Influence of U.S. Institutions, Policies and Agreements on Latin American Economy from 2000-2020

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Abstract. Latin American countries have taken advantages of economic development in decades, slowly becoming most important trading partners for major economic entities. In many observations, it seems that one of the most significant diving forces is the United States, which is in the adjacent geographic location. This paper focuses on the topic related to the extent to which the US foreign policies, as well as the US-lead international organizations, and the economic development of Latin American Countries correlate. Analysis of data on U.S. trade with Latin America and official policy documents is from four perspectives: The influence of transnational corporations, the influence of trade organizations, the negative influence of US sanctions, and the positive impact of US trade policies, in order to provide a clear answer for the topic about the interdependence of Latin America's economic development, bringing a more comprehensive explanation to the U.S.-Latin America trade agreements. It is observed and concluded that, contradicted to what has often been assumed, U.S. multinational corporations have not had much impact on the local market, yet Latin American trade with the U.S. is undoubtedly driving the Latin American economy. Trade organizations, such as the WTO, play positive roles in the development of the Latin American economy, and the Latin American countries are also contributing to the reform processes of trade organizations to maximize the benefits. Lastly, the sanctions from the US is constantly holding negative impacts to some Latin American countries, whereas profitable trade policies bring advantages for other Latin American countries.

Keywords: Institutions, Policies, Agreements, Economy, US, Latin American.

1. Introduction

The U.S. and Latin American countries have close relationships both geographically and economically. In part 2 This paper focus on three major influences caused by different entities: Transnational Corporations, International Trade Organizations and Head of State. Part 3 contains self-reflections on the inaccurate and neglected parts of the conclusions and also a case study looking into more detail of how specifically the U.S. affect a non-typical Latin American Country as an example of how this paper do to reduce inaccuracy. In a world of complicated globalization and deglobalization it is very significant to understand how certain countries have affects on others to determine whether current policies shall be changed. This paper refers to a wide range of bibliography by different International Organizations, Head of states and other highly authoritative reports.

2. Influences

Due to the unique geopolitical relationship between the United States and Latin America, the interplay between the two regions has become an inevitable topic. Deeper ties between the two regions and the changes that have occurred over time from a business and economic perspectives are discussed [1].

In Figure 1, it is clear that since 2000, trade and investment between the U.S. and the world have begun to change, showing a positive increase.

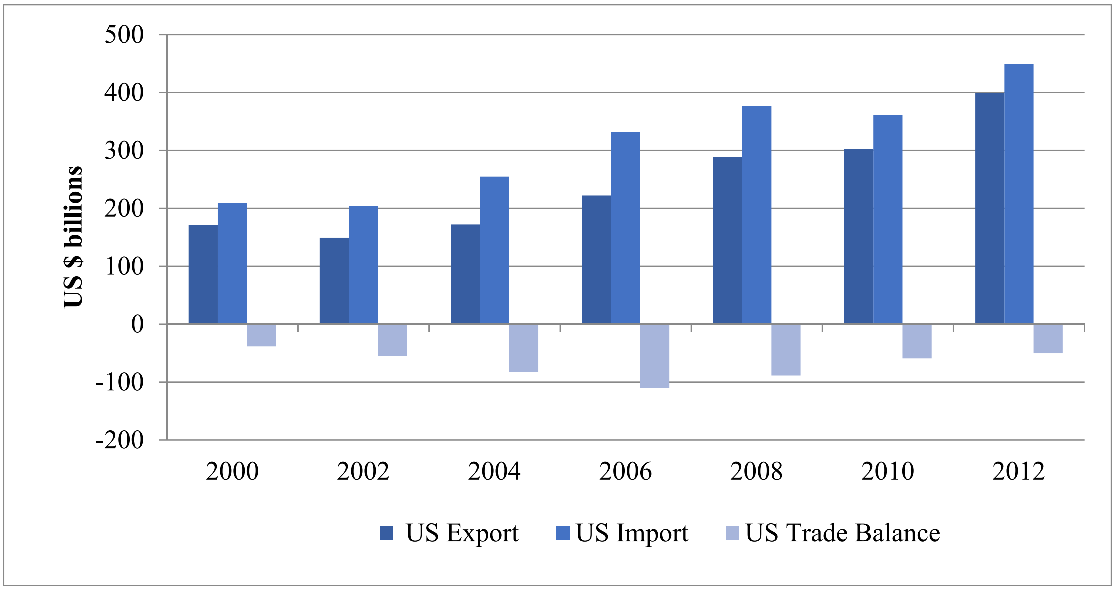

Fig. 1 U.S.-Latin America Merchandise Trade2000-2012 [2]

After the implementation of the North American Free Trade Agreement, Latin America's trade with the United States rose significantly. Figure 1 visualizes that U.S. imports of Latin American goods have shown a spectacular rise, with trade more than doubling since 2000 to 2012.

2.1. Influence of Transnational Corporations

Table 1 depicts that Latin America's trade and economic ties with the U.S. have been further strengthened. U.S. foreign direct investment (FDI) in Latin America is up by 83%, while Latin American FDI in the U.S. is up by 43% from 2000 to 2012.

Table 1. US-LAC Foreign Direct Investment [3]

year	US FDI IN LAC	% Chang	LAC FDI in US	% Chang
2000	169.7		18.9	
2001	152.7	-10.0%	30.7	62.4%
2002	143.9	-5.8%	38.1	24.4%
2003	142.2	0.0%	45.9	20.5%
2004	157.4	10.7%	46.8	2.0%
2005	169.8	7.9%	31.3	-33.1%
2006	186.4	9.8%	28.5	-9.6%
2007	222.1	31.9%	19.0	-33.3%
2008	224.0	0.9%	14.8	-22.1%
2009	245.0	9.4%	18.7	26.4%
2010	267.1	9.0%	21.5	15.0%
2011	296.0	10.8%	27.1	26.1%
2012	310.8	5.0%	27.0	0.0%

Note: LAC = Latin America and the Caribbean

U.S. FDI in the area represents only 4 percent of total U.S. global FDI, with 57% percent mainly in Mexico and Brazil. The annual change in FDI shows the volatility of growth. Major investment sectors include finance, mining, wholesale and manufacturing. Latin America and the Caribbean contribute just 1% of overall investment in the US., primarily in manufacturing, professional services, real estate, wholesale and finance.

These illustrate the significant impact of the United States on Latin America, leading a positive economic trend over time. While the United States is taking the lead in this trade relationship, Latin America's resources are also essential to the United States. The two countries have mutually benefited from each other economically with the introduction of mutual trade agreements.2.2 Influence of Trade Organizations

Unlike major WTO members such as the United States, the European Union, and Russia, which have issued comprehensive WTO reform proposals or made comprehensive appeals, no country in Latin America has put forward relatively comprehensive proposals or appeals on WTO reform alone. Latin American countries mainly take the following actions to promote WTO reform. First, Latin American countries put forward proposals on WTO reform alone or jointly with other members, taking relevant actions on other occasions.

On the WTO platform, Latin American take actions in areas as rule-making, dispute settlement mechanism, development issues, and daily operation. Argentina, Brazil, Mexico and other big Latin American countries serve as the typical actors in WTO reform actions. Meanwhile, many small Latin American countries are also responsible for these actions. With regard to rulemaking, Brazil had made separate proposals in the area of sanitary and phytosanitary measures. In addition, Latin American countries have jointly put forward proposals to foster e-commerce and the development of new SMEs. The dispute settlement mechanism is the area where Latin American countries have injected in most progressive operations. To preserve the dispute resolution mechanism and fixing the impasse of the choice of Appellate Body judges, Latin American countries mainly take joint actions with China, the European Union, and other members. Meanwhile, Argentina, Brazil, Costa Rica and other Latin American countries have also worked with the United States to put forward proposals to enhance the transparency of the dispute settlement mechanism. When it comes to daily operations, Venezuela, Bolivia, Cuba and other Latin American countries have made proposals on developmental issues with emerging economies such as China, India and South Africa. Chile, Costa Rica, Mexico, and members such as the US, Canada, The UK, Japan and the People Republic of China put forward proposals on the day-to-day operation of the WTO.

Outside the WTO platform, Latin American countries also act through non-WTO platforms such as the G20, the Ottawa Group, the Punta del Este Group. Specifically, G20 platform has contained most active engagements from Latin American countries. The G20 includes WTO members Argentina, Brazil and Mexico, which can participate in advancing WTO reform through the G20 platform. In 2018 and 2019, the G20 Trade Ministers' meeting, as well as Leaders' Summit, issued joint statements and declarations as a support to WTO reform. Argentina chaired the G20 summit in 2018, along with the legacies left by the 11th WTO Trade Ministers' Meeting, which was also held in Argentina in 2017. In December 2018, on the eve of the G20 summit in Argentina, the Eastern Corner Group of 34 Latin American scholars released a statement entitled "Latin America: Supporting Multilateralism and WTO Modernization" in the Eastern Corner of Uruguay. The statement put forward the ideas of Latin American scholars on WTO reform. In April 2019, business leaders from Argentina, Brazil, Mexico, the European Union, and the United States held a meeting in Brazil, issuing a statement supporting the status of the WTO multilateral trading system and setting out the priority issues for WTO reform.

2.2 Case Study: Negative Influence of US sanctions

Due to the shape of politics made by constructivism, the US government implements sanctions as regular method to penalize the states that disobey the trade rules or universal values. Among all the countries punished by US sanctions, Venezuela is considered as a representative case that is eligible to be studied, in which general trends could be concluded and further development predicted.

Although the sanction against Venezuela has a long history, in that the Venezuela have been considered as a terrorist and authoritarian country, the sanctions became severer after 2018. In 2018, Venezuela held presidential elections that were boycotted by the Democratic Unity Roundtable (MUD) coalition of opposition parties and dismissed as illegitimate by the United States and the

European Union. According to the official results, President Maduro of the United Socialist Party of Venezuela (PSUV) won reelection for a second six-year term with 67.7% of the vote amidst relatively high abstention (46% of voters participated).

MUD leaders attempted to depose Maduro through elections. These leaders engaged in negotiations with the PSUV to try to obtain guarantees, such as a reconstituted electoral council (CNE) and international monitors, in order to have better conditions for the 2018 elections. The presidential election in Venezuela proved to be highly uncompetitive. President Maduro and the PSUV's control over the institutions of three branches of powers weakened Falcón, the candidate of Progressive Advance Party who claimed to accept humanitarian assistance and dollarize money.

Security forces and allied armed civilian militias violence have suppressed protesters and imprisoned government critics. In early May, the government held more than 330 political prisoners, including Joshua Holt, a U.S. citizen [4].

2.3 Sanctions by the US

In August 2017, President Donald Trump issued Executive Order 13808, banning the Venezuelan government from accessing U.S. financial markets, he issued E.O. 13827 to prohibit transactions involving the Venezuelan government’s issuance of digital currency, coin, or token; he issued E.O. 13835 to prohibited transactions related to purchasing Venezuelan debts [5-6].

Secondly, in 2018 and 2019 respectively, US issued two sanctions towards corruption in gold assets and petroleum industry. For petroleum, E.O.13808 prohibits the state-run oil company PDVSA entering the US financial market. According to E.O. 13850, all property and interests in property of PDVSA subject to U.S. jurisdiction are blocked, and U.S. persons (companies or individuals) generally are prohibited from engaging in transactions with the company. the sanctions prevent PDVSA from being paid for petroleum exports to the US, freezing $7 billion of US assets of PDVSA and preventing US firms from exporting naphtha to Venezuela. For gold, the US Treasury sanctioned Minerven, Venezuela's state-run mining company for illicit gold operation to support Maduro government. Treasury prohibited the US citizens to trade with Minerven [6].

2.4 Impacts of the Sanctions

The series of sanctions bring out the decline of GDP growth, export and import, crude oil production, and gold reserves. A country whose revenue rely so heavily on trade on natural resources, Venezuela has suffered from devastating economic results brought by the sanctions. The following are graphs evaluating some of the most significant aspects of consequences led by the sanctions, corresponding to each act of the series of policies, from which the severeness could be objectively measured.

Following the 5 graphs, from Figure 2 to Figure 5, it is responsible to conclude that GDP, the trade, the oil production receives dramatic decline after the sanctions were implemented.

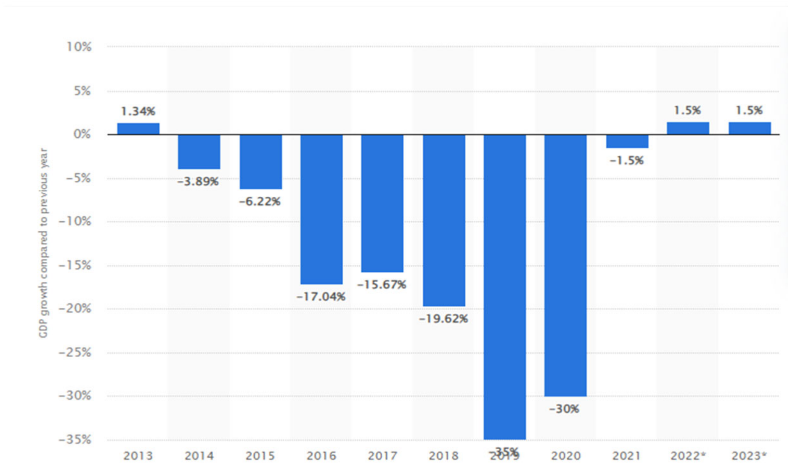

Figure 2. Venezuela GDP Growth 2013-2023 [7]

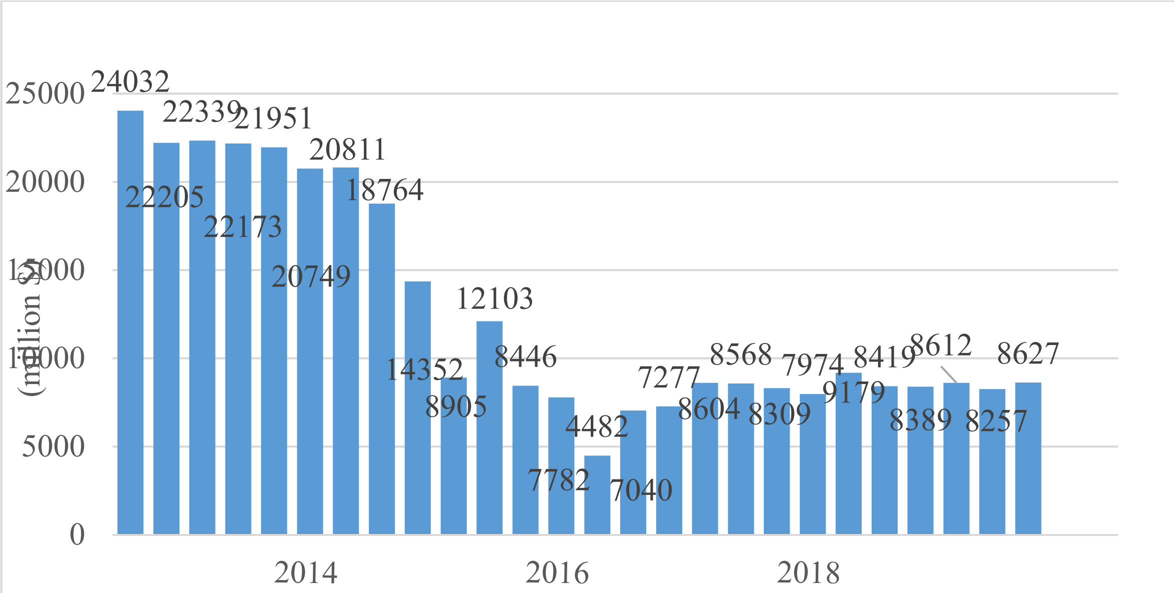

Figure 3. Venezuela Imports 2014-2018 [8]

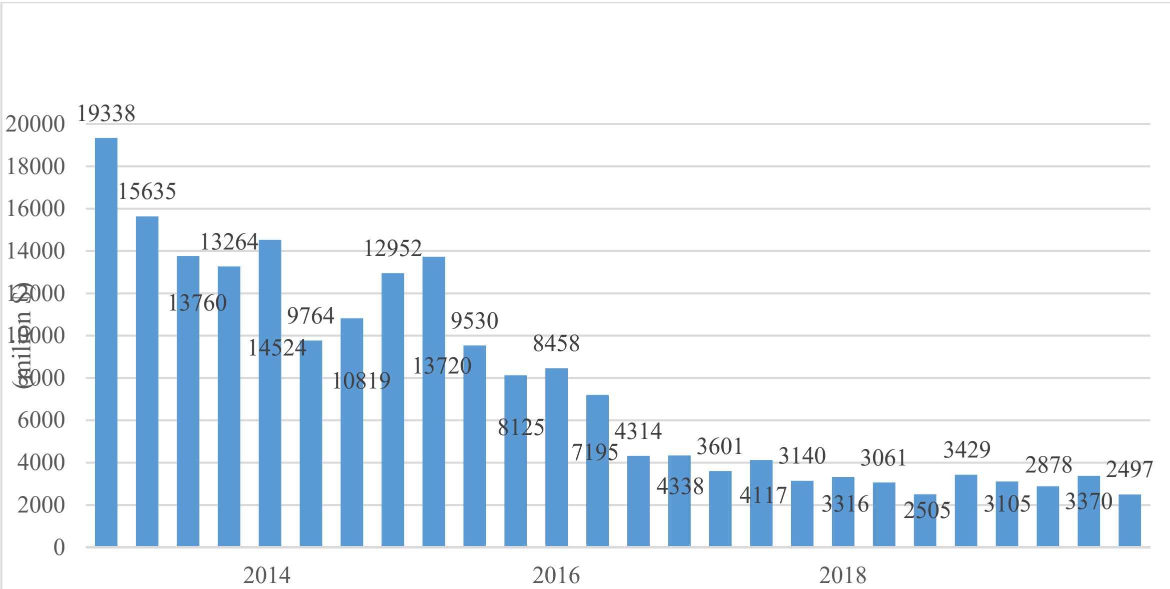

Figure 4. Venezuela Exports 2014-2018 [9]

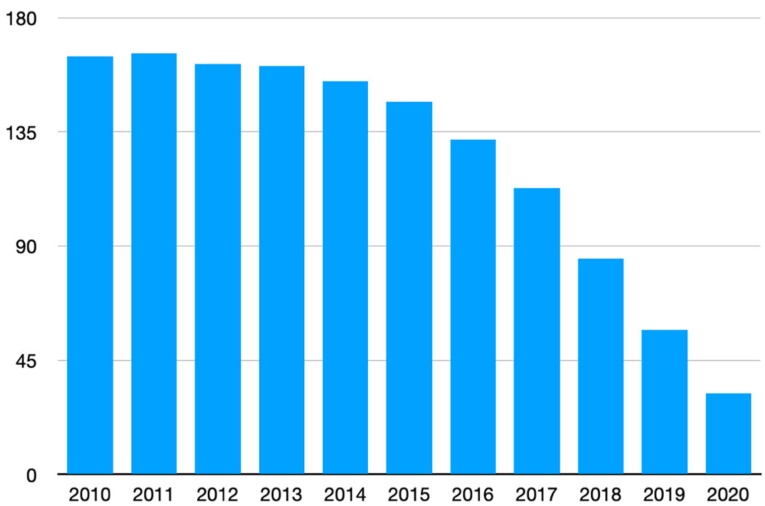

Figure 5. Venezuela Crude Oil Production 2010-2020 [10]

2.5 Measurement of Influences of U.S. Trade Policies on Exports and Imports

Table 2 demonstrates that the U.S. had a 94.5 billion dollars of trade deficit in 2019. Meanwhile, the Latin American Countries benefited from the U.S.-Latin America free trade Agreement, in which 11 Latin American Countries exported 315.1 billion dollars of goods, which accounts for approximately 6.1% of their GDP, which was 5,196.41 billion dollars in year 2019 [11].

Table 2. Trade in Goods with Latin America and Caribbean countries (in billion dollars) [12]

	Total trade Year		Exports Year		Imports Year		Balance Year	
Country	2018	2019	2018	2019	2018	2019	2018	2019
Mexico	364.8	373.1	228.8	240.9	136.1	132.2	-92.7	-109
Brazil	42.9	44.7	20.5	20.6	22.4	24.1	1.9	3.5
Colombia	18.6	19.2	9.9	10.4	8.7	8.9	-1.3	-1.5
Chile	17	16.4	8.3	7.4	8.7	8.9	-1.3	-1.5
Dominica	9	9.5	3.6	3.7	5.5	5.9	1.9	2.2
Peru	11	9.4	5.1	3.8	5.9	5.7	0.8	1.9
Argentina	8.7	8.2	3.1	3.4	5.6	4.9	2.4	1.5
Ecuador	8.2	8.1	4.6	4.6	3.5	3.5	-1.1	-1.2
Costa Rica	7.1	7	3.2	3.4	3.8	3.6	0.6	0.2
Guatemala	7	6.9	2.9	2.7	4.1	4.1	1.2	1.4
Honduras	6.7	6.8	3.2	3.2	3.5	3.5	0.3	0.3
Panama	4.2	4.8	0.3	0.3	4	4.5	3.7	4.2
Trin & Tobago	3.5	4	2.3	2.3	1.2	1.7	-1.1	-0.6
E Salvador	3.6	3.7	1.7	1.7	1.9	2	0.3	0.4
Nicaragua	3.5	3.6	2.4	2.6	1	1.1	-1.4	-1.5
Venezuela	12.8	3.4	9	2.5	3.8	0.9	-5.2	-1.7
Jamaica	1.8	1.9	0.2	0.3	1.6	1.6	1.3	1.4
Haiti	1.6	1.6	0.7	0.7	0.9	0.9	0.3	0.1
Uruguay	1	1.2	0.3	0.4	0.7	0.9	0.3	0.5
Paraguay	1.3	1.1	0.1	0.1	1.2	1	1.2	0.9
Bolivia	0.6	0.6	0.3	0.3	0.3	0.3	0	0
Belize	0.4	0.3	0.2	0	0.2	0.3	0	0.2
Cuba	0.2	0.2	0	0	0.2	0.2	0.2	0.2
Total	535.6	535.7	310.8	315.1	224.8	220.6	-86	-95

To conclude, the the U.S. free trade policy has a strong positive effect on the economy of those Latin American countries that signed the agreement. However, not every country is benefited equally. Mexico, as The U.S.- Mexico free trade agreement was signed relatively earlier, exported 76.5% of goods to the U.S., which increased noticeably mainly due to the U.S.-Mexico-Canada free trade agreement.

Moreover, the U.S. also gives foreign assistance and aids to those Latin American countries. In 2019, according to incomplete statistics, the U.S. provided 1.11billion dollars of aids and approximately a half on which are for Economic support and Development and 30% on Narcotics control. As a result, tertiary sector in Latin American countries is becoming more formal and developed. The "Better Utilization of Investment Leading to Development Act", known as the "BUILD Act", was signed by President Donald Trump to develop financing reform in Latin America and throughout the world. Development Finance Institutions (DFI) has already been providing services to the private sector and increasing financing activity in Latin America. The IDB (Inter-American Development Bank) president, OPIC president and CEO have been in agreement of two institutions providing a total of 3 billion dollars of private investment, majorly on the manufacture and social infrastructure industry [12]. This act has been reforming the finance industry, regarded as the "cohesive device of the society", in the Latin American countries. It brings capital to those firms in need and could, if well supervised and operated, increase the efficiency of funds throughout the country. It allowed more manufacturing and infrastructure construction companies to have access to capital while being well-monitored to prevent financial crisis so that these firms can contribute enormously to the Latin American Economy.

However, the impact on U.S. government on several Latin American Countries has devastating effects on both politics and economy. For instance, the state-owned lithium mine in Chile, which used to be one of the largest four lithium mines in the world, was taken over hostilely by the U.S. government. As the negatively affected countries not contribute less to economy of Latin America, though, the overall positive correlation remains unchanged.

3. Discussions

3.1 Probable Bias

The studies on most Latin American countries are fundamentally based on statistics provided by governments and other authoritative institutions and basic economic theories. The figures might be skewed, selectively concealed during transmission or missing informal economy such as narcotics and gambling. The basic economic theories can be ineffective and impractical. These factors can lead to a biased result.

3.2 The Disunity of Latin American Economic Situation

This paper assumed that Latin American Countries have a united Economic structure without considering political and geographical situations. In fact, Latin American countries can have contradictory goals. For instance, the hostility of Venezuela on the U.S. contradicts with most Latin American countries. It might be more specific to classify the Latin American countries into categories, however, the net effect of U.S. institutions and trade policies would not be easy to interpret.

3.3 The Neglected Indirect Effects

Some Latin American countries have a relatively different economic structure compared to others in the category. For instance, some Latin American countries regard tourism as their supporting industry, since these indirect effects are uncapable of being measured, although the indirect effect seems to be much more considerable and should be taken into account, we still face a lot of problem when trying to summarize it into a simple correlation.

3.4 Case study analysis: Negative Impact of U.S. Sanctions on Venezuela.

3.4.1 Constructivism

Constructivism is a kind of mindset to analyze the international politics. From constructivists' view, the construction of political system is based on the identity, culture and social norms. Basically, the US make standard, some morality basis or ideational factors, to determine the attitude of foreign policies

Venezuela serve as a typical example in order to study the topic. Thus, we see that the US uses terrorism-related activity, and stopping the crime of human trafficking, corruption and human rights violation. There are also a sufficient number of ideological elements in the justification. According to US National Security Advisor John R. Bolton, they consider Venezuela to be a tyranny and communism causing enormous human suffering and regional instability. The sanctions go more severe after 2018, when President Maduro disrupted the election to maintain the power. So the US used these sanctions as penalties against Venezuela for violation of the democratic value of the US.

3.4.2 Other Severe Economics Problem: Acute Food Insecurity

According to the Food Security Information Network, Venezuela has been experiencing a severe food crisis. Around 9.3 million Venezuelans - a third (32 percent) of the total population - were food insecure and in need of assistance according to WFP's Emergency Food Security Assessment carried out in July-September 2019. Among the population, 2.3 million suffer from severely insecure and 7 million suffer from moderately insecure.

Regionally speaking, eleven states had rates of severe food insecurity that were higher than the national prevalence, peaking at 21 percent in Delta Amacuro, followed by Amazonas (15 percent), Falcón (13 percent), Zulia and Bolívar (both 11 percent).

4. Conclusion

Latin America is considered as a region that is heavily affected by the US. Overall, in this paper, four parts of the influences of the US on South American economics have been discussed: transnational corporation, international trade organization, trade policies, and sanctions.

Data of Foreign Direct Investment by the US, cited in the part of transnational corporation, underpins the claim that as the US investment and trade increase, positive economic growth was brought. In the area of international organization, Latin American countries function actively in reforms for WTO and other platforms. Both the negative and positive effects are brought by the US foreign policies, given that US is still, at least, among one of the most significant trade partners of Latin American countries. The link between the U.S. and this region is economically non-neglectable.

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