Forum for American Leadership

Deepening Trade and Economic Relations with Latin America is a U.S. Strategic Interest

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Latin America is strategically important for the United States because trade with the region underpins U.S. economic and national security, supports American jobs, and is a critical component of America's ability to compete with China. Despite trends toward near-shoring in recent years stemming from U.S.-China competition, the lack of a coherent U.S. trade and economic policy approach to Latin America has eroded the U.S. position and alliances in the region.

This has allowed China to make significant inroads. Since China's accession to the World Trade Organization, its annual trade with Latin America has seen a 21.5-fold increase, while U.S. trade with the region has merely doubled. This imbalance has allowed China to dramatically increase its exports of soybeans and energy, take charge of Latin American mining and energy through foreign direct investment, and shore up its soft power in the region. In short, China has taken over America's export role which otherwise could have supported good-paying American jobs and contributed to the nation's economic vitality.

The Forum for American Leadership Latin America Working Group provides a plan for the U.S. to correct course and re-engage in the Western Hemisphere in a meaningful way on trade and better utilize existing economic tools.

Latin America's Trade Importance

Latin America is an important destination for American exports in mineral fuels, machinery, and vehicles. Yet, according to USTR, while U.S. goods trade with the Western Hemisphere totaled an estimated $1.5 trillion in 2019, only 18 percent of that trade was with non-North American countries. While the U.S. exports over $250 billion of goods to both Mexico and Canada annually, the next highest export markets are Brazil ($42.9 billion), Chile ($15.7 billion), and Colombia ($14.7 billion). There is significant potential for additional exports to these markets, which would boost U.S. economic competitiveness and increase ties with the region.

China Making Gains

Despite the importance of economic relations with the Western Hemisphere to the United States, the region has not seen substantive economic initiatives from the Biden Administration. The United States has not entered into a new trade agreement with *any* Latin American nation in over a decade, and this neglect opened the door for China to gain significant economic footholds. After decades of American trade dominance in the region, in 2017 China became the top trading partner for Latin American countries and has since widened its lead. China is now the largest trading partner for 9 countries in Latin America, including Argentina, Brazil, Chile, and Peru.

In May 2023, China and Ecuador signed a Free Trade Agreement (FTA). Though Ecuador's government first approached the United States for an FTA, the Biden Administration refused, pushing them into Xi's open arms. Twenty-one countries in the hemisphere have signed agreements to join China's Belt and Road Initiative (BRI).

In addition, public opinion in Latin America also tends to support the idea that China came in and provided much-needed financial support in the wake of the COVID-19-induced economic downturn, though this position ignores the fact that China unleashed the virus in the first place. There are strong signs that Brazil's President, Lula da Silva, will deepen relations with China. During Lula's recent state visit with Xi Jinping, the two countries signed 15 bilateral agreements on trade, agriculture, and satellite technology. In countries with little significant economic history with Beijing, such as Colombia, China is making important headway in winning key infrastructure mandates such as the Bogota Metro line 1. Meanwhile, U.S. companies are shying away from significant energy and infrastructure projects in the region, in part due to corruption, unlevel playing fields, and poor regulatory frameworks.

The Current Counteroffer Lacks Substance

In June 2022, on the margins of the Summit of the Americas, the Biden Administration announced a new initiative called the Americas Partnership for Economic Prosperity (APEP). According to the Administration, there are four pillars to the APEP: bolstering regional competitiveness, resilience (supply chains), shared prosperity (labor standards and financial inclusion), and inclusive and sustainable development. Even within these focus areas, it is not clear what these partnerships mean. Nearly a year later, the framework still lacks substance and has left regional allies asking what the U.S. is really bringing to the table. One thing that the United States has made clear, however, is that this agreement will not include market access provisions. As a result, it will fail to offer U.S. exporters a level playing field for their products nor will it provide its participants with meaningful incentives to link key supply chains with the United States. The agreement also appears to lack meaningful provisions on key U.S. priorities like intellectual property protection or digital trade, to name a few. Finally, despite a misleading State Department press release, which claimed that 90% of the region's GDP is covered in the framework by including the U.S. economy, APEP lacks the participation of two of Latin America's largest economies, Argentina and Brazil, who are continuing to link their economies more closely to China.

Misusing DFC Tools

The U.S. Development Finance Corporation (DFC) was created by the 2018 BUILD Act to give U.S. policymakers additional tools to counter the rise of China, particularly in the developing world. DFC projects are typically measured based on their ability to achieve three objectives: economic development, foreign policy, and returning taxpayer money. Under the Biden Administration, however, the DFC has lost its focus on foreign policy as a tool to counter China's influence and its overall effectiveness has declined due to overly bureaucratic environmental policies and a focus on promoting green energy projects to the exclusion of other projects in allied countries that are important to U.S. national security.

The DFC now functionally operates as a green bank, and its reach in the Western Hemisphere is limited by its focus only on lower and middle- income countries, to the general exclusion of the BRI-type projects in most of the region that is considered upper-middle income. The BUILD Act's language suggests a focus on lower-income countries *and* that investment into projects in Upper Middle Income countries (UMICs) are permitted if they are considered "highly developmental" or the President certifies that they advance the economic or foreign policy interests of the United States. The different interpretations of "highly developmental" within the agency and Congress have left the DFC deal teams unsure about the organization's willingness to invest in UMIC countries. As a result, DFC investment in the Western Hemisphere has dropped significantly from 2020 (51%) to today (14%) and to a large extent includes microfinance, on-lending, and small projects that are not offering an alternative to China's BRI.

Only five countries in Latin America qualify for DFC loans without conditions, and two of those (Bolivia and Nicaragua) are off limits for U.S. investment due to U.S. policy restrictions. DFC prioritizes work in Haiti, Honduras, and El Salvador. Sadly, however, there are few bankable projects in Haiti, and strained relations between the Biden Administration and Honduras and El Salvador have limited willingness to engage.

Recommendations to course-correct U.S. trade and economic policy in Latin America:

1. **Advance a real trade agenda in the region.** Given China's growing influence and aggressive trade agenda, the United States must advance a real trade agenda in the Western Hemisphere. This will improve U.S. economic and national security, provide a counter to growing Chinese influence, and help diversify trade flows away from China by operationalizing the concept of "friend-shoring". Specifically, the United States should:

   - ***Negotiate new trade agreements with key countries to open markets for U.S. exporters, counter China's influence, and promote friend-shoring.*** Using the USMCA as a model, the United States should seek to strengthen trade ties with key nations that are being targeted by China for a closer economic relationship. The United States should be flexible on how to achieve this objective and could consider 1) creating a new regional agreement; 2) adding real trade provisions to APEP; 3) adding new countries to USMCA or CAFTA-DR; or 4) engaging in bilateral negotiations that utilize USMCA chapters as a starting point. The USMCA, which was negotiated by the Trump Administration, has strong bipartisan support, and has been a success for the United States.

   - ***Place trade negotiations within the context of a larger initiative that strengthens the U.S. partnership with the Western Hemisphere, such as a new Alliance for Progress (which remains a valued U.S. brand in many parts of the region).*** Providing a broader policy framework to support expanding trade agreements will be necessary to highlight the contribution that enhancing trade makes to U.S. national security objectives.

   - ***For countries for which a comprehensive trade agreement is not a realistic option, consider other ways to increase supply chain links.*** Absence of formal FTAs with certain Latin American countries does not prohibit the possibility of additional duty-free imports from the region into the United States.

- Caribbean Basin Initiative: In 1983, Congress passed the Caribbean Basin Economic Recovery Act (CBERA), a unilateral trade policy that exempts certain Latin American exports from tariffs upon entry into the United States if at least 35% of that export's value originates in a designated beneficiary country. CBERA has come to be part of a package of policies called the Caribbean Basin Initiative (CBI), which help guide American foreign policy in the region. Legislation introduced in the 118th Congress, including the IDEA Act for Ecuador and the United States Uruguay Economic Partnership Act, would add two more beneficiary countries to CBI. While the approach has been criticized by some (as Ecuador and Uruguay are not Caribbean), extending CBI to include Ecuador and Uruguay would not only help those countries' domestic economies, but it would benefit the United States as well by giving consumers access to goods from these countries, including from Uruguay's emerging technology and innovation sector.

- Other Trade Tools: Congress should also reauthorize the Generalized System of Preferences and Miscellaneous Tariff Bill programs to promote trade in the region.

2. **Use the DFC as intended, to offer an alternative to China and communicate this strategy broadly and regularly**. In Latin America, this should entail investing in energy, infrastructure projects, and critical minerals—not just small development projects and green projects that still disproportionately benefit China. This requires an honest comparison of the DFC's activities versus those of China in the hemisphere and establishing a renewed sense of purpose for the DFC within Congress. Above all, this means supporting oil and gas projects where it makes sense instead of providing sanctions relief to dictators like Venezuela's Maduro, which will only benefit China as Venezuela's largest creditor. In order to compete more effectively with China, we need to increase the available capital to invest into equity, and equity projects need to be evaluated on a Net Present Value basis and establish a transformational program modeled after EXIM's which will allow us to compete with China.

3. **Congress, DFC's Board of Directors, and DFC's C-Suite should encourage DFC deal teams to invest in upper-middle income countries (UMIC)**. The Western Hemisphere is comprised of 39 countries, 87% of which are classified as high or upper-middle income by the World Bank. In 2022 and 2023, only 30% of the DFC's investment went to UMIC countries. The BUILD Act merely encourages a focus on lower and lower-middle income countries, but it is wrongly interpreted by many within the DFC and Congress to mean that investing in UMICs—and especially energy and infrastructure projects—should be excluded. The lack of shared views on UMIC investment within Congress creates inertia at the DFC. Deal teams do not want to create UMIC deals only to have them rejected, as all deals greater than $10 million require congressional notification.

4. **Take a more expansive view on the OECD accession process**. The US should work with European allies to allow more countries in Latin America to get on the path to joining the Organization for Economic Cooperation and Development (OECD). For example, Brazilian accession to the OECD would be a huge boost for the regional economy and is in America's national interest. Lula, however, is likely to abandon, or stall, the process, because he sees OECD as a club for rich countries, not leading countries of the Global South like Brazil. Only

four countries in the hemisphere (Chile, Colombia, Costa Rica, and Mexico) are members of the OECD. This means that the other countries in the region lack the meaningful private sector investment capacity and potential access to trillions in the institutional investor market that can come with OECD membership. As a result, it makes these countries more susceptible to economic crises—and more desperate for Chinese money and loans.

5. **Dedicate EXIM resources and focus to the Hemisphere.** In June 2022, the U.S. Export-Import Bank (EXIM) released its five-year strategic plan. While Africa is mentioned several times in EXIM's strategic plans, the Western Hemisphere is not. In 2022, EXIM was highlighted as part of the G7 infrastructure initiative, which is focused on lower- and lower-middle-income countries. Since the Western Hemisphere is predominantly UMIC countries, it is essentially excluded from this initiative.

6. **Establish training for Foreign Service Officers to expand use of the DFC and involve more U.S. companies in Latin American investment.** Given the confusion within the agency and Congress about the DFC's mandate, local foreign service officers lack proper training on its usage. Ongoing and regular training must be rolled out to foreign service officers, especially the economic officers of U.S. Embassies, who are valuable partners to originate deals for U.S. companies. Of course, the strategy at the DFC, especially with respect to UMICs, needs to be crystal clear and shared regularly.

7. **Develop appropriate investment frameworks for infrastructure to facilitate participation by U.S. companies.** Some projects are pursued only by the Chinese (e.g., the Bogota Metro and renewable energy projects in Ecuador) because they lack the appropriate regulatory, legal and/or structural frameworks to attract American companies or financiers. To level the playing field for US investment: (1) Several departments within the U.S. Government (such as Treasury's Office of Technical Assistance and the DFC) can collaborate and hire subject matter experts who specialize in project financing and public-private partnership structures to ensure these projects are financeable by someone other than China; (2) The amount of technical assistance offered by the DFC (currently capped in practice at ~$10-15 million annually in total) should be significantly larger to ensure projects have the appropriate structure.

This paper is a product of the Forum for American Leadership's Latin America Working Group.
