IRET Congressional Advisory

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

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# FOUR SOLID TRADE AGREEMENTS

An overwhelming majority of Americans would support a trade agreement that offered greater benefits to the U.S. than to the foreign trading partner. Yet four such agreements face a hard slog in Congress, even though they are clearly good for this country. All four agreements make good sense for the U.S., and Congress should approve them all. Unfortunately, there has been opposition to the two most commercially significant accords, involving political arguments against the Colombian agreement, and commercial complaints in the case of Korea.

The Peru, Colombia and Panama agreements convert one-way preference programs (that give special access to U.S. markets but no trade access for U.S. products in those countries) into permanent reciprocal agreements that grant new U.S. market access. Each agreement will open new markets for U.S. goods while continuing duty free access for our partners.

No U.S. jobs are threatened; our economy has already adjusted to the duty free import of goods from these three countries under existing preference programs. Congressional approval of the Peru, Colombia and Panama agreements will bring to twelve the number of countries in the Americas with which we have approved reciprocal trading partnerships. These twelve free trade agreements will cover 88 per cent of our hemispheric trade. Disapproving any of these three pending pacts would be a major setback to reaching future agreements with our remaining potential partners in the region.

The fourth agreement, the Korean FTA, is with our seventh largest trading partner, and it dwarfs all the others in economic significance. Indeed, it is the most commercially significant agreement the U.S. has negotiated in 15 years. Its geopolitical significance in Asia cannot be overestimated. China, Japan and the U.S. compete within the region, and the U.S. would get a major leg up if the Korean FTA were adopted.

The agreement will correct a major tariff disadvantage for U.S. trade. Currently, Korea imposes import tariffs and quotas that exceed 30 percent on many U.S. agricultural products and just under 10 percent on U.S. industrial goods. Current U.S. tariffs on Korean goods are less than 5 percent (except on a few agricultural products). Fifty-one percent (by value) of Korean goods enter the U.S. duty free. The FTA will immediately eliminate duties on a wide range of U.S. exports to Korea. It will phase out the tariffs of each country on over 80 percent of goods in five years, and on 98 per cent of goods in ten years. Upon passage and implementation of the FTA (given the current asymmetry in tariff rates), the U.S. International Trade Commission (ITC) expects our export gains to Korea to be up to $4 billion greater than Korea's added exports to the United States.

The ITC estimates that these four agreements will increase U.S. exports by over $13 billion per year. In contrast, imports from the four countries will increase by about $8 billion. The combined annual increase in U.S. GDP will be over $16.5 billion. All four agreements are winners for the U.S. economy, and they also help our trading partners. We gain a greater export boost than each of the partners, while they each gain a larger stimulus to their GDP, given the relative sizes of our economies.

**PERU**

The Peru agreement is ready for action in both houses of Congress, having passed the Senate Finance and House Ways and Means Committees. Currently, Peru's goods enter the U.S. duty free while U.S. exports to Peru must pay duties. The Peru Trade Promotion Agreement (PTPA) will open Peru's markets to U.S. goods and services. Congressional renewal of one-way time-limited Andean Trade Preferences (ATPDEA) was important—as a bridge to the permanent benefits of the PTPA.

Both the U.S. and Peru benefit:

- We gain immediate market access to Peru for 90 percent of our agricultural products and for 80 percent of our consumer and industrial products.
- The ITC estimates that the agreement will result in a larger increase in U.S. exports to Peru ($1.1 billion a year) than in Peru's exports to the U.S. ($439 million).
- The American Farm Bureau Federation says U.S. farm exports could increase by $705 million a year.
- The ITC says U.S. GDP may rise by $2.1 billion or more annually.
- Four thousand U.S. small companies that export to Peru will benefit.
- Peru will maintain duty free market access to the U.S. for goods that support 400,000 jobs in Peru.
- At one Peruvian General Mills supplier, duty free access to U.S. markets—for asparagus—has boosted Peru employment from 80 to 5,000 over the past 15 years (without hurting U.S. jobs because the harvests come in different seasons.)
- These Peruvian jobs, created by the opening of U.S. markets, will be sustained only if we keep our markets open.

**COLOMBIA**

Colombia is our fifth largest trading partner in the hemisphere, our largest South American market for U.S. agricultural goods and a strategic hemispheric partner. This is the second most important of the agreements economically. It is of equal importance geopolitically in terms of standing by a regional ally challenged by a competing economic model next door (Venezuela).

The agreement with Colombia contains substantial benefits:

- The U.S. gains immediate duty free market access to Colombia for 80 percent of our consumer and industrial products.
- U.S. farm exports receiving immediate duty free access to Colombia include high quality beef, cotton, wheat, soybeans and soybean meal, apples, peaches, pears, cherries, and many processed food products, while a wide range other farm products will benefit from improved market access.
- The agreement establishes a strong legal framework for U.S. investors in Colombia.
- The ITC estimates that the agreement would result in a larger increase in U.S. exports to Colombia ($1.1 billion a year) than in Colombia's exports to the U.S. ($487 million).
- The ITC says U.S. GDP may rise by $2.5 billion or more annually.
- More than 8,000 U.S. companies export to Colombia, 84 percent of which are small and medium sized firms.
- The agreement will promote economic growth and reduce poverty in Colombia by creating jobs.

Both Colombia and Peru understand that granting reciprocal access for our products to their markets, while gaining permanent access to our markets, is the path out of poverty for thousands.

Peru was first to complete negotiations with the United States. Before the Peruvian Congress took up the agreement, Peru elected a new President. Former President Toledo led a spirited campaign to assure trade liberalization. The Peruvian Congress delivered. It passed the U.S.-Peru Trade Promotion Agreement 78 to 14. Peru's new President Alan Garcia, though of a different party and philosophy than Toledo, embraced the trade agreement. President Garcia's administration has pressed forward on health, sanitary issues, and labor reforms and has worked with the new Democratic leadership of our Congress to address their concerns. The Peruvian Congress swiftly amended an agreement they had already approved with revised language reflecting those concerns.

Colombia has also acted to address the concerns of the new U.S. Congressional leadership. On June 28, the United States and Colombia signed a Protocol of Amendment revising the agreement to reflect the U.S. bipartisan trade consensus of May 10, 2007. The Colombian Congress incorporated that protocol into the agreement they approved. The agreement includes an enforceable obligation to adopt and maintain, in law and in practice, core internationally recognized labor rights as stated in the 1998 ILO Declaration on Fundamental Principles and Rights at Work.

The U.S. initiated negotiations with Peru and Colombia to convert a preference program to reciprocal free trade and to advance free trade. Should Congress not approve the results of the negotiations we initiated, others will see us as having acted in bad faith. President Uribe of Colombia is a strong ally in combating narcotics and countering regional terror groups. Peruvian President Garcia offers pragmatic alternatives to Hugo Chavez' policies. To disapprove either trade agreement would have serious consequences for U.S. credibility, particularly in dealing with other major trading nations in the region such as Brazil.

**PANAMA**

The agreement with Panama will improve U.S. access to Panamanian markets, increase U.S. exports to Panama, and assure U.S. firms the right to compete for contracts for the expansion of the Panama Canal. Panama has the smallest population and economy of the four countries. The overall impact on the U.S. economy will be small, given the relative size of the Panamanian market to total U.S. trade and production. Nonetheless, the ITC estimates that the agreement is likely to increase U.S. exports to Panama of specific products ranging from 9 to 145 percent. Ninety-six percent of Panamanian exports entered the U.S. duty free in 2006, under three preference programs or under normal trade relations (NTR). Panama will gain permanent access to U.S. markets for those preference program provisions that would otherwise expire in 2008. The U.S. is Panama's largest single trading partner. U.S. exports to Panama in 2006 amounted to less than 0.5 per cent of total U.S. exports, but opportunities for export growth under the agreement are promising.

Under the Panama Trade Promotion Agreement:

- The U.S. gains immediate duty free market access to Panama for 88 percent our consumer and industrial products. Remaining tariffs will phase out over 10 years.

- More than half of U.S. farm exports will become duty free immediately, with tariffs on most remaining farm goods phased out over 15 years.

- U.S. firms are guaranteed a fair and transparent process to sell goods and services to Panamanian government entities, including the right to compete for contracts on the $5.25 billion expansion of the Panama Canal.

- The agreement includes an enforceable obligation to adopt and maintain, in law and in practice, core internationally recognized labor rights as stated in the 1998 ILO Declaration on Fundamental Principles and Rights at Work.

**KOREA**

The single most commercially significant of the four agreements, the Korean FTA, has been criticized for not granting even greater market access in specific sectors. Before submitting the agreement to Congress, the Administration is seeking to reopen Korean market to U.S. beef. Korea has restricted that market due to "mad cow" concerns, despite guidelines to the contrary by the World Organization for Animal Health. Given Korean non-tariff barriers limiting market access for U.S. autos, some major U.S. auto producers do not support the agreement. The UAW and some of its key allies in Congress oppose the agreement. The National Association of Manufacturers, however, believes the agreement to be "strongly beneficial to a majority of manufacturers" and that it "provides significant access to the Korean market."  Clearly, the employees of this majority of manufacturers would gain as well, along with U.S. consumers.

The agreement provides the following benefits:

- The U.S. gains market access to Korea for 95 percent our consumer and industrial products within three years and for most remaining products in ten years.

- One billion dollars worth of U.S. farm products will receive immediate duty free access (nearly two-thirds of current U.S. agricultural sales to Korea), with most remaining tariffs phasing out in ten years.

- The ITC estimates that the agreement will result in a larger increase in U.S. exports to Korea ($9.7 to 10.9 billion a year) than in Korea's exports to the U.S. ($6.4 to 6.9 billion).

- The ITC estimates that U.S. GDP may rise by $10.1 – $11.9 billion annually.

It is time to leave the mercantilist mind-set behind us. U.S. exporters—the strongest in the world—do best when we have free trade with our partners. From 2002 to 2006, although the U.S. overall trade deficit rose, our deficit with our partners in free trade agreements decreased. American exporters of all sectors—from commodities to equipment to high tech—need the export markets these four agreements will create.

We should stick to the economics in judging these pacts. Reciprocal and permanent agreements between democratic trading partners should not focus on punishing each other for perceived political misbehavior. Such agreements include means to deal with future problems, and move forward to advance the economic freedom and prosperity which will strengthen each partner. All four of these agreements will do just that, and all deserve prompt Congressional approval. The gains from trade inherent in these four agreements are substantial. Granted, even these very advantageous agreements will involve adjustments for some businesses and workers (although in the case of the hemispheric pacts, many of these adjustments have already happened under the existing preference programs the pacts will replace), but the country as a whole will benefit. For that reason, it is appropriate to review and improve the trade adjustment and training programs that smooth the adjustment process, as some in Congress have proposed. Americans in all walks of economic life can and should be confident that commerce with the rest of the world is in everyone's best interest.

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