TRADE POLICY

WORKING PAPER

US-Latin America Trade and Investment in the 21st Century: What's Next for Deepening Integration?

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Since the turn of the millennium, trade and investment between the United States and Latin America and the Caribbean (LAC) have continued to grow and transform—even in the face of global economic volatility and increased competitiveness within the world trading system. Perhaps more importantly, the composition of US trade with the region has changed, although unevenly across countries. These trends reflect diverse policy orientations in the United States and Latin America, global demand shifts resulting from the rise of China and other emerging powers, changing production strategies increasingly dominated by global value chains, and new priorities in cross-regional integration as seen in the growing number of "mega-agreement" negotiations.

This paper presents an overview of US-Latin America trade and investment from 2000 to 2012, with special attention paid to Mexico and Brazil, the two largest LAC economies. It focuses on recent trade and investment patterns, evolving dynamics in trade relations, and issues that will determine prospects for deeper integration. Latin America's importance as a core US trading partner continues. The diversity of this relationship, however, points to uneven opportunities for achieving further gains. Policy choices, in this case, will be important for taking advantage of still untapped potential for growth in trade and investment.

US Trade and Investment with Latin America and the Caribbean

Latin America and the Caribbean is not the largest US regional trading partner, but with the exception of Africa, it has been the fastest growing one. Trade is one of the more enduring issues in contemporary US-Latin America relations. For two decades, the debate over deeper integration has taken place in the context of expanding US bilateral and plurilateral free trade agreements (FTAs), now implemented with eleven Latin American countries. Still, a hemisphere-wide trade agreement has eluded the region, and the remaining non-FTA participants have little interest in pursuing a US trade agreement model. Under these circumstances, the future path for deepening regional economic integration presents very different challenges and options than in the past.

The United States has implemented comprehensive reciprocal trade agreements with most of its important Latin American trade and investment partners. Collectively these partners encompass more than three–quarters of total US trade with the region. The pacts include the North American Free Trade Agreement (NAFTA), the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), and bilateral FTAs with Chile, Peru, Panama, and Colombia. Despite debate over the merits and effects of FTAs, it is clear that US trade and investment with LAC has grown steadily. Perhaps not coincidentally, FTAs appear to be an influential

JANUARY 2014

FOREWORD

In recent years, economic opportunities have become the main force driving relationships in the Western Hemisphere. While political cooperation has stumbled, robust trade and financial engagement has been shown to be the best foundation for stronger partnerships between the US and the region, as well as amongst Latin American countries themselves.

Though the United States' economic preeminence in Latin America has waned in relative terms, its commercial relationships with the region's countries continue to deepen. Between 2000 and 2013, US sales to Latin America more than doubled, as did the region's exports to US markets. The United States remains the first or second trading partner for nearly every country in the region, and provides upwards of 90 percent of the $60 billion or so of remittance income destined for Latin America. The level of US foreign direct investment in Latin America is twice as high as it was a decade ago—notably in both Brazil and Mexico.

But Latin American trade today is also characterized by new players. The region itself has become a global exporter, while China, other Asian nations, and Europe are a crucial part of the economic landscape in many Latin American countries.

Latin American nations also now trade much more among themselves. Argentina, for instance, may soon replace the United States as Brazil's second largest trading partner. The Pacific Alliance, comprised of Chile, Colombia, Mexico and Peru, merits special attention on this score.

But Latin American countries face enormous challenges in strengthening their international competitiveness and assuring their position in global finance and trade flows. And while the United States can expect trade with the region to continue growing, they will have to work harder and harder to compete for the region's markets and resources. Further economic integration will require smart policy and an understanding of the complicated issues at play.

Drawing on distinguished policy analysts, government officials, and business leaders from across the hemisphere, the Dialogue is seeking to build a better understanding of the major trends affecting trade and foreign investment in the Americas, and to explore the emerging opportunities for enhancing economic cooperation. This paper by J. F. Hornbeck of Patri Inc., and formerly of the Congressional Research Service explores the main trends and future prospects for US-Latin American trade. The Dialogue is deeply grateful to Liberty Mutual for its support of this project. For access to information on the Dialogue's work on trade issues, including other working papers and videos of our meetings, we invite you to visit our website (www.thedialogue.org).

Michael Shifter
President

Peter Hakim
President Emeritus

factor. The notable exception is Brazil, which despite having no FTA with the United States, is the region's second largest US trade partner.

US-Latin America Merchandise Trade

By 2000, the US-Latin America trade and investment relationship had begun to change. Unilateral trade liberalization in the region, the implementation of NAFTA, and other countries' interest in deepening ties with the United States brought steady growth in US-LAC trade. This growth continued after 2000, as seen in Figure 1. US merchandise trade with the world nearly doubled between 2000 and 2012; the relatively strong growth in trade with Latin America is evident in its rising share of total US trade. In 2000, LAC trade accounted for 19 percent of US trade. By 2012, it had reached 22 percent. US trade with Canada, Asia, and the European Union grew at slower rates. In fact, trade with Canada, the No. 1 US trade partner, and the European Union as a portion of total trade has actually declined, eclipsed in part by trade with emerging markets, including LAC and Asia.[1]

Total US trade with LAC more than doubled from 2000 to 2012. Figure 2 points to the annual growth in value of both US exports and imports, with the exception of recession-induced declines in 2001 and 2009. The United States continued a trend of running an overall trade deficit with the region, in large part due to the US demand for energy products, especially oil. In 2012, the US trade deficit with Latin America was $51.6 billion. Excluding trade in oil (HTS 27),[2] the trade balance was nearly even with a slight US deficit of $0.2 billion.

A breakdown in the growth of LAC trade by country may be seen in Tables 1 and 2. Mexico is by far the region's largest US trading partner, capturing 54 percent of US exports and 62 percent of US imports. Brazil runs a distant second, with 11 percent of US exports and 9 percent of US imports. This leaves the rest of LAC with 35 percent of US exports and 29 percent of US imports.

Mexico's dominance continues today, but Brazil's second-place rank appears to be strengthening. Whereas US exports to the region grew by 134 percent from 2000 to 2012, exports to Mexico increased by 94 percent, compared with 184 percent for Brazil. Other strong US export growth has occurred with Panama, Peru, Chile, and Colombia. US exports to Mexico are dominated by office and data processing machinery, integrated circuits, vehicles, and parts for these products, reflecting both final sales, as well as a large amount of intra-industry or intermediate goods trade

[1] Antoni Estevadeordal, Matthew Shearer, and Kati Souminen. *Regional Integration in the Americas: State of Play, Lessons, and Ways Forward* (Washington, DC: Asia Development Bank Institute, April 2011), p. 3.

[2] Harmonized Tariff System Chapter 27 – Mineral Fuels.

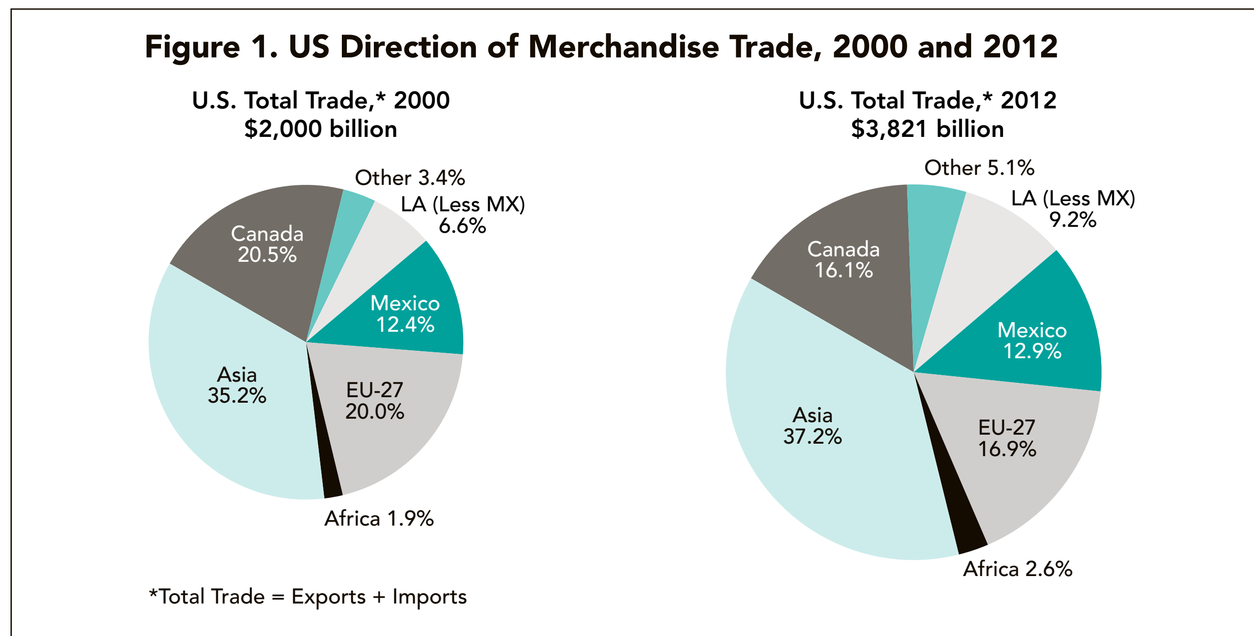
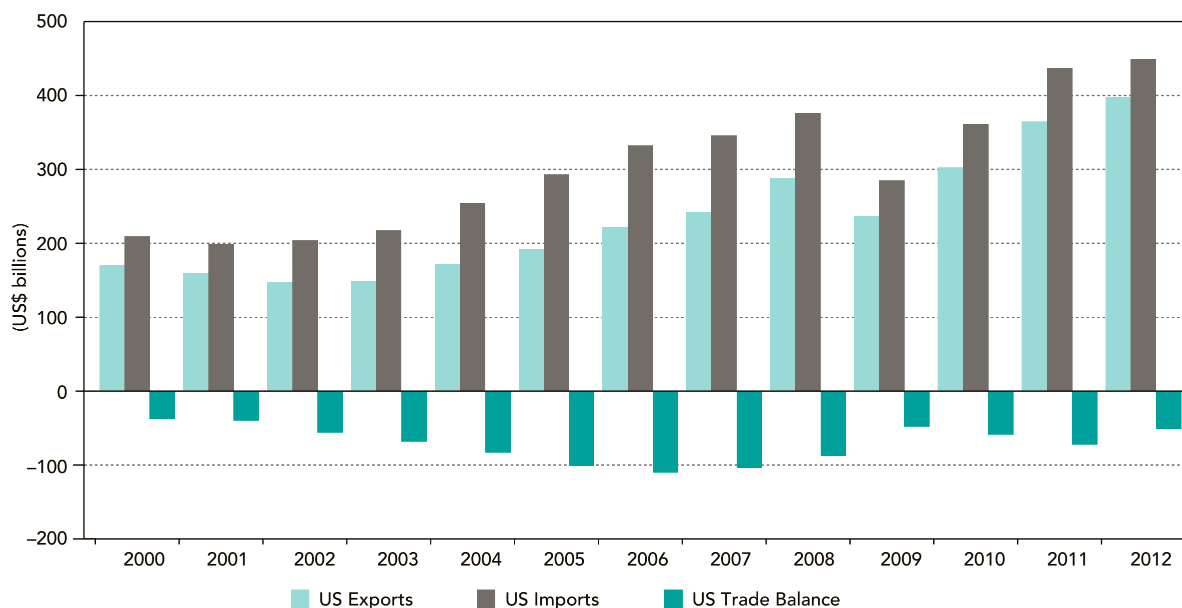


Figure 2. US-Latin America and Caribbean Merchandise Trade, 2000–2012



Source: US Department of Commerce data.

Table 1: US Merchandise Exports to Latin America and the Caribbean, 2000–2012

(US$ billions)

Country	2000	2002	2004	2006	2008	2010	2012	% Change 2010–2012	% Change 2000–2012
Mexico	111.4	97.5	110.7	133.7	151.2	163.7	215.9	31.9	93.8
Brazil	15.4	12.4	13.9	18.9	32.3	35.4	43.7	23.4	184.4
Chile	3.5	2.6	3.6	6.5	12.1	10.9	18.8	72.5	427.1
Venezuela	5.6	4.4	4.8	9.0	12.6	10.7	17.5	63.6	212.5
Colombia	3.7	3.6	4.5	6.7	11.4	12.1	16.4	35.6	343.2
Argentina	4.7	1.6	3.4	4.8	7.5	7.4	10.3	39.2	119.2
Panama	1.6	1.4	1.8	2.7	4.9	6.0	9.8	63.3	512.5
Peru	1.7	1.6	2.1	2.9	6.2	6.8	9.4	38.2	452.9
Dominican Republic	4.4	4.3	4.4	5.4	6.6	6.6	7.0	6.1	59.1
Costa Rica	2.4	3.1	3.3	4.1	5.7	5.2	7.2	38.5	200.0
Honduras	2.6	2.6	3.1	3.7	4.9	4.6	5.7	23.9	119.2
Other	13.7	13.9	16.5	23.7	32.9	32.9	37.4	13.7	173.0
Total Latin America	170.7	149.0	172.1	222.1	288.2	302.3	399.1	32.0	133.8
Total Less MX	59.3	51.5	61.4	88.4	137.0	138.6	183.2	32.2	209.0
CAFTA-DR	13.5	14.1	15.8	19.6	25.4	24.3	29.9	23.1	121.5
Caricom	5.4	5.0	5.8	8.6	11.0	10.2	11.5	12.8	113.0
Mercosur-4	21.0	14.6	18.2	25.1	43.0	45.6	57.2	25.4	172.4
Andean Com	6.6	6.9	8.5	12.6	21.5	24.7	33.2	34.4	403.0
World	781.9	693.1	814.9	1,026.0	1,287.4	1,278.5	1,545.7	20.9	98.1

Source: Table created by author from US Department of Commerce, Bureau of the Census data. Ranked by 2012 data in descending order.

Table 2: US Merchandise Imports from Latin America and the Caribbean, 2000–2012

(US$ billions)

Country	2000	2002	2004	2006	2008	2010	2012	% Change 2010–2012	% Change 2000–2012
Mexico	135.9	134.6	155.9	198.3	215.9	230.0	277.6	20.7	104.3
Venezuela	18.7	15.1	24.9	37.1	51.4	32.7	38.7	8.4	107.0
Brazil	13.9	15.8	21.2	26.3	30.5	24.0	32.1	33.8	130.9
Colombia	7.0	5.6	7.3	9.3	13.1	15.7	24.6	56.7	251.4
Costa Rica	3.6	3.1	3.3	3.8	3.9	8.7	12.0	38.0	233.3
Ecuador	2.2	2.1	4.3	7.1	9.1	7.5	9.5	26.7	331.8
Chile	3.2	3.8	4.7	9.6	8.2	7.0	9.4	34.3	193.8
Trinidad & Tobago	2.2	2.4	5.8	8.4	9.0	6.6	8.2	24.2	272.7
Peru	2.0	1.9	3.7	5.9	5.8	5.2	6.4	23.1	220.0
Argentina	3.1	3.2	3.8	4.0	5.8	3.8	4.4	15.8	42.0
Dominican Republic	4.4	4.2	4.5	3.7	4.0	3.7	4.4	18.9	0.0
Other	13.1	12.3	15.2	18.5	19.2	16.5	22.1	33.9	68.7
Total Latin America	209.2	204.1	254.6	332.0	375.9	361.4	449.4	24.3	114.8
Total Less Mexico	73.4	69.5	98.7	133.7	160.0	131.4	171.8	30.7	134.1
CAFTA-DR	16.2	16.0	17.7	18.6	19.4	24.0	30.9	9.1	90.7
Caricom	4.0	4.0	7.7	10.4	11.4	9.1	11.1	22.0	177.5
Mercosur-4	17.3	19.2	25.5	30.9	36.6	28.1	37.0	31.7	83.2
Andean Community	11.4	9.8	15.5	22.6	28.5	29.0	42.2	45.5	299.1
World	1,218.0	1,161.4	1,469.7	1,853.9	2,103.6	1,913.9	2,275.3	18.9	87.0

Source: Table created by author from US Department of Commerce, Bureau of the Census data. Ranked by 2012 data in descending order.

consistent with global value chain (GVC) production, as the US and Mexican economies become more tightly integrated.[3] Of interest, since 2000 the value of US refined oil sent to Mexico has also grown considerably in both absolute and relative terms.

US exports to Brazil are also predominantly manufactured or processed goods, but weighted toward final goods sales, with the important exceptions of aircraft engines and components, as well as integrated circuits used in downstream production. Refined oil products also have claimed a much larger portion of US exports to Brazil. The other major destinations of US exports include Chile, Colombia, Panama, and Peru, all of which include refined petroleum products as the No. 1 US export followed by office machinery, integrated circuits, and other manufactured goods.

During 2000 to 2012, US imports from the region increased by 115 percent, compared to 104 percent from Mexico and 131 percent from Brazil. Other countries with strong growth in the US import market include Chile, Colombia, Costa Rica, Ecuador, Peru, and Trinidad and Tobago. US imports from Mexico include finished and semi-finished manufactured goods such as office machinery, receivers, motor vehicles, parts and accessories, as well as crude oil. Imports from Brazil are concentrated in crude oil, semi-finished iron and steel products, engines and parts for vehicles, ethanol, and aircraft. With the exception of Costa Rica, from which US imports are largely manufactured or processed goods, such as integrated circuits, medical

[3] GVCs emerged as a result of negotiated and unilateral tariff reductions, the rapid advance and implementation of information and communications technologies, and the ability of companies to "unbundle" production into stages that can be located in the most cost-efficient locations.

instruments, with some fruit and coffee, and Central America and Caribbean textile exporters, the other major imports from these countries are heavily concentrated in commodities. Among these are crude oil, other energy products, metals (e.g. gold, silver, and copper), fruit, fish, and flowers.

To simplify, there are two basic types of Latin American trading partners with the United States: those participating significantly in joint production with US manufacturers, such as Mexico, Costa Rica, and other Central American countries, and those trading largely in commodities, particularly energy and metals, such as Colombia, Ecuador, Trinidad and Tobago, and Venezuela. Brazil is an exception, exporting a mix of manufactured and processed goods and a large amount of crude oil to the United States and agricultural commodities to the rest of the world, especially Asia.

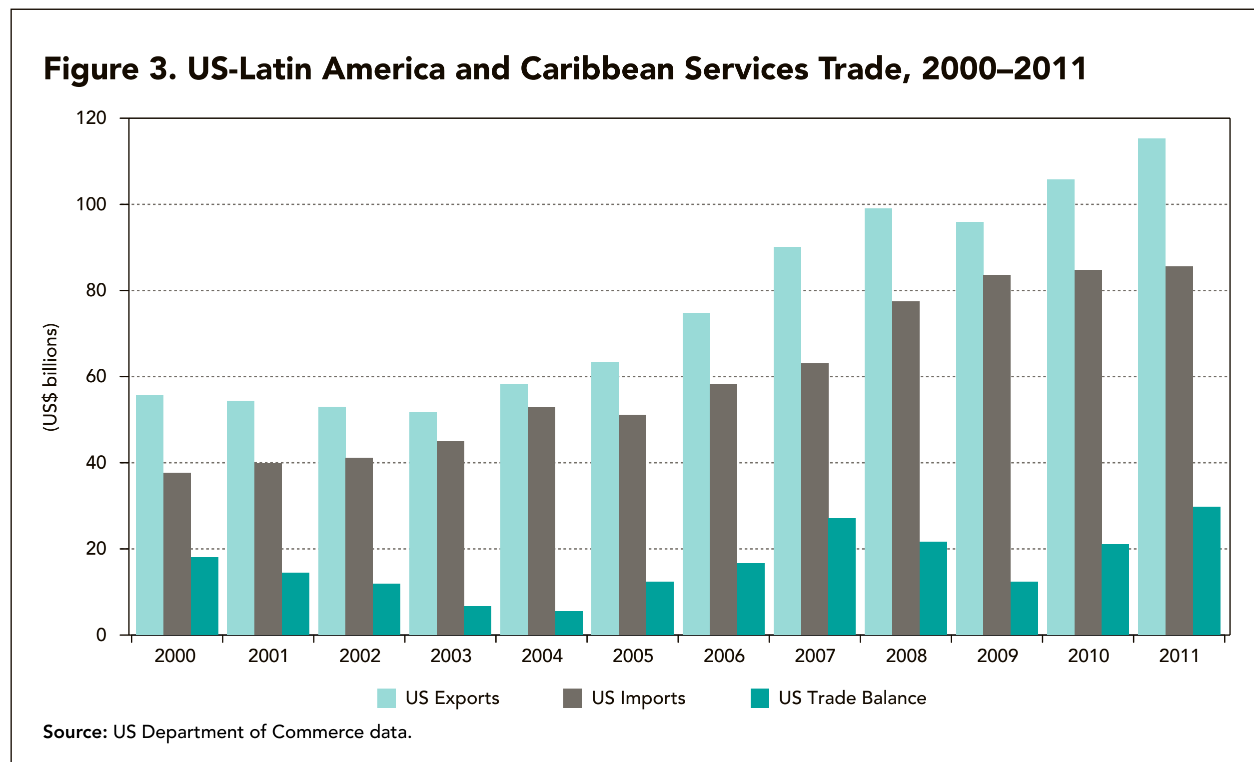
US-Latin America Services Trade

Trade in services has become a key component of world trade and the value of US trade in services with the world amounted to 25 percent of the value of US merchandise trade in 2011 (latest year). Work by the Organization of Economic Co-Operation and Development (OECD) and the World Trade Organization (WTO) shows that services trade accounted for 50 percent of the total value added to US exports in 2009.[4] US services exports rose 107 percent from 2000 to 2011 compared to 90 percent for merchandise trade. By these measures, services are an increasingly important part of US trade with the world.

For LAC, total services trade is only 20 percent the size of merchandise trade with the United States. It is growing briskly, although still not as fast as merchandise trade. US services trade with LAC grew by 88 percent from 2000 to 2012, slightly less than US services trade with the world (see Figure 3). In 2000, Mexico and Brazil represented respectively 31 percent and 6 percent of total US services trade with LAC. By 2012, these numbers had changed to 24 percent for Mexico and 18 percent for Brazil, reflecting dramatic growth in US services trade with Brazil but a slowdown of growth with Mexico, perhaps a result of the more fully maturated relationship (see Figures 4 and 5). Venezuela and Argentina also stand as notable and rising services trade partners for the United States.

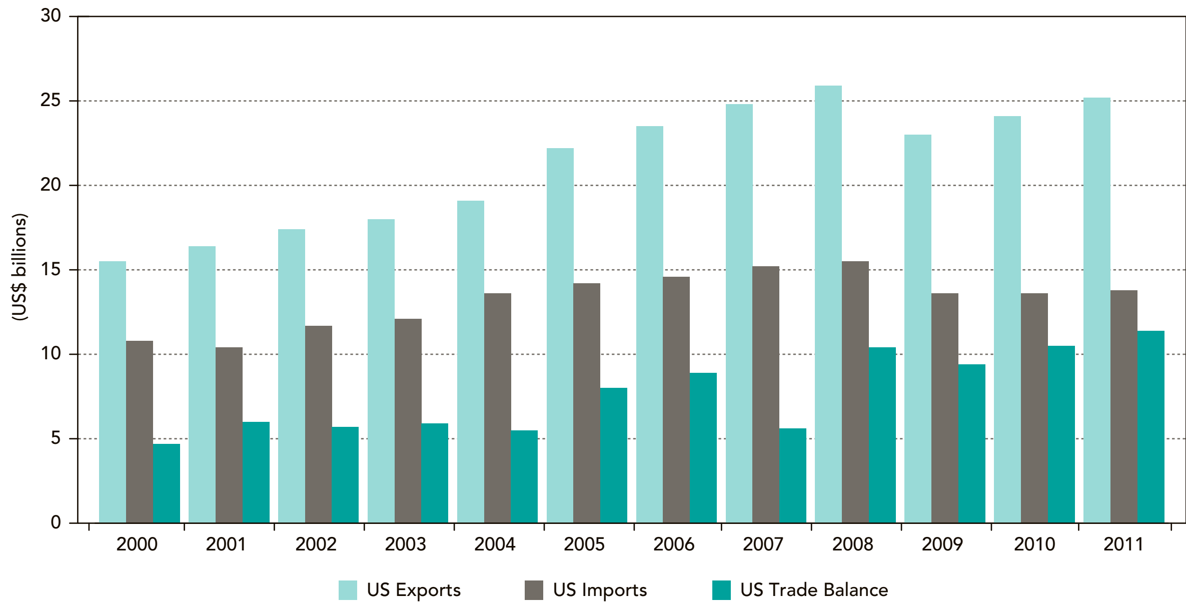
[4] See "OECD/WTO Trade in Value Added (TIVA) Indicators: United States."

Figure 3. US-Latin America and Caribbean Services Trade, 2000–2011



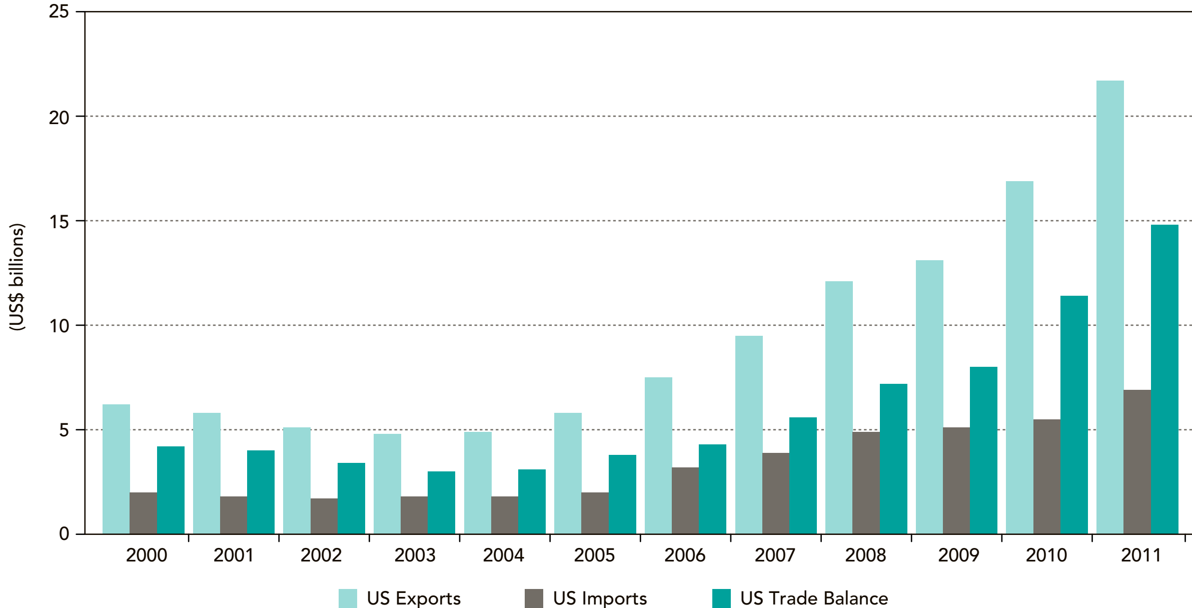
Source: US Department of Commerce data.

Figure 4. US-Mexico Services Trade, 2000–2011



Source: US Department of Commerce data.

Figure 5. US-Brazil Services Trade, 2000–2011



Source: US Department of Commerce data.

The bulk of US services trade with LAC consists of financial services (41 percent), telecommunications (12 percent), and business, professional and technical services (26 percent). In 2011, financial services were concentrated in Caribbean islands, particularly within a large number of offshore investment firms. Brazil and Mexico produced the highest portion of financial services trade in mainland Latin America. In addition, Mexico saw the largest trade in US business professional and technical services. The strong growth in US services trade with Brazil is dominated by telecommunications (38 percent), business and professional services (29 percent), and financial services (26 percent).[5]

US-Latin America Foreign Direct Investment

From 2000 to 2012, US foreign direct investment (FDI) in LAC increased by 83 percent, while LAC FDI in the United States rose by 43 percent (see Table 3).[6] US direct investment in the region represents only 4 percent of total US FDI in the world, with 57 percent of that portion concentrated in Mexico and Brazil.[7] Annual changes in FDI point to growth with volatility. The major sectors of investment include finance, mining, wholesale, and manufacturing. LAC investment represents only 1 percent of total world investment in the United States, directed largely to the manufacturing, professional services, real estate, wholesale, and finance sectors. Mexico and Brazil account for 55 percent and 13 percent respectively of LAC FDI in the United States (see Tables 4 and 5). Although there is considerable overlap in the type of US investment in each country, Mexico has four times the amount of FDI as Brazil, reflecting the more deeply integrated production relationship with the United States.

Table 3: US-LAC Foreign Direct Investment, 2000–2012*

(US$ billions)

Year	US FDI in LAC	% Change	LAC FDI in US	% Change
2000	169.7		18.9	
2001	152.7	–10.0	30.7	62.4
2002	143.9	–5.8	38.1	24.4
2003	142.2	–1.0	45.9	20.5
2004	157.4	10.7	46.8	2.0
2005	169.8	7.9	31.3	–33.1
2006	186.4	9.8	28.5	–9.6
2007	222.1	31.9	19.0	–33.3
2008	224.0	0.9	14.8	–22.1
2009	245.0	9.4	18.7	26.4
2010	267.1	9.0	21.5	15.0
2011	296.0	10.8	27.1	26.1
2012	310.8	5.0	27.0	0.0

Source: US Department of Commerce, Bureau of Economic Analysis. Data presented here exclude Bermuda, UK Islands, and the Bahamas to approximate other data series used in this paper and because these locations highly skew the data set.

* Stock of FDI on a historical-cost basis.

LAC = Latin America and the Caribbean

Table 4: US-Mexico Foreign Direct Investment, 2000–2012*

(US$ billions)

Year	US FDI in Mexico	% Change	Mexico FDI in US	% Change
2000	39.4		7.5	
2001	52.5	33.2	6.7	-10.7
2002	56.3	7.2	7.8	16.4
2003	56.8	0.1	9.0	15.4
2004	63.4	11.6	7.6	–15.6
2005	73.7	16.2	3.6	–52.6
2006	83.0	12.6	5.3	47.2
2007	91.1	9.8	8.5	60.4
2008	87.4	-30.0	8.4	–1.1
2009	84.1	-3.8	11.1	32.1
2010	85.7	1.9	11.0	0.0
2011	90.8	6.0	13.1	19.1
2012	101.0	11.2	14.9	13.7

Source: US Department of Commerce, Bureau of Economic Analysis.
* Stock of FDI on a historical-cost basis.

[5] Data are provided by the US Department of Commerce's Bureau of Economic Analysis. The BEA dataset for the LAC region includes data on Bermuda, which is not used in this paper. The "type" of services is broken down by receipts rather than total services trade. The two measures are closely correlated, however, for comparisons of aggregate trade trends.

[6] FDI measures direct investment in host countries. There are limitations to the FDI data, which does not include investment in third country subsidiaries, among other issues.

[7] Data in Table 3 do not include US investment in the Bahamas, Bermuda, or the UK islands in the Caribbean. These locations are not part of the data used in other analysis in the paper, and they also highly skew the data series.

Mexico and Brazil: Contrasting Cases

Mexico and Brazil, the region's two largest economies, together account for 67 percent of total US merchandise trade, 42 percent of total US services trade, and 58 percent of US FDI in the region. Despite their shared size and importance as regional partners, the trade and investment with each varies with respect to proximity, composition, and policies.

Mexico's direction of trade (see Table 6) has long depended on the United States. Although trade with the United States has declined as a percentage of Mexico's total since 2000, more than three-quarters of Mexican exports were destined for US markets in 2012. Some 50 percent of Mexican imports originated in the United States, a decrease from 73 percent in 2000. Mexico has seen its exports double to LAC and the European Union since 2000 as a percentage of total exports, but it is not surprising that the United States remains its largest trading partner. Perhaps of more interest, Mexican imports from China, Japan, and the rest of Asia have grown dramatically, appearing to displace a significant portion of US trade.[8]

By contrast, as seen in Table 7, Brazilian exports are more evenly distributed among LAC, the European Union, Asia, and the United States. As a percentage of total exports, the US share has fallen from 24 percent in 2000 to 11 percent in 2012. Much of this trade is made up of low-value-added commodities. There was also a decline in exports to the European Union and a notable increase to China. Brazilian

Table 5: US-Brazil Foreign Direct Investment, 2000–2012*

(US$ billions)

Year	US FDI in Brazil	% Change	Brazil FDI in US	% Change
2000	36.7		0.9	
2001	32.0	–12.8	0.6	–33.3
2002	27.6	–13.8	0.9	50.0
2003	29.6	6.8	0.6	–33.3
2004	29.5	0.0	1.2	100.0
2005	30.9	4.8	2.1	75.0
2006	33.5	8.4	1.1	–47.6
2007	48.8	45.7	2.1	91.0
2008	44.0	–9.8	0.0	–100.0
2009	53.4	21.6	–1.4	–140.0
2010	66.2	24.0	1.4	200.0
2011	73.8	11.5	5.1	264.3
2012	79.4	7.6	3.6	–30.0

Source: US Department of Commerce, Bureau of Economic Analysis.
* Stock of FDI on a historical-cost basis.

[8] It should be noted that this point can be exaggerated because country-level trade data capture only the aggregate value of exchange and do not distinguish the marginal value added to goods produced in multiple countries. For example, the complex trade and investment relationships among China, Mexico, and the United States make it difficult to measure the real content origin of traded goods, such as Chinese production in Mexico from US components that eventually enters US markets or from Mexican value-added in US exports destined for China and other markets. More sophisticated data are being developed, but standard aggregate measures are still the norm for cross-country comparisons.

Table 6: Mexico Direction of Trade

(Percent)

	2000		2005		2012	
Country/Region	Exports	Imports	Exports	Imports	Exports	Imports
United States	88.7	73.1	85.7	53.4	77.6	50.0
LAC[a]	3.8	2.7	5.2	5.8	7.6	3.8
EU-27	3.5	8.7	4.3	11.7	6.0	11.0
China	0.1	1.7	0.5	8.0	1.5	15.4
Asia (other)	0.5	5.5	0.6	9.3	1.2	8.7
Japan	0.6	3.7	0.7	5.9	0.7	4.9
Other	2.8	4.6	3.0	5.9	5.4	6.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Author's calculations from Mexican Foreign Commerce Secretariat trade data reported in Global Trade Atlas. Ranked by 2012 exports in descending order.
[a] LAC = Latin America and the Caribbean

Table 7: Brazil Direction of Trade

(Percent)

	2000		2005		2012	
Country/Region	Exports	Imports	Exports	Imports	Exports	Imports
LAC[a]	25.2	21.4	25.5	16.2	20.8	17.3
EU-27	27.8	26.0	22.8	24.8	20.1	21.4
China	2.0	2.2	5.8	7.3	17.0	15.4
United States	23.9	23.1	19.0	17.2	11.0	14.5
Asia (other)	4.2	7.1	5.5	9.2	7.7	9.2
Japan	4.5	5.3	2.9	4.6	3.3	3.5
Nigeria	0.5	1.3	0.8	3.6	0.4	3.6
Other	11.9	13.6	17.7	17.1	19.7	15.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Author's calculations from Brazilian Foreign Trade Secretariat trade data reported in Global Trade Atlas.
[a] LAC = Latin America and the Caribbean

imports have also shifted, registering a relative decline from the United States and the European Union, and relative increase from China and other Asian countries. The European Union is, nonetheless, the largest regional trading partner and investor in Brazil.[9]

There is a common trend of relative decline in Mexican and Brazilian imports from the United States in tandem with an increase in those from China. There are varied factors at work. Geographic proximity has long supported US joint production with Mexico, which dates back more than a half century in the automotive, electronics, and textiles sectors. This relationship has evolved into a more sophisticated form of GVC production. Brazil presents a very different case. More geographically distant from the United States than Mexico, US trade and investment has taken longer to take root and much of its growth is in final goods.

Policy differences are also important. The unilateral trade opening in Mexico beginning in the 1980s led directly to NAFTA in 1994. One study finds that in analyzing the inter-sectoral effects (e.g. GVCs) of the elimination of tariffs under NAFTA, Mexico appears to have experienced the largest increase in trade among the NAFTA partners. If intermediate goods are not accounted for—normally the case and a major problem of measuring world trade—the trade effects of NAFTA could be understated by as much as 40 percent.[10]

By comparison, many large US companies manufacture in Brazil for final sale in Brazil and the region, including in partner countries in the Mercado Común del Sur (Southern Common Market—Mercosur). GVC production is far less pronounced than in Mexico. In fact, to a great extent, Brazil does not "import to export."[11] Rather, economists point out that Brazil's unilateral and regional (Mercosur) trade strategies continue to protect import-competing sectors (including automobiles, electrical and electronic equipment, rubber, plastics, and textiles) that turn out to be the same

[9] See the European Commission's "Enhance Industrial Cooperation with Brazil – Win-Win for Businesses on Both Sides" Memo/13/850, Brussels, October 10, 2013. The content measurement caveat also applies here. On a content basis, imports from China are overstated because value-added from the United States, Europe, South Korea, and many other countries is not captured in these trade data.

[10] Caliendo Lorenzo and Fernando Parro, "Estimates of the Trade and Welfare Effects of NAFTA," National Bureau of Economic Research, Working Paper 18508, November 2012. This is just the beginning of important work on measuring value-added in GVC or intermediate goods trade at the sector level, and firmer conclusions will require more time and research.

[11] Mauricio Mesquita Moreira, "Brazil's Trade Policy: Old and New Issues," in *Brazil as an Economic Superpower? Understanding Brazil's Changing Role in the Global Economy,* Lael Brainard and Leonardo Martinez-Diaz, eds. (Washington, DC: The Brookings Institution Press, 2009), pp. 140-43, and the Organization of Economic Co-operation and Development and World Bank's Trade in Valued Added (TIVA) database, May 2013, http://stats.oecd.org/index.aspx?queryid=47807.

sectors in which FDI is highly concentrated.[12] In Mexico, these sectors are also key recipients of FDI, have developed GVCs with the United States, leading to greater intra-industry trade. The difference in production capabilities and strategies between the two countries suggests that Brazil is not making the most of trade and investment potential, which may affect its long-run productivity, growth, and employment.

In addition, Brazil and the United States have not been able to agree on either a bilateral or regional comprehensive trade agreement. In its place are public/private-sector bilateral strategic dialogues. These have been productive in exploring mutual interests at the sector and industry level, but they have left unresolved larger trade barrier issues. Brazil points to US trade remedies affecting Brazil's agricultural exports and the problems it has with rules governing intellectual property rights, government procurement, and other areas. The United States emphasizes Mercosur rules and Brazil's industrial policy (Plano Brasil Maior), under which US firms face high and often unpredictable tariff and nontariff barriers, local content requirements, and a domestic tax structure that favors domestic production.[13] It is no coincidence, then, that US trade with the largest LAC economy (Brazil) is but one-sixth the size of US trade with the second largest (Mexico).[14]

Because of these unresolved issues, firms in both the United States and Brazil have used FDI as a substitute to circumvent restrictions on commercial exchange. For example, given Brazil's large and expanding market, history of industrial policy, and other biases toward local production, there is a certain logic to US firms investing and producing inside the "bubble."[15] In a different way, Brazil has used FDI in the United States to circumvent US trade remedies (antidumping and countervailing duties). Investment in steel mini-mills and food and beverage industries moves production to the United States and, to some extent, replaces Brazilian exports of the same products and establishes new supply chains.

US investment in Brazil has been growing, but it ranks far below investment in Mexico—in part because of Brazil's challenging business environment. The World Bank ranks Brazil in the bottom third of 185 countries for nearly all of its "Doing Business" measures, including time to start a business, construction regulations, taxes, trade, and resolving insolvencies. Mexico, by contrast, ranks in the top third or higher for most of these measures.

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The Evolving Dynamics in US-Latin America Trade

For two decades, free trade agreements have been the major US strategy for deepening US-Latin America trade and investment relations. The decision to participate in them (Mexico yes, Brazil no) can have important implications, particularly as these agreements capture a larger share of regional and global commerce. This period of regional integration, however, may have come to an end with the implementation of the Panama and Colombia FTAs in 2011. Less

[12] Pedro da Motta Veiga, "Trade Policy: Moving Away from Old Paradigms?" in Brainard, Lael, and Leonardo Martinez-Diaz, eds., *Brazil as an Economic Superpower? Understanding Brazil's Changing Role in the Global Economy*. (Washington, DC: The Brookings Institution Press, 2009), p. 115. World Trade Organization, *Trade Policy Review: Brazil*, summary, Geneva, May 17, 2013, pp. 8 and 12.

[13] Ibid., p. 133.

[14] World Trade Organization, *Trade Policy Review: Brazil*. Also, Brazil dropped from number 48 to 56 in international rankings of competiveness. World Economic Forum, *Global Competitiveness Report, 2013*, p. 33. For details on productivity issues, see ***Exame***, December 27, 2012, pp. 64-67, and for a recent recap of the structural reform agenda, see *The Economist,* "Special Report: Has Brazil Blown It?" September 28, 2013. For the business perspective on Brazil's industrial policy, see Brazil-US Business Council, "A Greater Brazil? Industrial Policy, Competitiveness, and Growth," Washington, D.C. 2012.

[15] Being in the "bubble" requires firms to make creative adjustments to distortions caused by unpredictable Brazilian trade restrictions. For example, surging imports of Ford vehicles produced in Mexico caused the Brazilian government to suddenly increase tariffs, resulting in the desired effect of improving the trade balance and increasing production of Ford vehicles in Brazil by 30 percent, but at the expense of Ford Mexico. See *The Economist* article "For Companies Doing Business Across Borders, the Politics of Globalisation Can Be a Serious Obstacle," October 12, 2013.

ambitious multilateral negotiations and a lack of active bilateral negotiations suggest that other factors will likely define the prospects for deeper integration in the future.

Global Value Chains: Moving Beyond Preferential Trade Agreements

Trade in finished goods between countries was the predominant form of international commerce until recently. Patterns of global investment, production, and trade are now dominated by GVCs, which account for approximately two-thirds of world trade, including 50 percent of trade in goods and 75 percent of trade in services. The accelerated trend in "global network trade" is perhaps the most important development in commercial exchange. That means trade in finished goods is no longer the only key to measuring the growth, value, or direction of trade. Exchange among corporate affiliates, partners, and contractors that captures everything from manufacturing in parts and components to finally assembly is now as important to understand as trade between countries.[16]

Emerging economies are drawn into GVC production through increased specialization in certain stages of the production chain. Specialization is most beneficial if it leads to greater local content use or increased value added, but this is not always achieved. Global value chains are most heavily concentrated in East Asia, Europe, and North America, with China accounting for half the South-South network trade.[17] Cost and time to delivery are among the key determinants of GVC participation, which requires efficient transport, communications, and logistics systems.

A policy orientation that invites this type of production arrangement can be a critical element. For trade policy, this would usually include unilateral tariff reduction or participation in well-functioning bilateral, regional, or plurilateral trade agreements, with supportive rules of origin. It is, perhaps, not surprising that GVCs are really less "global" in nature, being heavily concentrated within regions where comparatively short distances and more open trade rules combine to reduce the costs and barriers to trade and production.[18] GVCs distinguish LAC trade and traders with the United States in two ways.

> It is not surprising that GVCs are less "global" in nature, being concentrated within regions where short distances and more open trade rules combine to reduce the costs and barriers to trade and production.

First, US business has pioneered GVCs in Latin America and the Caribbean, where they offer local producers roles as first- or second-tier producers. GVCs are especially important in the automobile, textile, and electronics sectors. The CAFTA-DR agreement provides one case in point. For example, automobile parts (such as wire harnesses) assembled in Nicaragua are now used in vehicles manufactured in Mexico for final sale in the United States and Latin America. For textiles headed to the United States, Haiti assembles garments that are finished in, and exported from, the Dominican Republic under US free trade agreements. Costa Rica processes integrated circuits from the United States, China, and other countries for re-export. Mexico and Central America signed a free trade agreement and are moving towards a customs union, in part recognizing intra-industry trade as essential for maximizing the benefits from CAFTA-DR. Over time, the lead role of the United States in GVCs has given way to important intra-LAC production as a central element for enhancing global network trade.[19]

Even in Brazil, where GVCs are less prevalent than in Mexico or Central America, Embraer, a global leader in corporate, military, and regional jets, relies on the United States as a key network partner. More than 60 percent of Embraer components come from the United States, including engines and advanced electronics. In addition, Embraer

[16] Paolo Giordano (coordinator), *Trade and Integration Monitor 2013: After the Boom, Prospects for Latin America and the Caribbean in South-South Trade* (Washington, DC: Inter-American Development Bank, September, 2013), p. 29.

[17] Ibid., p. 29.

[18] OECD, op. cit., and Antoni Estevadeordal, Juan Blyde, and Kati Souminen. *Are Global Value Chains Really Global? Policies to Accelerate Countries' Access to International Production Networks*, (Washington, DC: Inter-American Development Bank, October 2012).

[19] J. F. Hornbeck. *The Dominican Republic-Central America-United States Free Trade Agreement: Developments in Trade and Investment*, Congressional Research Service, Library of Congress, Report R42468, Washington, DC, April 23, 2012, and Giordano, *After the Boom*, p. 29.

has marketing, production, and maintenance facilities in the United States and is continuing to expand in North America. US investors account for more than half the stockholders of the company.[20] Brazilian firms investing in US steel (Gerdau) and food (BRF Foods) production represent what may be a growing trend in Brazil-US GVC investment.

Second, in much of the rest of Latin America, intra-regional trade has not developed along the GVC pattern. By one account, Brazil and Mexico account for more than 80 percent of network trade in LAC.[21] Although there are more than 50 regional preferential trade agreements in Latin America and the Caribbean, intra-regional trade has fallen over the past decade, and the lack of integrated cross-country supply chains has deterred the same type of intra-industry trade that has been credited as an "engine of growth" and foundation for innovation and productivity for the United States, Europe, and Asia.[22] East Asia and Southeast Asia, for example, stand out as prototypical GVC models that have encouraged cooperation, economic growth, and job creation. Where the United States has not found a welcoming environment, intermediate goods trade has lagged, as have other economic indicators in many cases.[23]

One implication is that the more isolated the production strategy, the less able a country will be to take advantage of global efficiencies. Mexico and Brazil offer two very different approaches. Brazil still lags in production integration within the region and with the world relative to Mexico. As a result, Brazil is a less active global trader. Without quicker and more deliberate adjustment, it may forgo gains that more complete trade reform could promote and increasingly feel the effects of trade diversion, or lost trade to third countries that have increased GVC production through more accommodating trade policies.[24]

[20] Comments by Gary Spulak, president of Embraer, October 10, 2013 and www.embraer.com.br.

[21] Giordano, *After the Bust*, p. 29.

[22] Brookings, *The Road to Hemispheric Cooperation*, pp. 8 and 28.

[23] Eduardo Levy-Yeyati, with Lucio Castro and Luciano Cohan. *Latin America Economic Perspectives: All Together Now—the Challenge of Regional Integration.* (Washington, DC: The Brookings Institution, April 2012), pp. 23-24 and 28, and Giordano, *After the Bust*, pp. 29-30.

[24] Mauricio Mesquita Moreira, *Brazil's Trade Policy: Old and New Issues,* pp. 148-49.

The China Syndrome

China's fast and prolonged economic growth has made it the second largest economy in the world, accounting for more than half of the gross domestic product (GDP) of the BRICS (Brazil, Russia, India, China, and South Africa). The resulting emergence of China as a major trading partner with the world has shifted US-Latin America trade. US trade with LAC is more than three times the size of China's trade with the region. However, even as it grows in absolute terms, growth in US trade with the region is falling relative to China. In 2005, China eclipsed Japan as the leading Asian trade partner of Latin America—especially for large commodity exporters in South America. China is also the No. 1 or No. 2 trade partner for Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

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From 2000 to 2012, the percentage of China's total exports that went to LAC expanded from 2.9 percent to 6.6 percent. China is a major exporter of manufactured goods, the main reason that LAC as a whole runs a trade deficit with the country. Mexico stands out as having the biggest trade deficit with China because of its large quantity of imported intermediate goods and low levels of reciprocal trade in commodities and other exports.

Over the same twelve-year period, imports from the region grew from 2.4 percent to 6.9 percent of total Chinese imports, reflecting the growing Chinese demand that sparked the region's commodity boom in 2003. That demand remained strong through the 2008 financial crisis, buoying the economies of South America and shielding them from the US contagion effects felt by Mexico and Central America. In addition to importing oil, metals, and minerals, China—unlike the United States—imports large quantities of agricultural goods, particularly soy and corn.

Given the price boom over the past decade, the gains from commodity exports are clear, especially in South America. This trend, however, has turned downward since mid-2011, demonstrating that dependence on commodities

trade can be a limiting, if not risky, long-term strategy.[25] In addition, trade in manufactures enhances gains from technology, know-how, and investment, all building blocks of productivity compared to commodity trade where there is often little or no transformation or value added. Fueled by its manufacturing exports, China has run large trade surpluses with Mexico, Colombia, and Argentina, and more modest surpluses with most of Central America and the smaller South American countries. In 2012, China ran significant trade deficits with Brazil, Chile, Peru, and Venezuela, all driven by commodity imports, and Costa Rica, because of integrated circuit imports.[26]

Brazil and other large agricultural exporters like Argentina have been big winners in this relationship, although not without tradeoffs. For example, China-Brazil trade has become increasingly asymmetrical, resembling a North-South trade relationship (with electronics and manufactured goods traded for commodities) rather than the balanced South-South trade exchange one might expect between two BRICS. In fact, Brazil is seeing increased imports of technology-intensive goods—products that Brazil would like to advance but for which the country remains uncompetitive with China. In addition, exchange rate issues and concerns over China's non-market operations have led to calls for protection in Brazil to soften potential disruptions from the large growth in Chinese imports.[27]

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Chinese foreign direct investment in Latin America is also growing, but not as fast as trade, and it remains relatively small compared to FDI from the United States. By one measure, some 13 percent of China's global FDI goes to Latin America and the Caribbean. Much of China's capital, however, enters Caribbean island tax havens where, through "round tripping," it re-enters China and benefits from lower taxes and other concessionary treatment.[28] One estimate suggests that if this category of capital investment is excluded, most Chinese FDI is made in minerals and petroleum concerns in Venezuela, Peru, and Mexico, including development of related infrastructure. Food production is another growing target for Chinese FDI.[29] Despite the growing presence of Chinese investment in the region, there is little evidence of it leading to significant use of local suppliers or increasing global value chain operations.[30]

China's FDI in Latin America also takes increasing advantage of growing retail sales demand in large domestic markets such as in Brazil. Compared with other Asian investors such as South Korea, which have been investing in production facilities in Central America and Mexico as an efficiency platform to reach the US market through preferential trade agreements, Chinese investment focuses on penetrating the final goods market in South America. These changing trade and investment relationships have the potential to increase trade competition and tension. China is becoming more of a competitor of the United States for manufactured goods in Latin America. China has even made inroads in Mexico, the United States' major Latin American trade partner, and is competing with Brazil in third-country markets for manufactured imports.[31]

[25] This summary is based on data provided by Global Trade Atlas from Chinese government sources. See also Giordano, *After the Bust*, pp. 3-7.

[26] Summary based on Chinese trade data from World Trade Atlas. See also, German King, José Carlos Mattos, Nanno Mulder, and Osvaldo Rosales, eds., Introduction in *The Changing Nature of Asian-Latin American Economic Relations*, (Santiago: Economic Commission on Latin America and the Caribbean, December 2012), pp. 15-20.

[27] Carlos Pereira and Joao Augusto de Castro Neves. *Brazil and China: South-South Partnership or North-South Competition*, The Brookings Institution Policy Paper No. 26, Washington, DC, March 2011, pp. 3-5 and 16.

[28] Richard L. Bernal, "China's Rising Investment Profile in the Caribbean," Inter-American Dialogue Economics Brief, Washington, DC, October 2013.

[29] Osvaldo Rosales and Mikio Kuwayama. *China and Latin America and the Caribbean: Building a Strategic Economic Trade Relationship,* (Santiago: Economic Commission on Latin America and the Caribbean, April 2012), pp. 32-33, and King, et al. eds, *Changing Nature,* pp. 23, 56 and 68.

[30] King, et.al. *Changing Nature*, pp. 23-25, 75-76 and 106-111.

[31] Pereira and Castro Neves, *Brazil and China*, p. 6.

The Emerging Mega-Agreements

A new challenge may alter existing arrangements governing US-LAC trade and investment: the rise of so-called mega-agreement negotiations. The most prominent is the Trans-Pacific Partnership (TPP), which encompasses the United States and eleven Asian-Pacific and Latin American countries, including Chile, Mexico, and Peru. The TPP builds on the evolving model of free trade agreements that the United States has with many countries in Asia and Latin America. Its members account for 30 to 35 percent of global GDP and trade, and there is potential to increase those numbers. Another mega-agreement is the Trans-Atlantic Trade and Investment Partnership (TTIP) involving the United States and the European Union (EU), covering 40 percent of the world's GDP, exports, and imports.[32]

A much smaller agreement deserving of attention is the Pacific Alliance, which comprises Chile, Colombia, Mexico, and, Peru. It accounts for less than 5 percent of global GDP, exports, and imports, but it reflects an important change in attitude and priorities for LAC economies. All but Colombia are part of the TPP negotiations, but Colombia seeks to join the talks and having an FTA with the United States makes it a strong candidate. Although the Pacific Alliance involves fewer trading partners and smaller volumes of trade, it is important because it anticipates the free movement of goods, services, capital, and labor. The core advantage would be its role as a platform for GVC investment and production, a new approach for a LAC integration scheme. The Pacific Alliance has targeted Asia, but it could also build on the US free trade agreements in place with all four members.

Where the WTO has foundered, mega-agreements are moving ahead. All three regional agreements are top trade priorities for the countries involved, and their implementation would change trade rules, potentially altering US-LAC trade flows and relationships.[33] The mega-agreements share a common goal of comprehensive integration, moving beyond intra-Latin American accords that are mostly limited to less ambitious tariff elimination. This deeper integration covers both new issues and long-time concerns that were not reconciled in Free Trade Area of the Americas (FTAA) negotiations a decade earlier. These include regulatory aspects of trade, services trade, foreign investment, intellectual property rights, trade remedies, business facilitation, competitiveness, and small- and medium-size businesses, agriculture, and emerging technology. Discussions also address language that would allow the agreement to accommodate other issues as they arise.[34]

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Implications for US-Latin America trade are somewhat speculative at this point. Countries with trade agreements with the United States are better positioned to become part of a comprehensive mega-agreement. As discussed earlier, LAC country trade profiles vary and the gains they might reasonably expect from the TPP or other large agreements would also vary. By integrating Latin American countries into a larger agreement, there would be opportunities for greater region-wide and intra-regional participation in GVCs. But these accords would also require adjusting to intra- and extra-regional competition.

Among those at risk would be Central American textile producers. Should Vietnam, for example, meet the conditions of a TPP (something that is far from certain), El Salvador, Guatemala, and Honduras could lose if their production is replaced rather than integrated into the new

[32] Inter-American Development Bank, Institute for Integration of Latin America and the Caribbean, "Mega-Agreement Negotiations: How Will They Influence Latin America?" *Monthly Newsletter* No. 204, August 2013.

[33] There are other large regional agreements under discussion. These include negotiations between Japan and the European Union, India and the European Union, and the Regional Comprehensive Economic Partnership (RCEP) with ASEAN countries. These are not addressed in this paper.

[34] Ian F. Fergusson (coordinator), *The Trans-Pacific Partnership Negotiations and Issues for Congress.* Congressional Research Service, Library of Congress. Report No. RR42694, Washington, DC, August 21, 2013, p. 2.

global network. In the alternative, long-established relationships with US and Canadian producers could help smooth the transition to greater competition. Manufacturers in Mexico and Costa Rica, because they are integrated with each other and with the United States, could do well.[35]

The mega-agreements raise the question of whether commodity exporters have a new or different role to play in global trade. Brazil, for example, could find itself in a more precarious position since it has not concluded comprehensive trade and investment agreements with the United States or with the European Union. Mercosur countries may eventually face a choice between taking on the costs of deeper integration inherent in a larger agreement or continuing to go their own way and hope that they will not be left behind in what could eventually become the path forward in multilateral integration, or its closest approximation to date.

Mexico's recent energy reforms could affect US interests by altering the 75-year-old state petrochemical monopoly, Petróleos Mexicanos (Pemex).

Opportunities for Deeper US-Latin America Integration

There is no one framework for moving ahead with deeper integration of US-Latin America trade and investment. The political and economic starting points for each country will play a big role in how or if it will proceed. The world trading system appears to be inching towards multilateralism through the back door, unwilling to wait for a major breakthrough from the WTO. The extent to which Latin American countries respond to extra-regional mega-agreements will likely influence US-Latin America trade and investment, including the relevance and evolution of existing bilateral agreements. Countries already in comprehensive FTAs are the best positioned because they have adjusted to deeper commitments.

Bolivia, Ecuador, and Venezuela—countries deeply resistant to US policy initiatives—are politically and economically unlikely candidates for a deeper bilateral or regional commitment involving the United States. The status quo, dominated by oil and other commodity trade, is likely to survive on its own merits and terms. There is little reason to believe that these relationships would change much in the near future.

Mercosur has reinitiated trade talks with the European Union, including the possibility of individual terms for each country, but Mercosur's four founding members have made little progress in trade policy with the United States. Argentina has numerous problems with US trade, investment, and economic matters, and it is unlikely to change course or dissolve the customs union despite its dysfunctional nature. Paraguay and Uruguay have dabbled with pursuit of preferential trading arrangements with the United States but have seen no concrete outcome. Brazil seems unlikely to change its trade policy, which prioritizes domestic economic policy goals, Mercosur, and deeper South-South relations, and there seems little chance for a breakthrough with the United States on trade policy. The alternative is continued private-sector initiatives until the political relationship matures.

Mexico and Brazil present two special cases with distinct approaches to the US trade and investment relationship, as well as the emerging mega-agreements. The US commercial relationship with these partners is evolving in very different ways, which is increasingly reflected in their public policies.

Mexican Reforms: A Dynamic Way Forward?

The relationship between United States and Mexico is mature, and integration has deepened progressively since at least the 1960s. Bilateral trade is larger than US trade with the rest of Latin America combined. Despite concerns about dependence on the US market, Mexico has continued to work with the United States to rationalize trade and investment rules in NAFTA, and it has jumped on the chance to be part of the TPP negotiations.

An important development in Mexico is the broad reform package making its way through the legislative process under the new administration. Many reforms require changes in the Mexican Constitution, followed by secondary legislation that will define the regulatory and programmatic

[35] J. F. Hornbeck, *The Dominican Republic-Central America-United States Free Trade Agreement,* p. 12.

details. At the close of 2013, constitutional changes had been made in the areas of telecommunications, education, the financial sector, labor, and energy. These reforms could have both short- and long-term implications for the Mexican economy and, by extension, US trade and investment.

Education reform is designed to bring more accountability and responsibility to schools. To the extent it provides students with higher quality education, it could improve Mexico's productivity and competitiveness over the long run. Reform in the telecom sector focuses on improved television, radio, and data transmission, which could directly affect logistics and business operations but also will take time. Financial reform could also boost the business, trade, and investment environment if resources are directed to long-term development projects, as proposed, and financial operations are permitted to evolve to more efficient levels. Business and investment interests may already be responding to potential changes in the business environment, but the magnitude of this effect is difficult to predict.

Important reforms, not addressed in NAFTA, could directly influence US-Mexico trade and investment in two areas: energy and labor. Mexico's recent energy reforms could affect US interests by altering the 75-year-old state petrochemical monopoly, Petróleos Mexicanos (Pemex). Pemex has run up against financial and technical constraints to exploring and extracting oil from deep wells. The constitutional amendment, passed in December 2013, envisions that Pemex would be able to enter into production or profit-sharing contracts with private firms to explore and produce natural gas and oil reserves. Fiscal reforms would also reduce the large state financial contribution to the federal budget required of Pemex, placing it on firmer financial ground. One analysis suggests that these reforms, depending on how they are implemented, could eventually lead to integrated North American energy exploration, production, refining, and transportation that benefits Canada, Mexico, and the United States.[36]

In the area of labor reforms, measures have been implemented—although they do little to address all the concerns about the powerful and opaque labor unions. They do allow for greater flexibility in hiring and firing of employees, including required training and probationary periods. More clearly defined rules governing outsourcing, combined with guarantees of workforce diversity, non-discrimination, anti-harassment, and parental leave rights, as well as flexibility in payment methods for employees, are seen as positive advances for both workers and firms. Mexico's modernized labor laws are considered more compatible with modern trade agreements, and that could encourage greater trade and investment with the world, including with Mexico's primary partner, the United States.[37]

The United States and Brazil have historically found common ground when it comes to market access and other areas, but firm disagreements have marked the regulatory front, inhibiting a comprehensive agreement.

Brazil Incrementalism: A Steady Way Forward?

In the case of Brazil, a more diversified trade pattern, the lack of a formal US trade agreement, increasing protectionist policies, the deferral of structural reforms to address the high cost of doing business, and a broader discomfort in the political bilateral relationship have hindered deeper integration with the United States. Also, GVCs are not in play to the extent they are in Mexico. By and large, US firms in Brazil are not importing to export. Rather, they are producing to meet demand in the large domestic market and, in some cases, as a platform to reach other countries.

Many US and Brazilian business interests advocate for changes in trade and other policies. Where the United States and Brazil have been unable to agree on the parameters

[36] Nader Nazmi, "Mexico: Rooting for Energy Reform," Economic Desknote Latam, Bank BNP Paribas. August 29, 2013, Al Greenwood, "If Passed, Energy Reform May Boost Mexico Petchems," *ICIS.com*, August 16, 2013, and Clare Ribando Seelke (coordinator), *Mexico's Oil and Gas Sector: Background, Reforms Efforts, and Implications for the United States*. Congressional Research Service, Library of Congress. Report No. R43313, Washington, DC, pp. 3-4.

[37] Brian Arbeter, "Mexican Federal Labor Law Reform: What Companies Doing Business in Mexico Need to Know," *JDSUPRA Law News*, May 16, 2013 and, Stephen Johnson and Alek Suni. *Mexican Labor Reforms—What Do They Mean?* (Washington, DC: Center for Strategic & International Studies, December 14, 2012).

of a free trade agreement, business leaders have moved ahead with targeted bilateral strategic cooperation agreements. These have seen some success in aviation, defense, and information security, despite many restrictions. The important US-Brazil CEO Forum is one example of the two governments' approach to discussing the business relationship and concrete options for improving it. At the top of one business council agenda is advocacy for a Bilateral Economic Partnership Agreement (BEPA). The proposed model would vary from the US free trade agreement framework in some ways, but could open up discussions beyond tariffs and market access.[38]

This is no small ambition, and its success is far from certain. The United States and Brazil have historically found common ground when it comes to market access and other areas, but firm disagreements have marked the regulatory front, inhibiting a comprehensive agreement. The new model offered by the BEPA is meant to provide a safe opening for discussion of the difficult issues for which common ground may be possible. On the surface, it may seem like a sensible approach, incrementally achieving goals that are mutually beneficial and agreeable. However, a more limited trade agreement is likely to be seen as inconsistent with a US trade strategy that increasingly focuses on comprehensive mega-agreements—like TPP and TTIP—that currently have the world's attention.

Since US-Brazil trade and investment is growing in absolute terms and covers multiple sectors and industries in both economies, there is still strong mutual interest in moving forward—although a full-blown trade agreement may not be politically viable in the immediate future. In short, US business interest in Brazil acknowledges that great opportunities justify taking on the challenges, a situation that can only improve if the two countries decide to move toward some type of deeper reciprocal trade agreement.

[38] Brazil-US Business Council. *Program of Work*, Washington, DC, 2013.

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