

Coffee 'Boom' Can't Hide Colombia's Coming Bust

Colombia is being featured as one of Latin America's star performers for 1976. But its reputation is fast becoming like that of an aging actress for whom not even the most artful make up can continue to hide the reality of decay.

Only the more than 100 per cent rise in the world market price of coffee prevented a Chile-style collapse in Colombia last year. Imports are up 32 per cent, exports up 21 per cent in value. Coffee revenues are being kept as inflationary paper in the country's reserves, and there is a concomitant lack of investment in agriculture and industry. The collapse of the domestic economy has actually accelerated in 1976. Austerity has proved unhealthy indeed for the Colombian's population's living standards; and this destruction of the Andean Pact's largest and most skilled labor force may prove a severe blow to the alliance.

Without a dramatic reversal through the link-up of the Colombian economy with growing networks of regional and international trade deals, the downward spiral will rapidly accelerate. Already such diverse observers as the usually pro-government think tank Fedesarrollo and the Colombian Communist Party have blamed the 26 per cent inflation in 1976 on the government's failure to use coffee revenues for real investment. As one Fedesarrollo economist wrote: "The investment in the private sector and the importation of raw materials and capital goods doesn't even show the dynamism wanted by the government to counteract the inflationary impact on the money supply of the upward growth of the foreign reserves."

Not only is the World Bank undisturbed by these developments but it has actually proposed institutionalizing the very policies of belt tightening and no investment which are responsible for the predicament. Its latest sophistry concludes that by following the necessary monetary and economic measures, Colombia did not fare too badly last year. It adds: "It was necessary to reduce the resources available for investment and development goals." Particular praise is given to "the reduction of public and private consumption, mediated by the elimination of price supports and across the board increased in taxes and public service rates."

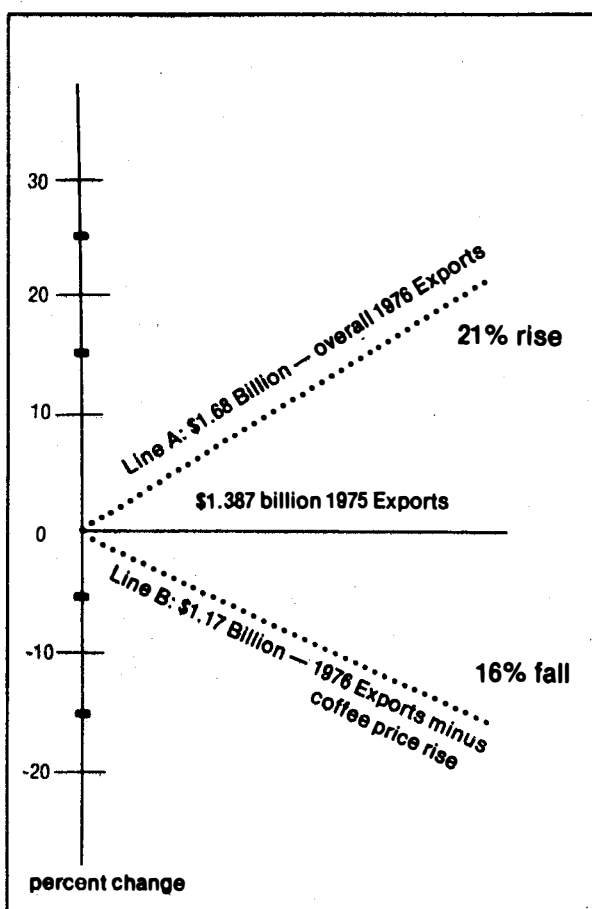
The subtleties of this rationale are not lost on Albert Fishlow, an advisor to Carter and a member of the Linowitz Commission on Latin America. Fishlow added to current Latin American policy discussion in the Carter circle by calling for the elimination of all aid and grants to Latin America last November, with the exception of "export diversification" projects for debt repayment. In the spirit of the Linowitz Report's "anti-paternalism," he particularly cited Colombia and its 1975 decision to avoid accepting all aid, as the "model" economy of Latin America.

Taking The Coffee Boom Out Of The Economy

The only model Colombia provides is how not to develop an economy. By removing the impact of the

coffee boom from Colombia's economic performance figures, particularly for trade, a startling picture is revealed. Deducting impact of the 120 per cent rise in the coffee price on the overall export figure of \$1.68 billion demonstrates a substantial exports drop in real terms from 1975's \$1.38 billion to \$1.17 billion for 1976 in 1975 dollar terms (the dollar peso rate was relatively stable. See Graph A). On the same basis coffee exports of \$929 million for 1976 represent a real volume of coffee which would have brought \$417 million in 1975 prices. This compares to 1975 coffee sales of \$646 million. The real picture is shown in the 16 per cent drop in volume of coffee exports.

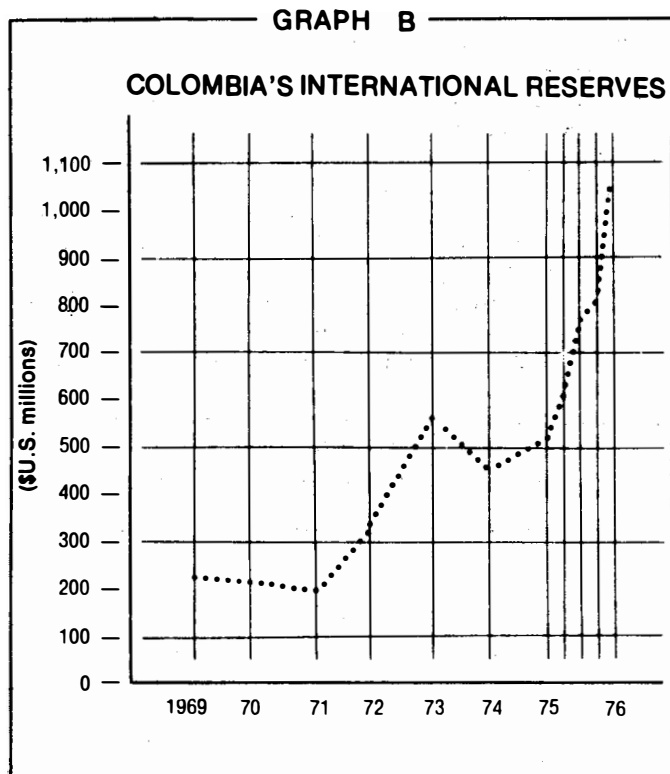
GRAPH A
VALUE VS: VOLUME CHANGE IN 1976 EXPORTS



Note: Line B represents overall 1976 exports deflated for coffee inflation only, but still including other inflation factors.

It is no mystery where the coffee boom earnings went. The coffee inflation component is approximately \$500 million, the same amount by which Colombia's foreign reserves zoomed up for the year (see Graph B). As Fedesarrollo has pointed out, the failure to invest these reserves is the source of Colombia's inflation rate.

Moreover, with a significant amount of acreage being shifted from crops and into coffee, coffee's bullish performance will prove to be that of a bull in a china shop when the market inevitably collapses.



Industry And Agriculture

While coffee exports were booming, manufactured exports increased only 1.4 per cent in value over 1975 levels. Similarly, coffee as a percentage of overall exports rose for the second year in a row, representing 54.1 per cent of total exports, over 46.3 per cent for 1975. This firmly reverses the trend away from coffee dominance which began in the early 1960s when coffee was over 75 per cent of exports (see Chart A).

The export picture is actually an accurate reflection of industrial growth. One, probably inflated, figure puts the increase in industrial growth for 1976 at only 7 per cent. The highest performing sectors were metals, transport equipment and machinery. However, Fedesarrollo points out that this apparent improvement in the manufacturing sector is not due to any real expansion of

productivity, but to speedup. Even this more "intensive...utilization of capacity" is based on an overall use of only 68.1 per cent of installed capacity for the first six months, significantly down from the 1975 three year low of 72.8 per cent utilization of installed capacity.

In addition the recent liberalization of import policies will have a negative long term impact on the economy's infrastructure because industrialists are failing to buy capital goods and are generally reluctant to invest. Uncertainty about the economy, which is endemic inside Colombia if not in the tranquil minds of international trade analysts, has led to tremendous stockpiling of both raw materials and finished goods.

As a result, 1976 has declined even further than 1975 when internal sales contracted by 3 per cent and the real value of production declined 2.7 per cent. Imports of capital goods are also estimated to have been down again from a 6.8 per cent drop in 1975. Imports of raw materials and intermediary products for Colombia's textile and other industries were down by 10.4 per cent in 1975. For the first two quarters of 1976, they amounted to \$273.3 million, approximately a 16 per cent drop again from 1975 levels.

At the same time Colombia's oil production, which continues to decline despite substantial reserves, dropped 7.2 per cent. Faced with having to import growing amounts of crude oil, the government is preparing for the eventual collapse in coffee prices by diversifying exports on the Fishlow model. With overall commodities, other than coffee, already up as a percentage of exports, the only new exports planned are more *commodities* — carbon, nickel and copper, to name a few — making the agricultural and raw materials drain the dominant characteristic of the economy.

The agricultural sector is indicative of the overall decline. Production for 1976 was up only 2.1 per cent, below the 3.2 per cent rate of population growth and a substantial fall from the agricultural growth of the first half of this decade. Soy, barley and sugar production sharply decreased. The late potato crop was virtually destroyed by drought and frost.

Not only is Colombian industry and agriculture being destroyed by the economy's devolution, but the skilled Colombian workforce itself, and with it the future development of the economy, is being wiped out by the government's economic policies. This is dramatically reflected by the daily 6 hour electrical blackouts in Bogota and other major cities.

CHART A

Value Of Colombian Exports (MILLIONS OF U.S. \$)

	1964	PER CENT	1969	PER CENT	1972	PER CENT	1975	PER CENT	1976	PER CENT
COFFEE	394.2	72	343.9	57	429.6	49	646.5	46	929.2	54
PETROLEUM (CRUDE)	74.9	14	56.7	9	31.4	4	---	--	---	--
NON-TRADITIONAL	79.0	14	206.9	34	405.0	47	740.6	54	752.7	46
TOTAL	548.1	100	607.5	100	866.0	100	1,387.1	100	1,681.9	100