FINAL DRAFT

Graduate School of International Studies
SEOUL NATIONAL UNIVERSITY

KOREA – COLOMBIA FREE TRADE AGREEMENT

FEASIBILITY STUDY

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FEASIBILITY STUDY OF FREE TRADE AGREEMENT
BETWEEN KOREAN AND COLOMBIA

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1. INTRODUCTION

Colombia and Korea established diplomatic relations on March 10th, 1962 and permanent diplomatic representation at an ambassadorial level since 1973. Moreover, Colombia is known as the only country from the region that participated in the Korean War and has been supporting Korea's position in the international stage. Under these circumstances, both countries have experienced an amicable relationship, even more deepened by the Cultural Agreement, Science and Technology Cooperation, and Trade Agreement which entered into force on December 10th, 1986.

As Colombia and Korea have been devoted to promote their relations, both countries also developed economic cooperation by inviting technical and economic planning trainees, and sending communication experts and mineral resource explorers. Furthermore, Korea assisted the Colombian Electronic Communication Institute from 1989 to 1993 and is supporting a national telecommunication project.

In this regard, trade flows between Colombia and Korea have increased substantially. When the two countries started diplomatic ties, trade levels were not significant. However, after Korea established a strong foundation in the Colombian telecommunication market, bilateral trade increased drastically by 50~60 percents every year since 2003. Thus in 2008, bilateral trade flow reached US$ 1,235 million which is the second largest from Asia followed by Japan. In addition, investment has been growing dramatically as well and has a positive outlook with the signing of a Bilateral Investment Treaty.

Due to the increasing importance of economic and political ties, Colombian and Korean authorities held meetings in recent years to find ways to build up our current relationships. At the summit talks in late November 2008, Colombia's President Alvaro Uribe, and Korea's President Lee Myung-Bak positively reviewed the Free Trade Agreement. Both leaders acknowledged that Colombia's abundant resources and Korea's technological prowess will be supplementary, and consented to enlarge cooperation in the field of resources, energy, and construction. In this sense, Colombia and Korea agreed to start a Joint Feasibility Study on a Free Trade Agreement (FTA) between Colombia and Korea, to be prepared by representatives from the private sector.

2. COLOMBIA'S POLITICAL AND SOCIAL ASPECT

The population of Colombia is estimated at 40 million which ranks as the 3rd biggest market following Brazil, Mexico among Latin America countries. Colombia also concluded Comunidad Andina with Venezuela, Ecuador, Bolivia and Peru, and a FTA through the G-3 Agreement with Mexico. If Colombia includes these countries, its market will become a giant able to hold 2 hundred million consumers.

Colombia also has a reliable economic structure compared to other Latin America countries. Due to its reliability, Colombia didn't suffer much from skyrocketing inflation and the moratorium effect while going through the Latin America debt crisis in the 1980s. Also, though this is a negative aspect, due to well-funded drug cartels, dollars are abundant in Columbia. Hence, Colombia is evaluated as a country which can stay afloat and maintain a stable exchange rate.

However, the gap between the rich and poor is huge in Colombia. According to a CEPAL report data, 35% of the general population faces poverty and 17% are facing homelessness (estimated at 9,654,722) or extreme poverty. Poverty is widespread, albeit declining. The percentage of the population living below the poverty line is 49.5%, down from 57% in 2002. Income differences are worsening by region and social stratum, and markets are bisected into only high and low price markets. In the high price market, world renowned brands are dominant while products from China and South East Asia countries take the largest share in the low price market. Economic policy coordination to promote middle price markets is needed.

Both the Colombian government and private organizations have been managing the poverty problem with a superficial approach, focused on charity-type programs due primarily to the effects that social, political and economic events throughout the country's history and the effect of the Colombian armed conflict have had on the economy.

The political and social stability of Colombia has been improving due to the efforts of the government. Drug cartels and guerrilla groups became a key determinant of the political environment in the 1980s and 1990s. Despite endemic violence stemming from left-wing guerrillas, right-wing paramilitaries and drug-traffickers, constitutional order and institutional stability have prevailed since 1991. A new constitution guaranteed

more civil liberties and rights, broadened political participation, reduced the excessive powers of the president, created an independent central bank, and fostered fiscal and political decentralization. Following these efforts, Alvaro Uribe was re-elected as president in May 2006 (2002-present). Nowadays, government efforts to weaken the guerrillas militarily and financially and the demobilization of the paramilitaries have contributed to a reduction in levels of violence. Public security has improved significantly as well. Social and political stability combined with prudent economic management, boosted investor and consumer confidence and contributed to economic growth. The Economist Intelligence Unit's 2008 democracy index ranks Colombia 60th out of 167 countries. It is the highest-ranked country in the Andean Community.

Table 2.1 Index of Democracy, 2008

Countries	Rank	Overall Score
Uruguay	23	8.08
Costa Rica	27	8.04
South Korea	**28**	**8.01**
Brazil	41	7.38
Panama	43	7.35
Mexico	55	6.78
Argentina	56	6.63
Colombia	**60**	**6.54**
Paraguay	66	6.40
El Salvador	67	6.40
Peru	70	6.31
Bolivia	75	6.15
Ecuador	88	5.64

Source: Economic Intelligence Unit

3. MACROECONOMIC OVERVIEW OF KOREA AND COLOMBIA

3.1 MACROECONOMIC OVERVIEW OF KOREA

Korea was considered an underdeveloped agrarian country up until the 1960s. But after adopting an export-oriented industrialization policy, it achieved outstanding economic performance and transformed into an industrialized country within a short period of time. In 2007, Korea's Gross Domestic Product at current prices was US$ 969.871 billion, which made it the 14th largest in the world that year.

However, the Korean economy experienced a currency crisis at the end of 1997, and its growth rate dropped to -6.9% in 1998. It showed the structural weaknesses of Korean economy. In order to overcome the crisis, Korea implemented structural reforms in the entire economy. After a rapid recovery in 1999, Korea's economy has shown stable growth in recent years.

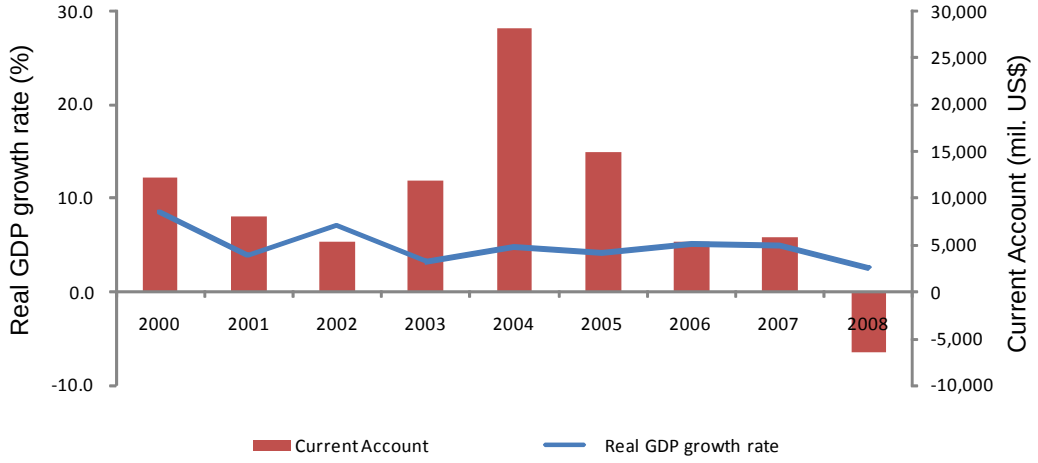
Table 3.1 Macroeconomic Indicators of the Korean Economy

Year	Per Capita GNI	Real GDP growth rate	Inflation	Current Account	International Reserves	Net Barter Terms of Trade Index
	US$	%	%	Mill.US$	Thou.US$	2005=100
2000	10,841	8.5	1.9	12,251	96,198,117	126.5
2001	10,159	3.8	3.6	8,033	102,821,378	120.9
2002	11,497	7.0	3.0	5,394	121,412,508	120.2
2003	12,717	3.1	3.1	11,950	155,352,365	112.6
2004	14,206	4.7	2.9	28,174	199,066,133	108.0
2005	16,413	4.2	2.3	14,981	210,390,703	100.0
2006	18,401	5.1	1.8	5,385	238,956,116	93.4
2007	20,045	5.0	2.4	5,876	262,224,070	91.1

Source : Bank of Korea

Up until 2007, the Korean economy showed strong growth. Real GDP grew at 5.0% in 2007, inflation was 2.4% and international reserves increased steadily reaching US$ 262 billion in 2007. Although the current account surplus narrowed since 2004, it still maintained a surplus of US$ 5.8 billion in 2007. However, due to the global financial turmoil in 2008, private consumption and investment have declined. Also the current account shifted to a deficit of US$ 6.4 million owing to the decline of export in goods. Consequently, the real GDP growth rate was reduced by 2.5% in 2008.

Chart 3.1 Current account and real GDP growth rate



Source : Bank of Korea

Chart 3.2 Export and Import share in GDP (% of GDP)

Source : Bank of Korea

Korea could emerge as a modern industrialized economy in the world due to the export-oriented growth. Chart 3.2 describes the share of exports and imports in Gross Domestic Product. As of 2007, export and import of goods and services represent 45.6% and 44.8% of GDP respectively.

Table 3.2 shows the composition of Korea's GDP by sector from 2000 to 2008. Service is the largest sector in GDP composition. Its share amounted to 57.3% in 2000 and increased up to 60.3% of the GDP in 2008. The second largest sector is manufacturing. The manufacturing sector represented 28.1 % of total GDP in 2008. Primary sectors such as agriculture and mining, occupied only a small fraction of Korea's GDP and their ratio either decreased or remained at the same level as in the initial year of the given period.

Table 3.2 Gross Domestic Products by Sectors (as % of GDP)

Year	Agriculture, Forestry & Fishing	Mining, Quarrying	Manufacturing	Electricity, Gas & Water	Construction	Services
	%	%	%	%	%	%
2000	4.6	0.3	28.3	2.5	6.9	57.3
2001	4.4	0.3	26.6	2.6	7.1	59.0
2002	4.0	0.3	26.2	2.6	7.2	59.8
2003	3.7	0.2	25.8	2.6	8.0	59.6
2004	3.7	0.3	27.7	2.4	7.8	58.1
2005	3.3	0.3	27.5	2.3	7.6	59.0
2006	3.2	0.3	27.1	2.3	7.5	59.7
2007	2.9	0.2	27.3	2.2	7.4	60.0
2008	2.5	0.2	28.1	1.8	7.0	60.3

Source : Bank of Korea

Service and manufacture are the main sectors in the Korean economy and they constitute about 88.4% of Korea's GDP in 2008. Table 3.3 and Table 3.4 show the share of sub-sectors within service and manufacture respectively.

Table 3.3 Participation of the Sub-sectors within Service Sector: 2002-2008

(Unit: % of total service GDP)

Sector	2002	2003	2004	2005	2006	2007	2008
Wholesale and retail trade, restaurants and hotels	19.6	18.7	18.4	18.0	18.0	17.8	18.2
Transport, storage and communications	7.4	7.6	8.0	7.7	7.5	7.6	7.3
Financial intermediation	12.6	12.3	11.6	11.7	11.4	11.6	10.9
Real estate, renting and business activities	14.4	14.3	14.1	13.8	13.5	13.2	13.2
Information, communication	8.5	8.2	7.8	7.9	7.8	7.5	7.2
Business activities	7.5	7.9	8.2	8.3	8.5	8.6	9.0
Public administration & defense; Compulsory social security	9.7	10.0	10.3	10.5	10.8	10.6	10.7
Education	9.2	9.6	10.0	10.2	10.5	10.6	10.8
Health and social work	5.5	5.7	5.9	6.2	6.5	6.8	7.0
Culture and entertainment services	2.2	2.2	2.2	2.2	2.2	2.3	2.3
Other service activities	3.4	3.4	3.4	3.4	3.4	3.4	3.4

Source : Bank of Korea

In services, wholesale and retail trade, and restaurants and hotels have the highest share with 18.2% of total service GDP. The second largest sector is real estate, renting and business activity which accounts for 13.2% of service GDP in 2008. The shares of business activity, education and health and social work have risen steadily since 2002.

Table 3.4 Participation of the Sub-sectors within Manufacture Sector: 2002-2008

(Unit: % of total manufacture GDP)

Sector	2002	2003	2004	2005	2006	2007	2008
Food, beverages and tobacco	6.3	6.0	5.6	5.3	5.1	4.9	4.8
Textiles and leather	7.8	6.6	5.4	5.1	4.9	4.3	3.8
Wood, paper, publishing and printing	4.6	4.3	3.7	3.6	3.4	3.2	3.1
Petroleum, coal and chemicals	16.2	16.4	16.7	17.2	16.5	16.4	17.2
Non-metallic mineral products except petroleum and coal	4.4	4.5	4.0	3.6	3.4	3.2	3.1
Metal, Fabricated metal products	13.1	13.7	15.7	16.7	16.0	16.6	19.0
Machinery equipment	7.8	8.3	7.9	8.3	8.6	9.0	8.7
Electrical and electronic equipment	22.8	23.4	24.7	23.6	23.9	22.9	20.7
Precision instruments	1.4	1.4	1.4	1.5	1.6	1.7	1.5
Transport equipment	13.6	13.6	13.3	13.6	14.8	16.2	16.7
Furniture and other manufacturing industries	2.0	1.9	1.6	1.6	1.7	1.7	1.3

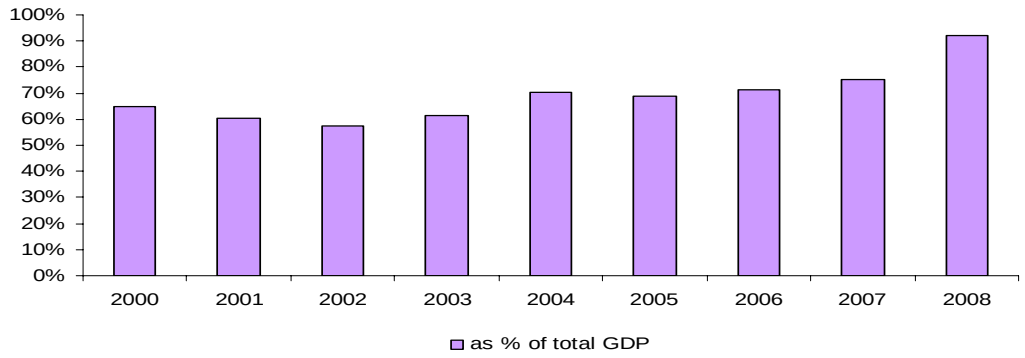
Source : Bank of Korea

Table 3.4 indicates the shares of sub-sectors within manufacture between 2002 and 2008. Electrical and electronic equipment is the largest sector in manufacturing composing 20.7% of total manufacture GDP in 2008. The second largest sector is metal and fabricated metal products. It shows the highest growth of production and its share increased by about 6% points during the last 6 years. The transport equipment sector also expanded its share from 13.6% in 2002 to 16.7% in 2008.

3.1.1 TRADE IN GOODS OF KOREA

The Korean economy has been promoting trade liberalization and is highly dependent on trade activities, as international trade is the engine of growth for the economy. The trade to GDP ratio, that is, the trade dependency ratio of Korea was already high in 2000, but increased even more in 2008 when it reached 92%.[1]

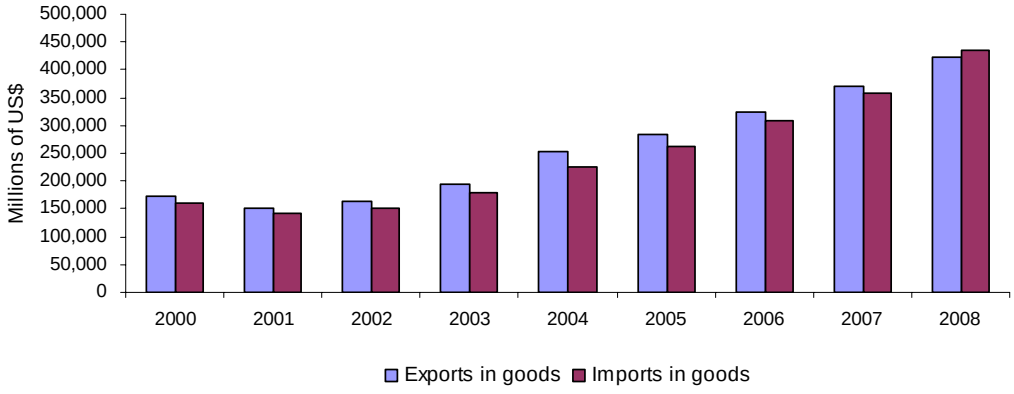
Chart 3.3 Trade Dependency of Korea (as % of total GDP)



Source: Bank of Korea

Moreover, from 2000 to 2008, Korea's export in goods increased from US$ 172,268 million to US$ 422,007 million, contributing to the economy maintaining a current account surplus and accumulating sizable international reserves.

Chart 3.4 Korea's Trade in Goods 2000-2008 (millions of US$)



Source: KITA (Korean International Trade Association)

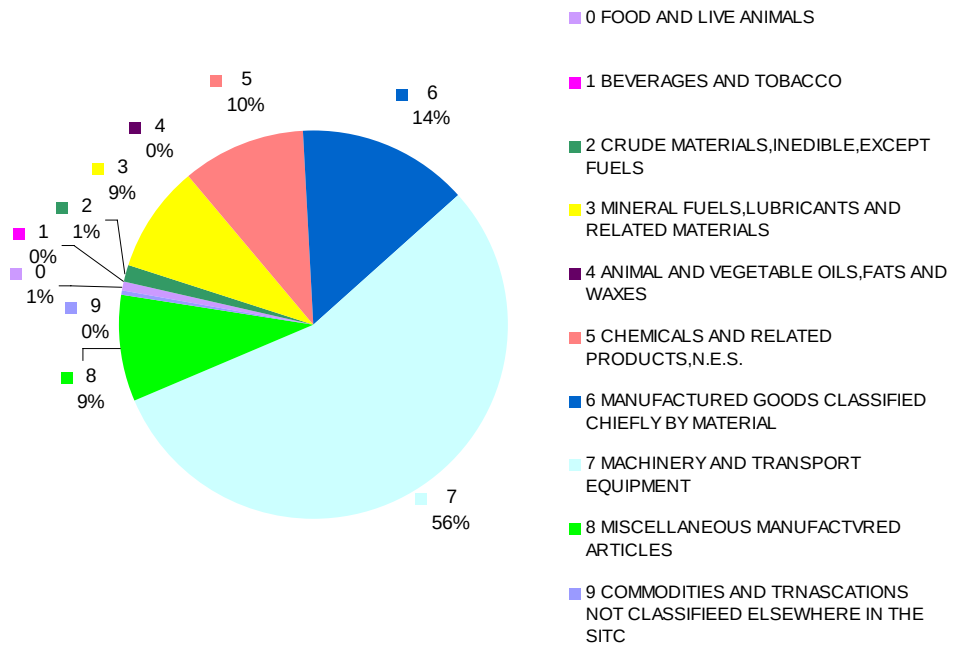
[1] Trade dependency ratio is defined as (export+import)/GDP.

Chart 3.5 Korea's Balance of Trade

Source: KITA (Korean International Trade Association)

However, Korea's trade balance in 2008 was in deficit. This is due to the depressed world trade; the recent economic recession of the US and China's reducing trade surplus resulted in the decrease in Korean trade surplus.

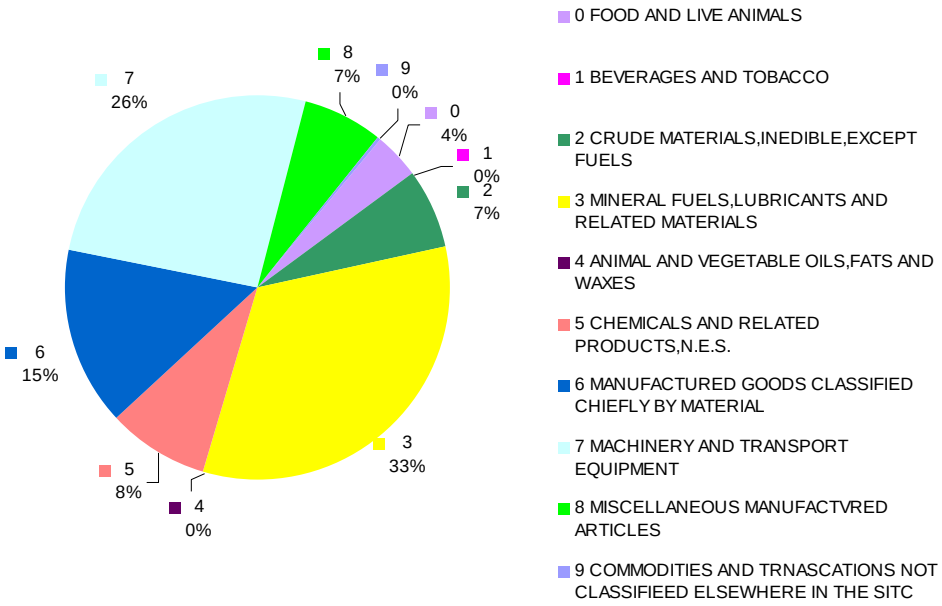
Chart 3.6 Korea's Exports by Sector in SITC 1 digit, 2008 (as % of total)



Source: KITA (Korean International Trade Association)

In 2008, machinery and transport equipments constituted about 56% of Korea's total exports in goods. Among other sectors, manufactured goods, chemical products, miscellaneous manufactured goods, and mineral fuels in that order added together represented 42% of the total export in goods. Primary commodities such as crude materials, inedible goods, and food and live animals occupied only a minimal portion of Korea's exports in goods.

Chart 3.7 Korea's Imports by Sector in SITC 1 digit, 2008 (as % of total)



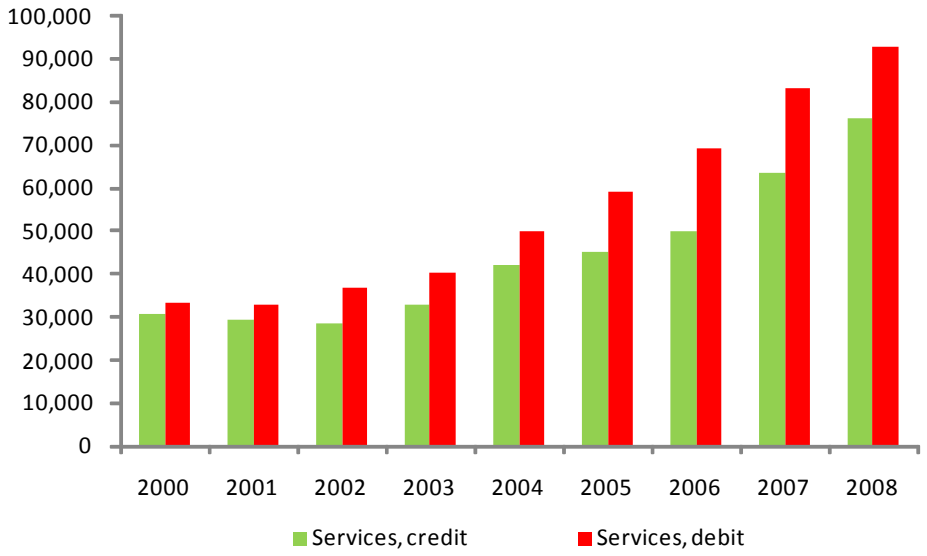
Source: KITA (Korean International Trade Association)

In the case of imports, mineral fuels, lubricants, and related materials had the largest share with 32% of Korea's total imports in 2008, while machinery and transport equipment formed the second largest share amounting to 26%. In addition, food and live animals, and crude materials are the categories in which Korea imported (11%) more than it exported (2%).

3.1.2 TRADE IN SERVICE OF KOREA

Korea has been accumulating a deficit in service trade. According to the Korean balance of payment data, service exports of Korea increased from US$ 30,533 million to US$ 75,989 million between 2000 and 2008, whereas service imports increased from US$ 33,381 million to US$ 92,723 million in the same period. The deficit of service trade reached US$ 16,733 million in 2008.

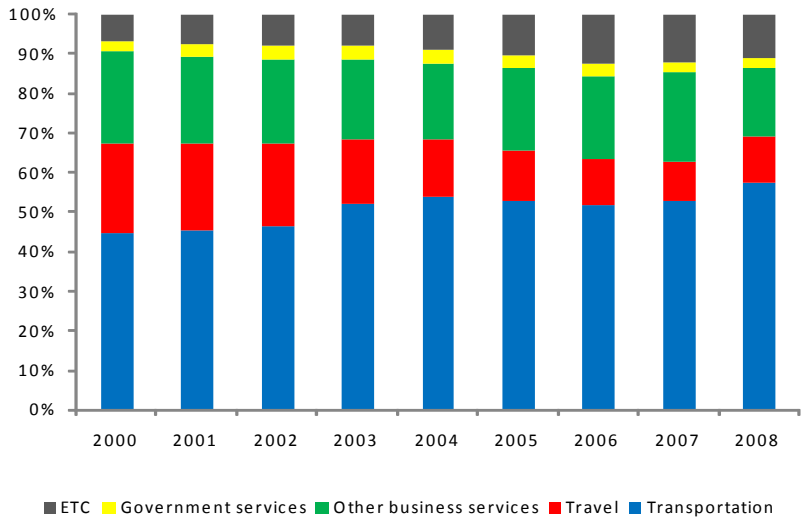
Chart 3.8 Korea's Trade in Service (millions of US$)



Source : Ban of Korea

The main exporting sectors in service in Korea are transportation, business services and travel. Among them, transportation is the largest exporting sector. It has been increasing since 2000 and constitutes about 57.3% of total service exports in 2008. Business service is the second largest sector. It recorded 23.6% of total service exports in 2000 and decreased to 17.3% in 2008. The third largest sector is travel. In 2000, its share in total service export was 22.4% but reduced gradually and reached 11.9% in 2008. In terms of absolute export value, exports have risen in all sectors but there was a change in the composition of export share.

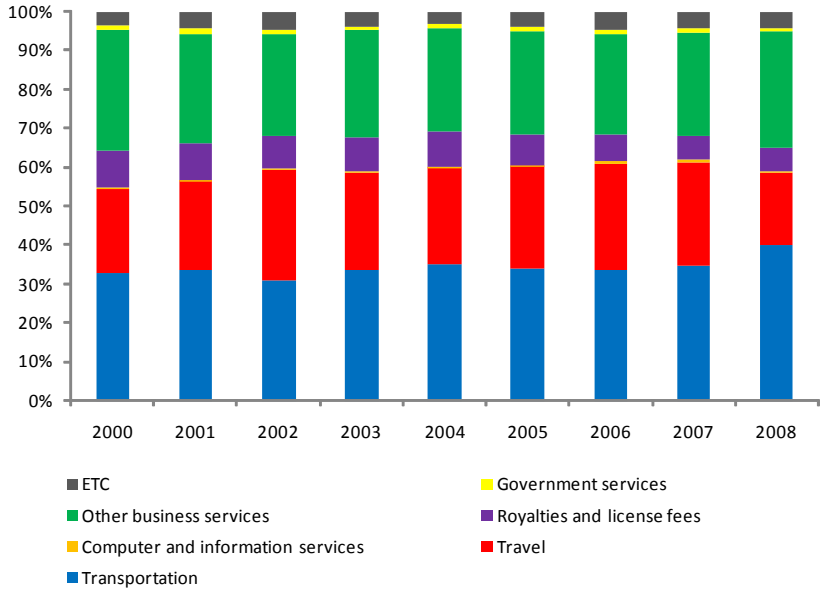
Chart 3.9 Korea's Export in Service (% of total Export in Service)



Source: Bank of Korea

Chart 3.10 indicates the share of each sector in Korea's imports. Similar to exports in services, transportation, travel and business services are the main importing sectors of Korea.

Chart 3.10 Korea's Import in Service (% of total Import in Service)

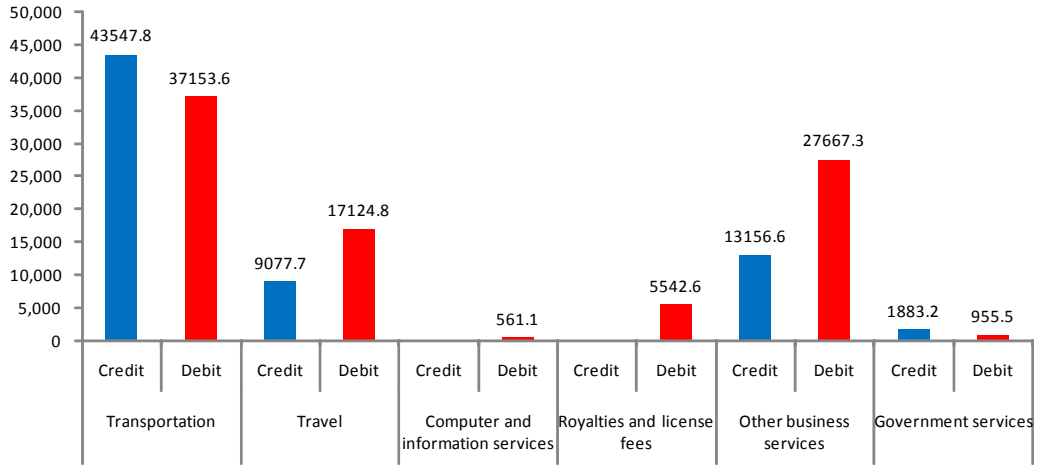


Source: Bank of Korea

While Korea concentrates its service import in those three sectors, there appears a small share of imports in royalties and license fees, government services and computer and information services. In 2008, the share of transportation, business services, travel and royalties and license fees are 40.1%, 29.8%, 18.5% and 6.0% respectively. The share of royalties and license fee has been decreasing from 9.6% in 2000 to 6.0% in 2008.

Chart 3.11 shows Korea's trade values in services in 2008. Korea recorded a deficit in total trade in services but in transportation and government services, it ran a trade surplus. The sector where Korea exported and imported the most was transportation, reaching US$ 43,547 million in exports and US$ 37,153 million in imports. In business services, Korea's trade deficit was the highest recording US$ 14,511 million. In computer and information services and royalties and license fees, Korea only imported services without any export activity.

Chart 3.11 Korea's Trade in Service in 2008 (millions of US $)

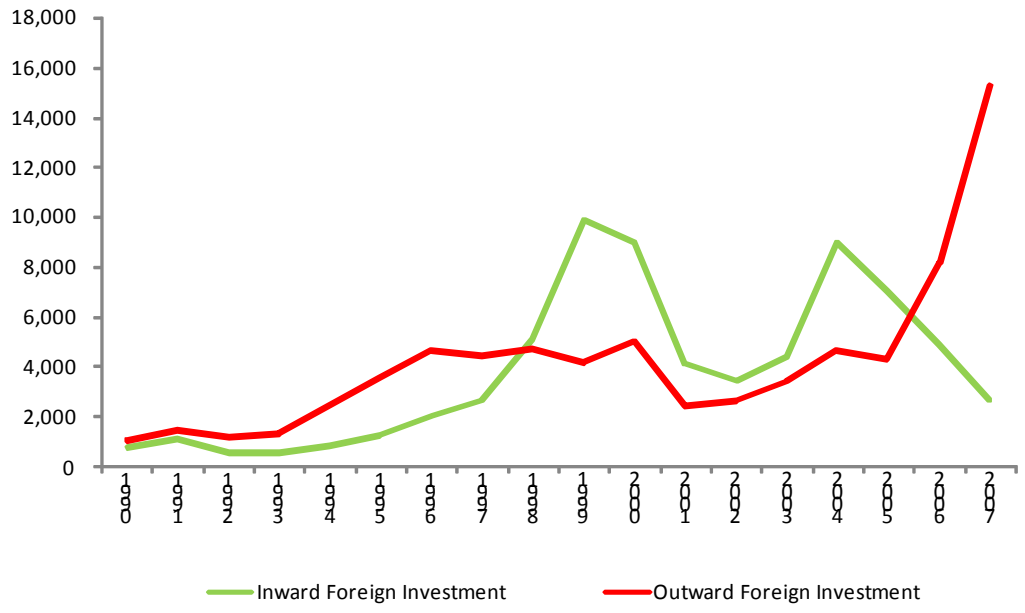


Source: Bank of Korea

3.1.3 FOREIGN DIRECT INVESTMENT OF KOREA

Korea's inward foreign direct investment was restricted until the currency crisis in 1997. Before 1997, outward foreign investment exceeded inward flow. But after the abolishment of the restrictions to inward FDI after the currency crisis in 1997, inward FDI surged and exceeded outward FDI. However, Korea's outward investment flow has increased since 2002 and the rise was dramatic in 2006. The increase was driven mainly by global management strategies of Korean companies for better market access as well as investment in overseas resource development due to high commodity prices. The governmental deregulations on overseas investment have contributed to the growth of outward FDI. In particular, the recent investment in resource development surged on the back of government assistance such as strengthening of resource diplomacy, expanded financial sources for resource development, and training of skilled manpower. But in 2008, the growth rate of outward investment has slowed and inward flow has decreased due to the global financial crisis.

Chart 3.12 Korea's Inward and Outward FDI Flow
(millions of US$)



Source: UNCTAD (United Nations Conference on Trade and Development)

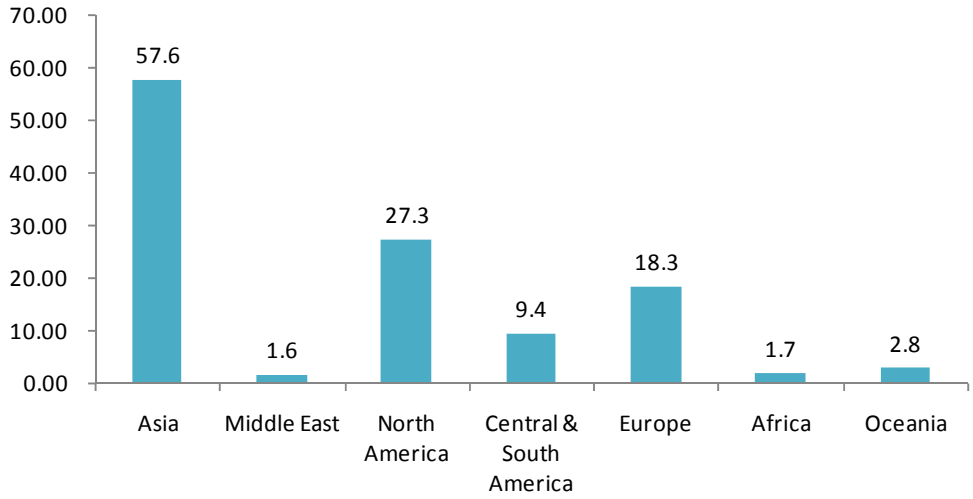
Table 3.5 Korea's Outward FDI by Industry: 1980-2008 (millions of US$)

Industry	Invested Amount (Thous. US$)	Share of total Investment (%)
Agriculture, forestry and fishing	751,010	0.63
Mining and quarrying	10,745,583	9.06
Manufacturing	52,848,615	44.55
Electricity, gas, steam and water supply	578,186	0.49
Sewerage, waste management, materials recovery and remediation activities	15,098	0.01
Construction	3,374,949	2.84
Wholesale and retail trade	19,004,080	16.02
Transportation	1,447,811	1.22
Accommodation and food service activities	2,371,746	2.00
Information and communications	3,344,591	2.82
Financial and insurance activities	7,855,129	6.62
Real estate activities and renting and leasing	6,918,423	5.83
Professional, scientific and technical activities	6,941,426	5.85
Business facilities management and business support services	471,346	0.40
Public administration and denfence ; compulsory social security	1,083	0.00
Education	236,607	0.20
Human health and social work activities	125,920	0.11
Arts, sports and recreation related services	1,069,818	0.90
Membership organizations, repair and other personal services	491,961	0.41
Activities of households as employers; undifferentiated goods- and services- producing activities of households for own use	933	0.00
Activities of extraterritorial organizations and bodies	14,848	0.01
ETC	26,607	0.02

Source: EX-IM Bank of Korea

Table 3.5 indicates Korea's outward FDI by industry. Until 2008, Korea has invested the most in the manufacturing sector, which makes up about 44.55% of total investments, followed by wholesale and retail trade, mining and quarrying, and finance and insurance. Recently, investment in mining sharply increased driven by the trend of active investment in overseas resource development to acquire essential natural resources. Compared with other OECD countries, the FDI of service sectors, such as finance and insurance, or telecommunication, has a relatively small share in total Korea's outward FDI.

Chart 3.13 Korea's Outward FDI by Region: 1980~2008 (billions of US$)



Source: EX-IM Bank of Korea

While Korea's investment destination has been diversified, the United States, China and Hong Kong are the main destinations amounting to about 51.5% of total investments in 2008. Classified by region, Asia is the greatest destination. In 2008, the accumulated amount of investment to Asia recorded US$ 57.6 billion followed by North America and Europe. Central and South America is the fourth highest receiving region. One of the main motivations for investing in this region is to secure natural resources.

3.2 OVERVIEW OF COLOMBIA

With a population of 45 million people, Colombia is the third most populous country in Latin America, after Brazil and Mexico. Colombia's economy is the fifth largest economy in Latin America. In the mean time, Colombia's relatively modest economic performance partly reflects the effects of a deep financial crisis in 1998-99, which was preceded by a rapid expansion of domestic demand financed by private capital inflows, and a subsequent sharp deterioration in external financing conditions.

However, in the aftermath of the 1998-99 crisis, Colombia embarked on fiscal reform, adopted a flexible exchange rate regime, and strengthened financial supervision and regulation. These efforts have contributed significantly to the recent improvement in macroeconomic and prudential indicators in the financial sector. Moreover in the recent years, Colombia's economy has stabilized under President Alvaro Uribe, benefitting from prudent fiscal management and rising commodity prices. At the end of 2007, the Gross Domestic Product growth rate of Colombia recorded 7.6%, which is the highest it has been in the last 30 years.

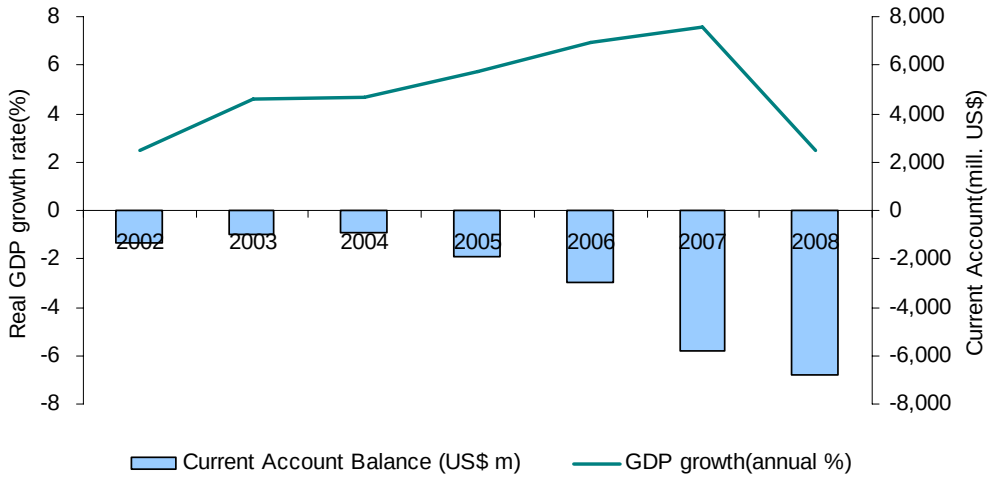
Table 3.6 Macroeconomic Indicators of the Colombian Economy

Year	GNI per capita (current US$)	GDP growth (annual %)	Inflation (CPI, %)	Current Account (Mill. US$)	Int. Reserves (Mill. US$)	Exchange Rate (Peso/US$)
2002	2,230	2.46	6.99	-1,332	10,840	2,864
2003	2,260	4.61	6.49	-974	10,821	2,778
2004	2,500	4.66	5.50	-907	13,535	2,412
2005	2,880	5.72	4.85	-1,881	14,947	2,284
2006	3,420	6.94	4.48	-2,982	15,433	2,238
2007	4,100	7.55	5.69	-5,836	20,884	2,014
2008	..	2.50	7.67	-6,761	23,660	2,243

Source: Banco de República

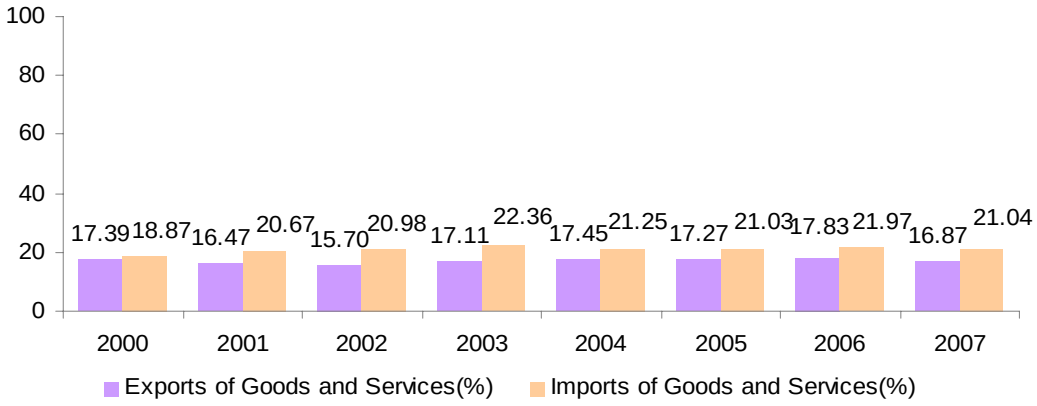
The Colombian economy seemed to show a strong performance up until 2007. Real GDP grew at 6.9% in 2006 and 7.6% in 2007, and international reserves increased steadily reaching US$ 20,884 million in 2007. However, due to the global financial crisis in 2008, oil prices dropped, inflation grew, and trade value declined; thus the real GDP growth rate fell to 2.5%. Moreover, the current account deficit increased to US$ 6,761 million.

Chart 3.14 Current account and real GDP growth rate



Source: Banco de República

Chart 3.15 Export and Import share in GDP (% of GDP)



Source: Banco de República

Compared to Korea, export and import share in GDP is relatively small. In 2006, export and import share were at their highest level, representing 17.8% and 21.9% of GDP respectively.

Table 3.7 shows the composition of Colombia's GDP by CIIU sections from 2000 to 2007. The manufacturing industry is the largest component in the GDP's composition, which amounted to 16.2% in 2007. The second largest component is real estate,

enterprise and rental services. It represented about 11.09% of total GDP in 2007. Besides that, primary sectors such as agriculture and mining, also occupied a relatively large portion of Colombia's GDP unlike Korea.

Table 3.7 Gross Domestic Product by CIIU (ISIC) Sections: 2000-2007

(as % of GDP)

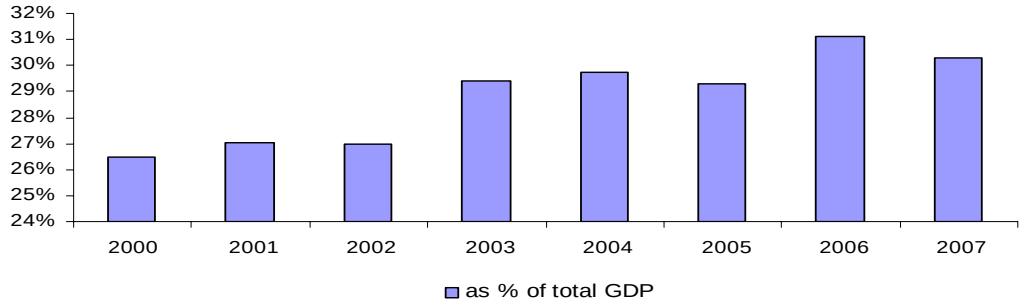
CIIU Sections	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture, cattle ranch, hunting and forestry	9.39	9.62	9.89	9.46	8.90	8.67	8.49	8.02
Fishing	0.23	0.21	0.20	0.20	0.18	0.17	0.16	0.15
Mine and quarry exploitation	6.50	5.08	5.01	5.96	6.23	6.64	7.07	6.42
Manufacturing industry	14.48	15.00	14.72	15.13	15.58	15.65	15.89	16.15
Electricity, gas and water	3.12	3.46	3.40	3.52	3.41	3.30	3.14	3.05
Construction	3.72	3.70	3.93	4.34	5.46	5.83	6.67	6.87
Wholesale and retail commerce, auto motor vehicle repairing, motorcycles, personal effects and household goods	10.73	11.01	11.11	11.19	10.99	11.02	11.02	10.74
Restaurant and hotels	1.67	1.65	1.56	1.49	1.47	1.46	1.45	1.51
Transport, storage, and communication	6.13	6.77	6.84	6.76	6.68	6.73	6.73	6.77
Financial intermediation	3.78	3.81	3.98	3.99	4.03	4.11	3.79	4.01
Real estate, enterprise and rental services	12.77	12.64	12.51	11.95	11.52	11.16	11.08	11.09
Public administration and defense	8.90	8.42	8.16	7.54	7.28	6.88	6.60	6.37
Education	5.19	5.29	5.12	4.95	4.83	4.81	4.76	4.68
Social and health services	3.01	2.99	2.97	2.83	2.74	2.89	2.99	3.09
Other activities of social, communal, and personal services	2.31	2.39	2.44	2.32	2.27	2.23	2.09	2.07
Private homes with domestic service	0.88	0.88	0.88	0.85	0.80	0.75	0.69	0.62

Source: Banco de República

3.2.1 TRADE IN GOODS OF COLOMBIA

Colombia's solid economic growth in recent years results largely from increased export earnings, with growth in markets and improved terms of trade which have benefited from improved terms-of-trade and growth in export markets. The trade to GDP ratio of Colombia is steadily increasing although there was some fluctuation. In 2006, the trade dependency ratio increased to over 30%.[2]

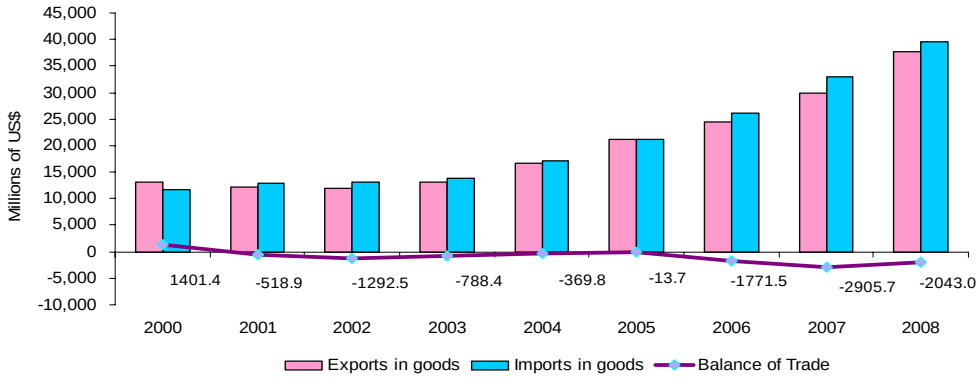
Chart 3.16 Trade Dependency of Colombia (as % of total GDP)



Source: United Nations Commodity Trade Statistics Database

Moreover, from 2000 to 2008, Colombia's exports in goods expanded from US $13,158 million to US$ 37,625 million and imports have also increased significantly from US$ 11,756 million to US$ 39,668 million.

Chart 3.17 Colombia's Trade in Goods 2000-2008 (millions of US$)



Source: United Nations Commodity Trade Statistics Database

[2] Trade dependency ration is defined as (export+import)/GDP.

Therefore, Colombia has been showing a trade deficit since 2001**.**

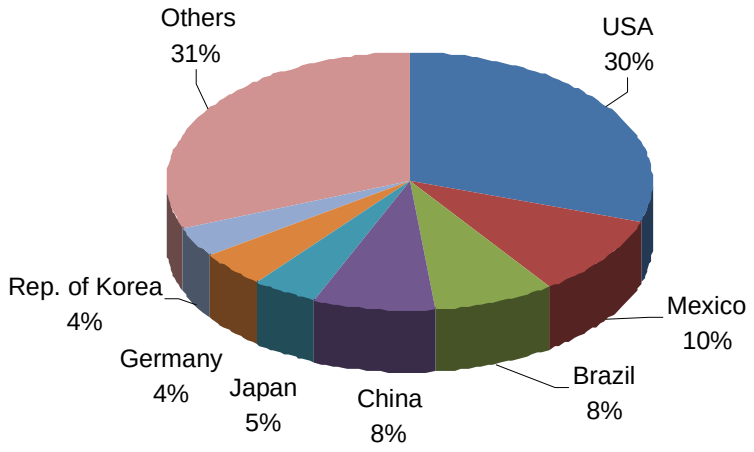
Table 3.8 Colombia's Trade Statistic (Profile)

Contents	2007
Population (2008)	44,450
Rank in World Merchandise Exports	58
Rank in World Merchandise Imports	51
Rank in World Commercial Services Exports	71
Rank in World Commercial Services Imports	61
Share in World Total Merchandise Exports	0.21%
Share in World Total Merchandise Imports	0.23%
Share in World Total Services Exports	0.11%
Share in World Total Services Imports	0.20%

Source: World Trade Organization

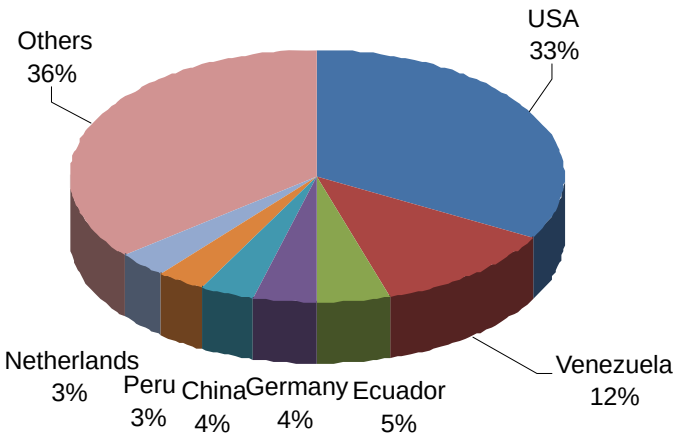
Meanwhile, Colombia's share in total world exports and imports in 2007 recorded 0.21% and 0.23%, respectively. Its major trade partners by destination are United States, Mexico, Brazil, China, Japan whereas its top 5 partners by import origin are United States, Venezuela, Ecuador, Germany, and China.

Chart 3.18 Colombia's Major Trade Partners by Destination, 2007 (as % of total)



Source: United Nations Commodity Trade Statistics Database and calculations

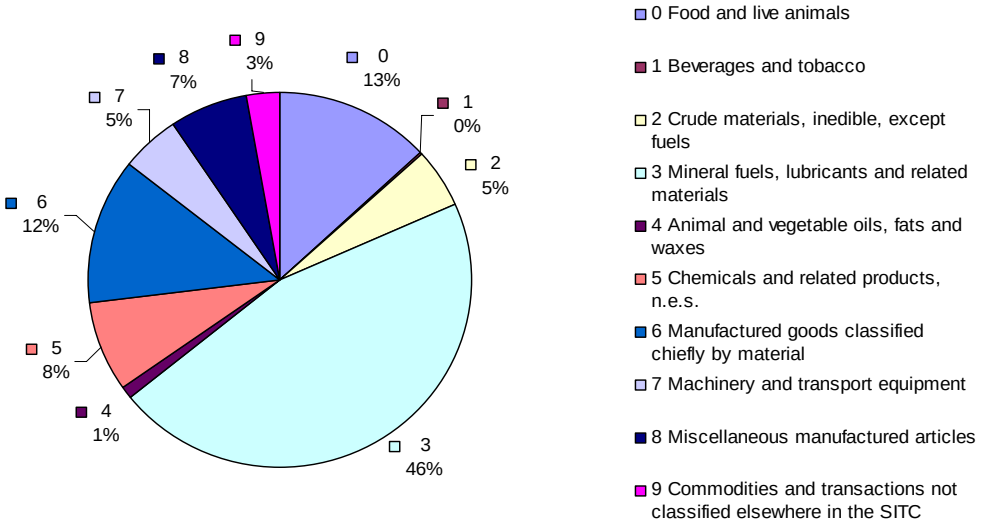
Chart 3.19 Colombia's Major Trade Partners by Origin, 2007 (as % of total)



Source: United Nations Commodity Trade Statistics Database and calculations

In 2008, mineral fuels, lubricants and related materials constituted about 46% of Colombia's total exports in goods. Among other sectors, food and live animals, manufactured goods, and chemical products in that order added together represented 33% of the total export in goods.

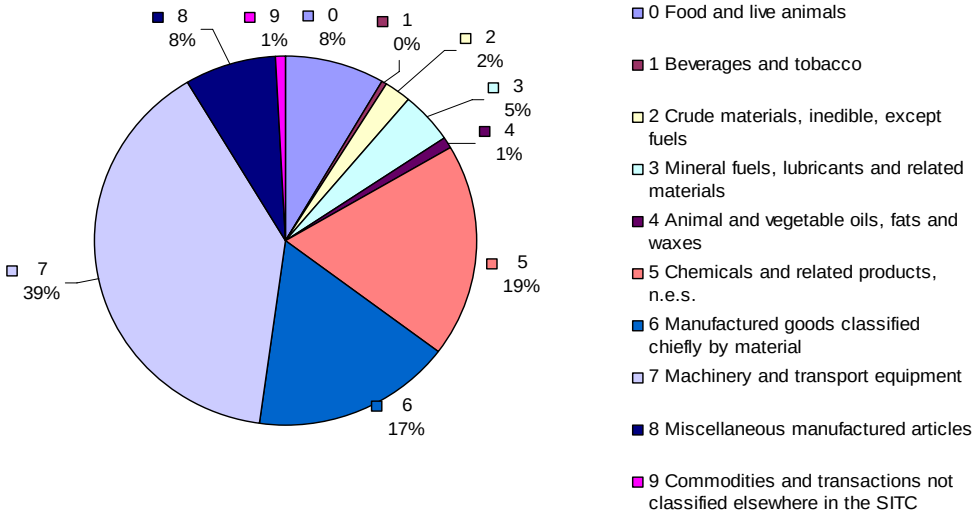
Chart 3.20 Colombia's Exports by Sector in SITC 1 digit, 2008 (as % of total)



Source: Source: United Nations Commodity Trade Statistics Database

In the case of imports, machinery and transport equipment had the largest share with 39% of Colombia's total imports in 2008, while chemicals and related products formed the second largest share amounting to 19%. Furthermore, manufactured goods and miscellaneous manufactured articles are the categories in which Colombia imported (25%) more than it exported (19%).

Chart 3.21 Colombia's Imports by Sector in SITC 1 digit, 2008 (as % of total)

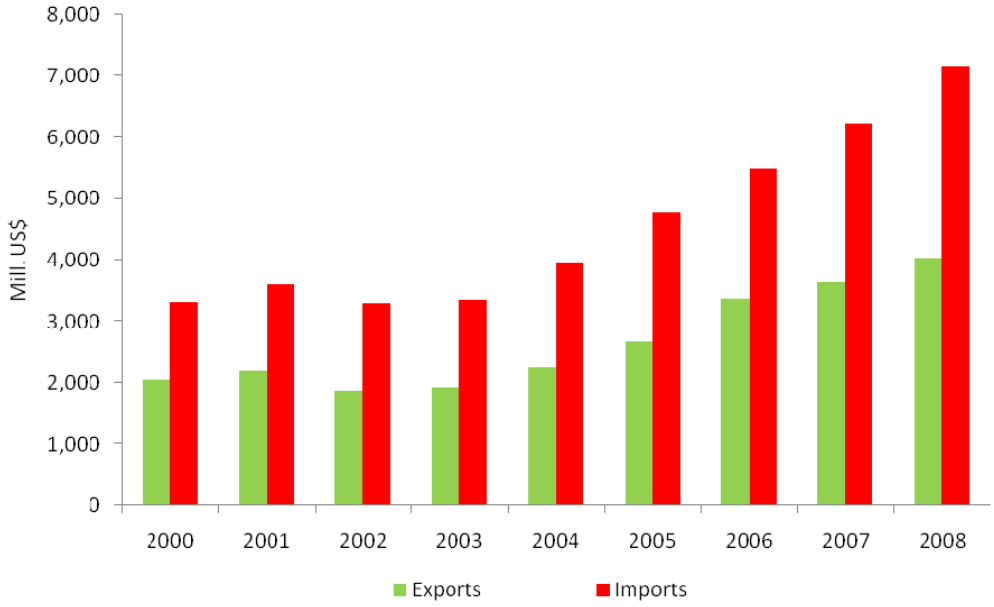


Source: United Nations Commodity Trade Statistics Database

3.2.2 TRADE IN SERVICE OF COLOMBIA

Colombia has been accumulating trade deficit in service since 2000. Imports in service have been larger than exports and the deficit has increased from US$ 1,259 million in 2000 to US$ 3,129 million in 2008. Both exports and imports have expanded. Exports and imports amounted to US$ 2,049 million and US$ 3,308 million, respective in 2000 and they increased to US$ 4,042 million and US$ 7,171 million, respectively in 2008.

Chart 3.22 Colombia's Trade in Service (millions of US$)



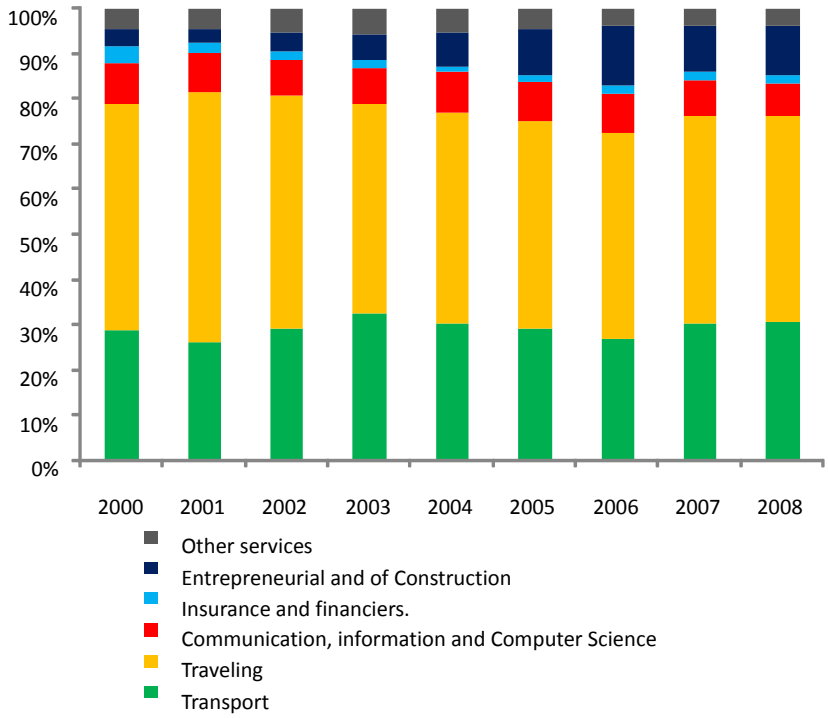
Source : Banco de República

Chart 3.23 shows service exports in Colombia. The main exporting sectors in trade in service are traveling, transport and communication, information and computer science. Especially traveling is the largest exporting service good from Colombia. Its share in total exports of service recorded 50.3% in 2000 and 45.6% in 2008. The second largest sector is transportation, whose shares in total exports were 28.7% in 2000 and 30.6% in 2008. The shares of communication, information and computer science were 9.1% in 2000 and 7.3% in 2008. Overall, exports in traveling have decreased by about 5 %. Entrepreneurial and Construction sectors had the highest increase by about 7%.

Chart 3.24 indicates Colombia´s imports in each service sector as a share of the total imports in service. Likewise in exports, traveling and transport are the largest importing

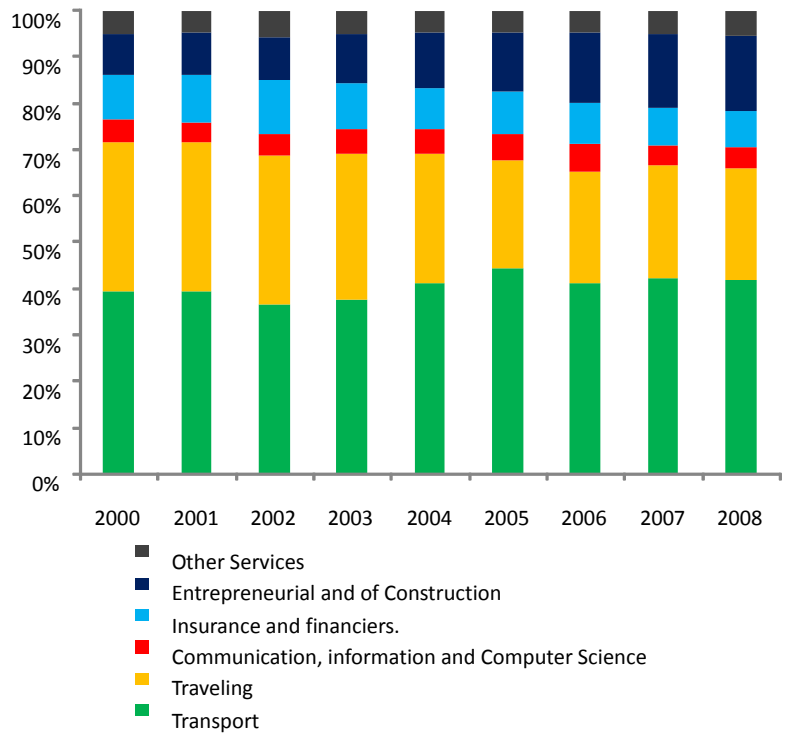
sectors. However, imports in transport are larger than imports in traveling. The share of transport recorded 39.5% in 2000 and increased to 41.8% in 2008. Imports in traveling was reduced by 7.7% points in the last 8 years and reached 24.3% in 2008. While there was a decrease in the share of imports in traveling, imports in entrepreneurial and the construction sector increased by 7.6% points and almost doubled during the last 8 years.

Chart 3.23 Colombia's Export in Service (% of total Export in Service)



Source: Banco de República

Chart 3.24 Colombia's Import in Service (% of total Import in Service)



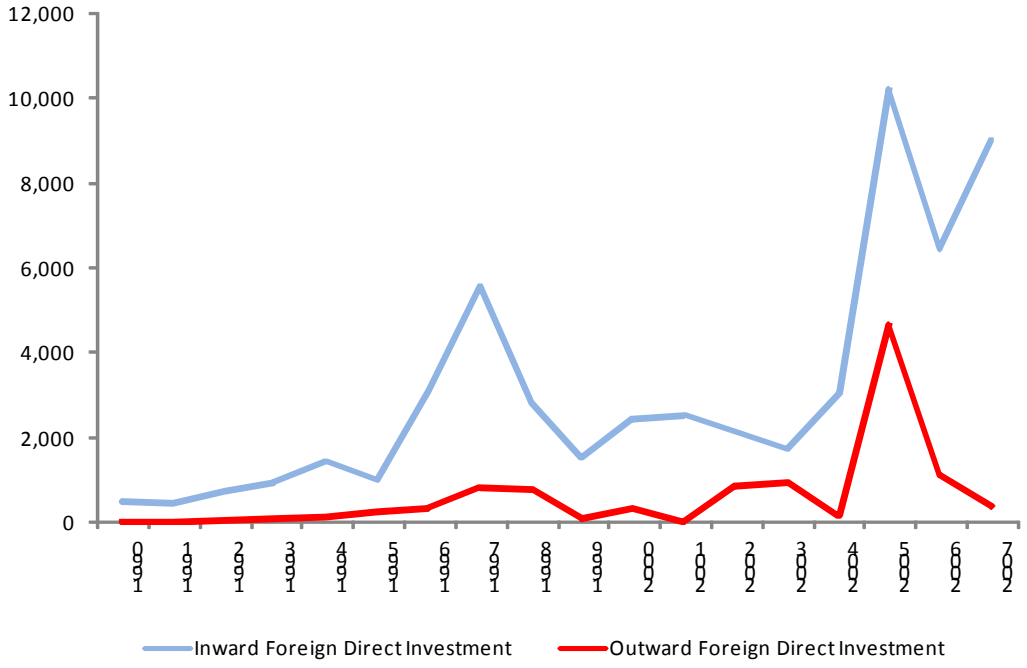
Source: Banco de República

3.2.3 FOREIGN DIRECT INVESTMENT OF COLOMBIA

Colombia lifted restrictive investment related law in 1991 and has an open foreign investment regime. Consolidating and increasing foreign investment is one of the objectives set by the Strategic Export Plan of the Colombian government. Some sectors are restricted to foreign investments; activities pertaining to national defence and security and the processing, disposal and elimination of toxic, hazardous or radioactive waste not produced in Colombia. Foreign investment in companies providing open television services is subject to the principle of reciprocity and limited to 40 % of the company's share capital. Foreigners are not granted licences for the management of radio news or information programmes. Foreign geology consultancy firms may not offer their services in Colombia unless they are associated with a Colombian firm. Private investment, including foreign private investment, in the provision of public services in water supply and sewage, sanitation and the retail distribution of electricity and gas through mains is subject to restrictions insofar as the State establishes "exclusive service areas" in which only one company has permission to supply the service in question.

Chart 3.25 Colombia's Inward and Outward FDI Flow

(millions of US$)



Source: UNCTAD (United Nations Conference on Trade and Development)

Chart 3.25 shows the inward and outward foreign direct investment of Colombia. The amount of overall foreign direct investment has increased steadily the last few years. Foreign direct investment increased notably in 1997 and 2005. In 1997, major privatizations were undertaken in the electricity sector, and in 2005 the acquisition of several public and private companies by foreign interests was completed. Inward investment reached US$ 9,028 million in 2007. Outward foreign direct investment is much lower than the inward flow. It has been increasing but the amount recorded in 2007 is only about one twenty forth of inward investment.

The following table indicates the amount of inward foreign direct investment in each sector. The petroleum sector is the largest recipient of foreign direct investment in 2008. The amount of investment in this sector dropped in 2003 but since 2005 it has been increasing rapidly and reached US$ 3,571 million in 2008, which composes about 33.8% of total investment.

The relative importance of different sectors as recipients of foreign direct investment experienced major fluctuations during the period. But the second and third largest recipients are mining and manufacturing, respectively. In 2008, investment in those two sectors amounted to US$ 2,116 million and US$ 1,372 million, respectively. Those three main sectors occupy about 67% of total inward investment in 2008. The increase in investment in the mining sector around 2004 partly reflects the sale of a number of mines belonging to the State-owned company Carbocol. The share of the manufacturing sector in foreign investment recorded a sharp increase in 2005, largely as a result of takeovers of domestic firms by multinational companies.

Table 3.9 Colombia's Inward FDI by Industry (millions of US$)

	2002	2003	2004	2005	2006	2007	2008
TOTAL	**2,134**	**1,720**	**3,016**	**10,252**	**6,656**	**9,049**	**10,564**
Petroleum Sector	449	278	495	1,125	1,995	3,333	3,571
	21.0%	16.2%	16.4%	11.0%	30.0%	36.8%	33.8%
Subtotal Rest of Sectors	**1,685**	**1,443**	**2,521**	**9,127**	**4,661**	**5,716**	**6,993**
	79.0%	83.8%	83.6%	89.0%	70.0%	63.2%	66.2%
Agriculture, Livestock, Fishing, Forestry and Hunting	-5	8	3	6	8	40	67
	-0.2%	0.5%	0.1%	0.1%	0.1%	0.4%	0.6%
Mine and Quarry Exploration (incl. carbon)	466	627	1,246	2,157	1,783	1,100	2,116
	21.8%	36.5%	41.3%	21.0%	26.8%	12.2%	20.0%
Manufacturing	308	289	188	5,513	803	1,867	1,374
	14.4%	16.8%	6.2%	53.8%	12.1%	20.6%	13.0%
Electricity, Gas and Water	135	68	88	-251	-141	-79	29
	6.3%	4.0%	2.9%	-2.5%	-2.1%	-0.9%	0.3%
Construction	-4	-8	74	146	156	210	324
	-0.2%	-0.5%	2.4%	1.4%	2.3%	2.3%	3.1%
Commerce, Restaurants and Hotels	116	222	202	305	523	803	1,029
	5.4%	12.9%	6.7%	3.0%	7.9%	8.9%	9.7%
Transportation, Communications and Storage	345	-47	481	1,021	1,061	414	746
	16.2%	-2.8%	16.0%	10.0%	15.9%	4.6%	7.1%
Financial Institutions	293	243	244	246	464	1,319	1,235
	13.7%	14.1%	8.1%	2.4%	7.0%	14.6%	11.7%
Communal Services	31	40	-6	-16	4	40	73
	1.4%	2.3%	-0.2%	-0.2%	0.1%	0.4%	0.7%

Source: Banco de República

The European Union has traditionally been Colombia's main source of foreign investment while the United States is the largest source of investment from a single country. The United States' investment amounted to US$ 1,745 million in 2008 and represented about 17% of total investment on average between 2005 and 2008. The second largest investor is the United Kingdom but since 2006, its investment has decreased dramatically. Colombia's main investing countries are concentrated in America and Europe.

Table 3.10 Colombia's Inward FDI by Country (millions of US$)

Country	2005	2006	2007	2008
Unites States	1,401	1,524	1,389	1,745
United Kingdom	3,747	18	35	200
Spain	598	492	289	564
Mexico	1,063	31	340	412
Anguilla	0	0	1,020	1,185
Panama	209	240	477	760
Virgin Island	277	349	70	9
Bermuda	222	8	12	31
Brazil	8	20	529	125
Cayman Islands	31	159	131	0
France	18	4	139	70
Canada	3	19	8	52
Venezuela	16	59	34	1
Switzerland	33	17	43	57
Luxembourg	0	109	11	3
Germany	12	2	4	52
ETC	2,605	3,480	4,516	5,301
Total	10,252	6,656	9,049	10,564

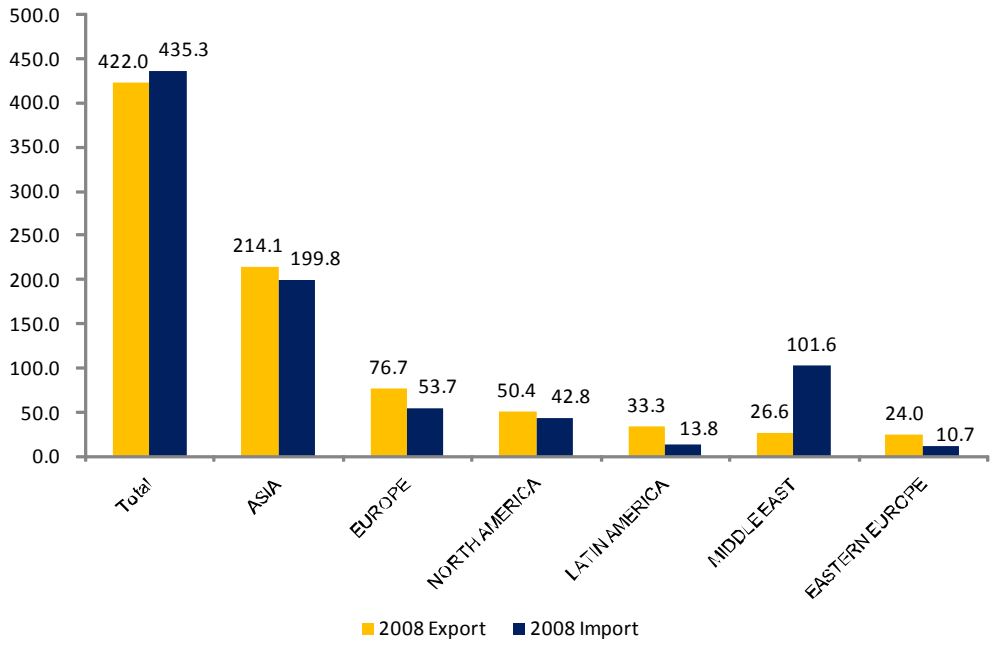
Source: DANE (Departamento Administrativo Nacional de Estadistica)

4. ECONOMIC RELATIONS BETWEEN KOREA AND COLOMBIA

4.1 TRADE IN GOODS

As mentioned before in Chapter 3, Korea is a trade-oriented economy, and its trade with the world has been increasing in both exports and imports. In 2008, exports reached US$ 422.0 billion, and imports amounted to US$ 435.3 billion. When seeing Korea's trade by region, the main trade partner region is Asia. In 2008, the share of exports and imports with Asia were 50.7% and 45.9 % respectively. About half of the trade in Korea is done with Asian countries, mainly with China. Korea actively exports and imports with Asia but in other regions, the volume of exports and imports shows different tendencies. The second largest export destination is Europe while the second largest import source is the Middle East. This is mainly due to the import of oil from the Middle East. In 2008, Latin America's exports and imports occupied about 7.9% and 3.2% and trade value recorded US$ 33.3 billion and US$ 13.8 billion respectively.

Chart 4.1 Korea's Trade by Region, 2008 (billions of US$)

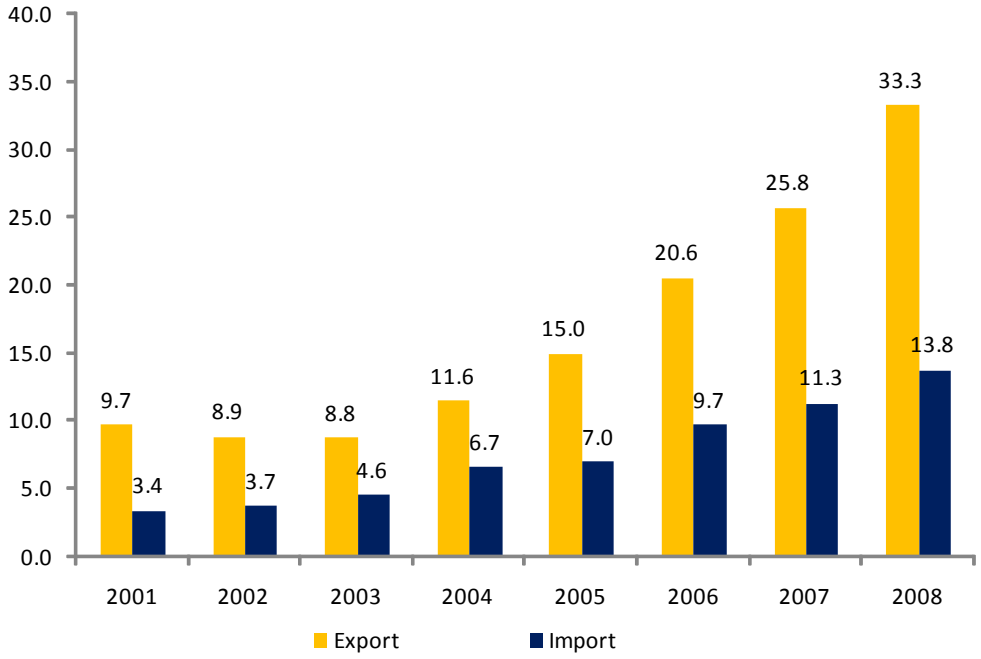


Source: KITA (Korea International Trade Association)

Korea's trade with Latin America has experienced a continuous increase in both exports and imports. Korea's exports to Latin America increased from US$ 9.7 billion in

2001 to US$ 33.3 billion in 2008. Korea's imports from the region also increased from US$ 3.4 billion to US$ 13.8 billion during the same period, but the imports were always smaller than the exports, resulting in Korea's trade surplus with respect to Latin America.

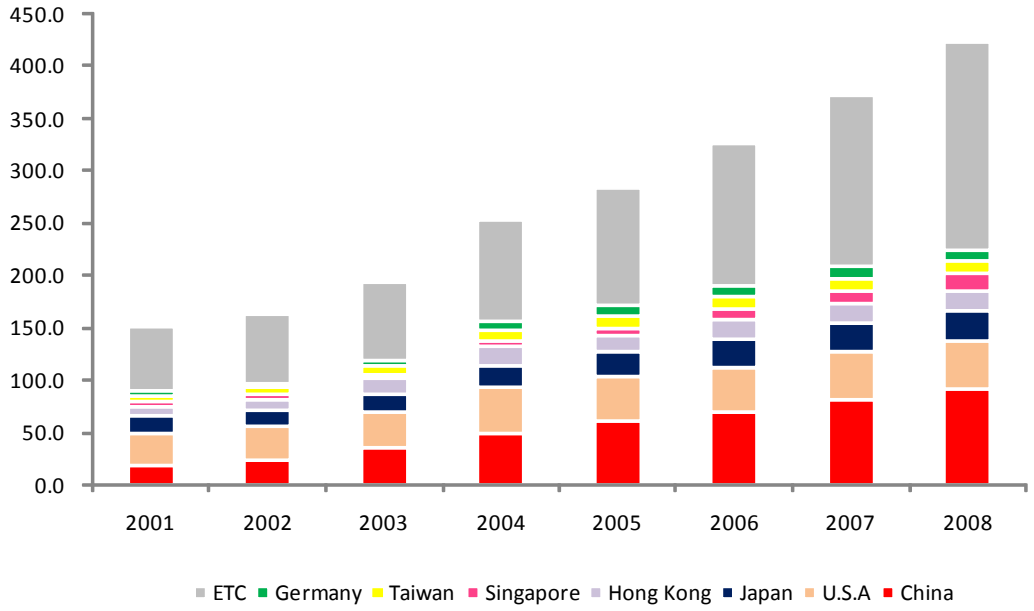
Chart 4.2 Korea's Trade with Latin America (billions of US$)



Source: KITA (Korea International Trade Association)

Chart 4.3 shows Korea's main partner countries for export destinations. These partner countries are China, the Unites States, Japan, Hong Kong, Singapore, Taiwan and Germany. In 2008, their share of exports amounted to about 53.1% of Korea's total export. Korea's export to China has increased dramatically. Until 2002, the United States was the largest export destination. But since 2003, exports to China exceeded exports to the United States. As of 2008, exports to China amounted to about twice the exports to the United States, The exports to China and the United States were US$ 91.4 billion and US$ 46.4 billion respectively.

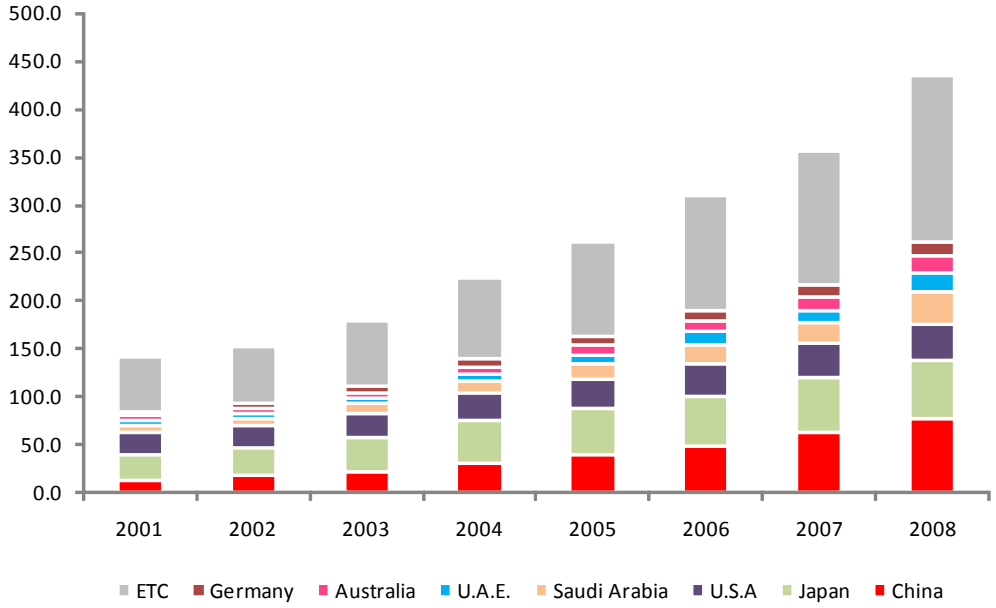
Chart 4.3 Korea's Export by Country (billions of US$)



Source: KITA (Korea International Trade Association)

Chart 4.4 indicates Korea's imports by country. Korea mainly imports from China, Japan, the Unites States, Saudi Arabia, U.A.E., Australia and Germany. In 2008, the share of these seven countries made up about 60.2% of total imports. Currently China is the largest import source of Korea. But until 2006, Korea imported the most from Japan. Imports from Japan and China both have increased. But the rate of increase was higher in China. Imports from China increased from US$ 13.3 billion to US$ 76.9 billion between 2001 and 2008, about a 580% increase, while imports from Japan rose from US$ 26.6 billion to US$ 61.0 billion, about a 230% increase during the same period. Due to the dramatic rise of imports from China, China became the largest import source of Korea.

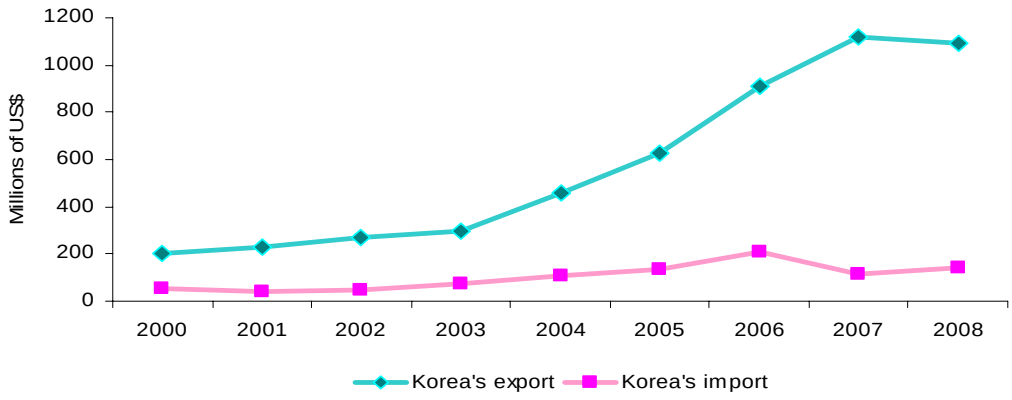
Chart 4.4 Korea's Import by Country (billions of US$)



Source: KITA (Korea International Trade Association)

The amount of bilateral trade between Korea and Colombia has doubled between 2003 and 2004 due to Korea's increased exports to Colombia. Since then, Korea's exports to Colombia had grown rapidly until 2007, but decreased slightly in 2008. Korea's exports to Colombia amounted to US$ 1,091 million whereas Korea's imports from Colombia recorded US$ 143 million, resulting in a bilateral trade deficit of US$ 948 million for Colombia.

Chart 4.5 Bilateral Trades between Korea and Colombia (millions of US$)



Source: KITA (Korea International Trade Association)

Trade between Korea and Colombia could be defined as inter-industry trade. Korea mainly exported machinery and transport equipment in 2008, which reached US$ 730.8 million with a share of 67% of the total export. Other large exporting sectors were chemicals and manufactured goods which accounted for 16% and 14% of the total export, respectively.

Table 4.1 Korea's Export to Colombia by Sectors (millions of US$)

Sector	2003	2004	2005	2006	2007	2008
Food and live animals	0.13	0.09	0.12	0.12	0.17	0.11
Beverages and tobacco	-	-	0.01	0.00	0.01	0.00
Crude materials, inedible, except fuels	1.90	1.62	1.48	2.96	2.03	3.41
Mineral fuel, lubricants, and related materials	0.01	0.04	20.09	0.32	0.45	0.43
Chemicals and related products	88.38	68.73	114.14	136.07	114.54	169.20
Manufactured goods classified chiefly by material	32.67	47.61	51.87	82.67	92.37	156.44
Machinery and transport equipment	160.75	327.97	422.71	668.42	885.33	730.82
Miscellaneous manufactured articles	12.72	13.42	13.18	22.30	25.74	30.28
Commodities and transactions	0.01	0.00	0.02	0.04	0.03	0.07
Total	296.56	459.47	623.60	912.90	1120.66	1090.76

Source: KITA (Korea International Trade Association)

The main product which Korea imports from Colombia is crude material, which reached US$ 51.3 million in 2008 with a share of 36% in total imports from Colombia. The second and third largest product categories imported from Colombia, are food and live animals, and manufactured goods classified chiefly by material with a share of 33% and 27%, respectively.

Table 4.2 Korea's Import from Colombia by Sectors (millions of US$)

Sector	2003	2004	2005	2006	2007	2008
Food and live animals	13.64	17.63	30.68	42.29	34.21	47.16
Crude materials, inedible, except fuels	2.82	4.63	5.48	22.46	34.17	51.26
Animal and vegetable oils, fats, and waxes	-	0.03	0.10	0.08	0.15	0.16
Chemicals and related products	0.13	0.09	0.04	0.06	0.35	0.21
Manufactured goods classified chiefly by material	52.62	81.98	98.52	137.40	42.85	39.43
Machinery and transport equipment	0.55	0.16	0.49	0.64	0.65	0.56
Miscellaneous manufactured articles	1.65	1.82	1.49	2.61	3.94	4.65
Commodities and transactions	0.00	-	0.00	0.00	0.00	-
Total	71.41	106.34	136.80	205.53	116.31	143.43

Source: KITA (Korea International Trade Association)

Most of the top 15 products exported by Korea to Colombia were high technology intensive products, such as motor vehicles and telephone sets.

Table 4.3 Korea's Top 15 Exports to Colombia (SITC 5 digits, US$)

SITC Code	Description	2007	2008
78439	OTHER PARTS, ACCESSORIES (MOTOR VEHICLES)	49,327,868	164,296,522
76411	TELEPHONE SETS	65,418,367	40,532,789
57112	HAVING A SPECIFIC GRAVITY OF 0.94 OR MORE	25,969,134	34,530,074
67682	U,I,H,L,T SECTIONS	3,269,426	32,673,487
78219	MOTOR VEHICLES FOR THE TRANSPORT OF GOODS,N.E.S.	27,578,441	24,484,810
57439	POLYESTERS IN PRIMARY FORM,N.E.S.	7,753,795	20,359,675
67321	OF WIDTH OF 600MM OR MORE	3,318,395	19,541,263
67341	OF A WIDTH OF 600MM OR MORE	12,999,884	16,922,854
57529	OTHER ACRYLIC POLYMERS	7,850,137	13,570,221
65163	OTHER YARN,	9,159,536	11,732,174
74174	HEAT EXCHANGE UNITS	7,080	11,217,178
72322	MECHANICAL SHOVELS,EXCAVATORS AND SHOVEL LOADERS	6,434,118	10,650,096
72471	HOUSEHOLD OR LAUNDRY-TYPE WASHING MACHINES	8,072,645	10,521,462
51489	COMPOUNDS WITH OTHER NITROGEN FUNCTION	5,472,809	7,830,980
74474	OTHER CONTINUOUS-ACTION ELEVATORS AND CONVEYORS	4,291,616	7,136,651

Source: KITA (Korea International Trade Association)

Among the top 15 products imported by Korea from Colombia, the largest ones are crude material, which are metal ores and concentrates, such as nickel, copper and aluminum. The rest are mainly food products, notably coffee.

Table 4.4 Korea's Top 15 Imports from Colombia (SITC 5 digits, US$)

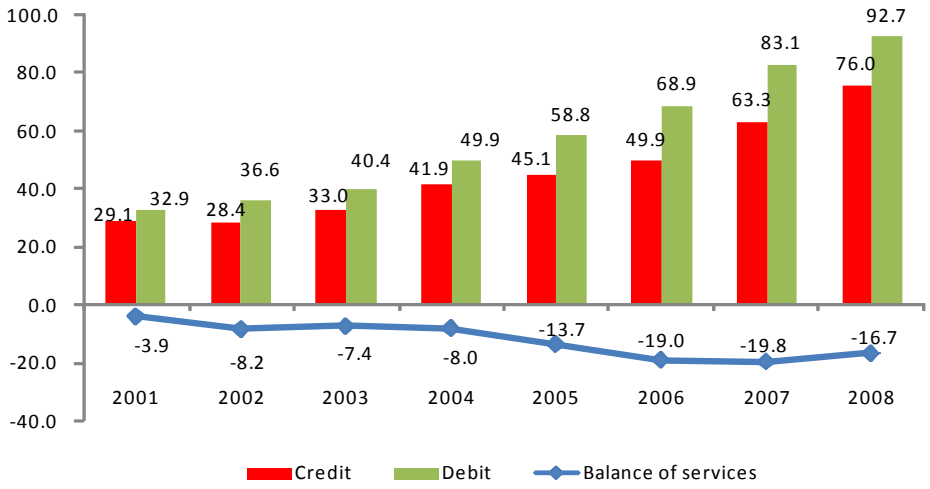
SITC Code	Description	2007	2008
07111	COFFEE NOT ROASTED NOT DECAFFEINATED	31,118,947	42,216,963
67155	FERRO-NICKEL	38,840,315	37,708,297
28821	COPPER WASTE AND SCRAP	28,271,640	30,784,955
28823	ALUMIUM WASTE AND SCRAP	3,129,699	12,122,061
28239	FERROUS WASTE AND SCRAP,N.E.S	33,291	5,413,978
07131	EXTRACTS,ESSENCES AND CONCENTRATES OF COFFEE	1,632,006	2,738,936
64163	TOILET OR FACIAL TISSUE STOCK,TOWEL OR NAPKIN STOCK	1,315,898	874,303
21199	HIDES AND SKINS,N.E.S,RAW	671,441	459,310
61172	OF REPTILES	257,258	426,746
88135	APPARATUS AND EQUIPMENT FOR PHOTOGRAPHIC	0	382,641
09899	OTHER FOOD PREPARATIONS	192,080	380,452
29198	AMBERGRIS,CASTOREUM,CIVET AND MUSK : CANTHARIDES:BILE	1,905,200	355,395
06111	CANE SUGAR,RAW	78,036	215,124
83111	WITH OUTER SURFACE OF LEATHER,OF COMPOSITION LEATHER	90,118	210,725
03411	FISH,LIVE	89,306	202,764

Source: KITA (Korea International Trade Association)

4.2 TRADE IN SERVICES

Chart 4.6 shows trade in services of Korea. Korea's exports and imports in services have been increasing steadily. Exports rose from US$ 29.1 billion in 2001 to US$ 76.0 billion in 2008 and imports increased US$ 32.9 billion in 2001 to US$ 92.7 billion in 2008. Korea's imports were higher than exports. Thus its balance of service trade has run a deficit throughout the years. The deficit in service has increased steadily until 2007 from US$ 3.9 billion in 2001 to US$ 19.8 billion in 2007 but it decreased slightly in 2008 and recorded US$ 16.7 billion. The fall in service deficit in 2008 is because the growth of imports was lower than exports due to the global economic downturn.

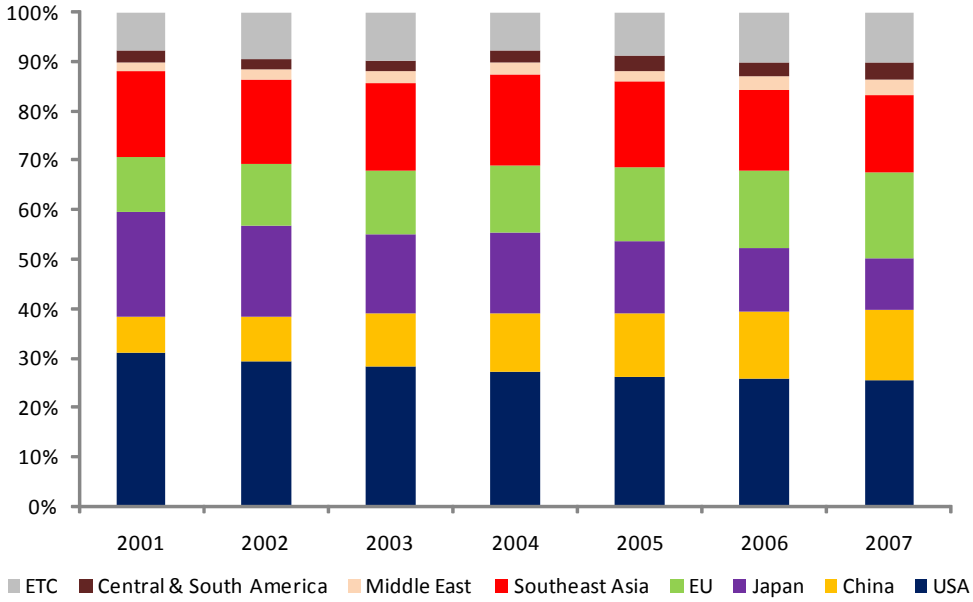
Chart 4.6 Korea's Trade in Services (billions of US$)



Source: Bank of Korea

Chart 4.7 shows Korea's exports in services by region. The main destinations for Korea's service exports are US, China, Japan, EU, and Southeast Asia. The US accounts for the highest share of Korea's export in services. In 2001, the US alone composed 31.1% of total exports, but its share decreased to 25.7% in 2007. The second largest export destination is the EU and its share of exports recorded 17.4% in 2007. The share of China was only 7.4% in 2001 but its share has increased the most rapidly among all the regions. The share of exports to China doubled in 2007 compared to that of 2001 reaching 14.2%. During the last 7 years, export shares to US, South East Asian and Japan have decreased while those to China and EU have increased. Especially Japan's share decreased the most from 21.1% in 2001 to 10.6% in 2007.

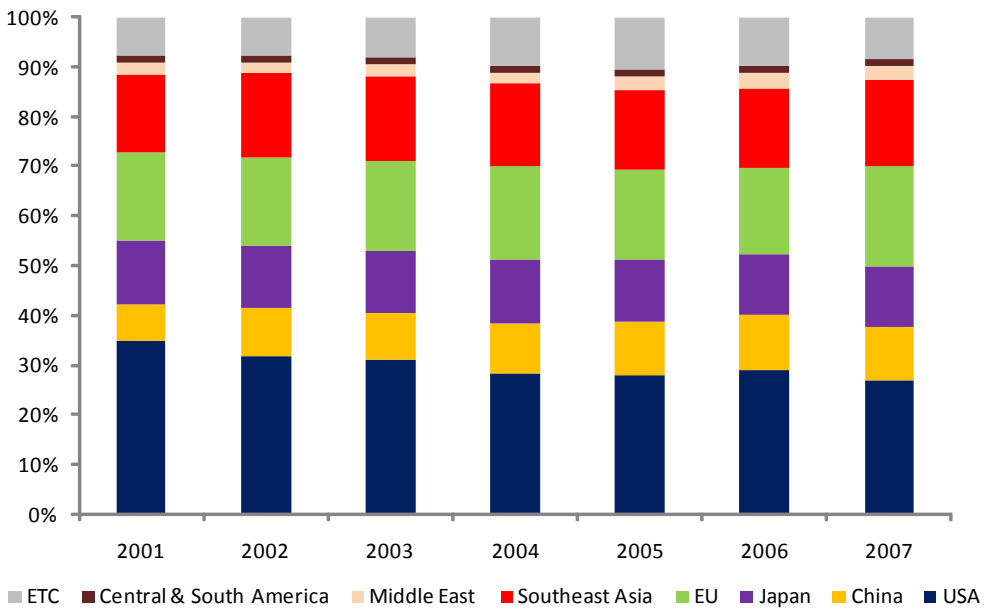
Chart 4.7 Korea's Exports in Services (% of Total Export in Services)



Source: Bank of Korea

Chart 4.8 shows Korea's imports of services by region of origin. While the share of imports from the US have decreased since 2001, US still is the main import origin of services. The share of imports from the US was 34.9% in 2001 and reduced to 27.2% in 2007. The second and third largest import source are the EU and South East Asia, respectively. Imports from both regions have increased steadily during the last 7 years and their shares reached 20.4% and 17.2% respectively in 2007. Imports from China have increased also. In 2001, its share was 7.4% and it increased to 10.8% in 2007. But the share of imports from Japan has decreased slightly by 1.2% during the same period. Both in exports and imports, trade with EU and China have risen during the last 7 years.

Chart 4.8 Korea's Imports in Services (% of Total Import in Services)



Source: Bank of Korea

Since the information of Korea's service trade with individual countries in Latin America is not available, the service trade with Latin America as an aggregate will be analyzed. Service trade between Korea and Latin America has witnessed a gradual increase in the past few years. As shown in table 4.5, Korea's exports to Latin America almost doubled from 2006 to 2007 and the imports from Latin America have also exceeded US$ 1 billion.

Table 4.5 Korea's Service Trade with Latin America (millions of US$)

	2001	2002	2003	2004	2005	2006	2007
Exports	683.8	600.0	706.9	1,041.6	1,280.0	1,478.0	2,485.8
Imports	456.9	491.0	579.0	662.9	842.1	972.7	1,180.6

Source: Bank of Korea

Transportation is the sector which represents the largest portion of Korea's service exports to Latin America. The share of transportation in service exports fluctuated between 72% and 84% from 2001 to 2007. The second largest export item was business service, whose share also fluctuated between 6.5% and 11.8%. Export incomes from royalties and license fees decreased along the years up to 2003; since

then, they had increased slightly but declined once again in 2007. Meanwhile in service imports, business service, transportation service, and travel constitute about 46.2%, 44.8%, and 5.1% of total imports in 2007, respectively.

Table 4.6 Korea's Service Exports to Latin America by Sectors (as % of total)

Item	2001	2002	2003	2004	2005	2006	2007
Transportation	82.3	80.2	80.4	73.5	72.4	83.5	84.7
Travel	4.0	6.2	3.1	2.2	2.6	3.3	0.9
Communication	0.5	0.6	0.7	0.3	0.2	0.2	0.2
Insurance	0.5	-0.1	0.0	0.1	0.2	0.4	0.3
Royalties	0.2	0.1	0.1	0.3	0.5	1.0	0.3
Business Service	10.7	11.8	7.6	7.1	6.5	6.5	6.6
Government Service	0.9	1.1	1.2	1.1	0.9	0.9	1.3
Others	0.8	0.3	6.9	15.4	16.7	4.3	5.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Korea

Table 4.7 Korea's Service Imports from Latin America by Sectors (as % of total)

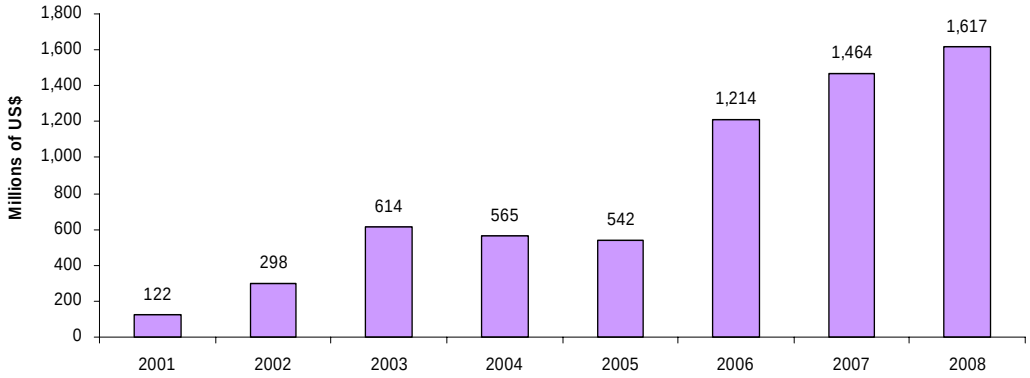
Item	2001	2002	2003	2004	2005	2006	2007
Transportation	22.9	23.9	26.8	28.1	40.9	59.4	44.8
Travel	6.1	2.4	4.9	0.9	6.1	5.1	5.1
Communication	2.5	1.4	1.2	0.6	0.8	0.8	0.4
Insurance	5.9	8.8	4.5	1.0	1.9	0.1	1.0
Royalties	0.2	0.3	0.1	0.7	0.3	0.0	0.1
Business Service	59.6	60.4	60.0	66.3	47.8	52.3	46.2
Government Service	2.5	2.4	1.7	1.6	1.7	1.5	1.9
Others	0.3	0.5	0.8	0.7	0.5	0.7	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Korea

4.3 BILATERAL INVESTMENT

Along with the general rise of FDI outflow from Korea to the world as a whole, Korea's investment in the Latin American region has maintained a continuous increase as well. Korea's FDI in Latin America increased from US$ 121.6 million in 2001 to US$ 1616.9 million in 2008. The absolute amount has increased, but, due to the worldwide financial crisis, the growth rate for investment in 2008 slowed from that of the previous year.

Chart 4.9 Korea's Outward FDI to Latin America (millions of US$)



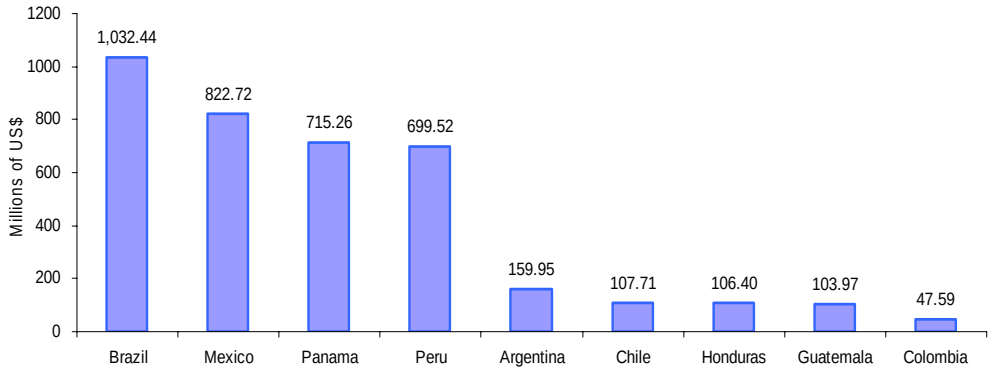
Source: Export-Import Bank of Korea

Some notable characteristics of FDI outflow from Korea to Latin America are that large scale investments have been increasing. These investments are not confined to traditional labor-intensive manufacturing sectors, but also involve more technology-intensive and natural resource-oriented industries. The economic impact derived from such trends will not be negligible to the domestic economies in Latin America in terms of employment, enhancing industrial structure, and technology transfer. Korea's investments to Latin America are expected to play a more important role.

Meanwhile, Brazil was the largest recipient of Korea's FDI among Latin American countries, receiving US$ 1032.4 million up to March, 2009. In 2008, investment in resource development, manufacturing, and wholesale and retail trade, especially in Mexico and Panama increased. Although investment in the mining sector decreased by 37.2% last year, the invested amount in crude oil, natural gas, and quarrying by SK energy, Posco, and Korea Gas Corporation constituted a large portion. In the case of

Colombia, it received US$ 47.6 million of Korea's FDI and Mexico US$ 822.7 million.

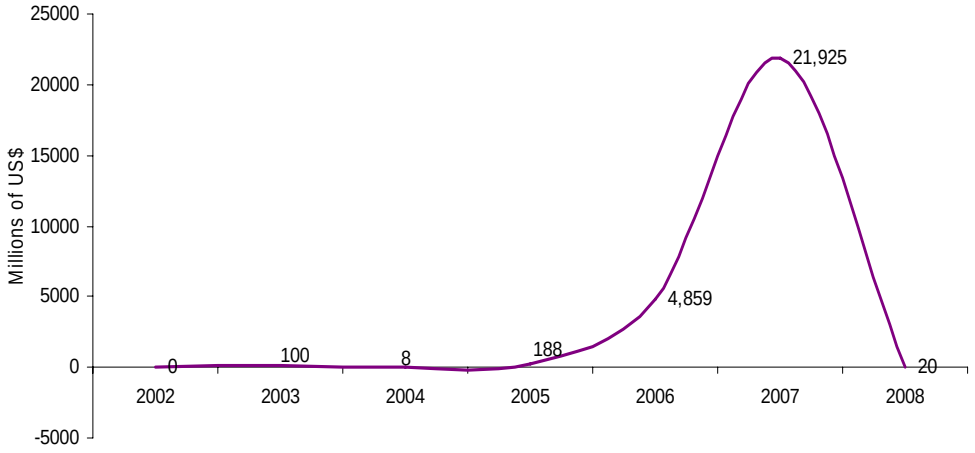
Chart 4.10 Korea's accumulated Outward FDI to Latin American Countries, ~March 2009 (millions of US$)



Source: Export-Import Bank of Korea

Korea's investment to Colombia reached a peak in 2007 with US$ 21,925 but declined sharply in 2008. The sudden increase in 2007 was due to large scale investments in wholesale and retail trade with one number of acceptances, recording almost US$ 22 million.

Chart 4.11 Korea's Outward FDI Korea to Colombia (thousands of US$)



Source: Export-Import Bank of Korea

Table 4.8 Korea's Outward FDI to Colombia by sector, ~March, 2009 (thousands of US$)

Total	47,594
Wholesale and retail trade	41,268
Manufacturing	5,623
Mining and quarrying	515
Information and communications	79
Arts, sports and recreation related services	100
Business facilities management and business support services	8

Source: Export-Import Bank of Korea

Korea's major investment sectors in Colombia can be categorized into 6 sectors: wholesale and retail trade, manufacturing, information and communications, arts, sports and recreation related services, and business facilities management and business support services. However, as worldwide investment in mining, manufacturing, and wholesale and retail trade sectors all decreased in 2008, Colombia was also affected by the movement, resulting in a much reduced amount of inward FDI from Korea.

The intrinsic needs of the Korean firms originated from cost and market factors, and at the same time the overall improvement of the Latin American economy coming from the growing domestic market potential due to the increase in the middle-income class, are important elements that give more incentive for Korean firms to invest in Latin America.

4.4 KOREAN ENTERPRISES IN COLOMBIA

During the past five years, Colombia has improved its business environment. Agencies examining the economy showed improvement in Colombia's confidence index. For 2008, S&P, one of the most prestigious risk examining agencies, evaluated Colombia as BB+ rating in regards to its long term foreign currency debt. International companies including SAB Miller, Drummond, Votorantim, Phillip Morris, and GE Money were among the many to invest in multimillion dollar projects in Colombia.[3]

Moreover, according to “Doing Business 2009”, Colombia is the country with the second best business environment in Latin America. These incentives include: Free Trade Zones that are the most competitive in Latin America because they offer up to a 50% tax breaks on sales into the local market, legal stability contracts, and a 40% tax deduction on the cost of purchased machinery. Such an environment provides favourable conditions for investing in Colombia.[4]

Based on Korea Trade-Investment Promotion Agency, 6 Korean enterprises have established themselves in Colombia.

LEO-KON Korea Ltda

Leo Kon Korea is a leading trading company that specializes in business in Central and South American region. It has offices in South Korea, Colombia, and Ecuador and all of them are corporate companies in each country. They branched out into Bogota in 2004 and have 8 employees at the moment. Focusing on Resins & Chemicals, Tele-communications, and AFC System and features them as its main products, Leo Kon Korea has grown steadily over the years since the founding of the company, trying to develop business models that are most profitable in the Central and South American region.

For Resins & Chemicals, Leo- Kon Korea handles petrochemical products such as HDPE (High Density Polyethylene) which is used for making general house wares, rope, pipes, PVC (Polyvinyl Chloride), Polyester film, etc. The company is the major distributor of petrochemical products including resin and oil manufactured by refineries

[3] http://www.investincolombia.com.co
[4] http://globalwindow.org

inside and outside Korea. Moreover, the company offers telecommunication products like fixed wireless phones, fixed wireless terminals, wireless pay phones, and USB modems. In the case of Automated Fare Collection, it provides bus management systems and bus information systems.

LG Electronics Colombia S.A

LG Electronics plays an active role in world markets with its assertive global business policy. As a result, LG Electronics controls 114 local subsidiaries worldwide, with roughly 82,000 executives and employees. It was established in 1958 and has since led the way into the advanced digital era thanks to the technological expertise acquired by manufacturing many home appliances such as radios and TVs. LG Electronics Colombia made inroads into Bogota in 1999 which has 121 workers now, and it has dominated the home appliances market, even ranking at the top in 2004.

Samsung Electronics Colombia S.A

Samsung has grown to become one of the world's leading electronics companies, specializing in digital appliances and media, semiconductors, memory, and system integration. Today Samsung's innovative and top quality products and processes are world recognized. In Latin America, so far through its audio/video products, Samsung has established its image as a top quality electronics maker; thus, company officials expect the same kind of mutual recognition to be achieved through its home appliances. Samsung Electronics branched out into Colombia in 1997 and along with LG Electronics, the companies not only command the home appliances market, but also the cellular phone, LCD, and Projection TV markets as well. Recently, sales of new IT products showed marked improvement as well.

CERAGEM Colombia S.A

CERAGEM was established in 1998 and now is the largest provider of high quality thermal massagers. CERAGEM centers are located in over 50 countries throughout the world, including U.S., China, Germany, Chile, Turkey, Russia, and various parts of the Middle East. In Colombia, it was first established in 2005; hence, 23 centers were opened with 123 employees and has been the model of a successful overseas enterprise during the recession.

Hyundai Motor Bogota Office

In recent years, Hyundai has experienced tremendous growth, establishing a global management and quality improvement system, based on our mid–and long–term vision of "innovation for customers." Hyundai has been selected as one of the top 100 global brands three years in a row and has now truly become a global automobile maker, receiving positive reviews from many independent evaluation agencies and the mass media. Since its startup in September 1992, Hyundai Colombia has positioned itself as the first imported car in the market.

Hyundai Corporation Bogota Office

Hyundai Corporation is Korea's leading general trading house, providing export and import services with a wide variety of products ranging from ocean-going vessels, plants and machinery, automobiles, steel and chemical products, to electronic products and general commodities. Combining its 34 worldwide offices and prompt and extensive information-gathering capability with advanced trading techniques and financing ability, Hyundai Corporation produces an optimum solution to its customers' various requirements.

Since 1980, Hyundai Corporation Bogota Office has realized numerous successes in such business fields as new shipbuilding of containerships, oil tankers, naval ships, construction of power plants and environmental plants in Colombia and other Latin American countries. In addition, we are specialized in sourcing automobiles, steel, chemical products and electronic goods. Now, the office is keen on developing natural resources and agricultural products from Latin America to create mutual prosperity.

5. TRADE AND INVESTMENT POLICIES AND FTAs

5.1 STATUS OF KOREA'S FTAS WITH OTHER COUNTRIES

Korea is one of the countries that benefited the most from the multilateral trading system and its economic development has been achieved through trade with foreign economies. In 2008, Korea's trade value exceeded 90% of its GDP. As a trade-oriented economy, it is necessary for Korea to maintain and enlarge its export markets. Recently in the world economy, regionalism has been accelerated based on Free Trade Agreements. While remaining a strong supporter of the multilateral trading system, Korea aims to pursue FTAs that are complementary and go beyond the WTO liberalization. As part of such an attempt and to make up for their relatively late participation into the FTA race, Korea has been pursuing multiple negotiations simultaneously since 2003.

FTAs of Korea would fall into a relatively high-level in terms of degree of liberalization, and comprehensive in terms of coverage and scope. In addition to eliminating the tariffs, Korea's FTA policies focus on investment, trade in services -- especially for telecommunication services, intellectual property protection, and cooperation in science and technology.

Currently, Korea has four FTAs with 14 countries in force, FTA negotiations with the United States and India have been concluded, and FTA negotiations with 46 other countries are in process.

Table 5.1 Current Situation of Korea's FTAs

No.	Name of Free Trade Agreement	Progress
1	Korea-Chile FTA	Entry into Force since 1st Apr. 2004
2	Korea-Singapore FTA	Entry into Force since 2nd Mar. 2006
3	Korea-EFTA FTA	Entry into Force since 1st Sep. 2006
4	Korea-ASEAN FTA in Goods	Entry into Force since 1st Jun. 2007
5	Korea-ASEAN FTA in Services	Entry into Force since 1st May. 2009
6	Korea-ASEAN FTA in Investment	Signed the agreement 2nd Jun. 2009
7	Korea-US FTA	Signed the agreement 30th Jun. 2007
8	Korea-India CEPA	Signed the agreement 7th Aug. 2009
9	Korea-EU FTA	Concluded
10	Korea-Canada FTA	Negotiations Ongoing
11	Korea-Mexico SECA	Negotiations Ongoing
12	Korea-Japan FTA	Negotiations Ongoing

13	Korea-GCC FTA	Negotiations Ongoing
14	Korea-Australia FTA	Negotiations Ongoing
15	Korea-New Zealand FTA	Negotiations Ongoing
16	Korea-Peru FTA	Negotiations Ongoing
17	Korea-China FTA	Joint Study Ongoing
18	Korea-MERCOSUR FTA	Joint Study Ongoing
19	Korea-Turkey FTA	Joint Study Ongoing
20	Korea-Russia BEPA	Joint Study Ongoing
21	Korea-Colombia FTA	Joint Study Ongoing
22	Korea-Israel FTA	Joint Study Ongoing

Source: MOFAT (Ministry of Foreign Affairs and Trade)

a. Korea-Chile Free Trade Agreement

The Korea-Chile FTA was concluded on February 15, 2003 and entered into force on April 1, 2004. The Korea-Chile FTA is the first FTA that Korea has concluded and changed the paradigm of trade policy in Korea. Furthermore, the negotiation experience has played a constructive role in subsequent free trade negotiations with Singapore, EFTA and recently, the U.S., among others. As the first FTA with a Latin American country, Korea-Chile FTA will contribute to further negotiations with other countries in the region.

For the last five years since the entry-into-force of the FTA, bilateral trade volume of the two countries and Korea's export to Chile have more than tripled, respectively. According to the tariff elimination schedule, both countries will be phasing out most of their tariffs on about 96% of all goods within 10 years. Korea has a comparative advantage in industrial products such as telecommunication equipments, automotive and electronic products, whereas Chile has its competitiveness in raw materials and agricultural products such as copper, grapes and pulp.

b. Korea-Singapore Free Trade Agreement

The Korea-Singapore FTA was concluded on August 4, 2005 and entered into force on March 2, 2006.

Korea is to eliminate tariffs on 91.6% of all goods within 10 years, while Singapore is to eliminate tariffs on 100% of all goods immediately upon the effectuation of the agreement.

The Korea-Singapore FTA first made a formal recognition of “internal” trade between North and South America. Moreover, the FTA grants preferential tariffs on goods produced in the special economic zones in North Korea equal to the preferential treatment it grants to the goods produced in the territory of South Korea.

Singapore acts as a solid international hub for logistics, finance and business and is a promising destination for investments by multinational corporations. Thus, Korea expects to increase the competitiveness of its service sector and attract more foreign investments. Furthermore, Singapore will play a role as a gateway into Southeast Asian markets for the Korean economy to make inroads.

c. Korea-EFTA Free Trade Agreement

Korea-EFTA FTA was concluded on July 12, 2005 and entered into force on September 1st, 2006. EFTA is the European Free Trade Association which constitutes 4 countries -- Iceland, Norway, Switzerland, and Liechtenstein – all of which are non-members of the EU.

d. Korea-ASEAN Free Trade Agreement

The Framework Agreement on Comprehensive Economic Cooperation among the governments of the member countries of the Association of Southeast Asian Nations and the Republic of Korea was signed in Kuala Lumpur, Malaysia on the thirteenth day of December 2005.

The Trade in Goods Agreement of the Korea-ASEAN Free Trade Agreement (FTA) was signed in August, 2006 and entered into force on June 1, 2007. With the entry into force of the agreement, 63% of all the goods imported into Korea from Malaysia, Singapore, Myanmar, and Vietnam enjoy the benefit of immediate tariff elimination and 45% of all Korean goods exported to these countries enjoy low tariffs of 0-5%. Meanwhile, the Trade in Goods Agreement did not apply to Thailand because Thailand was unable to participate in the negotiations. But on the 18th of Dec. 2007, Thailand signed the Agreement. Korea and ASEAN also signed a services trade agreement on November 2007.

Agreement on Trade in Services under the Framework Agreement on Comprehensive Economic Cooperation was signed in Singapore on November 21, 2007

Moreover, Korea and ASEAN signed a free trade agreement in investment on June 2nd, 2009, a process that had dragged on for four years.

When the investment deal comes into effect, combined with previously ratified Korea-ASEAN FTAs for merchandise and services, bilateral trade and investment between Korea and ASEAN is expected to increase.

e. Korea-US Free Trade Agreement

The Korea-US FTA was concluded on April 2nd, 2007. The Korea-US FTA comprehensively covers a wide range includes all trading sectors and although not as significant, the services sector; thus it will become the world's third largest trade block following EU and NAFTA.

Tariff on goods will be eliminated by 100% by time schedule and for 94% of import goods, based on import value; tariffs will be eliminated within 3 years with the only exception being rice. According to the elimination of tariffs, it is expected that market share of Korea's main exporting goods will increase. Also, there is the potential for trade creation.

For the short term, the following goods are expected to increase its market share in the United States: Automobiles, LCD monitors, Camcorders, TV cameras, Audio Amps, Polystyrenes, Metal-cutting and processing machineries, ear phones, epoxy resins and color TVs.

Free Trade Agreement between Republic of Korea and United States of America was signed in Washington on June 30, 2007

In the mean time, ratification that needs congressional approval remains a problem as there is controversy on who should do what first.

f. Korea-India CEPA

Korea and India signed a Comprehensive Economic Partnership Agreement in Seoul on August 7, 2009. The free trade agreement is expected to take effect next January after the Korean parliament ratifies the deal in October. In India, the cabinet approved the signing of CEPA last month.

The trade deal, which comes after more than three years of negotiations, commits the two countries to lowering or eliminating import tariffs on a wide range of goods over the next 10 years and expands opportunities for investments and exchanging services. Korea is to phase out or reduce tariffs on 90% of Indian goods over the next decade while India will phase out or cut tariffs on 85%of Korean goods.

The CEPA is expected to boost bilateral trade by as much as US$ 3.3 billion annually. The two-way trade between Korea and India reached US$ 15.56 billion last year, a 35% increase over the previous year, with Korea recording a surplus of US$ 2.39 billion.

Comprehensive economic partnership agreement between the Republic of Korea and the Republic of India was signed on August 7, 2009

5.2 STATUS OF COLOMBIA'S FTAS WITH OTHER COUNTRIES

Recently, Colombia is trying to expand its trade volume with foreign economies through bilateral trade agreements. Colombia aims to pursue 9 FTAs with 45 countries by 2010, and is trying especially to find access to new markets, such as the US, EFTA, and Canada.

Currently, Colombia has four FTAs with 9 countries in force, and FTA negotiations with US, North Triangle, Canada and EFTA have been concluded.

Table 5.2 Current Situation of Colombia's FTAs

No.	Name of Free Trade Agreement	Progress
1	Colombia-CAN(Bolivia, Ecuador, Peru) FTA	Signed the agreement 26th May. 1969
2	Colombia-G2(Mexico) FTA	Entry into Force since 1st Jan. 1995
3	Colombia-MERCOSUR FTA	Entry into Force since 1st Feb. 2005 (Brazil, Argentina, Uruguay) Entry into Force since 19th Apr. 2005 (Paraguay)
4	Colombia-Chile FTA	Entry into Force since 8th May. 2009
5	Colombia-US FTA	Signed the agreement 22th Nov. 2006
6	Colombia-North Triangle(Guatemala, Honduras, El Salvador) FTA	Signed the agreement 9th Aug. 2007
7	Colombia-Canada FTA	Signed the agreement 21th Nov. 2008
8	Colombia-EFTA(Swiss, Norway, Ireland, Liechtenstein) FTA	Signed the agreement 25th Nov. 2008
9	CAN-EU FTA	Negotiations Ongoing by Countries
10	Colombia-Korea FTA	Joint Study Ongoing

Source: MOFAT (Ministry of Foreign Affairs and Trade)

a. Colombia-CAN Free Trade Agreement

The Andean Community is today a sub-regional organization with international legal status comprising Bolivia, Colombia, Ecuador and Peru.

In 2008, Colombia's export and import volume with the Andean Community countries amounted to US$ 2,456 million and US$ 1,697 million, respectively. The member countries' intra-regional export volume amounted to 7% of the total exports.

b. Colombia-G2 (Mexico) Free Trade Agreement

The Group of Three (G3), made of Colombia, Mexico, and Venezuela signed a FTA in 1994. The countries tried to expand market access through gradual reduction in tariffs.

The signing of the G3 FTA created a new free trade zone with 100 million consumers. Currently, the tariff on 92% of all goods was eliminated, with the only exception being agricultural products.

In 2004, Panama requested inclusion into the G3 and in 2006 Venezuela withdrew from the agreement.

c. Colombia-MERCOSUR Free Trade Agreement

The FTA between Colombia (the Andean Community) and the member states of MERCOSUR was signed on 18 October 2004. This agreement evolved out of the Andean Community-MERCOSUR negotiations, which were initiated on 16 April 1998 with the signing of the framework agreement towards the creation of a free trade area between the Andean Community and MERCOSUR.

The Agreement entered into force on 01 February 2005 among Colombia - Uruguay, Argentina, and Brazil, and on 19 April 2005 between Colombia and Paraguay.

d. Colombia-Chile Free Trade Agreement

Chile and Colombia concluded free trade negotiations on October 30, 2006 after two rounds of negotiation: the first one in Santiago de Chile, on October 9-14; and the second one in Baranquilla, Colombia on October 23-27, 2006. The free trade agreement was signed on November 27, 2006 in Santiago de Chile.

On 15 January 2008 the Chilean Senate's commissions on Foreign Affairs and Treasury approved the Chile-Colombia FTA, and the FTA entered into force on 08 May 2009.

e. Colombia –US Free Trade Agreement

Colombia-US FTA was signed on November 22, 2006. The agreement is a comprehensive free trade agreement. When the Colombia FTA enters into force, Colombia will immediately eliminate most of its tariffs on US exports, with all remaining tariffs phased out over defined time periods.

The Colombia FTA also includes important disciplines relating to customs administration and trade facilitation, technical barriers to trade, government procurement, investment, telecommunications, electronic commerce, intellectual property rights, and labor and environmental protection.

US firms will have better access to Colombia's services sector than other WTO Members have under the General Agreement on Tariff and Trade. All service sectors are covered under the FTA except where Colombia has made specific exceptions.

f. Colombia-EFTA Free Trade Agreement

In 2006, Colombia and the EFTA member states - Iceland, Liechtenstein, Norway and Switzerland - signed a Declaration on Cooperation. The objectives of the Declaration were to enhance economic relations and to establish a framework for the expansion, diversification and liberalization of trade and investment.

The Declaration establishes a Joint Committee to review cooperation in areas referred to in the Declaration, to discuss areas of mutual interest and to formulate appropriate recommendations on cooperation.

In 2007, Colombia and the EFTA States announced their decision to launch free trade negotiations. Colombia and EFTA concluded free trade negotiations on 12 June 2008 after five rounds of negotiation. The Colombia-EFTA FTA was signed in Geneva, Switzerland on 25 November 2008.

5.3 TARIFF LEVEL COMPARISON BETWEEN KOREA AND COLOMBIA

5.3.1 TARIFF OF KOREA

The types of tariffs applied by Korea include the Most Favored Nation Tariff Rate and the Preferential Tariff Rate. The M.F.N Tariff Rate is the actual applied tariff rate among the General Tariff Rate, Provisional Tariff Rate, WTO Concessionary Tariff Rate and Concessionary Tariff Rate under bilateral tariff negotiation. The Preferential Tariff Rate, which is applied only to contracting parties, is one of the International Cooperation Tariffs that reflects the results of negotiations with international organizations such as UNCTAD, ESCAP and GATT. Currently Korea applies one Preferential Tariff Rate to Colombia for certain products by the Concessionary Tariff Rate under the Agreement on the Global System of Trade Preferences (GSTP) by UNCTAD.

In 2008, the average applied tariff rate of Korea is about 11.8% in the case of simple average, and 7.2% when weighted by average imports of 2008. When separating the sectors into agriculture and non-agriculture, tariff in agriculture is higher than non-agriculture. The average tariff rates in agriculture and non-agriculture are 50.0% and 7.4% respectively in case of simple average, and 116.2% and 3.6% respectively in case of weighted by imports. About 99.3% of tariffs are ad-valorem. In agriculture and non-agriculture, 3.4% and 0.4% of tariff are non-ad-valorem respectively. In terms of tariff distribution, zero-tariff rates are 15.7% of total tariff rates.

Table 5.3 Korea's Tariff Profile[5], 2008

Summary	Agriculture	Non-agriculture	Total
Simple average MFN applied (%)	50.0	7.4	11.8
Import weighted average (%)	116.2	3.6	7.2
Imports in billion US$	14.0	421.2	435.3
Non-ad-valorem duty (%)	3.4	0.4	0.7
Duty Free (%)	3.5	17.2	15.7

Source: WTO and KITA (Korea International Trade Association)

[5] Non ad-valorem duty is not considered in the calculation of average duty. The calculation is based on the imports of HS6 headings.

Table 5.4 Korea's Tariff by industry[6], 2008

Industry	Number of Tariff Lines	Number of non-AV tariff	Simple average Tariff rate (%)	Duty free Tariff lines (%)
Animal & Animal Products	588	1	20.1	3.2
Vegetable Products	693	43	77.0	3.8
Foodstuffs	513	1	23.5	0.6
Mineral Products	345	0	3.5	14.2
Chemicals & Allied Industries	2,311	30	7.7	7.3
Plastics / Rubbers	379	0	6.9	2.6
Raw Hides	281	0	8.1	0.0
Wood & Wood Products	566	0	3.1	51.4
Textiles	1,295	5	9.6	2.4
Footwear / Headgear	104	0	10.2	0.0
Stone / Glass	430	0	7.0	1.4
Metals	988	0	4.3	38.2
Machinery / Electrical	2,038	1	5.7	27.1
Transportation	344	0	5.9	23.3
Miscellaneous	960	0	5.9	25.7
Total	11,835	81	11.8	15.7

Source: WTO and KITA (Korea International Trade Association)

Table 5.4 indicates Korea's tariff rates by industry. The tariff rates in agriculture, which is composed of animal, animal products and vegetable products, are higher than in other sectors. The highest simple average tariffs are applied to vegetable products and the rate is 77.0%. The second highest rate is for foodstuffs, which is 23.5%. The tariff rate for animal and animal products is 20.1%. Among 11,835 of tariff lines with HS 6 digit headings, non-ad-valorem tariff are applied to 81 products.

[6] 1. Non-ad-valorem duty is not considered in the calculation of average duty.
2. The tariff data is based on HS 6 digit headings

Table 5.5 Korea's Tariff by HS Sections[7], 2008

Section	Description	Average Tariff		Import	
		Simple	Import weighted	value (mill. US$)	share (%)
Section I	Live Animals, Animal Products	20.1	23.1	5,158	1.2
Section II	Vegetable Products	89.2	194.8	7,724	1.8
Section III	Animal / Vegetable Fats, Oils, Waxes	9.4	5.8	1,150	0.3
Section IV	Prepared Foodstuffs ; Beverages, Spirits, Tobacco	23.5	19.3	6,052	1.4
Section V	Mineral Products	3.5	2.6	154,783	35.6
Section VI	Chemicals & Allied Industries	7.7	5.5	31,388	7.2
Section VII	Plastics, Rubbers	6.9	6.2	9,971	2.3
Section VIII	Raw Hides, Skins, Leather, Furs	8.1	6.3	1,913	0.4
Section IX	Wood & Wood Charcoal, Cork, Straw, Plaiting Materials	5.5	4.4	2,610	0.6
Section X	Wood Pulp, Paper, Paperboard	0.1	0.1	3,975	0.9
Section XI	Textiles & Textile Articles	9.6	10.0	8,746	2.0
Section XII	Footwear, Headgear, Umbrellas, Walking Sticks, Riding Crops	10.2	12.0	1,199	0.3
Section XIII	Stone, Plaster, Cement, Asbestos, Mica, Ceramic, Glass & Glassware	7.7	7.6	4,959	1.1
Section XIV	Pearls, Precious Stones / Metals ; Imitation Jewelry; Coins	5.2	3.6	3,532	0.8
Section XV	Base Metals	4.3	1.5	58,353	13.4
Section XVI	Machinery & Mechanical Appliances; Electrical Equipment / Appliances	5.7	3.3	103,439	23.8
Section XVII	Vehicles, Aircraft, Vessels, Transportation Equipment	5.9	4.7	12,643	2.9
Section XVIII	Optical / Photographic / Measuring / Checking / Precision Instruments	6.6	5.8	13,067	3.0
Section XIX	Arms & Ammunition	3.7	0.3	491	0.1
Section XX	Miscellaneous Manufactured Articles	5.3	4.8	3,396	0.8
Section XXI	Works Of Art, Collectors' Pieces, Antiques	0.0	0.0	723	0.2
Total		11.8	7.2	435,273	100.0

Source: WTO and KITA (Korea International Trade Association)

[7] 1. Non-ad-valorem duty is not considered in the calculation of average duty.
2. The tariff data is based on HS 6 digit headings

5.3.2 TARIFF OF COLOMBIA

Tariffs are the main means of border protection in Colombia's trade. Since 1990 Colombia has used the single text of the Andean countries' Common Tariff Nomenclature (NANDINA). At the end of 2007, Colombia's tariff nomenclature consisted of 7,223 10-digit subheadings. Under the Andean Price Band System, Colombia applies import duties that increase or decrease in response to international price fluctuations to imports of various agricultural products. Colombia does not apply seasonal tariffs.

The tariff applied by Colombia is based on the Andean tariff structure (Decision No. 370). This establishes four levels of 5%, 10%, 15%and 20% within which the tariffs increase in accordance with the degree of processing of the goods. The tariffs on cars constitute an exception to this structure with an applied tariff of 35%. Other exceptions are made for certain raw materials, inputs and capital goods not produced in the Andean sub-region. The application of CAN Decision No. 535, which aims to bring 62% of the tariff universe within the Common External Tariff (CET), has been repeatedly postponed. In February 2006, the Andean countries announced that they would again be postponing the implementation of the CET for one year.

Tariff Quota

Colombia has the right to operate tariff quotas under the commitment on minimum access opportunities contained in the WTO Agreement on Agriculture. Colombia has notified the WTO that in 2005 it operated tariff quotas for maize (yellow and white), rice (in the husk, husked, semi-milled or wholly milled, broken), sorghum, soya beans, cotton, meat of bovine animals (fresh, frozen, edible offal) and poultry cuts. Colombia also maintains tariff quotas for agricultural products in the preferential agreement signed with MERCOSUR.

Bound Tariff

Colombia has bound its entire tariff universe in the WTO. In these bindings the tariff rates fluctuate between 15% and 227%. The average final bound rates were: 43.1% for all products, 92.7% for agricultural products and 35.4% for non-agricultural products

With some exceptions, the tariffs on non-agricultural products were bound at 35%. A bound tariff of 40% is maintained on vehicles, some textiles and made-up clothing, leather and footwear. Twenty-two subheadings of the chemicals, plastics and rubber group maintain a bound tariff of 30%.

Tariff concessions

In addition to its export promotion schemes (Special Import-Export Systems, Free Zones and Special Economic Export Zones), Colombia operates several special customs regimes that offer tariff concessions to importers. These regimes provide for relief from payment of duties and other taxes on goods imports under certain conditions.

Tariff Preferences

Colombia grants duty-free treatment to all imports from Bolivia, Ecuador, Peru and Venezuela, provided that they comply with the rules of origin. Colombia also grants tariff preferences to imports from other countries within LAIA.

The average preferential tariffs applied vary from 0% for Andean partners to 0.6% for Chile, 1.2% for Mexico and 9.5% for CARICOM countries. The tariffs applied to agricultural products are substantially higher than those applied to non-agricultural products with the relative exception of CARICOM. For agricultural products, the preferential margins are about 16% for Andean countries and 12% for Chile. High tariff rates apply to fish, textiles and transport equipment and there is tariff escalation between primary products and those with greater value added.

Applied Tariff

Almost all (except 1 product) customs duties are ad valorem in 2007. The simple average MFN applied tariff rate is 12.1% for all products. Agricultural products at 17.8% have a higher average tariff rate than other products which have a tariff rate of 11.4%. 3.3% of total products are applied zero tariffs but there are no duty free products in the agricultural sector.

Table 5.6 Colombia's Tariff Profile, 2007[8]

Summary	Agriculture	Non-agriculture	Total
Simple average MFN applied (%)	17.8	11.4	12.1
Import weighted average (%)	16.1	11.8	12.1
Imports in billion US$	2.0	30.6	32.6
Non-ad-valorem duty (%)	0.1	0.0	0.0
Duty Free (%)	0.0	3.7	3.3

[8] The calculation is based on the imports of HS6 headings.

Source: WTO and UN COMTRADE

Table 5.7 indicates simple and weighted average tariff by HS Sections. Tariffs on Live Animals and Animal Products record the highest which is 21.8% in simple average. For Mineral Products, Chemicals and Allied Industries, the rates are lowest.

Table 5.7 Colombia's Tariff by HS Sections, 2007

Section	Description	Average Tariff		Import	
		Simple	Import weighted	Value (mill. US$)	Share (%)
Section I	Live Animals, Animal Products	21.8	23.6	137	0.4
Section II	Vegetable Products	14.7	15.0	1,665	5.1
Section III	Animal / Vegetable Fats, Oils, Waxes	17.4	19.5	245	0.8
Section IV	Prepared Foodstuffs; Beverages, Spirits, Tobacco	18.4	17.0	1,086	3.3
Section V	Mineral Products	6.2	8.9	1,035	3.2
Section VI	Chemicals & Allied Industries	6.6	7.1	4,950	15.2
Section VII	Plastics, Rubbers	13.5	14.0	2,031	6.2
Section VIII	Raw Hides, Skins, Leather, Furs	12.4	17.8	82	0.3
Section IX	Wood & Wood Charcoal, Cork, Straw, Plaiting Materials	12.5	14.6	110	0.3
Section X	Wood Pulp, Paper, Paperboard, Scrap/Waste Paper	12.6	11.6	859	2.6
Section XI	Textiles & Textile Articles	18.1	17.1	1,322	4.1
Section XII	Footwear, Headgear, Umbrellas, Walking Sticks, Riding Crops	18.8	19.9	237	0.7
Section XIII	Stone, Plaster, Cement, Asbestos, Mica, Ceramic, Glass & Glassware	13.9	14.7	364	1.1
Section XIV	Pearls, Precious Stones / Metals ; Imitation Jewelry; Coins	11.1	16.5	34	0.1
Section XV	Base Metals	10.6	9.4	3,292	10.1
Section XVI	Machinery & Mechanical Appliances; Electrical Equipment / Appliances	9.4	8.5	8,647	26.5
Section XVII	Vehicles, Aircraft, Vessels, Transportation Equipment	14.2	20.7	4,932	15.1
Section XVIII	Optical / Photographic / Measuring / Checking / Precision Instruments	7.1	6.5	945	2.9

Section XIX	Arms & Ammunition	17.5	19.0	149	0.5
Section XX	Miscellaneous Manufactured Articles	17.9	17.9	473	1.5
Section XXI	Works Of Art, Collectors' Pieces, Antiques	20.0	20.0	1	0.0
Total		12.1	12.1	32,597	100.0

Source: WTO and United Nations Commodity Trade Statistics Database

5.4 TRADE AND INVESTMENT POLICIES OF KOREA AND COLOMBIA[9]

KOREA

Korea strongly supports the rules-based multilateral trading system of the WTO. Since its accession to the GATT in 1967, and as one of the greatest beneficiaries of the open multilateral trading system, Korea has been fully committed to the successful conclusion of the Doha Development Agenda (DDA) negotiations. The slow progress made in the current DDA negotiations was a cause of worry for Korea. Giving primary priority of its trade policy to the DDA negotiations, Korea has been playing an active and constructive role in the DDA negotiations in an effort to promote further liberalization and strengthen the rules and disciplines of the WTO system. It has so far tabled over 140 proposals and submissions. Korea will continue to make efforts to help move the multilateral trade agenda forward.

Korea is also actively engaged in regional cooperation mechanisms, including the Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), and ASEAN+3 processes. Korea was the host economy of APEC in 2005, the year in which member economies were scheduled to conduct a mid-term review of the progress towards the Bogor Goals to achieve free and open trade and investment in the Asia-Pacific region.

The ultimate objective of the Korean government's trade policy is to move Korea toward an advanced market economy. In order to accomplish this task, Korea will continue to vigorously pursue liberalization and domestic reforms in a mutually reinforcing manner. Domestic reform will be undertaken to enhance greater efficiency, market discipline, transparency, and fair competition in the Korean economy. Simultaneously, Korea will continue to engage in a greater opening of the economy through combined efforts on the multilateral, regional, and bilateral fronts. This market opening will likely stimulate domestic reform, which will, in turn, give rise to further liberalization.

[9] This information is based on the latest Trade Policies Reviews of the World Trade Organization of Korea (2008)

5.4.1 Non-Tariffs

Import licensing, quotas, and prohibitions

Licensing

In addition to the Foreign Trade Act, 48 separate laws stipulate requirements for approval or authorization of certain items, which can be imported by obtaining certification, permission, and type approval.[10] These requirements are maintained mostly for the protection of public morals; human health, hygiene, and sanitation; animal and plant life; environmental conservation; or essential security interests, in compliance with domestic legislation requirements or international commitments. To enhance transparency and for the convenience of trading companies, the Consolidated Public Notice, containing all export and import certification requirements stipulated in the 48 separate laws, is updated by MKE semi-annually. These requirements cover about 1,000 tariff items, including petroleum, LPG, agricultural fertilizers, crop seeds, animals and animal products, nuclear materials, narcotics, foods and food additives, foreign publications, firearms, and explosives.

Fourteen ministries and/or agencies oversee the implementation of the certification, permission, and type approval requirements.[11] According to the authorities, import licence applications are screened or checked in a "fair" manner by the relevant government agency or producer association commissioned by that agency to ensure that the product meets import requirements. The Ministry of Environment is responsible for import and export permits of endangered species. Korea belongs to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

Since 2004, Korea has submitted regular Replies to the Questionnaire on Import Licensing Procedures to the WTO Committee on Import Licensing; its latest notification was on 24 September 2007.[12]

Quotas

Only rice remains subject to import quota restrictions under Korea's WTO minimum market access (MMA) commitments under Annex 5 of the WTO Agreement on

[10] WTO document G/LIC/N/3/KOR/6, 27 September 2007.
[11] More information on the institutional setting and product coverage of the import licensing regime may be found at WTO document G/LIC/N/3/KOR/6, 27 September 2007.
[12] WTO document G/LIC/N/3/KOR/6, 27 September 2007.

Agriculture (so-called "special treatment"), which permitted the continuation of quota restrictions with a growing MMA undertaking over a ten-year period (i.e. until 2004).[13]

In 2004, Korea negotiated a ten-year extension of the MMA arrangement. Under the re-negotiated arrangements, Korea is obliged to import close to 8% of its domestic consumption of rice by 2014. The extension called for Korea to double its total rice imports over the ten years from 2004, increasing the MMA quota from 205,228 tonnes (on a milled basis) to 408,700 tonnes in 2014.[14] Under the revised arrangements rice imports available for table consumption should increase from 10% of the quota in 2005 to no less than 30% by 2010.

Prohibitions

Korea prohibits a few imports, mainly to protect health, safety, security, public morality, the environment, and natural resources, and to prevent deceptive practices, in accordance with multilateral trade and other agreements, according to the authorities. Prohibited products include: certain pornographic and other unacceptable material; goods that reveal confidential government information or intelligence activities; and counterfeit currency or financial instruments. Korea does not maintain any trade embargoes with other countries.

5.4.2 Others

a. Customs procedures

Korea has streamlined and modernized customs procedures to reduce importers' costs by accelerating import clearances. Customs formalities have been further automated and "e-customs" introduced. Korea Customs Service (KCS) was re-organized to provide a "one-stop" service by integrating import/export clearance operations and cargo management systems. A Customs Ombudsman in each customs house handles complaints. KCS processed 10 million e-customs transactions in June 2003, saving W 2.5 trillion in handling costs annually.

In August 2003, the KCS introduced more rigorous customs inspections on agricultural products, including especially peppers, garlic, sesame seeds, onions, carrots, and

[13] APEC (2007); and USTR (2007).

[14] Korea's minimum market access commitments are based on fiscal year while imports are based on crop year (1 November to 30 October of the following year). The modifications and rectifications to Schedule LX – Republic of Korea, relating to the rice import tariff quota, were certified in April 2005 and became effective on 23 November 2005 (WTO documents WT/LET/492 of 12 April 2005, and WT/LET/504, 5 December 2005).

seasoning powders, to help protect local farmers and producers against increased imports. The import sample inspected to check prices was also raised to 20%. The authorities indicate that these measures were implemented not to restrict imports, but to prevent illegal importation and duty evasion from under-invoicing, and to meet the need for increased laboratory analysis under paperless customs clearances. The sample size used for analysis was lowered for qualified importers with good compliance records from March 2004.

Registration, documentation, and clearance requirements

Only consignors, customs brokers, associations or corporations can make import declarations. Required documentation includes the commercial invoice, price declaration, duplicates of the bill of lading, detailed packing list, import approval document (if applicable), sanitary and phytosanitary certificates for most agricultural goods and processed foods, and certificate of origin for goods subject to tariff preferences. Qualified importers (approved by Customs based on their import record) receive expedited customs clearance and more convenient methods for paying duties.

b. Customs valuation

Korea's customs valuation legislation (sub-section 2 of the Customs Act 1949) complies with the WTO Agreement on Customs Valuation. Imports are valued at their c.i.f. (cost, insurance, freight) price. The main method used is transaction value (based on the "price actually paid or to be paid by the buyer"). When this cannot be used, valuation is determined using, in order, identical goods, similar goods, domestic sales price or computed value.

While the KCS may, in principle, set special customs valuation and documentary requirements for used imports (Presidential Decree of the Customs Act), it applies the same customs valuation methods (i.e. transaction value or where impossible in sequence one of the other alternative WTO-consistent valuation methods) for second-hand imports. However, as a last resort, customs may determine their valuation using "reasonable standards", whereby prices paid are adjusted based on appraised prices from certified appraisal institutes, domestic wholesale prices, or other recognized price lists. However, the transaction value is accepted where significant differences exist, unless there is reason to suspect the authenticity or accuracy of the declared value, when an alternative WTO-consistent valuation method is used.

Customs duties (including domestic taxes) must be paid within 15 days from acceptance of the import declaration (where security has been lodged). Late payments are subject to an additional 5% of the amount owed for the first month, and 12% for each month thereafter (up to a maximum of 77%). Criminal penalties (up to three years imprisonment or a fine of five times the evaded duty) apply for fraudulent declaration of dutiable value or incorrect tariff classifications. Importers who voluntarily rectify declarations within six months of importation must pay the duty difference plus 5% additional duty (10% after six months). If such under-payments are detected by the KCS, the importer pays the outstanding duty plus an additional 20%.

Customs decisions can be appealed to the KCS Commissioner or to the National Tax Tribunal. The Tariff Review Commission assists the Commissioner on appeals and decisions can be appealed to the courts.

c. State trading

Korea has not updated its WTO notification on state trading since 1998[15]; the authorities indicate their intention to submit a notification in 2009. Despite privatization efforts, the State participates in a wide-range of trade and/or trade-related activities. In addition to enterprises owned and controlled by the Central Government, there are public enterprises with multiple and strong managerial and operational ties to the Government, and enterprises owned and controlled by local authorities. Government agencies (e.g. MIFAFF and the Korea Agro-Fisheries Trade Corporation) are authorized to allocate and/or operate tariff quotas as well as quotas in the context of Korea's WTO commitments in agriculture, thus affecting quota utilization and price mark-ups. A number of products (potatoes, ginger, sesame, etc.) are no longer imported exclusively by the designated agency, but are also imported by private importers buying quotas at agency auctions.

d. Standards and other technical requirements

The Korean Agency for Technology and Standards (KATS), under the Ministry of Knowledge Economy (MKE), sets, administers, and disseminates Korean Industrial Standards (KS) on the basis of the National Standardization Act and the Industrial Standardization Act. In October 2007, administrative responsibility for the Industrial Standardization Act was transferred from MKE to KATS, extending the role of KATS to

[15] WTO document G/STR/N/4/KOR, 10 December 1998.

include planning and coordinating of national standards policy. KATS represents Korea at international bodies, such as the International Electro technical Commission (IEC) and the International Organization for Standardization (ISO). It is the official enquiry point on industrial products under the WTO Agreement on Technical Barriers to Trade, and has accepted the Code of Good Practice for the Preparation, Adoption and Application of Standards (Annex 3, WTO Agreement). Several private bodies perform standardization-related tasks. Other bodies designated by KATS to perform standards-related work include the private Korea Research Institute of Standards and Science (responsible for metrology standards and measurement).

The process of standard development in Korea is government led, and is a significant element of Korea's industry policy. The National Standards Council (chaired by the Prime Minister), which has been in charge of standards development and the approval process since 2007, approved the second National Standards Plan (2006-2010) in May 2006. Under the Plan key policy goals are, *inter alia,* to continue promoting the alignment of Korea's national standards with international standards, remove technical barriers to trade by improving the national conformity assessment system and ensure active participation in international standardization activities and mutual recognition agreements.[16] Regulatory authorities are to adopt, where possible, international standards when setting up or modifying technical or voluntary standards. The National Standards Council reviews all standards and coordinates domestic and international standards.

The Korean standardization system consisting of technical regulations (mandatory standards) developed by ministries and government agencies, and standards (voluntary) (KSs) set by KATS. In 2006, 2,945 Korean standards were contained in technical regulations by 22 government ministries under 65 regulations.[17] At end 2006, mandatory standards represented 15% of total KSs. At the end of 2007, 22,760 Korean (industrial) standards had been adopted, an increase of 702 over the previous year; the number of Korean industrial standards has doubled over the last five years. By 2007, the allocation of all KSs on a sectoral basis, was: chemicals, clothing, ceramics (24%); machinery (18%); electricity (15%); steel, mining, construction (13%); transportation, shipbuilding, aircraft (10%); information industry (8%); and health, food, etc. (12%). At end 2007, 13,957 of 13,969 Korean standards that had corresponding ISO/IEC standards (international standards) had been harmonized. About 30% of Korean

[16] APEC (2007).
[17] APEC (2007).

standards had been established by reference to other international standards excluding ISO or IEC. Non-harmonized standards are those that are either unique to Korea, with no corresponding international norm, such as for kimchi, or cannot be harmonized because of their link to other domestic regulations; roughly 9% of KSs have been established without any reference to international standards. In 2007, approximately 61.4% of Korean Standards were subject to international ISO/IEC harmonization. Another 150 Korean standards are to be harmonized in 2008-09 either by adopting international standards as new KSs or by revising existing relevant KSs.

Reportedly, Korean standards are being adopted with increasing frequency as international norms, not least in the semiconductor and electronics fields.[18] Four digital signature technologies proposed by Korea have been published as ISO/IEC standards, and five electronics technologies have been published as IEC standards. The IEC is currently assessing 16 Korean technologies in the semiconductor and display device fields for possible adoption.

KATS reviews standards every five years, or earlier if required. New or revised standards are published in the *Official Gazette*. KATS has operated a web-based KS Development System to support establishment, revision, and withdrawal of KSs since 2003; in 2006, KATS improved, *inter alia,* the functions of the system to achieve faster and more accurate processing of work along with an e-payment settlement system, and reinforced the historical management function.[19]

Priorities for standards harmonization are new technology products, including IT, and services (since December 2001). In 2007, KATS selected five priority areas from which to develop about 916 new KSs: next-generation growth engines; service industries; public safety and convenience sector; energy development sector; and national infrastructure sector.[20]

At end 2007, Korea had concluded bilateral MoUs with 30 agencies from 24 countries for mutual cooperation in global standardization activities, exchange of technical information related to standards and conformity assessment, organization of standardization meetings, operation of joint education programmes, and exchange of experts.[21] To help Korean companies duly and swiftly respond to technical barriers to

[18] APEC (2007).
[19] MOCIE/KATS (2007).
[20] MOCIE/KATS (2007). See also APEC (2007).
[21] MOCIE/KATS (2007).

trade, KATS established a TBT division to address related issues; the division is exclusively responsible for WTO/TBT-related affairs.[22] Starting on 1 February 2007, KATS launched an information service on technological regulations of respective countries, which are notified to the WTO. In February 2007, KATS also launched a TBT Notifications Alert Service, which transmits TBT notifications to stakeholders by e-mail and encourages them to submit their comments.

The authorities indicate that there are very few "Korea-specific" standards and that these are only maintained where there are no equivalent international standards and when there is sufficient justification to maintain them. Moreover, "Korea-specific" standards are not prepared, adopted or applied with a view to creating unnecessary obstacles to international trade. Transparency and the opportunity for interested-parties to participate in the development or review process of KSs are ensured. KATS is in charge of efforts to adopt uniform standards among ministries, which is the goal of the Second National Standards Plan 2006-10.

e. Government procurement

In 2006, Korea's government procurement market was about 10% of GDP (12% in 2004). Korea operates international tendering and other procurement procedures in accordance with its multilateral commitments under the WTO Plurilateral Agreement on Government Procurement (GPA). Although government procurement is directed at achieving "value for money", it also focuses on promoting SMEs and regional development.[23] Korea's international tendering system is based on open competitive tendering. According to authorities, restricted tendering is rarely used.[24] For GPA-covered entities, contracts subject to Korea's commitments represented about 38.4% of total GPA-covered procurement in 2004.[25] More than 3% (by value) of these contracts were awarded using restricted (limited) tendering. Procurement by GPA-covered entities represented 44.9% of Korea's total procurement (excluding defence equipment) in 2004. More recent data were not available from the authorities due to institutional change of responsibilities for data collection in this area as of 2006.

[22] MOCIE/KATS (2007).
[23] APEC (2007).
[24] This consists of limited (by invitation) or nominated (by nomination) competitive bidding and private contracts where a specific supplier is used.
[25] WTO document GPA/84/Add.1, 12 October 2006.

The main government procurement legislation (Act on Contracts to which the State is a Party, 1995) has not changed substantially during the review period; the Local Government Procurement Law (2006) and the Public Enterprises' Contracting Affair Rules (2007) were passed. The legislation covers international and domestic procurement of goods and services (including construction) by all central government agencies. Procurement by sub-central government entities and public entities are regulated by the Act on Contracts to which the State is a Party and the Act on the Management of Non-Departmental Public Entities. Although purchase of agricultural, fisheries and livestock products is not subject to international tendering under the GPA, their procurement is covered by the Act on Contracts to which the State is a Party. Procurement from SMEs is covered by the procurement legislation and the Promotion of SMEs and Encouragement of Purchase of Their Products Act. The comprehensive 2004 Law on the Promotion of Environmentally Friendly Product (implemented in July 2005) requires government agencies and SOEs to give top priority to environment-friendly products; it applies to 55 central government agencies, 444 local government bodies, and 220 enterprises affiliated with central and local government agencies.[26] The law makes mandatory the purchase of environmentally friendly products but provides exceptions for quality and availability reasons as well as emergency procurement needs.

[26] EIU (2007).

COLOMBIA

Since its last Trade Policy Review in 1996, Colombia has made definite progress in the modernization and liberalization of its trade regime; non-tariff barriers to trade have been significantly reduced, although average tariff protection has increased slightly. In parallel, Colombia has embarked on ambitious reforms of many economic sectors, particularly services, resulting in increased competition, lower prices, and expanded choice for consumers. To consolidate and broaden these gains, it would be important to address, among others, certain practices related to customs, import licensing, local content requirements, internal taxes, and the regulation of certain services. It would also be useful to reassess export promotion and incentive schemes.

Colombia is an original Member of the WTO. The Multilateral Agreements and domestic ordinary laws have the same hierarchical status in Colombia's legal system. Colombia participated in the extended negotiations on telecommunications and financial services. Colombia is an observer in the plurilateral Agreement on Government Procurement; it does not participate in the Information Technology Agreement. Colombia has maintained an active program of notifications to the WTO and has tabled several proposals in the context of the Doha negotiations. The Colombian authorities recognize and value the contribution made by the multilateral trading system to the predictability of Colombia's trade regime and its external environment, but perceive as limited Colombia's own influence on the content and speed of WTO negotiations.

Colombia formulates trade policy mostly at the national level, taking into account its participation in the Andean Community. Colombia attaches priority to preferential trade agreements. Colombia has negotiated two new agreements since its last Review; the agreement with the United States is particularly important, given that the United States is Colombia's main trading partner.

Lastly, Colombia's foreign investment regime is open. A Constitutional amendment was adopted in 1999 to eliminate the Government's power to expropriate private property for "equity reasons" without compensation. Since 2005, investors have been able to subscribe contracts with the Government to guarantee the stability of the legal regime. Under Colombia's investment statutes, the Government may limit foreign investment in any sector; however, it has never exercised this power.

5.4.1 Non Tariffs Barriers

Apart from tariffs, imports are subject to value added tax (VAT) and consumption tax. Where the application of internal taxes is concerned, imports receive national treatment, with the exception of some imported motor vehicles, motorcycles, aircraft and ships, which are subject to higher rates of VAT. The base for assessing consumption tax on wines, spirits, aperitifs, cigarettes and tobacco is the customs value of the goods plus a seller's margin, which results in a higher tax burden on imports than on domestic goods.

Value added tax

Decree No. 624 of 1989 with its amendments contains the provisions of the Tax Code concerning the taxes administered by DIAN.[27] Apart from tariffs, the only charges applied to imports are value added tax (VAT) and the consumption tax applied to certain kinds of goods. VAT[28] (also referred to as sales tax) is levied on sales and imports of movables and the provision of services in the national territory.[29] In the case of imports, VAT is charged on the c.i.f. value plus duties and is paid at the same time as the duties.

In 2006, the general rate of VAT was 16%, with some products being subject to other rates ranging from 2 to 38%.

During the period under review, Colombia maintained VAT rates which were applied at different levels to imports and domestic products. In mid-2006, according to Article 471 of the Tax Code in force[30], differential rates were being applied in the following cases: (i) motorcycles and scooters (35 per cent on imports and 25 per cent on domestic products); (ii) camper vehicles with a value of more than US$30,000 (35 per cent on imported vehicles and 25 per cent on domestic products); (iii) vessels for pleasure or sports of heading 89.03 (35 per cent on imports and 25 per cent on domestic products; (iv) aerodynes (35 per cent on imports and 16 per cent on domestic products).[31]

Colombia maintains many exceptions to the payment of VAT. In some cases, exceptions are granted according to the end use of the goods. Among others, the

[27] See http://www.secretariasenado.gov.co/leyes/ET.HTM.

[28] The sales tax, known as VAT, is a levy on the consumption of goods and services in the various stages of production, importation and distribution. The events that generate the tax, except where exemptions are granted, are the sale of movable tangible goods, the provision of services in the national territory, the importation of movable tangible goods and the circulation, sale or operation of games of chance

[29] See http://www.businesscol.com/empresarial/tributarios/tributarios.htm#reg%20ib.

[30] Viewed at: http://www.secretariasenado.gov.co/leyes/ET.HTM.

[31] DIAN official letter 070637 of 15 October 2004 and Article 39 of Law No. 788 of 2002.

following goods and services are exempt from VAT: movable goods for export; school exercise books; alcohol for mixing with petrol for motor vehicles; services supplied in Colombia in connection with contracts to be used abroad by foreigners, provided that the foreigner has no business dealings or activities in Colombia[32]; and the tourism services of foreign residents to be used in Colombia. Where there is no domestic production, VAT is not applied to the temporary importation of heavy machinery for basic industries[33] or to machinery or equipment for recycling.[34]

Exporters are exempt from VAT and may therefore claim back from DIAN the VAT paid on purchases of inputs (including services) used in the production of goods for export.

Other taxes and charges

There is a consumption tax[35] levied on the following products: (a) beer, aerated waters, *refajos*, and mixtures of fermented and non-alcoholic beverages; (b) spirits, wines, aperitifs and the like (within the jurisdiction of the departments)[36]; and (c) cigarettes and manufactured tobacco (within the jurisdiction of the departments).

The consumption tax on some imported products is higher than that paid on the domestic product, because the tax base for imported beer, aerated waters, *refajos*, wines, spirits, aperitifs, cigarettes and tobacco is the customs value of the goods, duty included, plus a seller's markup of 30%.[37]

There is a global tax on the consumption of regular petrol, super, diesel and any other fuel derived from petroleum for use as motor fuel. In June 2006 this global tax amounted to Col$651.97 a gallon for regular, Col$749.77 a gallon for super and Col$432.11 for diesel fuel.[38] Motor fuels are also subject to a surcharge on consumption intended mainly for the municipalities where they are sold. In June 2006, the surcharge was Col$1,110.29 a gallon for regular, Col$1,517.58 a gallon for super and Col$228.63 for diesel fuel.

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[32] A legal purchase contract drawn up by a lawyer in Colombia and to be used by a foreigner in another country.

[33] Mining, hydrocarbons, heavy chemicals, iron and steel, extractive metallurgy, electricity generation and distribution and catchment, purification and transport of water.

[34] Does not apply to enterprises covered by Decree No. 1264 on imports under the Colombia-Peru Customs Cooperation Agreement or to imports under Article 428(b) and (d) of the Tax Code.

[35] Tax Code; Chapters VII to XI of Law No. 223 of 1995; Law No. 788 of 2002.

[36] Spirits, wines, aperitifs and the like are taxed on the alcohol content of the product.

[37] Articles 189, 205 and 210 of Law No. 223 of 1995; Article 475, Tax Code; Article 60, Law No. 863 of 2003.

[38] There are exemptions from this type of global tax for fuel used for fishing and/or cabotage along Colombia's coasts or for the activities of the Colombian navy. Moreover, aircraft fuel of the 100/300 type, oil used for generating electricity in non-interconnected areas and aviation jet fuel and IFO-type mixtures used for operating large sea-going vessels are excepted.

Prohibitions

Colombia prohibits the importation of certain goods in order to protect human and animal health and life and preserve plants, as well as to protect public morals, the environment and vital security interests. In particular, there is a ban on the importation of chemical, biological and nuclear weapons, as well as nuclear and toxic waste (Article 81 of the Political Constitution); warlike toys (Law No. 18 of 1990); and pornographic material involving minors (Article 218 of Law No. 599 of 2000).

For environmental protection reasons, the production and import of ozone-depleting substances (Montreal Protocol, 1987) are prohibited and the trade in wild species of fauna and flora is regulated (Convention on Trade in Endangered Species of Wild Flaura and Fauna, 2002).

Moreover, through the prior licensing regime (non-automatic licensing), some imports are restricted for reasons of security or to comply with international agreements adopted within the context of psychotropic drug control and measures to control trafficking in illicit drugs, arms and ammunition, narcotic drug precursors and chemicals used in the production of pharmaceuticals. For safety reasons and to protect human health and jobs, the importation of used, clearance and faulty goods is restricted. Used motor vehicles are included in these restrictions.

Licenses, registration and other requirements

Colombia has notified the WTO of the procedures relating to import licenses[39] and has replied to the questionnaire[40] on import licensing procedures.

Some of the principal regulatory changes of recent years relating to import licenses are set out in Decree No. 4406 of 2004, as amended by Decree No. 1846 of 2005, which specifies the imports subject to the mandatory import registration procedure and the compulsory nature of the non-automatic licensing procedure for temporary imports which become ordinary imports (amendment of Customs Code Decree No. 2685 of 1999 by Decree No. 4136 of 2004). Other import licensing provisions can be found in Resolution No.17 of 1996 on annual licenses for the petroleum and mining sector; the 1999 Automotive Sector Agreement (vehicle imports); Administrative Order 003 of 2001 (imports of used spare parts); and Decree No. 1573 of 2002 (annual military licenses).

[39] WTO document G/LIC/N/1/COL/1/Add.1 of 14 February 2001.
[40] WTO documents G/LIC/N/3/COL/1/Add.1 of 13 February 1997, G/LIC/N/3/COL/1/Add.2 of 13 February 2001, G/LIC/N/3/COL/2 of 3 August 2004, and G/LIC/N/3/COL/3 of 20 October 2005.

Colombia has two types of import license, namely, prior licenses (non-automatic licenses within the context of the WTO) and import registrations (automatic licenses within the context of the WTO).

5.4.2 Others

a. Customs Procedure

The Customs legislation in force is contained in Decree No. 2685 of 1999 and regulated by Resolution No. 4240 of 2000. In institutional terms, Decree No. 1071 of 1999 gave the *Dirección de Impuestos Aduanas Nacionales* – DIAN (Directorate of Taxes and National Customs) a new structure as an autonomous customs administration.[41] Other relevant laws adopted in recent years include Law No. 962 of 2005 on the rationalization of administrative procedures; Law No. 0863 of 2003 on tax, customs and fiscal regulations; Law No. 0646 of 2001 approving the International Convention on the Harmonized Commodity Description and Coding System and the Amending Protocol; and Law No. 383 of 1997 against evasion and smuggling.

In recent years, important initiatives have been taken to simplify and reduce the formalities associated with foreign trade and progress has been made in areas such as the Single Window for Foreign Trade (VUCE)[42], the single foreign trade form, the implementation of the customs computer systems for imports and exports, and the relaxation or elimination of certain requirements prior to importation.

At the beginning of 2006, there were two general import procedures: "free importation", which in practice can involve imports with or without registration; and prior licensing (non-automatic) (see (vii) below).

To import any product into Colombia it is necessary to produce an import declaration. Article 121 of Decree No. 2685 of 1999 defines the following documents required in support of the import declaration, which must be kept for a period of five years.

Customs users must be enrolled in the Single Tax Register. The declarants are usually SIAs, which must represent natural or legal persons carrying out foreign trade transactions when the f.o.b. value of the imports exceeds US$1,000.[43] Persons registered as a "regular customs user" or as a "high export user" do not have to use an

[41] See http://www.dian.gov.co/.
[42] See http://www.vuce.gov.co/.
[43] The limit is US$5,000 in Arauca, Leticia, Yopal, Puerto Carreno, Inirida and Puerto Assis.

SIA. The use of an SIA is a requirement intended to facilitate compliance with the rules on importation, exportation, customs transit and other customs operations and procedures.

Import registration authorizes the importation of goods under the free regime. Since 1997 a number of changes have been made to the regulations on registration and, according to the authorities, these have reduced by 40 per cent the total number of tariff headings subject to this requirement.[44] Under Decree No. 2680, registration is mandatory for imports of goods subject to licensing and other requirements.

Once the import declaration has been lodged and accepted, the customs duties are paid into authorized banks or other financial institutions. One of the following situations may then arise: (i) automatic release of the goods; (ii) document check, or (iii) physical inspection of the goods. The Selection Committee (Resolution No. 2118 of 1999) determines the selection criteria and risk profiles applicable to the various customs procedures and to the various stages in the control and administration of the customs management process.

b. Customs valuation

Since 2000, Colombia has been applying the Agreement on Customs Valuation. It uses reference prices which, in the case of footwear and textiles, vary according to origin. Some products from certain areas must enter through specific ports of entry or need additional information to be cleared for home use.

By Decree No. 2685 of 1999 Colombia approved legislation for implementing the WTO's Customs Valuation Agreement and Resolution No. 4240 (Title VI) of 2000 introduced its regulatory framework. Within the Andean Community context, Decision No. 571 of 2003 and Resolution No. 846 of 2004 also make reference to the Valuation Agreement.

Colombia has notified the WTO of changes in its customs valuation legislation[45] and has replied to questions concerning the administration of the Agreement.[46]

Colombia has availed itself[47] of the reservation for determining the customs value of

[44] INCOMEX External Circular No. 126 of 1998 (import registrations and licences); Decree No. 2680 of 1999 (mandatory import registration); Resolution No. 4240 of 20000 (Customs Code); INCOMEX External Circular No. 036-A of 2000 (products without import registration).
[45] WTO document G/VAL/N/1/COL/1 of 23 January 2001.
[46] WTO document G/VAL/N/2/COL/1 of 24 January 2001.
[47] WTO document G/VAL/N/4/COL/2 of 27 April 2001.

imports of textiles, footwear and vehicles through the use of officially established minimum values.

For some agricultural and industrial products[48], Colombia maintained the right to use minimum prices until April 2002, and for other products the Andean Price Band System[49] up to April 2003. Within this context, Article 253 of Decree No. 2685 of 1999 gave the Director of Customs powers to determine official prices. DIAN Memorandum 00338 of 30 April 2003 stipulates that from 1 May 2003 official minimum prices no longer apply for the customs valuation of products subject to the Andean Price Band System (see also Chapter IV(2)). In May 2003, Colombia notified the WTO that it was abolishing the use of these minimum prices.[50]

In April and May 2006, concerns were raised before the WTO Committee on Customs Valuation and before the Council for Trade in Goods[51] regarding the way in which Colombia applies reference prices for certain products, including footwear and textiles.

The office for settling disputes relating to the valuation and classification of goods, in connection with subsequent verification, is the Customs Audit Division, whose proposals are passed on to the Assessment Division which decides on the merits through official assessments. These may be appealed by the importer, the Legal Division being responsible for deciding the appeal. If the importer does not agree with the decision, he can take his case to the Administrative Tribunal, which is independent of the customs authority. According to the authorities, in 2005 there were a total of 6,052 disputes relating to the valuation of imported goods. The Buenaventura Administration is where most such disputes were reported.

In its notifications to the WTO concerning state trading enterprises Colombia included enterprises that produce and market spirits.[52] Colombia has received and replied[53] to questions concerning the spirits regime and the Agricultural Marketing Institute (IDEMA). Through the IDEMA a monopoly was maintained on the importation of agricultural goods; this was abolished by Law No. 7 of 1991, and Decree No. 1.675 of 1997 wound up the

[48] Meat, some dairy products, other wheat, fats and oils, orange juice, soya-bean cake.
[49] Pig meat, poultry meat, kidney beans, powdered milk, cheese, durum wheat, barley, maize, rice, sorghum, flour wheat, oils, and sugar. WTO document G/VAL/N/4/COL/1 of 12 July 2000.
[50] WTO document G/VAL/N/4/COL/4 of 21 May 2003.
[51] WTO documents G/VAL/W/154 of 18 April 2006, G/C/W/548 of 2 May 2006, and G/C/W/554 of 12 May 2006.
[52] WTO document G/STR/N/1/COL of 12 January 1996.
[53] WTO documents G/STR/Q1/COL/4 of 24 July 1997, G/STR/Q1/COL/3 of 7 February 1997, G/STR/Q1/COL/2 of 25 September 1996, and G/STR/Q1/COL/1 of 5 July 1996.

IDEMA.[54]

In 2004, Colombia notified[55] 14 departmental enterprises with exclusive rights to produce, import, export and sell distilled spirits (with the exception of wines, sparkling wines, aperitifs and the like, which may be produced and distributed freely).[56] Individual traders may export and import spirits on the basis of contracts that establish the quantity and the department's percentage share of the sale price.

State participation in the production and supply of other goods and services has traditionally been substantial through numerous industrial and commercial enterprises or semi-public companies. At the beginning of 2006 there were 68 decentralized enterprises[57] operating in the defense (4), development (3), energy (15), justice (1), financial (20), mining (3), telecommunications (6), social security (14) and transport (2) sectors. The participation of State-owned enterprises in trading activities is concentrated in the petroleum sector.

In recent years, Colombia has continued with the privatization of State-owned enterprises. The legal framework for the disposal (privatization) processes is derived from Article 60 of the Constitution and Law No. 226 of 1995. This Law stipulates that the sale of the State holdings in an enterprise should be completed in two phases, the first for the "solidarity" sector and the second for the general public. During the first phase, special conditions with regard to term and credit have to be granted to the "solidarity" sector.[58] The main privatizations have been in the electricity, mining and hydrocarbons[59] and financial[60] sectors (see also Chapter IV). In 2004, there was established the Committee on the Development of Public Assets (CAAP) formed by the Ministry of Finance and Public Credit, the National Planning Department and the Development Project Finance Fund (FONADE), an entity that specializes in project management and investment banking and values, structures and sells public assets in accordance with the strategy approved by the National Economic and Social Policy Council.

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54 WTO document G/STR/Q1/COL/4 of 24 July 1997.

55 WTO documents G/STR/N/7/COL/Rev.1, - G/STR/N/8/COL/Rev.1, - G/STR/N/9/COL of 4 August 2004.

56 Under Article 336 of the Political Constitution, Article 61 of Law No. 14 of 1983 and Decree No. 1222 of 1986, the departments are independent administrators of the liquor monopoly.

57 Does not include companies in liquidation or private capitalization.

58 The "solidarity" sector is defined as the active and pensioned employees of an enterprise, former employees not dismissed with good cause, associations of employees or former employees of the enterprise, trade unions, federations and confederations of trade unions, staff funds, mutual investment funds, unemployment and pension funds, compensation funds and cooperative entities defined in the legislation on cooperatives.

59 TERUEL, OCENSA, PROMIGAS, Gas Natural.

60 Banco de Colombia, Corpavi, Banco Popular.

d. Standards and other technical requirements

The policy on standards and technical regulations is defined in Law No. 170 of 1994, and in Decrees Nos. 2269 of 1993, 300 of 1995, 1112 of 1996 and 2360 of 2001. Among the main recent provisions concerning standards and technical regulations Decrees Nos. 219 and 2522 of 2000 and 210 of 2003 and Resolutions Nos. 3742 and 8728 of 2001[61], which include criteria for issuing technical regulations, deserve mention.

Decree No. 300 of 1995 established the obligation to produce a certificate of conformity as a requirement for the approval of the registration of imports subject to compliance with technical regulations. The same Decree stipulates that the Supervisory Authority for Industry and Trade (SIC) will define the procedures for the recognition of certificates, in accordance with implementing Resolution No. 6050 of 1999 and its amendments and additions included in Title IV of the SIC's Single Circular. Resolution No. 25391 of 2002[62] established the mandatory registration of controlled products, that is to say, those subject to compliance with what were mandatory official Colombian technical standards and technical regulations under the authority of the SIC. The certificate of conformity, which may be by brand, type or batch, is the requirement for marketing and importing products, in accordance with Decree No. 300 of 1995.

During the period under review, four categories[63] relating to standards and technical regulations were used: the Technical Standard (NT), the Colombian Technical Standard (NTC), Technical Regulations (RT) and the Mandatory Official Colombian Technical Standard (NTCOO). NTs are voluntary, based on consensus and approved by a recognized body. NTCs are also voluntary and approved by a national standardization organization. RTs[64] are mandatory and issued by the competent authority.

NTCOOs were mandatory and declared as such by the National Standards and Quality Council. In practice, NTCOOs performed the function of the technical regulations defined in the Agreement on Technical Barriers to Trade (TBT). A considerable number and range of products were kept regulated under NTCOOs. The authorities note that Decrees Nos. 2522 of 2000 and 2360 of 2001 provided for a review of the NTCOOs to

[61] The legal background consists mainly of Decree No. 2269 (National Standardization, Certification and Metrology System); Decree No. 1112 (National System of Information on Standardization Measures and Conformity Assessment Procedures; harmonization of the issuing of technical regulations).
[62] Resolution No. 25391 of 5 August 2002, Supervisory Authority for Industry and Trade.
[63] Decree No. 2269 of 1993.
[64] Article 2 of Decree No. 2269 of 1993 defined the NTCOO as a Colombian Technical Standard, or part thereof, whose application has been declared mandatory by a competent national authority. The Technical Regulation is defined as a Regulation of a mandatory nature, issued by the competent authority, with a basis in law, which sets out technical requirements, whether directly or by referring to or incorporating the contents of a national, regional or international standard, technical specifications or a code of good practice.

eliminate their mandatory effect. As a result, Colombia notified the WTO of the elimination of numerous NTCOOs.[65] According to the authorities, this review process led to the elimination of all NTCOOs as from 28 February 2003, pursuant to Resolution No. 283 of 2003.

The MCIT is the authority that defines quality and standardization policies. Under this mandate, the MCIT administers the National Standardization, Accreditation, Certification and Metrology System (SNNCM). The SIC[66], under the MCIT, is entrusted with: organizing and coordinating the national certification system; administering the national industrial quality control, weights, measures and metrology programs; organizing the primary quality control and metrology laboratories; authorizing activities; and overseeing the proper functioning of the certification entities.

ICONTEC is the national standardization organization which operates through a Board of Directors and a Technical Board. The Sectoral Standardization Units, which formulate sectoral standards, exist in parallel with ICONTEC. The MCIT plays a supervisory role in ICONTEC to ensure transparency and participation and to approve the annual voluntary standardization program. For the purpose of preparing NTCs, ICONTEC has 205 technical committees of which 153 are active in 2006. The authorities have indicated that in mid-2006, the ICONTEC database listed 5,350 NTCs in force, of which 1,102 were identical to ISO, IEC, CODEX, OIML or ITU standards.

Colombia has notified[67] that the MCIT is responsible for applying the TBT Agreement and administering the enquiry point for standardization, technical barriers to trade, sanitary and phytosanitary measures and conformity assessment procedures. It has notified that ICONTEC has accepted the Code of Good Practice for the Preparation, Adoption and Application of Standards.[68]

During the period under review, according to the information supplied by Colombia in notifying its RTs, the two criteria most used in the preparation of RT were the protection of human life and health and the protection of consumers through the prevention of misleading practices. The sectors in which most drafts were prepared were: final products, chemical products and processed foods. The authorities have pointed out that the RTs notified since 1996 account for 21.4 per cent of the RTs drawn up and of

[65] WTO documents G/TBT/N/COL/24 of 13 March 2003, G/TBT/N/COL/12 of 19 December 2001, G/TBT/N/COL/9 of 11 October 2001, G/TBT/N/COL/8 of 6 July 2001, G/TBT/N/COL/7 of 18 July 2001, G/TBT/N/COL/6 of 28 June 2001, G/TBT/N/COL/5 of 11 June 2001, and G/TBT/N/COL/3 of 26 April 2001.
[66] Resolution No. 8728 of 2001.
[67] WTO document G/TBT/2/Add.18/Rev.1 of 5 July 2005.
[68] WTO document G/TBT/CS/2/Rev.10 of 4 March 2004.

these 23.3 per cent are based on international standards.

Between January 1995 and June 2006, Colombia submitted to the WTO 120 notifications relating to the Agreement on Technical Barriers to Trade.[69] In 2001, Colombia introduced the recommended period of 60 days or more for commenting on notifications.[70]

At WTO level, on one occasion concerns were expressed about Colombia's technical regulations on footwear labeling.[71] Reference was made to the requirements in these regulations for information on the production materials used for the parts and information on the registration of the manufacturer and/or importer. The authorities have indicated that a draft amendment to this RT has been published on the MCIT Web site.[72]

At the Andean regional level, Decision No. 562 of 2003 established guidelines for the preparation, adoption and application of RTs in the member countries and at Community level. The Andean Community has not produced any technical regulation under this decision. The CAN has a notification and counter-notification procedure for receiving and commenting on drafts and facilitating the harmonization process. Likewise, Decision No. 615 provided the basis for the establishment of the CAN Notification and Technical Regulation Information System, which serves to alert exporters to mandatory technical requirements.

As a result of the work done in the CAN, it has been agreed that the period between the publication of a draft RT and its entry into force must not be less than six months (except where unfeasible). Moreover, work is being done on the identification of good regulatory practices with a view to preparing a guide.[73] There is an Andean standard based on Decision No. 506 of 2001, which covers the bilateral recognition agreements that Colombia has with Venezuela and Ecuador.

e. Government procurement

Although it has observer status, Colombia is not a member of the WTO's Plurilateral Agreement on Government Procurement. Colombia offers national treatment in government procurement to Mexico and Venezuela within the framework of the G-3

[69] WTO document G/TBT/18 of 17 February 2006; and the notifications submitted between January and June 2006.
[70] WTO document G/TBT/18 of 17 February 2006.
[71] *Idem*.
[72] See http://www.mincomercio.gov.co/VBeContent/NewsDetail.asp?ID=4010&IDCompany=15.
[73] WTO document G/TBT/W/239 of 24 June 2004.

Agreement. Under the Andean Community government procurement regulations, Colombia guarantees national treatment to enterprises in other Community members in contracting for services but not goods. National treatment is also granted to goods and services originating in countries which grant similar treatment to offers of Colombian goods and services.

The main legal instruments concerning government procurement are Law No. 80 of 1993 (General Law on Government Procurement), Presidential Directive No. 12 of 2002, Decree No. 2170 of 2002, Law No. 527 of 1999 and Decree No. 855 of 1994. Colombia maintains a single government procurement portal.[74] At the beginning of 2006 the legal framework for government procurement was under review (draft Law No. 20 of 2005) for the purpose of making the process of awarding public contracts more efficient. According to the authorities, a typical procurement process takes on average four months, and the proposed reforms should shorten these times considerably.

According to the calculations made by the authorities[75], the value of public contracts awarded in 2004 (including centralized and decentralized entities) amounted to between Col$20.4 billion and Col$34.3 billion (between US$7,900 and 13,000 million approximately), of which 75.1 per cent was administered by national-level entities and 24.9 per cent by regional entities.

There are competitive bidding and single tendering procedures. Competitive bidding is the general rule and single tendering is an exception made in special situations in which competitive bidding is not viable.[76]

There are also special laws on government purchasing in cases such as contracts for the exploration and exploitation of natural resources; public services; State welfare enterprises; personal communications services mobile telephony, long-distance telephone and television; postal services; radio broadcasting; Bank of the Republic; and the National Television Commission.

The measures for ensuring transparency are through the publication of invitations to tender, the dissemination of information for bidders and contract documents, the publicizing of awards and of the rules and regulations on procurement. State entities

[74] Inter-American Organization of Government Procurement Institutions (http://www.contratos.gov.co/portal/page?_pageid=35,1128,35_3117&_dad=portal&_schema=PORTA).

[75] Estimates from Government Procurement Project BIRF-DNP, based on information supplied by the National Press - Single Procurement Journal, Office of the Comptroller General of the Republic - Rendering of Annual Accounts, Financial Information System SIIF - Nation, District Surveillance Office - Rendering of Annual Accounts and information supplied by the regional authorities.

[76] See http://www.transparencia.gov.co/guias/contratation.asp#2.

must report their tenders to the Chamber of Commerce of their jurisdiction in the first five days of each month. Between ten and 20 calendar days prior to the issuing of the tender a maximum of three notices must be published in widely circulated newspapers and in other media at intervals of between two and five days. The information is also published on the web page of the procuring entity and the Single Procurement Portal.

Contractors wishing to obtain supply, public works or consultancy contracts must register in the Single Bidders Register (RUP), which is administered by the Chambers of Commerce. Foreign natural and legal persons without domicile or a branch in Colombia must have an agent domiciled in Colombia with powers to submit a bid, conclude a contract and act as representative in and out of court. Likewise, they must submit proof of their existence and legal representation, as well as a document to show that they are registered in a similar register in the country in which they have their principal domicile. Failing that, they must submit certification of registration in the RUP.

The management of government procurement is subject to three types of control: disciplinary (exercised by the Office of the Attorney General of the Nation), fiscal (exercised by the Comptroller General of the Republic) and penal (exercised by the Office of the Prosecutor General of the Nation).

The Administration's decisions may be subject to review through applications for reconsideration or appeal. As far as the pre-contractual phase is concerned, it is possible to bring actions against the decision awarding the contract and individual procedural decisions, and as regards performance of the contract, the appropriate course is to bring a trade dispute action. Likewise, it is possible to employ direct dispute settlement mechanisms such as conciliation and technical expertise, together with which provisional measures may be ordered and the case judged in accordance with the Code of Civil Procedure and the Commercial Code and the provisions of CAN Decision No. 486.

6. ISSUES AND CHALLENGES REGARDING THE KOREA - COLOMBIA FTA

6.1 INVESTMENT IN NATURAL RESOURCES

Natural Resources in Colombia

Colombia is endowed with substantial natural resources, especially in hydrocarbons and minerals. It makes Colombia an attractive investment destination for Korea. The Central Intelligence Agency's Factbook gives information about the proven reserves of oil and gas for each country in the world. Colombia is ranked 35th and 51st in oil and gas reserves, respectively in 2008.

Table 6.1 Proved Oil Reserves in Latin America, 2008

Rank	Country	Barrels (bbl)	Rank in World
1	Venezuela	87,040,000,000	7
2	Brazil	12,180,000,000	16
3	Mexico	11,650,000,000	17
4	Ecuador	4,517,000,000	25
5	Argentina	2,587,000,000	31
6	**Colombia**	**1,506,000,000**	**35**
7	Peru	930,000,000	41
8	Trinidad and Tobago	728,300,000	42
9	Bolivia	465,000,000	48
10	Chile	150,000,000	60
11	Cuba	124,000,000	64
12	Suriname	88,000,000	70
13	Guatemala	83,070,000	72
14	Belize	6,700,000	92
15	Barbados	2,200,000	93

Source: Central Intelligence Agency

Colombia ranked 6th in oil reserves among Latin American countries and its reserves amount to 1.5 billion barrels. In gas, the reserves in Colombia recorded the 8th highest among Latin America and its amount is reported as 122.9 billion cubic meters.

Table 6.2 Proved Gas Reserves in Latin America, 2008

Rank	Country	Cubic M	Rank in World
1	Venezuela	4,708,000,000,000	8
2	Bolivia	750,400,000,000	30
3	Trinidad and Tobago	481,300,000,000	31
4	Argentina	446,000,000,000	33
5	Mexico	392,200,000,000	35
6	Brazil	347,700,000,000	37
7	Peru	334,700,000,000	38
8	**Colombia**	**122,900,000,000**	**51**
9	Chile	97,970,000,000	53
10	Cuba	70,790,000,000	58
11	Ecuador	9,369,000,000	80
12	Guatemala	2,960,000,000	93

Source: Central Intelligence Agency

Colombia's oil exploration and gas development sector has great potential. First, once a territory for mostly major oil companies, Colombia is an active frontier for smaller oil and gas companies pursuing untapped hydrocarbon potential which provides a safe environment for investments. Second, the country has an abundance of light, sweet oil in under-explored basins. In Colombia, a large heavy oil fairway extends across the southern and eastern portion of the Llanos basin which is believed to be from the same La Luna source rock as the massive Faja del Orinoco field in Venezuela where four projects are currently producing 600,000 barrels of oil per day. Third, Colombia also has a well developed infrastructure of refineries, pipelines and export terminals. While the country's refineries have been operating at capacity, there are plans for significant expansion. Over 6,000 kilometres of pipelines connect major production fields, centres of high consumption and export terminals on Colombia's two coastlines, the Caribbean Sea and the Pacific Ocean. Lastly, the Colombia government values fair business principles.[77] FDI outflow from Korea to Latin America is also significant in natural resource-oriented industries in Colombia. SK Energy and Korea National Oil Corporation made a successful bid of a locator with other consortiums in the Llanos

[77] 2008 Commerce Report, KOTRA

Oriental area.[78]

Colombia produces diverse minerals such as copper, iron ore, nickel and raw steel. The United States Geological Survey (USGS) Minerals Resources Program provides research result for mineral productions. The following tables indicate the mineral production of each Latin American country which produces the corresponding minerals. Colombia produces all four minerals which are mentioned above.

Table 6.3 Production of Copper in Latin America

Country	Year	metric tons
Chile	2005	3,735,900
Peru	2005	844,368
Mexico	2005	350,000
Argentina	2005	188,000
Brazil	2005	131,000
Colombia	**2005**	**1,700**
Cuba	2002	1,000
Bolivia	2005	714
Ecuador	2004	100

Source: United States Geological Survey (USGS) Minerals Resources Program

Table 6.4 Production of Iron Ore in Latin America

Country	Year	metric tons
Brazil	2005	280,000,000
Venezuela	2005	20,000,000
Mexico	2005	11,700,000
Chile	2005	8,000,000
Peru	2005	6,895,405
Guatemala	2005	11,268
Colombia	**2005**	**499**

Source: United States Geological Survey (USGS) Minerals Resources Program

[78] ANH http://www.anh.gov.co

Table 6.5 Production of Nickel in Latin America

Country	Year	metric tons of contained nickel
Colombia	**2005**	**89,031**
Cuba	2005	72,000
Brazil	2005	52,000
Dominican Republic	2005	46,000
Venezuela	2005	20,000

Source: United States Geological Survey (USGS) Minerals Resources Program

Table 6.6 Production of Raw Steel in Latin America

Country	Year	metric tons
Brazil	2005	31,631,000
Mexico	2005	16,400,000
Argentina	2005	5,382,000
Venezuela	2005	5,000,000
Chile	2005	1,570,000
Trinidad and Tobago	2005	800,000
Colombia	**2005**	**750,000**
Peru	2005	750,000
Guatemala	2005	235,000
Cuba	2005	200,000
Ecuador	2005	72,000
Dominican Republic	2005	61,000
EL Salvador	2005	60,000

Source: United States Geological Survey (USGS) Minerals Resources Program

Investment Issues in Natural Resource Sector

Colombia is continuing with a wide range of national plans to increase industrial production and promote development of competitive products in international markets; the Government projected that the country's mining sector would be one of the most important industries in Latin America by 2019 in terms of value, production, and trade. The Colombian government started to make new legislations to attract FDI using tax privileges, lower income taxes, and exemption of a remittance. The Ministerio de Minas y Energia (MME) is in the process of designing revisions to attract greater foreign investment to the mining and petroleum sector. The four basic principles of Colombia's foreign investments are first, equality of treatment; second, universality; third, automatic authorization and fourth, stability of investment reimbursement and profit transfer. Due to the Colombian governments' supportive efforts, FDI continued to increase at an impressive rate since 2004. The amount of foreign investment in 2008 reached US$ 10.6 billion. It is estimated to be a 16% increase in investment compared to the previous year.

Table 6.7 Foreign Direct Investment/GDP (%)

Country	2005	2006	2007
Panama	6.2	15.0	9.4
Chile	5.9	5.0	8.8
El Salvador	3.0	1.2	7.5
Costa Rica	4.3	6.5	7.2
Honduras	6.2	6.2	6.6
Nicaragua	4.9	5.4	5.9
Peru	3.2	3.8	5.0
Colombia	**7.1**	**4.0**	**4.3**
Uruguay	4.8	7.0	3.6
Brazil	1.7	1.7	2.6
Mexico	2.5	2.0	2.4
Argentina	2.9	2.4	2.2
Guatemala	1.9	2.0	2.1
Paraguay	0.7	1.8	1.6
Bolivia	-3.0	2.4	1.5
Ecuador	1.3	0.7	0.4
Venezuela	1.8	-0.3	0.3

Source: UNCTAD (United Nations Conference on Trade and Development) and IMF

Among all the industries, as international demand for raw materials and natural resources continues to grow, FDI dramatically increased in Colombia's mining industry which is led by the coal, natural gas and petroleum sector. A natural resource is the

most important and caring sector of a capital-abundant country like Colombia. Of the US$ 10.6 billion foreign investments made in 2008, 76% of that amount was invested in the petroleum and mining sector. The share of investments in the natural resource sector is also increasing. The petroleum sector reached 34% and the mining sector reached 20% in 2008. This trend in the sectors brightens the prospect of future investment in Colombia.

Table 6.8 Investment Share by Sector in Colombia, 2008

Sector	Share (%)
Petroleum	34
Mining	20
Manufacture	13
Finance	12
Commerce	10
Transportation	7
Etc.	4
Total	100

Source: Banco de República

Investment Law

The Colombian government is taking significant measures to push investment in the country's natural resource sector to attract FDI. In the Andean Investment Forum, organized by Latin Finance in July 2007, Uribe emphasized the country's enormous energy potential, especially in oil exploration and production (E&P) activities and biofuels. More specifically, the Colombian government reformed the mining code in oil exploration and gas development sector in 2003 and 2006.

The major issues of the revised law in 2003 were equal treatments of ECOPETROL identified with other private petroleum companies and establishment of Agencia Nacional De Hidrocarburos (ANH) which will supervise and control natural resources. The revision of the Petroleum Development Contract also includes the following; first, all the private companies will be able to participate in the natural resource sector without any interference from the Colombian government if royalties and taxes are paid. Second, the company's work program will be guaranteed independently without any

intervention of ANH. ANH will only be in charge of supervising the results. Third, royalties will be collected depending on the sliding scale only. It will be between 8-25% of the whole production.

The revisions of the mineral industry in 2006 by The Ministerio de Minas y Energia (MME) included designing a more dynamic framework for investors to acquire licenses for mining areas, including fast-track mechanisms to guarantee an efficient process of discovering and developing mineral resources, and a special bidding process for investors that have the best economic and operational place for a geologic prospective area.

However, at the same time, Colombia is setting strict laws of investment to protect its natural resources as oil, coal and ferro-nickel are major contributors of export. The law states that companies in the mining industry must hire natives for up to 80% of their employees and the petroleum industry requires some conditions of royalty between 5%-25% depending on the amount mined. Moreover, to participate in the petroleum industry, a company must conclude an agreement 'Contrato de Asociacion' with ECOPETROL.[79] There are some sectors requiring prior authorization while foreign investment requires no prior authorization for the most part. However, investment in the mining and hydrocarbons sector, whether domestic or foreign, does require prior authorization.[80]

Possibilities of Expropriation and Countermeasures

Colombia is a country which can legally expropriate foreign companies under certain conditions. The Constitution safeguards private property. Article 58 allows expropriation by court decision and with prior compensation in the public interest or on social grounds as defined by the lawmakers. Article 59 also stipulates that in the event of war, the Government may order expropriation without prior compensation. Immovable property expropriated in a situation of war may be occupied only temporarily.

Because of this, compensation and a logical settlement plan for a legal dispute of expropriation must be precisely agreed upon by mutual consent before the investment is made. As a provision in the Constitution allowing for expropriation without

[79] KOTRA Investment Information, KOTRA
[80] Trade Policy Review of Colombia

compensation was removed in 1999, there is now a right to appeal both on the basis of the decision itself and on the level of compensation. There must always be compensation, pursuant to the constitutional provision which is always liable for expropriations carried out by the government on its own or through its agents.

In this regards, Colombia has concluded five bilateral investment treaties (BITs), namely with Cuba, the United Kingdom and Peru in 1994, Spain in 1995 and Chile in 2000. The first three have not entered into force because they clashed with Article 58 of the Constitution, which allowed for expropriation without compensation, although the article has never been applied. In 2003, the Government published a “Model Bilateral Accord for the Promotion and Protection of Investments’ or model BITs. The model BIT was designed as a template and reviewed regularly to take into account of any treaties which are being concluded and subsequent negotiations. Offering investors greater legal protection, it was used as the basis for a new BIT signed with Spain in March 2005. In 2006 the government revised the BIT model to integrate recent trends in international investment standards and the outcome of the latest agreement negotiated by Colombia, including the BITs with Spain and Switzerland, as well as the FTA with the US. Now that the constitutional impediment to payment of compensation has been removed, foreign investors perceive the current government’s effort to negotiate BITs as an improvement, particularly with regard to compensation issues.

To obviate this danger of expropriation, there are preventive measures. Both parties must conclude an agreement upon paying proper allowance of compensation before the investment to prevent the worst possible situation from occurring, and dispute resolution measures need to be taken by national or international arbitration. Colombia is a signatory to the international agreement for protection against political risks through the World Bank Multilateral Investment Guaranty Agreement (MIGA) and the United States Overseas Private Investment Corporation (OPIC). Colombia’s model BIT states that expropriation measure will be subject to review by the judiciary, reflecting the BITs Colombia negotiated with the United Kingdom, Spain and Chile in which expropriation is subject to review by either the judiciary or an independent authority. The model BIT adds that no expropriation should take place outside of cases provided for by law and should be without discrimination and for public utility or in the public interest.

With regards to regional commitments, the G-3 treaty does cover expropriation or

compensation while Andean Community rules do not. The G-3 treaty requires compensation to be equivalent to the fair market value of the investment at the time of expropriation, with no reduction in value owing to the fact that the intent to expropriate became known before the actual date of the action. In contrast to Colombian legislation, it adds that compensation should be paid promptly, be freely transferable outside the country, be convertible at normal market rates and include interest at the current market rate for the currency used. The G-3 treaty goes further, stating that governments may not expropriate or nationalize investments in a direct or indirect way. Nor can governments adopt equivalent measures, unless it is for a public purpose and on a non-discriminatory basis, in which case it should follow the G-3 rules on compensation. These provisions are similar to those of NAFTA and in line with international standards of investment protection.

In the event that expropriation occurs, the ideal situation for an investor would be the possibility to opt for international arbitration which is easily enforceable in Colombia or national arbitration with a simple, safe and inexpensive process. First, using international arbitration such as the Washington Convention that established the International Centre for the Settlement of Investment Disputes (ICSID) or New York Panama and Montevideo Conventions will be helpful as Colombia is part of the committee. When covered by an ICSID clause on arbitration in a BIT, or specified in a contract between the investor and the government, the investor may resort to international arbitration. This can be an alternative to arbitral or judicial resolution under local law. Second, there are national arbitrations. The norms regulating domestic arbitration have been simplified over time; however, it is still a complex, time-consuming and unclear process. Thus, even though Colombia has a legal framework for arbitration and resolution of disputes, companies that rely on domestic arbitration face a lengthy dispute resolution process. As of now, the majority of conflicts between the states and investors have been solved by national arbitration. Considering the difficulties in executing resolutions of international arbitration outside the ICSID, national arbitration is still the best option.[81]

In the case of the US and Colombia FTA, they clearly stated expropriation and compensation issues in an agreement proposal. Article 10.7 states that no party may expropriate or nationalize a covered investment either directly or indirectly through measures equivalent to expropriation or nationalization unless proper compensation is

[81] Investment Policy Review, UNCTAD, 2006

agreed upon. According to the agreement, the compensation should be paid without delay and be equivalent to the fair market value of the expropriated investment immediately before the expropriation takes place. US - Colombia FTA agreement proposal also included investment Articles to protect its own investors as a matter of defense to be prepared for such danger. In the event of an investor dispute, Article 10.15 states that the claimant and the respondent should initially seek to resolve the dispute through consultation and negotiation, which may include the use of non-binding, third-party procedures. Article 10.16 also states that in the event that a disputing party considers that an investment dispute cannot be settled by consultation and negotiation, the claimant, on its own behalf, may submit to arbitration which includes ICSID.[82]

[82] Chapter 10: Investment, US – Colombia FTA Article

6.2 AUTO MARKET (ETHANOL USE)

Biofuels and Auto Industry in Colombia

Biofuels in Colombia

Colombia is second in biofuel production in Latin America, trailing only Brazil. Colombia mainly uses sugarcane as feedstock for its ethanol production and palm oil for biodiesel. Colombia is to double its ethanol output by the end of 2009, and expects to see its output increase to 2.42 million liters a day.

The Colombian government plans to plant 3 million ha (about 7.4 million acres) of sugarcane and palm trees to obtain sugar-based ethanol and palm oil for biodiesel production. The plan is to convert land that is currently used for low-intensity animal farming into biofuel crops. Two thirds of the land will be used to obtain palm oil and the remaining land for sugarcane ethanol. Production of both ethanol and biodiesel in Colombia will set a new high in 2009 and up to five new biodiesel plants are expected to open.

Currently, the U.S. and Brazil are the leading countries in the world bio-ethanol market, and Colombia's long-term plan is to increase the production of biofuels using its production potential. For instance, the total yield surface of sucrose in Colombia is smaller than other major ethanol producing countries, but Colombia's production of sucrose per unit area shows it to be the highest.

At present, sugar cane is produced only in Colombia's Cuenca Valley, where it has been cultivated for more than 140 years. About 50% of the land, or 518,000 acres, is currently used for commercial sugar plantations. According to a report by the USDA's Economic Report Service (ERS), about 20 % of the land is used to raise cane for ethanol production. These findings suggest that, on average, 1 acre sown with sugarcane in Colombia provides about 740 gallons of ethanol. The Colombian sugar industry is the most efficient in the world when measured by sucrose yield tons/acres/year.

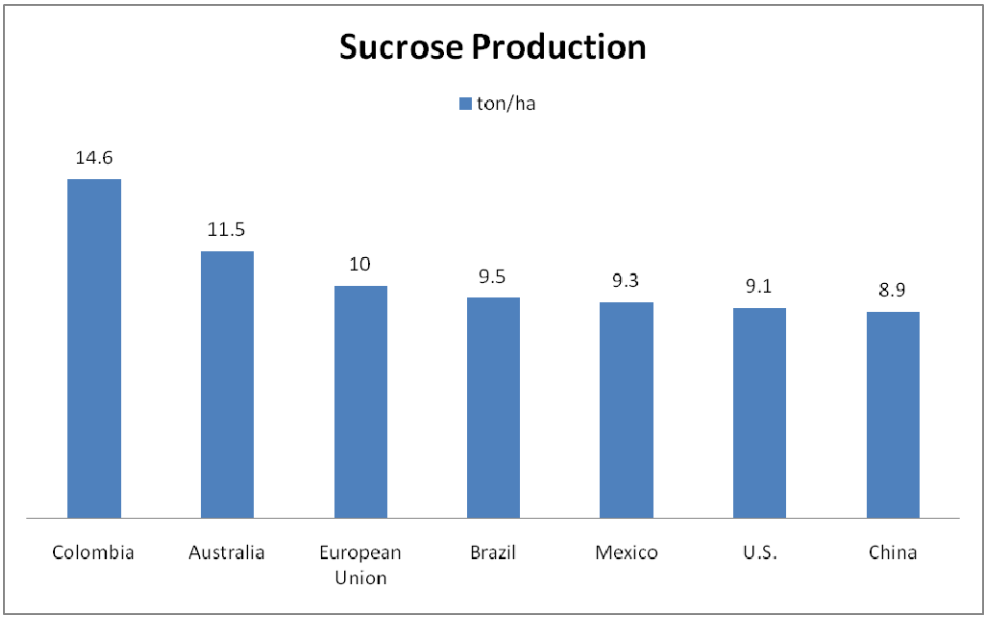
Table 6.9 Annual Fuel Ethanol Productions by Country (2007-2008)

(millions of US Liquid Gallons)

World Rank	Country / Region	2008	2007
1	United States	9,000.0	6,498.6
2	Brazil	6,472.2	5,019.2
3	European Union	733.6	570.3
4	China	501.9	486.0
5	Canada	237.7	211.3
6	Thailand	89.8	79.2
7	**Colombia**	**79.3**	**74.9**
8	India	66.0	52.8
9	Central America	N / A	39.6
10	Australia	26.4	26.4

Source: Renewable Fuels Association

Chart 6.1 Sucrose Productions per Unit Area by Country



Source: Cenicaña

Table 6.10 Colombia's Fuel Ethanol Productions and Sales (2006-2009)

(1,000 Liter)

	2006	2007	2008	2009 (Expected)
Production	268,544	274,832	258,086	320,000
Sale	258,546	279,676	249,736	N / A

Biofuels Law

The Colombian government has recently issued a directive that, commencing in 2012, all vehicles must have E85 (an 85 per cent ethanol, 15 per cent petrol mix) flex-fuel capability.

The executive decree applies to all gasoline-powered vehicles with engines smaller than 2.0 liters manufactured, imported, and commercialized in the country beginning in 2012, mandating that 60% of such vehicles must have flex-fuel engines capable of running with gasoline or E85, or any blend of both. By 2014 the mandatory quota is 80% and it will reach 100% by 2016. All vehicles with engines bigger than 2.0 liters must be E85 capable starting in 2013. The decree also mandates that by 2011 all gasoline stations must provide infrastructure to guarantee availability of E85 throughout the country.

The announcement comes as the government confirmed that it expects to reach its national B5 (biodiesel blends of up to 5 per cent) and E10 targets in 2010. The Colombian government's strong policy in recent years has lead to the development of the domestic ethanol industry.

However, the mandatory introduction of E85 flex-fuel vehicles has caused controversy among carmakers, car dealers, and gasoline station owners. Because a 2001 Colombian law already stipulated that the country's gasoline must have 10% ethanol in 2009, with gradual increases to 25% in 15 to 20 years. In that sense, it seems that it is premature to carry out the E85 flex-fuel directive.

Colombian Auto Market: Present and Prospect

Imported cars and locally assembled cars are competing in the Colombian auto market. Chevrolet, Sofasa (Toyota, Renault), and Compania Colombiana Automotriz (Mazda, Ford, Mitsubishi) are local carmakers, and Hyundai, Nissan, Ford, and Kia are foreign carmakers. In the first quarter of 2009, the number of new cars sold in Colombia decreased by about 30% from the same period last year because of the world financial crisis. However, Colombia's total auto market size has been increasing by 40% every year.

Table 6.11 Colombia's Auto Market (2005)

Type	Million US $	Market Share %
Passenger Car	1,254	62.4
SUV	349	17.3
Pick-Up	407	20.0

Source: KOTRA

Korea's Hyundai Motor sold 17,784 units in 2005, and was as the ranked 1st imported carmaker in Colombia. However, if the Colombian new E85 policy comes into effect in 2012, all imported car makers must develop the new fuel mixture technology.

Korea's most important export commodities to Colombia are vehicles, or auto parts and components. If Korean car makers do not develop the new technology for the Colombian market, their Colombian auto market share will decrease and Korea will not be able to make a profit on the FTA with Colombia.

Table 6.12 Korea's Export to Colombia (2008)

(thousands of US$)

Rank	Commodity Code	Commodity	Value
1	870323	Other Vehicles, Spark-ignition Engine Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	196,300
2	870899	Other parts and accessories	162,978
3	870332	Other Vehicles, Compression-ignition Engine (diesel) Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc	63,018
4	851712	Electric apparatus for line telephony, telephone sets, pts	40,533
5	870322	Other Vehicles, Spark-ignition Engine Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc	37,211
6	390120	Polyethylene Having a Specific Gravity of 0.94 or More	34,530
7	721633	H sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of 80 mm (3.15 inches) or more	32,597
8	870321	Other Vehicles, Spark-ignition Engine Of a cylinder capacity not exceeding 1,000 cc	31,396

Source: KOTIS

7 IMPACTS OF TRADE AND INVESTMENT LIBERALIZATION

7.1 ANALYSIS OF POTENTIAL PRODUCTS TO BE INTRODUCED IN KOREAN – COLOMBIAN MARKET

7.1.1 METHODOLOGY

In this section the methodology used by ITC[83] and FAO and ECLAC (1996)[84] in their studies about specialization profile and competitiveness of exports was adopted with some adjustments. These studies match the average annual growth of commerce of selected products of a country and the annual average of the participation of these products in total commerce.

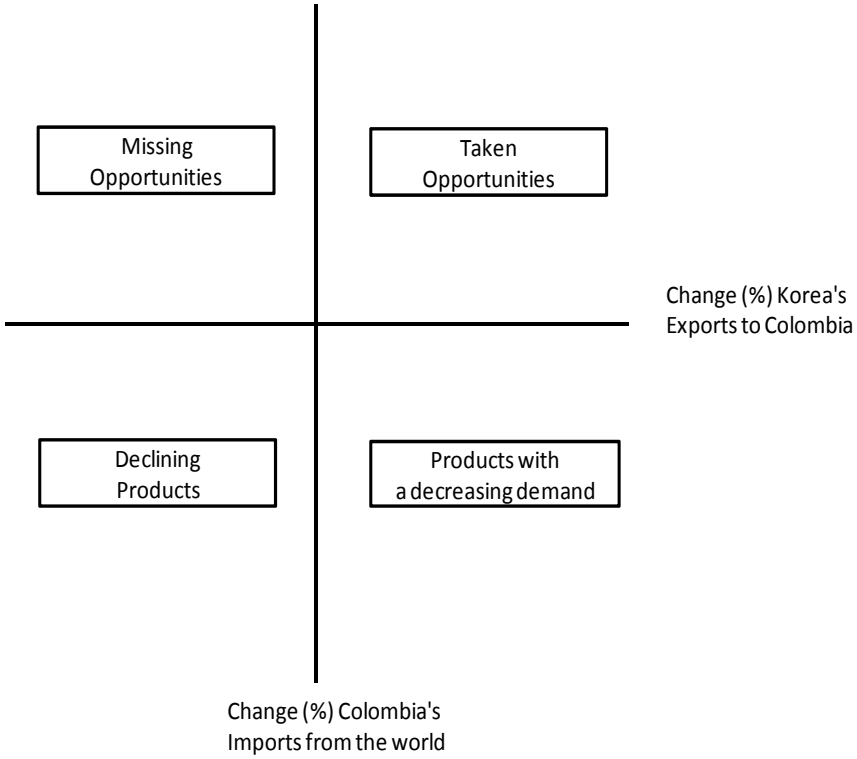
In this analysis, the average annual growth rate of each product imported by Colombia from the world and the average annual growth rate of each product exported by Korea to the Colombian market are compared. The analysis can assess whether Korean exports will respond in a positive way to the growth potential of the Colombian market.

The results are shown in the Potentialities Matrix, where four categories are identified for products:

a) *Taken opportunities*, these products show rising imports from the world by Colombia and rising exports to Colombia by Korea.
b) *Missed opportunities*, these products show rising imports from the world by Colombia and declining or stagnant exports to Colombia by Korea.
c) *Declining products*, these products show declining or stagnant imports from the world by Colombia and declining or stagnant exports to Colombia by Korea.
d) *Products with a decreasing demand*, these products show declining or stagnant imports from the world by Colombia and rising exports to Colombia by Korea.

[83] http:/intraten.org/menus/countries.htm
[84] GUTMAN, Graciela E.; MIOTTI, Luis E. “Exportaciones agroindustriales de América Latina y el Caribe. Especialización, competitividad y oportunidades comerciales en los mercados de la OCDE”. CEPAL – FAO 1996.

Chart 7.1 Potentiality Matrix



The analysis identifies products exported from Korea to Colombia with a positive growth rate and those with a suspended demand in that market (Products with a Decreasing Demand). In addition, it is possible to identify which Korean products with a decreasing rate of export to Colombia have a limited growth potential due to the lower demand of Colombia (Declining Products).

It is also possible to identify Korean export products that respond in a positive way to Colombia's demand (Taken Opportunities) and those products that register a lower amount of exports or are not being exported to the Colombian market despite increasing demand for those products (Missing Opportunities).

7.1.2 RESULTS AND ANALYSIS

The analysis was based on 5,240 items which were exported by Korea to the world between 2001 and 2007. The products were classified by 6 digits level of the Harmonized tariff system.

The analysis identifies the Colombian market condition with the response of Korean exports. Korea's exports to the world are composed of a variety of 5,240 products. There are certain products where an increase in Colombia's demand can be seen. Korea takes advantage of such demand by increasing its export to Colombia (Taken Opportunities) or loses the opportunity by decreasing the export or not exporting at all (Missed Opportunities). There are other products, where Colombia shows less demand. Korea decreases its export (Declining Products) or increases its export (Products with Decreasing Demand). The following chart shows these four cases in different quadrants.

As shown in Quadrant 1 (Taken Opportunities), the Colombian demand for 623 products is increasing and Korea's export has been increasing during the last 7 years. For these products, Korea is taking advantage of such increasing demand as an opportunity in the Colombian market. Total export value to the Colombian market amounted to US$ 434.5 million on average between 2001 and 2007.

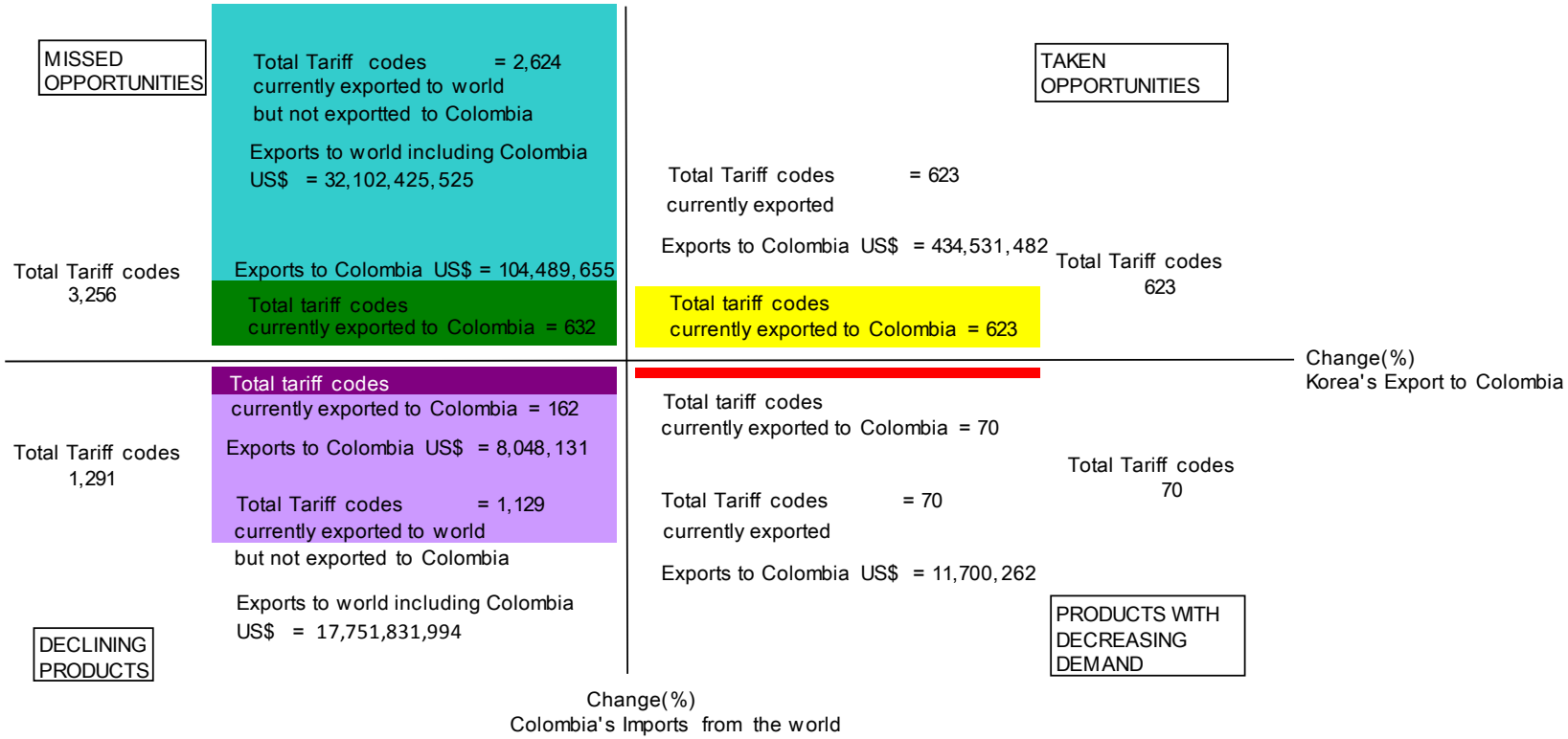
Quadrant 2 (Missed Opportunities) indicates 3,256 products which Korea exports to the world market and faces increasing demand in Colombian market. Among the 3,256 products, Korea exports only 632 products to Colombia. The rest of 2,624 products are exported to the rest of world. The export value of all 3,256 products which are shown in quadrant 2 amount to US$ 32.1 billion on average between 2001 and 2007 in Korea. If Korea takes the opportunity and increases its export to Colombia, the export value will be well over the current one.

Quadrant 3 (Declining Opportunities) shows 1,291 of Korea's exported products in which it faces decreasing demand in the Colombian market and decreases their export of those products or does not export to Colombia at all. Among them, 162 products are exported to Colombia, but Korea has been decreasing its exports. The other 1,129 products are exported by Korea to the rest of the world. The total export value for the 1,291 product reached US$ 17.8 billion.

Quadrant 4 (Products with Decreasing Demand) shows 70 products where demand from Colombia is decreasing while Korean exports to Colombia are increasing.

Chart 7.2 Korea's Potentialities Matrix for the Colombian market

(Number of tariff lines/codes)



Source: United Nations Commodity Trade Statistics Database

Table 7.1 Potentialities Matrix by Sector

Description	Taken opp.	Missed Opp.	Total dynamic demands	Declining Products	Products decrsing demand	Total Tariff Lines	Missed opp. /Dynamic demand	Missed opp. /Total	Exports Value of missed opp. (US$ mill.)
Animal & Animal Products	0	84	84	69	0	153	1.00	0.55	551
Vegetable Products	3	161	164	98	2	264	0.98	0.61	191
Foodstuffs	7	123	130	46	3	179	0.95	0.69	483
Mineral Products	2	86	88	45	4	137	0.98	0.63	445
Chemicals & Allied Industries	72	535	607	171	8	786	0.88	0.68	5,560
Plastics / Rubbers	58	135	193	32	1	226	0.70	0.60	436
Raw Hides, Skins, Leather & Furs	5	40	45	41	1	87	0.89	0.46	169
Wood & Wood Products	19	169	188	80	2	270	0.90	0.63	510
Textiles	70	502	572	274	18	864	0.88	0.58	1,350
Footwear / Headgear	2	39	41	14	0	55	0.95	0.71	46
Stone / Glass	13	133	146	65	1	212	0.91	0.63	1,129
Metals	73	427	500	88	4	592	0.85	0.72	5,961
Machinery / Electrical	198	514	712	161	19	892	0.72	0.58	6,454
Transportation	28	60	88	22	2	112	0.68	0.54	7,841
Miscellaneous	73	248	321	85	5	411	0.77	0.60	970
Total	623	3,256	3,879	1291	70	5,240	0.84	0.62	32,102

7.2 ANALYSIS OF COMPETITIVE INDUSTRIES

7.2.1 MAIN INDICES AND CLASSIFICATION OF PRODUCTS

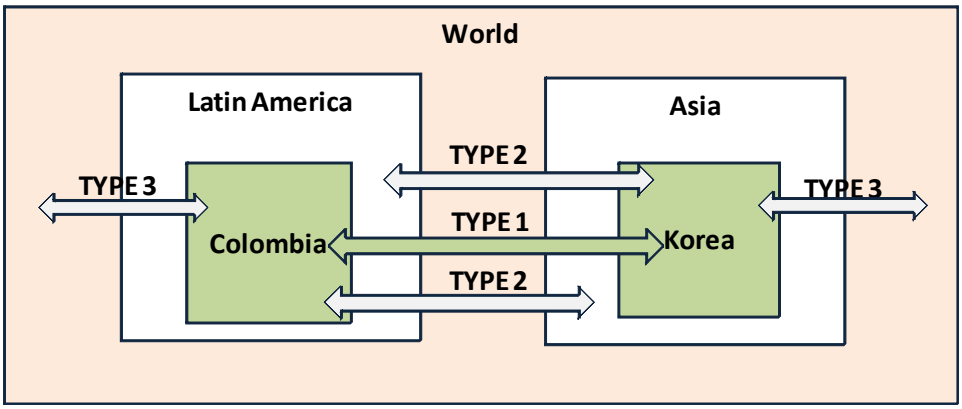
In this section, the export competitiveness of Korea and Colombia and the expected increase in trade is evaluated. For the analysis, key indices are used which measure the export competitiveness and potential export capacity of a country.

- Revealed Comparative Advantage (RCA)
  $RCA = (X_{hi}/X_i) / (W_h/W)$
  : Compares the importance of a specific sector or good within the total exports of a country, in relation to the weight of such sector or good in global trade; the numerator represents the share of good h in the exports of a country i, and the denominator indicates the contribution of the good in global trade.

- Potential Export Capacity (PEC)
  $PEC = Min[(X_{ih}-X_{ijh})/M_{jh}(\%), 100]$
  : Represents the potential export capacity to partner country which indicates how much share of a country j's imports can be supplied by a exporting country i ; the numerator represents the exports of country i for commodity h which exceeds the exports to country j, and the denominator indicates the total imports of country j for commodity h.

For the analysis, it is assumed that trade is affected by tariff rates and technical impediments, such as transportation costs. The products which are exported by Colombia or by Korea are categorized into 3 types determined by their technical impediments to trade.

Chart 7.3 Commodity Types



Type 1: Goods which are currently traded between Colombia and Korea. Tariff is the only impediment to trade. Tariff reduction by the FTA will have a positive impact on the exports.

Type 2: Goods which are not currently traded between Colombia and Korea but still traded between Korea and Colombia's neighboring Latin countries or between Colombia and Korea's neighboring Asian countries. Here Korea's neighboring Asian countries are China, Hong Kong and Japan and Colombia's neighboring countries are Latin American countries which are Argentina, Bolivia, Brazil, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru, Uruguay and Venezuela. Even though the goods are not traded between two countries, they are traded with each other's neighboring countries. In this case it can be assumed that technical impediments are low. Thus there will be trade creation or diversion because of the tariff reductions through the FTA.

Type 3: Goods which are not currently traded between Colombia and Korea, or between Colombia and Korea's neighboring Asian countries, or between Korea and Colombia's neighboring Latin American countries. In this case, tariff and technical impediments are both important for the trade between two countries. Even though FTA lowers the tariff between the two countries, the impact on trade will not be as high as for Type 1 and Type 2 because the technical impediments are still high.

Revealed Comparative Advantage (RCA) indicates whether a country has competitiveness for certain products. Thus the possible trade creation or diversion effect by the FTA will be higher for products where a country has competitiveness. The

products will be analyzed by considering both RCA and technical impediments to trade.

7.2.2 RESULTS OF RCA

Trade date used in the calculation of indices is from Source: United Nations Commodity Trade Statistics Database. Each trade data is the average value between 2003 and 2007.

Table 7.2 and 7.3 show the results of RCA for the main exported products of Korea and Colombia. For both cases, RCA is larger than 1.0 except for two products of Colombia which are HS-870323, Vehicles (excl. of 87.02 & 8703.10), and HS-300490, Medicaments and one product of Korea which is HS-271011, Light petroleum oils & preparations. In most cases, the two countries' top exported products have RCAs higher than 1.0.

Table 7.2 RCA Indices of Korea's Top 30 Exported Commodities

HS6 Code	Commodities	Exports, US$	RCA
HS-852520	Transmission app	14,021,010,198	4.5
HS-854221	Monolithic integrated circuits, digital	14,008,078,033	4.3
HS-870323	Vehicles, of a cylinder capacity >1500cc but not >3000cc	13,438,840,714	2.4
HS-271019	Petroleum oils & oils obtained from bituminous minerals (other than crude) & preparations not elsewhere specified/incld	12,427,812,869	2.3
HS-847330	Parts & accessories of the machines of heading 84.71	8,882,152,403	2.1
HS-852990	Other parts suitable	8,751,615,197	4.8
HS-890120	Tankers	8,428,122,076	16.8
HS-890190	Vessels for the transportof goods & for the transportof both persons & goods	7,662,342,637	10.3
HS-901380	Liquid crystal devices not constituting articles	7,037,834,672	12.1
HS-870899	Other parts & accessories for the motor vehicles	6,167,308,985	2.6
HS-847160	Input/output units, whether/not containing storage units in the same housing	5,170,574,809	3.4
HS-870332	Vehicles principally designed for the transport of persons, of a cylinder capacity >1500cc but not >2500cc	4,090,203,363	1.6
HS-851712	Telephones for cellular networks/for other wireless networks	3,728,878,001	6.1
HS-870322	Vehicles (excl. of 87.02 & 8703.10), of a cylinder capacity >1000cc but not >1500cc	3,655,657,651	2.9
HS-870324	Vehicles (excl. of 87.02 & 8703.10), of a cylinder capacity >3000cc	3,598,647,198	1.0
HS-854232	Electronic integrated circuits, memories	3,174,082,912	10.1
HS-854229	Monolithic integrated circuits, other than digital	2,880,556,909	2.0
HS-271011	Light petroleum oils & preparations	2,534,466,963	0.7
HS-854231	Electronic integrated circuits, processors & controllers	2,334,373,779	4.5

HS-901390	Parts & accessories of the articles of 90.13	2,298,289,595	16.6
HS-847170	Storage units	2,129,611,367	1.5
HS-852812	Reception app. for television	2,083,660,322	2.1
HS-291736	Terephthalic acid & its salts	1,866,316,613	12.8
HS-851770	Parts of telephone sets	1,693,298,337	4.0
HS-847989	Other machines & mechanical appliances	1,652,700,633	1.7
HS-842952	Self-propelled mechanical shovels & excavators	1,611,106,532	3.7
HS-390330	Acrylonitrile-butadiene-styrene (ABS) copolymers	1,540,137,618	12.0
HS-853400	Printed circuits	1,425,509,397	2.2
HS-854389	Other electrical machines & app	1,410,406,676	4.1
HS-841810	Combined refrigerator-freezers	1,342,901,908	7.8

Table 7.3 RCA of Colombia's Top 30 Exported Commodities

HS6 Code	Commodities	Exports, US$	RCA
HS-270900	Petroleum oils & oils obt. from bituminous mins., crude	3,916,864,035	3.7
HS-270112	Bituminous coal, whether/not pulverised	2,337,993,816	35.4
HS-090111	Coffee, not roasted, not decaffeinated	1,280,402,071	78.1
HS-720260	Ferro-nickel, in granular/powder form	913,553,068	173.4
HS-271019	Petroleum oils & oils obtained from bituminous minerals	908,691,200	2.3
HS-060310	Cut flowers & flower buds of a kind sui	647,262,777	70.0
HS-271011	Light petroleum oils & preparations	516,381,569	1.9
HS-080300	Bananas, incl. plantains, fresh/dried	492,126,783	46.6
HS-710812	Gold (incl. gold plated with platinum), in unwrought forms	409,574,632	7.8
HS-870323	Vehicles (excl. of 87.02 & 8703.10)	342,577,441	0.8
HS-711291	Waste & scrap of gold, incl. metal clad with gold	229,307,653	39.2
HS-170199	Cane/beet sugar & chemically pure sucrose	174,891,989	10.1
HS-620342	Men's/boys' trousers, bib & brace overalls, breeches & shorts	168,316,536	5.6
HS-390410	Poly(vinyl chloride), not mixed with any other substance	167,215,549	11.4
HS-300490	Medicaments	150,028,171	0.4
HS-390210	Polypropylene, in primary forms	134,866,295	5.3
HS-170490	Sugar confectionery other than chewing gum	131,358,627	11.6
HS-010290	Live bovine animals other than pure-bred breeding animals	128,761,631	14.4
HS-740400	Copper waste & scrap	128,702,670	5.9
HS-210111	Extracts, essences & concentrates of coffee	116,881,233	20.3

HS-481840	Sanitary towels & tampons, napkins & napkin liners for babies & similar sanitary articles	113,365,964	7.0
HS-270400	Coke & semi-coke of coal/lignite/peat	111,142,285	8.7
HS-490199	Printed books, brochures, leaflets & similar printed matter	106,331,631	3.9
HS-271600	Electrical energy (optional heading)	100,063,367	2.1
HS-620462	Women's/girls', trousers, bib & brace overalls, breeches & shorts	96,820,477	3.3
HS-151110	Palm oil, crude	94,713,471	16.0
HS-170111	Cane sugar, raw, in solid form	92,731,162	9.3
HS-060319	Cut flowers & flower buds of a kind suit	91,822,685	78.7
HS-252329	Portland cement	89,773,033	10.3
HS-710391	Rubies, sapphires & emeralds, worked othw.	86,739,406	35.4

7.2.3 IMPACT OF FTA ON COLOMBIA'S MAIN EXPORTED PRODUCTS

The products having RCAs above 1.0 are competitive in the world market. As seen in the previous section, each country's top exported products have RCAs higher than 1.0. When a FTA is signed between two countries, the positive impact on trade by the lowered tariffs will be larger among competitive products. In this section, the effect of the FTA on the mainly exported competitive goods will be analyzed.

Chart 7.4 indicates the number of products in each type of Colombia's exported goods. Among 5048 goods which are exported by Colombia to the world market, 630 products have RCAs above 1.0, which compose about 12.5% of total exported goods. The lowered tariff will stimulate the exports of Colombia's competitive goods. Among the 630 products, 108 products are currently being exported to Korea. These products are considered to have no technical impediments to trade except tariffs. Therefore, the impact of tariff reduction will be highest among these products, which is indicated by Type 1. Type 2, of which there are 286 products, are not exported to Korea but exported to Korea's neighboring Asian countries. That means technical impediments to trade are low between Colombia and Korea and so the positive impact caused by lowered tariffs will increase the export to Korea. There are 236 Type 3 products which are competitive. These products are neither exported to Korea nor neighboring Asian countries. Both tariffs and technical impediments exist for these exports. Even if the FTA would lower the tariff on the Korean market, exports would not increase as much as in Type 1 and 2 because there are still technical impediments to trade.

Chart 7.4 Colombia's RCA and Commodity Types

Table 7.4 The Impact of FTA on the Competitive Products of Colombia, TYPE 1

HS6 Code	Korea's IM from Colombia		Colombia's EX	PEC	Korea's IM	Colombia	Korea
	US$	Share, %	to World, US$	%	from World, US$	RCA	Tariff
HS-090111	21,954,049	18.4	1,280,402,071	100.0	119,471,645	78.1	2
HS-720260	79,433,818	14.5	913,553,068	100.0	547,045,319	173.4	3
HS-271011	946,108	0.0	516,381,569	7.2	7,208,356,298	1.9	3.3
HS-080300	69,656	0.1	492,126,783	100.0	121,507,508	46.6	30
HS-620342	273,066	0.2	168,316,536	100.0	144,263,996	5.6	13
HS-390410	5,280	0.0	167,215,549	100.0	31,095,192	11.4	6.5
HS-390210	1,145	0.0	134,866,295	100.0	20,242,212	5.3	6.5
HS-170490	463,539	1.0	131,358,627	100.0	45,592,764	11.6	8
HS-740400	10,946,850	1.4	128,702,670	15.0	787,062,677	5.9	0
HS-210111	203,359	7.7	116,881,233	100.0	2,655,128	20.3	8
HS-490199	1,590	0.0	106,331,631	74.2	143,345,167	3.9	0
HS-620462	167,420	0.1	96,820,477	42.7	226,336,316	3.3	13
HS-170111	3,211,329	0.8	92,731,162	22.7	394,869,667	9.3	3
HS-060319	5,833	2.8	91,822,685	100.0	206,532	78.7	25
HS-710391	16,901	1.1	86,739,406	100.0	1,595,156	35.4	5
HS-610910	21,827	0.0	62,216,093	31.2	199,371,071	1.7	13
HS-621210	629	0.0	61,830,007	100.0	39,197,110	5.3	13
HS-210690	118,095	0.0	54,692,094	18.0	303,293,495	1.6	76.8
HS-410411	1,670,496	2.8	49,783,645	81.2	59,283,724	10.3	5
HS-630260	1,932	0.0	44,652,732	100.0	23,970,643	6.2	13
HS-330499	89	0.0	40,101,716	11.1	362,466,205	1.3	8
HS-392112	2,376	0.0	40,043,159	100.0	5,414,470	21.7	6.5
HS-760200	1,228,017	0.2	33,841,456	6.3	515,748,799	2.2	0
HS-480300	364,428	6.2	28,983,709	100.0	5,845,686	6.5	0
HS-610711	907	0.0	27,671,152	100.0	15,216,701	7.6	13
HS-620331	2,096	0.0	26,604,333	100.0	16,840,000	10.8	13
HS-340111	1,610	0.0	24,245,867	100.0	16,371,694	7.0	7.3
HS-380892	50,168	0.5	21,774,014	100.0	10,738,980	11.3	4.3
HS-610990	23,275	0.0	20,539,493	38.0	53,928,370	1.6	13
HS-620341	11	0.0	19,850,150	100.0	15,469,213	9.8	13
HS-420221	23,833	0.0	19,593,952	22.4	87,350,722	2.0	8
HS-611241	298	0.0	18,090,273	100.0	4,983,274	5.4	13
HS-420500	37	0.0	18,063,571	100.0	15,198,552	3.7	8
HS-620520	11,568	0.0	16,500,473	15.8	104,185,267	1.1	13
HS-691200	25,568	0.1	14,411,590	39.3	36,578,069	4.8	8
HS-180690	549	0.0	14,322,623	47.1	30,392,003	1.1	14
HS-610520	2,346	0.0	13,968,566	100.0	13,044,693	8.9	13
HS-620333	19,829	0.0	13,831,635	15.3	90,030,063	5.0	13
HS-410320	295,000	57.7	13,660,091	100.0	510,890	51.7	1.8
HS-200899	60,082	0.2	13,425,020	38.7	34,553,203	6.6	45
HS-610610	41,605	0.1	13,096,848	46.9	27,860,720	1.9	13
HS-482010	26	0.0	13,015,745	100.0	5,774,274	4.2	0
HS-090112	1,346	0.0	12,871,328	100.0	2,813,399	10.1	2
HS-731700	929	0.0	12,809,839	74.4	17,223,482	3.4	0
HS-620343	6,100	0.0	11,973,048	13.5	88,617,543	1.8	13
HS-620920	129,928	1.2	10,429,453	92.5	11,131,317	3.8	13
HS-854620	105,261	0.7	9,829,232	63.3	15,368,428	7.0	8
HS-392329	42	0.0	9,101,451	26.7	34,073,807	1.5	8
HS-620630	201	0.0	8,910,501	12.6	70,450,394	1.1	13

HS-590390	917	0.0	6,432,451	17.2	37,371,749	1.4	10
HS-610462	1,943	0.0	6,386,433	82.7	7,718,455	1.1	13
HS-410419	114,969	0.4	6,326,035	21.1	29,490,719	3.3	5
HS-620443	4,555	0.0	6,285,489	50.2	12,513,458	2.1	13
HS-611430	405	0.0	6,153,866	100.0	6,002,375	2.5	13
HS-611595	5,563	0.2	5,766,900	100.0	2,302,397	4.5	13
HS-151790	193	0.0	5,681,912	21.1	26,935,718	1.6	8
HS-610343	2,576	0.0	5,316,007	76.6	6,938,876	2.1	13
HS-590310	24,584	0.4	5,198,657	88.3	5,857,158	1.5	10
HS-411330	477,267	9.6	5,005,216	90.9	4,979,846	21.0	5
HS-121190	8,007	0.0	4,847,624	11.6	41,603,899	2.3	8
HS-620442	1,304	0.0	4,609,872	23.7	19,412,141	1.8	13
HS-902121	3,344	0.1	4,574,785	100.0	2,850,581	6.6	0
HS-210112	443,598	2.2	4,553,126	20.0	20,571,801	4.3	8
HS-410449	948	0.0	4,499,027	9.6	47,019,574	2.3	5
HS-853922	65	0.0	3,909,938	39.2	9,986,001	1.7	8
HS-611596	275	0.0	3,906,227	100.0	1,865,738	5.6	13
HS-200799	1,028,185	15.1	3,767,914	40.3	6,795,435	1.4	30
HS-420330	2,940	0.0	3,418,578	19.8	17,223,054	1.1	13
HS-051000	1,170,200	15.9	3,384,444	30.1	7,360,491	19.8	8
HS-253090	229,263	0.5	3,249,647	7.2	41,879,293	2.0	3.7
HS-490900	146	0.0	3,185,989	79.0	4,033,813	1.6	4
HS-620339	3,133	0.0	2,974,759	30.5	9,748,479	2.0	13
HS-620530	1,043	0.0	2,945,436	7.0	41,993,416	1.0	13
HS-611420	515	0.0	2,780,047	25.6	10,840,493	1.3	13
HS-620332	15,794	0.0	2,671,779	6.4	41,252,673	1.1	13
HS-090420	1,928	0.0	2,430,323	11.7	20,839,762	2.0	270
HS-401163	414	0.0	2,256,263	100.0	951,414	1.3	8
HS-410640	73	0.2	2,048,740	100.0	44,044	31.5	5
HS-710310	1,800	0.5	1,683,493	100.0	376,217	3.0	1
HS-482030	37	0.0	1,474,458	100.0	800,261	1.1	0
HS-411510	116	0.0	1,322,799	31.3	4,223,620	3.5	8
HS-611212	2,183	0.1	1,159,797	32.3	3,581,017	1.0	13
HS-090190	3	0.0	1,136,233	100.0	60,116	3.1	5.5
HS-490300	46	0.0	1,114,475	9.1	12,181,641	1.0	0
HS-610442	445	0.0	1,095,852	53.7	2,041,022	1.1	13
HS-620990	77	0.0	724,798	49.3	1,470,827	1.9	13
HS-650699	128	0.0	689,694	20.1	3,425,418	2.2	8
HS-071010	9,260	0.7	637,578	50.8	1,237,359	4.3	27
HS-711320	602	0.1	616,429	73.8	834,836	1.3	8
HS-960310	6	0.0	494,346	12.7	3,881,563	2.3	8
HS-910529	318	0.0	489,966	18.3	2,672,240	4.7	8
HS-010620	830	0.0	464,360	23.6	1,965,253	8.3	8

Table 7.4 indicates all 108 products in Type 1 and they are aligned by the export amount of Colombia. . HS-090111 which is Coffee excluding roasted and decaffeinated is Colombia's top exported product. On average, about US$ 22 million was exported to Korea during the last 5 years and it amounted about 18.4% of Korea's imports. Korea's tariff for coffee is 2.0%. The FTA will eliminate this rate and it will result in an increase in imports to Korea for this product. Colombia also has the potential capacity to export enough coffee to cover 100% of Korea's coffee imports.

Other exported products in Type 1 are HS-720260(Ferro-nickel), HS-271011(Light oils and preparations, of petroleum or bituminous minerals), HS-080300 (Bananas, including plantains, fresh or dried), HS-620342 (Men's or boys'' trousers, bib and brace overalls, breeches and shorts, of cotton excluding knitted or crocheted, underpants and swimwear), HS-390410 (Fireworks), HS-390210 (Polypropylene, in primary forms), HS-170490 (Sugar confectionery not containing cocoa, incl. white chocolate excluding chewing gum), HS-740400 (Waste and scrap, of copper) and HS-210111 (Extracts, essences and concentrates, of coffee).

HS-080300, Bananas, is the 4th highest exported good from Colombia. They have exported US$ 69 thousand to Korea which covers about 0.1% of the total imports to Korea in bananas. The tariff on bananas is currently 30%; thus the impact of tariff reduction on this product will be high. Colombia can cover about 7.2% of Korea's total imports of bananas. HS-620342, Men's or boys'' trousers, bib and brace overalls, breeches and shorts, of cotton, is the 5th largest exported good of Colombia and the tariff is 13% in the Korean market. The share of imports from Colombia for this product is 0.2% but Colombia has the capacity to cover 100% of Korea's imports. Thus it is expected that reduced tariffs will stimulate imports of this product.

Table 7.5 The Impact of FTA on the Competitive Products of Colombia, TYPE 2

HS6 Code	Korea's IM from Latin America, US$	Colombia's EX to Asia, US$	Colombia's EX to World, US$	PEC %	Korea's IM from World, US$	Colombia RCA	Korea Tariff
HS-270900	366,190,083		3,916,864,035	9.2	42,358,496,091	3.7	3
HS-270112		1,591,566	2,337,993,816	54.8	4,267,047,114	35.4	0
HS-271019	1,196,704	1,277,181	908,691,200	93.6	970,351,639	2.3	6.6
HS-710812		9,313	409,574,632	25.6	1,598,658,376	7.8	3
HS-170199	181,304	420,942	174,891,989	100.0	4,043,934	10.1	40
HS-401120	93,280		74,040,845	100.0	57,317,872	2.6	8
HS-030613	438,257	1,274,256	66,164,035	48.1	137,425,050	4.0	20
HS-060311	285	168,253	65,582,464	100.0	8,974	102.5	25
HS-390230		343,850	59,857,747	100.0	7,778,367	4.2	6.5
HS-870431		2,000	54,845,828	100.0	3,724,252	1.4	10
HS-841810	33,017	136	54,544,812	100.0	31,736,165	4.3	8
HS-392020	413	227,944	53,322,784	95.0	56,141,241	4.0	6.5
HS-691010	248,025		52,783,197	98.3	53,686,232	12.0	8
HS-390319	3,575	71,263	47,351,791	100.0	21,101,562	5.1	6.5
HS-710813	2,101		44,702,982	17.3	258,803,866	1.8	3
HS-240220	46	28,994	44,571,585	100.0	26,722,376	1.5	40
HS-060312		3,249,322	44,518,656	100.0	85,868	254.7	25
HS-690890	1,952,801	1,127	40,196,841	25.0	160,912,130	1.9	8
HS-170410	282,946	29,026	39,224,176	100.0	4,515,456	25.1	8
HS-030342		206,477	38,219,760	100.0	3,671,411	36.7	10
HS-850710	200	9	32,768,866	100.0	5,321,334	4.4	8
HS-600410	45,761	181,018	32,643,625	100.0	11,608,559	4.4	10
HS-220290	202,293	5,151	32,501,853	100.0	19,461,884	4.1	8.3
HS-701090	1,633		32,181,149	100.0	17,541,157	2.9	8
HS-610822	7,364	440	31,194,016	100.0	4,154,120	7.3	13
HS-392190	11,500		30,686,882	15.1	203,276,031	1.7	6.5
HS-480256	24,600		30,515,940	83.3	36,631,529	3.5	0
HS-740811	7,526		30,133,463	67.4	44,677,088	1.4	8
HS-761010	5,504		29,314,716	100.0	6,267,419	7.8	8
HS-841821	5,585		28,972,654	100.0	8,639,735	3.4	8
HS-190531	42,929	16,959	28,068,374	100.0	3,649,228	3.4	8
HS-392330	80	886	27,223,309	100.0	21,998,143	2.7	8
HS-081090		115,115	25,993,498	100.0	11,507,404	17.8	47.5
HS-392010	150,886	10	24,833,431	31.9	77,855,358	1.5	6.5
HS-280300		673,366	24,685,976	77.7	31,770,178	6.1	5.5
HS-392410	5,231	2	24,470,326	90.9	26,929,539	3.0	8
HS-610821	5,235	38	24,425,896	100.0	11,050,070	6.5	13
HS-490290	177	154	24,195,132	100.0	20,588,629	2.0	0
HS-410799	5,040,470	3,952,443	23,878,873	38.8	61,560,467	7.2	5
HS-300420	194,258		23,192,037	54.4	42,651,439	1.0	8
HS-300450	77,942		22,144,656	100.0	12,304,930	3.1	8
HS-340220	4,649		21,618,435	82.7	26,126,633	1.4	6.5
HS-330590	10,354	94,981	21,530,831	36.7	58,610,293	2.4	8
HS-520942	96,963	403	20,999,267	32.6	64,440,137	2.9	10
HS-960200	107	83,335	20,861,545	100.0	1,372,367	19.2	8
HS-490191	181		20,361,367	100.0	1,008,405	31.6	0
HS-600632	9		20,047,574	100.0	14,978,569	6.0	10
HS-350300	170,745		19,980,607	100.0	9,715,496	9.7	8
HS-850421	1,074		19,933,994	100.0	4,510,352	9.8	8

HS-481141	57,510	708	17,769,816	100.0	16,468,526	3.4	0
HS-330290	12,768	1,092	17,268,102	29.5	58,524,290	1.8	8
HS-640299	374,127		15,965,062	22.1	72,143,015	1.0	13
HS-610832		1,347	15,520,951	100.0	423,177	11.1	13
HS-392350	7,058	83,316	15,444,604	79.7	19,372,854	1.8	8
HS-720421	115,324	827,106	15,347,936	2.0	754,946,767	1.1	0
HS-392321	8,353	43	15,290,218	91.0	16,806,272	1.4	8
HS-820140	20		14,999,687	100.0	117,253	73.2	8
HS-392049	390		14,977,454	67.0	22,356,368	3.0	6.5
HS-720918	65,297		14,738,999	21.9	67,259,680	2.8	0
HS-392043	4,835	3	14,413,410	100.0	1,994,955	3.5	6.5
HS-310520	21,860		14,025,306	100.0	9,905,218	2.7	6.5
HS-390421		9,541	13,782,024	100.0	264,193	7.1	6.5
HS-410792	1,548,637	798,608	13,444,237	39.8	33,749,236	2.6	5
HS-210410	718,309	10	12,846,311	68.0	18,900,924	4.1	21
HS-732111	2,044		12,800,970	100.0	7,282,999	2.2	8
HS-690790	66,149	22,274	12,251,734	74.3	16,500,640	2.0	8
HS-300510	22,514		12,092,629	100.0	6,644,338	3.1	0
HS-291814		33,410	11,589,375	100.0	8,939,826	11.4	8
HS-580421		344,614	11,554,894	100.0	9,029,546	9.1	13
HS-380893		107,560	11,473,439	100.0	4,137,982	4.6	6.5
HS-940490	11,760	611	11,274,409	13.4	84,173,097	1.2	8
HS-550320	157		10,916,445	100.0	6,010,101	2.5	8
HS-521142	18,576		10,838,780	100.0	4,279,537	13.4	10
HS-180632	171,108	4,745	10,607,894	96.5	10,996,694	2.3	8
HS-350691	16,865		10,439,560	19.1	54,650,728	1.4	6.5
HS-610620	5,569	8,389	10,089,673	100.0	9,644,744	2.8	13
HS-761490	946		9,501,260	100.0	477,581	14.3	8
HS-390422		5,541	9,344,455	100.0	2,718,845	3.7	6.5
HS-300440	3,416		9,187,286	14.1	64,989,518	1.5	8
HS-190532	24,507		9,040,645	100.0	1,082,307	2.3	8
HS-252310		0	8,981,112	100.0	797,360	2.9	5
HS-760720	22,283	4	8,892,388	41.3	21,525,903	1.7	8
HS-853810	16,675		8,670,524	15.5	56,090,954	1.6	8
HS-391740	396	213	8,667,050	23.5	36,804,888	1.4	8
HS-110812		29,340	8,629,239	79.6	10,843,523	11.5	226
HS-330690	1,303		8,532,229	100.0	3,756,757	6.2	8
HS-731210	14,975	5	8,524,411	10.1	84,412,670	1.1	0
HS-330491	29		8,338,584	37.4	22,274,127	4.2	8
HS-070190		6,330	8,330,406	91.7	9,086,251	2.2	304

Table 7.5 presents 100 of the main exported products in Type 2. These products are not currently exported to Korea but exported to Asian countries. Thus the potential for exports to Korea is high. The top exported products are HS-270900 (Petroleum oils and oils obtained from bituminous minerals, crude), HS-270112 (Bituminous coal) HS-271019(Medium oils and preparations, of petroleum or bituminous minerals), HS710812 (Gold), HS-170199 (Cane or beet sugar and chemically pure sucrose, in solid form), HS-401120 (New pneumatic tires, of rubber, of a kind used for buses and lorries), HS-030613 (Frozen shrimps and prawns), HS-060311 (Fresh cut roses and buds, of the kind suitable for bouquets or for ornamental purposes).

Table 7.6 The Impact of FTA on the Competitive Products of Colombia, TYPE 3

HS6 Code	Colombia's EX to World, US$	PEC %	Korea's IM from World, US$	Colombia RCA	Korea Tariff
HS-711291	229,307,653	100.00	8,073,036	39.2	2.5
HS-010290	128,761,631	100.00	1,913,309	14.4	26.7
HS-481840	113,365,964	100.00	49,107,181	7.0	0
HS-270400	111,142,285	98.34	113,019,068	8.7	3
HS-151110	94,713,471	100.00	92,312	16.0	3
HS-252329	89,773,033	76.52	117,324,867	10.3	5
HS-020110	75,486,584	100.00	121,645	26.1	40
HS-261690	33,028,723	100.00	6,798,145	24.2	0
HS-850423	29,879,276	100.00	3,652,533	5.3	8
HS-040221	28,242,485	100.00	3,726,652	2.5	176
HS-160414	27,483,736	100.00	5,551,410	5.0	20
HS-721041	26,698,710	100.00	14,750	44.0	0
HS-761519	25,175,263	100.00	24,134,847	5.3	7.3
HS-700312	24,102,257	100.00	3,440,678	115.2	8
HS-480255	22,479,706	57.19	39,309,818	2.9	0
HS-482020	21,521,189	100.00	92,763	26.8	0
HS-730630	20,863,798	100.00	14,972,055	2.1	0
HS-051110	19,661,533	100.00	2,329,268	46.6	0
HS-730629	18,410,525	100.00	510,145	49.5	0
HS-330610	17,964,988	100.00	10,676,033	4.6	8
HS-151321	17,160,182	100.00	29,320	14.4	6.5
HS-020130	16,667,518	13.65	122,117,864	1.0	40
HS-071331	14,736,103	100.00	1,299,859	50.0	607.5
HS-390390	14,377,996	32.55	44,168,638	1.8	6.5
HS-620311	14,332,601	28.38	50,499,268	2.5	13
HS-590210	14,077,976	63.05	22,329,921	8.0	8
HS-840710	12,942,558	100.00	1,990,378	5.1	0
HS-850610	12,854,107	36.25	35,457,490	1.9	11.3
HS-750300	12,398,840	100.00	1,867,580	10.3	0
HS-391729	11,970,179	100.00	10,305,197	4.9	6.5
HS-848050	11,536,188	100.00	547,333	16.2	8
HS-760421	11,091,671	100.00	542,807	2.5	8
HS-180400	10,434,967	100.00	7,369,669	2.1	5
HS-291732	10,283,503	100.00	4,664,077	7.0	6.5
HS-481810	9,826,866	100.00	1,226,413	2.0	0
HS-630222	9,812,979	100.00	270,111	13.0	13
HS-841850	9,525,843	48.81	19,516,243	1.2	8
HS-030343	8,952,615	100.00	454,008	11.6	10
HS-290410	8,864,050	100.00	6,046,880	10.5	5.5
HS-281410	8,414,842	2.73	308,268,998	1.3	1
HS-390791	8,244,729	99.03	8,325,092	2.1	6.5
HS-848060	7,681,227	100.00	1,362,198	6.1	8
HS-843049	7,264,488	72.94	9,960,209	2.1	0
HS-940370	7,147,676	100.00	3,164,409	3.0	0
HS-252321	6,995,874	100.00	5,493,019	7.1	5
HS-290244	6,980,807	100.00	1,032,438	3.1	3
HS-940330	6,276,591	23.34	26,896,842	1.0	0
HS-480525	6,149,776	52.13	11,796,574	6.7	0
HS-550931	6,122,670	32.79	18,673,687	10.3	8

HS-270119	5,617,255	5.05	111,237,343	1.1	0
HS-711292	5,416,473	100.00	1,472,730	1.8	2.5
HS-040700	5,372,228	100.00	956,975	1.6	27
HS-190410	4,923,915	100.00	2,898,714	1.0	5.4
HS-730820	4,888,423	50.22	9,733,449	2.1	8
HS-700319	4,647,673	33.81	13,745,404	3.7	8
HS-540219	4,558,460	45.60	9,995,538	13.3	8
HS-110720	4,421,490	100.00	371,087	25.5	148
HS-252210	4,387,218	100.00	1,152,282	5.6	3
HS-760511	4,264,639	48.69	8,759,577	1.5	8
HS-401161	4,210,352	100.00	287,266	2.4	8
HS-620422	4,036,724	100.00	924,797	4.3	13
HS-960329	3,962,436	76.35	5,189,497	5.2	8
HS-721050	3,818,127	76.07	5,019,085	2.1	0
HS-761410	3,741,182	100.00	250,306	6.8	8
HS-700490	3,713,917	0.98	377,408,970	5.9	8
HS-550953	3,706,842	8.24	44,990,881	4.1	8
HS-390521	3,681,582	65.01	5,663,199	3.7	6.5
HS-390910	3,671,228	100.00	1,407,049	2.3	6.5
HS-560312	3,519,740	30.74	11,448,669	1.0	8
HS-760410	3,473,099	63.54	5,465,873	1.2	8
HS-847529	3,441,026	5.30	64,901,328	2.0	8
HS-250900	3,430,150	100.00	38,658	11.6	3
HS-847510	3,364,907	100.00	1,073,506	8.0	8
HS-480519	3,358,450	100.00	66,977	1.2	0
HS-960321	3,347,719	15.09	22,180,171	1.4	8
HS-390750	3,230,870	100.00	1,884,136	2.0	6.5
HS-010511	3,064,076	73.49	4,169,256	2.1	9
HS-841122	2,909,332	48.49	6,000,190	1.2	6.3
HS-330430	2,862,504	61.39	4,662,837	2.0	8
HS-620930	2,834,362	100.00	2,766,536	4.7	13
HS-291719	2,794,683	25.13	11,121,466	3.0	6.5
HS-391723	2,718,920	100.00	2,628,509	1.2	6.5
HS-847920	2,703,048	100.00	1,333,774	2.4	8
HS-320619	2,644,471	15.75	16,790,087	1.4	6.5
HS-600532	2,573,234	47.30	5,440,316	1.2	10
HS-030344	2,505,113	31.26	8,013,663	9.1	10
HS-293690	2,459,303	58.63	4,194,313	1.8	6.5
HS-681181	2,453,123	100.00	48,650	28.8	8
HS-291822	2,424,492	100.00	74,939	16.8	6.5
HS-600534	2,415,394	100.00	1,964,260	5.5	10
HS-721550	2,410,228	40.75	5,915,043	1.1	0
HS-480258	2,188,108	25.35	8,633,230	1.3	0
HS-721621	2,137,956	17.53	12,195,077	1.3	0
HS-110313	2,115,378	100.00	14,672	3.7	162.9
HS-321100	2,108,168	100.00	766,838	7.0	6.5
HS-610722	2,047,461	100.00	377,915	8.9	13
HS-610422	2,012,320	100.00	319,309	1.6	13
HS-520941	1,930,732	100.00	208,559	8.9	10
HS-620423	1,891,803	100.00	1,503,389	2.0	13

Table 7.6 indicates the 100 main exported products that are not exported to Asia including Korea. Thus tariffs are not the only impediment to trade. The impact of tariff reduction on these products will be low compared to Type 1 and 2.

7.2.4 IMPACT OF FTA ON KOREA'S MAIN EXPORTED PRODUCTS

Chart 7.5 indicates the number of products in each type of Korea's exported goods. There are 5031 products which are being exported by Korea to the world market. Among them, 798 products have RCAs higher than 1.0 which composes about 15.9% of total exports of Korea. The impact of tariff reduction on the exports of Korea will be higher among the products which are competitive in the world market, which are products with RCAs higher than 1.0. Among the products which have a comparative advantage, 502 Type 1 products are currently being exported to Colombia. For these products, tariffs are the only impediment to trade. Therefore, the FTA will stimulate export to Colombia by the reduction of tariffs. 239 products are classified as Type 2, which are not currently exported to Colombia but exported to neighboring Latin American countries. Even though Type 2 products are not traded between Korea and Colombia, the technical impediments such as distance or transportation costs are low because it is exported to Latin America. Thus the tariff is the main barrier of trade and FTA will increase exports of these products to Colombia. 57 products are included in Type 3 which are not exported to Latin America including Colombia. For these products, both technical impediments and tariffs are barriers for trade. The impact of the FTA will be low for the exports of Type 3.

Chart 7.5 Korea's RCA and Commodity Types

Table 7.7 The Impact of FTA on the Competitive Products of Korea, TYPE 1

HS6 Code	Colombia's IM from Korea		Korea's export to world, US$	PEC	Colombia's IM from World, US$	Korea RCA	Colombia Tariff
	US$	Share, %		%			
HS-870323	50,106,416	11.2	13,438,840,714	100	446,170,664	2.4	35
HS-271019	2,399,439	0.7	12,427,812,869	100	335,691,897	2.3	9.1
HS-847330	2,848,030	2.8	8,882,152,403	100	100,243,278	2.1	5
HS-852990	1,757,107	3.7	8,751,615,197	100	47,468,611	4.8	8.8
HS-901380	2,376	0.0	7,037,834,672	100	6,051,516	12.1	5
HS-870899	3,581,844	4.2	6,167,308,985	100	85,402,866	2.6	10.4
HS-847160	2,750,569	2.6	5,170,574,809	100	107,102,729	3.4	5
HS-870332	19,926,930	69.4	4,090,203,363	100	28,703,436	1.6	35
HS-851712	21,298,936	12.0	3,728,878,001	100	177,155,670	6.1	5
HS-870322	44,675,414	14.7	3,655,657,651	100	303,773,961	2.9	35
HS-854232	53,106	5.8	3,174,082,912	100	915,485	10.1	5
HS-854231	68,839	1.9	2,334,373,779	100	3,581,345	4.5	5
HS-901390	119	0.0	2,298,289,595	100	699,953	16.6	5
HS-847170	787,544	2.8	2,129,611,367	100	27,742,004	1.5	5
HS-851770	55,224	0.2	1,693,298,337	100	22,593,286	4.0	5
HS-847989	684,045	1.2	1,652,700,633	100	55,734,597	1.7	5.7
HS-842952	1,456,681	2.1	1,611,106,532	100	68,436,048	3.7	5
HS-390330	2,272,161	31.3	1,540,137,618	100	7,255,882	12.0	5
HS-853400	246,302	15.8	1,425,509,397	100	1,556,106	2.2	10
HS-841810	5,924,975	21.9	1,342,901,908	100	27,031,973	7.8	20
HS-401110	4,005,763	4.8	1,291,555,243	100	84,012,531	2.2	15
HS-852851	81,011	0.8	1,270,888,506	100	10,472,984	8.2	5
HS-390210	392,272	4.0	1,263,411,647	100	9,889,279	3.6	15
HS-870333	7,798,649	31.0	1,184,645,654	100	25,188,574	1.8	35
HS-390120	34,436,099	29.5	1,168,768,582	100	116,783,127	3.1	15
HS-870421	7,069,974	6.3	1,130,183,117	100	112,119,179	1.3	25
HS-481019	814,566	7.7	970,593,695	100	10,566,418	4.3	15
HS-720917	2,423,389	3.5	966,768,371	100	69,605,317	5.7	10
HS-841510	7,953,109	39.5	901,098,239	100	20,113,133	4.6	15
HS-600410	1,460,307	21.6	899,176,044	100	6,764,015	9.0	20
HS-390760	4,713,638	15.1	888,559,229	100	31,222,512	4.8	15
HS-540761	1,755,462	22.0	854,523,688	100	7,994,445	9.7	20
HS-401120	10,340,233	10.7	831,963,734	100	97,087,945	2.2	15
HS-843149	406,766	1.0	823,707,070	100	39,603,177	1.7	5
HS-852290	222,142	5.5	760,282,896	100	4,014,836	2.2	5
HS-854011	1,593,485	57.8	723,532,788	100	2,755,780	4.5	0
HS-721049	87,456	0.3	717,565,725	100	30,735,051	2.0	15
HS-847990	38,142	0.3	710,053,812	100	11,468,332	1.7	10
HS-390110	12,774,243	12.8	694,773,638	100	100,062,086	1.7	15
HS-550320	1,166,377	14.8	685,063,363	100	7,856,208	11.8	15
HS-721070	2,222,917	19.0	661,530,973	100	11,709,390	5.1	10
HS-853120	10,565	0.7	659,440,098	100	1,486,564	4.1	15
HS-590320	87,292	4.1	659,062,062	100	2,110,666	7.7	20
HS-850780	57,551	1.3	655,267,114	100	4,490,846	3.1	15
HS-854060	26	0.1	633,326,974	100	30,603	30.7	5
HS-721633	51,705	0.9	624,313,413	100	5,946,092	6.0	10
HS-848071	252,265	1.7	594,309,626	100	14,538,958	3.0	5
HS-870321	27,965,698	28.8	587,718,688	100	97,222,136	2.9	35
HS-600622	2,247	0.2	582,567,533	100	1,082,778	6.0	20

HS-850710	584,638	5.9	446,571,824	100	9,917,830	4.4	15
HS-845011	8,770,555	39.1	443,221,590	100	22,425,073	1.8	20
HS-400219	93,791	0.4	417,303,654	100	21,074,059	5.3	5
HS-721934	51,415	0.2	415,897,523	100	20,808,056	3.2	5
HS-841989	134,922	0.7	403,949,472	100	18,670,386	2.6	9.2
HS-600632	141,035	8.0	386,502,430	100	1,768,623	8.6	20
HS-390410	777,325	2.7	376,571,535	100	29,066,442	1.9	15
HS-390319	52,908	0.6	373,778,101	100	9,021,148	3.0	15
HS-392062	924,267	12.1	368,776,333	100	7,626,685	4.0	20
HS-845811	595,633	13.6	367,546,267	100	4,389,223	3.8	5
HS-841590	701,751	6.5	367,057,590	100	10,727,785	1.8	10
HS-720916	543,765	1.4	366,950,570	100	39,097,529	3.6	10
HS-390740	15,279	0.2	358,956,688	100	6,478,580	2.3	5
HS-842720	272,087	1.5	352,856,563	100	18,622,027	1.9	5
HS-850490	2,028	0.0	352,681,644	100	5,467,527	1.7	10
HS-390390	79,035	1.6	349,507,761	100	5,029,068	3.3	15
HS-851650	1,253,054	10.2	349,032,040	100	12,229,410	4.0	5
HS-721012	46,834	0.8	339,366,948	100	5,866,028	2.6	10
HS-845020	9,314,715	19.3	339,188,087	100	48,147,470	12.7	15
HS-720918	1,644,885	2.2	333,251,650	100	73,189,084	4.7	8
HS-842951	250,733	0.8	331,603,393	100	32,689,124	1.6	5
HS-841950	69,459	1.0	328,971,493	100	6,781,784	1.8	15
HS-854091	20,110	7.1	305,313,246	100	283,578	6.9	5
HS-854890	1,633	1.1	287,913,241	100	149,193	2.2	2.5
HS-540249	2,200,149	9.8	284,155,276	100	22,493,967	8.1	10
HS-540769	405,986	11.8	283,201,203	100	3,451,694	15.3	20
HS-851890	13,893	0.7	279,856,340	100	2,008,184	4.7	2.5
HS-600532	296,966	24.7	276,145,763	100	1,204,574	9.1	20
HS-390720	414,871	1.9	272,014,148	100	22,399,906	1.5	12.5
HS-640699	2,001	0.3	270,896,330	100	762,794	4.2	15
HS-721061	150,884	5.6	270,360,266	100	2,696,105	8.8	10
HS-853669	18,209	0.4	262,746,657	100	4,590,050	1.4	15
HS-854121	18,927	12.3	261,994,847	100	154,097	2.1	5
HS-853224	50	0.1	261,708,309	100	92,330	1.6	5
HS-854460	814	0.0	259,622,213	100	11,616,716	2.7	15
HS-291732	915,420	13.8	257,993,792	100	6,651,865	12.9	15
HS-590220	10,773	9.1	257,062,509	100	117,794	13.1	10
HS-391990	750,779	3.8	256,480,263	100	19,778,996	1.5	20
HS-540752	902,104	6.9	253,320,396	100	13,003,308	2.5	20
HS-600192	87,669	3.5	248,636,484	100	2,540,322	8.8	20

Table 7.7 indicates the top 100 products exported from Korea which have a comparative advantage and are currently being exported to Colombia. HS-870323 (Motor cars and other motor vehicles principally designed for the transport of persons) is Korea's top exported product into the world market. Korea occupies about 11.2% of Colombia's import in this product even though the tariff is as high as 35%. Currently Colombia imports US$ 50 million but the total imports of this product amounts to US$ 446 million which is about 9 times the current import from Korea. If the FTA lowers the tariff for this product, Korea will benefit from the tariff reduction and the export to Colombia will increase. Also Korea has the potential capacity to export and cover 100% of the total import of Colombia. HS 870332 and HS-870322 are the main exported products in the same HS category, which are Motor cars and other motor vehicles principally designed for the transport of persons and different in cylinder capacities. The tariffs for these products are also 35% and the shares of Colombia's imports are 69.4% and 14.7% respectively. Korea's automobile products have a comparative advantage and the market share is also high despite the high tariff rates. Even though the market share is high, there is more room to increase their market share in Colombia. Tariff reduction by the FTA will give an advantage to Korean products and imports from Korea will increase. Also Korea has the capacity to cover 100% of Colombia's imports for those products.

HS-271019 (Medium oils and preparations, of petroleum or bituminous minerals) is Korea's second main exported product in Type 1. Korea's export to Colombia composes about 0.7% of Colombia's total imports. The tariff on this product is 9.1% and Korea has the capacity to cover all the imports of Colombia. Thus the elimination of the tariff for this product will give more competitiveness to this Korean product.

Other products which are included in the top 10 are HS-847330 (Parts and accessories of automatic data-processing machines or for other machines of heading 8471, n.e.s.), HS-852990 (Parts suitable for use solely or principally with transmission and reception apparatus for radio-broadcasting or television, television cameras, digital cameras, video camera recorders, radar apparatus, radio navigational aid apparatus or radio remote control apparatus, monitors and projectors, n.e.s. excluding for aerials and aerial reflectors of all kinds), HS-901380 (Liquid crystal devices, n.e.s. and other optical appliances and instruments not elsewhere specified in chapter 90), HS-870899 (Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons,

motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s.), HS-847160 (Input or output units for automatic data-processing machines, whether or not containing storage units in the same housing) and HS-851712 (Telephones for cellular networks "mobile telephones" or for other wireless networks)

Table 7.8 The Impact of FTA on the Competitive Products of Korea, TYPE 2

HS6 Code	Colombia's IM from Asia, US$	Korea's EX to LA, US$	Korea's EX to World, US$	PEC %	Colombia's IM from World, US$	Korea RCA	Colombia Tariff
HS-290321	499,673		96,771,691	45	216,675,198	2.2	5
HS-291737		1,599,422	28,343,779	42	66,698,732	5.1	5
HS-480100	471,229	91,235	267,771,855	100	51,013,111	1.1	0
HS-842833	69,850	6,417,399	192,109,347	100	46,460,832	3.7	15
HS-290531	923	14,327	194,260,270	100	24,161,198	1.5	5
HS-281512	422,168	2,693,194	53,708,848	100	19,488,499	1.1	5
HS-480511	10,232	5,492	35,587,514	100	19,484,450	1.2	15
HS-720851	4,899,467	675,871	458,481,383	100	19,086,027	1.5	7.5
HS-890190	223,269	5,000,000	7,662,342,637	100	18,049,556	10.3	6.7
HS-722511	8,259,017	79,971	132,918,436	100	15,797,178	2.2	5
HS-550130	11,834	1,792	84,958,397	100	14,381,294	6.0	10
HS-520523	1,251	3,126,803	27,831,956	100	13,646,438	1.6	15
HS-030379	42,451	474,442	108,993,458	100	12,333,975	1.3	20
HS-170410	46,381	51,963	24,343,360	100	9,654,665	1.1	20
HS-290211	11	3,258	50,022,124	100	9,335,561	1.1	5
HS-720854	31,979		21,514,138	100	7,898,667	1.9	10
HS-890590		64,462	932,541,616	100	7,534,107	13.6	5
HS-030342		19,973	65,311,557	100	7,446,516	4.6	20
HS-291521	41,011	178,172	46,409,106	100	7,439,938	1.3	10
HS-930591	86,024		47,270,634	100	7,139,323	2.8	15
HS-730890	694,911	3,064,025	647,517,198	100	6,974,620	1.3	15
HS-721050	54,214	3,967,067	111,305,272	100	6,665,023	4.6	10
HS-290711	28,269	1,270,145	100,256,718	100	6,532,880	1.7	5
HS-400211	186	176	70,350,944	100	6,287,035	2.4	7.5
HS-290121		832,466	354,992,301	100	5,757,092	3.4	5
HS-720827	295,390	164,012	201,760,639	100	5,716,541	2.7	10
HS-740921	2,457		178,107,137	100	4,565,615	4.3	10
HS-480441	17,805		11,193,968	100	4,558,166	1.3	10
HS-842630	4,267,358	7,454	17,623,385	100	4,368,785	1.5	15
HS-710691	364	10,083	277,688,850	100	3,857,653	1.6	10
HS-220890		203,498	118,960,346	100	3,400,523	2.1	16
HS-730619	298,554	47,307	55,217,971	100	3,339,020	6.5	15
HS-130219	92,318	20,455	25,908,234	100	3,117,591	1.1	15
HS-841340	30,734	1,052,825	74,964,011	100	2,841,766	5.0	5
HS-310430	494		5,872,433	100	2,750,558	1.0	5
HS-730512	42,467	3,462,645	63,033,517	100	2,695,071	2.7	15
HS-960610	40,260	287,841	21,429,829	100	2,638,745	1.8	15
HS-290342	87,433		2,293,418	92	2,503,574	1.2	10
HS-760611	53,377	30,706	288,232,012	100	2,490,849	2.6	10
HS-840810	469,335	6,096,370	399,091,686	100	2,450,225	3.5	5
HS-261900	2,428,965		10,916,816	100	2,428,965	2.2	5
HS-291531		1,210	23,792,739	100	2,423,808	1.3	10
HS-741011	4,926		84,826,399	100	2,382,672	2.1	10
HS-282739	19,957	0	10,753,328	100	2,315,444	1.5	8.3
HS-850423		422,277	155,596,138	100	2,037,510	2.0	15
HS-110812	255,551		15,043,549	100	2,003,078	1.5	20
HS-760691	687	7,204	33,909,934	100	1,922,359	1.9	10
HS-271210	18,308	33,197	9,112,826	100	1,864,949	1.6	7.5
HS-540720	165,665	30,996	21,448,892	100	1,815,711	1.2	20

HS-740721		88	189,223,588	100	1,203,363	3.8	10
HS-540219	31,300	60,046	5,268,459	100	1,165,702	1.1	10
HS-320500	2,244	61,833	5,208,982	100	1,145,134	1.1	10
HS-030749	95,629	338,512	91,788,656	100	1,117,232	2.0	20
HS-846310	72,546	758	16,734,954	100	1,108,456	1.1	5
HS-722860	56,720	25,397	11,412,055	100	1,105,530	2.0	7.5
HS-721790	94,631	7,415	8,326,818	100	1,091,063	1.2	15
HS-291411		2,878	59,937,171	100	1,052,818	1.7	10
HS-540821	7,684	102,489	29,759,400	100	1,018,460	9.1	20
HS-720826	27,511	30,742	114,957,061	100	988,007	2.7	10
HS-721399	149,559	179,324	30,117,130	100	969,717	1.1	7.5
HS-840290	66,049	182,601	201,394,733	100	909,632	3.7	15
HS-340311		61,542	10,947,809	100	886,286	1.3	15
HS-381090	2,562	59,213	12,894,175	100	883,540	1.1	10
HS-030343		585,635	31,548,242	100	834,916	3.0	20
HS-820730	2,368	84,164	282,905,383	100	799,711	2.6	15
HS-621790	42,932	832,291	54,334,593	100	788,445	1.6	20
HS-721913		6,376	1,096,410,226	100	723,128	10.4	5
HS-722090	31,967	547,499	33,773,092	100	696,818	2.7	5
HS-283990	16,371		4,232,145	100	688,365	1.1	8
HS-846291	64,554	25,503	27,618,203	100	632,108	1.0	10
HS-700510	180,906	2,709	45,041,780	100	606,725	1.3	15
HS-282619	81,293		3,981,312	100	591,225	1.2	5
HS-411320	294,497	382,991	16,338,363	100	568,489	1.7	5
HS-520624		321,294	2,594,753	100	540,713	2.3	15
HS-840212		386,425	9,878,070	100	517,053	1.8	15
HS-410799	5,013	14,891	121,779,791	100	504,240	2.7	10
HS-390290	35,323	27,996	49,314,784	100	502,471	1.1	15
HS-701919	12,041	24,230	28,491,630	100	488,150	1.4	10
HS-252329	325	318,674	119,340,617	100	482,391	1.0	10
HS-845390	1,459	63,015	18,016,465	100	476,511	3.0	5
HS-701911	20,968	89,269	32,048,812	100	468,784	1.7	10
HS-290539	61,768	961,513	48,160,722	100	468,757	1.4	5
HS-320650	186,272	354,749	20,389,067	100	465,225	2.4	10
HS-270799		1,004,982	56,323,575	100	447,385	1.3	5
HS-730411	172,644		5,809,150	100	442,083	1.4	15
HS-760519	12,150		4,964,516	100	431,805	1.5	15
HS-851610	258,077	395,951	44,191,900	100	431,026	1.0	20
HS-310559		2,619,225	80,722,716	100	411,672	7.3	5
HS-854710	279,052	6,171	22,223,096	100	361,528	1.9	10

Table 7.8 presents the top 100 imported products of Colombia where Korea has a comparative advantage and are currently being exported to Latin America excluding Colombia. HS-290312 (Vinyl chloride "chloroethylene") is imported by Colombia the most and even imported from Asia but Korea does not export it either to Latin America or to Colombia. However, because Colombia imports it from Asia, it can be imported from Korea without the difficulty of distance. The tariff for this product is 5% and Korea can cover 45% of the total import to Colombia for chloroethylene.

HS-291737 (Dimethyl terephthalate) is Colombia's second largest importing product. Korea exports it to Latin America but not to Colombia. A 5% tariff rate is applied to this product and Korea has the capacity to cover 42% of total import to Colombia for this product. The FTA will create trade between Korea and Colombia by reducing the tariff rate.

HS-842833 (Continuous-action elevators and conveyors for goods or materials, belt type excluding those for underground use) has a 15% applied tariff rate and Colombia imports about US$ 46.5 million. Korea exports this product to other Latin American countries and has the capacity to cover 100% of the total import of Colombia for these products. Thus the reduction of tariff by the FTA will create exports to Colombia.

Other products in Type 2 are HS-290531 (Ethylene glycol "ethanediol"), HS-281512 (Sodium hydroxide "caustic soda" in aqueous solution "soda lye or liquid soda"), HS-480511 (Semi-chemical fluting paper, uncoated, in rolls of a width > 36 cm), HS-720851 (Flat-rolled products of iron or non-alloy steel), HS-890190 (Vessels for the transport of goods and vessels for the transport of both persons and goods) and etc.

Table 7.9 indicates products in Type 3 which are traded neither between Korea and Latin America nor between Colombia and Asia. Besides tariffs, there are technical impediments for trade which will cause the FTA to have a weaker effect on increasing the trade of these products. The products are HS-290122 (Ethylene), HS-740811 (Wire of refined copper, with a maximum cross-sectional dimension of > 6 mm), HS-290250 (Styrene), HS-790111 (Unwrought zinc, not alloyed, containing by weight >= 99,99% of zinc), HS-720927 (Flat-rolled products of iron or non-alloy steel) and etc.

Table 7.9 The Impact of FTA on the Competitive Products of Korea, TYPE 3

HS6 Code	Korea's Export to World, US$	PEC %	Colombia's IM from World, US$	Korea RCA	Colombia Tariff
HS-290122	294,466,496	100	286,592,161	2.9	5
HS-740811	644,929,845	100	130,201,952	2.2	5
HS-290250	1,060,705,139	100	107,220,104	4.5	5
HS-790111	400,028,151	100	36,551,888	2.9	5
HS-720927	59,748,926	100	15,464,980	3.1	10
HS-790112	101,689,326	100	11,863,196	1.8	5
HS-720926	22,455,930	100	10,481,365	1.0	10
HS-310390	2,692,364	34	7,977,361	1.3	5
HS-290241	61,084,543	100	6,022,518	3.2	5
HS-282410	3,225,466	80	4,011,661	1.2	10
HS-290941	27,718,209	100	3,216,546	2.7	5
HS-780191	9,006,215	100	2,561,922	1.6	5
HS-790120	143,043,957	100	2,139,027	4.0	5
HS-890510	28,619,080	100	2,073,502	1.3	0
HS-720928	1,996,460	100	1,612,375	1.1	10
HS-390521	16,539,409	100	1,201,729	1.2	15
HS-780199	18,726,342	100	1,011,292	1.2	5
HS-271320	354,164,989	100	935,570	4.3	10
HS-721912	227,400,853	100	489,208	2.9	5
HS-740321	44,108,567	100	459,029	3.2	5
HS-180610	17,215,126	100	447,097	2.0	20
HS-290244	398,967,438	100	304,429	13.0	5
HS-292610	217,787,870	100	270,532	3.7	5
HS-510620	11,862,033	100	215,705	1.1	15
HS-790310	24,239,027	100	190,368	3.9	5
HS-251830	361,154	100	155,949	1.7	5
HS-847510	21,522,206	100	93,855	3.8	5
HS-030710	43,057,180	100	57,627	8.9	20
HS-721911	11,920,509	100	40,501	1.0	5
HS-200931	2,715,358	100	35,932	1.0	20
HS-740500	6,905,522	100	32,211	1.7	5
HS-270710	21,847,187	100	31,455	1.0	5
HS-411390	14,954,113	100	26,238	1.9	5
HS-270730	78,427,605	100	25,863	2.1	5
HS-290230	516,838,895	100	23,066	9.1	5
HS-740940	18,058,956	100	18,582	1.8	10
HS-030349	18,265,093	100	14,076	6.1	20
HS-780411	5,613,171	100	12,523	4.3	10
HS-811292	59,461,601	100	10,588	3.0	5
HS-860290	35,560,768	100	7,866	3.3	5
HS-551443	764,369	100	7,240	1.9	20
HS-810720	7,584,384	100	6,618	8.3	5
HS-030199	75,209,079	100	4,320	5.8	7.5
HS-030791	71,340,572	100	3,985	4.8	20
HS-750300	36,835,554	100	3,274	2.3	5
HS-290220	886,608,672	100	2,966	7.4	5
HS-681189	285,990	100	2,852	1.1	15
HS-580220	1,367,472	100	1,495	1.7	20
HS-290124	138,998,822	100	1,488	3.4	5

7.3 COMPUTABLE GENERAL EQUILIBRIUM (CGE) MODEL

7.3.1 METHODOLOGY

This chapter estimates the economic impact of a Free Trade Agreement between Colombia and Korea using the Computable General Equilibrium Model (CGE). The analysis will focus only on the impact of tariff elimination.

A standard version of the GTAP model, developed by Purdue University (Hertel and Tsigas, 1997), will be used for this purpose. This is a static, multi-region, multi-sector and neoclassical model, which assumes perfect competition in all goods and service markets, constant returns to scale and decreasing marginal productivity in all production functions. Additionally, it assumes full employment of factors, thus any policy shock would be absorbed through movements in different relative prices as well as the impact over the productive structure, while maintaining the initial provisions of factors. In other words, it estimates the gains of trade that arise from a more efficient allocation of resources and from the variation in terms of trade. Nevertheless, it does not capture other important effects that Free Trade Agreements have over the economies, like effects on factor accumulation (as labor or capital), as well as dynamic long term effects on total factor productivity.

In order to update the model's database, specific tariffs from each country or region are needed. It is important to remember that the quality of the results that are obtained from CGE models will depend on both the model specification and the databases employed.

In terms of data, version 6 of the GTAP database (benchmarked in 2001) was used as a starting point. The database includes information of the sectoral production, commercial flows, national accounts, taxes and production, and exportation or importation subsidies from 87 countries or regions and 57 sectors. For the purposes of this report, the sectors and the countries and regions have been selected and regrouped according to the object of the analysis, the operational complexity, and the availability of information. Thus, the 87 countries or regions were regrouped in 13 countries or regions, trying to keep the largest level of desegregation possible for Colombia's main commercial partners as for those countries with whom it has preferential agreements.

Table 7.10 Regrouped Countries

1. Korea	8. Japan
2. Colombia	9. European union
3. United states	10. Rest of America
4. Mexico	11. Rest of Asia
5. Brazil	12. Rest of Europe
6. Venezuela	13. All other regions
7. China	

Source: GTAP database version 6

On the other hand, in the sector's election, the GTAP sectors were grouped according to the actual commercial exchange between Korea and Colombia; grouping the 57 sectors in 15 sectors: 14 for goods and 1 for services

Table 7.11 Regrouped Sectors

1	Agriculture
2	Agroindustrial products
3	Fishing
4	Textiles
5	Wearing apparel
6	Leather products
7	Wood products
8	Mineral and coal
9	Petroleum and petroleum products
10	Chemical, rubber and plastic products
11	Ferrous and non ferrous metal products
12	Electronic and electronic equipment
13	Machinery and transport equipment
14	Other manufacturing goods
15	Services

Source: GTAP database version 6

The model calculation is based on the data of 2001 in commercial flows from Colombia and Korea and tariffs.

7.3.2 RESULT

The outcomes suggest that the effects of the FTA between Korea and Colombia are small but positive to Korea. With the implementation of the Colombia-Korea FTA, the welfare and real GDP of Korea would increase by 0.018% and 0.036%, respectively. The value of exports will increase by 0.030% and the increase in imports is slightly higher, which is 0.035%. FTA will facilitate trade between Korea and Colombia and more increase in imports is expected.

Table 7.12 Macroeconomic Effects of Colombia-Korea FTA on Korea

	Macroeconomic indicators	Korea
1	Welfare	0.018 %
2	Real GDP	0.036 %
3	Exports	0.030 %
4	Imports	0.035 %

Table 7.13 indicates the expected result of Korea-Peru FTA. The result on exports and imports were similar to that of Colombia-Korea. The expected trade increase in exports and imports were 0.031% and 0.034%, respectively. Real GDP is to rise 0.001% which is smaller than the effect of Colombia-Korea FTA. Real GDP growth in Colombia-Korea FTA was 0.036% which is approximately 3 times higher. Thus FTA with Colombia will bring about larger positive effect on the economy of Korea.

Table 7.13 Macroeconomic Effects of Korea-Peru FTA on Korea

	Macroeconomic indicators	Changes
1	Welfare	0.006 %
2	Real GDP	0.010 %
3	Exports	0.031 %
4	Imports	0.034 %

The total production of Korea will increase by 0.024%. Machinery and transport equipment is expected to have the highest increase by 0.063%. There will also be increased production in textile and Chemical, rubber and plastic products by 0.055% and 0.021%, respectively. The production in other sectors will decrease but the overall increase will exceed the reduction. The Value added is expected to rise by 0.023%. Imports will rise in all sectors except Electronic and electronic equipment but exports

growth are expected only in 4 sectors, which are Agriculture, Textiles, Chemical, rubber and plastic products, and Machinery and transport equipment.

Table 7.14 Sectoral Impact of FTA on Korea (%)

Sector		Production	Value Added	Imports	Exports
1	Agriculture	-0.007	-0.009	0.034	0.031
2	Agroindustrial products	-0.004	-0.005	0.036	-0.047
3	Fishing	-0.003	-0.005	0.024	-0.016
4	Textiles	0.055	0.054	0.086	0.127
5	Wearing apparel	-0.056	-0.058	0.070	-0.078
6	Leather products	-0.075	-0.077	0.015	-0.081
7	Wood products	-0.026	-0.028	0.045	-0.038
8	Mineral and coal	-0.030	-0.032	0.024	-0.023
9	Petroleum and petroleum products	-0.009	-0.011	0.001	-0.035
10	Chemical, rubber and plastic products	0.021	0.019	0.073	0.104
11	Ferrous and non ferrous metal products	-0.037	-0.039	0.073	-0.051
12	Electronic and electronic equipment	-0.100	-0.102	-0.012	-0.100
13	Machinery and transport equipment	0.063	0.062	0.063	0.221
14	Other manufacturing goods	-0.021	-0.023	0.052	-0.003
15	Services	-0.002	-0.004	0.056	-0.049

FTA also will bring positive effect on Colombia. Welfare is expected to increase by 0.051%. Real GDP would increase by 0.022% which is smaller than the effect in Korea. FTA will bring stronger positive effect on Colombia in exports and imports than Korea which will increase by 0.123% and 0.119%, respectively.

Table 7.15 Macroeconomic Effects of Colombia-Korea FTA on Colombia

	Macroeconomic indicators	Colombia
1	Welfare	0.051 %
2	Real GDP	0.022 %
3	Exports	0.123 %
4	Imports	0.119 %

The total production of Colombia will increase by 0.276%. FTA will boost the production in Agroindustrial products, Fishing, Wearing apparel, Ferrous and non ferrous metal products and Services. There will be 0.24% increase of value added. It is expected to rise in Wearing apparel and Ferrous and non ferrous metal. Imports will increase in all sectors and the largest rise is expected in Textiles. Total export growth will reach 0.123% and there will be the largest rise in Ferrous and non ferrous metal products.

Table 7.16 Sectoral Impact of FTA on Colombia (%)

Sector		Production	Value Added	Imports	Exports
1	Agriculture	-0.011	-0.046	0.078	-0.044
2	Agroindustrial products	0.005	-0.030	0.091	-0.037
3	Fishing	0.008	-0.027	0.088	0.069
4	Textiles	-0.860	-0.895	1.873	0.469
5	Wearing apparel	0.321	0.285	0.968	0.770
6	Leather products	-0.055	-0.091	0.300	0.052
7	Wood products	-0.054	-0.089	0.161	-0.017
8	Mineral and coal	-0.045	-0.080	0.183	-0.024
9	Petroleum and petroleum products	-0.031	-0.066	0.084	-0.051
10	Chemical, rubber and plastic products	-0.239	-0.274	0.230	0.148
11	Ferrous and non ferrous metal products	0.108	0.073	0.295	1.047
12	Electronic and electronic equipment	-0.324	-0.359	0.308	0.254
13	Machinery and transport equipment	-0.600	-0.635	0.223	0.687
14	Other manufacturing goods	-0.113	-0.149	0.789	0.051
15	Services	0.027	-0.009	0.076	-0.091

8. CONCLUSION

Korea and Colombia have maintained close relations since 1962 when diplomatic ties were first established. Colombia is the only Latin American country which participated in the Korea War. Economic cooperation between the two countries has continued to develop while Korea invites technical and economic planning trainees, and sends communication experts and mineral resource explorers. Trade flows also increased substantially. However, both countries have good reasons to develop their economic relationship even further, as the economic structures of the two countries are complementary to each other. This study presents the potential of each economy and estimates the expected results of a FTA between Colombia and Korea.

The report first describes the political and social aspect of Colombia which has grown much more stable recently and suggests that Colombia offers better conditions for foreign investment and economic growth. Then, it went over the macroeconomic situations of each country. Korea records about 5% GDP growth and 2% inflation. Its GNI per capita is about US$ 20,000. Trade dependency is high and trade constituted about 92% of GDP in 2008. Exports and imports make up over 40% of GDP, respectively. Electrical and electronic equipment is Korea's main manufacturing products and machinery and transport equipment are the main exported goods which constitute about 56% of Korea's total exports in goods. The main import goods are natural resources. Trade in service is also high and transportation, business services and travel are the main traded sectors. Korea actively participates in foreign direct investment. Most investment flows into manufacturing, wholesale and natural resources.

Colombia has the fifth largest economy in Latin America. The GDP growth rate has increased significantly and reached 7.6% in 2007. Exports and imports have been rising and trade dependency in GDP was about 30%. The main exported goods are natural resources which composed about 46% of total exports in 2008. In the case of imports, machinery and transport equipment had the largest share at 39% in the same year. Colombia receives a large amount of foreign direct investment with most investments going towards petroleum and mining.

The two economies have a complementary relation. Korea's main exported goods, machinery and transportation equipment, are Colombia's main imported goods. Korea

main imports are natural resources and Colombia's main exports are natural resources. Colombia attracts foreign investment mainly in natural resources whereas Korea allocates a large share of investments.

Next, the study shows the economic relationship that exists between the two countries. Korea's trade and investment with Latin America is small compared to other regions. But economic activity with Colombia has grown based on the complementarities of economy. However trade and investment are still very low and there is high potential for growth.

As for trade and investment policies and FTAs, both countries actively pursue FTAs with various countries to enlarge their export markets and maintain economic growth. Tariff and non-tariff measures are barriers to trade in both countries. The average simple tariff in Korea and Colombia are 11.8% and 12.1%, respectively. Tariffs on agriculture are higher than other sectors. Colombia applies an exceptionally high 35% tariff on cars. The elimination of those barriers will lead to increased trade between two countries.

Important issues regarding the Colombia-Korea FTA are those related to investment in natural resources and trade, and investment in the auto industry. Colombia is endowed with various substantial amounts of natural resources, especially in hydrocarbons and minerals. While there is high potential for investment by Korea, there also exist restrictions and risks of expropriation. Enterprises which consider investing in Colombia have to pay attention and be sure to take the proper measures to obviate the danger. In the auto industry, Colombia requires the use of a certain amount of ethanol. Korea has a comparative advantage and large market share in Colombia's auto industry. To maintain its market share or to make good use of the FTA, related technology and products should be prepared.

In the analysis of the expected impacts of the FTA on the exports and imports of both countries, we got the following results. First, the growth of exports in Korea is compared with the growth of imports in Colombia and this method indicates the potential products to be introduced in Colombia by Korea. 3,256 products which are exported by Korea to the world market face increasing demand in the Colombian market. Among the 3,256 products, Korea exports only 632 products to Colombia. Thus there is potential for growth in exports to Colombia.

Second, the export competitiveness of Korea and Colombia are evaluated. The expected export growth in each country is obtained by considering their export competitiveness, the elimination of tariffs and the impediments to trade. Colombia will experience an increase in exports in Coffee, Banana, Oil, and Minerals and etc. Korea's exports are expected to grow mainly in transportation equipment.

Third, the effect of tariff elimination is analyzed using the Computable General Equilibrium Model (CGE). According to the results, the real GDP of Korea will increase by 0.036%. In the case of Korea-Peru FTA, the expected GDP growth was 0.01%. Exports and imports will rise by 0.03% and 0.035%, respectively.

Through the analysis, the economies of Korea and Colombia show high complementarities. There is high potential for growth in trade and investment. The expected results are positive for each economy. Even though trade and investment have increased between the two countries, the share is still small. Tariff elimination and the removal of unnecessary non tariff measures will improve conditions for trade and investment and lead to an expanded export market and economic growth. Thus this study recommends that the governments of Korea and Colombia enter into negotiations at the earliest date possible and conclude a FTA.