

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



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Introduction

Since 1991, the United States has unilaterally provided duty-free access to the U.S. market for some 5,600 products from Bolivia, Colombia, Ecuador, and Peru under the Andean Trade Preference Act (ATPA), which is set to expire at the end of this year. 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 nation of almost 30 million people with an \$80 billion economy growing at over 5% annually, energy-rich Peru's principal incentive for concluding a bilateral trade deal with the U.S. is to make its existing duty-free access to the U.S. market permanent, as well as to provide a climate of macroeconomic stability and certainty for local businesses and prospective foreign investors alike. Therefore, the United States-Peru Trade Promotion Agreement (TPA) was signed last December, and was recently ratified by an overwhelming 79-14 majority in the Peruvian Congress. The U.S.-Peru TPA now awaits ratification by the United States Congress before it can take effect as an internationally binding treaty.

Key Treaty Provisions

This agreement would immediately eliminate tariffs on 80% of U.S. consumer and industrial exports to Peru, and on an additional 7% of products within five years. All remaining Peruvian tariffs on U.S. goods are to be eliminated within the next ten years. Peru'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 Peru would all be strengthened. Nearly all non-textile Peruvian goods that don't already enter the U.S. market tariff-free would now do so, helping to further expand on the 740,000 jobs in Peru already supported by exports to the United States.

In addition to these mutual economic benefits, the TPA would contribute to Peruvian political stability and act as an incentive to Colombia and Ecuador 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 and energy 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.-Peru TPA to Florida

The TPA's congressional approval is a top priority for Florida, for the following sets of reasons:

1. **Existing Commercial Relationship between Peru and Florida:** Along with Texas, Florida already is the main gateway for commercial ties between the U.S. and Peru. Key areas:
 - a. **Trade:** Total bilateral merchandise trade between the United States and Peru has more than doubled in the past three years, reaching \$7.4 billion in 2005. Of this, almost a fifth (\$1.4 billion) moves through Florida. Accounting for 1.4% of Florida's total worldwide

merchandise trade, Peru ranks 20th globally and 12th 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 Peru have grown by a third in the past three years, reaching \$525 million and accounting for 23% of all U.S. exports to Peru in 2005. The vast majority of Florida-origin exports to Peru are in high value-added industries like IT, medical devices, and machinery & equipment. According to the AeA, 54% of all U.S. high-tech goods exported to Peru are made in Florida.

- b. **Investment:** Total holdings by U.S. firms in Peru are worth about \$13 billion, with many of these operations managed out of regional corporate HQs in Florida. There are five Florida-based firms known to have physical operations in Peru, and many more with business ties. No official dollar figures are available on the magnitude of Peruvian investment in Florida, but there are about a dozen Peruvian corporations with a presence in Florida, employing some 250 Floridians, plus dozens of smaller, mostly family-owned firms estimated to employ hundreds more workers. Affluent Peruvians are also major investors in Florida real estate.
- c. **Other Commercial and Human Linkages:** Florida is the gateway for transportation, trade finance, insurance, and various other kinds of professional services provided to companies from all over the world doing business with Peru. Over 50,000 Peruvians are estimated to be living in Florida – more than in any other U.S. state, while more than half of all Peruvians visiting the United States come to Florida. In sum, many jobs in Florida depend on Peru!

2. **Potential Economic Benefits from Implementing the U.S.-Peru Trade Promotion Agreement:**

Given its already extensive relationship with Peru, Florida stands to gain relatively more from implementation of this treaty than most other U.S. states. Utilizing the industry-standard RIMS II economic impact model, the U.S. Chamber of Commerce has prepared some preliminary estimates of the economic benefits that Florida and the nation as a whole could expect from implementation of the U.S.-Peru TPA:

- a. **Total U.S. Exports, Imports, and GDP:** Since many Peruvian products already enter the U.S. market duty-free, the first year of the TPA's implementation would result in total U.S. merchandise exports to Peru rising by \$1.1 billion, while imports from Peru would grow by a more modest \$440 million. Overall, this more than \$1.5 billion boost to total U.S.-Peru bilateral trade would add some \$2.1 billion per year to the U.S. Gross Domestic Product.
- b. **Florida Gross State Product:** The first year of the TPA's implementation would boost Florida's total economic output (GSP) by \$143 million. In nine years, Florida's GSP would be \$768 million higher each year as a result of implementing the U.S.-Peru TPA.
- c. **Florida Personal Income:** In the first year of the TPA's implementation, the total earnings of Florida's workers would be \$35 million higher than in the absence of the TPA. And in nine years, Florida's total personal income would be \$186 million higher each year due to the U.S.-Peru TPA.
- d. **Florida Jobs:** Increased exports of Florida-origin goods and services to Peru, made possible by the TPA, would support the creation of an additional 931 jobs in Florida during the first year of this trade deal's implementation. After nine years, increased Florida exports to Peru would be annually supporting an estimated 4,970 jobs all over the state.