Implications of the United States-Colombia Trade Promotion Agreement For the State of Florida

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Introduction

The United States has since 1991 unilaterally provided duty-free access to the U.S. market for some 5,600 different products from Bolivia, Colombia, Ecuador, and Peru under the Andean Trade Preference Act (ATPA), which is set to expire at the end of 2006. In the absence of a new regional free trade agreement that would supplant the ATPA, the U.S. has individually negotiated or is currently negotiating bilateral trade deals with the Andean countries. A Trade Promotion Agreement (TPA) has been signed between the United States and Peru, and now awaits U.S. Congressional ratification to become an internationally-binding treaty. Meanwhile, due to unique circumstances, discussions with Bolivia and Ecuador have so far not produced new agreements. However, the negotiating process with Colombia has already made significant progress.

Negotiations for the United States-Colombia Trade Promotion Agreement (TPA) were concluded in February 2006, and the text finalized in July 2006. In August the U.S. President notified the Congress of the intent to enter into a TPA with Colombia, and it is expected that the treaty itself will be signed in late November 2006. If ratified by the legislatures of both countries during 2007, implementation of the TPA could begin in early 2008.

Colombia is one of the largest countries in Latin America and a key U.S. ally in the region. A nation of 47 million people with a $125 billion economy (the fifth largest in Latin America) growing at about 4-5% annually, Colombia has since the 1990s made important strides in deregulating and opening its economy to the outside world, making its industries more globally competitive. Colombia's main incentive for concluding a bilateral trade deal with the U.S. is to make permanent its existing duty-free access to the U.S. market, which accounts for 40% of Colombia's total worldwide trade volume. Other anticipated benefits of the TPA for Colombia include the strengthening of competition policy, more transparent dispute settlement mechanisms, and providing a climate of macroeconomic stability and certainty for local businesses and prospective foreign investors alike. On average, more than US$2 billion of new investment from other countries flows into Colombia each year, while a survey of foreign investors by Colombia's Fedesarrollo revealed that nearly 90% of them are in favor of a bilateral trade deal with the United States. A 2003 study by Colombia's Economic Studies division of the National Planning Department estimated that a bilateral trade agreement between Colombia and the U.S. would support the creation of 183,083 jobs in Colombia. This TPA is therefore hugely important to Colombia's further economic growth and stability.

Key Treaty Provisions

This agreement would immediately eliminate tariffs on over 80% of U.S. consumer and industrial exports to Colombia, and on an additional 7% of products within five years. All remaining Colombian tariffs on U.S. goods are to be eliminated within the next ten years. Colombia would also join the WTO's Information Technology Agreement (ITA), removing tariffs and non-tariff barriers to IT products.

Colombia's markets for services and government procurement would be opened up to U.S. firms, while rules protecting the environment, intellectual property, and workers' rights in Colombia would all be strengthened. Nearly all non-textile Colombian goods that don't already enter the U.S. market tariff-free would be able to do so immediately. Bilateral trade in agricultural products would be significantly liberalized, adhering to strict sanitary and phytosanitary safeguards. Investors from either country would be granted "home-country" treatment by the other, and dispute arbitration mechanisms established.

In addition to these benefits stemming from dismantling barriers to bilateral trade and investment, the TPA would contribute to Colombia's overall economic and political stability by providing export-related jobs in legal (as opposed to illicit) industries, and act as an incentive to the remaining Andean countries to conclude similar deals with the U.S. in the future. The existence of economically prosperous and politically stable countries in Latin America strengthens U.S. national security, narrows the scope for political extremism and terrorism, discourages illegal immigration and drug trafficking, and creates export-related jobs for American workers.

The Importance of the U.S.-Colombia TPA to Florida

The TPA's signing and congressional approval are a top priority for Florida, for the following reasons:

1. ***Existing Commercial Relationship between Colombia and Florida:*** Florida already is the main gateway for commercial ties between the U.S. and Colombia. Key areas:

    a. **Trade:** Total bilateral merchandise trade between the United States and Colombia has grown by more than 50% in the past three years, reaching $14.3 billion in 2005. Of this, almost a third ($4.4 billion) moves through Florida. Accounting for nearly one twentieth of Florida's total worldwide merchandise trade, Colombia ranks 7th globally and 4th in Latin America among Florida's trading partners.
    Exports of Florida-origin goods (i.e. those made or with significant value-added in Florida) to Colombia have grown by over a third in the past three years, reaching $1.3 billion and accounting for close to a quarter of all U.S. exports to Colombia in 2005. The vast majority of Florida-origin exports to Colombia are in high value-added industries like information technology, transportation equipment, aerospace products, medical devices, and machinery. According to the AeA, 52% of all U.S.-made high-tech goods exported to Colombia originate in Florida – more than three times as much as second-ranked Texas, and seven times as much as third-ranked California.

    b. **Investment:** Total holdings by U.S. firms in Colombia are worth about $6 billion, with many of these operations managed out of regional corporate headquarters in Florida. There are eight Florida-based firms known to have physical operations in Colombia, and many more with business ties to that market (exporting, joint ventures, etc.).
    Florida is also the principal gateway for Colombia-based firms accessing the North American market. The total value of investment by Colombian companies (excluding banks) in Florida is estimated at around $20 million. More than 30 Colombian corporations currently operate in Florida, employing some 700 Floridians, plus dozens of smaller, mostly family-owned firms estimated to employ thousands more. Affluent Colombians are also major investors in Florida real estate, supporting additional Florida jobs in construction and related industries.

c. **Other Commercial and Human Linkages:** Florida is the gateway for transportation, trade finance, insurance, and various other kinds of high value-added professional services provided to companies from all over the world doing business with Colombia. Over 150,000 Colombians are estimated to be living in Florida, while a quarter of a million more visit Florida each year. Numerous Colombian students are enrolled at Florida's colleges and universities, and there are extensive educational, cultural, family, and other ties between individuals and organizations in Colombia and Florida.

2. ***Potential Economic Benefits from Implementing the U.S.-Colombia Trade Promotion Agreement:*** The TPA is expected to yield significant economic benefits for both Colombia and the United States. Among the individual U.S. states, Florida is likely to be one of the chief beneficiaries of the implementation of this treaty, given the vast scope of its existing commercial relationship with Colombia and strong presence and experience in that market.

   a. **Total U.S. Exports and Imports:** Though many Colombian products already enter the U.S. market duty-free, Colombian government sources estimate that the first year of the TPA's implementation would increase U.S. imports from Colombia by an additional $570 million, and boost total U.S. exports to Colombia by $645 million. After three years of the TPA's implementation, U.S. imports from Colombia would rise by US$1.017 billion, while total U.S. exports would increase by $1.630 billion (all figures represent increases over 2005 levels).

   b. **Florida-Origin Exports:** Assuming that Florida-origin exports continue to account for about one quarter of all U.S. goods exported to Colombia, the first year of the TPA's implementation would boost Florida's exports to Colombia by an estimated $161 million. After three years of the treaty's implementation, Florida-origin exports to Colombia would grow by an additional $408 million (all figures represent increases over 2005 levels).

   c. **Florida Jobs:** Using standard U.S. Department of Commerce "rule of thumb" estimates (11,000 U.S. jobs per each additional $1 billion in U.S. exports), increased exports of Florida-origin goods and services to Colombia, made possible by this trade deal, would support the creation of an additional 1,775 jobs in Florida during the first year of the TPA's implementation. After three years, increased Florida exports to Colombia would be annually supporting an estimated additional 4,483 jobs all over the state.
   All of these estimates of Florida job gains are based on increases in bilateral trade alone; it is conceivable (though at this point not possible to quantify) that many more jobs could be created as a result of the liberalization of investment rules between the two countries – more Colombian firms accessing the U.S market through Florida, and more U.S. firms investing in Colombia might headquarter their new or consolidated operations out of Florida.

Based on these preliminary estimates, it is evident that Florida has a huge stake in the signing, ratification, and implementation of the U.S.-Colombia Trade Promotion Agreement, and that this treaty can significantly contribute to Florida's leadership in the global economy.