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titled

Economic Impacts of the Free Trade Agreement Between the European Union and Colombia

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1. **Background and Research Design**

1.1 Outline

The Free Trade Agreements (FTAs) are a type of Regional Trade Agreements (RTAs) that were established in the 1970s, and its proliferation has been significant especially since the last decade of the 20th century. The propagation of these type of accords was the result of an integration process between the large economies (and blocks) and the small economies. As of 1 February 2021, around 339 RTAs were in force according to the World Trade Organization (WTO, 2021). Implementation of the FTAs primarily involves economic and social dimensions. The economic dimensions of an FTA are focused on a variety of trade impacts which can be generally analysed mainly by qualitative and quantitative approaches and methodologies. The social dimensions are specifically related to the effects of the implementation of an FTA on labour rights, mainly from the side of the less developed partner(s). In this regard, it is important to identify the economic and social development gap of the signing parties.

The FTA between the European Union (EU) and Colombia came into force in 2013. Before signing the FTA, the EU first tried to negotiate a regional trade agreement with the Andean Community of Nations (CAN) – a regional bloc integrated by Colombia, Ecuador, Peru, and Bolivia. The two blocks started the negotiations in 2007, with the goal of signing a regional agreement based on three main foundations: political dialogue, political cooperation, and trade. However, in 2008, the negotiations were postponed because of disagreements with Bolivia and Ecuador related to the negotiation’s terms, and then in 2009, the parties started to develop multiparty treaties between the EU and individual CAN member states. While, negotiations with Bolivia and Ecuador didn’t bring any results, negotiations with Colombia and Peru in 2010 led to signing the agreement by the Colombian and Peruvian governments in June 2012. The European Council and the European Parliament ratified the agreement in 2012, and finally it has been provisionally applied, with Peru since 1 March 2013 and with Colombia since 1 August 2013 (Council of Hemispheric Affairs, 2013). While actually Colombia has almost 16 FTAs in force and another 4 agreements being negotiated, the EU has almost 77 agreements in place, 24 agreements being adopted or ratified, 5 agreements being negotiated, and 24 agreements being on hold (SICE, 2015; European Commission, 2017a).

Regarding the EU, Colombia and Peru FTA, there are some studies that include CGE models to assess the economic and social impacts of the agreement. One of them is the study developed by Joseph, Narayanan, Norberg, Porto and Walmsley (2012) which is an ex-ante approach that implements a CGE model to simulate the effects of the trade agreement on the partner countries. This report describes the trade flows before the agreement entered into force, and the economic structure of the EU, Colombia and Peru. It also includes a quantitative summary of the trade agreement and the results which show that the EU-Peru and Colombia Free Trade Agreements will have a positive impact on the GDP of the partner economies, although, as expected, the gains to the EU are estimated to be very small, i.e., less than 0.05 % across all baselines. The results are most important for Colombia where GDP is expected to increase by around 0.4% as a result of the agreement. The study of Stevens, Kean, Bartles & Woolcock (2012), includes an assessment of the mains possible gains of the EU, Colombia and Peru FTA taking into account the structural productive differences between the signing parties.

The study conducted by the European Parliamentary Research Service (2018), develops an assessment of the evolution of the EU, Colombia and Peru FTA after five years of its implementation. The first part of the study describes the process leading to the signature of the trade agreement and also includes a brief description of the Colombia and Peru socio-economic context, as well as a description of the relations between the EU and the Andean Community.

The study also examines the bilateral trade of good and services between the parties, international financial flows of foreign direct investment (FDI), sustainable development, intellectual property, and international cooperation. The methodology implemented in this study comprises both quantitative analyses, which includes the explanation and assessment of indicators, and qualitative analysis, based on primary and secondary sources of information.

The institutional reports presented by the European Commission and the Colombian Government includes information on the main achievements in terms of trade flows and issues presented during the first years of the agreement implementation (European Commission, 2014; European Commission, 2016; European Commission, 2017; European Commission, 2018; Norman-López et al., 2016; MINCIT, 2019).

There are economic, political and social implications of the signature and implementation of FTA that goes beyond the pure economic impacts. The social implications have been analysed from the scope of sustainable development, human and labour rights. Though, there is a lack of empirical evidence of the effects of integrating human and labour rights provisions within the trade agreements, there are some studies that include the social dimensions and human and labour rights implications of FTAs (ILO, 2015; Rettberg, De Lombarde, Lizarazo, & Ortiz 2012; Bartels, 2012). Studies about social dimensions of the EU, Colombia and Peru FTA are also scare. Nevertheless, Saura Estapà (2013), Marx et al., (2016), and Harrison et al., (2018), analyse the impacts of FTAs on human rights, and the impacts of the integration of labour rights provisions in this type of agreements. There are also reports that refer to the negative implications of the EU, Colombia and Peru FTA ratification, on human rights, especially because of the well-known situation of human rights and labour rights violations in Colombia, violence, corruption and drug trafficking (For Human Rghts, 2013; Council of Hemispheric Affairs, 2013).

1.2 Research Design

The EU, Colombia and Peru FTA is a plurilateral and intra-regional trade agreement, where the developed region is represented by the EU-28 countries, and the developing region is represented by Colombia and Peru.[1] Taking into account that the agreement has been signed independently and doesn't includes all CAN countries, this research only focuses on the agreement`s economic and social effects on the European and Colombian economies. Considering the theories and methods presented here, the main purpose of this thesis is to provide an answer to the next question: 'How is corruption, flawed democracies and low deep negotiations of free trade agreements related with low performance of free trade agreements and unequal distribution of the benefits of free trade?' Accordingly, the hypothesis of the dissertation is:

H_0: The EU-Colombia FTA does create positive trade impacts for both the EU and Colombian Economy, despite the development and democracy gap between the EU and Colombia.

In order to provide answers to the question and arguments to accept the hypotheses presented above, it is necessary to establish some additional research boundaries and clarifications. Firstly, Colombia was selected as a case study due its particular differences among the other Andean countries related specifically with issues of corruption, long and lasted internal conflict, and drug trafficking. The EU and Colombia FTA represents a case of regional integration between one economic block (the EU) and the three developing countries separately (Colombia, Peru and Ecuador). In this sense, this research is only focused on the bilateral impacts on the European and Colombian economies. Further studies will include the economic

[1] Ecuador joined the Trade Agreement between the European Union and Colombia and Peru with the signature of the Protocol on 11 November 2016.

and social implications of the FTA on the Peruvian and Ecuadorian states. The period under consideration is 2010-2019 (in some cases where information was available until 2020) in order to analyse and compare economic effects of free trade between the EU and Colombia during the pre-agreement and post-agreement periods.

Secondly, it is necessary to establish a theoretical framework on free trade and free trade agreement theories in order to summarise the vast literature on this field and to establish the conceptual limits of this research. This framework is incorporated in the second chapter of this thesis which includes a brief review of the free trade and free trade agreements theories evolution. The theory of free trade which has been built for more than two hundred years aims to demonstrate the benefits of free trade produced by the specialization process and the increase of productivity. The origins of free trade theory were elaborated by the Mercantilists, and then they were discussed and transformed by Adam Smith (1776), and, David Ricardo (1817).

During the twentieth first century many scholars have been studying the evolution and real applicability of international trade theories by analysing its main assumptions and the historical evolution of free international trade, including new methods and fields of analysis. For example, The Heckscher - Ohlin - Samuelson Theorem that was presented in 1919, and the trade creation and trade diversion effects were introduced by Jacob Viner in 1937. The debates on free trade doctrine and protectionism were a part of the Marx agenda. Nevertheless, the main critics to the trade doctrine were developed by the well-known Dependency Theory, the Theory of Uneven Development and the arguments presented by John Maynard Keynes in favour of Protectionism.

Finally, the main conclusions show that despite the EU and Colombia FTA is a relatively high depth agreement, the legal enforceability of social provisions is quite weak into the agreement affecting the implementation of the labour provisions and the achievement of trade and social ambitions. The conclusions also illustrate that expected effects of the FTA implementation are different between developed and developing countries meaning that it is not easy for developing countries such as Colombia to exploit the benefits of FTAs. This research shows that due the persistent development gaps, developing economies with flawed democracies, complex internal conflicts and low level of trade openness cannot exploit the benefits of an FTA in the same way as developed countries do.

2. Methodology

2.1 Horizontal Depth Analysis of FTAs

This section describes the methodology developed by Horn, Mavroidis, & Sapir, (2010) and Hofmann, Osnago and Ruta (2017) in order to analyse the depth and content of PTAs. The data base presented by Hofmann et al., (2017) includes information for all PTAs in force and notified to the WTO in 2015. This database contains 52 policy areas and their legal enforceability in 279 preferential trade agreements among 189 countries, where the information of the EU-Colombia FTA was selected and analysed.

According to HMS, WTO+ stands for those policy areas that fall under the current mandate of the WTO, while WTO-X refers to obligations outside the WTO's mandate. Furthermore, HMS classified provisions as legally enforceable if the legal language is sufficiently clear and the use of dispute settlement under the PTA has not been excluded. Meanwhile, a provision with no reference to dispute settlement procedures under the Agreement or with weak legal language is considered not legally enforceable. (Hofmann et al., 2017: 4)

This methodology presents the PTAs provisions disaggregated into core and non-core, border versus non-border, and preferential versus non-discriminatory provisions. Core provisions are mainly focused on economic aspects and include all WTO+ provisions and four WTO-X areas (intellectual property rights protection, movement of capital, investment and competition policy). The PTAs also includes border provisions, such as anti-dumping duties, and non-border provisions, such as competition policy respectively. According to their application, preferential provisions are those provisions which only applies to members of PTAs, such as the gradual elimination of tariffs; while non-discriminatory provisions are those provisions which only affects both members and non-members, for example limitation in the use of subsidies (Hofmann et al., 2017).

The methodology developed by Hofmann et al., (2017), includes an 'horizontal' depth analysis of the PTAs which allows to study the coverage of policy areas included into these agreements through the lens of three indexes. The first index called '*total depth*' is the sum of legally enforceable provisions integrated in a PTA. The second index called '*core depth*' is the sum of core provisions included and legally enforceable in a PTA. By implementing a Principal Component Analysis (PCA), researchers can obtain the third index called '*PCA depth*', accounts for the variability in the data.

2.1.1 Social Dimensions and Labour Provisions in FTAs

In order to complement the horizontal depth analysis, this study is focused on a set of WTO-X provisions such as human rights, labour market regulation, economic policy dialogue, education and training, and health. This set of provisions is directly related with the promotion of labour rights through the inclusion of labour provisions within the FTAs and the improvement of labour standards after its implementation. The inclusion of labour provisions in trade agreements has its origins in the NAFTA Treaty (between the United States, Canada and Mexico) signed in 1994. Since then, several bilateral or regional trade agreements have included provisions linked to labour. According to the ILO a labour provision is understood as: "(i) any labour standard which establishes minimum working conditions, terms of employment or worker rights, (ii) any norm on the protection provided to workers under national labour law and its enforcement, as well as (iii) any framework for cooperation in and/or monitoring of these issues" (ILO, 2015; 6).

2.2 Qualitative Analysis of Trade Creation and Trade Diversion

According to Plummer et al. (2010) a qualitative evaluation of an FTA's trade effects implicates a comparison of production and trade levels before and after an FTA's implementation based in the next assumptions:

- An increase in imports from FTA partners accompanied by a drop in domestic pro- duction indicates trade creation.
- An increase in imports from FTA partners accompanied by a drop in imports from non-FTA partners indicates trade diversion.
- A rise in total imports where imports from non-FTA partners are constant or increasing implies that there is no trade diversion, thus indicating a positive welfare effect.
- A rise in total imports where imports from non-FTA partners and domestic production decrease and
    - (a) the fall in imports from non-FTA partners is larger than the fall in domestic production, implying that trade diversion exceeds trade creation, thus indicating a negative welfare effect; or

    - (b) the fall in imports from non-FTA partners is smaller than the fall in domestic production, implying that trade creation exceeds trade diversion, thus indicating a positive welfare effect.
- A drop in total imports indicates a negative welfare effect.

2.3 Trade Indicators

The World Bank, the United Nations Conference on Trade and Development (UNCTAD) and other international organizations created the software named World Integrated Trade Solution (WITS) in order to provide to the researchers, the access to the best-available data and analytical tools for assessing the implications of trade reforms World Bank, 2013). WITS includes a set of very useful Trade Indicators to calculate several Trade Indices by using the UN COMTRADE data (World Bank, 2010).

2.3.1 Trade Intensity Index

The trade intensity index (TII) is used to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner (World Bank, 2010).

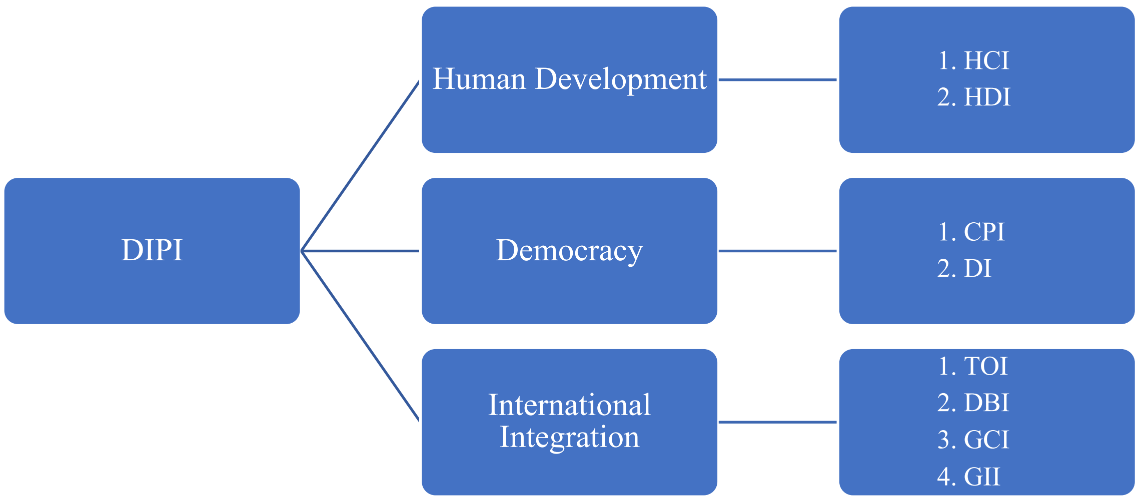
2.3.2 Trade Complementarity Index

The trade complementarity index (TCI) offers useful information on intraregional trade by showing how well the structures of a country's imports and exports match. It also has the attraction that its values for countries considering the formation of a regional trade agreement can be compared with others that have formed or tried to form similar arrangements. The TC between countries *k* (World Bank, 2010).

2.3.3 Democracy and Integration Perception Index

The new DIPI presented by the author of the present thesis, in order to develop a useful tool for identifying and assessing the countries profiles regarding their level of economic integration and democratic stability. This index is also designed to support countries to identify relevant policies and practices. The DIPI measures the average achievements in a country based in 8 basic indexes collected in three main dimensions (human development, democracy and international integration): The Human Capital Index (HCI), the Human Development Index (HDC), the Corruption Perception Index (CPI), the Democracy Index (DI), the Trade Openness Index (TOI), the Doing Business Index (DBI), the Global Competitiveness Index (GCI), and the Global Innovation Index (GII) (Figure 1).[2] The DIPI is the geometric mean of normalized indices measuring achievements in each dimension.

Figure 1. Structure of the Democracy and Integration Perception Index



Source: Author own elaboration.

This methodology follows three basic steps:

1. *Selection of source data*: selection of indexes and its classification the three dimensions.
2. *Standardise data sources*: minimum and maximum values need to be set in order to transform the indicators into indices between 0 and 1. An index between 0 and 0.33 represents a low internationalised and democratic country, an index between 0.33 and 0.66 represents a medium internationalised and democratic country and an index between 0.66 and 0.99 represents a high internationalised and democratic country.
3. *Calculate the average*: the DIPI scores are determined by averaging all of the standardized values for each country.

[2] See more in (The World Bank, 2020b; World Economic Forum, 2017), (United Nations Development Programme, 2010), (Transparency International, 2021), (The Economist Intelligence Unit, 2021), (UNDP, 2020), (The World Bank, 2020a), (The World Economic Forum, 2010). (The World Economic Forum, 2019), (Cornell University., INSEAD., & WIPO, 2020; INSEAD, 2010).

Values for each of the indicators come from publicly available data originally compiled by international organizations such as The World Bank (WB), The United Nations Development Programme (UNDP), The Economist Intelligence, The World Economic Forum (WOF), The Transparency International movement (TI) and The Cornell University, INSEAD, and WIPO (2020). The DIPI provides a useful tool for disaggregating these differences to better understand the strengths and weaknesses of individual countries regarding democracy and economic integration.

3 **Results and Discussion**

3.1 Horizontal Depth Analysis of the EU, Colombia and Peru FTA

3.1.1 The content of the EU, Colombia and Peru FTA

The data evidence that the trade agreement includes tariff reductions on manufactured goods, customs, export taxes and anti-dumping provisions, all other WTO+ provisions with the exception of TRIMS are included within the FTA. Moreover, customs, export taxes, technical barriers to trade (TBT) and sanitary and phytosanitary standards (SPS) are legally enforceable, anti-dumping, state-aid provisions and countervailing measures are enforceable but explicitly excluded by dispute settlement provision.

Except for a few WTO-X provisions, such as IPR, movement of capital, data protection, health and visa and asylum are included and legally enforceable in the EU, Colombia and Peru FTA. Only competition policy and industrial cooperation are legally enforceable but explicitly excluded by dispute settlement provision. Most of the WTO-X provisions are mentioned in the EU, Colombia and Peru FTA agreement, nevertheless, almost ¾ are not legally enforceable.

Despite that PTAs registered by WTO became deeper by including more policy areas (both MFN and preferential) in the last decades, the provisions included in the EU, Colombia and Peru FTA are predominantly border provisions than behind-the-border provisions. Taking in to account that the language and wording of the agreement is in some way general, abstract and imprecise, the legal enforceability of preferential provisions is quite weak into the agreement.

3.1.2 The Depth of the EU, Colombia and Peru FTA

The database developed by Hofmann et al., (2017), provides information and indicators to calculate synthetic indices that describes the level of depth of the EU, Colombia and Peru FTA. Legal enforceability of preferential provisions is quite weak into the agreement. On the one hand, the TDI for the EU, Colombia and Peru FTA shows that this is a relatively high depth agreement, because the agreement includes 20 legally enforceable provisions. On the other hand, according the CDI, the trade agreement represents a case of a high depth agreement because it includes the 18 core provisions and juts two of them are not legally enforceable (investment and TRIMS).

The main aims of the EU-Colombia and Peru FTA are the progressive and gradual liberalization of trade in goods, services and capital, the promotion of FDI and finally the regional integration. With the aim to achieve trade liberalization, the scope of the concessions agreed by the EU, Colombia, Peru and Ecuador are similar to other trade agreements negotiated by the EU. Nevertheless, when the agreement is analysed from the focus of depth and content by using the methodology developed by Hofmann, the results show some weaknesses into the design that may affect the process of implementation of the agreement.

Finally, the data base shows that European countries are the group of countries with the deepest agreements. European countries are engaged in most of the trade agreements signed at the WTO (Hofmann et al., 2017). At the end of 2019, the EU was immersed in around 84 trade agreements and Colombia in 16 trade agreements. The average total depth of EU agreements is 25. The depth of integration is heterogeneous among the partners of the agreement.

3.1.3 Labour Provisions within the EU, Colombia and Peru FTA

The FTA between the EU, Colombia and Peru includes explicit labour provisions from a promotional dimension. Practically, labour standards improvement, as well as civil society dialogue, are not considered essentials for the trade section at the EU Delegation (Arestoff-Izzo et al., 2008), (Harrison et al., 2018). The labour provisions are mainly included in the so-called Trade and Sustainable Development chapters (TSD) of the EU-Colombia FTA. The first article includes the democratic principles' clauses, such as the principle of the rule of law and human rights. (The European Union et al., 2012).

On the EU side, there is a scepticism of the interviewees with relation to the improvements of the Colombia's labour situation, arguing that labour provisions under the sustainability chapter have not enough monitoring and enforcement mechanisms, concluding that the sustainability chapter is nothing more than a chapter with generalized concepts. It is important to mention that, on the one hand, systematic violations of ILO standards, the GSP+ allowed the EU to withdraw trade preferences, and on the other, the sustainability chapter does not provide this kind of sanctions, much less offer a necessary mechanism for dispute settlement (Marx et al., 2016). Consequently, the EU officials answered that, "contrary to the GSP+ scheme, the trade agreement in place constitutes a partnership between equals, rather than a preferential market access regime" (Marx et al., 2016, p.11). Their argument was that the signing parties have the responsibility to monitor compliance with labour provisions. Thus, the EU has no obligation to monitor the internal development linked to labour protection in Colombia.

On the Colombian side, the main concerns are: first, the lack of experience of Colombian corporations and institutions in promotion and monitoring labour protection; second, about the role of the Ministry of Trade, taking into account other Ministries that are more linked to the labour protection; third, the lack of direct channels of communication between Ministry of Labour and their EU counterparts; and fourth, the Sub-Committee annual meetings among government representatives could hardly constitute a credible monitoring mechanism without including transparency and the participation of civil society (Marx et al., 2016).

3.2 Bilateral Trade

3.2.1 Trade in Goods

The data shows that EU's trade with Colombia increased almost twice during the period 2002 - 2012. Nevertheless, after eight years that the agreement entered into force, trade between EU and Colombia fell from €14 billion in 2012 to €9 billion in 2020. From 2007 to 2012 (the year prior the Agreement coming into force) the value of goods exported from the EU to Colombia grew 77.5% and it also raised 8.8% in comparison with 2019. The annual growth rate for exports was positive during the period 2013-2017, except in 2016 when the exports fell by 17% in comparison with the value registered in 2015. There was a recovery on exports of around 24% in 2019 in comparison with 2016 and a reduction of exports of around 25% in 2020, produced by the collateral effects on the world economy derived by pandemic of COVID-19.

The value of goods imported to the EU from Colombia fell by 50% in the period 2012-2020, passing from EUR 8,861 million to EUR 4,422 million respectively. The period 2013-2020 was characterized by a downwards trend, except in 2014 and 2017 when annual growth was 3,5% and 3.6% respectively. There was an uneven performance of exports and imports, bilateral trade between the EU and Colombia has dropped by 16,5% since the year prior to the Agreement. Regarding the trade balance, the EU's trade deficit with Colombia passed from EUR 3,338 million in 2012 to a surplus of 570 million in 2020.

3.2.2 Geographical Disaggregation of Trade in Goods

The main EU supplying markets of Colombian imports were Germany (26.2%), Spain (12.7%), France (15.3%), Italy (10,8%), and United Kingdom (7%), together they represent more than 72% of Colombian imports. The data show that the eight main providers of exports from EU to Colombia account for around 82% which is an evidence of the high level of concentration of EU exports to Colombia by a small group of EU countries. Spain and the Netherlands are the countries whose share of EU exports to Colombia increased significantly since 2012. The share of exports from Germany and Italy fell by almost 3 and 2 percentage points between 2012 and 2020.

The main EU importing countries of Colombian products were Italy (24%), the Netherlands (17.5%), Spain (12.5%), Germany (12.4%) and Belgium (10.6%), they together represent around 77% of total EU imports from Colombia, which is an evidence of the high degree of imports concentration such as in the case of exports. Germany and Italy have the best performance in this category. German imports from Colombia rise by 41,4% compared to 2012. Italian imports raised by 131.4%. In contrast, Spain and the UK imports from Colombia fell noticeably (96,6% and 62.3% correspondingly between 2012 and 2020). Despite France imports were 3,5% of the total share in 2020, this category fell by 47,3% between 2012 and 2020.

The data shows that exports from EU to Colombia raised after the agreement entered into force until 2015, then fell in 2016 and the recovery trend was interrupted by the COVID-19 pandemic in 2020 were imports from EU were located almost at the same level of 2012, one year before the agreement were signed. On the other hand, data also shows that the EU imports from Colombia have been declining by 50.8% since 2014 one year after the agreement entered into force.

3.2.3 Sector Specific Output

The data shows the main EU imports from Colombia in 2020. Near 50% of EU imports are composed by the sectors: fresh or dried bananas (23.3%), gold for non-monetary purposes (13.8%) and coffee (12.1%). In 2020, the EU imports from Colombia represented 16.3% of Colombian exports to world, EU imports from Colombia only represents a 0.9% of the EU imports from world. With the exception of Bituminous coal and Petroleum oils and oils obtained from bituminous minerals, major part of products exported by Colombia are directed to the EU markets than to the rest of the world. It is obvious is that EU imports from Colombia are mainly commodities and products from the primary sector characterized by low levels of aggregate value. The data shows that in 2020 EU exports to Colombia represented only around 0.1% of its global exports. As was mentioned above, almost 14% of Colombian global imports came from the EU for the same period.

The main Colombian imports from EU in 2017 were medicaments for therapeutic or prophylactic purposes (8.2%), motor cars and other motor vehicles (2,6%), Immunological products (2,5%), commodities not specified (2.3%) and Light oils and preparations, of petroleum or bituminous minerals (1.9) are the most traded products by Colombia from the EU. This information is an evidence of the variety of exports that the EU offers to the Colombian economy which also means more positive impacts on the welfare and benefits for the EU. As a developed region, most of the Colombian imports from the EU are composed by manufactured and industrialised products from the secondary sector which are characterized by high levels of aggregate value.

3.2.4 Trade in Services

In 2019, the EU exports of services to Colombia reached EUR 3,981 million, it represents an increase of around 59,2% in comparison with 2012, one year before that the FTA came into force. The data shows that Colombia's service exports dropped during the first two years of the Agreement, but there was a recovery since 2015, passing from EUR 1,423.8 million to EUR 2,005.6 million. In contrast to trade in goods, the EU has preserved a positive balance with Colombia in the exchange of services (EUR 1,976 million in 2016) (EUROSTAT 2019). Overall, bilateral trade in services between the EU and Colombia has been growing since the year prior that the agreement came into force and during the first six rears of the agreement passing from EUR 4,299 million in 2012 to EUR 5,958 million in 2019, this represents a growth of around 38.6%. This trend contrast with the decline in the import of services from all over the world to Colombia, 11.5% during 2016 (European Parliamentary Research Service, 2018).

3.2.5 Geographical Disaggregation of Trade in Services

Regarding trade in services, the data shows that in 2019, the main EU supplying markets of Colombian imports were Germany (12.1%), Netherlands (9.3%), France (8.5%), United Kingdom (6.2%), Ireland and Italy (4,3%). This group represent more than 44.7% of Colombian imports. Unfortunately, data from Spain is confidential, which affects our analysis taking into account that Spain is one of the most important trade partners of Colombia as in the case of trade in goods. The data show that the eight main providers of exports from EU (without Spain) to Colombia account for around 49%. As in the case of trade of goods, the information shows the high level of concentration of the services exports to Colombia by a small group of EU countries. Germany, France, Italy and Greece are the countries whose share of services exports to Colombia increased significantly since 2012. The share of exports from Netherlands and UK fell by almost 8 and 10 percentage points between 2012 and 2019.

The data indicates that the main EU importing countries of Colombian products were the France (13.8%), Netherlands (13.5%), UK (11.2%), Denmark (91.5%) and Italy (51.9%), they together represent around 45.6% of total EU services imports from Colombia. As in the case of trade in goods, this is an evidence of the high degree of imports concentration such as in the case of exports (data for Germany is confidential). Netherlands, France and the UK were the countries with the best performance in this category during the years observed. Between the 2012 and 2019, Netherlands, French and UK services imports from Colombia raised by 224,4%, 173,2% and 60.5% respectively. In contrast, Italian and Belgium services imports from Colombia dropped noticeably.

Access to data on bilateral trade in services between the EU, and Colombia disaggregated by category is very limited and, in some cases, confidential. Nevertheless, the study developed by European Parliamentary Research Service (2018), shows that in 2015, the main EU services exports were located in sectors such as royalties and licencing rights (7.8%), financial services (9%), computer and information services (11.1%), travel services (14.4%), transport services (18.4%), and other business services (30%). The study also shows the distribution of EU services imports by category. The category with the highest weighting was that of other business services, with 31.3%. Also significant are imports of transport services (19.2%), travel services (15%), and royalties and licencing rights (14.8%). The most dynamic type of service imports was royalties and licencing rights, with an increase of 92.3%. It is also important to highlight the increase in computer and information services (26.6%), and other business services (20.6%).

In the case of Colombia, service exports are highly concentrated on three groups in 2019: other business services (14,5%), transport services (19.2%) and travel services (56.9%). These three services sectors represent around than 90% of the total Colombian services exports. The categories that saw the highest growth from 2012 to 2019 were travel and other business services with an increase of 76.9% and 122.1%. Colombian service imports are mainly concentrated in the same three groups, other business services (17.8%), transport (28.5%) and travel at 28.8%. The most dynamic importing sectors were travel services with a growth of (58.1%), telecommunications, computer and information services (99.8%), and financial services (109.7%).

3.2.6 Foreign Direct Investments

Since the FTA came into force, FDI flows from the EU to Colombia rose to USD 0.6 billion in 2015 (UNCTAD, 2014). Since 2016 until 2018 the balance of FDI flows from the EU to Colombia have been negative passing from EUR 0.4 billion to 0.8 respectively. The EU FDI flows originated in Colombia has trended a volatile trajectory, reaching USD 1.9 billion in 2015. Regarding geographical origin, information shows that only, Spain and the United Kingdom, received Colombian FDI in 2016 (European Parliamentary Research Service, 2018). FDI from Colombia is directed mainly around the Latin American region to countries such as Peru, Chile and Mexico. Because of the low level of development of economic structures and the political instability, the internationalisation process of Colombian companies has been a slow and scarce in the global economy.

Cumulative FDI stocks from the EU to Colombia grew constantly during the decade prior to the Agreement, from 2001 to 2011. For its part, Colombian FDI stocks located in the EU reached USD 694 million in 2011. Information in the post-FTA period shows the consolidation of a positive trend for bilateral FDI stocks. According to UNCTAD and the European Commission data, the EU's cumulative FDI stocks in Colombia raised the year that the agreement entered into force but they decreased by 1 percentage points between 2013 and 2018, while Colombia's FDI placed in the EU increased by almost 1 percentual point. The European Parliamentary Research Service (2018) describes that from 5 of the 10^{t} main investor countries in Colombia in 2016 were European (Spain, the Netherlands, the United Kingdom, Germany and France) (European Commission 2019).

The Balassa Index is elaborated by combining stocks, inward stock and outward stock, results show that Colombia is a predominantly recipient of investments from the EU. This situation was similar both before and after the Agreement. Nevertheless, Colombia has been working in new strategies in order to increase FDI flows to the EU since before the agreement came into force, which is reflected in a good performance of the Balassa Index for 2017 and 2018. Some of the new strategies for foreign investment and increasing the internationalisation of the national economy includes the Ministry of Finance and Public Credit issued Decree 119 on 26 January 2017, which modifies the foreign investment registration system, eliminating the existing deadlines and modalities to register investments, and also an agreement for the promotion and reciprocal protection of investment with two EU Member States: Spain and the United Kingdoms (European Commission 2019).

3.3 Trade Effects of the EU and Colombia FTA

Available data shows the trade creation and trade diversion effects for both, Colombia and the EU, six years after the FTA came into force. From the Colombian side, data shows that imports from the EU grew in an unstable manner, while Colombian domestic production fell from 2013 until 2017, this indicates a trade creation effect that lasted until 2017. Then, the Colombian economy started to grow and to reduce the FTA trade creation effects. Trade diversion effects were detected in the years 2014 and 2018. The unstable growth of both Colombian total imports and Colombian imports from non-FTA indicates that there is trade diversion between 2014 and 2016 and after 2018, thus, this represents a negative welfare effects during these periods. Between 2016 and 2018 there was an increase of imports from non-FTA partners larger than the fall in domestic production, implying that trade creation exceeds trade diversion, thus indicating a positive welfare effect during this period.

From the EU side, data shows that EU imports growth from Colombia accompanied by a growth in domestic production which indicates trade diversion during the post agreement period. Trade diversion effects were highest in 2015 and 2017 were the EU imports from non-FTA partners fell. Some positive welfare effects were detected in 2013 and 2016. The data shows that the fall in the EU imports from non-FTA partners is larger than the fall in domestic production, implying that trade diversion exceeds trade creation, thus indicating a negative welfare effect.

3.4 Trade Intensity Index and Trade Complementarity Index

During the pre-agreement period 2010-2012, data shows that total trade between EU and Colombia grew by 57,6%, passing from EUR 11,853 million in 2010 to EUR 18,683 million in 2012. As mentioned earlier, after seven years that the EU, Colombia FTA came into force, total trade between EU and Colombia decreased by 2,7% between 2013 and 2019. During the pre- and post-agreement period, the share of EU imports from Colombia only has represented around 0.1% of its total imports from world. Despite, Colombia is not the main EU importer partner, the EU imports from Colombia decreased by 28,9 during the same period. During the post-agreement period EU purchases from Colombia only represented 0,15% in average, while Colombian purchases from EU were around 16.7% in average.

Data show that the trade intensity index (TII) for both EU and Colombia was less than one between 2010 and 2019, this indicates that the value of trade between EU and Colombia was smaller than expected, according their respective weight in world trade. During the post-agreement period, the EU TII with Colombia was only 0.5 in average, while the average of this index for Colombia was 0,6.

Taking into account that only a small group of EU countries controlled most of the 50% of the trade with Colombia, the EU-Colombia trade complementarity index (TCI) index was calculated only for Germany, the main Colombian trade partner among the EU countries. During the post-agreement period, the German TCI related was highest than the Colombian TCI. After seven years that the agreement came into force, the EU complementarity index with Colombia fell from 77.1% to 75.5%. Colombia's complementarity index with EU also had a declined tendency passing from 40.5% to 39.6% between 2013 and 2019. Results show that imports from Colombia to the EU match better than imports to from Colombia to the EU. This means, that the expected positive impacts on welfare and profits will be more favourable to the EU than for Colombia. This also means, that EU exports a higher variety of goods to Colombia in comparison to the variety exported from Colombia to the EU.

3.5 Human Development, Democracy and International Integration

Democracy exists where there is human development, there is no human development where there is no democracy, where democracy exists there is fair international integration. The development and democracy gap between the EU on the one hand, and Colombia on the other is evidenced not only in the weight of their economies in global trade, but also in several reports that show the performance of these countries in aspects such as corruption, democracy, human development, and competitiveness, doing business and innovation capability.

Regarding to the new index of internationalisation and democracy perception. The German DIPI has been growing faster than the Colombian DIPI for the period 2010-2020, raising from 0.72 to 0.80 and from 0.49 to 0.56. However, the data also shows that Colombia is a medium internationalised and democratic, in contrast with Germany which has been maintaining its position as a high internationalised and democratic country. Transparency International (2021), The Economist Intelligence Unit (2021)., UNDP (2020), The World Bank, 2020a, The World Economic Forum (2019), Cornell University., INSEAD., & WIPO (2020).

Data on DIPI also shows the existing gap between the EU and Colombia in terms of human development, corruption perception and international integration. This gap is biggest especially in the sectors of innovation, trade openness and corruption. Despite the Colombian efforts to integrate its economy in the international integration process between 2010 and 2020, the low levels of human development, scare innovation, and the instability of its democracy affects in some way the possibility of accessing to the benefits of the economic globalization.

The data shows that despite the increasing of number of free trade agreements signed by Colombia between 2010 and 2020. The share of Colombian total trade as a percentage of its GDP was 38%, compared with 88% of Germany. The data also shows that openness doesn't means international integration and that the Colombian economy is still passing for the first stages of the process of international integration where countries are characterized by the low levels of human, economic, structural and institutional development. The gap is biggest comparing the weight of both economies in global trade.

The DIPI is an indicator that shows the importance of budding multidisciplinary approaches in order to understand the development challenges in developing countries such Colombia, in order to achieve the maximization of its benefits extracted from the international integration by the way of free trade agreements.

4 **Conclusions**

Partial equilibrium models, gravity equation models and computable general equilibrium analysis are the most used models for assessing the impacts of FTAs on welfare and trade of signing economies and regions. These models includes both ex-ante and ex-post liberalization trade analysis. Nevertheless, these models do not pay attention to the social impacts of an FTA, for example, the impacts on the labour rights, social protection, welfare systems, among others. With the purpose of expanding the scope of the analysis, this thesis presented a multidisciplinary approach in order to go beyond the only economic impacts.

The horizontal depth analysis of the content of the EU-Colombia FTA showed some weaknesses present into the design of the agreement that have been affecting the process of redistribution of the benefits derived from the FTA during the first seven years of implementation. The Total depth index for the EU, Colombia and Peru FTA is relatively high, because the agreement includes 20 legally enforceable provisions. The Core depth index for the EU, Colombia and Peru FTA is a high because the agreement includes 18 core provisions and just two of them are not legally enforceable such as Investment and TRIMS. Finally, the data base show that European countries are the group of countries with the deepest agreements. European countries are engaged in most of the trade agreements signed at the WTO.

Notwithstanding that Colombia established a fairly robust legal and institutional framework to protect labour rights, the lack of enforcement of its legal-institutional framework is a well-known weakness among its partners. Discussing this compliance gap, the researchers demonstrate a lack of governmental capacity to improve, implement and monitor its legislation, and how labour rights are but one of many human rights challenges in Colombia.

The EU-Colombia FTA, includes labour provisions from a promotional perspective. Despite, the inclusion of some labour provisions in the agreement, a group of scholars and politicians are still against the implementation of the trade agreement, due the situation of democratic instability, high levels of corruption, drug trafficking and labour rights violations in Colombia. They argue that the implementation of the trade agreement with a country with such tremendous problems goes against the values promoted by the foundation treaties of the EU. This thesis proves this assumption and also presents empirical evidence on the big gaps in the development schemes of the EU and Colombia.

There are evident asymmetries between the EU and Colombia related to the level of development and promotion of the labour sector in the framework of its FTA. Despite that these agreements includes human rights clause and social protection dispositions; these norms are not completely explained and their real importance is not included. The problem of not to include the labour provisions from a conditional perspective is that the treaty does not oblige to the signing parties to improve the human rights and labour conditions especially in Colombia, the less developed partner. This affects negatively the productivity and competitiveness derived from the human capital of the weakest country.

It seems, that the EU commitment in promoting labour rights among its trade partners, in this case Colombia is very weak. The role of the actors responsible of the Trade and Sustainable Development chapter has been criticized because of the lack of political disposition, accurate resources, information sharing and integral coordination, which allow designing and implementing the accurate mechanisms to fulfil their obligations, such as the promotion of labour rights and the impact assessment of the trade agreement on environmental and labour situation.

During the first two decades of the twenty first century the EU has been the second preferred destination of Colombian exports and the third country of origin of Colombian imports, consolidating the EU as one of the most important trade partners of Colombia. The EU remains also as one of the largest investors in Colombia. Nevertheless, the post-agreement period shows an uneven performance of bilateral trade between the EU and Colombia. The rise of EU exports was highest contrasted with the decrease of Colombian exports. Some scholars argue that the lack of productivity and the slow economic growth of Latin American countries are the main reasons behind this performance. Nevertheless, the low level of Colombian competitiveness was a big weakness that also contributed with the drop of the EU and Colombian total trade after the FTA entered into force.

The information by product shows that EU imports from Colombia are mainly commodities, while the main products imported by Colombia are specially industrialized goods. The data show that more than two thirds of the Colombian imports is concentrated by a group of five EU countries. Also, the main EU buyers of Colombian products account for more than 72% of total EU imports from Colombia evidencing also the high degree of concentration of imports from the EU. Results also show that the level of welfare produced by the entrance of new products to the EU only impacts a third part of the EU countries.

The Vinerian qualitative analysis of the EU and Colombia FTA evidenced that the impact of tariff liberation derived from the EU-Colombia FTA is generating uneven trade creation and trade diversion effects for both the EU and Colombia. The welfare of EU consumers would improve less than the welfare of Colombian consumers because the lack of diversification of products exported by Colombia.

The new DIPI presented in this dissertation represents a useful tool for identifying and assessing the countries profiles regarding their gaps in the level of human development, international integration and democratic stability. Based on previous explanations, the new DIPI is designed to support countries to identify relevant policies and practices. The new DIPI is a useful indicator for identifying these differences to better understand the strengths and weaknesses of individual countries, blocks and regions regarding democracy and economic integration.

The results reported by the new DIPI shows on one hand, that Colombia is a medium internationalised and democratic country, in contrast with Germany which has been maintaining its position as a high internationalised and democratic country. Despite there is a big difference between these two countries in the majority of sub-indicators such as the Human Capital Index (HCI), the Human Development Index (HDC), the Democracy Index (DI), the Doing Business Index (DBI) and the Global Competitiveness Index (GCI), big concerns are mainly focused on the Corruption Perception Index (CPI), the Global Innovation Index (GII) and the Trade Openness Index (TOI) where the gap is significant. Future research will create a global rank and score based on the DIPI for most of the regions and countries around the world.

The causes of the uneven performance of the balance of trade and distribution of the benefits of the EU-Colombia FTA are explained not only by economic phenomena, but also by the terms of the negotiation, the commitment of the signing parties, the asymmetrical interdependences and the structural gaps among the partners.

This is worth to mention that, not only trade and economic policies, but also social and development policies should be strengthened among the FTA negotiations, because if signing parties do not ensure strong commitment and regulation and joint supervision free of corruption, integration of these asymmetric economies will continue to have negative impacts not only in total trade and economic welfare, but also in human development, international integration and democratic stability.

Colombia has not only many comparative advantages but also some remarkable competitive advantages, mainly in terms of natural resources and commodities. Nevertheless, these advantages cannot be exploited due its social and economic structural failures. Colombia have not been developing the thrusting environment, regulatory mechanisms and supply chain logistics which can help him to export to the EU market in a significant way. It is necessary to improve policies such as independence of the state powers, anti-corruption laws, removal of other quantitative restrictions, labour market regulations, reform of public administration and tax laws.

During the last three decades free trade agreements have been part of the strategy of the developed countries to promote the globalisation of production and the globalization of trade of products and services across the world. In this sense, trade agreements are a key piece of the global, regional and international integration process. The EU remains as one of the most developed regions of the world that promotes trade liberalization and international integration through FTAs implementation. Nevertheless, this work presents empirical evidence that demonstrates on one hand, that multilateral FTAs between asymmetrical regions does not increase total trade, and on the other, that multilateral FTAs does not promotes systems of regional and global integration where the signing parties can benefit from the benefits of international integration and international trade.

As well as there are market and state failures, there are also failures in the international economic integration process and failures of the supranational institutions that regulates international and economic integration. This work identifies both. The main international economic integration failures are: 1) international imperfect competition, represented in the concentration of production in a few countries, TNCs and entrepreneurs; 2) global or international public goods, such as global security, global development and environment, that should be guaranteed by both, national governments and supranational institutions; 3) externalities, such as the trade destruction or pollution; 4) imperfect information, evidenced in the different levels of human, economic, social and environmental development; 5) Asymmetric and interdependent international relations; and 6) the international economic disequilibrium evidenced in the most recent global economic crisis effects. The main failures of the supranational institutions are: 1) Limited information; 2) limited control on private companies mainly TNCs; 3) limited control of international bureaucracy; 4) lack of commitment in the inclusion, implementation, control and regulation not only of economic but also social and labour dispositions; and 5) limitations imposed by the national and international political processes, all of which result in international integrations agreements with negative economic and social results that were never planned or previously highlighted by the international trade theories.

According to the arguments presented above the hypothesis of this dissertation must be rejected, due that the development and democracy gap between the EU and Colombia generates low impact free trade agreements and weaker institutional conditions and frameworks that strengths an asymmetrical process of international integration where the benefits of free trade cannot be efficiently exploited. In other words, the hypothesis of this dissertation should be rejected because despite the development and democracy gap between the EU and Colombia, there are no positive impacts on the Colombian economy and society after the FTA entered into force.

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