Potential Implications for the Office Furniture and Automotive Sectors – Trade Agreement Negotiations

(Columbia, Panama, Peru and South Korea)

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Executive Summary

This report will examine the effects of the United States' four newest free trade agreements that have been negotiated with Peru, Colombia, Panama, and South Korea. Only the agreement with Peru has been ratified and is thus currently in force. These four agreements will be analyzed through the prism of two industries vital to West Michigan: office furniture and automotive.

The future of the three pending free trade agreements is unclear. Much depends on the outcome of the November elections, before which no Congressional action is likely on any of the agreements; Senator Obama is critical of all three deals under consideration while Senator McCain is supportive of all three. The agreement with Panama stands the best chance of being ratified because the main U.S. objection to it will soon be removed. Though some parts may have to be renegotiated, the deal with Colombia also stands a good chance of being ratified, as it is seen as vital to America's larger strategic efforts in the region. The agreement with South Korea is the most tenuous of the three, and it difficult to say if it will ever garner enough support for ratification in the Congress.

Despite the fact that only the free trade agreement with Peru has been ratified, companies must be prepared to adjust to new trade agreements if and when they come into force. For the office furniture industry, the gains from these free trade agreements will be marginal at best. In Latin America, Colombia presents perhaps the best place for manufacturing due to its existing furniture industry. In addition to partnering with a Colombian firm, U.S. companies manufacturing in Colombia would be able to take advantage of Colombia's existing free trade agreements with Mexico, Venezuela, Ecuador, and Peru. Panama is the most promising market for U.S. exports, as the relatively high standard of living has fueled a demand for higher-end products. The trade agreements with Peru and South Korea will probably not have much of an effect on the office furniture industry.

For the automotive industry, the opportunity for West Michigan manufacturers lies primarily in the market for automotive parts. Demand for parts is rising throughout most of Latin America, including all three countries with a pending U.S. trade deal. Colombia offers the biggest market for U.S. exports; the free trade agreement would give U.S. exporters an advantage over their Japanese competitors, their main competitor in Colombia. The trade deal with South Korea, one of the world's largest producers of vehicles, is by far the most important for the automotive industry. Nearly all South Korean tariffs on U.S. automotive exports would be eliminated immediately, making U.S. products less costly to import than ones from Japan and Germany, the other leading automotive exporters into South Korea. Because there are already hundreds of South Korean automotive parts manufacturers, U.S. exporters are best advised to concentrate on products requiring advanced technology. Should the free trade agreement be ratified, South Korean manufacturers will likely challenge their U.S. counterparts with their exports of low-cost, mid-tech automotive parts into the U.S.

Table of Contents

Introduction

International trade is becoming an increasingly important part of the U.S. economy; in 2006, 43% of U.S. exports went to countries with which the U.S. has a free trade agreement (FTA), even though these countries constitute just 8% of world GDP. Manufacturing overseas through foreign direct investment (FDI) also increased dramatically, with the most obvious example being China. Of course, foreign companies are also looking to reach U.S. consumers. Clearly, companies that wish to remain competitive cannot overlook the importance of trade in today's globalized marketplace.

Most companies long ago recognized this new reality; the challenge now for those firms is to keep abreast of changes to U.S. trade policy. This report will examine the effect of international trade agreements on two key West Michigan industries: office furniture and automotive. New and pending FTAs with Peru, Colombia, Panama, and South Korea will be examined as they relate to the two selected industries.

More broadly, this report will serve as a model for future analyses on other FTAs and other industries. As such, an appendix is included listing relevant sources for such an investigation.

The U.S. currently has FTAs with fifteen countries, most of which were created during the last eight years. The agreement with Peru—one of the FTAs analyzed in this report—is the most recent, ratified in 2007. Most of these agreements are bilateral; that is, they are between the U.S. and one other country. Their immediate objectives are to lower tariffs; they usually also have provisions for intellectual property rights, the environment, and labor standards. These agreements are negotiated by the chief executives of each country but are subject to ratification in national legislatures before taking effect. At that point, they have the force of law in each country and can only be amended in consultation with the other signatories.

Though tariff reduction is at the heart of FTAs, it is never as simple as merely abolishing all tariffs. The agreements are long, complex documents that spell out in excruciating detail how everything from live goats to bed linen will be taxed. Most agreements eliminate a majority of tariffs immediately, but many tariffs are phased out over a prescribed number of years.

Country and FTA Background

	GDP	Real GDP growth in 2007	GDP per capita	Population	Population below poverty line
Peru	$219 billion	9%	$7,800	29,180,899	44.5%
Colombia	$319.5 billion	7%	$6,700	45,013,674	49.2%
Panama	$34.5 billion	11.2%	$10,300	3,292,693	37%
South Korea	$1.2 trillion	5%	$24,800	49,232,844	15%

Peru

Located on the western coast of South America, Peru is a representative democracy divided into twenty-five regions. Its geography varies from coastal plains to soaring mountains to forested lowlands. The 1993 constitution has led to economic and political stability. Spanish and two tribal dialects are all recognized as official languages, though the former is by far the most widespread.

The economy continues to grow. Inflation, a problem in the 1980's, now stands at just 2%; government debt is similarly low. Peru's main trading partners include the U.S., China, the EU, Chile, and Japan. Commodities such as copper, gold, zinc, and crude petroleum constitute the bulk of its largest exports, which totaled $28 billion in 2007. Imports totaled $20 billion in 2007 and included plastics, machinery, and vehicles. Foreign direct investment is encouraged by the government and currently stands at over $15 billion. Peru is a member of the Andean Community—a South American trade bloc—and is currently looking at signing a bilateral FTA with China to complement its existing trade agreements with Cuba, Argentina, Brazil, Chile, and the U.S.

The United States – Peru Trade Promotion Agreement was ratified by the U.S. Congress in late 2007; it passed 285-132 in the House and 77-18 in the Senate. Such widespread support was a result of labor and environmental standards that were added to the agreement. In many ways, the agreement is a continuation of the Andean Trade Preference Act signed by the first President Bush; this agreement eliminated tariffs on many products from the Andean nations. In addition to eliminating tariffs, the FTA strengthens intellectual property rights, codifies labor rights, and establishes new protections for foreign investors in each country.

Colombia

Bordered by Venezuela and Brazil, Colombia is the only country in South America to border on the Pacific Ocean and the Caribbean Sea. A large country (twice the size of France), it ranks fourth in South America in size and boasts the second largest population of Spanish-speakers in the world after Mexico. Colombia has a long tradition of constitutional democracy; the government as set up by the constitution of 1991 is similar to that found in the U.S., with a Senate, House of Representatives, and President. Spanish is the only official language.

Colombia's free market economy has long been a manufacturing power in the region. Since a recession in 1999, the country has been growing steadily. The U.S. is its largest trading partner, receiving 30% of Colombia's exports; Venezuela and Ecuador follow behind the U.S. Colombia's largest import partners are the US, Brazil, Mexico, China, and Venezuela. Exports and imports were in balance in 2007, with both totaling around $31 billion. Main industries include textiles, agriculture, chemicals, pharmaceuticals, and minerals. Bogotá, Medellín, and Cali are the leading industrial cities. All the leading macroeconomic trends have been positive since 2000: lower inflation, a substantial reduction in poverty, a doubling of the standard of living, and decreased unemployment.

Unfortunately, the illegal drug trade and the violence it spurs continue to be a problem. Despite extensive efforts by the Colombian government and assistance from the U.S., Colombia continues to be the world's leading exporter of cocaine, though overall production is down by a quarter since its high in 2001. President Álvaro Uribe's government has been effective in improving the security situation; since 2002, homicides are down 40%, kidnappings 83%, and terrorist attacks 76%.

The United States – Colombia Trade Promotion Agreement was signed on November 22, 2006; the Colombian Congress approved the agreement in June 2007. Using his "fast-track" trade authority, President Bush sent the FTA to Congress on April 8, 2007. Normally, Congress has ninety days to give an up-or-down vote on such a bill. The Democratic majority in the House, however, voted to change these procedures to kill the ninety-day rule. To date, the Congress has not yet voted on the trade agreement, and most commentators agree that a vote on the bill is unlikely before the November elections.

The main objection of the Democrats (and a handful of Republicans) is that Colombia has not taken sufficient steps to reduce assassinations of trade unionists. The AFL-CIO and other labor organizations are strongly against ratification for this reason. The FTA has the same labor and environmental standards found in the FTA with Peru—an agreement that was supported by at least some Democrats because of these protections.

If the agreement is not voted on during this session of Congress, its future is uncertain. Senator McCain has made clear his support of the FTA. Senator Obama strongly opposes the agreement because of the threats posed to trade unionists. The makeup of the next Congress will likely be the determining factor for ratification. Both Representative Pelosi and Senator Reid are staunch opponents of the trade agreement as it currently stands, putting them in line with the vast majority of Democratic members of Congress. McCain, if elected, would be able to continue to pressure the presumably Democratic Congress into voting on the measure; if Obama were to be elected along with a Democratic Congress, the agreement as currently negotiated seems unlikely to be ratified.

Panama

Connecting Central America to South America, Panama is an isthmus with coasts on the Caribbean Sea and the Pacific Ocean. Its location makes it a vital link between the two continents, and the Panama Canal—which is to be widened significantly— links the two bodies of water. The country has been a representative democracy since 1990. Spanish is the most widely spoken language, though 8% of the population also speaks Creole.

Panama has one of the highest ratios of GDP per capita in Latin America, and its poverty rate is the second lowest in the region. The currency is the balboa, which is fixed at a one-to-one ratio with the dollar; U.S. currency is accepted and widely used. The economy relies primarily on a well-developed services sector that accounts for over three-quarters of GDP. The Colón Free Trade Zone, 600 acres near the Atlantic entrance to the Panama Canal, is key to Panama's significant foreign trade.

Within the Zone, companies can import raw materials and export finished manufactured goods tariff-free. The U.S. is the largest exporter to Panama, followed by Ecuador, Japan, and Mexico; exports include machinery, transportation equipment, and chemical products. Panama mostly exports agricultural products to countries such as the U.S., Germany, Spain, Italy, and Belgium. In 2007, Panama imported roughly $13 billion worth of goods and exported $9 billion worth.

The Panama – United States Trade Promotion Agreement was signed on June 28, 2007. Less than one month later, Panama's National Assembly ratified the agreement (even though it had yet to be translated into Spanish). The agreement appeared to be headed for ratification in the U.S. Congress until Pedro Miguel González-Pinzón was elected leader of the National Assembly. Indicted by a U.S. federal court, González-Pinzón stands accused of killing a U.S. serviceman in 1992 and seriously injuring another. He was later acquitted by a Panamian court of any wrongdoing. Congressional leaders, most notably Senators Max Baucus and Hillary Clinton have said that ratification will not take place while González-Pinzón remains the leader of the National Assembly. Panamanian media reported in March 2007 that he would not seek reelection as head of the National Assembly once his term ended on August 31, 2008.

Senator Obama is opposed to the deal while Senator McCain supports it. His opposition, however, seems to be less stout than to the other pending FTAs. With the coming removal of González-Pinzón from his leadership role, it might be possible for the FTA to be ratified, though probably only after the November elections.

South Korea

One of the world's oldest civilizations, South Korea has transformed itself over the past few decades into a major economic power. Roughly the size of Virginia, the country's geography is dominated by high mountain ranges and narrow coastal plains. South Korea is a well-functioning, liberal democracy. Korean is the only official language.

South Korea is the fourth largest economy in Asia and the thirteenth largest in the world. Heavy industry originally was the backbone of the economy and continues to play an important role. South Korea remains the world's largest shipbuilder; other important industries include electronics, steel, automobiles, and textiles. The service sector has grown substantially to the point where it now constitutes over half of gross domestic product (GDP). Its main export partners are China, the U.S., Japan, and Hong Kong; South Korea exported over $371 billion in 2007. South Korea imports most of its goods from China, Japan, the U.S., and Saudi Arabia; imports totaled $357 billion in 2007. Inflation and unemployment are both low, at 2.5% and 2%, respectively.

The trade agreement between the U.S. and South Korea was signed on June 30, 2007; it still needs to be ratified by South Korea's parliament and the U.S. Congress. Opponents of the agreement in the U.S. have two primary objections to ratification: treatment of the U.S. automotive industry and beef exports.

They claim that U.S. beef farmers would not be able to export to South Korea, although such objections have largely been nullified by South Korea's adoption of a law explicitly allowing U.S. beef imports. (South Korea had not allowed U.S. beef after traces of mad cow disease were found in 2002.) In the automotive industry, many observers believe that South Korea will continue to tacitly discourage automotive imports. Past promises from the South Korean government to liberalize its automotive import market have not translated to increases in vehicle imports.

The South Koreans must also ratify the agreement for it to come into effect. Opinion polls show there is general support for the measure. The current president, Lee Myung-bak, is supportive of stronger ties with the U.S. in general and through this FTA specifically.

It was Lee who called for relaxing restrictions over U.S. beef imports, despite very strong public opposition to the idea. His party, the Grand National Party, holds a majority of seats in Parliament until 2012, making ratification of the FTA likely.

The bill's prospects in the U.S. are gloomier. Senator Obama has forcefully condemned it, calling it "badly flawed." He singled out the provisions for automobiles as one of his foremost objections. His advisors, however, have hinted that he might be more open to the bill if certain aspects were renegotiated; South Korea has previously stated that it will not renegotiate the agreement. Representative Pelosi's position is similar to Obama's, saying that portions must be renegotiated before being approved. Senator McCain favors immediate ratification.

The one thing that seems clear is that a vote on the agreement is very unlikely to take place until after the elections. After that, the future of this agreement will be determined by the new Congress and President.

North American Free Trade Agreement (NAFTA)

Though NAFTA is not one of the four FTAs examined by this report, recent reports suggest a possible modification by the next president. As America's most important trade agreement, it is prudent to examine the possibility of these changes coming to pass.

Senator Obama has at times been a vocal critic of NAFTA. During the primaries, he called the agreement "devastating" and "a big mistake." He promised that, if elected president, he would use "the hammer of a potential opt-out as leverage to ensure that we actually get labor and environmental standards that are enforced."

These remarks, however, were later tempered. One of his economic advisors—Austan Goolsbee, who is generally pro-trade—told the Canadian government that Obama's "NAFTA-bashing should be viewed as more about political positioning than a clear articulation of policy plans." Obama himself told *Fortune* magazine that "during campaigns the rhetoric gets overheated and amplified," going on to imply that he would not amend NAFTA unilaterally.

So what would happen with a President Obama? Statements from his advisors seem to indicate that he is still intent on renegotiating tougher labor and environmental standards with the Canadian and Mexican governments. As it stands now, parties are obligated only to enforce their own environmental and labor laws; two independent bodies, both created in 1994, exist to monitor compliance.

Such modifications might look similar to the provisions in the Peru FTA. On the labor side, both the U.S. and Peru reaffirmed their commitment to the International Labor Organization standards and five fundamental labor rights; a Labor Affairs Council was created for monitoring. For environmental protections, the Peru FTA established that both countries would abide by numerous existing environmental treaties and established an Environmental Affairs Council.

Of course, any renegotiation would involve Mexico and Canada. Mexico's ambassador to the U.S. has indicated Mexico does not support any changes to the existing agreement. Canada's trade minister said that his country "would have our list of priorities" should the agreement be reopened—priorities that might be at odds with those of the U.S.

The future of NAFTA is much easier to predict if Senator McCain wins the presidency. If anything, McCain would attempt to expand its provisions to other countries in the Americas, according to his advisors.

Office Furniture Industry

Summary

The gains of these FTAs will be incremental and on the margins. In Latin America, the best opportunities for manufacturing appear to be in Colombia. Such manufacturing, however, makes sense only if the final products are to be shipped elsewhere in Latin America due to rising transportation costs. The most promising market for office furniture exports in the region is Panama, and this is likely to remain the case for the foreseeable future. Manufacturers with no activity in Latin America would probably be best served by searching for export opportunities in niche markets like the high-end furniture market in Panama.

In South Korea, the pending FTA will probably not affect U.S. manufacturers in any significant degree.

	Peru	Colombia	Panama	South Korea
GDP ($ billion)	219	320	35	1,201
Population	29,180,899	45,013,674	3,292,693	49,232,844
US furniture exports in 2007 ($ million)	0.3	1.9	3.5	4.2
Furniture imports to the US in 2007 ($ million)	0.3	2.3	0.6	4.1

Peru

This small country does not offer much for either exporting or manufacturing.

The market for higher-end furniture in Peru is very limited, as the country is small and relatively underdeveloped. Lima, the capital, is where the most opportunities exist for business for multinationals and government sales. As one government report put it, "The rest of Peru [outside Lima] is largely under populated, underdeveloped and does not offer an attractive market for technical equipment."[1] Exports of all furniture (not just office furniture) make up only a small percentage of total U.S. exports and totaled less than $7 million in 2007.[2] In most industries, cheaper imports from Asian countries such as Taiwan and Korea have usually outsold their more expensive American competitors; it is not clear if this is happening in the furniture industry.

[1] "Doing Business in Peru: 2008 Country Commercial Guide for U.S. Companies," U.S. Department of State, 2008.
[2] U.S. International Trade Statistics, U.S. Census Bureau, 2008; available from http://censtats.census.gov/naic3_6/naics3_6.shtml.

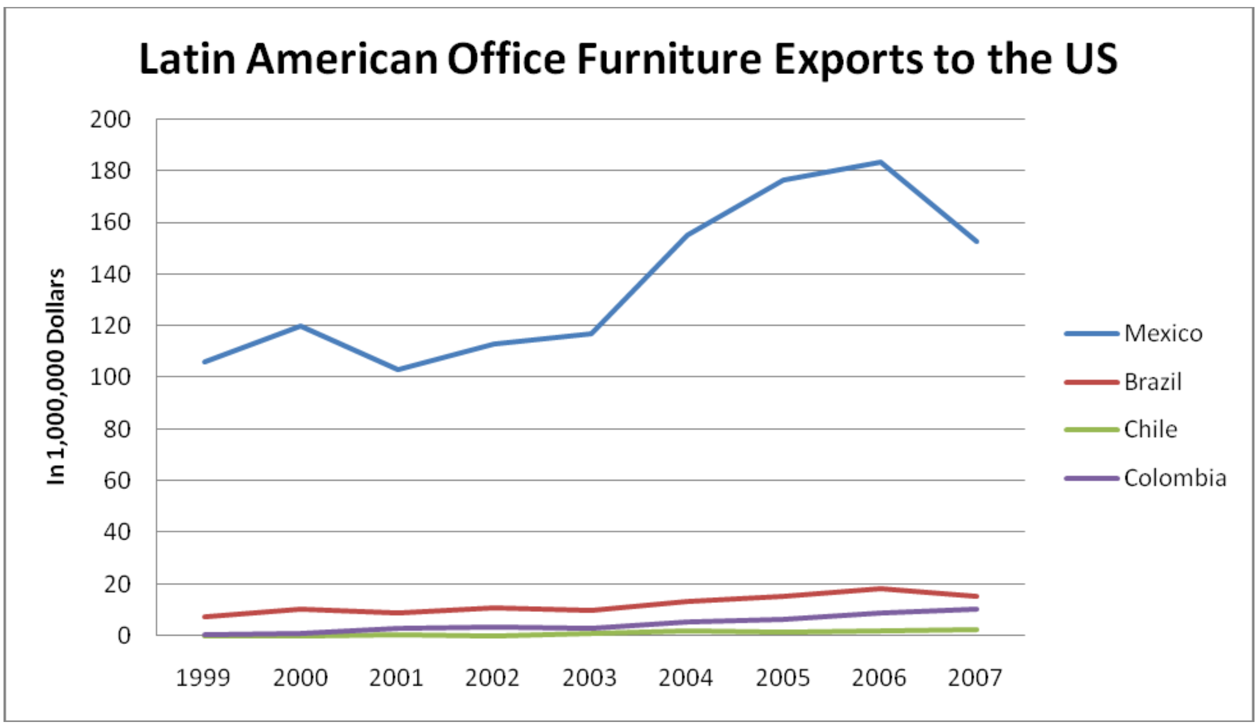
Tariffs on exports of most furniture and furniture-related items to Peru are currently at 12%; these will decrease in equal increments over the next ten years until they disappear entirely in 2018. Tariffs on office furniture imports from other countries currently stand at 9%.[3] Peru has no FTAs with any other major economic powers.[4]

The 2007 United States-Peru Trade Promotion Agreement will also have a limited impact on U.S. imports from Peru, as an existing agreement (the Andean Trade Preference Act) has already eliminated tariffs on 95% of Peruvian imports. Any remaining tariffs will disappear within ten years.

Colombia

The pending FTA could make foreign direct investment (FDI) in Colombian manufacturing attractive.

In 2007, Colombia was the 13th largest exporter of non-wood office furniture into the U.S. and the 3rd largest in Latin American.[5] Colombia's furniture exports to the U.S. are growing faster than nearly any other country, increasing twenty-fold since 1999. The majority of exports are lower-end, institutional furniture; they constituted approximately 75% of Colombia's furniture exports in 2007.[6]



Source: U.S. Census Bureau

[3] "Data on MFN Applied Tariff and Imports," World Trade Organization, 2007; available from <http://stat.wto.org/idbdata/idb_per_last_e.zip>.
[4] Foreign Trade Information System, Organization of American States, 2007; available from <http://www.sice.oas.org/ctyindex/PER/PERagreements_e.asp>.
[5] U.S. Imports for Consumption for NAICS 337214, U.S. Census Bureau; available from http://www.ita.doc.gov/td/ocg/imp337214.htm.
[6] U.S. International Trade Statistics, U.S. Census Bureau, 2008; available from http://censtats.census.gov/naic3_6/naics3_6.shtml.

With its existing furniture manufacturing base, Colombia offers an attractive place for U.S. companies looking for manufacturing facilities in Latin America. U.S. companies looking to take advantage of manufacturing in Colombia would likely want to explore the possibility of partnering with an existing Colombian company through either a joint venture or a licensing agreement. This option of using Colombia as a base for manufacturing in the region is attractive in light of Colombia's numerous FTAs with its neighbors; it has signed agreements with Mexico, Venezuela, Bolivia, Ecuador, and Peru and is negotiating an agreement with Chile.[7]

As it stands, the Colombian government already encourages FDI.[8] The United States-Colombia Trade Promotion Agreement—with its better legal protections for foreign companies operating in Colombia—would provide U.S. companies with stronger incentives to invest in Colombia compared to other countries in the region. US companies would be treated equally with Colombian companies in nearly all cases, and 100% foreign ownership is allowed in most industries.[9] While foreign investors rightly question if the security situation makes such investment tenable, improvements in recent years have done much to reduce the violence and instability; kidnappings, for instance, are down 83% since 2002.[10]

Like Peru, exports of office furniture to Colombia are currently quite limited ($10 million in 2007).[11] However, these will grow with continued strong economic growth, which stood at 8% in 2007; in fact, the country's annual growth rate of 4.5% over the last twenty-five years has been the best among Latin America's main economies.[12] The better development and larger population of Colombia make it a more attractive market than Peru for US exporters. Demand will likely be strongest for lower-end products.

Panama

An emerging market for office furniture could expand with the passage of the FTA.

Of the three Latin American countries with pending FTAs, Panama is the only one that currently represents a good opportunity for the sale of U.S. office furniture. Worldwide, it ranked 13th for U.S. office furniture exports; the past two years have each seen a 100% increase in the value of furniture exports.[13] The U.S. government expects this demand to grow at 8% for each of the next three years.[14] Because the standard of living in Panama is relatively high, much of this demand is for high-end furniture.

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[7] Foreign Trade Information System, Organization of American States, 2007; available from <http://www.sice.oas.org/ctyindex/COL/COLagreements_e.asp>.

[8] "Doing Business in Colombia: 2008 Country Commercial Guide for U.S. Companies," U.S. Department of State, 2008.

[9] "U.S.-Colombia Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects," U.S. International Trade Commission, 2006.

[10] "Charting Colombia's Progress," U.S. Department of State, 2008.

[11] U.S. International Trade Statistics, U.S. Census Bureau, 2008; available from http://censtats.census.gov/naic3_6/naics3_6.shtml.

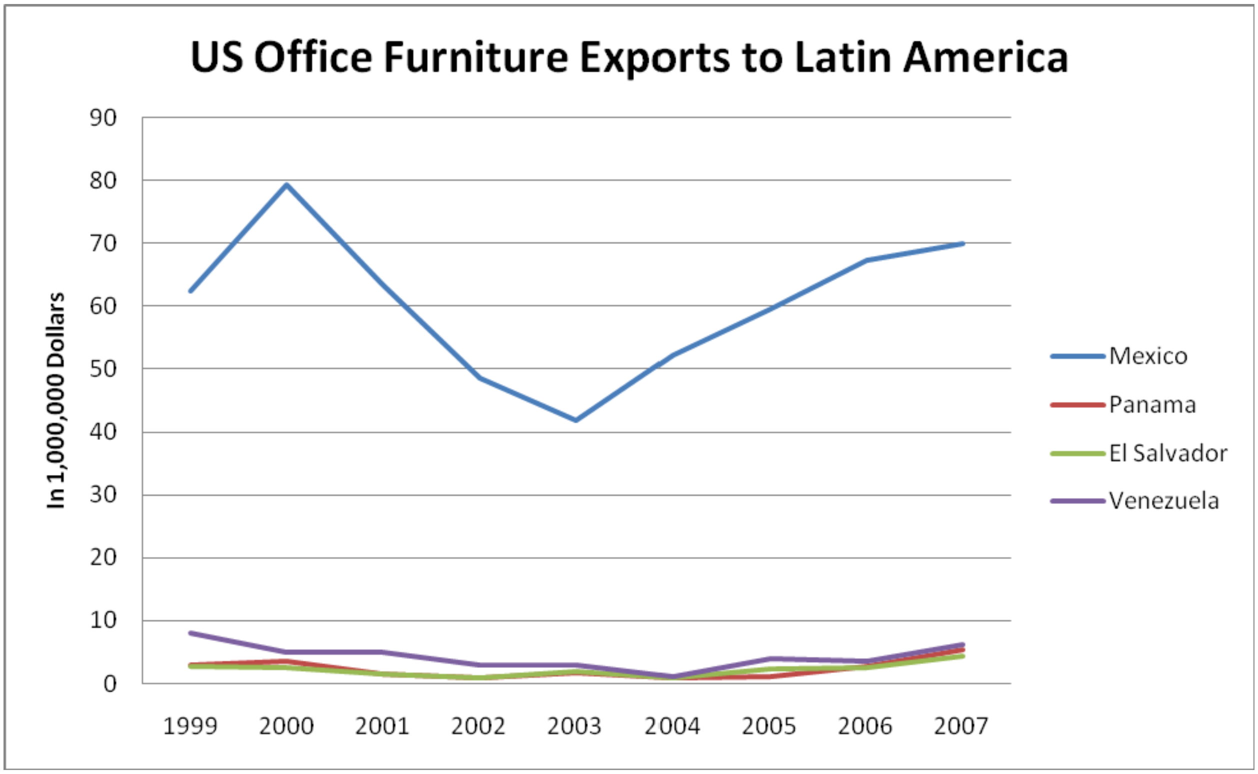
[12] "Colombia," GlobalSecurity.org; available from <http://www.globalsecurity.org/military/world/colombia/colombia_briefing.htm>.

[13] U.S. Exports for Consumption for NAICS 337214, U.S. Census Bureau; available from http://www.ita.doc.gov/td/ocg/exp337214.htm.

[14] "Doing Business in Panama: 2008 Country Commercial Guide for U.S. Companies," U.S. Department of State, 2008.

Panama's monetary policy of dollarization makes investment in the country more attractive because there is no exchange-rate risk.

These opportunities aside, benefits from the FTA will undoubtedly be minor in the immediate future. Even within Latin America, Panama does not represent the largest office furniture market. The graph below shows how office furniture exports to Panama have paled in comparison to exports to countries like Mexico and Venezuela.



Source: U.S. Census Bureau

Panamian tariffs on office furniture imports currently stand at 15% for the U.S. and all other WTO members.[15] If the FTA is ratified by the U.S. Congress, these rates will be reduced in equal increments each year for ten-years until they cease to exist.

[15] "Data on MFN Applied Tariff and Imports," World Trade Organization, 2007; available from <http://stat.wto.org/idbdata/idb_pan_e.zip>.

South Korea

The pending FTA will have a limited impact on the U.S. office furniture industry.

Export opportunities are unlikely to increase significantly with the passage of the FTA. American (as well as Korean) exports are already tariff-free, though the FTA would have the benefit of making these zero tariffs permanent.[16] Thus, the dynamics of the market will not change with the FTA.

Though U.S. office furniture exports to South Korea were up significantly in 2007, they remained relatively small in absolute terms: less than $5 million.[17] After a reduction during the past few years, U.S. exports have only now returned to their 2000 levels.

Manufacturing opportunities also appear limited, the fundamentals of which will not change with the ratification of the FTA. The country's inflexible labor policies and high labor costs will not be affected by the trade agreement; similarly, the excessive regulation, which has served to deter investors in the past, remains.[18] Though the FTA would provide U.S. investors with better legal protections, these improvements are unlikely to outweigh other factors already discussed.

[16] "Annex 2-B: Tariff Elimination," *Free Trade Agreement between the United States of America and the Republic of Korea*, Office of the United States Trade Representative, 2007.
[17] U.S. International Trade Statistics, U.S. Census Bureau, 2008; available from http://censtats.census.gov/naic3_6/naics3_6.shtml.
[18] "Doing Business in South Korea: 2008 Country Commercial Guide for U.S. Companies," U.S. Department of State, 2008.

Automotive Industry

Summary

Due to the makeup of industry in West Michigan, this report will focus on the automotive parts market. Demand for automotive parts is generally rising throughout all of the countries examined as they increase their standards of living. In Latin America, Colombia offers the best opportunities for American exports, if for no other reason than its size compared to Peru and Panama. Its $2 billion market for automotive parts dwarfs Peru and Panama.

South Korea offers a market much larger than Colombia's. There is already a multitude of low-cost Korean parts manufacturers, but U.S. companies with high-technology, niche products will likely find this to be a promising market. U.S. manufacturers of lower-end products, however, must be aware of the competition that South Korean firms will present should the FTA be ratified.

	Peru	Colombia	Panama	South Korea
GDP ($ billion)	219	320	35	1,201
Population	29,180,899	45,013,674	3,292,693	49,232,844
Cars on road	unknown	2,600,000	371,775	15,000,000
New cars in 2007	49,650	250,000	41,375	1,100,000
Parts market in 2007 ($ million)	unknown	1,995	49.6*	46,000
US parts exports in 2007 ($ million)	36	325	22	348

*data is for 2005

Peru

While the FTA will do no harm to U.S. manufacturers and suppliers, neither will it significantly help them.

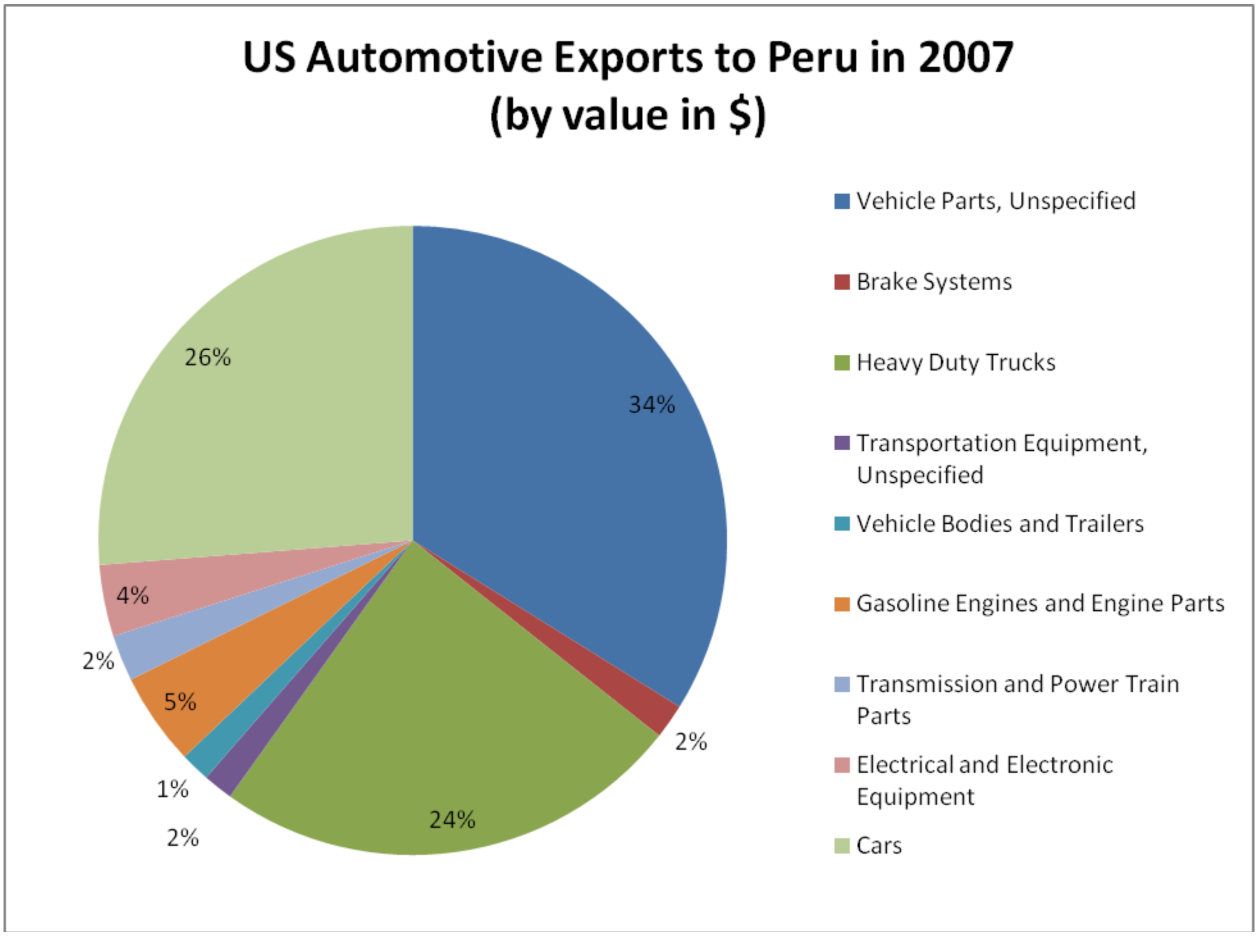
There is a small but growing market for automobiles in Peru. In 2008, 50,000 new cars are expected to be sold, up 5% from the year prior.[19] This makes Peru the fastest-growing automotive market in Latin America.[20] The top five imports into Peru are all Japanese, giving them over 50% market share. GM announced in July, 2008 that they will begin exporting joint-venture Chinese minivans to Peru, though the company has "no forecast" of how many might be sold.[21] The new FTA will give U.S. producers an advantage over their Japanese competitors. 74% of U.S. industrial goods became tariff-free overnight with the ratification of the agreement.[22]

[19] "The Peru Autos Report 2008," Business Monitor International; available from < http://www.businessmonitor.com/autos/peru.html>.
[20] Ibid.
[21] "GM says it will sell Chinese-made minivans in Peru, expanding auto exports from China," The Associated Press, 17 July 2008.
[22] "Benefits from the U.S.-Peru Trade Promotion Agreement: Michigan," International Trade Administration, U.S. Department of Commerce, August 2007.

Previously, tariffs on automotive imports into Peru ranged from 4% to 12%. The vast majority of goods that are not currently tariff-free will be so in five years, the tariffs being reduced in five equal annual stages.[23]

The majority of U.S. exports in this industry come in the form of automotive parts. In 2007, $36 million of such parts were exported, an 81% increase over 2007. The chart below shows the breakdown of current U.S. exports.

Not surprisingly, U.S. manufacturers have little to fear from their Peruvian competitors. Despite low U.S. tariffs, Peru exported only $100,000 worth of automotive equipment to the U.S. in 2007.[24]



Source: U.S. Census Bureau

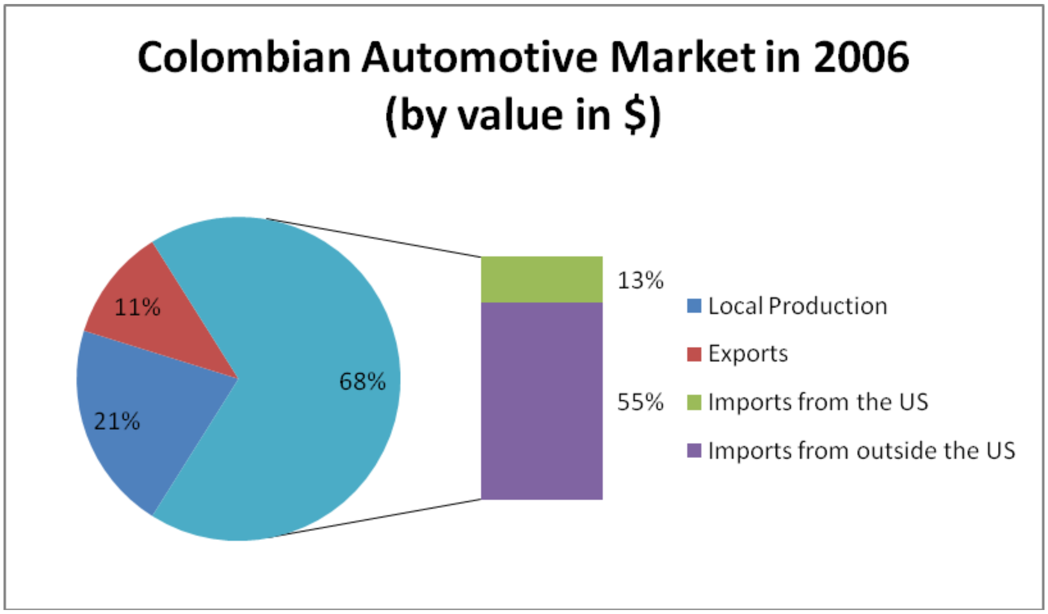
[23] "Peru Tariff Schedule," *United States – Peru Trade Promotion Agreement*, Office of the United States Trade Representative, 2006.

[24] U.S. International Trade Statistics, U.S. Census Bureau, 2008; available from http://censtats.census.gov/naic3_6/naics3_6.shtml.

Colombia

U.S. exports will likely increase with the passage of the FTA, with the strongest demand being for automotive parts.

The market in Colombia for automobiles is growing steadily, having experienced 20% growth per year since 2001, and the signs for future growth are positive. The population—becoming more urbanized—is increasingly relying on motor vehicles for transportation, with over 2.6 million vehicles now on the road.[25] The market is vibrant, with forty-three brands and 250 models available. However, at least some analysts foresee a Colombian economic slowdown that might hurt future demand.[26]



Source: Colombian Ministry of Transportation

U.S. manufacturers have traditionally dominated the Colombian automobile import market and controlled 21% of that market in 2006. Colmotores, the local General Motors subsidiary, has the largest market share.[27] All told, automotive imports totaled $254 million in 2007.[28]

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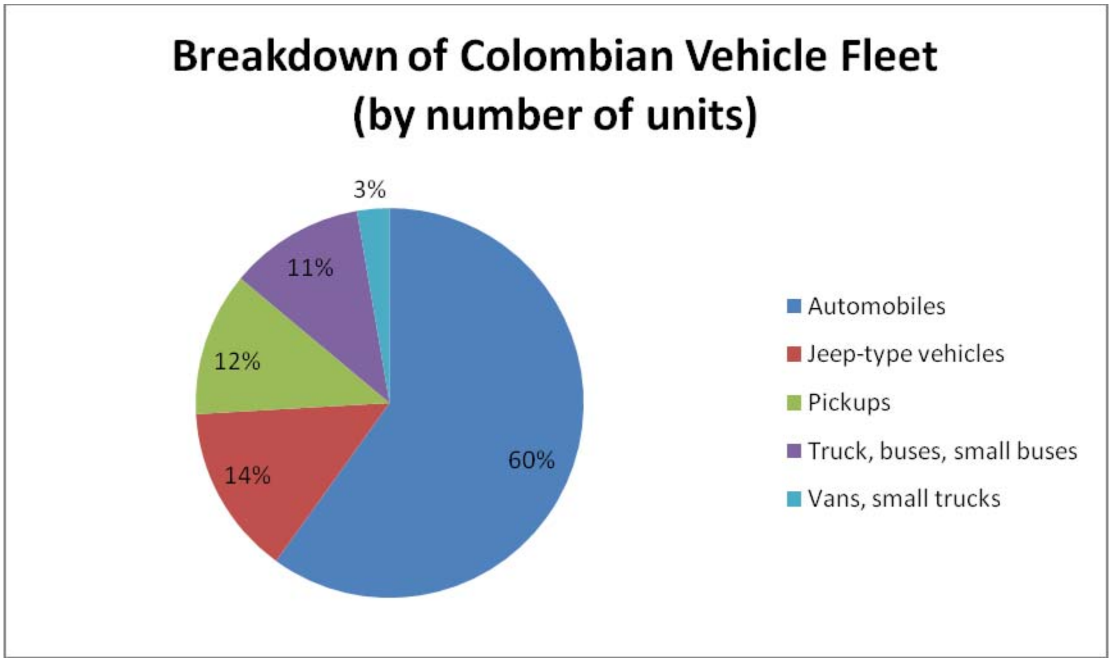
[25] "Colombia: Automotive Sector Overview," U.S. Commercial Service, U.S. Department of Commerce, 2007.
[26] "The Colombia Autos Report 2008," Business Monitor International; available from
< http://www.businessmonitor.com/autos/colombia.html>.
[27] "Colombia: Automotive Sector Overview."
[28] U.S. International Trade Statistics, U.S. Census Bureau, 2008; available from
http://censtats.census.gov/naic3_6/naics3_6.shtml.



Source: Standard & Poor's

As in Peru, perhaps the most promising segment of this market is automotive parts, which have grown at a rate of 10% for the past three-years. This demand is likely to grow in the coming years as the average Colombian truck is twenty-three years old and the average car fifteen. Of the $2 billion Colombia parts market, 76% came from imports; the U.S. share of this import market has decreased in recent years, down from 35% in 2003 to 19% in 2006.[29]

The pending FTA will make US export firms much more competitive. At present, tariffs average 12.7% on imports from the U.S. while imports from Mexico, Brazil, and Argentina are tariff-free.[30] Upon ratification of the FTA, 53% of U.S. exports will immediately be duty-free, with the others being phased out in five or ten years; this should help U.S. companies regain lost market share.[31] Colombia's second largest automotive importer, Japan, does not have a bilateral FTA with Colombia; Japanese automotive parts face an average tariff of 10.4%.[32]

[29] "Colombia: Automotive Sector Overview."
[30] "Benefits from the U.S.-Colombia Trade Promotion Agreement: Michigan," International Trade Administration, U.S. Department of Commerce, March 2008.
[31] "Colombia: Automotive Sector Overview."
[32] "Data on MFN Applied Tariff and Imports," World Trade Organization, 2007; available from <http://stat.wto.org/idbdata/idb_col_last_e.zip>.

Panama

While there is a growing automotive market, the country's small size makes it unlikely to become an important destination for U.S. automobiles and parts.

The automotive industry has been very strong in Panama in recent years. Last year saw 30% in new car sales, and experts expect that growth to continue in 2008; since 2004, Panama has averaged 25% growth in car sales.[33] Car ownership per capita, however, is still low—11.4 cars per hundred people—leaving the door open to future growth.[34] Toyota sold over a quarter of the 41,375 new cars purchased in 2007; Nissan had the second-largest market share.[35] With its open economy, the automotive market is very competitive; manufacturers from Japan, Korea, Taiwan, and the U.S. all compete.[36]

As is to be expected, the market for parts is increasing as the number of cars rises. Deteriorating roads, increased traffic, and more accidents are fueling demand for high-quality parts.[37] In 2006, this was a $49.6 million market; U.S. parts exports were valued at $22 million.[38]

Current import duties on U.S. goods average 2.5% for automotive parts and 16.4% for vehicles.[39] The pending FTA will make most parts duty-free immediately while the tariffs on vehicles will be phased out over five or ten years.[40] In many ways, the FTA would help the U.S. catch up with other countries: Panama signed bilateral FTAs with Taiwan in 2003 and Singapore in 2006.

South Korea

The FTA would give specialized parts suppliers and manufacturers a good opportunity to expand in a burgeoning market.

South Korea is the world's sixth largest automobile producer. In 2005, 2.4 million of the 3.5 million vehicles it produced were exported.[41] Though there are 15 million cars in the country, very few are foreign-made; only 4.4% of the new cars purchased in 2007 were imports thanks to strong import restrictions.[42]

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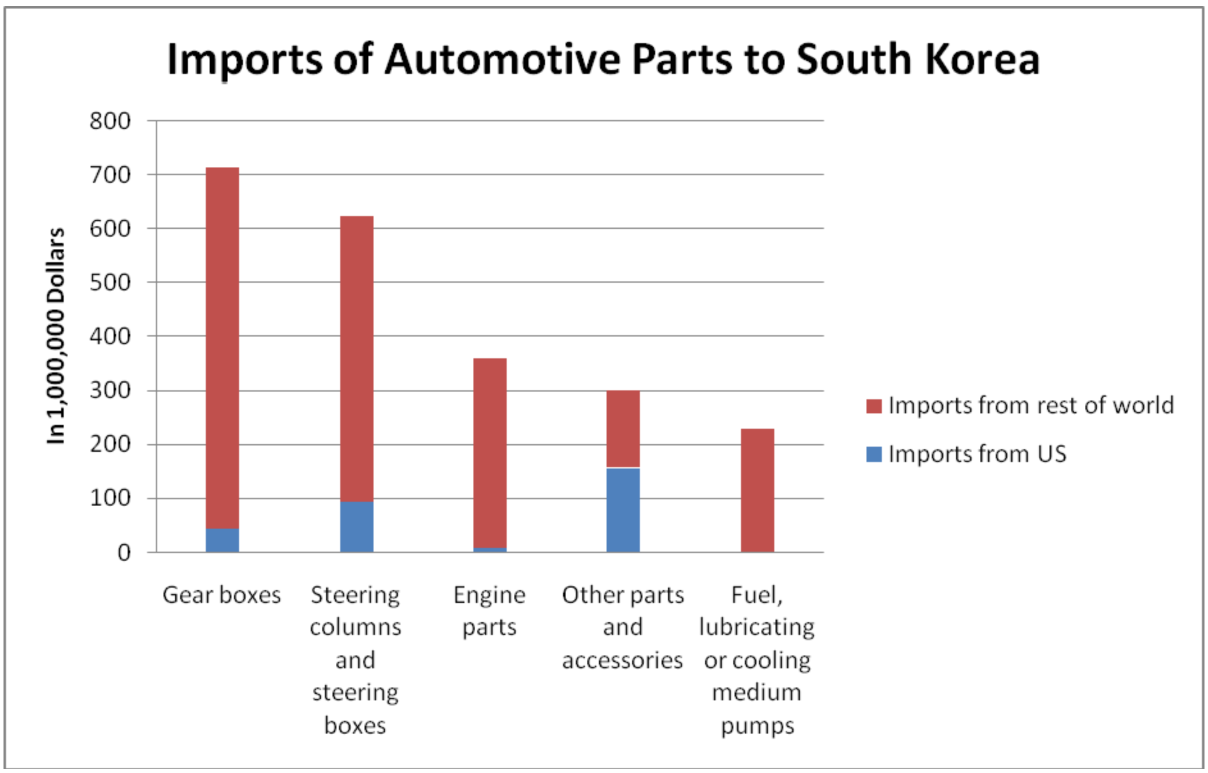
[33] "New Car Sales Strong in Panama," Panama Travels; available at <http://www.costaricapages.com/panama/blog/new-car-sales-strong-in-panama-331>.
[34] "Cuadro 333-02: Automóviles en Circulación en la República," Contraloría General de la República de Panamá, 2006.
[35] "New Car Sales Strong in Panama."
[36] "Market Opportunities in the Automotive Parts Market," U.S. Commercial Service, U.S. Department of State, 2001.
[37] "Automotive Parts and Service Equipment," U.S. Commercial Service, U.S. Department of State, 2003.
[38] "U.S. Exports to Panama from 2003 to 2007," U.S. Census Bureau; available from <http://www.census.gov/foreign-trade/statistics/product/enduse/exports/c2250.html>.
[39] "Data on MFN Applied Tariff and Imports," World Trade Organization, 2007; available from <http://stat.wto.org/idbdata/idb_pan_e.zip>.
[40] "Annex 3.3: Tariff Elimination," *United States – Panama Trade Promotion Agreement*, Office of the United States Trade Representative, 2007.
[41] "Korea: Automotive Aftermarket," U.S. Commercial Service, U.S. Department of Commerce, 2006.
[42] "Statistical Overview of the Korea Automotive Industry & U.S. Trade Relationship," Auto Trade Policy Council, 2008; available from <http://www.autotradecouncil.org/Upload/Korea%20factsheet%20Sheet1.pdf>.

There is also a strong import market for automobile parts: $2 billion in 2005. As car life expectancy increases—it has risen from 4.9 years in 1999 to 6.6 years in 2006—so too does the need for parts.[43] As in other parts of the world, higher quality parts are being demanded more as Koreans start purchasing larger, more expensive cars; this trend is also accentuated by the recent, though small, increase in foreign imports. The launch of the Hyundai manufacturing plant in Alabama will probably accelerate South Korea's use of foreign-made, high-quality parts.[44]

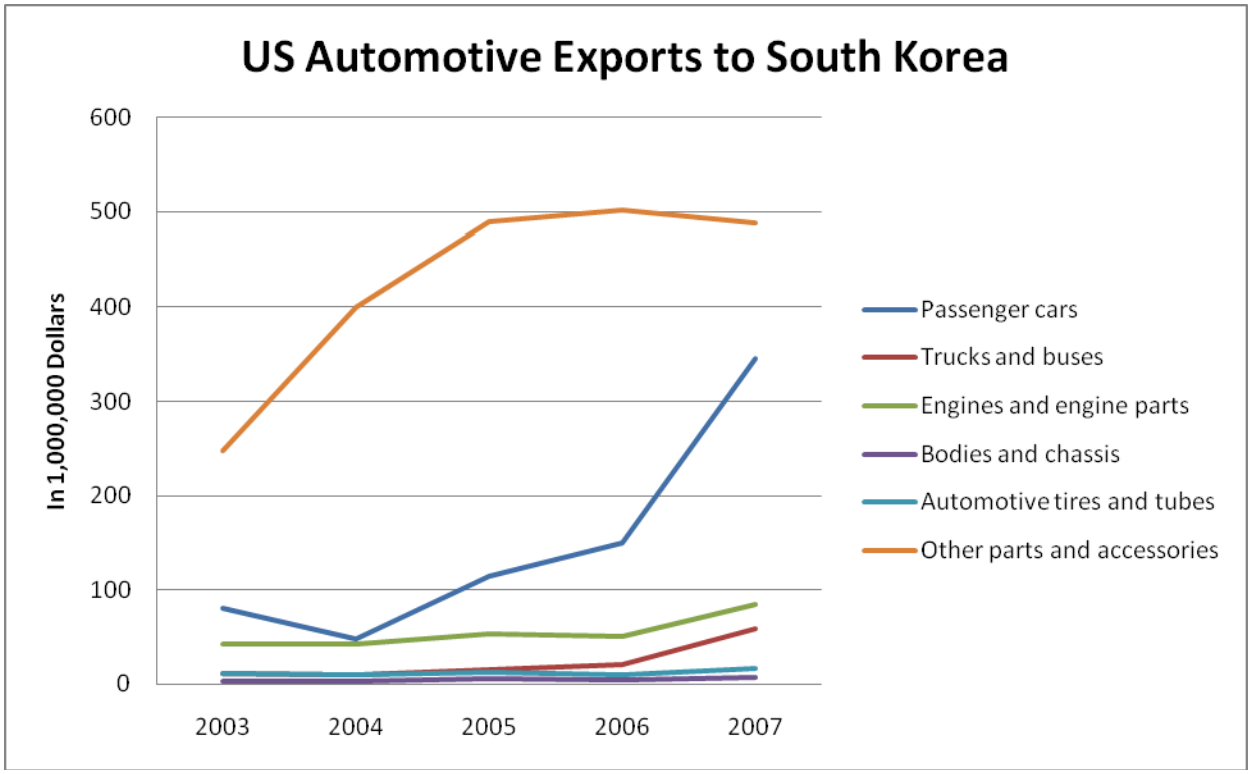
Over 900 Korean firms currently supply most of the country's need for automotive parts. Most of the companies are small- to mid-sized firms; only four are in the top 100 worldwide.[45] Nevertheless, as one Department of Commerce report puts it, "they have a dominant position in supplying to Korean OEMs [original equipment manufacturers] conventional, mid-tech auto parts at competitive prices."[46] About 10% of parts are imported; Japan controls 33% of this market and Germany 23% while the U.S. is the third largest parts exporter, controlling 13% of the market.[47]



Source: Korea Automotive Industry Cooperation Association and Korea International Trade Association

[43] "Korea: Automotive Aftermarket."
[44] "Doing Business in Colombia: A Country Commercial Guide for U.S. Companies," U.S. Department of State, 2005.
[45] "Korea: Automotive Aftermarket."
[46] Ibid.
[47] "Doing Business in Colombia: A Country Commercial Guide for U.S. Companies."

The multitude of competition notwithstanding, there is an opportunity for U.S. automotive parts manufacturers to export products requiring advanced technology. Examples include products that deal with engine design (including hybrid engines), precision equipment, and safety equipment. Tariffs on 99.2% of U.S. automotive exports by value will be duty-free upon ratification of the FTA; the remaining Korean tariffs will be phased out over ten-years. Tariffs on these imports currently stand at 8% on average.[48] Because South Korea does not have a free trade agreement with Japan or Germany, U.S. exporters would have an advantage over their two main competitors. Companies looking to expand into Korea might start by doing business with the Hyundai plant in Alabama or by partnering with a local Korea distributor that have existing sales networks.



Source: U.S. Census Bureau

This FTA, however, will not benefit solely U.S. exporters; South Korean exports of lower-end automotive parts to the U.S. will potentially threaten U.S. suppliers. Nearly all Korean automotive parts will become duty-free immediately (though many parts already face no U.S. tariffs).[49]

[48] "U.S.-Korea Free Trade Agreement: Market Access Results," International Trade Administration, U.S. Department of Commerce, 2007.

[49] "Annex 2-B: Tariff Elimination," Free Trade Agreement between the United States of America and the Republic of Korea," Office of the United States Trade Representative, 2007.

Appendix

Listed below are online resources used in this report. They will be applicable to future analyses on other FTAs or other industries.

Trade Basics

Tariff Code Description Lookup

Every product that can be imported or exported has a numerical code. There are five different systems of codes used for varying purposes and by different agencies. This tool allows you to find the codes for any product imaginable and is an important place to start any research.

Available at: http://reportweb.usitc.gov/commodities/naicsicsitc.html

United States International Trade Commission

This U.S. agency has in-depth reports by industry and gives detailed information on the effect of past FTAs as well as the expected impact of pending ones.

Available at: http://www.usitc.gov/

TradeAgreements.gov

This site has all the latest news, speeches, and press releases on the pending FTAs. It also has links to other government sites (such as the State Department) that look at the proposed deals.

Available at: http://www.tradeagreements.gov/

Export.gov

This website is specifically designed to help U.S. companies find new markets for exports. It has reports by country and by industry.

Available at: http://www.export.gov

United States Commercial Service

Aimed at U.S. companies that both export and import, this site is organized by country of interest. Its reports have valuable information but have to be accessed with a password (after they confirm you are a U.S. company).

Available at: http://www.buyusa.gov/home/

Existing FTAs

Office of the United States Trade Representative

This site gives a list of all existing U.S. FTAs, both bilateral and with trading blocs. Detailed information, including the full text of each agreement, is available.

Available at: http://www.ustr.gov/Trade_Agreements/Section_Index.html

Foreign Trade Information System of the Organization of American States

Lists all existing trade agreements in the world. The list is organized by country and is extremely helpful to see what other countries already have agreements with our partners.

Available at: http://www.sice.oas.org/

Tariff Information

Asian Pacific Economic Cooperation Tariff Database

Tariffs for all member countries of APEC are given. Most of the world's non-European economic powers are included.

Available at: http://www.apectariff.org/tdb.cgi/ff3235/apecmain.html

Tariff Profiles

The World Trade Organization allows users to examine the tariffs imposed by member countries. They are very specific (down to six-digits on the Harmonized Tariff Schedule).

Available at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

Import/Export Data

U.S. International Trade Statistics

Run by the Census Bureau, this is the best place to find detailed information on the value of imports and exports for any year back to 2000.

Available at: http://censtats.census.gov/cgi-bin/naic3_6/naicCty.pl

Consumer Goods Industries

Similar to the site listed above, this Department of Commerce site has information relating to all consumer goods.

Available at: http://www.ita.doc.gov/td/ocg/index.htm