APPENDIX III
TRADE POLICIES IN LATIN AMERICA

During the 80's and 90's, a tremendous movement toward free trade in Latin America occurred. This change in trade policies has resulted from a number of factors. First, earlier attempts at trade reform did not include radical changes in trade philosophies toward trade liberalization and these policies did not achieve the success that many of these countries had hoped. Secondly, research has long shown a significant benefit from a liberalized trade policy. Third, Southeast Asia was experiencing a great deal of benefits from their liberalized trade policies, and therefore, Latin American needed to move towards a more open economy to compete with Southeast Asia. Fourth and finally, the World Bank used monetary incentives to encourage greater openness in trade policies for Latin American countries. As a result, Latin America has seen a steady decline in tariff rates and the abolishment of a number of trade barriers. In this section, the transition of the various Latin American governments is described. This discussion is not an all-inclusive discussion, as it only highlights selected countries.

Comments and observations regarding foreign policy as contained herein are those of the study consultants and are not necessarily shared by the Federal Highway Administration or any other Alliance member.

ARGENTINA

Argentina has experienced strong growth in their economy in the last decade as the result of their efforts to reduce inflation and creating a stable currency. Like many Latin American countries, this stability has been achieved through establishing a fixed exchange rate, reducing inflation, and through the privatization of a number of government agencies. As a result, Argentina has created stability within the economy that represents an attractive trading partner for the U.S.. By 1995, the U.S. exports totaled nearly $4.5 billion and the U.S. imports totaled $2.3 billion.

With its transition to a more market based economy, Argentina has created a more open economy with less barriers to trade. Argentina, along with a number of South American countries, established the Mercosur Agreement in 1991 with common tariff rates that ranges from 0 to 20 percent for different goods. This and other agreements involving Argentina have helped reduce the average tariff rates to all countries to less than 10 percent and has helped abolish the import licensing system. As part of these agreements, greater flexibility in the financial service industry has also occurred.

However, a number of barriers still exist, especially for the U.S.. Duties have been placed on a number of goods including automobiles, textiles, and apparel. In addition, heavy tariffs and quotas have been established for specific industries including the automobile assembly industry. In order to become a truly open economy, these issues need to be addressed.

BAHAMAS

The Bahamas is a developing country in which the economy is based primarily on tourism, financial services, and agriculture. Like many countries, the stability of its currency is critical to its economic success. In order to ensure stability of the currency, the Bahamas currency is pegged to the U.S. dollar at an exchange rate of 1:1.

While trade has been growing with the Bahamas, barriers to trade still present an obstacle for trade. These barriers include duties and tariffs that are placed on imports to protect domestic industries. Traditionally, duties have been a major source of revenue for Bahamas and still represents a significant barrier to trade. Bahamas' major trading partner is the U.S. as it accounted for nearly 55 percent of all imports into the Bahamas.

Due to the movement towards a duty free Western Hemisphere in recent agreements, the government is trying to restructure the way the government raises revenue. As part of this movement, duties have been reduced on a whole host of items including construction materials, liqueurs, jewelry, watches, perfumes, table linens, and non-leather designer handbags. In addition to duties, tariffs and occasionally bans are placed on goods that are produced domestically. Tariffs have primarily been placed on produce such as bananas, romaine lettuce, yellow squash, and zucchini. On occasions, flowers and citrus plants, and vegetables have been banned because of the potential diseases they could bring into the country. Despite these barriers, the Bahamas is considered a relatively open market.

BOLIVIA

Bolivia is one of the poorest countries in Latin America. It has primarily suffered from economic instability and inadequate infrastructure that has stunted the growth of the economy. To address the economic problems of the country, a major movement toward a free economy has occurred by creating a flexible exchange rate[1], reducing regulations on banks, eliminating import requirements, privatizing a number of pubic operations, and by joining the IMF. Today, Bolivia is experiencing lower inflation rates, with steady growth in the economy as the result of this movement towards an open market.

Bolivian economy represents a trading partner that has relatively few barriers and none that is specific to the U.S.. In the past, import licenses were required for specific goods. However, these licensing requirements have mostly been eliminated. Also in 1990, the Bolivian government reduced tariffs from 16 to 10 percent for all goods except capital goods, which has a tariff rate of 5 percent. In order to encourage exports, the central government provides tax rebates to producers that produce goods that are eventually exported.

[1] The exchange rate of the country is set daily by an agency (BOSLIN) within the Bolivian Central Bank. To set the exchange rate, the BOSLIN has a daily auction of dollars and therefore, the exchange rate responds to market forces.

BRAZIL

In the past, Brazil's economy has been marred by high inflation and instability. As late as July of 1994, inflation was as high as 50 percent per month. Recently, however, a major reconstruction of the economy has occurred including the privatization of a number of public agencies, the reduction of market barriers, the provision of a stable currency, and the attraction of foreign investments and foreign currency by maintaining high real interest rates. Together, these policies have managed to gain a stable and prospering economy with inflation rates as low as 1 percent per month.

However, these reforms have resulted in large fiscal deficits for the central government and have contributed to a negative trade balance. In order to work toward a balanced fiscal budget, the government has instituted limitations on spending that has severely reduced discretionary spending, which may have long term consequences with an under-investment in infrastructure.

In hopes of reducing trade deficits, a number of trade barriers, including tariffs, quotas, duties, import licensing, and discriminatory governmental policies have been instituted. Each of these policies has led to significant barriers to trade. For example, tariff rates as high as 70 percent on some goods (including automobiles, motorcycles, and shoes) have made imported goods very expensive and reduced the demand for these goods.[2] Quotas have also been used to reduce trade barriers for certain industrial goods (including automobiles) and on informatics products. In addition, discriminatory government procurement policies remain a barrier to trade for U.S.. producers. Other government policies that have created strong barriers are the sanitary and phytosanitary standards for agriculture products including chicken, beef, and sheep. While recent agreements have been made in regard to the trade of fruit, and grain between the U.S. and Brazil, there are still significant barriers to trade for these products. Trade in the service industry has been limited by foreign capital restrictions provided under the 1988 Constitution. Furthermore, foreign legal services including accounting, management consulting, architectural, and engineering have been hindered by forced local partnerships and limitations on foreign directorship. Together, these policies have created significant barriers of trade to one of the largest Latin American economies.

The Brazilian government has also tried to reduce the trade deficit by encouraging exports through a subsidization policy. The Brazilian government has offered incentives such as tax and tariff exemptions for equipment and materials imported for the production of goods for export. Other incentives include excise and sales tax exemptions on exported goods, excise tax rebates on materials used in manufacturing export products, interest rate guarantees that allows exporters to gain financing rates that at world market rates, and incentives that allow exporters to be exempt from certain taxes. These subsidies, along

[2] As late as 1990, the tariff rates on certain items were as high as 105 percent. However, through the pressure of GATT, the average tariff rate has been reduced to about 11 percent.

with the practices of imported goods, present a barrier to free trade between the U.S. and Brazil.

On a positive note, Brazil has been part of a number of trade agreements. For example, Brazil is part of the Southern Common Market (Mercosur) partners, which has caused Brazil to lower their tariffs with member countries that averaged 14 percent in 1995. Other agreements have been in the works with other Latin American countries that should reduce the barriers among Latin American countries, but will maintain substantially high barriers for trade with the U.S.. However, the negotiation of agreements is a positive sign for a reduction of barriers and may allow the U.S. to tap into this large Brazilian market in the future.

CHILE

Chile has a rapidly growing economy that draws upon a vast pool of natural resources including copper, forestry products, fresh fruit, and fishery. Chile also enjoys a strong credit rating that has created an influx of foreign investment. Like many other Latin American countries, it has moved toward privatization that has strengthened the Chilean economy. Unlike many other Latin American countries, Chile has experienced fiscal surpluses. In addition, the Central Bank has maintained a strong policy of reducing inflation gradually while maintaining steady growth in the economy. The Central Bank has also kept a very close watch on the exchange rate and they have grave concerns about large volumes of outside currency flowing into the country. To maintain stable exchange rate, the Central Bank buys and sells dollars.

In terms of trade, Chile has been at the forefront of trade reform. Chile has relatively few trade barriers and continues to make strides toward free trade. They are part of a number of agreements including WTO, MERCOUSUR nations, and ALADI (Latin American Integration Association). These agreements have made significant steps in reducing barriers such as high tariff rates and creating duty-free goods. Through this trading policy, the average tariff level has been reduced to less than 11 percent with very little variation from industry to industry (Rajapitrana, 1994). Additionally, Chile has no significant licensing requirements, which makes it easier for goods to be imported.

However, agriculture products are still widely protected by a complex pricing system in which a tariff is levied against certain commodities (includes wheat, wheat flour, edible oils, and sugars) when the world price falls below a “floor” level price. Chile also have policies for specific goods that makes it difficult for U.S. exports including tariffs, quantity restrictions, product standards, testing, certification, and labeling. These requirements have virtually eliminated the importation of poultry products, meat, and fruits into the country. The lack of clear copyright laws does not provide protection for software as well.

COLOMBIA

Colombia is among the group of countries that has been moving toward a free market through the privatization of a number of public agencies and the

liberalization of their trade policy. Much of the movement in free trade has occurred as the result of trade agreements including the WTO, Andean Pact, and the G-3 agreement.

As the result, a number of barriers of trade have been abandoned or reduced in Colombia including the elimination of a number of import licensing requirements on most products, a substantial decrease in tariff rates, a more transparent investment rules, and more simplified procedure of importing and exporting goods into the U.S..

However, several trade barriers still persist for certain products including bureaucratic regulations and product standards along with licensing and registration requirements. License requirements have mostly pertained to agriculture products that include wheat, poultry meat, malting barely, corn, rice, sorghum, wheat flour, oilseeds and their products, soybeans, soybean meal, and soybean oil. Additionally, powdered milk, wheat, malting barely, yellow and white corn, crude palm and soybean oils, white rice, soybeans, white and raw sugars, chicken pieces, and pork meat are subject to a variable import tariff 'price band" system. Finally, intellectual property rights are not well established and substantially hurts the software industry within the U.S..

COSTA RICA

In 1996, U.S. exports to Costa Rica totaled over $1.8 billion while it imports from Costa Rica totaled over $2 billion. This is substantial for an economy that has a GDP that is under $10 billion annually. Based upon these statistics, it is obviously that trade is critical to the economy of Costa Rica, and therefore, Costa Rica has entered into a number of international trade agreements, including GATT, WTO, and CACM. Through these agreements, a significant number of trade barriers have been eliminated. For example, by being a member of the CACM, Costa Rica has eliminated trade duties and reduced it tariff rates on goods with the member countries.

In spite of its membership into these international agreements, a number of trade barriers remain for specific products (i.e. agriculture products). These trade barriers are mostly in the form of custom procedures, required standards and certificate requirements. The standards and requirements that have been placed on imports have affected the trade of pharmaceuticals, fertilizers, pesticides, hormones, veterinary preparations, vaccines, poisonous substances, bulk grain, fresh horticulture products, frozen meats, and mouthwashes. In addition to these requirements, Costa Rica has required food products to be labeled in Spanish, which creates another obstacle in trade.

In some cases, the elimination of one barrier is just replaced with another barrier. Recently, Costa Rica instituted a new tariff to replace the elimination of quantitative restrictions that was placed on products such as pork and related by-products, poultry, seeds, rice, wheat, corn (white and yellow), beans, tobacco, sugar, sugar cane and related products, dairy products, and coffee. Consequently, it may be just as difficult to export these products as it was before the quantitative restrictions were eliminated.

Despite these requirements, Costa Rica is overall an open economy with relatively few barriers and they should continue to be a strong trading partner with the U.S..

DOMINICAN REPUBLIC

While the Dominican Republic may represent a rather small market among the Latin America countries in terms of the overall economy (GDP of $12.4 billion in 1996), it is a significant trading partner with exports to the U.S. totaling $3.6 billion and imports from the U.S. totaling $3.2 billion. Consequently, the Dominican Republic trade policy is important to the trading relationship between the U.S. and Dominican Republic.

Currently, the Dominican Republic's trade policy is somewhat restrictive. These restrictions include a complex custom procedure and high tariff rates. On most products, the Dominican Republic has a tariff rate of 5 to 35 percent range and have tariff rates of up to 80 percent on certain products including home appliances, alcohol, perfumes, jewelry, automobiles, and auto parts. Like most Latin American countries, the Dominican Republic does not have sufficient intellectual property rights to protect the interest of U.S. software makers.

To continue to grow as a trading partner, many of these restrictions must be addresses and probably will be when they become more involved in international agreements like the WTO and GATT. In addition, it is important that the Dominican Republic has a healthy economy. Therefore, not only are trade policies important, but polices that may affect the macroeconomic stability (i.e. Central Bank and fiscal policies) of the economy are important to the future trade relations with Dominican Republic.

ECUADOR

Due to large fiscal debts of the 1970's, the economy of Ecuador experienced a sharp recession in the 1980's that led to macroeconomic instability. By the 1990's, the government embarked on a major reform movement to create greater stability. However, these reforms encountered difficulties in terms of political scandals and the turmoil it had with Peru. Consequently, the economy is still experiencing unstable inflation, exchange, and interest rates. This instability has severely hurt the economy's ability to grow.

In the past, the economy of Ecuador has largely been dependent upon petroleum products, along with the exports of bananas, shrimp, and other primary agriculture products. Consequently, these products have often been protected through custom procedures, import license requirements, sanitary and phytosanitary requirements, tariffs, and non-tariff surcharges. Through negotiation, many of these restrictions have been reduced. However, Ecuador has been slow to implement the revisions. In addition to the barriers for trade of goods and services, the protection of intellectual property rights has also been a problem within Ecuador.

EL SALVADOR

The Salvadoran economy has struggled recently because of tax hikes, price hikes of public services, excessive fiscal debts, high inflation rates, and their instability of their currency. As a result of their unstable economy, El Salvador has traditionally experienced large trade deficits. These trade deficits have been a major concern for the Salvadorian government and they have often responded with protective trade policies.

Despite their troubled economy and sometime protective trade polices, the U.S. has found El Salvador to be a lucrative trading partner in recent years. U.S. exports have increased over 60 percent since 1991, accounting for almost 51 percent of El Salvador's total imports. This growth can primarily be attributed to El Salvador's lower tariffs rates that now range between 1 and 20 percent and which are expected to fall even further.

However, higher duties still remain on automobiles, alcoholic beverages, textiles, and some luxury items. A 10 percent VAT and a surcharge of 40 percent of the import duty is placed on most imports from non-Central American countries. In addition, the Salvadorian government has placed rigorous standards on poultry that have effectively created a ban on U.S. poultry to El Salvador. Imports on other fresh foods are also subject to rigorous health standards that requires a "certificate of free sale". This certificate verifies that the product has been approved by U.S. health authorities for public sale. El Salvador also requires basic grain and dairy products to have import licenses. Finally, El Salvador has had a very difficult time protecting U.S. intellectual property rights. However, there has been recent attempts of improving the situation.

Despite the cumbersome requirements for some products, El Salvador is considered a relatively open market with few restrictions. El Salvador continues to make progress in it is trade policy as it is a member of the WTO and the Summit of the Americas/Free Trade Area of the Americas (FTAA).

GUATEMALA

Like most other Latin American countries, Guatemala has been moving toward a more open economy through a number of agreements including CACM and GATT. These agreements have reduced tariff rates that are now between 5 and 20 percent and have reduced a number of other non-tariff barriers. In addition, price band for corn, rice, sorghum have been eliminated, which has helped U.S. exporters of these products.

However, other barriers still remain. For example, quotas still remain for poultry that has significantly reduced the exportation of poultry while licensing for such products as apples remain ambiguous and has significantly hurt U.S. apple exporters. In addition, the procedure for custom valuation has been a significant trade barrier in the past.

HAITI

Haiti has a struggling and undiversified economy that is based primarily on agriculture products. In order to strengthen the economy, the government is currently undergoing macroeconomic reform that includes stronger control over money supply, a free floating exchange rate, trade liberalization, privatization of industries, and decentralization of government. While the full impact of the reform has not been felt, these reforms have led to lower inflation rates and created some growth toward greater stability.

During the 90's Haiti faced economic sanctions from the U.S.. This created economic pains as the Haitian economy has been, and continues, to be very dependent upon its relationship with the U.S.. Once the U.S. sanctions were lifted with Haiti, economic trade resumed.

The primary barrier to trade with Haiti in the past was high tariffs. Recently these tariff rates have been lowered by the Haitian government which has created significant benefits to U.S. exporters.

HONDURAS

In the past, Honduras had a number of restrictions to foreign trade. However, with their greater participation in international agreements including CACM, their tariffs have been reduced to 5 to 20 percent for most goods and they have recently eliminated their licensing requirements.

Despite these improvements, Honduras still has significant barriers for chicken parts in the form of sanitary and phytosanitary requirements, and significant barriers for yellow corn, sorghum, rice, and soybeans through the use of price bands. In addition, Honduras has a discriminatory policy that imposes a steep tax on certain automobiles based upon engine size. In addition to these barriers, Honduras is especially poor at protecting intellectual property rights and have a government procurement practice that is less than transparent and seems to favor domestic firms.

JAMAICA

Jamaica has experienced a slow growth in its economy over the last several years for a number of reasons including a high rate of crime, widening trade deficits, high debt servicing costs, low rates of investment, lack of competitiveness in exporting goods, and a tight monetary policy. The tight monetary policy is part of an effort by the Bank of Jamaica to create greater stability in the currency and to create lower inflation. Together, these factors have created slow growth in the economy, which in turn has slowed their growth in trade. The health of the trade sector is highly important to the overall economy as exports represents about 26 percent of their GDP, while imports represents about 55 percent of their GDP. In 1996, the U.S. exports totaled over1.5 billion, which represents over half of their imports, while the exports to the U.S. totaled to just over $840 million.

In effort to strengthen the trade sector of the economy, Jamaica became a member of the WTO in 1995. Generally, Jamaica is considered an open economy with few trade barriers. However, many exporters to Jamaica have complained about the bureaucratic procedures and inadequate facilities and staff for importing goods. Jamaica has respond by creating less bureaucratic import procedures and have allowed for preclearance for imports. In addition, investments have been made to computerize the system to facilitate quicker import procedures.

Other significant gains have been made in the protection of intellectual property rights. However, piracy of software, video, and music still is widespread and may only be reduced through more resources.

While, there are some hindrances to trade with Jamaica, overall Jamaica is considered an open economy with few restrictions to trade.

MEXICO

Mexico is one of U.S.'s strongest trading partners in the world and there are a number of reasons for this strong relationship. First and foremost is its proximity. Second is its market size. Mexico has one of the largest markets in Latin America with a nominal GDP of $328 billion in 1996. A third reason for the strong relationship is NAFTA.

NAFTA has made a number of significant changes to the trading relationship with the U.S.. As part of the agreement, several industrial tariffs and most agricultural tariffs are in the process of being eliminated. These tariffs are to be eliminated over a 10 year period, with the remaining tariffs eliminated in the following 5 year period. In addition to industrial exports, NAFTA has also created greater access to a number of service industries including Insurance, Telecommunications, and Financial Services. Furthermore, Mexico has committed itself to the highest level of protection of intellectual property rights. Finally, U.S. firms have been given greater access to the governmental procurement market in Mexico.

While NAFTA has been highly important to the development of trade for Mexico, other trade agreements have also been important including GATT and WTO. Each of these agreements has created a greater push toward the elimination of licensing requirements. However, Mexico still requires licenses for nearly 200 products, in which most of them are agriculture products. For instance, exporters have experienced a number of problems in gaining licensees for construction grade lumber. In addition, many products are required to have certificates of origin, with the intention of eliminating apparel and footwear produced in China. This certificate of origin has created a number of problems for U.S. producers who use Chinese producers as part of their production process.

The problems of trade with Mexico does not stop there. U.S. exporters have also complained about the extensive customs procedures that have reduced the efficiency of exporting to the Mexican market. These procedures seem to be targeted towards textiles, footwear, beer, and consumer electronics. Finally,

phytosanitary standards have also affected the exportation of grains, citrus, cherries, and cling peaches.

While there are a number of barriers to trade with Mexico, it is a relationship that continues to grow through international negotiation. Critical to the future growth of the relationship is the continued growth of the Mexican economy. Mexico is continuing to recover from the 1994 currency crisis that required U.S. intervention. Due to the currency crisis, Mexico moved from an exchange rate band mechanism to a free floating exchange rate with only an occasional intervention by the Central Bank of Mexico. Mexico has also undergone a privatization movement that should pay off dividends in the future in terms of economic growth. Through their efforts of strengthen the economy and reducing their trade barriers, Mexico should continue to grow as a trading partner.

NICARAGUA

Nicaragua is in the midst of going from a centralized economy to a market-oriented economy. This process has been a long and difficult one, but it is recently showing positive signs of growth in the economy due to its transition. Nicaragua continues to struggle in developing into an industrialized nation as their economy is mostly based upon agriculture that is complimented by only a small manufacturing industry. Most of their consumer goods are produced abroad and are imported into the country. Consequently, there has been a strong push by the government to develop an economic base for stronger exports. Nicaragua has also become a member of CACM and WTO, which has created a push towards greater free trade that includes a reduction of tariff rates, eliminating non-tariff barriers and foreign exchange rate controls. As a result, exports grew by 81 percent between 1994 and 1996. One of the beneficiaries of this increased trade is the U.S., as it remains Nicaragua's largest trading partner.

However, Nicaragua remains one of the least open economies of Latin America. Despite being a member of WTO and CACM, Nicaragua continues to have a number of barriers including a temporary protection tariff of 5 to 10 percent on about 900 items, a specific consumption tax of approximately 15 percent on 750 items, a 5 percent stamp tax, and 15 percent value added tax. Due to outside pressure, a tax reform law was passed in 1996 that specified that import fees in the form of taxes could not exceed 35 percent. The barriers do not stop there. Price band mechanisms have been established for yellow corn, rice, and soybeans. In addition, outside investments into Nicaragua have been slow as investors are still reeling from the lack of protection they received on their investments during the Sandinista era. Also, there has been a clear lack of protection for intellectual property protection.

PANAMA

Panama's economy has been growing at a rather slow pace relative to other Latin American countries with a number of its industries actually having a decline in growth. The Panama economy is based primarily on a well-developed service industry, which makes up 70 percent of the GDP. Manufacturing makes up about 19 percent of the economy, while fishing, forestry, and agriculture makes up most of the rest of the economy.

In attempt to jump-start the economy, the government is in the midst of a reform movement to liberalize trade, privatize state-owned operations, institute fiscal reform, and encourage job-creation wherever they can. However, their attempts at creating a stronger economy has been severely hurt by the downsizing of the U.S. military in Panama as the military's investment as accounted for as much as 4 percent of the nations GDP in certain years.

Trade with Panama is influenced by a number of factors including its exchange rate. Currently, Panama has a fixed exchange rate with the U.S. dollar. While fixed exchange rate reduces the risk of currency exchange fluctuations, it does mean that the price and availability of products are more dependent upon transportation costs and tariff and non-tariff barriers. These barriers have traditionally made Panama one of the most protected countries in Latin America. In the past, a number of special advantages in the form of subsidies have been given to specific domestic agricultural and industrial industries. These subsidies are gradually being eliminated in hopes of creating more investments into industries for which they have a competitive advantage rather than an artificial advantage. In addition, non-tariff barriers have been a significant obstacle to trade. By controlling the marketing of agriculture products, including rice, corn, beef, dairy products, soybeans, and wheat, the Ministry of Agriculture has significantly reduced the importation of these products. The Ministry has required permits for the importation of animal products, animal by-products, and seeds while placing quotas and stringent phytosanitary requirements for a number of other agriculture. However, Panama is in the process of becoming members of the WTO, which should reduce the barriers of trade in the future and help protect intellectual property rights.

PARAGUAY

While the economy has been growing at a rather slow rate (2 percent annually) in recent years, economic indicators, including a relatively low inflation rate and debt level, are suggesting stronger growth for the future. Despite these positive signs for future growth, a number of barriers that present themselves as obstacles to future growth including special interest political and economic groups who that are resisting reform along with a very poor telecommunication system.

In the past, as much as 70 percent of the government's revenue has been collected from Customs. While this has reduced the tax liability of corporations and individuals within Paraguay, it has significantly hurt Paraguay's ability to trade with other countries and created higher prices for consumer goods. In addition, high interest rates have made it difficult to finance exports and imports into the country and have hurt overall trade.

In addition, U.S. producers of software, audio, videotapes, video games, and books have had very little success in entering the Paraguay market because of widespread piracy. Finally, the U.S. has also had a very difficult time obtaining governmental procurements because of a lack of transparency in the decision making process and because of a large amount of competition from Asian and

regional producers. However, there has been some movement toward more free trade by being part of the Mercosur agreement.

PERU

Over the last decade, Peru has become an open economy through a number of policy changes that included a simplified tax structure, greater stability of inflation and interest rates, reduced exchange rate controls, and the privatization of a number of industries. Due to these policy changes, Peru has become a much more attractive place for investment and trade opportunities.

Currently, the U.S. is Peru's largest trading partner with the volume of trade increasing dramatically over the last decade as the result of major changes in their trade philosophy. From 1990 to 1996, tariff rates decreased from average rate of 80 percent to 16 percent in 1996. In 1996, 95 percent of imports had a tariff rate of 15 percent while the remaining 5 percent had a tariff rate of 25 percent.

For the most part, Peru's non-tariff barriers were eliminated through the use of a number of free trade agreements. However, import surcharges are applied to selected goods including wheat, rice, corn, sugar, and milk products. These surcharges are calculated monthly according to prevailing international prices for each commodity. These surcharges are in the process of being eliminated as well.

SUMMARY

As evident through this previous discussion, there has been a strong movement towards free trade across the Latin American countries. This movement has been a result of a number of international agreements, a free market attitude within Latin America, and healthier Latin American economies. Due to this movement toward free trade, a number of Latin American countries have become significant trade partners. In **Exhibit III-1**, the exports and imports between the U.S. and individual Latin American countries are highlighted. In the table the dollar value of exports to the Latin American country from the U.S. and the total dollar value of imports from the Latin American country to the U.S. is included. This list of countries are not intended to be all-inclusive, but rather a sample of trade patterns with Latin American countries.

Exhibit III-1
1996 TRADE PATTERNS
(in billions of dollars)

Country	***Exports to the U.S.***	**Imports from the U.S.**
Argentina	$2.30	$4.50
Bahamas	0.16	0.69
Bolivia	0.28	0.23
Brazil	8.70	12.60
Chile	2.20	4.00
Colombia	4.20	4.70
Costa Rica	2.00	1.80
Dominica Republic	3.60	3.20
Ecuador	1.90	1.20
El Salvador	1.08	1.07
Guatemala	1.50	1.65
Haiti	0.14	0.48
Honduras	1.40	1.30
Mexico	73.10	56.20
Jamaica	0.84	1.50
Nicaragua	0.35	0.26
Panama	0.30	1.40
Paraguay	0.04	0.91
Peru	1.20	1.80

Source: U.S. State Department

Exhibit III-2 displays the goods that have been severely hit by trade barriers to particular Latin American countries from the United States. In the table, tariffs, standards and procedures, customs and particular bans, duties, and quotas are described for each country. **Exhibit III-3** contains the common external tariff rate for each country (according to the trade agreement which the particular country is in) for commodity groups that are important to the Southeastern Transportation Alliance. Once again, these tables do not include all countries, but just a sample of the countries.

Based upon this examination, it is rather apparent that Latin America and North American countries are moving closer towards free trade. Whether a more comprehensive agreement, such as FTAA, occurs or not depends upon the level of commitment of all countries and intense negotiations. However, many Regional Agreements have been made in the course of the last few years that has significantly reduced trade barriers.

Exhibit III-2
TRADE RESTRICTIONS

Country	Tariffs and Duties	License Requirement and standards	Bans and Customs	Quotas
Argentina	Tariff range of 0 to 24 percent with an average rate of 12 percent; Heavy tariffs for automobiles.	Is in the process of eliminating	NA	Quotas for pulp, paper, and automobiles
Bahamas	The basic ad valorem rate 35 percent, however, a number of goods have a higher rate including agriculture goods, cigarettes, automobiles, etc.	NA	Bans have been placed on flowers, citrus plants, and vegetables.	NA
Bolivia	Recently reduced tariffs from 16 to 10 percent for most goods with capital goods having a tariff of 5 percent.	Must have weight clearly marked.	10 percent flat rate applied to CIF border value	NA
Brazil	Tariffs rates as high as 70 percent have been placed on goods including shoes, motorcycles, and automobiles. Brazil has actually had an increase in tariff rates with rates ranging between 5 and 30 percent and will generally vary over time based on the revenue needs of the treasury.	Sanitary and phytosanitary measures have been used on various agriculture products including chicken, beef, and sheep.	NA	Quotas for various items including automobiles
Chile	Average tariff rate of 11 percent as a flat rate of 11 percent is applied to most goods. Price band tariffs on various agriculture products including wheat, wheat flour, edible oils, and sugars.	Chile uses product standards, testing, certification, and labeling which have reduced the importation of poultry products, meats, and fruits.	NA	Quantity restrictions on various items.
Colombia	Price bands on various agriculture products including powdered milk, wheat, malting barely, yellow and while corn, crude palm and soybeans oils, white rice, soybeans, white and raw sugars, chicken pieces, and pork meat Three step tariff rate of 5 percent of raw materials, intermediate goods, and capital goods that are not produced domestically, 10-15 percent rate for these goods that are produced domestically, and 20 percent for all finished goods.	Bureaucratic regulations, product standards, licensing requirements, and registration requirements have been placed on various agriculture products including wheat, poultry, malting barely, corn, rice, sorghum, wheat flour, oilseeds, soybeans, soybean meal, and soybean oil.	NA	NA

Exhibit III-2 (cont')
TRADE RESTRICTIONS

Country	Tariffs and Duties	License Requirement and standards	Bans and Customs	Quotas
Costa Rica	Placed on various items. Recently, new tariffs have been placed on pork and related by products, poultry, seeds, rice, wheat, corn, beans, tobacco, sugar, sugar cane, dairy products, and coffee. Costa Rica applies the Common External Tariff rate of the CACM for most goods of 5- 20 percent.	Standards and requirements have been placed on various items including pharmaceuticals, fertilizers, pesticides, hormones, veterinary preparations, vaccines, poisonous substances, bulk grain, fresh horticulture products, frozen meats, and mouthwashes.	Customs are placed on various items. Custom rates range from 1 to 28 percent.	Have been recently eliminated
Dominican Republic	Tariff rates range from 5 to 35 percent on most goods with some goods having as high as 80 percent including home appliances, alcohol, perfumes, jewelry, automobiles, and auto parts.	Follow U.S. standards and requirements.	NA	NA
Ecuador	Tariff rates ranges from 0 to 20 percent with most consumer goods, intermediate, and raw material having a 20, 15, and 5 percent tariff rates. In many cases, price bands have been placed on agriculture products. Especially high tariffs are placed on automobiles. Most consumer goods have a 20 percent tariff rate, while intermediate goods and capital goods are imported at 10 and 5 percent.	Import license requirements, sanitary and phytosanitary requirements have been placed on various items including processed foods, cosmetics, pharmaceuticals, consumption goods, and agriculture commodities.	Bans have been placed on used goods. Custom procedures have been placed on various items especially agriculture products and can be cumbersome.	NA
El Salvador	Tariff rates range between 1 and 20 percent. Tariff rates on raw material along with capital and intermediate goods have generally been reduced to zero.	Rigorous standards have been placed on poultry and fresh foods while basic grains and dairy products must have import licenses. On most other goods, no licenses have been required.	Usual goods are banned for safety reasons.	Higher duties on alcoholic beverages, textiles, some luxury items, and automobiles.
Guatemala	Tariff rates are generally between 5 and 20 percent, which is the CET of (CACM). Has a price ban mechanism of 5 -45 percent (in the process of eliminating). In addition, there is stipulated duty of 20 percent for chicken parts that are less than 300 metric tons and 42 percent for exports greater than 300 metric tons.	Licensing is required for apples and wheat flour. No other significant requirements.	NA	NA

Exhibit III-2 (cont'd)
TRADE RESTRICTIONS

Country	Tariffs and Duties	License Requirement and standards	Bans and Customs	Quotas
Honduras	Tariff rates of 5 to 20 percent on most goods that are in the process of being dropped to 1 to 15 percent. Price bands have been placed on yellow corn, sorghum, rice, and soybeans. High taxes are placed on automobiles depending on engine size.	Onerous phytosanitary requirements for agriculture products that restricts US exports. Labeling is required to have the name of the product, name of manufacture, origin, list of ingredients, expiration date, net content, and sanitary registration.	Custom procedures are burdensome. Bans have been placed on sugar, rice and cement.	NA
Jamaica	Jamaica currently adheres to the CET rate of the Caricom of 0 to 20 percent on goods (an additional 5 percent in the case of agriculture products). In addition to the CET, all goods carry a 15 percent general consumption tax.	Bureaucratic procedures and inadequate facilities for importing have made trade more difficult. In addition, licensing is required for powdered milk, refined sugar, plants, perfume, pharmaceuticals, vegetable saps, certain chemicals, and motor vehicles and parts.	Usual goods are banned because of safety and ethical reasons.	NA
Mexico	Tariffs are being eliminated over a 10 to 15 year time frame. Tariffs will be phased out based on the product. Products are classified in one of three groups: Group A, B, or C. Products in Group A had their tariff phased out in 1994, Group B had their tariff phased out this year (1998), and Group C will have their tariff phased out in 2003.	Licenses are required for nearly 200 products. Phytosanitary standards have also been placed on grains, citrus, cherries, and cling peaches.	Extensive custom procedures that seem to target textiles, footwear, been, and consumer electronics.	NA
Nicaragua	Temporary protection tariff of 5 to 20 percent. A specific consumption tax of 15 percent on nearly 750 items. A percent stamp tax. A 15 percent value added tax. These taxes cannot exceed 35 percent. Nicaragua quotes an average tariff rate of 14.5 percent.	In general, standards and licensing has not presented a significant barrier to trade.	NA	NA
Panama	Panama has the highest tariff and duty rates of any Central America country with an average rate of 40 percent. Currently, the maximum tariff rates for industrial imports is 40 percent and the maximum tariff rate for agriculture goods is 50 percent.	Require permits for animal products, animal by-products, and seeds. Stringent phytosanitary requirements for a number of other agriculture products. Labeling has the standard requirements.	NA	NA

Exhibit III-2 (cont'd)
TRADE RESTRICTIONS

Country	Tariffs and Duties	License Requirement and standards	Bans and Customs	Quotas
Paraguay	Applies the CET of the Mercosur agreement of 0 to 20 percent.	Requires no major import licenses.	Paraguay applies significant customs to imports.	NA
Peru	Two tier tariff program with rates of 12 and 20 percent. Agriculture goods have a two tier program of 15 and 25 percent. 95 percent of all non-agriculture imports have a tariff rate of 12 percent, while the remaining 5 percent has a tariff rate of 20 percent. In addition, most imports are subject to a value added tax of 18 percent on the same basis as domestically produced goods.	Some unreasonable phytosanitary requirements have been made for agriculture products. Imported products must have brand name, country of origin, and expiration date.	Excessive delays are often encountered within the customs office.	NA
Uruguay	Three basic tariffs: (1) 6 percent on capital goods not produced in Uruguay; (2) 15 percent on intermediate goods; (3) 20 percent on finished goods.	Labels must be in Spanish and have the country of origin, expiration date, and name of importer.	Occasionally, bans are placed on food items.	NA
Venezuela	Ave tariff rate of 10 percent. The tariff rate of Venezuela has four tiers: 5, 10, 15, and 20 percent, with all imports facing an additional 16.5 percent tax. Eventually, Venezuela wants to move all goods to a flat 15 percent. Venezuela has an especially high tariff on automobiles of 35 percent. Price bands are also applied on agriculture products. In addition, Venezuela has used contervailing duties on certain products including clothing.	Has sanitary and physanitary requirements and has on occasions refused to issue certificates for the importation of poultry and poultry products, and pork products. Venezuela has a local content requirement of 30 percent.	Bans have been placed on chicken products. A custom rate of 1 percent is also applied to all goods.	Very few quantity restrictions.

NA does not mean that these restrictions are not a barrier, it simply means that no evidence of this type of barrier being used by the government was found

Source: US State Department and US Department of Commerce.

Exhibit III-3
TARIFF TABLE

Country	Farm Product		Petroleum and Coal		Pulp and Paper		Lumber and Wood		Nonmetallic minerals		Machinery		Primary Metals		Food and Kindred Products		Overall	
	range	ave	range	ave	range	ave	range	ave	range	ave	range	ave	range	ave	range	ave	range*	ave
Argentina	0-16	9	0-2	1	2-24	12	2-17	6	0-17	4	0-24	0	0-24	12	16	16	0-24	12
Bahamas																	0-160	35
Barbados																	0-20	
Bolivia	5-20	11	5-10	7.5	0-20	10	5-15	10	5-10	5	5-15	10	5-20	10	15-20	17.5	NA	10
Brazil	0-16	9	0-2	1	2-24	12	2-17	6	0-17	4	0-24	0	0-24	12	16	16	NA	11
Chile																	NA	11
Colombia	5-20	11	5-10	7.5	0-20	10	5-15	10	5-10	5	5-15	10	5-20	10	15-20	17.5	0-35	12
Costa Rica	0-274																5-20	12
Dominica Republic																	5-35	NA
Ecuador	5-20	11	5-10	7.5	0-20	10	5-15	10	5-10	5	5-15	10	5-20	10	15-20	17.5	0-20	12
El Salvador																	1-20	9
Guatemala																	5-20	11
Haiti																	0-15	NA
Honduras																	5-20	18
Mexico	0-25	10	0-10	5	0-5	1	0-7.5	3	0-2.5	0	0-10	3	0-10	4	0-10	5	0-10	NA
Jamaica	0-35																0-20	NA
Nicaragua																	5-20	15
Panama																	0-50	40
Paraguay	0-16	9	0-2	1	2-24	12	2-17	6	0-17	4	0-24	0	0-24	12	16	16	0-20	8
Peru	5-20	11	5-10	7.5	0-20	10	5-15	10	5-10	5	5-15	10	5-20	10	15-20	17.5	0-25	13
Uruguay	0-16	9	0-2	1	2-24	12	2-17	6	0-17	4	0-24	0	0-24	12	16	16		15
Venezuela	5-20	11	5-10	7.5	0-20	10	5-15	10	5-10	5	5-15	10	5-20	10	15-20	17.5	0-40	12

The tariff rates for each of the countries are based upon the common external tariff rate of trade agreements.

Source: U.S. Department of Commerce.

* Most goods fall in the range for each country.