

VLIV ČLENSTVÍ V ANDEANU NA ZAHRANIČNÍ OBCHOD KOLUMBIE

IMPACT OF MEMBERSHIP IN THE ANDEAN UPON COLOMBIAN FOREIGN TRADE

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Anotace:

Příspěvek se zabývá posouzením vlivu členství Kolumbie ve Společenství andských států. Andská zóna volného obchodu mezi Bolívií, Kolumbií, Ekvádorem a Venezuelou existuje od roku 1993. V roce 1997 přidává k tomuto regionálnímu uskupení také Peru. Díky rostoucímu podílu na exportu a stabilnímu vývoji bilance zahraničního obchodu hraje seskupení ANDEAN důležitou roli v zahraničním obchodu a hospodářství Kolumbie.

Klíčová slova:

ANDEAN, Kolumbie, bilance zahraničního obchodu, integrace.

Abstract:

The paper deals with an assessment of impact of Colombian membership in the Andean Community. The Andean free trade area between Bolivia, Colombia, Ecuador and Venezuela has been functioning since 1993. Peru started its progressive incorporation in 1997. Due to growing share of export and stable development of balance of foreign trade, Andean Community plays an important role in the foreign trade and economy of Colombia.

Key words:

ANDEAN, Colombia, balance of foreign trade and integration.

1. INTRODUCTION

One of the characteristics of contemporary globalization is high dependence level of all countries with regard to their resources. Integration process is accompanied by production, financial and knowledge reallocation depending on the competitiveness of the diverse countries and regions that participate in the integration.

Economic effects of integration are connected to the liberalization of foreign trade between integrated countries forming zones of free trade enabling to exchange goods and services without tariff application. Opening of the countries' economies make them very sensitive to potential economic crises or recessions, expose the domestic producers to increased competition of cheaper imported goods and decrease state budget revenues that designed to promote the sectors of economy that provide public goods and externalities.

The aim of the paper is to assess the impact of Colombian membership into the Andean Community zone of free trade upon the foreign trade and the economy. The paper deals with analyzing of exports and imports in the last three decades and pays special attention to assess the development of balance of foreign trade with non-ANDEAN countries with respect to the Andean Community members.

2. MATERIAL AND METHODS

Statistical publications of the Andean Community and Colombian statistical office (Departamento Nacional de Estadística) represented main data sources for the analysis. The regression analysis was carried out in SPSS.

The method applied in the paper was relation analysis, which examines if there exist any relations among certain components and these relations are further determined and quantified. The relation analysis answers the question if the existence of one phenomenon is dependent on the existence of another phenomenon. The qualitative analysis deals with the relations among the phenomenon and the quantitative analysis considers the level of the dependence of the phenomenon.

Power regression function was applied. The form of the transformed log-linear function is: $\ln Y_i = \ln A + B_2 \ln X_i$, where the slope coefficient B_2 measures the elasticity of Y with respect to X .

3. RESULTS

3.1 Integration process of the ANDEAN (“Comunidad Andina” – CAN)

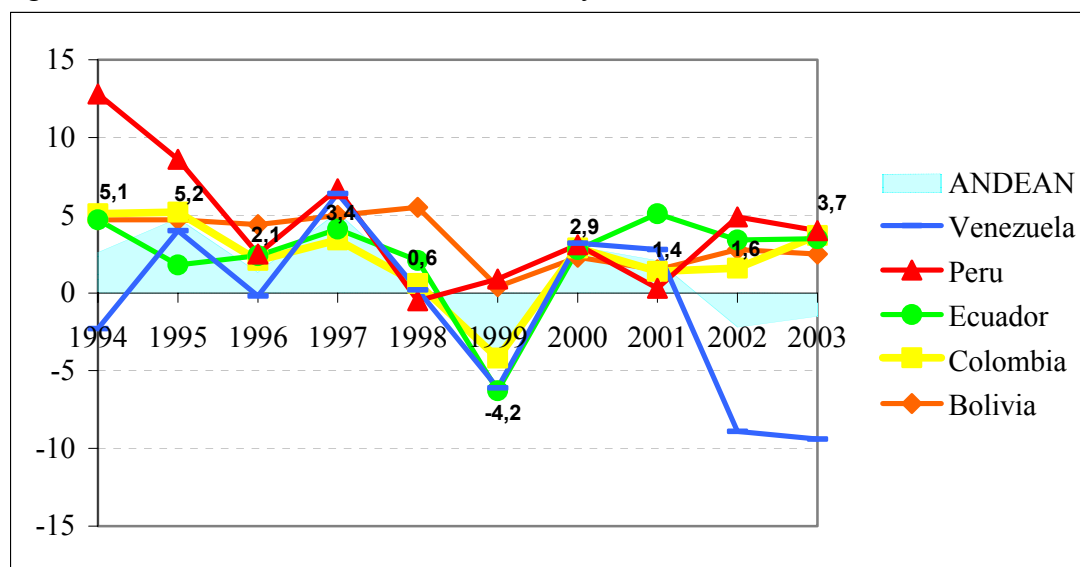
Integration process of the Andean Community was commenced when presidents of Colombia, Chile, Venezuela, Ecuador and Peru signed “Declaration of Bogotá” in the 1966, which contained the preliminary basis of the subregional pact. In the 1969, intention of integration was officially declared by the “Agreement of Cartagena”.

Membership of Chile in CAN ended up in 1976 when Chile decided to withdraw from the agreement. Formation of the institutional network of the Andean Community was completed in the 1979 by establishing Andean Council of Ministers of Foreign Affairs, Andean Court of Justice and the Parliament. During the decade of 80’s, the integration process was negatively influenced by economic crises attacking the Andean countries. In order to overcome the crisis and promote the integration, the Presidents of the Republic of Andean Community decided to adapt an open model of integration based on creation of zone of free trade and application of common external tariff for the non-Andean members. The zone of free trade has been functioning since 1993 in Bolivia, Colombia, Ecuador and Venezuela and since January 2006 in Peru. In May 12, 2006, Venezuela officially announced its retirement from the Andean Community.

3.2 Economic Position of Colombia in the Andean Community (CAN)

Colombia has been one of the foundation members of the CAN. With the population reaching 45 million (38% of the total Andean Community population), Colombia represents the biggest consumer market of the CAN. The GDP of Colombia reached USD 76, 683 million in 2003 and represented 31% of the whole production created in the Andean Community. The stability of Colombian economy measured by the GDP growth can be observed in the following figure. The average rate of growth in the observed period was only 2% in Colombia compared to Peru (4%), but with more stable development. In the year 1999, Colombia, Ecuador and Venezuela were facing economical crisis connected with internal political instability, armed conflict and drop of oil prices that form an important source of state budget revenues.

Fig. 1: Growth of GDP in Andean Community



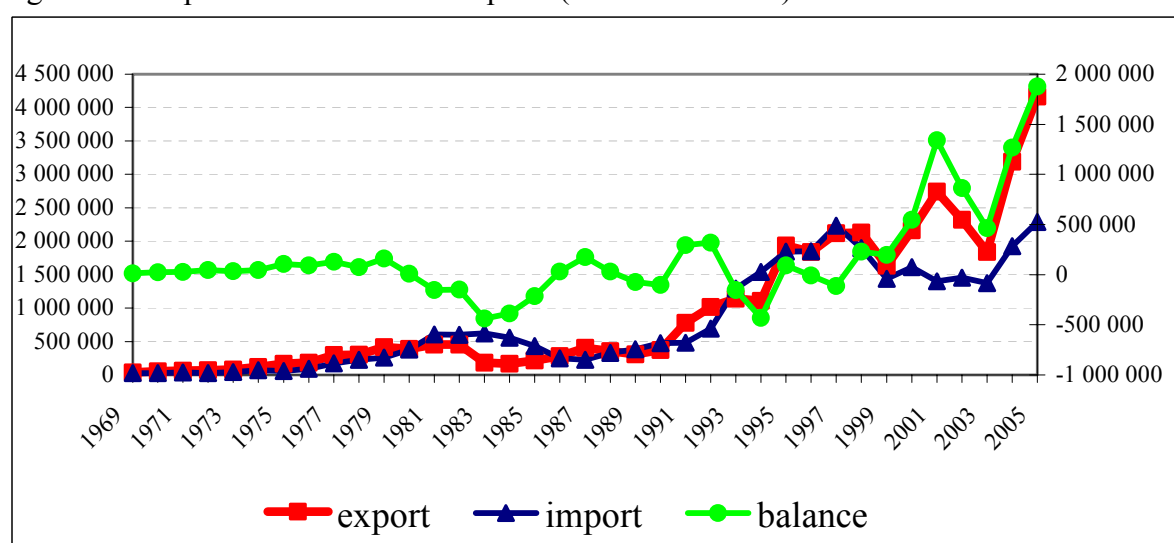
Source: www.comunidadandina.org, own elaboration

Colombian strong position within the CAN also comes from its share in the community exports, which exceeded 40% in the 2005. The biggest trading partner of Colombia is Venezuela that represents the destination of 50% of Colombian exports. With regard to the imports, Colombia receives about 25% of the total Community imports, mostly from Venezuela and Ecuador.

3.3 Development of Colombian foreign trade

The development of Colombian foreign trade with Andean Community appears in the Fig. 2. The value of exports and imports has been growing significantly after the adoption of the zone of free trade at the beginning of the decade of 90's. The balance of foreign trade with CAN, displayed in the secondary axis, shows growing tendency especially at the end of the observed period.

Fig. 2: Development of Colombian exports (millions of USD)



Source: www.comunidadandina.org, own elaboration

The importance of the ANDEAN markets for Colombia have been growing. While in the period of 70's, the exports to CAN participated on total exports only by 9%, however between the period 2000 – 2005 the exports reached almost 20% (Table 1).

Table 1: Share of Colombian foreign trade with ANDEAN

Period	Share of ANDEAN in total export sof Colombia	Share of ANDEAN in total imports of Colombia
1969-1979	9%	5%
1980-1989	8%	9%
1990-1999	15%	12%
2000-2005	19%	12%

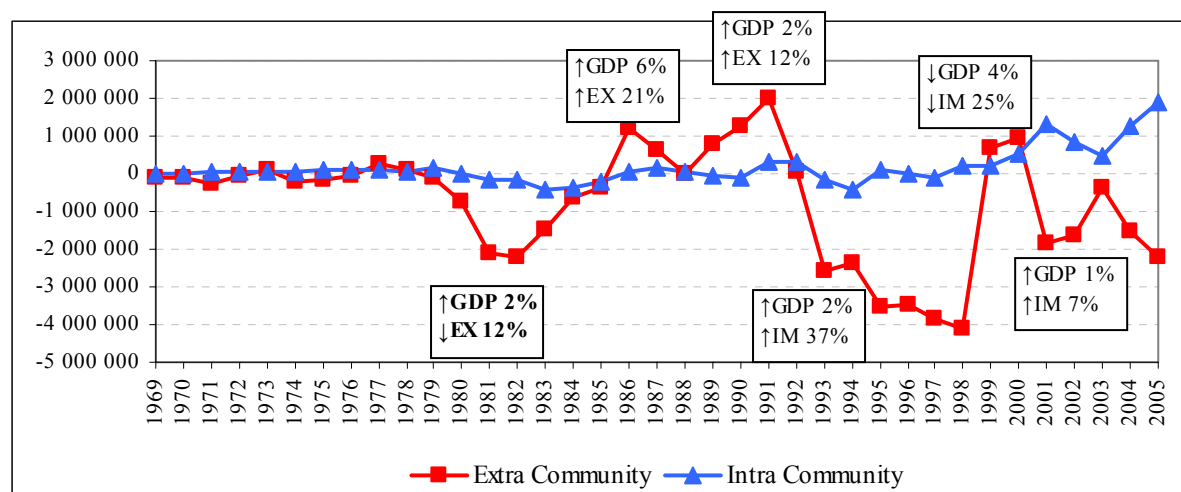
Source: www.comunidadandina.org, own calculation

3.3 Extra-community and intra-community balance of foreign trade

The following figure shows the development of both, intra and extra community balance of foreign trade and the main effects related to the peaks are given. The development of the extra community foreign trade was very volatile in the period 1969-2005. The deficit deepening that occurred between 1979 and 1980 was caused mainly by decrease of export value by 12%, which was recovered in the following years and reached up to 21% growth between 1985 and 1986. The balance of extra-community foreign trade continued to improve when it reached USD 2 billion in 1991 due to gradual rise of exports. However, only in two following years it came into the deficit of almost USD 3 billion because of the significant growth of imports that increased by 37%. The following peak that occurred between 1998 and 1999 signalizes the recession period of the Colombian economy, when the GDP fell by 2% driven by total consumption fall by 3% and dramatic drop of investments by 39%. The balance of foreign trade resulted positive because of the imports fall by 25%.

Analyzing the development of the extra-community foreign trade of Colombia, it is apparent, that the volatility is usually caused by dramatic changes of exports or imports values (not taking to account surplus as a consequence of the recession). On the other hand, the foreign trade with Andean community was relatively stable in the observed period and usually was improving the final result of the balance. In the year 2005, the deficit of Colombian extra-community foreign trade reached USD 2,194 millones while the surplus of foreign trade with CAN was USD 1,876 millones and thus the total deficit reached USD. 318 million.

Fig. 3: Development of balance of foreign trade in thousands of USD (the effects were calculated from constant prices)

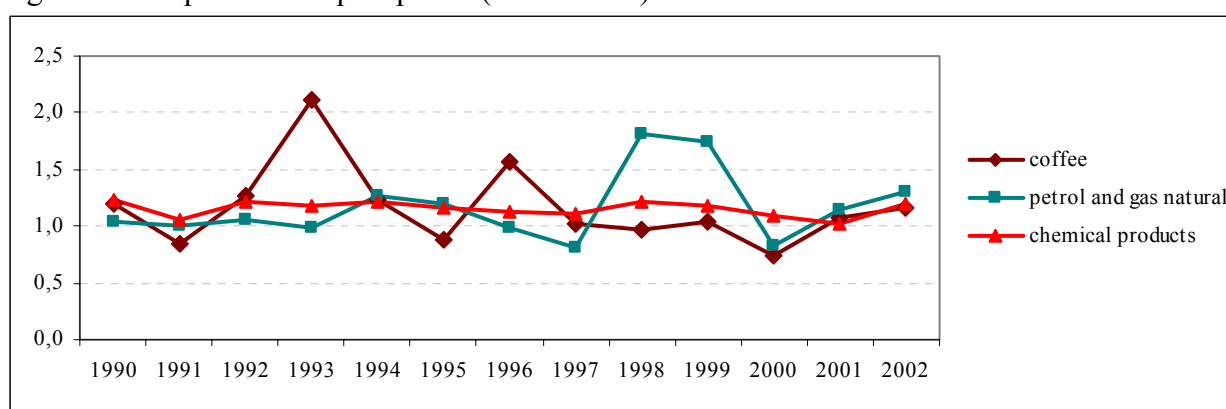


Source: www.comunidadandina.org, www.dane.gov.co, own elaboration

The reason of the stability related to the foreign trade with Andean can be seen in the commodity structure. Colombian exports are highly dependent on three commodities that form the group of traditional exports – the petrol, café, carbon and ferronickel. These four commodities participate in the total exports by 50%, of which petrol generates in average 27% of exports revenues and carbon 13%. Considering only foreign trade with the European Union, the share of traditional exports in total exports reaches 70%.

On the other hand, the exports to Andean community are based by 97% on non-traditional commodities that are represented by industrial goods with origin mainly in the chemical industry. The volatility of prices of the traditional commodities, represented by coffee and petrol and non-traditional commodities such as chemical industry products is expressed in the figure 4. As the index curves indicate, prices of coffee and petrol noticed significant volatility during the observed period, while the development in the chemical industry has been relatively stable.

Fig. 4: Development of export prices (chain index)



Source: www.dane.gov.co, own calculation

In order to assess the dependence of exports on price changes of the traditional commodities, a regression analysis was carried out. The results for petrol prices are following:
 $y = 26,086 x^{0,292} \quad R^2=0,825$

where dependent variable represents total exports of Colombia between 1990-2003, expressed in constant prices of 1994 in 100,000 millions of Pesos and independent variable is index of price of petrol (1994=100).

The results for coffee prices are the following:

$$y = 34,769 x^{0,262} \quad R^2=0,721$$

where independent variable represents price index of coffee.

Both regressions show on high dependence of exports on prices of the traditional commodities. In case of petrol, the changes in exports are explained by 83% by changes of petrol prices. The elasticity coefficient is 0,292% that indicates that if the petrol price rises by 1%, the exports of Colombia will increase by 0,292% i.e. 292 million pesos. The regressions function for coffee show on similar relations but with slightly lower dependency.

The results of regression analysis confirmed the sensitivity of Colombian exports on the movement of prices of the traditional commodities and explain well the volatility of Colombian balance of foreign trade with extra-community countries.

4. DISCUSSION

The results revealed the importance of Andean Community as a trading partner for Colombia with respect to the stability of foreign trade balance representing security of revenues for periods of unfavourable situation of the prices of traditional commodities.

Nevertheless, the importance of Colombian membership in the ANDEAN should be also analyzed from the customs point of view. On contrary to United States or Canada, the Latin-American countries do not depend on the rent as a primary sources of tax revenue but on the custom revenues and sales taxes, which form the major source of state budget revenues. It has been estimated that the compensation of the loss of the revenue caused by custom elimination would require an increase of the VAT by 3-4% in Colombia.

The attention of the paper should be also devoted to structural changes of Colombian economy caused by integration into the zone of free trade. It is expected, that the production would shift into the sectors with higher comparative advantage and would cause cease in less productive sectors. The effect of lower import prices decreasing costs of intermediate consumption should be assessed in order to calculate the consumer welfare.

5. CONCLUSION

The importance of Colombian membership in the Andean Community has been growing in the recent period. Exports of Colombia to the ANDEAN form 40% of the total community exports. The development of foreign trade shows increasing share of Colombian exports into the ANDEAN. While Colombian exports into the extra-community markets satisfy demand for traditional products such as coffee, carbon or petrol, the exports to Andean countries are based on non-traditional goods, mainly industrial products. The results showed that Colombian exports are highly dependent on the development of petrol and coffee prices and thus are more sensitive to the world changes. The Andean Community may be seen as an opportunity for Colombia to guarantee its sources of external revenues and contribute to the development of other than traditional primary sectors of economy.

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