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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 19th among all U.S. trading partners. In March 2020, President Donald Trump and President Jair Bolsonaro announced plans to deepen the bilateral trade relationship and potentially move toward free trade agreement (FTA) negotiations in the years to come. Those discussions led to a "mini trade deal," signed in October 2020 to facilitate trade, improve regulatory cooperation, and strengthen anti-corruption efforts.

President Bolsonaro, who entered into office in January 2019, is pursuing free-market reforms during his four-year term, which ends in December 2022. He has taken steps to cooperate with the United States on issues of mutual interest. Brazil's long-term trade strategy, however, is bound by its status as a party to the *Mercado Común del Sur* (MERCOSUR), a common market trade arrangement with Argentina, Paraguay and Uruguay. If Brazil were to pursue an FTA, it would have to decide whether to pursue it together with MERCOSUR countries or bilaterally, which would require changing MERCOSUR's rules.

The United States has endorsed Brazil's accession to the Organization for Economic Cooperation and Development (OECD). The Trump Administration's position is that the United States and Brazil have numerous reasons to build upon prior progress made in the economic relationship. Some policymakers state that strengthening trade ties with Brazil will help bolster U.S. interests in the region given China's increasing presence. As Latin America faces increasing uncertainty amid global power shifts and external shocks, there also may be other strategic and economic reasons to strengthen trade ties.

Brazil's Economy

Brazil is the world's fifth-largest country and ninth-largest economy, with a gross domestic product (GDP) of $1.8 trillion and a GDP per capita of $8,751. According to the International Monetary Fund, Brazil's real GDP will contract by an estimated 5.8% in 2020 and only partly recover to 2.8% growth in 2021. Economists do not expect output to return to pre-coronavirus levels until 2025. Brazil's unemployment rate, which has remained above 10% since 2016, is expected to rise to 14.1% by 2021.

Since 2011, Brazil's economy has been hampered by a number of external factors. Chief among these was a 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 Brazil's 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% (see **Table 1**).

Table 1. U.S. and Brazil Average Tariff Rates, 2019

Country	Simple Final Bound	Simple MFN Applied*	Trade Weighted**
United States	3.4	3.3	2.3
Brazil	31.4	13.4	10.2

Source: WTO's *World Tariff Profiles 2019*.

Notes: *Most-favored nation (MFN) basis. **2018 data.

Since 1991, Brazil has been part of MERCOSUR, which 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.

U.S.-Brazil "Mini Trade Deal"

In March 2020, Presidents Trump and Bolsonaro met in the United States and agreed to accelerate bilateral dialogue under the 2011 Agreement on Trade and Economic Cooperation (ATEC). On October 20, 2020, the United States and Brazil announced the successful conclusion of the Protocol on Trade Rules and Transparency, which complements Brazil's domestic reforms to improve competitiveness, regulatory reform and economic freedom, and adds three annexes to the ATEC:

- **Trade Facilitation and Customs Administration**: provisions on advance rulings (prior "binding" information about tariff classification and customs treatment applied to specific goods at time of importation), disciplines on penalties imposed by customs administration in each country, single window enabling traders to submit information requirements through one entry point, authorized economic operator (customs-to-business partnerships facilitating legitimate low-risk trade), and automated customs procedures to increase efficiency.

- **Good Regulatory Practices (GRP)**: similar to the GRP framework in the U.S.-Mexico-Canada Agreement (USMCA), including greater transparency in Brazilian regulatory procedures.
- **Anti-Corruption**: obligations to adopt and maintain measures to combat bribery and corruption, money laundering, recovery of proceeds of corruption, denial of safe haven, whistleblower protection.

The protocol does not require U.S. congressional approval, but will need approval by the Brazilian Congress prior to its entry into force. While some Members of Congress see the trade deal as a way to increase U.S. investment and promote U.S. values in the Hemisphere, others oppose an expanded economic partnership under the Bolsonaro Administration due to human rights, environmental and other concerns.

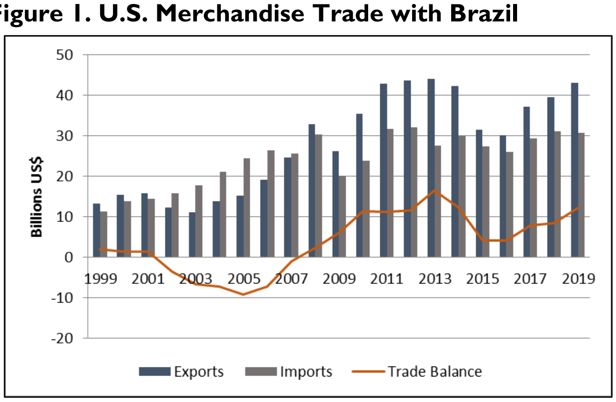
U.S.-Brazil Trade

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 7.6% of all U.S. merchandise imports from Brazil.

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.

Total merchandise trade (exports plus imports) between the United States and Brazil totaled $73.5 billion in 2019, with $42.7 billion in U.S. exports and $30.8 billion in U.S. imports. The United States has had a trade surplus ($11.9 billion in 2019) with Brazil since 2008 (**Figure 1**). It also had a services trade surplus of $17.8 billion in 2019. Merchandise trade peaked in 2012, at $75.6 billion.

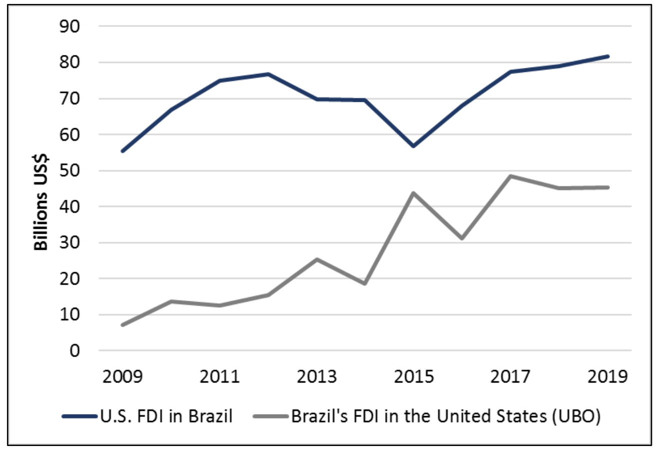
Figure 1. U.S. Merchandise Trade with Brazil



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

The accumulated stock of U.S. foreign direct investment (FDI) in Brazil was $81.7 billion in 2019, a $2.7 billion (3.4%) increase from 2018, but lower than the peak reached in 2012 of $76.8 billion. Most U.S. FDI in Brazil (31.8%) is in manufacturing ($26.0 billion). Brazil's accumulated stock of FDI in the United States, mostly in manufacturing, totaled $45.3 billion in 2019 (by ultimate beneficial owner, UBO), a decrease of 0.6% from 2018 (**Figure 2**).

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



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

During the Doha Round of 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 WTO dispute over U.S. government support for cotton farmers. The United States has brought four WTO cases against Brazil on 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. Brazil formally applied to accede to the WTO Agreement on Government Procurement (GPA) in May 2020.

Issues for Congress

While an FTA between the United States and Brazil may continue to be an elusive proposition, government-to-government dialogues have moved towards a more collaborative relationship. Congress may consider exploring prospects for enhancing economic and trade relations with Brazil under a "building block approach" towards an eventual FTA. Congress may also examine a framework for furthering trade ties and addressing trade issues, such as intellectual property rights protection, and digital trade.

Several U.S. policymakers have expressed increasing interest in expanding trade ties with Brazil by using USMCA chapters as templates for smaller agreements, while others contend that Brazil must first make strides on human rights, the environment, corruption and tax reform before the two countries could move forward on any negotiations. (See CRS Report RL33456, *Brazil: Background and U.S. Relations*, by Peter J. Meyer.)

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