Journal Essays on Economic Policy (ESPE) - Colombian current account revenues: exports performance, progress and challenges

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The external revenues examined in this document correspond to current account inflows in the Balance of Payments, which include exports of goods and services, income from Colombian-owned investments and other assets held abroad, and current transfers, -particularly workers' remittances-. These revenues are a primary source of financing for capital goods imports required for investment and domestic production, and thus influence potential growth. Moreover, they are essential for the sustainability of the current account and the country's external debt.

Despite their importance for macroeconomic stability, **Colombia's external revenues have fluctuated around 20% of GDP at their peak**. This is a very low proportion compared to that of Advanced Economies (40%) or Emerging Asia (50%), and is even lower than that observed in Chile, Mexico, and Peru, where external revenue to GDP ratios exceeds 30%. This reflects the productive structure of the Colombian economy, which is relies on the non-tradable sector, particularly services, with a small fraction directed toward international markets.

In terms of composition, **the sources of external revenues in Colombia are highly concentrated, with roughly 70% coming from exports of goods**. Service exports account for less than 15%

overall, while other sources of external revenues such as factor income, remittances, and other transfers contribute about 20%. This composition differs substantially from that observed in Advanced Economies, where the service sector plays a more significant role, with an average participation of 21% overall external revenues, while exports of goods contribute about 56%.

Colombian exports are characterized by low market diversification, with the United States being the main trading partner, followed by LATAM countries such as Ecuador, Mexico, Panama, and Peru, which are to external shocks similar to those faced by Colombia. Other geographical areas with greater economic activity, such as Asia and European Emerging Europe, are not relevant trading partners. The concentrated structure of Colombia's external revenue, both in its origin and destinations, makes the Colombian economy particularly vulnerable to terms of trade and external demand shocks, as has occurred in the past.

Exports of goods: characteristics and determinants

Since 1970, the share of Colombian goods exports in world exports has barely reached 0.3% and has been concentrated in commodities, which is reflected in the limited contributions of exports to GDP growth. Until the late 1980s, agricultural exports -mainly coffee and bananas- predominated in Colombia’s export structure. From the 1990s, this composition shifted towards oil and other mining products, resulting in a strong dependence on natural resources for the country's export revenues. In addition to the high exposure to unexpected price shocks in these products, such dependence has hindered Colombia’s integration into global trade. This is confirmed by several indicators that highlight the country's low insertion into global value chains.

To understand the reasons behind the weak performance of Colombian exports, **the determinants of industrial and non-coffee agricultural exports were examined**. Consistent with the literature, econometric results suggest that real depreciations have a positive effect through an inverse relationship with export prices. However, their magnitude is marginal due to the low elasticity of export volumes to relative prices. The limited response of exports to the exchange rate is attributed to a variety of reasons, such as low insertion into global value chains, the cost of imported inputs, rigidities in installed capacity, and trading costs, among others. On the other hand, external demand was found to be the most relevant variable for explaining the evolution of export volumes, mainly in the case of industrial and some agricultural products in the long term. Therefore, the slow growth of the Colombia's trading partners in recent years helps explain the recent stagnation of Colombian exports despite the real depreciation following the fall in oil prices in 2014.

The document argues that Colombia's protectionist trade policy, characterized by **the intensive use of non-tariff measures—which offset the tarrifs implemented during the trade liberalization process of the early 1990s**—has created an anti-export bias in the country. This is because

protection acts as an export tax, raising domestic costs and undermining competitiveness. Furthermore, inefficiencies in domestic freight and port logistic services, excessive regulations and institutional complexity, as well as inadequate infrastructure increase trading costs, preventing firms from competing on prices in international markets and prompting them to allocate their production to the domestic market instead.

Service Exports

Over the past 25 years, **services exports have grown at an average annual growth of 7.3%, outperforming goods exports in both dynamism and stability**. However, Colombia's service exports remain highly dependent on and concentrated in traditional services, such as travel and transportation, which accounted for 78% of total service exports in 2018. This contrast with countries such as the United States, Australia, and India, where knowledge-intensive services have gained greater prominence and are more easily integrated into global value chains. For the Colombian economy, a key challenge lies in making effectiveuse of information technologies and expanding modern service production to diversify its exports supply.

Other Current Income

Among other current income sources, workers' remittances and returns from Colombia's direct investments abroad stand out as key resources that have helped to dampen the country's external imbalances. Their importance within the external accounts has increased over time.

Conclusions

Colombia faces the challenge of strengthening and diversifying its external revenues. Revising the protection structure, reducing trading costs, making use of new technologies, and seeking external markets with stronger economic performance and structural characteristics different from those of the Colombian economy, are essential steps to revitalizing goods exports and boosting service exports. This will lead to greater economic growth and less vulnerability of the Colombian economy to global economy fluctuations.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/espe/colombian-current-account-revenues-exports-performance-progress-challenges