

United States International Trade Commission

# **U.S.-Colombia Trade Promotion Agreement: Potential Economy- wide and Selected Sectoral Effects**

Investigation No. TA-2104-023  
USITC Publication 3896  
December 2006



# U.S. International Trade Commission

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# PREFACE

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The United States and Colombia concluded negotiations for a free trade agreement on February 27, 2006. On August 8, 2006, President Bush notified Congress of his intent to enter into the U.S.-Colombia Trade Promotion Agreement (TPA). In a letter dated August 25, 2006, the United States Trade Representative requested this investigation under section 2104(f) of the Trade Act of 2002 (Trade Act), which requires that the U.S. International Trade Commission (the Commission) submit a report to the President and the Congress not later than 90 calendar days after the President enters into a trade agreement.

Section 2104(f)(2) of the Trade Act requires that the Commission prepare a report assessing the likely effects of the U.S.-Colombia TPA on the U.S. economy as a whole and on specific industry sectors, and section 2104(f)(3) requires that the Commission, in preparing its assessment, review available economic assessments regarding the agreement.

A copy of the request letter for this investigation is in appendix A; the Commission's notice of institution, published in the *Federal Register* of September 19, 2006, is in appendix B. The Commission held a public hearing for this investigation on October 5, 2006. A calendar of the hearing is included in appendix C of this report, and a summary of hearing testimony and written submissions is provided in chapter 7.



# ABSTRACT

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This report assesses the likely effects of the U.S.-Colombia Trade Promotion Agreement (TPA) on the U.S. economy as a whole and on specific industry sectors, including the effects on U.S. gross domestic product (GDP), exports and imports, employment, and consumers.

Colombian exporters generally face substantially lower tariffs in the U.S. market than do U.S. exporters in the Colombian market because most U.S. imports from Colombia enter free of duty either unconditionally or under other duty-free provisions. Because of this tariff asymmetry, the primary effects of the TPA will be improved U.S. access to the Colombian market and an increase in U.S. exports to Colombia. Nevertheless, the overall effect of the U.S.-Colombia TPA on the U.S. economy is likely to be small because of the small size of the Colombian market relative to total U.S. trade and production.

The economy-wide model used by the Commission indicates that, after full implementation of the market access provisions (tariff and tariff-rate quota (TRQ) elimination) of the TPA, U.S. exports to Colombia may be higher by approximately \$1.1 billion, U.S. imports from Colombia may be higher by \$487 million, and U.S. GDP higher by about \$2.5 billion, representing an increase of less than 0.05 percent of U.S. GDP. Only the U.S. sugar sector is estimated to experience a decline in output, revenue, or employment of more than 0.1 percent. The Commission's findings are similar to those in other studies using similar quantitative techniques.

The Commission analyzed the impact of both the immediate and the phased elimination of tariffs and TRQs of the TPA using a sector-specific analysis of selected U.S. product sectors. The sectors analyzed were meat (beef and pork); grain (wheat, rice, and corn); soybeans, soybean products, and animal feeds; chemical, rubber, and plastic products; machinery, electronics, and transportation equipment; textiles and apparel; sugar and sugar-containing products; and cut flowers. For most of these sectors, the TPA will provide small but positive benefits to U.S. exports.

Finally, the TPA also may increase trade and investment through trade facilitation, such as the reduction of impediments in customs processing; improved regulatory environment, such as enhanced investor protections; and increased regulatory transparency. The effects of such measures on bilateral trade and investment flows may become more significant in the medium to long term.



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