

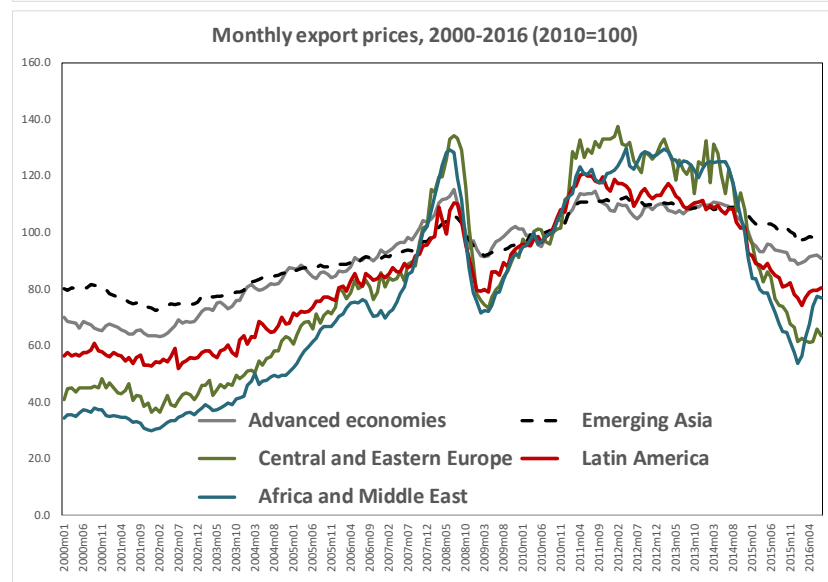
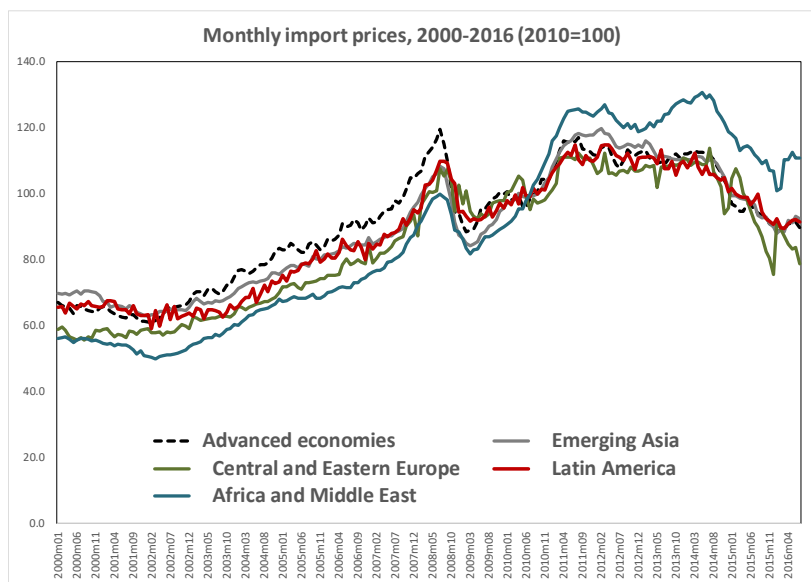
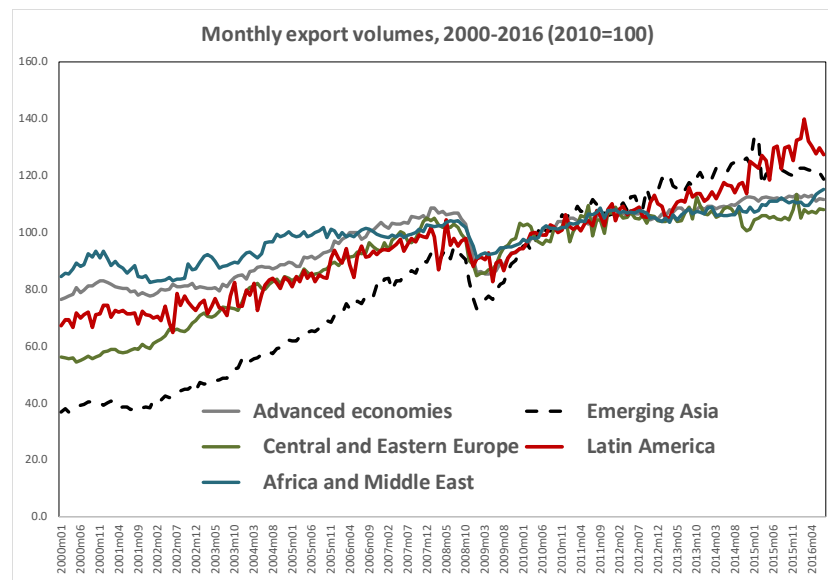
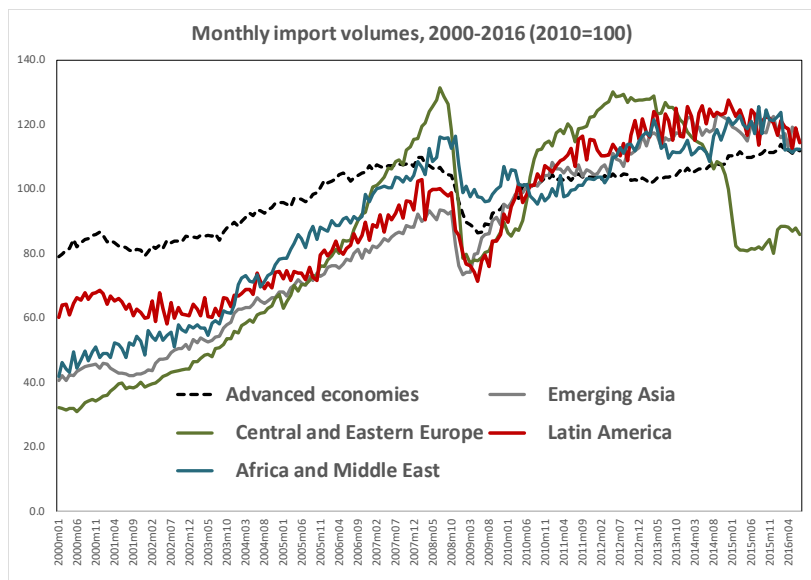
# Latin America's Trade Policy Outlook

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**Peterson Institute for International Economics**

**October 6, 2016**

# Decomposing the Recent Trade Slowdown: Monthly data from 2000-2016



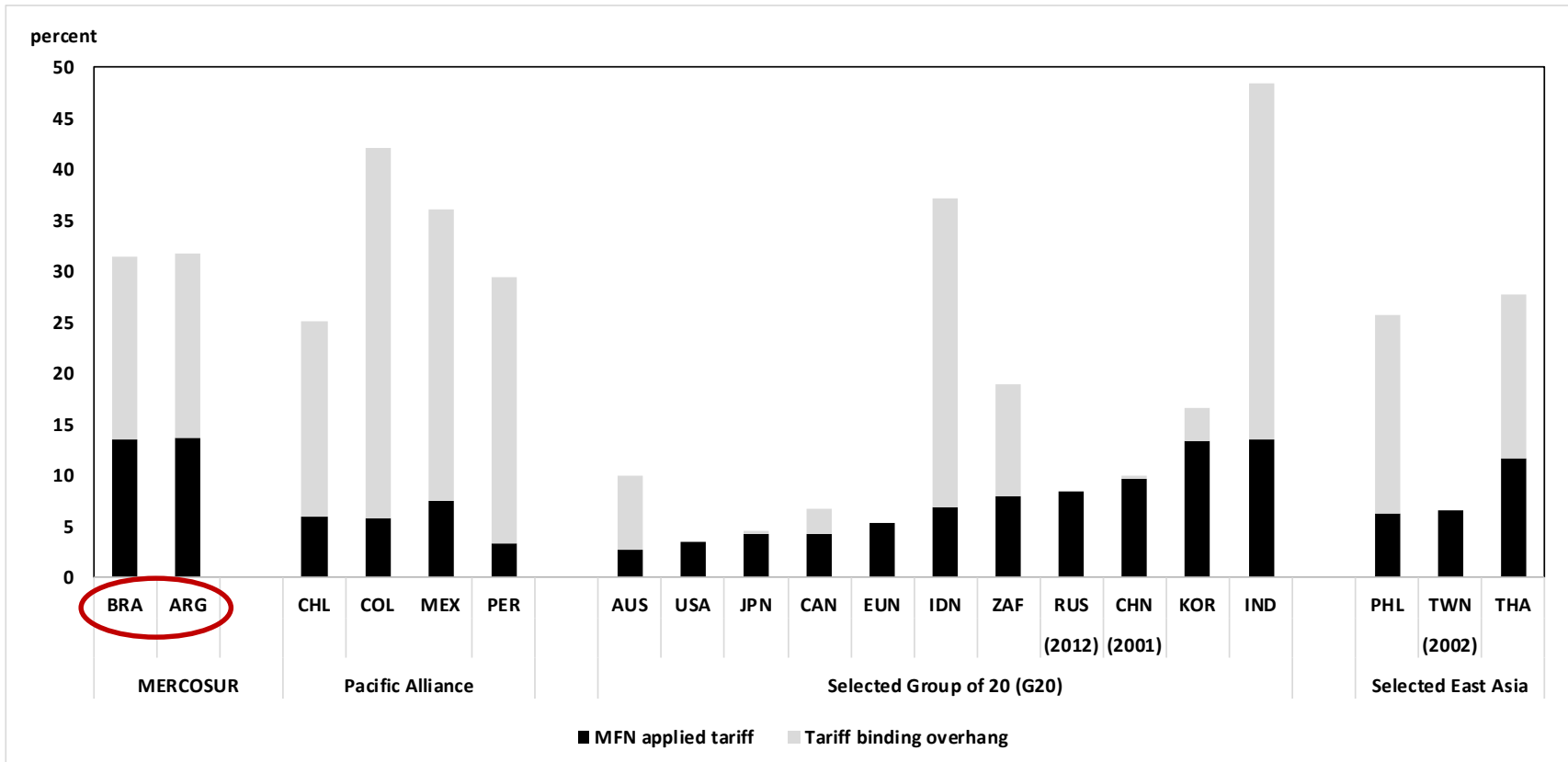
# Latin America's Trade Policy Outlook



1. **MFN applied tariffs** – openness to rest of world
  - MERCOSUR vs. Pacific Alliance
2. Latin American countries' **tariff preferences**
  - Building blocks or stumbling blocks of its **FTAs** with external openness to rest of world?
3. What is Latin America **missing out on today** by not engaging in external trade negotiations?
  - Not the Doha Round, so what is it?



# MFN Applied Tariffs and WTO Legal Bindings, 2014

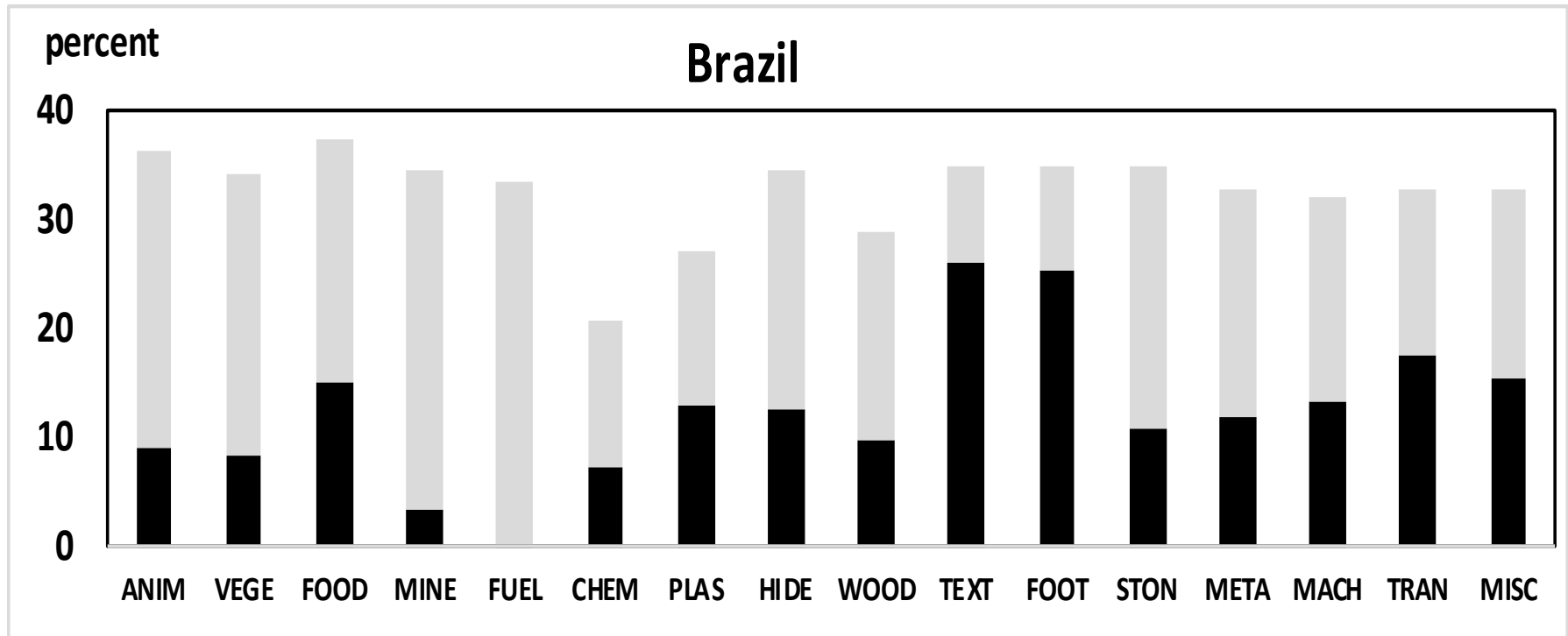


Source: WTO

Implication: Argentina and Brazil have relatively **higher tariffs** applied toward the rest of the world



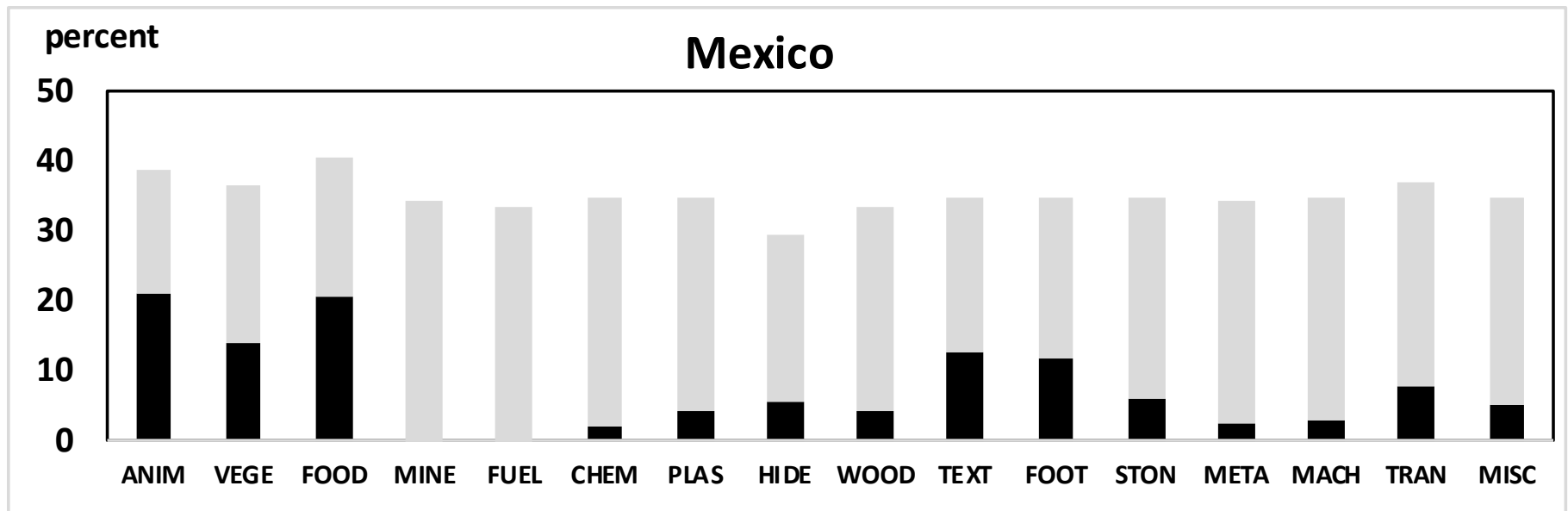
## Brazil's MFN Applied Tariffs and Bindings in 2014, by Sector



Source: data constructed from WTO/UNCTAD (TRAINS)



## Mexico's MFN Applied Tariffs and Bindings in 2014, by Sector



Source: data constructed from WTO/UNCTAD (TRAINS)



# To Whom does Latin America Grant its Available Tariff Preferences?

## Latin America's Imported Products with Available and Granted Bilateral Tariff Preferences, 2014

Policy-imposer	Available*	Share of all HS06 products with applied bilateral tariff rate lower than the applied MFN tariff rate																						
		MERCOSUR + exporters							Pacific Alliance, Central America, + exporters												Selected other exporters			
		ARG	BOL	BRA	ECU	PRY	URY	VEN	CHL	COL	CRI	DOM	GTM	HND	HTI	MEX	NIC	PAN	PER	SLV	USA	EUN	JPN	
ARG	96.7	100.0	100.0	99.9	99.5	100.0	100.0	100.0	99.4	0.0	0.0	0.0	0.0	0.0	87.8	0.7	84.3	99.8	0.0	0.0	0.0	0.0		
BOL	93.7	100.0	100.0	66.5	100.0	100.0	61.5	64.5	61.5	0.0	0.0	0.0	0.0	0.0	98.9	0.0	61.2	1.7	0.0	0.0	0.0	0.0		
BRA	96.8	99.9	99.9	99.9	99.3	99.9	99.9	99.8	99.9	0.0	0.0	0.0	0.0	0.0	90.4	1.0	88.0	99.9	0.0	0.0	0.0	0.0		
ECU	59.6	89.1	46.3	89.6	88.6	83.7	39.6	97.7	39.6	0.0	0.0	0.0	0.0	0.0	39.8	0.0	38.9	1.2	0.0	0.0	0.0	0.0		
PRY	89.2	99.8	99.9	99.8	97.9	99.8	99.7	99.9	99.6	0.0	0.0	0.0	0.0	0.0	68.0	0.0	65.7	99.7	0.0	0.0	0.0	0.0		
URY	87.6	99.8	99.9	99.8	95.5	99.4	99.8	99.9	99.7	0.0	0.0	0.0	0.0	0.0	98.6	0.0	70.4	84.5	0.0	0.0	0.0	0.0		
VEN	98.1	99.8	84.9	99.7	86.6	99.8	99.8	98.4	89.9	6.5	0.0	6.0	6.0	20.3	83.3	6.0	83.4	0.9	0.0	0.0	0.0	0.0		
CHL	99.8	100.0	100.0	100.0	99.0	100.0	100.0	99.4	100.0	97.0	0.0	95.6	99.6	99.9	99.6	99.7	99.7	99.9	0.0	100.0	98.8	96.1		
COL	54.2	99.1	77.3	98.7	77.3	99.6	99.4	83.6	100.0	2.2	0.0	0.4	1.8	30.3	99.3	0.6	75.6	3.1	0.0	87.5	77.5	0.0		
CRI	51.7	0.0	0.0	89.6	0.0	0.0	0.0	0.0	0.0	0.0	99.6	99.8	99.8	0.0	0.0	99.8	98.1	90.7	99.8	98.6	75.4	0.0		
DOM	46.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	31.1	87.3	87.3	86.9	0.0	87.3	3.0	0.0	87.3	31.1	38.8	0.0		
GTM	51.7	0.0	0.0	0.0	16.8	0.0	0.0	0.0	0.0	55.7	0.0	85.1	100.0	0.0	0.0	100.0	97.5	0.0	100.0	99.2	75.8	0.0		
HND	52.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	82.6	99.8	100.0	100.0	0.0	0.0	100.0	72.1	0.0	100.0	99.8	77.3	0.0		
HTI	55.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
MEX	57.4	64.5	69.7	64.5	73.0	76.1	95.6	65.7	99.1	97.6	97.2	0.0	96.0	95.6	0.0	99.5	66.7	86.8	0.0	100.0	92.5	87.8		
NIC	51.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	98.5	98.5	100.0	100.0	0.0	0.0	88.8	0.0	100.0	99.8	74.0	0.0		
PER	48.1	99.6	9.6	99.6	11.2	99.8	74.0	1.5	99.8	1.5	79.6	0.0	0.0	0.0	0.0	81.9	0.0	0.6	0.0	97.9	54.9	77.8		
SLV	52.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	54.9	0.4	97.9	99.8	99.4	0.0	0.0	99.8	69.4	0.0	99.2	75.3	0.0		

Source: data constructed from HS06 import data from UN International Trade Centre.



*How did these MFN **tariff differences arise** across different Latin American countries?*

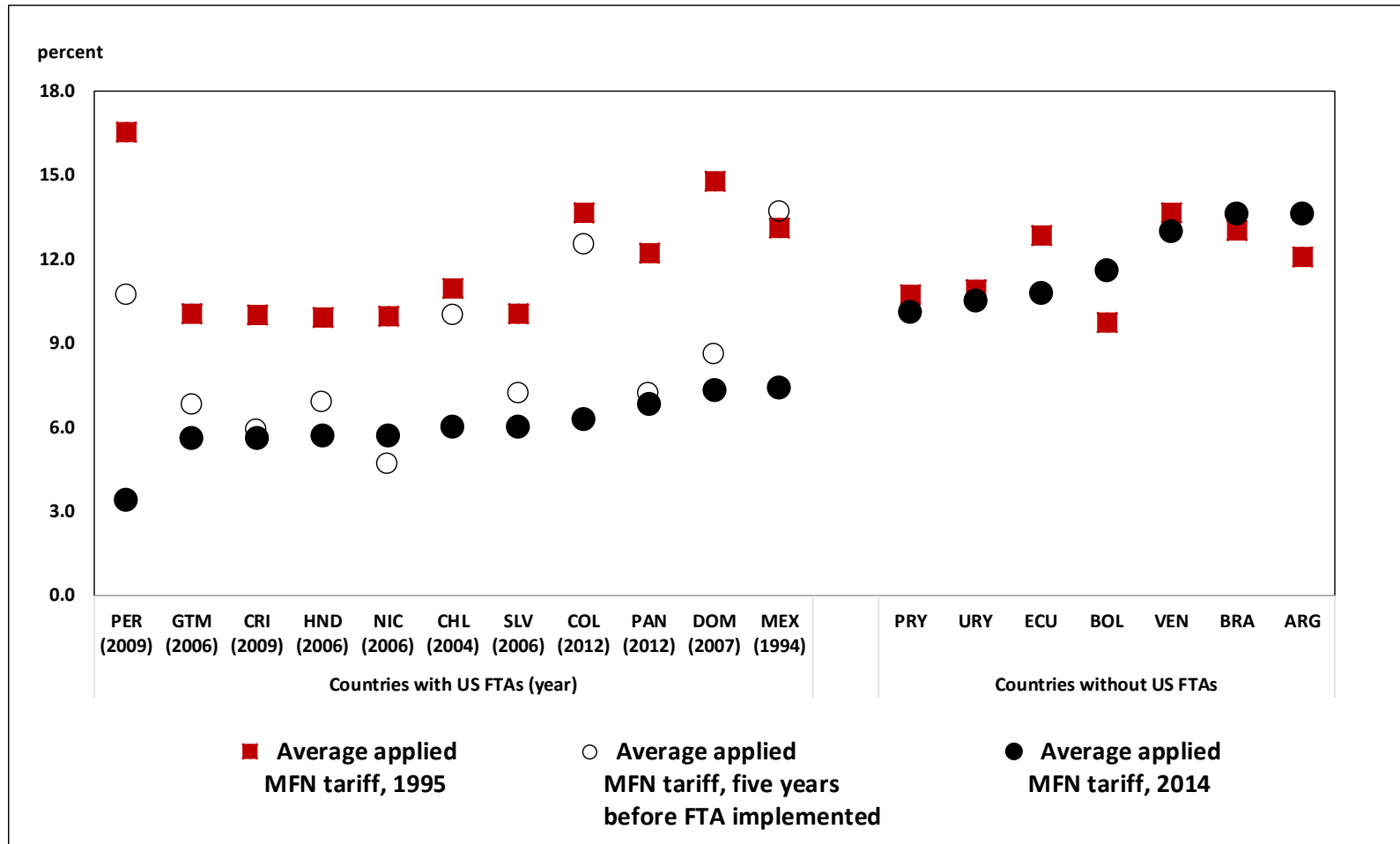
- 1. Building blocks** of Latin America's free trade areas for certain countries
  - Freund et al. (*QJE*, 2008)
- 2. Stumbling block** of the MERCOSUR customs union



# *An FTA with the United States a “building block” to additional liberalization?*



## Latin American Countries' Average Applied MFN Tariffs: (i) in **1995**, (ii) 5 years prior to US FTA, and (iii) in **2014**



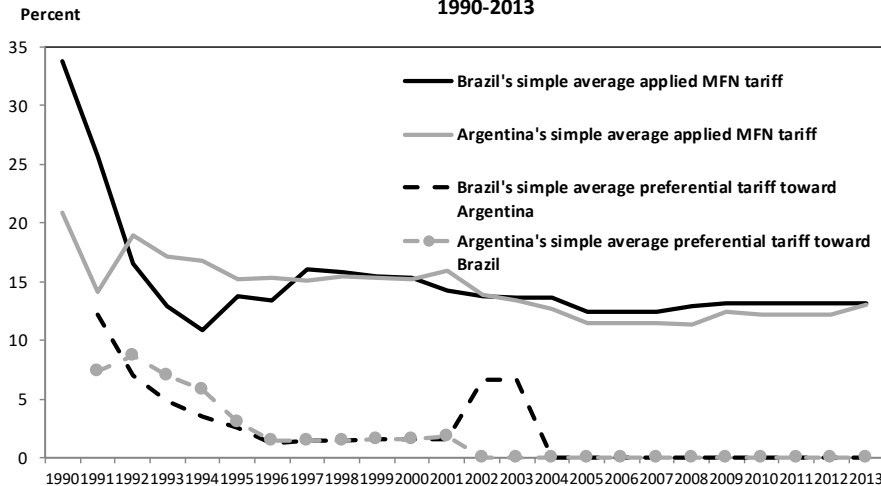
Source: data from WTO and World Development Indicators.

# Stumbling Block Evidence of MERCOSUR

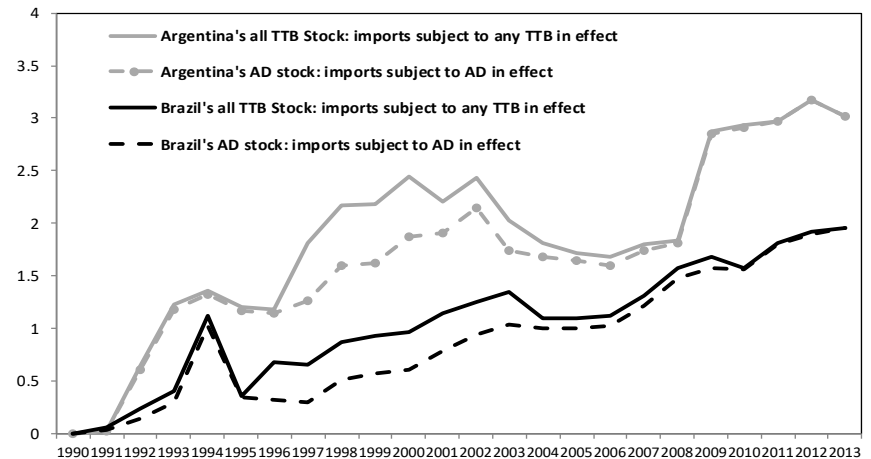


## MERCOSUR is not even an FTA, let alone a customs union

Argentina's and Brazil's average applied MFN and preferential tariffs, 1990-2013



Argentina's and Brazil's import coverage by Temporary Trade Barriers, 1990-2013



Source: Bown and Tovar (2016, Figures 1 and 2)

TTBs = antidumping, countervailing duties, safeguards

### Why not an FTA?

- Argentina frequently applies TTBs on imports from Brazil

### Why not a customs union?

- Argentina frequently applies TTBs on imports of product X from country Y (Brazil does not)
- Brazil frequently applies TTBs on imports of product Y from country X (Argentina does not)

# MERCOSUR is not a customs union



## Third Country FTAs

- Brazil negotiated a bilateral FTA with Mexico that went into force in 2003
- Argentina's FTA with Mexico did not go into force until 2007

## Argentina in 2009

- Required that foreign firms offset the value of their firm-specific exports to Argentina with an equivalent value of imports from Argentina.
- Examples of foreign auto firms' offsets
  - Nissan forced to export Argentine soy products
  - Mitsubishi forced to export Argentine peanuts
  - Hyundai forced to export Argentine wine
  - Subaru forced to export Argentine chicken feed
- Led to a formal **WTO trade dispute** brought by the US, EU, and Japan (Conconi and Schepel, forthcoming)

# What is (**some of**) Latin America missing out on by not engaging in external trade negotiations?



## Trans-Pacific Partnership (TPP)

- Includes Chile, Peru, Mexico. Colombia accession? Where is everyone else?
- New disciplines

Trans-Pacific Partnership's 'WTO-Extra' provisions and their TPP-Enforceability

WTO-Extra TPP Provision	TPP Chapter	Enforceable under TPP-DSP (Chapter 28)
Government Procurement*	15	Yes
Electronic Commerce	14	Yes**
State-Owned Enterprises (SOEs)	17	Yes**
Labor	19	Yes, but parties first spend up to 60 days in 'Labour Consultations'
Environment	20	Yes, but parties first spend up to 60 days in 'Environment Consultations', 'Senior Representative Consultations', and 'Ministerial Consultations'
Transparency and Anti-Corruption	26	Yes, but some additional limitations
Temporary Entry for Business Persons	12	No, except under limited conditions
Competition Policy	16	No
Cooperation and Capacity Building	21	No
Competitiveness and Business Facilitation	22	No
Development	23	No
Small and Medium-Sized Enterprises (SMEs)	24	No
Regulatory Coherence	25	No

Source: compiled by the author from the TPP texts. \*Categorized as 'WTO-extra' because not all TPP countries are signatories to the WTO's Government Procurement Agreement (GPA). \*\*Certain elements of enforceability have 2-year phase-in period for Malaysia and/or Vietnam.

Other TPP Provisions and their TPP-Enforceability (cont.)

Other TPP Provision	TPP Chapter	Enforceable under TPP-DSP (Chapter 28)
Investment	9	No, separate ISDS in Chapter 9
Trade Remedies (SG, AD, CVD)	6	No for AD and CVD; Yes for SG
Sanitary and Phytosanitary (SPS) Measures	7	Yes, but parties first spend up to 180 days in 'Cooperative Technical Consultations'; some additional conditions
Technical Barriers to Trade (TBT)	8	Yes, but not if the allegation is exclusively from a particular list of Articles in WTO's TBT Agreement
Cross-Border Trade in Services	10	Yes, but if both are also party to other international air services agreement, only after dispute settlement provision in that agreement has been exhausted
Financial Services	11	Yes, but subject to additional conditions, in particular to deal with measures taken for 'prudential reasons'
National Treatment and Market Access	2	Yes
Rules of Origin Procedures	3	Yes
Textiles and Apparel	4	Yes
Customs Administration and Trade Facilitation	5	Yes
Telecommunications	13	Yes
Intellectual Property	18	Yes**

Source: compiled by the author from the TPP texts. 'Other' are provisions with some coverage in the WTO Agreements ISDS=investor state dispute settlement, SG=safeguards, AD=antidumping, CVD=countervailing duty. \*\*Certain exceptions for New Zealand and Vietnam.

# Latin America's Trade Policy Outlook



***What is Latin America **missing out on today** by not engaging in external trade negotiations?***

- Not the Doha Round, so what is it?

***Plurilateral agreements***

# What is (**some of**) Latin America missing out on by not engaging in external trade negotiations?



## Information Technology Agreement (1996)

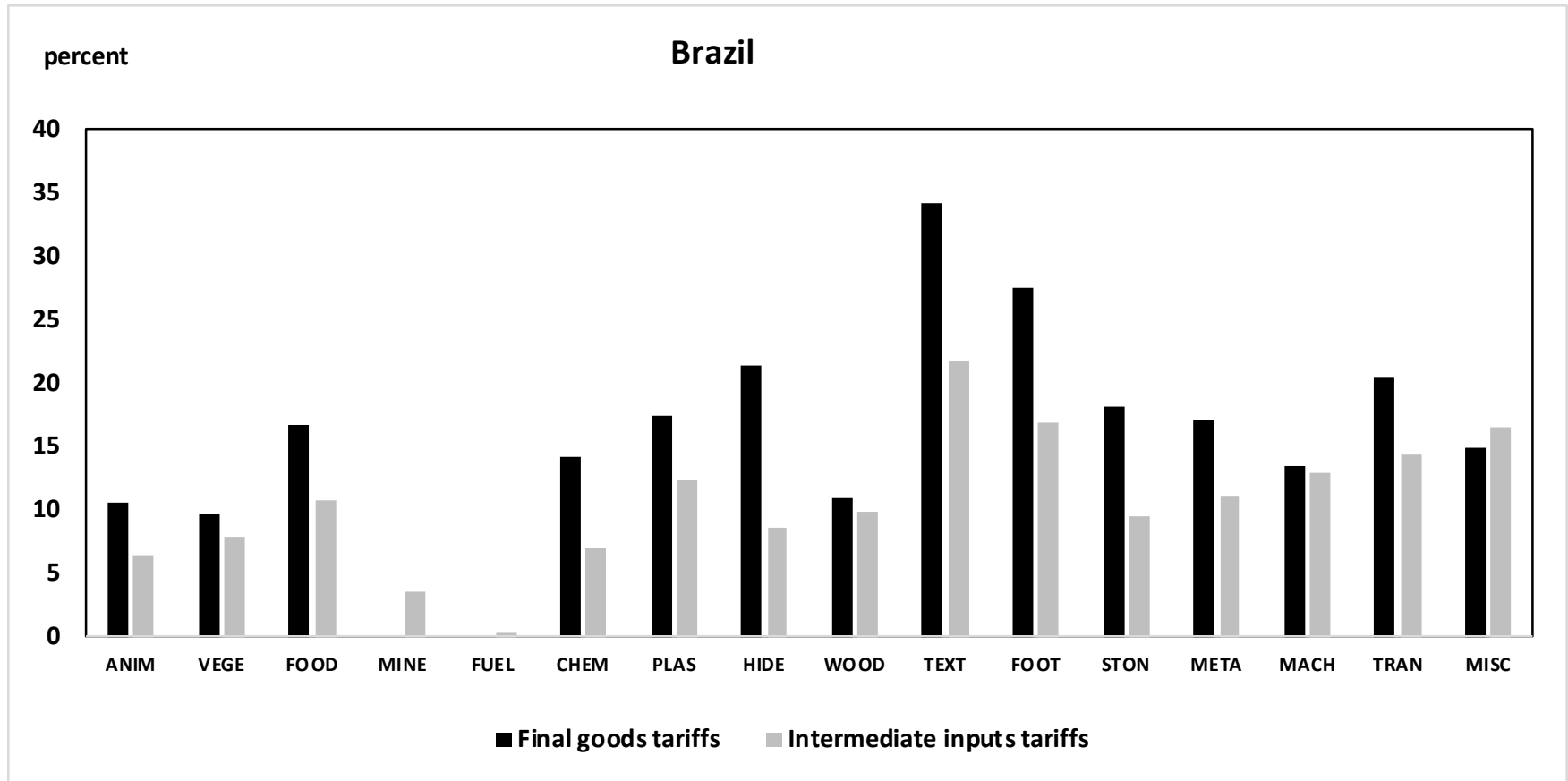
- Includes Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru
- Where are Argentina, Brazil, Mexico, and everyone else?

## Information Technology Agreement II (2015)

- 201 new products, \$1.3 trillion in trade, US, EU, China and 21 other WTO member economies
  - **IT gadgets:** Video game consoles, headphones, microphones, digital cameras
  - **Health care:** MRI machines, CAT scanners, X-Ray machines, pacemakers
  - **Intermediate inputs:** processors, controllers, memory, circuits, and semiconductors
- Includes Colombia, Costa Rica, Guatemala
- ***Where are Argentina, Brazil, Mexico, and everyone else?***



## Brazil's MFN Tariffs on Imported Final Goods vs. *Intermediate Inputs* in 2014, by Sector



Source: data constructed from WTO/UNCTAD (TRAINS)

**Implication: high tariffs on intermediate inputs make it harder to engage in *global supply chains***

# What is (**some of**) Latin America missing out on by not engaging in external trade negotiations?



## **Environmental Goods Agreement negotiations (ongoing)**

- US, EU, China and roughly 15 other WTO members negotiating
- From Latin America, only Costa Rica involved
- Cutting tariffs to zero on products such as solar panels, wind turbines, air pollution control, waste water treatment
- Estimated at roughly \$1 trillion in trade
- ***Where are Argentina, Brazil, Mexico, and everyone else?***



# What is (**some of**) Latin America missing out on by not engaging in external trade negotiations?



## **Trade in Services Agreement (TiSA) negotiations (ongoing)**

- US, EU, Japan, and roughly 23 other WTO members negotiating
- From Latin America, Chile, Colombia, Costa Rica, Mexico, Panama, Peru involved
- \$55 trillion in trade in services
- No China or India involvement yet
- ***Where are Argentina and Brazil and everyone else?***