“The Impact of Globalization on Latin America: The Case of Colombia”

by

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Introduction

The Colombian economy is among the five largest in Latin America (Table 1). In the early 1990s, as happened in several Latin American countries, the Colombian government undertook a number of economic reforms aimed at strengthening the country’s ties with the world economy.

Two decades after that shift in the economic model, however, Colombia lags behind other Latin American countries in its internationalization process in several dimensions (Table 2). The impact of globalization on Colombia has been uneven. It has been particularly high in areas like security and energy, and low in areas such as economic development, politics and social issues.
Some important changes have taken place in the past few years. By the late nineties, the country had experienced an escalation of violence, an erosion of institutions and isolationism. The security conditions prompted Colombia to be placed in some ‘Failed States’ rankings published in 2005. Today, however, Colombia is seen by some as a rising star because of the improvement in security conditions in recent years. This result, coupled with the country’s political and economic stability, has made the economy attractive for foreign investment, despite its low level of globalization. At the same time, the Colombian government has accelerated several trade negotiations, an area in which the country had remained almost stagnant through the last part of the 1990s.

### Table 1
**Main Latin American economies**

<table>
<thead>
<tr>
<th>GDP Current USD Billions</th>
<th>Population Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4,983</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,088</td>
</tr>
<tr>
<td>México</td>
<td>1,036</td>
</tr>
<tr>
<td>Colombia</td>
<td>289</td>
</tr>
<tr>
<td>Argentina</td>
<td>369</td>
</tr>
<tr>
<td>Perú</td>
<td>157</td>
</tr>
<tr>
<td>Venezuela</td>
<td>392</td>
</tr>
<tr>
<td>Chile</td>
<td>213</td>
</tr>
</tbody>
</table>

Source: World Bank

### Table 2
**Globalization Ranking 2011**

<table>
<thead>
<tr>
<th>Position of Latin American Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>33  Chile</td>
</tr>
<tr>
<td>48  Uruguay</td>
</tr>
<tr>
<td>51  El salvador</td>
</tr>
<tr>
<td>55  Perú</td>
</tr>
<tr>
<td>61  Costa Rica</td>
</tr>
<tr>
<td>69  Honduras</td>
</tr>
<tr>
<td>70  Guatemala</td>
</tr>
<tr>
<td>72  Argentina</td>
</tr>
<tr>
<td>74  México</td>
</tr>
<tr>
<td>77  Brazil</td>
</tr>
<tr>
<td><strong>78 Colombia</strong></td>
</tr>
<tr>
<td>86  Paraguay</td>
</tr>
<tr>
<td>89  Dominican Republic</td>
</tr>
<tr>
<td>91  Ecuador</td>
</tr>
<tr>
<td>95  Bolivia</td>
</tr>
<tr>
<td>99  Venezuela</td>
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</tbody>
</table>

Although Colombia may be at a turning point in its internationalization process, big challenges remain in order for the country to be able to take advantage of the opportunities that globalization offers. In the following sections, we present the historical reasons for the low degree of openness to the international market. The impact that the internal conflict, both with guerrilla and drug-trafficking groups, had on preventing the country from a shift towards greater globalization, is also analyzed. The paper concludes by highlighting the main challenges that the Colombian economy faces in order for it to become a real rising star in the regional context.

**Historical Background**

Several factors explain the Colombian trend toward political and economic isolationism. Some of these factors are: a limited openness to immigration; low flows of foreign investment; a rugged geography; and an economic model that maintained a closed economy.

Historically, Colombia has been one of the Latin American countries that has received the fewest waves of immigration. Compared with other countries in the region, such as Argentina, Chile and Brazil, which received great waves of European immigrants during the First and Second World Wars, immigrants to Colombia arrived in very small groups and formed relatively closed communities. The Syrian-Lebanese immigrants settled mainly on the Caribbean coast. A group of Spanish and Italian immigrants settled in Bogotá. Meanwhile, Jewish immigrants established their communities in the main cities: Bogotá, Cali, Medellín and Barranquilla. Most of these immigrants were engaged in trading and business activities that did not require high capital investment.¹

Foreign investment flows directed to Colombia were always low. Colombia did not enjoy the same favor as Argentina, which during the 19th century received significant British investment, especially in large-scale crops and the infrastructure needed to export those resources to the world market. For Argentina, that development model paved the way toward the establishment of strong links with the world market.

Furthermore, Colombia is characterized by a very rugged topography. It has coastal lowlands as well as central highlands that include high Andes mountain ranges. This geography creates a kind of natural border between the inner zone and the rest of the country, especially the coastal area. In fact, in the 19th century, when other countries in the region received their first wave of immigrants, Colombia experienced a significant internal migration to uninhabited areas of the country. This was a kind of colonization, but undertaken by nationals within their own territory. In the second half of the 20th century, the restrictions imposed by geographical conditions were exacerbated by the adoption of the so-called ‘Import Substitution Industrialization’ (ISI) model, which was common in several countries in Latin America during the 1960s and 1970s. Under ISI, the development of domestic industry was based on strong state intervention in the economy through the subsidy of new industries, price controls, high import tariffs and quotas,

¹ Cárdenas and Mejía (2006).
administered interest rates and directed credit, among others mechanisms. The high cost of imports under ISI made production based on foreign raw materials more expensive, thus generating an anti-export bias in the economy. This policy virtually closed the economy, even for foreign investment, and favored the development of a lobbying culture among business people, that in some cases, still plays a major role in the formulation of trade policy. Thus, in the seventies, Colombia came to be called the Tibet of Latin America.

The policy of economic liberalization implemented in the late eighties and early nineties, and the evolution of regional integration in the early nineties, both due to the affinity of the Colombian technocrats with the so-called ‘Washington Consensus’ ideas, laid the foundation for changing the ISI development model. Between 1991 and 1994, Colombia reduced tariff and nontariff barriers and deepened trade integration with Andean countries, leading to the formation of a customs union, known as the ‘Andean Community,’ which included Venezuela, Colombia, Ecuador, Perú and Bolivia. Furthermore, in 1994 the Colombian government signed an Economic Complementation Agreement (Acuerdo de Complementación Económica’) with Chile within the Latin American Integration Association (LAIA) framework, a 1995 free trade agreement with Mexico, and the treaty that created the World Trade Organization (WTO) in that same year. These were the formal means used by Colombia to search for a better insertion into the international economy.

Meanwhile, Colombia had strengthened its links with the rest of the world in other areas. The integration in security had its origin in the non-formal integration process initiated in the 1980s through drug-trafficking. Likewise, the guerrilla movement had historically generated links with other leftist movements in Latin America, especially Cuba.

The reformist trends of the nineties, especially in economic policy, was reversed at the end of the decade as a result of the institutional crisis stemming from allegations of involvement of drug money in the presidential campaign of 1994. The impact on the economy of the 1998 Asian financial crisis also stopped the reform momentum. At that time, Colombia experienced its worst economic crisis in 30 years: in 1999 its GDP fell by 4.2%.

Along with the economic crisis, strong pressure emerged from the private sector against the liberalization policy, especially in the area of trade policy, due to the increasing competition of imports to domestic production. The resulting return to protectionist trade policies included the attempt to increase the tariffs of certain productive sectors, such as textiles, apparel and shoes, and also the application of non-tariff barriers in those sectors such as ports-of-entry restrictions on imports, and the widespread use of trade defense instruments, such as anti-dumping duties and safeguards. Much of the anti-dumping investigations have occurred in the industrial sector (textiles, garments, chemicals and petrochemicals, and metalworking sectors), and especially against China. In contrast, safeguards investigations have been concentrated mainly in the Andean Community countries and on agricultural products.

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2 See Birdsall, et.al. (2010).
At the same time, the internal security situation worsened and had a negative impact on investment, which magnified the impact of the Asian financial crisis. The alliance between drug traffickers and guerrillas was deepened at that time, generating more violence, undermining the rule of law in certain areas of the country and limiting the government’s ability to exercise its powers throughout the territory. This complex situation was worsened by the actions of illegal right-wing paramilitary movements. The resulting escalation of terrorism and armed conflict in the late nineties helped further push the country into virtual isolation from the globalization process.

As a result of all these factors, unprecedented acceleration in outward migration flows from Colombia occurred during the second half of the 1990s. An estimated total of 1.9 million people emigrated between 1996 and 2005, according to official figures. However, the actual figure may be considerably higher. This increased out-migration from the country is mainly attributed to two factors: the economic crisis and the intensification of armed conflict.\textsuperscript{3}

In 2005, the Failed States Index, published annually by the Fund for Peace, a U.S. think tank, and the magazine Foreign Policy, ranked Colombia in 14\textsuperscript{th} place among 76 countries analyzed in that year. The Index measures a state’s vulnerability to collapse or conflict.\textsuperscript{4}

The interaction of the domestic situation and international conditions (particularly the attacks of September 11 on the United States) led Colombian foreign policy to emphasize military and security issues in its foreign policy agenda. In this context, the relationship with the United States was deepened. In the late nineties, during the administration of President Andrés Pastrana (1998-2002), Colombia received substantial U.S. economic and military aid and cooperation through the so-called Plan Colombia.\textsuperscript{5}

Subsequently, the first administration of President Álvaro Uribe (2002-2006) implemented the Democratic Security Policy, which focused on improving public safety and restoring confidence in Colombia. The government found an ally in the United States and framed its foreign policy in accordance with the proposed war on terrorism of the administration of President George W. Bush. The dynamics of armed conflict continued to determine Colombia’s international agenda. As a result, the role of the Colombian president and the Ministry of Defense became increasingly important in the design and implementation of the country’s foreign policy.

Colombia’s economic integration agenda therefore became subordinated to its security agenda. While Mexico, Chile and the Central American countries were able to ratify free trade

\textsuperscript{3} Cárdenas and Mejía (2006).
\textsuperscript{4} The Index includes 12 key social, economic and political indicators, each one rated on a 1 to 10 scale, with 1 being the most stable and 10 being the most at-risk of collapse and violence. http://www.fundforpeace.org/global/?q=fsi-about.
\textsuperscript{5} Between 2000 and 2005, the U.S. government disbursed about $3.8 billion in subsidies to the Colombian government for its war against illegal drug producers and traffickers. Colombia for its part spent about $6.9 billion during the same period. About one half of Colombian expenses (about $3.4 billion) and about three quarters of U.S. subsidies (about $2.8 billion) have gone directly to the military components of the war against drug production, trafficking and the organized criminal organizations associated with these activities. See Mejía and Restrepo (2008).
agreements with the United States prior to 2006, Colombia signed a similar agreement that year, and then had to wait six more years to put it into effect.

In addition, Colombia’s foreign policy approach during 2002-2008 faced a very complex regional context. Political polarization in the region led some countries to reject the role of the free-market and outward-oriented growth strategy fostered by the so-called Washington Consensus, as well as the Bush-era, foreign-policy unilateralism. This trend resulted in a rethinking of Open Regionalism (that is, the combination of a general reduction of tariffs and a deepening of the regional integration) as integration strategy, mainly led by Venezuela and Brazil. In 2004, Venezuela led the creation of The Bolivarian Alliance for the Peoples of Our America-Peoples’ Trade Treaty (ALBA-TCP), and in 2008, The Constitutive Treaty of the Union of South American Nations (UNASUR) was signed.

This context of regional polarization was further complicated by political instability in some countries in the region, and by the distrust generated by the expansion of Colombian drug traffickers and guerrillas beyond the country’s borders. The effect of the fumigation of illicit crops along Colombia’s borders, and episodes such as the bombing of a Revolutionary Armed Forces of Colombia (FARC) guerrilla camp in Ecuador in 2008, further increased regional distrust of the Colombian government.

**Colombia, an Isolated Country?**

The year 2010 signaled the end of the second administration of President Alvaro Uribe (2006-2010) and the beginning of the administration of President Juan Manuel Santos (2010-2014). The Uribe administration had achieved a substantial improvement in the security situation. Since mid-2009, Colombia had been placed in a group of attractive economies called the Civets, along with Indonesia, Vietnam, Egypt, Turkey and South Africa. These emerging economies show an important growth potential based on their size, young growing populations, good economic performance and relative political stability, despite their poor income distribution. In spite of the world financial crisis of 2008, Colombia began to receive increasing foreign direct investment (FDI) flows, especially in the oil and mining sectors. This investment was more a result of Colombia’s new political stability and abundance of raw materials than its level of integration with world markets.

With the change of government in the United States in 2009, the ‘special relationship’ between Colombia and the United States weakened. Washington once again began to see Colombia as a normal Latin American country. At the same time, Colombia’s relations with its neighboring countries were becoming increasingly difficult.

As a result of those developments, Colombia was seen as an isolated country in the political arena more than in the economic one. However, despite the intensification of the foreign-trade-negotiations agenda that had occurred during the second Uribe administration, Colombia’s openness to exports and imports is still very low compared with that of other countries in the region.
The improvement in security conditions and political stability, as well as the better ability of the economy to withstand the global crisis, allowed Colombia to return to the international community. During 2011, Colombia’s sovereign debt was promoted to investment grade by the three most important international rating agencies.

Colombia, however, has not reacted to the changes that have taken place in the global economy after 2008. First, the United States – the country with which Colombia has historically had the strongest economic ties – is no longer the hegemonic economic power. Second, the new economic order is characterized by the shift of power from west to east, and Colombia is far behind in its integration with Asia, compared to other countries in Latin America. And third, Colombia has only been able to take advantage of the global commodities boom in energy, but not in agricultural products (Figure 1).

**Figure 1**

*Figure 1: Agricultural Exports – Selected countries*

![Agricultural Exports – Selected countries](source: Fedesarrollo)

**Elements Favoring Change**

In 2010, the Ministry of Foreign Affairs of Colombia published the findings of the Foreign Policy Mission, a non-governmental academic initiative of a group of Colombian scholars. The initiative’s main objective was to determine the actions that Colombia should take in the medium- and long-term to develop a more effective foreign policy. The recommendations arising from this initiative take into account the opportunities and risks the country faces in the international arena. The report proposes specific actions in more than fifteen areas of Colombia's foreign policy. The following are some of the key recommendations regarding the global agenda that have particular relevance for Colombia.6

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Political and Security Issues

- A long-term foreign policy must be designed and implemented. Colombia must change the short-term, reactive approach that characterizes its foreign policy, and replace it with a comprehensive vision that identifies the country’s goals and national interests, taking into account changes in the global context as well as regional and global challenges.

- Human rights policies must be strengthened. The government should design a comprehensive policy on human rights, to be coordinated with economic and social development programs.

- Policies against drug-trafficking should be reviewed. Colombia should promote an international debate to examine existing policies against illegal drugs, particularly in terms of their costs and benefits. At the regional level, it is necessary for Colombia to promote the discussion of issues related to security, defense and drug-trafficking in order to build trust and cooperation for its national policies to combat drug-trafficking and guerrillas.

- Colombia must make a strong effort on its borders to improve relations with neighboring countries. The goal of improving relations with neighboring countries requires Colombia’s border policy to be redefined to encompass a wide range of actions, so as to ensure a comprehensive approach. This approach should include actions by the state, including the provision of security, justice, infrastructure and the support of productive and environmental projects, among other initiatives.

- Transition from bilateralism with the United States to multilateralism. The Colombian government should harmonize its policy toward the United States with its multilateral policy. Since the Obama administration has increased its support of multilateralism, Colombia should be prepared to operate in this new policy environment.

- Relations with the United States should be expanded. The bilateral agenda should be extended to issues other than drugs and security. Topics such as alternative energy, biodiversity and the strengthening of multilateral institutions should be included in the agenda. Furthermore, it is necessary to develop a strategy to regain the bipartisan consensus in the United States towards Colombia that prevailed before the George W. Bush administration.

Economic and Environmental Issues

- Foreign trade must be fostered. Now that the Colombia-U.S. free-trade agreement has been implemented, further increasing such bilateral trade remains a high priority for the Colombian government. Even more important, trade and investment ties with Asia should be strengthened. Colombia has initiated negotiations toward that end with South Korea and Japan and has signed investment promotion agreements with China, India and South Korea. Strengthening ties with Asia also requires a wider diplomatic presence by Colombia in the
region, the development of strategies to increase trade flows with Asia and stronger partnerships with Latin America’s Pacific Basin countries, among other goals.

- **Environmental issues must become cornerstones of Colombian foreign policy.** The preservation of a sustainable environment is a key strategic goal of the global agenda. Colombia has a huge potential in this area due to its large biodiversity. To achieve this objective, Colombia should strengthen its domestic environmental policy. The restoration of the Ministry of Environment, created by the Santos administration, is a step in the right direction.

- **Colombia must seize the opportunities arising from its productive potential in strategic resources such as food, energy and water.** Colombia has enough resources to become a strategic international actor in the XXI century. Farming only a quarter of its arable land, it is one of the few countries in Latin America that can still expand its agricultural production. Colombia has enough energy resources to meet its own consumption. The country also has significant fossil fuel resources, and is promoting biofuel production. About three quarters of the electricity consumed can be produced from water power.

**Main Challenges**

The recommendations made by the Foreign Policy Mission were focused mainly on the diversification of partners beyond the United States, as well as the diversification of topics on the international agenda beyond drug-trafficking and security issues. Has the Santos administration shifted in the orientation of Colombia’s foreign policy?

In human rights and drug policy there have been no major changes vis-à-vis the previous government policy. Largely because U.S. policy toward Latin America has not changed much, with the military emphasis on the fight against drug-trafficking and terrorism continuing to have strategic importance. However, the inclusion of that topic in the 2012 Summit of the Americas agenda changed the tone of the dialogue between Latin America and the United States, given that some Latin American countries highlighted the costs they have incurred under this policy and urged for new approaches to the problem.

The process of transition from bilateralism to multilateralism is a long-term project, but there have been some recent actions to drive this process. Colombia was elected to the UN Security Council in October 2010 for the 2011-2012 term, and occupies one of the 10 non-permanent seats on the Security Council that work with the five permanent Security Council members (Britain, China, France, Russia and the United States). Furthermore, in January 2011, Colombia applied for admission to the Organisation of Economic Co-operation and Development (OECD).

Moreover, the relationship between Colombia and the United States is undergoing more changes. Although U.S. policy toward Latin America as a whole has not changed much, in the Obama administration Colombia no longer receives special treatment focused on security. The Santos administration has also sought to expand Colombia’s bilateral agenda with the United States to
include issues other than security and drug-trafficking. These new items include environmental protection and sustainable development, among other issues. Before the Summit of the Americas that was held in Cartagena in mid-April 2012, President Santos expressed his vision of a future relationship with the United States based not on Colombia’s dependence, but as a relationship of equals.\footnote{http://www.eltiempo.com/politica/ARTICULO-WEB-NEW_NOTA_INTERIOR-11517822.html.}

The most significant changes in the foreign policy implemented by the Santos administration involve Colombia’s relationships with neighboring countries. The restoration of relations with the governments of Venezuela and Ecuador, which had previously been so difficult to improve, has been accomplished.

Although signs of a shift in policy orientation are evident, Colombia still faces significant challenges in several areas, as in its relations with neighboring countries, security, foreign trade and the implementation of FTAs. Furthermore, Colombia should take advantage of the large increase in world demand for primary exports produced by the Latin American countries. Even though that demand has weakened in recent months, its current level is much higher than in the beginning of the century and is expected to remain at least at that level. All these topics raise a big question: what kind of integration into the global economy does Colombia want in the future?

The improvement of the relations with neighboring countries implies a desire to promote a better regional understanding of the Colombian conflict. Specifically, border problems related to the armed conflict in Colombia, drug-trafficking and domestic crime, need to be dealt with through strong cooperation with neighbor countries.

Efforts to maintain domestic security control should be expanded to weaken the factors that led to Colombia’s isolation. The new approach to security policy may lead to a reversal of the progress made by the Uribe government. The trends of the internal security situation could be reversed by the actions of guerrillas, paramilitary groups or regular criminals, with implications for Colombia’s border areas. If such a reversal were to happen, the factors that led to the isolation of Colombia in the late 1990s could reappear.

However, things may have started to move in the right direction. In September of 2012, the Santos administration and the FARC (the largest guerrilla group in the country) announced the beginning of a peace process. Given that previous efforts to reach peace with that group have failed, this announcement by itself does not guarantee a successful result. And yet, there are reasons to be moderately optimistic about the willingness of the guerrillas to reach an agreement: the FARC have half the men they had a decade ago, several of their leaders have been killed in the last few years and the present balance of power clearly favors the Colombian state. Though the Colombian government expects to have a quick negotiation, it is likely that it will take a couple of years before concrete results are reached.
The implementation of the FTA with the United States and the agenda for negotiations with Asian countries should receive special attention to improve Colombia’s integration into global trade and investment flows. However, a comprehensive change in Colombia’s economic strategy is still missing. Colombia must begin to exploit the opportunities arising from its strategic natural resources: water, food and energy. In the area of water and food in particular, policies are lacking to achieve that goal. While there is an effort to negotiate new free trade agreements, Colombia still lacks a new agricultural policy that would permit it to take advantage of the opportunities in the global agricultural markets. Agricultural policy remains protectionist, which generates an anti-export bias.

Colombia also needs to capitalize on the economic boom in the region in order to achieve structural changes in its economy. This entails implementing policy measures to avoid the so-called Dutch disease, that is, the appreciation of the domestic currency due to the increase of oil and mining exports, which reduces the competitiveness of the rest of Colombia’s exports. While exports have been increasing at a significant pace in recent years, most of this growth can be attributed to oil and coal. Colombia, therefore, needs to diversify its exports to avoid negative effects on the economy arising from the country’s dependence on raw materials. Finally, Colombia should exploit the opportunities arising from globalization to reduce unemployment and the size of the informal economy, thus improving the income distribution. Empirical evidence suggests that people who are unemployed or who work in the informal economy in Colombia get lower income than those who are employed and/or work in the formal economy.

After making significant improvements in domestic security conditions, the Colombian government has taken important steps to strengthen the international ties of the country. The current challenge to the government is to consolidate the former and deepen the latter.

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References


