Overview of international trade in Tolima region

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Resumen

Este artículo puede considerarse como una reseña sobre el comercio exterior de la región del Tolima durante los siglos XIX, XX y principios del XXI. Pretende ser un documento base para un análisis y estudio más detallado que desemboque en la formulación de estrategias que permitan una inserción exitosa por parte del Departamento en la economía mundial.

Palabras Claves:

Comercio exterior, comercio Internacional, ventaja absoluta, ventaja comparativa, ventaja competitiva, exportaciones, importaciones, globalización.

Abstract

This article is a review of the foreign trade structure in Tolima during the 19th, 20th and the beginning of the 21st century with the aim of becoming a reference document for further analysis and study that can generate strategies for a successful insertion of the region on the international economic scenario.

Key words:

International trade, foreign trade, absolute advantage, comparative advantage, competitive advantage, exports, imports, globalization.

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Even though international trade has always been important, since the 16th century it started to gain more relevance due to the fact that it was an instrument of imperialist colonial policies. The wealth of a country was measured according to the quantity of precious metals it had, specially silver and gold. This conception of foreign trade known as mercantilism was prevalent during the 16th and part of the 17th century. According to mercantilism, countries should export more than they import and, if successful, would receive the value of their trade surpluses in the form of gold from the countries that ran deficits.

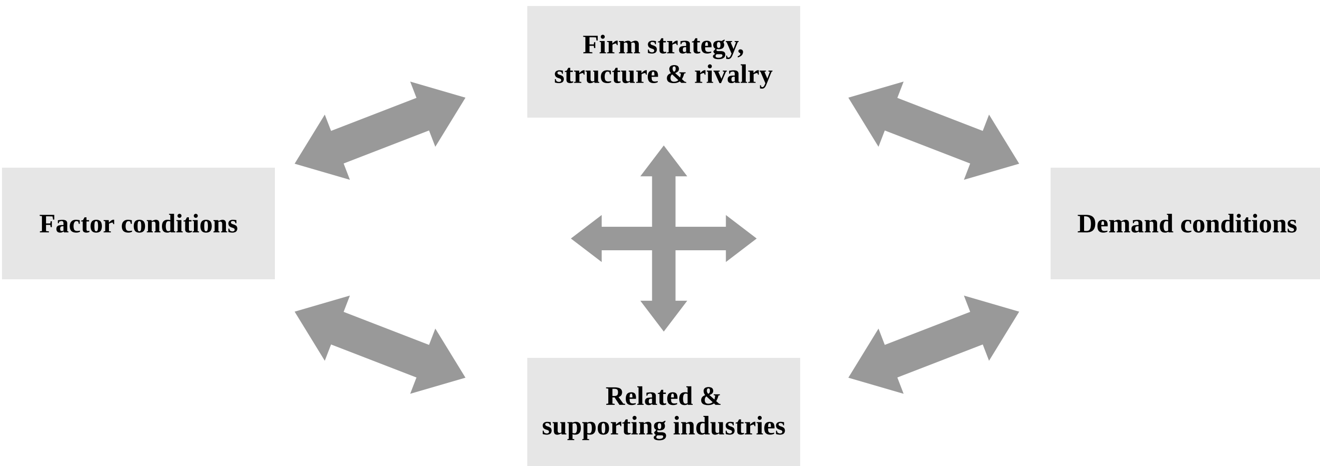
Later, with the birth of the nation state during the 17th and 18th centuries, international trade started to show the current characteristics and to take the form we know nowadays. Governments discovered that by promoting foreign trade the wealth of nations could increase and therefore its power on the international scene as well. On this period new economic theories related to international trade appeared. Such is the case of the theory presented on the work The Wealth of Nations by Adam Smith and the theory of the Comparative Advantage by David Ricardo.

According to Adam Smith, "the real wealth of a country consists of the goods and services available to its citizens rather than its gold" (Daniels, John D; Radebaugh, Lee H;. International Business. Environments and Operations. Seventh edition. 1995. Page 170). Smith developed the theory of absolute advantage, which holds that different countries can produce some goods more efficiently than others and therefore global efficiency can be increased through free trade due to the fact that each country would specialize in those products that resulted in a competitive advantage for it.

In 1817 David Ricardo expanded on Adam Smith's theory of absolute advantage thus developing the theory of comparative advantage which holds that "gains from trade will occur even in a country that has absolute advantage in all products because the country must give up less efficient output to produce more efficient out put" (Daniels, John D; Radebaugh, Lee H;. International Business. Environments and Operations. Seventh edition. 1995. Page 174).

In an extension of the theory of competitive advantage, Michael E. Porter has introduced the diamond of national advantage which consists of "the interaction of four conditions that need to be favourable if an industry in a country is to gain a global competitive advantage" (Daniels, John D; Radebaugh, Lee H;. International Business. Environments and Operations. Seventh edition. 1995. Page 191). These conditions are: Factor, demand, related and supporting industries, and firm strategy, structure and rivalry.

Factor conditions refer to factors of production, demand conditions is basically made up by the nature of the home demand for the industry's product or service, related and supporting industries has to do with the presence or absence in the nation of supplier industries and connected industries that are internationally competitive, and firm strategy, structure and rivalry are the conditions in the nation related to how companies are created, organized and managed, and the nature of domestic rivalry. The interrelation of these factors is shown in the following figure:



Source: Michael E. Porter, The Competitive Advantage of Nations. New York: Free Press, 1990. P 72.

According to Porter, the nation's competitive advantage and consequently the country specific advantages for firms from that country depends on the strength of each of these factors.

The already mentioned theories state a fundamental advantage of the foreign trade which is higher wealth for the countries that trade internationally. Apart from this advantage there are other economic benefits that derive from international trade such as higher production, more efficient use of raw materials and hand labour, and higher employment, all of them due to higher demand levels. Countries can acquire more, and more diverse products as well.

The importance of foreign trade varies according to each national economy. Some countries get involved into international trade in order to reach new markets, to expand sales and to help a sector of the economy that is experiencing difficulties. Some other nations seek to increase foreign currency, to acquire and diversify resources and to have more availability of products thus to satisfy the internal demand, among others that are much more specific to each case.

Additionally, in general terms and especially in recent years, foreign trade is seen as a means to promote economic growth. This is why both, developing countries and international organizations are so concerned about international trade and are gathering efforts to promote it.

With the globalization phenomenon and its components, the expansion of technology, including transport and communication, the liberalization of cross-border movements, the development of supporting institutional arrangements, the increased global competition, among others, the economic, social and political importance of international trade has grown.

Nowadays, global events and competition affect the different nations because most of them sell output or secure supplies from foreign countries, or their national producers compete against products and services that come from abroad.

It is important to note that regardless the kind of transaction; countries get involved into international trade and promote it because their main objective is to gain some benefits.

In order to get involved successfully into the globalization process through foreign trade and to achieve the expected turnout for the nation, countries as a whole and region by region need to build, develop and implement policies that not only favour foreign trade but also that empower the different sectors of the local economy thus to obtain a higher export offer with more competitive products.

Taking into consideration all the previously mentioned aspects, this article pretends to present a general overview of the foreign trade of Tolima region during the 19th, 20th and the first years of the 21st century. Its purpose is to serve as a reference document for a more detailed study or analysis that can lead to think of more adequate and efficient strategies in order to take advantage of the opportunities and to avoid or overcome the possible threats of globalization, and to help the region in its internationalization process.

Foreign Trade in the 19th Century:

Since the colonial period, tobacco started to establish itself as the most important product of the region. At the beginning of the century there was a boom in the production, commercialization and exports of tobacco that by the year 1844 represented 66,7% of the total production of the country and 61,2% of the total exports. This booming lasted until the year 1858.

On account of the tobacco booming there was a great inflow of foreign direct investment in the region which, at the same time, generated a commercial expansion. There was a proliferation of agriculture and cattle, and the economy of the region was completed with factories of cigarettes and soft drinks, financial entities, hotels, among others.

In contrast, during the first years of the 19th century the mining sector had a negative behaviour due to a recession in the production. Exports of silver, iron and plumb, and imports of mercury and other materials used in the mining process decreased considerably.

According to Clavijo (1993), the 60's were a recession decade for tobacco. As Ocampo (1984) states there were many problems that affected tobacco such as competition, technologic innovation, product quality, social conflicts and capital overflow.

Besides from the already mentioned products, there was also foreign trade of quinine and indigo. The last one reaching its highest export quantities in 1871.
Due to the tobacco recession there was a switch of investment in the 70's that favour the mining sector particularly. As Clavijo (1993) affirms, from the year 1874 to the year 1878 there was an international trade depression not only of tobacco but also of quinine and indigo therefore the investment turned its eyes on mining, cattle and commercial crops.

Apart from the investment movement there were some other variables that helped the mining sector on its recovery such as the active role that played the government by creating the needed infrastructure.

In the end of the 19th century the coffee started to become a key aspect in the social and economic structure of the region due to the fact that it had an expansion phase where its production increased resulting in a promotion of its exports.

Finally, some other relevant products to take into consideration in terms of exports during the 19th century were straw hats which used to be sold in Europe during the summer season, and tagua. Moving to imports, sugar cane in order to produce "panela" and "aguardiente", as well as cigarettes and beverages factories demanded international supplies of machinery. Other products that used to be imported were French perfumes, cotton fabrics and even pianos. Foreign spirits such as cognac and gin were imported as well during the 19th century although the region used to export liquor.

Foreign Trade in the 20th century and the Beginning of the 21st Century:

The 20th century was very complicated for the world economy due to the fact that it presented various conflicts and crisis that, in general terms, affected international trade as a whole. Such is the case of the first and second world war, the great depression of 1929 and the petroleum crisis of 1979. Also some national and regional events, such as the economic opening of the country and the catastrophe of "Armero", had positive and negative impacts in the foreign trade structure of the region.

During the first decade of the 20th century there were a few changes in the international trade structure compared to the final years of the 19th century; some products presented pitfalls, others an increase and some others did not have any relevant changes.

Coffee as well as leather and skins got stronger on the international markets at the beginning of the century. Tobacco, tagua and gold remained the same in terms of exports.

With the First World War the entire international commerce of the region was altered, the only product that did not present any major changes or pitfalls in terms of exports was coffee. On the other hand, and in terms of imports, as Ramos (2000) affirms, between the year 1914 and 1918 the country was almost self-sufficient because the foreign markets the region used to trade with were in conflict and shut down.

By the year 1924 the region had notably improved its transport infrastructure with the construction of railways and roads which consequently generated an augment of both national and international trade, and more specifically of machinery and automobile imports. This improvement also empowered the development and strengthening of rice, cotton, sugar cane, vegetables, fruits and coffee crops.

The 1929 great depression had a direct impact on coffee prices thus the exchange terms not only of the region but of the country got reduced even though the export volumes did not have any major changes. In the year 1940 with the second world war the coffee situation was aggravated and the price reduction reached its minimum. It is important to note that coffee is one of the agricultural products that has been exported up to date.

Gold exports finished in the year 1931 because president Enrique Olaya Herrera forbidden its free trade and gave the central bank complete authority over it. The mining sector of the region kept on producing gold and other metals and minerals but focused on copper and molybdenum as export products.
Between 1950 and 1951 Tolima consolidated itself as one of the leading agricultural regions of the country, especially in regards to rice and cotton. Rice production started to grow in the region in the late 30's, reaching in 1944 its highest level and starting to show a significant and sustainable increase that favoured its international sales.

By the end of the 70's the exports of the region were mainly composed by cotton, cotton yarn, rice (with a participation of 76.46%) and metals, and the imports by machinery and fabrics that were needed in order to complete industrial processes.

Thanks to a previous reactivation and consolidation period for products like coffee and metals between 1979 and 1980 the region experienced its highest exported value. In contrast the years 1982 and 1984 had negative variations for exports, and to make the situation even more complicated between 1985 and 1986 the "Nevado del Ruiz" tragedy generated a fall of 62,5% for that account due to the fact that a big part of the rice and cotton crops and plants and roots were located on that zone of the region.

As a result of the policies implemented by the government in order to promote investment in the region with the purpose of recovering the economy after the Armero's tragedy, exports of traditional products such as cotton, cotton yarn, rice, plants and roots reactivated and new products like flowers, mangostins and aguardiente started to be exported. Also the already mentioned policies generated the establishment of clothing factories with the intention of taking advantage of the cotton production in the region.

The main imports during the 80's decade were auto motor parts, tractors, equipment and machinery for the textile industry as well as for the mining sector.

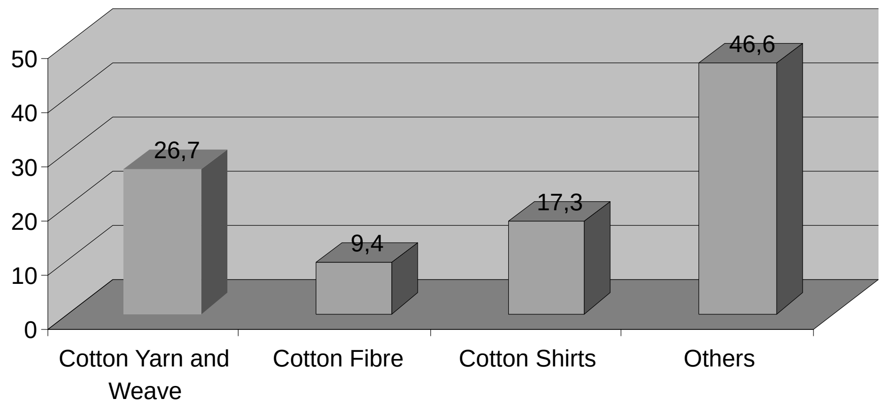
At the beginning of the 90's non traditional exports had a considerable increase of 91,3%. This situation was not only a consequence of the economic opening of the country made by president Cesar Gaviria but also a result of the evolution of the textile industry of the region that by the time was producing and exporting fabrics, cotton shirts and more elaborated products with higher added value. On the contrary between 1990 and 1995 agricultural products had a decrease on its exports.

The composition of imports did not change much over the first five years of the 90's decade because the main imported products still were: machinery for the textile industry, vehicles, cotton fibre, tractors and corn. Imports also reflect the dynamism of the textile and clothing sector.

On the second half of the 90's and on the first two years of the 21st century the textile and clothing sector remained strong and became the most important in terms of exports helped up to a certain point by the ATPA and later on by its extended version ATPDEA preference agreement given by the United States of America to the Andean Community countries.

The following graph summarizes the composition of the main exported products of the region from the year 1990 to the year 2002.

Tolima - Percentage Distribution Main Exported Products 1990 - 2002

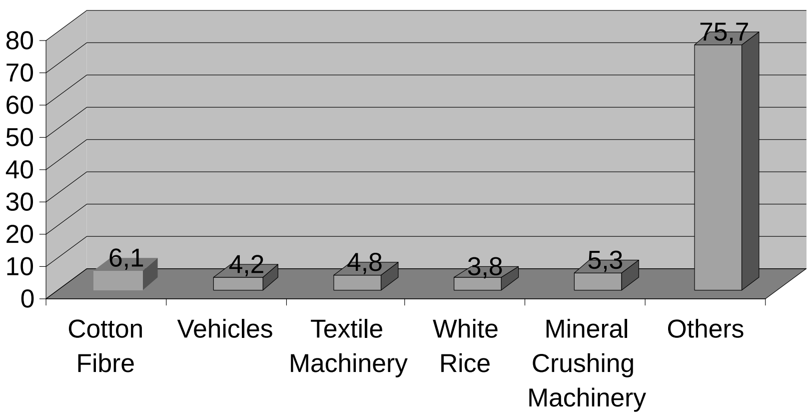


Source: DANE

From the year 1995 to the year 2002 the main imported products were, once again, those related to the textile and clothing industry even though there was a diversification of products bought in the international markets. Some other representative products that were imported during the 90's and the beginning of the 21st century were capital goods for the construction, especially machinery, also transport equipment, and ironically rice.

In the graph presented below an abstract of the main imported products of the region from the year 1990 until the year 2002 can be found.

Tolima - Percentage Distribution Main Imported Products 1990 - 2002



Source: DANE

Conclusión

The previous description of international trade in Tolima region during the 19th, 20th and the beginning of the 21st century clearly presents a correlation between the international trade theory exposed on the introduction and the kind of exported and imported products.

The international commerce structure of the region during the 19th century and its evolution up to date has been tied up mainly to the comparative advantage theory. According to the already mentioned theory the determinant patterns of both production and foreign trade are associated to opportunity costs which are fewer in the activities that have a more intensive use of abundant production factors.

Throughout the reviewed period the relative abundant production factors of the region have been natural resources and non qualified hand labour that is why the exports of the region were mainly composed by agricultural products, up until the birth of the textile industry, and most of the imports have had a considerable technological component.

Although there are some products that have been exported since the 19th century such as coffee and minerals, in general terms, exports have evolved from agricultural products to manufactured ones from the textile sector not only because there was a need to take advantage of the high cotton production but also as a consequence of historical events.

On the other hand, the structure of imports did not have any major changes because the main imported products remained the same even after the economic opening of the country. Imports in most cases were indispensable in order for the region to be able to complete production.

Finally and taking into consideration all the aspects mentioned above, the exchange terms of the region have not been favourable because the value of the imported products has been higher than the value of the exported products.

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