Sistema Económico
Latinoamericano y del Caribe

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Sistema Econômico
Latino-Americano e do Caribe

Système Economique
Latinoaméricain et Caribéen

The Impact of U.S. Economic Trends and Policy on the Interests of Latin American and Caribbean Countries

Regional Seminar: "Economic Relations between the United States and the countries of Latin America and the Caribbean in the first two years of the Obama Administration. Assessment and Prospects"
Caracas, Venezuela
21 March 2011
SP/SR:RE-EE.UU-ALC-DPAAO/DT N°2-11

C O N T E N T S

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F O R E W O R D

This document analyzes the principal trends and choices affecting economic relations between the United States and the Latin American and Caribbean countries, with emphasis on those initiatives that were handled (or neglected) during the first two years of President Obama's term or that may be taken up in the next two.

The paper is structured in three parts. Chapter I examines the principal themes in current U.S. economic relations with the region, Chapter II examines in greater depth the recent evolution of the U.S. economic relationship with the region, and Chapter III takes up the specific issues affecting SELA Member Countries that were either acted upon in the 111th U.S. Congress or that are pending in the 112th.

This document of the Permanent Secretariat of SELA is intended to provide an informative basis for the debates that will take place within the framework of the Regional Seminar "Economic Relations between the United States and the countries of Latin America and the Caribbean in the first two years of the Obama Administration. Assessment and Prospects", to be held in March 2011 in the headquarters of SELA.

The Permanent Secretariat of SELA wishes to express its gratitude to Dr. Craig Van Grasstek, for his valuable effort as a consultant in charge of drafting this study.

EXECUTIVE SUMMARY

This analysis summarizes the principal trends and choices affecting economic relations between the United States and the Latin American and Caribbean countries, with emphasis on those initiatives that were handled (or neglected) during the first two years of President Obama's term or that may be taken up in the next two. These periods correspond to the 111th Congress (2009-2010) and the 112th Congress (2011-2012), respectively. The paper is structured in four parts. Part I examines the principal themes in current U.S. economic relations with the region, Part II examines in greater depth the recent evolution of the U.S. economic relationship with the region, and Part III takes up the specific issues affecting SELA Member Countries that were either acted upon in the 111th Congress or that are pending in the 112th. The summary that follows synthesizes the main points from these sections.

Principal Trends in the Relationship

The Decline and Recovery of U.S. Merchandise Trade with the Region. The latest U.S. recession officially began in December, 2007 and ended in June, 2009. We may consider the period of 2006-2008 to have been more or less normal (notwithstanding the disruption in the final quarter of that period), 2009 to be the year of decline, and 2010 as the year of recovery. The raw numbers bear that out: In 2009 U.S. imports from SELA Member Countries fell to just 81.7% of the average level achieved in 2006-2008, but they then recovered to 103.6% of that level in 2010.

There is something of a paradox in the economic relationship between the United States and the region, insofar as this is becoming an ever-larger factor in the U.S. economy and yet is also dwindling in importance for Latin America and the Caribbean. These contradictory trends stem from the differing rates of growth in developed and developing economies. The U.S. market nonetheless remains important to the region: If the rate of growth in the U.S. economy rises to 4%, that could mean a fillip of 0.4% in the growth rate for the region as a whole. Those gains are not spread evenly throughout in the region: While there are four countries for which exports to the United States are equivalent to 20% or more of their GDP, there are twice as many countries for which this ratio is less than 2%.

One of the contributing factors to the reduction in the U.S. trade deficit in 2009, as well as its resurgence in 2010, was the differing effect that the economic crisis had on the relative prices of U.S. imports and exports. While export prices had risen sharply from 2007 until late 2008, only to plummet once the crisis began, the swings up and down were even sharper for import prices. These swings in relative prices are affected by monetary policy, notably the expansionary policy of the U.S. Federal Reserve known as quantitative easing (QE).

Other Economic Priorities and Issues. The state of trade and investment relations between the United States and the region will also be affected by shifting U.S. economic priorities. Overall U.S. policy is now in a transition from crisis management to management of the consequences of those actions taken at the height of the crisis. The emergency measures adopted in 2008-2009 caused the deficit to grow rapidly, and it is now widely recognized by U.S. policymakers that the deficit and the accumulated national debt are major problems that need to be addressed, but there are serious doubts as to how well the two branches and parties will be able to cooperate. In place of dealing with those entitlements that are the largest and most politically challenging contributors to the deficit and debt, policymakers in Washington have instead sought to achieve budget austerity by cutting spending in the smaller category of discretionary spending.

Monetary policy appears to be changing slower than the country's fiscal orientation. Despite concerns in some quarters that the QE policy may lead to higher inflation, there is no evidence yet that the Fed is ready to abandon this expansionary approach. The effect of the QE policy on U.S. trading partners in the region and elsewhere is a matter of controversy. On the one hand, it can clearly have a negative effect through its influence on exchange rates and on the cost of money. Two important if indirect effects of QE are a devaluation of the dollar and a rise in the price of commodities; the first of these effects is generally negative for U.S. partners, while the latter may also generally be negative (depending on whether one is an exporter or an importer). Price changes for commodities have greatly affected the trade balances of Latin American and Caribbean countries with the United States. On the other hand, a QE policy in the United States could ultimately have a positive effect for U.S. trading partners if it succeeds in achieving its primary goal of stimulating the U.S. economy.

The report also reviews other aspects of the economic relationship between the United States and the region. Preliminary data for trade in services show that U.S. trade with the region did drop in 2009, though not nearly as precipitously as did trade in goods. The one aspect of the U.S. economic relationship with the region that appears to have been least affected by the crisis, at least as shown by deviations from established trends, is foreign direct investment. The economic crisis notwithstanding, 2008 and 2009 were (after 2007) the second- and third-biggest years for U.S. investment in the region during the decade. As for foreign assistance, the numbers bear out the cliché regarding "trade not aid" as the engine of growth. Whereas U.S. imports were equivalent to 1% or more of GDP for all but two of the SELA Member Countries (i.e., Cuba and Paraguay), there are only two countries (i.e., Guyana and Haiti) for which aid from the United States surpassed that 1% benchmark. Taken as a whole, the United States imports almost $200 worth of goods from the region for every $1 worth of aid that it provides to the region.

The Politicization, and Neglect, of Trade Policy. The economic paradox noted above is matched by a political one: Trade has become more politicized over the past two decades, and yet political actors seem increasingly unwilling or unable to deal with this subject. That is partly a consequence of the fact that the scope of trade policy has spread far beyond border measures, and now impinges on a great many other areas of economic and social policy that bring in a correspondingly wider range of contending interests than used to be active in debates over this subject. One consequence is that trade negotiations have come to drag on far longer than originally intended, or even to collapse altogether. Similarly, U.S. presidents find it ever more difficult to get their agreements approved by Congress. That point is most seriously demonstrated by the fact that the free trade agreements (FTAs) that the Bush administration concluded with Colombia, Panama, and Korea in 2006-2007 are still pending approval in Congress.

The Obama administration made trade policy a very low priority during its first two years in office, when it focused instead on the economic crisis and social legislation. The general neglect of trade during the 111th Congress has left a great deal of pent-up demand for action in this area, but while the need for action in this area has increased Washington's capacity to meet that demand faces new challenges. These include the aftermath of the 2010 congressional elections, in which Republicans retook control of the House and reduced the margin of Democratic control in the Senate, and the approach of the 2012 presidential election. The political climate is further complicated the emergence of a new and more confrontational faction within the Republican Party (the so-called Tea Party). There is evidence to suggest that many of the newly elected, Tea Party-affiliated Republicans may be just as trade-skeptical as the more left-leaning members of the Democratic Party.

While there are thus several actions taken in the 111th Congress that negatively affect the interests of Latin American and Caribbean countries, they collectively fall far short of anything like the 1930s-style protectionism that some had feared would come after the outbreak of the economic crisis in 2008. The more significant problem today concerns the inability to conclude and approve trade agreements, especially at the multilateral level. A better way to pose the question is, why has there not been a major outbreak of protectionism, nor real forward momentum in the Doha Round, nor definitive action on the FTAs that have been pending since 2007? Prominent examples of inaction include the failure to reinvigorate the Doha Round of multilateral trade negotiations or win congressional approval for the three FTAs that President Obama inherited from his predecessor, and the expiration of both the Generalized System of Preferences (at the end of 2010) and the Andean Trade Preferences Act (in early 2011).

Pending Issues in U.S. International Economic Policy

A New Grant of Trade Promotion Authority. The latest (2002) grant of trade promotion authority (TPA) expired in mid-2007, and a new grant will be needed before any new FTAs or multilateral trade agreements can be voted on in Congress. TPA establishes special procedures that facilitate the consideration of trade agreements. The Obama administration has indicated on several occasions that it intends at some point to make a proposal to Congress for a new grant of authority, but that has not happened yet and it is uncertain when it will. Even before the 2010 elections it was clear that the Obama administration would need to invest a great deal of its limited political capital in order to negotiate some compromise between the Democratic and Republican positions on labor and environmental provisions in trade agreements. Now that the 2012 presidential elections are approaching, and with serious doubts over the willingness of some Tea Party Republicans to support free trade or reach compromises with the administration, the prospects seem even more daunting.

Pending FTAs. The Bush administration had attempted to win congressional approval for FTAs that it negotiated with Colombia, Panama, Peru, and Korea during its final two years in office, and even renegotiated the agreements to meet Democratic demands (especially on labor and environmental matters), but managed to win approval only for the U.S.-Peruvian FTA. President Obama did not disown any of the agreements that he inherited, but neither did he devote any serious attention to them until he renegotiated the Korean FTA last year. Approval of that agreement is a high priority for 2011, and there is a strong possibility that the FTA with Panama will eventually be acted upon, but the agreement with Colombia remains much more controversial.

The Doha Round. Perhaps the most notable evidence of the low priority attached to trade policy in the first two years of the Obama administration came in the form of what did *not* happen in the most significant inherited negotiation: There was virtually no discernible movement in the stalled Doha Round of multilateral trade talks. This initiative, which has been underway since 2001, has gone through a series of stalls and near-collapses over the past decade. The United States continues to insist that the Doha Round is worth completing only if the results are ambitious, and that the principal problem with the offers currently on the table is that they do not include what are, from the U.S. perspective, sufficiently deep commitments from larger developing countries such as Brazil, China, and India.

The TransPacific Partnership. The TPP negotiations bring together a large and diverse group of countries, but it should also be noted that many of them already have FTAs in place with one another. The two Latin American parties to these negotiations (Chile and Peru) already have FTAs with the United States, as do Australia and Singapore; from the

U.S. perspective, the only wholly new parties to these talks are Brunei, Malaysia, New Zealand, and Vietnam.

Expired Preferential Trade Programs. As was noted earlier, the authorizations for both the GSP and the ATPA have now expired. Both of these programs offer duty-free access to the U.S. market for many products exported by developing countries, though the product coverage of the ATPA is far broader than that of the GSP. The countries in the region that benefit from the GSP alone are Argentina, Bolivia, Brazil, Paraguay, Suriname, Uruguay, and Venezuela. The two remaining ATPA beneficiaries are Colombia and Ecuador. It is possible, but by no means certain, that in addition to renewing the GSP and the ATPA the new Congress may also take up proposals to reform these and other preferential programs.

Investment Policy. The most important instruments of U.S. investment policy in the region are FTAs and bilateral investment treaties (BITs). One of the first steps that the Obama administration took towards establishing its international economic policy was to create a special Subcommittee on Investment to the existing Advisory Committee on International Economic Policy, which it then assigned to review the model BIT and recommend changes that should be made to it. The committee managed to reach consensus on only a few points, thus leaving issues such as the role of labor and the environmental objectives in BITs to be developed in actual negotiations.

A New Farm Bill. It is an established practice in the United States to enact a new omnibus law dealing with agricultural programs approximately once every five years, and the 2008 farm bill is due to expire in 2012. There is as yet little indication what the overall theme or thrust of the 2012 bill may be. The Obama administration has not made any proposals as yet, nor have leaders in the House and Senate been very explicit about their plans. One important issue is how the new farm bill may affect the U.S. negotiating position on agricultural subsidies in the Doha Round. To the extent that budgetary considerations lead to reductions in U.S. subsidies it could have a salutary effect on the negotiations.

Embargo on Trade with Cuba. One consequence of the 2010 congressional elections is that it makes it less likely that, in the absence of new developments in the world, Congress will act in the foreseeable future to ease the trade embargo with Cuba. That embargo is no longer comprehensive, having been relaxed over the years to allow for sales of agricultural products to Cuba, and there were many bills pending in the 111th Congress to make either incremental or wholesale changes in the restrictions on trade and travel. Those proposals are especially popular in the U.S. agricultural community but, despite the fact that this community tends to lean more in the direction of Republicans than Democrats, the Republican leaders in Congress are far more committed to maintaining the embargo than were their Democratic predecessors.

I. MAJOR TRENDS IN THE POLITICAL ECONOMY OF U.S. ECONOMIC RELATIONS

The aim of this analysis is to summarize the principal trends and choices affecting economic relations between the United States and the Latin American and Caribbean countries, with emphasis on those initiatives that were handled (or neglected) during the first two years of President Obama's term or that may be taken up in the next two. These periods correspond to the 111th Congress (2009-2010) and the 112th Congress (2011-2012), respectively. The topics covered in this analysis are all affected by one or more of three interrelated elements: the seemingly paradoxical trends in the political economy of U.S. relations with the region; a domestic political environment that is defined both by the results of the 2010 congressional elections and the approach of the 2012 presidential election; and the shifting economic priorities of the United States, which have moved from state-led crisis management and the enactment of social legislation to a focus on the longer term needs for fiscal responsibility.

Each of those three elements is reviewed in this introductory section. Part II of the analysis then examines in greater depth the recent evolution of the U.S. economic relationship with the region, and Part III takes up the specific issues affecting SELA Member Countries that were either acted upon in the 111th Congress or that are pending in the 112th.

1. Paradoxes in the Political Economy of U.S. Relations with the Region

The U.S. economic relationship with the region is now colored by two sets of seeming paradoxes, one of them economic and the other political.

The economic paradox is that the relationship between the United States and the region is becoming an ever-larger factor in the U.S. economy, and yet that same relationship is dwindling in importance for Latin America and the Caribbean. Exchanges between the United States and the region remain asymmetrical with respect to trade, investment, and aid, but in some respects the asymmetries are narrowing. Consider the case of trade in goods, which is the most significant aspect of these economic relations. As can be seen from the data in figures 1 and 2, U.S. imports from the region are increasingly important for the United States, but their relative economic significance is declining for the region as a whole. The simple explanation for this paradox stems from the differing rates of growth in developed and developing economies, such that the U.S. economy is growing more slowly than U.S. trade with the region, while the region's trade with the United States is growing more slowly than are the region's economies overall. The effect may be more paradoxical than the cause, for while we would ordinarily expect a growing relationship to attract more attention from U.S. policymakers just the opposite has happened.

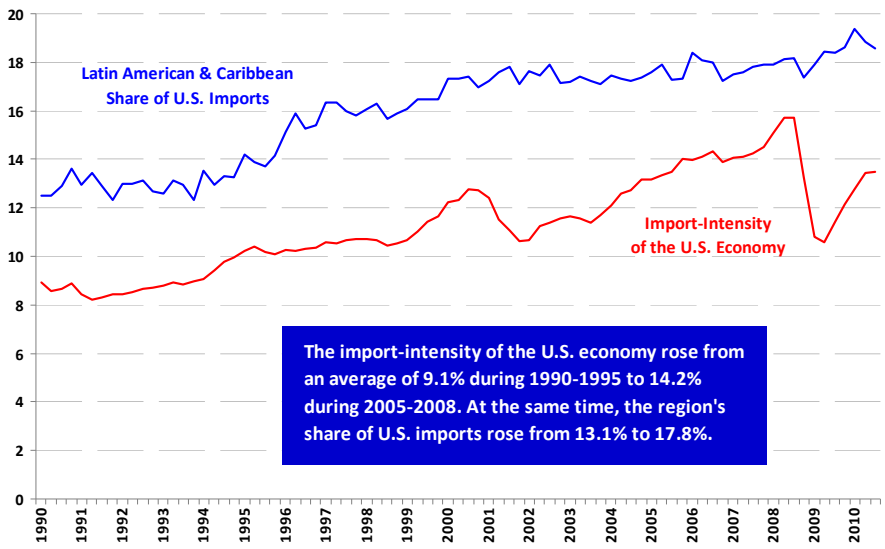
While the U.S. economy is now a smaller factor for Latin American and Caribbean countries than it was a decade ago it is still of considerable importance to the region. The U.S. imports from Latin America and the Caribbean are the equivalent of 8.9% of the region's collective GDP.[1] That tie to the U.S. economy is usually more of an opportunity than a risk, but the sometimes negative consequences of globalization were all too apparent in the downturn of trade that occurred during Great Recession of 2007-2009 and especially the crisis phase that began in late 2008. What started as a shake-up in the U.S. housing market soon blew up into a full-fledged crisis in the U.S. financial sector, and was quickly transmitted to the region and the rest of the world through channels of trade, investment, and financial intermediation. It led not only to a major reduction in U.S.

[1] It should be stressed that these figures are presented in terms of their *equivalents* to GDP, and not as *shares* of GDP. The trade component of GDP is based on net exports rather than total trade.

imports from the region but also to a general dampening in price levels and trading volumes throughout the globe.

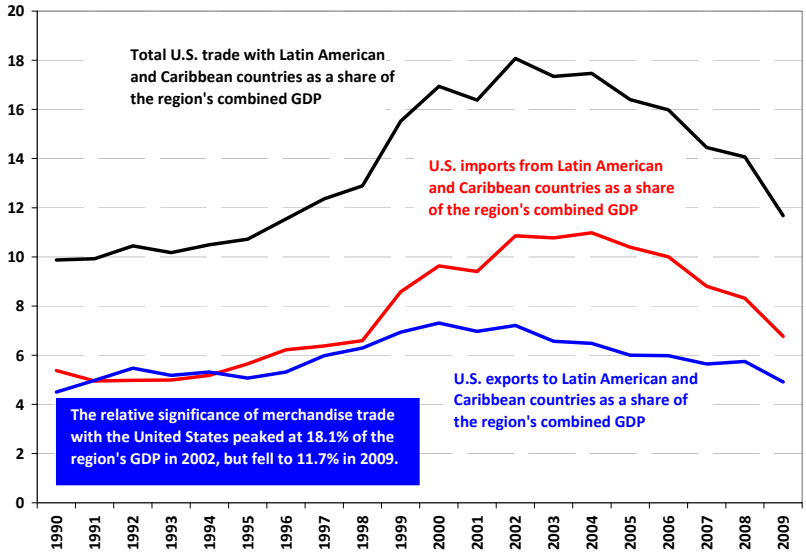
Much of that downturn has now been reversed, as is discussed at greater length in Part II, and we may now be seeing a return to pre-crisis patterns of trade and investment. Using the 2005-2008 figures as "normal" (and thus assuming that the sharp downturn in 2008-2009 was a temporary and reversible anomaly), we may calculate that about 2.5% of the U.S. economy is devoted to imports from Latin American and Caribbean countries.

Figure 1
Rising Importance of Regional Trade for the United States, 1990-2010



"Import-Intensity" = Imports of goods expressed as a percentage of GDP.

Figure 2
Declining Importance of U.S. Trade for the Region, 1990-2010



Sources GDP data from the Bureau of Economic Analysis, U.S. Department of Commerce (for the United States) and the World Bank (for all other countries). Trade data from the U.S. International Trade Commission.

That is a major change from 1990-1995, when the corresponding figure was just 1.2%. This means that now, all other things being equal, we may *very* roughly calculate that for every 1% growth in U.S. GDP, the United States will import approximately $3.6 billion more in goods from the region. If the rate of growth in the U.S. economy rises to (for example) 4%, that will amount to some $14.4 billion more in imports from Latin America and the Caribbean. That would mean a fillip of 0.4% in the growth rate for the region as a whole.

Those gains are not spread evenly throughout in the region. While there are four Latin American and Caribbean countries for which exports to the United States are equivalent to 20% or more of their GDP, there are twice as many countries for which this ratio is less than 2% (see Table 1). The countries that are economically closest to the United States also tend to be the ones that are geographically nearest, either by sharing a border or being in the Caribbean Basin, so it is no surprise that exports to the United States are more significant for Trinidad and Tobago than they are for Paraguay. This is not, however, an absolute rule. Exports to the United States are relatively small for Barbados and Grenada, for example, despite the fact that these countries are quite near and benefit from the preferences of the Caribbean Basin Initiative, while Ecuador — which also benefits from regional preferences but is farther away — has an above-average level of dependence on access to the U.S. market.

The political paradox stems from the fact that trade has become more politicized over the past two decades. The expanding scope of what we call "trade policy," which has spread far beyond border measures to impinge on a great many other areas of economic and social policy, has brought in a correspondingly wider range of contending interests (labor leaders, environmentalists, intellectual property owners, etc.) than used to be active in debates over this subject. Coupled with the growing linkages between trade and political blocs, this development has made it progressively more difficult to handle the issue at both the international and domestic levels. Thus the paradox: As trade becomes more political, politicians — whether in the guise of negotiators, executives, or legislators — seem less able to handle it.

At the regional level, the politicization of trade can best be appreciated by contrasting the aims that nearly all countries in the Western Hemisphere shared when they launched the Free Trade Area of the Americas (FTAA) negotiations in 1994, *versus* the emergence in recent years of blocs with competing views on both political and economic matters (i.e., the Pathways to Prosperity grouping and the Bolivarian Alternative). Even when political divisions are not sharp, trade negotiations have come to drag on far longer than originally intended or even to collapse altogether. Consider the length of time that multilateral trade negotiations now take to complete. The first several rounds of negotiations in the General Agreement on Tariffs and Trade, as conducted from the late 1940s through the early 1960s, were each concluded in a matter of weeks or months. Starting with the Kennedy Round, which lasted for five years (1962-1967), they have gotten longer each time: The Tokyo Round (1972-1979) took seven years, the Uruguay Round (1986-1994) lasted for eight, and the Doha Round (2001-?) will take at least a decade to complete — if indeed it ever is. An even more worrisome development is the increasing number of bilateral and plurilateral talks that stall, fragment into smaller initiatives, or fail altogether. That was the fate not only of the FTAA but also the Asia Pacific Economic Cooperation negotiations and several of the free trade agreements (FTAs) that the Bush administration attempted to negotiate.[2]

[2] The FTA negotiations that began under the Bush administration but ultimately failed were with Ecuador, Malaysia, the Southern African Customs Union, Thailand, and the United Arab Emirates.

Table 1
Relative Significance of Access to the U.S. Market for SELA Member Countries

Countries Listed in Order of Relative Importance of Access to the U.S. Market

	Type of Trade Relationship with the United States	2007-09 Average GDP ($Billions)	2007-10 Average U.S. Imports from Country ($Millions)	U.S. Imports from Country as Share of Country's GDP
Trinidad & Tobago	CBI Beneficiary	$22.7	$8,201.1	36.1%
Nicaragua	FTA Partner	$5.9	$1,810.6	30.7%
Honduras	FTA Partner	$13.6	$4,103.1	30.2%
Mexico	FTA Partner	$996.8	$219,865.1	22.1%
Costa Rica	FTA Partner	$28.4	$5,195.2	18.3%
Guyana	CBI Beneficiary	$1.1	$169.9	15.4%
Venezuela	GSP Beneficiary	$288.1	$41,072.4	14.3%
Ecuador	ATPA Beneficiary	$52.6	$7,416.8	14.1%
El Salvador	FTA Partner	$21.2	$2,217.9	10.5%
Belize	CBI Beneficiary	$1.3	$126.0	9.7%
Guatemala	FTA Partner	$36.9	$3,480.6	9.4%
Dominican Rep.	FTA Partner	$44.6	$4,128.9	9.3%
Bahamas	CBI Beneficiary	$7.2	$634.7	8.8%
Haiti	CBI Beneficiary	$6.3	$541.2	8.6%
Colombia	FTA Pending	$228.0	$12,404.8	5.4%
Suriname	GSP Beneficiary	$2.7	$145.8	5.4%
Chile	FTA Partner	$166.3	$8,324.5	5.0%
Jamaica	CBI Beneficiary	$13.1	$640.4	4.9%
Peru	FTA Partner	$122.3	$5,515.2	4.5%
Bolivia	GSP Beneficiary	$15.7	$511.7	3.3%
Brazil	GSP Beneficiary	$1,525.8	$26,839.5	1.8%
Panama	FTA Pending	$22.6	$376.0	1.7%
Argentina	GSP Beneficiary	$298.2	$4,881.7	1.6%
Grenada	CBI Beneficiary	$0.6	$7.7	1.3%
Uruguay	GSP Beneficiary	$28.9	$344.1	1.2%
Barbados	CBI Beneficiary	$3.6	$40.7	1.1%
Paraguay	GSP Beneficiary	$14.4	$72.2	0.5%
Cuba	Subject to Sanctions	$60.7	$0.1	0.0%
Total	—	**$4,029.6**	**$359,068.0**	**8.9%**

Sources: GDP data from the World Bank. Trade data from the U.S. International Trade Commission. Note that GDP averages for some countries are based on 2007-08 or 2007.

That seeming inability to "get to yes" at the international level is complemented by the increasing difficulty that U.S. presidents encounter in getting their agreements approved by Congress. This is partly attributable to the growth of the trade-skeptical wing of the Democratic Party, an increasing share of whose members have voted against new grants of negotiating authority or FTAs with developing countries.[3] One way to gauge the rising difficulty is to mark the time elapsed between the president's notification to Congress of his intention to sign an agreement that is under negotiation and his later signature into law of the agreement's implementing legislation; between these steps comes the rest of the domestic approval process. This interval lasted fifteen months in the case of the North American FTA (NAFTA) in 1992-1993, during which time the United States held an election, had a presidential transition, and negotiated the NAFTA side agreements with Mexico and Canada. A dozen years later there was also a presidential election that intervened between the conclusion of the FTA with Central America and the Dominican Republic (CAFTA-DR) and the enactment of its implementing legislation, this time without a change in the U.S. government or a renegotiation of the agreement, but the interval nonetheless grew to eighteen months. In the case of the FTA with Colombia we have seen not just a presidential election but also two mid-term congressional elections, as well as a renegotiation of the agreement that went further than the NAFTA side agreements. Even if the implementing legislation for the U.S.–Colombia FTA were approved and signed into law tomorrow, that would still be more than four years since the agreement was initially signed (November 22, 2006), and well over three years since signature of the Protocol of Amendment that revised the terms of the agreement (June 28, 2007). The FTAs with Panama and Korea have also been pending since June, 2007.

These protracted ratification debates are one manifestation of a broader trend in which members of Congress have grown less interested in dealing with trade policy. The data reported in Figure 3 illustrate that trend through a content analysis of all bills introduced in the U.S. House of Representatives since 1973, a set of data that allows us to gauge just how popular a topic is for legislators.[4] In the 111th Congress (2009-2010) there were only 88 trade-related bills introduced, which was the smallest number in absolute terms during all of recent history, and in relative terms was the least in two decades. The sharpest contrast is between this most recent Congress and its predecessor of 1991-1992 (the 102nd Congress). Compared to the 111th, the members of the 102nd introduced 2.8 times as many trade bills, these bills accounted for three times the share of all bills in the House, and the 102nd Congress enacted twice as many of these bills into law. Congress still acts on trade bills, as shown by the blue line in the figure, but lately its actions have been confined to the less crucial measures. The data thus show not only that policymakers' interest in trade policy during the first two years of the Obama administration was unusually low, but also that this was part of a longer trend in U.S. policymaking that has created an atmosphere in which both branches of government showed little inclination to take up agreements, programs, and other initiatives that affect the economic interests of Latin American and Caribbean countries.

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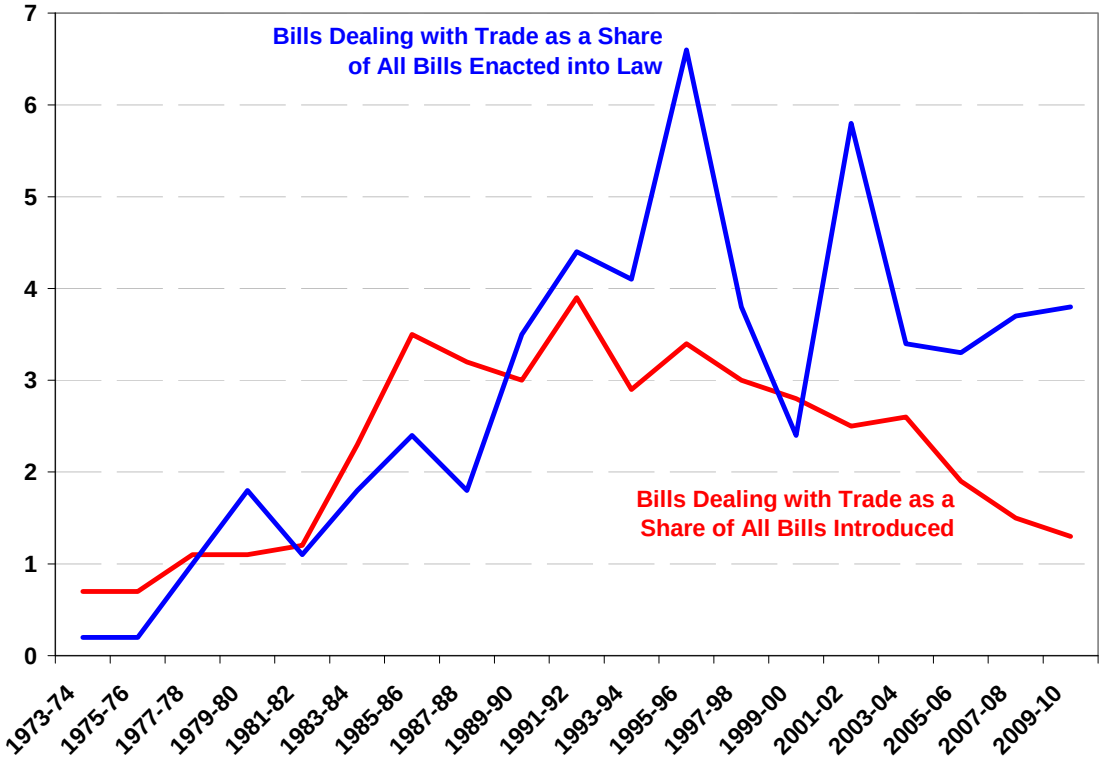
[3] This topic is examined at greater length in Part III of this report.

[4] Note that, unlike the practice in some other legislative bodies, in the U.S. Congress the introduction of legislation is a sole and unlimited prerogative of individual legislators. Bills are not introduced by the executive branch of the government, and any member of Congress can introduce any number of bills on any topic. Only a small fraction of the bills that are introduced will ultimately be enacted into law.

Figure 3
Action on Bills Related to Trade in the U.S. House of Representatives, 1973-2010



Note: "Bills Related to Trade" are defined to be any bills introduced in the House of Representatives that included at least one of the following keywords or phrases in the text: "African Growth and Opportunities Act," "Andean trade," "antidumping," "Caribbean Basin Economic Recovery Act," "fair trade," "free trade agreement," "GATT," "General Agreement on Tariffs and Trade," "Generalized System of Preferences," "most favored nation," "NAFTA," "normal trade relations," "Omnibus Trade and Competitiveness Act," "Tariff Act of 1930," "Trade Act," "trade adjustment assistance," "Trade and Tariff Act," "Trade Expansion Act," "trade preferences," "unfair trade," or "World Trade Organization."

Source: Calculated from data on the Library of Congress website at http://thomas.loc.gov/home/LegislativeData.php.

2. The Changing Political Environment in the United States

The rising levels of politicization, as well as the difficulties in securing congressional approval for trade agreements, helped to persuade the Obama administration to make trade policy a very low priority during its first two years in office. It focused instead on management of the economic crisis and the enactment of social legislation favored by Democrats. The general neglect of trade during the 111th Congress has left a great deal of pent-up demand for action in this area, and there are now indications that it will figure more prominently for the White House and Capitol Hill in the 112th Congress. While the need for action in this area has increased, however, Washington's capacity to meet that demand faces new challenges. These include the aftermath of the 2010 congressional elections, in which Republicans retook control of the House and reduced the margin of Democratic control in the Senate, and the approach of the 2012 presidential election. The political climate is further complicated the emergence of a new and more confrontational faction within the Republican Party.

Policymaking in the United States over the next two years, both in trade and in nearly all other areas, will be colored by elected officials' responses to the results of the November 2, 2010 congressional elections and their positioning for the presidential election of

November 6, 2012. The 2010 elections brought to an end the unified government that the United States had briefly enjoyed, following first the Democratic takeover of Congress in 2006 and President Obama's election in 2008. Prior to last year's election the Democrats held 255 seats in the House of Representatives, the Republicans had 179, and one was vacant. Republicans now hold 241 seats to the Democrats' 193 (with one vacant seat that had been held by a Republican). In the Senate the Democrats previously held a majority of 59-41 (including two independents who vote with them), but Republican gains in 2010 reduced that majority to a more slender 53-47.

The 2010 mid-term results should not be taken as a reliable predictor of the results of the next presidential election. The experiences of the four most recent presidents would actually appear to suggest an inverse relationship between how a president's party performs in the first mid-term and how he does in his own race for reelection,[5] and most election analysts in the United States would probably say that President Obama enters the 2012 campaign with at least a slight advantage over his as-yet unnamed Republican opponent. The Obama administration was nonetheless chastened by the exceptionally high levels of Democratic losses in 2010, and the president appears to have responded to these losses with much the same strategy of "triangulation" that President Clinton pioneered after Democrats lost control of Congress in 1994. This approach, which means steering a middle course between the two parties, established Clinton's reputation as a centrist and helped him to win reelection in 1998. It is interesting to note, however, that trade policy was one of the issues on which the Clinton administration and Republicans in Congress never reached agreement. It remains to be seen whether President Obama, who began to devote more attention to trade immediately after these latest elections, will be more successful than Clinton was in trying to craft bipartisan compromises in this area.

The answer depends in part on how well President Obama navigates not only the differences between the two parties but also within the opposition Republican Party. The biggest political development in the United States in 2009-2010 was the rise of conservative activists who are loosely organized in what is known as the "Tea Party." That name is somewhat deceptive, as the Tea Party is not actually a party of its own. While many adherents to this anti-government, conservative movement see themselves as being outside the traditional two-party structure, all of the elected officials in Congress who identify with it are members of the Republican caucus. As discussed in Part III, however, many of them are insurgents who cannot be assumed to follow the direction given by established Republican leaders, and trade policy is one of the issues that distinguishes the newcomers from the veterans. Initial indications are that many of the newly elected, Tea Party-affiliated Republicans may be just as trade-skeptical as the more left-leaning members of the Democratic Party. If so, the arithmetic gains that Republicans made in 2010 may translate into a policymaking environment that is geometrically more difficult to solve.

3. The Shifting Economic Priorities of the United States

The state of trade and investment relations between the United States and the region will also be affected by the shifting economic priorities of the Obama administration and Congress. Whereas U.S. policy in 2009-2010 was dominated by crisis management and the administration's push for the enactment of social programs, in 2011-2012 the main focus of

[5] The two recent presidents whose parties suffered the biggest mid-term losses (i.e., Ronald Reagan in 1982 and Bill Clinton in 1994) are the only ones who easily won reelection two years later. The two Bushes had below-average losses in their 1990 and 2002 mid-terms, with the younger one actually gaining seats, but one of them was later defeated for reelection (George H.W. Bush in 1992) and the other came very close to repeating that experience (George W. Bush in 2004).

debate — if not necessarily for decisive action — will be on scaling back the role of government in the economy. Early indications are that fiscal policy will receive more attention than monetary, though the institutions that govern the latter could more readily change direction if they wished to do so. Reducing the budget deficit of the Federal government will require a great deal of bipartisan cooperation between the executive and legislative branches.

The data in Table 2 summarize the key trends in the U.S. economy since the 2007, when the recession formally began.[6] The year 2009 was the only full one in which GDP declined, and then by a relatively small 0.2%, but that is not the main metric by which the general public measures the success or failure of the government's management of the economy. The fact that the unemployment rate in 2010 was still 9.6%, which is high both by historical standards and by comparison with 2009, is undoubtedly one reason why Democrats received such a strong rebuke in the mid-term elections. Of all the numbers shown in the table, however, the only one that can be directly affected by government action is the budget deficit. As can be seen in Table 2, the emergency measures adopted late in the Bush administration and then in the early days of the Obama administration caused the deficit to grow rapidly. It is now widely recognized by U.S. policymakers that the deficit and the accumulated national debt are major problems that need to be addressed, but the approach that these officeholders take to the matter also runs the risk of repeating an old joke about the weather: Everyone talks about it, but no one does anything about it.

Table 2
Key Economic Indicators for the United States, 2007-2009

	2007	2008	2009	2010
GDP growth rate	4.9%	2.2%	-0.2%	3.8%
Unemployment rate	4.6%	5.8%	9.3%	9.6%
Change in consumer price index	4.1%	0.1%	2.7%	1.5%
Change in producer price index	6.2%	-0.9%	4.3%	4.3%
Capacity utilization in manufacturing	79.6%	75.0%	67.2%	71.7%
Federal budget deficit ($billions)	$160.7	$458.6	$1,412.7	$1,294.1
Dow Jones Industrial Average	13,264.8	8,776.4	10,428.1	11,577.5

Note that budget data are in fiscal years (e.g., Fiscal Year 2011 runs from October 1, 2010 through September 30, 2011), and the Dow Jones data are for year-end (i.e., December 31). All other data are in calendar years.

Sources: Bureau of Labor Statistics (consumer prices), Council of Economic Advisors (GDP growth, budget deficit, and unemployment), Dow Jones (industrial average), and Federal Reserve (capacity utilization).

Leaders in both parties recognize that the budget deficit cannot be seriously addressed unless one takes on the politically sensitive issue of entitlements (i.e., reducing or otherwise reforming such programs as Social Security and Medicare), but neither side wants to be the one to propose anything that could be politically suicidal. An example of the problem

[6] In the United States recessions are dated by the National Bureau of Economic Research (NBER), a private organization of economists. According to NBER, the recession began in December, 2007 and ended in June, 2009. See http://www.nber.org/cycles.html.

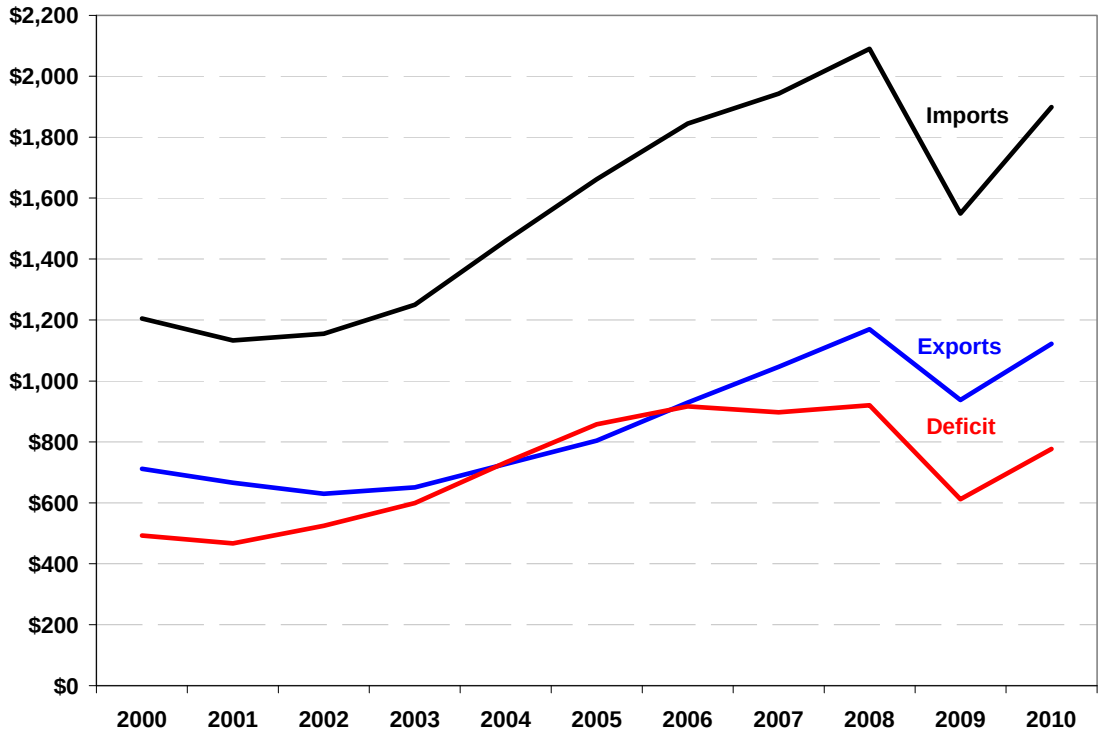
can be found in the fate of the National Commission on Fiscal Responsibility and Reform. This bipartisan panel, whose members were appointed by the administration and Congress, adopted a final report on December 1, 2010 that issued dire warnings and proposed solutions that are seen, at least from the perspective of elected officials, as draconian.[7] The commission received praise and thanks for its frankness, but no major political leaders have yet embraced its recommendations for entitlement reform.

In place of dealing with those entitlements that are the largest and most politically challenging contributors to the deficit and debt, policymakers in Washington have instead sought to achieve budget austerity by cutting spending in the smaller category of "discretionary" spending. This includes most operations that one normally associates with government, from defense to farm programs. As is discussed in Part III of this analysis, that could have a salutary effect on the Doha Round of trade negotiations. To the extent that a tight budget leads U.S. legislators to reduce spending on agricultural subsidies, it might help to alleviate one of the several barriers to conclusion of those decade-long talks.

One of the more remarkable aspects of the Great Recession is that, as shown in Figure 3, it was not accompanied by a worsening of the U.S. trade deficit. This may be one reason why it did not also spark new demands for protection from imports. The economic crisis interrupted a long stretch of steady growth in U.S. trade. The downturn in 2009 was much sharper for imports, which fell by 25.9%, than it was for exports (down 19.9%), with the net result being that the merchandise trade deficit declined by over one-third (33.5%). Conversely, in 2010 the deficit increased by more than one-quarter (27.0%) because imports recovered more rapidly (up 22.6%) than did exports (up 19.7%).[8] If it is the case that the declining deficit in 2009 was partly responsible for the absence of large-scale protectionism, the more recent return of that deficit may have troubling implications for trade policymaking in the 112th Congress.

[7] *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*.
[8] Note that exports to Latin American and Caribbean countries grew at an even faster rate (25.0%).

Figure 4
Global U.S. Merchandise Trade Balance, 2000-2010
Billions of Dollars

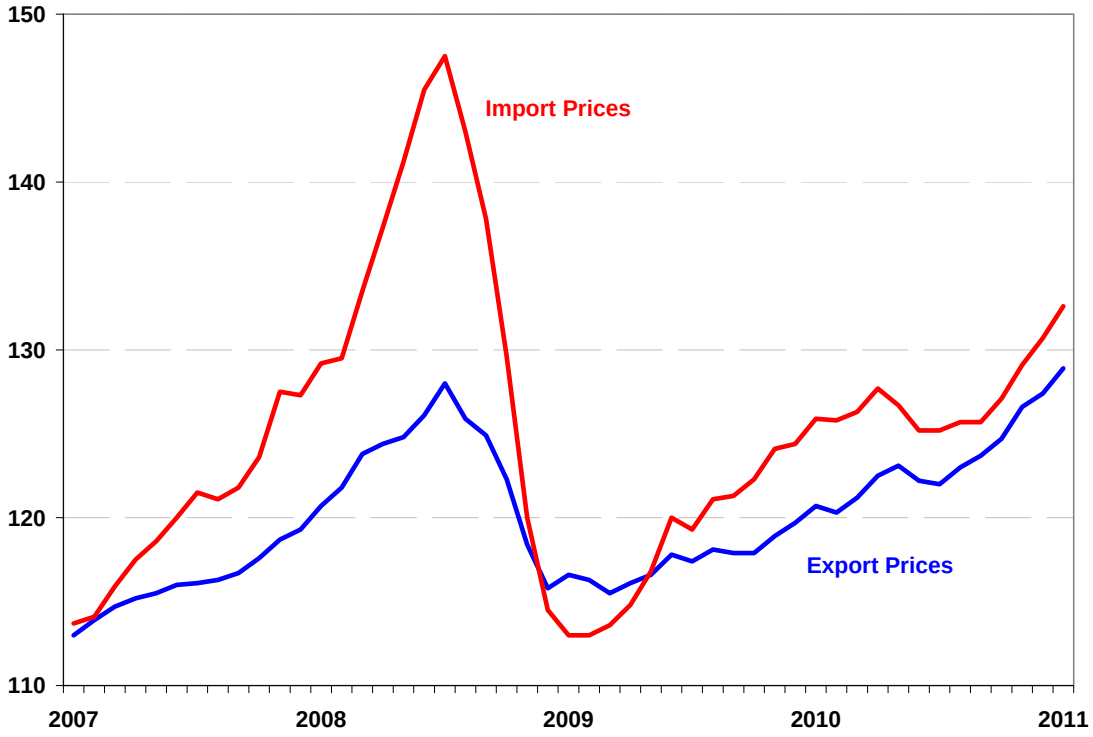


In 2010 the global rate of increase in U.S. exports was higher than the 15% per year that will be needed to meet the goal that President Obama set last year of doubling exports over the next five years. The spurt of growth last year managed to move the goalposts, such that exports need grow by only 13.5% for each of the next four years in order to reach the "doubling in five" objective. This looks to be achievable: Over the past decade the rate of growth in U.S. exports beat that level only once, when they rose by 15.5% in 2006, though there were four other years when the rate of increase was in the 10-13% range (2004, 2005, 2007, and 2008).

One of the contributing factors to the reduction in the U.S. trade deficit in 2009, as well as its resurgence in 2010, was the differing effect that the economic crisis had on the relative prices of U.S. imports and exports. The data in Figure 5 show that while export prices had risen sharply from 2007 until late 2008, only to plummet once the crisis began, the swings up and down were even sharper for import prices. Much of this can be understood as the difference between the price trends for those agricultural commodities that the United States exports *versus* the hydrocarbons that it imports; more precise data for these sectors are examined in Part II of this analysis. It is not surprising that, now that prices for oil and other imports are once again rising faster than prices for wheat and other goods that the United States exports, we are seeing the U.S. trade balance head further into the red.

These swings in relative prices are affected not just by the fundamentals of supply and demand, which can in turn be influenced by a variety of economic, political, and meteorological factors, but also by monetary policy. In contrast to the efforts that are now underway to reduce the fiscal size of government, the state remains very active in monetary policy. The Federal Reserve has engaged in a form of quantitative easing (QE) since the outbreak of the crisis, and — despite concerns in some quarters that this may

Figure 5
Price Fluctuations in U.S. Exports and Imports, 2007-2010
Prices for Imported and Exported Goods in 2000 = 100



Source: U.S. Bureau of Labor Statistics at http://data.bls.gov/cgi-bin/surveymost.

lead to higher inflation — opted in 2010 to continue this expansionary and controversial policy.[9] Current indications are that the Fed is unlikely to make a major change of course in the immediate future. In his February 9, 2011 testimony before the Budget Committee in the House of Representatives, Federal Reserve Chairman Ben S. Bernanke acknowledged that "we have recently seen increases in some highly visible prices, notably for gasoline" and that "prices of many industrial and agricultural commodities have risen lately, largely as a result of the very strong demand from fast-growing emerging market economies, coupled, in some cases, with constraints on supply." He nevertheless concluded that "overall inflation is still quite low and longer-term inflation expectations have remained stable." Using almost lawyerly language, he declared that "inflation is expected to persist below the levels that Federal Reserve policymakers have judged to be consistent over the longer term with our statutory mandate to foster maximum employment and price stability." In short, the practice of QE can be expected to continue for the time being — provided that the increases in producer and especially consumer prices are kept within bounds that are acceptable to Chairman Bernanke and his colleagues.

[9] Under QE, a central bank seeks to stimulate an economy by creating money that it uses to buy government bonds and other financial assets. It also tends to increase the money supply and raise the prices of the financial assets that are bought (thus lowering their yield). The QE approach is an alternative to the normal expansionary monetary policy of lowering short-term interest rates, especially if those rates have already been reduced to the point where they are at or near zero.

The effect of the QE policy on U.S. trading partners in the region and elsewhere is a matter of controversy among both academics and policymakers. On the one hand, it can clearly have a negative effect through its influence on exchange rates and on the cost of money. Two important if indirect effects of QE are a devaluation of the dollar and a rise in the price of commodities; the first of these effects is generally negative for U.S. partners, while the latter may also generally be negative (but could be otherwise to exporters of the commodity in question).[10] On the other hand, a QE policy in the United States could ultimately have a positive effect for U.S. trading partners if it succeeds in achieving its primary goal of stimulating the U.S. economy. That would, as discussed above, be expected to increase U.S. purchases from Latin America and the Caribbean.

[10] This topic is taken up in Part II, in which we examine *inter alia* how volatile prices have affected trade values between the United States and the region.

II. EVOLUTION OF THE U.S. ECONOMIC RELATIONSHIP WITH THE REGION

This section examines in more detail the recent evolution and current status of U.S. economic relations with Latin American and Caribbean countries. In addition to reviewing the principal patterns affecting trade in goods, including both overall values and price trends, it also covers trade in services, investment, and foreign assistance. The main point made throughout is that while the economic crisis had a serious impact on U.S.-regional economic exchanges, the recovery now appears to be solidly underway. Both the decline and the recovery, however, have differed for specific countries and commodities, such that some suffered greater than average losses while others were little affected by the downturn.

1. Recovery from the Crisis

The latest U.S. recession officially began in December, 2007 and ended in June, 2009. The most intense period of this so-called Great Recession was the financial crisis, which might be roughly dated as September, 2008 (when some Wall Street firms collapsed and others were bailed out) through March, 2009 (when the U.S. stock market turned from a sharp decline to a sharp rise). For purposes of annual data, however, we may simplify by considering the period of 2006-2008 to have been more or less normal (notwithstanding the disruption in the final quarter of that period), 2009 to be the year of decline, and 2010 as the year of recovery.

Table 3 shows that U.S. imports from SELA Member Countries fell in 2009 to just 81.7% of the average level achieved in 2006-2008, but that they then recovered to 103.6% of that level in 2010. It is interesting to note that the FTA partners of the United States, as well as those countries that benefit from regional preferences for the Andean and Caribbean Basin, have done better than those countries that are limited to the less expansive GSP preferences; their imports did not fall as far in 2009, and recovered better in 2010. That is only a general pattern, however, for which there are individual exceptions. The fact that Chile is an FTA partner did not ensure that its exports to the United States would quickly and fully recover, for example, just as the lack of special preferences for Bolivia has not prevented that country's exports from outperforming those of almost all other countries in the region. The differences in performance for countries has at least as much to do with the commodity composition of their exports as it does with the treatment that their goods receive at the U.S. border.

2. Commodity Prices and Exchange Rates

Picking up from that point, the price changes for commodities have greatly affected the trade balances of Latin American and Caribbean countries. As we already saw in Figure 4, the Great Recession brought wide and rapid fluctuations in the prices of traded goods. Figures 6 and 7 provide more detail on this point, showing how global prices[11] of selected agricultural and non-agricultural commodities of interest to the region fluctuated during 2007-2010. Several of these items followed a classic boom-and-bust cycle, peaking just before the outbreak of the financial crisis and then plummeting rapidly, only to recover somewhat during 2009-2010. That was most clearly the case for wheat and crude oil, two commodities whose price paths were remarkably similar, but it can also be seen for copper and, to a lesser degree, aluminum. Other commodities experienced less radical swings, such as bananas, sugar, and soft logs. Coffee prices seem to have been little affected by the crisis, and experienced very strong growth over the past two years. The

[11] Some of these indices are calculated by the International Monetary Fund on the basis of prices in U.S. commodity exchanges, but others are based on prices in other venues.

net result for individual countries depends on the extent to which they are net exporters or net importers of the commodities in question.

Table 4 provides more detail on how these price swings, coupled with any changes in the volume of trade, affected U.S. imports of selected commodities from Latin American and Caribbean countries. While the value of U.S. imports of agricultural products did not suffer in 2009, and grew at a healthy pace in 2010, imports of other raw materials — especially minerals and ores — dropped sharply and are recovering slowly (if at all). Imports of intermediate products and consumer goods are also recovering slowly, but trade in major manufactures such as computers and electronics is up.

One consequence of these volatile swings has been an incremental shift in the overall commodity composition of U.S. imports from the region. Consider the two largest categories of goods that the United States buys from Latin American and Caribbean countries. Whereas oil and gas accounted for 22.4% of all U.S. imports from the region in 2006-2008, at a time when computer and electronic products contributed 13.0%, by 2010 the share for hydrocarbons had fallen to 20.6% but the high-tech products had risen to 16.5%. Those are regional totals, of course, and the actual experience of specific countries has varied. It is nevertheless notable that countries that predominantly export oil, gas, or their derivatives to the United States have not yet seen their exports to the United States recover to pre-crisis levels, while exporters of agricultural products, processed foods, and major manufactures have done better. Some of the exports in the latter categories did not even see their values dip below pre-crisis levels during 2009, and experienced fairly strong growth in 2010.

It must be stressed that these trade figures are expressed as U.S. imports in U.S. dollars, and that the actual export values perceived by Latin American and Caribbean countries will depend on the exchange rate. While space does not permit an exhaustive review of the differing ways that countries in the region manage their exchange rates (e.g., those that are pegged to the dollar, or pegged to other currencies, or that float freely, etc.), the data illustrated in Figure 8 give a sense of the different kinds of experiences countries have had since 2007. Both the Brazilian and the Mexican currencies float, and they followed roughly similar paths *vis à vis* the dollar during 2007-2010: Both were increasing in value against the dollar prior to the financial crisis, each of them lost value during the crisis (i.e., more units of that currency could be purchased for $1), and each has since appreciated in value once again. But while the Brazilian real is now worth about what it was before the crisis erupted, the Mexican peso has yet to recover its value fully. The Venezuelan experience has been radically different, with the Bolívar being pegged to the dollar but having undergone a sharp devaluation.

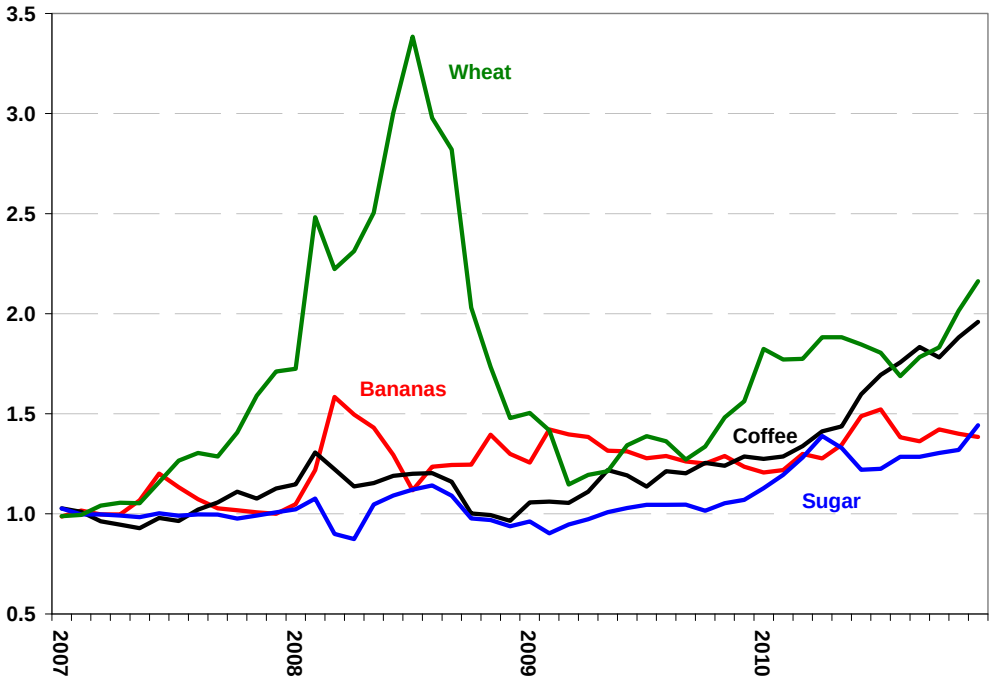
Table 3
The Decline and Recovery of U.S. MerchandiseImports from SELA Member Countries by Partner, 2006-2010

Countries Listed by Tariff Treatment and by Size of Imports into the U.S. Market; Imports for Consumption, Customs Value, in Thousands of Dollars and Percentages

	2006-2008 Average	2009 Actual	2009 as Share of 2006-2008	2010 Actual	2010 as Share of 2006-2008
FTA Partners	**241,272,860**	**205,406,378**	**85.1**	**264,765,214**	**109.7**
Mexico	207,847,589	176,308,702	84.8	228,823,843	110.1
Costa Rica	3,885,187	5,598,151	144.1	8,696,222	223.8
Chile	8,901,012	6,047,195	67.9	7,067,803	79.4
Peru	5,647,964	4,234,615	75.0	5,172,521	91.6
Honduras	3,911,357	3,343,459	85.5	3,911,602	100.0
Dominican Republic	4,235,923	3,306,214	78.1	3,648,911	86.1
Guatemala	3,191,912	3,133,231	98.2	3,218,873	100.8
El Salvador	2,037,942	1,822,870	89.4	2,213,486	108.6
Nicaragua	1,613,974	1,611,941	99.9	2,011,953	124.7
Regional Preferences	**28,867,660**	**23,983,396**	**83.1**	**31,981,206**	**110.8**
Colombia	10,516,631	11,209,359	106.6	15,672,605	149.0
Ecuador	7,395,423	5,245,899	70.9	7,333,774	99.2
Trinidad & Tobago	8,719,705	5,174,244	59.3	6,577,121	75.4
Bahamas	475,254	738,262	155.3	691,310	145.5
Haiti	477,805	551,870	115.5	550,833	115.3
Panama	357,547	296,007	82.8	376,068	105.2
Jamaica	620,177	454,033	73.2	306,859	49.5
Guyana	131,212	168,631	128.5	302,171	230.3
Belize	130,085	106,772	82.1	120,394	92.6
Barbados	37,177	32,592	87.7	42,492	114.3
Grenada	6,644	5,727	86.2	7,579	114.1
GSP Beneficiaries	**74,120,240**	**51,709,921**	**69.8**	**60,071,391**	**81.0**
Venezuela	41,382,288	27,339,434	66.1	31,768,194	76.8
Brazil	27,082,467	19,612,043	72.4	23,401,788	86.4
Argentina	4,620,988	3,820,564	82.7	3,738,941	80.9
Bolivia	412,165	504,002	122.3	675,881	164.0
Uruguay	416,000	238,436	57.3	234,997	56.5
Suriname	139,976	139,118	99.4	191,365	136.7
Paraguay	66,356	56,324	84.9	60,225	90.8
Sanctions					
Cuba	146	27	18.5	347	237.1
Total	**344,260,906**	**281,099,722**	**81.7**	**356,818,158**	**103.6**

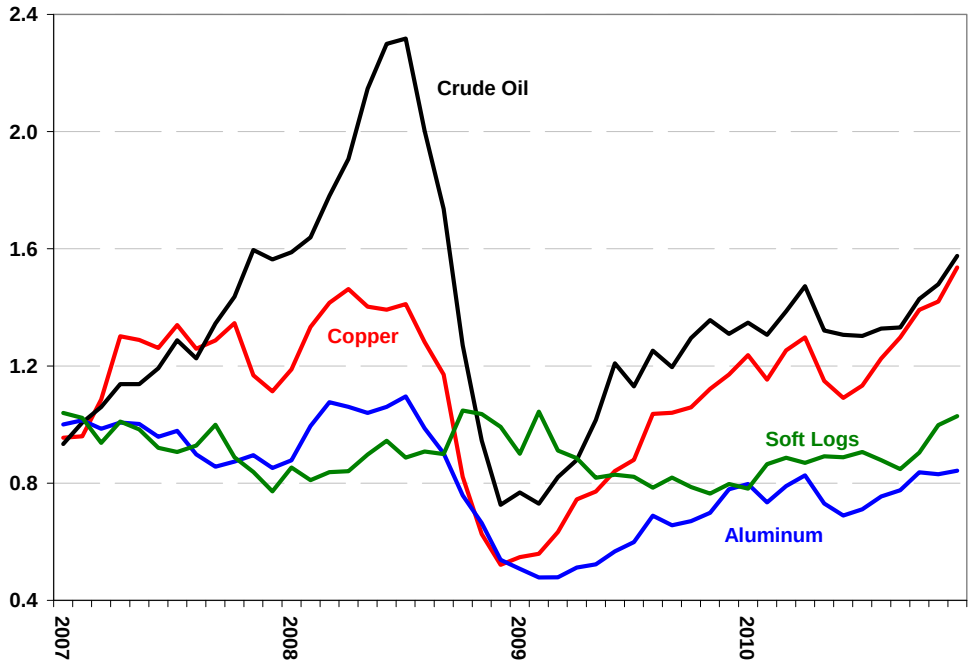
Source: Calculated from U.S. International Trade Commission's DataWeb.

Figure 6
Global Price Indices for Selected Agricultural Commodities
Average Prices in the First Quarter of 2007 = 1



Source: Calculated from IMF data at http://www.imf.org/external/np/res/commod/External_Data-010711.csv.

Figure 7
Global Price Indices for Selected Non-Agricultural Commodities
Average Prices in the First Quarter of 2007 = 1



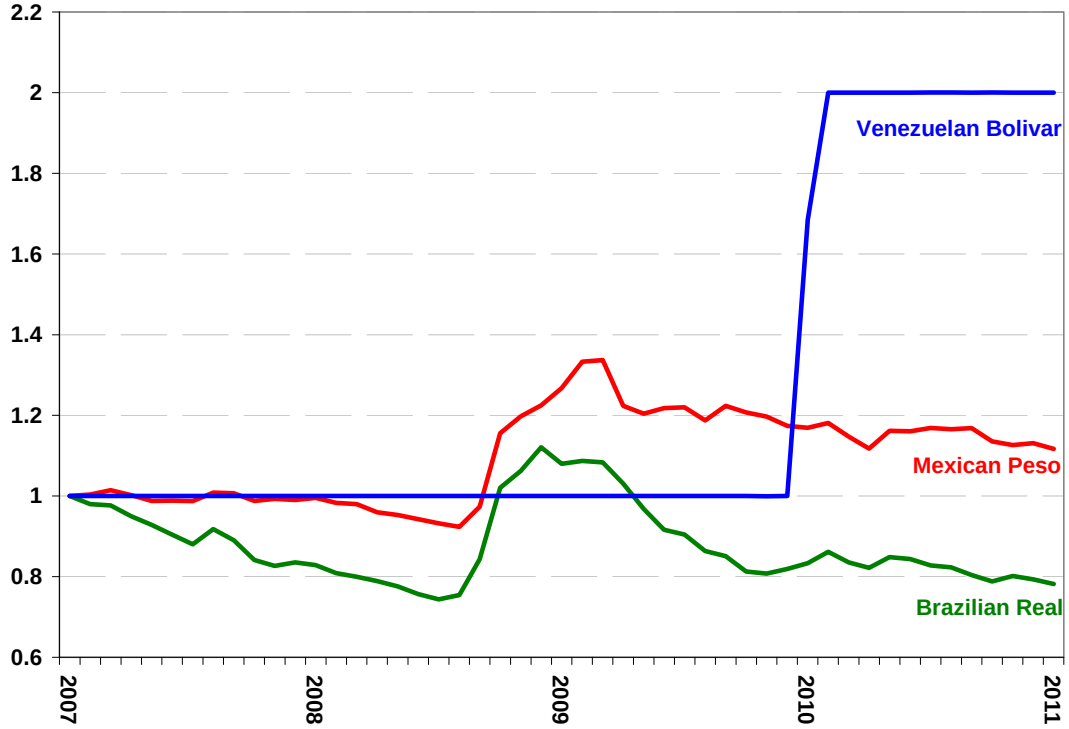
Source: Calculated from IMF data at http://www.imf.org/external/np/res/commod/External_Data-010711.csv.

Table 4
The Decline and Recovery of U.S. Merchandise Imports fromLatin American and Caribbean Countries by Commodity, 2006-2010
Imports for Consumption, Customs Value, in Millions of Dollars and Percentages; Includes Imports from All Latin American and Caribbean Countries

	2006-08 Average	2009 Imports	As Share of 2006-08	2010 Imports	As Share of 2006-08	Share of 2010 Total
Oil, Gas, Minerals & Ores	**82,153**	**58,989**	**71.8**	**76,372**	**93.0**	**21.3**
Oil & gas	77,838	56,402	72.5	73,863	94.9	20.6
Coal & petroleum gases	1,509	1,186	78.6	969	64.2	0.3
Nonmetallic minerals	1,834	955	52.1	814	44.4	0.2
Metal ores	972	446	45.9	726	74.7	0.2
Agriculture & Livestock Products	**15,896**	**16,850**	**106.0**	**19,079**	**120.0**	**5.3**
Fruits & tree nuts	7,197	8,341	115.9	9,481	131.7	2.6
Vegetables & melons	3,535	3,735	105.7	4,589	129.8	1.3
Fish & other marine products	2,289	2,134	93.2	2,243	98.0	0.6
Nursery & related products	813	792	97.5	872	107.3	0.2
Other agricultural products	536	548	102.2	544	101.4	0.2
Other	1,527	1,299	85.1	1,349	88.4	0.4
Intermediate Products	**47,299**	**33,393**	**70.6**	**40,203**	**85.0**	**11.2**
Petroleum & coal products	22,104	14,984	67.8	17,413	78.8	4.9
Chemicals	12,989	9,289	71.5	11,639	89.6	3.3
Plastics & rubber products	3,340	3,097	92.7	3,922	117.4	1.1
Nonmetallic mineral products	3,793	2,561	67.5	3,038	80.1	0.8
Paper	1,883	1,624	86.2	2,211	117.4	0.6
Other	3,190	1,840	57.7	1,980	62.1	0.6
Consumer Products	**30,322**	**25,885**	**85.4**	**29,486**	**97.2**	**8.2**
Apparel & accessories	14,727	11,189	76.0	12,341	83.8	3.4
Food & kindred products	7,398	7,893	106.7	9,195	124.3	2.6
Beverages & tobacco products	3,408	3,464	101.7	3,780	110.9	1.1
Leather & allied products	2,951	1,879	63.7	2,549	86.4	0.7
Textile mill products	1,119	897	80.2	975	87.1	0.3
Other	720	563	78.2	646	89.7	0.2
Major Manufactures	**160,332**	**136,045**	**84.9**	**181,410**	**113.1**	**50.7**
Computer & electronic products	45,129	46,322	102.6	59,141	131.0	16.5
Transportation equipment	48,928	36,505	74.6	54,296	111.0	15.2
Primary metal manufacturing	20,412	15,073	73.8	21,103	103.4	5.9
Electrical equip., appliances, etc.	17,438	14,334	82.2	17,223	98.8	4.8
Machinery, except electrical	12,654	9,749	77.0	13,569	107.2	3.8
Other	15,771	14,062	89.2	16,078	101.9	4.5
All other products	**12,222**	**11,887**	**97.3**	**11,497**	**94.1**	**3.2**
Total	**348,225**	**283,049**	**81.3**	**358,048**	**102.8**	**100.0**

Source: Calculated from U.S. International Trade Commission's DataWeb.

Figure 8
Exchange Rate Indices for SelectedCurrencies *Vis à Vis* the U.S. Dollar, 2007-2010
Units of Foreign Currency per U.S. Dollar Where January, 2007 = 1



Source: U.S. Federal Reserve at http://www.federalreserve.gov/datadownload/Choose.aspx?rel=H.10.

3. Trade in Services

Data on trade in services are not as readily available as data on trade in goods. The figures for services are not reported as frequently or as rapidly, they are not available for trade with all U.S. partners, they are broken out only in broad categories (e.g., transportation) rather than for precise products, and can be distorted for some countries (especially in the financial sector). Perhaps the most serious limitation for our present purposes is that the data for U.S. trade in services during 2010 are not yet available, so while we can observe how far trade fell during the crisis we cannot see yet how much it has since recovered.

With those caveats in mind, me may nonetheless see from the data illustrated in figures 9 and 10 that U.S. services trade with the region did drop in 2009, though not nearly as precipitously as did trade in goods. The United States exported $62.1 billion worth of private services to Central and South America in 2009, representing a 3.1% decline from the $64.1 billion achieved the previous year. Imports fell by 6.8%, from $36.9 billion in 2008 to $34.4 billion. The United States still maintained a very large surplus on services trade with Central and South America, which rose from $27.2 billion in 2008 to $27.7 billion in 2009 (a 1.7% increase).

4 U.S. Foreign Direct Investment

The one aspect of the U.S. economic relationship with the region that appears to have been least affected by the crisis, at least as shown by deviations from established trends, is foreign direct investment (FDI). The economic crisis notwithstanding, 2008 and 2009 were

the second- and third-biggest years for U.S. investment in the region during the decade (2007 having been the largest year). The overall trend, based on the full decade (see Table 5), has been for a substantial rise in FDI. Taken as a whole, the United States invested twice as much new capital in the region during 2005-2009 as it had during 2000-2004. (As in the case of trade in services, we still await release of the data for U.S. FDI in 2010.)

One important question concerns the relationship between investment patterns and the negotiation of FTAs. Whereas the principal objective of most U.S. partners in negotiating an FTA is to attract *new* FDI, one of the main objectives of U.S. negotiators in an FTA is to obtain better legal treatment of *existing* (and potential) investors. The latter objective is outside the scope of the present analysis, but the data shown in Table 5 allow us to test whether the first objective has actually been met by the FTA partners. The data generally confirm that these partners do attract new investment capital, but so does the rest of the region. Whereas 76.6% of U.S. FDI in the region went to the FTA partners in the first half of the decade, this fell to 57.8% in the second half. Most of that shift can be attributed to a slow rate of growth for new investment in Mexico; U.S. FDI in Mexico rose by an average of $7.6 billion per year during 2000-2004, but rose only slightly to $8.3 billion during 2005-2009. During those same periods, new U.S. investment in Chile, Peru, and the CAFTA-DR countries rose from $677.8 million to $4.2 billion per year. The remaining countries in the region also saw the rate of U.S. investment increase rapidly. The United States invested an average of $2.5 billion per year in these non-FTA countries in the first half of the decade, but in the more recent period this rate reached $9.2 billion per year.

5. Foreign Assistance

A final aspect of the U.S. economic relationship with the region is foreign assistance. The numbers reported in Table 6 bear out the cliché regarding "trade not aid" as the engine of growth, as the latter has come to account for an ever-smaller part of the relationship. Whereas the data in Table 1 showed that U.S. imports were equivalent to 1% or more of GDP for all but two of the SELA Member Countries (i.e., Cuba and Paraguay), there are only two countries (i.e., Guyana and Haiti) for which aid from the United States surpassed that 1% benchmark. Taken as a whole, the United States imports almost $200 worth of goods from the region for every $1 worth of aid that it provides to the region.

Over one-third of the aid that the United States provides to the region is security-related, and much of that is devoted to anti-narcotics programs in Colombia and Mexico. Security-related programs account for over half of the aid given to those two countries, and for all of the aid devoted to seven other countries in the region. The only two countries that receive no security-related aid from the United States are Cuba and Venezuela.

Figure 9
U.S. Services Exports to Central and South America, 2000-2009
Billions of Dollars

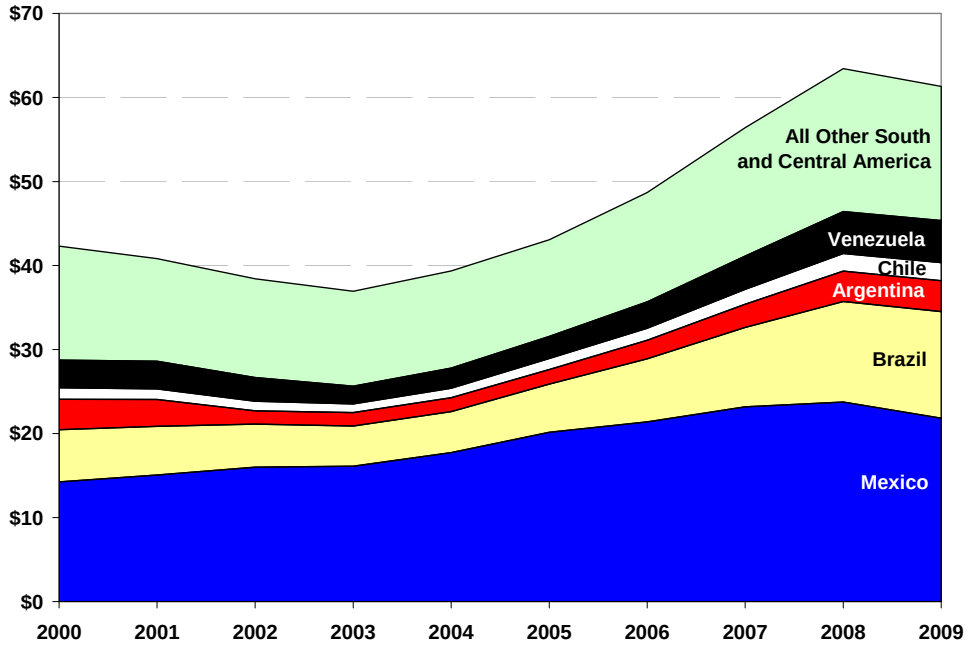
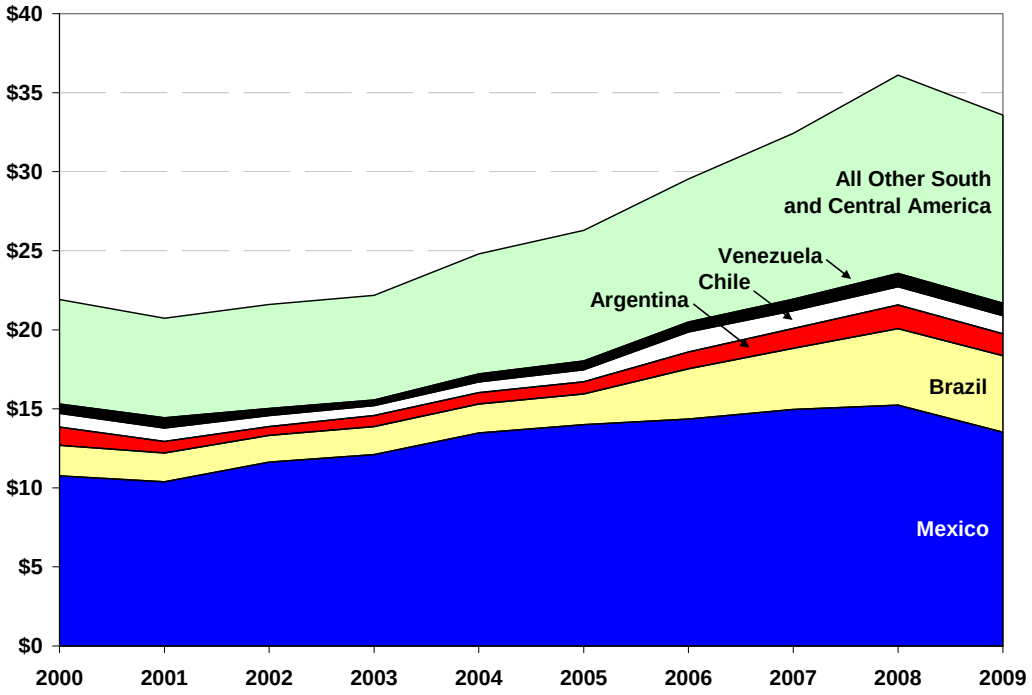


Figure 10
U.S. Services Imports from Central and South America, 2000-2009
Billions of Dollars



Note: Data for services trade with Caribbean countries are not included here because they tend to be very incomplete and are sometimes distorted by offshore transactions

Source for both figures: U.S. Bureau of Economic Affairs at http://www.bea.gov/international/bp_web/simple.cfm?anon=822851&table_id=22&area_id=3

Table 5

U.S. Foreign Direct Investment in SELA Member Countries, 2000-2009

Net Capital Outflows in Millions of Dollars; Countries Listed within Categories in Order of Magnitude of 2005-09 Investments

	2000	2001	2002	2003	2004	Net Change 2000-04 (A)	2005	2006	2007	2008	2009	Net Change 2005-09 (B)	B÷A
FTA Partners	**4,635**	**16,687**	**5,873**	**4,139**	**10,239**	**41,573**	**10,046**	**10,070**	**17,455**	**12,153**	**13,144**	**62,868**	**1.5**
Mexico	4,203	14,226	7,656	3,664	8,435	38,184	9,596	9,444	9,798	6,898	5,924	41,660	1.1
Chile	197	2,746	-1,507	202	912	2,550	-425	451	4,402	3,284	5,397	13,109	5.1
Peru	-19	100	-442	296	479	414	899	229	679	-545	1,384	2,646	6.4
CAFTA-DR	254	-385	166	-23	413	425	-24	-54	2,576	2,516	439	5,453	12.8
El Salvador	-73	-79	197	-17	152	180	81	-81	2,314	1,834	142	4,290	23.8
Costa Rica	431	17	63	75	291	877	-1,017	1,412	172	576	-227	916	1.0
Guatemala	93	-366	-50	10	44	-269	-18	-5	169	658	4	808	-3.0
Honduras	59	-157	22	83	193	200	88	36	71	151	-1	345	1.7
Dominican R.	175	217	-3	-99	24	314	-175	-4	22	-127	294	10	0.0
All Other	**8,311**	**1,672**	**-1,471**	**-283**	**4,446**	**12,675**	**5,236**	**6,669**	**12,439**	**11,359**	**10,219**	**45,922**	**3.6**
Brazil	3,350	113	-266	-290	2,644	5,551	1,400	223	5,585	4,179	2,663	14,050	2.5
Argentina	675	-511	-1,445	-118	1,760	361	859	4,274	547	2,120	1,370	9,170	25.4
Barbados	-813	903	-563	-522	1,526	531	266	503	3,595	884	1,419	6,667	12.6
Venezuela	3,798	461	150	-462	-389	3,558	1,312	508	1,044	1,089	2,168	6,121	1.7
Colombia	341	-224	-88	504	20	553	1,196	855	404	2,054	893	5,402	9.8
Panama	1,328	808	530	353	-71	2,948	106	214	1,218	748	1,190	3,476	1.2
Ecuador	-322	108	178	243	-837	-630	73	20	-43	139	217	406	-0.6
Uruguay	9	-17	41	-17	-85	-69	8	25	38	47	202	320	-4.6
Bolivia	16	30	-39	12	-139	-120	-18	-11	24	73	128	196	-1.6
Guyana	-46	12	10	4	10	-10	12	23	-6	27	5	61	-6.1
Haiti	-25	-11	21	10	7	2	22	35	33	-1	-36	53	26.5
Total	**12,946**	**18,359**	**4,402**	**3,856**	**14,685**	**54,248**	**15,282**	**16,739**	**29,894**	**23,512**	**23,363**	**108,790**	**2.0**

Note: Data are not available separately for the Bahamas, Jamaica, or Trinidad and Tobago, and are incomplete for Belize, Cuba, Grenada, Nicaragua, Paraguay, and Suriname. Source: Calculated from U.S. Bureau of Economic Affairs data. For complete details, including partial data for countries not shown here, see http://www.bea.gov/international/di1usdbal.htm.

Table 6
Relative Significance of U.S. Foreign Aid for SELA Member Countries

Fiscal Year 2011 Budget Requests to Congress from theU.S. Agency for International Development (Department of State); Countries Listed in Order of Relative Importance of Aid

	Development Assistance and Other Aid ($1000s)	Security-Related Aid ($1000s)	Total Aid ($1000s)	2007-09 Average GDP ($Billions)	Total U.S. Aid as Share of Country's GDP
Countries for which Security-Related Aid is Less than 50% of the Total					
Haiti	$337,821	$21,240	$359,061	$6.3	5.70%
Guyana	$22,125	$325	$22,450	$1.1	2.04%
Nicaragua	$42,297	$2,250	$44,547	$5.9	0.76%
Honduras	$65,934	$2,000	$67,934	$13.6	0.50%
Bolivia	$46,410	$20,390	$66,800	$15.7	0.43%
Guatemala	$94,450	$1,825	$96,275	$36.9	0.26%
El Salvador	$29,585	$6,600	$36,185	$21.2	0.17%
Dominican Rep.	$41,550	$900	$42,450	$44.6	0.10%
Jamaica	$12,348	$800	$13,148	$13.1	0.10%
Peru	$77,204	$43,225	$120,429	$122.3	0.10%
Ecuador	$27,465	$8,788	$36,253	$52.6	0.07%
Panama	$7,500	$3,050	$10,550	$22.6	0.05%
Paraguay	$5,605	$2,175	$7,780	$14.4	0.05%
Cuba	$20,000	$0	$20,000	$60.7	0.03%
Brazil	$18,800	$2,050	$20,850	$1,525.8	<0.01%
Venezuela	$5,000	$0	$5,000	$288.1	<0.01%
Barbados/E. Carib.	$36,485	$850	$37,335	NA	NA
Countries for which Security-Related Aid is 50% or More of the Total					
Colombia	$202,988	$261,945	$464,933	$228.0	0.20%
Mexico	$39,762	$306,800	$346,562	$996.8	0.03%
Belize	$20	$400	$420	$1.3	0.03%
Suriname	$0	$280	$280	$2.7	0.01%
Argentina	$0	$1,600	$1,600	$298.2	<0.01%
Bahamas	$0	$200	$200	$7.2	<0.01%
Chile	$0	$2,210	$2,210	$166.3	<0.01%
Costa Rica	$0	$750	$750	$28.4	<0.01%
Trinidad & Tobago	$0	$180	$180	$22.7	<0.01%
Uruguay	$0	$1,050	$1,050	$28.9	<0.01%
Total	**$1,133,349**	**$691,883**	**$1,825,232**	**$4,025.4**	**0.04%**

Note: Aid data for Grenada not separately available. Data for Barbados and the Eastern Caribbean are excluded from the calculation of aid in the rightmost column.
Data reported here include only direct and bilateral aid, and do not include regional programs or that aid that is indirectly provided through U.S. contributions to international financial institutions such as the InterAmerican Development Bank or the World Bank.

Security-Related Aid = Aid classified by USAID under the following categories: Foreign Military Financing; International Military Education and Training; International Narcotics Control and Law Enforcement; or Nonproliferation, Antiterrorism, Demining and Related programs. Note that the classification "security-related aid" is the author's and not USAID's.

Sources: Calculated from U.S. Department of State, Congressional Budget Justification — Foreign Operations, Annex: Regional Perspectives (Fiscal Year 2011)*, available online at* *http://www.usaid.gov/policy/budget/cbj2011/2011_CBJ_Annex.pdf, and GDP data from the World Bank. Note that GDP averages for some countries are based on 2007-08 or 2007, depending on data availability.*

III. CURRENT ISSUES IN U.S. ECONOMIC RELATIONS WITH THE REGION

This section turns to specific issues and initiatives in the economic relationship between the Unite States and the region. These include some matters that relate specifically to Latin American and Caribbean countries, such as the spending FTAs with Colombia and Panama; others that affect the region as well as other U.S. partners, such as renewal of the Generalized System of Preferences and conclusion of the Doha Round; and still others that do not directly affect the region but may offer important lessons, such as the debate over approval of the FTA with Korea.

Before examining each of these initiatives in detail, we first review what was accomplished in the 111th Congress, and how the political environment in the 112th Congress may be different.

1. What the 111th Congress Did and Did Not Do

The main theme in the Obama administration's approach to trade policy in the 111th Congress might be characterized as passive free trade, meaning that the administration opposed most proposals in Congress that would have imposed protection but did little to advance new market-opening initiatives. Even then the administration was not always successful, as the following are examples of restrictive legislation that it either did not oppose or felt obliged ultimately to accept in bargaining with Congress:

- Provisions in the stimulus package that Congress approved during President Obama's first weeks in office that impose "Buy America" requirements on goods and create disincentives for the hiring of non-U.S. workers;

- A bill restricting access by Mexican trucks to the U.S. market, in contravention of U.S. obligations under NAFTA;

- A one-year extension of domestic ethanol subsidies and tariffs on imported ethanol that were due to expire at the end of 2010 (H.R.4853); and

- A bill (H.R.847) enacted at the very end of the 111th Congress that imposes a new tax of 2% on foreign procurement of goods and services by the Federal government from "any country which is not a party to an international procurement agreement with the United States"[12] to pay for medical monitoring and treatment benefits to eligible emergency responders and recovery and cleanup workers who responded to the September 11, 2001 terrorist attacks.

While there are thus several actions taken in the 111th Congress that negatively affect the interests of Latin American and Caribbean countries, they collectively fall far short of anything like the 1930s-style protectionism that some had feared would come after the outbreak of the economic crisis in 2008. The fact that protectionism was the proverbial "dog that did not bark" during the crisis has led many analysts to ask why that happened (or rather, why it did not). This may not be the right question. As important as protectionism is, the more significant problem today concerns the inability to conclude and approve trade agreements, especially at the multilateral level. A better way to pose the question is, why has there not been a major outbreak of protectionism, nor real forward momentum in the Doha Round, nor definitive action on the FTAs that have been pending since 2007? Or to put it in the metaphorical terms of the well-known bicycle

[12] This would appear to mean exemptions for FTA partners and the signatories to the WTO Government Procurement Agreement, but other countries — including most developing countries — are subject to the impost.

theory (i.e., trade liberalization is like a bicycle: If you don't move forward you fall over), why is it that U.S. trade policy now appears to be on an exercise bike that goes neither forward nor backward but just spins in place?

Prominent examples of inaction include the failure to reinvigorate the Doha Round of multilateral trade negotiations or win congressional approval for the three FTAs that President Obama inherited from his predecessor. As for preferential trade programs, the Obama administration had a very mixed record in its first two years. On the one hand, President Obama signed into law on May 24, 2010 a bill that extended and expanded trade benefits offered to Haiti and also renewed the broader Caribbean Basin Trade Partnership Act for ten years. That latter program, which had been scheduled to expire on September 30, 2010, benefits not only Haiti but also Panama (at least until its FTA is approved) and the Anglo-Caribbean countries. The administration also secured in 2009 a one-year renewal of the Generalized System of Preferences (GSP) and the Andean Trade Preferences Act (ATPA). On the other hand, the administration failed to repeat that last accomplishment when the GSP and ATPA came up for renewal at the end of 2010. As a result, many millions of dollars worth of imports from the GSP beneficiaries in the region have thus been subject to tariffs since January 1, 2011, while others imported from Colombia and Ecuador have been dutiable since February 13, 2011.

Early indications are that the executive and legislative branches are more interested in tackling trade in the 112th than they were in the 111th. While we may now expect U.S. policymakers to devote more attention to the subject, however, there are major political obstacles they must overcome. These include not only the permanent source of conflict in U.S. trade policymaking (the constitutional division of authority between the executive and legislative branches), and another that has grown more significant over time (the partisan division between Democrats and Republicans), but yet a third and entirely new factor in U.S. politics. The past two years have seen the emergence of a new faction known as the Tea Party, a loosely organized group of activists who are associated with the broader Republican Party but take a more confrontational approach towards the Obama administration.

2 Divisions over Trade Policy between and within the Two Parties

To return to a point made in Part I, trade policy has been repoliticized in recent decades. At the domestic level this trend manifests itself in more partisan divisions over the issue, such that Republicans have generally favored most market-opening initiatives but the trade-skeptical wing in the Democratic Party has grown. This is not a simple battle between free-traders and protectionists, however, as the main disagreements have been not over trade liberalization *per se* but instead over issues that have become linked to trade, especially labor rights and the environment. The partisan divide may become even more complicated as a result of the 2010 congressional election, as it may have revived the trade-skeptical wing of the Republican Party. That wing had been dominant in the party during the century between the U.S. Civil War and the 1960s, but had virtually disappeared in the past generation. It now appears that at least some Republicans who affiliate themselves with the Tea Party may be more economically nationalistic and trade-skeptical than their colleagues.

This may create a much more complicated environment for making trade policy in the foreseeable future. The data in Table 7 show that over the past few decades the only major variation came on the Democratic side: A very large share of Republican legislators would routinely vote for market-opening initiatives, but the share of Democrats favoring these initiatives was always below 50% and fluctuated greatly from one episode to another. Depending on how the Tea Party-affiliated Republicans approach trade, and

what accommodations are made (or not) to their demands, it is possible that we may see a similarly volatile pattern of votes on the Republican side.

For the moment, let us concentrate on past voting patterns. The data show how members of the two parties have responded to eight past requests either to extend or to employ grants of negotiating authority. Democrats have historically been more opposed to grants of trade promotion authority (TPA or "fast track") in principle than in practice; they gave their support an average of 16.0% of the time for the four votes in the table concerning the granting or withdrawal of TPA, but in the four votes to approve specific FTAs they gave their support 33.1% of the time. Beyond that distinction, the main explanation for the variation in their votes concerns how far a president went to meet their demand that trade agreements be conditional upon the enforcement of labor rights and environmental rules. The nearly 50% support for the FTA with Peru reflects the fact that this agreement was renegotiated along Democratic lines; the high levels of opposition to the FTAs with Central America and Colombia can be attributed to the fact that many Democrats believed those agreements did not go far enough, even though the Colombian FTA was renegotiated on the same terms as its Peruvian counterpart.

Table 7

Partisan Voting Patterns on Selected Trade Issues in the U.S. Congress, 1991-2008

Percentages of Members of Each Party in the House of Representatives Voting to Take the Pro-Trade Position

		Republicans	Democrats
1991	Authorize fast-track treatment for NAFTA/Uruguay Round	87.0	34.9
1993	Approve North American FTA	75.4	39.5
1998	Authorize fast-track treatment for FTAs/WTO Round	68.0	14.5
2001	Authorize fast-track treatment for FTAs/Doha Round	89.4	10.0
2003	Approve Chile FTA	87.8	36.9
2005	Approve CAFTA-DR	88.2	7.4
2007	Approve Peru FTA	91.7	48.4
2008	Remove fast-track treatment for Colombia FTA	96.9	4.4

Source: Calculated from U.S. Congress and Congressional Quarterly *data.*

So where are we today? The data in Figure 11 show that at the time of last year's election the sentiment among Republican voters in the general public was much more anti-trade than that of Democrats. Anti-trade sentiment was especially severe among that half of the Republicans who say they agree with the Tea Party, yet even the non-Tea Party Republican voters were evenly split in that poll between pro- and anti-trade opinion. There are also reasons to believe that many (though not all) of the newly elected, Tea Party-associated Republicans in Congress share these trade-skeptical sentiments. According to one review of last year's electoral campaigns, a record number of 75 Republicans adopted a "fair trade" message in their campaigns, 43 of whom won election to Congress.[13] This does not mean that all Tea Party-associated Republicans in Congress will prove to be protectionist; to the contrary, some of them clearly see free trade as one aspect of the pro-market, anti-government program that they favor. Many others remain an unknown quantity.

There are at least three aspects of Tea Party philosophy that could interfere with the adoption of pro-trade positions in general or cooperation on this issue with the Obama administration in particular. One is a strict-constructionist stance that members of the group take towards the Constitution, and a concern that both the letter and the spirit of that seminal document have been violated for decades. Considering the fact that the Constitution is quite explicit about the regulation of commerce being a congressional prerogative, one could imagine at least some Tea Party legislators taking the view that the delegation of authority in this area from the legislative to the executive branch constitutes yet another betrayal on constitutional principles. Second, the adherents to this movement tend to be strong advocates of sovereignty, and have a deep-seated distrust for supranational organizations that they see as a threat to U.S. liberty. Trade *per se* may be fine, under this view, but trade agreements (like treaties in general) as well as the WTO in particular may be viewed with great distrust. The third barrier could prove to be the most problematic: If President Obama is for something, many Tea Party activists will almost reflexively come out against it. To the extent that cooperation with the administration on trade policy is seen as a compromise, especially if that means requiring that they endorse any concessions made to liberals or labor unions or other groups that they despise, members of this group may rebel.

Despite these concerns, there is evidence to suggest that many of the freshmen Republicans in the House will favor at least a few of the pro-trade initiatives under consideration in the 112th Congress. That appears to be the case for the pending FTAs, for example, with 67 of the 88 new Republican members (76.1%) having signed a letter released on March 1, 2011 that endorses all three of the agreements. That is a smaller percentage than one would expect from the veteran Republicans, based on the voting patterns discussed above, but is well over a majority. It should also be noted that it may be easier for these new members to associate themselves with agreements that were negotiated by the previous administration than to bargain with the Obama administration over potentially troublesome matters such as the terms of a new grant of negotiation authority.

Much depends on just how large the Tea Party Caucus turns out to be. In the 111th Congress there were 52 members of the House who affiliated themselves with this group,[14] amounting to 29.1% of the Republicans in that body. As of this writing the caucus has not

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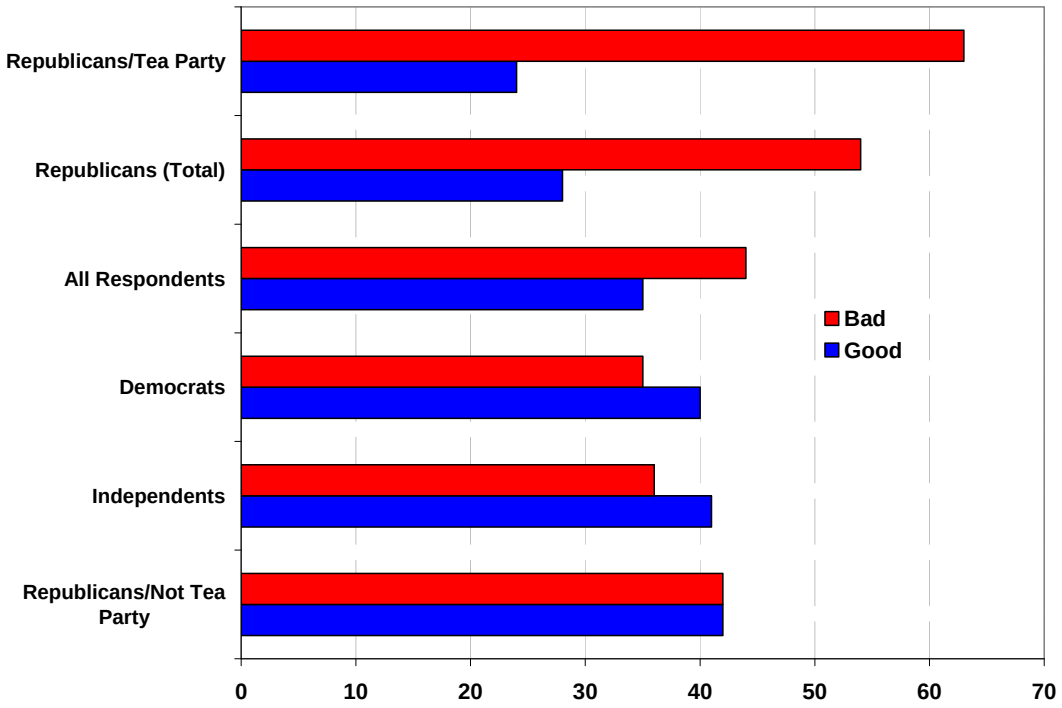
[13] *Election 2010: The Best Defense Was a Good Fair Trade Offense* (Washington, D.C.: Public Citizen, 2010).

[14] The full list is on line at http://bachmann.house.gov/News/DocumentSingle.aspx?DocumentID=199440.

yet convened in the 112th Congress, so it is unclear how many of the 241 House Republicans will formally associate themselves with it. Only four of the 47 Republican senators associate themselves with the Tea Party Caucus in that chamber. Even after we know how many Republicans align themselves with this group, it will be important to track how they actually vote on real-world issues. As discussed below, the pending FTA with Korea may offer the first such test of where they stand.

Figure 11

Public Opinion on Trade Agreements by Party Affiliation, 2010



The specific question asked was as follows: "In general, do you think that free trade agreements like NAFTA and the policies of the World Trade Organization, have been a good thing or a bad thing for the United States?"

Source: Poll conducted by the Pew Research Center for the People & the Press on November 4-7, 2010 of 1255 persons with a margin of error of 3.5 percentage points for the full sample, with larger margins of error for subgroups. The poll results are available online at http://people-press.org/report/673/.

3 Pending Initiatives Affecting SELA Member Countries

There are several initiatives affecting the region that may be taken up in the 112th Congress. Before examining each of these matters we should first understand the differing treatment extended to imports from SELA Member Countries, as this indicates which of the pending initiatives might directly or indirectly affect different countries' interests.

Table 8 summarizes the status of each country in its access to the U.S. market. Nine countries in the region are already FTA partners of the United States, and the agreements with two others are still pending approval. Apart from the obvious point that the interests of Colombia and Panama are very much at issue, it is also worth noting that the multilateral trade negotiations in the WTO have a somewhat different meaning for these actual and prospective FTA partners than they do for the others. If those negotiations produce substantial reductions in U.S. tariffs on a most-favored-nation basis they will reduce the margins of preference enjoyed by these countries in the U.S. market; that loss may be compensated, however, by the improved access that Latin American and Caribbean countries obtain in third-country markets. The same may also be said for the benefits enjoyed under preferential trade programs by other countries in the region, but those programs have a less certain permanence and, in the case of the GSP, much

smaller product coverage. Another nine countries in the region are beneficiaries of the regional preferences for either the Caribbean Basin or and the Andean region, while seven benefit only from the GSP. Cuba remains subject to a trade embargo.

Table 8

Treatment of SELA Member Countries in Access to the U.S. Market

	SELA Member Countries	Rest of the World
FTAs in Effect	Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru	Australia, Bahrain, Canada, Israel, Jordan, Morocco, Oman, Singapore
FTAs Pending	Colombia, Panama	Korea
FTAs under Negotiation	[None]	Brunei, Malaysia, New Zealand, Vietnam
Beneficiaries of Regional Preferences	Bahamas, Barbados, Belize, Ecuador, Grenada, Guyana, Haiti, Jamaica, Trinidad and Tobago	Other Caribbean islands (i.e., Antigua and Barbuda, Aruba, Dominica, St. Kitts-Nevis, and St. Lucia) and most of sub-Saharan Africa
Beneficiaries of the GSP	Argentina, Bolivia, Brazil, Paraguay, Suriname, Uruguay, Venezuela	Most developing countries and economies in transition other than China, OPEC members, FTA partners of the United States, and Asian newly-industrialized economies
MFN Treatment	[None]	European Union, China, Japan, Asian newly-industrialized economies, and most Middle East countries other than FTA partners
Subject to Sanctions	Cuba	Iran, North Korea

Sources: GDP data from the World Bank. Trade data from the U.S. International Trade Commission. Note that GDP averages for some countries are based on 2007-08 or 2007.

As different as these various agreements and programs are, the data shown in Table 9 underline one key point: Imports from almost all SELA Member Countries now face very low average tariffs. Venezuela is the only country for which more than half of U.S. imports are still dutiable, yet the average tariff imposed on dutiable imports from Venezuela (chiefly oil and derivatives) was just 0.16% last year. Some dutiable imports from FTA partners still face relatively high duties, principally for apparel products, but those tariffs are being phased out altogether. Looking at average tariffs imposed on all imports, one sees that Brazil, Guatemala, and Nicaragua are the only countries for which this average is equal to or greater than 1%. For fifteen countries, average tariffs imposed on all imports last year was less than 0.1%.

Table 9

Tariff Treatment of Imports from SELA Member Countries, 2010

		Average Tariff	
	Percent Dutiable	As % of Dutiable Imports	As % of Total Imports
FTA Partners			
Chile	6.42	2.74	0.18
Costa Rica	2.48	1.23	0.03
Dominican Rep	4.73	7.37	0.35
El Salvador	5.65	14.80	0.84
Guatemala	14.53	18.75	2.73
Honduras	4.50	14.41	0.65
Mexico	3.28	2.61	0.09
Nicaragua	11.28	14.29	1.61
Peru	8.57	0.57	0.05
Regional Preferences			
Bahamas	35.52	1.16	0.41
Barbados	2.71	2.01	0.05
Belize	20.88	0.21	0.04
Colombia	7.25	0.80	0.06
Ecuador	24.91	0.28	0.07
Grenada	3.67	1.78	0.07
Guyana	0.39	7.23	0.03
Haiti	0.47	10.64	0.05
Jamaica	10.72	0.54	0.06
Panama	1.83	3.47	0.06
Trinidad & Tobago	11.92	0.30	0.04
GSP Beneficiaries			
Argentina	44.40	2.01	0.89
Bolivia	32.33	0.65	0.21
Brazil	43.40	2.30	1.00
Paraguay	9.00	9.33	0.84
Suriname	1.63	2.77	0.05
Uruguay	35.94	2.31	0.83
Venezuela	57.60	0.16	0.09
Sanctions			
Cuba	0.00	—	0.00

Source: Calculated from the U.S. International Trade Commission's DataWeb.

3.1. A New Grant of Trade Promotion Authority

The latest (2002) grant of trade promotion authority (TPA) expired in mid-2007, and a new grant will be needed before any new FTAs or multilateral trade agreements can be voted on in Congress.[15] Also known as the "fast track," TPA is a necessary element in an active U.S. trade policy. It establishes special procedures that facilitate the consideration of trade agreements. The rules provide that the implementing legislation for an agreement must be voted upon in both the House and the Senate within 90 legislative days of its introduction, and also prohibit any amendments to that legislation after it has been introduced. Fast-track authority has been considered an indispensable tool of U.S. trade policy since it was first extended in 1974. None of the trade agreements submitted under this authority before 2007 were amended or rejected, and there have been no major trade agreements approved in the past 35 years without such authority. The Colombia FTA represents the only instance in which TPA was first granted and then rescinded, with the House of Representatives having voted in April, 2008 to withdraw TPA treatment from that agreement, but the House could presumably vote to restore these protections if and when the agreement is resubmitted.

The Obama administration has indicated on several occasions that it intends at some point to make a proposal to Congress for a new grant of authority, but that has not happened yet and it is uncertain when it will. Once the administration makes a proposal we can expect potentially lengthy and difficult negotiations between the two branches and parties. That is what happened both when the Clinton administration sought (and repeatedly failed) to win a grant in the 1990s, and when the Bush administration did so with greater success in 2001-2002. The chief point of disagreement will be over how future negotiations will deal with the labor and environmental issues. Legislators can also be expected to propose procedural tweaks in how the TPA rules work. Among the changes in the principles and procedures of TPA that might be considered are: requiring a vote by both houses of Congress before initiating any new negotiations; requiring closer consultations with Congress during negotiations; strengthening the role of Congress in the period between notification and the signing of an agreement; allowing the amendment of implementing legislation on some issues; and making the negotiating objectives mandatory.

For the time being, however, this is a topic that is not even on the radar in Washington. Even before the 2010 elections it was clear that the Obama administration would need to invest a great deal of its limited political capital in order to negotiate some compromise between the Democratic and Republican positions on labor and environmental provisions in trade agreements. Now that the 2012 presidential elections are approaching, and with serious doubts over the willingness of some Tea Party Republicans to support free trade or reach compromises with the administration, the prospects seem even more daunting.

3.2 The FTAs with Colombia, Panama, and Korea

The Bush administration had attempted to win congressional approval for FTAs that it negotiated with Colombia, Panama, Peru, and Korea during its final two years in office, but encountered opposition from Democrats after they won majorities in both the House and the Senate in the 2006 elections. The Bush administration renegotiated the agreements to meet Democratic demands (especially on labor and environmental matters), and these renegotiations did help to secure passage of the U.S.-Peruvian FTA in

[15] The pending FTAs with Colombia, Panama, and Korea are covered by the earlier (but now expired) TPA grant. The Doha Round and the TPP negotiations are not.

late 2007. That was the only one of the FTAs negotiated by the Bush administration that Congress approved between the time that Democrats recaptured control in the November, 2006 elections and President Bush left office in January, 2009.

President Obama did not disown any of the agreements that he inherited from President Bush, but neither did he devote any serious attention to them until recently. In negotiations that were concluded in December, 2010, the Obama administration and the government of Korea agreed to make a number of adjustments to the terms of the original agreement; many of these involved further Korean concessions to the U.S. automotive industry. As a result, approval of the U.S.-Korean FTA will be — together with renewal of the preferential trade programs discussed below — one of only two trade initiatives that is virtually certain to be on the table in the 112th Congress. The Obama administration has resisted pressure from the Republicans in Congress to put forward all three agreements at once, and it is in a better position than they are to control the sequence and timing of these events. There is a strong possibility that the FTA with Panama will eventually be acted upon, but the agreement with Colombia remains much more controversial.

While the agreement with Korea is thus decoupled from the pending FTAs with Colombia and Panama, and does not directly affect the interests of SELA Member Countries, its trajectory in Congress will offer us the first opportunity to observe how the new political realities in Washington affect trade policymaking. It will be worthwhile examining how well trade policymakers in the two branches of government work together in the coming months to develop the terms of the implementing legislation for the agreement, and also any patterns in how members of Congress vote on it. This will be the first major vote on trade policy since 2007, and will thus be a first opportunity for any members newly elected in 2008 and 2010 to establish a voting record. It will be especially interesting to see how many votes the Korean FTA wins from those Republicans in Congress who are associated with the Tea Party.

3.3 The Doha Round of Multilateral Trade Negotiations

The declining U.S. interest in trade policy can be understood by contrasting the experience of the Uruguay Round of multilateral trade negotiations (1986-1994) with the current Doha Round. In the Uruguay Round the United States was the principal *demandeur*, being the promoter of what were then the "new issues" in trade (i.e., services, investment, and intellectual property rights), and the negotiations were a high priority for some of the most important segments of the U.S. business community. There is no such sense of urgency today, with all three corners of the policymaking triangle — the executive, the legislature, and the private sector — being more focused on issues other than trade policy.

Perhaps the most notable evidence of the low priority attached to trade policy in the first two years of the Obama administration came in the form of what did *not* happen in the most significant inherited negotiation: There was virtually no discernible movement in the stalled Doha Round of multilateral trade talks. This initiative, which has been underway since 2001, has gone through a series of stalls and near-collapses over the past decade. While there had been some hope in early 2009 that the United States might seek to reinvigorate the negotiations, the Obama administration has done little more in the past two years than reiterate the positions enunciated by its predecessor. As was the case under the Bush administration, the United States continues to insist that the Doha Round is worth completing only if the results are ambitious, and that the principal problem with the offers currently on the table is that they do not include what are, from the U.S.

perspective, sufficiently deep commitments from larger developing countries such as Brazil, China, and India.

The round has thus far been stymied by a series of challenges. Some of the poorest developing countries are concerned that the round could lead to erosion in the margins of preference that many of them now enjoy in major markets, while several of the more advanced developing countries are concerned that industrialized countries are demanding too many concessions from them. The industrialized countries themselves are reluctant to make major concessions on agriculture, whether in the area of market access (the main sticking point for the European Union) or production subsidies (the principal problem for the United States). It may now be possible, however, that the changing political climate in the United States could lead to a more flexible position on those subsidies. If so, one of the mountains that the Geneva negotiators need to move may be reduced in size. Even then, however, they may still be unwilling to put their best offers on the table as long as the U.S. president does not have TPA authority and there remains doubt over the authority of their U.S. counterparts to make deals.

3.4 The Trans-Pacific Partnership Negotiations

The TPP is the first significant, new trade negotiation to be launched during President Obama's tenure, but it did not originate with this administration. The first steps in this direction were taken without the participation of the United States. The original core of the talks was formed by the "Plan Four" (or P-4) of Brunei, Chile, New Zealand, and Singapore. The United States indicated its interest in joining this process during the waning months of the Bush administration, and was followed by Australia, Peru, and Vietnam. It took the Obama administration a year to decide that it wanted to go ahead with the talks, which are still in the early phases and may grow to encompass new parties. Malaysia is the latest country to join, but may not be the last. It is possible that Japan will formally enter the talks, in which case the stakes for the United States will rise tremendously.

These negotiations bring together a large and diverse group of countries, but it should also be noted that many of them already have FTAs in place with one another. The two Latin American parties to these negotiations (Chile and Peru) already have FTAs with the United States, as do Australia and Singapore; from the U.S. perspective, the only wholly new parties to these talks are Brunei, Malaysia, New Zealand, and Vietnam.

It should not be taken for granted that the process will ultimately produce an agreement among all of the participants. To the contrary, the track record for plurilateral negotiations is spotty. The only successful plurilaterals so far in which the United States is a partner are NAFTA and CAFTA-DR. Other plurilateral efforts have either failed altogether (e.g., the proposed agreement with the Southern African Customs Union) or fragmented into separate negotiations. The proposed Free Trade Area of the Americas, for example, broke apart into numerous other negotiations, one of which (the U.S.-Andean FTA negotiations) in turn split into separate FTA talks with Ecuador, Colombia, and Peru. Of those negotiations, only the one with Peru has thus far been completed, approved, and implemented. The TPP negotiation itself can be seen as a splinter — albeit a growing one — of the earlier effort to negotiate an FTA among the entire membership of the Asia Pacific Economic Cooperation group.

3.5 Renewal and Possible Reform of Preferential Trade Programs

As was noted earlier, the authorizations for both the GSP and the ATPA have now expired. Both of these programs offer duty-free access to the U.S. market for many products exported by developing countries, though the product coverage of the ATPA is far

broader than that of the GSP. The countries in the region that benefit from the GSP alone (i.e., those that do not have free trade agreements with the United States or benefit from other preferential programs) are Argentina, Bolivia, Brazil, Paraguay, Suriname, Uruguay, and Venezuela. The two remaining ATPA beneficiaries are Colombia and Ecuador. It is possible, but by no means certain, that in addition to renewing the GSP and the ATPA the new Congress may also take up proposals to reform these and other preferential programs.

The principal obstacle to the renewal of these two programs is the demand from one legislator (Senator Jeff Sessions of Alabama) that a single product now eligible for duty-free treatment under the GSP (sleeping bags imported from Bangladesh) be removed from the program's coverage. A confrontation over that demand prevented the enactment of legislation in late 2010 that would have renewed both programs for over a year. It is anticipated that policymakers in the two branches of government will soon seek to reach an accommodation with the senator in question, thus allowing the GSP and ATPA to be renewed on a retroactive basis, but it remains uncertain whether, when, or on what terms that might be accomplished.

There have been many calls in recent years for a broader effort to reform these and other preferential trade programs for developing countries. Some proposals might aid the beneficiary countries by simplifying the rules that must be met in order for products to receive duty-free treatment, and others would seek to enhance benefits for the poorest countries and/or reduce those enjoyed by the higher-income developing countries. Apart from the introduction of a few bills and one hearing held on this subject in the Senate Finance Committee, however, no action was taken on these proposals. There is a possibility that the topic may be dealt with in the new, 112th Congress, but the leadership of the House and Senate trade committees have not yet indicated any specific plans.

Table 10

U.S. Free Trade Agreements and BilateralInvestment Treaties with SELA Member Countries

	In Force	Not Yet in Force
Both FTA & BIT	El Salvador (FTA), Honduras, Nicaragua (FTA), Panama (BIT)	El Salvador (BIT), Nicaragua (BIT), Panama (FTA)
FTA Only	Chile, Costa Rica, Dominican Republic, Guatemala, Mexico, Peru	Colombia
BIT Only	Argentina, Bolivia, Ecuador, Grenada, Jamaica, Trinidad & Tobago	Haiti

Source: State Department and Office of the U.S. Trade Representative.

3.6 Investment Policy

The most important instruments of U.S. investment policy in the region are FTAs and bilateral investment treaties (BITs). BITs are in fact much more common than FTAs, both globally (where they are counted in the thousands) and in the United States. The United States has negotiated BITs with 46 countries, which is more than twice the number of its FTA partners. As shown in Table 10, the United States has negotiated BITs with seven countries in the region, FTAs with seven, and both BITs and FTAs with another four. Not all of these agreements are in effect, however, and some have been pending approval for so long that they might be considered dormant.

The structure and content of the U.S. BITs are very similar to the investment chapters of the U.S. FTAs. Both provide for essentially the same kinds of rules and follow more or less the same structure. One important difference is that BITs are subject to the special treaty-approval procedures that require two-thirds approval in the Senate, and are easily delayed by either opposition or indifference on the part of even a small number of senators. The result is that while most FTAs negotiated prior to 2006 were approved by Congress within months of their conclusion, BITs are sometimes "bottled up" in the Senate for years at a time. Another difference is that while the United States may generally be said to have a "template" for its FTAs, with each new agreement bearing a close resemblance to the one before it, in the case of BITs there is actually a formal and public (though evolving) model. The last update to the model BIT was completed in 2004.[16]

One of the first steps that the Obama administration took towards establishing its international economic policy was to create a special Subcommittee on Investment to the existing Advisory Committee on International Economic Policy, which it then assigned to review the model BIT and recommend changes that should be made to it. The committee issued its report in September, 2009.[17] It covered 24 separate points, but managed to reach consensus on only a few of these; even in some cases where consensus was reached, the results were stated in vague, compromise language. On the issues of labor and the environment, for example, the report noted that "the 2004 U.S. Model BIT contains aspirational language," thus implying that these provisions are more rhetorical than substantive, and went on to note that the "the Subcommittee supports efforts to promote improvement in environmental standards and protections in potential BIT partners" and "to promote improvement in labor standards and protections in potential BIT partners." Members had distinct and unreconciled views regarding such issues as the minimum standard of treatment, whether future BITs should include exceptions to the free transfers policy in the event of any future balance of payments crises, and the appropriateness of broadening the prohibition against performance requirements to encompass additional types of requirements. In sum, the operation of this subcommittee seems to underline the fact that the debate over how to revise the terms of the model BIT — and presumably the corresponding sections of FTAs — remains very much a live matter in the United States.[18]

3.7 A New Farm BIll

It is an established practice in the United States to enact a new omnibus law dealing with agricultural programs approximately once every five years. The current farm bill, known as the "Food, Conservation, and Energy Act of 2008," is due to expire in 2012. That 2008 law itself replaced the "Farm Security and Rural Investment Act of 2002," which in turn had supplanted the "Federal Agriculture Improvement and Reform Act of 1996."[19] The changes in U.S. law and policy from one bill to another are sometimes modest and sometimes major. Whereas the 2008 bill was substantially similar to its 2002 predecessor, with some "tweaks" to certain programs (e.g., higher biofuel subsidies), the differences between the 1996 and 2002 farm bills were stark. The 1996 bill was enacted shortly after

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[16] For the 2004 version of the model BIT see http://www.ustr.gov/sites/default/files/U.S.%20model%20BIT.pdf.

[17] For the text of the Report of the Subcommittee on Investment of the Advisory Committee on International Economic Policy Regarding the Model Bilateral Investment Treaty (September 30, 2009) go to http://www.state.gov/e/eeb/rls/othr/2009/131098.htm.

[18] In communication with the author of this report, one member of the Subcommittee on Investment noted that while tentative agreement was reached on an inter-agency basis in 2010 on a new model BIT, the text then ran into political obstacles in Congress and thus was shelved.

[19] For full information on past U.S. farm bills see http://www.nationalaglawcenter.org/farmbills/.

the end of the Uruguay Round of WTO negotiations, and complemented the spirit of that round's cuts in agricultural subsidies, by 2002 the United States was maneuvering into place for the Doha Round and hard negotiations with the European Union. The latter bill greatly increased subsidies. There is as yet little indication what the overall theme or thrust of the 2012 bill may be. The Obama administration has not made any proposals as yet, nor have leaders in the House and Senate been very explicit about their plans.

One important issue is how the new farm bill may affect the U.S. negotiating position on agricultural subsidies in the Doha Round. The Uruguay Round trade negotiations, which came into effect in 1995, achieved a seemingly major advance by making agricultural support programs subject to numerical limitations. The support provided by developed countries such as the United States was to be keep within an aggregate measurement of support (AMS), as calculated on the basis of past levels of subsidization. The support that the United States was allowed to provide under certain types of programs could go no higher than $23.1 billion in 1995, a figure that was phased down to $19.1 billion by 2000. That cap remains in place to this day. What is really at issue in WTO negotiations is not the level of subsidization that the United States and other countries *will* provide, but the ceiling on the level that they *might* provide. The most that the United States ever provided in the post-Uruguay Round period was $16.9 billion in 1999, and there is little expectation that the United States will get anywhere close to the ceiling level of $19.1 billion unless there is a major collapse in commodity prices, and yet U.S. negotiators hope to maintain as much "policy space" as possible in the event that they might need to increase subsidy levels in the future.

While the negotiations in Geneva might play a role in determining the type and level of subsidization that may be offered under the 2012 farm bill, it is likely that three other factors will play a greater role. These include electoral calculations (politicians in both parties will want to win the support of farmers as the 2012 elections approach), commodity prices (the U.S. programs are structured in a way that causes subsidies to fall when prices are high), and budgetary constraints (there is pressure to reduce spending on programs in all areas of public policy). It is too soon to know what the net effect of these three, sometimes countervailing forces will be on the level of type and magnitude of subsidies that might be authorized by the 2012 farm bill, and that might ultimately extended in specific marketing years. The maneuvering on those issues may begin in earnest early next year.

3.8 The Embargo on Trade with Cuba

One consequence of the 2010 congressional elections is that it makes it less likely that, in the absence of new developments in the world, Congress will act in the foreseeable future to ease the trade embargo with Cuba. That embargo is no longer comprehensive, having been relaxed over the years to allow for sales of agricultural products to Cuba, and there were many bills pending in the 111th Congress to make either incremental or wholesale changes in the restrictions on trade and travel. Those proposals are especially popular in the U.S. agricultural community but, despite the fact that this community tends to lean more in the direction of Republicans than Democrats, the Republican leaders in Congress are far more committed to maintaining the embargo than were their Democratic predecessors.

An incident from late in the 111th Congress illustrates that point. On June 30, 2010, the House Agriculture Committee approved the "Travel Restriction Reform and Export Enhancement Act" (H.R.4645). The bill would generally prohibit the president from restricting travel to Cuba and also facilitate future agricultural exports to the country. Despite the fact that this bill was introduced by Representative Collin Peterson

(Democrat-Minnesota), who was the committee's chairman in the 111th Congress, and co-sponsored by 81 other representatives (including some Republicans), this bill was only narrowly approved by the committee on a vote of 25-20. Only four of the committee's eighteen Republican members voted for it, and the opponents included the most senior Republicans on the committee. No further action was taken on this bill before the Congress adjourned, and there is every reason to expect that — unless there are larger events that change the nature of the U.S.-Cuban relationship — the leadership in the new, Republican-controlled House will be even less inclined to relax the terms of the embargo.