The Miami Herald
Posted on Mon, Sep. 13, 2010

Can Venezuela and Colombia end rift?

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On the campaign trail, Colombian President Juan Manuel Santos was fond of saying that when heads of state fight, it's the people who suffer.

That's certainly been the case in Colombia and Venezuela.

Locked in an almost two-year trade squabble that has sapped cross-border commerce by 70 percent, both nations have been hammered.

In Colombia, exporters have been forced to scramble to find new markets since Venezuela imposed the virtual boycott. In one Colombian border town alone, some 500 small manufactures have closed, trade groups said. The woes come at a time when the nation is already struggling with one of the region's highest unemployment rates.

In Venezuela, the trade war has forced the country to look further afield for basic goods, sparking food shortages, price spikes and overloading an already stressed port system. The crammed ports were partially responsible for the scandal that erupted in May when tons of food were found rotting on the docks. The decomposing food has made an easy target for the opposition as the country heads into parliamentary elections Sept. 26.

``This is not just about the economic impact, it's also had a tremendous political impact,'' said Jesus Gorrin, an analyst with the ODH consulting group in Caracas. ``I think the governments recognize this and they are trying to make changes.''

It didn't have to be this way. The Andean nations have traditionally been each other's top trade partners after the United States.

But a series of political squabbles came to a head in 2008 when Colombia attacked a rebel camp inside Ecuador. Venezuela's firebrand President Hugo Chávez accused Colombia of threatening regional security and began imposing a series of regulatory hurdles that amounted to an informal boycott along the 1,274-mile common border.

The nations are working to fix the rift.

Shortly after Santos' Aug. 7 inauguration, the two men met and Chávez pledged to restore ties.

But analysts say it will take more than political will to get trade moving -- and some of it may be gone for good.

Perhaps the biggest obstacle is that Venezuela owes about 250 Colombian exporters $786 million, according to Colombia's Ministry of Trade, Industry and Tourism.

Venezuela's foreign currency regulator, CADIVI, which must release the funds, said it has already agreed to pay $58 million to airline companies. The two nations have established a commission to resolve the rest of the debt.

But until Venezuela pays what it owes, exporters are unlikely to resume trade, said Javier Diaz, the executive director of Colombia's National Association for International Trade.

``Venezuela is always our preferred partner,'' he said. ``But right now, with the debts it has and the economic situation in Venezuela, it's not exactly the most attractive market.''

The debt issue aside, Venezuela is not the healthiest of trade partners. It's the only nation in South or Central America to see its economy shrink this year. And a devaluation in January has sapped purchasing power.

To complicate matters, as oil production and oil prices have faltered, the government is struggling to pull in enough dollars to finance its imports.

The lack of hard currency is helping drive inflation, which is running at around 30 percent this year, and derailing parts of the economy.

Mobile phone company Movistar, for example, announced Aug. 27 that it had cut its roaming agreement with 13 countries because CADIVI would not provide the foreign currency it needed to pay its interconnection fees.

CADIVI needs to be reformed or dismantled for trade to flow again, said Ricardo Tribin of the Colombian American Chamber of Commerce.

``Venezuela has become a bad credit risk, just like it has become a bad oil producer and a bad neighbor,'' he said in Miami. ``We have to hope all of that changes.''

As in all wars, there are winners. China and Brazil have become the No. 2 and No. 3 exporters to Venezuela, relegating Colombia to 4th place. While the United States, Brazil and Mexico are among the big players that have increased their market share in Venezuela at Colombia's expense, some of Venezuela's smaller political allies have also seen exports soar. Topping that list are Nicaragua and Cuba, which saw exports rise 761 percent and 624 percent respectively during the first half of 2010 versus the same period in 2008, according to trade data firm, Datamyne.

Colombia has also been forced to find new markets, and boost the proportion of exports destined to the United States, China and Europe.

Few think these trends are permanent. Colombia's and Venezuela's proximity, their economic needs and their historical ties make them natural partners and reliant on each other, said David Lewis, the vice president at Washington, D.C.-based Manchester Trade, a consulting group that works in the region.

``Venezuela is stuck with Colombia and Colombia is stuck with Venezuela and they are going to have to work something out,'' he said. If they don't, ``in the long run they are both screwed.''