

Editorial

Deindustrialization in Colombia

L The participation of the Colombian industry in GDP was highest in 1975, when it reached 23.2 %; later, in the eighties dropped to 21.3 % on average, but from the nineties, was down sharply to stand at 15.1 %. Today it represents 11.2 %, i.e., 12 percentage points below the year of the highest participation.

The reduction in the contribution of industry to GDP is normal for both developed and developing countries; in the first, when it reaches levels of 30 % of GDP, its weight starts to drop, and begins the growth in the service sector, due to technological advances incorporated in the latter.

Deindustrialization process in Colombia coincides with the openness of the nineties and intensifies by the adoption of FTAs signed in the country and the appreciation of the Colombian currency (peso).

Economic openness began in March 1990 and once taken possession President Gaviria, it was consolidated. Economic openness is not only associated with the liberalization of the external sector, but a series of reforms such as exchange rate, labor, tax, among others, all inspired by the Washington Consensus, for allegedly, using macroeconomic adjustments achieve economic growth. In fact, with reforms it was expected market to allocate the resources. In other words, that the free play of supply and demand would send signals of efficiency. Similarly it was necessary to eliminate anything that interferes with the free formation of the price of a good or service. Hence the need to dismantle the entire system of incentives, subsidies, tariffs, etc. In addition, it begins to question the role of the State, which should not interfere in economic activity, but to promote social security and provide the basic infrastructure that will help to increase private returns.

The Development Plan “The Peaceful Revolution” (1990-1994), of Cesar Gaviria administration, who transplanted the Washington Consensus Decalogue to the Colombian economy, both in the prologue as in the introduction and Chapter I is all an explanatory statement to emphasize that the State should basically guarantee the productive activity of private sector, provide basic services, and allow market forces to allocate resources. This can be corroborated with the proposed reforms, all aimed to ease and accelerate the functioning of markets, and thus, contribute to increased efficiency in the allocation of resources.

Regarding FTAs, it has been sold the idea that they offer ideal conditions for growth. This is correct, if the Colombian State has a good production capacity, which is not built only export-oriented. A determined policy to create this competitive capacity is needed and also offers other conditions which are determinate, such as an appropriate technology and infrastructure contributing to increase productivity. It requires, therefore, what some call, «transverse agenda» that includes policies aimed at the modernization of the production system, improve quality and increase coverage in education, modernization of production systems, expansion and maintenance of physical infrastructure, especially roads, boosting competitive sectors, improving marketing channels, increasing the budget for science and technology, among other initiatives. In some of these fronts, the national Government has made enormous efforts, but there is still much to do, to the point that it has decided to suspend the signing of new treaties and rather focus on industrial policy. Anyway, some FTAs, particularly with the United States, Europe and Korea, have structural deficiencies which have led some critics to consider the need to revise them.

Another element that contributes to the deindustrialization is the appreciation of the Colombian peso, which in recent years has been considerable, especially since 2003. Peso appreciation encourages imports and discourages exports. Revaluation has been so strong that organizations like the National Association of Financial Institutions (ANIF, for its acronym in Spanish), argues that in the Colombian deindustrialization the determinant factor is the behavior of the exchange rate. According to this unionization, in economies such as the Colombia, where the majority of exports are commodities, enclave type, the share of industrial sector in the economy tends to be significantly reduced, i.e., it presents what is known as *Dutch Disease*. The abundance of foreign exchange from exports of commodities creates a real and persistent currency appreciation, which reduces the competitiveness of other goods and services produced in the country, causes a reduction in industrial and agricultural exports, and therefore significantly stimulates imports, displacing domestic production by foreign production.

From the above it follows that trade openness, FTAs and Colombian peso revaluation, are critical elements in the industrialization of the country. The three processes, inspired by the principle of freedom in international trade, which assumes that all participants are equal to compete in markets-is not, as suggested by Stiglitz, genuine free trade but a trade regime directed, in which corporate interests prevail; in other words, it is a negotiation process that is neither democratic nor transparent.

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