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CRS Report for Congress

U.S.-Latin America Trade: Recent Trends

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Summary

After Congress passed Trade Promotion Authority (TPA) legislation in August 2002 (P.L. 107-210), the United States implemented free trade agreements (FTAs) with Chile, the Dominican Republic, the Central American countries, and Peru. The United States has also concluded FTAs with Colombia and Panama, which await congressional action.[1] Talks on the region-wide Free Trade Area of the Americas (FTAA), by contrast, have stalled. The 110th Congress may consider implementing legislation for one or both of the pending bilateral agreements. This report provides an analytical overview of U.S.-Latin American trade data and trends in support of congressional interest in U.S.-Latin American trade relations. It will be updated.

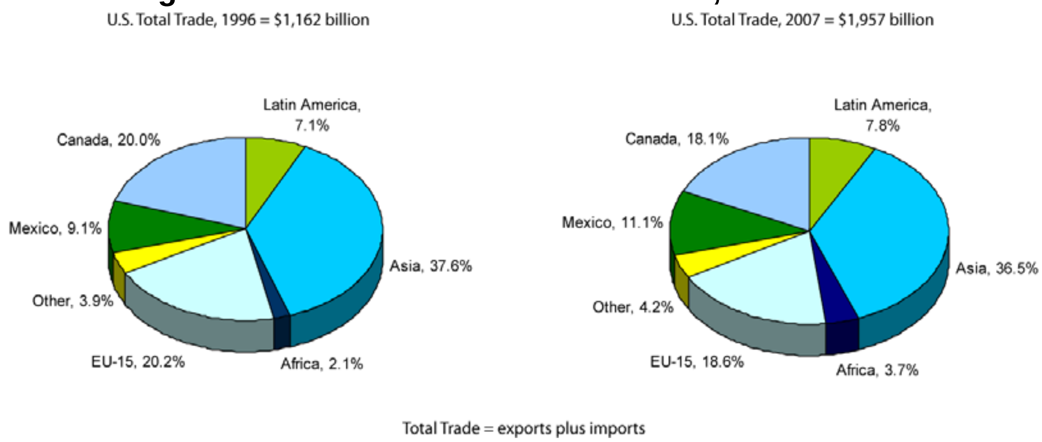
Developments in U.S.-Latin American Trade

Trade is one of the more enduring issues in contemporary U.S.-Latin America relations. Although not the largest, Latin America is the fastest growing U.S. regional trade partner, with the exception of Africa, which has had strong export growth based largely on the rise of petroleum prices. Between 1996 and 2007, total U.S. merchandise trade (exports plus imports) with Latin America grew by 137% compared to 110% for Asia (driven largely by China), 114% for the European Union, 294% for Africa, and 120% for the world (see **Figure 1** for U.S. direction of trade). There are two import trend changes. First, Mexico has historically been by far the largest U.S. trade partner in Latin America, but total trade with many other Latin American countries increased faster in 2007 (individual country data appears in the **Appendix**.) Second, for the first time in years, U.S. exports grew faster than U.S. imports

In 2007, U.S. trade worldwide continued the expansion begun after the 2001 global economic downturn, but at a slower pace than in 2006. U.S. exports to the world grew by 12.1% in 2007 following a 14.5% increase in 2006. Among the larger trade partners, U.S. exports grew by 18.2% to China, 6.8% to South Korea, 14.6% to the European Union, 7.9% to Canada, and 5.2% to Japan.

[1] CRS also has individual reports on all these agreements and TPA.

Figure 1. U.S. Direction of Total Trade, 1996 and 2007



Source: U.S. Department of Commerce data as presented in World Trade Atlas.

U.S. exports to Latin America grew in line with the rest of the world at 9.1% in 2007. Export growth to Mexico, the second largest U.S. export market, grew by only 1.4%, while U.S. export growth to the other major Latin American markets expanded briskly; to Peru by (41.4%), Venezuela (13.3%), Chile (22.1%), Brazil (28.1%), Colombia (28.4%), Argentina (22.9%), and Costa Rica (12.2%). These trends reflect strong national economic growth experienced in much of Latin America. Exports to major Latin American trading blocs varied, expanding by 27.6% to the Southern Common Market (Mercosur), 20.8% to the Andean Community (AC), 14.3% to the CAFTA-DR countries, but only 7.0% to the Caribbean Community (Caricom) countries.

On the import side, slower growth in the U.S. economy and the declining value of the U.S. dollar resulted in slower growth in the demand for foreign goods, including those from Latin America. U.S. imports from the world rose by 5.5% in 2007 compared to 10.9% in 2006. Among the larger U.S. trade partners, imports expanded by 11.7% from China, -1.8% from Japan, 7.0% from the EU, 3.8% from South Korea, and 4.8% from Canada. Imports from Latin America rose by 4.2% on average and by 12.5% from Argentina, 7.3% from Venezuela, 6.3% from Mexico, and 5.4% from Honduras. Imports fell from Peru (-10.2%), the Dominican Republic (–6.7%), and Chile (-5.3%).

Mexico made up 11.1% of U.S. trade in 2007 and, as seen in the **Appendix**, it is the largest Latin American trade partner, accounting for 56% 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 7.8% of U.S. trade, leaving room for significant growth. Brazil, for example, has the second largest economy in Latin America, is the second largest Latin American trade partner of the United States, but accounts for only 8.5% of U.S. trade with Latin America, or one-seventh that of Mexico.

In the United States, total merchandise trade (exports plus imports) has become an increasingly important component of the economy, growing from 8.2% of gross domestic product (GDP) in 1970 to 25.4% in 2007. Latin America's growing importance as a U.S. trade partner is a key aspect of this trend. Since the 1980s, many Latin American countries have adopted trade liberalization as part of broader economic reform programs. Average Latin American import tariffs have declined from 45% in 1985 to 9.3% by 2002, although the rates varied among countries.[2] Trade reform has not been embraced with equal vigor by all countries and U.S. exports are not all treated equally under varying liberalization schemes. Also, trade reform has been delayed or even reversed in some countries when faced with economic instability or changing political philosophy.

Tariff rates have fallen throughout Latin America and so only partially explain differences in economic integration among countries. Two other simple measures of trade openness appear in **Table 1** and point to cases where trade liberalization 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. For each in 2006, total merchandise trade was more than 50% of GDP. By contrast, in two countries historically associated with incomplete trade reforms, total trade accounted for a much smaller 19% of GDP in Brazil, and 46% in Argentina, the latter reflecting only recent growth based on government export promotion policies.

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

	Trade in Goods (% of GDP) 1990	Trade in Goods (% of GDP) 2006	Per Capita Imports from U.S. 1990	Per Capita Imports from U.S. 2006	Per Capita GDP 2006
Mexico	40.7%	53.5%	$328	$1,272	$7,976
Chile	66.0%	63.4%	$126	$412	$8,873
Costa Rica	70.6%	84.1%	$352	$939	$5,053
Dom. Rep.	69.2%	52.9%	$254	$557	$3,712
Colombia	35.4%	36.9%	$62	$143	$3,220
Brazil	15.2%	18.7%	$34	$102	$5,616
Argentina	15.1%	45.9%	$36	$123	$5,498

Data Sources: Calculations by CRS from the IMF and United Nations data.

The trade-to-GDP ratio, however, may reflect other than trade policy factors. The ratio can be smaller for those countries with large domestic markets that are less trade dependent. This may be the case 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 the Dominican Republic, which as part of its pursuit of trade liberalization, has also developed a manufacturing export base tightly linked to the United States. Still, the lower trade-to-GDP ratio for Brazil.

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 2006, but to only a fraction of that for Mexico, Costa Rica, Chile, and the Dominican Republic. Mexico's high figure again reflects an evolving trade liberalization policy dating to the mid-1980s and its

[2] Data provided by Inter-American Development Bank.

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, including strong intra-industry, production-sharing trade. 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, and a tradition of industrial policy and broader diversification of trading partners.[3] Differences in income can also be an important factor explaining variations in consumption of U.S. imports, but per capita gross domestic product (GDP) data shown in **Table 1** suggest that they do not stand out in this case.

The trade data suggest that there may be room for growth in trade between South America and 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 immediately huge 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 attractive opportunities for Latin American countries, as well.

U.S.-Latin America Trade Relations

The United States and Latin America have pursued trade liberalization through multilateral, regional, and bilateral negotiations, with mixed results. In part this reflects their divergent priorities. For many Latin American countries, reducing barriers to agricultural trade is top of the list for a successful agreement. This goal includes reducing market access barriers such as tariffs and tariff rate quotas (TRQs), domestic subsidies, and the use of antidumping provisions. Although there are many other issues, agriculture has played a big part in slowing progress in the World Trade Organization (WTO) Doha Development Round and the Free Trade Area of the Americas (FTAA).[4] In contrast, the United States has made clear its unwillingness to address most agricultural and antidumping issues in a regional agreement like the FTAA to preserve its bargaining leverage in the WTO against other subsidizing countries like the European Union and Japan. Latin American counties have their own sensitive issues and a particular concern for easing its subsistence agricultural sectors slowly toward trade liberalization.

In addition to market access, the United States focuses its trade negotiating goals on areas where it is most competitive, such as services (financial, tourism, technology, professional, among others); intellectual property rights (IPR); government procurement; and investment. Not surprisingly, these are areas where many Latin American countries are more reluctant to negotiate. Hence, there is a near reversal of priorities that has

[3] For more, see CRS Report RL33258, *Brazilian Trade Strategy and the United States* and CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

[4] In fact, some see the stalemate over the FTAA as due in part to the United States and Brazil being unable to address protectionist policies that most affect the other's main exports. See Abreu, Marcelo de Paiva. *The FTAA and the Political Economy of Protection in Brazil and the US*. Inter-American Development Bank. Washington, DC, March 2006. pp. 1-4, 61-62.

slowed the progress of comprehensive agreements at the multilateral and regional levels, reflecting inherent differences between developed and developing countries.

The result in the Western Hemisphere has been the proliferation of bilateral and plurilateral agreements. The United States has implemented some FTAs (NAFTA, CAFTA-DR, Chile, and Peru) and signed others with Colombia and Panama that await congressional action. U.S. FTAs are permanent, unlike unilateral benefits extended under the Andean Trade Preference Act (ATPA), the Caribbean Basin Trade Partnership Act (CBTPA), and the Generalized System of Preferences (GSP), which must be periodically reauthorized by Congress. Brazil, as the major regional economy not in an agreement with the United States, has moved ahead separately by adding associate members to Mercosur, supporting Venezuela's accession to Mercosur as a full member, and leading in the formation of deeper economic and political integration pacts in South America. Although these are neither deep nor comprehensive trade arrangements, they do signal a political will to consolidate regional bargaining interests in juxtaposition to the U.S.-backed FTAA.

Two clear challenges emerge from this picture. First, Brazil and the United States appear to have difficulties moving off their respective positions, which will likely continue to stall the FTAA. The addition of Venezuela and possibly other countries with less than sympathetic attitudes toward the United States as full Mercosur members could solidify this standoff. Nationalizations of key industries and other efforts to increase the role of the state in managing the economies of Venezuela, Bolivia, and Ecuador also do not bode well for broadening support for market-based trade solutions. Second, multiple FTAs, by definition, promote a cumbersome trading system with each FTA having its own rules of origin (to deter transshipment of goods) and related customs administration and enforcement requirements that can complicate investment and trading decisions.

Resolving this situation will not be easy and may require progress on multiple fronts. For example, it seems that without advancement in agricultural issues at the WTO, action on a comprehensive FTAA is unlikely. A less comprehensive FTAA may not be considered worth expending the political capital needed to approve it and offers a far less compelling alternative to a multilateral agreement on economic grounds. Therefore, the FTAA may not emerge in the near future, despite the logical solution that a hemispheric-wide agreement presents to integrating a disparate web of cumbersome subregional FTAs. Political concerns in Congress may hinder implementation of FTAs signed with Colombia and Panama, and perhaps future FTAs as well. These circumstances suggest that a new chapter of trade negotiations between developed and developing countries may await, which may take patience and new creative solutions to navigate. Despite these difficulties, the debate has not been abandoned because trade issues are unavoidably part of larger concerns with economic reform, development, and globalization, all themes at the forefront of U.S. and Latin America foreign economic policy agendas.

Appendix: U.S. Merchandise Trade with Selected Latin American Countries and Groups, 1996-2007

Country	1996	1998	2000	2002	2004	2006	2007	% Change 2006-2007	% Change 1996-2007
U.S. Exports ($ billions)									
Brazil	12.7	15.2	15.4	12.4	13.9	19.2	24.6	28.1%	93.7%
Venezuela	4.8	6.5	5.6	4.5	4.8	9.0	10.2	13.3%	112.5%
Colombia	4.7	4.8	3.7	3.6	4.5	6.7	8.6	28.4%	83.0%
Chile	4.1	4.0	3.5	2.6	3.6	6.8	8.3	22.1%	102.4%
Dom. Rep.	3.2	4.0	4.4	4.3	4.4	5.4	6.1	13.0%	90.6%
Argentina	4.5	5.9	4.7	1.6	3.4	4.8	5.9	22.9%	31.1%
Costa Rica	1.8	2.3	2.4	3.1	3.3	4.1	4.6	12.2%	155.6%
Honduras	1.6	2.3	2.6	2.6	3.1	3.7	4.5	21.6%	181.3%
Guatemala	1.6	1.9	1.9	2.0	2.6	3.5	4.1	17.1%	156.3%
Peru	1.8	2.1	1.7	1.6	2.1	2.9	4.1	41.4%	127.8%
Other	11.7	14.4	13.4	13.4	21.4	22.9	26.5	15.7%	126.5%
Total LAC*	52.5	63.4	59.3	51.7	61.5	89.0	107.5	20.8%	104.8%
Mexico	56.8	79.0	111.7	97.5	110.8	134.2	136.1	1.4%	139.6%
Total Lat. Amer.	109.3	142.4	171.0	149.2	172.3	223.2	243.6	9.1%	122.9%
CAFTA-DR	9.6	12.4	13.6	14.1	15.8	19.6	22.4	14.3%	133.3%
Caricom	4.4	5.0	5.4	5.0	5.8	8.6	9.2	7.0%	109.1%
Mercosur	18.6	22.4	21.0	14.6	18.2	25.4	32.4	27.6%	74.2%
Andean Comm.	12.8	15.5	12.2	11.4	13.2	21.6	26.1	20.8%	103.9%
World	625.1	680.5	780.4	693.1	818.8	1,037.1	1,162.5	12.1%	86.0%
U.S. Imports ($ billions)									
Brazil	8.8	10.1	13.9	15.8	21.2	26.4	25.6	-3.0%	190.9%
Venezuela	12.9	9.3	18.7	15.1	24.9	37.2	39.9	7.3%	209.3%
Colombia	4.3	4.7	7.0	5.6	7.3	9.3	9.4	1.1%	118.6%
Chile	2.3	2.5	3.2	3.8	4.7	9.5	9.0	-5.3%	291.3%
Dom. Rep.	3.6	4.4	4.4	4.2	4.5	4.5	4.2	-6.7%	16.7%
Argentina	2.3	2.3	3.1	3.2	3.8	4.0	4.5	12.5%	95.7%
Costa Rica	2.0	2.8	3.6	3.1	3.3	3.8	3.9	2.6%	95.0%
Honduras	1.8	2.6	3.1	3.3	3.7	3.7	3.9	5.4%	116.7%
Guatemala	1.7	2.1	2.6	2.8	3.2	3.1	3.0	-3.2%	76.5%
Peru	1.3	2.0	2.0	1.9	3.7	5.9	5.3	-10.2%	307.7%
Other	7.8	7.6	11.7	10.8	18.4	26.3	26.1	-0.8%	234.6%
Total LAC*	48.8	50.4	73.3	69.6	98.7	133.7	134.8	0.8%	176.2%
Mexico	74.3	94.7	135.9	134.7	155.9	198.3	210.7	6.3%	183.6%
Total Lat. Amer.	123.1	145.1	209.2	204.3	254.6	332.0	345.5	4.1%	180.7%
CAFTA-DR	10.4	13.7	16.1	16.0	17.7	18.6	18.7	0.5%	79.8%
Caricom	2.9	2.6	4.0	4.0	7.7	10.4	11.0	5.8%	279.3%
Mercosur	11.4	12.6	17.3	19.2	25.5	30.9	30.7	-0.6%	169.3%
Andean Comm.	21.1	17.8	30.0	24.9	40.4	59.8	61.1	2.2%	189.6%
World	795.3	913.9	1,216.9	1,161.4	1,469.7	1,855.1	1,957.0	5.5%	146.1%

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