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Colombia Plays the China Card; Will talks about a dry canal across the Andes sway opponents of a stymied U.S. trade agreement?

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After more than four years of painful delays, prospects for reviving the long-languishing U.S.-Colombia free trade agreement may be getting a significant boost thanks to an unlikely third party: China.

The Asian giant’s role is playing out in discussions about construction of a 140-mile, $7.6 billion railway — dubbed a “dry canal” — that would connect Colombia’s Caribbean region, near the Port of Cartagena, with its Pacific coast, near the Port of Buenaventura.

The mid-February timing of the announcement by Chinese and Colombian officials was hardly a coincidence, according to critics of the Obama administration who have long supported the U.S.-Colombia pact.

Tired of waiting for the U.S. to enact the treaty — the agreement was signed in 2006 but never sent to Congress for approval — Colombian President Juan Manuel Santos seems to be exploring strategic alternatives to the U.S., long the country’s largest trading partner.

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“Nature abhors a vacuum, and the Colombians, who are close allies of the U.S., are tired of waiting around for the U.S.,” said Doug Goudie, director of international trade policy at the National Association of Manufacturers. “The Chinese have a hunger for natural resources, and they have a strategic vision. They see a railroad through Colombia as an added way to have some influence in that country.”

In theory, that railroad could make it cost-effective to ship some Colombian products or raw materials — especially, coal from deposits close to its Caribbean coast — across the Andes to the Pacific coast, from which they could be shipped to China.

Colombia signed a similar free trade agreement with Canada in 2008. U.S. exporters will lose significant market share in Colombia if the Santos-led government opens its markets to other major industrial nations, supporters of the U.S.-Colombia pact argue.

“If the U.S. continues to sit on the sidelines when there is a perfectly fine free trade agreement with Colombia,” said Daniel Griswold, director of the Center for Trade Policy Studies at the Cato Institute, “whose equipment will the Colombians be using when they build” the railway across Colombia or other major projects in that country? “If goods from Canada, Europe, South Korea and elsewhere will be coming into Colombia tariff-free while there is an 11 percent tariff on U.S. goods, whose companies will have the advantage?” Certainly, not the U.S., he said.

Enter China. The mere prospect that Colombia could provide major new opportunities for the Chinese — even in the absence of a free trade pact with the Asian giant — may have lit a fire under some lukewarm supporters of the U.S.-Colombia pact.

“The Colombian railroad announcement has gotten the attention of members of Congress,” said David Spooner, a former U.S. trade negotiator during the second Bush administration who is now a trade attorney at Squire Sanders & Dempsey in Washington.

The approach of the previous Colombian administration, led by former President Alvaro Uribe, was to plead with the U.S. to “please ratify the pact,” he said. “But Santos’s approach is that Colombia is a big country and that ‘we will be fine without an FTA with the U.S.,’” if that winds up being the case. Nevertheless, the Santos government has reiterated its support for the U.S. pact in the weeks since the Chinese railroad project was announced.

The timetable for possible congressional approval is difficult to pinpoint. When U.S. Trade Representative Ron Kirk appeared before the House Ways and Means Committee in February he said the Obama administration wanted to move the U.S.-South Korea trade agreement through Congress as soon as possible, and that the administration would intensify efforts to resolve outstanding issues in the Colombia and Panama agreements so those pacts could move quickly to Congress, if possible, by the end of 2011.

But when he testified before the Senate Finance Committee on March 9, Kirk said his focus was “squarely on the lack of progress on the Colombia and Panama free trade agreements.” He noted the administration had sent an interagency team to Colombia to discuss “serious outstanding issues” in mid-February. Those talks, he said, have been productive, and he is “confident we can wrap up these issues” this month.

“We continue to make progress, and I am confident we will be successful,” Kirk said.

Spooner, while more optimistic than in the past, remains skeptical about the overall prospects for success. “A few months ago, I’d have said that there is a 5 percent chance of Colombia passing. Now I’d say that’s up to a 15 to 20 percent chance,” he said. “The AFL-CIO is so dug in, in its opposition to the treaty, that it will be a heavy lift for the Obama administration.”

There has long been support for the U.S.-Colombia pact among many congressional Democrats, Goudie said, and more such supporters are expressing their approval in public. “The time is long past to ratify the Colombia agreement,” Senate Finance Committee Chairman Max Baucus, D-Mont., said in recent hearings.

There also is growing consensus that the pact must be approved if the Obama administration is serious about meeting its goal of doubling exports by 2014. Addressing labor union fears that the pact would cause job losses in the U.S., Goudie said, “93 percent of our imports from Colombia are such products as petroleum, precious stones, flowers, nuts and berries and coffee. There are no U.S. jobs that will be lost” as a result of such imports, only opportunities for new jobs to handle those growing imports.

Although the U.S. still imports more from Colombia than it exports, the outbound trade is growing more rapidly. U.S. exports nearly tripled from $3.7 billion in 2000 to $12 billion in 2010, while imports rose about 120 percent in the same period. Containerized exports likewise are growing more rapidly. PIERS, a division of UBM Global Trade a sister company of the JOC, expects containerized exports to grow 7 percent this year after an expected 12 percent surge in 2010. Containerized imports grew a below-average 1 percent in 2010, PIERS forecasts, and are expected to decline 1.7 percent this year.

Ironically, without large-scale U.S. military assistance to combat its deeply rooted drug trafficking gangs and revolutionary guerrilla bands, much of the trade growth might not have become possible. A decade ago, Colombia was nearly a failed state until it mounted a comeback that led to a 15-fold surge in its stock market.

“This is the first time in several years that a new government can focus on issues other than violence and security,” said Daniel Velandia, head of research at Correval, a Colombian financial services firm. “Thanks to the advances carried out on this front during Alvaro Uribe’s administration, the current government has been able to direct all of its efforts to face other structural problems, such as a very high unemployment rate, a long-term fiscal deficit, inefficiencies in the health care sector and lack of infrastructure.”

Forecasts call for Colombia’s economy to grow at an average annual rate of 5 percent through 2020. A key assumption of those forecasts is that an oil mining boom is considered likely over the next eight to 10 years. Although Colombia has high, untapped potential for oil production, it’s been impossible to explore some regions with large reserves because of the presence of so many anti-government guerrilla groups.

But does the “dry canal” make economic sense? For Walter Kemmsies, chief economist at Long Beach, Calif.-based global infrastructure consultant Moffatt & Nichol, the project “is technically feasible, and it could actually happen,” but it’s not clear it could be completed at a cost-effective price — or wind up having the economic impact its supporters anticipate.

Numerous other alternatives to the Panama Canal have been proposed, Kemmsies noted, only to meet with major physical and financial barriers along the way, including projects for Costa Rica, Mexico’s Isthmus of Tehuantepec and Nicaragua.

“There are lots of pipelines and alternative canals being proposed” from Central America down to Colombia, he said. Farther south, China’s chances for accessing the vast raw materials of South America could improve as a result of projected initiatives to build highways from Brazil’s Atlantic coast across the continent to Peru and Chile, as well as a railroad from southern Brazil that would stretch to the Pacific via Paraguay, Bolivia and Chile.

Most containerized cargo shipped to and from Colombia flows through the Caribbean port of Cartagena, where U.S. agents from Customs, the Drug Enforcement Agency, and Bureau of Tobacco, Firearms and Explosives help minimize the security risks, given the high local rate of crime.

Imported containers from Asia destined for western Colombia now go through the Panama Canal to Cartagena. The dry canal could make it possible to drop those boxes in Buenaventura, Colombia’s major Pacific port. The Chinese also might send partially assembled products to Buenaventura for assembly in or near that location, although it’s “unclear if there would be enough backhaul” to make this economically cost-effective, Kemmsies said.

The dry canal railroad would be a new way for China, a net importer of coal, to tap into Colombian markets cost-effectively. There are numerous coal terminals on the Caribbean side of Colombia from which Colombian coal is shipped to Brazil. Much of that might wind up being shipped to China.

Coal alone might not be enough to make the project effective, however. “It would have to be a significant amount of coal to justify an investment like this,” Kemmsies said.

Even if the dry canal winds up being effective, it could take years to complete, given the enormous challenges of constructing any massive infrastructure project, especially those located in mountainous rainforests traditionally inhabited by hostile guerrilla fighters. In similar terrain, the Panama Canal took decades to complete, having been abandoned by its first team of French engineers. The U.S.-Canada St. Lawrence Seaway likewise took several decades to complete.

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