

Potential Economic Impacts of a Colombia Trade Agreement

CNAS Issue Brief 2010-01

February 22, 2010



Background

The Colombia-U.S. Trade Promotion Agreement (CTPA), signed November 22, 2006, still awaits Congressional approval before being implemented. A CTPA would provide immediate duty-free access for 80 percent of U.S. products currently being shipped there. The U.S. International Trade Commission (USITC) reported that a CTPA would increase U.S. exports by \$1.1 billion (2006). This issue brief updates the export impacts of a CTPA on the United States and estimates the economic impacts of not implementing a CTPA on key sectors of the U.S. economy.

This analysis used IMPLAN, which contains economic multipliers for each sector of the economy, to estimate how a change in one sector will impact business activity and employment in other sectors of the economy. The total economic impacts reported here include the direct effect, in this case exports to Colombia, plus the indirect effect of firms purchasing inputs to produce the exports, along with expenditures of income made by employees of firms in all of the affected sectors. Business activity is analogous to total sales for a sector such as crop production. Employment is reported as total jobs, with full-time and part-time jobs both reported as one job.

Foregone Economic Activity

The Center for North American Studies (CNAS) applied percentage changes developed in the USITC report to a 2007-08 average baseline of exports in order to assess the likely impacts of forgoing, or not implementing, a CTPA on U.S. business activity and employment. Results were estimated for the United States and each state. Only the U.S. and Texas are reported in this issue brief.

CNAS estimates indicate that U.S. exports to Colombia would increase from \$10 billion to \$11.6 billion, or by \$1.6 billion, if a CTPA is implemented. Without implementation of a CTPA, however, the U.S. economy will forego \$4.4 billion in economic activity, including \$1.6 billion in exports, \$1.8 billion in un-purchased inputs and \$1.0 billion in forgone spending by consumers. Forgone jobs would reach 20,418.

U.S. producers would forego \$236 million in machinery exports, \$234 million in exports of chemical products, including petrochemicals, \$192 million in agricultural crops and another \$116 million in processed agricultural and food products. Forgone exports would also occur for electronic products (\$127 million), rubber and plastics (\$143 million), and vehicle and parts manufacturing (\$112 million). Other negatively affected sectors would be vehicles (\$112 million), medical products (\$78 million), iron and steel (\$76 million), paper (\$68 million), other manufacturing (\$60 million) and mineral products (\$24 million).

Forgone secondary impacts (indirect and induced) include: business services (\$340 million); finance (\$187 million); real estate (\$185 million); oil/natural production (\$180 million); wholesale trade (\$174 million); food processing and sales (\$153 million); petroleum production (\$135 million); transportation (\$105 million); health care (\$99 million); retail trade (\$64 million) textile and apparel production (\$14 million); wood processing (\$5 million); and all other sectors (\$376 million). These forgone impacts represent the lack of purchased input in manufacturing and processing and forgone consumer expenditure, which contributes to a decline in gross domestic product. Forgone jobs exceed

20,400, with 5,315 due to lack of export activity, 8,068 are due to lack of purchased inputs by businesses and 7,036 are attributed to lack of consumer expenditure.

For the Texas economy, forgone economic activity due to lack of a CTPA would be about \$379 million. Major sectors affected by forgone exports would be chemicals (petroleum) \$113 million; mechanical equipment manufacture (\$46 million); plastics/rubber (\$27 million); electronics/communications (\$14 million); crop and food production (\$14 million); non-metal manufacturing (\$9 million); iron/steel (\$7 million); vehicles/boats/aircraft (\$5 million); medical products (\$3 million); all other manufacturing (\$5 million).

Forgone secondary economic activity for Texas closely mirrors the United States, but also diverges in some important sectors, such as oil/natural gas and petroleum. Forgone input purchases and consumer expenditure in Texas would be largest for business services at \$17 million. Other key impacted sectors are oil/natural gas extraction (\$17 million); petroleum manufacturing (\$16 million); wholesale trade (\$14 million); real estate (\$12 million); finance (\$10 million); food/drink/food production (\$6 million); transportation (\$6 million); retail trade (\$5 million); and all other (\$21 million). Total forgone jobs for Texas are estimated at 1,146, with 362 attributed to lack of export activity, 396 due to forgone input purchases and 388 due to forgone spending by consumers.

While the potential forgone economic activity for the nation and Texas are substantial, it is important to note that only six percent of the estimated forgone jobs are in Texas, somewhat lessening the negative economic impacts of not having a CTPA. In terms of total economic activity, however, the results are quite different. About 11 percent of the total forgone economic activity would occur in Texas, due mainly to the high concentration of chemicals, petrochemicals and related manufacturing. Texas chemical production accounts for one-third of national exports attributed to CTPA and 25 percent of total economic output, making it critically important for sustained economic growth in the short run.

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**Estimated Economic Impacts of Forgone Economic Activity, Increase from 2007/08 Baseline
-Million Dollars-**

	U.S.			Texas		
	Direct	Indirect/ Induced	Total	Direct	Indirect/ Induced	Total
Total Estimated Impacts						
Business Activity	\$1,550.0	\$2,796.8	\$4,346.8	\$193.9	\$185.0	\$378.9
Employment (# of Jobs)	5,315	15,104	20,418	362	784	1,146
Top Exported Products						
Mechanical Equipment	\$236.2	\$43.3	\$279.5	\$44.7	\$1.3	\$46.0
Chemicals	\$233.8	\$214.8	\$448.6	\$75.9	\$37.0	\$112.9
Crop Production	\$192.4	\$46.1	\$238.5	\$8.1	\$0.2	\$8.4
Plastics/Rubber	\$143.3	\$83.1	\$226.4	\$24.3	\$2.4	\$26.7
Electronics/Telecom	\$126.7	\$64.1	\$190.8	\$11.6	\$2.5	\$14.1

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