ANALYSIS OF ECONOMIC, TRADE AND COOPERATION RELATIONS OF LATIN AMERICA AND THE CARIBBEAN WITH THE UNITED STATES OF AMERICA*

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A DOSSIER ABOUT LAW AND ECONOMICS

* This article is a condensed adaptation of a report by the same title issued by the *Latin American Economic System* (SELA). The sections presented here deal principally with trade and investment. The full report offers further detail on those issues, and also deals with other areas of international economic relations (*e.g.*, immigration and foreign assistance). It is available on-line at: <http://www.sela.org/media/2465350/craig-vangrasstek-def-07-09-17-mm.pdf>.

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I. INTRODUCTION

If the principal trends in U.S. economic relations with the region had to be reduced to a single sentence, it would be this: After a few decades of pursuing initiatives aimed at to promoting closer inter-American economic relations, which met with widely varying degrees of success, the United States is now drifting away from its southern partners. This can be seen not just in the economic data, which show that trade has stagnated and U.S. investment capital is being redirected to other regions, but also in the reversal of trade initiatives. During 1991-2006 the United States negotiated free trade agreements (FTAs) with eleven countries in the region, and also attempted to conclude a Free Trade Area of the Americas. There have been no new bilateral or sub-regional FTAs reached since then, and the new U.S. government threatens to move in just the opposite direction. It has already withdrawn the United States from one major, pending trade agreement in which three Latin American countries are members, demanded the renegotiation of another agreement, and ordered a review of the rest. Actions in other areas, such as demands for a wall on the U.S.-Mexican border and proposals to cut foreign assistance, reinforce this trend towards economic disengagement.

Economic relations between the United States and its Latin American and Caribbean partners have thus been drifting apart, and there is every reason to expect that they will become more estranged and contentious in the coming years. This analysis elaborates on that general point, based on the established economic trends as well as the stated goals of the new U.S. government.

II. U.S. TRADE AND INVESTMENT WITH LATIN AMERICA AND THE CARIBBEAN

1. Trends in trade

Even after accounting for the downturn in the 2008-2009 crisis, total merchandise trade (i.e., imports plus exports) between the United States and Latin American and Caribbean countries rose from $228 billion 1996 to $782 billion in 2012. That was a compound rate of growth of 8% per year. The total then dropped to $696 billion in 2016, an 11% decrease from 2012. The decline in trade is not unique to U.S. imports from the region; imports from the rest of the world fell by 6% from 2012 to 2016. Nor indeed is this trend restricted to the United States. Numerous commentators have noted a recent drop-off in global trade, variously attributing it to slower growth, lower prices, and more protectionism.

Table 1 offers a snapshot of U.S. merchandise imports from the region in 2016. Tariffs on U.S. imports from the region are a small and declining factor in those relations. Whereas close to one-quarter of all Latin American and Caribbean exports to the United States was still dutiable in 1996, this had fallen to less than 10% in 2016. Average U.S. tariffs from all partners were cut substantially in the Uruguay Round of trade negotiations, the results of which were phased in during 1995-2005, and duties fell even faster for imports from Latin American and Caribbean countries. That point is especially important for the FTA partners of the United States, for whom average tariffs are now down to just 0.2%, but most other countries in the region likewise face low tariff barriers. There are only seven countries that faced average tariffs of 1% or more in 2016. They included two FTA partners for whom some apparel exports are still conducted outside the scope of the agreement (i.e., Guatemala and Nicaragua); four countries that were still beneficiaries of preferences in 2016 (i.e., the Bahamas, Brazil, Haiti, and Uruguay); and one country that had been removed from preferences (i.e., Argentina). Taken as a whole, the average tariff on all U.S. imports from the region was just 0.3% in 2016 (down from 3.1% in 1990); the average tariff on those products that were still subject to duty was 2.8% (down from 4.4% in 1990).

Table 1 – Tariff treatment of U.S. imports from Latin America and the Caribbean countries, 2016

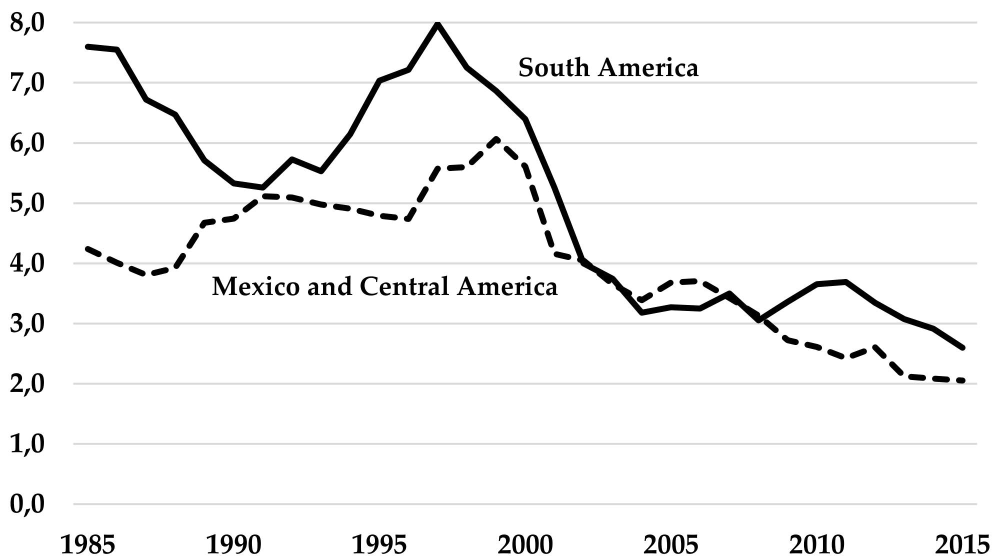
(thousands of current dollars and percentages)

		Dutiable Imports			Average Tariffs On	
	Total Imports	Value	Share	Duties Paid	Total	Dutiable
FTA Partners	**345,313,987**	**18,190,045**	**5.0%**	**558,177**	**0.2%**	**3.1%**
Chile	8,848,962	160,099	1.8%	4,456	0.1%	2.8%
Colombia	13,805,930	3,039,076	22.0%	9,389	0.1%	0.3%
Costa Rica	4,332,321	111,941	2.6%	3,835	0.1%	3.4%
Dominican Rep.	4,649,066	207,171	4.5%	11,379	0.2%	5.5%
El Salvador	2,480,231	108,683	4.4%	15,842	0.6%	14.6%
Guatemala	3,925,631	374,179	9.5%	57,043	1.5%	15.2%
Honduras	4,544,676	147,557	3.2%	20,717	0.5%	14.0%
Mexico	292,836,207	13,125,007	4.5%	344,524	0.1%	2.6%
Nicaragua	3,273,096	491,090	15.0%	84,223	2.6%	17.2%
Panama	397,786	19,855	5.0%	379	0.1%	1.9%
Peru	6,220,081	405,387	6.5%	6,390	0.1%	1.6%
Preferential	**47,661,306**	**16,351,371**	**34.3%**	**379,653**	**0.8%**	**2.3%**
Bahamas	296,207	35,318	11.9%	4,623	1.6%	13.1%
Barbados	48,951	4,529	9.3%	123	0.3%	2.7%
Belize	59,013	2,837	4.8%	68	0.1%	2.4%
Bolivia	974,538	67,513	6.9%	919	0.1%	1.4%
Brazil	25,875,697	6,345,359	24.5%	249,995	1.0%	3.9%
Ecuador	5,933,480	3,524,431	59.4%	35,033	0.6%	1.0%
Guyana	434,064	1,574	0.4%	76	<0.1%	4.8%
Haiti	895,200	247,676	27.7%	56,005	6.3%	22.6%
Jamaica	300,423	6,031	2.0%	204	0.1%	3.4%
Paraguay	150,231	11,290	7.5%	638	0.4%	5.7%
Suriname	60,716	4,590	7.6%	59	0.1%	1.3%
Trinidad & Tob.	2,895,608	390,373	13.5%	3,651	0.1%	0.9%
Uruguay*	535,074	233,146	43.6%	11,605	2.2%	5.0%
Venezuela*	9,202,106	5,476,703	59.5%	16,654	0.2%	0.3%
Non-Preferential	**4,645,811**	**2,869,674**	**61.8%**	**115,829**	**2.5%**	**4.0%**
Argentina	4,645,811	2,869,674	61.8%	115,829	2.5%	4.0%
Total	**397,621,104**	**37,411,090**	**9.4%**	**1,053,659**	**0.3%**	**2.8%**

Source: calculated from U.S. International Trade Commission DataWeb. Available at: <https://dataweb.usitc.gov>.

* Note that Uruguay and Venezuela both received GSP treatment in 2016, but lost this status as of January 1, 2017.

Figure 1 – Share of U.S. foreign direct investment in Latin America, 1985-2015
(percentages of U.S. total)



Source: Bureau of Economic Analysis. Available at: <https://www.bea.gov/itable/index.cfm>.

2. Trends in investment

The decline in inter-American trade has been complemented by a relative fall in U.S. foreign direct investment in the region. Figure 1 shows that the region's share of U.S. international capital actually began to decline at about the same time that the United States started to negotiate FTAs with selected Latin American partners. As of 1995, when NAFTA entered into effect, 4.8% of U.S. investment went to Mexico and Central America; by 2015, the share in these countries fell to 2.1%. The South American share peaked at 8.0% in 1997, several years before U.S. FTA negotiations reached that continent, but in 2015 they hosted just 2.6% of U.S. foreign direct investment.

Table 2 offers more detailed data on the direction of U.S. investment capital in the region, drawing distinctions between countries according to their trade and investment agreements with the United States. Unlike the data illustrated in Figure 1, which concern the region's relative share of that capital, here investments are measured in absolute terms. No matter what its relationship with the United States, virtually every Latin American country saw the rate of U.S. foreign direct investment rise more slowly during 2000-2015 than it had in 1985-2000. Taken as a whole, the rate of increase for U.S. investment in the region was almost ten times greater in 1985-2000 than it would be in 2000-2015. While the experiences of specific countries varied, one rule is nearly universal: Except for Honduras, every country in the region saw U.S. investment rise faster in the earlier period than it did in the later years. Several countries actually saw total U.S. investment decline during 2000-2015. Looking specifically at that more recent period, here was no clear pattern among the recipients. In some cases, investments went up sharply for countries with which the United States has a BIT (*e.g.*, Uruguay), an FTA (*e.g.*, El Salvador), or both (*e.g.*, Honduras). One might also cite contrary cases in which investments actually declined, despite the fact that the country in question had a BIT (*e.g.*, Ecuador), an FTA (*e.g.*, Costa Rica), or both (*e.g.*, Panama). Taken as a whole, the data support the point that capital flows are not determined solely or even principally by the legal relationship between the parties.

Table 2 – U.S. foreign direct investment in Latin America and the Caribbean, 1985-2015
(millions of current U.S. dollars)

	1985	2000	Change 1985-2000	2010	2015	Change 2000-2015
FTA & BIT Partners	**4,238**	**31,157**	**635.2%**	**6,092**	**5,230**	**-83.2%**
Honduras	169	399	136.1%	936	1,175	194.5%
Panama	4,069	30,758	655.9%	5,156	4,055	-86.8%
FTA Partners (No BIT)	**9,893**	**60,601**	**512.6%**	**137,162**	**139,925**	**130.9%**
Chile	255	10,052	3,842.0%	30,747	27,331	171.9%
Colombia	2,188	3,693	68.8%	6,181	6,157	66.7%
Costa Rica	123	1,716	1,295.1%	1,827	1,521	-11.4%
Dominican Republic	227	1,143	403.5%	1,432	1,357	18.7%
El Salvador	77	540	601.3%	2,599	2,605	382.4%
Guatemala	211	835	295.7%	1,110	1,100	31.7%
Mexico	5,417	39,352	626.5%	85,751	92,812	135.9%
Nicaragua	27	140	418.5%	319	183	30.7%
Peru	1,368	3,130	128.8%	7,196	6,859	119.1%
BIT Partners (No FTA)	**3,143**	**19,109**	**508.0%**	**14,259**	**15,324**	**-19.8%**
Argentina	2,698	17,488	548.2%	11,747	13,323	-23.8%
Ecuador	352	832	136.4%	1,283	429	-48.4%
Uruguay	93	789	748.4%	1,229	1,572	99.2%
All Other Partners	**10,911**	**48,070**	**340.6%**	**77,887**	**74,963**	**55.9%**
Bolivia	201	403	100.5%	535	489	21.3%
Brazil	9,110	36,717	303.0%	66,963	65,272	77.8%
Paraguay	38	419	1,002.6%	134	134	-68.0%
Venezuela	1,562	10,531	574.2%	10,255	9,068	-13.9%
Total of Above	**28,185**	**158,937**	**463.9%**	**235,400**	**235,442**	**48.1%**

Note: Countries not shown include some for which data are not provided or are incomplete.
Note: Latin American & Caribbean Total includes some countries and territories for which data are suppressed in the source for reasons of business confidentiality, and/or are not SELA Member Countries.
BIT = Bilateral Investment Treaty
Source: Bureau of Economic Analysis. Available at: <https://www.bea.gov/itable/index.cfm>.

III. U.S. FOREIGN ECONOMIC POLICY UNDER THE NEW U.S. GOVERNMENT

1. The anti-globalization backlash

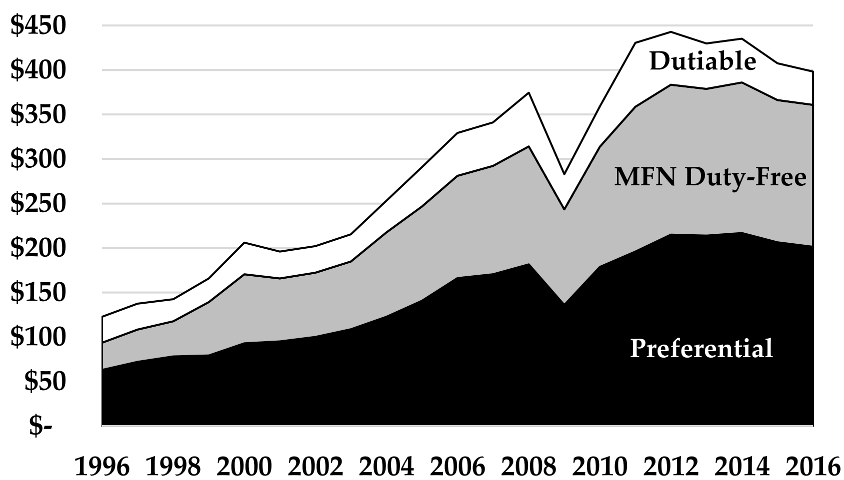
Over the course of the last few administrations, trade relations between the United States and the region have evolved from a simple, two-level distinction to a more variegated array. For many years the only major difference had been between the one country in the region that was subject to embargo (i.e., Cuba) and all of the others that received preferential treatment under the Generalized System of Preferences (GSP) and other programs. That has all changed, as can be appreciated from the U.S. import data in Figure 2. In addition to the negotiation of FTAs between the United States and eleven countries in the region, recent years have also seen the withdrawal of preferential treatment for some countries and the relaxation of sanctions on Cuba. Among the countries that have FTA relations with the United States, we may draw a further distinction. The four that comprise the Pacific Alliance are especially active, participating not only in numerous extra-regional agreements but also in the Trade in Services Agreement (TiSA) negotiations. Three of those four countries also participated in the ill-fated APEC and TPP talks.

Future historians may well conclude that the election of Donald Trump, and the broader backlash against globalization in industrialized countries, constitutes just as great a shock to the world economic system as was the collapse of Communism a generation ago. These latest developments may undo much of what was accomplished in those headier days of the early 1990s, when the global trading system was transformed by the confluence of twin historical forces: The end of the Cold War produced a *peace dividend* for the industrialized countries, and was complemented by the widespread acceptance among developing countries of the pro-market, pro-trade philosophy that was then called the Washington Consensus. This optimistic environment helped to create the World Trade Organization (WTO) and to launch numerous negotiations for FTAs between and among developed and developing countries. The most influential of these was the North American FTA (NAFTA) between the United States, Mexico, and Canada, which came into effect in 1994. NAFTA created a WTO-Plus template that has since inspired a series of agreements in the Americas and elsewhere. The mid-1990s also saw the advent of mega-regional trade negotiations, including the Free Trade Area of the Americas (FTAA) and a planned agreement in the Asia Pacific Economic Cooperation (APEC) forum. These bilateral and regional initiatives were complemented by the launch of the Doha

Round of WTO negotiations in 2001.

Most of those negotiations subsequently ran into severe difficulties. The FTAA and APEC mega-regionals both collapsed in the early years of the twenty-first century, but several of the more ambitious participants in those talks fell back on a series of bilateral negotiations that ultimately coalesced, via a rather circuitous process, in the Trans-Pacific Partnership (TPP). The Doha Round lost momentum in 2003, when it became clear that the United States and the European Union no longer had the authority needed to determine multilateral outcomes. Despite numerous efforts to revive that initiative, most notably in 2008, it now appears dead in all but name. The Washington Consensus gave way to a bifurcation among developing countries, as exemplified by the differing perspectives of the pro-trade Pacific Alliance and the more trade-skeptical Bolivarian Alliance.

Figure 2 – Tariff treatment of U.S. imports from Latin America and the Caribbean, 1996-2016
(billions of current dollars)



Source: calculated from U.S. International Trade Commission DataWeb. Available at: <https://dataweb.usitc.gov>.

The drift away from globalization was thus already underway before 2016, but that year saw it accelerate rapidly. The United Kingdom had been the epicenter of trade liberalization in the nineteenth century, and remained a key advocate of globalization for generations thereafter, but on June 23 the British electorate chose by a narrow margin (51.9-48.1%) to force a *Brexit* from the European Union. And while the United States had long since taken up the former U.K. position as primus inter pares in the trading system, that role was put in doubt by the election on November 8 — albeit by an even smaller margin (46.1% of the popular vote) than the Brexit — of the first frankly protectionist U.S. president since Herbert Hoover left office in 1933. In his January 20, 2017 inaugural address, President Donald Trump gave notice that he was overturning decades of U.S. policy. *Every decision on trade, on taxes, on immigration, on foreign affairs*, he insisted, will henceforth follow an American First principle. Deliberately eschewing the pro-trade rhetoric favored by every predecessor since Franklin D. Roosevelt, the new chief executive insisted that protectionism will *lead to great prosperity and strength*.

Donald Trump may owe his election more to trade than to any other issue. He managed to win the nomination and the general election by running on an unapologetically protectionist platform that defied not only the Republican Party's economic orthodoxy but also the conventional wisdom of U.S. politics, promising to withdraw from the TPP, renegotiate NAFTA, and restrict imports. His campaign strategy was based on the seemingly quixotic premise that he could capture the electoral votes of industrial states that had consistently voted for Democratic presidential candidates since the 1980s. That is precisely what happened, confounding almost universal expectations by moving the *Rust Belt* from the Democratic to the Republican column. The candidate's protectionist positions are widely credited for achieving this most unanticipated result.

The new government already took one momentous step when on January 23 the president withdrew the United States from the Trans-Pacific Partnership (TPP), a pending twelve-country deal whose membership included Chile, Mexico, and Peru. The renegotiation of NAFTA is another top priority. The administration has also suggested from time to time that it may turn to new, bilateral deals, but has yet to suggest any specific partners for those negotiations. It has also left the impression that it would take a very different approach to the negotiation and implementation of new trade agreements, but has yet to specify just what terms it might seek from its partners.

2. The resurgence of protectionism

The discussion above concerns what might be considered the *passive protectionism* by which the new government disavows pending trade agreements, or the semi-passive protectionism by which it demands changes in those agreements that are in force. Those initiatives mean undoing some of the liberalization that its predecessors have achieved over the last quarter century. There is also the threat that it will pursue a more active agenda that results in the imposition of new barriers to trade. Whether active or passive, the new government's protectionism fulfills campaign promises made to U.S. workers who have long considered themselves to be on the losing end of globalization.

The most consequential manifestation of the new government's protectionism may come in the form of *trade remedy* laws. In addition to the antidumping and countervailing duty laws, which are most commonly triggered by petitions from firms, these statutes include two others that have been little used recently and involve a greater exercise of policymakers' discretion: the national security statute and safeguards.

The biggest issue concerns steel. In an April 20, 2017 presidential memorandum for the secretary of commerce, President Trump directed the initiation of a case under the *national security* provision of U.S. trade law.[1] Section 232(b)(1)(A) of the Trade Expansion Act of 1962 provides broad authority for the imposition of restrictions on imports that are found to impair national security, typically where those imports are alleged to suppress domestic production and/or lead to dependence on foreign sources for items that are considered vital to national security. The statute and its predecessors date to the 1950s, and has often been associated with energy security. It has rarely been invoked, having reached its high-water mark in the 1970s and 1980s. The secretary has up to 270 days to conduct the investigation. If the secretary of commerce finds that steel is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security, he may recommend specific steps that should be taken to adjust imports; the actual imposition of those measures would be a presidential decision. The memorandum directed the secretary of commerce to base his determination on such factors as *the domestic production of steel needed for projected national defense requirements* and *the capacity of domestic industries to meet such requirements; the existing and anticipated availabilities of the human resources, products, raw materials, and other supplies and services*

[1] See: <https://www.whitehouse.gov/the-press-office/2017/04/20/presidential-memorandum-secretary-commerce>.

essential to the national defense. Among the other factors that the president ordered the secretary to take into account are *the status and likely effectiveness of efforts of the United States to negotiate a reduction in the levels of excess steel capacity worldwide.* That last point suggests that one purpose of calling for this investigation may be to create leverage over other countries in a new effort to negotiate a global agreement for the management of steel trade.

Exactly one week after initiating this steel case, President Trump followed up by directing essentially the same action with respect to aluminum.[2] From the region's perspective, the only difference is in which countries may be affected by any resulting import restrictions. Some countries supply both aluminum and steel to the United States (i.e., Argentina, Brazil, Colombia, Mexico, and Venezuela), whereas others export steel but not aluminum (i.e., Chile, the Dominican Republic, Guatemala, and Trinidad and Tobago).

Another way that the new government could exercise protectionism is by granting petitions filed under the safeguard law. Unlike the antidumping and countervailing duty laws, which are implemented by lower-level officials according to objective criteria, safeguards ultimately depend on a policy decision at the presidential level. The use of this law has been sharply circumscribed in the years since the conclusion of the Uruguay Round of multilateral trade negotiations in 1994, which produced a new Safeguards Agreement that — as interpreted by WTO panels — has made it all but impossible for countries to impose restrictions that can survive a legal challenge in the WTO's Dispute Settlement Body. The last time that a U.S. president invoked this law was 2001, when President George W. Bush extended protection to the steel industry. We may nevertheless see a resurgence in the use of this law, as evidenced on April 26, 2017, when a firm (Suniva, Inc.) filed a petition with the U.S. International Trade Commission (USITC) seeking safeguard protection from imports of crystalline silicon photovoltaic cells and modules. The USITC now has six months to determine whether rising imports of these products are a substantial cause of serious injury to the industry. If it makes an affirmative determination, the commission may recommend to the president that he impose tariffs, quotas, or other restrictions on these imports. The president will then have wide discretion to accept, reject, or modify those recommendations. This case may test whether the new administration, which has expressed doubts as to whether the WTO's rules and agreements are favorable to U.S.

[2] See: <https://www.whitehouse.gov/the-press-office/2017/04/27/presidential-memorandum-secretary-commerce>.

interests, is prepared to take an action that is virtually certain to be found in violation of that organization's rules.

3. The return of retaliatory threats

The new government's approach to trade policy has meant a revival in negotiating styles that have not been prominent since the early 1990s. Prior to the creation of the WTO in 1995, the United States often sought to bring pressure on its partners by way of *reciprocity* laws. These statutes, most notably section 301 of the Trade Act of 1974 (as amended), permitted the executive to impose sanctions on countries that were found to violate U.S. trade rights. This tactic was especially popular during the presidency of Ronald Reagan (1981-1988). While this aggressive approach to negotiations led to a great deal of friction in the trading system, it is also credited in some circles for leading to a grand bargain: The United States would refrain from such threats in exchange for the creation of a new trade order in which the WTO covered a much wider range of issues, and in which the dispute-settlement system is strong. Since then, section 301 and related statutes have receded into historical memory. There are signs that the new U.S. government will reverse direction and once again rely on unilateral pressure in order to coerce its partners.

The United States enjoys some important advantages in the leveraging of trade. It has the world's largest market, and yet its economy is one of the least trade-intensive. Exports of goods and services accounted for just 12.6% of U.S. GDP in 2015, or less than half the world average of 29.5%. While it also has a highly diversified portfolio of trading partners, the United States is the largest or second-largest market for so many of them. Because this country weighs more heavily with its trading partners (individually and collectively) than vice versa, restricting trade would inflict more pain on the partner than on the United States. It is thus little wonder that successive generations of U.S. statesmen have seen advantages in leveraging their economic position. They have sometimes done so with commercial aims in mind (reciprocity), and sometimes for political ends (sanctions). Either way, the threat is the same: If a partner does not satisfy U.S. demands for changes in some aspect of its policies, the United States might retaliate. That retaliation will typically take the form of higher tariffs or outright bans on countries' access to the U.S. market.

The degree of vulnerability to these threats varies considerably from one country to another. We should expect U.S. leverage to be greatest in any relationship for which two conditions are met: (1) bilateral trade is equivalent to a large share of the partner's economy, and (2) that same flow accounts for a small share of the U.S. economy. Leaving aside the threshold question of where we draw the line between *large* and *small*, it is immediately evident that countries that are geographically close to the United States are especially vulnerable to pressure. To take an extreme example, consider the $4.6 billion in total trade between the United States and Nicaragua in 2016. This was equal to 36% of GDP in Nicaragua, but just 0.04% of U.S. GDP. As one moves farther south, the potential leverage of the United States diminishes — especially when dealing with larger economies. Argentina had $11.8 billion in trade with the United States in 2016, for example, which was equal to 2% of the Argentine economy. That figure is still appreciably large, but on a very different order of magnitude than Nicaragua's 36%.

4. The impact of the sino-american rivalry on third parties

Taking the larger view, the trends reviewed here reflect the accelerating pace of change in global political economy. The *Brexit* and the U.S. electoral results are only the highest-profile examples of how the electorates in some industrialized countries are responding to long-term trends in the global and national economies, which some perceive as a mechanism by which wealth is redistributed between and within countries. National shares of the global economy barely budged during the concluding decades of the twentieth century. The share of world GDP controlled by the United States and the other Group of Seven (G-7) industrialized countries went from 67.4% in 1970 to 65.8% in 1985, and then to 65.6% in 2000. The pace of change greatly accelerated since the turn of the century, as can be seen in Table 3. The G-7's share of global wealth fell from almost two-thirds to less than half, while that held by the BRICS (Brazil, Russia, India, China, and South Africa) nearly tripled. The relative size of the United States vis à vis the region has also changed. As of 1985, the U.S. economy was 5.8 times larger than the combined size of all Latin American and Caribbean countries. By 2015, this gap had fallen to 3.4 times.

Table 3 – Shares of the Global Economy, 1985-2015
(countries' and regions' share of global GDP)

	1985	2000	Change 1985-2000	2015	Change 2000-2015
Group of Seven	**65.8**	**65.6**	**-0.2**	**46.4**	**-19.2**
United States	34.4	30.7	**-3.7**	24.3	**-6.4**
Other G-7	31.4	34.9	**+3.5**	22.1	**-12.8**
BRICS minus Russia*	**6.6**	**7.4**	**+1.6**	**20.5**	**+13.1**
China	2.4	3.6	**+1.2**	14.9	**+11.3**
Brazil	1.7	2.0	**+0.3**	2.4	**+0.4**
India & South Africa	2.4	1.8	**-0.6**	3.2	**+1.4**
Other Latin & Caribbean	**4.2**	**4.8**	**+0.6**	**4.7**	**+0.1**
Mexico	1.5	2.0	**+0.5**	1.5	**-0.5**
Rest of Region	2.7	2.8	**+0.1**	3.2	**+0.4**
Rest of World	**23.4**	**22.2**	**-0.8**	**28.4**	**+6.2**
World	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: calculated from World Bank data. Available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.
"Other G-7" are the sum of Canada, France, Germany, Italy, Japan, and the United Kingdom.
* Note that Russia is excluded from this calculation because World Bank data are not available on the GDP of the Soviet Union, and hence comparisons with 1985 are not possible. Russia held 0.8% of global GDP in 2000, and 1.8% in 2015, meaning that the BRICS as a group grew from 8.2% of global GDP in 2000 to 22.3% in 2015 (a gain of 14.1 points).

The Chinese economy has grown even faster than the U.S. economy for the past few decades. The relative global position of the United States vis a vis China hit a peak in 1987, when the U.S. economy was 17.8 times larger than China's, but by 2015 this ratio had fallen to 1.6 times. It is widely expected that China will surpass the United States in sheer size sometime within the next decade or two, and that the shifting tone of this bilateral relationship will have a significant impact on the global trading system. In the event that these two giants were to slip into a trade war, it could inflict collateral damage on third parties.

The state of relations between the United States and China in the new government is very much a work in progress, and one in which actual policy may deviate sharply from campaign rhetoric. When Donald Trump ran for office he frequently attacked China, promising that he would formally name it as a currency manipulator and thus begin a process that could result in the imposition of sanctions on that country. Once in office, however, he held a productive meeting with his Chinese counterpart and adopted a much softer line, due in part to the need for Sino-American collaboration in dealing with North Korea. The declaration of China as a currency manipulator is no longer on the table, although there are other levers that might be pulled in U.S. competition with the second-largest economy.

Table 4 – Relative importance of U.S. and Chinese trade for Latin American and Caribbean Countries, 2015

(percentage shares of country's total imports and exports)

	Origin of Imports			Destination of Exports		
	U.S.	**China**	**Difference**	**U.S.**	**China**	**Difference**
Countries for Which the United States is Both a Bigger Supplier and a Bigger Customer						
Haiti	20.3%	18.2%	2.1%	82.7%	0.9%	81.8%
Mexico	47.3%	17.7%	29.6%	81.2%	1.7%	79.5%
Nicaragua	18.0%	14.4%	3.6%	54.1%	0.5%	53.6%
The Bahamas	81.8%	0.1%	81.7%	52.7%	<0.1%	52.7%
Dominican Republic	41.0%	13.3%	27.7%	50.3%	1.4%	48.9%
El Salvador	39.4%	8.1%	31.3%	47.0%	0.8%	46.2%
Trinidad & Tobago	25.1%	6.5%	18.6%	42.8%	0.2%	42.6%
Costa Rica	39.5%	12.5%	27.0%	40.8%	0.8%	40.0%
Belize	33.4%	10.0%	23.4%	38.9%	1.0%	37.9%
Ecuador	27.1%	15.3%	11.8%	39.5%	3.9%	35.6%
Honduras	35.2%	13.6%	21.6%	36.0%	0.5%	35.5%
Jamaica	37.4%	8.2%	29.2%	36.3%	2.2%	34.1%
Guatemala	37.1%	10.6%	26.5%	35.0%	1.9%	33.1%
Guyana	19.6%	5.2%	14.4%	24.2%	1.6%	22.6%
Venezuela	18.4%	15.3%	3.1%	35.4%	12.9%	22.5%
Colombia	32.5%	17.3%	15.2%	27.5%	5.2%	22.3%
Panama	25.9%	9.5%	16.4%	19.7%	5.9%	13.8%
Suriname	23.1%	8.3%	14.8%	10.5%	2.4%	8.1%
Barbados	39.0%	5.6%	33.4%	3.4%	<0.1%	3.4%
Countries for Which China is the Bigger Supplier, the United States is the Bigger Customer						
Bolivia	10.6%	17.9%	-7.3%	12.1%	5.3%	6.8%
Paraguay	7.8%	23.5%	-15.7%	1.8%	0.4%	1.4%
Countries for Which China is Both a Bigger Supplier and a Bigger Customer						
Cuba	2.7%	28.7%	-26.0%	0.0%	0.9%	-0.9%
Argentina	12.9%	19.7%	-6.8%	6.0%	9.1%	-3.1%
Brazil	15.6%	17.9%	-2.3%	12.7%	18.6%	-5.9%
Peru	20.7%	22.7%	-2.0%	15.2%	22.1%	-6.9%
Uruguay	9.0%	18.4%	-9.4%	6.7%	13.7%	-7.0%
Chile	18.8%	23.4%	-4.6%	13.2%	26.3%	-13.1%
Simple Average for Region	27.4%	14.1%	13.3%	30.6%	5.6%	25.0%

Source: calculated from IMF Direction of Trade Statistics. Available at: <http://data.imf.org/regular.aspx?key=61013712>.

For most countries in the region, China and the United States collectively account for between one-third and one-half of all imports, and they typically send a comparably high share of their exports to these two giants. On average, the United States is twice as important as China for a Latin American or Caribbean country's imports, and five times as important for its exports. The relative importance of these partners varies tremendously within the group. There are more countries in the region for which trade with the United States remains larger than trade with China, as can be seen from the data in Table 4, but that is likely to change over time. The data show a very simple geographical pattern by which the relative importance of the United States is a function of distance, such that U.S. trade is more important for countries in and around the Caribbean Basin, and China rises in significance as one travels farther south. The only major exceptions to that general rule are Cuba (where the United States weighs less heavily than simple geography would dictate) and Ecuador (where just the reverse is true). China is an especially large partner for those countries that are in or around the Southern Cone. Having an FTA with the United States does not change this general pattern, as shown in the cases of Chile and Peru.

Beyond the rising economic weight of China in trade with the region, there is also the question of whether countries will enter into preferential relationships with this partner. China is an increasingly active negotiator of FTAs, but has only begun to conclude them outside of Asia and the Pacific Rim. As of 2016, China had FTAs in effect with 20 countries in that region, including Chile, Costa Rica, and Peru, but with only two partners in other parts of the world. It was also actively negotiating several other FTAs, as well as a Regional Comprehensive Economic Partnership that many see as a Chinese response to the now-moribund TPP. None of the negotiations in which China is now engaged are with Latin American and Caribbean countries, but Colombia is one of the six countries under active consideration as an FTA negotiating partner. If all of these potential agreements were to be concluded, approved, and implemented, China would have thirty-seven FTA partners — almost twice as many as the current 20 FTA partners of the United States. Even in that scenario, however, the United States would still have more agreements with Latin American and Caribbean countries (ten) than China (four).

IV. CONCLUSIONS

The principal aim of this analysis is to provide facts and analysis, rather than arguments and proposals, but it does not exist in a policy vacuum. Economic relations with the United States are of great importance to all Latin American and Caribbean countries, albeit to differing degrees, and it is incumbent upon them — individually and collectively — to consider how they might best respond to the developments discussed in the preceding pages. This concluding section does not put forward any specific suggestions for national or regional policies, but does offer some guidance on how those policies might take into account the new realities of U.S. foreign economic policy.

1. What the U.S. economic disengagement means for the region

The principal theme explored throughout this analysis has been the economic disengagement of the United States from the region, a trend that cannot be uniquely attributed to the new administration's sudden shifts of policy with respect to trade, immigration, and international cooperation. The new U.S. president differs sharply from his predecessors with respect to outlook, rhetoric, style, and policy, but it would be a mistake to assume that the shifting nature of U.S. economic relations with the region is a simple function of leadership. To the contrary, the data reviewed here show that this disengagement was well underway long before Donald Trump took the oath of office. Despite the fact that tariff barriers are now a fraction of their previous levels, and notwithstanding the negotiation of FTAs with many countries in the region, the United States has gradually diminished in relative importance as a trading partner, investor, and foreign assistance donor. The new government may accelerate that trend through words and deeds that flout diplomatic protocol or even violate legal obligations. It is reasonable to suppose that by 2020 the economic footprint of the United States in the region will be smaller still than it was in 2016, but one may only speculate on the extent to which that will be the product of the new government's priorities and actions.

In order to understand what these trends mean for the region, we must acknowledge a perennial tension in how those interests are defined. On the one hand, policymakers and business leaders in Latin America and the Caribbean have consistently desired the benefits that stem from economic relations with the United States, including not just access to the world's largest market but also (among other things) investment capital and foreign assistance. On the other hand, policymakers and civil society in the region have just as consistently expressed concerns over the economic and political dominance of the United States. It is often difficult to reconcile the contradictory desires implied by these twin *desiderata*, and it is possible that the developments discussed here will be just as welcome for some policymakers and analysts as they are anathema to others.

In place of resolving the inherent tensions between those two objectives, which could too easily degenerate into a conflict between first principles, we might instead focus on more specific trends such as the new U.S. government's apparent readiness to take actions that may violate its international legal obligations and its strong preference for bilateralism over multilateralism. These trends pose specific and sequential problems that policymakers will need to consider at the national level, and for which regional responses may also be warranted.

2. The risks for the multilateral trading system

The most immediate of these problems concerns the imminent possibility that the United States may take actions that violate its international legal obligations. The new government may have already started down a path that could lead to the threat — and perhaps the reality — of a U.S. withdrawal from the WTO. And even if Washington does not take so precipitate a step, the relevance of the multilateral trading system could be seriously undermined by its own continued failure to exercise its legislative function.

The new government may impose restrictions on steel and aluminum, citing national security as the justification for its actions (i.e., the need to maintain domestic production of these two commodities in order to meet the demands of defense industries). The legal problems posed by these two cases are more complex than might at first appear, insofar as the issues related to national security form something of a *blind spot* in the jurisprudence of the WTO. Since the advent of the multilateral trading system in 1947, the national security exception of GATT Article XXI has given countries wide latitude to take otherwise GATT-illegal actions that they deem necessary for reasons of national security. Unlike the more mundane exceptions provided under GATT Article XX, which deals with actions that countries might take for other reasons (*e.g.*, human health), invocations of GATT Article XXI have traditionally been accepted without challenge. The implicit bargain here has always been that the trading system will not require countries to provide justifications for their defense policies, and the members of that system will not abuse this privilege by invoking national security frivolously.

If the new government does impose restriction on steel and/or aluminum, and claims to do so for reasons of national security, it may force its partners — including Latin American and Caribbean countries

— to choose among three bad options. They may challenge this action in the Dispute Settlement Body, but then retreat when the United States invokes GATT Article XXI; that could encourage other countries to abuse this loophole in the same fashion. Alternatively, they might break with all precedent and demand in such a case that the United States prove to a dispute-settlement panel that its invocation of national security is justified by the facts; such a provocation might give the new government grounds to decide that the WTO has overstepped its bounds and outlived its usefulness. In yet another alternative, U.S. partners might bypass the legal challenge altogether and simply impose *tit for tat* restrictions on imports from the United States (whether of these metals or other defense-related products). Arguments could be made for or against all three of these options, but they all share the same disadvantage: Each one of them would serve to undermine, and perhaps even eliminate, the WTO as a viable international institution.

A similar problem might be posed by other actions under consideration in the United States, but for which the level of risk may be lower. The stakes would probably be much lower for a case focused on an ordinary commercial issue than they would be for matters related to national security, but even then one could not dismiss the risks altogether. It is possible that the new government would simply ignore dispute-settlement decisions that it does not like; in the event that its WTO partners were to retaliate, the new government might respond in kind. The dangers may thus be similar to those posed by the national security cases. Ironically, the interests of U.S. partners might best be served if the United States were to file more complaints of its own in the Dispute Settlement Body, thus demonstrating that U.S. policymakers still perceive a benefit in maintaining the multilateral system. In that respect, it is somewhat discouraging to note that the new government has not yet brought a single complaint during its first half-year in office. That is not so unusual, with its two immediate predecessors having brought only one complaint each during their first half-years, but until the new government makes use of that dispute-settlement system it will encourage questions.

Even if the system manages to evade the dangers posed by these potential dispute-settlement cases, it still faces a serious problem that predates the advent of Donald Trump. Beginning with the elongated process by which the Doha Round was launched in 1999-2001, through the failed attempts to resolve these negotiations in 2003, 2008, and beyond, it has been painfully evident that the members of this organization have been incapable of *getting to yes* on major trade agreements. That may well have remained the case if the U.S. electorate had chosen a more orthodox president, but the prospects of reviving the WTO as a legislative institution are nil as long as U.S. policy is explicitly hostile towards multilateralism. For these reasons, there is virtually no value in discussing whether or how Latin American and Caribbean countries might try to reinvigorate that system. For the foreseeable future, their interests might best be served by doing whatever is necessary to keep that system afloat, in hopes that it may be revived later. In the short to medium term, their energies might be better directed towards options in other fora.

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