Colombia Trade Brief

Trade Policy

Since Colombia's dramatic liberalization in 1991, the county has made substantial progress in the modernization and liberalization of its trade regime, although it is still only ranked 108th (out of 125 countries) on the latest MFN Tariff Trade Restrictiveness Index (TTRI).[1] At 12.9 percent, the Colombian TTRI is substantially above the average scores for the Latin America and Caribbean (LAC) region and upper-middle income countries (7.8 and 6.9 percent respectively). Agricultural protection (with a TTRI of 16.4 percent) is higher than that for non-agriculture, and exceeds the levels for the regional and income group comparators. The 2008 simple average MFN tariff is 12.5 percent, and drops to 11.8 percent when preferences are included. The country applies the Andean Price Band System to imports of a number of agricultural products, where import duties rise or fall in response to changes in international prices. Colombia has maintained its maximum tariff (excluding alcohol and tobacco) at 80 percent. The trade policy space, as measured by the distance between bound and applied tariff levels (the overhang), has remained stable at 30.5 percent. A moderate user of trade remedy laws, Colombia initiated 43 anti-dumping investigations over 1995-2008, being the 17th largest initiator of 44 countries. Regarding its commitment to trade liberalization in services, Colombia scores highly and ranks 25th out of 148 countries according to the GATS Commitment Index. Foreign investors receive national treatment and 100 percent foreign ownership is allowed in most sectors.

Food price inflation during the January 2006-March 2008 period was lower in Colombia compared to the LAC average and the government did not use specific trade policies to address the food price crisis, focusing more on conditional cash transfers. To support exporters in the face of an appreciating peso the government issued extended tax rebate certificates (CERTs) to exporters of apparel and footwear, furniture, auto parts and food in May and August 2008.[2] After initiating only one anti-dumping investigation in 2007, Colombia was the 10th most active initiator of anti-dumping investigations in 2008, with 6 initiations. As of the second quarter, it has initiated one investigation in 2009.

External Environment

Looking at barriers that Colombia's exports face abroad, the latest Market Access TTRI[3] (including preferential tariffs) ranks the country as facing the 25th lowest restrictions abroad out of 125 countries. Colombia's MA-TTRI of 1.2 percent, is lower than its LAC and upper-middle-income country comparators (2.0 percent and 2.3 percent, respectively). Although Colombia's 2008 rest of the world simple average applied tariff (incl. preferences) is a high 9.5 percent, when weighted by actual Colombian exports, it drops to a low 1.5 percent (with its agricultural exports facing 4 percent and its manufactured exports 0.7 percent tariffs). Colombia has not faced any anti-dumping initiations since 2003. The national currency, the Colombian peso, appreciated by 4 percent in real, trade-weighted terms in 2008, making exports less competitive abroad.

Along with Bolivia, Ecuador and Peru, Colombia has established a free trade area under the Andean Community of Nations (CAN). Colombia accesses its largest export market, the United States, through preferences granted under the Andean Trade Partnership and Drug Eradication Agreement (ATPDEA), which was renewed until December 2009. The Colombia-US Trade Promotion Agreement, a comprehensive free trade agreement (FTA) was signed in 2006. Although, ratified in Colombia in 2008 it has yet to be taken up by the US Congress. In November 2008, two separate bilateral FTAs were signed with Canada and EFTA (European Free Trade Association)

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

If using information from this brief, please provide the following source citation: World Bank. 2010. "Colombia Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at http://www.worldbank.org/wti.

countries, but these too still have to go through their respective legislatures. In May 2009 a FTA between Chile and Colombia, signed in 2006, came in to force.[4] A member of CAN, Colombia has been engaged in ongoing FTA talks with the EU, but the negotiations have taken a bilateral track with Peru's and Colombia's talks progressing furthest.

There have been recent disruptions in the trade relationship with its Andean neighbors Venezuela and Ecuador, who were its second and fourth main export markets respectively in 2008. In April 2008, Venezuela placed a quota of 10,000 on vehicles originating from Colombia[5] and, most recently, due to geopolitical disagreements, the Venezuelan government said that it will stop importing from Colombia altogether. In November 2008 and again in January 2009, Ecuador raised import restrictions in the face of balance of payments deteriorations. These are expected to expire in January 2010. Meanwhile, in July 2009, Ecuador raised import tariffs on over 1000 Colombian goods to protect Ecuadorian producers from cheaper Colombian goods resulting from a real depreciation (18.5 per cent over June 2008-June 2009) of the Colombian peso against the US dollar, the legal tender in Ecuador. Approved by CAN, some of the protection was removed and the rest will be phased out in six months.[6]

Behind the Border Constraints

In 2008 and 2009, Colombia was in the Top 10 Doing Business Reformers for improving its institutional environment. The country raised its rank in the Ease of Doing Business index to 37th out of 183 countries in 2009, from 49th place in 2008. The Logistics Performance Index, a measure of the ease of trade facilitation, rates Colombia at 2.5 on a scale from 1 to 5 with 5 being the highest performance, slightly below the averages for the LAC region 2.57 and upper-middle income countries (2.85). It ranked 82nd in the world and 15th in the LAC region (with Chile leading the regional group). The area in which it performed the best was timeliness of shipments in reaching their destination and it needs most improvement in increasing the efficiency and effectiveness of customs procedures. During the global financial crisis, the government has supported trade finance by providing government backed loans to the Foreign Trade Bank of Colombia (Bancoldex), to finance export sectors.[7]

Trade Outcomes

Colombia's real (in constant 2000 US dollars) trade growth slowed to 5 percent in 2008 from a robust 12.9 percent in 2007. Growth of both exports and imports of goods and services decelerated in 2008, and are expected to turn negative in 2009.

In nominal dollar terms, Colombia's total trade in goods increased by 26 percent in 2008. Colombia's major 2008 exports include petroleum, coal, coffee and nickel. Nominal goods exports grew by 24.5 percent for the year overall, despite a fall of 6 percent in the last quarter on a year-on -year basis. However, national statistics[8] show goods exports fell by 18.8 in the first half of 2009 compared to the same period in 2008. Colombia's top imports include industrial equipment, transportation equipment, consumer goods, chemicals, paper products, fuels and electricity. Most goods imports are from the US, China, Mexico, Brazil, and Venezuela. Nominal imports increased by 19.5 percent in 2008, but dropped by 17.7 percent in the first half of 2009. Exports of services grew by 15 percent in 2008, while imports grew by 11 percent. In the first quarter of 2009, services trade fell but by a small magnitude compared to goods trade, with services exports dropping by 1.5 percent and services imports falling by 10.3 percent, on a year-on-year basis. FDI inflows remained relatively stable, accounting for 4.4 percent of GDP in 2008.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. USTR, 2009
3. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
4. SICE, 2009.
5. WTO, 2009.
6. *Wall Street Journal*, August 10, 2009.
7. World Bank, 2009.
8. Banco de la Republica, 2009a, 2009b.

References

Bown, Chad. July 2009. "Global Antidumping Database." [Version 5.0, July]. Available at www.brandeis.edu/~cbown/global_ad/ .

Banco de la Republica Colombia. 2009a. *Exportaciones Totales (FOB). Total Tradicionales y no Tradicionales. Mensual Desde 1970.* <http://www.banrep.gov.co/statistics/sta_ext_sec.htm#2>.

———. 2009b. *Exportaciones Totales (FOB).* Importaciones Según Uso o Destino Económico (CIF). Mensual desde 1980. <http://www.banrep.gov.co/statistics/sta_ext_sec.htm#2>.

Foreign Trade Information Service (SICE). 2009. Trade Policy Developments. <http://www.sice.oas.org/tpd_e.asp>.

International Monetary Fund (IMF). August 2009. International Financial Statistics (Country Tables). IMF, Washington, DC.

Justine Podur. June 2009. Stalled but Not Dead: Update on the Canada-Colombia Free Trade Agreement.

Puentes Quincenal. April 2009. Mientras Can Intenta Replantearse, Ecuador Apela Resolucion Y Amenaza Con Irse. Vol.6 N.7. 21 20

———. May 2009. Ee. Uu. Abren Camino Para Trabajar Accuerdos Pendientes Con Colombia Y Panama. Vol.6. N.8. 5.

———. June 2009. TLC Columbia – Canada Sufre Nuenvo Reves. Vol.6. N.10 3.

United States Trade Representative, 2009. National *Trade Estimate Report on Foreign Trade Barriers*.

Wall Street Journal, Aug 10, 2009- Andean Group lets Ecuador levy tariffs on Colombian goods

World Bank , 2009 PREM Trade Group, Update of Trade Measures

World Trade Organization (WTO). 2007. Trade Policy Review Body—Trade Policy Review—Report by the Secretariat—Colombia—Revision.

———. July 15, 2009. Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade-Related Developments.