UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

LIMITED

ST/CEPAL/Conf.59/L.3
22 October 1976

ENGLISH
ORIGINAL: SPANISH

C E P A L

Economic Commission for Latin America

SEMINAR ON EXPORT PROMOTION POLICIES

Jointly sponsored by the Economic Commission for Latin America (CEPAL), the International Bank for Reconstruction and Development (IBRD), and the United Nations Development Programme (UNDP)

Santiago, Chile, 5-7 November 1976

COLOMBIA EXPORT PROMOTION POLICY

by

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INTRODUCTION

In the past 25 years the Colombian economy has suffered substantial changes in the level and structure of exports. The purpose of this study is to examine the economic policies which made this situation possible, from a selective perspective that highlights what we consider the salient features of this experience.

In 1952, Colombia exported virtually only two commodities (coffee and petroleum) whose growth was not dynamic and whose values were highly unstable; its trade and financial policy was also scarcely open to other countries. In 1976, Colombia presents a diversified structure of exports which imprint their high rate of growth on the rest of the economy, have greatly reduced the instability deriving from the external sector and have permitted a degree of openness to other countries, taking advantage of the gains resulting from international economic interaction. The future of exports seems assured because of the importance assigned to them in the country's development strategy. In fact, according to a Congress report, the President of Colombia has stated that a great effort will be made "to make Colombia once again the Japan of South America" and "exports the prime mover of our economic development".1/

Colombia has diversified its exports. In the period 1952-1955, exports of coffee averaged 83 per cent of the total, and coffee and petroleum together represented 94 per cent of Colombia's total exports. In 1975, coffee accounted for less than 50 per cent of Colombia's sales abroad.

Minor exports, particularly manufactures and semi-manufactures, have increased significantly. In 1952-1955, Colombia exported 510 million dollars' worth annually (at 1970 prices), of which 480 million dollars were "major" exports (94 per cent) and only

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1/ Alfonso López Michelsen, "Informe Presidencial sobre le Estado de Emergencia Económica", Anales del Congreso, 25 November 1974.

/30 million

30 million dollars were "minor" exports (6 per cent);1/ of these, exports of manufactures represented only 3.5 million dollars. In 1974, Colombia's sales abroad amounted to 820 million dollars (at 1970 prices), of which minor exports accounted for 310 million dollars (38 per cent); of these, exports of manufactures totalled 200 million dollars, or 24 per cent of the total, while they absorbed 64 per cent of minor exports. It is also interesting to note that world inflation has sharply increased the value of Colombian exports in dollars at current prices, which in 1975 stood at over 1,400 million dollars, with coffee accounting for 47 per cent.

The growth of minor exports indicates the trend of total exports, while coffee exports account for its fluctuations. Between 1952-1953 and 1974, minor exports grew, in real terms, at an average annual rate of 14.2 per cent, major exports by only 0.5 per cent and total exports by 2.6 per cent.

The proportion of domestic industrial supply exported has also increased significantly. In 1952 it was a negligible figure. It was not until the end of the 1960s that it began to increase, rising from 1.7 per cent in 1967 to 6.8 per cent in 1973.

Another salient feature is the marked diversification that has taken place by market of destination. In 1952, the United States absorbed 80 per cent of Colombia's exports, while sales to the countries now members of the Andean Agreement were amounted to less than 1 million dollars. In 1975, exports to the United States represented only 33 per cent of the total, while the countries of the Andean Group purchased nearly 180 million dollars' worth of Colombian products.

It may well be asked what specific policies are responsible for this drastic change in the level and structure of Colombian exports? What form have the various policies taken in the four phases that may

1/ These terms are used for Colombia for the whole period, but with changing definitions of the components of each. In this study, exports of coffee, petroleum and petroleum products and precious stones are called "major" exports, and the rest "minor" exports. This is the most important classification in terms of export promotion policy, as will be seen later.

be distinguished in Colombia's export promotion policy? What are the costs and benefits of the different policies and how can they be compared? How can an overall policy be formulated in consonance with the country's development strategy?

These are some of the questions we are trying to answer in this study. It is not intended to be a comprehensive and systematic study of the subject, but is merely an attempt to analyse certain crucial aspects of Colombia's experience, with a view to providing some criteria which may be useful in the formulation and implementation of export promotion policies that may be adopted by the countries of the region.

The conceptual framework of the analysis is explained in the document accompanying this study,1/ and the first chapter of this study summarizes, with reference to the Colombian case, the main analytical criteria that will be used. The evolution of exports - in terms of volume and unit values - and their diversification at the level of commodities and markets are discussed in the second chapter. In the third chapter, the export promotion policy instruments used in Colombia are described and evaluated. Four phases in export promotion policy may be distinguished between 1949 and 1976, and the effects of the various promotion mechanisms - which are the central policies, what do they promote, how rapidly, at what fiscal cost - are discussed within the context of the overall promotion policy characterizing each phase. A final chapter containes some elements for an overall appraisal of export promotion policy, such as quantitative information on the use of the various instruments, the total level of export incentives provided, and the impact of the promotion system on the allocation of resources, employment and income distribution. Lastly, some comments are made on the salient features of the Colombian experience.

1/ Ricardo Ffrench-Davis and José Piñera, Políticas de promoción de exportaciones en países en desarrollo (ST/CEPAL/Conf.59/L.2), 23 September 1976.

/Chapter I

Chapter I

CRITERIA OF ANALYSIS 1/

The strategy for the development of minor exports has helped overcome some of the most serious problems of the Colombian economy, such as the chronic shortage of outside resources, excessive fluctuations in its export income, the deterioration of the terms of trade and the smallness of the domestic market with its consequent unfavourable effect on the efficiency of industrial development.

Although the first steps in export promotion policy were made at the beginning of the 1950s, it was only in 1967 that a start was made in applying a true strategy for the development of exports and a set of policies to encourage minor exports was implemented more resolutely than before. After the initial impulse, however, doubts have arisen about the cost of such policies, the significance of their benefits obtained and the way in which both the costs and the benefits should be distributed. It has furthermore been noted that the international markets for some export products suffer from defects which make it difficult to secure a major increase in Colombian sales abroad.

These considerations indicate that the promotion of exports must not be based on the proliferation of every kind of incentive without taking into account the fiscal cost and the repercussions on the rest of the economy, nor should it consist solely of the mere manipulation of exchange policy. A strategy designed to contribute to the integral development of the national economy calls for a more elaborate approach to export promotion policy. This must be based on an examination of the role to be played by exports in the national economy, the objectives to which exports are to be subordinated, and the most effective tools and mechanisms for achieving this. In this

1/ This chapter is a summary, with reference to the Colombian case, of chapters I and II of the document by R. Ffrench-Davis and J. Piñera already cited.

chapter the foundations and objectives of policies for the promotion of minor exports are discussed, with reference to the Colombian case. Furthermore, three categories of policies for the promotion of minor exports are distinguished from a conceptual point of view: equalizing and compensatory policies, negotiation policies; and incentive policies.

1. Targets of the promotion policy

Many Latin American countries, including Colombia, made intensive efforts during several decades to substitute imports. In recent years, a critical view of this process has become more widespread which considers that, although necessary, it should be guided to a greater extent by considerations of the efficient allocation of resources and should therefore assume a more selective nature and involve greater vertical integration in certain sectors. The criticisms of the form and intensity assumed by import substitution arose simultaneously with observation of the fact that the continued advance of this process within the limits of national markets was running into increasing limitations. The combination of these two circumstances has gradually increased the concern to promote the growth of exports.

It would therefore appear that this phenomenon gives rise to a very clear distinction between import substitution and export promotion. In reality, however, this is only so in certain circumstances, depending on the policy instruments used. Thus, a substitution policy operating under excessive protection cuts off the national market from the external market and discriminates against production for export by leading to over-valued exchange rates and by giving a level of protection which effectively militates against exports using imported inputs.

Import substitution, however, often constitutes a prior step to the development of new exports for which the domestic market serves as a supporting base. This substitution (which lessens the uncertainty for the domestic producer of entering into new markets) is particularly important in the case of exports of manufactures which are not based on the exploitation of high-productivity natural resources, and in the

/case of

case of the newly-established activities which require a trial period in order to reduce the costs of production. Integration processes expand the markets in which import substitution can be carried on. One of the main elements of this process of regional import substitution is the expansion of the exports of each member country to the markets of the other participating nations. These exports, directed towards markets with a degree of development similar to that of the exporting country, can constitute an immediate stage of learning and improvement for the subsequent pursuit of markets in the industrialized countries which are more difficult to reach but which are also much wider.

The expansion of exports, just like import substitution before it, is not an objective in itself. Consequently, exports should be promoted to the extent that they contribute to national development and to the achievement of economic strategy targets. Because of the wide range of products which are capable of being exported, the category or characteristics selected for promotion will depend on the objectives pursued through the development of exports.

Changes in the level and composition of exports can have numerous effects on the national economy. Thus, for example, they can affect the balance-of-payments position and its stability, they can have different levels of impact in different sectors of production, they can affect the fiscal budget, the operation of the monetary policy, the level of employment and income distribution. The capacity of export policy to bring about a given effect on each of these aspects is very disparate, however. While the effect on the balance of payments can be direct and intense, the effect on income distribution will be of a more indirect and gradual nature.

The conclusion can be drawn from the foregoing that the export policy should be aimed to achieve those objectives where it has greatest influence. This does not mean that its other repercussions should be ignored, however. Even though such aspects as better income distribution and balancing of the budget are not objectives of an

/export development

export development policy, in a developing country they should nevertheless condition the selection of tools and mechanisms to be used in such a policy. The greater a country's difficulty in achieving other objectives, the more the freedom of action for using a particular instrument to comply with a specific objective must be subject to strict conditions. The budgetary situation and income distribution are particularly difficult areas.

Three objectives of the Colombian economic policy to which an export policy can contribute significantly may be distinguished: efficiency in overcoming external restrictions, diversification of exports, and increasing the contribution of manufacturing to national development.

(a) Efficiency in overcoming external restrictions

It is well known that the shortage of external resources required to cover the imports vitally needed for the process of growth and for satisfying basic consumption is one of the most recurrent problems which has afflicted Colombian economic development. Basically, these resources can be obtained in three ways: by generating greater exports, by intensifying the process of import substitution, or by receiving net inflows of foreign capital through an increase in external indebtedness or new foreign investment. If there is a growing deficit on the real part of the external sector (exports and imports of goods and services), however, this cannot be compensated indefinitely through inflows of foreign capital. In order to maintain its independence of action, the country must therefore obtain the necessary external resources for its development by generating new foreign exchange income through increased exports and/or by freeing greater resources through import substitution.

An external sector strategy which aims to maximize the growth of the country's real income should aim to allocate resources in such a way that, when evaluated at social prices, the cost in terms of real resources of generating new foreign exchange income through greater exports is similar to that of freeing additional foreign exchange resources by substituting imports with national products. This is

/the classic

the classic condition for efficiency in the allocation of resources in the external sector which seeks to eliminate the bottlenecks in this sector as effectively as possible.

A factor which will have a determining influence in the selection of the emphasis to be given to either of these two ways of improving the availability of foreign exchange is the significance assumed in new investments or in the expansion of the existing investments by economies of scale, which give rise to an increasing need to resort to external markets as the industrialization process proceeds, especially as the national economy is small in size.

Another important aspect is the degree of accessibility of foreign markets. It should not be overlooked that import substitution provides a protected market which cannot be interfered with by the actions of other countries, and that integration and trade agreements provide a broader market than the domestic one and promote the exports of each participating country in a context of trade with negotiated access.

(b) Diversification of exports

The instability of export income is a striking feature of the Colombian external sector which has been closely linked with the importance of coffee and the fluctuations in its price. This instability can lead to both political and economic difficulties.

On the one hand, the balance-of-payments crises often caused by fluctuations in export income, with all their implications for the proper supply of essential products and for the level of domestic economic activity, represent a source of political instability. On the other hand, can be argued that the instability of the export sector has given rise to a substantial economic cost for the Colombian economy since it has prevented the establishment of a stable trend of capital formation; it has hindered the normal process of planning both at the central level and at the level of productive activities; it has led to the failure of attempts to rationalize foreign trade and it has given rise to great difficulties in domestic mechanisms for adjusting to such fluctuations, which has very often given an impulse to the inflationary process.

The costs of instability manifest themselves at three different levels: directly at the levels of the exporting and producing enterprise and of the balance of payments, and indirectly through the transmission to the domestic economy of the adjustments linked with the balance-of-payments situation. In order to solve the problems which arise there are two complementary approaches: the first is to seek ways of reducing the cost of instability and the second is to try to diminish their causes directly.

The cost of instability may be reduced through international reserve policies and through machinery for short-term external financing; the latter solution may involve both the use of the internal finance market and the establishment by governments and multilateral institutions of compensation funds and financial safety nets. In this way it is possible to reduce the transmission into the economy of the fluctuations in the balance-of-payments position; this may also involve the establishment of the price in national currency collected by the exporter. The first approach means that the exchange authorities using their foreign currency reserves, apply a compensatory policy which prevents the price fluctuations of major exports from affecting the conditions in which the rest of exporting and importing activities take place; under the second approach the economic authorities also compensate the exporter for the fluctuations in prices, with the consequent repercussions on the monetary and fiscal situations.

The instability originating in the export sector can be reduced basically through the diversification of <u>products</u> and <u>markets</u>. The first aspect calls for the preferential promotion of the export of those goods (or groups of goods) which provide the least unstable income. The second can be achieved by granting stimuli to exports directed to new markets. A third alternative, which unavoidably requires the participation of other countries, is that of stabilizing

/international prices

international prices through the regulation of markets by producers and/or consumers. The successive international coffee agreements are a noteworthy effort in this respect.

The price of coffee suffers great fluctuations caused by abrupt changes in supply which is very much affected by climatic conditions. The price fluctuations are amplified by the inelasticity of the short-term supply and demand for coffee, which not only creates difficulties in the development of the branches of production directly affected, but are also transmitted, mainly through their repercussions on the balance of payments, to all national activities connected with the external sector. It should be noted that since the fluctuation in the supply of Brazilian coffee is the main cause of the variations in the price of this product, it has been the demand (or excess demand) for Colombian coffee which has frequently been passed on and has produced a destabilizing effect on income through variations in the price and in the volume exported to the same destination.

Consequently, going beyond the market profitability, it is necessary to evaluate the cost and viability of these methods as means of reducing instability, so as to determine subsequently, on the basis of this information, the desirable degree of diversification. The market profitability of those products whose prices show the greatest instability should be corrected in the extent to which they have not been internalized by businessmen who themselves diversify their operation categories, increasing their effective protection so as to reflect in this manner the social profitability. Thus, selection of the blend of exported products can be compared conceptually to the search for the best possible type of investment portfolio, taking into account both the profitability and the risk of exportable goods. Generally speaking, the most suitable category of exports for this analysis in this case are those which show the relatively most stable markets. In a first approximation, these can be identified as being different from coffee. It may be noted, however, that it is likely that any diversification in the external trade of a country whose principal exports have a price showing a high degree of variation will

/tend to

tend to reduce the instability of the export price index, since the fluctuations of the new products placed on the world market will not be identical with each other or with those affecting the main exports.

The diversification of markets will also help to reduce instability in the export sector. The political fragmentation of the world into sovereign States which reserve for themselves, within quite wide margins, the right to intervene in the control of their foreign trade means that international markets - which are nothing but the domestic markets of other countries - suffer from imperfect or uncertain accessibility. Inasmuch as some of the reasons for the adoption of protectionist measures in a particular country are independent of those adopted in another country, the diversification of markets will reduce the risk faced by the export sector as a whole and will give rise to an external economy which may not be completely internalized by the export enterprises (thus requiring the corrective action of the State). The degree and security of access to international markets therefore constitutes a key factor in the selection of the export promotion mechanisms to be used and the type of external markets towards which the efforts to sell national products are to be directed.

Moreover, increasing exports of coffee may, for Colombia, represent the "cheapest" way of generating new external resources. However if the country (or a group of exporting countries which co-ordinate their politics in that respect), have some degree of monopoly power in the international market, the maximization of the benefits which can be obtained for the country through the trade of this product may call for the restriction of supply with the object of securing an improvement in the terms of trade. Similarly, in a dynamic context, the idea of "impoverishment through growth" indicates that in some cases the fact of making new investments in a product for which there is an inelastic external demand may, as a result of the intensity of the negative impact it has on the terms of trade, lead to a lower level of wellbeing than that initially enjoyed. Since

/the preceding

the preceding argument points to the inadvisability of concentrating investment resources solely on the "major" export branch, it is also an argument in favour of the diversification of exports.

The category of exports which should be promoted in keeping with this last argument is that of products whose prices, for the country concerned or for a group of countries acting in co-ordination, are not affected by the amounts they export; it is the "minor" exports of a country which may encounter prices which are not affected by the level of sales. These minor exports may include industrial products, and also products of agricultural or mining origin, always provided that they do not constitute a high proportion of the international transactions of the respective product.

(c) Increased contribution by the industrial sector

The progress which has been made in the industrialization process, and also the recognition of the increasing importance of economies of scale, give rise to the need to seek broader markets, that is to say to export manufactures, in order to carry forward the development of the industrial sector.

Various economic arguments can be adduced to justify the promotion of particular industrial and agro-industrial activities insofar as certain desirable characteristics of the production processes (such as, for example, the creation of technologies which can subsequently be disseminated and the absorption of urban unemployment) are present to a greater degree in these activities than in other sectors of the economy. These characteristics often constitute "external" features which are not fully reflected by the system of retail prices. This leads to the need to correct the signals of the market in order to eliminate these distortions.

Furthermore, the recent history of the economic development of Colombia would seem to indicate that the public authorities tend to favour a higher level of industrial production than is warranted by the indications of the market. It is possible that in many cases this is not a non-economic preference but an intuitive awareness that

/greater industrialization

greater industrialization can contribute in various ways to more intensive economic development. It is difficult to distinguish between the two aspects, but there is no doubt that the more objectively the contribution of the sector is viewed, the more efficient the policy directed towards its development can be.

Accepting, for the purpose of the analysis, that this extra-economic preference for industrialization does exist, exports can make this choice less costly. Because of the substantial economies of scale involved in many industrial processes, development oriented towards the production of manufactures for external markets, both in the region and in third countries, will have a lower cost than industrial development of a substitutive nature oriented exclusively towards satisfying domestic demand.

Furthermore, in certain periods there has been a serious neglect of the installed capacity in the industrial sector, partly as a result of the smallness of the domestic market and of a set of distortions which hinder the full utilization of the installed capacity. If it is attempted to increase the utilization of idle capacity solely by the method of expanding domestic demand, two major limitations are encountered. On the one hand, it causes an increase in the demand for imports which can only be satisfied if policies are adopted at the same time to divert domestic expenditure from other imports towards the purchase of national substitutes, and if greater exports are secured, some based on a greater use of the existing installed capacity, which would increase the foreign exchange income. Furthermore, the size of the idle capacity is very heterogeneous according to sector; in the face of the difficulties of adjusting the structure of demand to that of installed capacity with precision, exports facilitate the distribution of the production of the surplus sectors and thus diminish the imbalances between supply and demand. It is thus possible to structure a strategy for the development of industrial exports which would use the excess installed capacity as one of its primary pivots.

/Exports of

Export of semi-manufactures and manufactures are the relevant category for analysis in this case. Exports of agriculture and mining origin, which although they may be minor or non-traditional exports are not characterized by high levels of under-utilization of the installed capacity, are thus excluded. It should be noted once again that the frontiers between sectors tend to be vague. The development of agro-industry or of the processing of mineral resources will generate domestic demand for the basic products; this will not occur, however, if the mechanisms of promotion encourage industrial production based mainly on imported components. The industrialization strategy therefore needs to be developed in accordance with the stage reached by the national economy, the imbalances which afflict it and the supply of resources available to it.

2. Categories of policies

In this section we will group the policies for the development of minor exports into three categories according to the global purposes which are pursued. They are termed here as policies of "compensation-equalization", "negotiation" and "over-compensation" or incentive policies. The first seek to compensate for the discrimination against the minor exports of the developing countries and as they merely aim to treat these exports in such a way as to put them on a level with the other sectors of the economy, they are termed policies of "compensation-equalization". The policies of negotiation, for their part, operate on the conditions of access to the domestic markets of other countries, which are variables which the country cannot directly manipulate in a unilateral manner in accordance with its own objectives, but which can be a subject of negotiation between States. Lastly, the policies of over-compensation aim to establish preferential treatment for minor exports by giving them more favourable treatment than that granted to the other sectors of the economy.

/(a) Compensation-

(a) Compensation-equalization policies

For the efficient allocation of the scant resources which a country possesses, policies are required which lead to a situation where the social cost, in real resources, of generating foreign currency through exports can be made equal to that of releasing foreign exchange through import substitution. This formula allows of various interpretations, however, with varying implications for the formulation of the corresponding economic policies. The interpretations can be classified in three groups. One of these, the simplest, maintains that the optimum results are attained with free trade which involves an overall rate of exchange, (including taxes and subsidies, if any), which is similar for each export and import. A second approach takes into consideration the instability of the international markets, particularly of traditional exports. A third interpretation, which forms part of the theory of development, attempts to make allowance for the various imbalances which characterize the developing economies in the formulation of policies of substitution and promotion. The three approaches are considered below.

For various reasons, the Latin American countries have followed a policy of import substitution at the national level which has provided the activities involved in the process with high effective protection. The range of policies adopted to control foreign trade created a discrimination against exports as the protection referred to lessened the demand for imports and thus made possible the maintenance of a rate of exchange lower than that which would have prevailed if no such policy had been implemented, which has in fact discriminated against exportable goods, particularly minor exports, and against import substitutes which receive low tax protection. Consequently, when formulating foreign trade policies, the interaction between the two sectors cannot be ignored; protection of the import substitution sector means some degree of discrimination against the exporting sector. Furthermore, the tariffs levied on the inputs which are used by the exporting activities and the higher price of the national inputs which are protected by high tariffs affect the costs of

/production and

production and create negative effective protection for these activities. Consequently, the exchange and tax policies have discriminated against exportable goods, with the result that the resources which have entered this sector have been of a sub-optimum level.

The subject of transport is a further element of the analysis which is of great importance for the developing countries' trade. The transport routes and tariff systems are conditioned by the traditional patterns of trade, and this represents an artificial obstacle to the development of new lines of exports, particularly towards other developing countries, which the export policy must aim to remove. The inadequacy of transport services is very marked not only between countries in distant continents but also between countries of a same region, as is shown by the difficulties of transport between Colombia and the countries of the Caribbean area.

The preceding argument should be broadened to take into account the fact that in the real world there are other sources of discrimination originating both in the instability of the international markets and in the imbalances and distortions of the developing economies. Consequently, a broad concept of compensation-equalization would require the establishment of mechanisms to neutralize these distortions, when they cannot eliminate them at the source. This is because some distortions (such as those associated with external economies or dynamic external factors) disappear only with development; others are linked with the conduct of foreign countries or decision-making units (as in the case of oligopolistic or unstable foreign markets) while others can only be partially removed (such as unemployment in some economies).

In the case of unstable external markets, an adequate set of policies should include, in addition to an exchange policy guided by the medium-term trends rather than the short-term balance-of-payments situation, measures aimed at favouring those products which, because of their lesser degree of instability, do not provoke adverse external factors for the rest of the economy; such measures would thus lead to a greater diversification of exports.

/With regard

With regard to domestic disequilibria, the policy of compensation-equalization requires the use of incentives linked to the nature of the production processes, regardless of whether these are aimed at the domestic or the external market. In this case, the compensation must be linked with factors such as labour absorption and the generation of external savings. Thus compensation should vary in accordance with the characteristics of the corresponding production processes, except where it is feasible to provide direct subsidies to these aspects. The difficulty of obtaining fiscal resources in some developing countries makes this course of action more difficult.

There is therefore no need for a categorical choice between exports and the substitution of imports; instead efforts should be made to attain the optimum level and composition of the resources, which should flow towards production destined for each of the markets. The argument of the analysis points to the need to discriminate between different categories on the basis of the differences between the private and social prices of the component parts of their production processes. The general recommendation deriving from the analysis is that the system of tariff protection should be similar to that of incentives to exports. However, because of the fiscal restrictions which affect the governments of the developing countries, it would seem advisable that the second system should have a somewhat lower average level. Furthermore, the heterogeneity of the imperfections of the external markets should influence the pattern of incentives.

In sum, the policy of compensation-equalization is based on a neutral approach according to which minor exports should receive preferential treatment under some policies, because otherwise the discrimination affecting them would persist. The preferential treatment could consist, where it is both viable and efficient, in the direct elimination of the elements which generated this adverse discrimination; otherwise, compensation could be made through some of the instruments of the export policy. The export "subsidies" required on the basis of this argument are absolutely legitimate and should not be considered as an example of unfair competition in international trade.

/(b) Policies

(b) Policies of negotiation

The framework within which the local enterprises carry out their exporting activities is determined by the economic policies of the importing countries and behaviour of the economic agents which play a part in international trade, particularly the transnational enterprises.

This external framework has some characteristics which can adversely affect the minor exports of the developing countries. The industrialized nations maintain tariff and non-tariff restrictions which cause difficulties of access for the exports of manufactures from the rest of the world, and the device of graduated tariffs, with nominal rates which rise in line with the degree of processing, provide considerable effective protection to the domestic producers which operate in sectors which compete with the exports of the developing countries. Moreover, the non-discriminatory tariff reductions have favoured these goods which are mostly traded among the same developed countries. Furthermore, when sensitive sectors of the economies of these countries see their interests affected, they press for the rules against export subsidies to be applied and, alleging the existence of such subsidies or of dumping, try to have compensatory tariffs imposed on imports from the developing countries. Finally, in situations of balance-of-payments crises, the industrialized countries have resorted to protectionist measures which, although concentrated on certain products, generate uncertainty and increase the risks run by the exporters in the developing countries.

Furthermore, some international markets are dominated by a few trasnational enterprises which collect quasi-income in the process of distribution and marketing and exercise their oligopolistic power to the detriment of the exporters of the developing countries. Although it is probable that the lessening of obstacles of governmental origin to import leads to greater international specialization and increases trade flows, the measure can prove unfavourable for the developing nations if the increased trade mainly takes place between branches of the same corporation or group, without adequate regulation on the part of the host governments.

/Broadly speaking

Broadly speaking, it could be said that there are two forces in the international market which have tended to act in favour of their improvement - namely, the reduction of tariff restrictions in the developed countries and the emergence of new transnational corporations which compete with those already in existence - and two forces which increase their segmentation, namely the increasing importance of trade between branches of transnational enterprises and the persistence of non-tariff restrictions in the developed countries.

Although it is difficult for individual exporters to change these situations, States are in a position to negotiate more liberal conditions of access; to advocate systems of tariff preferences; to establish marketing enterprises jointly with other countries; to negotiate entry into certain markets by assuring the supply of scarce raw materials in return, or, lastly, to reach agreements providing for negotiating access.

In a world where power politics are also important in economic transactions, policies need to make use of all the negotiating capacity of the country in order to create the most favourable external framework for its exports. Strictly speaking, the measures included in this category of policies also tend towards compensation-equalization. However they do not affect the conditions and costs of production or the income earned per dollar of exports: instead they influence the volume and conditions of sales abroad.

(c) <u>Policies of over-compensation (incentive policies)</u>

The arguments in favour of providing incentives for non-traditional exports in amounts which go beyond compensation-equalization and do not constitute a use of the national negotiating power in order to improve the external framework are either based on non-economic considerations or constitute erroneous arguments; a third group form part of the strategies aimed at achieving economic development through the creation of certain imbalances.

As regards the first argument, it is frequently maintained that the authorities have a "preference" for a greater degree of industrialization, disregarding the economic considerations already

/set forth.

set forth. Recently, within this line of thinking, export promotion as such has required a status analogous to the indiscriminate substitution of imports. The equivalent of the absolute protection provided through quantitative restrictions or prohibitive tariffs on substitutable imports is the proliferation of exports incentives of all kinds. When this occurs, the danger arises that the lack of selectivity and moderation of a policy of this nature may lead to an inefficient diversion of resources towards exports, through their over-promotion, and may often result in high fiscal costs, as well as regressive redistribution, a meagre contribution to employment, and an implicit subsidy to the foreign consumer.

Another line of argument in favour of the over-compensation of exports aims at bringing about an artificial increase in the competitivity of national production by subsidizing the actual costs which the country incurs. Three examples of this are the proposing of subsidies for national exports because: (a) transport costs to the place of destination are high because of the distance between markets (b) other countries subsidize their exports of the same products, and (c) the importing countries apply tariff restrictions which reduce the possibility of competing within these markets. The nature of each of these three cases needs to be carefully considered. In the first example, a distinction must be drawn between artificially high costs which the country can reduce through an active transport policy and the argument of "incipient transport and marketing channels" which falls within the category of compensation policies, as was explained in the relevant section, whereas the high costs caused by the difficulty of reaching the markets of destination really do constitute a genuine outlay of currency which reduces the FOB income.

A similar analysis can be made of the arguments relating to the export subsidies and import taxes applied by other countries. The essential point is whether these can be removed through some type of negotiation (bilateral or international) or whether they really are permanent. If they are likely to persist for a prolonged period, regardless of the policies of negotiation which the country attempts, the granting of subsidies to national exporters to offset the effects

/of the

of the policies of other countries will improve their competitive position at the expense of the fiscal budget and at some cost to the country. Thus, except in situations which are clearly transitory or in the case of production processes or goods which have some positive characteristic which is not reflected by the market prices (the case of compensation-equalization), there is no justification, from the point of view of contributing to national development, for granting subsidies aimed at relieving the exporter of costs which in fact constitute an effective burden for the economy of the country.

The third group of arguments are more difficult to classify. They are based on the theories of "unbalanced development", which emphasize the inertia of the system, and their proponents recommend that financial over-compensations should be granted in order to attract resources towards the exporting sector more rapidly and intensively. This can indeed make possible a greater dynamism of exports, but at the cost of creating quasi-income or capital gains for the exporters. The alternative to this option is to spend these resources on the promotion of exports through direct measures such as investment in marketing enterprises and in those producing exportable goods.

(d) The importance of distinguishing between compensation and over-compensation

Various export policy instruments can be used to compensate and to over-compensate. In this respect, there are no specific instruments of either category, since these categories are not identified by the mechanisms which are used in each case but by the degree to which they are used compared with the initial discrimination existing against minor exports.

The distinction we are making is relevant in terms of the political economics of the process of export promotion in making these policies more acceptable in both the national and the international spheres. In the first of these spheres, the realization that a real devaluation of the rate of exchange and the use of other instruments to encourage exports do not constitute an unjustified subsidy within certain limits, but merely the elimination of negative discrimination, will reduce the degree of resistance to these policies.

/At the

At the international level, the acceptance of the concept of compensation-equalization policies would weaken the argument of some industrialized countries that since the developing countries grant subsidies to their exports this makes them liable to the application of compensatory tariffs on these products. Thus the concept of dumping should be reconsidered, taking into account the discrimination which exists against non-minor exports, so that policies entailing compensatory subsidies do not constitute "unfair competition", but merely represent the neutralization of the repercussions of other economic policies and of the distortions in the markets of the developing countries on their exports. The GATT rules and the new United States Trade Act contains clauses which provide for the imposition of compensatory duties on subsidized exports of the developing countries. It should be stressed that in these countries there is a much greater initial bias against exports than in the developed nations, so that a certain level of subsidy is justified if it is not possible to eliminate the sources of discrimination. One of the aims of the policy of negotiation is thus to secure the acceptance at the international level of the distinction between justified and unjustified subsidies, in this case in the appropriate world forum.

3. Conclusion

When designing a promotion policy, it is necessary to be selective in defining the category of exports to be encouraged, in the light of the objectives pursued with the export policy. If the objective is to generate foreign exchange income at the lowest cost in domestic resources, then exports with greatest social profitability are of greatest interest. If the objective is to reduce the instability arising in the exporting sector, exports of products which provide income that varies only little and are destined to markets where there is stable access are of greatest interest. If the aim pursued is to try to avoid a deterioration in the terms of trade, exports for which there is demand of high price and income elasticity are of most interest.

/Finally if

Finally if what is sought is to increase the contribution made by the industrial sector to the economy, exports of semi-manufactures and manufactures are of greatest interest. As a semantic simplification we will use the term "minor" to identify the category of exports which are to be promoted.

An integrated view of social profitability or of the contribution made to national development must include all the examples set forth in the preceding paragraph. Since each objective is not being pursued alone, but in the light of its contribution to development, the intensity with which each is pursued must be determined by the priorities of the other goals. Consideration of the influences which each exerts on the other is one of the aspects that must play a decisive role in the design of the policies to be applied.

It is perhaps necessary to close this chapter with a warning. In the past there may have been a clear trend in favour of import substitution which, owing to the failure to consider the costs of the process, culimnated in over-substitution, with excessive protection for some products at the expense of others, and in the inefficient use of foreign trade instruments and mechanisms. What must be pointed out now are the dangers of over promotion of minor exports. It is not enough to affirm simply that exports must be promoted; it is necessary also to define the objectives sought and to discuss the structure, frequency, duration and level of the indirect incentives and direct mechanisms that will be used. This involves an attempt to evaluate, quantitatively or qualitatively, the costs and benefits of each policy option in terms of national development and an attempt to design a policy of promotion to exports as an integral part of the development strategy.

/Chapter II

Chapter II

EXPORT TRENDS

This chapter contains a description and analysis of the performance of Colombian exports in the period 1952-1975. The information to 1973 is complete, broken down and definitive, but only incomplete figures are available for 1974 and 1975. The real substance of the chapter lies in the 12 tables and 3 figures. The text itself is deliberately short, and singles out the most striking features of the tables and figures to be found at the end of the chapter. Section one deals with the general trend of the level of the major and minor exports, while the other two sections concentrate on the diversification of exports both by product and by market of destination.

1. Overall trend

Table 1 sets forth the basic information on Colombian exports. Two fundamental categories, major and minor exports, are distinguished, within which the more important subgroups are indicated. In order to be able to draw conclusions which are not distorted by changes in the price levels of the different goods, and thus reflect the real variations in the value of exports, a special effort has been made to deflate the series in current values by the appropriate price indices so as to obtain reliable series of exports at constant prices. Due to the method of deflation used, the real values obtained tend to measure the quantum of exports; i.e., rather than the purchasing power of the export earnings, the overall trend of the real resources used by the countries in generating exports. In simple terms, these two approaches coincide only when the terms of trade remain constant.

The major exports are broken down into coffee, crude petroleum and fuel oil; the minor exports into manufactures (including semi-manufactures), the BAAT group of bananas, sugar, cotton and tobacco, and other minor exports (other primary products from mining, agricultural or fisheries). Table 1 shows the exports at current values of each

/year and

year and at 1970 prices. It also includes the partial price indexes used to deflate each of the components mentioned. The total exports index represents the unit price index of exports, estimated on the basis of each of the partial indexes, weighted by their relative importance in each year.

Table 2 and figure 1 summarize the trend of the value of exports at constant prices in a number of important biennia, in order to provide a clearer picture of the real performance of major and minor exports.

Two main conclusions can be drawn about the performance of major exports:

(i) They are characterized by a lack of dynamism. Between 1952-1953 and 1973 they only rose from US$ 490 million to US$ 530 million (in 1970 dollars), an average annual growth rate of only 0.5 per cent. At the period of peak growth, 1960-1961 to 1969-1970, they reached an annual average rate of only 1.5 per cent. Petroleum exports, with a share of 15 per cent on average between 1952 and 1967, dropped drastically to 2 per cent in 1973 and disappeared altogether in 1975.

(ii) The frequent, severe fluctuations in the value of the major exports is immediately apparent from the figures in current values and the corresponding price index, basically due to the instability of the income derived from coffee exports. In 1952-1953 these represented 82 per cent of the value of exports, whose value they dominated in the period under consideration; but they declined in importance, until in 1973 they represented only 50 per cent of total Colombian sales abroad. The coffee price index (1970 = 100) hits a peak of 130 in 1974, and a trough of 67 in 1963. It is interesting to note that changes in the Colombian supply of coffee have not been a determining factor in the fluctuations, which would have had a stabilizing effect on coffee export earnings, but rather changes in the supply and demand of other countries which have led to transfers of the demand (excess demand) for Colombian coffee; this has a destabilizing effect on incomes, since price and quantity vary in the same direction.

/The value

The value of the minor exports in constant 1970 prices, on the other hand, increased from US$ 27 million in 1952-1953 to US$ 50 million in 1960-1961, an average annual growth rate of 9.4 per cent. The 1960s witnessed the Colombian export boom, when minor exports grew at an average annual rate of 18 per cent to reach US$ 190 million in 1969-1970. From then until 1973 they grew at 15 per cent annually, amounting to US$ 290 million in 1973. It should be pointed out that during this period there was a substantial rise in the prices of the minor exports (almost 50 per cent in three years), with a consequent effect on their value at current prices; however, inflation in the world markets rose steeply during that period, which explains the sharp growth of exports at yearly prices at the same time as a slackening of their real growth at constant prices.

The enormous difference in the growth rates of the major and minor exports obviously led to a significant change in the share of each sub-group in total Colombian exports. Minor exports, which represented only 5 per cent of total Colombian exports, came to represent 50 per cent in 1975. Coffee exports, which in 1952-1953 made Colombia virtually a single-export country (82 per cent of the total), generated less than half its export earnings in 1975. There can be no doubt, then, that the main objective of Colombian export policy - to reduce significantly Colombia's dependence on coffee by increasing minor exports - has been satisfactorily achieved.

2. Diversification by product

There have been substantial changes in the composition of minor exports during the period under consideration. To facilitate the study of the nature of these developments, the data have been grouped according to a number of different criteria in tables 3 to 7.

The information reflecting the sectoral origin of the new exports is shown in table 3, grouped in seven categories; three of agricultural origin, other primary products, semi-manufactures, manufactures and other.1/ Figure 2 helps to give a picture of their trends.

Four products of agricultural origin accounted for well over 50 per cent of the total during the first half of the period. These products were the so-called BAAT group of bananas, sugar, cotton and tobacco. Over the last ten years, despite the fact that the value and volume of BAAT exports continued to grow, their share steadily dropped to about one-third of total minor exports in the final years of the period under consideration.

The other important development concerns semi-manufactures, whose share grew steadily until in 1973 they accounted for one-third of minor exports, and together with manufactures, over one-half of them. In 1973 they represented one-fifth of Colombia's total exports. In the following two years, however, there was a sharp drop in their sales, particularly in the case of cotton fabric, clothing and footwear.

1/ The three-digit SITC was used as the basis for the disaggregation. Bovine cattle for consumption (SITC 001 minus "other animals"); BAAT - bananas (SITC 051 minus "other fresh fruits and nuts"), sugar, cotton and tobacco; other agricultural products: SITC 051 minus bananas, fresh flowers and buds and other similar products; excluding wood in the rough; other primary products: wood in the rough, "other animals", waste scraps, undressed hides and skins, crude minerals and ore; semi-manufactures and manufactures: broken down according to the classification adopted by UNCTAD (TD/B/C.2/3), 1965, "Measures related to the report of the special commission on preferences. Definition of commodities, semi-manufactures and manufactures"; other exports: those not classified in the above groups or sub-groups.

/Exports of

Exports of bovine cattle have been classified separately because of their erratic performance.1/ This irregularity is partly due to a statistical problem, and reflects changes between the volumes recorded and those exported fraudulently.

Table 4 shows the annual fluctuations in the prices of the main groups of Colombian exports. Besides the fact that price fluctuations may stabilize income, when they are due to variations in the Colombian supply for exports, the overall picture of fluctuations should be examined since there may be inverse correlations among the prices of the export products, so that the overall price picture may be more stable than that of the individual products.

The fluctuations in the country's export earnings have been lessened by diversification. The average annual variation of the unit value of minor exports in the period 1953-1973 is less than that of coffee. To appreciate the rôle played by diversification, it is interesting to look in detail at what occurred in the BAAT group. The four products comprising it are characterized by price instability. Thus, for example, the price of sugar may fluctuate by as much as 44 per cent per year. However, although all the components of the BAAT group have a common economic origin, their price variations are not closely correlated and even show an inverse correlation in some years. It is frequently the case that in a single year the price of sugar may drop sharply, that of cotton rise steeply and the price of bananas remain stable, as happened in 1960. Due to the differences in the performance of each of its components, the BAAT price index is significantly more stable than that of each of them.

Table 5 shows the composition of BAAT exports and their total value, so that it is possible to note the varying importance of each product within the total and the substantial share of the minor exports they represent.

1/ Another item which behaves in a similar manner is precious stones (especially emeralds). They have been included here among major exports.

/Table 6

Table 6 gives the main Colombian export products in 1974 and 1975, while table 7 contains the complete breakdown of Colombian exports from 1970 to 1973. The level of diversification is once again striking, with the inclusion of groups from very different sectoral origin. In the last three years, between 20 and 30 products are in the exclusive category of products with sales abroad of over one million dollars.

In order to provide a more exact view of the diversification achieved by Colombian exports during the period under study, table 8 provides data broken down by group of products.1/ Here it may be seen that whereas one product accounted for more than 80 per cent of total exports in 1952, this had risen to twelve groups of products in 1973. Similarly, between 1952 and 1973, the number of SITC groups which showed some movement had doubled. The activity gained greater dynamism with the reforms carried out in the export promotion régime in 1957. Figure 3 uses a well-known indicator of diversification (or inequality), the Lorenz curve, to give a better picture of the stages of diversification which, as may be seen, correspond very closely to the phases of Colombian export promotion policy.

3. Diversification by market

The marked diversification of Colombian exports in terms of products also occurred with regard to the markets of destination, as is shown by tables 9 to 11. The overall trend in geographical distribution differed sharply between the first and second halves of the period. Furthermore, there was a significant difference in the performance of the major and minor exports in respect of destination, which may be seen by comparing tables 10 and 11.

With regard to total exports, an overwhelming proportion of sales in 1952 was made to the United States, but this percentage dropped steadily throughout the period. Until halfway through the nineteen-sixties this trend is very pronounced. Even when other markets begin

1/ Defined at the three digit level of the SITC classification.

/to displace

to displace the United States, however, the European Economic Community takes the largest share, growing from 10 per cent in 1952-1955 to a little over one-quarter in 1964-1967. At this point the United States market was already absorbing less than half of Colombian exports.

The share of the countries which came to form the Latin American Free Trade Association (LAFTA) remained at about 1 per cent during the first decade. In the nineteen-sixties, with the signing of the Montevideo Treaty, this increased to some extent: the share of the LAFTA group markets grew to four per cent.

Along similar lines to the diversification of products, there was a marked change in the geographic distribution of exports from the end of the nineteen-sixties. As a result, by 1975 three areas had acquired similar importance - the EEC, the United States and Latin America - and between them shared 80 per cent of the export trade. Thus the United States' share fell by two-thirds, to the advantage first of the EEC and then of the Latin American countries, especially during the last five years. In the nineteen-seventies most of this trade was concentrated in the Andean Pact countries.

The importance of the geographic diversification is somewhat blurred by the presence of the major exports, which have mainly been concentrated in the developed countries. Table 11 therefore presents information about the markets of destination of the minor exports. It is interesting to note that the market diversification of minor exports is far greater than that of total exports. The overall picture of changes throughout the period is similar to that of the changes in total sales. However, the relative share of each geographic area remains different for the major and minor exports, with a rising share for the Latin American markets. Towards the end of the period the latter accounted for about one-third of the minor exports.

The role of the integration processes, as well as geographical location, may be observed more precisely, in the placing of minor exports. Once again, it is the sales to the Andean countries which unmistakably show more rapid growth, more so in respect of the minor exports than of the total.

/It should

It should be pointed out that the relative shares do not alone give an exact view of the behaviour of the market, since the value of the minor exports has not grown regularly, primarily due to the ups and downs of the markets of the developed countries. This is particularly clear in the most recent years. Sales to the Andean countries, on the other hand, have grown steadily, particularly in 1974 and 1975.

At the end of the period under study, a significant market diversification had been achieved, covering a large number of countries. The key-note of this phenomenon has been the opening up of new markets, above all the regional markets, and especially those linked to Colombia by formal integration processes. These markets are of special importance for minor exports. Thus the two types of export diversification of product and of market, coincide.

Finally, it is interesting to note in table 12 the level of concentration in coffee exports by exporting companies. It is interesting to note here that there are almost 900 Colombian export companies. Only 14 of these have sales abroad of over 10 million dollars; they account for one-third of total exports. About 150 companies export for values of between one and 10 million dollars, and account for a little under half of the exports. These figures suggest that there is not an undue concentration in the export sector; while the exportable lines in the industrial sector show substantial economies of scale, which tends to lead to a concentration of plants and companies, the importance of exports of agricultural origin may explain the diversified structure of Colombian exports in terms of companies.

/Table 1

Table 1

COLOMBIA: MAJOR AND MINOR EXPORTS, AT CURRENT AND CONSTANT PRICES, 1952-1975*

(Millions of dollars, fob, in prices of each year and 1970 prices)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Total exports																								
At current prices	473.2	596.1	657.1	583.9	537.0	511.1	460.7	473.0	464.5	434.4	463.4	446.6	548.1	539.1	507.6	509.9	558.3	607.5	735.6	690.0	865.9	1 177.3	1 416.9	1 358.8
At constant prices	450.4	577.3	512.3	511.2	466.4	438.9	479.5	561.9	545.5	527.8	596.8	575.2	605.0	593.7	587.0	633.3	693.1	741.3	735.6	740.2	842.9	891.2	819.4	
Price index a/	105.1	103.2	128.3	114.2	115.1	116.5	96.1	84.2	85.2	82.3	77.6	77.6	90.6	90.8	86.5	80.5	80.6	82.0	100.0	93.2	102.7	132.1	172.9	
1. **Major exports b/**																								
At current prices	451.7	568.9	626.8	552.4	485.8	470.1	431.2	443.6	420.0	382.3	400.4	384.9	477.8	440.3	409.8	397.3	403.7	425.2	543.4	471.4	540.1	745.4	725.7	770.2
At constant prices	427.3	547.0	479.6	480.7	427.6	409.8	451.5	530.6	500.6	472.0	534.6	513.2	532.1	492.5	479.3	513.3	527.7	552.9	543.4	536.3	573.4	598.7	512.2	
Price index	105.7	104.0	130.7	114.9	113.6	114.7	95.5	83.6	83.9	81.0	74.9	75.0	89.8	89.4	85.5	77.4	76.5	76.9	100.0	87.9	94.2	124.5	141.7	
a) Coffee																								
At current prices	380.0	492.3	550.2	487.4	413.1	388.8	354.5	361.2	332.2	308.0	332.2	303.0	394.2	343.9	328.3	322.4	351.1	343.9	466.7	395.4	429.6	597.9	623.1	671.9
At constant prices	370.3	488.0	423.4	431.7	373.0	355.0	400.4	471.9	437.0	416.2	482.8	451.2	467.8	411.1	406.0	444.6	480.6	472.6	466.7	466.0	467.2	485.7	493.3	
Price index	102.6	100.9	129.9	112.9	110.7	109.5	88.5	76.5	76.0	74.0	68.5	67.2	84.3	83.7	80.8	72.5	73.1	72.8	100.0	84.8	91.9	123.1	126.3	
b) Crude petroleum																								
At current prices	71.5	76.3	75.8	61.5	69.9	76.3	66.6	73.3	80.0	68.2	60.6	77.2	75.0	88.2	71.7	61.2	36.3	56.7	58.6	45.7	31.4	26.8	-	-
At constant prices	56.8	58.5	55.5	42.3	52.7	51.8	44.5	52.0	57.1	50.2	44.3	56.8	55.4	73.1	63.8	56.2	32.3	52.1	58.6	42.6	28.6	18.7	-	
Price index	125.8	130.4	136.6	132.8	132.6	147.3	149.6	140.9	140.0	135.9	136.6	135.8	135.4	120.6	112.4	109.0	112.4	108.7	100.0	107.3	109.7	143.4	-	
c) Fuel oil																								
At current prices	-	-	0.46	2.3	2.7	4.9	10.1	8.7	7.5	4.6	7.1	3.8	7.3	7.3	9.7	13.4	13.4	15.7	12.1	20.5	21.7	34.0	102.6	98.3
At Constant prices	-	-	0.35	1.6	1.8	2.8	6.7	6.5	5.9	3.9	6.1	3.6	7.1	7.2	9.3	12.1	11.1	16.8	12.1	16.5	16.0	24.4	18.9	
Price index	-	-	131.7	143.4	149.3	173.6	151.9	134.1	126.0	117.1	116.4	105.9	103.0	100.4	103.6	111.3	120.0	93.4	100.0	123.8	135.4	139.3	542.7	

Table 1 (concluded)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
2. Minor exports																								
At current prices	21.5	27.2	30.3	31.5	51.2	41.0	29.5	29.4	44.5	52.1	63.0	61.7	70.3	98.8	97.8	112.6	154.6	182.3	192.2	218.6	325.8	431.9	691.2	588.6
At constant prices	23.1	30.3	32.7	30.5	38.8	29.1	28.0	31.3	44.9	55.8	62.2	62.0	72.9	101.2	107.7	120.0	165.4	188.4	192.2	203.9	269.5	292.5	307.2	
Price index a/	93.1	89.8	92.7	103.3	132.0	140.9	105.4	93.9	99.1	93.4	101.3	99.5	96.4	97.6	90.8	93.8	93.5	96.8	100.0	107.2	120.9	147.7	225.0	
a) Manufactures																								
At current prices	2.8	4.4	8.4	5.4	9.7	8.0	8.8	9.2	10.9	13.3	19.0	20.5	33.8	40.8	47.0	45.3	64.5	75.0	75.1	97.7	143.7	243.4	321.3	
At constant prices	3.5	5.7	11.0	7.1	12.3	9.9	10.8	11.3	13.0	15.6	22.3	23.8	39.3	46.3	52.2	49.8	70.9	79.8	75.1	93.0	127.2	183.0	200.8	
Price index c/	80.0	77.0	76.0	76.0	79.0	81.0	81.0	81.0	84.0	85.0	85.0	86.0	86.0	88.0	90.0	91.0	91.0	94.0	100.0	105.0	113.0	133.0	160.0	
b) BAAT																								
At current prices	11.4	14.1	15.7	21.4	36.0	29.3	17.5	15.9	28.8	34.0	39.5	35.4	31.5	41.7	37.0	57.8	73.6	75.4	74.6	70.3	106.0	99.9	237.6	142.1
At constant prices	12.5	15.7	15.7	18.5	20.8	15.5	13.3	15.3	26.8	34.9	34.9	32.0	28.5	37.6	41.0	60.7	77.0	74.6	74.6	60.8	76.3	56.7	57.9	
Price index d/	91.2	89.7	100.0	115.5	173.1	189.6	131.8	103.4	107.2	97.1	113.2	110.4	110.5	110.9	90.2	95.1	95.6	101.1	100.0	115.6	137.8	176.1	410.1	
c) Other minor exports																								
At current prices	7.3	8.7	6.2	4.7	5.5	3.7	3.7	4.3	4.7	4.8	4.5	5.8	5.0	16.3	13.8	9.5	16.5	31.9	42.5	50.6	76.1	88.6	132.3	
At constant prices	7.1	8.9	6.0	4.9	5.7	3.7	3.9	4.7	5.1	5.3	5.0	6.2	5.1	17.3	14.5	10.1	17.7	33.6	42.5	47.7	63.4	52.9	48.5	
Price index e/	102.0	97.0	102.0	96.0	97.0	99.0	94.0	92.0	92.0	90.0	89.0	94.0	97.0	94.0	95.0	94.0	93.0	95.0	100.0	106.0	120.0	174.0	273.0	

Sources: DANE (Foreign Trade Yearbooks): Export data at current prices; CEPAL, Statistical Division: Price indices of coffee, petroleum and fuel oil; *Monthly Bulletin of Statistics*: World price indices of manufactures and primary products.

a/ The indices of "Minor exports" and "Total exports" were obtained by adding the partial indices at constant prices and using them to divide the same data at current prices.

b/ Major exports include coffee, petroleum, fuel oil, other petroleum by-products and precious stones. Exports of precious stones (including emeralds) and other petroleum by-products are not presented separately in the table; but they are included in the total of major exports.

c/ Exports of manufactures were deflated by the United Nations world price index of manufactures.

d/ The BAAT price index was calculated using the current data of the Foreign Trade Yearbooks, weighting the annual variations in the prices of each of the products composing it by its percentage share in the total BAAT group of the previous year.

e/ "Other minor exports" were deflated by the United Nations world commodity price index.

* As the DANE Yearbooks for 1974 and 1975 are not yet available, only a few figures were obtained for those years by means of direct consultation with DANE.

Table 2

COLOMBIA: SOME INDICATORS OF EXPORT TRENDS

(At constant 1970 prices)

	1952-1953		1960-1961		1969-1970		1971		1972		1973		Rate of growth (annual average)			
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	1960-61 / 1952-53	1969-70 / 1960-61	1973 / 1969-70	1973 / 1952-53
Total exports	513.8	100.0	536.6	100.0	738.2	100.0	736.9	100.0	838.0	100.0	818.3	100.0	0.62	4.06	3.49	2.61
Major exports	487.1	94.8	486.3	90.6	548.1	74.2	536.3	72.8	573.4	68.4	529.1	64.7	-0.02	1.50	-1.16	0.46
Minor exports	26.7	5.2	50.3	9.4	190.1	25.8	200.6	27.2	264.6	31.6	289.2	35.3	9.4	18.08	15.01	14.15

Source: Table 1.

Table 3

COLOMBIA: STRUCTURE OF EXPORTS BY GROUP OF PRODUCTS, 1952 TO 1975

	1952-1955		1956-1959		1960-1963		1964-1967		1968-1971		1972		1973		1974a/		1975a/	
	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports	Percentage of total	Percentage of minor exports
Coffee	82.5		76.6		70.5		66.0		60.1		49.7		50.8					
Petroleum and by products	12.7		15.9		17.4		15.9		10.5		7.4		5.2					
Precious stones	*								0.6		5.3		7.4					
Subtotal major exports	95.2	.	92.5		87.9		81.9		71.2		62.4		63.4		46.0		49.7	
Bovine cattle for consumption	0.1	1.8	*	*	*	0.1	0.7	3.5	1.4	5.1	1.6	4.3	0.3	0.8	3.6	6.6b/	3.8	7.6b/
BAAT	2.7	56.2	4.9	63.8	7.7	62.6	8.1	44.1	11.5	40.0	12.3	32.5	8.5	23.2	20.2	37.4c/	16.5	32.9c/
Other agricultural products	0.5	9.8	*	1.0	0.1	1.2	0.3	1.8	1.4	4.8	2.1	5.7	1.0	3.0	8.5	15.6	8.6	17.1
Other primary products	0.6	13.7	0.8	10.3	0.9	7.8	1.1	6.3	2.5	8.5	5.0	13.4	6.1	16.8	3.2	6.0	3.3	6.5
Semimanufactures	0.4	8.1	1.0	13.5	2.0	15.8	4.9	27.7	6.8	23.7	9.7	25.8	11.4	31.0	13.3	24.7	12.3	24.5
Manufactures	0.4	8.4	0.4	5.0	0.8	6.8	2.9	15.8	4.8	16.4	6.6	17.5	9.0	24.5	4.4	8.2	4.7	9.4
Other exports	0.1	2.0	0.4	6.4	0.6	5.7	0.1	0.8	0.4	1.5	0.3	0.8	0.3	0.7	0.8	1.5	1.0	2.0
Subtotal minor export	4.8	100.0	7.5	100.0	12.1	100.0	18.1	100.0	28.8	100.0	37.6	100.0	36.6	100.0	54.0	100.0	50.3	100.0
Total	100.0		100.0		100.0		100.0		100.0		100.0		100.0		100.0		100.0	

Source: CEPAL, on the basis of DANE data (Foreign Trade Yearbooks).

a/ Provisional information. Sample prepared by CEPAL, on the basis of INCOMEX data.

b/ Aggregate figures include the whole SITC 001 group.

c/ Aggregate figures include the whole SITC 051 group.

Table 4

COLOMBIA: ANNUAL FLUCTUATIONS IN THE PRICES OF SOME GROUPS OF PRODUCTS, 1953 TO 1973

	Coffee	Bananas	Sugar	Cotton	Tobacco	BAAT	Manufactures	Mining exports	Total
1953	-1.7	-3.1	21.0		-0.4	-1.6	-3.8	-3.5	1.8
1954	28.7	15.2	5.2		-4.8	11.5	-1.3	3.2	24.3
1955	-13.1	19.1	-52.2		-2.4	15.6	0.0	11.4	-11.0
1956	-1.9	61.8	-7.9		20.4	49.9	3.9	27.8	0.8
1957	-1.1	9.5	-23.5		-13.1	9.5	2.5	6.7	1.2
1958	-19.2	-37.5	413.9		-12.1	-30.5	0.0	-25.2	-17.5
1959	-13.6	-23.4	-69.3		-7.6	-21.6	0.0	-10.9	-12.4
1960	-0.7	5.1	-50.5	135.8	-6.4	3.7	3.7	5.5	1.2
1961	-2.6	-4.8	47.2	-20.7	24.2	-9.5	1.2	-5.8	-3.4
1962	-7.4	5.8	1.1	36.9	20.6	16.6	0.0	8.5	-5.7
1963	-1.9	-9.5	12.7	-10.3	12.6	-2.5	1.2	-1.8	0.0
1964	25.4	10.5	-16.7	2.3	-10.0	0.1	0.0	-3.1	16.8
1965	-0.7	1.5	-36.8	-3.1	14.0	0.3	2.3	1.2	0.2
1966	-3.5	-15.5	-14.6	-14.3	-35.8	-18.6	2.3	-7.0	-4.7
1967	-10.3	14.7	-7.1	19.2	-13.0	5.4	1.1	3.3	-6.9
1968	0.8	-21.0	4.3	16.9	53.8	0.5	0.0	-0.5	0.0
1969	-0.4	-3.1	43.9	-6.7	-1.3	5.8	3.3	4.0	1.9
1970	37.4	13.3	2.1	-11.9	1.8	-1.1	6.4	3.1	22.0
1971	-15.2	-4.8	32.9	21.5	3.5	15.6	5.0	9.0	-6.4
1972	8.4	1.0	22.0	25.5	22.8	19.2	7.6	12.9	10.4
1973	33.9	12.0	43.1	0.63	-60.4	27.8	17.7	21.3	28.4
1974	2.8	11.6	142.5	142.6	206.3	132.11	20.3	52.3	30.9
Average a/ (1953-1973)	10.6	13.9	44.2	23.3	16.2	12.7	3.1	8.4	6.4

a/ Equals the sum of the absolute values of the fluctuations of each year divided by the number of years. 1974 was not included because of the highly unusual circumstances of the world economy in that year.

Table 5

COLOMBIA: COMPOSITION OF BAAT EXPORTS

	Bananas	Sugar	Cotton	Tobacco	Total BAAT (value in millions of 1970 dollars)
	Share of total BAAT				
1952	81.0	4.7	0.0	14.3	12.5
1953	81.6	0.1	0.0	18.3	15.7
1954	83.8	0.1	0.0	16.1	15.8
1955	78.9	11.1	0.0	10.0	18.5
1956	78.0	13.7	0.0	8.3	20.8
1957	89.3	1.0	0.0	9.7	15.5
1958	88.6	0.0	0.0	11.4	13.3
1959	87.5	0.0	0.0	12.5	15.4
1960	47.6	0.0	44.2	8.2	26.9
1961	41.4	15.3	31.4	11.9	34.9
1962	26.9	18.7	40.0	14.4	34.9
1963	37.5	15.5	26.7	20.3	32.0
1964	39.4	10.4	20.2	30.0	28.5
1965	44.6	18.6	19.4	17.4	37.6
1966	54.1	24.6	6.3	15.0	41.0
1967	43.3	22.3	26.8	7.6	60.8
1968	33.5	21.6	38.3	6.6	77.0
1969	26.1	20.7	43.5	9.7	74.6
1970	24.2	19.8	46.3	9.7	74.6
1971	20.9	23.8	42.2	13.1	60.8
1972	13.0	28.9	48.7	9.4	76.3
1973	15.4	31.1	38.2	15.3	56.7
1974	11.2	32.3	48.2	8.3	39.1

Source: CEPAL, on the basis of DANE data (Foreign Trade Yearbooks).

Table 6

COLOMBIA: EXPORT REGISTERS BROKEN DOWN BY MAIN PRODUCT, 1974 AND 1975

Products	1974			1975			Percentage variation		
	Thousands of tons	Value in millions of dollars	Average price (in dollars tons)	Thousands of tons	Value in millions of dollars	Average price (in dollars tons)	Quantity	Value	Average price
A. Coffee	407.9	623.1	1 527.6	442.7	680.5	1 537.2	8.5	9.2	0.6
B. Main agricultural products	663.6	293.8	442.7	1 117.7	429.1	382.1	68.4	45.4	-13.7
Raw sugar	140.0	87.9	627.9	197.6	82.5	417.5	41.1	-6.1	-33.5
Cotton	70.2	85.3	1 215.1	91.9	81.9	891.2	30.9	-4.0	-26.7
Beef	28.4	37.1	1 306.3	30.6	36.5	1 192.8	7.8	-1.6	-8.7
Live animals	7.8	4.8	615.4	76.2	51.6	677.2	877.0	975.0	10.0
Tobacco	25.3	22.7	897.2	14.7	17.8	1 210.9	-41.9	-21.5	35.0
Rice	1.3	0.5	384.6	207.8	75.3	362.4	15 884.6	14 960.0	-5.8
Bananas	375.4	27.7	73.8	465.5	38.8	83.4	24.0	40.0	13.0
Flowers	10.4	15.9	1 528.8	11.5	19.4	1 687.0	10.0	22.0	10.4
Shrimps	3.1	11.5	3 709.6	2.5	10.1	4 040.0	-19.4	-12.2	8.9
Soybean cake	1.7	0.4	235.3	79.4	13.2	166.3	4 570.6	3 200.0	-29.3
C. Main industrial products	520.3	204.1	392.3	831.1	157.8	189.7	59.4	-25.0	-51.6
Cement	397.0	10.2	25.7	697.7	22.1	32.5	75.8	115.6	28.5
Cotton fibres	14.2	41.4	2 915.5	14.0	31.3	2 235.7	-1.4	-24.4	-23.3
Cotton yarn	12.6	19.6	1 555.6	11.7	21.8	1 863.3	-7.1	11.2	19.8
Clothing and footwear	12.3	82.0	6 666.7	2.9	18.9	6 517.2	76.4	-77.0	-2.2
Cardboard boxes	35.9	11.8	328.7	42.2	18.1	431.0	17.0	53.4	31.1
Leather	1.5	5.2	3 466.7	0.6	8.1	13 500.0	-60.0	56.0	289.4
Worked stones	-	12.8		-	13.1		-	2.3	
Herbicides	3.0	7.4	2 466.7	1.3	4.1	3 153.9	-57.0	-44.6	27.9
Mineral fertilizers	39.5	9.3	235.4	53.3	12.5	234.5	35.0	34.4	-0.3
Books and pamphlets	4.3	4.4	1 023.3	7.6	7.8	1 026.3	76.7	77.3	,0.3
D. Other products	838.5	420.2		760.8	278.2		-8.3	-33.8	
E. General total	2 403.8	1 499.4		3 194.8	1 536.9		32.9	2.5	

Source: Coyuntura Económica, Fedesarrollo, vol 6, N° 1, April 1976.

Table 7

COLOMBIA: BREAKDOWN OF TOTAL EXPORTS, 1970-1973

(Volume: Net tons. Value: thousands of dollars)

SITC Sec.	SITC Chapter Group	Description	1973 Volume	1973 Value	1973 Percentage	1972 Volume	1972 Value	1972 Percentage	1971 Volume	1971 Value	1971 Percentage	1970 Volume	1970 Value	1970 Percentage
		General Total	5 052 726	1 176 743	100.0	5 718 402	865 954	100.0	6 293 570	690 011	100.0	7 126 314	735 657	100.0
0		Food products and live animals	917 942	703 040	59.8	1 027 613	540 055	62.3	938 879	472 788	68.5	1 008 776	537 317	73.0
	00	Live animals	4 659	3 523		25 212	13 970		37 332	16 282		39 161	17 408	
	01	Meat and meat preparations	32 545	41 197		28 641	25 324		17 656	12 320		8 126	4 735	
	02	Dairy products and eggs	3 379	3 348		2 138	1 816		592	1 461		252	432	
	03	Fish and fish preparations	3 486	10 685		3 487	9 953		2 479	5 900		2 444	4 830	
	04	Cereals and cereal preparations	25 633	4 528		5 134	1 311		1 665	441		18 624	1 581	
	051	Bananas	217 492	16 403		213 760	14 449		230 201	15 297		262 128	18 208	
	054	Fresh vegetables	51 978	3 595		38 854	2 482		56 201	2 186		44 394	1 360	
	05	Other fresh fruit	802	471		983	419		797	440		392	366	
	061	Sugar	162 564	31 061		227 872	30 341		153 692	16 748		180 343	14 784	
	062	Sugar confectionary and other sugar preparations	2 938	1 457		2 957	1 240		2 073	793		870	336	
	071	Coffee	395 517	583 260		390 918	429 746		389 802	395 433		390 436	466 890	
	07	Tea, cocoa, spices and their preparations	505	436		99	77		36	35		71	33	
	08	Feeding stuff for animals	16 041	2 767		67 219	8 688		46 035	5 268		61 348	6 252	
	09	Miscellaneous food preparations	403	309		339	239		318	174		187	102	
1		Beverages and tobacco	53 640	15 595	1.3	14 069	10 210	1.2	15 606	9 240	1.3	12 747	7 210	1.0
	11	Beverages	231	94		197	56		49	33		84	32	
	12	Tobacco, unmanufactured	53 292	15 271		13 701	9 879		15 546	9 164		12 656	7 169	
	122	Tobacco unmanufactures	117	230		171	276		11	43		7	17	
2		Crude materials inedible	171 705	67 094	5.7	192 477	72 079	8.3	134 477	42 455	6.1	144 350	46 829	6.3
	21	Hides and skins, undressed	36	3 610		511	4 664		290	1 551		235	1 672	
	22	Oilseeds, oil nuts and oil kernels	6 483	1 818		27 455	3 218		10 708	1 324		10 569	1 205	
	23	Crude, rubber (synthetic and reclaimed)	295	177		251	181		456	279		405	229	
	242	Wood in the rough	39 217	2 126		29 827	807		25 496	505		44 060	834	
	24	Wood, lumber and cork	57 967	6 549		53 435	4 445		34 378	2 623		6 096	2 572	
	25	Pulp and waste paper	146	27		5	3		-	-		2	2	
	263	Cotton	52 644	38 139		71 079	51 245		51 624	29 690		73 117	34 548	
	266	Other textile fibres and their waste	4 125	4 323		3 821	3 455		4 759	3 943		4 312	3 844	
	27	Crude fertilizers and crude minerals	1 775	767		1 465	153		3 250	158		1 364	187	
	28	Metalliferous minerals and metal scrap	133	126		837	141		899	145		2 291	417	
	29	Crude animal and vegetable materials n.e.s.	8 134	9 432		3 791	3 667		2 617	2 237		1 899	1 319	
3		Mineral fuels, lubricants and related materials	3 280 324	61 917	5.2	3 987 856	65 314	7.6	4 817 650	70 161	10.1	5 539 904	73 196	10.0
	32	Coal, coke and briquettes	35 160	912		37 736	868		12 128	336		8 802	174	
	331	Crude petroleum	1 339 946	26 773		2 049 639	31 378		3 054 411	45 768		4 202 817	58 618	
	332	Petroleum products	1 900 097	34 041		1 900 841	33 078		1 750 980	24 047		1 328 285	14 404	
	34	Natural gas	5 121	191		-	-		131	10		-	-	
4		Animal and vegetable oils and fats	97	92	-	191	140	-	35	30		37	38	-
5		Chemicals	124 780	35 648	3.0	119 677	20 546	2.3	63 105	12 969	1.9	66 367	8 692	1.0
	51	Chemical elements and compounds	85 210	12 444		82 081	5 991		52 370	4 277		55 509	3 379	
	52	Mineral tar and crude chemicals from coal and petroleum	6 146	249		19 970	685		548	25		5 175	82	
	53	Dyeing, tanning and colouring materials	463	454		495	328		397	356		458	276	
	54	Medicinal and pharmaceutical products	2 239	7 438		979	5 255		665	3 752		399	2 683	
	55	Essential oils, perfume materials, etc.	309	692		288	472		188	325		341	225	
	56	Fertilizers, manufactured	10 426	1 241		4 205	222		1	1		5	7	
	57	Explosives and pyrotechnic products	429	121		3	8		6	9		1	16	
	58	Plastic materials	6 367	3 486		7 215	3 065		5 398	1 829		2 838	1 019	
	59	Chemical materials and products	13 191	9 523		4 441	4 520		3 532	2 395		1 641	1 011	
6		Manufactured goods by material	472 654	209 542	17.8	358 097	119 585	13.8	303 350	50 777	7.3	345 102	42 163	6.0
	61	Leather and leather manufactures	2 766	18 501		3 531	12 641		1 668	4 949		1 343	5 667	
	62	Rubber manufactures	2 330	2 724		1 198	1 643		1 052	1 357		1 119	1 290	
	63	Wood and cork manufactures (excluding furniture)	18 222	7 083		12 558	2 966		10 732	2 030		18 426	1 948	
	64	Paper, paper board and manufactures thereof	9 072	3 796		6 069	2 772		3 558	1 393		4 474	1 374	
	651	Textile yarn and thread	12 409	20 399		9 935	13 233		5 540	7 011		3 468	4 182	
	652	Cotton fabrics, woven	12 174	24 175		10 272	15 663		7 575	10 860		5 426	7 512	
	653	Textile fabrics, woven, other than cotton	1 765	4 815		335	739		88	394		162	592	
	654	Small wares	46	245		27	154		7	63		7	68	
	655	Special textile fabrics	2 143	2 465		820	1 025		363	529		187	237	
	656	Made-up articles of textile materials	2 137	2 477		728	780		96	183		79	106	
	657	Floor coverings, tapestries	47	87		37	55		19	57		3	18	
	661	Lime and cement	327 888	8 390		275 354	6 179		237 289	3 743		273 425	3 546	
	664	Glass	8 160	1 357		8 980	1 305		8 554	1 204		7 409	904	
	665	Glassware	15 909	2 709		11 358	2 302		13 655	2 397		20 855	3 155	
	667	Precious and semipreciouss stones	2	86 622		-	46 019		-	6 207		1	3 546	
	66	Other mineral manufactures	6 905	1 613		3 513	910		3 472	749		3 852	590	
	67	Iron and steel	39 469	8 616		6 696	1 340		1 264	482		1 392	429	
	68	Non-ferrous metals	1 828	4 169		1 015	2 984		425	2 882		649	4 417	
	69	Manufactures of basic metals n.e.s.	9 382	9 220		5 671	6 875		7 985	4 287		2 825	2 582	
7		Machinery and transport equipment	11 526	17 720	1.5	9 203	11 518	1.3	13 777	16 366	2.3	4 786	5 575	0.8
	71	Machinery, other than electric	8 009	11 708		6 320	7 461		9 943	5 398		3 386	3 805	
	72	Electric machinery, apparatus and appliances	2 156	3 196		1 439	1 738		1 102	1 470		768	1 080	
	73	Transport equipment	1 361	2 816		1 444	2 319		2 732	9 490		632	690	
8		Miscellaneous manufactured articles	19 978	62 647	5.3	9 132	23 623	3.0	6 600	13 168	1.9	4 161	6 260	0.8
	81	Sanitary, plumbing, heating and lighting fixtures and fittings	2 549	1 233		1 708	832		1 586	583		669	278	
	82	Furniture	3 571	6 676		388	791		265	475		116	155	
	83	Travel goods, handbags and similar articles	292	2 891		121	934		72	389		15	119	
	84	Clothing	4 281	19 221		977	5 919		679	1 955		208	1 095	
	85	Footwear	1 486	5 000		1 097	3 122		793	2 182		358	739	
	86	Scientific and controlling instruments, photo. and opt. goods, watches and clock	217	1 066		175	1 026		190	1 629		181	726	
	89	Miscellaneous manufactured articles	6 582	26 472		4 666	10 999		3 015	6 955		2 614	3 148	
9		Commodities and transactions not classified according to kind	1 080	3 451		87	2 887		91	2 057		84	8 369	1.1

urces: DA

Table 8

COLOMBIA: INDICATORS OF PRODUCT DIVERSIFICATION a/

		Percentage of total exports covered					
		50	60	70	80	90	100
1952	Number of products	-	-	-	1	2	83
	Percentage of total	-	-	-	1.2	2.4	100
1962	Number of products	-	-	1	2	6	102
	Percentage of total	-	-	1.0	1.9	6.0	100
1967	Number of products	-	1	2	3	8	127
	Percentage of total	-	0.8	1.6	2.4	6.3	100
1973	Number of products	1	3	6	12	26	166
	Percentage of total	0.6	1.8	3.6	7.2	15.6	100

Source: CEPAL, on the basis of DANE data (Foreign Trade Yearbooks).
a/ The number of groups of products was defined using the SITC three digit classification.

Table 9

COLOMBIA: MAJOR AND MINOR EXPORTS, BY DESTINATION,a/ 1952-1975

(Millions of dollars fob)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
World total	473.2	596.1	657.1	583.9	537.0	511.1	460.7	473.0	464.5	434.4	463.4	446.6
Total, major exports	451.8	568.4	626.6	552.1	485.1	470.8	432.4	440.9	420.5	381.0	400.3	384.8
Total, minor exports	21.4	27.7	30.5	31.8	51.9	40.3	28.3	32.1	44.0	53.4	63.1	61.8
Andean Group												
Major	b/	b/	0.6	0.3	0.6	2.2	2.6	2.0	3.8	3.1	3.8	1.1
Minor	0.9	3.0	4.7	3.3	3.9	2.4	1.5	1.9	2.1	3.6	3.6	4.6
Total	0.9	3.0	5.3	3.6	4.5	4.6	4.1	3.9	5.9	6.7	7.4	5.7
Other LAFTA												
Major	2.2	1.3	2.0	1.2	1.5	1.9	-	b/	0.1	0.2	0.6	0.3
Minor	0.3	0.1	0.1	0.2	0.4	0.1	0.1	0.1	0.2	0.5	0.4	1.0
Total	2.5	1.4	2.1	1.4	1.9	2.0	0.1	0.1	0.3	0.7	1.0	1.3
MCCA												
Major	-	-	-	-	-	-	-	0.3	-	b/	-	b/
Minor	0.3	1.5	0.9	1.2	2.4	1.3	1.1	1.1	0.6	1.7	2.2	2.9
Total	0.3	1.5	0.9	1.2	2.4	1.3	1.1	1.4	0.6	1.7	2.2	2.9
CARIFTA												
Major	3.5	3.0	3.3	4.2	8.1	8.2	4.7	6.8	7.2	11.1	13.5	30.6
Minor	-	-	-	0.1	-	-	0.1	0.1	0.1	0.1	0.2	0.2
Total	3.5	3.0	3.3	4.3	8.1	8.2	4.8	6.9	7.3	11.2	13.7	30.8
United States												
Major	372.9	467.0	509.4	422.4	372.3	351.7	309.8	314.1	287.7	245.6	246.2	213.3
Minor	8.1	10.1	9.1	8.3	10.8	7.3	9.1	10.0	10.3	16.7	20.5	20.4
Total	381.0	477.1	518.5	430.7	383.1	359.0	318.9	324.1	298.0	262.3	266.7	233.7
Rest of America												
Major	38.2	46.3	43.7	34.5	43.4	40.4	32.7	9.9	7.6	7.8	8.4	9.2
Minor	2.4	1.9	4.2	0.8	1.1	0.6	0.8	1.1	1.6	1.2	2.7	2.8
Total	40.6	48.2	47.9	35.3	44.5	41.0	33.5	11.0	9.2	9.0	11.1	12.0
EEC												
Major	26.6	40.4	52.6	62.1	42.0	47.5	62.1	84.1	84.7	82.5	83.7	82.4
Minor	9.0	9.5	11.4	15.6	24.5	22.5	13.9	16.5	26.4	26.2	29.3	26.1
Total	35.6	49.9	64.0	77.7	66.5	70.0	76.0	100.6	111.1	108.7	113.0	108.5
Rest of Europe												
Major	8.1	10.1	14.2	26.5	16.3	18.3	18.2	21.3	26.4	27.2	40.8	44.1
Minor	0.3	0.3	0.1	1.5	7.4	5.7	1.3	0.9	-	2.3	1.8	1.8
Total	8.4	10.4	14.3	28.0	23.7	24.0	19.5	22.2	26.4	29.5	42.6	45.9
Japan												
Major	0.2	0.2	0.4	0.7	0.9	0.5	1.1	1.8	2.4	3.1	2.9	3.5
Minor	-	0.1	-	0.1	-	-	0.1	-	2.1	0.1	-	0.5
Total	0.2	0.3	0.4	0.8	0.9	0.5	1.2	1.8	4.5	3.2	2.9	4.0
Rest of World												
Major	0.1	0.1	0.4	0.2	b/	0.1	1.2	0.6	0.6	0.4	0.4	0.3
Minor	0.1	1.2	-	0.7	1.4	0.4	0.3	0.4	0.6	1.0	2.4	1.5
Total	0.2	1.3	0.4	0.9	1.4	0.5	1.5	1.0	1.2	1.4	2.8	1.8

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
World total	548.1	539.1	507.5	509.8	558.2	607.5	735.6	690.0	865.9	1 177.3	1 416.9	1 247.6
Total, major exports	477.5	440.0	409.5	397.2	403.2	420.4	532.8	479.2	531.2	745.2	763.1	672.6
Total, minor exports	70.6	99.1	98.0	112.6	155.0	187.1	202.8	210.8	334.7	432.1	653.8	575.0
Andean Group												
Major	1.9	1.9	2.5	2.1	7.4	14.4	28.3	25.7	17.0	12.2	4.2	2.7
Minor	6.5	11.2	16.1	15.3	16.6	30.1	39.2	50.9	69.4	75.7	145.4	174.8
Total	8.4	13.1	18.6	17.4	24.0	44.5	67.5	76.6	86.4	87.9	149.6	177.5
Other LAFTA												
Major	2.0	2.4	5.9	2.0	4.3	5.1	8.4	4.5	10.9	9.3	25.7	16.7
Minor	2.3	4.4	7.4	3.6	5.9	5.9	6.2	9.3	10.1	14.5	28.1	22.2
Total	4.3	6.8	13.3	5.6	10.2	11.0	14.6	13.8	21.0	23.8	53.8	38.9
MCCA												
Major	b/	0.2	b/	b/	-	b/	-	-	0.7	0.9	3.2	0.4
Minor	4.2	6.1	3.8	3.4	4.2	5.0	6.6	8.2	6.5	13.6	25.7	21.8
Total	4.2	6.3	3.8	3.4	4.2	5.0	6.6	8.2	7.2	14.5	28.9	22.2
CARIFTA												
Major	31.9	28.2	21.7	17.4	2.9	3.4	2.2	0.7	0.3	b/	b/	b/
Minor	0.1	0.1	0.1	0.4	0.6	1.6	1.7	2.5	4.3	1.9	3.4	3.1
Total	32.0	28.3	21.8	17.8	3.5	5.0	3.9	3.2	4.6	1.9	3.4	3.1
United States												
Major	257.8	225.0	196.6	195.7	190.6	191.6	224.2	215.7	224.1	337.9	342.5	262.2
Minor	25.5	27.0	24.9	26.5	43.7	46.4	51.6	44.2	71.1	107.8	188.7	150.1
Total	283.3	252.0	221.5	222.2	234.3	238.0	275.8	259.9	295.2	445.7	531.2	412.3
Rest of America												
Major	11.4	10.3	6.1	5.3	7.3	8.5	3.8	7.2	8.6	15.1	22.2	5.8
Minor	4.2	6.2	6.4	7.7	12.0	14.9	15.4	23.5	46.6	52.1	86.4	64.1
Total	15.6	16.5	12.5	13.0	19.3	23.4	19.2	30.7	55.2	67.2	108.6	69.9
EEC												
Major	111.4	101.4	97.7	100.2	106.9	108.4	148.4	135.3	152.4	193.0	222.7	260.7
Minor	23.8	35.9	31.9	47.9	57.8	52.1	38.4	43.0	61.1	93.3	119.6	106.0
Total	135.2	137.3	129.6	148.1	164.7	160.5	186.8	178.3	213.5	286.3	342.3	366.7
Rest of Europe												
Major	58.0	67.7	72.6	69.7	77.4	79.7	104.6	79.5	93.3	133.4	118.9	107.4
Minor	1.4	4.9	5.9	5.6	9.1	22.7	31.5	18.4	44.9	35.0	43.1	25.2
Total	59.4	72.6	78.5	75.3	86.5	102.4	136.1	97.9	138.2	168.4	162.0	132.6
Japan												
Major	2.5	2.5	6.0	4.4	5.5	8.0	11.0	9.0	22.9	35.0	13.2	13.3
Minor	0.7	1.1	0.4	1.4	3.4	5.2	9.5	8.8	10.7	13.9	7.5	4.7
Total	3.2	3.6	6.4	5.8	8.9	13.2	20.5	17.8	33.6	48.9	20.7	18.0
Rest of World												
Major	0.6	0.4	0.4	0.4	0.9	1.3	1.9	1.6	1.0	8.4	10.5	3.5
Minor	1.9	2.2	1.1	0.8	1.7	3.2	2.7	2.0	10.0	24.3	5.8	2.9
Total	2.5	2.6	1.5	1.2	2.6	4.5	4.6	3.6	11.0	32.7	16.3	6.4

Source: CEPAL on the basis of DANE data (Foreign Trade Yearbooks).

a/ Andean Group: Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela; Rest LAFTA: Argentina, Brazil, Mexico, Paraguay and Uruguay; MCCA: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; CARIFTA: Guyana, Barbados, Jamaica and Trinidad and Tobago; United States includes Puerto Rico; EEC: Fed. Rep. of Germany, Belgium, Luxemburg, Denmark, Ireland, France, Italy, United Kingdom and Holland.

b/ Less than 100 000 dollars.

Table 10

COLOMBIA: STRUCTURE OF TOTAL EXPORTS, BY DESTINATION, 1952-1975

(Percentage of total)

	1952-1955	1956-1959	1960-1963	1964-1967	1968-1971	1972	1973	1974	1975
Andean Group	0.5	0.8	1.4	2.7	7.9	10.0	7.5	10.5	14.2
Rest LAFTA	0.3	0.2	0.1	1.4	1.9	2.4	2.0	3.8	3.2
MCCA	0.1	0.3	0.4	0.8	0.9	0.8	1.2	2.0	1.8
CARIFTA	0.6	1.4	3.5	4.7	0.6	0.5	0.1	0.2	0.2
United States	78.4	69.8	58.6	46.5	39.1	34.1	37.9	37.5	33.1
Rest of America	7.6	6.6	2.2	2.7	3.6	6.4	5.7	7.7	5.6
EEC	9.8	16.0	24.6	26.3	26.8	24.6	24.3	24.2	29.4
Rest of Europe	2.6	4.5	8.0	13.6	16.3	16.0	14.3	11.4	10.6
Japan	a/	0.2	0.8	0.9	2.3	3.9	4.2	1.5	1.5
Rest of World	0.1	0.2	0.4	0.4	0.6	1.3	2.8	1.2	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CEPAL, on the basis of DANE data (Foreign Trade Yearbooks).
a/ Less than 0.1 per cent.

Table 11

COLOMBIA: STRUCTURE OF MINOR EXPORTS, BY DESTINATION, 1952-1975

(Percentage of total)

	1952-1955	1956-1959	1960-1963	1964-1967	1968-1971	1972	1973	1974	1975
Andean Group	10.7	6.4	6.3	12.9	18.1	20.7	17.5	22.2	30.4
Rest LAFTA	0.6	0.5	0.9	4.7	3.6	3.0	3.4	4.3	3.9
MCCA	3.5	3.9	3.3	4.6	3.2	2.0	3.1	3.9	3.8
CARIFTA	0.1	0.1	0.3	0.2	0.8	1.3	0.4	0.5	0.5
United States	32.0	24.4	30.5	27.3	24.6	21.2	25.0	28.9	26.1
Rest of America	8.3	2.3	3.7	6.4	8.7	13.9	12.1	13.2	11.2
CEE	40.8	50.7	48.6	36.7	25.3	18.3	21.6	18.3	18.4
Rest of Europe	2.0	10.0	2.7	4.7	10.8	13.4	8.1	6.6	4.4
Japan	0.2	0.1	1.2	0.9	3.6	3.2	3.2	1.2	0.8
Rest of World	1.8	1.6	2.5	1.6	1.3	3.0	5.6	0.9	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CEPAL, on the basis of DANE data (Foreign Trade Yearbooks).

Table 12

COLOMBIA: STRUCTURE OF EXPORTS BY EXPORTING COMPANY, 1974 a/

Exports (thousands of dollars)	Number of companies	Value (millions of dollars)	Percentage share
50 to 99.9	234	16 639	1.9
100 to 199.9	204	29 165	3.5
200 to 499.9	217	69 382	8.2
500 to 999.9	102	60 066	7.1
1 000 to 9 999.9	146	379 188	44.9
10 000 and over	14	290 485	34.4
Total	917	844 925	100.0

Source: INCOMEX export registers, 1974.

a/ Companies which exported goods worth over 50 000 dollars in 1974. The exports of these companies accounted for 95% of the total export registers, excluding coffee.

Figure 1

COLOMBIA: EXPORT TRENDS, 1952 - 1973

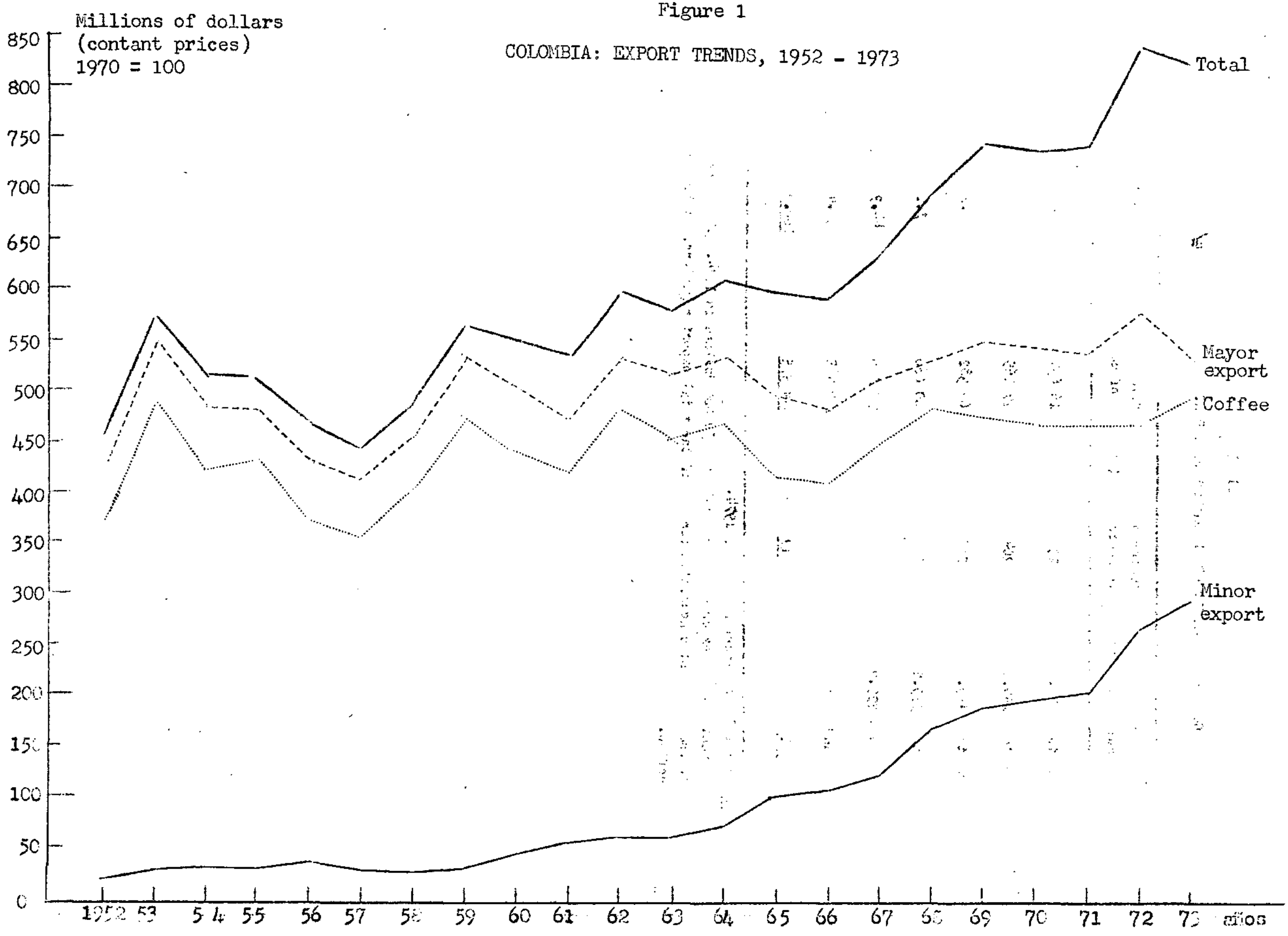


Figure 2

COLOMBIA: MINOR EXPORT TRENDS, 1952 - 1973

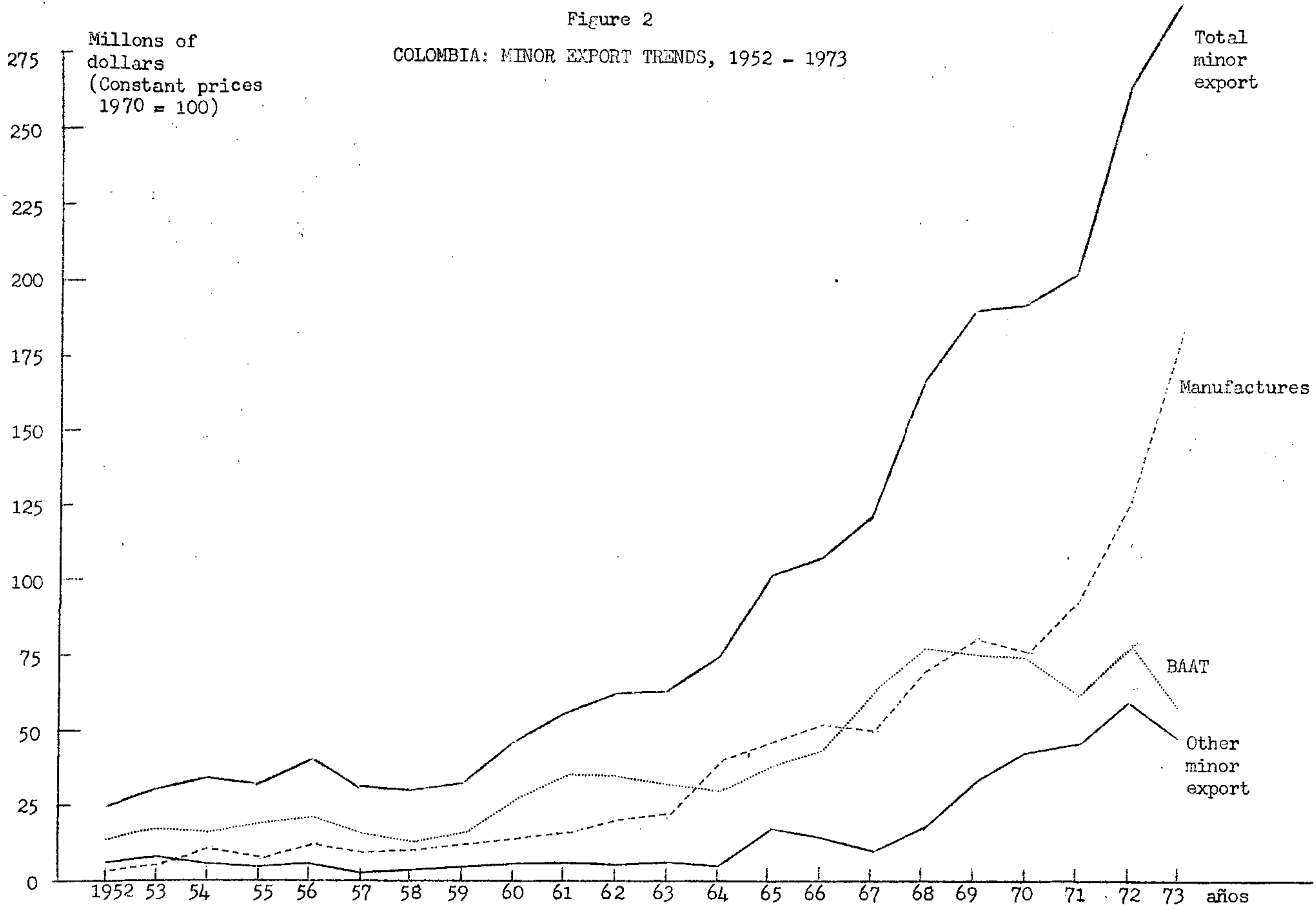
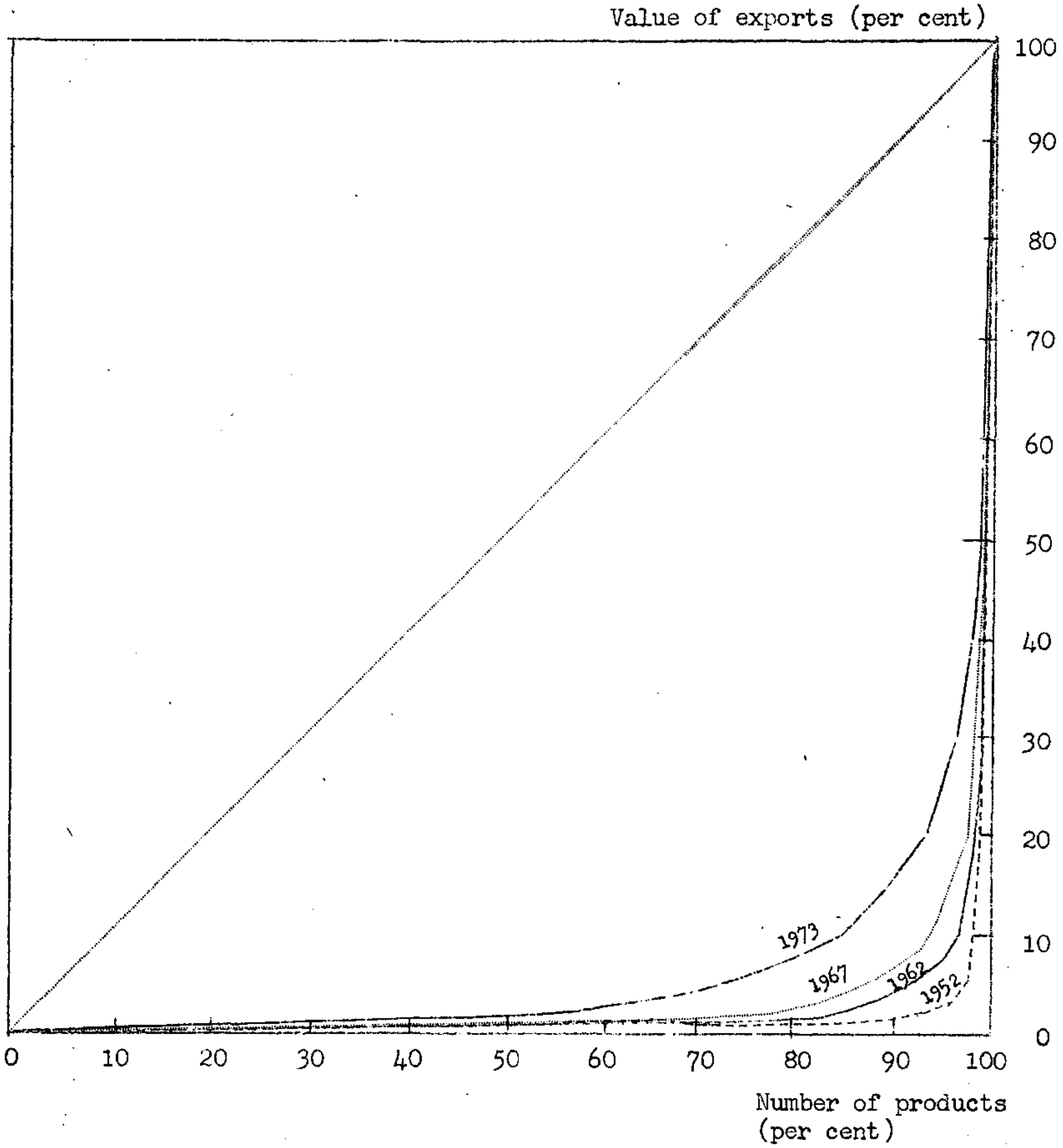


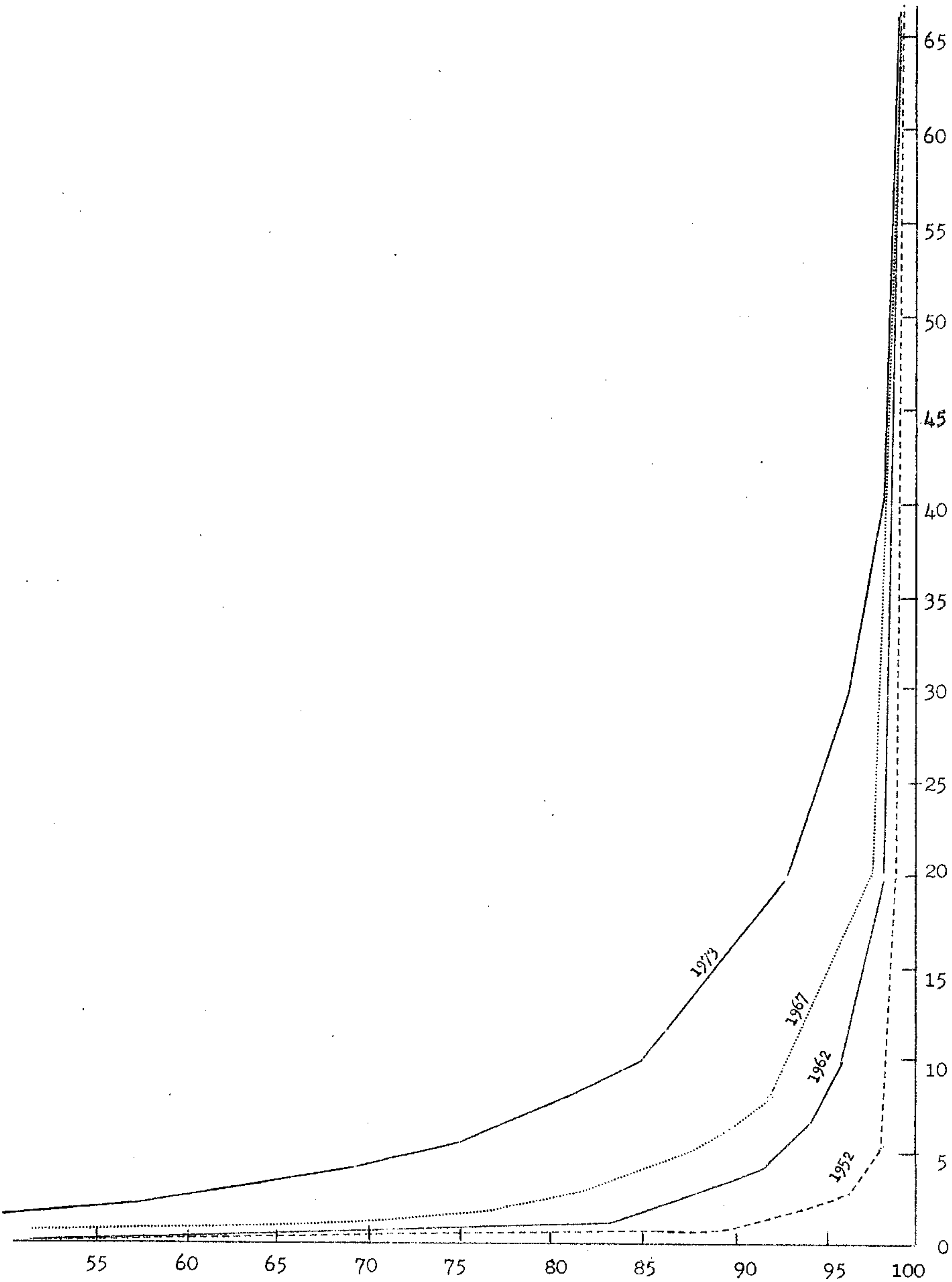
Figure 3

COLOMBIA: LORENZ CURVE OF EXPORT DIVERSIFICATION BY PRODUCT



Source: CEPAL, on the basis of DANE data (Foreign Trade Yearboocks).

ENLARGUED SECTION OF FIGURE 3



/Chapter III

Chapter III

THE PROMOTION SYSTEM: ANALYSIS OF THE INSTRUMENTS USED

Towards the end of the 1940s Colombia adopted the first measures designed to promote minor exports, a policy which has undergone considerable modifications since then. This chapter examines the evolution of development policy, highlighting the more important features of the different promotion machinery used. The instruments which will be studied are those included in exchange policy (fixed and multiple rates of exchange, and programmed devaluations), import policy (exemption systems applicable to the imports of inputs and capital goods), fiscal policy (tax exemptions, direct fiscal incentives), finance policy (advance refunds, pre- and post-shipping credits), marketing policy (PROEXPO) and access and negotiation policy (Andean Pact, LAFTA).1/

The analysis covers four subperiods, which include as many other stages in the evolution in export policy. The cut-off points for the periods, from 1948 onwards, are 1959, 1967 and 1974.

1. The first steps: 1948-1959

The first attempts to implement an export promotion policy were made in 1948. The effort was a modest one, and was limited to reducing the quantitative restrictions imposed on exports and establishing a preferential exchange rate for minor exports, which was called "certificados de cambio de mercado libre".2/ The new exchange policy proved a major incentive for minor exports. In fact, during the second half of 1948, these exports enjoyed a rate of exchange 57 per cent higher than that received by other exports.

1/ The methodological criteria used in this section are described in R. French-Davis and J. Piñera, *op.cit.*, Chapter III.

2/ Decree 1949, of June 1948.

/As in

As in other countries of the region, the exchange policy underwent drastic and continuous modifications during the following 20 years, and only as recently as 1967 was it stabilized. As a result of this uncertainty, the conditions under which exports developed changed frequently, in respect of both the procedure for fixing the rates and the level of such rates.1/ The successive policies included, alternately, examples such as a single fixed rate and régimes of multiple rates, with a free rate for minor exports. By way of example, the free exchange policy introduced in 1948 was suspended in March 1951 when a single rate was fixed for all exports and imports at a much lower level than that in force at the time, a policy which is the opposite of the immediately preceding one.

Apart from the swings between the extreme exchange policies mentioned, there are two aspects to which attention should be drawn. On one hand, the establishment in July 1952 of a "system of export vouchers", which remained in force for almost three years, and which allowed their holders to import prohibited goods, particularly luxury consumer goods. On the other in 1957 a tax was fixed on exports, which lasted until 1962.

The system of export vouchers provided an implicit subsidy for those who exported goods included in a list of items covering almost all the minor exports. The size of the subsidy or bonus depended on the gap between domestic demand and supply for the imported restricted goods which could be brought in with the vouchers in question. Therefore, the size of the incentive to the exporter was determined by the scarcity price of those goods, in other words, it was directly linked to the intensity of the restrictions in force in the general system on the imports of those goods. In turn, to the extent that the exporter could use the product of his sales in purchasing prohibited

1/ For an outline of the successive changes recorded in this period, see J.D. Teigeiro and R.A. Elson, "El crecimiento de las exportaciones menores y el sistema de fomento de la exportación en Colombia", Fedesarrollo, July 1973.

/imports, an

imports, an artificially low import exchange rate tended to improve his position instead of weakening it as foreign articles grew scarcer.1/ In fact, it is known that an excessively undervalued exchange rate usually leads to a strenthening of non-tariff restrictions on imports of non-essential and luxury goods, thereby decreasing the availability of such goods. The "export vouchers" were negotiable and were transferred at sizable premiums, which amounted to an average of 40 per cent during the period August to December 1952.2/

The other outstanding feature noted during this first phase, is the introduction in 1957 of a direct tax of 15 per cent on total exports, which was established with the view to collecting funds for servicing the external debt accumulated in the preceding year. After three months, in September that year, the rate was reduced to 2 per cent for minor exports, a level which was maintained up to 1961.3/

The definition of "minor exports", favoured by the promotion policy, was changed on various occasions. The definition which predominated was that which covered all exports, with the exception of coffee, bananas, oil and untanned hides. However, on various occasions the last three items were included among minor exports, sometimes including precious metals. The main criterion used in defining them was that of favouring "new" exports compared with traditional ones, without any consideration as to how they should be identified.

1/ Normally, the maintenance of a low rate of exchange meant the accentuation of quantitative restrictions rather than an indiscriminate expansion in imports. The main exceptions occurred during periods in which world prices for coffee were favourable.

2/ The premium reached an average of 1 peso per dollar. See Teigeiro and Elso, op.cit., table 2. The premium depended on the expected profit margin of the importers.

3/ The rate of taxation remained at 15 per cent for coffee, bananas, and precious metals.

/Broadly speaking,

Broadly speaking, during the subperiod, from 1948 to 1959, there was no systematic promotion policy. The most important incentive, the export voucher, was an indirect mechanism, whose incidence for the exporter was not very clear; rather than being a stable and permanent incentive it was a temporary palliative to the losses in the purchasing power of the exchange rate, and an encouragement to greater exports at times when there were balance-of-payments problems. Furthermore, the exchange policy was known for its instability, in terms of both the rules of access and the rate of foreign exchange. As a result, during these years no attempt was made to establish any specific instrument which would provide definite guidelines for encouraging the creation of productive capacity directed towards external markets.

2. Customs and tariff exemptions: 1959-1967

In the last years of the 1950s policies were introduced which enjoyed a greater degree of permanence and they are still being used, to some extent, to day. The most distinctive feature is to be found in the tax and customs exemptions established in favour of minor exports. In January 1959 a system of franchises was introduced for imports of inputs required for the production of export goods,1/ known as the Vallejo Plan.2/ Later on, in 1960, a new incentive was adopted under which the profits from export activities were exempt from income tax.

(a) Import franchises and the Vallejo Plan

The Vallejo Plan consists mainly in a system of import franchises applicable to raw materials, intermediate and capital goods which was open to those enterprises producing export goods. The system

1/ Since 1956, at least, there have been export incentives consisting in tax relief and the lifting of restrictions on the imports of inputs. See Carlos Díaz-Alejandro, "Las exportaciones menores colombianas", Fedesarrollo, January 1973.

2/ Law of 1959, articles 55 to 60.

/operates on

operates on the basis of "import-export programmes" which are designed to benefit those enterprises: (i) "which have idle capacity in their plant, owing to the lack of national consumption or the scarcity of foreign raw materials", or (ii) whose installed capacity "should be increased ... so that increases in production could be set aside for exports".1/

The primary objective - the exploitation of installed capacity - is that which assumed greater importance during the period under review, although it was not expressly covered by the instruments which were used. When used in manufturing goods for export, the imports required by these enterprises enjoy exemptions from customs duties, and are also exempt from the obligation of making advance deposits and from the procedures of obtaining prior impor licenses; the exemptions were extensive, even in respect of those goods which were restricted. The exemption from the payment of import taxes was somewhat similar to drawback;2/ however, the lifting of the other restrictions operated differently. Colombian imports were off and on subject to the payment of deposits in advance and restrictions on entry. The latter covered prohibited goods, quotas and involved procedures which made import operations a time-consuming process. The Vallejo Plan, therefore, helped the exporters to eliminate costs, quantitative limitations and save time, advantages which are not usually associated with a drawback system.

In order to be entitled to these benefits, the enterprises had to enter into an import-export contract with the corresponding public institution,3/ under which the former undertook to effect certain exports, to obtain credit in foreign exchange for financing imports,

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1/ Articles 55 and 56, Law of 1959.

2/ From the financial point of view, the Vallejo Plan differed from the traditional drawback system in that under the former the exporter was exempted from paying import taxes, whereas in the case of the latter, the taxes are paid on the entry of the goods and are refunded later.

3/ The Ministry of Development at the beginning, INCOMEX at present.

/and to

and to use these imports only for the manufacture of goods for external markets. In order to check on compliance with these provisions, the enterprises are obliged to keep a ledger in which they must record the imports of inputs and the quantities used in manufacturing the products exported. To guarantee their compliance with these undertakings, they must, in addition, provide a bank guarantee equivalent to double the customs duties which apply to those items under the general system of imports.

The two main features of the Vallejo Plan are that the incentive to exports is in direct proportion to the import component contained in each one, and to the intensity of trade restrictions lifted in respect of this component. The argument in favour of this machinery is that it is designed to reduce the repercussions on the cost of production of export goods caused by import substitution. That reflects a limited view of the economy, which only considers the impact on the level of exports. A correct assessment of the effects of the Vallejo Plan and of its social impact, however, has to be arrived at by comparing it with a situation in which an attempt is made to apply a general economic policy which covers in a coherent manner not only the development of exports, but also their repercussions on the remainder of the economy, including import substitution.

Owing to the intrinsic nature of the Vallejo Plan, it provides a greater incentive to produce lines of goods which require a high proportion of foreign inputs; therefore, to the extent that substitution is technically possible, it tends to promote the substitution of national components by imported ones.1/ Nevertheless, substitution

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1/ A study of the possibilities of substitution is found in Antonio Urdinola and Richard Mallon, "Policies to Promote Colombian Exports of Manufactures", Economic Development Report Nº 75, Centre for International Affairs, Harvard University, September 1967. The degree of substitutability, has been limited partially by the exclusion of imports of goods in respect of which national production in terms of supply and quality is adequate. Apart from the lax application of this clause, which makes it fail as an incentive to the present production of these goods, the Vallejo Plan reduces opportunities for finding new substitutes for imported components.

/takes place

takes place among industries rather than within each activity, thereby promoting the development of those goods which are import-component intensive. The increase in the weighting of the latter in industrial production raises the average import coefficient of the sector. Secondly, the size of the franchise granted by the Vallejo Plan depends on the general import policy. In other words, the greater the restrictions in force in the general system applied to purchase abroad, the greater will be the import privileges enjoyed by the exporter.1/

The Vallejo Plan is limited to the promotion of exports of manufactured goods. In view of its complexity, the system was, in addition not accessible to the small and medium-sized enterprises;2/ of special importance was the need to have prior external financing which was an acute constraint for the new smaller enterprises, and so too was the need to secure a buyer abroad in advance. Furthermore, it is difficult to exercise effective control on the use of foreign components, particularly as regards those firms which also operate in the domestic market, have a diversified production, and which use a wide variety of inputs. Finally, the machinery used imposes a dual price system, which discriminates against that part of production destined for the national market. In other words, the same product is effected by different input costs depending on whether it is for the domestic or the external market. This obviously operates against the integrated development of the national economy.

The Vallejo Plan was in moderate use during the first year of operation. However, as from the mid-1970s its use spread rapidly and it eventually covered most of the exports of manufactures. The average imported export component which benefited from these exemptions

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1/ It is easy to see that normally, in circumstances such as those which have governed the foreign trade of Latin American countries in the industrialization process, liberalized imports enjoy conditions of entry which are even more favourable than those which would apply in a free trade system.

2/ This conclusion is reached by Díaz-Alejandro, and Teigeiro and Elson.

/was more

was more than 40 per cent of the gross value of these exports, a figure much higher than the corresponding import coefficient for Colombian industrial production taken as a whole, which was estimated at 13 per cent.1/ The compensation represented by the exemption from customs duties and advanced deposits, which exports covered by the Vallejo Plan enjoy, is estimated at an average of between 9 and 12 per cent of the gross value of these exports.2/ In other words, these import exemptions are equal to an increase in the export rate of exchange by the percentages just mentioned.3/

The study of the effect of the application of the Vallejo Plan has been carried out in the preceding lines, by comparing it with the situation existing prior to its introduction. The argument still holds good that in the past, the initiation of the import substitution process made the industries using the inputs bear their cost. The Vallejo Plan was concerned with avoiding this impact on the cost of productionof exports; but the machinery used has caused the production of national inputs to be, in general, limited to the demand for the domestic market. Thus, the contrasts between import substitution policies and export promotion policies were starkly revealed. A policy designed to achieve integrated economic development, on the other hand, makes it possible for these two aspects of external trade policy to complement each other. This seems to be totally viable to the extent that import substitution is based on "reasonable" levels of protection, in which the exporters help in generating demand for components of national

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1/ Díaz-Alejandro, op.cit., The coefficient of the enterprises covered by the Vallejo Plan includes all direct imports effected by them.

2/ This does not include estimates at to the value represented by the exemption from the need to procure licenses in advance and the bans on imports.

3/ If the import rate of exchange were raised simultaneously in order to maintain effective protection of the national added value, it would call for a higher increase in the exchange rate. In the example given in the text, the increase required would range between 18 and 25 per cent.

/origin as

origin as well as activities which produce for the domestic market, and exporters receive compensation through a direct mechanism for the burden of costs which they have to bear by purchasing their inputs.1/ In the final chapter of this document a great deal more will be said on this subject.

(b) Tax exemptions and Article 120

In 1960 a new export incentive was approved, under article 120 of Law 81. It consisted in the exemption from income tax of profits generated by minor exports.2/

Since the export enterprises also operated, in general, to satisfy domestic demand, it is considered difficult to determine what part of the profits corresponded to sales in one market or the other. Therefore, a presumed level of profits equal to 40 per cent of the gross value of exports was established. Enterprises were authorized to deduct from their total profit that presumed income. Since this was an over-estimate, particularly in respect of activities showing little vertical integration, which were carried out by a single juridical unit, in practice this promotion machinery also served to reduce the tax burden on that part of production reserved for the domestic market; in the case of enterprises specializing in export production, the tax exemption in question encouraged their diversification towards the domestic market or the transfer of export operations to middle-men.3/ It is interesting to note that these two side effects represented the opposite of the Vallejo Plan; this tended

1/ See a theoretical discussion on this aspect of import policy in Ffrench-Davis and Piñera, op.cit., September 1976.

2/ Defined as all exports with the exception of coffee, oil and its by-products, bananas and untanned hides.

3/ The export enterprises which had no production lines for the domestic market could not take full advantage of the system, except that they obtained from their exports a net profit of 40 per cent of the gross value. A way of avoiding the problem raised was to export through middlemen who carried out these operations for the national market.

to segregate production on the basis of the market of destination and encouraged the producer of the exportable goods to develop parallel marketing activities.

The equivalent of the subsidy provided by this instrument depended on the rate of income tax to which the exporting enterprise was subject. This rate varied depending on the nature of the juridical person. If an average rate of 35 per cent is taken,1/ the exemption represents additional tax-free income for the exporter of 14 per cent.2/

(c) Other promotion machinery

The customs and tax exemptions are the most important elements of the export promotion policy in force between 1959 and 1967. However, in this period other important instruments were used.

The most innovative of all was the "advance refund", which in addition to promoting exports attempted to attract external funds which would strengthen the balance-of-payments position. Under this system, the exporter could, if he enjoyed access to external credit, contract debts abroad up to the value of his future exports. What the loan produced was changed in the Bank of the Republic to finance his production costs in national currency; the amortization of the external credit was effected with the payment which he received later on his exports. At first sight, it seems a simple pre-shipment credit, the distinction being that it is financed from abroad. However, the procedure used also implied a subsidy linked to the nominal increases

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1/ This figure coincides with the estimates of Díaz-Alejandro and Teigeiro and Elson.

2/ The incentive provided in article 120 is equal to an increase in the export rate of exchange of 21.6 per cent. With a tax rate of 35 per cent the increase is distributed on the basis of 7.6 per cent for the revenue authorities and 14 per cent for the exporter. It should be borne in mind, nevertheless, that the incentive is differed, since it consists in the exemption from taxes which are paid after the accounting period is completed.

/in the

in the rate of exchange which were to be recorded during the period covered by the operation. In fact, when the definitive refund was made a final reliquidation was effected at the rate of exchange in force on the day it was made. As a result, the exporter who had received Colombian currency in advance, and, therefore, had made use of those funds during the period between the provisional liquidation and the reliquidation, was able to obtain greater real income equal to the reliquidation in cases where the exchange rate had increased; the opposite would occur in the case of a revaluation.1/ However, in view of the swings in exchange policy during this period no importance was attached to the system until 1967, from which time on its use continued to spread until 1972.

A further important aspect was linked with an innovation in exchange policy, effected in 1959, which attempted to exclude manufactures with a high import-component content from the preferential exchange rates then in force for minor exports;2/ thus, exports which received better treatment under the Vallejo Plan could not at the same time enjoy the exchange incentive. Attempts were, therefore, made to mitigate the inherent bias in the promotion system in favour of the development of activities which were foreign-component intensive.

1/ The exporter's net profit is equal to the real value of the reliquidation in cases where the cost for him of the external credit is equal to the returns he gets on the investment of funds in the domestic market. In cases where the net profit differs from this figure, there are five variables which determine the size of the net profit received by the exporter thanks to the advance refunds. These are the rate of interest of foreign credit, the nominal domestic rate of interest, the rate of inflation, the variation in the rate of exchange, and the period of the operation.

2/ As from August 1959 exports with an import content higher than 40 per cent were excluded; this percentage was increased to 50 per cent as from March 1961. Note that the average import coefficient of enterprises covered by the Vallejo Plan was in the region 40 per cent.

/This law

This law designed to promote a higher percentage of national value added in exported goods continued in force up to August 1966.1/

As pointed out above, up to 1967 instability was a permanent feature of exchange policy. In general, from January 1963 onwards fixed exchange rates were applied to minor exports. Exceptionally, from October 1964 to June 1965 the preferential rate of exchange was free. In view of the sharp increase in rates during those months, the nominal market rate had doubled by the end of this short period - the Banco de la República intervened again directly, fixing it at a level which was almost 30 per cent lower than the free market rate. This rate of 13.50 Colombian pesos to the dollar was frozen until the exchange reform in 1967; that is, for a period of two years.

Lastly, it should be mentioned that in 1960 the Treaty of Montevideo was signed which established the Latin American Free Trade Association (LAFTA), which Colombia joined in 1961. In the following years, particularly between 1962 and 1964 Colombia received several concessions on some exports, traditional or new, which enabled it to intensify its trade flows with the member countries of LAFTA.2/

In brief, during the subperiod 1959-1967, greater importance was attached to export policy. The main instruments used were preferential rates of exchange, tax and customs exemptions. The application of the first incentive varied widely, showing a pattern similar to that of the two preceding years, whereas the last two, which were established at the beginning of this phase, were maintained without significant modifications throughout the period. In general, the various instruments used, pursued the indiscriminate promotion of exports, without weighting the side effects that such exports

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1/ The abrogation of this law in 1966 meant for the exports benefiting from it a drastic increase of 50 per cent in the exchange rate.

2/ See INTAL, La integración económica de América Latina: realizaciones, problemas y perspectivas, Buenos Aires, 1968.

could produce. In particular, the Vallejo Plan encouraged the development of exports which were import-component intensive. A partial correction of that defect was the law on exchange policy which, during the years 1959 and 1966, attempted to exclude from the benefits of the preferential exchange rates those exports with a negligible national value added.

3. The 1967 reform: Decree-Law 444

In 1967 substantial innovations were introduced in the foreign trade system, which covered the import/export régimes, movements of capital, and exchange rates. The *corpus juris* which fixed the new dispositions was the Decree-Law 444, of March 1967.

The principal changes relating to exports were the introduction of a new exchange policy, the replacement of the tax exemption established in 1960 by a direct subsidy (CAT), an extension of the Vallejo Plan, and the establishment of the Export Promotion Fund (PROEXPO).

(a) The new exchange policy

After a long period of successive modifications in the exchange régime, which culminated in June 1965 with the establishment of a fixed rate for minor exports, a new exchange policy was introduced in April 1967 which has remained basically the same to date.1/ Its main feature consisted in continuous small adjustments in the exchange rate which were tied to the rate of inflation. In this way, they avoided sharp changes in price relationships caused by both massive devaluations of fixed nominal rates and the instability characteristic of the periods in which the free market exchange rate prevailed.2/ The policy which led to greater real stability in the exchange rate was extended to cover major exports, maintaining, nonetheless, in effect a lower rate of for such exports.3/

1/ From January 1959, for a few months, a policy which showed some similarity to that introduced in 1967 was applied. See Díaz Alejandro, *op.cit.*

2/ Note, for example, the periods running from June 1948 to March 1951 and from October 1964 to June 1965.

3/ The exceptions were the application of a nominal fixed rate for oil and the application of a tax on the export refunds on coffee which were initially established at 22 per cent; apart from the 4 points set aside for the National Coffee Fund.

/From 1967

From 1967 Colombia followed an exchange policy of mini-devaluations designed to maintain a more stable real rate and to establish equilibrium in the balance of payments in the medium term; in other words, it attempted to regulate the level of the rate of exchange in accordance with the expected levels of imports and exports, free of short-term fluctuations. However, in fact the policy was not systematic. The frequency and persistence of mini-devaluations was maintained from 1967 onwards, but this did not completely avoid the fluctuations in the real exchange rate in response to the short-term variations experienced in coffee prices. Furthermore, the speed of the adjustment in the exchange rate was also influenced by considerations of a monetary nature. Thus for example, in periods of expansion in the means of payment, which were considered excessive by the Monetary Board, and when the international volume of reserves permitted it, the rate of the Exchange Certificate was readjusted at a slower rate than that of inflation; this helped to mitigate monetary pressures and those of overall demand, but at the same time the stability in the real exchange rate was undermined.

Exchange policy is a global instrument which has a great impact on external trade and directly affect the valuation at market prices of the value added generated in exports and in import substitution. It is, therefore, necessary that the level of the exchange rate be adequate and that its fluctuation round the trend should not be too great in order to avoid the creation of uncertainty as regards price relationships between national and foreign goods. Greater stability in these relationships avoids erroneous investment decisions and has a limiting effect on hedging operations.1/ It is, therefore, preferable to use the policy of international reserves and external debt as a means of cushioning the impact of the ups and downs in the world economy (particularly those relating to coffee prices), without transferring to the domestic market contradicting signals which are harmful to the correct allocation of the real resources of the economy.

1/ It is interesting to note that during periods of high coffee prices in which the exchange rate was continually readjusted at a slower rate than internal inflation, the external debt of the private sector tended to increase. This was due, in part, to the fact that the real cost of external credit was cheaper thanks to the slower rate in devaluation. In such circumstances the flow of short-term capital proves to be a destabilizing factor.

(b) The

(b) The "CAT"

The franchise which consisted in the exemption of the export enterprises which benefited from it from income tax was cancelled and replaced by a direct incentive. This was fixed at 15 per cent of the value of sales abroad, a rate which was considered similar to that provided under the previous system. The new system eliminated some of the deficiencies of the previous one; in particular, it had the clear advantage of being easy to administer, being direct, and of not distorting the operations of the export enterprises in the manner described in the previous section.

The incentive was granted in the form of a document called Certificado de Abono Tributario (CAT), which it was possible to use to pay taxes either on income, sales, or on imports. The CAT was issued for a percentage of the value of minor exports - which in 1967 were defined as all exports, with the exception of coffee oil and its by-products, and untanned hides - expressed in each case in pesos at the existing rate of exchange. The certificates are issued to bearer and do not constitute taxable income, thus the income of the export enterprise is exempt from taxation. The Executive reserves the right to change the rate and the redemption period of the certificates. In 1967, the rate was fixed at 15 per cent, and a compulsory holding period of one year before the documents could be used to pay the taxes owing by the bearer was fixed. This holding period was fixed for fiscal reasons, and it was pointed out that it would be reduced in the future, when the budgetary situation improved.1/ It can be seen that the equivalent exchange rate of the present value of the certificate is higher than the nominal rate (par value), owing

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1/ The purpose of this provision was to prevent the fiscal budget from being effected in the year in which the system was changed, from the simultaneous impact of the CAT and the franchises granted under Article 120. Thus, for example, the fiscal franchises which fell due for exporters in the accounting year 1966 had to be paid in the tax year 1967; therefore, in this period there was the corresponding drop in tax revenue. To be more precise Article 120 remained in force for exports dispatched up to 21 March 1967.

/to the

to the tax exemption which it enjoys, whereas it is smaller owing to the compulsory holding period. The effect of the first feature, just as the franchise under Article 120 of Law 81 of 1960, depends on the tax rate of the enterprise holding the certificate; assuming an average rate of 35 per cent, the CAT is equal to an effective tax bonus of 23 per cent. Its effective value depends, furthermore, on the length of the holding period and the nominal interest rate. In fact, since the CAT is granted for an amount fixed in national currency, its present value varies inversely to the real interest rate and the rate of inflation recorded during the holding period. In general terms, the effective incentive provided by the CAT was approximately similar to that provided under Article 120.

From October 1967 onwards, the certificates were dealt with in the stock exchanges of Bogotá and Medellín, and it is interesting to note that they made up a high proportion of the operations carried out in those institutions. Their price does not completely reflect the benefit received by the exporter, since it is determined only by the par value less the financial discount for the holding period. The advantage of building up non-taxable income for the exporter is not reflected by the stock exchange price, since that only favours the initial holder.

Although the Government has relatively wide powers to modify the cover and rate of this incentive, the operational rules of CAT remained unchanged up to the end of 1974, with a few exceptions. The main one is that the holding period was reduced, first to 9 months in 1970, and later there was a further reduction in 1972. On the second occasion, minor exports were divided into two groups: "processed products", the holding period for which was reduced to three months, and the remainder remained subject to a holding period of six months.1/ Furthermore, the system was subject to two modifications which made it somewhat more

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1/ In 1973 an attempt was made to extend to all alike a waiting period of 11 months. The measure was adopted and abrogated immediately.

/selective. In

selective. In the series of changes recorded in 1973 a clause was introduced which established that the CAT would be granted to exports covered by the Vallejo Plan only if the imported components represented less than 60 per cent of their value. Secondly, in January 1974, the rate of the CAT was reduced to 1 per cent in the case of some exports considered undesirable owing to their effects on domestic supplies, or those considered of low priority because of their limited value added, or those which no longer needed incentives for sales abroad.1/

Ignoring the incidence of the variations in the holding period, of liquidity, and the rate of inflation, the stability of the incentive provided by the CAT, and the wide range of exports covered by this instrument, made its impact in practice somewhat similar to a higher exchange rate compared with the refunds on minor exports.2/

In contrast, it should be pointed out that the use of fiscal incentives is recommendable when the discriminate promotion of exports is desired - a given region, sector, product or the use of a given factor of production - since with the rate of exchange, precisely because of its overall application, it is not possible to differentiate on the basis of the attributes mentioned above. It is for this reason, that fiscal tax and subsidy policy can supplement the exchange rate by introducing a certain degree of selectivity in the export promotion system in accordance with the objectives of national development.

During this period, the CAT suffered from several defects. The first is that it stimulated the total value of production and not the value added, by introducing a bias in favour of those products which included a high level of imported components; therefore, the effective incentive (to value added) was greater the smaller the percentage

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1/ The Board has the power to modify the rate of the CAT but not to supress it. A similar situation has existed in the legislation of other Latin American countries.

2/ Note that it differs from a single rate of exchange for trade in goods in that it only affects minor exports, but not their inputs: it constitutes non-taxable income, and its effective value is affected by the rate of inflation.

covered by national value added; furthermore, it also applied to those exports which already benefited from the franchises provided under the Vallejo Plan, resulting, therefore, in an overlapping of incentives. In addition, the CAT did not discriminate on the basis of desirable attributes, except between major and minor exports, and exceptional cases such as those observed in 1971 and 1974. Since the CAT was equal to a higher export rate of exchange, without a counterpart tax on imports, it had the disadvantage of generating a fiscal cost. When this policy was introduced minor exports were not substantial so that the total amount of the fiscal incentive involved was small. But it was precisely the marked increase in minor exports which caused the corresponding outflow to begin to have considerable repercussions on the national budget.

Furthermore, the CAT was objected to by some countries which imported Colombian products, since it represented a "subsidy", which weakened the position of some national exports. As a result of this, they were open to threats of the establishment of a countervailing duty by the importing countries. This situation revived the need for the prompt revision, in the appropriate international forum, of the concept of export "subsidies" and "disloyal" trade practices, so that greater autonomy can be had in the application of express promotion policies in the developing countries.

Lastly, CAT encouraged the underinvoicing of exports and fictitious exports,1/ and dealings in transfer prices between subsidiary and parent firms in the case of the transnational corporations which led to illegal gains and real costs to the Colombian economy. In particular, fictitious operations seemed to have reached considerable levels in 1974.2/

1/ When the difference in the price of the foreign exchange in the parallel official market was lower than the CAT percentage, it was profitable to effect fictitious exports and obtain in the parallel market the foreign currency for the refund to the Banco de la República.

2/ The existence of those operations led, in part, to the padding of export figures.

(c) Extension of the Vallejo Plan

In spite of its complexity and the difficulty in its administration and control, the Vallejo Plan continued in force after the 1967 reform. Indeed, its operation was extended to three different aspects, namely, "replacement", "multiple" and "clothing".1/

The first, by establishing the same franchises as the Vallejo Plan of 1959, allowed imports to be made to replace inputs which had been imported under the general system, and incorporated in exported goods. The system offered advantages to the enterprises which were less sure of access to international markets, since this would have made it difficult for them to use the system of import-export contracts. Owing to the nature of the mechanisms used in the "replacement" aspect, the incentive is equal to exemption from half of the import tax;2/ in fact, two import operations must be carried out, the first of which is affected by taxes and the second is exempt.

The second mechanism provided import exemptions for the suppliers of intermediate goods to export processing industries;3/ its effect was to extend the scope of the import exemptions and at the same time to eliminate the artificial incentive to vertical integration, of the level of the firm, in the production of exportable goods. In other words, the exemptions covered the imports of indirect components, in addition to the direct ones already covered by the Vallejo Plan.

The third innovation permitted the clothing manufacturers to import raw materials, without the right to the refund of foreign exchange, for re-export once manufactured; the CAT was granted, in this case, only on the value added.

1/ Articles 179 and 173 of Decree-Law 444/67.

2/ More correctly its present value is equal to half normal taxes less the cost of capital, since they are paid once the first import operation is completed, instead of being divided between both operations.

3/ In this case the import-export contract must be entered into by both the exporter and the producer of the intermediate goods.

It can be seen that the three systems expanded the cover of import-export contracts, mitigating, nevertheless, its negative features. In brief, the first reduced the risk which small or new enterprises with greater difficulty of access to external markets were facing; the second reduced the artificial incentives to vertical integration within the same enterprise of the production of export goods and inputs, and the third made the incentives to use imported components less attractive, limiting the concession of the CAT to the value added by the exporter.

(d) PROEXPO: marketing and financing policies

The establishment of PROEXPO constituted an effort to apply a more integrated promotion policy.1/ The functions granted to the new body attempted to provide "external economies" for exporters, by providing them with information on foreign markets, technical advisory services on transport, packaging, and quality control, and the direct promotion of sales of Colombian products abroad, through the appointment of commercial attachés, the help of missions, and the organization of international fairs. In addition, PROEXPO was made responsible for the control and administration of export insurance. In general, these functions fill an existing gap in this connexion. In the poorly competitive, unstable, and heterogeneous international market, the costs of making national products known abroad, and of selecting and studying specific foreign markets helped to pinpoint export opportunities, which were difficult for each potential exporter to detect. Lastly, it should be mentioned that after the establishment of PROEXPO, the procedures required for exports were simplified and rationalized thereby drastically reducing the number of public institutions involved in the operation. Although the progress made

1/ The Fund was established by Decree-Law 444 of 1967. Its status, according to Decree 1175 of June 1976, is that of an autonomous juridical person attached to the Banco de la República. It is defined as a public enterprise having the same functions as a credit institution.

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appears to have been considerable, there are still some problems which affect mainly the small enterprises and those located outside of Bogotá.1/

The main activity undertaken by PROEXPO seems to have been concentrated on the provision of credit. This function has provided an important incentive, owing to the traditional scarcity of working capital characteristic of the Colombian economy.2/ Furthermore, the facility of access to credit has been accompanied by preferential interest rates, this, therefore, constituted a further means of subsidizing exports.

The credit activity of PROEXPO offset in part the impact which the changes experienced in 1973 in the "advance refund" system had on the availability of working capital. This system acquired greater importance from 1967 onwards. During difficult years in the external sector, its operation helped to attract external credit which was used to strengthen the exchange balance. However, in 1972 there was a lull in the external sector, a sharp expansion in domestic economic activity, and a marked increase in the money supply. In view of the desirability of regulating domestic liquidity, and since international reserves had reached a satisfactory level, the Monetary Board proceeded to modify the advance refund system. At the beginning of 1973 it decided that redemption would take place at the rate of exchange in force on the day of the advance. In this way, the implicit subsidy in the system then in force was eliminated, whereas the exporters right to contract external debts was maintained and the rate of exchange was fixed at the time of the advance refund. However, the effects of

1/ See M. Martínez, op. cit.

2/ For example, exporters speak of a scarcity of working capital as one of the main constraints on the production of exportable goods. This is still so even in 1973, as is shown by a survey of exporters which shows this variable as one of the most frequent constraint. See Manuel Martínez, "Obstáculos al desarrollo de exportaciones manufacturadas", Fedesarrollo, 1973.

/these measures

these measures proved insufficient from the monetary point of view.1/ In August of the same year the Monetary Board prohibited advance refunds, expanding instead the lines of credit of PROEXPO. As a result of this, one source of issue was replaced by another. Nevertheless, the new form of issue was open to greater control, since it depended on the amount of the lines of credit which PROEXPO received. Furthermore, it put an end to the large short-term external debt which was potentially very dangerous and clearly inconvenient at times when there was a surplus in the balance of payments.

Lastly, among the activities undertaken by PROEXPO, it implemented a system of export credit guarantee.2/ This was realized through a group of private national insurance companies, the insurance covered commercial, political, and extraordinary risks. The Fund assumed the risk for government measures which prevented the transfer of credit in the currency agreed upon or made such currency inconvertible, general moratoria, catastrophes, or measures taken by the Colombian Government which prevented the exporter from performing his contract to deliver. The insurance company, for its part, assumed the commercial risks. The proportion of loss covered was 80 per cent and 75 per cent respectively. The volume of exports covered in practice was relatively small. More than half of the minor exports during the period were sold for cash and another part under irrevocable credit, therefore no insurance was required. There is no doubt that its major importance lies in the incentives it provides for new exports of manufactured products for the markets of the developing countries.

1/ The easy situation in the balance of payments facilitated the procurement of external credit, the efforts to tighten domestic credit forced exporters to seek its replacement abroad and, lastly, a slow readjustment in exchange rates made it cheaper to contract debts abroad.

2/ The legal authority for establishing the system was granted by Decree Law 444 of 1967.

(e) The Andean Pact: negotiated access

During the course of this subperiod the main negotiation by Colombia to expand the access of its products to external markets was completed. In fact, in 1969 it signed the Cartagena Agreement, which initiated the integration process of the countries making up the Andean sub-region. In 1976, the reciprocal trade of more than one half of the Andean Tariff area is subject to taxes which are lower by 50 per cent or more than those which prevailed in 1969.1/ The simple average rate is approximately 22 per cent.

The gradual elimination of the barriers to reciprocal trade, which at present covers approximately 3,000 tariff positions, together with the gradual adoption by the member countries of the minimum common external tariff (AEMC), gradually created a margin of preference for a number of goods produced in the sub-region. The average rate of the common tariff is 40 per cent, which would mean that in 1976 there would be an average margin of preference of 18 per cent. In practice, however, it is necessary to qualify this calculation. On one hand, it is only a common minimum tariff, and therefore the countries apply higher rates to many items. Furthermore, there are various customs exemptions which mean that the common tariff does not apply across the board; equally, each country can exclude from its liberalization programme a certain number of items, which means that they cannot enjoy preferential treatment in other Andean markets. The combined effect of these special situations seem to imply that the real preference margins show lower averages than the theoretical one.

The foregoing analysis shows that Colombian exports would enjoy a preference margin in Andean markets. In other words, they would receive an incentive because of this, since they would be able to be placed at higher prices than they would get in international markets, a feature common to reciprocal trade protected by margins of preference in any economic integration system.

1/ See Augusto Aninat, "El programa de liberación y el Arancel Externo Común Andino", mimeo, CINDA, 1975.

In view of the introduction of the incentives mentioned, those which were in force previously in the export promotion system should be revised. The common rules governing national incentives for intra-subregional exports are still not being applied, and it is for this reason that each member country has been able to maintain its prevailing system. In fact, the Government of Colombia has maintained for exports to the Andean sub-region the same incentives it grants to those being exported to third countries. The overlapping as the result of the additional incentive provided by the margins of preferences has contributed to the rapid growth in Colombian exports, particularly manufactures,1/ to countries members of the Cartagena Agreement during the closing years of the subperiod.

In sum, from 1967 onwards export policy was transformed into a promotion system which covered different facets, thus acquiring a more integrated character. The specific policies, particularly the exchange policy and the CAT, displayed much greater stability, being supplemented, in addition, by direct promotion actions through PROEXPO. Finally, in the last years of the decade the Cartagena Agreement was signed, which gave an added impulse to the placement of Colombian products in Adean countries.

4. The revision of the system as from 1974

The export promotion system underwent major changes towards the end of 1974, with the introduction of the Economic Emergency Programme implemented by the government of President López Michelsen. The changes in this field attempted to eliminate some of the critical aspects of the existing policy. These can be summed up in three points: the reduction of the financial burden which this meant for the government,

1/ Other essential machinery of the Cartagena Agreement, such as the sectoral industrial development programmes (PSDI) have been slower in having an impact, since, in general, they call for new investment. However, the initial trade flows corresponding to the first PSDI, covering the machinery and metal products sector, on which agreement was reached in August 1972, were already noted in 1974.

the increase in the selectivity of the system, and the activation of the exchange policy. In turn, its revision took place in the context of the development strategy outlined by the new government. Thus, an attempt was made to ensure that the form taken by export promotion would support or be compatible with the various strategic objectives of the government.1/ Among them mention should be made of the generation of a greater number of employment opportunities and the geographical decentralization of productive activities.

(a) Fiscal relief and the selective reduction of the rates under the CAT and the Vallejo Plan

The financial burden born by the Government had grown rapidly between 1967 and 1974. This was due to the multiplicity of incentives granted together with the expansion of the value of minor exports. The high level of public expenditure in the form of incentives to exports recorded at the end of the previous subperiod - which in the case of the CAT amounted to the equivalent of 8 per cent of total tax revenue - explains the concern produced in various sectors as regards the fiscal cost of the promotion system.2/ Furthermore, some of the more important deficiencies or shortcomings of the existing promotions system became more obvious.

The measures designed to reduce the burden for the government were quickly adopted. On one hand, the rate of the CAT was reduced for all exports to levels ranging from 7 per cent to 1 per thousand. The latter rate was applied, generally, to products for which the

1/ See Departamento Nacional de Planeación, Para cerrar la brecha: plan de desarrollo social, económico y regional, 1975-1978, Bogotá, 1975, and Rodrigo Botero Montoya, La Política Económica Colombiana, a statement by the Minister of Finance at the meeting of the Consultative Group in Paris, 23 June 1975.

2/ In the document presented to the Third Meeting of the Directors of Export Promotion of the Andean Group entitled "Objetivos y metas de la promoción de exportaciones" (JUN/RD.PE/III/di.5, of 9 September 1975, Cartagena Agreement), it is pointed out that if the former percentage of 15 per cent had been paid, the fiscal cost of CAT for minor exports would have been 120 million dollars instead of 800 million. The new system reduces the subsidy to approximately 25 million dollars per year.

/incentive had

incentive had been previously reduced and to agricultural products in which exports were creating problems for domestic supply.1/ The rate of 7 per cent was established for most agricultural exports,2/ whereas most manufactures were subject to a CAT of 5 per cent. Under existing legislation, although the measure was adopted in September, it only came into force for shipments effected from 1975 onwards.3/ Furthermore, the holding period of the certificates was increased to 11 months. Lastly, the benefit was granted exclusively on the value added, in respect of exports covered by the customs exemptions under the Vallejo Plan.

The fiscal savings expected from the application of the new provisions, were long in materializing due to the delay between its adoption and its coming into effect. The result was that in spite of the fact that there was a drastic fall in the value of the certificates (CAT) issued (in circulation) during 1975, the value of the certificates used (redeemed) increased during the year. The total value of the latter is what excercises the impact on the fiscal funds, since it is at the time of redemption that they are used as credit for the tax debts of their holders. It was only in 1976 that there was some effective fiscal savings.

The selectivity of the CAT system was increased in various ways, thereby making a better contribution to the development of the rest of the economy. The first of these was, as pointed out, by granting the CAT on the value added generated by exporters covered by the

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1/ The export of several of these products was subject to restrictions, as a result of which the reduction of the CAT had a redistributive effect rather than an allocative one.

2/ The discount of 2 points which was set aside for the Colombian Agricultural Institute was maintained to finance support to small farmers. Therefore, the net rate fell from 13 to 5 per cent.

3/ Modifications must be effected before the 1st of October of each year to come into effect on the first of January of the following year, in accordance with Article 171 of Decree-Law 444 of 1967. Due to the degree of the reduction of the CAT and to the extension of the holding period, shipments were advanced so that they would be recorded before the end of the year.

Vallejo Plan, which meant the elimination of the duplication of benefits which they were still receiving; as a result, the incentive to use imported components was reduced. The effective protection received for each export covered by the Vallejo Plan, therefore, dropped in direct relation to the use of foreign inputs. In addition, in order to enjoy the franchise offered by the Vallejo Plan, it was made compulsory that at least 50 per cent of the value of the export of goods should correspond to national value added.1/ Thirdly, the reduction in the rate of the CAT was also carried out in a selective manner, placing exports which were given lower priority in the lower category (1 per thousand). Lastly, the tax exemption enjoyed by the initial holder of the CAT was replaced by a system of credit on income tax for the purpose of easing the effect of the existence of different rates, depending on the juridical nature of the exporter, on the equivalent subsidy of the CAT.2/ In this way, all the provisions are designed to reduce the future fiscal burden on a selective basis.

(b) Intensified incentives: credit and exchange rates

The measures described, apart from their greater selectivity, meant a clear reduction in the incentives granted to exports under these systems. To offset this, the government decided to expand the credit facilities channelled through PROEXPO and in the following months there was an increase in the readjustments in the exchange rate. The financing of the two compensating mechanisms does not imply any fiscal cost.

With regard to credit for financing the longer resources required and the subsidies implied in the lower rate of interest paid by the beneficiairies of such credit, the rate of the special tax on imports was raised. This was done in two stages, first it was raised to

1/ In the case of the later Vallejo Plan it amounts to 60 per cent.

2/ The new system consists in adding a par value of the CAT received by the exporter to his taxable income and he can subsequently deduct from the tax due a proportion of the CAT.

3.5 per cent and subsequently, in October 1975, it was raised by a further 5 per cent;1/ it is for this reason that the import costs of goods subject to taxation increased.

It can be seen that under this provision an incentive financed with general funds from the budget is replaced by one covered by a tax on imports. The revenue from this tax is considerable, and it will, therefore, constitute an important source of financing for PROEXPO, if maintained. In 1975 it produced more than 40 million dollars.2/

Most of the credit has continued to be directed to the provision of working capital. Although PROEXPO provided the funds - from its own sources, from the Bank of the Republic, or from other finance organizations - the credit operations are generally carried out through the banking system. The maximum rate of interest paid by the exporter for placements in national currency is 18 per cent per year. In spite of the drop in the rate of inflation in 1975, the real cost of these credits was negative. Therefore, the exporter who succeeded in having access to export credits received an incentive, through the real rate of negative interest, which is estimated to be equal to an average exchange rate of 3 to 4 per cent.3/ Furthermore, a little more than half of the less important exports were financed.4/

1/ It should be borne in mind that this additional charge on the CIF value of imports is not applied to, among others, those imports covered by the Vallejo Plan. In order to avoid greater discrimination between inputs incorporated in export goods and those incorporated in goods consumed locally, the tax also had to cover the operations under the Vallejo Plan.

2/ Revenue received was even higher in 1976, since the 5 per cent rate was applied throughout the year.

3/ The exporter receives funds equal to up to 80 per cent of the value of the goods. It is estimated that the average period of credit is approximately four months and that the nominal cost of capital to the exporter is 34 per cent per year.

4/ See PROEXPO, Fondo de Promoción de Exportaciones, Informe de Actividades, 1975, Bogotá, 1976. Of the minor exports, cotton, sugar and bananas did not have access to credit.

/The strengthening

The strengthening of credit support for exports also had some selective features. In particular, substantial sums were set aside for exports affected by the economic recession in the developed countries. In this connexion, it is interesting to note that temporary support was provided in response to a conjunctural situation.1/ Products whose exports had expanded sharply in preceding years faced drastically depressed markets during 1975. In addition, special lines of credit, "machinery for temporary compensation" were established to provide relief in difficult situations resulting from the sharp drops in world prices and other temporary causes.2/ Lastly, during a period of difficulties in the balance of payments, the advance refunds system was re-opened, although for a limited number of products - textiles, cotton, beef, tobacco and bananas - at the same time, the external borrowing of export producing enterprises for financing working capital or investment was authorized for minimum periods of 5 years. When the balance-of-payments situation was corrected, this authorization was suspended in March 1976. The export credit guarantee continued to operate, with an innovation under which PROEXPO began to cover 50 per cent of the premium paid by the exporter.3/ Nevertheless, the use of insurance continued to be very limited. As is to be expected, the large majority of the policies cover credit for less than one year and mainly operations with countries of the Andean Pact and of Central America.

The second promotion mechanism to which the Government attached importance was the exchange policy. With a view to cushioning the effects of the reduction of the CAT, exchange policy was given a more important role than in the past. In fact, an attempt was made to improve the real level of the rate of exchange, which resulted in a

1/ The textile and clothing sectors were the main recipients of special credits. Both experienced a crisis in 1975 as a result of the economic recession in several developed countries.

2/ Rice received compensation in the region of 7 per cent in 1976.

3/ Up to a maximum of 1.5 per cent of the amount insured. In addition, the proportion of losses resulting from political and extraordinary causes for which cover could be obtained was increased to 85 per cent.

/more rapid

more rapid increase in its rate, particularly during the last months of 1974 and the beginning of 1975. In fact, the price of the exchange certificates increased by 22 per cent during the first twelve months in which this new system operated, and helped the real rate (adjusted for domestic and external inflation) to improve by approximately 4 per cent.1/ Nevertheless, there was subsequently a spectacular and continued increase in the price of coffee which generated a rapid increase in international reserves and an expansion in the money supply which was higher than that desired by the Government. As a result of this, the exchange adjustments were made smaller, thereby introducing a reversal of the trend in real exchange rate in recent months.

Efforts to correct the situation include an agreement reached in 1976 between the Government and coffee growers for the latter to invest their surplus income in bonds based on the coffee exchange price of 1.20 dollars. The agreement is valid for 6 months. Although the result itself is not enough to promote stability in the economy, it represents a movement in the right direction in order to avoid the transfer towards the heart of the Colombian economy of the effects of the ups and downs in coffee prices.

(c) Other promotion efforts

Since 1974 several other efforts have been made to strengthen the export promotion system. Many of them, however, are at the design stage or their implementation is still too limited to show any results.

1/ It is interesting to note that some Colombian exporting enterprises do not consider such an exchange policy to be in their interest. There are two reasons for this: (i) devaluation raises the costs in terms of national currency of imported inputs although, obviously, it increases the value added in national currency; however, working capital is scarce and some enterprises can only obtain it at high costs in informal markets; (ii) for an exporting enterprise who has current liabilities in foreign currency, an increase in the rate of exchange is not to their advantage; if these liabilities are substantial this negative factor for the enterprise could be more important than the positive impact of devaluation on the value added in exports. Such a situation is all the more likely to occur when the proportion of production exported is lower than sales in the domestic market.

/Mention should

Mention should be made of an aspect which is of more importance for the future, namely, the recent preparation of an industrial design plan, for quality control, and packaging,1/ and a study on the "exportable supply" for guiding the search for external markets. At another level, there are the incentives anounced in 1975 for enterprises installed in frontier areas. The incentive consists in the refund of a part of the contributions made to the social security system (SENA and the compensation funds) by the enterprise; these contributions are proportional to the payroll. The percentage refunded, ranging between 40 and 80 per cent, will depend on the proportion of the production destined for the external market. The machinery tends to operate in the correct direction for it prombtes those enterprises with a larger payroll and those located in the frontier areas; nevertheless the incentive is a modest one because of the low incidence of social security rates.2/

Lastly, it should be mentioned that a system for approving export records was formalized. From the beginning of the decade the expansion of some exports had been raising problems of domestic supply. In response to this, case by case, limits to these exports were established. One of the problems which this process was designed to correct was the transfer to the domestic economy of the instability in various external markets, a particularly marked feature in recent years.3/ At the beginning of 1975 with a view to organizing the system and reducing its casuistic nature, the Executive decided that

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1/ PROEXPO "Plan nacional de diseño industrial, control de calidad, empaque y embalaje para industrias de exportación", Bogotá, August 1976.

2/ See an account of other activities of PROEXPO during 1975 in Informe de Actividades 1975, op. cit.

3/ Some of the Colombian export products showed features of marked instability in prices and volumes for domestic markets. See for example "El Idema y la política de comercialización de productos agrícolas en Colombia", in Coyuntura Económica, Volume VI, Nº 1, April 1976.

/exports would

exports would fall into four categories,1/ namely: (i) those without special requirements; (ii) those which could be exported only by specialized producers or producers' agencies; (iii) those for which the prior study of production and domestic consumption carried out by government bodies was necessary, to be specified in each case; and (iv) those for which export was suspended.

In brief, the policy introduced in 1974 marked a sharp innovation in some aspects of the system introduced in 1967. The differences are in the form and intensity of the use of the various domestic promotion instruments. In view of the serious preoccupation caused by the fiscal impact on export promotion indiscriminate incentives on the gross value of exports were drastically reduced; the same occurred to a lesser extent as regards incentives which discriminated in favour of imported components. The pattern of change has been to shift, partially, in the direction of providing incentives for national value added with a certain degree of preference for the employment contained in it. Furthermore, a part of the financial burden has been transferred to imports, through a tax; in this way an attempt has been made to increase the contribution of the external sector to the budget. Finally, the exchange policy assumed an active role at the beginning; however, following the rise in the price of coffee, it once more became subject to the ups and downs in the price of that product.

1/ Resolution 003, of the Consejo Directivo de Comercio Exterior of January 1975.

/Chapter IV

Chapter IV

ELEMENTS FOR A GLOBAL APPRAISAL OF PROMOTION POLICY 1/

1. Use of incentives and degree of promotion

Promotion policies use fiscal resources which could be directed towards other activities or sectors of the economy. If the State has difficulties in obtaining additional fiscal revenue - either because there is a limit to the amount available, or where for reasons other than economic ones society dictates the size of the fiscal sector, or because the machinery for collecting revenue generates real costs for society when operating above certain levels - the distribution of scarce fiscal resources assumes enormous importance. It cannot be forgotten that if the above assumption holds good, the true opportunity cost of fiscal resources directed to promotion is either "imposed inflation" with the economic and social costs that this generates, or the reduction in the share remaining for other public expenditure. The social cost of cutting down redistributive programmes, as necessary as those relating to expenditure on health, nutrition, education and housing, may well be considerable in developing countries with highly unequal income structures.

Tables 13, 14 and 15 contain information on the use of the three promotion incentives of greatest importance, apart from the exchange rate, in policies for promoting Colombian exports; the Tax Credit Certificate (Certificado de Abono Tributario CAT), the import-export systems known as the Vallejo Plan, and the financing of minor exports by PROEXPO or the Bank of the Republic.

Table 13 shows the impact that the granting of the CAT had on fiscal revenue. Two aspects stand out immediately: (a) the rapid growth experienced in certificates issued: from 11 million dollars

1/ This chapter is a first draft which needs improvement, and the information contained in it will have to be revised and completed in a later version.

at the beginning of the system in 1967 to 95 million dollars when it was drastically changed in 1974; and (b) the high level they recorded at their peak in 1974, when they represented 7 per cent of total current government revenue.

Both facts are easily explained. The rate of growth of the CAT is no more than the reflection - since the rate remained constant during this period - of the impressive growth in minor exports in current values, and the level achieved is the direct result of its rate (15 per cent) and the base chosen for applying it (FOB value of minor exports).

In Chapter III details were given of the changes introduced in the CAT in 1974, all of which were in the right direction as regards its effects on the allocation of resources. From this fiscal point of view, these changes also represent a major advance as can be seen from the figures of the CAT in circulation in 1975, which show some easing of the fiscal burden.

It was the very success of the promotion system in general, and that of the CAT in particular which led to its drastic reform and virtual elimination, for the fact of linking a constant rate of such size to a variable which might, as it did, grow at exceptional rates, contained the germ of increasing fiscal balancing problems.

The conclusion is clear: an important part of the promotion effort cannot be based permanently on an unchanging fiscal incentive, the axis (or base) should be instead the level of the rate of exchange, so that fiscal incentives would determine the variability in the degree of promotion but not its average level. Furthermore, the role of fiscal incentives is more important during the early stages of the export effort, when the need for a discriminating instrument is greater to offset the initial costs of the process, insofar as they generate external economies for export activities or for the country as a whole.

Trends in imports liberalized under the Vallejo Plan, and that of exports to which such imports give rise are shown in table 14. It can be seen from the table that imports for this purpose amount to a considerable sum, almost 80 million dollars in 1975, and that exports effected under this plan account for the largest share of exports of manufactures. From these figures, and the details given in Chapter III, it can be seen that the import ratio is higher in respect of exports affected under the Vallejo Plan than the average for productive activities in Colombia, which suggests that the Vallejo Plan, particularly if operating in conjunction with the CAT, provides a greater incentive for those processes and activities which are more import-component intensive.

Lastly, table 15 provides some figures which indicate the special financing received by minor exports. As explained above, the system of advance refunds was for a long period the main mechanism for financing exports, reaching in 1972 its peak of 230 million dollars. From that point on the levels achieved began to fall, at the same time as the importance of PROEXPO's provision of finance began to increase. Towards the end of 1975, this institution maintained a balance of replacements of 160 million dollars; because of the rotation of these funds during the year, PROEXPO, granted export credits amounting to approximately 420 million dollars.

The limited development which has been characteristic of the Colombian capital market, and the beginning of financial activities relating to minor exports made it necessary to channel financial resources to these sectors through official institutions which guaranteed speedy access to credit. However, it must be pointed out that it was not necessary to provide an incentive through negative rates of interest in real terms, with their consequent harmful effects on the economy as a whole. However, the extent to which this activity has grown, as well as future plans which may well materialize in view of the fact that PROEXPO is accumulating a substantive holding of resources from the 5 per cent tax on imports, make it necessary to reconsider the role being given to this institution in official financial intermediation, in order to avoid negative side effects on the allocation of financial resources.

/The effective

The effective exchange rate shows the overall degree of promotion for minor exports. This is obtained by adjusting the legal rate of exchange by the equivalent exchange rate of fiscal incentives, (CAT), imports (Vallejo Plan), and financial ones (credit at rates of interest lower than those prevailing in the market). The first three columns of table 16 show, in nominal terms, (Colombian pesos per dollar for each year), the legal rate of exchange, the effective rate of exchange for manufactures (including the Vallejo Plan incentive) and the effective rate of exchange for the remaining minor exports (not subject to the Vallejo Plan) for the period between 1952 and 1975.

The analysis cannot be made in terms of nominal exchange rates since they do not take account of the changes in the ratio of external prices to domestic prices, or of the different rates of inflation abroad and in Colombia. The legal and effective rates of exchange must be calculated in real terms. Two problems arise immediately: What external and internal price indexes must be used? In this study we constructed an external price index for Colombia, using the export price indexes of four countries which provide a substantial share of Colombian imports (United States, United Kingdom, France and the Federal Republic of Germany), adjusting them by the variations in the rates of exchange of the pound sterling, the franc and the mark compared with the dollar. In this way the precise movement of the Colombian peso is obtained in real or parity terms. Although it is customary to deflate the rate of exchange by the consumer price index, we believe that a more correct approach is to use the wholesale price index since this does not include services which play no part in international trade.

Table 16 contains all the necessary information. The first three columns show the legal and effective rate (adjusted by non-exchange incentives) in nominal terms. Using the export price index referred to (column 9) and dividing by the index of the exchange rate (column 10) we get the external price index for Colombia (column 11). This in turn is divided by the wholesale price index for Colombia (column 12) to obtain the ratio of external to internal prices (column 13) which

/will be

will be used to convert the nominal rates into real ones. Columns (4), (5) and (6) contain, therefore, the real exchange rates, both the legal and effective ones in Colombia for a period of 23 years.

These data shed light on one of the most controversial aspects of promotion policy in the last ten years. In fact it is pointed out in Chapter II that the period in which the greatest growth in minor exports occurred was that running from 1967 to 1971, and that although exports grew more rapidly in terms of current values, in the period 1971 to 1974 this growth was due rather to the acceleration in world inflation. In fact, during recent times the rates of growth in the export quantum fell, however, levels remained satisfactory compared with historical Colombian trends, and compared with those of other Latin American countries. Indeed, in table 16 it can be clearly seen that it was precisely in the year 1971 in which the degree of promotion, measured on the basis of the effective rate of exchange in real terms, reached its peak, falling in the three subsequent years. This suggests a conclusion, which the following section will prove using more systematic econometric data, namely that the real effective rate of exchange has an important causal effect on the rate of growth of minor Colombian exports.

Furthermore, columns (7) and (8) show that the contribution of non-exchange incentives to the effective rate of exchange was increasing practically throughout the period, representing in 1967-1971 approximately one-third of this rate for manufactures and a quarter for other minor exports. After 1971 this fraction begun to fall until in 1975, following the 1974 reforms, non-exchange incentives made up only 15 per cent of the effective rate for manufactures and 9 per cent of the same rate for other minor exports.

In 1975, the legal rate, in real terms, increased reaching its highest level in the period 1972-1975. The reforms to the promotion system introduced at the end of 1974 reduced the difference between the legal and the effective rate, however, the latter increased slightly in spite of this. In other words, the structure of incentives

/have changed,

have changed, non-exchange incentives being replaced by the rate of exchange, which is a step in the right direction, and at the same time the degree of promotion increased.

As the trends throughout the period of the exchange policy show, this seems to be subject to a certain degree of instability which, although small in Latin American terms, is sufficiently high to provoke harmful effects on the efficient growth of the Colombian external sector. There is no doubt that fluctuations in the price of coffee still influence, although to a lesser degree than before, trends in the real rate of exchange in Colombia.

The adoption in 1969 of a programmed exchange rate policy with frequent minidevaluations represents the most outstanding advance in this respect.

In fact, since the rate of exchange is a variable which affects the price relations of different goods, in economies which are affected by inflation, as in the case of Colombia and other Latir American countries, what is important is the real rate, in other words, that which is suitably deflated by the internal and external inflation indexes, and not the nominal rate of exchange. It is for this reason that any policy designed to maintain fixed nominal rates of exchange where internal inflation is higher than external inflation in fact brings about a real revaluation in the exchange relationship. This after a time leads to a balance of payments problem which makes a high discrete devaluation in the rate of exchange necessary, thereby creating negative effects on inflation expectations and generating unjustified capital gains in certain sectors.

A further problem of the managing of exchange policy in a country which depends to such an extent on the exports of a single product, for example coffee, are the ups and downs in its price. In fact, the fluctuations in the price of coffee, which have been high and frequent, lead, alternately, to deficits and surpluses in the balance of payments. If the rate of exchange is used as an instrument of equilibrium in the short term, it sets off fluctuating signals for the allocation of resources in the economy thereby generating real costs, since there are certain constraints in the productive activities and substantial costs of adjustment. It is for this reason that, rather than variations in the rate of exchange as a means of solving short-term problems, financial solutions are required, such as the maintenance of certain levels of international reserves, or short-term foreign debt, or the use of multilateral machinery for supporting the balance of payments (common reserve funds or "regional safety nets"). The latter without prejudice, of course, to all the efforts at international and domestic levels to obtain a more stable coffee price based on the long-term trend.

The problem would, therefore, be to define what can be called a "normal price" or equilibrium price of coffee, so that an exchange policy could be followed which accumulates international reserves when the price of coffee is higher than the equilibrium price, and which depletes reserves when this is lower. A more sophisticated policy might be called a "composed good", which consists of certain proportions - in accordance with their importance in total exports at normal prices - of the most important products such as coffee, sugar, tobacco, bananas and cotton. Movements in the real exchange rate would only be used to correct major imbalances in the balance of payments, calculated on the basis of the normal prices of the composed good and desirable levels of external debt and international reserves.1/

Similarly, these unexpected fluctuations in prices cause problems of monetary management for the economic authority. In fact, by building up reserves, the produce of their purchase of foreign exchange from exports, money is issued for this purpose. To the extent

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1/ After a suitable definition has been made of a rate of exchange compatible with the normal price of coffee, it will be necessary to modify the nominal rate of exchange on the basis of changes in the relationship between the levels of external and domestic prices. Here the problem is how to measure this relation adequately; in general, wholesale price indexes reflect more correctly variations in pertinent prices for determining the rate of exchange, since they do not include goods which are not traded in international markets such as services, construction work and transport.

/that the

that the instruments of monetary control are defective, and there is difficulty in activating elements which control the money supply, the variations in the price of coffee will turn into, through the money supply and the constraints of falling prices, inflationary pressures.

Furthermore, the level of equilibrium in the rate of exchange also depends on the other economic policies. When a change occurs in one of them it is necessary to seek the new equilibrium level for the former. Thus, for example, the introduction of a policy of reduced tariffs calls for a higher rate of exchange to balance the trade balance. It is then that real devaluations in the rate of exchange should and must occur, when other economic policies which have a negative effect on the balance of payments are changed.

2. The effectiveness of the promotion policy

A number of econometric studies have been made on the sensitivity of Colombian minor exports to variations in the effective exchange rate. Some of them only extend up to the period preceding the third phase of the promotion policy;1/ subsequently both Díaz-Alejandro and Teigeiro and Elson have studied its effectiveness. We shall single out their most important results.

Díaz-Alejandro 2/ estimated the response of the supply of minor exports in relation to the effective exchange rate applicable to them.3/ The dependent variable was the annual percentage change in the total

1/ See John Sheahan and Sara Clark, "The Response of Colombian Exports to Variations in Effective Exchange Rates" (Research Memorandum Nº 11, Center for Economic Development, Williams College, June 1967); Leland L. Johnson, "The Question of Greater Exchange Rate Flexibility in Colombia" (Research Memorandum Nº 5545, United States AID, August 1968) and A. Urdinola and R. Mallon, op. cit.

2/ See Carlos Díaz-Alejandro, op. cit.

3/ In this study, the effective exchange rate is the exchange rate corrected for differences in the growth of internal and external prices, taxes on minor exports (1959-1961) and subsidies granted through the taxation system.

/value of

value of minor exports:1/ the main independent variables were the level of the effective exchange rate and an index of the stability of the rate. In the regressions, which cover the period 1954-1970, he obtained significant coefficients for the exchange rate, with elasticities ranging between 0.74 and 1.05 (results similar to those obtained by other authors). He also found that exchange instability has a definitely negative effect on minor exports.

He concludes that the hypothesis that exchange rate policy had greatly affected minor exports is substantiated by more of the evidence than the opposite hypothesis, but he admits that it is difficult to assign to each economic policy variable responsibility for a precise part of the growth of minor exports.

In a later study covering the period 1948-1951, Teigeiro and Elson,2/ took into account in the calculation of the effective exchange rate not only tax payment certificates (CAT) but also the Vallejo Plan benefits and the special credit facilities corresponding to advance rebates. They also tried to differentiate between the effects of exchange rate variations on agricultural and on industrial minor exports, and to assess the relative impact of each component of the exports promotion system on the performance of minor exports.

They found that the elasticity of minor exports with respect to the real effective exchange rate was approximately 1.3, which shows a strong response by the export sector to variations in the exchange rate.3/ Furthermore, after breaking down the various components of the

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1/ Díaz-Alejandro is aware of the problems stemming from the use of current values rather than indices of physical volume when the prices of minor exports have varied greatly. However, he was unable to obtain indices of physical volume, except for BAAT exports (bananas, sugar, cotton and tobacco) between 1958 and 1969, for which he carried out regressions between the quantum of exports and the effective exchange rate.

2/ Teigeiro and Elson, op. cit.

3/ However, here again current values were used which may introduce an upward bias in the elasticity because of the behaviour of these variables during this period in Colombia.

/effective exchange

effective exchange rate - legal exchange rate, financial value of fiscal incentives and financial value of special credit facilities - "the exchange rate itself appears to be by far the most important explanatory variable in terms of statistical significance". 1/ With the introduction of a dummy variable to reflect the influence of LAFTA on the growth of minor exports, the statistical results are substantially better and the LAFTA variable is highly significant.

Finally, a study was made using quarterly data and distinguishing between exports of manufactures and agricultural minor exports. Once again the effective real exchange rate 2/ showed a high explanatory potential for both groups of minor exports.

All in all, economic theory, econometric results and the judgements obtained from the survey on Colombian exporting companies 3/ agree that Colombian minor exports have a strong response to the level (in real terms) and stability of the exchange rate. The other fiscal, tariff and credit incentives which can be translated into an exchange-rate equivalent do have a clearly discernible effect on the volume of exports, but not to the same extent as the exchange rate itself. This may be explained by differing expectations about the stability of such promotion policies and varying views of the real value of the various instruments concerned.

3. Overall effects of the promotion policy

(a) Allocation of resources

The policy of promoting import substitution made the Colombian export sector more vulnerable. This may be seen from the levels of effective protection granted to different sectors whose products are

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1/ Teigeiro and Elson, *op. cit.*, p. 36. In this regression they did not use the financial value of the Vallejo Plan, which only applies to exports of manufactures.

2/ Including the Vallejo Plan component for exports of manufactures.

3/ CEPAL-Bogotá, *Encuesta a empresas exportadoras colombianas*, August 1976.

/saleable on

saleable on the international market. Table 17 provides the figures for Colombia, including primary and manufacturing sectors in the year 1969: they were calculated by Hutcheson 1/ using two alternative methods outlined in economic literature.

Estimating that in 1969 the exchange rate would have to rise by 34 per cent to balance the external sector if the structure of protection were removed, Hutcheson maintains that any of the activities shown in table 17 with effective protection lower than 34 per cent were at a relative disadvantage, while the opposite was true of those which received higher effective protection.

In his thorough study of the Colombian foreign trade régime, 2/ which only goes as far as 1972, however, Díaz-Alejandro maintains that although the theoretical and empirical difficulty of this kind of calculation are well-known, it is clearly apparent that the variation in the protection granted to different sectors is very great. Not only was the manufacturing sector on the whole protected whereas the primary sector was not, but it may also be seen that the protection varied considerably from one branch of activity to another. This suggests that the cost in domestic resources of generating one dollar has differed widely among branches and sectors of production, so that a promotion policy leading to some reduction of the variation in the structure of effective protection could have positive effects on the allocation of resources in the Colombian economy. Hutcheson maintains that the structure of protection had a discernible effect on the pattern of growth in the industrial sector and that by over-favouring some lines at the expense of others it has contributed to the slow growth of employment.

1/ T.L. Hutcheson, "Incentives for Industrialization in Colombia", Ph. D. dissertation, University of Michigan, 1973.

2/ C. Díaz-Alejandro, Foreign trade régime and economic development in Colombia, National Bureau of Economic Research, 1976.

/Díaz-Alejandro lends

Díaz-Alejandro lends perspective to his study by pointing out that activities with effective protection rates of over 40 per cent accounted for only one-third of the value added (at domestic prices) in the manufacturing sector, or between 6 and 7 per cent of the gross domestic product, and that it is significant that a large part of Colombian manufacturing industry operated at international prices. However, he lays great stress on the inefficiency characteristic of the highly protected one-third,1/ and the disturbing fact that the proportion of investment in the industrial sector which has been channelled to these branches is very high.2/

The export promotion policy has provided protection for the majority of exportable lines which were receiving negative effective protection. Thus a study of the effective protection created by the tariff system and by the CAT (Tax Payment Certificates) incentives and the Vallejo Plan for 105 products, selected as potential exports by Colombia to member countries of the Andean Pact,3/ indicates that in 1970 all the groups in which they were classified received negative effective protection when the effect of the tariff system alone was considered. Table 18 shows the protection for sales within Colombia, for exports without CAT or Vallejo Plan facilities, and for exports with the two incentives, in 1970.

1/ He refers by name to the petrochemical industry (especially pharmaceutical), the automobile industry, consumer durables - like refrigerators and washing machines - and artificial fibres.

2/ D. Morawetz in "Import substitution, employment and foreign exchange in Colombia: no cheers for petrochemicals" (mimeo, Harvard Development Advisory Service, September 1972) argues that petrochemicals have received more government support than any other industrial sector in the 1960s - for example, 25 per cent of the total credit granted by the government's Fondo de Inversión Privado (FIP) - and that nevertheless it only generates 8 per cent of the industrial product. Furthermore, this sector is highly capital intensive - it is estimated that between 200,000 and 300,000 dollars of investment are needed to create one job in this sector, so that its absorption of labour is much lower than its share in the value added of the industrial sector.

3/ It should be recalled that the Andean integration machinery, with some exceptions, entered into operation in 1972.

The impact of these two incentives together on the level and structure of effective protection for these exportable lines is striking. Effective protection of between minus 7 per cent and minus 150 per cent is turned into positive protection ranging from 25 to 58 per cent. The variation has declined and, recalling that Hutcheson estimated that the Colombian peso in about this period was over-valued by 34 per cent, the range of the levels of protection becomes more similar to that of an equalization-compensation policy.1/

In order to determine the efficiency of the policy, however, the structure of protection must also be examined.2/ One important aspect is the relationship between the profile of protection and the labour intensity of the different productive sectors. Employment creation in the different productive sectors of the Colombian economy will be examined in the following section.

(b) Employment

A minor export promotion policy will contribute to the growth of employment to the extent that it provides incentives for productive technology with a higher labour use and for activities which are more labour intensive. In other words, the labour/capital ratio can be changed through effects within and among activities.

The Colombian promotion policy until 1974 did not show any visible preference for the use of machinery discriminating in favour of technology and activities which generated greater employment within the exporting sector. On the contrary, it has already been pointed out

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1/ See Chapter I.

2/ Another fact that should be taken into account in connexion with the desirable level of intervention in Colombian foreign trade is that, for geographical reasons, Colombia is a country of open frontiers (land and sea). It is therefore difficult to isolate the domestic from the international régime of relative prices, and an exaggerated attempt to do so will produce a substantial flow of unregistered trade (according to some estimates, this flow has been in the region of 100 million dollars in some years), particularly in certain goods (cattle, sugar, cement, etc.). The effects of these trade flows on welfare and economic policy are discussed in J. Bhagwati, ed., Illegal transactions in international trade (North-Holland, 1974).

/that some

that some of the incentives (Vallejo Plan, negative real interest rates) even discriminated in favour of productive processes which were more intensive in the use of imported inputs and capital.

However, the promotion policy provided a strong stimulus for exporting activities as a whole in comparison with other activities and thus made a positive contribution to the absorption of both urban and rural unemployment. The industries capable of producing at international prices (at the effective exchange rate) are precisely those where the employment generated by each unit of value added is greatest. Tables 19 and 20 provide estimates of employment and value added attributable to exports. It appears that it is precisely the most labour intensive sectors - textiles and made-up articles, food and also the basic metal industries - which contribute most to industrial exports.

Income distribution, while not actually a goal of export promotion policy, has been improved by it through two effects: (a) these exports have reduced unemployment and raised the standard of living of the rural sectors identified as critical areas in terms of extreme poverty and social deprivation;1/ (b) by contributing to overcoming the chronic external disequilibrium which has absorbed the energies of the economic authorities for so long it has freed resources, time and energy which may be devoted to solving the problems of income distribution.2/

1/ In the case of Colombia various theories seem to explain the pattern of trade. The Hecksher-Ohlin theories on the sale of the surplus and the cycle of the product are relevant to understand the trade flows of specific goods. It is therefore difficult to estimate the distributive effects in a context of general equilibrium. In this connexion, see the interesting stuby by C. Díaz-Alejandro, "Efectos de las exportaciones no tradicionales sobre la distribución del ingreso: el caso colombiano", Estudios de Planificación Nº 50, CEPLAN, Universidad Católica de Chile, 1975.

2/ Another point we have not discussed because of a lack of time and information is the role of transnational companies in Colombian export trade and their impact on the rate of growth and the destination of exports, the effectiveness and efficiency of the promotion policy and on income distribution among countries.

/4. Final

4. Final remarks

An outstanding feature of the Colombian economy is the importance of the external sector, which represents about 20 per cent of the national income and generates roughly a quarter of Government revenue. An export promotion policy with a real impact will affect, among other variables, the level and rate of growth of the product, the fiscal situation and the level of employment. It must therefore be coherent and compatible with the country's overall development strategy. The Colombian promotion policy has been undergoing a process of continual improvement, in which each successive phase corrects some of the weaknesses of the previous one and adapts the policy to the new circumstances of the national and the world economy.

The policy has unquestionably been effective in the sense that it has had a strong and clearly discernible impact on the level and structure of Colombian exports. The evidence given all points to the conclusion that it has developed relatively efficiently and been designed and implemented taking into account the costs and benefits it implies for the national economy. Naturally, all this does not rule out a number of specific instances in which it could be improved so as to attain its objectives with minimal harmful side-effects.

Two aspects of the policy should be reviewed if it is to continue to be a key element in Colombian economic development.

In the first place, we have mentioned the need for the system of incentives to be built around a suitable exchange rate to attain long-term equilibrium in the external sector of the Colombian economy. This will minimize the fiscal cost of the policy and help to avoid friction with importer countries on the problem of unfair trade practices. The system of differentiated incentives should have an important place in the policy since its role is to make the policy selective. However, the unsound argument to the effect that the policy should be selective so as to give further incentives to those activities which are inefficient not only at market but also at social prices, which leads to a mistaken allocation of resources and an artificial competitiveness based on subsidies, should not be confused

/with the

with the valid argument recommending selectivity because discrepancies between social and market prices are not in fact homogeneous among sectors and products. Preference should be given to encouraging those activities which generate more national value added, employment, technology and other externalities inasmuch as the market prices do not fully reflect their social benefits.

Secondly, policies on marketing, access and negotiation are becoming increasingly important. Their role is particularly significant in the regional and subregional integration processes and in international efforts for trade with other developing countries. In turn, exporting successes create frictions which should be smoothed out through negotiation. While only a few products have met with problems of access to the markets of the developing countries - particularly textiles, flowers and meat - and these restrictions have coincided with the worst recession in the industrial world since the 1930s, no effort must be spared to avert possible problems in this field. Fears of instability of access on the part of exporters - stemming from few but far-reaching measures - may be as damaging for the future of investment in export projects as instability itself.

The export promotion policy has helped to overcome some of the most serious problems of the Colombian economy. It certainly can provide valuable lessons for the other countries of the region and even for other developing countries which have recently undertaken the design and implementation of a dynamic export strategy towards regional and world markets so as to step up the growth rate, raise the level of employment and ensure greater welfare for the entire nation.

/Table 13

Table 13

COLOMBIA: TAX CREDIT CERTIFICATE (CAT), 1967 TO 1975

Year	Issued (equivalent in US dollars)	Issued	Redeemed	Balance to be redeemed	Current income of the Central Government	Ratio of the CAT redeemed to current income of the Central Government
		Millions of pesos				
	(1)	(2)	(3)	(4)	(5)	(6)=(3)/(5)
1967	11.0	160.0	0.0	160.0	7 294.7	0.0
1968	20.4	332.2	136.5	355.6	8 858.3	1.5
1969	25.6	444.6	331.2	469.1	11 249.1	2.9
1970	27.3	505.0	424.0	550.1	13 155.5	3.2
1971	35.3	706.7	543.2	713.6	16 651.5	3.3
1972	53.3	1 169.7	859.5	1 023.8	17 702.6	4.9
1973	74.5	1 764.5	1 456.0	1 332.2	23 947.8	6.1
1974	94.5	2 474.9	2 279.2	1 527.9	32 615.1	7.0
1975	39.0	1 209.2	1 779.9	957.2	42 019.8 a/	4.2

Sources: Column (2), Bank of the Republic, the issuing institution of the CAT; Column (3) Dirección General de Impuestos; Column (4) corresponds to the difference between the accumulated value of columns (2) and (3); Column (1) is equal to column (2) divided by the annual average purchase price of the exchange certificate; Column (5) Bank of the Republic.

a/ Provisional.

Table 14

COLOMBIA: IMPORTS AND EXPORTS CARRIED OUT UNDER THE VALLEJO PLAN, 1960-1975

Year	Imports	Exports	Import coefficient (1) : (2) (percentage)	Exports of manufactures (millions of US dollars)
	Millions of US dollars			
	(1)	(2)	(3)	(4)
1960	0.1	0.1	100.0	10.9
1961	0.2	0.2	100.0	13.3
1962	0.2	0.8	25.0	19.0
1963	2.2	5.8	37.9	20.5
1964	5.1	12.9	39.5	33.8
1965	9.8	26.1	37.5	46.8
1966	12.0	45.9	26.1	47.0
1967	17.0	41.9	40.6	45.3
1968	17.9	52.0	34.4	64.5
1969	13.7	61.5	22.3	75.0
1970	24.7	58.1	42.5	75.1
1971	26.6	64.9	41.0	97.7
1972	40.5	96.9	41.8	143.7
1973	64.8	172.4	37.6	243.4
1974	a/	a/	a/	a/
1975	79.6	228.3	34.9	a/

Source: Column (1) and (2) INCOMEX, on the basis of records; column (4) on the basis of table 1.

a/ Not available.

Table 15

COLOMBIA: SPECIAL FINANCING OF MINOR EXPORTS

Year	PROEXPO: In foreign currency (millions of US dollars)	PROEXPO: In local currency (millions of pesos)	PROEXPO: Equivalent in millions of US dollars	PROEXPO: Total (millions of US dollars)	Advance refunds (millions of US dollars)
	(1)	(2)	(3)	(4)	(5)
1972	29.7	357.6	16.3	46.0	233.1
1973	4.8	1 974.7	83.3	88.1	146.3
1974	2.9	2 491.2	95.1	98.0	50.8
1975	8.1	4 624.1	149.3	157.4	-

Sources: PROEXPO and Bank of the Republic. The figures represent balances at the end of each year. Column (3) has been obtained by dividing column (2) by the rate of exchange of minor exports.

Table 16

COLOMBIA: EFFECTIVE RATES OF EXCHANGE: 1952 TO 1975

	Nominal rates of exchange			Real exchange rates			Contribution of non-exchange incentives to the effective rate of exchange		Export price index (1970 = 100)	Rates of exchange index (1970 = 100)	External prices index for Colombia (1970 = 100)	Wholesale price index for Colombia (1970 = 100)	Ratio of external to domestic prices in Colombia (1970 = 100)
		Efective			Efective								
	Legal	Manufactures	Other minor exports	Legal	Manufactures	Other minor exports	Manufactures	Other minor exports					
	(Colombian pesos per dollar)			(Colombian pesos per dollar, at 1970 prices)									
	(1)	(2)	(3)	(4) = (1)•(13)	(5) = (2)•(13)	(6) = (3)•(13)	(7) = (5)/(4)-1	(8) = (6)/(4)-1	(9)	(10)	(11) = (9)/(10)	(12)	(13) = (11)/(12)
1952	2.92	2.92	2.92	12.29	12.29	12.29	0.00	0.00	75.4	99.0	76.2	18.1	421.0
1953	3.47	3.47	3.47	13.66	13.66	13.66	0.00	0.00	74.8	99.0	75.6	19.2	393.8
1954	3.49	3.49	3.49	12.68	12.68	12.68	0.00	0.00	73.8	99.0	74.5	20.5	363.4
1955	4.15	4.15	4.15	15.02	15.02	15.02	0.00	0.00	74.5	99.0	75.3	20.8	362.0
1956	5.09	5.09	5.09	17.25	17.25	17.25	0.00	0.00	76.8	99.0	77.6	22.9	338.9
1957	6.18	5.92	5.92	17.94	17.19	17.19	-0.04	-0.04	79.9	99.0	80.7	27.8	290.3
1958	6.32	6.19	6.19	15.74	15.42	15.42	-0.02	-0.02	80.6	99.3	81.2	32.6	249.1
1959	7.64	7.49	7.49	17.27	16.93	16.93	-0.02	-0.02	80.6	99.9	80.7	35.7	226.1
1960	6.90	6.76	6.76	15.10	14.79	14.79	-0.02	-0.02	81.6	100.3	81.4	37.2	218.8
1961	8.28	10.56	9.65	17.05	21.74	20.15	0.28	0.18	82.9	100.3	82.7	39.6	208.8
1962	9.11	11.60	10.65	18.76	23.88	21.93	0.27	0.17	83.6	99.8	83.8	40.7	205.9
1963	10.00	12.62	11.70	16.36	20.65	19.14	0.26	0.17	83.8	99.6	84.1	51.4	163.6
1964	10.41	13.18	12.25	14.65	18.54	17.24	0.27	0.18	84.7	99.6	85.0	60.4	140.7
1965	14.76	19.21	17.66	19.70	25.65	23.58	0.30	0.20	86.9	99.6	87.2	65.3	133.5
1966	13.50	17.61	16.09	15.75	20.55	18.78	0.30	0.19	89.1	99.6	89.5	76.7	116.7
1967	14.51	19.25	17.70	16.14	21.41	19.68	0.33	0.22	90.9	99.7	91.2	82.0	111.2
1968	16.30	21.51	19.83	17.05	22.50	20.74	0.32	0.22	91.8	100.8	91.1	87.1	104.6
1969	17.35	22.60	20.77	17.56	22.87	21.02	0.30	0.20	94.7	100.7	94.0	92.9	101.2
1970	18.49	24.42	22.42	18.49	24.42	22.42	0.32	0.21	100.0	100.0	100.0	100.0	100.0
1971	20.00	26.89	24.61	18.72	25.17	23.03	0.34	0.23	103.4	99.0	104.4	111.5	93.6
1972	21.94	28.80	26.56	18.17	23.85	21.99	0.31	0.21	106.1	97.2	109.2	131.9	82.8
1973	23.70	29.59	27.54	18.13	22.64	21.07	0.25	0.16	120.9	93.7	129.0	168.7	76.5
1974	26.20	32.07	30.22	18.34	22.45	21.15	0.22	0.15	151.1	94.1	160.6	229.5	70.0
1975	30.98	35.84	33.70	19.52	22.58	21.23	0.16	0.09	169.0	93.2	181.3	287.8	63.0

Source: Nominal effective rate; (a) between 1952 and 1971, Teigeiro and Elson, op. cit., and (b) between 1971 and 1975, National Planning Department, Document, UPE-DEM, October 2, 1975. Export Price and exchange rate indexes, International Financial Statistics. Wholesale price index and legal rate of exchange in Colombia: Review of the Bank of the Republic. Colombian imports: DANE (Anuarios de Comercio Exterior).

Note: The external prices index for Colombia is calculated on the following basis: (a) the variation in prices of exports from the United States, the United Kingdom, France and the Federal Republic of Germany for each year were weighted on the basis of Colombia's imports from these sources in each one of those years; (b) the same was done with the variations in the rate of exchange of the franc, mark and pound sterling with respect to the dollar. In both cases an external price index for Colombia (base 1970 = 100) was obtained by dividing the former by the latter. This index was used to reflate the nominal rate of exchange, for its subsequent deflation using the total wholesale price index for Colombia (the wholesale price index of goods used and consumed was not available for this entire period).

Table 17

COLOMBIA: EFFECTIVE RATES OF PROTECTION BY GROUPS OF TRADED SECTORS, 1969

(Percentages)

	Balassa method	Corden method
Coffee	-45	-45
Mining	-8	-6
Sugar	-23	-19
Primary, except coffee and mining	0	1
Food products, except sugar	2	11
Beverages	121	103
Tobacco	95	84
Textiles	5	8
Shoes	-22	-10
Clothing	4	13
Wood products	-11	1
Furniture	-25	-11
Paper products	12	14
Leather products	11	16
Rubber products	-31	-26
Chemical products	61	56
Refinery products	-5	4
Non-metallic mineral products	-8	0
Basic metals	151	39
Metal manufacture	47	43
Non-electrical machinery	-7	12
Electrical apparatus	a/	668
Transport equipment	610	319
Diverse industries	117	89
All manufacturing	44	29
All manufacturing, except tobacco and beverages	40	25
All manufacturing, except sugar	50	33
Primary exports, except coffee and mining	18	18
Manufactured exports, except sugar	21	21

Sources and method: Adapted from Table 3.5, p. 68, in Thomas L. Hutcheson, "Incentives for Industrialization in Colombia", Ph. D. Dissertation, University of Michigan, 1973. The Corden measure is not affected by exchange rate adjustments made by Hutcheson. Given the assumptions made, the exchange rate adjustments influence the relationship between the prices of traded and non-tradeable goods. It will be recalled that the Corden method treats non-traded goods as if they were part of value added. The Balassa method results shown were made assuming a 34 percent exchange rate adjustment.

Note: This table has been reproduced from C. Díaz-Alejandro, op.cit.

a/ Negative value added.

Table 18

COLOMBIA: EFFECTIVE PROTECTION YIELDED BY TARIFFS AND EXPORT PROMOTION SCHEMES, ABOUT 1970, FOR 105 PRODUCTS

(Percentage; figures in parentheses show number of products included in each category)

	For sale in Colombia	For export	
		Without promotion schemes	With promotion schemes
Foodstuffs, tobacco, and beverages (8)	198	-91	43
Textiles (5)	267	-34	43
Clothing (7)	287	-52	40
Wood and wood products (6)	120	-71	38
Paper and paper products (7)	133	-67	47
Printing and publishing (3)	79	-7	27
Leather and leather products (6)	203	-149	58
Rubber and rubber products (2)	59	-36	47
Chemicals and petrochemicals (14)	49	-27	37
Stone, earth, and clay products (7)	97	-9	25
Metals and metal products (19)	101	-39	40
Nonelectrical tools and machinery (6)	33	-17	27
Electrical products and machinery (4)	57	-52	52
Transport equipment (6)	59	-30	38
Others (5)	149	-48	42
Total (105)	130	-48	39

Source: Data summarized from unpublished calculations of Gonzalo Giraldo, Planning Department, Colombia. The sample of 105 manufactured products was selected representative of actual or potential exports within the Andean Common Market, of which Colombia is a member. In the calculation of effective protection, only tariffs and export promotion schemes were taken into account (see text). Input coefficients actually observed in Colombia were used; imports of capital goods were excluded. An effective CAT of 20 per cent was assumed, a figure which may be regarded as somewhat high for 1970. Special regimes exempting some imports from duties were disregarded for this calculation.

Note: This Table has been reproduced from C. Diaz - Alejandro, op. cit.

Table 19

COLOMBIA: EMPLOYMENT AND VALUE ADDED ATTIBUTABLE TO EXPORTS, BY BRANCH OF PRODUCTION, 1970

Sector and product	(1) Value of production (thousands of pesos)	(2) Value of exports (thousands of pesos)	(3) Value added (thousands of pesos)	(4) Employment	(5) Employment attributable to exports	(6) Employment generated per million pesos of total production	(7) Employment generated per million pesos of value added
I. Industrial							
Food	2 280 723	482 023	723 119	7 432	1 570	3.26	10.28
Meat	235 911	152 588	33 536	810	468	3.43	23.8
Oil	963 436	159 176	172 375	1 555	266	1.61	9.0
Sugar	555 032	99 088	289 687	2 750	511	4.95	9.5
Shell fish	84 652	56 427	36 099	820	501	9.65	22.8
Confectionery, packed	441 692	14 744	191 422	1 497	55	3.78	7.8
Animal feeding - stuff Yeasts	428 010	25 643	199 425	1 659	99	3.88	8.3
Beverages							
Malts	215 425	888	36 780	181	1	.84	4.9
Textiles	4 852 297	352 218	2 191 311	27 609	2 004	5.69	12.6
Clothing and apparel							
Jackets, trousers, shirts, gowns	286 343	9 140	152 572	2 961	95	10.35	19.5
Tanned hides							
Leathers	525 092	70 667	171 836	2 544	336	4.84	14.9
Wood and wood products							
Sawnwood, furniture	182 687	49 747	90 660	1 450	493	7.92	15.9
Paper							
Paper, envelopes, cardboard	1 314 297	126 577	412 967	2 983	263	2.27	7.2
Publishing							
Books	380 900	169 958	209 988	2 649	315	6.95	12.6
Chemicals	1 553 193	118 099	867 649	4 967	358	3.20	5.7
Chemicals	592 224	70 861	297 440	1 013	112	1.71	3.4
Others: paint, etc.	960 238	47 238	570 209	3 954	246	4.12	6.9
Rubber	1 180 843	64 602	565 426	6 421	379	5.44	11.36
Rubber products: Tires, Shoes	562 431	15 188	278 563	2 525	68	4.49	9.1
Plastics	618 412	49 414	286 863	3 896	311	6.30	13.6
Non-metallic minerals	940 621	164 947	564 720	5 983	904	6.36	10.59
Pottery, tiles	126 715	10 749	77 198	1 618	137	12.71	21.0
Glass and glass articles	383 812	73 741	238 845	2 522	485	6.57	10.6
Cement	147 457	72 631	87 168	497	245	3.38	5.7
Asbestos, concrete	282 637	7 826	161 509	1 346	37	4.76	8.3

Table 19 (concluded)

Sector and product	(1) Value of production (thousands of pesos)	(2) Value of exports (thousands of pesos)	(3) Value added (thousands of pesos)	(4) Employment	(5) Employment attributable to exports	(6) Employment generated per million pesos of total production	(7) Employment generated per million pesos of value added
. Basic metal industries							
Bars, sheets	237 469	10 656	91 740	912	41	3.85	9.9
Metal products, machinery and equipment	1 600 433	160 050	982 119	10 852	1 139	6.78	11.05
Tools, knives	191 661	15 077	114 935	1 467	115	7.64	12.8
Metal furniture and products	530 287	30 692	290 959	3 236	187	6.11	11.1
Non-electrical machinery	140 734	3 978	60 124	941	27	6.67	15.7
Electrical machinery	594 079	80 382	461 939	3 998	541	6.73	8.7
Generators, transformers	79 900	21 300	28 469	775	207	9.69	26.7
Professional and scientific equipment	34 537	6 290	12 421	262	48	7.48	21.8
Other products n.e.s	29 235	2 331	13 272	173	14	5.96	13.3
Subtotal industry	15 573 949	1 789 248	7 069 210	77 115	8 208	5.36	10.91
II. Agriculture							
Coffee	43 427 911	10 664 500	36 782 711	2 262 183	555 519	52.09	61.5
III. Minig							
Petroleum and other minerals	4 505 512	1 322 000	2 843 010	16 174	4 745	3.59	5.7
IV. Services							
Shipping, tourism, etc.	80 446 170	2 412 000	57 593 970	1 650 916	49 499	20.52	28.7

Sources: DANE, Tabulations of manufacturing industry.
Matriz de Insumo Producto, 1970.
INCOMEX, Registros de Exportación, 1970.
DNP. Impacto de un aumento en el precio de los hidrocarburos sobre el nivel general de precios de la Economía, UPG. Div. Programas de Desarrollo, 1975.
Candelo R. Structural Change of Employment in Colombia, 1951-1968 (Master's Thesis).
Distribución del Ingreso e Incentivos a la Exportación: CAT (Unpublished).

Notes: Column 2: The value of exports in dollars was estimated at a rate of $ 18.5
Column 5: It is assumed that employment to produce one unit is the same as to export one unit of exported value.

Table 20

COLOMBIA: SECTORAL SHARES IN THE GENERATION OF EMPLOYMENT AND VALUE ADDED ATTRIBUTABLE TO EXPORTS, 1970

Sector	Percentage of the total value of production in the exporting industry	Percentage of the value added in the exporting industry	Percentage of employment in the exporting industry	Percentage of value of exports in total exports of the industry	Percentage of employment attributable to exports	Employment generated per million of total production	Employment generated per million of value added	Value of exports to value added
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
I. Industry								
Food	14.6	10.34	9.9	27.5	22.9	3.30	10.3	.67
Beverages	1.4	.5	.2	.1	.01	.84	4.9	.02
Textiles	31.2	30.99	35.8	19.7	24.4	5.69	12.6	.16
Clothing	1.8	2.2	3.8	.5	1.2	10.35	19.5	.05
Tanned hides	3.4	2.4	3.3	4.0	4.1	4.84	14.9	.41
Wood and wood products	1.2	1.4	1.9	2.8	6.0	7.92	15.9	.55
Paper	8.4	5.8	3.9	7.1	3.2	2.27	7.2	.31
Publishing	2.4	2.9	3.4	9.5	3.8	6.95	12.6	.80
Chemicals	10.0	12.3	6.4	6.6	4.4	3.20	5.7	.14
Rubber	7.6	7.9	8.3	3.4	4.6	5.44	11.36	.11
Non-metallic minerals	6.0	7.9	7.8	9.2	11.0	6.36	10.59	.29
Basic metal industries	1.5	1.3	1.2	.6	.5	3.85	9.9	.12
Metal products, machinery and equipment	10.3	13.9	14.1	8.9	13.9	6.78	11.05	.16
Total	100.0	100.0	100.0	100.0	100.0	5.36	10.91	..
II. Agriculture								.29
III. Mining								.47

Source: Table 19.