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## comercio internacional

# **T**rends in United States Trade with Latin America and the Caribbean and Trade Policy Towards the Region

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Versión preliminar



Division of International Trade and Integration

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## Introduction

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Trade relations between the United States and the Latin American and Caribbean region are in a period of uncertain transition. For over a decade those relations were formally structured around the expectation that the parties would establish a comprehensive Free Trade Area of the Americas (FTAA), embracing all countries in the region except for Cuba. Those regional talks formed part of an implicit hierarchy of trade negotiations, situated between a series of bilateral and subregional free trade agreements (FTAs) that the United States pursued with many of its Latin American partners and the multilateral negotiations in the Doha Development Agenda (DDA) of the World Trade Organization (WTO). Over the past several years, however, these plans have all hit obstacles. The FTAA negotiations languished for years until they were formally (if quietly) terminated in 2008; the most recent FTAs reached between the United States and Latin American partners have faced heightened opposition in the United States Congress; and the DDA negotiations are currently stalled, almost eight years after their launch.

Two concurrent developments in late 2008 will significantly influence the future course of inter-American trade relations. One of these was the outbreak of the first truly global recession since the Second World War, which has had a major negative impact on world trade and also specifically on trade between the region and the United States. This was shortly followed by another major change: the election of Senator Barack Obama to serve as the forty-fourth President of the United States, which was accompanied by an expansion of the majorities held by the Democratic Party in the House of Representatives and the Senate. Both of these developments raised concerns in some quarters about a re-emergence of protectionism in the United States, based on the notion that

economic downturns tend to make governments more introspective, and

the fact that the Democrats in the United States are generally perceived to be less supportive of trade liberalization than the Republicans.

It is argued here that there has so far been relatively little demand in the United States for "traditional" protection (through border measures affecting goods) in reaction to the current crisis. There have nevertheless been a handful of concessions made to traditional protectionist demands, as well as an emphasis on trade-related measures and policies. The most important include the "Buy American" provisions in the economic stimulus package enacted in February 2009; discontinuation of the programme that had allowed limited access to the United States market for Mexican trucking firms; massive subsidies granted to automotive and financial service firms in the context of bailout programmes; and the reintroduction of export subsidies for dairy products. Additionally, both the expected health-care reform initiative and the draft legislation on climate change currently being considered by Congress could lead to fees being imposed on imports or the implementation of other measures affecting foreign providers of goods, services or capital.

The purpose of this study is to review the current status and future prospects for trade relations between the United States and the Latin American and Caribbean region. It does so by examining the trade-policymaking environment in the United States, and then reviewing pending and potential initiatives that might directly or indirectly affect the trade interests of the region. The study notes that trade policy has had a relatively low profile in the first months of the Obama administration, and the administration is unlikely to devote significant and sustained attention to this topic until other, more pressing matters have been addressed. However, it is expected to take action in the near future on specific trade initiatives in the light of some legacy agreements and impending deadlines. This thesis can be divided into four subsidiary points.

The first is that the new administration has so far given trade policy a relatively low priority. On the one hand, it has tried to restrain efforts in Congress to enact measures that violate trade agreements, and it can be expected to file formal complaints with WTO against trading partners that do not show similar restraint. On the other hand, it has thus far devoted limited political capital to efforts to approve the trade agreements it has inherited, complete the Doha Round and obtain a new grant of negotiating authority from Congress. The administration is more concerned at present with stimulating the economy and addressing social and environmental issues that, from the Democrats' point of view, received too little consideration in the eight years of the previous administration.

This leads to the second point: while trade policy per se may receive little attention, the priority areas of this administration may give rise to initiatives that have important if indirect consequences for trade. Those initiatives may produce opportunities for protectionist interests in the United States to legislate rules that favour domestic over foreign suppliers of goods and services. The recent controversy over the "Buy American" provisions in the economic stimulus bill have already demonstrated how protectionist interests might exploit the opportunities that arise, but they also showed that the Obama administration can act to restrain these impulses. It is anticipated that there may be several more episodes of this sort as the administration and Congress work on such diverse issues as climate change, health care, consumer safety, workers' rights, and port security — each of which has the potential to erect new barriers to trade or to establish rules and incentives that discriminate in favour of domestic producers and service providers. Trade-related issues may thus prove to be more significant in the coming months and years than traditional trade policy.

Third, despite the generally low priority accorded thus far to trade, there are a number of legacy agreements and programmes inherited from the previous administration that the current one will have to address during its first year in office. These include, inter alia, the outstanding FTAs with Colombia, Panama, and the Republic of Korea, as well as the pending expiration of both the Andean Trade Preferences Act (ATPA) and the Generalized System of Preferences (GSP). These initiatives are complicated by the political

issues with which they are associated, but the signs are that the administration will not repudiate any of these inherited challenges. The Colombia FTA will likely prove to be the hardest to resolve because it faces substantial opposition from labour unions and members of the President's own party.

Fourth, there are two major issues for which the administration has yet to announce its objectives and timetable. Action on these matters, when it comes, will signal that the status of trade policy has been elevated. One is DDA, and the other is Trade Promotion Authority (TPA). On the former, the Obama administration has so far been clear on only two points. One is that it does favour completion of the talks, and the other is that, like its predecessor, this administration expects "advanced developing countries" such as Brazil, China and India, to make deeper commitments than they have signalled thus far. The administration has yet to make any specific proposals for moving the stalled talks forward; any such proposals are expected to emerge as a result of an internal review process under way at the time of writing.

Closely related to the DDA negotiations is the issue of renewal of the president's negotiating authority. The last TPA grant expired in mid-2007 and it is doubtful that United States' negotiating partners in DDA would be willing to conclude a deal unless the United States side has a new grant of authority in hand. It is doubtful whether the campaign to secure such a grant will start before the 2010, and it is unclear how strong the push will be when it finally comes.

Building upon these main points, this chapter also reviews the status and prospects for several other matters affecting trade relations between the United States and the region. These include both traditional trade policy and the expanding range of trade-related issues. On the traditional side, the chapter examines the various ways that Latin American and Caribbean countries, especially those that do not yet have FTAs with the United States, may pursue the reduction or removal of the remaining barriers faced by their exports to the United States. At the world level, the main tasks are to obtain a new grant of negotiating authority from Congress, complete the Doha Round, and renew GSP. At the regional level, this means securing the reauthorization of expiring preferences for Andean and Caribbean Basin countries and winning congressional approval for the FTAs with Colombia and Panama. While the Obama administration has indicated its interest in all of these initiatives, it had not yet announced precise plans for any of them at the time of writing. There are also moves under way to ease the restrictions on trade and travel with Cuba, with some action already taken but the main barriers still remaining in place.

The chapter concludes with some observations on the current state and prospects of inter-American cooperation. It is suggested that the failure of the FTAA negotiations need not undermine cooperation on the many economic, social, and security issues on which the United States and the region share common interests, including trade.



## **I. The United States trade policymaking environment**

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How will United States trade policy in general, and initiatives towards Latin America and the Caribbean in particular, be affected by the major economic and political changes that came at the end of 2008? The evidence so far suggests that the Obama administration is generally in favour of free trade, but also that it appears to place a lower priority on this issue than on others in the current circumstances. In other words, trade policy is not as immediate a problem as restarting the economy. Nor, so far, has it received the same attention as new programmes in social, environmental and foreign policy. As a result, there are no clear signals yet from the administration on the conclusion of existing negotiations, the ratification of those already concluded or the initiation of new ones.

### **A. Trends in United States trade with Latin America and the Caribbean**

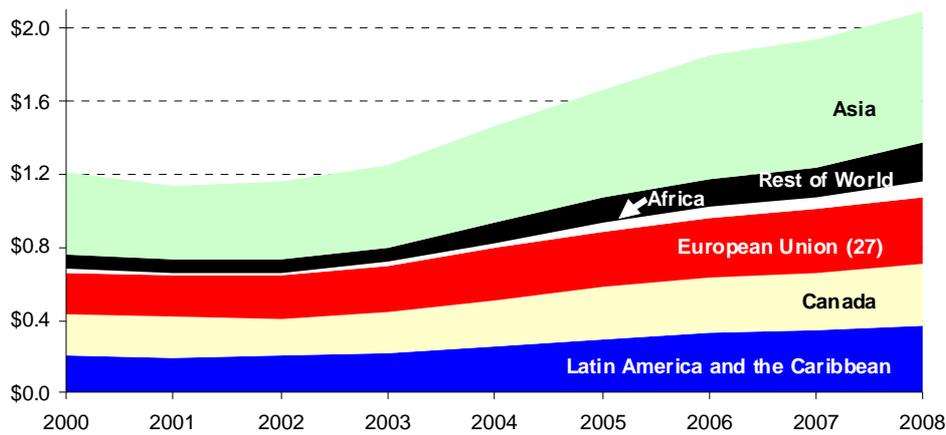
The economic crisis took a toll on trade between the United States and the Latin American and Caribbean region.

What effect has the recession had on the United States' trade with the region and the rest of the world? It is possible to get a sense of the scale of the downturn by comparing the data in figures 1 and 2. The annual data in figure 1 appear to show that United States imports from the region and elsewhere in 2008 grew at about the same pace as they have since the recovery from the lows of 2001-2002. Nonetheless, those numbers hide the fact that imports started to decline after July 2008 and

tumbled much more rapidly after October. Comparing the first halves of of

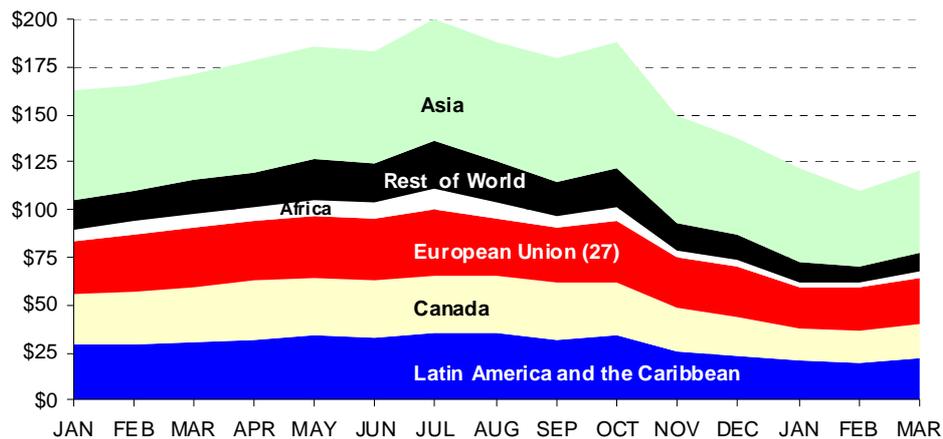
2008 and 2009, total United States imports fell by 31.9%, and imports from Latin America and the Caribbean shrank by an almost identical factor (31.7%). The data in figure 2 show that these declines hit the United States' trading partners in all parts of the world.

**FIGURE 1**  
**UNITED STATES: ANNUAL WORLDWIDE IMPORTS, 2000-2008**  
*(Imports for consumption, customs value, in trillions of dollars)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

**FIGURE 2**  
**UNITED STATES: MONTHLY WORLDWIDE IMPORTS 2008-2009**  
*(Imports for consumption, customs value, in billions of dollars)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

Among Latin American and Caribbean exports to the United States, iron and steel and automobiles have suffered the most. Export volumes have risen for some commodities, such as copper, but the positive effect on values has been offset by plummeting prices.

The consequences for specific countries depend partly upon the composition of their exports. Some commodities have seen steep price falls which have accelerated the impact of faltering demand. That is especially notable in the case of oil, gas and their derivatives, which in 2008 accounted for 30.5% of all United States imports from the region. The volume of United States imports of crude oil from all sources fell by just 1.4% between the first quarter of 2008 and the same period in 2009; but the average price paid per barrel of oil plummeted from US\$ 86 to US\$ 41 — a 52.4% drop. The net result was that the total value of United States crude oil imports from the world in the first quarter of 2009 was down by 53.0%, and imports from Mexico, the Bolivarian Republic of Venezuela, Trinidad and Tobago and other regional suppliers shrank by 47.1%.

Copper prices affected exports even more dramatically. While the volume of copper imported from the region in the first quarter of 2009 was actually 73.4% higher than in the same period of 2008, unit prices fell by more than half (55.9%); the net result was a 23.6% decline in the value of United States copper imports from Chile, Peru and other suppliers in the region. Producers of some traditional agricultural products fared better, however. The value of United States coffee imports from Latin America and the Caribbean was down by just 11.1% owing to modest reductions in both unit prices (6.7%) and volumes (4.8%). Banana exporters enjoyed a rise in unit prices (18.5%) that more than offset slightly smaller volumes (2.7%), resulting in a net increase of 15.3% in value terms. First-quarter United States imports from Latin America and the Caribbean were up in a few other industries, such as computers (11.2%) and nonferrous metals (12.8%); but these could not make up for the sharp fall in imports of such goods as telephone apparatus (23.7%), iron and steel (32.0%) and automobiles (53.2%).<sup>1</sup>

There have been similar trends on the other side of the trade balance: the United States' first-quarter worldwide exports were down by 23.2%, and sales to the region fell 21.5%. While exports to the region were up in a few areas such as pharmaceuticals and medical products, they dropped sharply for such diverse products as wheat (50.2% below first-quarter 2008 levels), refined petroleum products (50.3%), fertilizers (56.0%) and automobiles (59.8%).

Overall, United States imports have fallen more steeply than exports, thus producing an improvement in the trade balance. That may be one reason why there has so far been relatively little protectionist pressure in United States policymaking bodies, as discussed below. In the first quarter of 2009 the country's global trade deficit was US\$ 133.0 billion, or 37.6% less than in the first quarter of 2008 (US\$ 213.2 billion). The deficit with Latin America and the Caribbean narrowed from US\$ 29.0 billion to US\$ 15.5 billion (46.3%). Nearly half (46.1%) of the improvement in the global United States trade balance, and an even larger share (71.2%) for trade with Latin America and the Caribbean, can be attributed to the price-driven reductions in the deficits on oil and gas.

## **B. The priorities of the Obama administration**

Faced with domestic challenges such as setting the economy on a sounder footing and addressing social and environmental concerns, the Obama administration has afforded relatively little priority to trade policy.

While the economic policymakers in the executive branch acknowledge that open markets do contribute to a productive economy, they are also aware that it takes years to negotiate, approve, implement, and reap the benefits of new agreements. That fact, plus the more urgent domestic priorities

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<sup>1</sup> Unless otherwise stated, all trade data cited in this report are calculated from the United States International Trade Commission's DataWeb (<http://dataweb.usitc.gov/>).

associated with the current crisis, coupled with a wish to avoid differences within the Democratic Party, have made the administration reluctant to place much emphasis on trade up to now. Its immediate objectives appear instead to be promoting economic recovery while also advancing Democratic goals in social and environmental policies. Trade policy is seen as a vehicle for advancing those goals; for example, the priorities listed in the 2009 Trade Policy Agenda include "make trade an important policy tool for achieving progress on national energy and environmental goals."<sup>2</sup>

While the administration has placed trade policy relatively low on its agenda, there are some indications that the groundwork is slowly being laid for a more direct approach to the topic. Momentum is not very strong, however, and it is unclear whether a new initiative will be forthcoming in 2009 or will be postponed until 2010. Moreover, it may be difficult to sustain any new push without evidence of real progress towards completion of the Doha Round. The Obama administration has yet to make specific public proposals for the pending trade agreements it inherited and for the Doha Round negotiations. Moreover, as is discussed elsewhere, such progress may be all the more difficult to achieve while the negotiators in Geneva doubt that the United States is prepared to make the first move by securing a new grant of trade promotion authority from Congress.

## C. Dealing with Congress

No matter what the administration's priorities may be, it can accomplish little on trade policy without the support of Congress. The Constitution makes the regulation of commerce a congressional prerogative. Since the mid-1930s the legislature has periodically delegated authority in this field to the executive, but those grants of authority have never been absolute or permanent. Even when the two branches of government are unified, which has been the exception rather than the rule in recent decades,<sup>3</sup> there is no guarantee that the legislative branch will readily grant the wishes of the executive. While unified government does make it easier for the two branches to cooperate, presidents tend to find Congress a partner that must be persuaded.

### 1. The democratic majorities in the House and Senate may not be conducive to the passing of trade deals

The fact that the Democratic Party now controls both chambers of Congress has raised some concerns in trade policy circles both in the United States and abroad. It is frequently claimed that Democrats generally tend to have a more protectionist stance than Republicans in trade-related matters. While there may be some truth to that assertion, it glosses over two important qualifiers. One is that legislators in the United States tend to vote less systematically along party lines than in other countries, which means that individual legislators are free to decide how they vote on any given issue. The other is that few trade-related issues come down to a simple choice between free trade and protection. The net result is that Republicans may indeed tend to favour market-opening initiatives more often than Democrats, but the degree of partisan difference varies, both by issue and from legislator to legislator.

In the United States, the degree of partisanship tends to be positively correlated with the abstractness of the issue that is put to the vote. At one extreme are proposals that have clear and identifiable consequences for specific industries; these include such initiatives as the farm bills that Congress enacts about once every five years (legislation that inter alia sets the level of support for specific commodities) or proposals to extend import protection to specific goods. These initiatives tend to be relatively non-partisan, with legislators' votes determined more by the composition of their constituencies than by party affiliations. At the other extreme are, for example, proposals to extend new

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<sup>2</sup> Available on-line at [http://www.ustr.gov/Document\\_Library/Reports\\_Publications/2009/2009\\_Trade\\_Policy\\_Agenda/Section\\_index.html](http://www.ustr.gov/Document_Library/Reports_Publications/2009/2009_Trade_Policy_Agenda/Section_index.html).

<sup>3</sup> Over the past four decades, there has been fully unified government (the White House and both chambers of Congress controlled by the same party) only one third of the time.

grants of negotiating authority to the president. For a number of reasons, Democrats are much more reluctant to support these delegations of authority than Republicans.

The differences between the parties also relate to the types of trade agreements that are under consideration. Republicans tend to treat most trade agreements the same, whereas the level of support among Democrats appears to be lower when the partners in question are developing—and hence low-wage—countries. While Democrats supported the multilateral trade agreements of the Tokyo (1979) and Uruguay (1994) Rounds in about the same proportions as Republicans, and many Democrats supported the FTAs with Canada (1988) and Australia (2004), they opposed most of the FTAs that the Bush administration negotiated with developing countries. Their opposition was especially sharp in the case of the FTA with Central America and the Dominican Republic, which passed in 2004 by the narrowest possible margin, and the FTA with Colombia, for which House Democrats managed to withdraw TPA treatment in 2008.

How will the Obama administration fare when it asks Congress to approve pending FTAs and make a new grant of negotiating authority? The raw numbers suggest that President Obama enjoys a higher level of partisan support in Congress than any of his predecessors in the past thirty years. That is particularly true in the Senate, where the Democrats have now attained the "filibuster-proof" level, holding 60<sup>4</sup> of the 100 seats (precisely the number of votes needed to deny the opposition the ability to defeat bills through a dilatory legislative manoeuvre). In the House of Representatives the Democratic majority holds 256 seats and the Republicans have 178 (with one vacancy). The advantage may be more theoretical than real, however, given that, first, legislators do not necessarily vote along party lines and, second, there are several moderate legislators in both parties who continue to hold the balance of power. This point is even more important in the case of trade policy, where the White House cannot count on universal support from Democrats in Congress.

Given that a sizable number of Democratic legislators probably cannot be persuaded to vote for trade liberalization under most circumstances, significant initiatives in this field will require cooperation between moderates in both parties. Although they are in the minority, Republicans will probably be asked to deliver the majority of the votes for the trade agreements that the administration may soon submit for approval, and may also have the power to decide whether President Obama receives a new grant of negotiating authority.

## **D. Is a new period of protectionism imminent?**

There are pervasive fears today that countries may adopt protectionist actions that worsen and prolong the current economic crisis. Those worries are especially acute with regard to the United States, owing both to the size of its economy and to the apparent similarities between the present crisis and the Great Depression of the 1930s. A number of articles and reports published since late 2008 have warned that protectionism is on the rise, citing such examples as increased use of antidumping measures in developing countries and the massive subsidy programmes in industrialized countries. Are these fears of resurgent protectionism justified? The evidence so far suggests that there has been relatively little demand for "traditional" protection (that is, through border measures). However, the outlook is different when the analysis extends to the broader category of trade-related measures, including subsidies and government procurement, among others.

### **1. Despite the economic woes, there have been few calls for protectionist measures in the United States**

One way of gauging the demand for protection is to review the number of cases filed under the trade-remedy laws, and especially the antidumping (AD) and countervailing duty (CVD) laws. In the first

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<sup>4</sup> Note that two of the senators who are counted as Democrats are independents who usually vote with the Democrats.

eight months of Fiscal 2009, which coincidentally began just after it became clear that the economy was in a recession (October 2008), there have been only 16 AD and CVD petitions filed by United States industries.<sup>5</sup> At an annualized rate of 21.3 petitions, that is far less than the pattern maintained over the past 30 years, which shows an average of 47.9 cases filed per year in non-recession years, and 80.6 cases in recession years.<sup>6</sup> Moreover, there have been no safeguard cases since the Bush administration's self-initiated steel case in 2001. The auto industry has not demanded import protection, although it has asked for massive financial support.

What explains this relatively low level of demand for protection? One possible interpretation is that there is simply a lag between the onset of the recession and the filing of new demands, which will therefore appear in the not-too-distant future. Alternatively, many analysts suggest that global supply chains have grown increasingly dependent on open markets, so there are fewer industries that can afford to demand protection (see for example Newfarmer and Gamberoni, 2009). That would certainly seem to be the case for the highly globalized auto industry.

Whatever the reason for the reduced demand, a number of actions taken by the Obama administration do distort trade, or may do so. Most of these concern trade-related measures rather than traditional trade policy, including the "Buy American" provisions in the economic stimulus package enacted in February; discontinuation of the programme that had allowed limited access to the United States market for Mexican trucking firms; the granting of massive subsidies to automotive and financial services firms in the context of bailout programmes; and the reintroduction of export subsidies for dairy products.

Even if there were a strong push for "traditional" protection in the United States, there are limits to how far it could legally go. Nearly all United States tariffs are bound in WTO, many of them at zero percent, and several partners have FTAs that guarantee their duty-free access to the United States market. However, there are fewer constraints (either multilateral or through FTAs) on the use of broader trade-related policies, such as subsidies (both industrial and agricultural) and government procurement.

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<sup>5</sup> Just one of these petitions concerned imports from a Latin American or Caribbean country (a CVD investigation of Ni-resist piston inserts from Argentina filed in January 2009).

<sup>6</sup> Calculations based on data posted on the website of the United States Department of Commerce.

## **II. United States initiatives affecting trade**

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Any review of current trade policy, whether in the United States or elsewhere, needs to start by recognizing that the scope of this issue is far broader today than it was a generation ago. Whereas "trade" was once defined solely as the movement of goods across borders, and "trade policy" was limited to tariffs and other border measures that regulated that movement, the subject matter has since expanded to encompass a much wider array of tradables and the means by which they are taxed, regulated, procured and promoted. It now covers not only goods but also services, capital, intellectual property and even people; and it includes measures imposed both at and behind the border. One implication of this broader definition of trade and trade policy is that a wider range of seemingly domestic policy initiatives can now be seen to have trade implications, and —if not properly crafted— may run afoul of a country's commitments to its trading partners. The scope of the issues to be examined is therefore correspondingly wide, encompassing matters that are both explicitly and implicitly defined as trade.

This section reviews initiatives that have been taken recently or are still under way affecting the trade interests of Latin American and Caribbean countries. These fall into two categories. One consists of measures that are explicitly identified as trade policy in the most traditional sense. The other consists of measures that are not explicitly identified as trade policy per se, but nonetheless have major implications for the terms under which trading partners access the United States market.

## A. Traditional trade policy

### 1. Renewal of trade promotion authority

Given the uniquely powerful position of the United States Congress in trade policymaking, the executive branch can do little in this field without the legislature's approval. That approval most frequently comes in two forms, with Congress making grants of negotiating authority before trade negotiations are concluded, and then making the ultimate decision on whether agreements will be approved or rejected. Those grants of authority, which are temporary and conditional delegations of congressional power, have been known since 1974 as "Fast-track" authority, and since 2002 as trade promotion authority (TPA). Both terms are in common use.

TPA is intended to facilitate the consideration of trade agreements. Without a special grant of authority such as TPA, the only means available for approving agreements would be either formal submission of treaties to the Senate (where they would need to obtain the approval of two thirds of the senators), or the submission of ordinary bills (where they would need to be approved by majorities in both the House and the Senate). Experience has shown that both of these procedures generate delays and amendments.

Fast-track authority establishes special procedures that streamline the consideration of trade agreements. The rules in question require the implementing legislation for an agreement to be voted upon in both the House and the Senate within 90 legislative days of its introduction; and they also prohibit any amendments to that legislation after it has been introduced. Fast-track authority has been considered an indispensable tool of United States trade policy since it was first extended in 1974. Prior to the Colombia FTA, none of the trade agreements submitted under this authority were delayed, amended or rejected; and no major trade agreements have been approved since the 1960s without such authority.<sup>7</sup>

The last TPA expired in 2007 and the administration has indicated that it will seek a new one, although the timing remains open.

The most recent grant of TPA was made by the Trade Act of 2002, which was passed by a very narrow and partisan margin in 2001-2002 and expired on 30 June 2007. Congress will thus have to pass an entirely new bill if TPA is to be renewed, and there are no special procedures for doing this. Like any other ordinary legislation, it will need not only the support of a majority in both the House and the Senate, but will also have to get past all of the parliamentary obstacles that potential opponents might erect.

The Obama administration has signalled that it will seek a new grant of TPA, but has yet to say when, on what terms and for what purposes. Instead, it has engaged in a series of consultations with domestic stakeholders over what changes might be advisable in the rules and principles of TPA. While there are no specific proposals yet under public discussion, the administration is likely to propose negotiating objectives for future agreements that raise the profile of topics such as labour and the environment, together with procedural revisions that increase the authority of the legislative branch.

It will be difficult to conclude the Doha Round unless Congress grants the President a new TPA, but the reverse also holds true: a fresh authority is more likely to be granted if the negotiations appear to be approaching a conclusion.

The fact that TPA may still be under development during the final phases of the Doha Round will naturally tend to enhance the role of Congress in influencing the final terms of that negotiation. Legislators will certainly want to be players in the endgame, and both the terms and the timing of the grant may well be subject to calculation and manoeuvre. This could easily have the effect of prolonging and complicating the process of reaching deals in both Geneva and Washington D.C.

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<sup>7</sup> In 2008 the Bush administration submitted the implementing legislation for the United States-Colombia FTA to Congress without first reaching agreement with the congressional trade committees over the terms of this legislation. That was unprecedented, and the House of Representatives responded with an equally unprecedented action, by voting to withdraw TPA protections from that bill.

## 2. Revival of the Doha Round

The most persuasive argument in favour of making a new grant of negotiating authority will be the need to approve the results of the DDA negotiations. That argument will naturally be stronger if the negotiations enter the endgame sometime soon; if the talks continue to drift along, there will be little perceived urgency in Washington. The same dynamic works in the reverse direction too: as long as negotiators in Geneva doubt that their United States counterparts have the power they need to strike a deal, they will be reluctant to press ahead to the final bargaining stage.

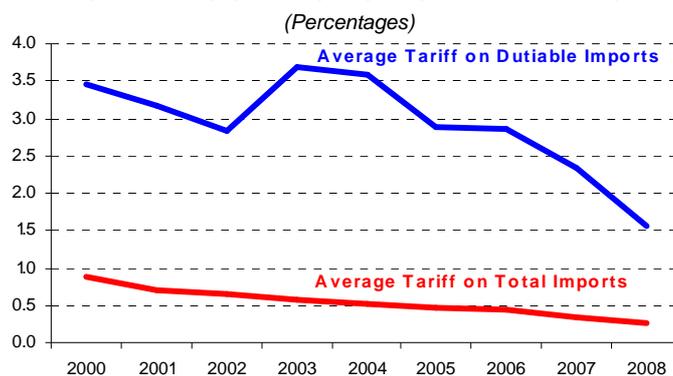
It is worth noting that the United States business community has not yet lobbied hard for completion of the DDA. The current atmosphere stands in sharp contrast to the final stages of the Uruguay Round in the early 1990s, when many of the leading sectors of the United States economy perceived that they had substantial interests in the multilateral negotiations in areas such as services, intellectual property rights and investment. Accordingly, United States negotiators pressed hard for concessions on those issues. In contrast, the country's business community seems to perceive fewer potential benefits in DDA, and the frequent breakdowns and delays in the negotiations have diminished their interest still further.

For the region, the main advantages of Doha Round completion consist of greater market access for products that still face high barriers, despite low overall tariff protection and subsidy reduction commitments on the part the United States.

Before asking what it would take to revive and complete the negotiations, it is worthwhile considering what the region has to gain from them. More specifically, in what ways might the DDA negotiations improve the standing of Latin American and Caribbean countries in their trade relations with the United States?

The benefits to be obtained from the round vary by country and product. As can be appreciated from the data in figure IV.3, United States tariffs on imports from the region are already quite low and still falling. The average tariff has been below 1% throughout this decade, and even the average for dutiable imports is headed towards 1%. These averages mask significant differences among partners, however, as they are dominated by the two thirds of United States trade with the region that is conducted with FTA partners. Moreover, table IV.1 shows that only 16.3% of all United States imports from the region were dutiable in 2008; the rest entered duty-free either on a most-favoured nation (MFN) basis, under preferential programmes or under the terms of FTAs.

**FIGURE 3**  
**UNITED STATES: AVERAGE TARIFFS ON IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

A consideration of more specific sectors and products, however, shows that there are still a number of areas where United States multilateral tariff cuts would benefit the region's exporters. The most notable of

these are among the less advanced manufactures shown in table 1. The average tariff paid on United States imports of dutiable apparel from the region was 15.6%. Only 11.9% of apparel imports were dutiable, with most of the rest entering under the Dominican Republic —Central America— United States Free Trade Agreement (CAFTA-DR) and the North American Free Trade Agreement (NAFTA), but —for reasons noted below— even the United States' FTA partners did not enjoy completely free access to the United States apparel market. Other items that are subject to relatively high tariffs when imported on a dutiable basis include leather products (9.5%), food (10.0%) and chemicals (13.3%).

Table 2 identifies more precisely some of the high-tariff items that the United States continues to import from the region on a non-preferential basis. The most surprising fact highlighted by these data is the number of apparel items that are imported dutiable from FTA partners. The single highest tariff shown in the table is 32%, which applies to certain sweaters that are imported chiefly from NAFTA and CAFTA-DR partners. The fact that nearly US\$ 31 million worth of this item was imported without the benefit of FTA treatment may be taken as prima facie evidence that the rules of origin set by these FTAs are too costly for some exporters to meet. They would rather buy their fabric from cheaper sources outside the FTA (such as China), even though that entails paying a very high tariff on the finished product, than buy expensive but FTA-eligible fabric from the United States and thus qualify for preferential access. The same applies to other apparel items that are subject to relatively high MFN duties and yet are still imported on non-preferential terms from FTA-partner countries. The data here show that even among the United States' FTA partners there are at least some producers that would be better off if the United States tariffs on apparel products were to be reduced on an MFN basis in the Doha Development Agenda.

**TABLE 1**  
**UNITED STATES: TARIFF TREATMENT OF IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN BY COMMODITY GROUP, 2008**  
*(Millions of dollars and percentages, customs value, imports for consumption)*

	Imports (US\$ million)	Dutiable share	Average tariff on:	
			Total	Dutiable
<b>Primary products</b>				
Oil and gas	95 753.0	30.4	0.0	0.1
Agricultural products	13 561.0	3.4	0.2	6.3
Minerals and ores	5 128.7	1.4	0.0	0.4
Fish and other marine products	2 238.2	0.3	0.0	7.0
Waste and scrap	1 441.2	0.0	0.0	2.8
<b>Less advanced manufactures</b>				
Petroleum and coal products	25 061.9	57.6	0.1	0.1
Primary metal manufacturing	21 760.0	1.7	0.1	4.7
Chemicals	15 362.2	7.6	1.0	13.3
Apparel and accessories	13 545.1	11.9	1.8	15.6
Food and kindred products	8 053.3	14.6	1.5	10.0
Fabricated metal products	6 248.9	11.4	0.4	3.5
Plastics and rubber products	3 515.0	13.0	0.5	4.0
Beverages and tobacco products	3 498.8	11.0	0.4	3.6
Non-metallic mineral products	3 408.6	18.1	0.8	4.6
Leather and allied products	2 543.6	21.7	2.0	9.5
Paper	2 057.9	0.5	0.0	5.0
Wood products	1 940.4	10.1	0.6	5.6
Furniture and fixtures	1 560.8	0.8	0.0	3.1
<b>More advanced manufactures</b>				
Transportation equipment	47 804.2	4.6	0.1	2.7
Computer and electronic products	46 742.6	2.0	0.0	2.4
Electrical equipment and appliances	17 166.5	9.0	0.3	2.9
Machinery, except electrical	13 225.4	5.9	0.2	2.9
Miscellaneous manufactured commodities	8 135.6	1.2	0.0	3.3
All other	14 784.6			
<b>Total</b>	<b>374 537.5</b>	<b>16.3</b>	<b>0.3</b>	<b>1.6</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

**TABLE 2**  
**UNITED STATES: SELECTED HIGH-TARIFF ITEMS IN NON-PREFERENTIAL IMPORTS FROM LATIN AMERICAN AND CARIBBEAN COUNTRIES, 2008**  
*(Non-preferential imports for consumption, customs value; listed in descending order of tariff levels)*

	Imports (US\$ 1000)	Tariff (%)	Top non-preferential suppliers in region
6110.30.30: Sweaters, pullovers & similar articles, knitted or crocheted, of manmade fibres	30 962	32.0	Mexico, Guatemala, Honduras
2204.29.60: Grape wine, other than sparkling, not over 14% vol. alcohol, in containers over 4 litres	18 362	30.4	Argentina
2207.20.00: Ethyl alcohol & other spirits, denatured, of any strength	35 045	29.8	Brazil, Jamaica
6204.63.35: Women's or girls' trousers, breeches & shorts, not knitted or crocheted, synthetic fibres	24 386	28.6	Guatemala, Honduras, Mexico
2009.11.00: Orange juice, frozen, unfermented & not containing added spirit	167 978	28.4	Brazil, Argentina
6203.43.40: Men's or boys' trousers, breeches & shorts, of synthetic fibres	12 167	27.9	Dominican Republic Guatemala, Mexico
2207.10.60: Undenatured ethyl alcohol of 80% vol. alcohol or higher, for non-beverage purposes	438 573	25.3	Brazil, Argentina, Paraguay
6112.41.00: Women's or girls' knitted or crocheted swimwear of synthetic fibres	17 315	24.9	Mexico, Brazil, Dominican Republic
0406.90.33: Goya cheese not from cow's milk, over quota	21 512	21.3	Argentina, Brazil, Uruguay
6105.10.00: Men's or boys' shirts, knitted or crocheted, of cotton	19 634	19.7	Guatemala, Peru, Honduras
6106.10.00: Women's or girls' blouses & shirts, knitted or crocheted, of cotton	17 001	19.7	Guatemala, Honduras, Nicaragua
6204.62.40: Women's or girls' trousers, breeches & shorts, not knitted or crocheted, of cotton	83 328	16.6	Mexico, Nicaragua, Guatemala
6203.42.40: Men's or boys' trousers & shorts, not bibs, not knitted or crocheted, of cotton	53 809	16.6	Dominican Republic, Nicaragua, Mexico
6110.20.20: Sweaters, pullovers & similar articles, knitted or crocheted, of cotton	490 993	16.5	Guatemala, Nicaragua, El Salvador
6109.10.00: T-shirts, singlets, tank tops & similar garments, knitted or crocheted, of cotton	179 909	16.5	Guatemala, Honduras, El Salvador
2009.39.60: Citrus juice of any single fruit (other than orange, grapefruit or lime), unfermented	19 937	16.1	Argentina, Brazil, Uruguay.
6104.62.20: Women's or girls' trousers, breeches & shorts, knitted or crocheted, of cotton	70 914	14.9	Guatemala, Nicaragua, Mexico
2009.12.25: Orange juice, not frozen, Brix value not exceed 20, not concentrated, unfermented	62 673	13.1	Brazil
6114.20.00: Garments, knitted or crocheted, of cotton	52 307	10.8	Guatemala, Nicaragua, Honduras
2009.69.00: Grape juice (including grape must), of a Brix value exceeding 30, unfermented	92 101	10.6	Argentina, Brazil, Chile
6403.91.90: Footwear w/outer soles of rubber/plastics/comp. leather & uppers of leather	45 616	10.0	Brazil, Colombia, Mexico
6403.59.90: Footwear w/outer soles & uppers of leather, not cov. ankle, n/welt	71 347	10.0	Brazil, Argentina, Uruguay
6403.99.90: Footwear w/outer soles of rubber/plastics/etc. & uppers of leather, >US\$ 2.50/pair	266 047	10.0	Brazil, Colombia, Dominican Republic
6302.60.00: Toilet linen and kitchen linen, of terry towelling or similar terry fabrics, of cotton	111 034	9.1	Brazil, Colombia, Guatemala

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

Note: some product descriptions are abbreviated and some tariffs are the ad valorem equivalents for specific tariffs (calculated on the basis of average unit prices in 2008 for imports from the region).

Most of the other high-tariff items shown in table 1 are either footwear or agricultural products imported chiefly from MERCOSUR countries. Products such as wine, frozen orange juice and leather shoes are all GSP-ineligible and pay duties that are many times higher than the average United States tariff on dutiable imports from the region (1.6%).

Nor are the benefits of DDA limited to improvements in access to the United States market for goods. One of the main advantages of these multilateral talks, compared to the now-terminated FTAA negotiations, is that United States agricultural subsidies are on the table, although it is uncertain just how ambitious the final package may be on this subject. Other likely areas of gain to the region could be in the antidumping negotiations (if, as a result, the United States abandons its practice of "zeroing" when calculating anti-dumping margins) and in trade facilitation (if the new commitments moderate the negative trade impact of initiatives such as the United States Container Security Initiative).

What are the plans of the Obama administration for DDA? To date it has been clear only on two points. One is that it does favour completion of the talks and the other is that —like its predecessor— the administration expects "advanced developing countries" such as Brazil, China and India to make deeper commitments than they have signalled thus far.

The United States position under both the current and the previous administration has been that the package on the table since July 2008 is not sufficiently attractive in terms of new market access opportunities for United States exporters of manufactures, agricultural products and services. According to the United States authorities, this mainly reflects weak opening commitments by the main emerging economies, which they see as standing in contrast with the high economic and political costs the United States would have to face in reducing its own agricultural subsidies and its tariffs on sensitive industrial products such as textiles, clothing and footwear. This explains the United States' insistent calls for deeper commitments by key developing countries, for example through participation in sectoral tariff elimination initiatives in the context of the Non-Agricultural Market Access (NAMA) negotiations.

### **3. Renewal of the Generalized System of Preferences**

The current authorization for the Generalized System of Preferences (GSP) will expire at the end of 2009 unless Congress enacts new legislation to renew it.

GSP provides duty-free access to the United States market for many developing-country products, covering roughly one third of the items in the tariff schedule, while excluding goods that are duty-free on an MFN basis and many items that have never been designated for GSP or have been removed from the programme (some of which face relatively high tariff barriers). The reauthorization of this programme theoretically affects every country in the region except Cuba (which has never been designated for GSP benefits) and the United States' FTA partners (which are automatically removed from the programme when their FTA status takes effect). In reality, however, the programme is now significant for only a handful of countries in the region.

GSP has declined over the years as a factor in United States trade with Latin America and the Caribbean. In 1990, 8.7% of United States imports from the region entered under this programme, but this share fell progressively to 4.1% in 1995, 1.9% in 2000, and just 1.4% in 2008. There are two reasons for this. First, all but seven of the countries in the region that trade with the United States are eligible for the larger preferences extended either under regional preferences, such as those extended under the programmes for the Andean countries and the Caribbean Basin, or through FTAs. Moreover, a growing share of imports is eligible for duty-free treatment on an MFN basis.

With the exception of Paraguay, the GSP revision is of limited importance for the region, although it could have significant implications for the Plurinational State of Bolivia unless that country's ATPA status is restored.

Table 3 shows the limited scope of GSP treatment for products of interest to Latin American and Caribbean countries. Only two of the top 25 products that the United States imported from the region in 2008 are GSP-eligible. Moreover, only one of these products faced a relatively high tariff when imported on a non-preferential basis, and therefore received a relatively high margin of preference through GSP. Another 10 products that accounted for three quarters of the value of these top 25 items were dutiable and not eligible for GSP; three of them are subject to tariffs in excess of 10%. These products can receive duty-free treatment only under an FTA or the special preferences granted under APTA and the Caribbean Basin Initiative (CBI). The remaining 13 items are duty-free on an MFN basis.

The seven countries in the region that still rely upon GSP as the sole means of preferential access to the United States market are the four members of MERCOSUR, plus the Bolivarian Republic of Venezuela, the Plurinational State of Bolivia (which had benefited from the superior APTA preferences until it was suspended from this programme in October 2008), and Suriname (which is listed in United States law as a potential CBI beneficiary but has never been designated to the programme). GSP accounts for a negligible share of imports from Suriname (0.2% in 2008), and the special case of Bolivia is discussed elsewhere in this report. Recent trends in GSP imports from the other five countries are illustrated in figure 4. These five countries accounted for 85.8% of United States imports under GSP from Latin American and Caribbean countries in 2008. Most of the other GSP imports come from countries that could alternatively have shipped the goods under the Andean or Caribbean Basin programmes.

The data show that Paraguay is the only country in the group that ships a large and growing share of its goods to the United States under GSP. The programme also accounts for an appreciable share of imports from Argentina and Uruguay, but for less than 10% of those from Brazil and the Bolivarian Republic of Venezuela. The latter two countries' shipments under the programme are circumscribed by the programme's competitive need limits, under which a country will generally lose its duty-free privileges for specific items whenever it provides more than half of United States' imports of that product, and by the fact that crude oil (the Bolivarian Republic of Venezuela's main export) is not designated for GSP treatment.

The future of GSP is therefore of greater interest to Paraguay than to any other country in the region. Its rising exports under GSP consist primarily of sugar (Harmonized Tariff System (HTS) item 1701.99.10). The United States imported US\$ 34.9 million in this product from Paraguay in 2008, which accounted for 42.9% of all its imports from that country and 56.4% of the imports from Paraguay under GSP. That is up from just US\$ 5.9 million worth of this product imported from Paraguay in 2006. When imported on a non-preferential basis, this product is subject to a specific duty that amounts to an ad valorem equivalent rate of 6.6% (at average 2008 prices). Other significant items in United States imports from Paraguay under GSP include wood products such as builders' joinery (HTS item 4418.90.46), which would otherwise face a 3.2% tariff, and two types of plywood (HTS items 4412.31.25 and 4412.32.31) that are each subject to an MFN duty of 8.0%. The programme thus extends a wide margin of preference to key Paraguayan goods.

Another initiative now in Congress would also affect the terms of Paraguay's preferences. A bill has been introduced in both the House (H.R.1837) and the Senate (S.780) that would allow the President to designate Paraguay to the Andean Trade Preferences Act. The sponsors believe that Paraguay should be rewarded for its cooperation on anti-narcotics and anti-terrorist programmes and they may attempt to make this change if and when Congress considers broader legislation to renew the Andean trade preferences.

**TABLE 3**  
**UNITED STATES: GSP ELIGIBILITY OF THE 25 MAIN PRODUCTS IMPORTED FROM**  
**LATIN AMERICA AND THE CARIBBEAN, 2008**

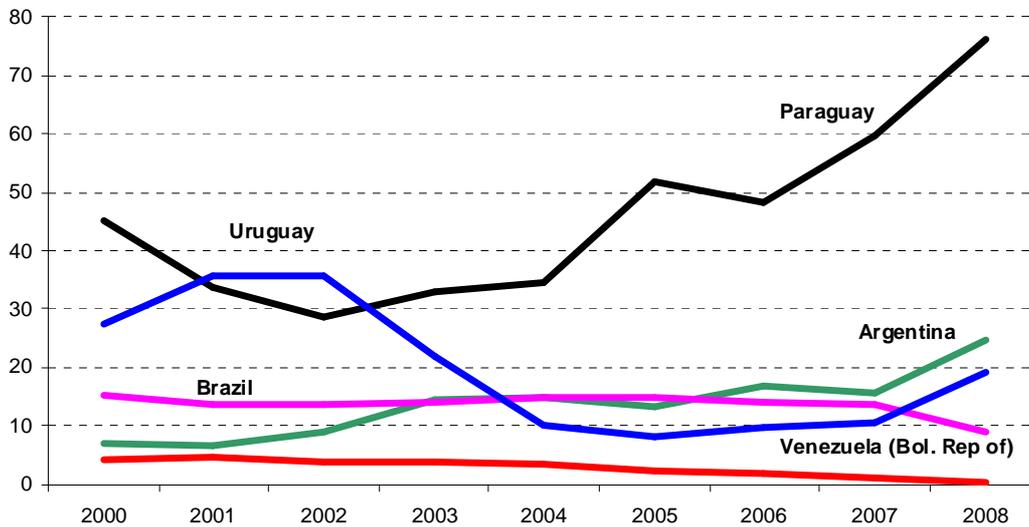
(Millions of dollars, customs value, imports for consumption)

Item number and description	Value (US\$ million)	MFN Tariff
Duty-Free on an MFN basis (19.6% of top 25)		
8517.12.00: Telephones for cellular networks or for other wireless networks	5 036.2	Free
8471.50.01: Certain processing units	3 773.6	Free
2713.11.00: Coke, petroleum, not calcined	3 056.4	Free
2711.11.00: Natural gas, liquefied	2 912.4	Free
9401.90.10: Parts of seats, for seats of a kind used for motor vehicles	2 836.7	Free
8517.62.00: Switching & routing apparatus	2 805.8	Free
0901.11.00: Coffee, not roasted, not decaffeinated	2 711.3	Free
9018.90.80: Instruments & appliances used in medical, surgical, etc.	2 413.8	Free
7108.12.10: Gold, nonmonetary, bullion & dore	2 382.2	Free
2814.10.00: Anhydrous ammonia	2 192.3	Free
8517.70.00: Parts of telephone sets	2 187.2	Free
7106.91.10: Silver bullion & dore	2 128.5	Free
2711.29.00: Petroleum gases, except natural gas	2 016.2	Free
Eligible for GSP and other preferences (4.0% of top 25)		
8544.30.00: Insulated ignition wiring sets & other used in vehicles	4 113.8	5.0%
7403.11.00: Refined copper cathodes & sections of cathodes	3 289.2	1.0%
Dutiable and not GSP-eligible (76.4% of top 25)		
2709.00.10: Petroleum oils & oils from bituminous minerals, crude, <25°	68 810.7	0.1%
2709.00.20: Petroleum oils & oils from bituminous minerals, crude, ≥25°	20 725.1	0.1%
8528.72.72: Colour television reception apparatus w/flat panel screen	14 241.8	5.0%
2710.19.05: Distillate & residual fuel oil derived from petroleum or oils	11 274.5	0.1%
8703.23.00: Motor cars & other motor vehicles for transport of persons	10 426.2	2.5%
8704.31.00: Motor vehicles for transport of goods	5 115.8	25.0%
2710.11.25: Naphthas from petroleum oils & bituminous minerals	3 985.9	0.1%
8703.24.00: Motor cars & other motor vehicles for transport of persons	3 061.5	2.5%
6109.10.00: T-shirts, singlets, tank tops & similar garments, of cotton	2 242.8	16.5%
6110.20.20: Sweaters, pullovers & similar articles, of cotton	2 179.3	16.5%
Subtotal, top 25 products (49.6% of Total)	185 919.2	
All other products	188 618.3	
Total	374 537.5	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

Note: some product descriptions are abbreviated for reasons of space. The tariff rates shown for petroleum and derivatives are ad valorem equivalents based on average prices for non-preferential United States imports in 2008.

**FIGURE 4**  
**UNITED STATES: SHARE OF IMPORTS FROM SELECTED COUNTRIES ENTERING UNDER GSP**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

Reauthorization of GSP could encounter opposition in Congress, where critics claim that certain middle-income GSP beneficiary countries do not merit this preferential treatment. For example, some legislators have argued that countries such as Brazil and India have not been sufficiently willing to open their own markets in the DDA negotiations. In their view, the threatened loss or reduction of GSP benefits should be used as leverage to secure deeper commitments from these countries.

There is as yet no GSP-renewal bill under consideration in Congress, nor has the Obama administration made a specific proposal for either renewal or revision of the programme. While there is a good chance that the issue will be addressed later in 2009, the debate over this matter may well raise concerns on the part of the United States over the alleged intransigence of middle-income countries. Depending on the pace of progress in DDA, the debate over GSP renewal could become caught up in the endgame of the round and be used as a form of leverage with the middle-income countries.

## B. Trade-related policies

The growth of trade in agricultural products has been accompanied worldwide by a growing number of standards and regulations and stricter enforcement. These standards are intended to prevent the spread of diseases, pests, toxins and other contaminants present in imported products. In the case of both food and pharmaceutical products, standards relate to packaging, labelling, the registration of producers, and the certification of processes and reported nutritional values.

The United States has been no exception to these trends. Although only 1% of imported cargo is inspected at United States customs, this figure represents tens of thousands of imported products which are stopped at United States ports every year. Between 2006 and 2008 about 20% of stopped shipments consisted of fish products, fruits and vegetables, sweets, non-alcoholic beverages, cosmetics, and nutritional complements such as vitamins, proteins and other dietary products. Seventy percent of these

episodes relate to non-compliance with United States rules and procedures, such as omissions and imprecise labelling, or the lack of an application for approval or registration of the product or manufacturing process concerned. In the case of Latin America and the Caribbean, a third of the episodes concern the presence of pesticides in concentrations above those considered innocuous to human health, the presence of salmonella, or the fact that the product is dirty or decomposed (Artecona and Flores 2009). Improving this situation poses a clear challenge to the region's exporters.

Actions taken by the United States on other trade-related matters may have as great an impact on Latin American and Caribbean interests as does United States trade policy per se.

Although measures in such fields as social and environmental policy are not originally intended to affect trade, they may do so through at least two ways. One is that they provide opportunities to introduce taxes, regulations, incentives, or other measures that discriminate against foreign providers of goods and services. Second, any attention policymakers devote to these initiatives will entail the opportunity cost of preventing them from attending to other matters. This crowding-out effect is especially notable in the case of trade policy, insofar as the congressional committees chiefly responsible for this subject (the Ways and Means Committee in the House of Representatives and the Finance Committee in the Senate) also have jurisdiction over taxes and major aspects of the health-care reform.

The potential impact of trade-related policies is reviewed in three sections below. The first of these concerns the "Buy American" provisions of the economic stimulus package. This may set a precedent for how the executive and legislative branches of the Government of the United States handle other trade-related matters, such as the health-care reform and climate-change measures discussed below. Another concern is the increased use of subsidies to boost domestic industries.

## 1. The controversy over the "Buy American" provisions

The potential importance of trade-related initiatives was shown in the administration's very first undertaking, when its nearly US\$ 1 trillion stimulus package provided an opportunity for some members of Congress to try to prevent these funds from being used to purchase foreign steel and other products. The conclusion of this episode was somewhat ambiguous. While it demonstrated that the administration is prepared to act to ensure that the United States complies with its international obligations, it also showed the eagerness of certain legislators to exploit the opportunities inherent in the administration's trade-related priorities for protectionist purposes.

Given concerns over potentially protectionist interpretations of the "Buy American" clause in the economic stimulus package, an amendment was introduced to express the United States' commitment to obligations assumed under international agreements.

The US\$ 787 billion stimulus bill that Congress approved in February 2009 (the American Recovery and Reinvestment Act) generally requires all of the iron, steel and other manufactured goods used in the programme (including US\$ 48 billion for transportation projects) to be made in the United States.<sup>8</sup> In response to the administration's concerns over sending a protectionist message, the Senate amended the bill to specify that the provisions "shall be applied in a manner consistent with United States obligations under international agreements". This wording remained in the final bill that President Obama signed into law.

The so-called "BRIC" group (Brazil, Russia, India, and China) appear to have been the real targets of the amendment, for these countries, especially China, are seen as major contributors to the United States trade deficit. Given the wording of the amendment, it may have a much greater effect on these countries than on the United States' other trading partners. The data in table IV.4 show that the

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<sup>8</sup> There are certain exceptions to this provision: (i) when it is inconsistent with the public interest; (ii) where the United States does not produce enough readily available iron, steel and related manufactured goods of satisfactory quality; and (3) when the use of iron, steel and manufactured goods produced in the United States increases the total cost of a project by over 25%.

BRICs jointly accounted for nearly one-third of United States iron and steel imports in 2008. Targeting of the BRICs is facilitated by the fact that the WTO Government Procurement Agreement (GPA) is a plurilateral undertaking, meaning that only those countries that signed it are subject to its disciplines and entitled to its benefits. Current GPA signatories consist primarily of industrialized countries.

It is United States law and practice to grant exceptions to "Buy American" rules to four categories of trading partners: GPA signatories, countries that have government-procurement rights under their FTAs with the United States, CBI beneficiaries, and the least-developed countries (LDCs).<sup>9</sup> As they do not belong to any of these categories, the BRICs and many other suppliers will likely be closed out of this segment of the United States market.<sup>10</sup> As table 4 shows, Mexico and Chile are the only large suppliers of iron and steel in the region that enjoy secure access to United States government procurement by dint of the latter's commitments under FTAs.

**TABLE 4**  
**UNITED STATES: IMPORTS OF IRON AND STEEL, 2008**  
(Imports for consumption, customs value)

	Imports (US\$ 1000)	Share of Total
<i>Latin America and the Caribbean</i>	8 704 248	19.0
Brazil	3 352 637	7.3
Mexico <sup>a</sup>	3 151 052	6.9
Venezuela (Bolivarian Republic of)	630 843	1.4
Trinidad and Tobago	520 761	1.1
Colombia	415 222	0.9
Argentina	293 950	0.6
Dominican Republic	209 949	0.5
Chile <sup>a</sup>	119 565	0.3
Other Latin American and Caribbean countries <sup>b</sup>	10 269	<0.1
<i>Rest of World</i>	37 008 257	81.0
China	7 597 823	16.6
Canada <sup>a</sup>	6 969 562	15.2
Republic of Korea <sup>a</sup>	2 307 197	5.0
Japan <sup>a</sup>	2 307 172	5.0
Germany <sup>a</sup>	1 972 118	4.3
India	1 830 600	4.0
Russian Federation	1 722 747	3.8
Ukraine	1 482 637	3.2
South Africa	1 221 361	2.7
Other countries	9 597 040	21.0
<i>BRICs</i>		
Brazil+Russia+India+China	14 503 807	31.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

<sup>9</sup> Nonetheless, Canada, which is a signatory to both NAFTA and GPA, has complained about discrimination against Canadian firms at the sub-federal (local) level.

<sup>10</sup> In the medium term, this could translate into larger flows of foreign investment into Central American countries and the Dominican Republic, since these have FTAs with the United States (ECLAC, 2009a).

<sup>a</sup> Countries that have access to the United States market for contracts subject to "Buy American" rules owing to their status as signatories to GPA or an FTA with the United States, or both.

<sup>b</sup> The United States imported small quantities of steel from Costa Rica, Ecuador, Guatemala, Nicaragua, Panama, Peru and Uruguay.

## 2. Subsidies for the automotive dairy industries

Another policy instrument that has been used more intensively since the onset of the economic crisis and that may be associated with the emergence of protectionist tendencies in the United States is the granting of subsidies to specific sectors.

As part of the Automobile Industry Financing Program introduced in March 2009, the Government of the United States extended loans totalling US\$ 24.7 billion to two of the country's largest auto manufacturers, General Motors and Chrysler, and to their financial arms, GMAC and Chrysler Financial, in order to avert the systemic risk that would be posed by their bankruptcy. The companies benefiting under the scheme are required to undertake restructuring to ensure their long-term viability.

Developing nations have long contended that the agricultural subsidies granted to United States farmers are protectionist. Newfarmer and Gamberoni (2009) estimated in early 2009 that the amount spent by the United States on distortive agricultural subsidies rose from US\$ 8.1 billion in 2008 to US\$ 9.9 billion in 2009 (some 22%), as a result of the anticipated fall in the prices of several products, including wheat, maize, rice, cotton and soybean, whose international prices dropped by between 23% and 43% between May 2008 and April 2009.<sup>11</sup> Several agricultural subsidy programmes in the United States are structured countercyclically, inasmuch as the amount of the subsidy varies in inverse proportion to international price movements. If these projections are borne out, the worst affected countries in the region would be Argentina, Brazil, Paraguay, the Plurinational State of Bolivia and Uruguay, which are major producers and exporters of these crops.

Lastly, on 22 May 2009 the United States authorities announced the reintroduction of payments under a scheme of direct subsidies for dairy exports. This measure was presented as a response to a similar decision by the European Union in January 2009.

## 3. Trade-related initiatives now under development

Several high-priority areas on which the Obama administration is now working do not primarily concern trade but may have significant impacts on the trade interests of Latin American countries.

Health-care reform, climate-change policy, tax reform and efforts to enhance port security, consumer safety, and workers' rights all have the potential to produce rules, fees or incentives that favour domestic goods, services, workers and investors over their foreign counterparts.

Health-care reform is perhaps the number one issue for the Democrats in both branches of government. The details have yet to be developed, but it is generally expected that the administration will press for a system in which the Government plays a much larger role in providing or paying for treatment. While the main objective of this initiative has little to do with trade, there are several ways in which the actions taken by the United States might affect the trade interests of other countries.

The initiative could affect countries in the region through its financing; one of the options currently being floated is to increase taxes on alcoholic or sugar-containing beverages or both.<sup>12</sup> While it would certainly be possible for the United States to do this without violating the rights of its trading

<sup>11</sup> See Index Mundi [online] <http://indexmundi.com/commodities/>.

<sup>12</sup> For more precise information on the options, see Senate Finance Committee, Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options, [online] <http://www.finance.senate.gov/sitepages/leg/LEG%202009/051809%20Health%20Care%20Description%20of%20Policy%20Options.pdf>, 20 May 2009,

partners in Latin America and the Caribbean, increased taxation could still have the effect of depressing demand and thus reduce sugar and alcohol imports.<sup>13</sup>

Many other trade-related issues could be affected by a health-care reform initiative, including the costs of pharmaceuticals and protection of their intellectual property rights; access for foreign doctors, nurses and other medical personnel to the United States; the "portability" of health insurance (the ability of the insured to seek medical treatment overseas); foreign investment in the United States insurance market, hospitals and other segments of the health and medical sector; and a range of other issues affecting the providers and recipients of medical treatment. These are matters that will need to be monitored as the administration and Congress develop their initiatives in the coming months.

The "cap-and-trade" system to reduce greenhouse gas emissions and the related trade amendments could curtail exports from developing countries.

Another wide-ranging initiative currently under way would establish a "cap-and-trade" system to reduce the output of greenhouse gases, with the aim of slowing or halting the effect that these gases have on climate. More than any other issue today, this one reveals a sharp break between the previous Republican administration and its Democratic successor. The Bush administration long argued that there was as yet no scientific consensus on global warming, and that position is still held by most Republicans in Congress. In contrast, Democrats in both branches of government believe they must now make up for lost time and are working to enact new legislation quickly.

As in the case of health-care reform, there are several ways in which this initiative could result in discrimination against foreign providers of goods and services. There is a widespread concern in United States manufacturing circles that restrictions on production in the United States may simply lead to "job leakage", with purchasers or producers of carbon-intensive goods moving their factories or sourcing to overseas facilities that are not subject to the same restrictions. These concerns have led to measures being taken to discourage such practices through surcharges or other restrictions on imports from "dirty" sources. Discrimination could also arise if the cap-and-trade approach is either supplemented with or replaced by a carbon tax; such a tax could easily be structured in a way that affects imports more severely than domestic production. It is also possible that the various schemes to promote "green manufacturing" in the United States will lead to subsidies, buy-national restrictions on utilities owned or funded by the government, or other measures that could violate the spirit or even the letter of the country's commitments under various WTO agreements.

The amendment to the American Clean Energy and Security Act paves the way for the application of a border tax on goods from countries that have not adopted regulations to reduce emissions that would match United States laws.

The legislative proposal approved by the Energy and Commerce Committee in the House of Representatives on 21 May 2009 did not seem to run afoul of any of these concerns. The Committee's version of the American Clean Energy and Security Act (H.R.2454, or ACES) directed that all emissions of greenhouse gases will be subject to restrictions that will be tightened until 2050, by which time total emissions should not exceed 17% of the amount emitted in 2005. Although gases are to be capped, firms and others will also be permitted to trade permits allowing their use. On the face of it, none of the bill's provisions appeared to be discriminatory. Immediately prior to approval of the Act by the full House of Representatives on 26 June, however, the Chairman of the Trade Subcommittee of the House Ways and Means Committee, Sander Levin, proposed an amendment to the Tariff Act of 1930 which adds a new Title IX "Promoting International Reductions in Industrial Emissions". The bill directs the United States to negotiate an international agreement on greenhouse gas emissions reductions. All countries, including "fast-growing developing countries", would be required to adopt the international agreement or enact laws and regulations imposing emissions restrictions that match those required by United States law. If this bill were enacted, the president would be required to

<sup>13</sup> A step has already been taken in this direction. One of the new administration's first legislative acts was a bill (Public Law 111-3) to finance an expansion in children's health insurance partly through higher taxes on tobacco products.

request United States trading partners to take “appropriate measures to limit the greenhouse gas emissions of the foreign country in order to achieve the purposes [of Title IX]”. As of 1 January 2020 or earlier, exports from countries that do not comply with this requirement would be penalized with a border tax designed to minimize or avoid any carbon leakage from signatory to non-signatory countries.

The bill also would establish an “international reserve allowance program” under which foreign countries that met emissions criteria set by the United States could purchase allowances for import into the United States of goods included among “eligible industrial sectors” listed by the Environmental Protection Agency. Only imports covered by the allowances would be permitted entry into the United States. This provision would not apply to countries determined to have enacted emissions laws and regulations equivalent to or more stringent than those of the United States, countries identified by the Economic and Social Council of the United Nations as least developed countries, those responsible for very tiny percentages of global emissions and those that export less than 5% of a particular good covered by the programme.

This amendment is intended to offset the disadvantages to United States domestic industries that would result from imposition of the cap-and-trade system and to push for an international agreement to restrict carbon emissions. It may be seen as an effort to strengthen the position of United States negotiators as they prepare for the United Nations Climate Change Conference that will take place in Copenhagen on 7-18 December 2009. The proponents of the amendment argue that it creates no conflict with the United States’ international trade obligations, since Article XX of the General Agreement on Tariffs and Trade allows exceptions for environmental requirements. That view appears not to be shared by President Obama, however.<sup>14</sup>

At the time of writing, the bill awaits action in the Senate. Then, once the upper chamber has developed its bill, the versions of the two houses will need to be reconciled. It may be many more months before the final terms of this legislation are known. Even more than the health-care reform proposal, this initiative has potential for discrimination against imported goods and services, and will thus merit close attention.

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<sup>14</sup> In a press interview, President Obama stated that: “At a time when the economy worldwide is still deep in recession and we’ve seen a significant drop in global trade, I think we have to be very careful about sending any protectionist signals out there [...] I think we’re going to have to do a careful analysis to determine whether the prospects of tariffs are necessary, given all the other stuff that was done and had been negotiated on behalf of energy-intensive industries.” While acknowledging that, “It is a legitimate concern on the part of American businesses that they are not disadvantaged vis-à-vis their global competitors,” the President said he was “very mindful of wanting to make sure that there’s a level playing field internationally. I think there may be other ways of doing it than with a tariff approach.” New York Times, 28 June 2009.

### **III. Pending issues in United States trade relations with the region**

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#### **A. Bilateral and subregional trade initiatives**

The Obama administration inherited several bilateral and subregional policies and initiatives affecting United States trade with the Latin American and Caribbean countries, some as old as the Cuban trade embargo and others dating from the final months of the Bush administration. Bilateral and subregional initiatives are likely to receive more attention than regional or multilateral ones in the immediate future, as the administration faces some impending deadlines that will force it to act soon.

United States trade with the region is fairly heavily concentrated, since a few partners account for a large proportion of it.

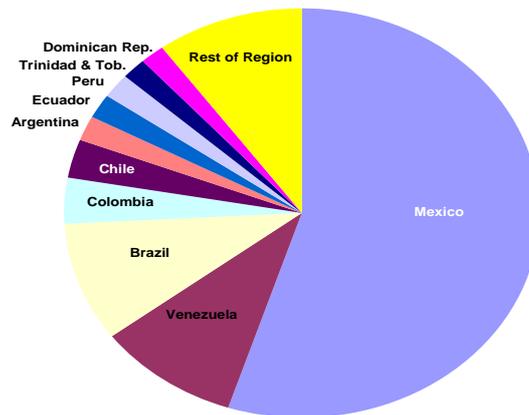
As figure 5 shows, Mexico alone accounts for over half of this trade, and the next three partners take up about half of the remaining share. The United States' partners in the region can be distinguished not only by size, but also by the legal and political nature of the relationship. The links drawn between trade policy and diplomacy were strengthened during the eight years of the Bush administration, which used both FTAs and preferential programmes to encourage cooperation on a range of issues. The number of FTA partners in the region grew from just one to nine during this time and, if the pending agreements with Colombia and Panama are finally ratified, it could yet rise to eleven. As shown in figure 6, FTAs and (to a much lesser degree) preferences have helped to ensure that only a small share of United States imports from the region remain subject to MFN tariffs.

Only 16.3% of all United States imports from the region were dutiable in 2008: the rest either entered duty-free on an MFN basis or were covered by FTAs or preferences.

Table 5 shows that dutiable imports come primarily from a few countries that remain outside the circle of negotiated or autonomous preferences, particularly the Bolivarian Republic of Venezuela and the member countries of MERCOSUR. For nearly every country that is either an FTA partner or benefits from regional preferences, dutiable items account for less than 20% of total imports. Tariffs are higher for countries that benefit only from GSP, but even for these average duties tend to be relatively low.

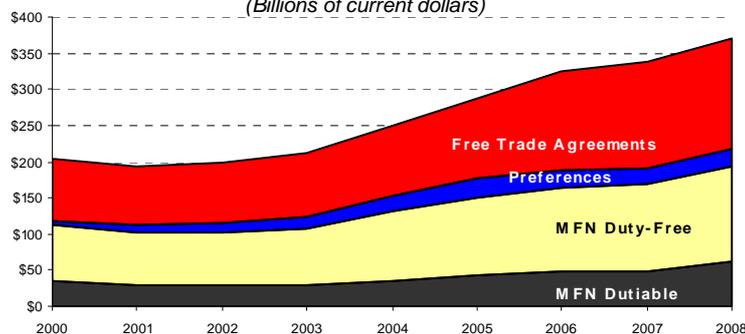
There are several outstanding issues that could change this status quo, either by improving the access that a partner enjoys (Colombia, Cuba, and Panama) or by worsening it through the expiration of preferences (with both GSP and ATPA scheduled to expire in 2009).<sup>15</sup> There follows a review of several initiatives on which the United States could act in the coming months. Apart from the special case of Cuba, these topics proceed in a southerly sequence, starting with the country that is economically and geographically closest to the United States.

**FIGURE 5**  
**UNITED STATES: SHARES OF TOTAL TRADE WITH LATIN AMERICA AND THE CARIBBEAN, 2008**  
*(Shares of imports plus exports)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

**FIGURE 6**  
**UNITED STATES: TARIFF TREATMENT OF IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN**  
*(Billions of current dollars)*



<sup>15</sup> One issue not considered at any length here is the renewal of the Caribbean Basin Trade Partnership Act (CBTPA), as its expiration date (30 September 2010) comes well after other deadlines reviewed here. It would not be surprising, however, if Congress were to act on CBTPA more or less concurrently with the other expiring preference programmes, including GSP (reviewed above in section II.A.3) and the Andean preferences (discussed in section III.A.3).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

**TABLE 5**  
**UNITED STATES: TARIFF TREATMENT OF IMPORTS FROM**  
**LATIN AMERICA AND THE CARIBBEAN BY COUNTRY, 2008**

(Millions of dollars, customs value, imports for consumption)

FTA partners	Imports (US\$ million)	Dutiable share	Average tariff on:	
			Total	Dutiable
Mexico	216 328.4	3.8	0.1	2.5
Chile	8 182.3	5.0	0.2	3.2
Peru <sup>a</sup>	5 839.9	5.7	0.1	1.8
Honduras	4 056.7	7.2	0.9	12.6
Dominican Republic	3 953.9	5.0	0.4	9.0
Costa Rica <sup>a</sup>	3 926.4	5.6	0.3	4.8
Guatemala	3 441.6	19.1	2.6	13.6
El Salvador	2 227.0	10.7	1.4	13.0
Nicaragua	1 707.4	12.2	1.7	14.0
<b>Regional preferences</b>				
Colombia <sup>b</sup>	13 058.8	8.0	0.1	0.7
Ecuador	9 043.8	12.5	0.0	0.4
Trinidad and Tobago	8 996.4	11.1	0.0	0.2
Jamaica	704.2	3.0	0.0	0.5
Bahamas	595.7	14.8	0.2	1.1
Haiti	449.7	1.7	0.2	12.2
Panama <sup>b</sup>	373.7	9.7	0.3	2.7
Belize	157.1	1.3	0.0	2.8
Guyana	145.8	1.0	0.0	1.0
Saint Kitts and Nevis	54.3	5.7	0.1	1.8
Saint Lucia	41.6	7.3	0.1	1.0
Barbados	40.8	6.6	0.2	3.2
Grenada	7.3	12.2	0.2	1.4
Antigua and Barbuda	5.0	5.9	0.1	2.2
Dominica	2.3	54.8	5.6	10.2
Saint Vincent and the Grenadines	1.0	11.1	2.2	20.2
<b>GSP beneficiaries</b>				
Venezuela (Bolivarian Republic of)	50 281.2	55.7	0.1	0.1
Brazil	30 060.7	41.4	1.3	3.2
Argentina	5 680.3	49.3	0.9	1.8
Bolivia (Plurinational State of) <sup>c</sup>	540.4	12.8	0.4	3.4
Uruguay	243.9	39.9	1.5	3.7
Suriname	126.3	0.8	0.0	2.6
Paraguay	81.3	6.8	0.7	10.0
<b>Subject to sanctions</b>				
Cuba	<0.1	0.0	0.0	0.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

<sup>a</sup> Costa Rica's status as a CAFTA-DR partner did not take effect until 1 January 2009, and the FTA with Peru did not enter into effect until 1 February 2009. The data shown for these two countries therefore reflect tariff treatment of their goods under the Caribbean Basin and Andean preferences, respectively, rather than their FTAs.

<sup>b</sup> The FTAs with Colombia and Panama are still pending approval in the United States Congress.

<sup>c</sup> The Plurinational State of Bolivia received Andean Trade Preference Act (ATPA)/Andean Trade Promotion and Drug Eradication Act (ATPDEA) preferences until it was suspended from the programme in October 2008.

**BOX 1****UNITED STATES TRADE RELATIONS WITH BRAZIL: A SPECIAL CASE**

One of the peculiarities of inter-American trade relations is the somewhat tangential manner in which the United States and Brazil approach mutual trade relations. These two countries account for large shares of trade in the hemisphere and each plays a major role, yet their direct relations with one another are played out more at the multilateral than at the regional level.

A look at the total magnitude of inter-American trade (defined here as all trade between Latin American countries and between the United States and the region)<sup>a</sup> shows that the United States is a party to almost two thirds of it (65.6%) and Brazil is involved in 11.8% of the transactions. Yet, despite their great weight in the regional total, trade between the United States and Brazil accounts for 15.7% of Brazil's trade (as against 22.3% that is conducted with the rest of the region) and, even though Brazil is the United States' third largest partner in the region, it accounts for just 1.6% of that country's trade. In other words, bilateral trade between the United States and Brazil amounts to only 4.8% of all inter-American trade. That is one reason why these countries each tend to devote more attention to their relations with other countries in the region than they do to trade with one another. Rivalries between the two figured prominently among the political dynamics that contributed to the demise of the FTAA negotiations.

As a general rule, WTO remains the main forum for trade relations between the United States and Brazil and is the prism through which most United States trade policymakers see relations with Brazil. Interestingly enough, Brazil is targeted in some of the other high-profile matters in United States trade and trade-related policy. This includes the views held by some policymakers that middle-income countries should not continue to receive preferential access under GSP unless they become more cooperative in the WTO negotiations, the controversy over the "Buy American" provision and competition with the BRICs, as well as concerns that emerging industrial economies will undermine the measures aimed at halting climate change.

<sup>a</sup> Calculations are based on the International Monetary Fund's Direction of Trade Statistics series.

## **1. Implementation and revisions of NAFTA**

Mexico was the first Latin American country to sign a free trade agreement (NAFTA) with the United States. The evolving trade relationship between both countries over the last fifteen years under NAFTA may serve as a useful case study for other current or potential FTA partners in the region, as it illustrates the types of issues that still exist even after a comprehensive agreement is reached.

As Mexico is the United States' third-largest trading partner after Canada and China, it is unsurprising that disputes have arisen between the two partners since NAFTA came into effect in 1994. In addition to numerous but relatively minor disagreements over antidumping (AD) measures and countervailing duties (CVD), there are also a few more serious sources of friction in the relationship. One concerns the failure of the United States to abide by a commitment that it made under NAFTA, and the other is the stated interest of the United States in renegotiating certain aspects of the agreement.

### **i) The unresolved trucking services issue resulted in Mexico taking retaliatory measures**

Of the 60 complaints that the United States or Mexico have brought against each other under the NAFTA dispute-settlement arrangements since 1995, only one was not either an AD or a CVD case: Mexico's complaint in the long-running trucking case, which has spanned three United States and three Mexican presidencies. At issue here is whether the United States will honour a commitment that it made in its NAFTA services schedule, which specified that "three years after the date of signature of this Agreement, [Mexican persons may provide] cross-border truck services to or from border states (California, Arizona, New Mexico and Texas)," and that this commitment would extend to all states in 2000, six years after the agreement entered into force. Opponents in Congress have tried from the very start of the agreement to dilute or delay implementation of this commitment. Prior to 2009, the issue was at least partially settled through the United States Federal Motor Carrier Safety Administration's

implementation of a pilot programme that allowed some Mexican truckers to operate vehicles in the United States. That compromise was undone by the Omnibus Appropriations Act of 2009, section 136 of which prohibited the use of funds "to establish, implement, continue, promote or in any way permit" a demonstration programme of this sort.<sup>16</sup>

Having exhausted its options under the NAFTA dispute-settlement mechanism, and in response to the United States having reneged even on the compromise programme, Mexico retaliated. In March 2009 Mexico imposed penalty duties ranging between 10% and 45% on 89 products from the United States. At the time of writing, the United States has not restarted the trucking programme and Mexico has not lifted its retaliatory duties.

### ii) Renegotiation of NAFTA provisions is not imminent

During his candidacy, President Obama expressed interest in renegotiating NAFTA's labour and environmental provisions, which aroused concerns not just in Mexico but also in Canada. Nonetheless, since taking office he has made visits to both countries, and while he did not formally renounce this position he did not emphasize it, either. It appears that this election-year proposal might fade away with time.

## 2. Free trade agreement with Panama

The pending FTAs with Colombia, the Republic of Korea and Panama were all concluded by the Bush administration before the expiration of the last grant of TPA, and can thus be considered under the special rules of that mechanism. The delays that each of these agreements have encountered offer proof that while TPA gives procedural advantages to the approval of an agreement, it does not guarantee that an agreement will be submitted for approval, voted on or ultimately approved.

The opponents of the FTA with Panama express concerns over labour rights and the country's tax and banking policies. The United States Trade Representative is attempting to negotiate a solution to these concerns with Panamanian authorities.

The United States-Panama FTA was finalized in December 2006, but has since been delayed for two reasons. In 2007-2008 both the Bush administration and the candidates for the Democratic presidential nomination agreed that the FTA should not be submitted while a diplomatic dispute remained unsettled.<sup>17</sup> Although the dispute is now resolved, the opponents of this FTA have shifted their focus to concerns over labour rights and the banking system in Panama.

The United States Trade Representative (USTR) is attempting to negotiate a solution to the concerns raised in Congress. In testimony before the Senate Finance Committee on 20 May 2009, the Assistant USTR for the Americas, Everett Eissenstat, stated that USTR has "been working with Panama to address labour law concerns and looks forward to anticipated legislative and regulatory action by Panama that fully captures the intent and values of the Agreement's labour provisions," and also that the agency "share[s] concerns expressed about Panama's tax policies and [is] working with Panama to address these issues."<sup>18</sup> The administration does not intend to submit the FTA for approval until it has reached an agreement with Panama on those issues.

## 3. Andean countries: pending FTA and expiring preferences

The Obama administration inherited a number of policy decisions from its predecessor regarding trade with the Andean countries:<sup>19</sup> first, how to handle the pending FTA between the United States and Colombia; second, how to proceed over Colombia's preferences under ATPA if the FTA-approval debate

<sup>16</sup> The basis for this given by United States legislators was that Mexican trucks would not offer high enough safety standards.

<sup>17</sup> At issue was a United States criminal indictment against a leader of the Panamanian legislature, who no longer holds that position.

<sup>18</sup> See testimony [online] at [http://www.ustr.gov/assets/Document\\_Library/Transcripts/2009/May/asset\\_upload\\_file918\\_15660.pdf](http://www.ustr.gov/assets/Document_Library/Transcripts/2009/May/asset_upload_file918_15660.pdf).

<sup>19</sup> Note that for purposes of United States trade policy, "Andean countries" do not include the Bolivarian Republic of Venezuela or Chile.

extends beyond 2009; third, how to proceed on Ecuador's ATPA benefits (which are due to expire on 30 June 2009); and fourth, a course of action on Bolivia's currently suspended ATPA preferences.

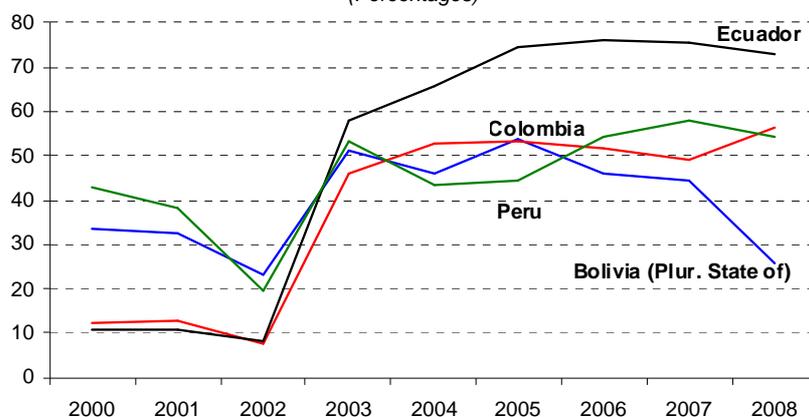
These decisions are only partly economic in nature. The United States has used trade preferences as a tool in its political relations with Andean countries since at least 1991, when ATPA was introduced to encourage diversification away from narcotic crops in recipient countries. The links between trade, security and diplomacy have grown closer since then, as manifested in the expanding scope of United States goals (anti-narcotics efforts are now joined to anti-terrorism), the move from autonomous preferences to formal FTAs, concerns over labour rights in Colombia, and recent political tensions with the Plurinational State of Bolivia and with Ecuador.

Figure 7 summarizes the pattern of United States trade preferences for Andean countries over the past decade. The original ATPA preferences enacted in 1991 offered more generous treatment than GSP, but did not cover major items such as oil and apparel products. That was remedied with the enactment of the Andean Trade Partnership and Drug Eradication Act of 2002 (ATPDEA), which caused a surge in the proportion of Andean goods entering the United States under preferences. It was nonetheless indicated to the Andean countries that these preferences were temporary and should be replaced by a subregional FTA with the United States. That goal shifted, however, as the Plurinational State of Bolivia never joined in the talks, and negotiations with Ecuador were interrupted in 2006. The result was a pair of bilateral FTAs: one with Peru that entered into force in February 2009, and one with Colombia that is still awaiting ratification in the United States.

The FTA with Colombia may prove to be the most difficult one to resolve, as this agreement faces substantial opposition from labour unions and many Democrats in Congress.

The Obama administration is still developing its approach to Colombia. Despite pressure from labour unions and even from within the Democratic Party to abandon the FTA signed in November 2006, President Obama made a commitment to President Uribe at the April 2009 Summit of the Americas to find a way to approve the agreement. That undertaking is now being tested through bilateral consultations. The Obama administration will likely seek to negotiate some additional wording with Colombia to strengthen the labour and environmental provisions of the agreement, so as to garner the required support in Congress. In the meantime, Colombia enjoys preferential access to the United States market under the ATPA/ATPDEA programmes; but those preferences are scheduled to expire after 31 December 2009, and Congress would have to enact a new law to renew them.

**FIGURE 7**  
**UNITED STATES: SHARE OF IMPORTS FROM ANDEAN COUNTRIES ENTERING UNDER ATPA/ATPDEA**  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

ATPA preferences were withdrawn from the Plurinational State of Bolivia in November 2008 and Ecuador's status is due for renewal at the end of 2009.

The deadlines for Ecuador were even tighter, since the country's preferences under ATPA had been scheduled to expire on 30 June 2009 unless President Obama certified that it had met a series of conditions laid out in United States law. The administration did determine that the conditions had been met in time for the deadline, but the decision to renew Ecuador's preferences simply postponed consideration of the issue for another six months, since the statutory authorization for the programme itself will expire at the end of 2009. The loss of ATPA preferences would seriously impair Ecuador's access to the United States market: it has shipped a higher share of its goods to the United States under ATPA than any other beneficiary (see figure 7), and table IV.6 shows that only a few of its leading ATPA products could alternatively receive duty-free treatment under GSP. Products such as tuna and frozen vegetables would be subject to very high MFN duties if Ecuador were to lose its ATPA preferences.

Conversely, in the case of the Plurinational State of Bolivia, the data in table IV.6 suggest that the country's full suspension from ATPA in November 2008 — a status left unchanged by the findings of the Obama administration's review of 30 June 2009 — may have had a smaller impact on market access conditions for its exports to the United States than had been expected. Several of the items that Bolivia had shipped duty-free under ATPA now enter duty-free under GSP instead. The fact that fuel oil is not GSP-eligible is not a very great loss, since the margin of preference for this item is almost negligible. Nevertheless, the loss of ATPA has had a serious impact on Bolivian exporters of cotton sweaters, which are now subject to a 16.5% MFN duty.

**TABLE 6**  
**UNITED STATES: MAIN IMPORTS FROM THE PLURINATIONAL STATE OF**  
**BOLIVIA AND ECUADOR ENTERING UNDER ATPA/ATPDEA, 2008**

(Imports for consumption, customs value)

	Imports (US\$ 1000)	MFN Tariff
<b>Plurinational State of Bolivia</b>		
<i>Products eligible for GSP:</i>		
7113.19.50: Precious metal (other than silver) articles of jewellery and parts	13 258	5.5%
7116.20.15: Jewellery articles of precious or semiprecious stones, over US\$ 40/piece	7 768	6.5%
7113.19.29: Gold necklaces and neck chains (other than of rope or mixed links)	6 771	5.5%
7108.13.70: Gold, nonmonetary, in semi-manufactured forms (except gold leaf)	6 592	4.1%
7113.11.50: Silver articles of jewellery and parts thereof, valued over US\$ 18/dozen	5 739	5.0%
7113.19.30: Precious metal (other than silver) clasps and parts thereof	4 314	5.8%
7113.19.21: Gold rope necklaces and neck chains	3 429	5.0%
4418.20.80: Doors of wood, other than French doors	2 913	4.8%
<i>Products not eligible for GSP:</i>		
2710.19.10: Distillate and residual fuel oil derived from petroleum oils	71 607	0.1%
6110.20.20: Sweaters, pullovers and similar articles, knitted or crocheted, of cotton	2 857	16.5%
<b>Ecuador</b>		
<i>Products eligible for GSP:</i>		
0603.19.00: Fresh cut Anthuriums, Alstroemeria, Gypsophila, etc.	60 694	6.4%
4412.32.31: Plywood sheet not over 6 millimetres thick	15 668	8.0%
0714.90.10: Fresh or chilled dasheens	11 837	2.3%
<i>Products not eligible for GSP:</i>		
2709.00.10: Petroleum oils and oils from bituminous minerals, crude, under 25°	6 080 386	0.1%
2710.11.25: Naphthas from petroleum oils & bituminous minerals	107 641	0.1%
0603.11.00: Sweetheart, Spray and other Roses, fresh cut	70 635	6.8%
1604.14.30: Tunas and skipjack, not in oil, in airtight containers, over quota	70 067	12.5%
2710.19.05: Distillate and residual fuel oil derived from petroleum or oils	31 085	0.1%
0710.80.97: Vegetables, frozen, reduced in size	20 909	14.9%
0804.30.40: Pineapples, fresh or dried, not reduced in size	12 106	2.5%

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

Note that some product descriptions are abbreviated for reasons of space. The tariff rates shown for petroleum and derivatives, and also for pineapples, are ad valorem equivalents based on average prices for non-preferential United States imports in 2008.

#### 4. The negotiation of new or interconnected FTAs

Do the pending FTAs with Colombia, Panama and the Republic of Korea represent the last in a series of recent FTAs, or will the Obama administration negotiate new agreements? If the answer to this question were to be based solely on the themes of the 2008 presidential election, it would appear to be an emphatic "no". Now that the administration has taken office, however, there are growing signs that it may see value in additional FTAs.

One such sign came in a policy address delivered by the USTR, Ron Kirk, on 23 April 2009. Without further elaboration, he stated that, "When it's time to strike new trade deals, we'll seek bigger ones that access major markets for American workers, farmers, ranchers, manufacturers, and service providers."<sup>20</sup> This statement seems to imply that the current administration will negotiate new trade agreements, although the timing is left open. It also appears to be in line with congressional criticism of the FTAs negotiated under the Bush administration, to the effect that these were driven more by diplomatic goals than commercial imperatives. If and when the current administration proposes new FTAs, it is thus more likely to target larger trading partners that offer greater potential for increasing exports. That would suggest looking outside the western hemisphere.

The United States could pursue simplification of rules of origin, pooling of origin or co-production arrangements among its FTA partners.

Another possibility is to negotiate a new arrangement among the existing FTA partners in order to meld these agreements together. Within the Americas, this approach could provide an opportunity to move from a "hub and spoke" model, in which the United States has numerous but separate FTAs, to one in which the many different agreements are rationalized. One of the chief tasks for such a negotiation would be to harmonize the diverse rules of origin among the different agreements, to encourage regional co-production and reduce the complexity of regional operations.<sup>21</sup> The talks being held between the United States and its FTA partners in the framework of the Pathways to Prosperity in the Americas Initiative could also lead to some arrangement whereby the rules of origin among these various agreements are modified to allow for simplification or pooling of origin and co-production arrangements.

USTR takes cautious steps towards trans-Pacific trade cooperation

While there are as yet no firm proposals for such negotiations between the United States and its FTA partners in Latin America and the Caribbean, there is a more geographically diverse initiative that could set a precedent. The Trans-Pacific Strategic Economic Partnership Agreement (TPP, formerly known as P4) dating from 2005 currently encompasses Brunei Darussalam, Chile, New Zealand and Singapore; and negotiations for the United States to join the Agreement were announced in September 2008. The scope of these talks expanded in the transition period between the November, 2008 election and the inauguration of President Obama in January 2009, and USTR informed Congress in December 2008 that Australia, Peru and Viet Nam would also participate in the negotiations. Nonetheless, the first round of negotiations, scheduled for March 2009, was postponed to allow the new United States administration time to conduct a general review of United States trade policy.

It is not yet certain whether or in what form the TPP initiative will proceed. In May 2009 reports in the New Zealand press suggested that President Obama had commented favourably on the initiative in a discussion with Prime Minister John Key. USTR Kirk has also made some tentative but positive statements about the matter. Assuming that the Obama administration does announce its desire to

<sup>20</sup> See [online] <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2009/april/remarks-ambassador-ron-kirk-georgetown-univers>.

<sup>21</sup> For a discussion of related issues see Antoni Estevadeordal and Kati Suominen (2009).

proceed with negotiations, they could take several different forms. The most difficult question may be whether Viet Nam should be invited to negotiate full FTA status, which could be problematic since it is now a major supplier of apparel to the United States. Even if the negotiations were limited to an effort to coordinate the United States' existing FTAs with Australia, Chile, Peru and Singapore, however, they could set an important precedent for further melding of FTAs that are already operating.

## 5. Prospects for renewed trade relations with Cuba

Cuba is the only western hemisphere country that does not enjoy any form of preferential access to the United States market, and in fact is subject to sanctions that prohibit most trade with the United States. The Obama administration has signalled its interest in relaxing or even lifting the sanctions that remain in place, and it has taken limited steps in that direction. Further liberalization will depend on developments in Cuba and on political constraints within the United States.

**TABLE 7**  
**UNITED STATES: EXPORTS TO CUBA, 2000-2008**

*(Domestic exports, f.a.s., millions of dollars)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agricultural products	0.0	2.3	70.7	114.7	155.0	148.6	163.3	224.1	408.7
Food and related products	0.0	1.7	66.5	132.9	222.5	186.5	164.3	192.8	259.8
Beverages and tobacco	0.0	0.0	0.0	0.3	0.2	1.2	0.0	13.6	21.6
All other	6.7	2.8	6.8	11.0	21.6	25.2	19.9	16.5	27.5
Total	6.7	6.9	144.1	258.9	399.3	361.4	347.5	447.0	717.7

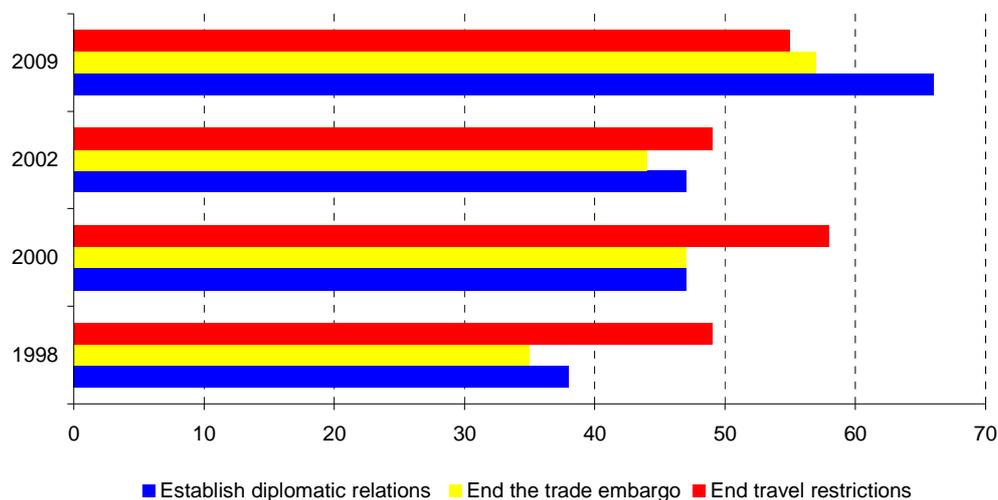
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

The restrictions on economic relations between the United States and Cuba have evolved over the decades, sometimes tightening and sometimes loosening. Those shifts have variously responded to changes in the strategic environment, as well as a continuing struggle between groups in the United States that oppose trade with Cuba on political grounds and those that favour it for economic reasons (for example, the agriculture sector and the travel industry). The Trade Sanctions Reform and Export Enhancement Act of 2000 removed some export restrictions, but none of the import bans, by allowing the sale of agricultural goods and medicine to Cuba. Table 7 depicts the gradual growth of United States exports to Cuba in the years since the export restrictions were eased. As of 2008, Cuba was the seventh-largest market in the region for United States exports of agricultural products.

President Obama signed an Act easing restrictions on travel and remittances to Cuba.

During his candidacy, President Obama stated that he would consider easing the embargo on Cuba. Since taking office, he has taken a step in this direction by signing into law, on 11 March 2009, the Omnibus Appropriations Act of 2009. Section 621 of this legislation effectively ends the restrictions on travel to Cuba by United States citizens and residents who have relatives in that country.

**FIGURE 8**  
**UNITED STATES: PUBLIC OPINION IN FAVOUR OF CERTAIN**  
**ACTIONS REGARDING RELATIONS WITH CUBA**



Source: Washington Post, "News Poll" [online] [http://www.washingtonpost.com/wprv/politics/polls/postpoll\\_042609.html](http://www.washingtonpost.com/wprv/politics/polls/postpoll_042609.html), 21-24 April 2009.

There are several legislative proposals that the administration could support, should it wish to move in this direction,<sup>22</sup> particularly those introduced by the chairs of the trade committees in the House and Senate.<sup>23</sup>

The chances of enacting such legislation will depend partly on political developments within Cuba and the overall state of relations between that country and the United States. It will also depend on the ongoing struggle between the pro- and anti-embargo forces within the United States. The survey findings shown in figure 8 suggest that United States public opinion has been gradually moving in the anti-embargo direction. There is also evidence to suggest that the same trends are at work among the Cuban exile community: one recent survey showed that while 42% of Cuban-Americans wanted the embargo to continue, 43% wanted to see it end (Bendixen and Associates, 2009). These results suggest that, should the Obama administration decide to make further moves towards normalizing political and economic relations with Cuba, it might face only limited opposition.

<sup>22</sup> The Chairman of the House Ways and Means Committee, Charles Rangel (Democrat-New York), has introduced three bills on the subject. One (H.R.1528), which has ten co-sponsors, would lift the travel ban. Rangel's second bill (H.R.1530) would lift the trade embargo altogether; this bill has nine co-sponsors. His third bill (H.R.1531), also with nine co-sponsors, among other things would remove impediments to the export of medical devices and medicines to Cuba, allow travel to Cuba by United States legal residents, and establish an agricultural export promotion programme with respect to Cuba. Chairman Max Baucus (Democrat-Montana) of the Senate Finance Committee is the counterpart to Chairman Rangel in the Senate. He is the chief sponsor of a bill (S.1089) which inter alia facilitates the export of agricultural commodities and products, establishes an agricultural export promotion programme, removes impediments to the export of medical devices and medicines to Cuba, allows travel to Cuba, and establishes an agricultural export promotion programme. That bill has 16 co-sponsors. Other bills sponsored by various legislators include H.R.874 allowing travel between the United States and Cuba; H.R.1737 facilitating the sale of agricultural products to Cuba; H.R.2272 lifting the trade embargo, and S.428 allowing travel between the United States and Cuba.

<sup>23</sup> The number of legislators who choose to co-sponsor a bill is an indicator of the seriousness of support for a proposal. The same may be said for the level of the sponsors (committee chairmen and other high-ranking legislators have more influence) and the diversity of legislators (bipartisan sponsorship is considered a good sign).

## B. The broader hemispheric agenda

Regional trade negotiations centred on the Free Trade Area of the Americas (FTAA) project were the principal driving force in inter-American cooperation for a decade. In recent years, however, the FTAA negotiations encountered increasing difficulties, and were eventually ended. The only reference to trade in the Declaration signed by the Heads of State and Government at the Fifth Summit of the Americas (Port of Spain, April 2009) came in a paragraph that observed,

*We recognize the positive contribution of trade among our nations to the promotion of growth, employment and development. We therefore continue to insist on an open, transparent and rules-based multilateral trading system. We further recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates.*<sup>24</sup>

The lack of a reference to FTAA constitutes an acknowledgment of its failure and a recognition that it would be impossible to resume the negotiations in the current conditions.

In the period 2003-2007 trade relations between the United States and its partners in the region were conducted primarily at the bilateral and subregional level, thereafter mainly through multilateral negotiations. Only the middle segment—regional negotiations for a hemispheric agreement—has been set aside.

Trade negotiations should no longer be viewed the engine that drives the rest of hemispheric agenda: the abandonment of FTAA does not prevent hemispheric cooperation.

On the broader hemispheric agenda, it is argued here that the demise of FTAA should not mean that the United States, Latin America and the Caribbean need to abandon cooperative endeavours in their many other areas of common interest. It is true that some of the issues on the agenda are closely related to trade policy, such as energy security and financial regulation, and others are at least indirectly connected (such as workforce development and climate change). Yet, tacitly or explicitly linking them to trade negotiations may distort and delay the process of devising and funding specific programmes.

This is not to say that there should be no role for summitry in trade policy. The recent meeting in April in Trinidad and Tobago offered two examples of how the Summit of the Americas may productively serve as an action-forcing event in the context of United States trade relations. Although the United States-Colombia FTA and the economic sanctions on Cuba were not formally a part of the agenda, the summit prompted the Obama administration to advance its review of the issues and to make at least tentative commitments.

Nonetheless, trade might not be considered the chief topic for these meetings, at least for the foreseeable future. That issue is better handled in other forums for the time being, while summits focus on other issues on the hemispheric agenda. This can best be seen not as a complete decoupling of the agenda from trade, but a recommendation that trade negotiations no longer be viewed as the engine that drives everything else. There is ample scope for productive trade cooperation between the United States and the Latin American and Caribbean region on issues such as trade facilitation, aid for trade and the implementation of existing agreements, among others. The creation of hemispheric programmes to fund some of these activities could help improve the overall climate for regional cooperation.

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<sup>24</sup> See [online] [http://www.summit-americas.org/V\\_Summit/decl\\_comm\\_pos\\_en.pdf](http://www.summit-americas.org/V_Summit/decl_comm_pos_en.pdf).

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