US Trade Strategy

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Looking into US trade policy, including US-Latin American trade relations, feels a little like reading a J.R.R.Tolkien novel: dark forces at play, brave heroes, arch-villains, traitorous allies, potential destruction at every turn, and great uncertainty about how the drama will unfold. The US election adds to the uncertainty, to be sure. But when the votes are in and a new administration is seated, great uncertainty remains.

In the 2024 Republican platform (only 16 pages in total) the trade "chapter" is less than a page. The title—"PROTECT AMERICAN WORKERS AND FARMERS FROM UNFAIR TRADE" captures it. "The Republican Party," it opens, "stands for a patriotic 'America First' Economic Policy," which means "Domestic Production" and "National Independence in essential goods and services." These goals—emphasized with lots of capital letters--will be reached with high "baseline Tariffs on Foreign-made goods," a Trump Reciprocal Trade Act, and aggressive challenges to "Unfair Trading Practices." There is talk of using tariff revenues (for instance, removing MFN treatment for China) to replace taxes. The China focus includes phasing out imports of essential goods, stopping Chinese from buying American Real Estate and Industries, and pledges to save the U.S. auto industry by, among other things, preventing the importation of Chinese cars. The platform concludes with statements about bringing supply chains back home, promoting Buy American and Hire American policies, and banning federal procurement from companies that outsource jobs.

The Democratic platform (at 90 pages) similarly gives trade about one page, entitled "Building A Fair System of International Trade for Our Workers." It is heavy on opposition to middle-class jobs moving offshore, frustration with countries who have "broke their promises to be honest and transparent partners," and bringing supply chains home, and generating "inclusive economic growth." A Harris administration will "negotiate strong and enforceable standards for labor, human rights, and the environment in the core text of our trade deals".

Over the past three and a half years, Democrats have rebuffed the idea of standard free trade agreements and developed a much more progressive "new wave" trade policy. It focuses on supply chain resiliency and "setting high standards for labor, environmental practices, trusted technology, and good governance." These ideals are manifest in "the Indo-Pacific Economic Framework (IPEF) and its South American counterpart, the Americas Partnership for Economic Prosperity (APEP). It embraces the Partnership for Global Infrastructure and Investment, and small bilateral initiatives such as the U.S.-Kenya Strategic Trade and Investment Partnership." Harris, if she follows the platform—not a certainty this point-- "will pursue modern industrial policies, make strategic public investments to fill in where markets cannot, [and] work to secure our supply chains on critical technologies."

For the seven decades since the meetings at Bretton Woods in 1944 that launched the General Agreement on Tariffs and Trade (GATT), thru the creation of the World Trade Organization (1995) and until 2016, US trade policy was consistent and fairly predictable. It would vary on the edges depending on whether a Republican or a Democrat occupied the White House. Republicans aggressively pushed Free Trade Agreements to support expanding US commerce in global markets; Democrats supported more enforcement and compliance of commitments already in place with an eye to supporting American Labor and jobs. Nonetheless, the overarching US trade policy was consistent decade after decade: promoting free trade, free market capitalism, a rules-based trading system, and, correspondingly, the democratic governance that is consistent with such a system.

In 2016, all this changed. Donald Trump's New Republican Party turned decidedly anti-trade, dragging the Democratic Party along with it. Trump and Hillary Clinton both campaigned against free trade (opposing the Trans-Pacific Partnership and NAFTA), against offshoring US jobs, against trade deficits, and especially against the unfair model of competition imposed by China. American trade policy since then has been an aggressive fight between two political parties almost desperately focused on increasing control of imports, exports, international investment, and technology. Since 2016, national security has become a prime driver of trade policy, where economics had once reigned supreme.

It is fair to say that for the past eight years, US trade strategy has paid little attention to Latin America. Certainly for the Biden administration, the focus understandably has been Eastern Europe, the Middle East and Asia . Tim Kaine, Democratic senator on the Senate Committee on Foreign Affairs, has criticized the Biden administration for lacking "heft" in its approach to Latin America. No clear Latin American strategy has been offered. Ambassadorships are left vacant.

The vacuum is partially understandable. Russia's invasion in the heart of Europe, Middle East chaos, and a possible war with China over Taiwan are serious distractions. South America has a combined GDP of $4.34 trillion (USA is more than $25 trillion) spread across 12 nations in highly varied states of governing stability. A focused strategy is both hard to create, costly to pursue, and fraught with geopolitical vulnerabilities. It is likely to offer comparatively small commercial returns.

What *will* grab the attention of the next administration—whoever it is—is the growing presence of China in South America. China is perceived by both Parties as America's greatest threat. To many, China's growing entrenchment in Africa is a serious problem. China in South America appears to many as a beachhead in a growing trade war.

Nicaragua re-established diplomatic ties with China in 2021, joined the BRI a year later, and signed a Free Trade Agreement in August 2023. It demonstrates both the fast-paced nature and effectiveness of China's deepening foothold in Latin America.

Venezuela has been the biggest borrower of Chinese loans for energy and infrastructure projects, valued at approximately $60 billion, which doubled the amount borrowed by Brazil. And, of course, the growing ominous presence of China in Cuba.

The Lula administration seems to view the U.S. as a worthy ally for foreign direct investment, shared democratic values, and cooperation in the fields of security. However, Brazil rightly sees China as a key partner in trade, complementary investment, diplomatic coordination, and collaboration in BRICS. China brings vast sums of money supported by Beijing and with little if any conditionality.

In contrast, the Biden Administration's strong emphasis on promoting democracy, labor, human rights and the environment not only attaches political conditionality to its engagement with Latin America but could also lead to accusations, especially from countries in the region that have a troubled past with the U.S., that Washington is interfering with Latin American countries' domestic affairs. In contrast, Beijing's principle of non-intervention and support for "South-South cooperation" in both diplomacy and development will continue to be attractive.

Any US Administration will encounter significant challenges in mobilizing capital from the private sector to achieve foreign policy. This disparity helps explain why Beijing's programs, namely the BRI, are gaining traction in a region that highly prioritizes development while Washington-led initiatives, notably the APEP, lack the momentum to compete, and often result in diplomatic consequences unfavorable to the U.S. Existing data show, for instance, that Latin American countries where China economically surpassed the U.S. were 26 percentage points less inclined to vote in alignment with Washington than other member states at the United Nations.

US international economic policy should place substantially more attention on Latin America. However, it likely will do so primarily in response to Chinese incursions. It is likely that in either Administration, the initiatives will focus on Brazil. Like so many emerging economies, Brazil will need to balance between two large trading partners who are increasingly suspicious of each other and demanding their allies to act in accordance. This balancing act is highly complicated, but if handled well, can be a strong platform from which emerging markets in South American can leverage a path toward rapid and balanced growth.