

AMERICAS

'World Upside Down': As Trump Pushes Tariffs, Latin America Links Up

By ERNESTO LONDOÑO, SHASTA DARLINGTON and DANIEL POLITI MARCH 18, 2018

SANTIAGO, Chile — Latin American leaders braced for the worst last year as they watched President Trump take office, with his vows to protect Americans “from the ravages of other countries making our products, stealing our companies and destroying our jobs.”

Then something remarkable happened.

Governments across the hemisphere began forging closer commercial ties with one another and paring back some of their own protectionist policies, embarking on a course reminiscent of what the United States itself had proposed in the 1990s but which failed to materialize: a free trade area reaching from Canada to Chile.

Washington’s protectionist stance comes as leaders in the region are increasingly looking to Asia, and China in particular, to expand trade, obtain loans and finance infrastructure projects.

“Trump has inadvertently done more for commercial integration in Latin America than many Latin American leaders managed to accomplish,” said Patricio Navia, a political scientist at New York University.

Mr. Trump’s policies and disparaging remarks about immigrants, Mr. Navia added, have forced other countries to say, “We have to help each other out and look for alternatives among ourselves.”

Members of Mercosur — the trade bloc that includes Brazil, Argentina, Uruguay and Paraguay — have jump-started trade negotiations with the European Union, which officials say are closer than ever to a breakthrough after languishing for years.

Canada, which is worried about the potential unraveling of the North American Free Trade Agreement, has begun negotiating a free trade deal with Mercosur.

“There’s never been a better time to diversify,” said François-Philippe Champagne, Canada’s minister of international trade. “It would mean opening a market of some 300 million people, a rising middle class, an economic powerhouse in this part of the world.”

Chile hosted the signing of a trade agreement this month that 11 Pacific nations, including Mexico, Peru and Canada, salvaged after the Trump administration walked away from the agreement, originally known the Trans-Pacific Partnership.

The Pacific Alliance, another free trade bloc that Chile, Peru, Colombia and Mexico formed in 2011, is aiming to expand. Its members are negotiating a partnership with Mercosur and are considering admitting Australia, Canada, New Zealand and Singapore as associate members.

For all of the recent advancements, economists and government officials say that significant obstacles stand in the way of substantive commercial integration in the Americas. These include competition among exporters of the same commodities and poor infrastructure that makes cross-border value chains impractical. Despite moves to lower trade barriers, protectionist policies remain entrenched in some of the largest countries, including Brazil and Argentina.

And voters in several of the region’s largest economies, including Brazil, Mexico and Colombia, will elect new leaders this year, which could diminish the appetite for free trade and integration in some corners.

But Mr. Trump’s imposition of new tariffs on steel and aluminum this month, and his appearing to relish the prospect of initiating a trade war, makes him an outlier in the region.

“I think the region as a whole — but especially Brazil and Argentina — has learned to recognize that protectionism is a lose-lose strategy,” said Monica de Bolle, a senior fellow at the Peterson Institute for International Economics. “Countries saw perverse effects of trade barriers play out in their own economies, and will now get a chance to observe what they are likely to do to the most important economy on the planet.”

In 2002, Brazil was among the key naysayers to the Free Trade Area of the Americas, the deal intended to span two continents, which was championed by the Clinton and George W. Bush administrations.

The Brazilian president-elect at the time, Luiz Inácio Lula da Silva, a leftist former union leader, argued that the initiative would amount to “annexation” by the United States. But since Mr. da Silva’s successor and ally, Dilma Rousseff, was impeached in 2016, the country has embarked on a radically different course.

This month, President Michel Temer’s government issued a blueprint for economic growth that made the case that sustained growth would require lowering tariffs and retraining workers to steer them away from occupations that have become obsolete or less competitive.

The shift comes as Brazil emerges from a crippling, yearslong recession.

In recent months the government has sought to build good will with the Trump administration, including by opening its oil industry to foreign investment.

As Brazilian officials have scrambled to seek exemptions from the steel tariffs, they find themselves, uncharacteristically, preaching the gospel of free trade.

“Our vision is the opposite of what is happening in the United States,” said Marcos Jorge de Lima, Brazil’s minister of industry and foreign trade. “We want more and more trade openings.”

Jorge Arbache, the secretary for international affairs at Brazil’s Planning Ministry, said Mr. Trump’s threat of a trade war could deal a blow to Brazil and Argentina in the short term. But he added that it has the potential to accelerate the region’s economic integration with Asia.

“This recent wave of protectionism has several adverse impacts but it may have a positive impact, not only for Latin America, but on Asia and other regions,” he said.

While Brazil’s economy remains among the world’s most tightly controlled, Mr. Arbache said the government had taken significant steps away from protectionism. For instance, it recently began allowing companies from Mercosur countries and Peru to bid for government procurement contracts, a step that he said “would have been considered unthinkable until recently.”

While government officials across Latin America are largely rueful and contemptuous of the American administration in private, Washington’s traditional allies have sought to make the best of the Trump era, recognizing that foreign investment from, and trade with, the United States remains paramount for economic growth.

Perhaps none has worked harder to charm and cajole the White House than President Mauricio Macri of Argentina, who was among the first Latin American leaders to get an Oval Office meeting. Mr. Trump said during that encounter with Mr. Macri, whom he knew from real estate dealings between the two families, that the two nations would be “great friends, better than ever before.”

Yet nearly a year later, the United States has imposed prohibitive tariffs on biodiesel, which was once Argentina’s chief export to the United States, and a vow by Washington to open its market for Argentine lemons has not been fulfilled.

“The United States has bludgeoned Argentina in trade matters in a way that is utterly inconsistent with the diplomatic approach to the government,” said Benjamin Gedan, a fellow at the Woodrow Wilson Center who worked on policy toward South America in the Obama administration.

Mr. Macri was elected in 2015 after promising to open up Argentina to the world following more than a decade of center-left governments. Now, the viability of his reform agenda, which includes unpopular pension, labor and tax overhauls, hangs on the government’s ability to get the economy on a solid footing and raise wages.

The prospect of aluminum and steel tariffs could deal a significant setback to Mr. Macri, who called Mr. Trump this month to plead for an exemption.

“These blows to the Argentine economy are coming at a moment of great fragility, both politically for Mr. Macri and economically for the region as a whole,” Mr. Gedan said.

As they have sought to fend off American tariffs, officials from several South American countries, including Brazil, Argentina and Chile, have impressed upon their counterparts in Washington that the United States has a trade surplus with the region.

But that argument has so far carried little weight in Washington, where, according to analysts and government officials, the Commerce Department is forcefully defending the interests of local industries without the traditional pushback about strategic interests that the State Department has exerted in the past.

“I think that with this attitude the United States is leaving a void, and that void may be filled by China,” President Sebastián Piñera of Chile said in a recent interview, adding that he was startled by the messages that the Chinese and American leaders presented at the recent World Economic Forum in Davos, Switzerland.

“The president of the United States was defending protectionism, and the president of China was defending free trade,” Mr. Piñera said. “It felt a little like the world upside down.”

Correction: March 18, 2018

An earlier version of this story misstated the position held by Luiz Inácio Lula da Silva in 2002 when he called a potential trade deal an “annexation.” He was the president-elect at the time, not the president.

Ernesto Londoño reported from Santiago; Shasta Darlington from São Paulo, Brazil; and Daniel Politi from Buenos Aires.