BUSINESS PARTICIPATION IN COLOMBIAN TRADE NEGOTIATIONS: FROM THE G-3 TO THE PACIFIC ALLIANCE

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INTRODUCTION

Our objective is to explore Colombian business participation in the negotiation of the Group of Three Free Trade Agreement (G-3 FTA) (1994) and in the Pacific Alliance (PA) (2011), in order to assess the usefulness of Robert Putnam’s two-level game for understanding the process of international negotiation in developing nations. The empirical content of the negotiations and the actors involved are sketched out in the first two sections. Both include an overview of the political and economic situation in which they were signed, the main motivations of the foreign and trade policies that incorporated them, and the positions taken by different business actors.

The concluding section discusses the findings in relation to Putnam’s classic approach and some of its derivations such as Gourevitch’s (1996: 351) “squaring the circle”, in which he contends that “preferences shape institutions and institutions shape preferences”. By this, he means that in order to understand state’s decision regarding policies such as the signing of a FTA (output), we need to look at the factors (input) that contribute to those decisions and how decisions taken before relate to new negotiations. Among those inputs we have selected business participation in Colombia.

The incorporation of business interests and preferences in official trade negotiations is an important consideration because governments negotiate trade agreements both to support domestic producers from an “external direct economic attack” and/or to help them in their outwards process of expansion (Heginbotham/Samuels, 1998: 191-192). At the same time, Milner (1997a: 77-79) sees those negotiations as a strategy to answer domestic pressure coming both from business and consumer groups. In this case, trade agreements are negotiated in an effort to balance those pressures but also as a way to gain the support of like-minded governments abroad. In other words, trade agreements are negotiated with political partners rather than political enemies, and respond to the need to produce internal adjustments able to build some type of domestic balance and ease pressures on the state.

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2 While interests may be presupposed from an actor’s place in the economy, preferences are more a political than economic construction because they match what a group wants with what it can achieve in certain political and cultural conditions (Crystal, 2000). This coincides with Savage/Weale (2009) differentiation between “the rational” and “the reasonable” choice for governments and domestic groups in trade negotiations.
3 Business look for economies of scale and widening markets, while consumers push for reduced costs and differentiated products.

In Colombia, according to Hommes (1997: 157, 169-170), economic reforms between 1985 and 1990 included the devaluation of the Colombian peso and the restructurcation and diversification of the industrial sector that led to increased exports of non-traditional goods (i.e. non coffee exports) with an average growth of 20 % yearly (Reina, 1993b: 138). Though, in general, the industrial sector lost relative weight in the GDP vis-à-vis the commercial sector (Gutiérrez Trujillo, 1995: 147) and suffered a process of “tertiarization” and de-industrialization, by 1995 Colombian non-traditional exports made up 54 % of total exports and were sold to the rest of Latin America and the Caribbean (Ochoa, 1998: 152).

In general, along the years between 1980 and 2005, the percentage of manufactured goods in Colombian total exports grew from 20 % to 35 % (Martínez, 2008: 278) showing a rather successful export diversification even during the commodities boom.

When César Gaviria was elected president in 1990 he found a favourable conjunction – on one side, exports were growing and business was keen in improving its internationalization process, and, on the other, the new president came after a rather agitated period that included the conflict between the State and the powerful Medellin Cartel and the assassination of several presidential candidates. Both government and business were looking forward to a more peaceful domestic situation and to improved relations between them. So Gaviria found a positive initial answer to his efforts to further open up the economy, and was able to incorporate trade liberalization and regional integration in Articles 226 y 227 of the new Colombian Constitution (1991) (Ahumada, 1995: 17-18).

He also benefitted from the fact that the World Bank had asked for trade liberalization measures in order for Colombia to receive a loan solicited by the previous administration of Virgilio Barco. This external pressure met a favourable reception among the economic technocrats of CONPES (Consejo Nacional de Política Económica y Social) and, during the first months of the Gaviria administration, while public opinion was busy with the discussion of a new constitution, the government made changes in exchange, fiscal, and labour policies, all part of the so called “el revolcón” (Torre, 1998: 61-63).

Originally, in 1989, the G-3 have been developed as a geopolitical instrument by Colombia, Mexico, and Venezuela to consolidate peace and democracy in Central America but, once the armed conflict in that region ended, their priority became to integrate the three economies in an effort to: 1) strengthen their respective processes of domestic structural reforms and “lock” them by means of an international agreement; 2) build a regional platform for energy development on the basis of the oil and gas resources of the three nations; and 3) improve and combine their economic production in order to export to the US market and, eventually, to enter the NAFTA (North American Free Trade Agreement) (Canada, Mexico, and the US). The first was probably the strongest reason as Presidents Carlos Andrés Pérez (Venezuela) and Carlos Salinas de Gortari (Mexico) were following similar economic policies of structural reforms, confronting domestic opposition, and looking for an agreement to

4 This section summarizes and updates Chapter III of Giacalone (1999: 67-86).
insure that they would not be changed by future administrations. Two years before, in 1992, Colombia and Venezuela had successfully established a free trade area between them, following through with previous decisions of the Andean Community (CAN) to integrate the commercial relations of its members. Though Bolivia, Ecuador and Peru had not gone through with the decision, Colombia and Venezuela did, and mutually opened up their markets to goods, services, and investments.

According to Olivera et al. (2010), before 1990 in Colombia business-State relations involved formal channels because the private sector participated in committees and other State organisms. It was usual too that the government consulted the few and large business associations before adopting measures that directly affected them. After 1990 the situation changed as the increased complexity of the economy was reflected in a larger number of sector associations as well as in successful efforts by the biggest economic groups and companies to act individually. The fragmentation of Congress and the economic resources of these groups and companies in political campaigns also facilitated their lobbying activities in the legislative power, and through informal channels (Salazar, 2013: 192).

When Colombia began negotiating with Mexico and Venezuela, business was divided. Previously, in 1991 the thirteen largest business associations had formed the Consejo Nacional Gremial with the aim of conducting a unitary negotiation with the government and turn trade opening into a more gradual process. At that time there was a division between the four largest economic conglomerates, interested in trade opening and internationalization to further their exports, and industrialists oriented toward the national market (Orjuela Escobar, 2000). Once the government went ahead with policy changes, each association turned to defend its specific interests making unitary negotiation inoperative (Torre, 1998: 81).

At that time, the largest associations were ANDI (industrialists), FENALCO (commerce), and FEDECADE (coffee producers and exporters). Both ANDI⁵ and FENALCO were in favour of trade liberalization and were still able to exert influence upon the initiation and completion of economic legislation through their links with ministers and both major parties (Liberal and Conservative) (EIU, 1990: 229-231). But as the government pushed for a faster program of trade opening both their influence and their support for trade opening dwindled. Two business surveys by FEDESARROLLO – one at the beginning of 1993 and the other in March 1994 – illustrate this change, as in the first survey industrialists manifested optimism about their capacity to benefit from trade opening, and, in the second, optimism had diminished and only trade liberalization with Venezuela received a high degree of acceptance (Cantilo Vásquez, 1994). But at the same time, in general, businessmen did not blame trade opening per se as much as domestic problems – inflation, overvalued currency⁶,

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⁵ Industrial companies, such as Pintuco (Grupo Inversiones Mundial) and BICO/Norma (Grupo Carvajal), successfully initiated or expanded their internationalization processes at the beginning of the 1990s in order to counteract the presence of new competitors in the Colombian market due to tariff reduction (Cruz Camacho/Osorio Uribe, 2010).

⁶ In 1994 the Colombian peso reached a high peak due to major oil discoveries in Colombia, privatization of public companies that led to increased entry of foreign investment, better control of capital flight, etc. (Revéiz, 2002).

De Lombaerde (2000: 90-91) found that the division between exporters and importers, regarding trade liberalization, determined in the 1990s the loss of influence of business associations vis-à-vis the Colombian State and diminished the importance of lobbying activities, but there was still room for the defence of sector interests through their participation in trade negotiations. Also since the creation of the Minister of Foreign Trade in 1991, economic technocrats had become relatively insulated from group pressure, and export diversification had dispersed business interests.

Gaviria managed to isolate his reforms from the political game by means of the 1991 Constitution that established, for example, an independent Central Bank with the responsibility to fight inflation (Torre, 1998: 110). At the same time, the fact that business was internally divided about trade liberalization granted his government more freedom to negotiate the G-3 FTA. Most reservations came from the industrial sector and referred to the speed of the opening process, rules of origin, and the fact that tariff reductions granted by Mexico to Colombia and Venezuela were smaller than those granted to the US and Canada in NAFTA (Garay Salamanca, 1994: 202-203; Puyó, 1994: 91).

Gaviria retained the support of the large economic groups (Ardila Lulle, Santodomingo7, Sindicato Antioqueño, Grupo Gran Colombiano etc.) whose representatives attended in June 1994 the formal ceremony in Cartagena establishing the G-3 FTA, while the representatives of business associations did not attend (Echavarría, 1995: 126). This means that not all business objected the agreement because the largest, more concentrated and transnational industries were able to take advantage of it (Cárdenas, 1997). In fact, even the president of a large textile industry (Coltejer), one of the sectors expected to suffer most from the opening, declared that his company had invested US $ 114 million along the previous four years in restructuring production and administration in order to be prepared for the opening, but it had not foreseen the negative effects of a revaluated Colombian currency on exports (*Clase Empresarial*, 1994: 26). Thus, also the largest economic groups and companies blamed domestic conditions rather than trade opening for the problems they faced.

From the beginning business associations were incorporated in the negotiation process by way of consultations that, according to Gaviria (Revista Andi 128, 1994: 7) involved more than 1,800 hours of meetings with all sectors. Also in 1992 ANDI’s president, Carlos A. Angel Arango (Revista ANDI 1992: 3-5) recognized that 24 sector studies had been conducted by the association in preparation for the negotiation with Mexico. In 1994 business associations’ discourse supported trade opening with reservations about domestic conditions and the speed of the process, but the government managed to apply its own

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7 Julio Mario Santodomingo had supported Gaviria’s presidential campaign in 1989 and as a result his wife was appointed Colombian consul in Washington. Later on this group changed its name to Grupo Empresarial Bavaria and now controls Caracol Radio and TV, El Espectador, Directv and other companies.
political agenda and did not incorporate business objections, probably because it could count on the support of the large economic groups.

In summary, business-State relations during the negotiation of the G-3 FTA were in transition from formalized and institutional linkages with business associations to informal and individual linkages with big companies and groups, and this influenced the outcome of the negotiation (i.e. the treaty’s content). This included a substantial market opening for goods and services, clear rules on trade and investment, and excluded the largest part of the agriculture sector, but overall the agreement disregarded business associations’ objections about Colombian asymmetry vis-à-vis Mexico and automatic and rapid opening. After Venezuela left the agreement in 2006, Colombia and Mexico amended the trade protocol in 2009 enlarging it so now almost 97% of the universe has 0 tariff, and simplified norms of origin (Vera Abogados Asociados 1972, 2014). As a result, the treaty has further included the position of the large economic groups and companies and disregarded business associations’ reservations.

II. COLOMBIAN BUSINESS IN THE NEGOTIATION OF THE PACIFIC ALLIANCE (2010-2013)

George (2014: 28) considers the PA to be “a residual of the larger Arc of the Pacific pact launched in 2007 that featured 11 Latin American countries along the continent’s west coast”, where “with each successive pact, the inner core whittled away countries that did not share an open-market strategy. As a result, Alliance members have a shared vision of economic development”. Its emphasis is on productive integration, such as synthetic filaments produced in Colombia, made up into nets in Peru, and exported from there to Canada (Echabarria/Estevadeordal, 2014: 33-34). This is possible due to the harmonization of norms of origin, which means that a product manufactured in any of the four countries is considered a PA product (“Alianza del Pacífico, modelo pionero”, 2014). This pragmatic and concrete orientation of the agreement is an incentive for most of the private sector to cooperate and, at the same time, it is built upon their participation through the Business Council of the PA, which describes its membership and tasks as

...comprised of senior business leaders and entrepreneurs who contribute to the Pacific Alliance by identifying new business opportunities that will benefit the member countries and by maintaining an ongoing dialogue with the heads of state as part of the summits. It also enables joint trade promotion and helps the companies of the member countries to participate together in businesses either in their own or third countries (México. Secretaría de Relaciones Exteriores, 2014).

Regarding Colombian business participation in the negotiation of the PA, some aspects are clear. For example, a look at the statement by the Business Council of the PA after their

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8 For more detail on tariff reductions for agriculture and the automotive sector negotiated in 2009, see MINCIT. Dirección de Integración Económica, 2013: 11. The document also provides data about Colombian trade and investment in the other members of the AP.

9 The Business Council of the PA was born in Mexico in August 2012 as a voluntary association developed by business representatives to promote the objectives of the agreement. Mario Hernández (Marroquinería SA),
meeting in Cartagena (Colombia, 2014) shows that: 1) the Colombian representative is Carlos Julio Ardila, son of the head of the Ardila Lulé Group, who, without participating in the public debate about the G-3 FTA, supported its signing in 1994; 2) the document proposes fiscal and normative co-relationship in taxation, currency exchange, and normalization of technical aspects in the cosmetics, pharmaceutical, and food industries; and 3) emphasizes financial and productive integration plus the need to improve technical education in the three countries as the most important tasks for the PA\textsuperscript{10}. In short, this is a process of deepening and perfection of the trade opening “locked in” via the G-3 FTA, but now enlarged to include not only Colombia and Mexico but also Chile and Peru.

For Colombia, the PA signals a shift from a foreign policy dominated by security considerations and alignment with the US toward another that grants more importance to regional partners and economic development. This shift was made possible during Alvaro Uribe’s second presidential term after the guerrilla lost most of its power and the State was able to recover control over its territory and negotiate the pacification of paramilitary groups (Reina, 2013: 13).

Colombia’s economic objectives in the PA are: 1) to deepen the internationalization of the Colombian economy; 2) to promote more exports of manufactured goods; and 3) to diversify the domestic sectors receiving foreign direct investment, all important considerations in a country the size of Colombia that does not have an internal market able to provide the basis for economy of scales and productive efficiency (Reina, 2013: 14). Additionally, in the first decade of the XXI century manufactured exports lagged behind exports of commodities, following the general trend of the region and of global trade, but the re-evaluation of the Colombian peso and the collapse after 2009 of the Venezuelan market, in which most manufactured goods were sold, became added factors (Reina, 2013: 17-18). Since 2009, exports of manufactured products to Chile, Mexico, and Peru grew in an effort to upset the loss of the Venezuelan market. Regarding FDI, this had increased along the last decade but most went to mining and energy, while industry and agriculture attracted little attention. The PA is starting to change this trend for in 2012 Chile led FDI in those two Colombian sectors (Reina, 2013: 20-22).

Further economic integration with Chile, Mexico, and Peru is justified by the government because these countries have development models based on market economy and the private sector, have followed similar macroeconomic policies, and have already provided markets for Colombian manufactured goods. Moreover, the PA is not an exclusive agreement so it does not collide with other agreements signed by Colombia. In fact, one of its general objectives is to build an export platform by developing production integration

\textsuperscript{10} The Colombian financial sector is interested in the PA due to the attraction of foreign capital into MILA (the integrated stock exchange of Chile, Colombia, and Peru established in 2011). Before 2011 only 84 Colombian companies participated in the Bogotá stock exchange, but in 2013 it was estimated that more than US $ 300 million had been brought in by foreign companies (“Una veta aún por explotar”, 2014: 50-51.)
among its four members in order to sell to other markets taking advantage of the existing FTA of each member nation (Reina, 2013: 4, 9).

Reina (2013: 32) explicitly attributes to multinationals (or “multilatinas”) of PA members a key role in its development through the linkages established among them before the agreement. For example, Leonisa of Colombia distributed its products in Peru through the malls and department stores of Ripley (Chile) and Saga-Falabella (Chile) (Cruz Camacho/ Osorio Uribe, 2010), which soon began investing in Colombia (“Conozca la invasión de empresas chilenas a Colombia”, 2012). If Leonisa only exports to Chile and has not felt the need to develop factories in that country it is because its products enter that market without tariffs, since the signing of the Acuerdo de Complementación Económica para el establecimiento de un espacio económico ampliado entre Chile y Colombia, dentro del contexto del proceso de integración establecido en el Tratado de Montevideo 1980 (ACE No 24, 1993), transformed into a bilateral FTA in 2006 with additional chapters on services, investment, and public procurement (Cruz Camacho/Osorio Uribe, 2010; Ielpi Boyero, 2014).

The open participation of large companies in the PA negotiation exemplified by the creation of the PA Business Council (2011) can be related to Chase (2005: 33-34)’s observation that once an agreement is signed, producers’ expectations may not necessarily be fulfilled because of changed conditions, but benefits may still be reaped. In the case of the G-3 FTA, six months after its signature, Mexico sharply devalued its currency and its exports flooded the Colombian market, while imports to Mexico from Colombia were cancelled or became non-competitive (LAM-Andean Group, February 1995: 5, 7). However, large companies that gained scale economies still supported liberalization and demanded deeper integration and policy harmonization to reap all the benefits of a trading bloc in which they were not only exporting but also investing and making alliances across borders. If production sharing networks have been a crucial factor in the European Union and NAFTA (Chase, 2005: 260-261), large Colombian economic groups may be following that route through the support of productive integration. They are also unwilling to lose the gains already made, and if this needs their explicit support of the government during the PA negotiation they are ready to invest in it.

The PA deepens and perfects trade mechanisms established in the G3 FTA (Colombia-Mexico) and other bilateral trade treaties of Colombia with Chile and Peru (the latter established as part of their membership in CAN). This continuity can be explained from different angles, but an important consideration is that the present president of Colombia, Juan Manuel Santos, was in 1992 the minister of External Commerce who negotiated the bilateral trade agreement with Venezuela, and was involved in the implementation of the trade opening policy. The aims of his present trade diplomacy – to diversify markets and promote exports of manufactured goods and services in order to create jobs (Piñeiro
Cortés/Muñoz Angulo, 2012: 204) and add value to natural resources – attracts the interest of business, mainly from the industry and service sector, and good relations between State and business is considered a key factor in the improvement of the Colombian economy along the last years (Martínez, 2008: 265). While exports of Colombian commodities respond to their increased demand and high price in the international market (pull factor), the signing of trade agreements by Colombia acts as a push factor by finding new markets for non-traditional exports, and the Program of Productive Transformation has identified priority sectors and concentrated efforts upon their development (cosmetics and hygiene, household equipment, pharmaceuticals, etc.) (Piñeiro Cortés/ Muñoz Angulo, 2012: 210-212).

A revision of statements and press declarations by ANDI\textsuperscript{11} representatives shows general support for the PA (ANDI, 2014; press declarations by Chamber of the Food Industry, Chamber of the Leather Industry, and National Federation of Poultry Farmers, in MINCIT, 2013), plus complaints about the lack of Mexican opening to the Colombian metal mechanic sector and enthusiastic accounts of the possibilities for the cosmetics and hygiene industry in the PA. This last sector experienced a considerable increment (from US $ 47 million to 410 million) in its exports after goods for the Venezuelan market were re-directed to Ecuador, Peru, Central America, and Mexico in 2010. Sector exports were valued in US $ 936 million in 2013. To improve its possibilities within the PA, which is a very fast growing market for cosmetics, the sector chambers of the four countries established a common agenda that includes a common definition and labelling system for products, following the EU model, a common revision system for ingredients, a common system to combat illegal sales and smugglings, etc. (Concha Prada, 2014). This sector began its internalization process at the end of the 1990s after all the Latin American cosmetics associations formed CASIC (\textit{Consejo de Asociaciones de la Industria Cosmética Latinoamericana}), aided by the fact that by 2001 Colombia had updated and normalized all sanitary regulations pertaining to cosmetics in CAN (Concha Prada, 2013). CASIC has a Committee on Trade Facilitation for the PA, formed by the associations of its four members.

Rettberg (2013) has documented ANDI’s present close relations with the Colombian State that have been manifested through its active role in promoting dialogue between the government and the guerrilla group FARC (\textit{Fuerzas Armadas Revolucionarias de Colombia}). According to her,

\textsuperscript{11} Regarding the importance of ANDI it should be mentioned that, though Colombia is not yet a member of APEC, ANDI is the first private sector organization that has entered as observer the Economic Integration Forum, an advisory council of APEC (Cortázar Mejía, 2013).
“Members of the business community have paid travel costs for government members and the guerrillas to meet and have served as facilitators and sources of confidence building. Members of the government negotiating team include Frank Pearl (former president of Valorem S.A., one of Colombia’s largest business holdings, and Luis Carlos Villegas (president of ANDI, whose daughter was kidnapped by the FARC in 2000 …)” (Rettberg, 2013: 14).

However, the business community has maintained a low profile and both sides have tried to downplay business participation in the negotiation process (Rettberg, 2013: 14). This active involvement in peace talks is linked to “the increased presence of international companies in Colombia, and the participation of Colombian companies in international trade networks” (Rettberg, 2013: 15) which might have had

“...a spill-over effect favourable to supporting peace talks – for instance, an increased adoption of corporate social responsibility standards and greater adherence to international norms of corporate practice. In brief, to consolidate gains in security, prevent growing criminality affecting investor confidence, and take the next step in securing the fledgling Colombian economic success story, the private sector has learned that an ongoing confrontation between the Colombian State and guerrilla forces is not only a nuisance but the source of a lasting and strategic disadvantage when trying to meet the demands of international markets” (Rettberg, 2013: 15).

“Although the costs of conflict [in terms of special taxation to business to finance the fight against the guerrilla] have been steadily declining over the past years, improved security, fewer operational costs, more investment partners12, and greater international opportunities resulting from the demobilization of the largest remaining guerrilla force in the country are still sufficiently attractive to enlist business support” (Rettberg, 2013: 17).

The large Colombian economic groups have also benefitted from the effects of the global crisis upon developed nations multinationals which forced them to restructure and sell part of their assets in Latin America. The Aval Group, part of the conglomerate of Carlos Luis Sarmiento Angulo, bought both the Central American Credomatic (owned by General Electric of the US), and the private pension funds Horizonte of the Spanish BBVA. Similarly, the Sura Group bought the private pension, insurance and investment funds of the Dutch ING in Chile, Mexico, Peru and Uruguay. In parallel, the Efromovich Group, majority owner of Avianca made an offer to buy the Portuguese airline TAP (“Empresas multilatinas al ataque”, 2013). In 2011, Almacenes Exito bought the Uruguayan chains Devoto and Disco.

In terms of their geographic orientation, it is worth noticing that if in 2000 Peru, Mexico, and Chile received only 5.1 %; 1.4 %, and 0.8 %, respectively, of Colombian FDI, but this situation has changed and now these three markets attract much more attention – Promigás, PQP (Grupo Familia), and Hoteles Estelar are looking forward to investing in Peru, Mexico,

12 De Lombaerde/Garay (2009) have demonstrated the negative impact of the conflict on incoming FDI to Colombia.
and Chile (“Se crecieron las multilatinas colombianas”, 2012). All of them have an interest in maintaining and enlarging free trade and investment agreements as a means to insure their presence in those economies.

Though Solingen (1999: 47) claims that “where internationalist coalitions … [are] threatened by backlash coalitions in the region, the quality of cooperation is more likely to erode in response to these … regional threats”, negotiation of the PA seems to be an example of governments and economic actors who share an “internationalist” orientation getting together in order to confront the backlash coalitions. By deepening integration with the other members of the PA, the Colombian government seems intent on expanding and diversifying its political and economic options in a South American environment in which governments seem to be moving in an opposite direction.

In this context, Colombian business is investing in the PA to deepen existing trade and investment treaties with regional partners as well as developing an improved platform base for exports to the Asia-Pacific region. This has been a long time aim of Colombia according to presidential statements by López Michelsen (1970s) and Virgilio Barco (1980s). Sergio Díaz Granados, Colombian Minister of Trade, Tourism and Industry, claims that through the PA Colombia can diversify its export markets, prevent the effects of future global crisis, and benefit from joint negotiation with Mexico, Chile, and Peru (“Colombia: más allá de una apertura comercial Asia-Pacífico”, 2013). Meanwhile, Colombian largest firms can continue investing and networking while gaining State support for conditions that facilitate productive integration.

But again business does not necessarily hold a unitary position in negotiations. The Sociedad de Agricultores de Colombia (SAC) retired from the discussion of the Additional Protocol of the PA, subscribed in February 2014, due to its perception that the document negatively affected agriculture and that the government intended to approve it regardless, even avoiding its discussion and ratification by the Colombian Congress (“SAC reitera desacuerdo con la Alianza del Pacífico”, 2014; “Se mantiene oposición a la Alianza del Pacífico”, 2014). According to SAC, base tariffs had been lowered from 40 % to 20 % for white maize and pork meat in Colombia, while the tariff base for Colombian coffee in the other markets only went down from 72 to 65 %. However, the Federación Nacional de Cafeteros (Fedecafe) publicly announced that SAC’s position did not reflect that of coffee producers because these have found that the Mexican, Peruvian, and Chilean markets were promising for their exports (Vásquez, 2014).

This time there has been less public debate about the negotiation of the PA than there was during the negotiation of the G-3 FTA; objections came more from parties and groups opposed to free trade than from business associations, except SAC; State-business relations were closer than previously and the largest economic groups created a special business council to promote its interests and preferences in the PA. Additionally, the agreement rests on the linkages established among companies and business groups since the creation of the G-3 FTA, the deepening of the Andean Community and the Chile-Colombian ACE/bilateral FTA.
As Putnam (1998: 447, 450) states, if a government cannot change the preferences of any domestic constituents, it can grant them some form of compensation and also side-payments to attract marginal supporters. We can see this in Colombia in 1990, when the government supported an undervalued currency to favour industry (compensation mechanism) in order to implement trade opening. But by 1994 this measure had run its course and the Colombian peso experienced a sharp rise. Later on Gaviria faced the opposition of congress, trade unions and most business associations (Martínez, 2008: 271).

Government compensation measures were probably important but not crucial as most of business already shared an ideological support for trade opening and economic reform. Some groups even complained about the fact that trade opening measures were not enough and that more measures were needed in order to benefit from the new policies. Though Putnam’s approach does not factor in the role of the ideas and perceptions of interest groups, the negotiation of the G-3 FTA provides an example of these elements increasing the fragmentation of business association regarding the agreement. At the end, interests were more important than ideas for business associations but the fact that the government was implementing a program of reforms closer to their economic outlook weakened their opposition to the agreement. In this sense, not only economic rationality prevailed among business but also their socialization process, which usually accelerates after periods of disorder or strong economic restructuring, making new ideas more acceptable to business (Giacalone, 1997: 4-5).

The G-3 FTA (1994) shows an instance in which three Latin American governments of similar political persuasion – albeit with different origins, history, political culture, and objectives – signed an agreement including important policy changes in spite of confronting different degrees of domestic support and opposition. This represents exactly the type of cases that Putnam mentioned in his seminal article of 1988 -- cases in which all the governments involved find it useful to sign the agreement because it would help them to implement a series of policy reforms that are not wholly acceptable to their constituents.

Analysis of the positions of Colombian business associations toward the agreement illustrates a fragmented landscape and the fact that not all the affected actors openly participated in the public debate, as well as that the non-participant were the most powerful business groups which did not need the intermediation of the associations to convey their positions to the government.

In the PA, productive integration seems the most attractive option of the agreement for all business sectors. Echabarría/Estevadeordal (2014: 33-34) consider that the Business Council of the PA is the mechanism through which business conveys its preferences to the PA governments. The best example is the latter’s decision to include the cosmetics and hygiene sector among those selected for special consideration following the council’s recommendations. The high level accession of the Business Council to the heads of the PA, in the case of Colombia, is the result of the close links established between them and the
State, and also reflects their high degree of mobilization around the agreement. If Putnam’s two-level games place the chief negotiator (i.e. the negotiating government) as the Janus figure who simultaneously plays upon two boards, Moravcsik (1993: 32) can be credited with adding that also domestic actors may construct transnational alliances to further their own interests in the game (Moravcsik, 1993: 32). We can see this in the linkages established among large companies of the four nations before and during the PA negotiation.

Most analysts (Pastrana, 2011; Betancourt Vélez, 2012) support the notion that State-business relations are quite close presently in Colombia, but Pulecio (2005: 22-23) considers that business associations were previously “disciplined” by the government during Alvaro Uribe’s administration. At that time, the president assumed a central role in the discussion of the FTA with the US and placed Luis Carlos Villegas (ANDI’s president since 1996, linked to Fedecafe)\(^{13}\) at the head of the Consejo Gremial Ampliado, which participated in negotiations via the “next room” mechanism. Whenever there was no business agreement within production chains, the government took the lead and decided for them. According to Pulecio (2005: 12), the negotiation of the FTA with the US implied a three level negotiation for Colombia: with the US and all its internal actors (Congress, business, NGOs, trade unions, etc.), with the rest of CAN, and with domestic actors such as business associations, trade unions, Catholic Church, etc. Support for the FTA can be explained because the large economic groups and companies were able to avoid the negative effects of the agreement by changing their actives from non-competitive sector to new ones, such as Santodomingo (Caracol Radio and TV) and Ardila Lulle that moved to cell telephony, radio and TV, while the agriculture sector – with more fixed actives -- was promised financial compensation. In this sense, this verifies Chase (2005: 18-19)’s argument that the principal attraction of regional agreements is the opportunity for business to reorganize operations – business actors gain when their production technologies require a larger market than the domestic one\(^{14}\), and producers who cannot use those technologies are not interested in enlarged markets--.

An added element in the two negotiations is the continuity of the individual actors involved. The former minister of external commerce who negotiated trade opening agreements in the 1990s, Juan Manuel Santos, was Colombia’s president during the PA negotiation, and the head of the Ardila Lulle Group participated in both processes. This may signal the

\(^{13}\) In 2012 he became a member of the government negotiating team with the FARC, and now is the Colombian ambassador to the US.

\(^{14}\) They will prefer enlarged markets if they can take advantage of economies of scale or move stages of production across borders. Potential gains for producers will be larger in export promotion models for scale economies are internal to firms and create entry barriers for new producers. This is a powerful incentive for influencing policy (Chase, 2005: 25).
importance of personal links established among politicians and businessmen and also of their personal preferences about foreign trade policy.

Putnam (1998: 456) also uses the concept of reverberation which implies that what the government does internationally (Level I) affects the game with domestic actors (Level II). In this sense, participation in high publicized summit meetings gives the head of government “transaction benefits” over his/her opponents and enhances his/her freedom from domestic constituents by helping mobilize or change public opinion at home. During both the negotiation of the G-3 FTA and of the PA the Colombian government obtained a special advantage over its domestic opposition because the international communiqués and declarations of the G-3 and the PA legitimized its policies. This way the international reverberated upon the domestic setting creating a more positive environment for policy changes. The G-3 illustrates the importance of the FTA as a “lock in” mechanism for policy changes, and the PA, the need to deepen normative change in order to supplement previous changes.

Schoppa (1993) has developed an inter-active process between the two-level actors by which one international part in the negotiation attempts to win the approval of at least some domestic groups of the other nation for its preferred option by means of different strategies – enlarging the number of domestic elite actors or of the general public interested in the outcome -- in order for them to obstruct the other partner’s preferred outcome. According to Schoppa (1993), Putnam did not specify when reverberation was likely to succeed, except for stating that it would produce positive results when the negotiation nations are allies, the issue is economic, and nations are interdependent. All these factors are present in our case studies. We found that, in both the G-3 and the PA negotiation it was not in the interest of the other international partners (Mexico and Venezuela in 1994, and Chile, Mexico, and Peru in 2011) to stir domestic trouble for the final outcome in Colombia so they did not use this strategy. Moreover, in the second negotiation, the technical nature of some of the matter under discussion found little interest among the general public.

An interesting aspect of both negotiations is that in the G-3 the governments cooperated to speed up and facilitate the outcome because they were facing negative domestic environments in the sense that they had not gained enough support for the economic policy changes they wanted to lock in. In the PA negotiation, again the four governments cooperated to facilitate the outcome not so much because they faced negative domestic environments but they perceived a negative regional one, in which mutual cooperation strengthened their respective political and economic positions.
Our analysis confirm elements already developed by Giacalone (2003) on the basis of business participation in the negotiation process of the G-3 FTA in Colombia, Mexico, and Venezuela. For example, that both negotiations do not seem to fit Putnam’s ideas about the importance of ratification and their elaboration by Milner (1997: 86), who recognizes four domestic players of the second-level game: the foreign country with whom the agreement is being negotiated, and three domestic actors (the executive, the legislature, and interest groups).

According to Milner, domestic interest groups “intervene mainly during the ratification stage, be it formal by the legislature or informal (i.e., by interest groups implementing the decisions taken)... But Giacalone (2003: 132) considers that “in most developing nations ratification by the legislature is of little importance (except in matters relating to border or military questions)" At the same time, given the need for the executive to save face in front of voters, governments cannot risk having powerful domestic interests not implementing decisions taken: thus, whenever possible, they would rather have their prior explicit or informal approval included in policy preferences vis-à-vis another state".

Additionally,

“….whenever business associations publicly attempt to influence the outcome of a policy that has not yet been developed, it is, as the IPE literature suggests, because they are not in a position allowing them to exert pressure by other means. …influence in policymaking in Latin America is unseen because those that exert influence on a policy usually do not need to discuss it publicly. Indeed, they rarely do. Those who are more vocal in their opposition resort to public opinion campaigns because they perceive themselves as weaker than other domestic groups with opposing interests” (Giacalone, 2003: 134).

This explains why in certain occasions ANDI voiced sector opposition while the largest economic groups remained silent on the matter, but were present at the signing ceremony of the G-3 FTA.

Let us summarize our main conclusions regarding the usefulness of Putnam’s approach for understanding the process of trade negotiations in Colombia both in the 1990s and in the second decade of the XXI century:

1) In order to apply Putnam’s two-level games in trade negotiations, the approach should incorporate more elements coming from IPE and developed mostly by Moravcsik (1993), Gourevitch (1996), Milner (1997a & b), and Chase (2005).

2) Ideas developed or adopted by business internalize how to respond to pressures coming from the international environment -- which is an important consideration in developing countries -- but in the end interests prevail, and this may also operate for the bureaucracy in charge of pushing for new policies. However, the final decision

15 In the Colombian case, the constitution of 1991 gave more freedom of action to Congress vis-a-vis the executive but it also fostered a large number of weak parties with congressional representation. This highly fragmented congress makes difficult for the government to form coalitions in support of policy changes but also for the new parties to construct coalitions against the government (Salazar, 2013: 190-191).
rests on the executive, who in certain issues and moments may choose even to alienate his/her party and societal support to implement them (Giacalone, 2003: 125-126).

3) Trade negotiations may or not incorporate input and participation from business, but when they do, participation is conditioned by domestic power considerations. In the same way that no reform can be produced without a certain autonomy from group pressures, no reform would be successful without forming a new support coalition around it. Accordingly, power considerations (size of company’s exports, importance in GDP, number of employed personnel, etc.) may determine the selection of tacit or explicit allies (Haggard/Kaufman, 1995: 363-364).

4) Though Milner (1997b: 60) stresses that business ability to shape politicians’ preferences hinges on their contribution of campaign funds, mobilization of voters, and provision of information to political actors, the behaviour of ANDI during the G-3 negotiation and of the Business Council of the PA looks closer to the last factor probably because there is less resistance by the State and public opinion to consider business input under the guise of specific sector analysis and recommendations.

5) In the PA, Colombian business support for another state policy – negotiation with the FARC – may have granted economic actors more leverage in negotiation processes that relate to foreign economic policy. Negotiation of the PA deepens previous agreements and policy changes and it is not seen as a substantive area for the survival of the government in power, but the pacification process is. This establishes the importance of issue linkage (according to Keohane, a kind of *quid pro quo*) in business-State relations: if business support makes pacification possible, the government may be more inclined to follow their recommendations in matters which, conversely, may be more important for business survival.

In conclusion, Putnam’s two-level game is a valid option for the analysis of trade negotiations or, in other words, domestic configuration and actors’ interests and preferences “still matter”. However, applying this approach in developing nations needs special adjustments – incorporation of IPE factors, a closer look at domestic institutions (more or less relevance of congress ratification), taking into account what role ideas held by business play in their position regarding negotiations (do they strengthen or weaken that position?), the existence of issue linkage in Level II, the weight gained by the government through the reverberation of Level I, and even what kind of regional environment are the government and its international partners in the negotiation facing at that time.

Adding these elements helps analysis of two-level games move away from the mere distinction between strong and weak states -- the former with more autonomy from societal forces and the latter, more dependent on them --. In this simplistic view, the strong state is able to obtain an outcome that disregards societal forces, and the weak state has to follow the interests of key societal actors. By combining other elements, emphasis gets displaced...
to the fact that trade negotiations usually mirror much more complex domestic situations and that their outcomes are not lineal. During the G-3 FTA the government seemed weak (Orjuela Escobar, 2000) but managed to put forward an agreement that incorporated more economic policy changes than the PA. And in the PA negotiation, though business was previously “disciplined”, it was able to exert more direct influence upon the state due to issue linkage and the fact that the most important economic changes had already been done. The closeness of the negotiating governments in terms of political and economic interests determined as well that there was little “reverberation” in order to offset the negotiating position of Colombia by incorporating more domestic actors, and this might have been influenced by the perception that those governments were facing a negative regional environment.

IV. REFERENCES


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