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The Oppenheimer Report

THE OPPENHEIMER REPORT

Colombian tycoons wage a battle against free trade

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Don't be fooled by the images of street protests against free trade that you often see on TV. In the real world, the most powerful opposition to U.S.-Latin American free-trade agreements does not come from radical leftist workers and students, but from potentially damaged business tycoons.

Much as in the United States, where sugar magnates such as Florida's Fanjul family recently tried to kill a U.S. free-trade agreement with Central America and the Dominican Republic in an effort to preserve their outrageous U.S.-government protection from foreign competition, several business groups in Latin America are in the front lines of the battle against free trade.

What happened in Colombia following Monday's signing of a free-trade agreement with the United States is a case in point. Hours after signing, Colombia's major domestic pharmaceutical companies, together with big rice, poultry and corn producers, lashed out against the deal as potentially devastating for the country's economy. They could succeed in swaying Colombia's Congress not to ratify the agreement. Public-opinion polls in Colombia show that about 55 percent of the people are against the free-trade deal.

According to senior Colombian officials, industries opposing the free-trade deal are a small sector of the business community, but a very vocal and politically connected one. Even excluding coffee, Colombia's biggest agricultural export, the chicken industry represents less than 9 percent of Colombia's agricultural output, while rice represents only 5 percent and corn 1.7 percent, official figures show.

If you look at it in terms of employment, you get a similar picture. While the anti-free-trade poultry industry generates 145,000 jobs, the corn industry 121,000 and rice 76,000, the pro-free-trade cattle industry generates one million jobs, and the dairy industry 1.1 million jobs.

PROTECTED BUSINESSES

But big rice, poultry and corn producers in Colombia are making huge profits, thanks to government protection from foreign competition, and they don't want to lose their privileges, officials say. Under the trade deal, smaller Colombian corn, rice and poultry producers who don't make big profits and in some cases barely survive will enjoy greater protection against low-priced U.S. imports, Colombian officials say.

The U.S.-Colombia deal will allow Colombia to sell 99.9 percent of its goods duty-free to the United States, the government says. More importantly, it will allow Colombian export industries such as flowers to continue exporting duty-free to the United States under a temporary preferential agreement for Andean drug-producing nations that expires at the end of this year and is not likely to be renewed by the U.S. Congress.

"Most of the industrial sector and a good part of the agricultural sector is supporting the deal," Colombian Foreign Trade Minister Jorge Humberto Botero told me in a telephone interview Wednesday. Asked why there is such a vocal opposition, he said that some agricultural producers oppose it because they don't want to lose their privileges, and because they rightly complain that they are competing against heavily subsidized U.S. producers.

BENEFICIAL DEAL

My opinion: Judging from previous U.S. free-trade agreements with Mexico and Chile, Colombia's economy stands to gain with the free-trade deal, even if some of its business tycoons may get hurt. Both Mexico and Chile substantially increased their exports to the United States since signing those agreements, and used them as magnets to draw long-term foreign investments.

But, both in Washington and in Latin America, there is too much talk about free trade, and too little talk about competitiveness. What good will it do for Colombia to gain preferential access to the U.S. market if its companies can't compete with Asian, Indian or Eastern European exports? Free trade alone does not do the trick, as Mexico's slow-moving economy has shown. While Mexico's exports have risen substantially, the country's failure to enact labor and tax reforms to become more competitive has kept its economy from booming like China's.

Colombia should avoid making the same mistake. It should ratify the trade agreement, but at the same time enact other economic and education reforms to become more competitive. And if some business tycoons lose their age-old government privileges in the process, so be it.