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eFlorida Strategic Intelligence  
Implications of the US-Colombia TPA

**The United States-Colombia Trade Promotion Agreement is expected to yield significant benefits for Florida's economy; its ratification by the US Congress is a top priority for Florida.**

*By boosting exports and investment ties, the US-Colombia Trade Promotion Agreement would help to support thousands of additional jobs for Floridians. It would also make a significant contribution to Florida's overall leadership in global commerce, in particular by strengthening its status as the commercial hub of the Western Hemisphere. For these reasons, Florida has a vital economic interest in the ratification of this international trade agreement by the United States Congress.*



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# Implications of the United States-Colombia Trade Promotion Agreement for Florida

## Country Background

Colombia is one of the largest countries in the Americas and a key ally of the United States. Colombia is the third most populous Latin American nation, its 44 million inhabitants generating a nominal annual economic output of more than US\$280 billion, or about US\$430 billion adjusted for purchasing power. With a per capita GDP approaching US\$10,000, Colombia is classified as a middle-income economy.

Since the 1990s, Colombia has made important strides in deregulating and opening its economy to the outside world, attracting investment and making its industries more globally competitive. Along with a greatly improved security situation in the country, this has helped to lift average annual GDP growth to over 5% during the past half decade. Endowed with tremendous natural resources, Colombia also has thriving manufacturing and services sectors, which together employ over 90% of its labor force. Unemployment has declined by a quarter over the past few years, while poverty rates have fallen by more than a fifth. Still, as in many Latin American countries, income inequality remains relatively high.

Colombia's international trade is valued at about US\$80 billion annually, roughly balanced between exports and imports. The United States is far and away Colombia's largest merchandise trading partner, taking in about a third of the country's exports and providing more than 30% of its imports, although according to some estimates on present trends China may overtake the US as Colombia's largest trading partner within the next decade. The stock of foreign direct investment in Colombia exceeded US\$85 billion as of 2010, with the U.S. as the leading source country. Colombian firms' investments abroad are valued at close to US\$20 billion.

## The US-Colombia Trade Promotion Agreement in Context

In the absence of a Western Hemisphere-wide agreement to establish a Free Trade Area of the Americas, the United States has proceeded with efforts to liberalize trade and investment on a bilateral or multilateral basis with selected countries in the Americas, including Chile, the Dominican Republic, the five Central American (CAFTA) countries, and Peru. A further bilateral free trade deal between the United States and Panama was signed and ratified by Panama's National Assembly in 2007, but is still awaiting US Congressional ratification before it can become an internationally-binding treaty.

In addition to these countries, a Trade Promotion Agreement (TPA) between the United States and Colombia was signed in November 2006, and ratified by the Congress of the Republic of Colombia in June 2007. A Protocol of Amendment to the treaty was signed in June 2007 and ratified by the Colombian Congress in October 2007. The treaty then passed a constitutionally mandated court review by the country's Constitutional Court in July 2008, opening the way for its implementation.

The US-Colombia Trade Promotion Agreement was sent to the US Congress for ratification in April 2007, but has not yet been voted on. President Obama has requested that the office of the US Trade Representative look into addressing any issues still outstanding with respect to this international treaty, but without setting a strict timetable for this. The TPA is therefore still awaiting final approval from the US side before it can become law.

While the ratification and implementation of this treaty would benefit both countries, US exporters stand to gain the most since until recently most Colombian products already entered the US market tariff-free under existing unilateral preference schemes. The United States has since 1991 provided duty-free access to its market for some 5,600 different categories of products from Bolivia, Colombia,

Ecuador, and Peru under the Andean Trade Preference Act (ATPA), with the objective of encouraging a shift away from dependence on illegal drugs by supporting legitimate economic activities in the Andean region. ATPA was modified in 2002 under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), and has since been renewed repeatedly on a short-term basis. However, with no additional action taken by the US Congress, the trade preferences for Colombia under ATPA expired on February 12, 2011, along with other key trade programs.<sup>1</sup> This makes Congressional ratification of the US-Colombia TPA an even more pressing priority.

## Key Treaty Provisions

The US-Colombia Trade Promotion Agreement would immediately eliminate tariffs on over 80% of US consumer and industrial exports to Colombia, and on an additional 7% of products within five years. All remaining Colombian tariffs on US 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 US 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 US 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 existing 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 other countries in the region to conclude similar deals with the US in the future, paving the way towards further economic integration in the Western Hemisphere. The existence of economically prosperous and politically stable countries in Latin America enhances US national security, narrows the scope for political extremism and terrorism, discourages illegal immigration and drug trafficking, creates export-related jobs for American workers, and strengthens the global competitiveness of US businesses.

Colombia's main incentive for concluding a bilateral trade deal with the US is to make permanent its existing duty-free access to the US market, which accounts for about a third 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.

The TPA has a special significance for attracting FDI: 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 free trade agreement between Colombia and the US would support the creation of 183,083 jobs in Colombia, as a result of increased inward investment as well as trade. This TPA is therefore of immense importance to Colombia's further economic growth and stability, as well as to US exporters and investors.

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<sup>1</sup> [Statement by the United States Trade Representative Ron Kirk on Need to Support American Workers by Extending Important Trade Programs](#), February 14, 2011.

## Existing Commercial Relationship between Colombia and Florida

Florida already is the main gateway for commercial ties between the US and Colombia, while Colombia ranks among Florida's top international trading partners. Key elements of the existing bilateral relationship include:

1. **Trade:** Colombia's trading relations with the United States and Florida in particular are well developed:
  - Total bilateral **merchandise trade** between the United States and Colombia has grown by more than 160% since 2000, reaching nearly \$28 billion last year. Of this, more than a quarter (\$7.6 billion) moved through Florida's seaports and airports. Accounting for 6% of Florida's total worldwide merchandise trade last year, Colombia ranked as Florida's second largest trading partner globally, after Brazil.
  - **Exports of Florida-origin goods** (i.e. those produced or with significant value-added in Florida) to Colombia have increased by a whopping 173% since 2000, surpassing \$2.5 billion in 2010 and accounting for over a fifth of all US exports to Colombia last year. 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 Tech-America, nearly half of all US-made high-tech goods exported to Colombia originate in Florida – nearly four times as much as second-ranked Texas, and four and a half times as much as third-ranked California.
2. **Investment:** The US is a key source of inward foreign direct investment into Colombia, while many Colombian firms prefer to access the US market through Florida:
  - Total holdings by **US firms in Colombia** are worth close to \$7 billion and rising, with many of these operations managed out of regional

corporate headquarters in Florida. There are about twenty 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 the principal gateway for **Colombia-based firms entering the North American market**. The total value of investment by Colombian companies (excluding banks) in Florida is estimated at around \$20 million. About two dozen Colombian-headquartered 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 jobs for Floridians in various industries.
3. **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. Close to 300,000 Colombians are estimated to be living in Florida, while another quarter of a million 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.

## Potential Economic Benefits for Florida from Implementing the US-Colombia Trade Promotion Agreement

The TPA is expected to yield significant economic benefits for both Colombia and the United States. And among the individual US 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 its strong presence and experience in the Colombian market.

1. **Total US Exports and Imports:** Though most Colombian products until recently already entered the US market duty-free, a study<sup>2</sup> by the US International Trade Commission (USITC) estimates that the removal of remaining barriers to trade would raise US imports from Colombia by an additional 5.5%, or by close to half a billion dollars annually. The largest increases would be in the imports of sugar and dairy products, affecting total US output and/or employment in those industries by no more than 0.1%. According to the same analysis, total US exports to Colombia would grow by 13.7%, an increase of some US\$1.1 billion over 2005 levels.<sup>3</sup>

2. **Florida-Origin Exports of Goods and Services:** Assuming that, due to implementation of the US-Colombia TPA, exports of Florida-origin goods to Colombia increase by the same percentage (13.7%) over 2010 levels as overall US exports, Florida's goods exports to Colombia would be \$345 million higher than in the absence of a TPA. Assuming further that Colombia's share of Florida's total worldwide services exports is similar to that of goods exported, Florida's services exports to Colombia would be

US\$187 million higher as a result of the TPA. In total, implementing the TPA would lift Florida's annual exports to Colombia by US\$532 million.

3. **Florida Jobs:** Using standard US Department of Commerce "rule of thumb" estimates (11,000 US jobs per each additional US\$1 billion in US exports of goods), the increased exports of Florida-origin goods to Colombia made possible by implementing this trade deal would annually support an additional 3,800 jobs in Florida. Meanwhile, Florida's increased services exports to Colombia could sustain an additional 2,614 jobs all over the state. Therefore, in total the TPA is likely to result in the addition of over 6,400 jobs for Floridians. These estimates of Florida job gains are based on increases in bilateral trade alone; it is also very likely (though not possible to accurately quantify) that additional jobs would be created due to the liberalization of investment rules between the two countries – more Colombian firms accessing the U.S market through Florida, and more US and overseas firms investing in Colombia that might manage their expanded operations out of Florida.

2 *US-Colombia Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*, Investigation No. TA-2104-023, USITC Publication 3896, December 2006. Other analyses have produced a broad range of estimates of how much bilateral trade would increase due to the TPA. For example, an analysis produced by the Institute for International Economics (IIE) estimated that the total value of US imports from Colombia would increase by 37%, while US exports to that country would grow by 44%. For this analysis, Enterprise Florida uses assumptions from the US government about the anticipated percentage increase in bilateral trade between the two countries, and applies those ratios to Florida's existing trade with Colombia. As such, these figures are decidedly on the conservative side and may in fact underestimate the full economic benefits that freer bilateral trade and investment between Colombia and the United States might yield for Florida's economy.

3 Since USITC's original analysis was prepared, total US exports to Colombia grew by 120% from 2005 to 2010, even in the absence of the TPA's implementation, largely fueled by Colombia's robust economic growth during that timeframe. If total US exports to Colombia were to increase by 13.7% from their 2010 levels, the dollar amount of the increase attributable to the TPA's implementation would therefore be substantially higher, at about US\$1.65 billion.

## Conclusion: Ratification of the US-Colombia TPA is a Top Priority for Florida!

This brief analysis has shown some ways in which ratification of the US-Colombia Trade Promotion Agreement would impact Florida's economy. By boosting exports and investment ties, implementation of the TPA would help to support thousands of additional jobs for Floridians. It would also make a significant contribution to Florida's overall leadership in global commerce, in particular by strengthening its status as the commercial hub of the Western Hemisphere. For all these reasons, Florida has a vital economic interest in the prompt ratification of this international trade agreement by the United States Congress. ●