Box 1:
COLOMBIA'S NON-TRADITIONAL EXPORTS: FACTS, TRENDS AND HYPOTHESIS

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1. Introduction

One of the consequences of the 2008 financial crisis was a generalized contraction in international trade. In the case of Colombia, export volume indexes and its annual growth rates declined between 2008 and 2009,. Although post-crisis indicators for Colombia showed an important recovery, the figures suggest average growth rates in recent periods are lower than those witnessed prior the crisis, and this sluggishness is more pronounced in the case of non-traditional exports.[1] The pattern of this performance is similar to the one observed in the quantities exported worldwide. The general trends in Colombian exports before and after the crisis, based on export volume indexes, are outlined in this section. The exercise emphasizes in non-traditional exports and explores several possible explanations as to why they did not recover completely during the post-crisis period.

2. A Comparative Analysis of Trade in Colombia and Worldwide Before and After the Crisis

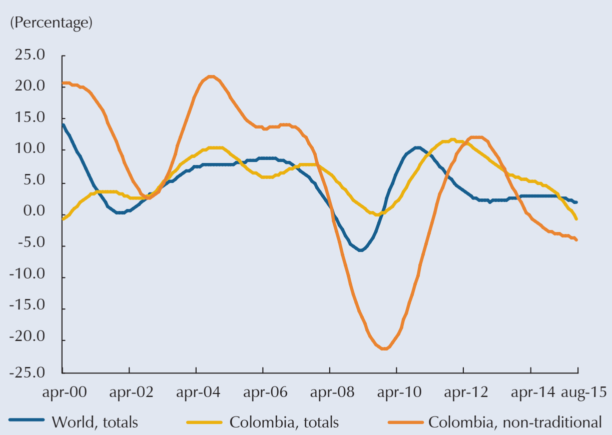
Average annual growth in the index of the volume of Colombian exports between January 2005 and January 2007 came to 6.5%. During the economic crisis (January 2008-January 2010), that rate fell to an average of 2.0%.

In the aftermath of the crisis, the rates of growth in Colombia's export volumes tended to recover relatively quickly. In Graph B1.1, which shows the trend[2] in the annual variation in the export volume index, one sees growth in export volume accelerated between mid-2009 and late 2011. On the other hand, non-traditional export growth, which was affected far more by the economic crisis than total exports, showed a more pronounced upward trend between early 2010 and mid-2011, as illustrated in the same Graph.

However, the figures for more recent periods do not show a full recovery in trade. Colombian exports grew at an average rate of 3.6% between January 2014 and August 2015. The rate for non-traditional exports was -3.2%, which is well below the average annual growth rate for exports in this group between January 2005 and January 2007 (13%). Therefore, the average growth rates in more recent years are significantly lower than those registered prior to the crisis.

The trend in global export volumes was similar. Between January 2005 and January 2007, before the crisis, the average annual growth in total export volume was 7.4%. However, it was -3.9% in the period between January 2008 and January 2010 (during the economic crisis).[3] The volume of global trade recovered a lot after the crisis, as shown in Graph B1.1. But that recovery was followed by a slowdown in export-volume growth during subsequent months. For a more recent window, between January

Graph B1.1
Trend in Annual Export Volume Growth



Observation: The trend was computed using a Hodrick-Prescott filter.
Source: Netherlands Bureau for Economic Policy Analysis and DANE; Calculations by *Banco de la República*

* The authors work with the Department of Programming and Inflation. The opinions and findings presented in this section imply no commitment whatsoever on the part of *Banco de la República* or its Board of Directors.

1 Total exports without mining and agricultural products.

2 Obtained from a Hodrick-Prescott filter applied to the original series.

3 The lowest annual rate of growth in the global export volume index during the last decade was posted on 29 January 2009, at -20.1%.

2014 and August 2015, the increase was 2.7%. These figures show world trade is growing at lower average rates now than before the crisis at the end of the last decade. This trend is similar to that of Colombian exports.

In addition, export volumes broken down by sector can be analyzed for the Colombian case. This exercise indicates that the recovery in total export levels was tied to export volumes in the mining sector. In contrast, sales in the agricultural sector showed no significant recovery, while non-traditional exports reached levels only comparable to those in 2004 (Graph B1.2).

3. Performance of Non-traditional Exports in Colombia

The following is a detailed analysis of how the indexes of non-traditional export volume have evolved. This variable is separated by sectors and destinations in an effort to find an explanation for the performance observed after the crisis[4]. These volume indicators were constructed by deflating exports in dollars with a specific chained index of implicit prices for each sector[5].

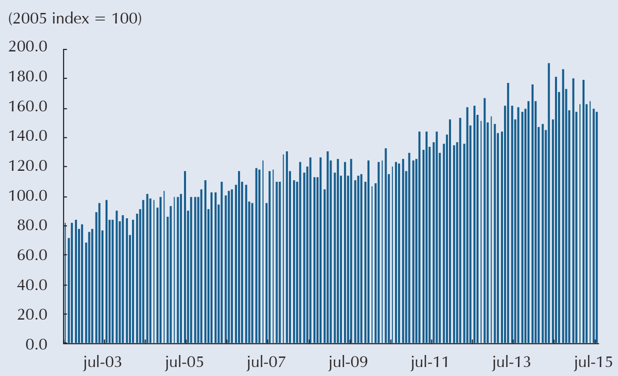
The low volume of industrial exports was reflected in most of the sectors during recent years. The situation in textiles and clothing stands out; exports of these products after the crisis were even lower than the levels on record in 2001 and are stuck there. Leather manufactured goods are another sector with a similar performance. However, there are sectors such as food and beverages, non-metallic minerals and metal manufactured goods where export volumes have recovered slightly, but they still remain at levels comparable only to those of the beginning of the last decade. The figures

4 The results for different destinations, per groups, can be found at the link provided in the statistical annex to Box 1.

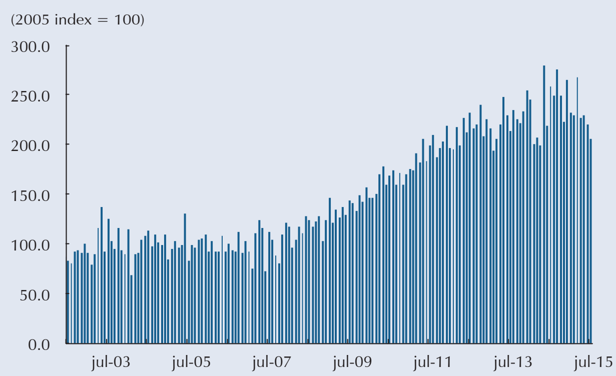
5 The details on the construction of price indexes can be found in Garavito et al (2011).

Graph B1.2
Export Quantity Indexes

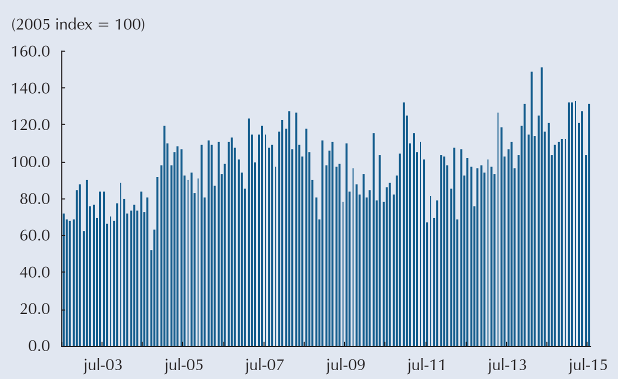
A. Total



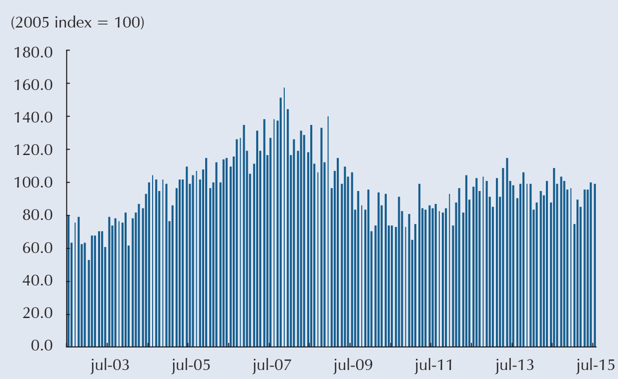
B. Mining



C. Agricultural



D. Non-traditional



Source: DIAN-DANE; Calculations by *Banco de la República* on automobiles reflect the commercial boom with Venezuela before the crisis, and the subsequent extraordinary sales to Mexico and Argentina.

In terms of export destinations, it is particularly important to analyze the development of indicators of sales to Venezuela, the United States, and Ecuador, given their relevance in Colombia's non-traditional foreign trade.

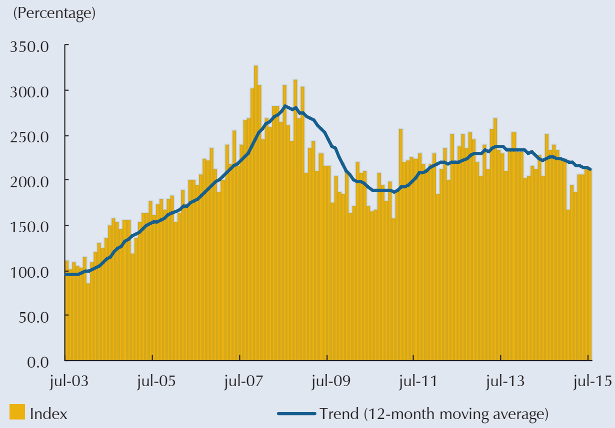
The case of Venezuela is particularly dramatic, since the trade restrictions that were imposed affected most of the sectors that export to that country. In fact, there appears to have been a recovery only in chemical exports, while other sectors show stagnation or have experienced extremely short-lived recoveries.

With respect to the United States the outlook is not favorable either. The figures show stagnation at low levels after the crisis for most sectors, and only in some cases, there is a recovery to pre-crisis levels (rubber and plastic and products chemicals).

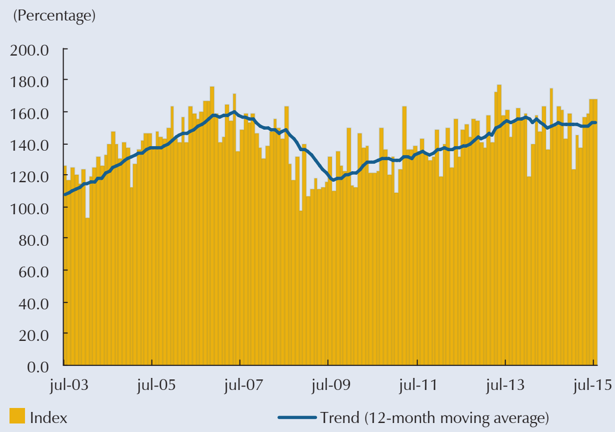
As for Ecuador, the situation in terms of export quantities is one of general stagnation, and the momentum in clothing and textiles is particularly limited. However, sales of chemicals and machinery and equipment are an exception, thanks to good performance after the crisis. Nevertheless, it is important to point out that exports to Ecuador have been affected recently by non-tariff barriers; accordingly, sales to that destination are not expected to recover in the short term.

Graph B1.3
Colombian Non-traditional Export Quantities Index

A. Including Venezuela



B. Excluding Venezuela



Source: DIAN-DANE; Calculations by *Banco de la República*

4. Possible Explanations for this Performance

The restrictions imposed by Venezuela in early 2008 on trade with Colombia are the main reason why non-traditional exports have not returned to their pre-crisis levels. Graph B1.3 shows the non-traditional export volume index with and without that country. When Venezuela is excluded, one sees the quantities of non-traditional exports recovered in 2012 to 2006 levels and then remain at a standstill.

One hypothesis that could explain the stagnation in Colombia's non-traditional exports in recent years is that sales to Venezuela were not replaced by those to other destinations. According to Montes et al. (2008), many industries in 2006 had put all their effort into serving the Venezuelan market, leaving them exposed to the cycle of Venezuelan demand. In fact, as those authors indicated, Venezuela's share in Colombian exports (in dollars) went from 9.9% in 2000 to 15.3% in September 2007. A breakdown by product shows the sectors most dependent on the Venezuelan market in 2006 were textiles, clothing, food, beverages and automobiles; all have exhibited low growth or stagnation in recent years. On the other hand, Esguerra et al. (2010) say that commercial relationship was unsustainable in the long-term, since the companies that established commercial ties with Venezuela generally had no export experience. They began selling to Venezuela just to take advantage of the benefits it offered as an export destination and particularly its cycle of high demand propelled by high oil prices. In other words, these were companies that focused on production for the domestic market and lacked the ability to export their products to new destinations in the wake of this shock.

Another likely explanation for the lack of momentum in non-traditional exports, besides the situation with Venezuela, concerns the possible substitution of Colombian goods for imports from other countries.[6] Table B1.1 offers a comparison of the averages before and after the global financial crisis with respect to imports from Colombia as a percentage of the total imports from each of these economies, excluding non-traditional Colombian exports. The data at hand suggest this has been the case in Ecuador and Peru, although there are no major variations with the other trading partners. A breakdown, by product, in countries where non-traditional Colombian exports have experience some substitution shows food and textile manufactured goods explain most of this phenomenon, while the share of these goods from other countries in Latin America (especially Brazil, Argentina and Chile) and from China, as countries of origin for these imports, has increased. In view of the fact that Ecuador recently imposed restrictions on trade with Colombia, this trend could intensify in the months ahead.

An additional hypothesis assumes that non-traditional Colombian exports have been affected by weaker external demand due to less economic growth worldwide in the years after the crisis, compared to what was observed in the first part of the century. This behavior was witnessed in both emerging markets and developed economies (Graph B1.4). When analyzing the average growth of Colombia's trading partners (non-traditional trade-weighted), we see average growth was 4.3% between 2001 and 2007, as opposed to 3.6% between 2010 and 2014. Accordingly, the slowdown in global economic activity should pose an obstacle to Colombian exports. Inasmuch as the growth forecasts for our trading partners in the years ahead are relatively low (0.7% for 2015 and 1.7% for 2016), this factor will hamper the recovery in non-traditional exports.

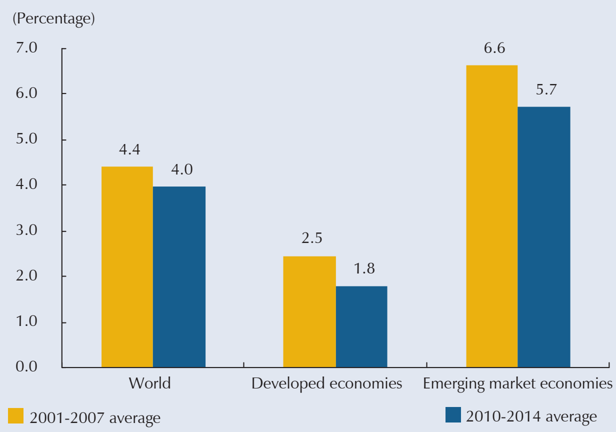
Another element that might help to explain the recent low momentum in non-traditional exports is the tendency in real exchange rate for the Colombian peso against the currencies of our main trading partners.

Table B1.1
Imports from Colombia as a Share of Total Non-traditional Imports for Different Destinations

Trading Partners	2001-2007 Average	2010-1014 Average
Venezuela	9.1	4.3
Ecuador	14.1	10.7
Peru	5.2	3.5
United States	0.2	0.1
Euro Area	0.0	0.0
Mexico	0.2	0.2
China	0.0	0.0
Chile	1.2	1.8

Source: United Nations (Commerce Data Base – UN Comtrade) Calculations by *Banco de la República*

Graph B1.4
Average Real GDP Growth



Source: International Monetary Fund

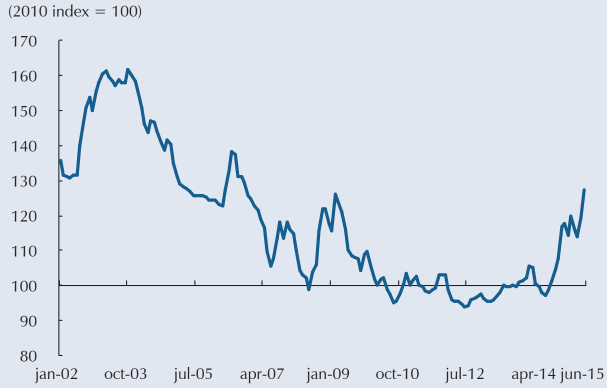
Graph B1.5 shows there was a prolonged period of appreciation after the crisis, which could have been an obstacle when attempting to replace the Venezuelan market. This fact, coupled with the impact of the crisis, could have affected the productive capacity and competitiveness of Colombia's export industry. However, depreciation of the Colombian peso in the past year is expected to provide somewhat of a boost to non-traditional exports in the medium term.

Conclusions

The financial crisis had a significant effect on the quantities exported worldwide and by Colombia. Although the trade indexes reflect important recovery during the post-crisis period, the figures in Colombia indicate this recovery has been no more than partial in the case of non-traditional exports. A breakdown of non-traditional exports, by destination, shows the low levels are due

6 An alternative explanation along the same line is that goods imported from Colombia were substituted in these countries with local production. However, this hypothesis cannot be examined in greater depth with the data at hand and, therefore, is not explored in this section.

Graph B1.5
Multilateral Real Exchange Rate Index (CPI)



Source: *Banco de la República*.

largely to the trade restrictions imposed by Venezuela on Colombian goods and the difficulty producers had in replacing that country as an export destination. Moreover, when excluding Venezuela, we see non-traditional exports have stagnated in recent years, especially those to the United States.

One possible explanation for the partial recovery in the volumes exported by Colombia after the crisis is import substitution at the destinations where it sells its products. This is supported by the figures on imports by Ecuador and Peru. Appreciation of the peso after the crisis is another probably cause, which could have affected the country's productive capacity and its competitiveness. One last potential reason for this fact is the decline in foreign demand caused by weak economic growth on the part of Colombia's trading partners after the crisis.

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