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U.S.-Brazil Trade Relations

Overview

The United States and Brazil have enjoyed a strong economic relationship for many years. In 2019, Brazil ranked second among the United States' Latin American trading partners in goods and nineteenth among all U.S. trading partners. The United States has maintained trade surpluses with Brazil in goods since 2008 and in services since at least 1992. Brazilian President Jair Bolsonaro, who entered into office in January 2019, is expected to continue to pursue free-market reforms during his four-year term, which ends in December 2022, and stronger U.S. trade ties.

Brazil's past economic strategy favored protectionist trade policies, but after many years of minimal growth, Brazil began to adopt a more liberal stance. In March 2020, President Donald Trump and President Bolsonaro announced that the two countries intended to deepen discussions later this year on the bilateral trade relationship, which could potentially move toward free trade agreement (FTA) negotiations. Since taking office, President Bolsonaro has taken steps to cooperate with the United States on issues of mutual interest, including trade. Brazil's long-term trade strategy, however, is bound by its status as a party to the *Mercado Común del Sur* or Southern Common Market (Mercosur), a common market trade arrangement that also includes Argentina, Paraguay and Uruguay. If Brazil were to pursue an FTA with the United States, it would have to decide whether to pursue it as a joint enterprise alongside Mercosur, or to pursue a bilateral agreement, which would require changing Mercosur's rules.

The United States and Brazil have moved to bolster trade ties in certain areas since March 2019. The two countries agreed to take steps toward lowering trade barriers for certain agricultural products, including wheat, pork, and beef. They also announced several other agreements, including a technology safeguards agreement that will allow U.S. space launches in Brazil, while ensuring proper handling of sensitive U.S. technology consistent with U.S. laws. The United States also endorsed Brazil's accession to the Organisation for Economic Co-operation and Development (OECD). Some experts contend that the United States and Brazil have numerous reasons to build upon the progress made in the economic relationship over the years. As Latin America faces increasing uncertainty amid global power shifts and external shocks, some observers contend that there are strategic and economic reasons to strengthen trade ties, although there may be opposition from certain labor or industry groups.

Brazil's Economy

Brazil is the world's fifth-largest country and ninth-largest economy, with a gross domestic product (GDP) of $1.9 trillion and a GDP per capita of $8,797 (estimated for 2019). The country's economy shrank in 2015 (3.8%) and 2016 (3.6%) as it struggled with its worst recession in recorded history. Although the economy began to recover in 2017, GDP growth remains slow (about one percent in 2017, 2018, and 2019). Brazil's unemployment rate has remained above 10% for about four years. The International Monetary Fund had projected 2.2% growth in GDP for 2020, but many analysts now forecast an economic contraction due to the impact of the COVID-19 pandemic.

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

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. Nevertheless, Brazil's tariffs generally remain higher than those of the United States. According to the World Trade Organization (WTO), Brazil's trade-weighted tariff rate is 10.0%, while that of the United States is 2.3% (see **Table 1**).

Table 1. U.S. and Brazil Average Tariffs, 2018

Country	Simple Applied	Simple MFN Bound*	Trade Weighted**
United States	3.4	3.4	2.3
Brazil	13.4	31.4	10.0

Source: World Trade Organization (WTO).

Notes: *Most-favored nation (MFN) basis. **2017 data.

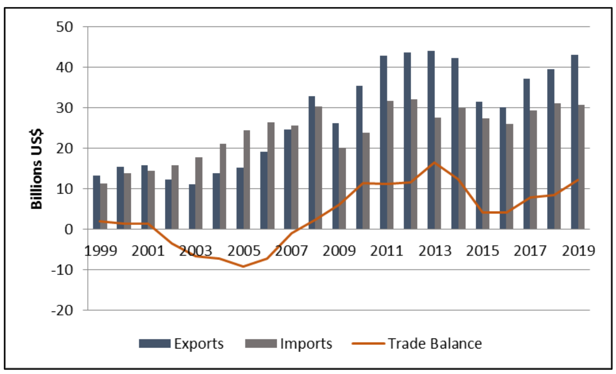
Since 1991, Brazil, along with Argentina, Uruguay, and Paraguay, has been part of Mercosur, a partial customs union. Mercosur has a high common external tariff and various nontariff barriers. Recently, Brazil and its Mercosur partners have expressed interest in rethinking the trade arrangement. In 2019, Mercosur and the European Union concluded FTA negotiations, which would eliminate tariffs in several key sectors, including autos, machinery products, and dairy and other agricultural products. The agreement, which has yet to be signed, would open Brazil's market to EU products and could affect U.S. exports to Brazil.

Brazil has duty-free benefits under the U.S. Generalized System of Preferences (GSP) program, which provides nonreciprocal, duty-free tariff treatment to certain U.S. imports from designated developing countries. Brazil was the fourth-largest beneficiary of the program in 2019, with duty-free imports to the United States valued at $2.3 billion, or 7.4% of all U.S. merchandise imports from Brazil. Congress most recently reauthorized the program until December 31, 2020, in Division M, Title V of the Consolidated Appropriations Act, 2018 (P.L. 115-141).

U.S.-Brazil Trade Relations

Despite historical differences in trade policy approaches between the two countries, U.S.-Brazil trade relations are strong and have deepened in the past two decades. Although China overtook the United States as Brazil's largest trading partner in 2008, U.S. trade with Brazil has more than doubled since 1999 (in nominal terms), especially in the energy and aerospace industries. Leading U.S. export items to Brazil in 2019 included mineral fuels and products, aircraft, machinery and mechanical products, electrical machinery, and organic chemicals. Leading U.S. imports from Brazil included mineral fuels and products, iron and steel, aircraft, machinery and mechanical products, and pulp of wood and similar products.

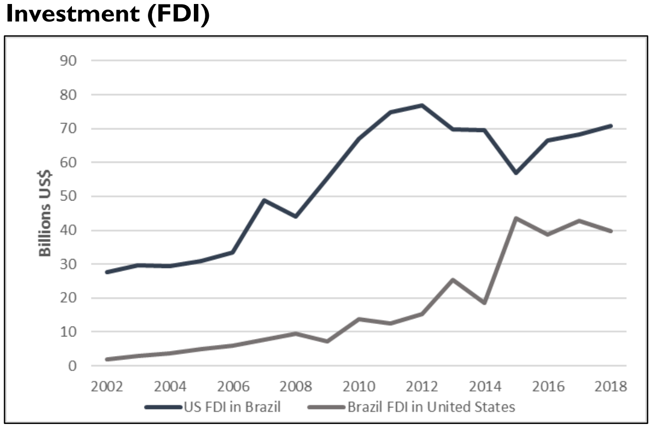
Figure 1. U.S. Merchandise Trade with Brazil



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

Total merchandise trade (exports plus imports) between the United States and Brazil totaled $73.9 billion in 2019, with $43.1 billion in U.S. exports and $30.9 billion in U.S. imports. The United States has had a trade surplus ($12.2 billion in 2019) with Brazil since 2008 (see **Figure 1**). It also had a services trade surplus of $22.1 billion in 2018. Merchandise trade peaked in 2012, at $75.9 billion.

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



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

The accumulated stock of U.S. foreign direct investment (FDI) in Brazil was $70.9 billion in 2018, a $2.6 billion (3.8%) increase from 2017, but lower than the peak reached in 2012 of $76.8 billion. Most U.S. FDI in Brazil (32.3%) is in manufacturing ($22.9 billion). Brazil's accumulated stock of FDI in the United States, mostly in manufacturing, was $39.8 billion) in 2018 (by ultimate beneficial owner), a decrease of 7.1% from 2017 (see **Figure 2**).

Although trade relations were contentious for about twenty years, there may be opportunity to move toward trade liberalization. Previous Brazilian administrations generally objected to trade agreements outside of Mercosur and pursued trade issues multilaterally at the WTO. The Bolsonaro Administration's more open strategy towards the United States could bring about significant change if it can gain enough support within the Brazilian congress.

During the Doha Round of WTO multilateral trade negotiations that began in 2001, and in the aftermath of their breakdown, Brazil has played a critical role in rallying other developing countries into a powerful bloc within the WTO. It has been a leading voice 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 United States and Brazil settled a longstanding dispute under the WTO over U.S. government support for cotton farmers. The United States has brought four WTO cases against Brazil on issues related to the automotive sector, import prices, and patent protection. In March 2019, Brazil agreed to forgo WTO special and deferential treatment for developing countries and treat itself as a developed country in exchange for U.S. support in its effort to join the OECD.

Issues for Congress

While an FTA between the United States and Brazil may continue to be an elusive proposition in the near term, government-to-government dialogues have moved towards a more collaborative relationship. Congress may consider exploring prospects for enhancing economic relations with Brazil, including the possibility of an FTA and U.S. negotiating priorities. Congress may also examine a framework for furthering trade ties and addressing trade issues such technical trade barriers to trade, trade facilitation, intellectual property rights protection, digital trade, and anti-corruption measures.

Several U.S. policymakers have expressed increasing interest in a possible FTA with Brazil, while others contend that although there is optimism for an agreement, Brazil must first make strides on pension, tax reform, and environmental protection efforts before the two countries could move forward FTA negotiations. (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).

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