

The financial Dutch disease in the Colombian economy

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The Dutch disease literature

Structural changes in the sectoral composition of an economy as a consequence of a natural resource boom:

Reallocation and spending effects, by causing a real exchange rate appreciation, may induce manufacturing to shrink whilst natural resource based sector and non-tradable sectors expand (Corden and Neary, 1982).

Growth implications:

Growth may slow down (*natural resource curse*) if technological progress, learning-by-doing, and/or productive linkages to IRS productive sectors (i.e. intermediate goods sectors) are specific to manufacturing (Sachs and Warner (1997, 1999); Ros (2001)).

See Torvik (2001) for a different perspective.

The Dutch disease literature: Common features

- a) Real-side models: Dutch disease models generally “ignore monetary considerations (Corden and Neary (1982, p. 85))”.

When some financial aspects are allowed for, they are modelled in a perfect foresight infinite lifetime optimization fashion → real exchange rate depreciation and expanding manufacturing may actually emerge in the long run (Bruno and Sachs (1982), Mansoorian (1991)).

Nevertheless, (perhaps unsustainable) natural resource boom-induced increases in external debts may play a relevant role in jeopardizing economic growth (Manzano and Rigobon, 2001).

- b) Neoclassical frameworks: Supply-side models assuming full-employment and no relevance to effective demand.

Dutch disease largely neglected by structuralist/post-Kyenesian literature despite their concern on structural change and industrialization as prime source of development and growth (see Taylor (1983, 1991), Botta (2010) on these topics).

Some first steps towards a post-Keynesian SFC approach to the Dutch disease in Colombia

A *financial* Dutch disease may affect Colombia (FDI in the domestic energy sector may produce worrisome internal and, above all, external disequilibria...more on this next). Hence:

- a) Dutch disease in a full national accounts framework embarking the monetary/financial side of the story.
- b) Connecting real and financial side: while FDI have different consequences on economic dynamics depending on the sector of destination (Dutt, 1997), the ensuing financial flows may provoke boom-and-bust cycles, increased volatility and lower growth in the long run (Taylor, 2004).

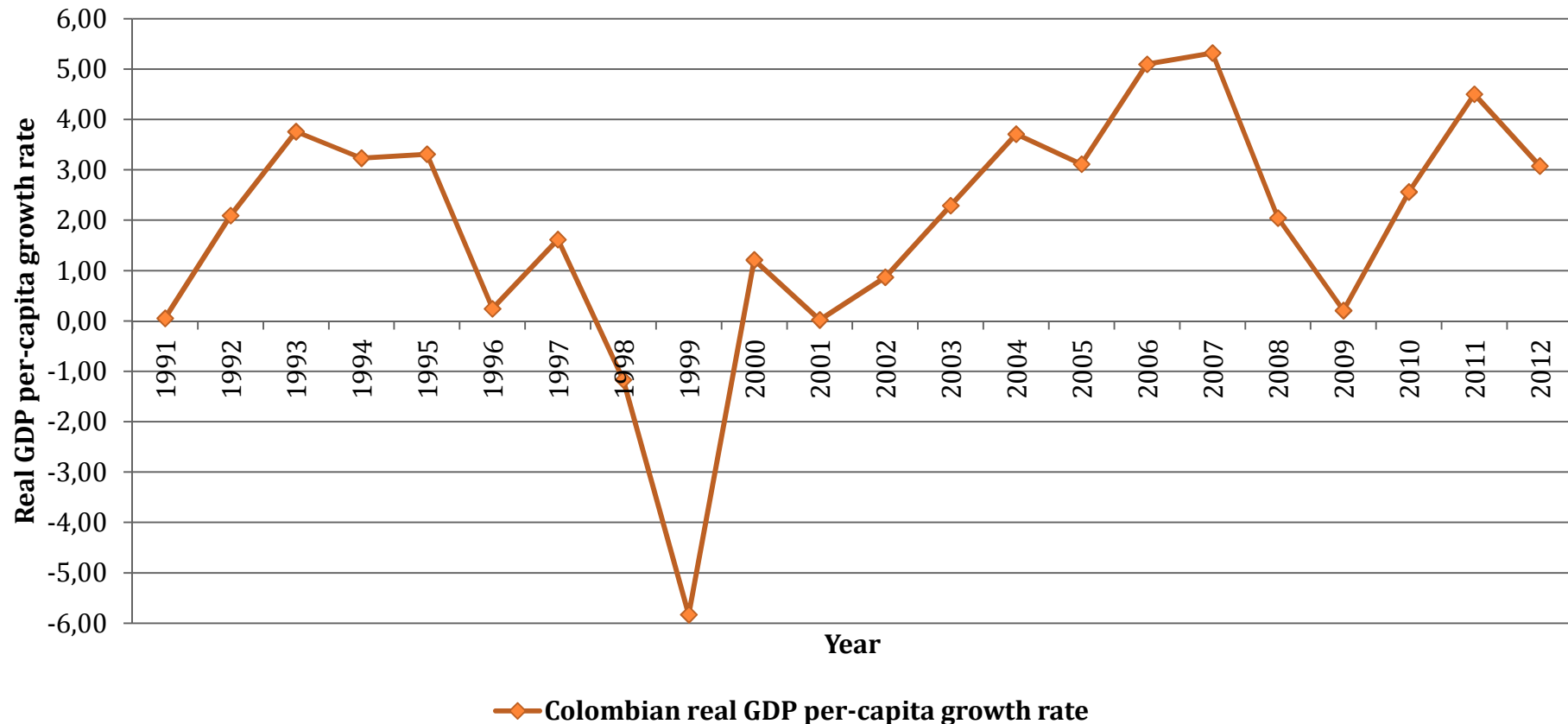
A post-Keynesian approach to Dutch disease in Colombia: The Methodology

- Morris A. Copeland (1949) is the father of the flow of funds
 - enlarge the social accounting perspective to the study of money flows
 - integrate real and financial flows of the economy
- Lost revolutionary message, probably due to “lack their Keynes” (Cohen, 1972, p. 13)
- Godley 1999 and “Seven unsustainable processes”
- Formalization of PK-SFC
 - James Tobin (Backus et al., 1980) and Portfolio choice
 - Wynne Godley (Godley and Crips, 1983, and Godley and Zezza, 1989)

The Colombian Economy: Some macro-aggregated dynamics⁽¹⁾

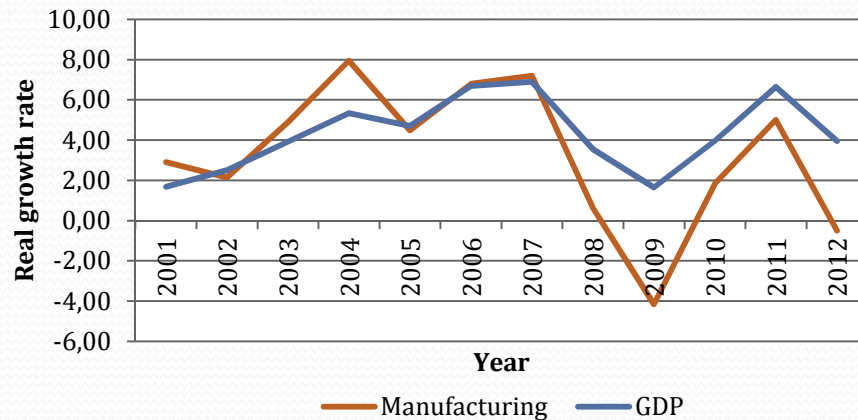
“Apertura hacia adentro” is the hallmark since the 90s on...

Colombian real GDP per-capita growth rate

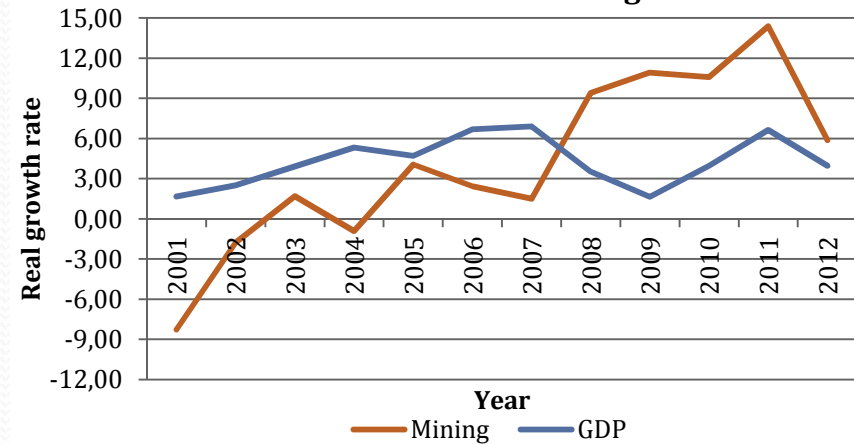


The productive structure behind the aggregated veil...

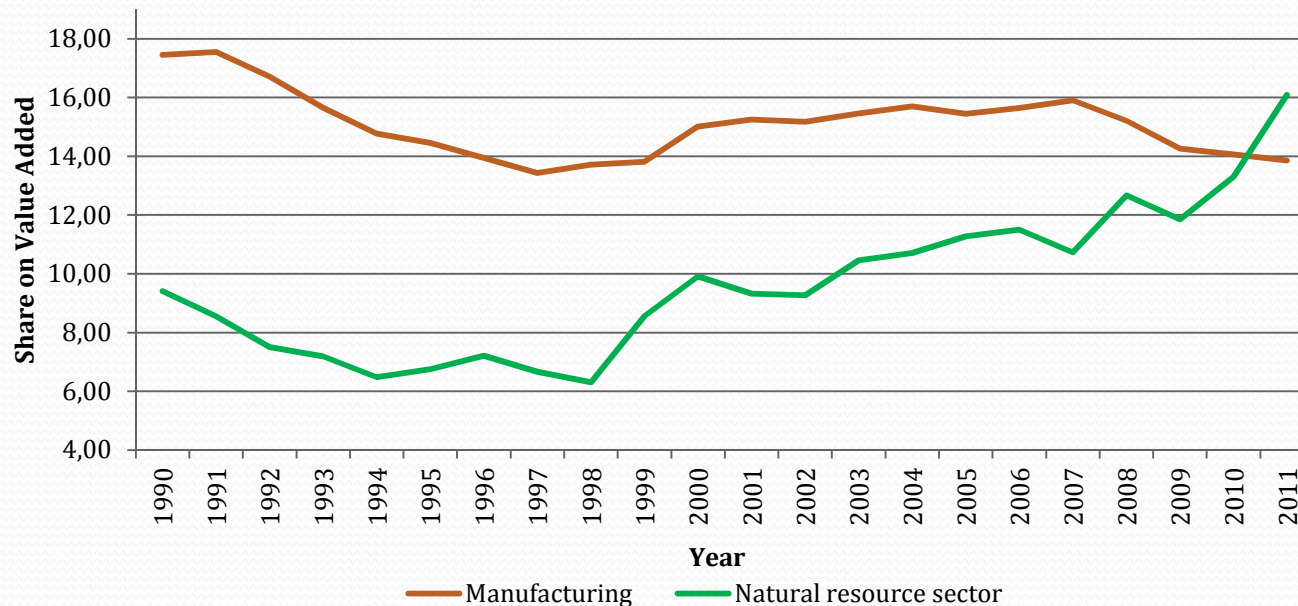
Manufacturing and GDP real growth rates



Natural resource sector and GDP growth rates



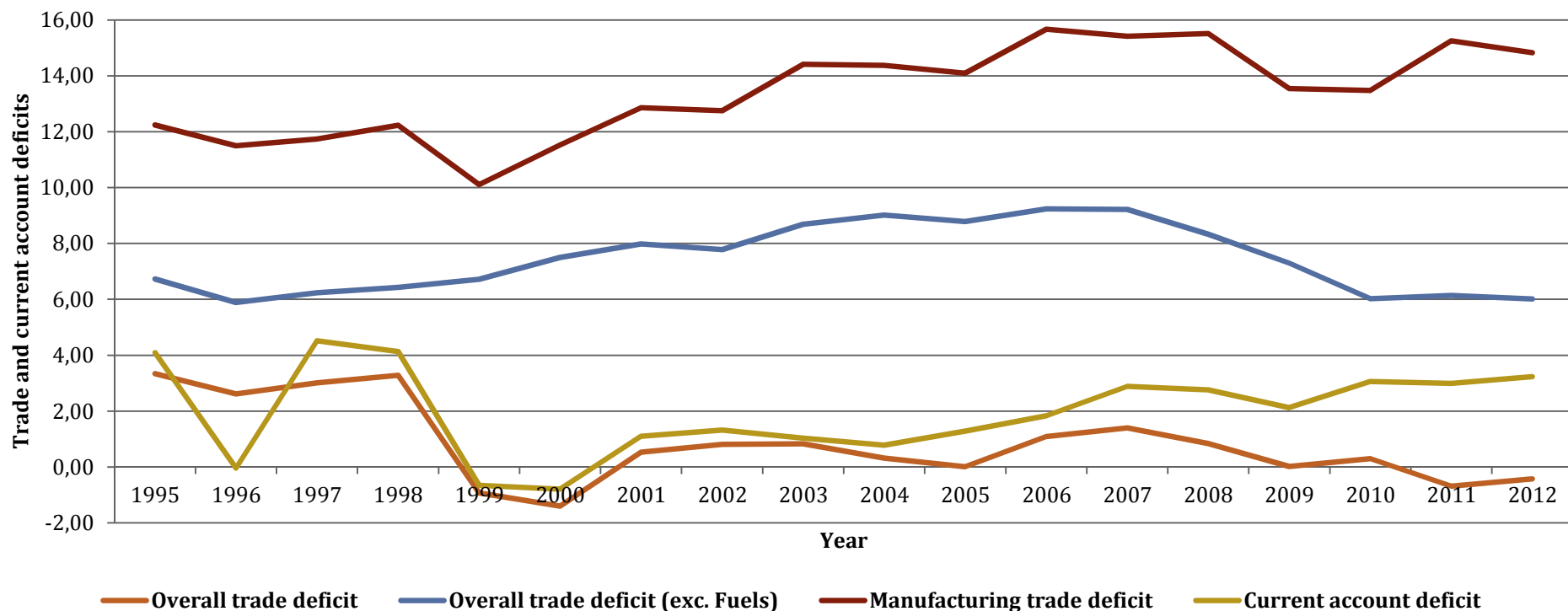
Manufacturing and Primary Commodities Share on VA



A premature de-industrialization seems to be on the way

The trade pattern and the external gap⁽¹⁾

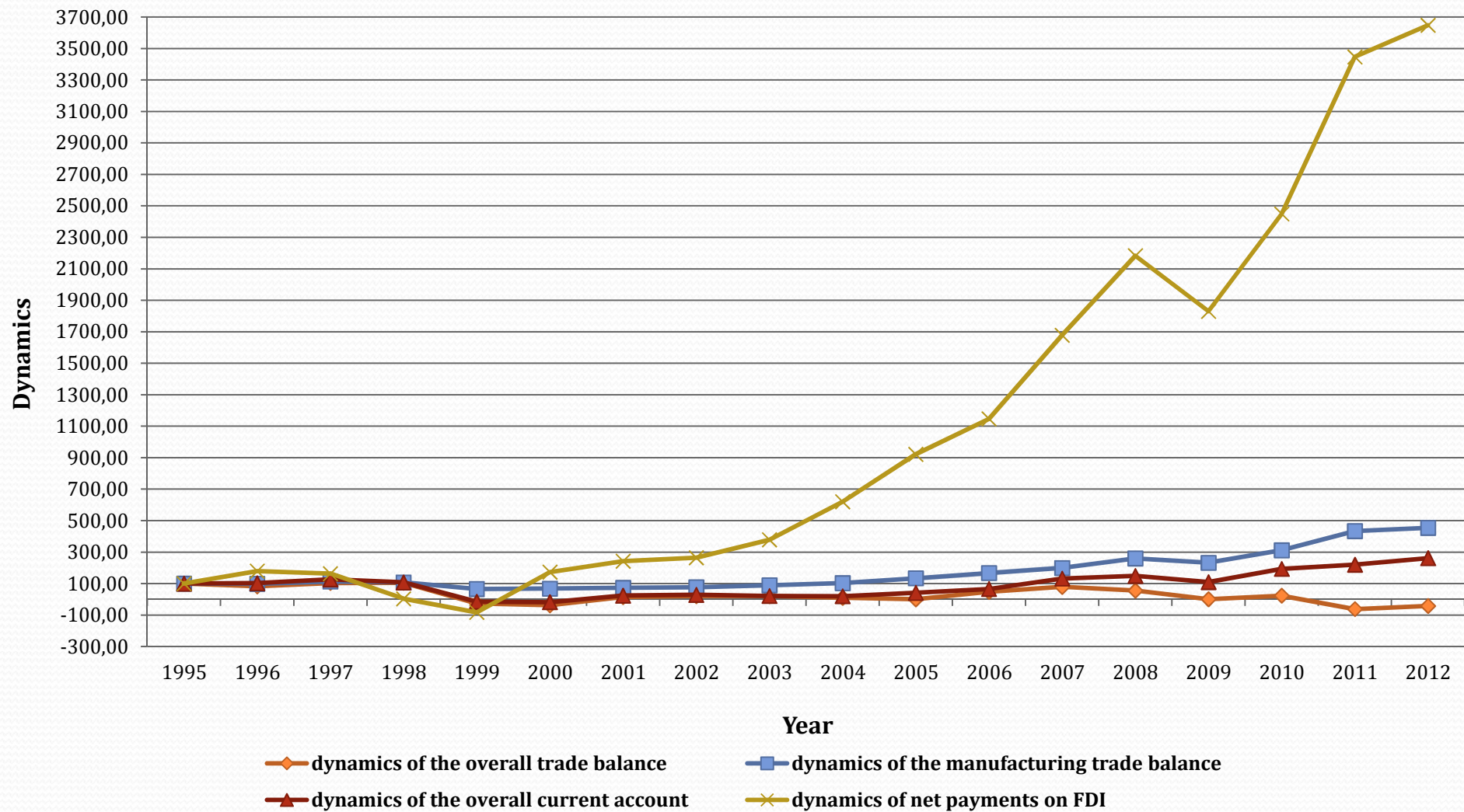
Trade and current account deficits (percentage of GDP)



In 2012, exports linked to the minerary sectors represented more than 63% of all Colombian exports (they were at 27% in 1995). Manufactured goods stand at 18% of 2012 exports (close to 30% in 1995), and 79% of Colombian imports (broadly the same figure in 1995).

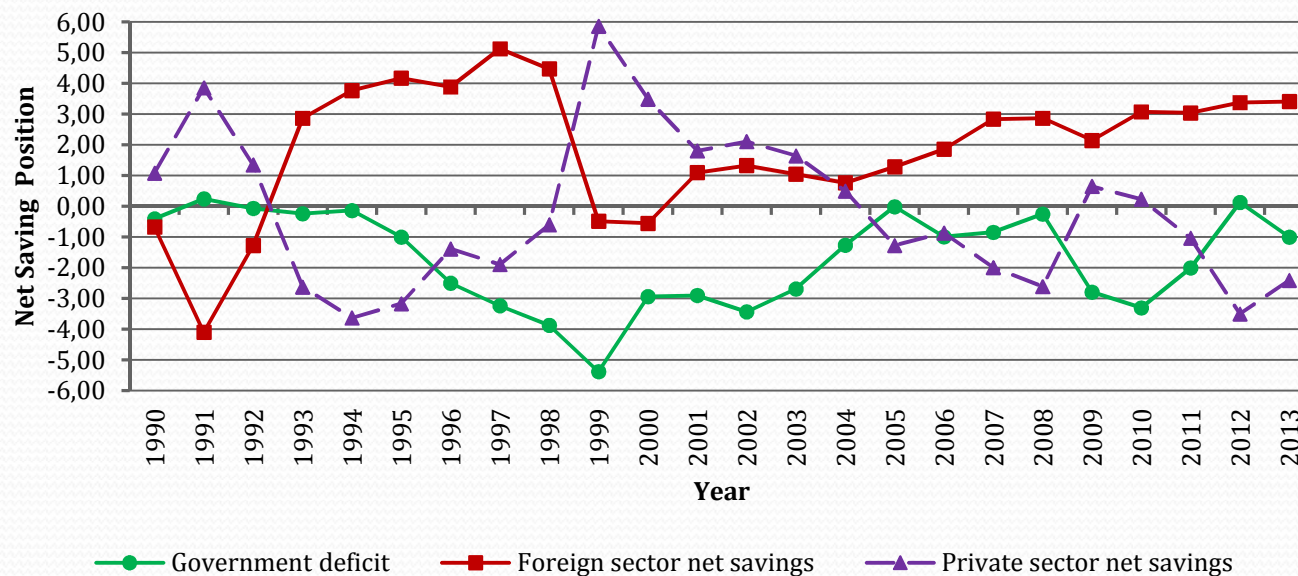
The trade pattern and the external gap⁽²⁾

Dynamics of some BoP net components



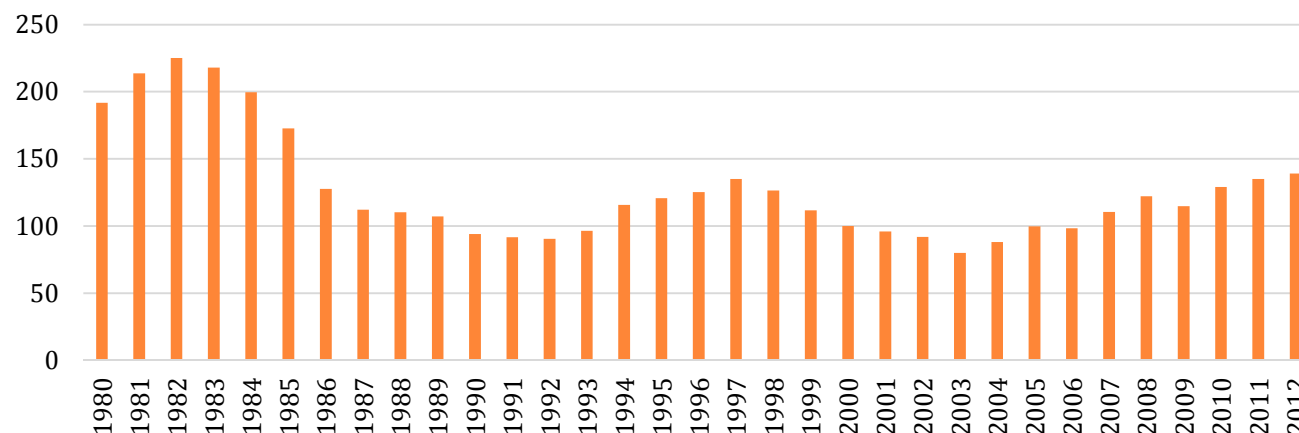
More on the financial side of the story(1)

Economic Institutions' Net Saving Positions



...and despite a pretty large current account deficit...

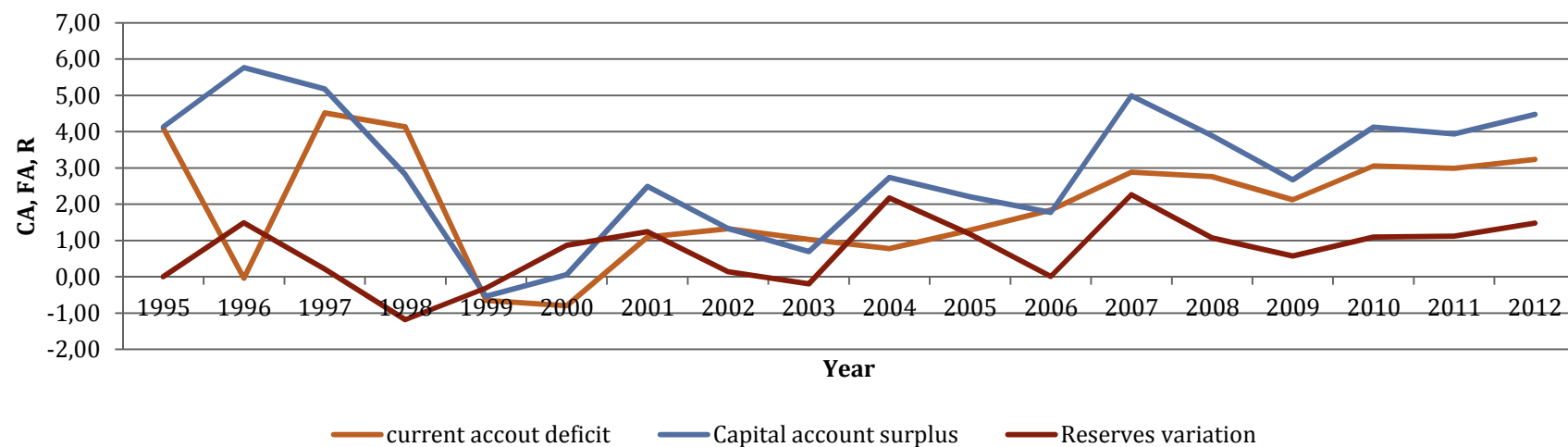
Real exchange rate (2005=100)



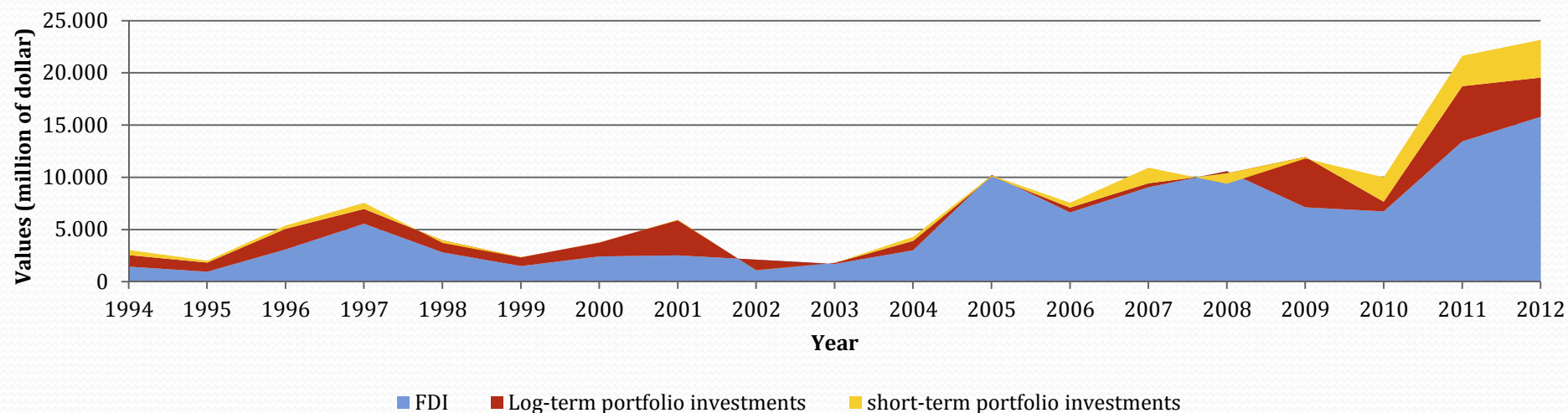
The real exchange rate is appreciating, thus explaining part of the above trade dynamics and symptoms of Dutch disease

More on the financial side of the story⁽²⁾

Current account, Financial account and Reserves' variation (Percentage of GDP)



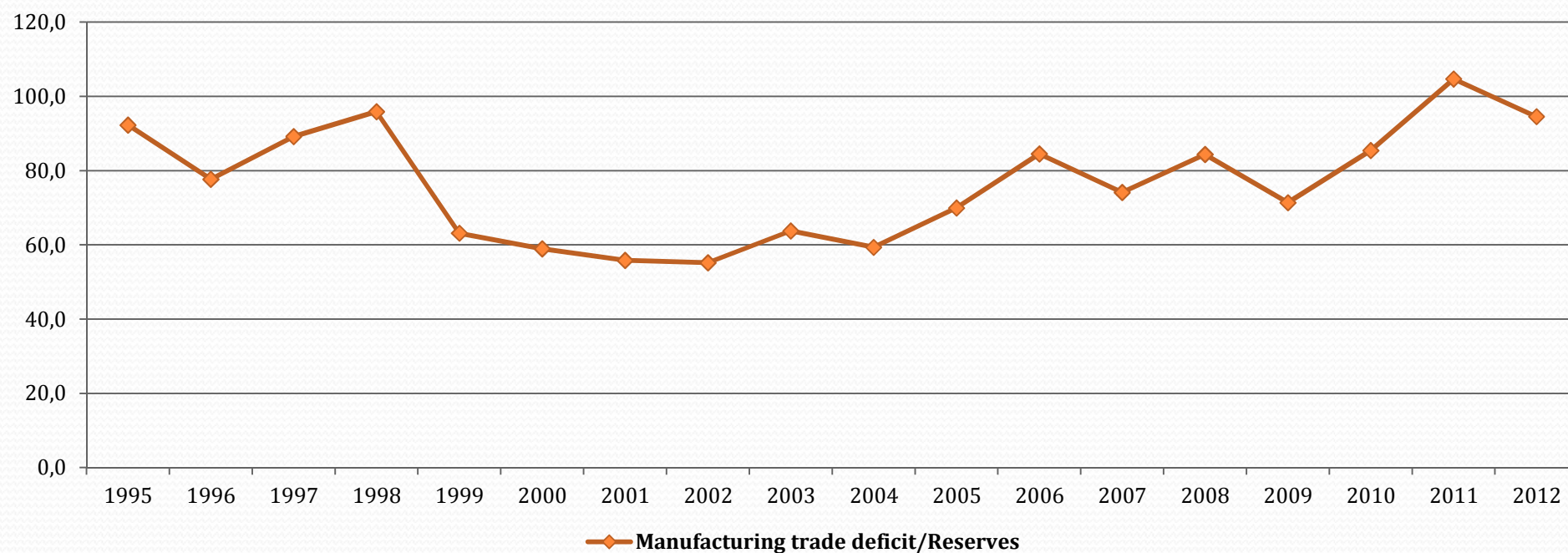
Financial account components



Some problems to come?

FDI have so far financed increasing current account imbalances and persistent manufacturing trade deficit. Are they expected to continue to do so? What would happen should investment opportunities in the energy sector be exhausted and FDI stops?

Manufacturing trade deficit/Reserves



At the end of the day, FDI in natural resource sector may induce a *financial* Dutch disease cutting growth through financial volatility and worsened external disequilibria



Next Steps

- 1) Putting the above pieces of the puzzle all together and produce a full SAM for the Colombian Economy
- 2) On the base of the SAM, model the risks the Colombian economy may face in the near future in a SFC model