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U.S.-Brazil Trade Relations

Overview

The United States and Brazil share one of the most important trade relationships in the world. In 2016, Brazil ranked as the United States' twelfth largest global trading partner and second largest Latin American trading partner in goods. The U.S. has maintained a trade surplus in goods exported to Brazil since 2008, measuring an estimated $4.1 billion in 2016. The U.S. has also had a bilateral services trade surplus with Brazil since at least 1992.

Brazil's economic strategy traditionally favored protectionist trade policies, but after years of minimal growth, it has begun to adopt a more liberal stance toward international trade and economic integration. Brazil's long-term trade strategy, however, depends on the unpopular President's ability to influence Congress and the outcome of Brazil's 2018 Presidential election. The United States is embracing a more nationalist approach through the review of existing free trade agreements (FTAs). Some experts contend the change in Brazil's economic policy may lead to closer bilateral trade relations. Others have indicated that Brazil and other emerging economies in South America are seeking to diversify their trading partners and to establish stronger ties with countries like China and India, as well as the European Union.

Brazil's Economy

Brazil is the world's ninth-largest economy, with a GDP of $1.8 trillion and a GDP per capita of $8,726 in 2016. The country's economy shrank in 2015 (3.8%) and 2016 (3.6%) as it struggled with its worst recession in recorded history. Recent reports, however, indicate the economy is recovering. The International Monetary Fund projects Brazil's GDP to grow by 0.7% in 2017 and by 1.5% in 2018. Brazil's unemployment rate remained above 12% in the quarter ending in October 2017, although it has improved over the course of the year.

Brazil's economy has been hampered by a number of external factors. Chief among these is the drop in commodity prices that started in 2011. Waning global demand for products like minerals, crude oil, and agricultural goods has been particularly damaging, as these products make up significant portions of the country's exports. Other factors that have impacted Brazil's economic growth have been the depreciation of the national currency, the spike in global oil supply driven by countries such as the United States and Canada, as well as corruption, tax and other policies. Brazil's economy has also been adversely impacted by a decline in consumption.

From 1989 to 1995, Brazil's average applied tariffs fell notably from 329% to 11%, and average applied tariffs on manufactured products fell from 18% in 1998 to 9% in 2006. Brazil's tariffs are generally higher than those of the United States. According to the World Trade Organization (WTO), Brazil's trade-weighted tariff rate is 10.4%, while that of the United States is 2.4% (see **Table 1**).

Table 1. U.S. and Brazil Average Tariffs, 2016

Country	Simple Applied	Simple MFN Bound*	Trade Weighted**
United States	3.4	3.5	2.4
Brazil	31.4	13.5	10.4

Source: World Trade Organization (WTO).
Notes: *Most-favored nation (MFN) basis. **2015 data.

Since 1991, Brazil, along with Argentina, Uruguay, and Paraguay, has formed part of a customs union known as the *Mercado Común del Sur*, or Mercosur. Venezuela, a member of the bloc since 2012, was suspended in December 2016. Mercosur exports for the four original countries dropped from $344 billion in 2012 to $260 billion in 2016. Mercosur has a high common external tariff and various nontariff barriers.

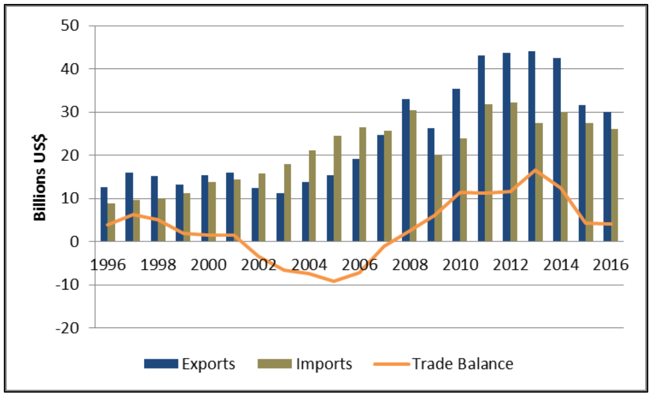
Recently, Brazil and its Mercosur partners expressed interest in rethinking the trade arrangement. Argentina's President Mauricio Macri has stated that Mercosur has under-delivered and that Mercosur's trade quotas are barriers to Argentina's goal of reinserting itself in the global market. Brazil's new foreign minister, Aloysio Nunes Ferreira, contends that Mercosur would benefit from extra-regional negotiations with key partners and investments in infrastructure. In addition, members of both Mercosur and the Pacific Alliance, a trade bloc formed by Chile, Colombia, Mexico, and Peru, have taken an interest in greater trade collaboration. Mercosur is also actively engaged in negotiations with the European Union concerning a potential FTA. Since 2015, Brazil has negotiated trade agreements with countries outside of Mercosur, such as the automotive trade agreement with Colombia and a trade expansion agreement with Peru.

U.S.-Brazil Trade Relations

Despite historical differences in trade policy approaches between the two countries, U.S.-Brazil trade relations have deepened in the past two decades. Two-way trade has more than doubled since 1996. Leading U.S. export items to Brazil include aircraft, machinery, petroleum products, electronics, and medical instruments. Leading imports include aircraft, crude petroleum oil, coffee, chemical products, and iron and steel products.

Total merchandise trade (exports plus imports) between the United States and Brazil was valued at $56.2 billion in 2016, with $30.1 billion in U.S. exports and $26.1 billion in U.S. imports. The United States has had a trade surplus with Brazil since 2008 (see **Figure 1**). Merchandise trade peaked in 2012, at $75.9 billion, with $43.8 billion in U.S. exports and $32.1 billion in U.S. imports. In 2013, trade declined to $71.6 billion and then increased slightly to $72.5 billion in 2014. In 2015, merchandise trade with Brazil decreased 18.5% to $59.1 billion and, in 2016, it decreased another 4.9% to $56.2 billion. According to the Office of the U.S. Trade Representative (USTR), in 2016, U.S. goods and services exports to Brazil totaled $88.2 billion.

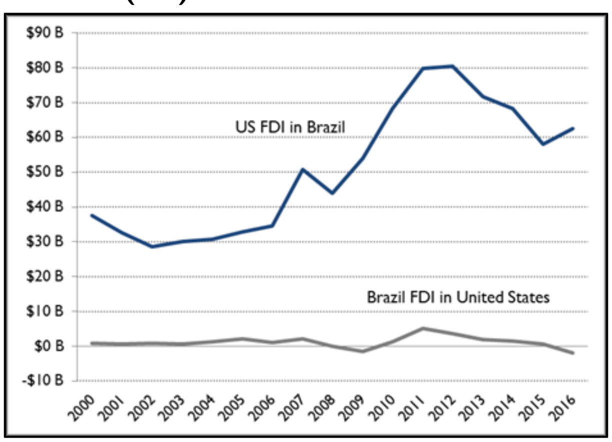
Figure 1. U.S. Merchandise Trade with Brazil



Source: CRS using U.S. International Trade Commission data.

The accumulated stock of U.S. foreign direct investment (FDI) in Brazil was $64.4 billion in 2016, a $6.8 billion (11.8%) increase from 2016, but still lower than the 2014 amount of $66.8 billion. Most U.S. FDI in Brazil is in the manufacturing industry ($18.6 billion). Brazil's accumulated stock of FDI in the United States was $551 million in 2015, a decrease of 61.8% from 2014. For 2016, U.S. data shows Brazil's stock of FDI in the United States dropped to -$1.8 billion (see **Figure 2**).

Figure 2. Stock of U.S.-Brazil Foreign Direct Investment (FDI)



Source: Source: CRS analysis, Bureau of Economic Analysis (BEA) data.

Trade policy between both countries has been a contentious issue for the last twenty years. Brazil has generally objected to trade liberalization agreements outside of Mercosur, and has pursued trade issues multilaterally at the WTO. In the 1990s, the United States and other countries in the Western Hemisphere attempted to incorporate Mercosur and other regional trade blocs into a Free Trade Area of the Americas (FTAA). Negotiations broke down in 2005, mostly because of disagreements between the United States, Brazil and other Mercosur countries.

Brazil has played an important role in the Doha Round of WTO multilateral trade negotiations that began in 2001. It has led a group of developing countries in calling for a reduction in agricultural tariffs in developed nations and in resisting calls for greater access to developing nations' services and industrial sectors. In October 2014, the two countries settled a longstanding dispute under the WTO over U.S. government support for cotton farmers. Under a memorandum of understanding, the United States agreed to make a final one-time payment of $300 million to the Brazil Cotton Institute and introduce additional changes to its export credit guarantee program. Brazil agreed not to challenge U.S. cotton support programs prior to September 30, 2018. The United States has brought four WTO cases against Brazil on issues related to the automotive sector, import prices and patent protection.

Selected U.S.-Brazil Bilateral Dialogues

The United States and Brazil have over twenty government-to-government bilateral dialogues and one high-level CEO Forum. In March 2016, they held the third meeting of the Commission on Economic and Trade Relations and made progress on trade facilitation and regulatory coherence issues as part of the United States-Brazil Commercial Dialogue. In a joint statement released in May 2017, the countries reflected on the advances made in bilateral trade thanks to the U.S.-Brazil Commercial Dialogue.

Issues for Congress

While an FTA between the United States and Brazil may continue to be an elusive proposition in the near- and medium-term, government-to-government dialogues have moved towards a more collaborative relationship, and Congress could examine how to enhance these dialogues to tackle trade concerns that may hamper closer bilateral economic engagement. Another policy issue relates to the Generalized System of Preferences (GSP), which provides nonreciprocal, duty-free tariff treatment to certain products imported from designated developing countries. The program expires in 2017 and Congress may consider extending GSP benefits for Brazil. Some question Brazil's inclusion in the program, given the size and sophistication of its economy. Finally, Congress may want to explore more in-depth prospects for a more outward-looking Mercosur trade policy and its implications for the United States, as well as implications of a potential EU-Mercosur free trade agreement.

(For more information see CRS Report RL33456, *Brazil: Background and U.S. Relations*, by Peter J. Meyer, and CRS In Focus IF10193, *The WTO Brazil-U.S. Cotton Case*, by Randy Schnepf).

M. Angeles Villarreal, Specialist in International Trade and Finance

Edward Y. Gracia, Research Assistant

IF10447

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