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CRS Report for Congress

U.S.-Latin America 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) and the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) have been implemented. The United States has also concluded trade negotiations with Peru, Colombia, and Panama. Talks on the region-wide Free Trade Area of the Americas (FTAA), by contrast, have stalled. Trade agreements cannot enter into force until Congress approves them and passes implementing legislation as defined in Trade Promotion Authority (TPA) legislation, and it is likely that the 110th Congress will consider implementing legislation for one or all of the bilateral FTAs. This report supports the congressional role in trade-policy making by providing an analytical overview of U.S.-Latin American trade data and trends.[1] It will be updated.

Developments in U.S.-Latin American Trade

Trade is one of the driving issues in contemporary U.S.-Latin America relations. Although not the largest, Latin America is the fastest growing U.S. regional trade partner. Between 1992 and 2005, total U.S. merchandise trade (exports plus imports) with Latin America grew by 236% compared to 148% for Asia, 130% for the European Union, 148% for Africa, and 163% for the world. There are two import caveats. First, most of the growth in Latin American trade was due to Mexico, the largest U.S. regional trade partner in dollar terms. Second, U.S. imports grew twice as fast as exports. As seen in **Figure 1**, from 1992 to 2005, Latin America trade, excluding Mexico, grew from 7.0% to 7.6% of U.S. world trade, whereas Mexico's share expanded from 7.7% to 11.3%, reflecting these growth trends (individual country data appears in **Appendix 1**.)

In 2005, U.S. trade worldwide continued the expansion begun after the 2001 global economic downturn. U.S. exports to the world grew by 10.5% in 2005, following a 12.9% increase in 2004. Among the larger trade partners, U.S. exports grew by 20.4% to China, 11.4% to Canada, 10.5% to the European Union, 4.8% to South Korea, and

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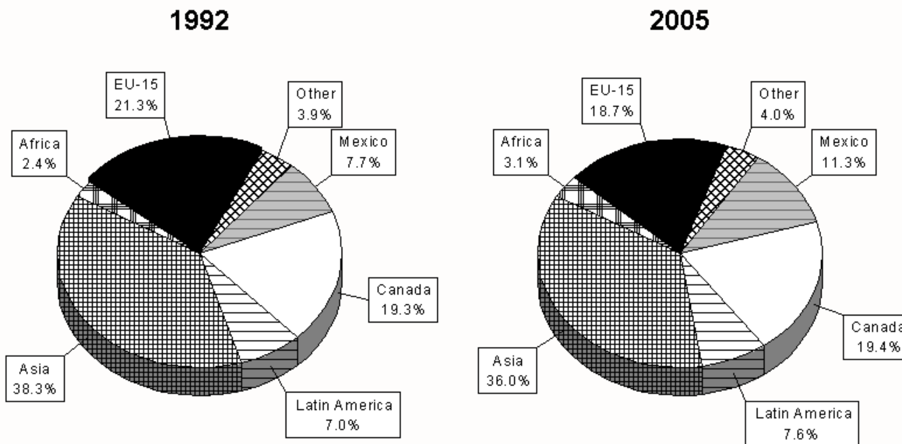
[1] CRS also has individual reports on all these agreements and TPA.

2.2% to Japan. U.S. exports to Latin America grew by 11.6% in 2005, with export growth to Mexico, the second largest U.S. export market, expanding by 8.3%.

Figure 1. U.S. Direction of Total Trade, 1992 and 2005



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

U.S. export growth to some of the larger Latin American markets in 2005 was mostly positive. Exports expanded briskly to Venezuela (34.4%), Argentina (21.0%), Chile (44.1%), and Colombia (20.2%), and less so to Brazil (8.3%) and Costa Rica (8.8%). These trends point largely to differences in national economic growth. Exports to major Latin American trading blocs also varied, expanding by 23.2% to the Andean Community (AC), 10.5% to the CAFTA-DR countries, 25.3% to the Caribbean Community (Caricom) countries, and 13.5% to the Southern Common Market (Mercosur).

On the import side, continued strong growth of the U.S. economy resulted in increased demand for foreign goods, despite a weakening U.S. dollar. U.S. import consumption for the world rose by 13.7% in 2005. Among the larger U.S. trading partners, imports expanded by 23.8% from China, 12.3% from Canada, 9.7% from the EU, and 6.4% from Japan. Imports from South Korea actually declined by 5.2%. Imports from Latin America rose by 15.1% on average and by 36.3% from Venezuela, 40.9% from Chile, 22.0% from Argentina, 15.5% from Brazil, 21.9% from Colombia, 12.3% from Mexico, 38.3% from Peru, and 34.4% from Ecuador. For most of the high growth countries, the dollar value of imports rose because of precipitous price increases in commodities, particularly petroleum, earnings growth that likely contributed to the increase in U.S. exports to many of these countries, as well.

Mexico made up 11.3% of U.S. trade in 2005 and, as seen in **Appendix 1**, it is the largest Latin American trading partner, accounting for 60% 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 7.6% of U.S. trade, potentially leaving room for significant growth. Brazil, for example, has the second largest economy in Latin America, is the second largest Latin American trading partner of the United States, but accounts for only 10.2% of U.S. trade with Latin America, or one-seventh that of Mexico.

The region's increasing importance as a U.S. trading partner is an important trend in globalization. In the United States, total merchandise trade (exports plus imports) has become an increasingly important component of the economy, growing from 7.9% of gross domestic product (GDP) in 1970 to 20.6% in 2005. 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 from a high of 16.4% in Mexico to a low of 6.0% in Costa Rica.[2] Trade reform 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 has been delayed or even reversed in some countries when they faced economic or political instability.

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 2004, total merchandise trade was more than 50% of GDP. By contrast, total merchandise trade accounted for a much smaller 27% of GDP in Brazil and 37% in Argentina, two countries generally associated with lagged or incomplete trade reforms. Argentina's percentage actually spiked from 17% in 2001 following a major currency devaluation.

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 Argentina is telling.

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 2004, 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, 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 national income (GNI) data shown in **Table 1** suggest that it does not stand out in this case.

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

[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.

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) 2004*	Per Capita Imports from U.S. 1990**	Per Capita Imports from U.S. 2004**	Per Capita GNI 2003 (PPP)#
Mexico	40.7%	57.0%	$328	$1,136	$8,980
Chile	66.0%	58.5%	$126	$323	$9,810
Costa Rica	70.6%	81.5%	$352	$846	$9,140
Dom. Rep.	69.2%	81.6%	$254	$560	$6,310
Colombia	35.4%	33.9%	$62	$121	$6,410
Brazil	15.2%	27.0%	$34	$84	$7,510
Argentina	15.1%	36.5%	$36	$107	$11,410

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*. Note, Dominican Republic and Costa Rican data is for 2003. **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, *2005 World Development Indicators*.

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. 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 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 an attractive opportunity 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

[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 country'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.

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 products 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 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 advanced its agenda with NAFTA, CAFTA-DR, the U.S.-Chile FTA, and pending FTAs with Panama, Peru, and Colombia, in effect substituting them for unilateral trade preferences previously extended under the Andean Trade Preference Act (ATPA), the Caribbean Basin Initiative (CBI), and related programs, and the Generalized System of Preferences (GSP). Brazil, as the major regional economy not in an agreement with the United States, has moved ahead separately by adding associate members to Mercosur, having Venezuela accede as a full member, and by leading in the formation of the South American Community of Nations. Although these are neither deep nor comprehensive agreements, they do signal a political will to consolidate regional bargaining interests in juxtaposition to the FTAA option backed by the United States.

Two clear challenges emerge from this picture. First, Brazil and the United States appear to be having problems moving off their respective positions, which has stalled progress on the FTAA and raises the question of whether a two-pole, hub-and-spoke trading system may dominate if a larger regional agreement is postponed indefinitely. 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. 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, moving ahead with a comprehensive FTAA may be unlikely. A less comprehensive FTAA may not be considered worth the political battle needed to pass it and offers a far less compelling alternative to a multilateral agreement on economic grounds, suggesting that the FTAA may not emerge in the near future, despite the logical solution it brings to a disparate web of subregional FTAs. Together, these circumstances suggest that a new chapter of trade negotiations between developed and developing countries awaits, 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 policy agendas.

Appendix 1. U.S. Merchandise Trade with Selected Latin American Countries and Groups, 1992-2005

($ billions)

Country	1992	1994	1996	1998	2000	2002	2005	% Change 02-05	% Change 92-05
U.S. Exports									
Brazil	5.8	8.1	12.7	15.2	15.4	12.4	15.4	24.2%	165.5%
Venezuela	5.4	4.0	4.8	6.5	5.6	4.5	6.4	42.2%	18.5%
Colombia	3.3	4.1	4.7	4.8	3.7	3.6	5.4	50.0%	63.6%
Chile	2.5	2.8	4.1	4.0	3.5	2.6	5.2	100.0%	108.0%
Dom. Rep.	2.1	2.8	3.2	4.0	4.4	4.3	4.7	9.3%	123.8%
Argentina	3.2	4.5	4.5	5.9	4.7	1.6	4.1	156.3%	28.1%
Costa Rica	1.4	1.9	1.8	2.3	2.4	3.1	3.6	16.1%	157.1%
Honduras	0.8	1.0	1.6	2.3	2.6	2.6	3.2	23.1%	300.0%
Guatemala	1.2	1.4	1.6	1.9	1.9	2.0	2.8	40.0%	133.3%
Peru	1.0	1.4	1.8	2.1	1.7	1.6	2.3	43.8%	130.0%
Other	5.4	6.4	7.6	9.1	8.5	8.3	9.8	18.1%	81.5%
Total LAC*	35.1	42.0	52.5	63.4	59.3	51.7	72.2	39.7%	105.7%
Mexico	40.6	50.8	56.8	79.0	111.7	97.5	120.1	23.2%	195.8%
Total Lat. Amer.	75.7	92.8	109.3	142.4	171.0	148.9	192.3	29.1%	154.0%
DR-CAFTA	6.4	8.2	9.6	12.4	13.6	14.1	16.8	19.1%	162.5%
Caricom	3.1	3.3	4.4	5.0	5.4	5.0	7.2	44.0%	132.3%
Mercosur	9.6	13.7	18.6	22.4	21.0	14.6	20.7	41.8%	115.6%
Andean Comm.	11.0	10.9	12.8	15.5	12.2	11.4	16.3	43.0%	48.2%
World	448.2	512.6	625.1	680.5	780.4	693.1	904.4	30.5%	101.8%
U.S. Imports									
Brazil	7.6	8.7	8.8	10.1	13.9	15.8	24.4	54.4%	221.1%
Venezuela	8.2	8.4	12.9	9.3	18.7	15.1	34.0	125.2%	314.6%
Colombia	2.8	3.2	4.3	4.7	7.0	5.6	8.9	58.9%	217.9%
Chile	1.4	1.8	2.3	2.5	3.2	3.8	6.7	76.3%	378.6%
Dom. Rep.	2.4	3.1	3.6	4.4	4.4	4.2	4.6	9.5%	91.7%
Argentina	1.3	1.7	2.3	2.3	3.1	3.2	4.6	43.8%	253.8%
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	3.8	15.2%	375.0%
Guatemala	1.1	1.3	1.7	2.1	2.6	2.8	3.1	10.7%	181.8%
Peru	0.7	0.8	1.3	2.0	2.0	1.9	5.1	168.4%	628.6%
Other	3.7	3.9	4.0	3.6	6.7	5.6	24.2	332.1%	554.1%
Total LAC*	33.6	38.5	48.8	50.4	73.3	69.6	122.8	76.4%	265.5%
Mexico	35.2	49.5	74.3	94.7	135.9	134.7	170.2	26.4%	383.5%
Total Lat. Amer.	68.8	88.0	123.1	145.1	209.2	204.3	293.0	43.4%	325.9%
DR-CAFTA	6.1	7.9	10.4	13.7	16.1	16.0	18.1	13.1%	196.7%
Caricom	2.4	2.4	2.9	2.6	4.0	4.0	9.9	147.5%	312.5%
Mercosur	9.2	10.7	11.4	12.6	17.3	19.2	29.8	55.2%	223.9%
Andean Comm.	13.3	14.4	21.1	17.8	30.0	24.9	54.0	116.9%	306.0%
World	532.7	663.3	795.3	913.9	1,216.9	1,161.4	1,670.9	43.9%	213.7%

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