

Research paper on u.s - colombia trade promotion agreement

[Economics](#), [Trade](#)



The United States and Colombia entered into a free trade agreement known as the U. S - Colombia Trade Promotion Agreement, which was signed on November 22, 2006, went into effect on May 5, 2012. The trade agreement eliminated tariffs removed tariffs on more than 80 percent of U. S. exports of industrial and consumer exports to Colombia (Blaha & Anglin 2012). There are plans in place to remove the remaining tariffs in a period of 10 years. The main aim of the agreement is to ensure order in trade and other economic activities. This resulted into elimination of trade barriers that existed between the two countries. In addition, many agricultural products will also benefit from the Agreement, as more than of half of farm exports from U. S. to Columbia are currently free and all remaining tariff will be eliminated within 15 years. However, products must meet the relevant rules of origin to be eligible for tariff-free treatment under the TPA.

The trade agreement aims at promoting economic growth between the two nations with an agreement on withdrawal of trade tariffs between these civilizations. Trade tariffs are restrictions on imports and exports that a country puts into place to ensure its competitiveness and benefit of its producers. U. S. and Colombia came to an agreement to ensure that they have a competitive advantage over their global competitors. The free trade agreement includes the withdrawal of restrictions on mobility of workers and goods between the two countries. US aims at having Colombia as an outlet for its produce in return of Colombia service providers. Among the products, that have got tariffs faced by them hence free access to the Colombia market includes agro-based products, information and technological equipments and construction equipments (Wisconsin International Trade

Team, 2011).

According to Husted & Melvin (2009, pp. 112-29), the approval of the U. S.-Colombia Trade Promotion Agreement (TPA) will increase U. S. exports, support American jobs, and enhance competitiveness of the U. S. the economy of Colombia is the third largest in South and Central America. The successful implementation of this agreement will remove tariffs and other trade barriers to exporters from the U. S., enhance trade between the two countries, and promote economic growth for both countries. According estimates produced by the International Trade Commission (ITC), the removal of some tariffs in the Agreement will expand the export of U. S. goods alone by more than \$ 1. 1 billion, increasing job opportunities available to Americans by a large margin (Office of the United States Trade Representative, 2012). It is also projected by the ITC that the Agreement will increase U. S. gross domestic product (GDP) by \$ 2. 5 billion (Office of the United States Trade Representative, 2012).

Further, the Agreement will significantly enhance access to Colombia's \$ 166 billion service market, offering more opportunities to U. S. service providers. According export records, the U. S. exported goods worth \$ 12 billion in 2010 (Office of the United States Trade Representative, 2012). Both countries enjoy mutual relationship in terms of goods they export to each other. For example, the United States imports a number of tropical fruits from Columbia while it imports a large amount of grains from the United States. In addition, U. S. yarn, cotton, and fabric exports to Columbia are used in manufacturing many apparel items, that Columbia export to the United States.

The U. S. will benefit from the agreement because of the removal of

significant trade barriers to U. S. goods entering Columbia. The Agreement will see the U. S. export 80 percent of its goods duty free immediately, followed by phasing out of the remaining tariffs over 10 years (Office of the United States Trade Representative, 2012). This will significantly increase U. S. exports considering that the average tariffs on U. S, industrial exports range from 7. 4 to 14. 6 percent (Office of the United States Trade Representative, 2012). The Agreement will give key U. S. exports immediate access to Colombia, with remaining tariffs phased out over ten years. The products that will benefit from the Agreement include construction equipment, agriculture, auto parts, agro-chemicals and fertilizer, medical equipment, and information technology equipment. This agreement will also benefit many U. S. agricultural commodities, as more than half of current U. S agricultural exports to Columbia will become duty-free, followed by elimination of virtually all remaining tariffs within 15 years. The United States will enjoy duty exemption on barley, wheat, soybeans, cotton, whey, and many processed products.

The statistical and numerical analysis of the pact was analyzed as follows after the signing of the pact. Columbia being the 20th largest real goods trading partner of the United States, benefitted from the pact in 2012 alone, with a total of \$41 billion in revenue (Office of the United States Trade Representative, 2012). The goods imported from the United States to Columbia cost \$25 billion thus recurring Americas gross deficit of \$8 billion (Office of the United States Trade Representative, 2012).

This trade pact made Colombia the 22nd largest exporter of goods to the USA in 2012 alone. The returns from the exports were a whopping \$16. 4

billion, which rose from 14.5% 2.1 billion in 2011 (Office of the United States Trade Representative, 2012). This was a true reflection of how the pact benefited the two countries, which greatly was 358% of the total exports to the USA from Colombia in 2012 (Office of the United States Trade Representative, 2012). The USA was also a beneficiary of this pact as 1.1% of its total exports in 2012 went to Colombia (United States Department of Agriculture, 2012). The Colombian state was able to export mineral fuel and oils worth \$3.5 billion, machinery (\$3.1 billion), organic chemicals and aircraft of 2.1 billion (Office of the United States Trade Representative, 2012).

The Agreement would eliminate barriers to billions of dollars in U. S. exports. Colombia has a market size of more than 45 million consumers and is one of the largest economies in South and Latin America, and one of the major market for U. S. export for manufactured and agricultural goods (CIA, 2013). For example, in 2010, Columbia imported goods worth more than \$11 billion, making it the third largest export market for the U. S., behind Brazil and Mexico. The U. S. mainly exports manufactured goods. The top U. S. exports include plastics, chemicals, excavating machinery, electric equipment, computers, telecommunication equipment, industrial engines, corn, and fuel oil (U. S. Census Bureau, 2013).

The trade agreement has eliminated about three-quarters of the duties on agricultural and industrial goods immediately. The Agreement will ensure that other duties are phased out within 5 to 10 years, while other difficult tariff-rate quota on agricultural goods takes 19 years. The main impact of the Agreement is that it will increase U. S. export to Columbia because of the

enhanced access to Columbia market. Another advantage of implementing the agreement is the introduction of a number of regulations that will open both governments to greater transparency to handle critical issues such as worker's rights, environmental protection, and corruption. Such regulations will ensure balanced trade between the two countries as well as implementation of reforms, especially the volatile Columbian market.

For manufactured products, the Agreement would negatively affect the average 11 percent tariffs that Columbia currently imposes on manufactured goods imported from the United States. However, for the United States textile and industrial products exported to Columbia. Seventy six percent of tariff lines will enjoy duty exemption upon implementation (U. S. Census Bureau, 2013).

However, like NAFTA, the United States and Colombia agreement would subject local farmers to immediate completion from U. S. exports on a wide range of products. Even though the prices in Columbia are currently high, farmers in Columbia will find it difficult to compete with cheaply imported goods. This will force many Columbia farmers to be displaced from agriculture and move to urban areas or the United States for greener pastures (United States Department of Agriculture, 2012).

The White House has also stipulated that the immediate elimination of use of Andean Price Bands in Columbia would prevent Columbia from applying high duties under this mechanism. However, Columbia and other Andean countries have traditionally used price bands to stabilize prices. Tariffs remain low when a country is faced with high prices, and raised temporarily when process drop to stabilize prices. These variable tariffs are similar to the

Special Safeguard Mechanism, one of the main proposals advanced by developing countries to the WTO convention to protect rural livelihoods and food security. The U. S. has rejected this proposal since the Bush administration. The removal of price bands could undermine Columbian farmers and lead to rising food-price volatility in other Andean countries.

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