

Transportation Policy Brief #4

# Texas–Latin American Trade



Panama Canal Authority



Panama Canal Authority



Texas Ports Association

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## FOREWORD

The Lyndon B. Johnson School of Public Affairs at The University of Texas at Austin has established interdisciplinary research on policy problems as the core of its education program. A major part of this program is a nine-month policy research project (PRP), during the course of which two or more faculty members from different disciplines direct the research of ten to twenty graduate students of diverse backgrounds on public policy issues of concern to a government or nonprofit agency.

During the 2016–2017 academic year, the Texas Department of Transportation (TxDOT) funded, through the Center for Transportation Research (CTR), a PRP addressing six key transport/logistics policy issues related to Texas international trade with foreign countries and domestic trade with other US states. Overall direction and guidance was provided by John Cuttino, who participated in classroom discussions at the beginning of the academic year.

As a consequence, the following policy issues were selected for study:

1. Panama Canal Utilization;
2. Texas Ports and the Panama Canal: Commodities and Infrastructure;
3. Global Logistics Hubs in Texas;
4. Texas-Latin American Trade;
5. Port Competition and Best Practices; and
6. Transportation and Trade Forecasts.

The findings of each policy issue are presented within the context of separate policy briefs. This particular policy brief, “Texas-Latin American Trade,” was researched and written by Burleson Smith.

## ACKNOWLEDGMENTS

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## EXECUTIVE SUMMARY

Historically underdeveloped, trade between Latin America and the United States has grown consistently over the last five years.<sup>1</sup> Latin America's emergence into the global economy over the past two decades represents an enormous opportunity for trading partners, particularly in the Western Hemisphere. Mexico, bolstered by the signing of the North American Free Trade Agreement (NAFTA) in 1994 has to a large extent devoted its gross national product to "relatively" free trade with its more developed neighbors to the north. It is therefore not surprising that Mexico constitutes the vast majority of US trade with Central and South America and is the top trading partner with Texas. However, the economic activity of Brazil, Chile, Argentina, and Columbia has attracted the attention of foreign investors as demonstrated by the already overwhelming presence of Indian, Chinese, and American capital in the region. In fact, while China and the US remain the only countries to see positive trade growth with Latin America, India's interests grew at the fastest rate by nearly 7percent—far outpacing the nearest competitor.<sup>2</sup> As trade in the region—excluding Mexico—expands and entices foreign investment, those countries with an established trading infrastructure are best positioned to benefit from the plethora of raw materials, commodities, and petroleum exports South America has to offer. Conversely Latin America benefits from US exports in no uncertain way. In fact Brazil, Columbia and Chile come in at third, fourth, and fifth respectively when you rank US exports to the Western Hemisphere.

In 2014, Mexico was the top trading partner with Texas—totaling \$102.5 billion dollars in export business—which, given the 1,200 mile border and ten ports of entry, is not surprising. Research findings on the relationship between Texas and Mexico are exhaustive and readily available. For that reason and the historic and geographic ties with the United States and Mexico we have chosen to exclude it from our analysis.

Though Mexico's preeminence is not surprising, Brazil's spot as the number-three trading partner with Texas offering \$11.8 billion in export business (followed closely by China and South Korea) is notable.<sup>3</sup> Brazil's year-over-year growth in trade volume with the Port of Houston alone was nearly 25 percent, demonstrating the potential available to Texas as a busy Gulf Coast state that already accommodates a huge portion of oceangoing traffic to and from Latin America.<sup>4</sup> Moreover, an analysis would not be complete without considering the added value of goods flowing into Texas foreign trade zones to be redistributed or sold across the nation. Relatively recent shifts in commodity pricing make Texas a much cheaper port of call than that of Los Angeles or New York although that has not always been the case.

The principal goal of this brief is to provide a high-level overview of trends in trade and commerce between Texas and Latin America. Secondly, it argues that specific transportation infrastructure investments paired with effective and goal-oriented regulation are the best way to position the state to trade competitively with Latin America.

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<sup>1</sup> Branch, Foreign Trade Data Dissemination. "Foreign Trade: Data." *US Census Bureau Foreign Trade Division*. U.S. Department of Commerce, n.d. Web. 11 Feb. 2017.

<sup>2</sup> Ramirez, David. "Latin America's Top Trade Partners." *Latin Trade*. Latin Trade, 22 Sept. 2015. Web. 11 Feb. 2017.

<sup>3</sup> "Overview of the Texas Economy." (n.d.): n. pag. *Texas Wide Open for Business*. Office of the Governor, July 2015. Web. 11 Feb. 2017.

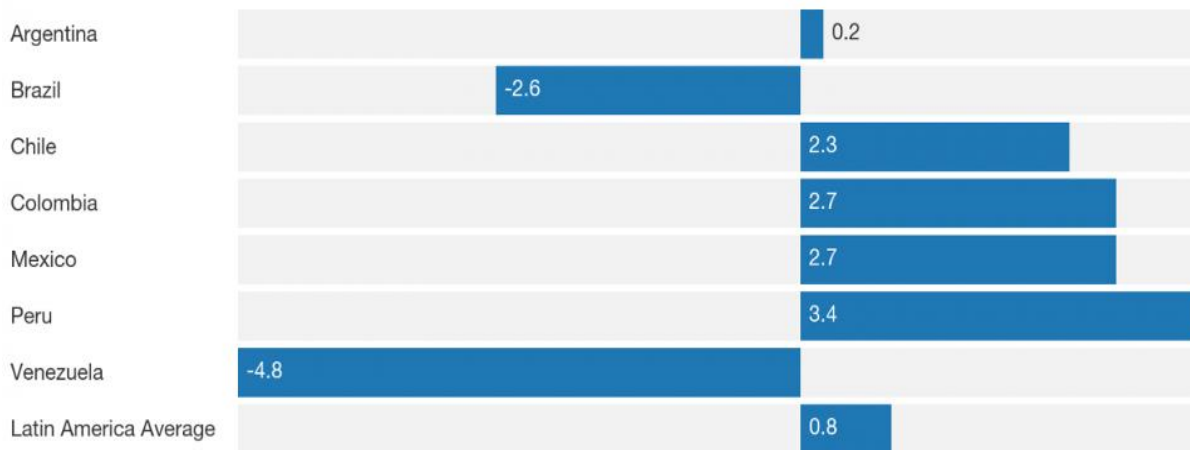
<sup>4</sup> John Cuttino

## BACKGROUND: THE LATIN AMERICAN MARKET

Latin America and the Caribbean comprise thirty-three countries, many of which are served directly or indirectly by Texas deep-water ports. This brief first considers the group colloquially known as the LAC6 (Latin America/Caribbean six best economies) although, as noted above, Mexico is excluded from this analysis. LAC6 includes the raw material exporters of Chile, Argentina, Brazil, Columbia, and Peru—historically centers of the Latin American economy. Central America and the Caribbean have their own regional distinctions but are poised to benefit equally from any measures by either Texas or the countries mentioned above to foster trade.

Like many global economies the Latin American region has seen cyclical growth and contraction. Most analysts note a growth period from 2007–2014, with the exception of 2009.

### 2016 Growth Outlook For Latin American Economies (%)



Source: LatinFocus Consensus Forecast, January 2016

**Figure 1: 2016 Forecasts for top Latin American Economies.**  
(Note: 2017 forecasts have Brazil showing slight positive growth)

In 2014 the Latin American economy boasted a \$6.3 trillion GDP,<sup>5</sup> and growth in the region has continued though not at the rates seen pre-2011 when a fall in oil prices and stagnation in commodity prices took its toll. A Brazilian recession and a Venezuelan inflation crisis further weighed on the region's productivity. While most economists have downgraded their expectations for growth, both in each country and in the region as a whole, the revised estimates reflect less optimistic forecasts and a steady Chinese currency devaluation. Economists project growth in GDP for 2017 near 1.6 percent and expect the rate of growth to increase further through 2020.

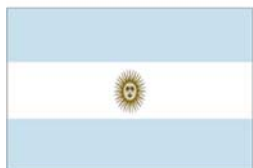
As of 2016, Peru, Chile, and Columbia (all members of the LAC6) hold the coveted spot as the most productive economies in the region due in large part to low levels of corruption and strong forward-thinking investments in infrastructure and institutional security.<sup>6</sup> Peru and Chile are expected to have relatively strong economies in 2017 benefiting from the stabilization of

<sup>5</sup> Wadhwa, Vivek. "In Latin America, a New Day Is Dawning." *The Washington Post*. WP Company, 17 Apr. 2012. Web. 11 Feb. 2017.

<sup>6</sup> Bilbao-Osorio, Benat. "Most Competitive Economies in Latin America and the Caribbean." *World Economic Forum*. World Economic Forum, 3 Sept. 2014. Web. 9 Feb. 2017.



commodity prices and steady increase in the metals markets.<sup>7</sup> Brazil, despite recent political upheaval and instability, remains an extremely strong economy mainly because of the size and sophistication of the marketplace. A recent Washington Post article notes that “Silicon-valley like” startups are prevalent in both Brazil and Chile as the two countries attempt to diversify into more technology-based and service-oriented industry sectors.<sup>8</sup> On the other hand, Venezuela is in the midst of complete turmoil but, despite its near 30 percent hyperinflation (largely due to the fall in oil prices and some catastrophic policy decisions), it still contains almost 18 percent of the world’s total oil reserves and has supplied heavy oil to many Texas ports and refineries for many years. Below we have included a small economic summary of each focus country, excluding Venezuela:<sup>9</sup>



**Argentina:**

Argentina is the forty-seventh largest export economy in the world. In 2014, Argentina exported \$69B and imported \$64B, resulting in a positive trade balance of \$5B. In 2014, the GDP of Argentina was \$537B and its GDP per capita was \$12.5K. Principal exports are soy products, corn, and delivery trucks.



**Chile:**

Chile is the forty-first largest economy in the world. In 2015, Chile exported \$65.7B and imported \$60.9B, resulting in a positive trade balance of \$4.78B. In 2015, the GDP of Chile was \$240B and its GDP per capita was \$23.4K. Principal exports are copper and fish products.



**Brazil:**

Brazil is the twenty-third largest export economy in the world. In 2014, Brazil exported \$228B and imported \$228B, resulting in a positive trade balance of \$124M. In 2014, the GDP of Brazil was \$2.42T and its GDP per capita was \$15.9K. Principal exports are iron ore, soybeans, raw sugar, and crude petroleum.



**Colombia:**

Colombia is the fifty-third largest export economy in the world. In 2014, Colombia exported \$56.5B and imported \$61.5B, resulting in a negative trade balance of \$5.04B. In 2014, the GDP of Colombia was \$377B and its GDP per capita was \$13.4K. Principal exports are crude petroleum, coffee, gold, and coal.



**Peru:**

Peru is the fifty-ninth largest export economy in the world. In 2014, Peru exported \$39.8B and imported \$42.3B, resulting in a negative trade balance of \$2.46B. In 2014, the GDP of Peru was \$202B and its GDP per capita was \$12K. Principal exports are copper ore, gold, and refined petroleum.

These countries can be categorized into three different economic groups<sup>10</sup>:

<sup>7</sup> Flannery, Nathaniel Parish. "How Will Latin America's Economy Perform In 2016?" *Forbes*. Forbes Magazine, 25 Jan. 2016. Web. 5 Feb. 2017.

<sup>8</sup> Wadhwa, Vivek. "In Latin America, a New Day Is Dawning." *The Washington Post*. WP Company, 17 Apr. 2012. Web. 11 Feb. 2017.

<sup>9</sup> (snapshots are republications of data initially reported in the Observatory of Economic Complexity cited below) Simoes, Alexander. "Brazil." *OECD - Brazil (BRA) Exports, Imports, and Trade Partners*. MIT Media Lab, n.d. Web. 14 Feb. 2017.

<sup>10</sup> Talvi, Ernesto. "Latin America Macroeconomic Outlook: A Global Perspective." *Latin America Macroeconomic Outlook A Global Perspective* (2014): n. pag. Brookings Institute, Sept. 2014. Web. 10 Apr. 2017.

- **Group 1** includes Chile, Colombia, and Peru and is characterized by strong economic fundamentals and eager participation in the international community. (Note: Mexico would also belong in this group)
- **Group 2** includes Argentina (and Venezuela) and is characterized weak economic fundamentals and little to no international market access.
- **Group 3** is a category in itself built for Brazil, which demonstrates the economic attributes of Group 1 but through poor political leadership has been unable to develop a strong fiscal formula for success.

Macroeconomic fundamentals demonstrated by Group 1 include stability in the unemployment rates, positive inflation outlooks, and a structural economy that has adapted to the competitive strengths of each market. International market access is a descriptive measure of the relationships a country has with international creditors and multilateral organizations like banks. These groups help differentiate the varied economies of the region.

Finally, it is important to note the double digit GDP per capita across the countries above and in the region as a whole because that single statistic largely separates Latin America from other emerging regions. Other economies that would be qualified as developing or emerging—Africa, South Pacific, and even parts of Eastern Europe—are stuck in economic cycles of single-digit (\$2K–\$7K) GDP per capita. Most Latin American economies fall within \$10K–17K per capita. With overwhelming evidence, the point can be made that among developing economies Latin America represents strong growth potential for US trade in general and Texas in particular.

## TRADE AGREEMENTS, REGULATIONS & ECONOMIC PRIORITIES

To better understand the current trade environments between Texas and Latin America it is necessary to first look at the existing regional and bilateral trade agreements, which represent both the formal structure and economic impact of the historic trading relationship but also indicate future political and economic priorities of the United States and Latin America.



Figure 2: A snapshot of existing trade agreements in Latin America

Latin America's agrarian history and eagerness to participate in regional free trade agreements—now in place for most nations in South and Central America—is a key contributing factor to the relative success seen when comparing Latin America with other developing economies. Most South and Central American economies are participating in several free trade agreements with the explicit and primary goal of “eliminating restrictive trade measures.”<sup>11</sup> In large part these agreements are a maturation of the Latin American Free Trade Agreement (LAFTA) signed in 1960 by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay. In 1980, LAFTA was reorganized into the Latin American Integration Association, which currently has thirteen member states (the original seven plus Bolivia, Colombia, Panama, Venezuela, Mexico, Cuba, and Ecuador). For all intents and purposes, the Latin American Integration Association is a close cousin to the North American Free Trade Agreement (NAFTA) signed by the US, Canada, and Mexico in 1994. While the initial purpose of the regional free trade agreements in Latin America was certainly to facilitate free trade, later iterations of trade agreements with developed nations like the United States also focused on stimulating foreign investment in sectors not historically tied with Latin America (financial products, real estate, and technology). This new focus or new direction indicates the success of the initial agreements in building an economy that could support and justify an investment into a sector like financial products in Chile. Specific free trade agreements with developed nations were focused on building a marketplace to better position each individual country for trade with China, the European Union, and NAFTA member countries.

Currently the United States has an active bilateral free trade agreement (FTA) in place with twenty countries—ten of those are in South or Central America, which underlines the priorities of the United States in its trade relationships. Chile, Peru, and Colombia are perhaps

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<sup>11</sup> Mendoza, Miguel R. "Free Trade Agreements in South America. Trends, Prospects and Challenges." *Intellectual Property and Free Trade Agreements* (n.d.): n. pag. *Public Policy and Productive Transformation Series*. BANCO DE DESARROLLO DE AMÉRICA LATINA, Mar. 2014. Web. 9 Feb. 2017.

the most telling case studies.<sup>12</sup> In the example of Chile, main US exports are mineral fuel, machinery, and vehicles. The agreement specifies that goods will enter Chile duty free but later in the agreement is a stipulation that “U.S. firms may offer financial services to participants in Chile’s highly successful privatized pension system.”<sup>13</sup> This language can be found in most bilateral agreements with the Western Hemisphere and essentially opens foreign markets to financial products further entrenching the relationship.

What does this mean for Texas? Figure 3 illustrates the total monetary impacts of various free trade agreements on the Texas economy since 2005—increasing exports by almost 89 percent since 2005. With these FTAs in place and new agreements being negotiated actively, Texas continues to enjoy a relatively liberal trade environment with Latin America.



Figure3: Impacts of Free Trade Agreements on Texas

## LATIN AMERICA: CORRUPTION AND INFRASTRUCTURE

Texas enjoys a superlative position to maximize the benefits of international trade with Latin America both geographically and culturally. The barriers that do exist are largely occupational hazards encountered when engaging in commercial relationships with an emerging region. In Latin America there are two primary realities that hinder international trade: first is general political corruption, second is the problem of infrastructure. Bilateral trade agreements can be crippled when corrupt institutions pair with inefficient and ineffective transportation systems to weaken the balance of trade. Venezuela is a perfect example. In all of Latin America the inflation rate in late 2016 was about 26 percent. Factor out Venezuela and that number drops to about 8 percent.<sup>14</sup> In Brazil, Dilma Rousseff’s impeachment for manipulating budget documents is yet another example of the plague of political corruption that hangs over the region.

The second most prohibitive reason impairing trade with Latin America is poor, high-cost transportation systems. Producers are unlikely to locate production facilities or develop resources in a region that lacks the infrastructure to make it competitive. Historically, infrastructure investments in Latin America create an inordinately large percentage of the product final cost is in transporting merchandise to port for export. Poor infrastructure and

<sup>12</sup> "Free Trade Agreements | United States Trade Representative." *Free Trade Agreements | United States Trade Representative*. United States Trade Representative, n.d. Web. 11 Feb. 2017.

<sup>13</sup> "Free Trade Agreements | United States Trade Representative." *Free Trade Agreements | United States Trade Representative*. United States Trade Representative, n.d. Web. 11 Feb. 2017.

<sup>14</sup> FocusEconomics. "Latin America Economic Outlook | Data, News & Forecasts." *Economic Forecasts from the World's Leading Economists*. FocusEconomics, 18 Jan. 2017. Web. 11 Feb. 2017.

high-cost transportation systems also adversely impact imported goods, many of which are needed to grow economic activities. Recently, infrastructure investments funded by China and the US have started to make an impact, but still the reliability of transportation systems is still far below that of other similar countries with comparable economic statistics. Moreover, the weak federal institutions and a focus on short-term solutions compound the absence of an established multi-year, multimodal infrastructure investment national plan. Structural and transportation infrastructure is one thing; the infrastructure of public administration is an entirely different measure. As an illustrative example, almost 50 percent of vegetable imports into the United States from Latin America are refused due to pesticide residue or improper packaging at source hinting at the need for substantial administrative improvements at the port of origin.<sup>15</sup>

In a regional report on infrastructure by the IMF<sup>16</sup> stark differences can be seen in the quality of infrastructure among emerging markets. For example, Latin America is well positioned when it comes to access to electric and public utilities but when it comes to transportation infrastructure around 70 percent of roads are unpaved. Of course in a region that still largely relies on agricultural products and raw materials rural road access becomes pivotal.

What stimulates infrastructure investment? Phrased another way, how can Latin America stimulate infrastructure investments given that the availability of public financing is exceedingly low due to ineffective institutions? The question has been answered over the last few years by increasing the amount of public-private-partnership projects. To entice private investors Latin American economies must stabilize their macroeconomic environments while at the same time regulate at a competitive level with other trade contemporaries. These policies range from standard tax abatements to more complex negotiations to foster specific investments. However, these strategies can backfire and are precarious in countries with a less-developed political infrastructure. A telling example is former Argentinian president Cristina Kirchner's decision to pass a rule that essentially made it illegal to sell things in Argentina not produced in Argentina. As a result, Apple and most consumer product companies made the decision to pull out of the Argentine market entirely. Blackberry on the other hand developed facilities in Tierra del Fuego only to close several years later when the high price of "Argentine Blackberries" caused the market to bottom out.<sup>17</sup> Exploring the example further, it is not difficult to see how a less stringent regulation might have had the desired effect of relocating large multinational corporations to Argentina. Once that initial investment is secured, infrastructure projects executed by public-private partnerships are the logical next step.

Unfortunately none of the factors mentioned above are within the purview of the state of Texas. Texas cannot negotiate trade agreements nor can it directly invest in Latin American infrastructure. But Texas has its own infrastructure improvements that, while secondary to the needs of Latin America, will potentially support a substantial regional trade growth.

## TEXAS: INFRASTRUCTURE UNDERWAY

Texas has been the top exporting state for fourteen consecutive years, driven by energy, agriculture, and NAFTA trade with Mexico. It has the largest rail and road infrastructure in the United States and the most ports of entry at twenty-nine—most of which are foreign trade

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<sup>15</sup> "Highlights of Economics and Trade." *The United States and Latin America and the Caribbean* (2011): 1-38. Web.

<sup>16</sup> *Regional Economic Outlook*. Washington: International Monetary Fund, 2016. Web. 10 Apr. 2017. <<http://www.imf.org/external/pubs/ft/reo/2016/whd/eng/pdf/wreo0416.pdf>>.

<sup>17</sup> "The Phone at the End of the World." *Planet Money*. NPR. 17 Feb. 2017. Radio.



zones.<sup>18</sup> Foreign trade zones (FTZs) are areas free of the jurisdiction of U.S. Customs. Areas designated free trade zones can be used by trading partners to “unload, manufacture, reassemble, test, sample, process, repackage, and re-export without the intervention of U.S. customs authorities.”<sup>19</sup> Goods are not subject to customs and duty payments until they leave the FTZ. FTZs are an attractive tool for trading partners and multinational corporations as they allow exporters and importers a duty free zone to interact with inventory before shipping.

While Latin American investment in infrastructure would more drastically impact the commerce between Texas and Latin America, investments in infrastructure improvement in Texas would also go a long way to realizing the full potential of the Latin American markets. Additionally, investments in infrastructure in Texas are considerably more likely to be realized over the short term than infrastructure investments in Latin America. In Texas the infrastructure is in place but many ports, roads, and rails have become dilapidated and desperately require attention. Chief examples exist in almost every port. Expanding multimodal integrations, technology to track and network freight systems, even details such as expanding wharf sizes and yard acreage can have a notable and direct impact on commerce between Texas and Latin America. The recently published *Texas Port Capital Plan* outlines specific investments by port.

The same story is being played out on a slightly different level when it comes to the issue of deepening Texas ports-of-entry channels. The Texas Department of Transportation (TxDOT) expects total tonnage for Texas seaports to grow by more than 50 percent over the next twenty years.<sup>20</sup> Texas ports already generate more than \$5 billion in local and state tax revenue and more than \$9 billion in federal import tax revenue each year. John LaRue, Chairman of the Port Authority Advisory Committee notes, “every port has significant backlog in capital improvement projects.”<sup>21</sup> In a recent report by the Port Authority Advisory Committee entitled “Texas Ports Capital Program” highlights potential investments, jointly funded by the state and each port, at nine ports in Texas, including Houston, Corpus Christi, and Port Arthur. Total economic benefits are expected to be in the hundreds of millions. This is exactly the type of development from which Latin American ports would also benefit enormously.

Texas Ports depend on efficient highways, railroads and pipelines to move growing international trade exports and imports. Improvements to gateways, intermodal facilities and port terminals provides a competitive advantage for Latin American exporters looking to use Texas as a way point into the United States. As a percentage of the total tonnage of trade going through Texas almost 68 percent is bound to or originating from a Texas destination. Trucking, utilizing the TxDOT highway system, accounts for over 50 percent of the dollar value for inbound or outbound freight movements.<sup>22</sup>

With respect to trucking, perhaps the current influential improvement for port intermodal integration is expanding permitting guidelines for heavy-haul trucking and expansion of overweight corridors in and around large ports of entry. Most of the roadways surrounding large ports of entry are state highways and while some allow for heavy-load trucks, many either are not included in the heavy-haul exemption or the permitting for heavy-haul travel is strictly regulated to intrastate commerce. State legislative action in the 84th Session of the Texas Legislature was encouraging. SB 1059 and HB 1321 designated new heavy-haul

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<sup>18</sup> Overview of the Texas Economy." (n.d.): n. pag. *Texas Wide Open for Business*. Office of the Governor, July 2015. Web. 11 Feb. 2017.

<sup>19</sup> "Texas Foreign Trade Zones." *Texas Wide Open for Business*. State of Texas, 2015. Web. 14 Feb. 2017.

<sup>20</sup> *Summary Report: Analysis of the Role of the Gulf Intracoastal Waterway in Texas*. College Station, TX: Sea Grant Program, 2014. Texas Department of Transportation, Aug. 2014. Web. 12 Feb. 2017.

<sup>21</sup> TxDOT. *Texas Ports Capital Plan*. (n.d.): n. pag. <https://ftp.dot.state.tx.us/pub/txdot-info/tpp/giww/port-capital-plan-2015-16.pdf>. Port Authority Advisory Committee, 2015. Web. 12 Feb. 2017.

<sup>22</sup> TxDOT. "Texas Freight Mobility Plan." (n.d.): n. pag. Texas Department of Transportation, 25 Jan. 2016. Web. 14 Feb. 2017.

corridors for the Ports of Freeport and Corpus Christi. The department of transportation is currently identifying several new capital investment projects for ports of entry that would include the expansion of heavy-haul corridors based on a fee structure that covers all pavement and bridge marginal costs linked to the route.<sup>23</sup>

## CONCLUSION

Realistically there is little Texas can do from unilateral standpoint to drastically affect the commerce that already exists between Latin America and Texas. What the state can do it is already doing with the introduction of both the *Texas Port Capital Plan* and the *Texas Freight Mobility Plan*. Improvements to Texas infrastructure like the ones iterated in the TxDOT plans will only serve to increase trade and to make ready Texas ports for what, over the next few years most predict, will be an increasingly strong and voluminous trade relationship.

In Latin America there are some encouraging signs of improvement. Infrastructure investing is steadily increasing and recovering from a low in the early 2000s. Public-private partnerships are on the rise, and Chinese, US, and Indian investments continue to growth in the region. Ironically the recent fall in oil prices that sent the Venezuelan economy into a tailspin is helping some of the other heavy petrochemical economies to diversify and strengthen economic fundamentals. In the more developed economies of Chile and Argentina, new industries (tech) have taken hold. Paired with the right structural reforms we could see several economies in South America begin to mature and join the global trade community.

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<sup>23</sup> 84th Recap: Transportation – Heavy Weight/Oversized Moving." *84th Recap: Transportation – Heavy Weight/Oversized Moving*. Texas Manufactured Housing Association, 9 June 2015. Web. 14 Feb. 2017.

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