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Colombia As A Potential New Free Trade Haven

By: Alexa van Sickle – January 31, 2013

Colombia, with its 45 million consumers, has long seemed a prime market for U.S. exports in the region. It has the third-largest economy in Latin America, and in 2010, U.S. producers exported more than $11 billion in goods to Colombia, making it the U.S.'s third-largest market in Latin America after Mexico and Brazil.

With a new free-trade agreement with the U.S. and some progress on its internal issues, is Colombia's future as a trading partner starting to look brighter?

The U.S.-Colombia Free Trade Agreement (FTA), which went into effect May 15, 2012, has been one driving force in that direction, eliminating barriers to billions of dollars of U.S. exports. The FTA also provides protection to U.S. investors and U.S. copyrights, trademarks and patents registered in Colombia.

The U.S. International Trade Commission estimates that through the FTA, the value of U.S. exports to Colombia could rise by $1.1 billion, while Colombian exports to the U.S. could grow by $487 million. According to the U.S. Embassy in Bogota's blog, since May 2012, total trade with Colombia went up 10% and U.S. exports to Colombia went up 22%, reaching $4.3 billion.

There was some delay in implementing the FTA owing to Colombia's longstanding internal conflicts and security issues. But how much — if at all — will these issues continue to impact Colombia's business climate?

U.S. and Colombia

Upon implementation, the agreement eliminated duties on 80% of U.S. exports of consumer and industrial products to Colombia. The agreement would grant duty-free treatment right away to farm products from both countries, such as high-quality beef, cotton, wheat, and soybean meal.

Agricultural products are a top prospect for export to Colombia. The top non-agricultural export prospects are auto parts and accessories, construction and mining equipment, electrical power systems, food and beverage processing equipment, and information technology.

Before the FTA, most Colombian exports already entered the U.S. duty free under the Andean Trade Preference Act, which means U.S. businesses will benefit most from the increased market access.

In addition, “A trade agreement can be especially helpful to small and mid-size businesses because it establishes more transparent rules and arbitration procedures,” write Juan Carlos Hidalgo and Daniel Griswold in a Cato Institute study. “It opens up the government procurement process for smaller contractors and reduces the fixed costs of regulations that can be especially burdensome to smaller companies.”

Geopolitics and Economics

The U.S.-Colombia FTA has as much of a geopolitical purpose as an economic one. Strategically, the agreement reinforces one of the U.S.’s strongest alliances in the region; but it is also an important affirmation of U.S. support for the Colombian government in its battle with armed groups and drug trafficking. The FTA formalizes the rules of the game, and will create a more sustainable trade environment for Colombia, wrote Amy Lieberman in World Politics Review.

There are still concerns over Colombia’s internal conflicts and human rights issues, particularly violence against labor union leaders. Colombia is believed to be one of themost dangerous places to be a trade union leader. But there has been a steep decline in violence in all sectors of society, and especially trade-union related violence.

Revolutionary Unrest

A surge of U.S. support and Colombian government action against the Revolutionary Armed Forces of Colombia (FARC) and drug cartels in the last few years have helped restore government control over much of its territory. FARC’s numbers have sharply declined, standing at around 8,000 — half of its peak in the 2000s. Peace talks between FARC’s central leadership, after five decades of combat, are reported to be going well, but are in their early stages, and any formal agreement will be a long way off.

In 2011 and the first half of 2012, there were a spate of FARC attacks on infrastructure, in particular on pipelines, which threatened Colombia’s energy sector. While FARC’s powers seem to be on the wane, the situation continues to be volatile. It is hoped that an increase in foreign investment and economic activity outside of illegal mining and drug trafficking will further weaken the influence of groups like FARC.

Colombia Looking Forward

But the business climate is not necessarily dependent on a deal with FARC. “Even without a lasting peace agreement the credit fundamentals are improving,” said Erich Arispe, Director of Sovereign Ratings at Fitch. “We see good prospects for continued fiscal consolidation, sustainable growth, low inflation, and improvement in the external accounts.”

Despite its problems, Colombia is a better investment environment than many other South American states, because of its open attitude toward trade and commerce and steady growth rate. The government is also committed to addressing the long-standing issues, and there has been some success in reducing poverty and violence. U.S. businesses should not miss out on the momentum the country has built over the last few years.