United States Trade With Mercosur

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Beginning in 2002, the Southern Common Market (Mercosur) countries of Argentina, Brazil, Paraguay, and Uruguay, reversed their longstanding combined trade deficit with the United States. The United States recorded a $5.7 billion trade deficit with the Mercosur countries in 2002, down from a $9.9 billion trade surplus in 1997. This trend continued into 2003. Unlike Andean, Caribbean, and Central American countries, the Mercosur countries receive no preferential access to the U.S. market other than the U.S. Generalized System of Preferences program. Nevertheless, the Mercosur countries increased their share of total U.S. imports between 1997 and 2002—a challenge to the conventional view that Mercosur countries are at a disadvantage relative to Andean, Caribbean, and Central American countries in terms of access to the U.S. market. This article investigates recent U.S.-Mercosur trade patterns.

Mercosur Overview

The Southern Common Market (Mercosur) countries of Argentina, Brazil, Paraguay, and Uruguay, form the largest trade bloc in South America. Mercosur became operative on January 1, 1995. As a customs union, Mercosur comprises a free trade area with a common external tariff (CET). The free trade area eliminates tariffs on eligible products traded among the Mercosur partners, while the CET applies a set of common tariffs on products imported from non-Mercosur countries. The CET covers more than 9,600 items, with tariffs mostly ranging between zero and 21.5 percent, although each Mercosur member is allowed to maintain lists of items exempt from the CET and subject to higher tariffs. According to the United States Trade Representative, the CET remains a "significant barrier" to increased U.S. exports of agricultural products, distilled spirits, and computer and telecommunications equipment.[2]

The Mercosur countries are participating as a bloc in negotiations for the Free Trade Area of the Americas (FTAA)[3] and in negotiations for a free trade agreement with the European Union. Mercosur also is negotiating free trade agreements (FTAs) with Mexico, the Andean Group, and India. Mercosur is open to membership by other countries that belong to the Latin American Integration Association (LAIA).[4] Bolivia, Chile, and Peru are associate members of Mercosur. Each has negotiated an FTA with Mercosur and thus participates in the Mercosur free trade area; however, because Bolivia, Chile, and Peru have tariffs that are below those of the Mercosur CET, they do not apply the CET and do not participate in the Mercosur customs union.[5]

The combined Mercosur economy is very small relative to the United States. In 2002, Mercosur had a combined gross domestic product (GDP) of $573.4 billion—just 5.5 percent that of the U.S. economy of $10.4 trillion. With an estimated combined population of 221 million individuals in 2002, Mercosur had a per capita GDP of $2,586, compared to a U.S. population of 285 million and U.S. per capita GDP of $36,368.[6] Mercosur thus represents a large potential market for the United States, but a market whose potential as a

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[2] United States Trade Representative (USTR), "Brazil," *2003 National Trade Estimate Report on Foreign Trade Barriers*, March 2003, p. 14.

[3] The United States and the 33 other democratic nations of the Western Hemisphere launched FTAA negotiations in 1998. Negotiations are scheduled to be completed by January 2005.

[4] LAIA (also known by the Spanish acronym ALADI), is an economic cooperation agreement designed to encourage free trade among its members. Current LAIA members are: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

[5] Chile became an associate member in 1996, Bolivia in 1997, and Peru in November 2003. This article references U.S. trade only with the Mercosur customs union members—Argentina, Brazil, Paraguay, and Uruguay.

[6] Mercosur GDP and population data obtained from World Bank, *World Development Indicators 2003 Database*, found at *http://www.developmentgateway.org/node/244175/*, retrieved Nov. 3, 2003. U.S. GDP and population data obtained from OECD, *Gross Domestic Product for OECD Countries*, found at *http://www.oecd.org/dataoecd/48/4/2371304.pdf*, retrieved Nov. 3, 2003.

trading partner is hampered by its low income.[7] Brazil is by far the largest and most economically influential country in Mercosur—accounting for about 79 percent of the bloc's population, 79 percent of the bloc's combined GDP, and more than 81 percent of total U.S.-Mercosur trade in 2002. The relative importance of the Brazilian economy in the region has been magnified in recent years as Argentina, the second largest Mercosur economy accounting for approximately 18 percent of the bloc's 2002 GDP, has been mired in a deep recession since 1999.

U.S. Trade with Mercosur

Mercosur is a small regional trading partner of the United States. In 2002, Mercosur accounted for just 2.1 percent of total U.S. exports and 1.6 percent of total U.S. imports. The United States recorded a trade surplus with the Mercosur countries for most of the period 1991-2001. The U.S. trade surplus with Mercosur peaked in 1997 at nearly $10 billion, with U.S. exports valued at a record high of $22.0 billion, and U.S. imports of $12.0 billion (figure 1). U.S. exports to Mercosur have declined by 39 percent since 1997 to $13.3 billion in 2002, while U.S. imports from Mercosur have increased by 59 percent to a record high $19 billion. In 2002, the United States recorded a trade deficit with Mercosur for the first time in 9 years amounting to nearly $5.8 billion.

U.S. exports to the Mercosur countries declined by nearly 40 percent during 1997-2002, with the steepest decline during 2001-2002. This trend continued into 2003, with exports during the first half of 2003 valued at $6.0 billion, versus $6.6 billion during the first half of 2002. The decline in U.S. exports reflects an economic recession that spread throughout the entire Mercosur region during the period, and consequent decline in Mercosur imports from the world. Overall, GDP in the Mercosur countries contracted by an average of 1.4 percent in 2001, and contracted again by an average of 4.7 percent in 2002.[8] Argentina recorded 4.4 percent GDP decline in 2001, and a 10.9 percent GDP contraction in 2002. Argentina's total imports from the world fell from $27.4 billion in 2001, to $13.7 billion in 2002. U.S. exports to Argentina declined by 58 percent during the same period, from $3.6 billion in 2001 to $1.5 billion in 2002. Brazil recorded 1.5 percent GDP growth in 2001 and 1.4 percent growth in 2002. Brazil's total imports from the world fell from $72.6 billion in 2001, to $62.1 in 2002. U.S. exports to Brazil declined by 24 percent during the same period, from $14.6 billion in 2001 to $11.2 billion in 2002. According to one report, Brazil's lower imports may have been due to that country implementing an import substitution policy.[9]

Further contributing to the U.S. trade deficit with Mercosur was a sharp increase in imports from the region. U.S. imports from the Mercosur countries increased by nearly 60 percent during 1997-2002, rising to a record high of $19.0 billion in 2002. This trend continued into 2003, with imports during the first half of 2003 valued at nearly $10.1 billion, versus $8.5 billion during the first half of 2002. Imports from Brazil accounted for most of this increase. U.S. imports from Brazil rose from $9.5 billion in 1997 to a record high of $15.6 billion in 2002, an increase of 64 percent. This increase may have been accelerated by exchange rate movements that made Brazilian goods more competitive—the Brazilian currency depreciated by 40 percent against the dollar during 2002.[10] These trends continued into 2003, with imports from Brazil during the first half of 2003 valued at $8.4 billion, versus $6.9 billion during the first half of 2002, and despite a 25-percent appreciation of the Brazilian currency in the first half of 2003.[11]

The composition of U.S. imports from Mercosur, with Brazil the primary regional supplier, has changed since 1997—with the value of imported manufactured

[7] U.S.-Brazilian trade, to the extent that the relatively small value of U.S.-Brazilian trade has been examined in the economic literature, is illustrated by the following observation: "Gravity [econometric] models consistently report that the United States and Brazil trade less than is expected given the magnitude of the two economies and the distance between them." Trade barriers, including high Mercosur tariffs on manufactured goods and high U.S. tariffs on textiles and footwear and U.S. protection for sensitive farm products, may be contributing factors. Jeffrey J. Schott, "U.S.-Brazil Trade Relations in a New Era," Institute for International Economics, 2003, pp. 5-6, found at *http://iie.com/publications/papers/schott1103-2.htm*, retrieved Nov. 12, 2003.

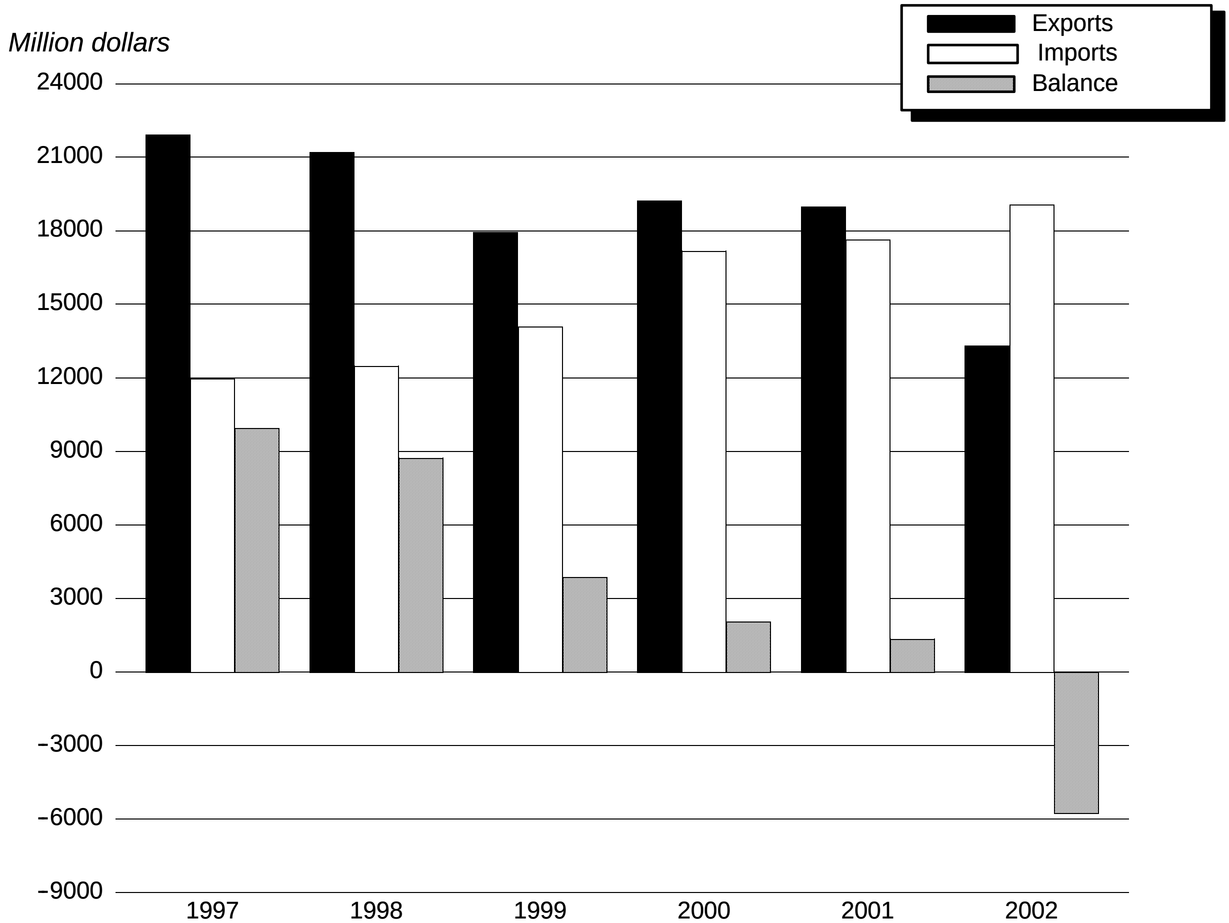
[8] Mercosur GDP data obtained from World Bank, *World Development Indicators 2003 Database*, found at *http://wbln0018.worldbank.org/external/lac/lac.nsf*, retrieved Nov. 3, 2003. Mercosur trade data obtained from United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2002*, LC/G.2196-P, December 2002. U.S. trade data obtained from USITC, Tariff and Trade DataWeb, found at *http://dataweb.usitc.gov/*, retrieved Nov. 12, 2003.

[9] ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, pp. 55-56.

[10] ECLAC, *Current Conditions and Outlook: Economic Survey of Latin America and the Caribbean, 2002-03*, August 2003, LC/G.2208-P/1, p. 17.

[11] The currencies of the four Mercosur economies appreciated against the dollar in real terms during the first half of 2003. Ibid.

Figure 1
U.S. trade with Mercosur, 1997-2002



	1997	1998	1999	2000	2001	2002
Exports	21,923	21,212	17,945	19,227	18,987	13303
Imports	11,974	12,481	14,083	17,177	17,636	19053
Balance	9,949	8,731	3,862	2,050	1,351	-5,750

Source: Compiled from official statistics of the U.S. Department of Commerce.

products surpassing the value of traditional imported commodities and semimanufactures (table 1). In 1997, footwear (HTS 640399) ranked as the leading U.S. import, followed by processed agricultural and raw materials including coffee (HTS 090111), petroleum oils (HTS 270900), semifinished iron and non-alloy steel products (HTS 720712),[12] gold (HTS 710812), and tobacco (HTS 240120). In 2002, aircraft (HTS 880230) and radio and television transmission apparatus (HTS 852520) ranked as the leading U.S. imports from the Mercosur countries. Brazil was the sole Mercosur supplier of aircraft and the main supplier of radio and television transmission apparatus in 2002.

Preferential Access Programs Compared

Imports from most Latin American and Caribbean countries benefit from preferential access to the U.S. market under the U.S. Generalized System of Preferences (GSP)[13] program. In addition to the GSP program, eligible products of designated Andean, Caribbean, and Central American countries receive enhanced preferential access to the United States under the Andean Trade Preference Act (ATPA) or the Caribbean Basin Economic Recovery Act (CBERA) programs.[14] Apart from GSP eligibility, products of Mercosur countries receive no other preferential access to the U.S. market.[15] Moreover, duty-free U.S. imports from Mercosur under GSP declined from $2.7 billion in 1997 to $2.5 billion in 2002, in contrast to an overall increase in U.S. GSP imports from all countries from $15.6 billion to $17.7 billion between 1997 and 2002.

Despite Mercosur's relatively limited preferential U.S. market access, total U.S. imports from Mercosur countries increased by 59 percent between 1997 and 2002—significantly outpacing the increase in imports under both ATPA and CBERA preferential programs (table 2). The Mercosur countries increased their small share of total U.S. imports from 1.4 percent of total U.S. imports in 1997 to 1.6 percent in 2002, while imports under both ATPA and CBERA marginally declined as a share of total U.S. imports. This trend stands in contrast to the conventional view that U.S. trade preference programs for Andean and Caribbean countries give those countries a relative advantage, compared to Mercosur countries, in expanding trade with the United States.[16] However, the enhanced preferential access afforded by ATPDEA and CBTPA eventually could provide significantly greater access to the U.S. market for Andean, Caribbean, and Central American suppliers relative to Mercosur suppliers.[17] Moreover, other Latin American and Caribbean countries stand to gain even greater access to the U.S. market relative to Mercosur countries upon completion of ongoing negotiations for a U.S.-Central America and a U.S.-Dominican Republic FTA, and the U.S. administration's plans to negotiate bilateral FTAs with other Latin American and Caribbean countries.

Conclusion

A U.S. trade deficit with Mercosur that emerged in 2002 appears likely to continue into 2003 against a background of reduced U.S. exports to the region—most likely due to depressed demand as most of Mercosur remains plagued by economic recession and slow growth—and increased exports stoked by Brazil's 2002 currency depreciation. The Mercosur countries, despite their lack of preferential access to the U.S. market other than GSP, have achieved a small increase in their U.S. market access. Brazil, which accounts for most of Mercosur's trade, has been most successful in increasing exports of manufactured products—particularly of aircraft and radio and television transmission apparatus—while continuing to export higher total values of more traditional commodities and semimanufactured products.

[12] According to one recent study, the composition of U.S. steel imports from Brazil has shifted, as a result of U.S. antidumping duties on hot-rolled flat products in 1999 and U.S. steel safeguards in 2002, away from high-value, finished steel products to steel slab. Schott, "U.S.-Brazil Trade Relations in a New Era," p. 12.

[13] The U.S. GSP program permits duty-free access to the U.S. market for certain products that are imported from designated developing countries and territories. Mexico, a member of the North American Free Trade Agreement (NAFTA), does not receive GSP benefits. The United States maintains economic sanctions with respect to Cuba, consequently imports from Cuba are prohibited generally.

[14] ATPA and the related Andean Trade Promotion and Drug Eradication Act (ATPDEA) provide duty-free and reduced-duty treatment to qualifying imports from Bolivia, Colombia, Ecuador, and Peru. CBERA and the related Caribbean Basin Trade Partnership Act (CBTPA) provide duty-free and reduced-duty entry to qualifying imports from 24 designated Caribbean Basin countries and territories. ATPA and CBERA provide many of same benefits as GSP, but with fewer restrictions. ATPDEA, which become operative in 2002, and CBTPA, which became operative in 2000, provide duty-free treatment for products previously excluded from either ATPA or CBERA. See accompanying articles in this publication on ATPDEA and CBERA.

[15] Chile and Venezuela are GSP-eligible, but are not included in any other U.S. preferential access program. The United States and Chile signed a free trade agreement in June 2003.

[16] For example, see Schott, "U.S.-Brazil Trade Relations in a New Era," p. 17.

[17] Between the first half of 2002 and the first half of 2003, U.S. imports from ATPA countries increased by 29.3 percent, increased by 22.1 percent from CBERA countries, and increased by 18.4 percent from Mercosur countries.

Table 1
Leading U.S. imports from Mercosur, 1997 and 2002

1997				2002		
HTS No.	**Item**	**Million dollars**		**HTS No.**	**Item**	**Million dollars**
64039	Footwear, outer soles of rubber, plastics or composition leather, leather uppers	860		88020	Aircraft exceeding 2,000 kg but not exceeding 15,000 kg	1,828
09011	Coffee, not roasted, not decaffeinated	451		85250	Radio and television transmission apparatus	1,019
27090	Petroleum oils and oils from bituminous materials, crude	418		27090	Petroleum oils and oils from bituminous minerals, crude	853
72072	Semifinished products of iron or nonalloy steel	408		27101	Light oils and preparations from petroleum oils	817
71082	Gold, nonmonetary, unwrought	394		64039	Footwear, outer soles of rubber, plastics or composition leather, leather uppers	792
24010	Tobacco, partly or wholly stemmed	297		87033	Passenger motor vehicles, cylinder capacity over 1,500 cc but not over 3,000 cc	509
88020	Aircraft exceeding 2,000 kg but not exceeding 15,000 kg	266		27109	Petroleum oils and oils (not light) from bituminous materials	450
47039	Chemical woodpulp	255		72072	Semifinished products of iron or nonallysteel	409
72010	Nonalloy pig iron	253		72010	Nonalloy pig iron	387
85271	Radiobroadcast receivers for motor vehicles	247		47039	Chemical woodpulp	346

Source: USITC Trade and Tariff Data Web, found at *www.dataweb.usitc.gov*.

Table 2
U.S. imports from ATPA, CBERA, and Mercosur countries 1997-2002

	1997		2002		1997-2002 change
	Million dollars	*Share of total (percent)*	*Million dollars*	*Share of total (percent)*	*Percent*
ATPA	8,674	1.0	9,611	0.8	10.8
CBERA	16,572	1.9	21,255	1.8	28.2
Mercosur . . .	11,974	1.4	19,053	1.6	59.1

Source: USITC Trade and Tariff Data Web, found at *www.dataweb.usitc.gov*.

Mercosur's success in increasing its share of U.S. trade appear to challenge the conventional view that U.S. trade preferences for Andean, Caribbean, and Central American countries give those countries a relative advantage in access to the U.S. market. However, with the United States poised to extend its free trade accords beyond NAFTA through bilateral FTAs with Chile, Central America, the Dominican Republic, and other countries in the hemisphere, Mercosur may find it difficult to expand its share of the U.S. market without the FTAA or a trade agreement with the United States of its own.