Latin America

March 1, 2001

J. F. Hornbeck
Specialist in International Trade and Finance
Foreign Affairs, Defense, and Trade Division
Last modified: March 1, 2001

Issue

On April 20-22, 2001, leaders of 34 Western Hemisphere countries will meet in Quebec City for the third Summit of the Americas. There, the spotlight will be on responding to an initial draft version of the Free Trade Area of the Americas (FTAA), which will be released earlier in the month at a regional trade ministerial in Buenos Aires, Argentina. The United States has a strong interest in Western Hemisphere integration, especially trade relations with Latin America. These relationships have expanded and deepened over the past decade, including the unique long-term economic partnership with Mexico. Given the apparent rising expectations for pushing ahead on an FTAA and Mexico's prominence as the United States' second largest trade partner, U.S.-Latin American trade will continue to be an important part of the broader congressional agenda.

Background

Trends in U.S.-Latin American Trade. Latin America is the fastest growing U.S. regional trading partner. Between 1990 and 2000, total U.S. merchandise trade (exports plus imports) with Latin America grew by 219% compared to 118% for Asia, 89% for Western Europe, 62% for Africa, and 125% for the world. Latin America has grown from 13.3% of total U.S. trade in 1990 to 18.8% in 2000, but this growth has not been uniform throughout the region.

In 2000, U.S. exports to the world expanded by 12%, recovering from a 2% decline in 1999. Among the larger trade partners, U.S. exports increased by 22% to Korea, 24% to China, 14% to Japan 9% to Western Europe, and 8% to Canada. U.S. exports to Latin America rose by 21% after a decline of 0.4% in 1999 (see table 1). This increase reflects recovery from the 1999 recession in much of South America and a large increase (29%) in export growth to Mexico, the second largest foreign market for U.S. goods. U.S. export growth to the top six Latin American markets after Mexico was irregular. In order of export market size, exports grew by 17% to Brazil; 4% to Venezuela, -6% to Argentina; 7% to the Dominican Republic; 3% to Colombia, and 13% to Chile.

U.S. imports from the world increased by 19% in 2000, reflecting the continuing strong growth of the U.S. economy. Imports grew by 13% from Western Europe, 16% from Canada, 23% from China, 29% from Korea, and 12% from Japan. Imports from Latin America grew in kind, by 24% on average. All countries benefitted some as imports increased by 24% from Mexico, 23% from Brazil, 66% from Venezuela (reflecting the sharp rise in oil prices), 19% from Argentina, 2% from the Dominican Republic, 11% from Colombia, and 7% from Chile. Although the United States runs a trade surplus with most Latin American countries, there is a large deficit with Mexico and significant increases in deficits with Venezuela and Colombia, reflecting relatively high oil prices during 2000.

Mexico made up 12.4% of U.S. world trade in 2000 and its dominance as a regional trade partner is evident in Table 1. It is not only the largest Latin American trading partner, accounting for two-thirds of the region's trade with the United States, but also is among the fastest growing. The rest of Latin America together made up only 6.4% of U.S. trade in 2000, but the trade growth has been brisk for much of the decade.

U.S.-Latin America Trade Issues. From a purely commercial perspective, improving market access in Latin America is an important U.S. trade negotiating goal. There are three generally recognized components to this objective. The first involves lowering barriers that allow improved market access for U.S. goods to occur, an issue that varies in significance with each country. The second is achieving a uniform trade regime throughout the Western Hemisphere [market access under the same rules as other Western Hemisphere countries], an increasingly complex goal given the ongoing trend toward bilateral and sub-regional 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.

Despite the trend toward lower average tariffs throughout Latin America, reducing tariffs on trade is still an important part of the U.S. trade policy agenda, for at least three reasons. First, 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. Although Latin American countries have lowered their average tariff rates, many maintain very high tariffs on automobiles and other capital goods that are dominant exports of the United States. 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.

Non-tariff barriers, although not addressed in many of the sub-regional trade pacts, provide another fertile area for negotiation. Although some improvements have been made unilaterally, many Latin American countries have legal and regulatory environments that effectively protect domestic industries from foreign competition in areas such as investment, government procurement, intellectual property, and services. These barriers can deter increased U.S. participation in Latin American economies and continue to be targets for U.S. trade policy. From the Latin American perspective, U.S. antidumping and countervailing duty cases are viewed at times as significant impediments to their exports, a position that has been argued by, among others, Brazil, the second largest economy in the region with an important regional voice in the FTAA negotiations.

Finally, there is considerable difference between some Latin American countries and the United States over broader social issues that have implications for trade policy, such as the perennial debate over including labor and environmental standards in the FTAA. Many Latin American countries consider labor and environmental standards as protectionist measures meant to limit their ability to compete in the U.S. market and are adamant about restricting their incorporation into an FTAA.

Outlook

There is much optimism over Latin America's increasing importance as a U.S. trading partner. 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. Trade and broader economic reform on occasion have been delayed or even reversed by some countries when faced with economic instability or stagnation. For these reasons, trade issues and their potential for resolution under the proposed FTAA makes U.S.-Latin American trade relations an open issue for the U.S. Congress and one that is closely linked to fast-track trade negotiating legislation, which is viewed by some as a prerequisite to completing an FTAA.

Resources

CRS Report RL30790, The Andean Trade Preference Act: Background and Issues for Reauthorization, by J. F. Hornbeck. January 3, 2001.

CRS Report 97-762, A Free Trade Area of the Americas: Toward Integrating Regional Trade Policies, by J. F. Hornbeck. Updated September 25, 1997.

CRS Issue Brief IB95017, Trade and the Americas, by Raymond J. Ahearn. Updated regularly.

CRS Report 98-840, U.S.-Latin American Trade: Recent Trends, by J. F. Hornbeck. Updated March 10, 2000.

Table 1. U.S. Merchandise Trade with Selected Latin American Countries, 1990-2000
($ billions)

Country	1990	1992	1994	1996	1999	2000	% Change 1999-2000	% Change 1990-2000
U.S. Exports								
Brazil	5.1	5.8	8.1	12.7	13.2	15.4	16.7%	202.0%
Venezuela	3.1	5.4	4.0	4.8	5.4	5.6	3.7%	80.6%
Argentina	1.2	3.2	4.5	4.5	5.0	4.7	-6.0%	291.7%
Dom. Rep.	1.7	2.1	2.8	3.2	4.1	4.4	7.3%	158.8%
Colombia	2.0	3.3	4.1	4.7	3.6	3.7	2.8%	85.0%
Chile	1.7	2.5	2.8	4.1	3.1	3.5	12.9%	105.9%
Honduras	0.6	0.8	1.0	1.6	2.4	2.6	8.3%	333.3%
Costa Rica	1.0	1.4	1.9	1.8	2.4	2.5	4.2%	150.0%
Peru	0.8	1.0	1.4	1.8	1.7	1.7	0.0%	112.5%
Guatemala	0.8	1.2	1.4	1.6	1.8	1.9	5.6%	137.5%
Panama	0.9	1.1	1.3	1.4	1.7	1.6	-5.9%	77.8%

Source: CRS table created from U.S. Department of Commerce data presented in World Trade Atlas. * LAC = Latin America and the Caribbean, except Mexico. END

Ecuador	0.7	1.0	1.2	1.3	0.9	1.0	11.1%	42.9%
El Salvador	0.6	0.7	0.9	1.1	1.5	1.8	20.0%	200.0%
Jamaica	1.0	1.0	1.1	1.5	1.3	1.4	7.7%	40.0%
Other	4.5	4.6	5.5	6.4	5.0	5.4	8.0%	20.0%
Total LAC*	25.7	35.1	42.0	52.5	53.1	57.2	7.7%	122.6%
Mexico	28.3	40.6	50.8	56.8	86.9	111.7	28.5%	294.7%
Total LA	54.0	75.7	92.8	109.3	140.0	168.9	20.6%	212.8%
World	393.6	448.2	512.6	625.1	695.8	780.4	12.2%	98.3%
U.S. Imports								
Brazil	7.9	7.6	8.7	8.8	11.3	13.9	23.0%	75.9%
Venezuela	9.5	8.2	8.4	12.9	11.3	18.7	65.5%	96.8%
Argentina	1.5	1.3	1.7	2.3	2.6	3.1	19.2%	106.7%
Dom. Rep.	1.8	2.4	3.1	3.6	4.3	4.4	2.3%	144.4%
Colombia	3.2	2.8	3.2	4.3	6.3	7.0	11.1%	118.8%
Chile	1.3	1.4	1.8	2.3	3.0	3.2	6.7%	146.2%
Honduras	0.5	0.8	1.1	1.8	2.7	3.1	14.8%	520.0%
Costa Rica	1.0	1.4	1.7	2.0	4.0	3.6	-10.0%	260.0%
Peru	0.8	0.7	0.8	1.3	1.9	2.0	5.3%	150.0%
Guatemala	0.8	1.1	1.3	1.7	2.3	2.6	13.0%	225.0%
Panama	0.2	0.3	0.3	0.4	0.3	0.3	0.0%	50.0%
Ecuador	1.4	1.4	1.7	1.9	1.8	2.2	22.2%	57.1%
El Salvador	0.2	0.4	0.6	1.1	1.6	2.0	25.0%	900.0%
Jamaica	0.6	0.6	0.9	0.8	0.7	0.7	0.0%	16.7%

Other	3.1	3.2	3.2	3.6	3.2	4.2	31.3%	35.5%
Total LAC*	33.8	33.6	38.5	48.8	57.3	71.0	23.9%	110.1%
Mexico	30.2	35.2	49.5	74.3	109.7	135.9	23.9%	350.0%
Total LA	64.0	68.8	88.0	123.1	167.0	206.9	23.9%	223.3%
World	495.3	532.7	663.3	795.3	1,024.6	1,216.9	18.8%	145.7%