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U.S.-Latin American Trade: Recent Trends

J. F. Hornbeck
Specialist in International Trade and Finance
Foreign Affairs, Defense, and Trade Division

Summary

Since congressional passage of Trade Promotion Authority (TPA) in August 2002 (P.L. 107-210), the United States and Chile concluded a bilateral free trade agreement (FTA) and the 108th Congress will likely follow closely progress on two other U.S.-Latin American trade initiatives. The first is the U.S.-Central America Free Trade Agreement (CAFTA), currently being negotiated, with an anticipated year-end completion date. The second is the Free Trade Area of the Americas (FTAA), scheduled to be concluded in January 2005. Because congressional committees will oversee the last phase of the FTAA negotiations through the consultation process defined in TPA, the 108th Congress will play an important role in determining if the FTAA is to be brought to completion by 2005. This report tracks U.S.-Latin American trade data and will be updated.[1]

Developments in U.S.-Latin American Trade

Latin America, although not the largest, is the fastest growing U.S. regional trade partner. Between 1990 and 2002, total U.S. merchandise trade (exports plus imports) with Latin America grew by 200% compared to 101% for Asia, 82% for the European Union, 37% for Africa, and 109% for the world. It should be pointed out, however, that most of the growth in Latin American trade was due to Mexico, which is not only the largest U.S. regional trade partner in dollar terms, but also the fastest growing. As seen in **figure 1**, from 1990 to 2002, the share of U.S. trade with Latin America, excluding Mexico, has only kept pace relative to the rest of the world, whereas Mexico's share has expanded from 6.6% to 12.5%, reflecting enormous growth.

In 2002, U.S. trade worldwide continued a decline begun in 2001, largely reflecting tepid recovery from the global economic downturn. U.S. exports to the world slid by 4.9% in 2002, following an decrease of 6.8% in 2001. Among the larger trade partners,

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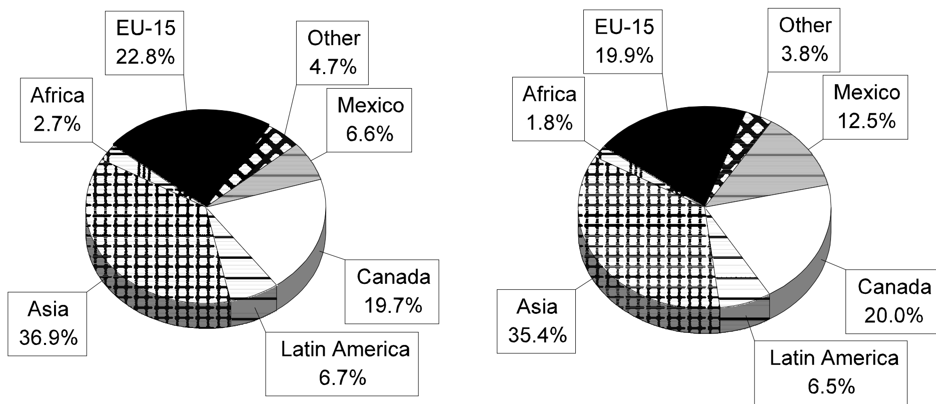
[1] Additional information on this and other trade related issues is available from the CRS Electronic Briefing Book on Trade at: [http://www.congress.gov/brbk/html/ebtra1.html]. See also, CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck.

U.S. exports grew by 1.9% to South Korea and 15.0% to China, but declined by 10.5% to Japan, 9.5% to the European Union, and 1.6% to Canada. After falling 6.7% in 2001, U.S. exports to Latin America dropped by another 6.5% in 2002 (see **appendix 1**). U.S. exports to Latin America, excluding Mexico, fell by 11.2%, while exports to Mexico, the second largest export market for the United States, fell by only 3.7%.

Figure 1. U.S. Direction of Total Trade, 1990 and 2002

(**Source**: CRS from U.S. Department of Commerce data.)



U.S. Trade, 1990 (Total = $889 billion)   U.S. Trade, 2002 (Total = $1,857 billion)

U.S. exports declined to nearly all the other top Latin American markets after Mexico. They fell by 21.9% to Brazil, 21.2% to Venezuela, 3.1% to the Dominican Republic, 0.2% to Colombia, 16.3% to Chile, and 59.4% to Argentina. Bucking the trend, exports rose by 25.2% to Costa Rica, 6.2% to Honduras, and 9.2% to Guatemala. These trends point to the effects of economic slow downs in much of South America, including Argentina's deep recession in the wake of a financial crisis, as well as, the established trade ties to Central America, which allowed the subregional trade to fare much better.

On the import side, the slower growing U.S. economy also resulted in reduced demand for foreign goods, which fell 4.9% worldwide in 2002, after declining by 6.3% in 2001. Imports diminished by 9.5% from the EU, 2.6% from Canada, and 10.5% from Japan. Imports from China and South Korea actually grew by 15.0% and 1.9%, respectively. Imports from Latin America rose by 3.2% on average and by 2.6% from Mexico, 9.3% from Brazil, 8.2% from Chile, 5.7% from Argentina, 4.4% from Honduras, 8.9% from Costa Rica, and 8.2% from Guatemala. They fell by 0.9% from Venezuela, 1.8 from Colombia, and 0.4% from the Dominican Republic.

Mexico made up 12.5% of U.S. trade in 2002 and, as seen in **appendix 1**, it is the largest Latin American trading partner, accounting for two-thirds of the region's trade with the United States. These trends point to the long-term and increasing economic

integration between the two countries, in part the result of their deliberate trade liberalization efforts, including the North American Free Trade Agreement (NAFTA). By contrast, the rest of Latin America together makes up only 6.7% of U.S. trade, potentially leaving room for significant growth. Brazil, for example, has the largest economy in Latin America, is the second largest Latin American trading partner of the United States, but accounts for only 8.0% of U.S. trade with Latin America, or 1.5% of global U.S. trade.

The region's increasing importance as a U.S. trading partner reflects developments in both the United States and Latin America. In the United States, total merchandise trade has grown from 15.6% of gross domestic product (GDP) in 1991 to 18.5% in 2002 (down from19.8% in 1999 reflecting slower economic growth worldwide). In Latin America, many countries have adopted, at least in part, market-based economic reforms since the 1980s debt crisis, including trade liberalization. Average Latin American import tariffs have declined from 45% in 1985 to under 12% by 2000, although the rates vary among countries. Trade reform has been widespread and represents an opportunity for U.S. firms to penetrate new markets, but it has not been embraced with equal vigor by all countries, particularly for some U.S. goods. Also, trade reform can be delayed or even reversed if countries face economic or political instability. The financial crisis in Argentina, for example, has led to decisions to encourage exports, but also to impose higher export taxes, which has an offsetting effect.

Tariff rates have been falling throughout Latin America and so only partially explain the difference in economic integration among countries. Two other relatively simple measures of trade openness are presented in **table 1** and draw attention to cases where trade reform may be more apparent than in others. For example, Mexico, Chile, and Costa Rica are considered among the early and more successful reformers of trade policy, and for each, total merchandise trade (exports plus imports) represented more than 50% of GDP in 2001. By contrast, total merchandise trade accounted for a much smaller 22% of GDP in Brazil and 17% in Argentina, two countries generally associated with lagged or incomplete trade reforms.

The trade-to-GDP ratio, however, may reflect other than trade policy factors. For example, the ratio can be smaller for those countries with large domestic markets that are less trade dependent. This may be the case, in part, for Brazil, which has a large domestic manufacturing base. Conversely, the ratio may be larger for small economies that are relatively more trade dependent, such as Costa Rica, which in addition to pursuing trade liberalization aggressively, has also developed a manufacturing export base, including computer chips and medical equipment. Still, the lower trade-to-GDP ratio for Brazil and some other countries stands out.

The per capita dollar value of goods a country imports from the United States is another specific measure of trade openness (**table 1**). Brazil and Argentina increased their per capita dollar value of U.S. imports from 1990 to 2002, but to only a fraction of that for Mexico and Costa Rica. Mexico's high figure again reflects an evolving trade liberalization policy dating to the mid-1980s and its historical ties with the U.S. economy. Costa Rica's high per capita consumption of U.S. goods reflects a similar relationship that has seen enormous growth in recent years. Brazil and Argentina, by contrast, have higher restrictions on trade with the United States and other countries, in part reflecting trade policy and trends defined by the regional customs union, Mercosur (Mercado Comun del

Sur — Southern Common Market), and historically closer trade ties with Europe.[2] Argentina's deep financial crisis led inevitably to severe "import compression" as aggregate demand fell over four consecutive years and the peso devaluation took effect. Differences in income can be an important factor explaining variations in U.S. import consumption, but per capita gross national income (GNI) data shown in **table 1** suggest that it does not stand out as a factor in this case.

Table 1. Measures of Trade Openness for Seven Top U.S. Trading Partners in Latin America

	Trade in Goods (% GDP) 1989*	Trade in Goods (% GDP) 2001*	Per Capita Imports from U.S. 1990**	Per Capita Imports from U.S. 2002**	Per Capita GNI 2001 (PPP)#
Mexico	31.1%	54.9%	$328	$956	$8,240
Brazil	9.2%	22.5%	$34	$71	$7,070
Venezuela	50.5%	33.8%	$254	$178	$5,590
Colombia	30.1%	30.1%	$62	$84	$6,790
Argentina	11.4%	17.5%	$36	$44	$10,980
Chile	51.0%	51.5%	$126	$163	$8,840
Costa Rica	55.4%	70.7%	$352	$783	$9,260

Data Sources: *Sum of merchandise exports and imports divided by GDP, per IMF, *International Financial Statistics*. **IMF, *International Financial Statistics March 2003*, and U.S. Department of Commerce. #GNI PPP - gross national income converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GNI as the U.S. dollar in the United States. World Bank, *2003 World Development Indicators*, pp. 14-16.

The trade data suggest that there may be room for growth in trade between South America and the United States. For example, Central America's total merchandise trade with the United States amounted to $21.7 billion in 2002, compared to Brazil's $28.2 billion (**appendix 1**). These figures, however, represent 38% of Central America's GDP, compared to 8% of Brazil's, suggesting significant room for growth in the latter's trade with the United States. Trade policy changes, at the margin, could provide some of the basis for growth in U.S.-South American trade, but they may not be huge immediately given South America's historically small interest in the United States and the limited size of their markets. Still, many economists believe that lowering barriers to U.S. trade with South America and guaranteeing market access may generate long-term trade and investment opportunities. Similarly, access to high quality U.S. exports and the large U.S. market presents an attractive opportunity for Latin American countries, as well.

U.S.-Latin America Trade Issues

From a purely commercial perspective, market access remains an important key to understanding U.S. goals for improving trade relations with Latin America. There are three generally recognized components to this idea. The first involves lowering barriers to allow improved market access for U.S. goods, an issue that varies in significance with each country. The second is achieving market access under the same rules as other

[2] For details, see: United States International Trade Commission. *Market Developments in Mercosur Countries Affecting Leading U.S. Exporters*. Publication 3117, July 1998.

Western Hemisphere countries, an increasingly complex goal given the ongoing proclivity of the United States and Latin American countries to pursue bilateral agreements. The third entails guaranteeing that improvements are permanent, providing confidence to U.S. businesses that trade and investment can be undertaken in a predictable environment.[3]

Reducing tariffs remains an important U.S. trade policy goal, despite the declining average tariff rates in much of Latin America. There are three reasons for this. First, historically there has been selective backsliding in tariff reductions during times of economic hardship. Second, unilateral tariff reductions do not necessarily favor U.S. goods, as might be thought at first glance. Tariff rates can be very high on capital goods, such as automobiles, which dominate U.S. exports.[4] Third, U.S. businesses face higher tariffs than competing firms in cases where sub-regional pacts have been signed that do not include the United States. Latin American countries, however, are quick to retort that although the United States has low average tariffs, it too has relatively high peak (especially above quota) rates on selected products, such as steel and agricultural goods.

Non-tariff barriers are another fertile area for negotiation. The United States negotiated trade-related issues over Latin American legal and regulatory environments (e.g. intellectual property rights, government procurement, services trade, e-commerce) in the U.S.-Chile FTA, with the potential for improving trading conditions for some of the more competitive U.S. industries (financial services, software development, government contracting). These are issues that will continue to generate deep interest as CAFTA and the FTAA move forward. Latin American countries would like to see a number of U.S. non-tariff barriers also addressed such as U.S. trade remedy laws and farm price supports. Although legal under the World Trade Organization (WTO) unless successfully challenged, Latin Americans consider U.S. antidumping and countervailing duty actions impediments to trade because they are brought frequently against Latin America's primary export products. President Bush's decision in March 2002 to impose tariffs of up to 30% on selected steel imports was a major point of contention with Brazil, among other countries, even though the brunt of the tariffs fell on non-Latin American nations.

There is also considerable difference between some Latin American countries and the United States over broader social issues that have implications for trade policy, such as concerns over labor and environmental rules and standards. Although mutually acceptable solutions were negotiated in the U.S.-Chile FTA, these particular issues point to the breadth of topics that now fall under trade discussions, complicating negotiations and raising the question of whether the FTAA can meet expectations of becoming a hemispheric unifying force. Despite, the passage of TPA by the 107th Congress, the FTAA faces serious obstacles (particularly in light of the collapsed WTO talks in Cancún, Mexico in September 2003) as negotiators prepare to complete the agreement by the targeted deadline of January 2005.

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[3] Others goals include such broad themes as supporting regional political and security interests.

[4] For country-specific data, see: United States Trade Representative. *2003 National Trade Estimate Report on Foreign Trade Barriers*. Washington, D.C., 2003.

Appendix 1. U.S. Merchandise Trade with Selected Latin American Countries, 1990-2002 ($billions)

Country	1990	1992	1994	1996	1998	2000	2002	% Change 00-02	% Change 90-02
U.S. Exports									
Brazil	5.1	5.8	8.1	12.7	15.2	15.4	12.4	-19.5%	143.1%
Venezuela	3.1	5.4	4.0	4.8	6.5	5.6	4.5	-19.6%	45.2%
Dom. Rep.	1.7	2.1	2.8	3.2	4.0	4.4	4.3	-2.3%	152.9%
Colombia	2.0	3.3	4.1	4.7	4.8	3.7	3.6	-2.7%	80.0%
Costa Rica	1.0	1.4	1.9	1.8	2.3	2.4	3.1	29.2%	210.0%
Chile	1.7	2.5	2.8	4.1	4.0	3.5	2.6	-25.7%	52.9%
Honduras	0.6	0.8	1.0	1.6	2.3	2.6	2.6	0.0%	333.3%
Guatemala	0.8	1.2	1.4	1.6	1.9	1.9	2.0	5.3%	150.0%
El Salvador	0.6	0.7	0.9	1.1	1.5	1.8	1.7	-5.6%	183.3%
Argentina	1.2	3.2	4.5	4.5	5.9	4.7	1.6	-66.0%	33.3%
Peru	0.8	1.0	1.4	1.8	2.1	1.7	1.6	-5.9%	100.0%
Ecuador	0.7	1.0	1.2	1.3	1.7	1.0	1.6	60.0%	128.6%
Panama	0.9	1.1	1.3	1.4	1.8	1.6	1.4	-12.5%	55.6%
Nicaragua	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.0%	300.0%
Other	5.4	5.4	6.4	7.6	9.1	8.5	8.3	-2.4%	53.7%
Total LAC*	25.7	35.1	42.0	52.5	63.4	59.3	51.7	-12.8%	101.2%
Mexico	28.3	40.6	50.8	56.8	79.0	111.7	97.5	-12.7%	244.5%
Total LA	54.0	75.7	92.8	109.3	142.4	171.0	149.2	-12.7%	176.3%
World	393.6	448.2	512.6	625.1	680.5	780.4	693.3	-11.2%	76.1%
U.S. Imports									
Brazil	7.9	7.6	8.7	8.8	10.1	13.9	15.8	13.7%	100.0%
Venezuela	9.5	8.2	8.4	12.9	9.3	18.7	15.1	-19.3%	58.9%
Dom. Rep.	1.8	2.4	3.1	3.6	4.4	4.4	4.2	-4.5%	133.3%
Colombia	3.2	2.8	3.2	4.3	4.7	7.0	5.6	-20.0%	75.0%
Costa Rica	1.0	1.4	1.7	2.0	2.8	3.6	3.1	-13.9%	210.0%
Chile	1.3	1.4	1.8	2.3	2.5	3.2	3.8	18.8%	192.3%
Honduras	0.5	0.8	1.1	1.8	2.6	3.1	3.3	6.5%	560.0%
Guatemala	0.8	1.1	1.3	1.7	2.1	2.6	2.8	7.7%	250.0%
El Salvador	0.2	0.4	0.6	1.1	1.4	1.9	2.0	5.3%	900.0%
Argentina	1.5	1.3	1.7	2.3	2.3	3.1	3.2	3.2%	113.3%
Peru	0.8	0.7	0.8	1.3	2.0	2.0	1.9	-5.0%	137.5%
Ecuador	1.4	1.4	1.7	1.9	1.8	2.2	2.2	0.0%	57.1%
Panama	0.2	0.3	0.3	0.4	0.3	0.3	0.3	0.0%	50.0%
Nicaragua	0.1	0.1	0.2	0.4	0.5	0.6	0.7	16.7%	600.0%
Other	3.6	3.7	3.9	4.0	3.6	6.7	5.6	-16.4%	55.6%
Total LAC*	33.8	33.6	38.5	48.8	50.4	73.3	69.6	-5.0%	105.9%
Mexico	30.2	35.2	49.5	74.3	94.7	135.9	134.7	-0.9%	346.0%
Total LA	64.0	68.8	88.0	123.1	145.1	209.2	204.3	-2.3%	219.2%
World	495.3	532.7	663.3	795.3	913.9	1,216.9	1,163.6	-4.4%	134.9%

Source: Table created by CRS from U.S. Department of Commerce data.
* LAC = Latin America and the Caribbean, except Mexico.