

# Competitiveness and Trade Policy Problems in Agricultural Exports: The Case of Colombia. Doctoral Thesis Project

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## RESUMEN

Este estudio explora el estado actual y el potencial competitivo de las exportaciones agrícolas colombianas a los mercados de Estados Unidos y la Unión Europea. Los mercados de estos países industrializados se constituyen en los más importantes para Colombia, pero al mismo tiempo tienen varias restricciones en el sector agrícola. Este estudio mostrará que la competitividad no es solamente una función de los impedimentos locales o internacionales tales como la pobreza institucional, la baja capacidad tecnológica, la disponibilidad de capital, capital humano y mano de obra, sino también de impedimentos externos como el acceso a los mercados. Por lo tanto, éste es un importante objetivo del presente estudio con el objeto de proyectar posibles escenarios para el comercio colombiano, a fin de investigar la eliminación de estas restricciones. En la parte empírica se enfatizará en los impactos de las restricciones externas en el sentido de un estudio econométrico, sin embargo, la influencia de las restricciones internas será discutida como tal.

La hipótesis central del trabajo sostiene que la eliminación de las restricciones de mercado en Estados Unidos y en la Unión Europea puede tener un importante impacto para la competitividad colombiana aunque esto no puede garantizar el crecimiento de las exportaciones nacionales sino se solucionan algunos problemas internos. Solamente la parte de las políticas comerciales de esta hipótesis puede ser evaluada en un estudio econométrico. El papel de los factores internos puede ser evaluado en el marco de un análisis del ambiente

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en el cual las exportaciones tienen lugar (informes macroeconómicos, estudios del Banco de la República, exportaciones corporativas, instituciones de crédito, segmentos de mercado, programas de asistencia técnica y otros).

Una importante contribución de este estudio consiste en la incorporación más comprensiva e interdisciplinaria de las teorías para explicar el comercio internacional. La teoría de la competitividad tiene un punto de vista multidimensional que analiza desde los niveles microeconómicos a los macroeconómicos. Esto comprende factores internos y externos para explicar los cambios en los flujos comerciales.

Para el desarrollo de los países, y especialmente para Colombia, las políticas del sector agrícola tienen implicaciones en aspectos económicos, políticos y sociales. Este estudio se propone desarrollar fundamentos empíricos y teóricos de la competitividad como soporte de las decisiones de políticas de mercado en los sectores público y privado.

**Palabras clave:** competitividad, restricciones de mercado, comercio internacional.

## **ABSTRACT**

*This study will explore current and potential competitiveness of selected agricultural exports of Colombia to the markets of the United States and the European Union. The markets of these industrialized countries constitute the most important markets for Colombia, but at the same time have very strict trade constraints in the agricultural sector. This study will show that competitiveness is not only a function of domestic/internal impediments such as poor institutions, low technological capability, availability of capital, human capital and labor; but also of external impediments such as market access. Therefore, it is an important objective of this study to project the possible scenarios of Colombian trade, by investigating the elimination of those restrictions. In the empirical part emphasis will be laid on the impact of external restrictions by means of an econometric study, however the influence of internal restrictions will be broadly discussed as well.*

*The central hypothesis of this work is that the elimination of trade restrictions in the USA and the EU might have an important impact on Colombian competitiveness even though, it cannot guarantee an increase of Colombian exports without curing some home-made problems. Only the "trade policy" part of this hypothesis can be tested by means of an econometric study. The role played by home-made factors is to be evaluated by an analysis of the environment in which exports take place (macroeconomic reports, studies of the Central Bank of Colombia, export corporations, credit institutions, marketing boards, technical assistance programs and the like).*

*An important contribution of this study consists in incorporating more comprehensive and interdisciplinary theories to explain international trade. Competitiveness theory takes on a multidimensional point of view that stretches from microeconomic to macroeconomic levels of analysis. It also includes internal and external factors to explain changes in trade flows.*

*For developing countries and especially for Colombia, agricultural sector policies do have implications in economics, politics and social aspects. This study expects to develop*

*the theoretical and empirical foundations of competitiveness for supporting decisions of policy makers in private and public sectors.*

*Key words: competitiveness, trade restrictions, international trade.*

## **ANÁLISIS ESTRUCTURAL DE SECTORES ECONÓMICOS DESDE UNA PERSPECTIVA ADMINISTRATIVA**

La Universidad del Rosario, a través de la Facultad de Altos Estudios en Administración, está liderando la línea de investigación: Análisis estructural de sectores económicos desde una perspectiva administrativa. Esta línea de investigación es una aproximación académica entre la disciplina económica y administrativa en torno a problemas comunes.

Una preocupación reciente en el ámbito académico es la divergencia de conceptos y la disímil utilización de los mismos en diferentes disciplinas. Por ejemplo, el concepto de "competitividad" se ha convertido en una expresión que algunos autores como Paul Krugman<sup>1</sup> denominan un término de moda (buzz-word). Para Krugman, competitividad es tan sólo un sinónimo de productividad. Para otros como Michael Porter<sup>2</sup> representa una definición más comprehensiva para identificar la ventaja relativa de unas naciones frente a otras en sectores específicos, superando los restrictivos supuestos de la teoría clásica de las ventajas comparativas.

El estudio que se presenta a continuación busca acercar el diálogo interdisciplinario de la economía y la administración en torno al concepto de competitividad. Esta investigación se realiza a través del estudio de caso del sector agrícola colombiano, dadas las repercusiones económicas para nuestro país y los problemas estructurales que le afectan tanto a nivel local como internacional. La línea de investigación se estructura en la tesis doctoral titulada: "Competitiveness and Trade Policy Problems in Agricultural Exports: The Case of Colombia". A partir de ésta se busca encontrar temas afines en los programas de maestría, especialización y pregrado de la FAEN con el objetivo de enriquecer el diálogo académico.

## **RESEARCH OBJECTIVE**

### **General Objective and Description of the Problem**

This study will explore current and potential competitiveness of selected

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agricultural exports of Colombia to the markets of the United States and the European Union. The markets of these industrialized countries constitute the most important markets for Colombia, but at the same time have very strict trade constraints in the agricultural sector. This study will show that competitiveness is not only a function of domestic/internal impediments such as poor institutions, low technological capability, availability of capital, human capital and labor, but also of external impediments such as market access. Therefore, it is an important objective of this study to project the possible scenarios of Colombian trade, by investigating the elimination of those restrictions. In the empirical part emphasis will be laid on the impact of external restrictions by means of an econometric study, however the influence of internal restrictions will be broadly discussed as well.

The traditional theories of international trade explaining trade flows (inter-industry trade) rely on the concept of comparative advantage. The concept of comparative advantage goes back to David Ricardo and Heckscher-Ohlin and stresses the idea of specialization. Countries export goods and services which guarantee a more efficient use of resources, and import those goods and services which are more expensive due to the higher resource cost. According to traditional trade theory, the main determinants of trade are the efficient

use of resources and/or availability of the factors of production. In this sense, comparative advantage is a first and necessary approach to understand the trade flows, but not the ultimate one. Other determinants (such as trade policy and exchange rate policy) must be included to understand the patterns of trade.

The concept of comparative advantage ceases to be useful when intra-industry trade is to be explained. The determinants of intra-industry trade flows are rather vague. Similar income levels and a taste for variety are influential from the demand side point of view, whereas a monopolistic market structure, economies of scale and special production knowledge might be effective on the supply side. Competitive advantage decides upon market success. However, price competitiveness might not be so decisive for intra-industry trade. Competitiveness with respect to quality, design and the like, might be more important.

Overall, success in trade (both inter-industry and intra-industry trade) is determined by competitive advantage. To be successful in the world market one has to supply products that are cheaper (or of better quality, or of nicer design) than the products of competitors. The concept of competitive advantage puts emphasis on asserting oneself against many competitors. However, what are the determinants or dimensions of competitive advan-

tage? First, competitiveness can have a microeconomic and a macroeconomic level and as a consequence, there are different units of analysis: nations, firms and/or sectors. Second, competitiveness can have a price and a quality aspect. Then it could present different ways to be measured.<sup>3</sup> Third, competitiveness can be directly and indirectly influenced by external forces, such as the trade policy of importing countries. Fourth, competitive advantage is especially a dynamic concept.

The explanations of trade flows under the concept of competitive advantage have moved away from purely economic reasoning to both a more firm-oriented and a more policy-oriented reasoning. Competitive advantage does not necessarily require comparative advantage or even absolute advantage in order to win the game of the market, but can be shaped by business strategies and smart policy interventions such as exchange rate policy and (strategic) trade policy. These latter factors usually can change in the course of time and point to the relevance of a dynamic concept of competitive advantage.

Michael Porter presents a competitiveness concept taking "nation" as the unit of analysis, while he defines competitiveness as productivity (value of the output produced by a unit of labor or capital).<sup>4</sup> According to Porter a nation's set of institutions provides the environment for competitiveness, while there is the possi-

bility to reform the economy by means of improvement of the institutions and infrastructure.<sup>5</sup> To be explicit Porter's emphasis is on the economic environment rather than on economic policy measures, which is a second problem to be discussed in the competitiveness concept.

Porter's concept of competitiveness is enlarged in the World Economic Forum Report 2001-2002 by Jeffrey Sachs, who advocates the analysis of Global Competitiveness at a macro level saying it is "the set of institutions and economic policies supportive of high rates of economic growth in the medium term".<sup>6</sup>

There are different perspectives on competitiveness from a firm level. Competitive advantage has become a theory to explain factors that are not directly included in the compara-

<sup>3</sup> Fidelis Ezeala-Harrison. *Theory and Policy of International Competitiveness*. Praeger Ed Westport London 1999 p.41-42.

<sup>4</sup> Michael E. Porter, *The Competitive Advantage of Nations*. Reprinted. - Hampshire [u.a.]: Macmillan, 1991 p.6,18-21.

<sup>5</sup> Fidelis Ezeala-Harrison. *Theory and Policy of International Competitiveness*. Praeger Ed Westport London 1999 p.55

<sup>6</sup> World Economic Forum. *Report 2001-2002*. Jeffrey D. Sachs, Center for International Development, Harvard University; Michael E. Porter, Institute for Strategy and Competitiveness, Harvard Business School; John W. McArthur, Center for International Development, Harvard University; *The Executive Summary: Competitiveness and Stages of Economic Development*. 2002.

tive advantage. According to Porter this theory takes into account four determinants:<sup>7</sup> 1) factors of production (already included in the comparative advantage theory) 2) strategy, structure & rivalry, 3) formation of clusters, and 4) demand conditions. These determinants are influenced by the governmental decisions and random factors (macroeconomic and exogenous dimension of competitiveness).<sup>8</sup>

Another concept for competitiveness on the firm level is the productivity and cost base approach. It defines the competitive advantage in terms of productivity and cost base of potential competitors. From the point of view of productivity, there is a comprehensive analysis among productivity of the factors of production, average level of unit costs, institutions and infrastructure that must be compared among potential competitors. A loss of market share indicates a loss of competitiveness not only because of increasing productivity of foreign competitors.<sup>9</sup>

In synthesis, with those different perspectives for explaining competitiveness, the first important problem to deal with will be to select a comprehensive and functional concept of competitiveness in both levels macro and micro. This concept will be the framework to understand the case study for the Colombia's agricultural sector. As Krugman<sup>10</sup> pointed it out, a misunderstanding of the concept

could result in a bad application of public policy, imposition of unnecessary barriers or spending considerably big sums of money in non-important issues.

A first entry to understand the concept would be to link between the micro and the macroeconomic level of competitiveness, which can be summarized in Porter's concept to define national competitiveness:

A nation's prosperity depends on its competitiveness, which is based on the productivity with which it produces goods and services. Sound macroeconomic policies and stable political and legal insti-

<sup>7</sup> Michael E. Porter, *The Competitive Advantage of Nations*. Reprinted. - Hampshire [u.a.]: Macmillan, 1991.

- 1) Factor conditions are the presence of advanced and specialized factors of production which competitive industries tend to upgrade continuously.
- 2) International competitiveness results from the context in which there is a presence of capable, committed and fierce rivalry among local firms.
- 3) Competitiveness occurs when groups of supporting and related businesses compete, cooperate and collectively upgrading of their industry.
- 4) Strong local demand conditions depend on the sophistication of the local customer-base who expects the latest innovations and the highest quality standards.

<sup>8</sup> Michael E. Porter, *The Competitive Advantage of Nations*. Reprinted. - Hampshire [u.a.]: Macmillan, 1991

<sup>9</sup> James R. Markusen *Productivity, Competitiveness, Trade Performance and Real Income*. Canada 1994. Cited on Fidelis Ezeala-Harrison. *Theory and Policy of International Competitiveness*. Praeger Ed Westport London 1999, pp. 49, 53.

<sup>10</sup> Paul Krugman, *Competitiveness: Dangerous Obsession*. In: *Foreign Affairs*. Vol. 73, No.2. March-April. 1994. pp.41-44.

tutions are necessary but not sufficient conditions to ensure a prosperous economy. Competitiveness is rooted in a nation's microeconomic fundamentals—the sophistication of company operations and strategies and the quality of the microeconomic business environment in which companies compete. An understanding of the microeconomic foundations of competitiveness is fundamental to national economic policy.<sup>11</sup>

The Inter-American Development Bank (Economic and Social Progress in Latin America, Report 2001: 'Competitiveness: The Business of Growth') also takes on a very broad perspective on competitiveness. The authors of this report stress the wealth of dimensions of competitiveness such as the role of financial market development, the development of human capital, the role of infrastructure, the capacity to innovate and industrial and investment policies.

So far the 'internal/domestic' dimensions of competitiveness have been mentioned. However, competitiveness does have an 'external' dimension, too. In many cases this 'external' dimension, i.e. the policies of the trading partners and their strategies to impede market access, is the only one stressed by developing countries. To be fair, one has to concede that trade impediments still play an important role in international trade, especially for agricultural exports, but it has to be kept in mind that developing countries should not neglect the 'internal' dimensions of competitiveness.

The next step is to look at the 'external' dimension of competitiveness, i.e. foreign buyers (importers) trade policy environment.

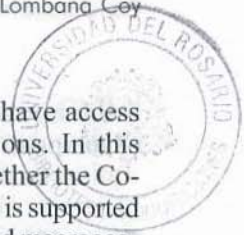
United States of America (U.S.A.) and the European Union (E.U.) have a highly protected agricultural sector. For the case of the U.S.A. a "Farm Bill" renewal was approved in May 2002. Defined in words of President George W. Bush: "The farm bill will strengthen the farm economy over the long term. It helps farmers' independence, and preserves the farm way of life for generations. It helps America's farmers, and therefore it helps America".<sup>12</sup> The first critics coming from the European Union are likely to grab any excuse to avoid reforms of their own Common Agricultural Policy (C.A.P). It is a paradox that U.S.A. in the last multilateral trade negotiations in Doha insisted on putting freer trade in agriculture and now recede with the farm bill.<sup>13</sup>

The European Union in the "Agenda 2000", the last effort to reform the C.A.P., insisted in the reduction of the budget for the agricultural sector

<sup>11</sup> Michael E. Porter, Harvard Business School, Institute for Strategy and Competitiveness. <http://www.people.hbs.edu/mporter/econatcomp.htm>

<sup>12</sup> Bush, George W. Intervention, "Launching of the Farm Security and Rural Investment Act of 2002, Farm Bill 2002", May 13th, 2002.

<sup>13</sup> The Economist. Global Agenda: What happened to free trade? May 13th 2002.



and also intended to reform the access of products from abroad the E.U.E U. Although important advances have been achieved on paper, strong tariff and non-tariff restrictions have remained highly sensitive (mainly agricultural products and textiles). Only developing countries that are in special programs enjoy special preferences. If countries are not in preferential programs they can not compete under the same conditions as the European Union countries and that is specially important for developing countries.

For the case of the preferences granted by the E.U., the Andean Generalized System of Preferences (Andean - GSP) and by the USA, the Andean Trade Preferences Act (ATPA) according to recent studies by the Andean Community Secretariat resulted to be efficient in terms of diversifying and expanding exports of the Andean community.<sup>14</sup> The preferences granted to Colombia (and Andean Countries) from developed countries –thanks to the fight against drug trafficking– are not the only warranty to market access.<sup>15</sup> Since the preferences are conditioned to a periodical evaluation they can be eliminated unilaterally whenever the outcome is considered inadequate.

Under the scenario of free trade, there is a problem of being competitive according to the productivity and cost base approach. Other countries with restrictions and direct competitors

with Colombia do also have access under the same conditions. In this case the question is, whether the Colombian competitiveness is supported by the microeconomic and macroeconomic environment at home.

The perspectives to create a Free Trade Area for the Americas (included U.S.A.) and the approaches for the commercial cooperation with the E.U., present new scenarios that would be able to change the current trade structure of uncertainty with preferences (by being unilateral character) to one scenario of greater security by the permanent character of a free trade agreement. In the scenario of free trade, there are still aspects to be negotiated, for example, the agricultural sector seems to be very protected in developed countries such as the U.S.A. or the E.U.

Overall, Colombia as a developing country must build an equilibrium among the 'internal' (micro and macroeconomic foundations of competi-

<sup>14</sup> Andean Community Secretariat. Evaluación del Impacto Subregional SGP Andino Europeo: Estudio Económico y Casos Exitosos. August 1999. Andean Community Secretariat. Resumen Estadístico para las Gestiones del ATPA. September 17th, 2001

<sup>15</sup> Since the decade of the 80s, the problem of the drug trafficking has presented evidence of its influence in the social, political, and economic aspects. One of the alternatives of solution for this problem is the preferential access (no tariffs) of products that developed countries grant to the developing countries such as Colombia, who fights against the drug trafficking.



tiveness) and 'external' dimensions of competitiveness.

### Specific Objectives

The specific objectives of this investigation are:

- to discuss the different concepts, critics and misunderstandings of competitiveness from the macro and microeconomic levels.
- to review competitive advantage theory and utilize it for explanations of the trend of Colombian agricultural exports (taking into account the determinants of competitiveness from both macro and microeconomic levels).
- to analyze the effect of the trade policy of the U.S.A. and the E.U. on the market access of the agricultural and agro-industrial products of Colombia, with specific emphasis on the special programs, i.e. Andean Trade Preferences Act (US-ATPA) and Andean- Generalized System of Preferences (EU-Andean GSP) and project a scenario of free trade.
- to select products for a case study according to the parameters derived from a combination of competitive advantage and trade policy analysis of unilateral preferences, free trade and protectionism (i.e. a product with preferential access and potential of export in a free trade scenario, a product with strong restrictions but with comparative advantage

and a product with already relative free market).

- to apply the analysis of determinants of competitive advantage upon selected products; to determine areas of weakness and strength.
- to evaluate the access conditions of trade under free trade agreements in comparison with the scenario of preferences and its economic and political implications.
- to simulate the pattern of trade in the scenarios of maintaining unilateral preferences or signing free trade agreements with the U.S.A. and with the E.U. in order to make some recommendations for trade policy.
- to explain the political factors (causes and effects) of facing different scenarios of trade between Colombia and its competitors in the selected products.

It is expected to make some policy suggestions, starting from the Colombian pattern of trade and to forecast the trend of the selected products in each one of the described scenarios. This study should serve as a first step towards better decision-making and a sounder formulation of macroeconomic and social policies.

### JUSTIFICATION

In this study, I would like to focus on Colombia as potential exporter of ag-

ricultural products. Two aspects deserve attention. First, how can Colombia strengthen the competitiveness of its agricultural exports and second, what would be the effect of better market access to the US and the EU.

The importance of (lacking) competitive advantage for Latin America is highlighted in the Global Competitiveness Report 2001 by the World Economic Forum (WEF) and in the 2001 Report 'Competitiveness: The Business of Growth' by the Inter-American Development Bank (IDB). The WEF investigated 75 countries with respect to competitiveness. 5 Latin American countries occupied 6 of the lowest ranks in competitiveness (Bolivia was # 75, Honduras was # 74, Ecuador was # 72, Nicaragua was # 71 and Paraguay was # 70). Colombia had rank # 56, Chile, the best Latin American country, had rank # 29. In contrast, Germany had rank # 4, the U.S.A. had rank # 2. Rank #1 was occupied by Finland. The WEF also compared the 75 countries with respect to their growth potential. Colombia even fared worse with rank 65, Chile fared better with rank 27, the USA and Finland kept their ranks. Germany deteriorated to rank 17. It is important to mention that in Latin America and in general (the exception being Germany) competitiveness is positively correlated with the growth potential. When we compare Chile and Colombia it is not quite understandable why Colombia

ranks much lower than Chile. Colombia's resource endowment (natural resources and the development of human capital) are quite promising. Therefore, it has to be stated that Colombia has potential and that it should take action and improve its competitiveness.

This study will deal with the agricultural sector. Most of the studies on comparative advantage and recently in competitiveness are dedicated to the manufacturing and services sectors.<sup>16</sup> Moreover the agricultural sector is not only important for Colombian economy, but also for political and social issues. In fact there are a lot of political and social problems in rural regions related to violence and social differences. An analysis of the agricultural sector in Colombia would give some sights to elaborate policies to make this a more competitive, but also a more prosperous sector.

The agricultural sector is related at first to internal policies that define the general tendency of the production. Secondly, it depends on the social and rural development. And last but not least, it depends on external factors that influence the whole sector and play a great role. This would

<sup>16</sup> Ian Goldin. Comparative Advantage: Theory and Application to Developing Country Agriculture. Technical Papers No.16 OECD Development Centre. June 1990. Also see: J.E. Austin Associates, Inc. Competitiveness Bibliography, January, 2002.

be then the main theme of this study. Policies of developed countries, as external factors, constrain exports of developing countries. Although Colombia enjoys trade preferences, it fails to have the necessary market access in developed countries.

The U.S.A. and the European Union market policies of imports will constitute the external factors. These are the main markets for agricultural Colombian exports but at the same time are the most protected in terms of tariffs and non tariffs measures.

The Free Trade Agreement of Americas (ALCA/FTAA), that includes the USA, aims at completing the negotiations by January 2005 and at implementing the agreement by December 2005. This agreement will guarantee access of products that at the moment have preference with the U.S.A. Probably, they would receive more certainty of access and for other products the access would be expanded. However, Colombia will not be the only country in the area to benefit from this new access. Colombia will have to compete with other countries under new conditions. Competitiveness will depend on the potential for promoting the factors underlying competitive advantage.

The relation between the E.U. and Colombia in the Andean Community (CAN) framework, seems to be much more complicated. As a matter of fact CAN does not appear in the European

Policy Agenda. Andean Community is only included in special tariff programs as those of trade preferences, as it is noted in the World Trade Organization's Country Analysis Policy.<sup>17</sup> That means that to prepare access for a free trade will be a mass project for the Andean countries even Colombia. A bit different is the Mercosur-EU relation, because an agenda of negotiations in a Framework Agreement for Economic Cooperation has been already established.<sup>18</sup> In this sense, the low profile of Andean authorities during the deepening of relations with the European Union is not fully understood, keeping in mind, that the Colombian exports to the European Union in the agricultural sector, are characterized as being of greater value and diversity than the exports to the U.S.A. thanks to the preferential programs.<sup>19</sup>

Although both the USA and the EU have strong and restrictive agricultural policies, the Andean preferences al-

<sup>17</sup> World Trade Organization. Report by the Secretariat. Trade Policy Review Body. Trade Policy Review The European Union. WT/TPR/S/72. 14 June 2000. p. 28-38.

<sup>18</sup> European Union. European Commission. The EU's relations with Mercosur. [http://europa.eu.int/comm/external\\_relations/mercosur/intro/index.htm](http://europa.eu.int/comm/external_relations/mercosur/intro/index.htm)

<sup>19</sup> See also: Andean Community Secretariat. Evaluation of the Regional Impact of the Andean-SGP from E.U.: Economic Study and Successful Cases, August 14th 1999. Andean Community Secretariat. Statistical Synthesis for the ATPA Negotiation. September 17th 2001.

low CAN greater access and competitiveness facing other countries. Some punctual cases are however excluded: banana, sugar, oil seeds etc.. The establishment of a free trade zone would guarantee the preferences in a permanent way, whereas in the past those preferences were only accorded as long as the Andean countries fulfilled some requirements for fighting against drug traffic. Nevertheless it is possible that other countries without drugs problems and under a free trade agreement will take advantage from this new economic situation.

With the different perspectives of access for developing countries a comparative analysis between the U.S.A. and the E.U. policies will help to understand the political implications of economic decisions in a framework of political economy. Otherwise, an economic analysis would intend to:

- select the products whose pattern of trade is relevant,
- classify them according to the trend of exports (whether they enjoy tariff preferences, they are potentially exportable but protected, or they are already in a relative free trade scenario),
- analyze the competitiveness with respect to other countries
- to explore the restrictions for those Colombian products that have been restricted by the U.S.A. and the E.U.
- to look for the political implications of those measures.

In synthesis, there are different points of view about the benefits of free trade. An evaluation of the effects of trade policies of developed countries will make it possible to understand and analyze the implications for Colombia to change preferences in free trade agreements. Secondly, projections of internal and external factors would give a framework to compare the *Status Quo* and the possible new scenarios of trade. Finally recommendations of policy will depend not only on conclusions derived from works like this one, but also on trials and lobbying among policy makers, social groups and governmental authorities, particularly in countries like Colombia.

## METHODOLOGY

The first chapter in this study will be the theoretical framework of competitiveness analyzing at the microeconomic and macroeconomic levels. In the introduction a discussion will deal with the convenience of using a competitive advantage theory and its different perspectives as a broader approach as that of comparative advantage theory. Competitive advantage will explain the trade flows of a specific sector—the agricultural one—and specific products such as those selected in the case study.

- The first section of this chapter will describe the macroeconomic environment of competitiveness. It will

explain the "traditional" approaches that look at the balance of payments and exchange rates. A complementary sub-section will explain the World Economic Forum view of the macroeconomic environment headed by Jeffrey Sachs. Finally, other macroeconomic perspectives of competitiveness will be analyzed.

- The second section will discuss the microeconomic level of competitiveness. This section is divided in two sub-sections. The first one deals with the different approaches of competitiveness from a microeconomic point of view. The second one explains the selection criteria of the case study (according to the scenarios of the general objective of this study): a product with preferential access and export potential in a free trade scenario, a product with strong restrictions but with comparative advantage and a product with already relative free market.

Secondary sources for theoretical aspects of comparative and competitive advantage theories are necessary in this chapter. Studies of the World Economic Forum, the Institute for Strategy and Competitiveness of Harvard Business School and the International Institute for Management Development are the references for the micro and macroeconomic levels of competitiveness analysis.

The main subject of the second chapter will be the analysis of the trade

policies of the E.U. and the U.S.A. in the agricultural sector.

- The first section is dedicated to a general approach of the American and European agricultural policies related with external trade.
- In the second section, the specific policies for those products selected in the study case will be presented. Special emphasis will lie on the products included in unilateral programs of preferences such as the Andean Generalized System of Preferences (Andean-GSP) – of the European Union and the Andean Trade Preferences Act (ATPA) of the United States and also on those products which present some level of protection.

There is extensive literature evaluating the influence of developed countries policies on the products of developing countries. There is also information available provided by specialized national agencies, the WTO and the OCDE.

In the third chapter, alternative scenarios of trade policies for the selected products and possible political and economic implications will be presented. An empirical analysis divided in four sections will be thus made:

1. Analysis of macroeconomic determinants of competitiveness. It will be an analysis of relative prices<sup>20</sup>

<sup>20</sup> Relative Price= (real exchange rate\*world market price)/internal market price

- and real income for a representative period of time.
2. Analysis of microeconomic determinants of competitiveness. It will be a descriptive analysis of the *Status Quo*, weakness of internal policies (promotion, marketing, finance, protection etc) and proposals to improve competitiveness.
  3. Trade policy determinants of competitiveness. The resulting coefficients of relative prices and real income will make possible:
    - to simulate changes in the determinants of exports for each one of the selected products,
    - to project the possible scenarios of exports (increasing protection or free trade)
    - to analyze the results in terms of competitive advantage.
  4. The selection of an adequate model to explain Colombian competitiveness, in the selected products, will depend on the analysis of the three points above. As a first approach a general model is intended to explain exports as a function of macroeconomic determinants. The price elasticity of demand and income elasticity are to be estimated. The aim is to study the variations of trade as a reaction of changes in policies of developed countries.

The data for this chapter will be based on secondary statistical sources and extensive literature exists for the evaluation of preferences and free trade agreements. The sources would be data of the World Bank's World Development Indicators (for income indicators), International Monetary Fund's Financial Statistics (for exchange rates) and FAO's Statistical Databases (for production and index prices of agricultural products). Information of trade barriers would be provided from the national trade agencies, the WTO, the UNCTAD, the OCDE, the Andean Community Secretariat and the Ministry of Foreign Trade of Colombia. The trade literature needs to be studied in order to select an explicative model of demand of agricultural exports.

Finally, derived from the analysis of the precedent chapters, the fourth chapter will be dedicated to give some recommendations of policy and approaches to understand international trade in the framework of competitiveness and trade policies. Complementarily, the use of primary sources such as speeches, institutional and governmental publications of trade policy and interviews with policy-makers to derive the final conclusions is contemplated.

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## APPENDIX

### CONTENTS

Activity	Share (%)
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1.1.1 The traditional approaches: Balance of Payments, Foreign Exchange Rate Policies and Relative Prices.	
1.1.2 Institutional Policy Approach (WEF).	
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- Competitiveness based on productivity and cost base in front of competitors.	
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<b>TOTAL</b>	100

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