IMPACTO DE LOS TRATADOS DE LIBRE COMERCIO SOBRE LA COMPETITIVIDAD: COMO IDENTIFICAR Y PREPARARSE PARA LOS RETOS Y OPORTUNIDADES

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Abstract

Actualmente se negocian más de 60 Tratados de Libre Comercio (TLC) a nivel mundial (OMC, 2004). Los cambios económicos y comerciales que están surgiendo a raíz de los TLC tienen implicaciones importantes para las compañías de los países negociantes. Estos acuerdos no sólo cambiaran el entorno de los negocios sino también las reglas de la competencia; modificaran la competitividad de las naciones y las industrias. Ante estos cambios las empresas no pueden permanecer inertes. Los TLC brindan retos y oportunidades importantes para la creación de valor. Para aprovechar estas oportunidades las empresas deben repensar su estrategia empresarial. Para ello, se desarrollo IDEAS, un instrumento que ayuda a las empresas a analizar de una manera sistemática los TLC y propone movimientos estratégicos para el nuevo entorno comercial.

La presente investigación está organizada en cinco secciones. Primero, se introducen los principales capítulos de negociación de los TLC y se establece el vínculo entre sus implicaciones sobre las compañías y la redefinición de la estrategia empresarial. Segundo, se presentan algunas hallazgos y experiencias sobre TLCs y redefinición estratégica de otros países. Tercero, se explica la herramienta de análisis desarrollada: IDEAS; seguida por su aplicación a una compañía colombiana. A continuación, se presentan los resultados de un proyecto de investigación realizado con varias compañías colombianas de diferentes sectores, cuyo objetivo fue visualizar los movimientos estratégicos elegidos por los ejecutivos en el escenario de un TLC con los Estados Unidos. Finalmente, se desarrollan algunas conclusiones.

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Impact of Free Trade Agreements (FTA) on Competitiveness: Identifying and Preparing for Threats and Opportunities

By Jorge Ramirez Vallejo and Juliana Obregón[1]

The history of economic development in Latin America has been characterized by policies of import substitution for many decades. It was a region that experienced high levels of protectionism and strong government intervention. After the beginning of 1990, many Latin-American countries chose to adopt a development model characterized by economic liberalization and several other elements of the Washington Consensus. As part of this new model, many countries have chosen to open their markets to forein direct investment and to reduce barriers for trade such as licensing requirements, prohibitions, quotas, tariff quotas and administered pricing.

Currently, in the continent, there are several bilateral, multilateral, and plurilateral Free Trade Agreements under negotiation (hereafter called FTA). The most ambitious agreement, the negotiation of the Free Trade Agreement of the Americas (FTAA), is scheduled to be completed by January 2005. If it were subscribed, it would be the world's largest free market, with a combined GDP of nearly $13 trillion in 34 countries, and nearly 800 million consumers from Alaska to Tierra del Fuego.

In the 90´s, more than 30 Free Trade Agreements were negotiated in the Americas and FTAs such as NAFTA, MERCOSUR and CAFTA were subscribed (see Figure 1). Recently we have seen some key FTAs such as the one between Chile and the US, the Andean Community of Nations with MERCOSUR and the one that is now under negotiation between Peru, Colombia and Ecuador with the US.

[INSERT Figure 1]

Despite regional and unilateral trade liberalization, the extent of liberalization is not the same across countries or sectors. The region still lags behind other regions in the liberalization of

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trade in financial and other services and agriculture, and in the use of non-tariff protective measures. Latin America and the Caribbean region were leaders in the use of antidumping laws as a protectionist instrument (The World Bank, 2003). In terms of antidumping investigations per dollar of imports, this region was highest in the world in the 1990s (Finger, *et al.*, 2001).

Currently there are more than 60 FTAs under negotiation worldwide (WTO, 2004).The agreements that have been signed and the ones that are still under negotiation in North, Central and South America can be observed in Table 1**.** Chile has subscribed FTAs with most of the countries of the region that stands out vis-á-vis other countries that have yet much ground to cover in this respect. Probably this trend is not going to end because in any signed agreement there is always room for improvement.

[INSERT Table 1]

The economic and commercial changes that are taking place because of the FTAs have implications for companies in the negotiating countries. These Agreements will not only change the business environment but also the rules of the game of competition; they will alter the commercial landscape of the Americas as well as the competitive advantage of nations and industries.

Hence, firms cannot remain in the same position they were in before the FTA. Until recently, those who wished to avoid uncertainties and the unknowns of competing in foreign markets could simply keep their firms small and local. However, with these FTAs, protective walls have come down. Even small local businesses are threatened by international competitors penetrating formerly protected domestic markets. These firms' success will rest largely on their ability to become internationally competitive, even if they refrain from competing globally. In the new, intensified competitive environment, companies must achieve world-class efficiencies to survive, whether or not they actually compete globally. They can no longer afford the luxury of achieving these efficiencies gradually, through a sequential evolution, using their own resources.

A survey conducted less than a year ago of CEOs of Colombian companies showed that more than 50% of them had not made any preparation at all for the FTA's currently under negotiation (ANDI, 2003). At that time, Colombia was negotiating the FTAA, MERCOSUR, and the FTA negotiation with the US was seen as an upcoming reality.

However, this lack of readiness is not typical only of Colombian firms. In Canada, for instance, it was found during the debate preceding the adoption of NAFTA by the Canadian government, that firms were poorly informed (Julien, P.A. *et. al*, 1994). As a survey conducted of several Canadian firms showed that only 26 percent considered themselves fully or sufficiently informed. Moreover, an even smaller percentage of firms had taken or were planning to take actions to benefit from the Agreement's positive aspects or to counter its negative effects (Rugman and Verbeke, 1991).

There are important opportunities for companies to create value by taking full advantage of FTAs. To find this value, companies need to rethink their entire business strategy. Because of this, the fact that there are negotiations of FTAs going on all over the continent, and that the speed of these changes are fast, it is important to develop a framework of analysis of these FTAs and their impact on business strategies. To do so, an instrument that helps companies to analyze in a systematic manner the FTAs and to propose strategic moves for the new environment was developed.

This paper is organized in five sections. First, the chapters of negotiation of FTAs are introduced and the link between their implications on corporations and strategy redefinition is established. Second, some of the findings of FTAs and strategy redefinition in other countries are presented. Third, the designed analysis tool is explained, followed by an illustration of its application to a company in Colombia. Then, it presents the results of an ongoing research project conducted at the School of Management at Universidad de los Andes, with several Colombian companies from different sectors, aiming to visualize how they would move strategically in a FTA with the US. Finally, some conclusions are developed.

1. Chapters of Negotiation in an FTA and Strategy Definition:

Every FTA is different and includes a distinct set of sections called chapters, usually from 15 to 25. For instance, the negotiated FTA between Chile and the US includes the chapters shown in Table 2.

[INSERT Table 2]

When people think about FTAs there is a tendency to associate them only with the reduction or elimination of duties or tariffs. However, there are other topics in the negotiation that at the end of the day could have a far more significant effect on the company's long-term sustainability. Each one of these chapters and certainly all of them combined, generate threats and opportunities for any company in any of the negotiating countries. A threat because there is a risk that a company's competitor in the negotiating country will penetrate its home country, where it has an already established market share. However, at the same time, these FTAs pose an opportunity because a new set of possibilities open up to that company to penetrate the new market. To take advantage of these opportunities the company needs to redefine its strategic position to deal with either the new threat or the new opportunity. This is the goal of the proposed framework of analysis: to help companies redefine their strategies based on a careful understanding of the implications of the FTA under negotiation.

Strategy has to do with the definition of long-term goals and objectives of a business, the adoption of a course of action and the resource allocation needed to achieve these goals and objectives. Alternatively, strategy is the creation of a unique and valuable position that involves a different set of activities (Porter, 2002). However, the most appropriate definition for a FTA environment is one which asserts that strategy has to do with making tradeoffs in competing, and choosing what NOT to do (Porter, 2002). A corporation or business has to choose what NOT to do to obtain a higher return on investment in the long term in a scenario of FTAs.

In the past, a typical strategy of a company in developing countries was characterized by being opportunistic, taking advantage of government relationships and concessions, including wide product lines, serving all local industry segments, competing mainly on price, imitating offerings of foreign and other domestic companies, and relying on low wage rates and cheap natural resources as a competitive advantage. However, in the future, companies in developing countries need to reinvent their strategic positioning because of higher exposure to international competition and less government intervention.

2. Research Findings regarding Free Trade Agreements and Strategy Redefinition

There are few research findings on Corporate Strategy and FTAs, and even fewer for the Latin-American context. The studies on some Latin-American countries have been based on ex-post evaluations of what some companies have experienced, especially SME in the NAFTA context.

One research study that evaluated several American and Canadian Multinationals before and after NAFTA showed, for example, that trade (exports and imports) and FDI complement each other and are not necessarily substitutes (Rugman and Verbeke, 1991). Other research findings in terms of strategy redefinition in an FTA situation have explored convergence of business practices after trade agreements and important productivity gains (Brauna and Traichalb, 1998; Schiff and Wangb, 2003). It was also found that foreign investors entering a host country through “greenfield” projects were less likely to source locally than those engaged in joint ventures or partial acquisitions (Smarzynska and Spatareanu, 2003).

There is also evidence of positive vertical spillovers from FDI; skill upgrading induced either by technology imports, or by trade-induced reallocations of market share in favor of plants with higher skill-intensity (McKinsey&Company, 2003; Epifany, 2003). A migration of trade from commodities (low-cost production) to production of goods with a higher value added led to differentiation (Rugman A.M., *et. al.*, 2002).

In addition, some increasingly more sophisticated strategies of global industry reestructuring have been found resulting from progressive trade liberalization. Some of these strategies include products specialización (companies locate the entire production process, from components to end product, in a single location with different regions specializing in different products), and value chain disagregation (different components of a product are manufactures in one region and assembled in another; for example, México assembles consumer electronics for the Northamercian market, with components coming from Asia) (McKinsey&Company, 2003).

Some common features of the strategic response of Mexican companies after NAFTA were a combination of competition and cooperation to defend the domestic market and conquer the external market (Levanti, 2001). Cooperation through strategic business alliances and sharing resources across frontiers, particularly information technology (Amin, 1995; Karimi, *et. al.*, 1996), have proven to be key strategies to achieve competitive advantages in an increasingly global economy. Also, there were cycles of new investment in plants and equipment to achieve high quality standards, and a re-specialization tendency was seen within Economic Groups (Garrido, 1997). In addition, the Government developed a healthier relationship with multinationals. For example, the use of new institutions and instruments created by NAFTA and its environmental side agreement, the North American Agreement on Environmental Cooperation (NAAEC) have changed the environmental strategies of multinationals and fostered a healthier relationship with the Government (Compa, L., 2000; Rugman A.M. and J. Kirton, 1998).

The defense strategy implemented by Mexican companies for the domestic market was characterized by the use of power on market segments; use of strategic alliances with some foreign companies that had intended to compete in the domestic market; implementation of symmetric distribution agreements; an increase of the supply level for the domestic market to generate an entry barrier; an increase of preventive investments in Mexico throughout acquisitions and mergers with other national companies; and a new perspective on quality and orientation towards the consumer (Garrido, 1997).

A company can "go international" in many ways, by employing various *entry alternatives* or *entry strategies* (Brenes, 2000). These strategies range from the most fundamental international entry alternative, exporting, selling domestically produced goods in the market of the negotiating partner, but maintaining the manufacturing facilities at home. In this case, the major task is to select the distribution channel to reach the market of the foreign country. Usually done through foreign agents, foreign retailers and direct sales. Importing is also a key part of the internationalization strategy through direct sourcing or subcontracting. Another way to "go international" is to use licensing, especially in high-tech companies, granting proprietary rights to use technology, patents, copyrights, etc. Other alternatives are the use of franchising, as a special form of licensing, or contracting, joint ventures, and wholly-owned foreign operations as the ultimate form of international involvement

Research has shown that Mexican companies have used a great variety of entrance strategies, from direct exports to direct investment to penetrate foreign markets. Another feature commonly found was that the organizations became more decentralized and some even developed a new ownership structure and control (Garrido, 1997). Additionally, it was discovered that the export strategy was unfavorable to local suppliers mainly because of supply and quality constraints (Garrido, 1997; Smarzynska and Spatareanu, 2003).

Another way to "go international" in an FTA context is to choose a third country in which to locate some of the firms business activities. Countries that might have already negotiated better "entrance conditions" with the "target country" than the conditions achieved by the home country in the negotiation. This is the typical case of a company that chooses a third country in order to bypass an unfavorable rule of origin .

3. Proposed Framework of Analysis

The framework proposed is intended to help perform an analysis of the Chapters of Negotiation of an FTA and their impact on corporate or business strategy. The framework is made operational in a tool named IDEAS located on the Web that guides, in a sequential fashion, the analysis by management in a company that would like to diagnosis how its current strategic position fits with the new environment generated by the FTA. The tool then helps the company to readjust or redesign its strategy based on a complete diagnosis.

IDEAS is conceived to go from a macroeconomic analysis to a progressively microeconomic analysis. In this sense, the proposed framework has three levels of analysis beginning with a Country Competitiveness Analysis, followed by an Industry Competitiveness Analysis which includes a sector analysis through Revealed Competitive Advantage techniques, and finally, an analysis at the firm level studying each of the Chapters of Negotiation of the FTA and evaluating its impact on corporate strategy. After this diagnosis is completed, the framework ends with an exercise that reviews the strategic position of the company before the FTA, provides a menu of alternative strategic moves to respond to the FTA, and proposes adjustments.

3.1 Country Competitiveness Analysis

The first step is to perform a complete analysis of the level of competitiveness of the home country and the "negotiating country" to explore the strengths and weaknesses in terms of competitiveness. The analysis tool takes advantage of secondary data available on competitiveness such as the one from the Global Competitiveness Report that helps grade the level of competitiveness of a target country.

An FTA affects abilities, knowledge, regulations, policies, and related and supporting industries and institutions of the business environment**.** For this level of analysis, Porter's diamond of national competitiveness is used. As can be observed in Figure 2, each of the four corners of the diamond can be affected by an FTA. For instance, chapters of negotiation such as access to markets, intellectual property, rules of origin, technical barriers to entry, competition policy, and safeguards and countervailing measures directly affect competition among rivals. Alternatively, the liberalization of commerce resulting from an FTA allows for a larger presence of suppliers, related industries, and clusters fostered by FDI. In addition, the supply of specialized factors (human and capital resources, scientific, technological, information and infrastructure) available for firms is increased by the FTA thus promoting an upgrade of factor quality and specialization. Finally, an FTA increases the market and potential for demanding customers.

[INSERT Figure 2]

3.2 Industry Competitiveness Analysis and Revealed Competitive Advantage of the Sector:

The next step is the industry level of analysis. To perform the industry competitiveness analysis in the proposed framework, for linking FTA and Strategy, Porter's five forces driving competition in an industry is adopted (Figure 3). The removal of trade barriers and regulatory distortions by the FTAs may generate important changes in the structure and profitability of corporations. For example, changes in the level of protection created by tariff barriers applied to substitute products or services may alter the importance of this threat for an industry. Tariff reductions resulting from an FTA allows foreign competitors to improve their price performance and unless a local industry can differentiate its product or progressively reduce prices the industry's earnings and growth may be hampered. Also, the suppliers negotiating power changes as well as the buyers' negotiating power with more demanding and specialized consumers. Finally, a change in tariff and non-tariff barriers to entry following FTA's generally favors the entrance of foreign enterprises into domestic markets.

[INSERT Figure 3]

In addition, using indicators such as the *Balassa Indicator of Revealed Comparative Advantage* (IRCA) it is possible to determine which sectors have potential competitive advantages and disadvantages (Balassa, 1989). This provides a good idea of what a sector looks like, in terms of competitiveness, and how it compares with similar sectors in other countries based on past trade data. IDEAS, also includes the use of indicators such as the *Indicator of Commercial Complementarities* (ICC) that shows the degree of association between the products imported by country A and the exported products by country B, and the *Indicator of Commercial Intensity* (ICI) that compares the exports and imports from country A to country B and vice versa as well as the exports participation in total world sales (Table 3). The application of these indicators will be later shown on a case study.

[INSERT Table 3]

3.3 Firm Analysis: Transition from Diagnosis to Strategy

Finally, comes the transition from diagnosis to strategy. No matter what industry the company under study is in, managers need to answer the following questions. The first has to do with what will be going on in the industry itself after the FTA is in effect. Industries differ dramatically in their profit potential and, most likely, their profit potential will experience important changes over time because of the FTA. Managers have to understand this because there is something about the game in which they are playing that is going to change and they have to be able to determine how successful they are going to be.

The second basic question in strategy has to do with the current position and future positions within the industry now and after the FTA. No matter where the company is operating, it will have to decide exactly how it is going to compete and how it is going to position itself to be a superior performer in the new environment brought about by the FTA. This is the last step of the framework, where the company jumps from a complete diagnosis to decisions on changes in strategy.

In the past, internationalization was usually considered a gradual, incremental process. That is why the traditional internationalization models identified stages of progressive entry into international markets. A major problem of the "stages" model is that it assumes a considerable span of time through which a firm can gain experience, accumulate resources, and develop the managerial capabilities required for international operations (Porter, 2002). However, the speed of an FTA negotiation process dramatically reduces that time span, and constrains the ability of small firms to control their own development paths. For example, a firm in a vertically integrated industry may have to internationalize immediately to reach the scale necessary to survive. When the economics of high startup costs, small domestic market size, and shortened product life cycle combine, firms may have no choice but to become "instant internationals" to survive. Therefore, in a contemporary FTA business environment, time has become a critical strategic weapon.

3.3.1 Presentation of IDEAS

The School of Management at Universidad de los Andes considered that something was missing in terms of a methodology that could be used by most companies that would make it simple for an organization as a whole to distinguish a signal from a noise in an FTA context. Most companies already try to detect threats, figure out how to threaten competitors, and determine the best way to allocate scarce resources. However, those attempts are too often informal, biased, shortsighted and fragmented. Thus, by formalizing the assessment process and making it more rigorous, a company can substantially improve its chances of success.

A tool that can help companies detect potential threats and opportunities while management still has time to respond effectively was developed and tested. It fosters a group of managers to sit down together to think systematically about threats to their core business and opportunities in new markets, and to surface ideas about how to avert or co-opt those threats and capitalize on those opportunities given by the FTA. People inside corporations get so anxious about serious threats and opportunities that they have trouble looking at them without too much passion. For this reason alone, the tool adds a measure of rigor to an assessment process that is too often sloppy. The rigor that this process imposes can spell the difference between wavering around versus acting effectively in the face of serious competitive threats and opportunities created by an FTA

The methodology includes two components: an analytical instrument and an organizational process. The two are intertwined; both equally important.

The analytical instrument uses first, a general *company profile* is obtained using indicators of size (value of assets, number of employees, number of subsidiaries, etc.), degree of internationalization, and distribution of international sales vs. total foreign earnings and countries of destiny of said sales. Then, an analysis of the competitiveness at the national level using the diamond is conducted. This analysis is performed not only to search for changes in the business environment in the home country but also in the country the company under study would like to enter (the negotiating partner). Following this, the industry must be analysed, and again, it is important to answer the question of what has changed in the industry with the new rules of the game brought by the FTA

The instrument is designed around a seven-point scale that rates each contributing factor. It goes from highly disabling (-3) to highly enabling (+3). In the chart (Anex 1, Figure J), for instance, an assessment team is trying to rate the factor that affects an incumbent's entry into a main market. In the process, the group engages in a valuable discussion because it brings out individual member’s assumptions about industry conditions and dynamics. Since not all the factors being rated will have the same level of influence, it is necessary to weigh each factor from very low influence to very high influence. Then the tool calculates the weighted score for each chapter of negotiation and normalizes it to fall within a standard –3,+3 range.

After calculating the scores for all chapters of negotiation, a risk-opportunity profile is obtained. This profile signals the red-flag indicators of the chapters of negotiation that should be considered or studied more carefully. For instance, a company under study may learn from this diagnosis that it is particularly vulnerable to the chapter of rules of origin and it has low sensitivity to negotiated themes such as services or intellectual property rights. Hence, it may formulate specific strategic plans to work on the threats and opportunities detected and disregard irrelevant chapters of negotiation.

The *Strategic Adjustment* module provides a menu of possible strategic moves that a company could implement. The group’s last formal task is to interpret the risk and opportunity profile combined with the competitive analysis of the country, industry and sector, and start migrating to the strategy map to begin with the redefinition of the strategy. After the group chooses and grades alternate strategic moves (before and after the FTA) proposed by IDEAS, the instrument produces a star diagram that allows managers to visualize the transition or strategy redefinition that follows the new economic environment brought about by the FTA.

Refering to the process itself, the assessment project needs a group leader and an assessment team. The group leader is usually from strategic planning or business development and should be well respected and visible in the organization. Team member selection is critical, since the assessment process´ validity derives from the group’s collective knowledge. It is also important to train the team to become familiar with the methodology employed to identify the factors, and to brainstorm in order to generate issues, unique to this company`s situation, both in a positive and a negative way.

The assessment team should then study carefully the FTA, what has been negotiated so far, what the negotiating positions of the two countries are, etc. Then, once the group has listed contributing factors and agreed on the general timing of the potential threats or opportunities every member should rate and weight each factor individually. High variation in a particular factor may indicate a lack of clear definition, different assumptions within the group, or absence of sufficient information.

So far, the framework and tool can also be used by incumbents can also use this approach to detect potential threats and opportunities from their point of view to formulate a response to prevent them or, better yet, to turn them into a business opportunity. They can use it to help plan an attack or to conceal an attack. Therefore, either type of player can use the methodology to assess and rank a portfolio of potential investment opportunities or development projects and to dedicate resources to the most urgent initiatives.

4. Application of IDEAS to a company: Case Study of the Textile and Apparel Industry

The application of IDEAS to a company in the textile and apparel industry (Anex 1) is particularly illustrative of the sequence followed by this tool, the type of data that feeds it and the results that it processes and provides. Specifically, IDEAS outlines the critical factors affecting regional competitiveness, the forces that threaten the industry's competitivenss, the threat opportunity profile of the company *vis-á-vis* the FTAs and most importantly the strategic moves the company may undertake in the light of the aforementioned diagnosis.

From this case study some interesting results were obtained. In terms of the *National Competitiveness Anlysis* it was found that several factor conditions for this industry are lacking or underdeveloped. The context for firm strategy and rivalry is composed of a few big companies that do *Full Package*, and several small companies that compete, but also cooperate. The demand conditions for this industry are characterized by unsophisticated local clients but highly sophisticated foreign clients. In terms of related and supporting industries, a presence of monopolies of suppliers of key imputs was found; however, there are some important associations developing to support this industry.

When performing the *Industry Competitiveness Analysis* it was observed that the concentration of suppliers is high and thus their negotiating power. Also, the buyer's negotiating power is high. The threat of substitute products is moderate since used garments constitute a very imperfect substitute product. However, the threat is high if CAFTAs, Mexico's and China's produce are considered substitute producers. Rivalry among existing competitors is high given that, on the one hand, a few big companies control the domestic market with their own brands, and, on the other hand, there are several small firms that compete for maquila contracts. The threat of new participants is moderate; it was found that the main barriers to exit were specialized assets, the barriers to entrance were the experience curves of the big companies, and the principal incentive to enter is becoming satellite workshops of maquiladoras. In addition, from a sectorial viewpoint, through the use Balassa Indicators of Comparative Adavantage it was observed that the textile and apparel industry of Colombia has a competitive advantage vs. the rest of the world, wereas in this same industry the US has a competitive disadvantage.

The Threat and Opportunity Assessment for this industry, *vis-á-vis* the FTA between Colombia and the US, pointed out that the chapters of negotiation to which the company was particularly vulnerable were technical barriers to entrance, subsidies, and environmental regulation. In contrast, some appealing opportunities were found in the chapters of market access and investments.

Finally, the most interesting results of this case study were observed in the strategic adjustment stage. After becoming aware of the critical factors regarding national and regional competitiveness and the implications of the FTA for this industry, the group of managers chose a very sophisticated package of strategic moves. Said strategic moves include a much wider range of modes of entry to foreign markets, innovative organizational structure designs, a disposition to use e-commerce to commercialize their products, and new forms of financing to increase access to capital, among others.

5. Results of an ongoing research project applying IDEAS to a variety of companies from different sectors in Colombia

A research project on FTAs and strategy redefinition was conducted on variety of companies from different sectors, among them, textiles, pharmaceuticals, beverages, agroindustry, medical and surgical elements, and others portrayed in Table 4. The purpose of the research is to examine the impact of an FTA with the US on companies in Colombia, trying to simulate their behavior with respect to the FTA. More specifically, the aim was to discover how these Colombian firms view the FTA and what strategic moves they have been anticipating. Special attention was paid to how these companies reacted, either to confront the increase in potential competition or to take advantage of the FTAs negotiated conditions to enter the US market. The instrument IDEAS was provided to managers of the aforementioned sectors so they could systematically perform the exercise.

[INSERT Table 4]

The results, initially, were surprising: only a small number of firms knew of and had taken concrete steps to counter or take advantage of the agreements under negotiation.

Corporate executives identified in general *more threats than opportunities*, not surprisingly, given the lack of information they had, not only on the FTA negotiation and composition but also on the characteristics of the US market. From the set of chapters of negotiation they studied carefully, they found *technical barriers* to be a major obstacle to trade, but *rules of origin* were perceived as facilitating forces for the entrance of new competitors to the local market. Amazingly, *Market Access* did not stand out as a major facilitating force for the entrance of new competitors to the local market (Table 5). In terms of opportunities generated by the FTA, *subsidies and countervailing measures,* as well as, *labor regulation*, were seen as mayor obstacles to entering foreign markets.

[INSERT Table 5]

[INSERT Table 6]

The main motivators to enter new markets are: *risk diversification*, *achieving economies of scale*, *placement of excess production, small domestic market*, *cost reduction and a possible drop in local demand*. Unusually, *increase of earnings***,** although an important motivator for many, was not the leading motivator.

In terms of modes of entry, the survey showed *exports through distributors* and *sales through subsidiaries*, as the most prevalent modes of entry. Surprisingly *acquisitions* were also chosen as an alternative to enter the US market. This clearly reflects confidence in some Colombian corporations with respect to the US market (Table 7).

[INSERT Table 7]

Finally, after the managers completed the diagnosis steps for each company with the help of the analysis tool IDEAS they proceeded to the strategic redefinition exercise. In general, there is a significant change when comparing ex-ante and ex-post strategic positions. We saw a move to a more sophisticated bundle of strategic dimensions. What this could be hinting at is that an FTA will definitely induce a change towards a more comprehensive and complete strategic position of the company.

The following results by area of analysis can be highlighted: In the marketing area, firms found e-commerce a key instrument to be applied as part of both offensive and defensive strategies. Most executives are considering entering the US market with two or more product lines. A tendency toward the sophistication of the marketing strategy before and after the FTA was observed. From an organizational perspective, it called our attention to how these firms see labor laws and regulations as major obstacles to entering the new market. As a response to these concerns, outsourcing was also found to be a key ingredient in the organizational change required. The most common organizational structure was the divisional by markets or geographic area and a change in parent-subsidiary structure. (Table 8) In terms of production, there is a clear combination, between operational effectiveness and strategic positioning- that is cost reduction and differentiation. Regarding capital structure, there was also a desire to increase the debt/equity ratio in order to enter new markets, as well as to search for venture capital for the same purpose. With respect to human resources, the transfer of know-how between parent companies and their subsidiaries was emphasized. Finally and again, surprisingly, franchises became for the first time part of these firms strategic move (Table 9) (Table 10).

[INSERT Table 8, 9, 10]

6. Final Remarks

IDEAS is a response to the need for a systematical analysis of the impact of FTA on corporate strategy which allows managers to distinguish risks, opportunities, and their level of urgency. Also, it proposes strategic moves for the new environment brought about by FTAs.

The most important aspect of IDEAS is the transition between the diagnosis step to the strategy stage. Being able to comprehend the economic and commercial changes brought about by FTAs with their implications over companies in the negotiating countries and linking this to corporate strategy helps companies to better respond to the new commercial environment. After the executives of the Colombian companies became familiarized with the chapters of negotiation of the FTA, they were able to identify, using the tool IDEAS, the most appropriate strategic moves.

The conducted research showed a tendency towards a much more sophisticated strategy package after the FTAs entry into force. Thus, it can be concluded that there is an awareness among managers that the new economic and commercial environment does require strategic changes and that a “wait and see” strategy most of the times results in costly experiments to companies.

The manner in which IDEAS was designed stresses the importance of recognizing and differentiating country or industry specific factors from firm specific factors (Rugman, 19xx). From this distinction diverse strategic moves may follow. For instance, the critical factor conditions found in the case study such as the deficit in educated workforce, poor transportation and utilities infrastructure may be tackled through lobbying activities with various public institutions or through the creation of supporting institutions or associations. In contrast, firm specific factors, such as greater production costs derived from stringent environmental or intellectual property rules call for strategic actions towards the inside of the company. Therefore, this framework of analysis not only helps to design the new strategy package towards the inside of the company but also identifies in real time the negotiation areas and positions that are against or in favor of the business for lobbying purposes regarding the FTA under negotiation.

The research that was conducted not only proved to be important for fostering among managers an awareness of the need for strategy redefinition under the new economic landscape, but it also reflected a change in their mentality. Important changes in mentality required to go from a mildly open economy to an economy open to the world's greatest economy were observed. For instance, the new disposition to "go public" in order to amplify the companies' access to national and foreign venture capital is an important step, given the traditionally closed, family owned corporate structures that characterize Colombian companies. Also, the disposition to use e-commerce for the commercialization of their products and to augment the modes of entry to foreign markets constitutes a transition form a "small and local" mentality towards a "competing globally" mentality.

Finally, much research is still needed to link FTA with strategy.

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Figure 1: FTAs Negotiated and Subscribed in the Region

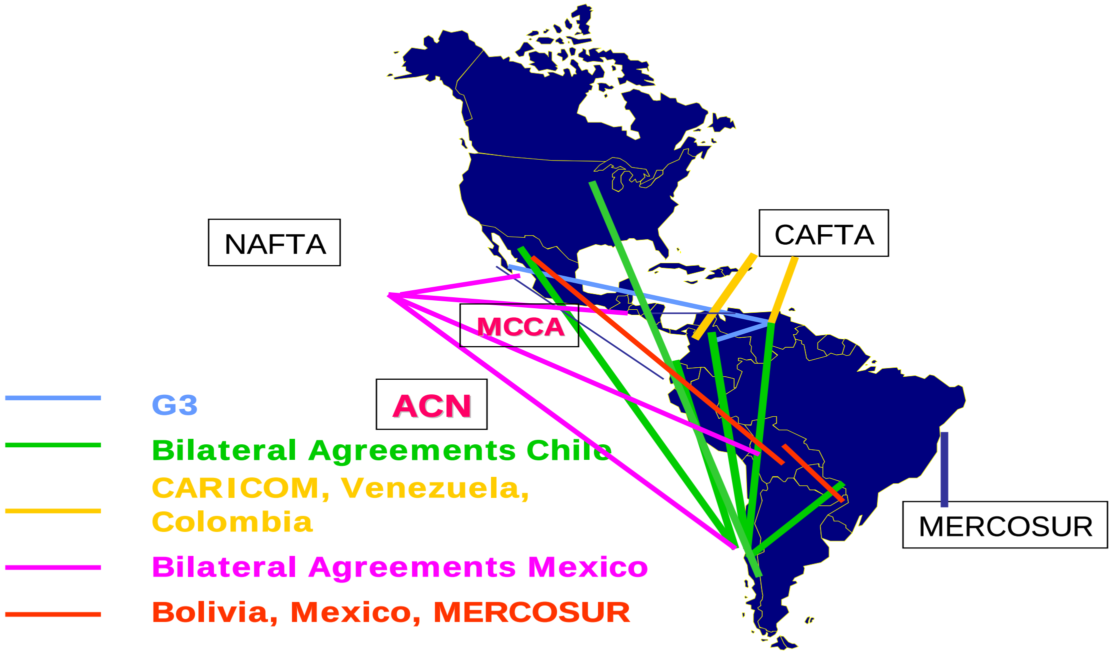
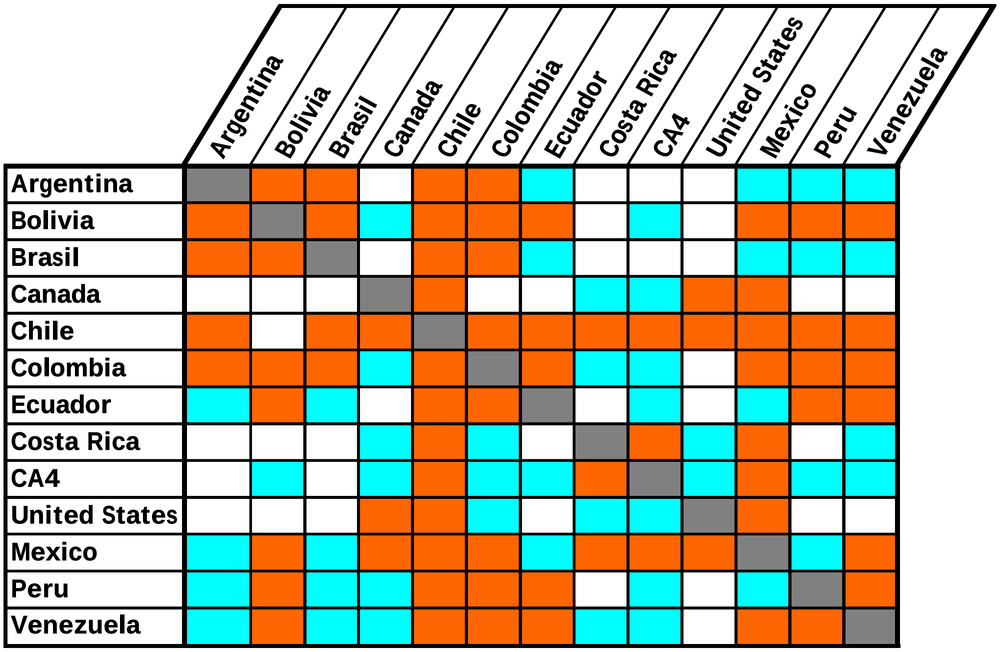


Table 1: Free Trade Agreements Negotiated or Under Negotiation in the Continent



Under Negotiation

Already Negotiated

Table 2: Chapters of Negotiation of FTAs

1. Market Access for Goods
2. Rules of Origin
3. Safeguards
4. Antidumping
5. Subsidies and Countervailing measures
6. Sanitary and Phytosanitary Measures
7. Competition Policy and Designated Monopolies
8. Services
9. Investments and Trade
10. Customs Administration
11. Technical Barriers to Trade
12. Financial Services
13. State Trading Enterprises
14. Telecommunications
15. Temporal Entry of Business People
16. Electronic Commerce
17. Intellectual Property Rights
18. Work Policy
19. Environment
20. Dispute Resolution

Figure 2: National and Regional Competitivess

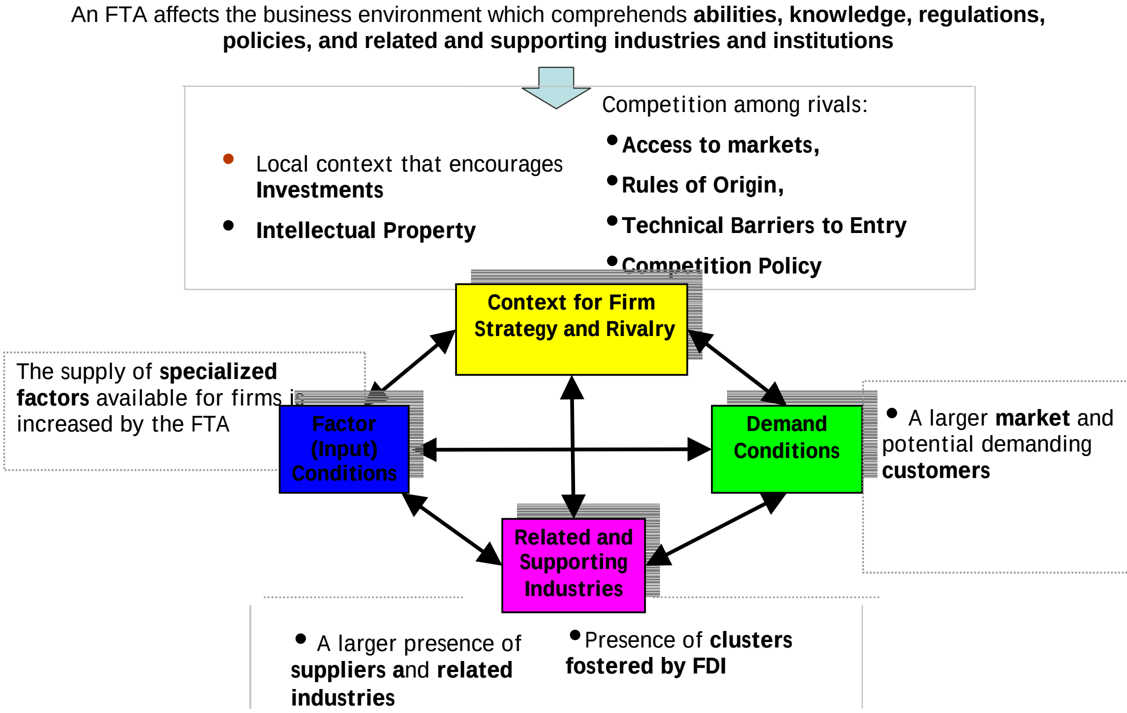


Figure 3: Industry Competitiveness:

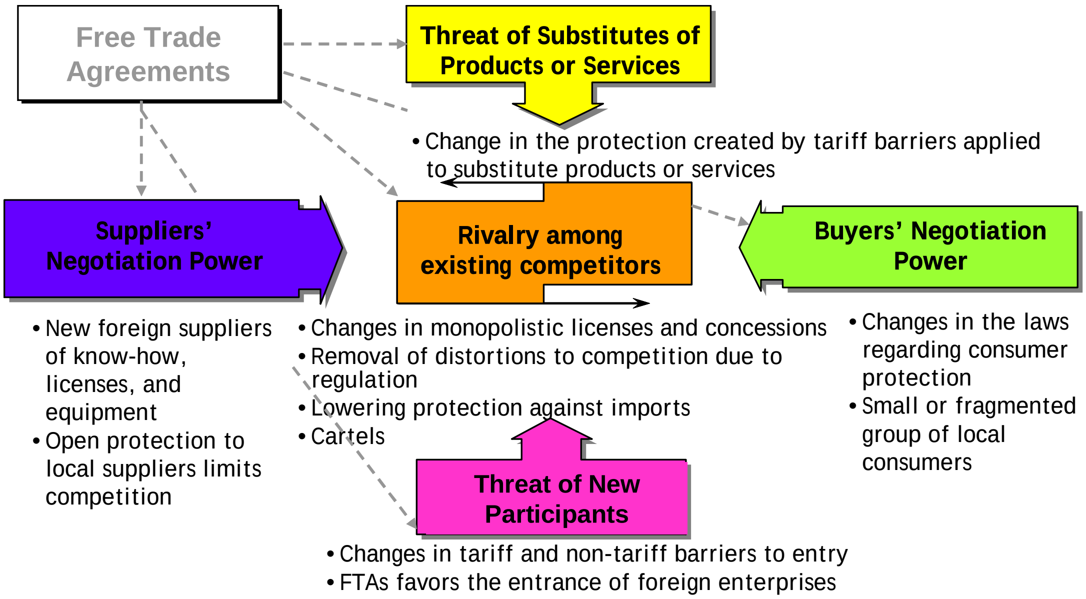


Table 3: Indicators of Revealed Soctorial Competitive Advantage

The Balassa Indicator of Revealed Comparative Advantage (IRCA)- 1967

$$IRCA = \frac{\dfrac{X^{i}_{COL}}{X^{TOT}_{COL}}}{\dfrac{X^{i}_{WORLD}}{X^{TOT}_{WORLD}}}$$

If IRCA > 1 Product "reveals" a comparative advantage

Indicator of Commercial Intensity (ICI)

$$ICI_{AB} = \frac{\dfrac{X^{B}_{A}}{X_{A}}}{\dfrac{M_{B}}{M_{World}}} = \frac{X_{AB}}{m_{B}}$$

X^{B}_{A} = *Exports Country A to B*

X_{A} = *Total exports of country A*

M_{B} = *Total Imports of country B*

M_{World} = *World Imports (excluding imports country A)*

X_{AB} =*Participation of country B in the total exports of country A*

m_{B}

If IIC =1 The participation of country B in the imports of country A are the same as its participation in world imports

If IIC < 1 The proportion of imports of country A to country B is less than B's participation in the world's total imports

If IIC > 1 The participation in sales of country B in country A is greater than B's participation in total world sales

Indicator of Commercial Complementarities-

$$ICC^{a}_{AB} = \frac{\dfrac{X^{a}_{A}}{X_{A}}}{\dfrac{M^{a}_{WORLD}}{M^{TOT}_{WORLD}}} \bullet \frac{\dfrac{M^{a}_{B}}{M_{B}}}{\dfrac{M^{a}_{WORLD}}{M^{TOT}_{WORLD}}}$$

(1) **(2)**

X^{a}_{A} =*Exports of good a from country A*

X_{A} = *Total exports of country A*

M^{a}_{B} =*Imports of good "a" from country B*

M_{B} =*Total imports of country B*

M^{a}_{WORLD} =*World imports of good "a" (excluding imports from country A)*

M^{TOT}_{WORLD} =*Total World Imports*

Table 4: Analysed Sectors for Research

Sectors					
1.	Electrical appliances	3	7.	Cereals and food for animals	1
2.	Beverages	3	8.	Cosmetics and Toilette Articles	1
3.	Pharmaceuticals	1	9.	Medical and Chirurgical Elements	1
4.	Non-metallic Minerals and ceramics	1	10.	Oil Refinery	1
5.	Electricity	1	11.	Agro industry	2
6.	Textiles	1	12.	Entertainment	1

Table 5: Threat Assesment of Companies Involved in the Conducted Research

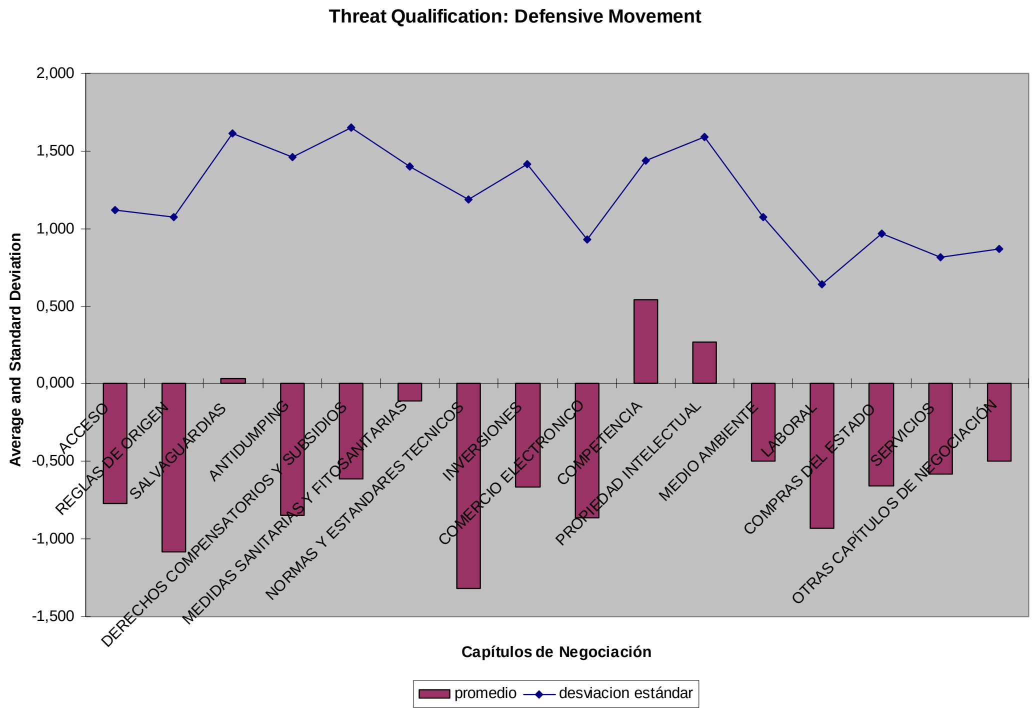


Table 6: Opportunity Assesment of Companies Involved in the Conducted Research

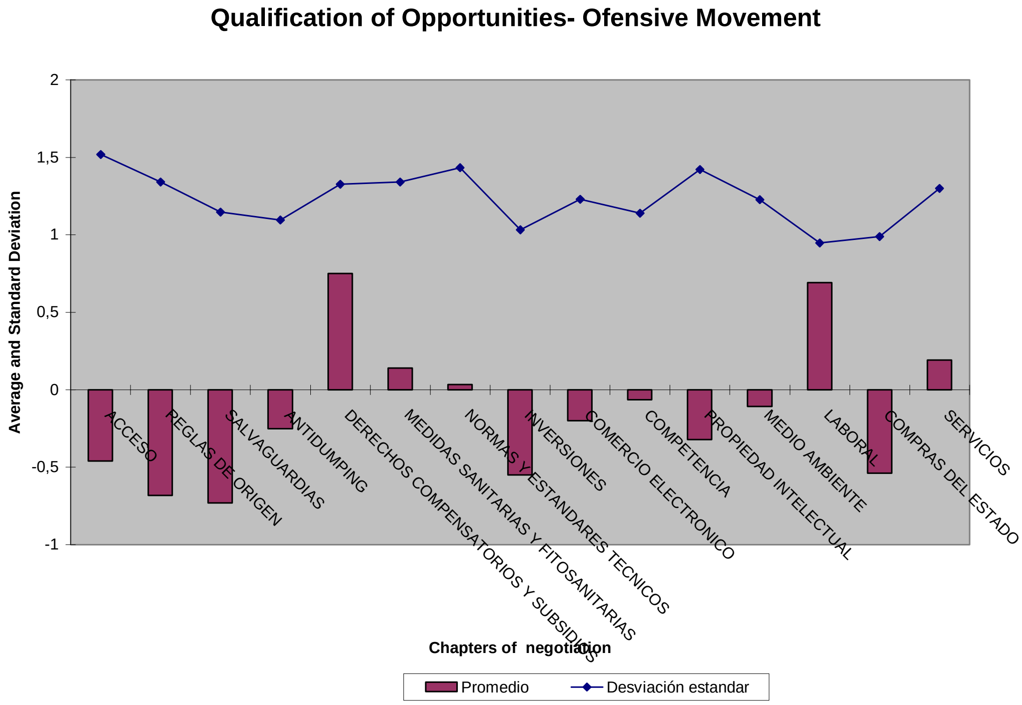


Table 7: Modes of Entry to Foreign Markets Before and After the FTA

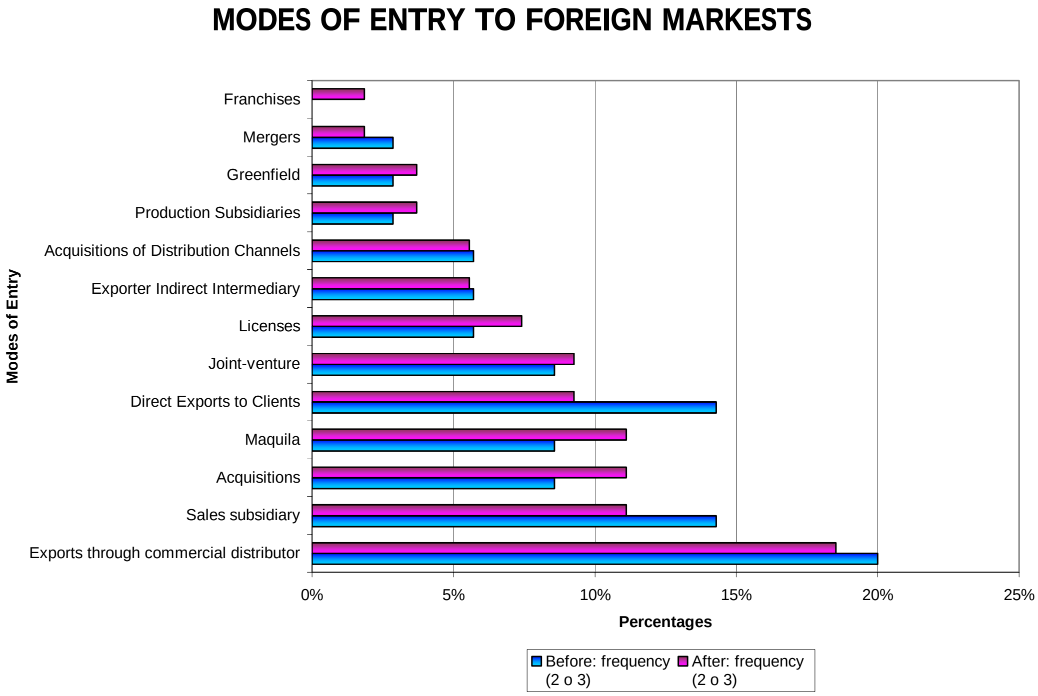


Table 8: Strategic Adjustments regarding Organizational Structure Before and After the FTA

Table 9: Strategic Adjustments regrading Distribution and Commercialization Networks Before and After the FTA

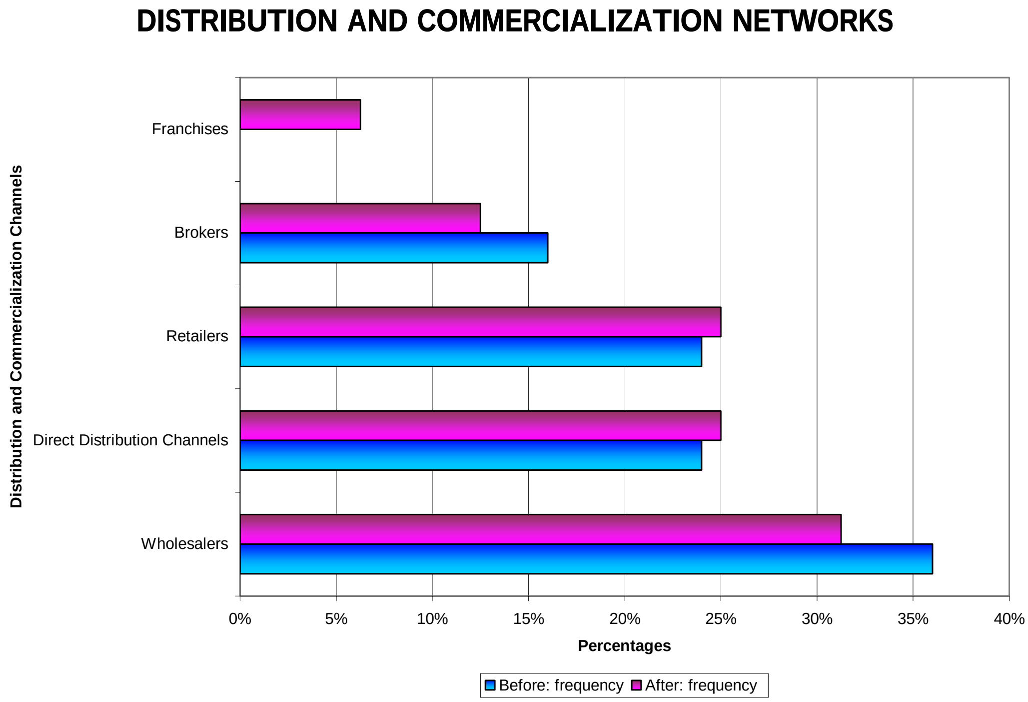


Table 10: Summary of results obtained from the application of IDEAS to Colombian companies regarding strategic adjustment

STRATEGIC ADJUSTMENT	CONCLUSIONS OF RESEARCH
Marketing and Sales	*E-commerce*
	Entrance with 2 or more product lines
	Important Transition observed before and after the FTA- change in conception of market strategy- tendency towards sophistication
Organizational Structure	*Outsourcing* - related to Labor Law which is perceived as important obstacle or enter foreign markets
	Most Common Structure: *Divisional by markets or geographic area*
	Change in structure of parent companies and their subsidiaries
Production- Cost Reduction and differentiation Strategy	*Process technologies* - tendency of cost reduction and operational efficiency
	Product tailoring - most favored differentiation strategy
Debt/ Equity Ratio and Access to Capital	Tendency to increase the *Debt/ Equity ratio* in order to enter new markets
	Desire to obtain *Venture Capital*
Human Resources	*Payment associated to performance*
	Transfer of know-how between parent company and subsidiaries
Distribution Networks	*Franchises* - begin to be considered vs. before FTA entry into force

Anex 1

Application of IDEAS by a Colombian Company

A case study applying IDEAS to a Colombian company in the textile and apparel sector was performed so as to portray how IDEAS works and the type of imput and output it provides.

In order to follow the sequence of IDEAS it is important to rembember that it is composed of two broad steps, the first being a *Diagnosis* of the current strategic position of the company; the second being a *Strategic Adjustment* that follows the results obtained from the diagnosis of the competitive positioning of the company before and after the FTA's entry into force. The *Diagnosis* step is subdivided into three main chapters which include a National Competitiveness Analysis, an Industry Competitiveness Analyis, and a Firm Analysis, which in turn is divided into three parts: General Company profile, Threat Assesment; and Opportunity Assesment. The *Strategic Adjustment* step follows the disgnosis and provides a list of possible strategic moves, functionally divided, comparing the situation before and after the FTA's entry into force.

Figure A: IDEAS: The Diagnosis Step

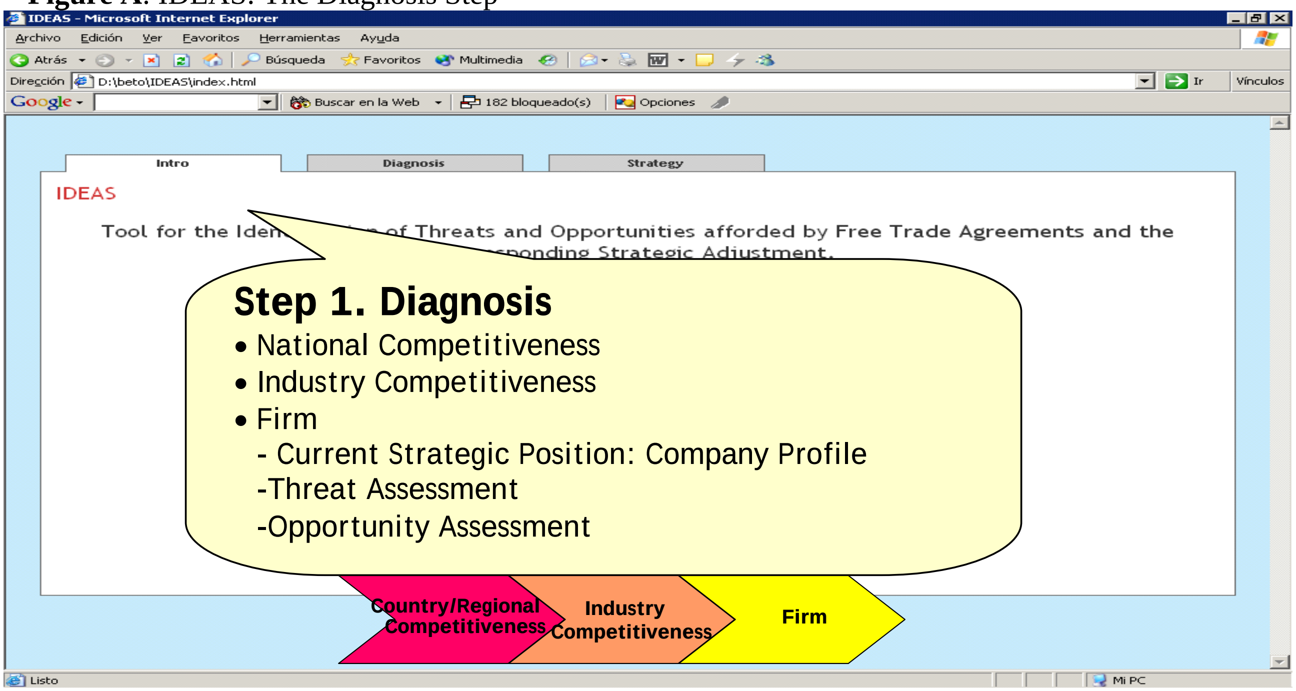
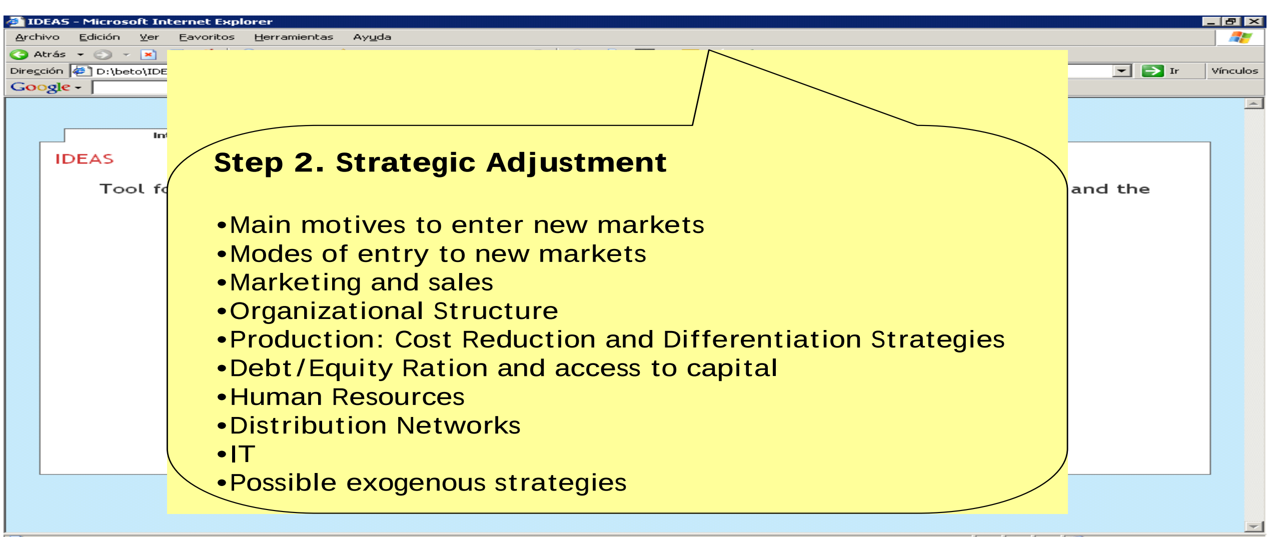


Figure B: IDEAS: The Strategic Adjustment Step



1. Country Competitiveness Analysis

As was said, FTAs have an impact over national and regional competitiveness. An FTA affects the business environment which comprehends abilities, knowledge, regulations, policies, and related and supporting industries and institutions**.** The four vertices of Porter's diamond of national competitiveness are anlysed for this particular company and the impacts of the FTA between Colombia and the US are identified:

To determine the degree of competitiveness of the *factor conditions* for this company based in Colombia, the human and capital resources, scientific, technological, information and administrative infrastructure are studied. In this case study it was found that there is a deficit in the availability of educated workforce, particularly in the fields of managerial knowledge. The low quality of highschool education in the country, and specifically in the region were the company operates contributes to said deficit. It was also found that the average salary in the apparel sector in Colombia is medium vis-á-vis international wages in this industry, and thus not very competitive. In addition, the productivity of the labor force is below international standards. The high cost of capital, inadquate infrastructure of utilities (high cost of electricity and deficit in water supply), and the undeveloped transportation infrastructure are some of the most critical factor conditions for this industry. Colombia's geographical proximity to its most important international markets is a positive factor of its competitiveness.

The impact of the FTA between Colombia and the US on this vertex is that the supply of specilized factors available for firms is increased by the FTA, thus promoting an upgrade of factor quality and specialization. For instance, the chapters of negotiation regarding e-commerce may upgrade Colombias's developing telecommunications infrastructure and a greater liberalization of financial services may reduce the cost of capital.

As seen in Table B, an in depth study of each of the vertices of the diamond is performed outilining the most critical factors with a scale ranging from critical to elemnets that positively contribute to competitivess. Also, the links that follow each factor are conducive to more detailed information. Finally, after each of the vertices are anlyzed, a map with the most relevant aggregate information regarding National and Regional competitiveness is constructed by IDEAS (Table A).

In terms of the *Context for Firm Strategy and Rivalry* it was found that in the Colombian apparel industry there are seven big (more than 100 workers) companies that perform a "Full Package" mode of production and are strong in international marketing. However, the mayority of companies in the industry are very small (5 to 10 workers) or are family workshops (1 to 5 workers). Said companies compete to become satellite workshops for maquiladoras. Small and medium sized companies compete but also cooperate for maquila contracts and their marketing of products and services is improving, but not up to international standards.

In this vertex the incidence of the negotiated terms of the FTA between Colombia and the US include an improvement of the foreign invetment conditions in Colombia, thus encouraging FDI. Also, the stringent intellectual property's rules imposed by the US and the special safeguards established for the textile and apparel industry Colombia directly affect competition among rivals. In addition, the immediate elimination of all tariffs for apparel imports into Colombia facilitates the entrance of new competitors to the Colombian market. Furthermore, the elimination of tariffs and non-tariff barriers to entrance is conducive to a more vigorous competition among rivals in the apparel industry.

With respect to *Related and Supporting Industries,* it was found that there is a presence of monopolies in key imputs for the production of apparel. To counter this, the liberalization of commerce resulting from an FTA allows for a larger presence of suppliers, related industries, and clusters fostered by FDI. There is a weak machinery industry in Colombia and it constitutes a critical imput for the indsutry. However, the immediate elimination of tariffs after the signature of the FTA for 97% of all industrial products coming from the US will improve the access to this imput for the apparel indsutry in Colombia. In terms of supporting institutions for the apparel industry, there are several important initiatives such as El SENA, other technical colleges and Universities, and associations such as ANDI, Acopi and Inexmoda.

In the *Demand Conditions* vertex it was found that the greatest percentage of the demand is foreign and is higly sophisticated, whereas local clients are unsophisticated. At the national level, the most sophisticated consumers buy imported garments or travel. The Colombian apparel industry follows global fashion trends instead of preceeding them, and are thus less competitive. The fact that there are no seasons in Colombia allows them to manage only two fashion trends per year.

The impact of the FTA on this specific vertex of the diamond comes from a greater access to the US market, and thus a larger market base and potential demanding customers. However, as pointed out, the greatest percentage of the demand for the apparel industry before the FTAs entry into force was already foreign, greatly American, and thus the change may be less felt.

2. Industry Competitiveness Analysis

Analogous to the previous step of analysis, for the Indsutry Competitiveness Analysis an in-depth study of each of the five forces was conducted for the company under study and some interesting results were found (Figure x). In terms of *Rivalry among existing competitors* the number of competing companies in this industry are 7 big, 50 medium, 200 small, aproximately 1000 very small and a 1000 family workshops (see Figure x). Rivalry is based on obtaining maquila contracts from local companies that do *full package* for northamerican buyers. There are big companies that control the domestic market with their own brands. The degree of competition is intense, thus diminishing the profitability of the industry.

For this force the incidence of the negotiated terms of the FTA between Colombia and the US results from the lowered protection against imports that may increase the number of competitors in the domestic market. Also, the special safeguard established for the textile and apparel industry affects rivalry.

Regarding the *Suppliers' Negotiation Power* a concentration of suppliers with high negotiating power is observed. Cloth constitutes 50% of apparel's cost of production. Sinthetic Fibers are supplied by Dupont which monopolises the supply of this imput while natural fibers are supplied by two local companies. Furthermore, threads are supplied by a sole local company. In addition, the suppliers negotiating power is reinforced by the tariff preferences confered by the ATPADEA, an FTA between Colombia and the US which fosters a preference of national textiles over imported ones. Hence, the industry under study shows an important degree of dependance to its suppliers and a limited negotiating power.

In a closed economy, the negotiating power of suppliers may be greater than in an open economy which allows for the entrance of new foreign suppliers of know-how, licenses, and equipment. Thus, the FTA may decrease the bargaining power of some local suppliers. Currently, local suppliers are affecting the profitability of the industry due to their low quality products, their delay in delivery and the fact that they are opperating to their maximum capacity. In addition, the transitory preferences afforded by the ATPADEA are expected to become permanent in the FTA between Colombia and the US.

In terms of the *Buyers' Negotiation Power* three types of buyers are identifies. The first are foreign buyers that are in turn subdived into international distributors and producers who commercialize their own products. The former has a high negotiating power due to the fact that they control 75% of the world market. The later has a medium negotiating power. Second, are local enterprices which sell *full package* to other local enterprices and who also have a high negotiating power. The third are national consumers, which are classified into supermarkers and final consumers. The first has a high negotiating power while the later has a very reduced negotiating power.

Although the company under study already exports 36% of its produce, the complete elimination of tariffs to enter the US market will increase the potential market base and thus it may encounter more demanding or specialized consumer preferences.

With respect to the *Threat of Substitutes of Products or Services* the most threatening substitute products for the apparel industry in the national market are used products, posing a low threat. In the international market the produce of CAFTA and Mexico present a considerable threat. Also, the impact of FTAs is very real for this vertex given WTO Textile and Apparel Agreement with China, which eliminates all import quotas for Chinese garments. Other highly competitive countries in the apparel industry that pose a moderate threat are India, Bangladesh, and Pakistan. However, Colombia differentiates itself by quick response and fashionable products and its main competitors in these fields are CAFTA, Mexico, and Turkey.

Generally a change in the protection created by tariff barriers applied to substitute products may alter the importance of this threat for an industry. However, the industry under study faces a very imperfect substitute in the national market (used clothes), and thus this force is not affected by the FTA.

When analysing the *Threat of New Participants* for this specific industry it was found that the main barriers to exit are the specialized assts, while the barriers to entry are considerable experience curves in Big companies. The main incentive to enter the industry is becoming a satellite workshops of maquiladoras. The threat of entrance of new participants is moderate due to the established vs. emerging state of the industry. The elimination of tariffs following the FTA favours the entrance of foreign enterprises into the domestic market.

Complementary to the five forces analysis is the sectorial competitive analysis based on indicators such as the Balassa Indicator (Figure G). By applying these indicators with the exports and imports data between Colombia and the US, potential competitive advantages and disadvantages of different sectors were obtained (Figure H). Specifically in the textile and apparel sector, Colombia appears to have a competitive advantage vs. the rest of the world; wereas the U.S. has a competitive disadvantage in this sector. In addition, the Indicator of Revealed Comparative Advantage (IRCA) shows that the textile and apparel industry is amongst one of the 20 most competitive sectors in Colombia.

Figure C: Aggregate Results of the National/ Regional Competitiveness Analysis

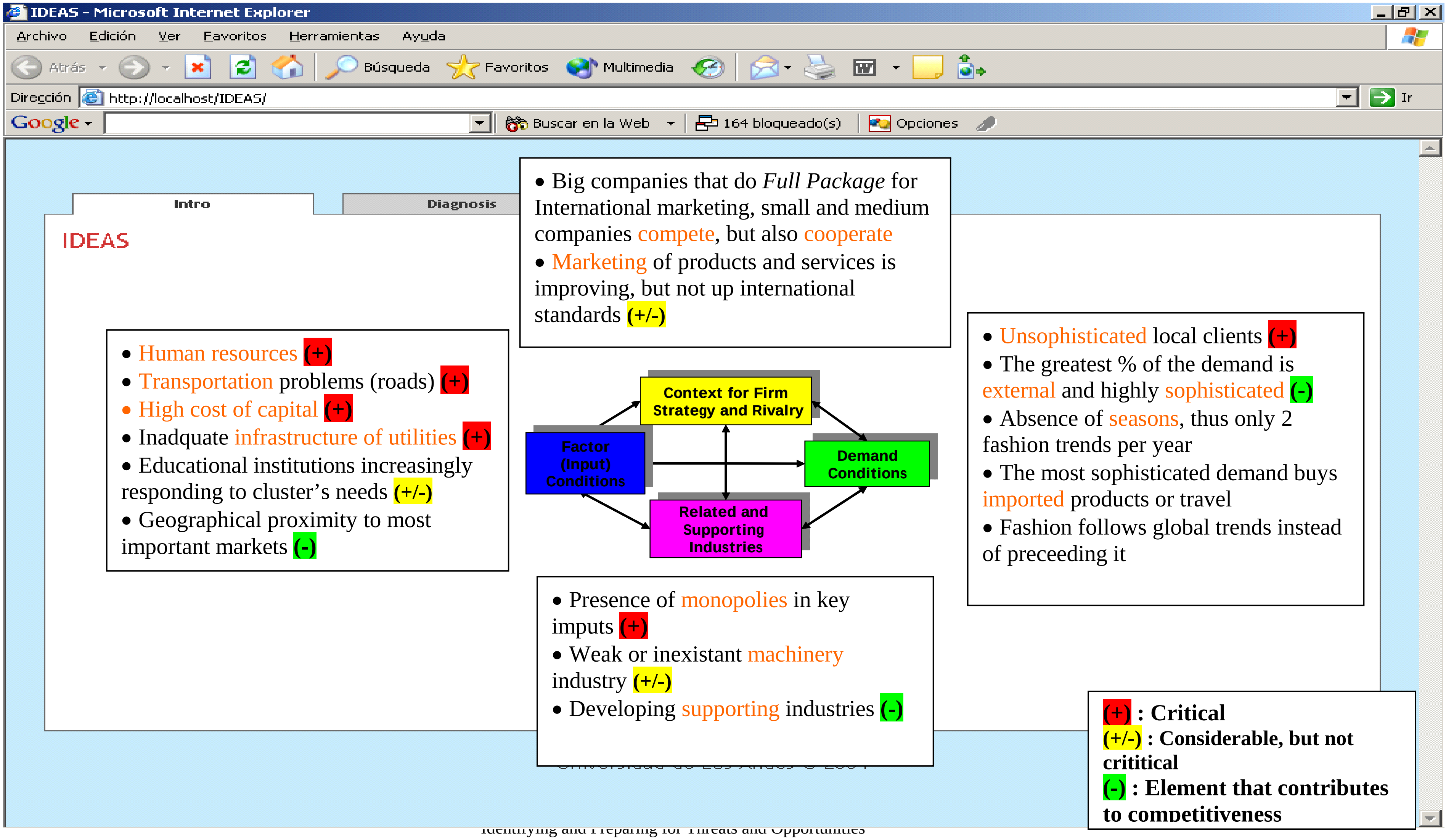
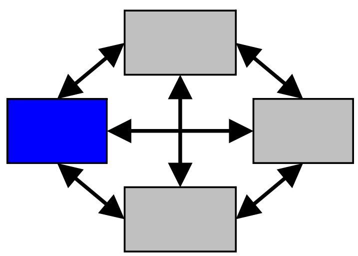


Figure D: Analysis of each Vertex of Porter's Diamond of National Competitiveness

IDEAS Factor



Factor Conditions	Degree of importance
Educated Workforce	(+)
Low quality of high school education	(+)
Average salary in the apparel industry	(+/-)
Productivity of workforce	(+/-)
High cost of capital	(+)
Geographic proximity to most important markets	(-)
Underdeveloped transport infrastructure	(+)
Inadequate utilities infrastructure	(+)
High cost of electricity	(+)
Deficit in water supply	(+/-)
Developing telecommunications infrastructure	(-)
Increasing access to internet	(-)
Adequate telephone coverage	(-)

Country	Labor Costs ($US/ hour)
US	11.89
Colombia	**3.9**
Mexico	3.22
Argentina	2.69
Turkey	2.31
Maurice Islands	1.55
Morroco	1.54
China	0.25

Source: Commercial Office of Perú in the US, Conor Ingeniers an enterviews with managers

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Figure E: Aggregate Results of the Industry Competitiveness Analysis

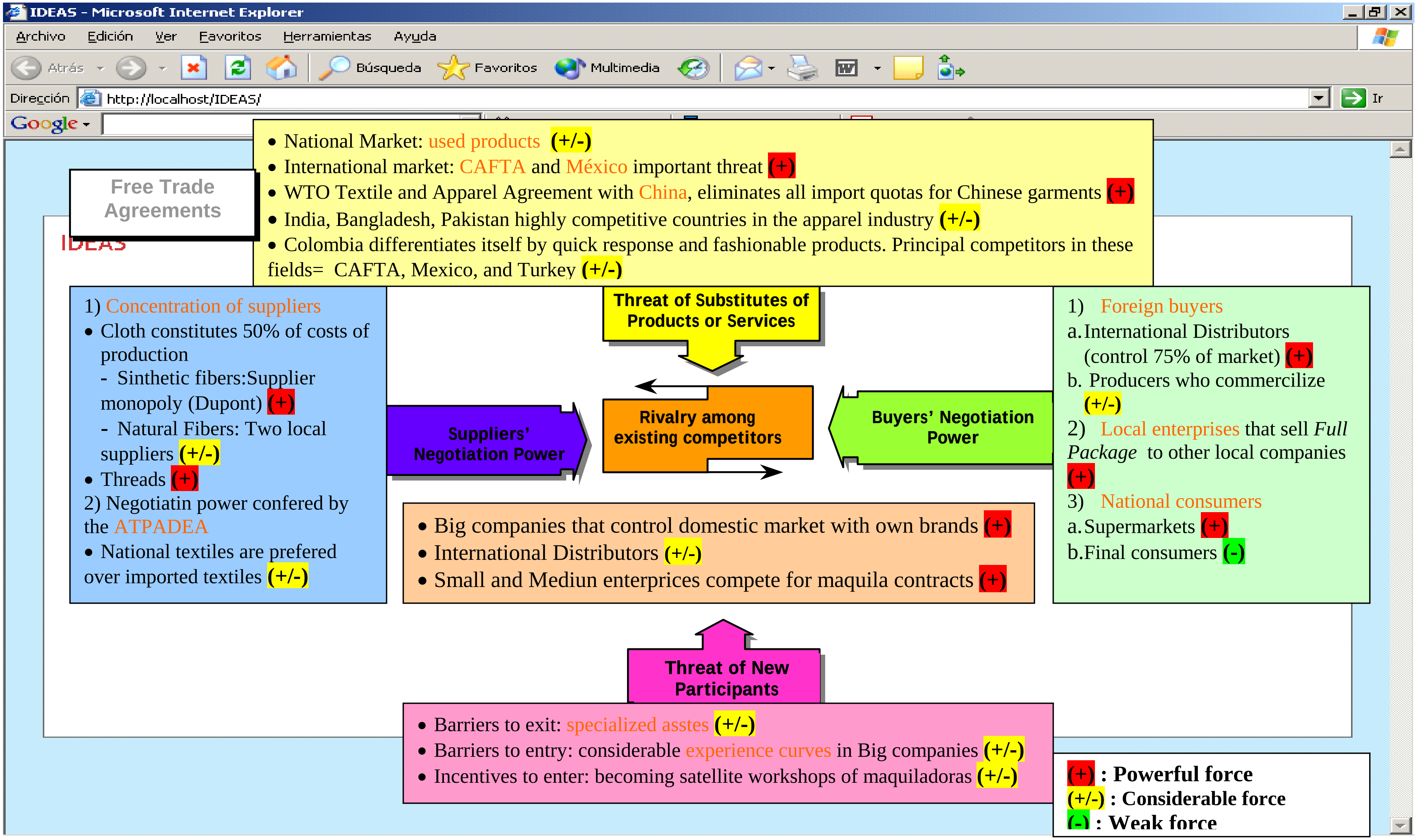


Figure F: Analysis of each Force that Determines the Apparel Industry's Profitability

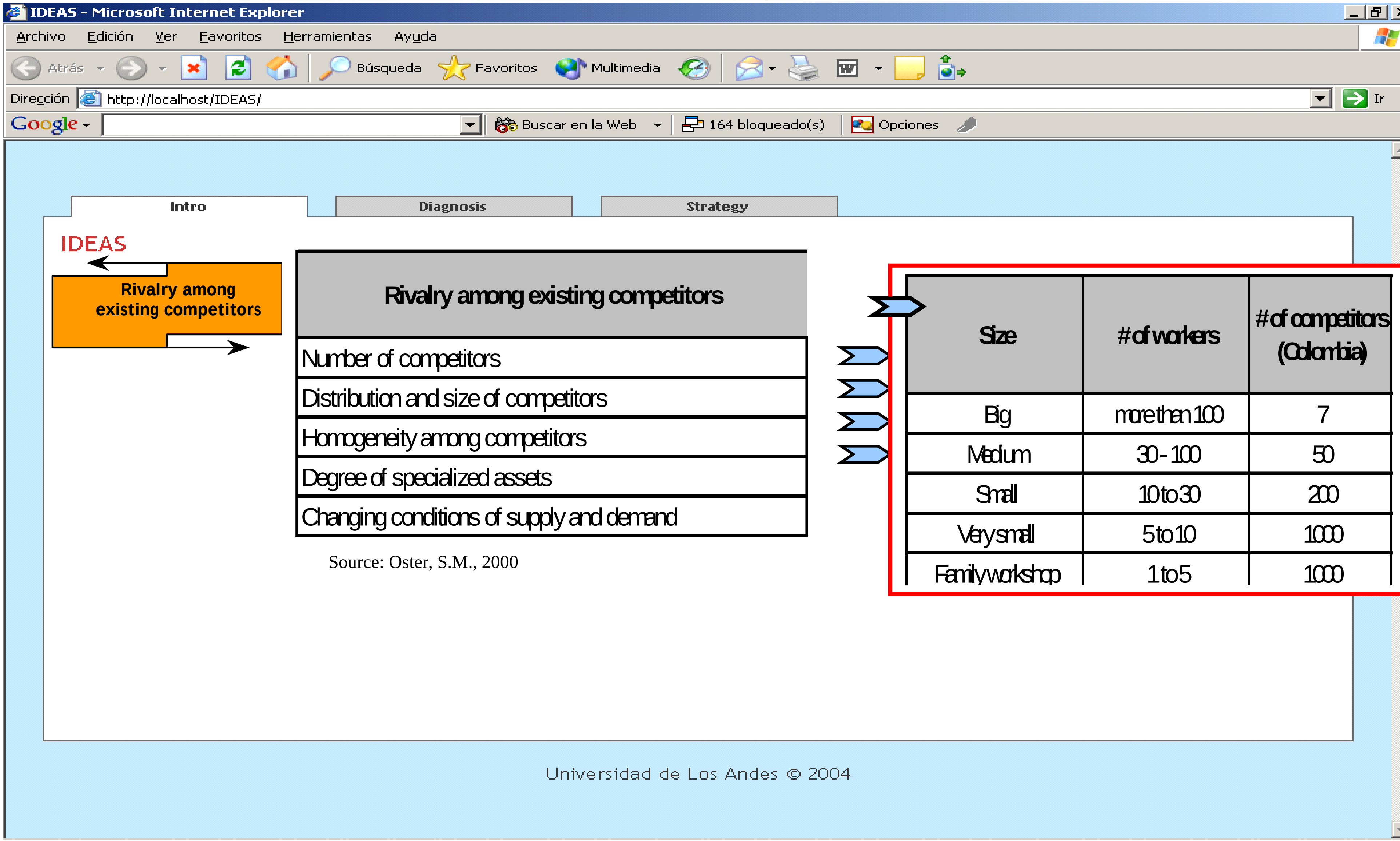
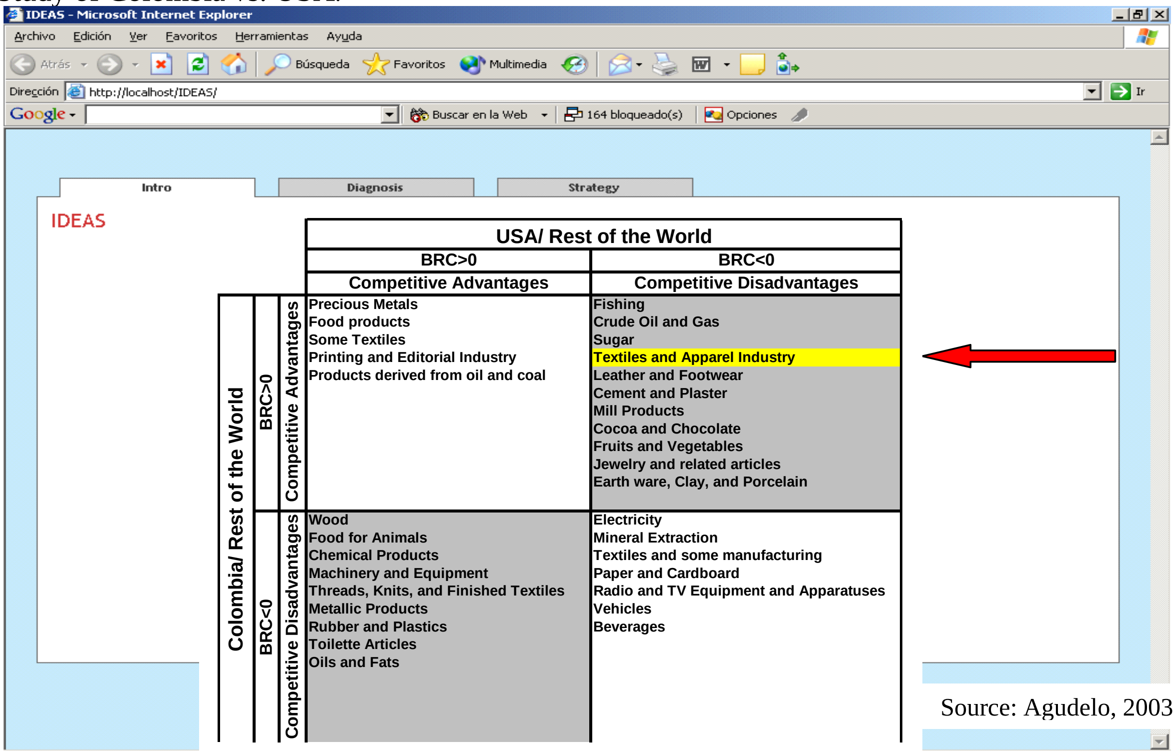
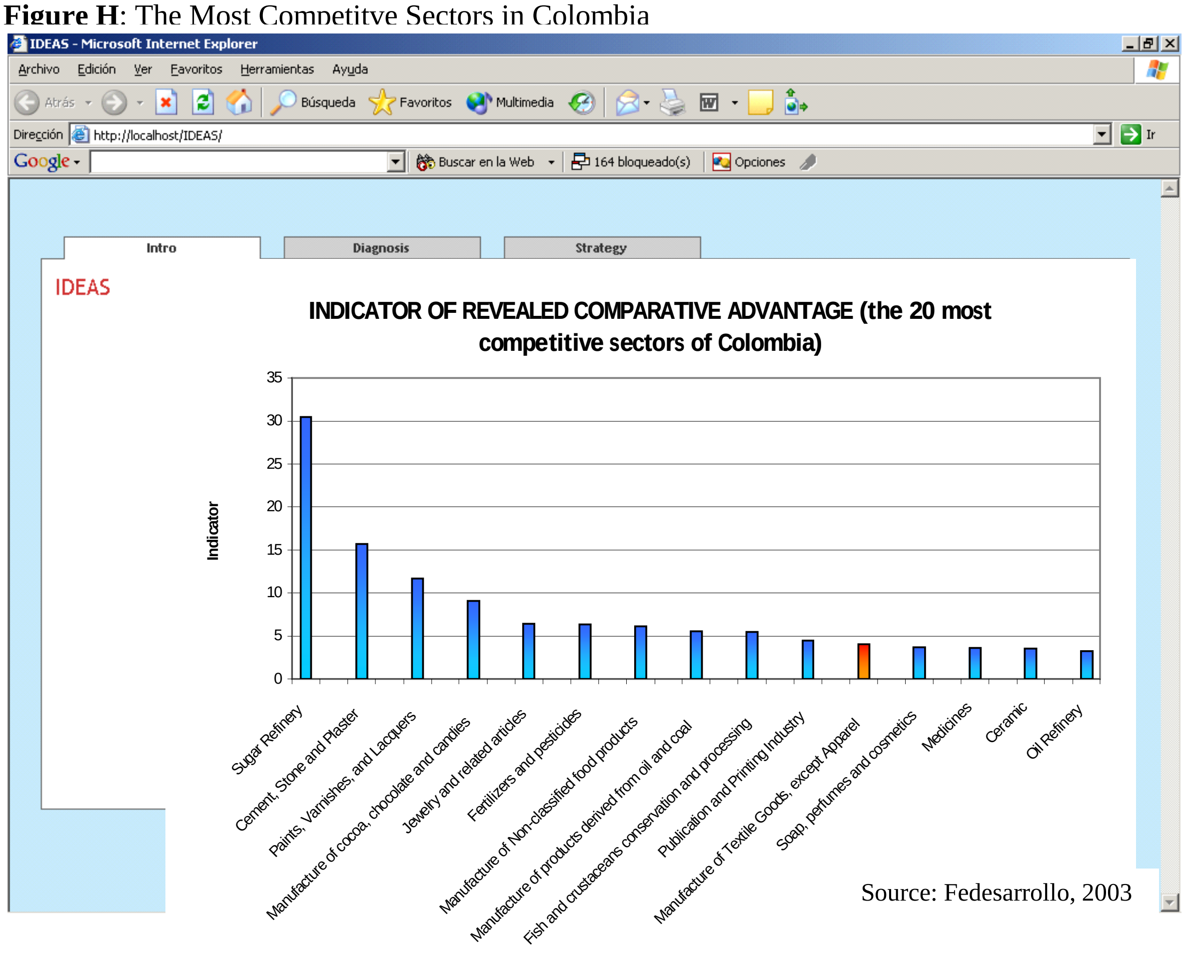


Figure G: Potential Competitive Advantages and Disadvantages of Different Sectors: Case Study of Colombia vs. USA.



Source: Agudelo, 2003

Figure H: The Most Competitve Sectors in Colombia



Source: Fedesarrollo, 2003

3. Firm Analysis: Chapters of Negotiation of the FTA and their Impact on Corporate Strategy

For this case study, the third level of analysis began with a general *company profile* (Figure H). It was obtained through the use of indicators of size (value of assets, number of employees, number of subsidiaries, etc.), degree of internationalization, distribution of international sales vs. total foreign earnings and countries of destiny of said sales (Figure I). The results for the company under study are depicted in Table A.

Figure I: General Company Profile Model

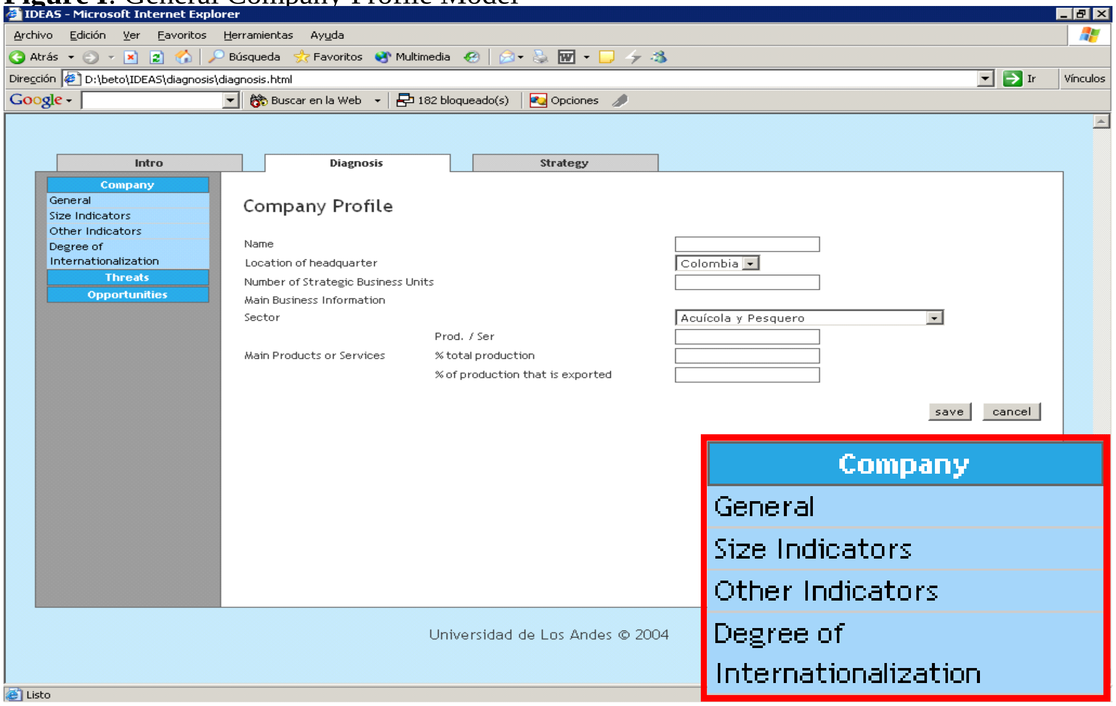


Figure H: Distribution of International Sales vs. Total Foreign Earnings

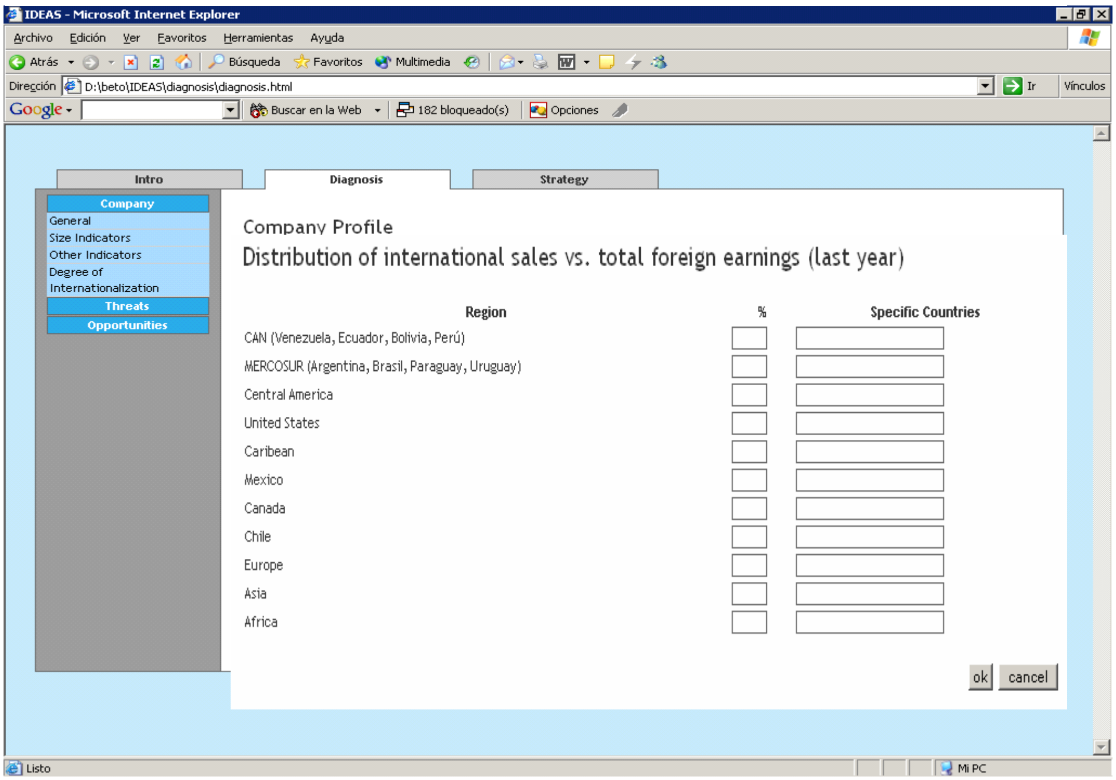


Table A: Aggregate General Company Profile Results for the Company Under Study

<table>
<tr><th colspan="5">General Company Profile</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">General Company Information</td><td rowspan="2">Parent company's location</td><td>Colombia</td><td>x</td></tr>
<tr><td>Abroad</td><td></td></tr>
<tr><td rowspan="3">2</td><td rowspan="3">Main products or services</td><td colspan="2">Product/ Service</td><td>Lingerie</td></tr>
<tr><td colspan="2">% of that product over total production</td><td>44%</td></tr>
<tr><td colspan="2">% of production that is exported</td><td>53%</td></tr>
<tr><td rowspan="13">3</td><td rowspan="13">Size Indicators</td><td colspan="2">Number of employees</td><td>1500</td></tr>
<tr><td rowspan="4">Level of assets (millions of dollars)</td><td>$0- $1</td><td></td></tr>
<tr><td>$1- $10</td><td></td></tr>
<tr><td>$10- $50</td><td></td></tr>
<tr><td>más de $50</td><td>x</td></tr>
<tr><td rowspan="3">Number of subsidiaries</td><td>Total</td><td>2</td></tr>
<tr><td>National</td><td></td></tr>
<tr><td>International</td><td>2</td></tr>
<tr><td rowspan="3">Sales</td><td>National (dollars)</td><td>$US 31million</td></tr>
<tr><td>Internationals (dollars)</td><td>$US 16 million</td></tr>
<tr><td>Participation of exports over total production (%)</td><td>36%</td></tr>
<tr><td>Production capacity</td><td>Utilized Capacity (%)</td><td>70%</td></tr>
</table>

<table>
<tr><td rowspan="12">4</td><td rowspan="12">Distribution of international sales vs. total foreign earnings (last year)</td><th>Region</th><th>%</th><th>Specific Countries</th></tr>
<tr><td>CAN (Venezuela, Ecuador, Bolivia y Perú)</td><td>31</td><td>Venezuela and Ecuador</td></tr>
<tr><td>MERCOSUR (Argentina, Brazil, Paraguay, Uruguay,</td><td>0</td><td></td></tr>
<tr><td>Central America</td><td>0</td><td></td></tr>
<tr><td>United States</td><td>22</td><td>USA</td></tr>
<tr><td>Caribbean</td><td>0</td><td></td></tr>
<tr><td>Mexico</td><td>25</td><td>Mexico</td></tr>
<tr><td>Canada</td><td>3</td><td>Canada</td></tr>
<tr><td>Chile</td><td>0</td><td></td></tr>
<tr><td>Europe</td><td>19</td><td>UK and Spain</td></tr>
<tr><td>Asia</td><td>0</td><td></td></tr>
<tr><td>África</td><td>0</td><td></td></tr>
</table>

The company under study proved to already have had an internationalization experience with a diversified distribution of sales mainly concentrated in CAN, NAFTA and Europe.

Following the General Company Profile, the *Threat Assessment* was conducted. In order to assess the possible threats to the domestic market brought about by an FTA *contributing* and *inhibiting* forces of the entrance of new competitors were weighed on a scale from 1 to 3. Said forces were contrasted with each of the negotiation chapters of the FTA.(Figure J). It was found that the most threatening chapters of negotiation are subsidies (due to the cotton subsidies provided by the US government), technical barriers (the flexible requirements regarding packaging, labeling, in Colombia facilitates the entrance of the competitor's product into the domestic market) and environment (the stringent rules imposed by the US increase production costs in Colombia). Also, chapters that pose a modearate threat include investments, due to the greater facility for competitors to invest in Colombia, and market access, given the elimination of tariffs for US garments upon the Treaty’s signature.

It was found that other chapters of negotiation such as State Trading Enterprises and Sanitary and Phitosanitray Measures were not important for the case at hand.

The third chapter of the diagnosis consisted of an *Opportunity Assessment* and it was done from an *offensive movement viewpoint*, grading the contributing or inhibiting forces for the internationalization of Colombia towards the US (Figure K). Opportunities were found in the chapters of market access resulting from the more competitive prices with which the US market can be accesed, and invetments, due to the low limitations in the US for Colombian companies to repatriate profits. The strict American rules on intellectual property were seen as chapter that may inhibit the entrance to the US market. Again, to US subsidies to cotton apper to be an inhibiting force for the entrance of this Colombian company into the US market.

Therefore, prior to proceeding to the step of *strategic adjustment*, aggregate results of the competitive position of the company under study were obtained. These results signaled alarm or disregard and the level of priority for each of the chapters of negotiation (Figure L). The company under study learned from this diagnosis that it is particularly vulnerable to the chapters of subsidies, intellectual property, and market access whereas it is insensitive to negotiated themes such as services, and sanitary and phitosaniatry measures (Table B). Hence, it may conduct specific strategic plans to work on the specific threats and opportunities detected and disregard irrelevant chapters of negotiation.

Figure J: Threat Assessment for Textile and Apparel Sector

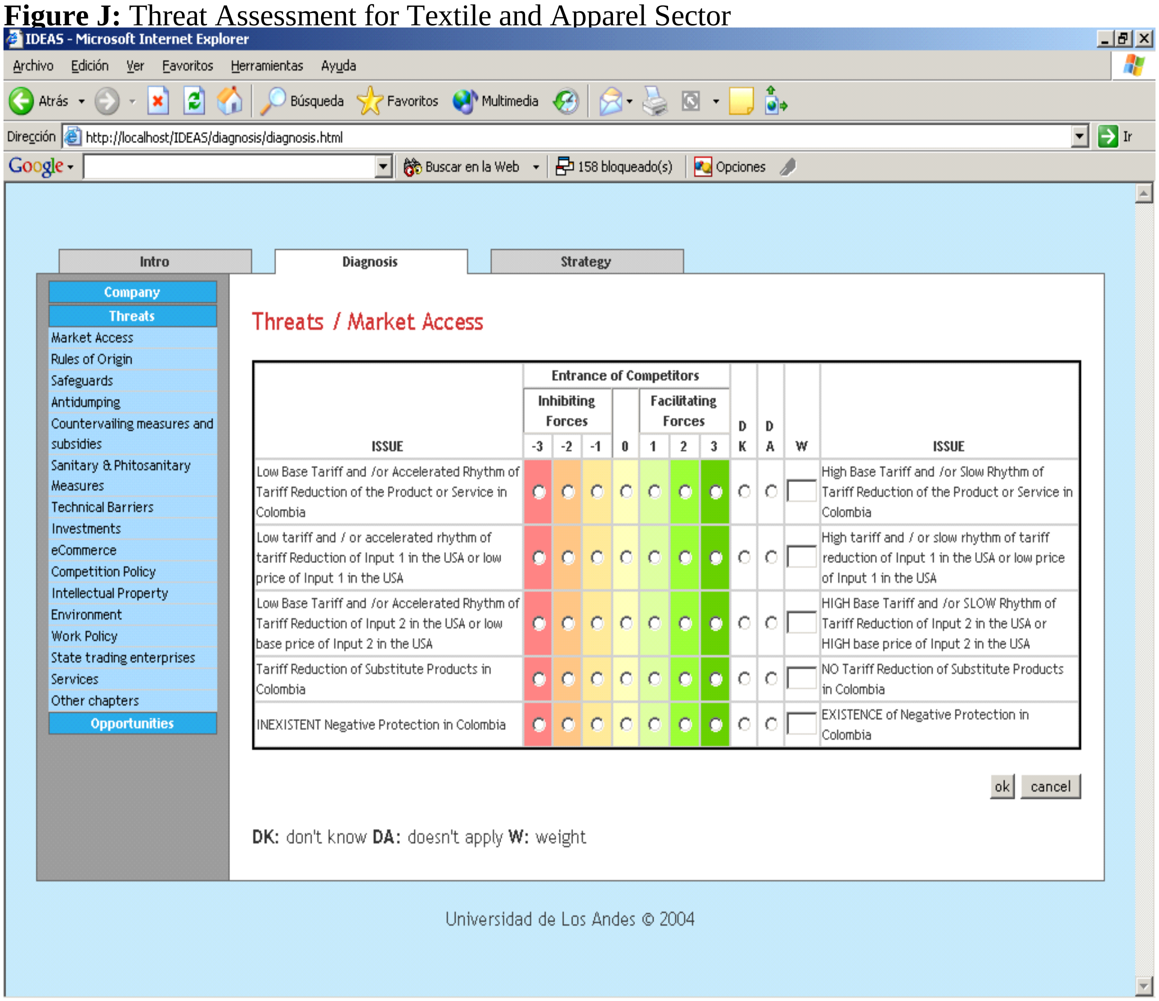


Figure K: Opportunities Assessment for the Textile and Apparel Industry

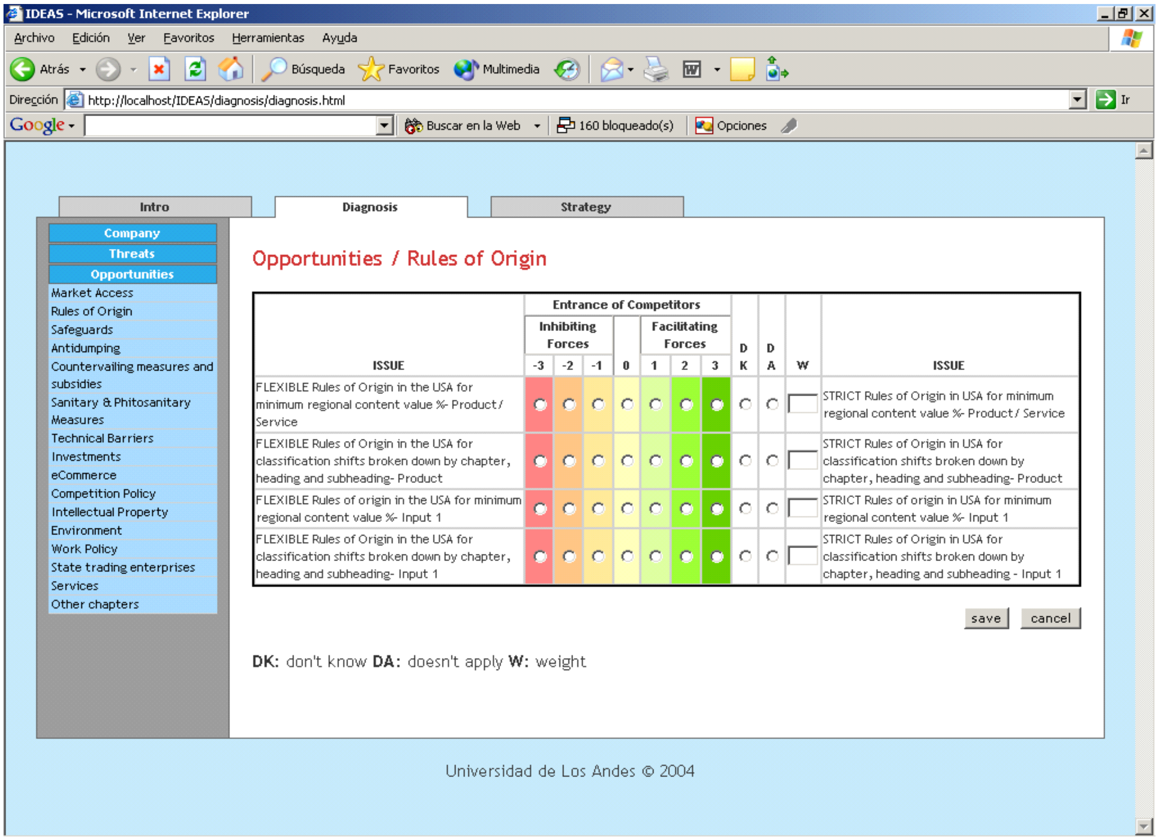


Figure L: Summary of the Threats and Opportunities Afforeded by Each Chapter of Negotiation of the FTA for the Textile and Apparel Industry

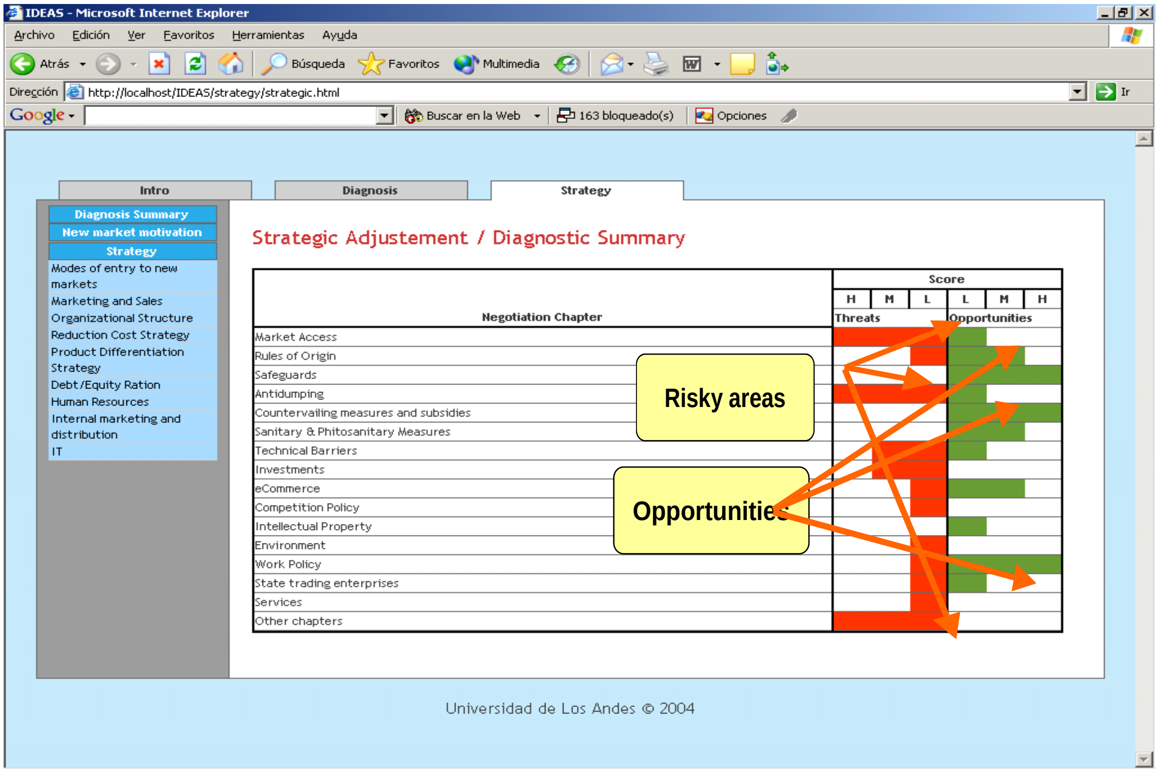


Table B: Threats and Opportunities Assesment Profile

Threat and Opportunity Assessment Profile		
Chapter of Negotiation	THREAT Assessment: Entrance of New Competitors to Domestic Market	OPPORTUNITY Assessment: Internationalization to Member Countries of FTA
	Weighed Average	*Weighed Average*
ACCESS	-2	-3
RULES OF ORIGIN	-1,75	-1,75
SAFEGUARDS	-2	-2
ANTIDUMPING	-1	-1
SUBSIDIES AND COUNTERVAILING MEASURES	3	3
SANITARY AND PHITOSANITARY MEASURES	0	0
TECHNICAL BARRIERS TO ENTRY	-3	-3
INVESTMENTS	-1	-1
E-COMMERCE	-3	-3
COMPETITION POLICY	0	0
INTELLECTUAL PROPERTY	3	3
ENVIRONMENT	-3	-3
WORK POLICY	0	0
STATE TRADING ENTERPRISES	-3	-3
SERVICES	0	-1
OTHER CHAPTERS OF NEGOTIATION	0	0

Risky areas

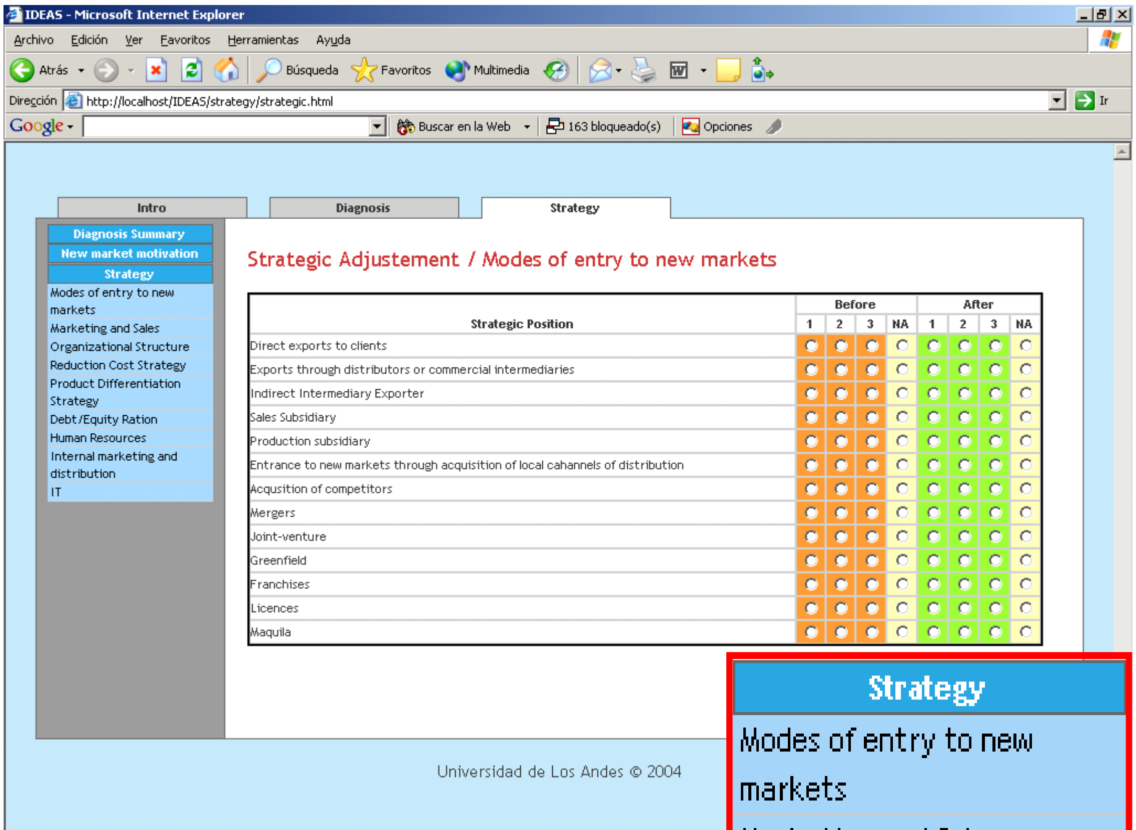
Technical Barriers to Entrance
Subsidies
Environment

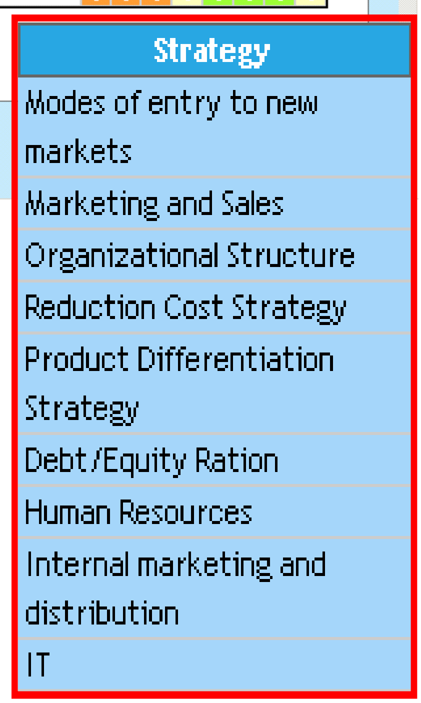
Opportunities

Market Access
Investments

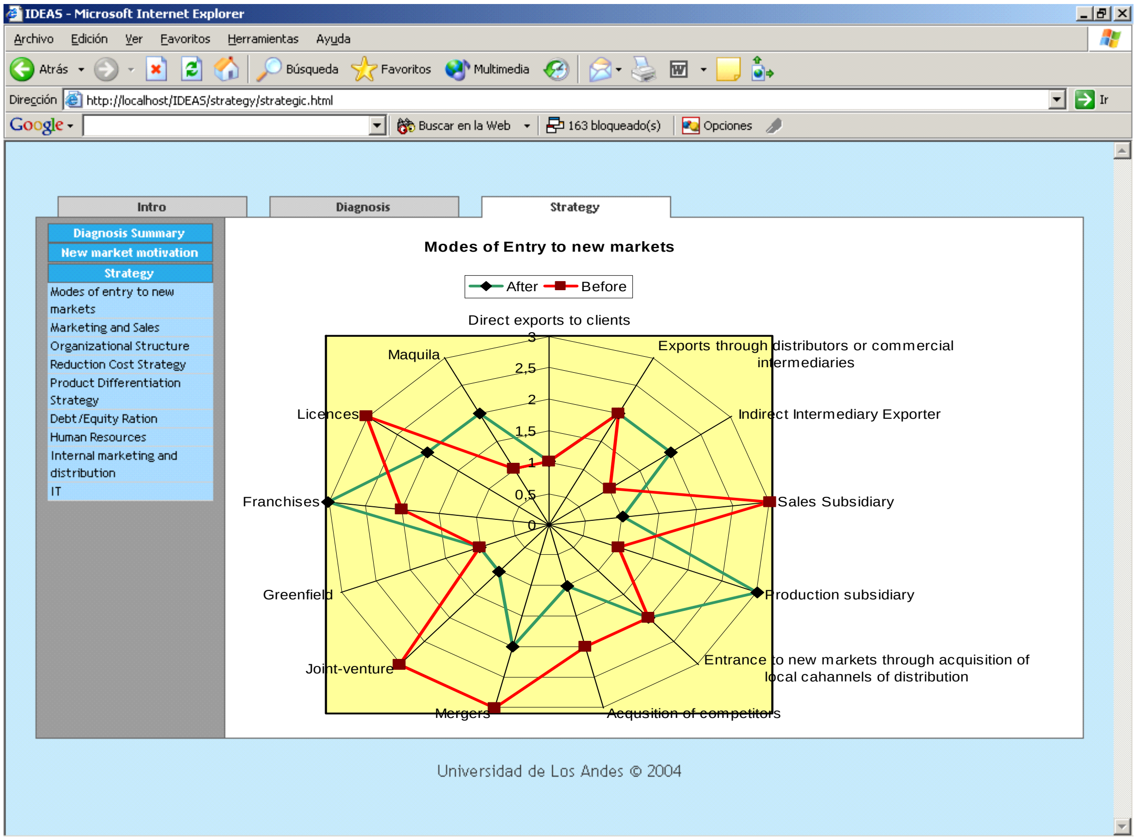
The *Strategic Adjustment* step follows the disgnosis step and provides a list of possible strategic changes the the company may undertake, comparing the situation before and after the FTA's entry into force. For instance, the chapter regarding *Modes of Entry to New Markets* includes possibilities such as direct exports to clients, exports through distributors or commercial intermediaries, indirect intermediary exporter, sales subsidiary, production subsidiary, acquisition of local channels of distribution, acquisition of competitors, mergers, joint-ventures, green-field, licenses, franchises and maquila. The company under evaluation graded from a scale of 1 to 3 the strategy it deemed most appropriate to resort to before and after the FTA's entry into force.

Figure M: List of Strategic Options Before and After the FTA





This process was done for each list of strategies divided functionally (Figure M). For each, a star like the one depicted in Figure N is constructed by IDEAS to portray the transition in strategy before and after the FTAs entry into force.



The results obtained in this section of the case study were particularly interesting because it was at this point that the link between the diagnosis and the company's strategy became clear and it was evidenced that a much more sophisticated strategic package followed the FTAs entry into force (Table C).

In terms of *modes of entry to foreign markets* it was found that before the FTA the prefered modes were direct exports to clients and ocasionally joint ventures. After the FTA a wider range of modes of entrance emerged and strategies such as sales subsidiaries, the acquisition of distribution channels in the foreign target markets, direct exports and the acquisition of competitors appeared as newly considered possibilities. The company under study commented that the FTA allowed for longer term investments and thus sales subsidiaries and buying channels of distribution became appealing. Another interesting result was the company's analysis of maquila contracts. They reflected that with an increasing liberalization of trade the company should not depend on maquila contracts but focus on moving up the value chain, augmenting the value added of the product, in order to be internationally competitive.

With respect to *marketing and sales* before the FTA the company counducted traditional commerce, i.e. not using e-commerce at all. After the FTA the company shows a special interest commercializing its products via e-commerce.

The *organizational structure* of the company before the FTA was characterized by a funcional divisional organization. After the FTA new ways to design the organization emerged such as a divisional organization by geography (depending on the target markets, for example, US, México, Venezuela, Ecuador and the UK) or by markets (depending on the consumer preferences that distinguish different segments within the US market). Another interesting result was that before the FTA the change in location and structure of parent companies and their subsidiaries was practically disregarded wereas after the FTA this change becomes particularly relevant, partly as a result of what is negotiated in the FTA in the chapter of invetments. Also, after the FTA outsourcing begins to be considered as an alternative for some non-core functions of the company.

In terms of *production: cost reduction and product differentiation* before and after the FTA there is a special emphasis in cost reduction. However, the strategies to tackle this cost reduction before and after the FTA vary. Before the FTA cost efficiencies were sought through redisigning processess and increasingg the technological component of production. After the FTA new cost reduction strategies arise such as obtainig less costs from suppliers as a result of the reduction of tariffs for imputs and the enlarged supplier base that follows an FTA. In addition, after the FTA the strategy of desegregation of the value chain acquires particualr importance. Through said strategy the company plans to locate in different geographical areas the production of components (textiles) and end products (garments) depending on the degree of competitive advantage of the different areas to produce these specific products.

Product differentiation before the FTA was not a priority and some of the strategies used to differentiate products were to increase their quality, attributes and functions. In contrast, after the FTA the company under study turned its attention towards a product customization strategy in order to better respond to the sophisticated demand of Northamerican consumers.

Some of the most oustanding results of this case study were observed in terms of the company's *access to capital and its debt equity ratio*. Before the FTA the only source of financing of the company were credits from banks. After the FTA the company's directives realize that they need to increase their access to capital and thus they begin to consider the possibility of going public in order to amplify their sources of financing, to include bond issuance, IPOs, and venture capital. This is an important transition of the mentality of the company for it is now open to democratizing its property structure in order to obtain the capital needed for an internazionalization process. In this sense, it was also found that before the FTA the debt/equity ratio was very conservative; after the FTA a disposition to augment the debt portion of this ratio was observed.

The results in terms of *human resources* show that after the FTA the company plans to hire more personnel with specilized knowledge of the Northamerican market. Also, after the FTA the company's managers grant priority to the transfer of know-how betweeen the parent company and the subsidiaries.

With respect to *Information Technologies* before the FTA the company's managers had implemented IT solutions such as SAP and were aware of the importance of implementing systems for customer relations management (CRM). However, after the FTA this awareness is emphasized and the use of e-commerce emerges as a prioritary business strategy.

In sum, this case study reflects a much more sophisticated strategic package following the FTA. Also, it reflects that a change in the rules of the game brought about by an FTA should echo into the companies strategy definition agenda.

Table C: Summary of Strategic Changes Adopted or to be Adopted Before and After the FTA by the Company Under Study

	BEFORE FTA	AFTER FTA
MODES OF ENTRY TO NEW MARKETS	1. Direct export to clients (3)	1. Sales ***Subsidiaries*** (3) 2. Entrance to new markets through the ***acquisition of chains of distributors*** (3)
	2. Joint ventures (2)	3. Direct exports (3) 4. ***Acquisition of competitors*** (2)
MARKETING AND SALES	Traditional commerce (nor electronic)	Marketing and connection with consumers through e-commerce
ORGANIZATIONAL STRUCTURE	Change in the location and structure of parent companies and subsidiaries (1)	Change in the ***location and structure of parent companies and subsidiaries***
	Functional Divisional organization	**Divisional organization by geography or by markets** due to the size of the US market ***Outsourcing***
PRODUCTION: COST REDUCTION AND DIFFERENTIATION	Cost efficiencies sought through redesigning processes and increasing technology	Obtain ***less costs from suppliers*** (- tariffs for inputs and enlarged supplier base) ***Desegregation of the value chain*** (different geographical location of components and end products)
	Customization of products not a priority	***Customization of products (3)***
DEBT/ EQUITY RATIO AND ACCESS TO CAPITAL	Very conservative debt/equity ratio	Disposition to ***augment debt/equity ratio*** (+ leverage)
	Not inscribed in stock exchange	***"Going public"*** in order to amplify access to capital
	Banks	***New forms of financing*** - bond issuance and venture capital
HUMAN RESOURCES	Less specialization of existing personnel in knowledge of foreign target markets	***Hiring new personal*** with know-how of the new market that is going to be accessed
	Transference of know-how	***Transference of know- how*** between parent companies and subsidiaries
INFORMATION TECHNOLOGIES	E-commerce not used	***E-commerce***