

Colombia FTA becoming a reality

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After a long journey from conception to gestation, the U.S.-Colombia Free Trade Agreement (FTA) will become a reality on May 15.

The accord will render clear benefits for both sides. Colombia remains the third largest market in Latin America for U.S. exports and the second most important for small- and medium-sized firms. The two sides enjoy a \$35 billion trade merchandise relationship. The FTA will boost U.S. exports by \$1.1 billion and provide access to Colombia's \$180 billion services market.

- **Impacts on the United States:** Although the FTA has a number of phase-out provisions, the United States will gain immediate tariff eliminations on almost 100 percent of aerospace, IT and textiles and apparel exports and half of all U.S. farm exports. Double-digit tariffs on machinery, transport equipment, building and consumer products will drop to zero. For Florida, Colombia's No. 2 trade partner, more than 50 percent of exports include fall into these categories.

Even more beneficial than tariff reductions on U.S. exports are the FTA provisions governing services, investment, government procurement and intellectual-property protection — areas where U.S. companies have big competitive advantages.

As for negative impacts, one can expect very few. Colombia accounts for a mere 1 percent of U.S. trade and ranks 23rd as a supplier of U.S. imports. Trade with Colombia is complementary and non-competitive. For example, Colombian fruits, U.S. grains; U.S. yarn and Colombian clothing. And American jobs? The AFL-CIO should be pleased to know that a significant number of the expanding U.S. exports to Colombia will be made by union workers.

- **Impacts on Colombia:** While Colombia already enjoys duty-free access on 80 percent of its exports, it will benefit from tariff removal completely or in part on the remaining 20 percent plus removal of nontariff barriers that affect products such as agriculture and clothing.

Colombian consumers will gain, benefitting from a greater choice of high quality goods at affordable prices, and manufacturers that import capital

goods from the United States will be able to improve their productivity and profitability because of lower import tariffs.

On the negative side, Colombia can expect losses in textiles, apparel, food and heavy manufacturing. Colombia's rice, corn, dairy and poultry are vulnerable, as well; however, the phase-out periods for tariffs on these sectors are long, and the government has plans to assist these sectors.

- Colombian competitiveness: Often overlooked in discussions of trade agreements is whether, once implemented, the signatory countries actually have the capability to take advantage of the accord. In this case, Colombia confronts a paradox. On the one hand, the nation enjoys economic and political stability, a hard-working and entrepreneurial culture, high levels of productivity and performance in selected sectors and a number of world-class companies. On the other hand, its global competitiveness ranking, according to the World Economic Forum, is mediocre and stagnant (68th out of 142 nations), losing ground to Chile, Brazil, Mexico and Peru. Colombia fares poorly in infrastructure, labor performance, science and technology investment, educational quality and financial access.

Last month, Colombian Rosario Córdoba, president of the Private Council on Competitiveness, delivered a candid report card on the status of the country's ability to compete, concluding: "We've made steady progress in recent years in improving our competitiveness. But 'steady progress' is not good enough if we are to compete effectively and take advantage of the FTA with the United States. We need to do a lot more, and we need to do it now!"

For both the United States and Colombia, the FTA is an opportunity not a guarantee. It is up to government to create and sustain an environment for free trade to flourish and for the private sector to take the industry- and firm-level actions that will produce lasting benefits. With respect to the FTA, the United States will surely do so. Will Colombia?

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