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Abstract

This paper explains how trade costs (protection and other costs) discourage manufacturing exports and why they are the main reason that Colombia's main exports are basic commodities. The paper reviews the literature on exports in Colombia, shows how the volume and composition of exports evolved since 1950, proposes a methodology to calculate the protection to the manufacturing sector, estimates the total rate of protection to manufacturing and the domestic terms of trade between protected and export activities in manufacturing, examines the role of export subsidies in promoting exports, and discusses the feasibility of subsidizing exports to offset the negative impact of protection on the incentives to export. The paper concludes that Colombia has not exported more because of the poor incentives to do so, caused by the high protection to domestic production and high costs of logistic services which are explained partially by the country inadequate infrastructure.