

# CRS Report for Congress

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## U.S.-Latin American Trade: Recent Trends

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### Summary

Since congressional passage of Trade Promotion Authority (TPA) in August 2002 (P.L. 107-210), the U.S.-Chile free trade agreement (FTA) has been implemented and negotiations have been concluded on the U.S.-Central America Free Trade Agreement (CAFTA). Congress will likely follow closely progress on other U.S.-Latin American trade initiatives, including new bilateral discussions begun with the Andean countries and Panama, and the Free Trade Area of the Americas (FTAA), scheduled to be concluded in January 2005. Congress defined trade negotiation objectives in TPA and trade agreements are enacted only after Congress passes implementing legislation. This report supports the congressional role in trade policy by providing an analytical overview of U.S.-Latin American trade data and trends, and will be updated.<sup>1</sup>

### Developments in U.S.-Latin American Trade

Latin America, although not the largest, is the fastest growing U.S. regional trade partner. Between 1992 and 2003, total U.S. merchandise trade (exports plus imports) with Latin America grew by 154% compared to 88% for Asia, 89% for the European Union, 78% for Africa, and 102% 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 1992 to 2003, the share of U.S. trade with Latin America, excluding Mexico, actually declined slightly relative to the rest of the world, whereas Mexico's share expanded from 7.7% to 11.9%, reflecting enormous growth.

In 2003, U.S. trade worldwide rebounded from a decline begun in 2001, largely reflecting recovery from the global economic downturn. U.S. exports to the world grew by 4.4% in 2003, following a decrease of 4.9% in 2002. Among the larger trade partners, U.S. exports grew by 28.4% to China, 6.8% to South Korea, 6.8% to the European Union,

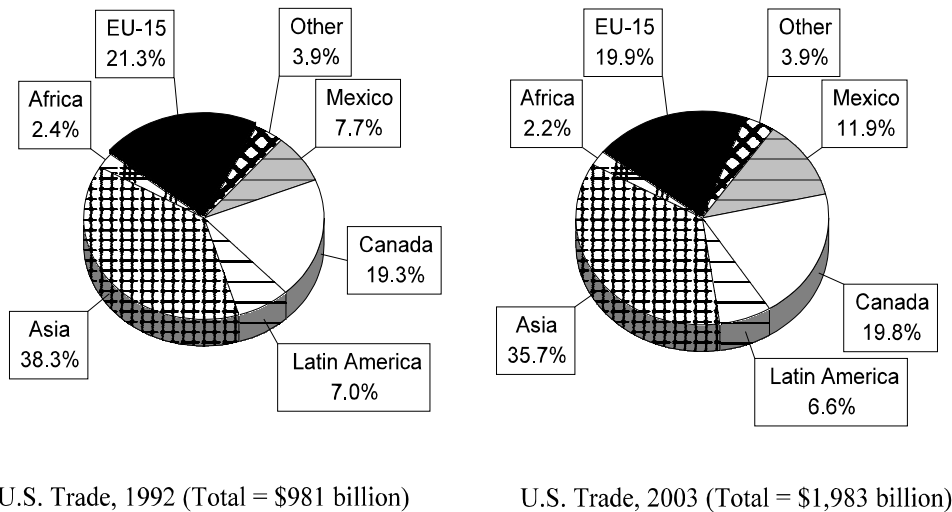
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<sup>1</sup> Additional information on this and other trade related issues is available from the CRS Electronic Briefing Book on Trade at [<http://www.congress.gov/brbk/html/ebtra1.html>]. See also, CRS Report RS20864, *A Free Trade Area of the Americas: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

5.3% to Canada, and 1.2% to Japan. After falling 6.5% in 2002, U.S. exports to Latin America grew by a tepid 0.2% in 2003 (see **Appendix 1**). U.S. exports to Latin America, excluding Mexico, increased by 0.6%, while export growth to Mexico, the second largest U.S. export market, was stagnant.

### Figure 1. U.S. Direction of Total Trade, 1992 and 2003

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



U.S. export growth to select Latin American markets in 2003 was a mixed story. Export growth fell by 9.7% to Brazil, 37.8% to Venezuela, and 2.3% to the Dominican Republic. It rose, however, by 5.6% to Colombia, 3.8% to Chile, 50.0% to Argentina, 9.7% to Costa Rica, 7.7% to Honduras, and 15.0% to Guatemala. These disparate trends point to equally disparate national economic and political events in Latin America, such as the effects of slow economic growth in Brazil, a major recession in the Dominican Republic, a political crisis in Venezuela, and the economic rebound in Argentina. Central America, as a region, escaped South America's recent round of economic volatility, in part because of its close trade relationship with the United States.

On the import side, strong growth of the U.S. economy resulted in increased demand for foreign goods, which rose by 8.2% worldwide in 2003, after declining by 4.9% in 2002. Imports expanded by 8.4% from the EU, 7.2% from Canada, 21.7% from China, and 3.9% from South Korea. Imports from Japan declined by 2.8%. Imports from Latin America rose by 6.2% on average and by 2.5% from Mexico, 13.3% from Brazil, 7.1% from the Dominican Republic, 14.3% from Colombia, 13.2% from Venezuela, 9.7% from Costa Rica, and 7.1% from Guatemala. Import growth from Argentina and Honduras was flat and imports from Chile fell by 2.6%.

Mexico made up 11.9% of U.S. trade in 2003 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 6.6% 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 7.9% 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 15.3% of gross domestic product (GDP) in 1990 to 17.4% in 2003. 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, led to decisions to encourage exports, but also to impose higher export taxes, which had an offsetting effect.

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 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. For each in 2002, total merchandise trade (exports plus imports) was more than 50% of GDP. By contrast, total merchandise trade accounted for a much smaller 29% of GDP in Brazil and 40% in Argentina, two countries generally associated with lagged or incomplete trade reforms. Argentina's percentage actually spiked in 2002 from 17% in 2001 because of its financial crisis.

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 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 2003, but to only a fraction of that for Mexico and Costa Rica, for example. 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 Común del Sur — Southern Common Market), and historically closer trade ties with Europe.<sup>2</sup> Argentina's deep financial crisis led inevitably to severe "import compression" as aggregate demand fell over four consecutive years and as the effects of the peso devaluation took hold. Differences in income can also 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) 1990*	Trade in Goods (% GDP) 2002*	Per Capita Imports from U.S. 1990**	Per Capita Imports from U.S. 2003**	Per Capita GNI 2001 (PPP)#
Mexico	40.7%	55.4%	\$328	\$1,350	\$8,240
Brazil	15.2%	28.9%	\$34	\$100	\$7,070
Dom. Rep.	69.2%	85.7%	\$254	\$495	\$5,590
Colombia	35.4%	40.7%	\$62	\$145	\$6,790
Argentina	15.1%	40.2%	\$36	\$85	\$10,980
Chile	66.0%	66.0%	\$126	\$230	\$8,840
Costa Rica	70.6%	90.0%	\$352	\$800	\$9,260

**Data Sources:** Calculations by CRS from the following data sources. \*Sum of merchandise exports and imports divided by GDP, per national account data as reported in IMF, *International Financial Statistics*. \*\*IMF, *International Financial Statistics* 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 \$23.3 billion in 2003, compared to Brazil's \$29.1 billion (**appendix 1**). These figures, however, represent 36% of Central America's GDP, compared to 6% 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

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<sup>2</sup> For details, see United States International Trade Commission. *Market Developments in Mercosur Countries Affecting Leading U.S. Exporters*. Publication 3117, July 1998.

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 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.<sup>3</sup>

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.<sup>4</sup> 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 and CAFTA, 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 other bilateral negotiations 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 are also differences between some Latin American countries and the United States over how to handle social issues in trade agreements, such as labor and environmental provisions. Although mutually acceptable solutions were negotiated in the U.S.-Chile FTA, the debate over CAFTA seems to be more of a problem. 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 107<sup>th</sup> 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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<sup>3</sup> Others goals include such broad themes as supporting regional political and security interests.

<sup>4</sup> For country-specific data, see United States Trade Representative. *2004 National Trade Estimate Report on Foreign Trade Barriers*. Washington, D.C., 2003.

**Appendix 1. U.S. Merchandise Trade with Selected  
Latin American Countries, 1992-2003 (\$ billions)**

Country	1992	1994	1996	1998	2000	2002	2003	% Change 02-03	% Change 92-03
<b>U.S. Exports</b>									
Brazil	5.8	8.1	12.7	15.2	15.4	12.4	11.2	-9.7%	93.1%
Dom. Rep.	2.1	2.8	3.2	4.0	4.4	4.3	4.2	-2.3%	100.0%
Colombia	3.3	4.1	4.7	4.8	3.7	3.6	3.8	5.6%	15.2%
Costa Rica	1.4	1.9	1.8	2.3	2.4	3.1	3.4	9.7%	142.9%
Honduras	0.8	1.0	1.6	2.3	2.6	2.6	2.8	7.7%	250.0%
Venezuela	5.4	4.0	4.8	6.5	5.6	4.5	2.8	-37.8%	-48.1%
Chile	2.5	2.8	4.1	4.0	3.5	2.6	2.7	3.8%	8.0%
Argentina	3.2	4.5	4.5	5.9	4.7	1.6	2.4	50.0%	-25.0%
Guatemala	1.2	1.4	1.6	1.9	1.9	2.0	2.3	15.0%	91.7%
Panama	1.1	1.3	1.4	1.8	1.6	1.4	1.9	35.7%	72.7%
El Salvador	0.7	0.9	1.1	1.5	1.8	1.7	1.8	5.9%	157.1%
Peru	1.0	1.4	1.8	2.1	1.7	1.6	1.7	6.3%	70.0%
Ecuador	1.0	1.2	1.3	1.7	1.0	1.6	1.5	-6.3%	50.0%
Nicaragua	0.2	0.2	0.3	0.3	0.4	0.4	0.5	25.0%	150.0%
Other	5.4	6.4	7.6	9.1	8.5	8.3	9.0	8.4%	66.7%
Total LAC*	35.1	42.0	52.5	63.4	59.3	51.7	52.0	0.6%	48.1%
Mexico	40.6	50.8	56.8	79.0	111.7	97.5	97.5	0.0%	140.1%
Total LA	75.7	92.8	109.3	142.4	171.0	149.2	149.5	0.2%	97.5%
World	448.2	512.6	625.1	680.5	780.4	693.3	723.7	4.4%	61.5%
<b>U.S. Imports</b>									
Brazil	7.6	8.7	8.8	10.1	13.9	15.8	17.9	13.3%	135.5%
Dom. Rep.	2.4	3.1	3.6	4.4	4.4	4.2	4.5	7.1%	87.5%
Colombia	2.8	3.2	4.3	4.7	7.0	5.6	6.4	14.3%	128.6%
Costa Rica	1.4	1.7	2.0	2.8	3.6	3.1	3.4	9.7%	142.9%
Honduras	0.8	1.1	1.8	2.6	3.1	3.3	3.3	0.0%	312.5%
Venezuela	8.2	8.4	12.9	9.3	18.7	15.1	17.1	13.2%	108.5%
Chile	1.4	1.8	2.3	2.5	3.2	3.8	3.7	-2.6%	164.3%
Argentina	1.3	1.7	2.3	2.3	3.1	3.2	3.2	0.0%	146.2%
Guatemala	1.1	1.3	1.7	2.1	2.6	2.8	3.0	7.1%	172.7%
Panama	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.0%	0.0%
El Salvador	0.4	0.6	1.1	1.4	1.9	2.0	2.0	0.0%	400.0%
Peru	0.7	0.8	1.3	2.0	2.0	1.9	2.4	26.3%	242.9%
Ecuador	1.4	1.7	1.9	1.8	2.2	2.2	2.7	22.7%	92.9%
Nicaragua	0.1	0.2	0.4	0.5	0.6	0.7	0.8	14.3%	700.0%
Other	3.7	3.9	4.0	3.6	6.7	5.6	8.1	44.6%	118.9%
Total LAC*	33.6	38.5	48.8	50.4	73.3	69.6	78.8	13.2%	134.5%
Mexico	35.2	49.5	74.3	94.7	135.9	134.7	138.1	2.5%	292.3%
Total LA	68.8	88.0	123.1	145.1	209.2	204.3	216.9	6.2%	215.3%
World	532.7	663.3	795.3	913.9	1,216.9	1,163.6	1,259.4	8.2%	136.4%

Source: Table created by CRS from U.S. Department of Commerce data.

\* LAC = Latin America and the Caribbean, except Mexico.