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**Foreign Trade Regimes
and Economic Development:
COLOMBIA**

Foreign Trade Regimes and Economic Development:

*A Special Conference Series
on Foreign Trade Regimes
and Economic Development*

VOLUME IX



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COLOMBIA

by **Carlos F. Díaz-Alejandro**

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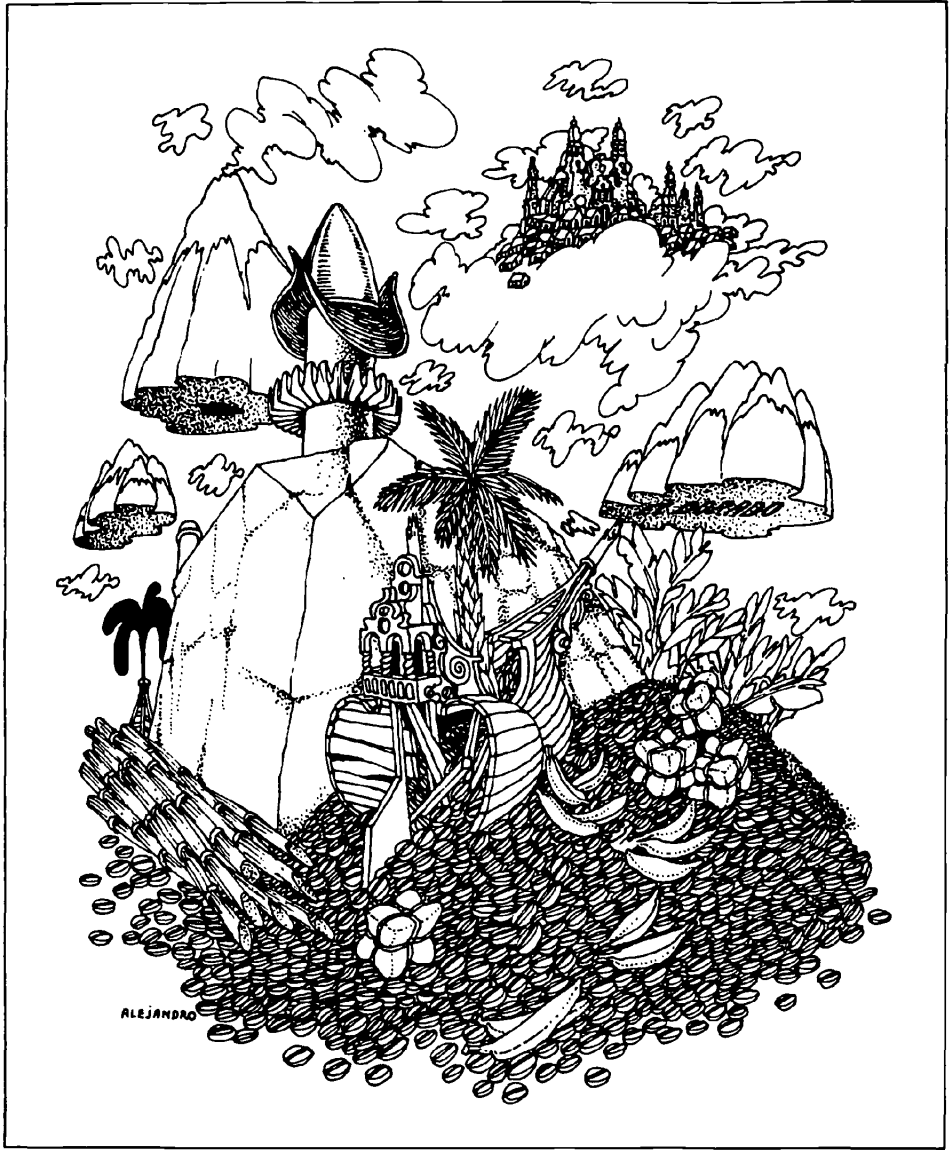
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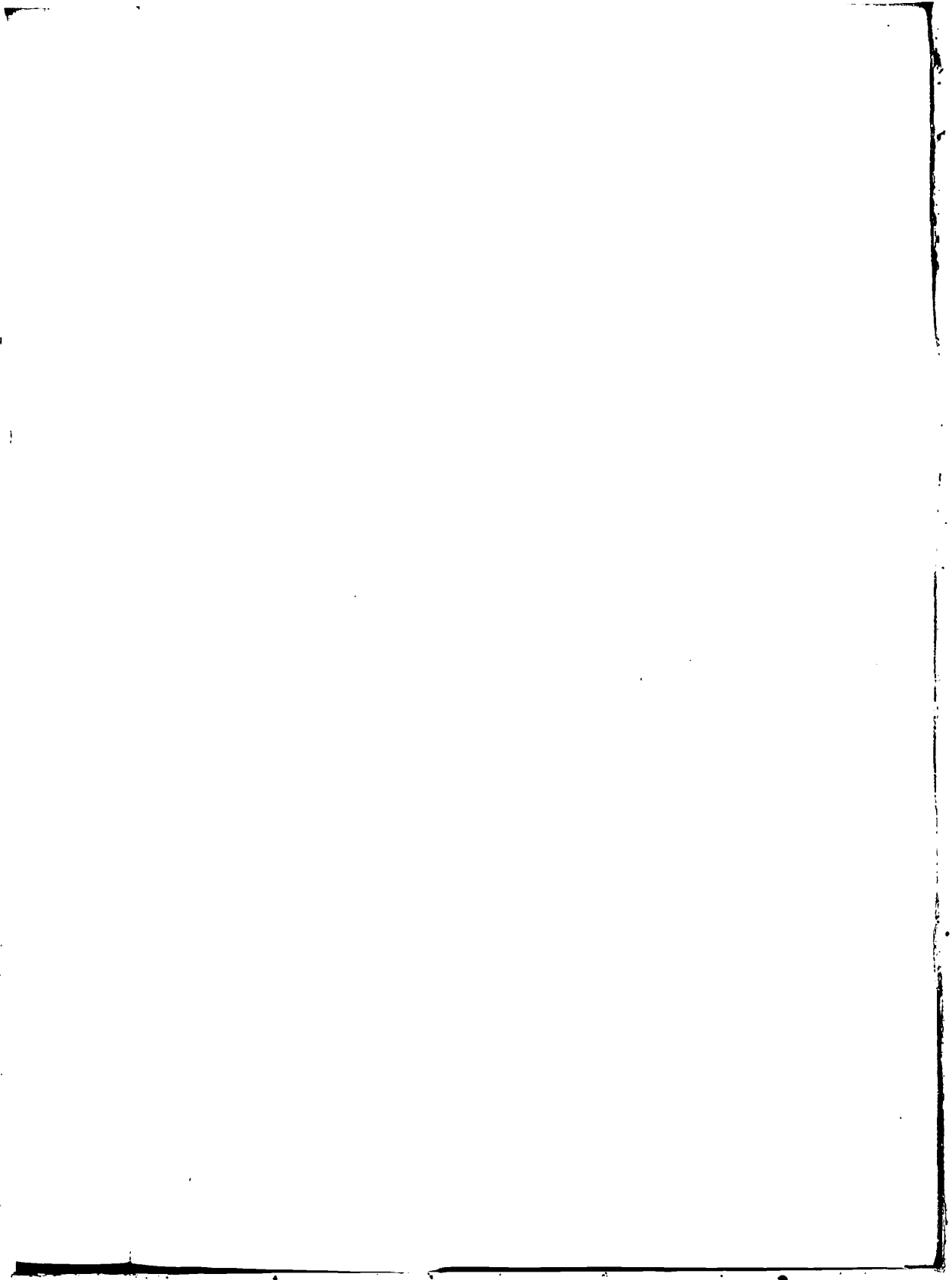
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The individual country studies have not passed through the National Bureau's normal procedures for review and approval of research reports by the Board of Directors. In view of the way in which these studies were planned and reviewed at successive working parties of authors and Co-Directors, the National Bureau's Executive Committee has approved their publication in a manner analogous to conference proceedings, which are exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors. *It should therefore be understood that the views expressed herein are those of the authors only and do not necessarily reflect those of the National Bureau or its Board of Directors.*

The synthesis volumes in the series, prepared by the Co-Directors of the project, are subject to the normal procedures for review and approval by the Directors of the National Bureau.

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Co-Directors' Foreword

11

This volume is one of a series resulting from the research project on Exchange Control, Liberalization, and Economic Development sponsored by the National Bureau of Economic Research, the name of the project having been subsequently broadened to Foreign Trade Regimes and Economic Development. Underlying the project was the belief by all participants that the phenomena of exchange control and liberalization in less developed countries require careful and detailed analysis within a sound theoretical framework, and that the effects of individual policies and restrictions cannot be analyzed without consideration of both the nature of their administration and the economic environment within which they are adopted as determined by the domestic economic policy and structure of the particular country.

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The research has thus had three aspects: (1) development of an analytical framework for handling exchange control and liberalization; (2) within that framework, research on individual countries, undertaken independently by senior scholars; and (3) analysis of the results of these independent efforts with a view to identifying those empirical generalizations that appear to emerge from the experience of the countries studied.

The analytical framework developed in the first stage was extensively commented upon by those responsible for the research on individual countries, and was then revised to the satisfaction of all participants. That framework, serving as the common basis upon which the country studies were undertaken, is further reflected in the syntheses reporting on the third aspect of the research.

The analytical framework pinpointed these three principal areas of research which all participants undertook to analyze for their own countries. Subject to a common focus on these three areas, each participant enjoyed maximum latitude to develop the analysis of his country's experience in the way he deemed appropriate. Comparison of the country volumes will indicate that this freedom was indeed utilized, and we believe that it has paid handsome dividends. The three areas singled out for in-depth analysis in the country studies are:

1. *The anatomy of exchange control*: The economic efficiency and distributional implications of alternative methods of exchange control in each country were to be examined and analyzed. Every method of exchange control differs analytically in its effects from every other. In each country study care has been taken to bring out the implications of the particular methods of control used. We consider it to be one of the major results of the project that these effects have been brought out systematically and clearly in analysis of the individual countries' experience.

2. *The liberalization episode*: Another major area for research was to be a detailed analysis of attempts to liberalize the payments regime. In the analytical framework, devaluation and liberalization were carefully distinguished, and concepts for quantifying the extent of devaluation and of liberalization were developed. It was hoped that careful analysis of individual devaluation and liberalization attempts, both successful and unsuccessful, would permit identification of the political and economic ingredients of an effective effort in that direction.

3. *Growth relationships*: Finally, the relationship of the exchange control regime to growth via static-efficiency and other factors was to be investigated. In this regard, the possible effects on savings, investment allocation, research and development, and entrepreneurship were to be highlighted.

In addition to identifying the three principal areas to be investigated, the analytical framework provided a common set of concepts to be used in the studies and distinguished various phases regarded as useful in tracing the experience of the individual countries and in assuring comparability of the analyses. The concepts are defined and the phases delineated in Appendix F.

The country studies undertaken within this project and their authors are as follows:

Brazil	Albert Fishlow, University of California, Berkeley
Chile	Jere R. Behrman, University of Pennsylvania
Colombia	Carlos F. Díaz-Alejandro, Yale University
Egypt	Bent Hansen, University of California, Berkeley, and Karim Nashashibi, International Monetary Fund
Ghana	J. Clark Leith, University of Western Ontario

India	Jagdish N. Bhagwati, Massachusetts Institute of Technology, and T. N. Srinivasan, Indian Statistical Institute
Israel	Michael Michaely, The Hebrew University of Jerusalem
Philippines	Robert E. Baldwin, University of Wisconsin
South Korea	Charles R. Frank, Jr., Princeton University and The Brookings Institution; Kwang Suk Kim, Korea Development Institute, Republic of Korea; and Larry E. Westphal, Northwestern University
Turkey	Anne O. Krueger, University of Minnesota

The principal results of the different country studies are brought together in our overall syntheses. Each of the country studies, however, has been made self-contained, so that readers interested in only certain of these studies will not be handicapped.

In undertaking this project and bringing it to successful completion, the authors of the individual country studies have contributed substantially to the progress of the whole endeavor, over and above their individual research. Each has commented upon the research findings of other participants, and has made numerous suggestions which have improved the overall design and execution of the project. The country authors who have collaborated with us constitute an exceptionally able group of development economists, and we wish to thank all of them for their cooperation and participation in the project.

We must also thank the National Bureau of Economic Research for its sponsorship of the project and its assistance with many of the arrangements necessary in an undertaking of this magnitude. Hal B. Lary, Vice President-Research (retired), most energetically and efficiently provided both intellectual and administrative input into the project over a three-year period. We would also like to express our gratitude to the Agency for International Development for having financed the National Bureau in undertaking this project. Michael Roemer and Constantine Michalopoulos particularly deserve our sincere thanks.

JAGDISH N. BHAGWATI
Massachusetts Institute of Technology

ANNE O. KRUEGER
University of Minnesota

Preface

Much has been written during the last few years on the international trade and financial policies of developing countries. As Colombia has received a good share of this attention, and as most authors in the field are eager to protest that trade policies are only part (and perhaps not the most important part) of a well-balanced development plan, the reader may wonder why I seek to lure him or her into looking at yet one more book on Colombian trade and development.

My basic motivation in writing this volume has been straightforward: since 1962, when I became acquainted at firsthand with Colombia, which contains the strengths as well as the problems and contradictions of Latin America, I have wanted to study its import and exchange control system, and more generally, its trade and payments policies. My pre-1959 Caribbean background had not prepared me for exposure to large numbers of public figures who, whether wise or misguided in their economic policymaking, made decisions on the basis of considerations excluding personal monetary gain. Surely this species of ruling group deserved a closer look.

Since the difficult mid-1960s, particularly since 1967, the Colombian economy has expanded at an impressive although characteristically unspectacular rate. We thus have the opportunity to begin studying the extent to which a return to export-led growth can help or hinder the achievement of the several Colombian development targets, an opportunity not available to those writing in the 1960s.

This new stage in Colombian development is still in its infancy. There is some reason to wonder whether it will have a chance to reach adulthood. I

began this study in about July 1971, shortly before the world boom of 1972-73. As I write these lines, in the first week of 1975, each new forecast about the world economy is gloomier than the preceding one.

Yet, whatever happens in the nonsocialist part of the world economy, Colombia, and most of the rest of Latin America as well, have considerable grounds for optimism. The country and the region have second lines of defense against a world depression not available in the 1930s, when their performance was far from catastrophic. The forces searching for growth, national affirmation, and social justice cannot be stopped for very long, not even by a world depression. Indeed, Albert O. Hirschman has taught us that the optimal mix of external circumstances for a Latin American type of developing country may involve a spasmodic sequence of positive and negative stimuli. The historical challenge of Latin American integration and the bountiful natural resources of the region constitute key reserves against turbulence emanating from outside the area.

My book is focused on the 1950-72 period. Inevitably I also make some incursions into earlier economic history (but not enough) and spotty references to post-1972 policy changes. I do not attempt to be completely up-to-date even though many interesting changes in the trade and payments system have occurred during the last few years. Casual references, but no more, are made to economic policies not included under the trade and payments label. For these and other limitations it is up to the reader, particularly the Colombian reader, to decide whether or not to absolve me.

Two omissions should be highlighted. I hardly discuss coffee, and I can imagine a reviewer making references to Hamlet without the Prince. But all I need here is the Coffee Ghost; the Prince of this story is the nontraditional export sector. Excellent and up-to-date studies of Colombian coffee policy are available, the most recent one by Roberto Junguito, director of FEDESARROLLO. The special characteristics of the Colombian oil industry have also been neglected, an omission which has become more obvious since October 1973, shortly before Colombia became an oil importer. But FEDESARROLLO has also published a recent study on that subject.

During the preparation of this volume I received much help from many individuals and institutions. My greatest debt is to Rodrigo and Luisa Botero; without their support and fraternal aid my work would have suffered grievously. This book is dedicated to them.

The following persons have contributed to the preparation of one or several chapters or have commented on earlier drafts: Lillian Barros, Jere Behrman, Albert Berry, Guillermo Calvo, César Cardozo, Benjamin I. Cohen, Richard N. Cooper, Mary K. Downey, Jonathan Eaton, Albert Fishlow, Hernando Gomez Otálora, Gerald K. Helleiner, Eduardo del Hierro, Juan Carlos Jaramillo, Stephen Kadish, Robert E. Lipsey, Herminia Martinez

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Intrepid and cheerful assistance was provided by José Francisco Escandón in Bogotá and by Van Whiting in New Haven. Christina Lanfer was in this project from beginning to end, in New Haven and in Bogotá, always the helpful queen of Colombian sources and the resourceful intermediary with the computer.

The detailed and massive comments by Hal Lary on earlier drafts of this study frequently, and at first sight, threatened to push me into the abyss of insanity. Calmer reflection has shown me how very useful his comments have been in improving those drafts. The co-directors of this project, Anne O. Krueger and Jagdish N. Bhagwati, also deserve special thanks for their many good comments and suggestions. Together with other colleagues in the project, they made our occasional seminars fruitful events from which this work benefited greatly. Masterful editing by Ester Moskowitz is gratefully acknowledged. I also thank H. Irving Forman for his expert drawing of the charts and figure.

FEDESARROLLO in Bogotá provided a congenial and stimulating base, first during July and August of 1971, and many times since then. Fellow research workers there contributed their good advice and many ideas; in addition to those already mentioned I wish to express my gratitude to Haroldo Calvo, Roberto Junguito, Guillermo Perry, and Daniel Vargas.

INCOMEX officials in Bogotá, who had good reason to suspect my a priori hostility to the import control system they were running, were remarkably open and cooperative. Without their generous help I could not have produced Chapter 6, which is my favorite in this book. Criticisms in this volume directed toward the import control system must be clearly separated from judgments regarding how this group of unusually hardworking, dedicated, and public spirited officials carry out their tasks.

Seminars at CEDE, at the Universidad de los Andes, and conversations with many Colombian businessmen and public officials outside INCOMEX also provided many valuable insights.

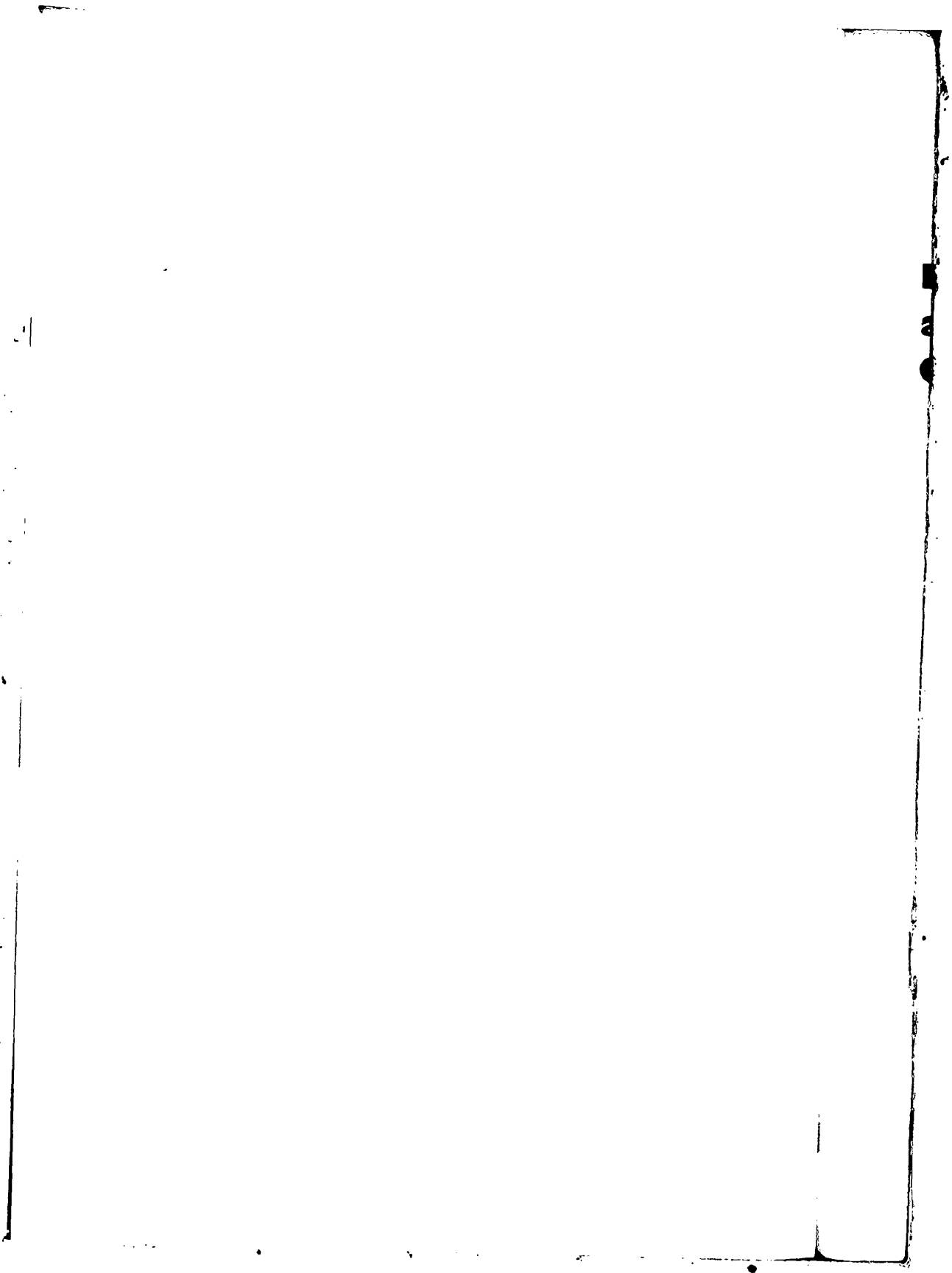
Impersonal but sincere thanks are due to three other institutions which provided the material base for this project: the National Bureau of Economic Research, the National Science Foundation, and the Yale Economic Growth Center.

Finally, my brother and closest companion-in-arms, José Ramón Díaz-Alejandro, has kindly provided the frontispiece.

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Ever since the railroad had been officially inaugurated and had begun to arrive with regularity on Wednesdays at eleven o'clock and the primitive wooden station with a desk, a telephone, and a ticket window had been built, on the streets of Macondo men and women were seen who had adopted everyday and normal customs and manners but who really looked like people out of a circus. In a town that had chafed under the tricks of the gypsies there was no future for those ambulatory acrobats of commerce who with equal effrontery offered a whistling kettle and a daily regime that would assure the salvation of the soul on the seventh day; but from those who let themselves be convinced out of fatigue and the ones who were always unwary, they reaped stupendous benefits. Among those theatrical creatures, wearing riding breeches and leggings, a pith helmet and steel-rimmed glasses, with topaz eyes and the skin of a thin rooster, there arrived in Macondo on one of so many Wednesdays the chubby and smiling Mr. Herbert, who ate at the house.

Gabriel García Márquez,
One Hundred Years of Solitude



**Foreign Trade Regimes
and Economic Development:
COLOMBIA**

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