general meeting in America. And so it is great to welcome you to Washington for this very important discussion. Last year PECC celebrated a milestone, your 30th anniversary. You have a lot to be proud of.

As President Obama said last year, “The story of Asia over the last few decades is the story that is so rapid and transformative. It’s a story of change and perhaps it may be without precedent in human history.” Countries where people once lived on a few dollars a day are now some of the fastest growing economies in the world.

The numbers reflect this growth. The Asia Pacific region now represents more than 55 percent of global GDP and nearly 45 percent of world trade. There has been tremendous progress. Through trade and investment, the United States has been proud to be a part of this economic development.

We’ve benefitted greatly from our trade and investment relationships in the region, but now is not the time to rest. Now is not the time to be satisfied with the progress that’s been made in the last 30 years and that’s because the next 30 years promise to be even more exciting than the last.

In the short term, as all of our countries continue to deal with the impact of a global financial crisis, we have an obligation to continue to resist protectionism and to move forward toward even greater economic integration.

This effort is essential if we are to meet the expectations of President Obama’s National Export Initiative. This is an initiative that he announced a little less than two years ago during his State of the Union address.

The goal that he set was to double U.S. exports by the end of 2014. In terms of jobs, exports contributed greatly to growing our economy in 2010 and supported over nine million jobs. U.S. exports of goods and services in 2010 increased 17 percent over 2009. This is the largest year-to-year percentage change in over 20 years.

This puts us on pace to achieve President Obama’s NEI goals which will spur growth in communities and support jobs for the American people. Even more recent data confirms that the NEI remains on course.

Overall exports in the first seven months of this year have increased 16 percent over the same period of 2010 a pace that continues to exceed the NEI goals. And I have to say that this is due in a large part to our trade relations in the region.

So allow me to say a few words about them, covering multilateral and regional arrangements. And then I’d like to say a few words about some key bilateral relationships.
US Goals in APEC – As most of you know, the United States is hosting APEC this year. Throughout the year we have been guided by three major things: first, to strengthen regional economic integration and expand trade-supporting jobs and growth for all parties; second, to promote green growth and trade in clean technology, which has the potential to pave the way for extraordinary growth; and third, to expand regulatory cooperation and advance regulatory convergence.

In the regional context, we want to strengthen the industries of the future. We want to harmonize regulation at the minimum necessary level. And we want to empower entrepreneurs, especially small and medium-size business owners, with the tools and support to succeed throughout the APEC region.

At the APEC Trade Ministers’ meeting this past May in Big Sky, Montana, I chaired the APEC-SME Ministerial Meeting. In this meeting, we endorsed further APEC actions to address the top nine barriers including corruption, the lack of financing, and complex custom procedures around the Asia Pacific region.

Increasing SME Global Opportunities – I’m happy to report that we will be ready to announce concrete progress on these barriers by the end of our APEC host year. This includes the conclusion of agreed APEC-wide business ethics principles for various industry sectors and better avenues for SMEs around the region to take advantage of international business opportunities.

These efforts will pay significant dividends in the short, medium, and especially the long run. We plan to conclude this year on a very, very high note. In Honolulu, the APEC 2011 USA host committee is hosting the CEO Summit, which will assemble roughly 1,500 senior executives from the Asia Pacific region to address the obstacles and opportunities presented by the global economy.

President Obama will host an APEC Economic Leader’s Meeting, which will provide our leaders with an opportunity to thoroughly discuss expanding free trade on a regional basis.

So we are committed to making our APEC host year a productive period for all parties. But please know that this is not our only focus. Days after Honolulu, we are also very excited to participate in the East Asia Summit and the US-ASEAN Summit in Bali, Indonesia.

US-ASEAN Ties – For the past three decades the United States and ASEAN member countries have been striving to develop sustainable, bilateral, and multilateral relationships. If ASEAN were a single country, it would be one of our largest trading partners. It holds over $120 billion in U.S. foreign and direct investment. We are deeply impressed by how well the region has weathered the financial crisis and has recorded many consecutive quarters of strong growth.

As part of this administration’s commitment to further engage in Southeast Asia and consistent with our goals for APEC 2011, we have been working closely with ASEAN on many projects to help meet the economic goals by 2015. This includes the convergence of industrial standards and conformity assessment procedures. We look forward to deepening our engagement with the region, especially under the leadership of David Carden, the recently appointed U.S. Ambassador to ASEAN.

US-Korea Free Trade Agreement – We also look forward to deepening our engagement in other parts of the world. And this brings me to another priority issue, the US-Korea Free Trade Agreement, otherwise known as KORUS.

As we speak, the White House is working to obtain congressional approval of the US-Korea Trade Agreement. And let me tell you, this is the most significant trade agreement that the United States has seen in more than 16 years.

Korea is our seventh-largest trading partner. U.S. exports to Korea are growing this year. Through the first five months of 2011, U.S. goods and exports jumped nearly 14 percent compared to the same period in 2010. By expanding access to Korea, the 12th largest economy in the world, this agreement will support tens of thousands of American jobs.

It will open Korea’s $560 billion services market to American companies. It eliminates Korean tariffs on 95 percent of U.S. exports of industrial and consumer goods within five years. And it immediately eliminates Korean tariffs on more than two-thirds of U.S. agricultural exports. This represents an unprecedented opportunity to increase exports, support job creation, bolster the American economy and strengthen a vital strategic alliance in the Asia Pacific region.

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Trans-Pacific Partnership – Now, another top-line item on the trade policy agenda is the Trans-Pacific Partnership. TPP negotiators are seeking to conclude an ambitious 21st century Asia-Pacific trade agreement that reflects U.S. priorities and values. Working with our partners, we intend to craft a high-standard agreement that addresses new and emerging trade issues and challenges.

We see the TPP as the most credible pathway to Asia-Pacific regional economic integration. And we are very pleased with the progress in the TPP negotiations to date. We have already completed six rounds of negotiations this year.

With all the TPP partners committed to concluding the negotiations as expeditiously as possible, we’re optimistic that we will be able to make some announcements at the APEC Leaders meeting in Honolulu this November.

However, right now, I do want to quickly give you brief updates on some of the other priority issues on the trade agenda. Given Dr. Wilhelmy’s generous introduction, I’ll start with his home country of Chile.

US-Chile Trade Relations – The U.S.-Chile Free Trade Agreement continues to be a resounding success. Since 2004, duties have been reduced to zero on 90 percent of U.S. exports, with all remaining tariffs to be phased out by 2015. We are so pleased with the ever growing regional integration among the North American, Central American, and South American countries.

US-Peru Trade Relations – Peru is a great trading nation that is seeking to conclude trade agreements with all of its major trading partners. Colombia is the third-largest economy in Central and South America. We are anxious to ratify the Free Trade Agreement with Colombia as soon as possible.

I have every confidence that that will happen very soon. I wish I could give you a date, but let me assure you that the President and all of us are working hard to make that happen along with [pending Free Trade Agreements with] Panama and South Korea.

Beyond the Border Initiative – With regard to our northern friends, the United States and Canada share one of the longest land borders in the world. Our countries’ new partnership — the Beyond the Border initiative — will facilitate trade for businesses across our two nations with Asia.

US-Mexico Trade – Down south, the United States is, by far, Mexico’s most significant trading partner. More than 80 percent of Mexico’s exports are destined for the United States. The North American Free Trade Agreement — combined with its proximity to the U.S. — has made Mexico an attractive destination for investment from Asian producers and suppliers. So, good things are happening across our borders.

And we are also seeing progress overseas. I would like to make some brief comments about our other trading partner, starting with China, one of the fastest growing and most exciting markets in the world.

China’s Opening – The United States welcomes a strong, prosperous, and successful China that plays a greater role in world affairs. Beginning with economic reforms under Deng Xiaoping in 1979 — and continuing through China joining the World Trade Organization in 2001 — China has made its economy fairer, freer, and more open to international competition than it had been before.

The more China has opened, the more it has benefitted from the rules-based, international trading system. We hope that this process of reform continues, both for the benefit of China’s trading partners and the mutual benefit of Chinese companies, workers, and consumers.

US-China Dialogues – Ensuring that U.S. companies operate on a level playing field in China is a top priority of our trade relationship. Through dialogues such as the Joint Commission on Commerce and Trade and the US-China Strategic & Economic Dialogue we continue to raise concerns in areas such as IPR enforcement, innovation policies, standards, investment, and government procurement. We look forward to this year’s JCCT in China to discuss these important issues.

US-Oceania Relations – And we’re also very excited about our relationships with Australia, New Zealand and the Pacific Islands.

U.S. companies have already had success in Australia with the signing of an FTA in January 2005. Since that time, U.S. exports have gone up more than 30 percent. The FTA has encouraged U.S. companies to see that Australia is a stable and transparent economy in which to do business.

U.S. goods exports to New Zealand continue to rise...
yearly, with an increase of 30 percent last year. Although we currently don’t have an FTA with New Zealand, we are pleased to be negotiating with New Zealand along with seven other countries in the TPP.

We expect to see our already robust trade relationship with New Zealand grow even stronger after the TPP is signed. We also look forward to expanding our trading relationships with the members of the Pacific Island Forum in the years ahead.

US-Japan Trade – Japan is a critical pillar economy of the Asia Pacific and always will be. As our fourth-largest trading partner — and the third largest economy in the world — Japan remains one of our most important markets. We are so impressed by the resilience of the Japanese people and we look forward to ever closer economic integration with this important ally.

Hong Kong and Chinese Taipei also play critical roles in the regional market and the global supply chain — both are highly valued trading partners. And, one other trading partner that has emerged is Mongolia. Our trade relationship with Mongolia has developing steadily during the past several years. In 2010, U.S. exports to Mongolia increased by 184 percent from the previous year.

Mongolia’s Emergence – And, we hope to do more, both with Mongolia as well as with the entire Asia Pacific region. This trade and investment relationship is extremely important to the United States and is becoming more so with every passing year. That’s why it was so important for me to be here. I look forward to working with you to ensure that our shared destiny is guided by the values of community, fairness, and opportunity for all.

Once again, thank you to the Pacific Economic Cooperation Council for inviting me to be with you today. And thank you for all the contributions that you have made over the past 30 years and will continue to make. I wish you a very successful General Meeting. I’m happy to take some questions if you’d like.

Question #1

How might PECC and academics that are part of our organization help the US Department of Commerce implement President Obama’s doubling goal?

Sanchez

Educating Business about Trade – Well, a couple of things. First, you can get the word out to American businesses that 95 percent of the world’s consumers live outside the United States. According to the IMF, 87 percent of world economic growth will occur outside the United States.

Now why do I say this? Because only 1 percent of American businesses are engaged in global trade. The days are long gone when we can rely exclusively on the US market to have a robust economy.

So I could use your help encouraging particularly small and medium-sized companies to understand that, first, there’s a robust global market out there that’s available to them, and second, that the Federal government is here to help.

I know this sounds trite, but this is true. US businesses need to take advantage of the help we can provide. And if they don’t, they do so at their peril.

Informing the Trade Debate – Second, trade and free trade agreements, in particular, still engender much debate in our country. I think it would be very helpful if academia could help to set the record straight on how trade has helped — and where, occasionally, trade has been challenging in certain sectors. I believe there’s a lot of misinformation out there so it would be helpful to have hard data that shows how trade has benefitted our country and our economy.

Question #2

I know the Obama administration has indicated the desire to reform exports controls, which I believe are under your

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jurisdiction. Could you give us a little insight into where that stands and what you see ahead?

Sanchez

Yes. It’s not entirely in my jurisdiction. My colleague, Eric Hirschhorn, who is Under Secretary of Commerce for Industry and Security, has the lead role on export controls. But I can tell you that this is a very high priority for President Obama.

Former Secretary of Defense Robert Gates, said it best, “If we do not reform our export control system, it is a threat to our national security.” And I think he said that for a number of reasons.

Streamlining the Process – First, we have limited staff covering far too many products. So, using his analogy, the basic idea is to create a higher offense around fewer products by streamlining the process.

Commerce has been working on this for about a year and a half. I’m hopeful that we’ll see announcements by the end of the year of some very tangible reforms.

Without question, export controls are about national security. But if we undertake these reforms properly, American companies will be better able to compete in the global marketplace.

The review may determine that some so-called dual use products, which have both civilian and military applications, really do not need to be subject to our export control system. In addition, for those products that should remain subject to export controls for national security reasons, we want to make the requisite licensing more expeditious.

Question #3

Thank you for the very good speech. I am Narongchai Akrasanee from Thailand. I have an embarrassing question. If you think it is too embarrassing, you don’t have to answer. You can just smile acknowledging the embarrassment.

How would you trade with Myanmar? I think if you trade with Myanmar, the overall trade performance could end up being better than US trade relations with Vietnam. Would you like to answer that question, or just smile?

Sanchez

I’m smiling. You know, [Prof.] Dick Drobnick [of the University of Southern California] warned me that you are one of the smartest people he knows, but that you have a wicked sense of humor and could put me on the spot.

For obvious reasons, I have not had a lot of interaction with that Burma or considered it as a trading partner. In large part, that is related to Burma’s position on non-commercial issues. I’m going to have to refer that question to the State Department and look at it in the broader context of our relationship with that country.

I would say that my hope is that as changes happen in Burma that will enable us to look at opportunities with that country.

Question #4

To what extent has US export expansion been due to the depreciation of US dollar.

Sanchez

I’d like to take credit for all of our export increases, some 16-17 percent this year. I recognize that currency fluctuations probably have a significant impact. What I can tell you, though, is that more US companies are heeding the call that they need to be exporting.

Greater Business Awareness – So I don’t think the increases are entirely because of currency fluctuations. I think that there’s a growing awareness in the business
community, and sometimes it’s a force awareness. When your revenues go down from your domestic customer base, you start thinking, ‘Well, where else can I sell?’

I think it’s been a combination of things. Currency fluctuations probably have had a positive impact on our trade figures.

**Question #5**

You said that you had an APEC-related announcement concerning business ethics and SMEs? Could you go into a little more detail on that?

**Sanchez**

Yes, we will be launching an important initiative at the APEC meeting in November. I don’t want to steal anyone’s thunder. I can tell you that it focuses on sectors such as construction, medical devices, and pharmaceuticals.

**New Code of Business Ethics** – There have been private-sector working groups developing a code of business ethics in these areas, focused on transparency and dealing with corruption. I applaud the work of all three groups. As we speak, they still are not quite finished, but I’m confident they will finish their work and be ready to make an announcement in Honolulu in November.

**Question #6**

You said that President Obama wanted to see the Columbia, Korea, and Panama Free Trade Agreements passed by Congress as soon as possible. Has the administration formally sent those agreements to the Hill?

**Sanchez**

The President believes very strongly that all three of these trade agreements need to be approved. He’s also argued very clearly and consistently that while trade, overall, has been good for our country and these three agreements will be good for the US economy, we must recognize that some sectors, small and medium-size companies, and workers get hurt by trade. That isn’t a reason to not go forward with trade agreements, but we have to recognize that there is a grand plan.

**Need for Trade Adjustment Assistance** – Trade Adjustment Assistance has received bipartisan support now for over 30 years. It is a program that helps those companies that are negatively affected by trade and, specifically, free trade agreements. It provides retraining benefits to workers who’ve lost their jobs due to trade competition. And it’s a small price to pay in order to realize lower barriers and open markets.

The administration wants TAA reauthorization and the Colombia, Korea, and Panama trade agreements to go forward at the same time. I believe the votes are there for the trade agreements as well as for TAA reauthorization. I wish I could explain to you and everyone else why [as of September 29] they haven’t been voted on.

**It’s been a combination of things, but currency fluctuations probably have had a positive impact on our trade figures**

But I’m hopeful that we can get through the procedural challenges that are blocking progress and realize passage of the all four bills by no later than the end of the year.

**[Note: On October 13, the US Congress ratified the US-Korea Free Trade Agreement; on October 21, President Obama signed it into law.]**

**Question #7**

Thank you, Mr. Secretary, for advertising progress in US-Mongolia trade relations. In fact, those dramatic increases are true because the Mongolian market is becoming very attractive. I am from Mongolia.

My question concerns renewal of the Generalized System of Preferences program. Can you comment on the status?

**Sanchez**

**GSP Renewal** – If you’re asking me to predict when the Congress will complete its work GSP renewal, boy, if I knew that, I’d probably be working in Las Vegas.

I hope this will be address in the next two months. I’m not giving a firm commitment on that because I certainly have no control over how and when the Congress will act.

Let me also say that I had the privilege of being a part of luncheon group with the President of Mongolia, who also is a graduate of Harvard’s Kennedy School. He was very impressive, and we look forward to strengthening our commercial relationships with Mongolia.

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Question #8

What are the US government’s priorities for the APEC Leaders meeting in Hawaii?

Sanchez

Importance of TPP – One of the most important things will be making great progress toward a framework agreement for the TPP. If we accomplish that, it will serve as a foundation not only for the countries that with whom we’re negotiating, but also for the broader region.

I can think of nothing that would be more effective to integrate this part of the world economically.

Question 9

My question is about the President Obama’s National Export Initiative [NEI]. What is the status right now and how do you include the three pending FTAs and TPP in that equation?

Sanchez

In order for the President to achieve his goals, the United States needs to be increasing exports at about 14.8 percent per year for each of those five years. So in first year, as I mentioned in my remarks, we’ve seen an increase of 17 percent. In the first seven months of 2011, we’ve seen an increase of 16 percent.

NEI Goals – So we’re ahead of schedule or you might say we have a cushion in case we don’t hit 14.8 percent in the remaining three and a half years. We’re doing pretty well there.

In addition to the influence of currency fluctuations, I think we’ve done a good job of encouraging more companies to export. We’ve done a good job of encouraging companies that already export to export even more. But this can’t be done with promotion alone.

Lowering Trade Barriers – Lowering trade barriers is probably the single most important thing we can do to make sure that we reach the NEI numbers. So we’re pushing for passage of these three pending trade agreements and working robustly on the TPP. To use an American football term, we also pursuing these goals through simple blocking and tackling every single day.

In American football, the players that get the most attention are the quarterback, the guy who throws the ball, and the running back, the guy who catches the ball and runs for touchdowns. But the unsung heroes in football are those guys on the line that block so that the quarterback can throw and the guys that tackle. They usually don’t make the headlines, but without them there wouldn’t be much of a game.

US-Indonesia Commercial Dialogue – The same is true in the trade arena. For example, this past July we launched a commercial dialogue with Indonesia. This is a forum where we exchange best practices and explore how to build capacity.

In December, the first activity of this US-Indonesia Commercial Dialogue will be a World Bank co-sponsored forum on creating a good business climate. Countries from around the world that have made significant improvements in the World Bank “Ease of Doing Business” index will be attending. Their representatives will discuss what they did to realize those improvements and what the results have been.

That kind of work is valuable, but it doesn’t make headlines. So by pursuing those kinds of initiatives as well as pressing for approval the trade agreements, we will go a long way toward achieving the President’s NEI goals.

Question #10

If China applies for TPP membership, what will happen?

Sanchez

China in TPP - If China is interested in participating in a high-standard agreement, then we should welcome China. So that’s my answer.

Thank you very much.

Wilhelmy

On behalf of the whole audience, our most sincere thanks to Under Secretary Sanchez. This has been a wonderful session. We have learned a lot. Thank you very much again. ♦
The United States Asia Pacific Council (USAPC)

The United States Asia Pacific Council was founded in April 2003 by the East-West Center (EWC). It is a non-partisan organization composed of prominent American experts and opinion leaders, whose aim is to promote and facilitate greater US engagement with the Asia Pacific region through human networks and institutional partnerships. The Council also serves as the US secretariat for the PECC. In addition, it supports and strengthens the US National Consortium of APEC Study Centers and is available to facilitate other regional cooperation processes.

The Pacific Economic Cooperation Council (PECC)

PECC is a track-two, tripartite organization in the Asia-Pacific region composed of senior individuals from business and industry, government, academic, and other intellectual circles. All participate in their private capacity, and thoughtfully discuss and consider areas of cooperation and policy coordination aimed at promoting economic growth and development in the Asia Pacific region.

PECC was founded in 1980 because of the need to facilitate policy dialogues among the economies of this region, which were becoming increasingly interdependent. There currently are 26 Member Committees, including two institutional members, the Pacific Trade and Development Conference (PAFTAD) and the Pacific Basin Economic Council (PBEC), and one associate member, the France Pacific Territories National Committee for Pacific Economic Cooperation (FPTPEC). PECC's regional community-building efforts led to the establishment of the official APEC process in 1989. The Council is one of the three official observers of the APEC process. PECC has provided information and analytical support to APEC ministerial meetings and working groups. Also it channels and facilitates private sector participation in the formal process.

PECC Full Member Committees include:

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The East-West Center

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options. The Center’s 21-acre Honolulu campus, adjacent to the University of Hawai‘i at Manoa, is located midway between Asia and the US mainland and features research, residential, and international conference facilities. The Center’s Washington, DC office focuses on preparing the United States for an era of growing Asia Pacific prominence.

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