

Analysis of the business environment in the Colombian market

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Abstract

Colombia is a diverse and promising investment destination, with abundant natural resources, a gradually developing economy, opportunities in emerging markets, and a favorable government attitude towards foreign investment. Located in the northwest tip of South America, Colombia is strategically located near the Panama Canal, an international maritime artery. It is the only bi-oceanic country in South America and an essential gateway for land transportation in South America. However, investing in Colombia has risks and challenges, including political instability, security issues, and social inequality. Colombia has long been mired in civil war and armed conflict. In 2016, the Colombian Government reached a peace agreement with the Revolutionary Armed Forces, the People's Army of Colombia, ending a match that had lasted more than 50 years. Despite the achievements of the peace process, other competitions and armed groups still exist in the country. This paper aims to provide an overview of the investment environment in Colombia to assist investors in making informed decisions.

Keywords: Colombia, local business, investment destination, investment environment

Introduction

Colombia is a diverse and promising investment destination, with abundant natural resources, a gradually developing economy, opportunities in emerging markets, and a favorable government attitude towards foreign investment. Located in the northwest tip of South America, Colombia is strategically located near the Panama Canal, an international maritime artery. It is the only bi-oceanic country in South America and an essential gateway for land transportation in South America. However, investing in Colombia comes with risks and challenges, including political instability, security issues, and social inequality. Colombia has long been mired in civil war and armed conflict. In 2016, the Colombian Government reached a peace agreement with the Revolutionary Armed Forces, the People's Army of Colombia, ending a conflict that had lasted more than 50 years. Despite the achievements of the peace process, other conflicts and armed groups still exist in the country. This paper aims to provide an overview of the investment environment in Colombia to assist investors in making informed decisions.

National Resource and Economic Background

Colombia has a relatively broad market and great potential for economic development. In the past ten years, the Colombian economy has maintained a steady growth trend and is currently the fifth-largest economy in Latin America. 2020, by the pandemic, Colombia's GDP was 1002.6 trillion pesos (about 270.15 billion U.S. dollars), and the GDP per capita was 5,304 U.S. dollars. Although

there is a significant difference with the GDP per capita of the United States, which is now only 11 times compared to 32 times in 1991, the gap is narrowing, which means that the Colombian economy has improved significantly. The population has more disposable income and better social benefits. Colombia's textile, chemical, leather processing, food, paper, metallurgy, and machinery manufacturing industries are all on a particular scale, and it is the country with the best industrial base in the Andean region. Coffee, flowers, and bananas characterize agricultural production. Colombia used to be the world's second-largest coffee exporter after Brazil, with a reputation for the quality of its coffee. In recent years, due to climate and replanting, Colombian coffee production has declined and was once surpassed by several emerging coffee-producing countries, including Vietnam. Colombia is the world's second-largest exporter of fresh flowers after the Netherlands, with almost all its production going to foreign exports. In addition, Colombia has rich mineral, farming, and biological resources to support the long-term development of the economy; its oil and gas, coal, nickel, bauxite, and uranium reserves are among the highest in Latin America. However, international prices for energy and oil have risen because of the ongoing fighting between Russia and Ukraine, which could exacerbate some agricultural products and inputs. Inflation in Colombia is still growing, especially for food. To keep inflation low and stable, the Central Bank of Colombia has pursued a monetary policy that aims to simultaneously achieve the highest sustainable levels of output and employment, maintaining the purchasing power of the Colombian peso. The Central Bank of Colombia has a

managed floating exchange rate system. The peso is freely convertible to the U.S. dollar and the euro. Since 2019, the peso has depreciated relatively against the U.S. dollar due to the increased uncertainty in the global economy, rising risk aversion, and other factors. In 2020, affected by the COVID outbreak and the plunge in international oil prices, the peso's exchange rate against the U.S. dollar was once close to 4,200:1, hitting a new record low many times, and became the most depreciated currency during the year a couple of times. However, with the launch of global government stimulus policies and the epidemic and the macroeconomic situation improved, the peso against the dollar exchange rate improved. "To meet the inflation target, Banco de la República sets the benchmark interest rate, also known as the policy or intervention rate. The Bank adjusts the money supply to ensure the overnight interbank rate is near the benchmark interest rate" (The Central Bank of Colombia, 2023). Government bonds mainly back it.

Colombia Policies

Colombia is known in Latin America for the stability of its legal system and economic policies, the high degree of marketization of its economy, the flexibility of its exchange rate regime, and the low level of government intervention in the economy. Successive Colombian governments have been prudent in fiscal discipline and debt-raising behavior, making it the only country in Latin America that has never defaulted on its external debt. Since the 1990s, Colombia has been steadily promoting its market opening policy and actively integrating into the global economic integration process, signing free trade agreements with the U.S., the EU, Canada, South Korea, and prominent Latin American economies, and increasing its market radiation capacity. In 2020, the Colombian economy suffered from the impact of the epidemic, and the prevention and control of the epidemic and the social subsidy program led to an increase in Colombia's fiscal expenditure, a decrease in tax revenues, and an increase in the amount of external debt. The country's external debt has increased. According to Economic and Financial Data for Colombia, Colombia's total debt currently stands at 829,067 billion pesos, of which the central Government guarantees 6,399 billion pesos of external debt. As of the end of 2022, the total government debt as a percentage of GDP is 61.1 percent. This is a decrease from 2020, but it is still a worrying figure. This is because when total debt to GDP is too high, the Government may face fiscal stability risks. The high cost of servicing debt can take up a large part of a government's budget, making it challenging to meet other critical public needs, such as

infrastructure, education, and health care. And it could lead to a decline in the country's credit rating, increasing the cost of government borrowing. This could further increase the debt burden, as the Government would need to pay higher interest rates. As of May 2021, S&P's outlook on Colombia's sovereign credit is BB+, and Fitch and Moody's are Baa2 and BBB-, respectively. The high level of total debt is also one of the factors influencing inflation and currency depreciation. Investors may need more confidence in the country, which could lead to less investment in Colombia's domestic market.

Colombia has the second-highest number of infrastructure projects under construction in Latin America and has a high potential for infrastructure development. Infrastructure development has been an essential reconstruction component since the end of the Colombian civil war. Due to Colombia's favorable geography, air and water transportation is relatively well-developed. Located on the northwest edge of South America, Colombia is the gateway to South America from the United States, Central America, and even Europe, making air transportation extraordinarily convenient and inexpensive. Bogota Eldorado Airport is the largest airport in Latin America regarding cargo volume and the fourth largest in passenger traffic. It is also the most significant international airport in Colombia. Colombia has the only Pacific coast port in South America, the Port of Buenaventura, the largest bulk port, the Port of Barranquilla, and the largest container port, the Port of Cartagena. The only border crossing between Colombia, Brazil, and Peru is Leticia in the Colombian Amazon. Leticia can be reached by boat from Ipontos and Manaus. Cartagena (Colombia) and Colon (Panama) are accessible by sailboat. Colombia's ports are connected to more than 4,300 routes, serving 27 shipping companies and 355 ports worldwide. Good transportation infrastructure reduces the time and cost of transporting goods and contributes to expanding markets and facilitating trade. Colombia's power generation capacity is one of the highest in Latin America, and its electricity infrastructure is one of the highest in the region. As a result, Colombia has relatively abundant electricity resources that meet not only its own economic and social development needs but also can sometimes be exported to neighboring countries. In addition, Colombia ranks sixth in the world regarding the cleanliness of its energy matrix for electricity generation. These infrastructural developments have made it possible to provide better living conditions for the local population and to improve the quality of life. At the same time, infrastructure development requires a large workforce. This includes construction workers, engineers, technicians, and so on. This includes construction workers, engineers, technicians,

and so on. Therefore, infrastructure development can create many jobs and help reduce unemployment. According to the latest data given by the World Bank, it can be calculated that the employment rate in Colombia will be 50.4% in 2021, and the employment rate in the United States will be 50.1% in the same year. This shows that the current policies of the Colombian Government are positive and practical.

WGI information

The Colombian Government’s efforts can also be seen in the World Bank’s publicly available Global Governance Indicators for 2022. The Worldwide Governance Indicators (WGI) project reports aggregate and individual governance indicators. WGI project reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996-2021 for six dimensions of governance: Voice and Accountability, Regulatory Quality, Political Stability and Absence of Violence/Terrorism, Rule of Law, Government Effectiveness, and Control of Corruption. In the governance latitude of Voice and Accountability, Colombia has an index of 0.10 and a ranking of 50.72.

Brazil, in the same region, has an index of 0.28 and an order of 56.04, and the U.S. has an index of 0.90 and a ranking of 74.88. The Colombian Government is actively promoting peaceful development, and the Colombian Government has been working with the anti-government armed forces, the National Liberation Army (ELN), for nearly two years. After nearly ten months of negotiations, the Colombian Government and the ELN signed a 180-day ceasefire agreement on June 9 this year in the Cuban capital, Havana, which stipulates that a ceasefire will be put in place from August 3 onwards. The ELN is the country’s largest rebel organization, and the peace talks are conducive to social stability and economic development in Colombia. “Corruption control observes the extent to which public power is exercised for private gain, including small and large forms of corruption and the “capture” of the state by elites and personal interests” (United Nations, 2023). In terms of the control of corruption dimension, Colombia ranks 43.75 with an index of -0.34, Brazil ranks 34.62 with an index of -0.48, and the U.S. ranks 83.65 with an index of 1.05. Colombia’s ranking is stable and improving.

1	Colombia												
2	Year	Yt=Nominal GDP (Current \$)	Kt=Total Capital Stock	Population	Labor Force	GDP per capita	GDP per worker	K/Y	Y/L	K/L	Employment Rate	TFP=A=(Y/L)/(K/L) ^{1/3}	
34	1991	49637993949	9859102855	33272628	14199207	1491.85673	3495.828601	0.19862009	3495.8286	694.341794	0.426753396	394.783533	
35	1992	58394443349	18751125672	33939039	14593106	1720.56856	4001.508887	0.32111147	4001.50889	1284.93041	0.429979941	368.070137	
36	1993	66474101329	29628744843	34614735	15034015	1920.39897	4421.580086	0.44571862	4421.58009	1970.78058	0.43432414	352.66693	
37	1994	81705497617	44431078990	35295461	15502542	2314.90099	5270.458072	0.54379546	5270.45807	2866.05119	0.439221972	371.039701	
38	1995	92495970511	62631529250	35970101	15968713	2571.46819	5792.324686	0.67712711	5792.32469	3922.14008	0.443944069	367.292335	
39	1996	97153389011	82736435517	36632573	16364652	2652.10388	5936.783074	0.85160627	5936.78307	5055.80171	0.446724067	345.903139	
40	1997	1.06656E+11	99292636991	37291946	16806011	2860.04094	6346.330032	0.93095727	6346.33003	5908.16209	0.450666066	351.052324	
41	1998	98486358604	1.15652E+11	37944414	17180007	2595.54301	5732.61458	1.17429072	5732.61458	6731.75612	0.452767751	303.605722	
42	1999	86278947621	1.28142E+11	38585033	17419739	2236.07293	4952.941466	1.48520573	4952.94147	7356.13702	0.451463628	254.671253	
43	2000	99875074935	1.31566E+11	39215135	17858301	2546.85021	5592.64148	1.31730877	5592.64148	7367.23566	0.455393077	287.41899	
44	2001	98200641189	1.38549E+11	39837875	18268713	2465.00701	5375.345334	1.41088032	5375.34533	7583.96894	0.458576493	273.5946	
45	2002	97945812790	1.4598E+11	40454050	18646802	2421.1621	5252.686911	1.49041761	5252.68691	7828.69708	0.460937829	264.536144	
46	2003	94644969146	1.54119E+11	41057687	19258302	2305.17051	4914.502283	1.62838573	4914.50228	8002.7054	0.469054723	245.697421	
47	2004	1.17092E+11	1.62553E+11	41648268	19248116	2811.45945	6083.318318	1.38824369	6083.31832	8445.12825	0.462158859	298.725153	
48	2005	1.45601E+11	1.75564E+11	42220940	19445700	3448.53827	7487.543649	1.2057894	7487.54365	9028.40075	0.460570039	359.58571	
49	2006	1.61793E+11	1.96561E+11	42772910	19455601	3782.6035	8316.00932	1.2148944	8316.00932	10103.0731	0.454858016	384.67781	
50	2007	2.0623E+11	2.21881E+11	43306582	19444239	4762.08297	10606.20252	1.07589489	10606.2025	11411.1591	0.448990387	471.103859	
51	2008	2.42504E+11	2.56938E+11	43815313	19971706	5534.68945	12142.38536	1.05952035	12142.3854	12865.1043	0.455815664	518.202584	
52	2009	2.32469E+11	2.99046E+11	44313917	21259578	5245.95166	10934.77334	1.28639278	10934.7733	14066.4135	0.479749466	452.983092	
53	2010	2.86499E+11	3.32217E+11	44816108	22128149	6392.75803	12947.24354	1.15957834	12947.2435	15013.3432	0.493754366	524.829429	
54	2011	3.34966E+11	3.74995E+11	45308899	22789274	7392.9436	14698.41184	1.11950251	14698.4118	16454.909	0.502975674	577.881224	
55	2012	3.70691E+11	4.29523E+11	45782417	23525349	8096.80151	15757.09432	1.15870896	15757.0943	18257.8863	0.51385118	598.401447	
56	2013	3.82094E+11	4.85692E+11	46237930	23805205	8263.64193	16050.84674	1.2711325	16050.8467	20402.7529	0.514841495	587.401464	
57	2014	3.81241E+11	5.41308E+11	46677947	24245416	8167.47284	15724.24513	1.41985912	15724.2451	22326.2129	0.519419074	558.424913	
58	2015	2.93492E+11	6.0034E+11	47119728	24759081	6228.65162	11853.92827	2.04550551	11853.9283	24247.2756	0.525450423	409.550989	
59	2016	2.8272E+11	6.34094E+11	47625955	25039982	5936.26102	11290.74695	2.24283246	11290.7469	25323.2537	0.525763357	384.488043	
60	2017	3.11867E+11	6.61547E+11	48351671	25528733	6449.97099	12216.30839	2.1212485	12216.3084	25913.8258	0.527980367	412.821977	
61	2018	3.34198E+11	6.89216E+11	49276961	26010171	6782.03792	12848.75129	2.0622959	12848.7513	26497.927	0.527836345	430.97984	
62	2019	3.23032E+11	7.18698E+11	50187406	26304740	6436.50922	12280.36092	2.22485154	12280.3609	27321.9799	0.524130297	407.731009	
63	2020	2.70151E+11	7.44642E+11	50930662	24932942	5304.28913	10835.10148	2.75639176	10835.1015	29865.7844	0.489546788	349.227425	
64	2021	3.18512E+11	7.51491E+11	51516562	25983568	6182.7071	12258.20155	2.35938205	12258.2016	28921.7807	0.504373098	399.348216	

(Figure 1)

Dean&Francis

Year	Nominal GDP (Current \$)	Total Capital Stock	Population	Labor Force	GDP per capita	GDO per worker	K/Y	Y/L	K/L	Employment Rate	TFP=A=(Y/L)/(K/L) ^{1/3}
1991	6.15813E+12	1.28382E+12	252981000	128277990	24342.2589	48006.1233	0.20847533	48006.1233	10008.0926	0.50706571	2227.64611
1992	6.52033E+12	2.44523E+12	256514000	130387356	25418.9908	50007.3565	0.37501584	50007.3565	18753.5509	0.50830503	1882.23016
1993	6.85856E+12	3.60764E+12	259919000	131792391	26387.2937	52040.6296	0.52600501	52040.6296	27373.6316	0.50705178	1726.75903
1994	7.28724E+12	4.78989E+12	263126000	134076659	27694.8534	54351.2648	0.65729821	54351.2648	35724.9891	0.50955306	1650.25967
1995	7.63975E+12	6.05315E+12	266278000	135975697	28690.8757	56184.6651	0.79232341	56184.6651	44516.4253	0.51065314	1585.29845
1996	8.07312E+12	7.31514E+12	269394000	138055157	29967.7127	58477.5113	0.90611104	58477.5113	52987.0814	0.5124656	1556.91731
1997	8.57755E+12	8.62825E+12	272657000	140577814	31459.139	61016.4166	1.00590972	61016.4166	61377.0068	0.51558483	1546.83787
1998	9.06282E+12	1.00328E+13	275854000	142198651	32853.677	63733.5034	1.10702383	63733.5034	70554.507	0.51548519	1542.38528
1999	9.63117E+12	1.15115E+13	279040000	144105404	34515.3902	66834.2354	1.19522934	66834.2354	79882.2394	0.51643278	1551.84702
2000	1.02509E+13	1.30763E+13	282162411	146165416	36329.9561	70132.5134	1.27561974	70132.5134	89462.4186	0.51801874	1568.09556
2001	1.05819E+13	1.4719E+13	284968955	147200475	37133.6231	71887.8779	1.39095527	71887.8779	99992.8223	0.51654916	1548.81444
2002	1.09291E+13	1.61826E+13	287625193	148166550	37997.7597	73762.3502	1.48068526	73762.3502	109218.825	0.51513759	1543.12905
2003	1.14564E+13	1.75857E+13	290107933	148886198	39490.275	76947.6432	1.53500666	76947.6432	118115.145	0.51320967	1568.29152
2004	1.22172E+13	1.90218E+13	292805298	150113013	41724.6316	81386.6363	1.55697374	81386.6363	126716.856	0.51267178	1620.34802
2005	1.30392E+13	2.0648E+13	295516599	152044690	44123.4071	85758.9909	1.58353245	85758.9909	135802.145	0.51450474	1668.44074
2006	1.38156E+13	2.24571E+13	298379912	154154002	46302.0009	89621.9804	1.62549166	89621.9804	145679.782	0.51663666	1703.26194
2007	1.44742E+13	2.43615E+13	301231207	155503665	48050.2238	93079.6512	1.68309791	93079.6512	156662.167	0.51622694	1726.633
2008	1.47699E+13	2.61649E+13	304093966	157246174	48570.046	93928.2498	1.77150544	93928.2498	166394.405	0.51709732	1707.71997
2009	1.44781E+13	2.77022E+13	306771529	157377606	47194.9434	91995.7121	1.91339096	91995.7121	176023.764	0.51301242	1641.51108
2010	1.5049E+13	2.86126E+13	309327143	157357516	48650.6431	95635.4982	1.90130283	95635.4982	181832.043	0.50870905	1688.09021
2011	1.55997E+13	2.97059E+13	311583481	157443452	50065.9665	99081.4666	1.90425475	99081.4666	188676.353	0.50530102	1727.50747
2012	1.6254E+13	3.08927E+13	313877662	158452840	51784.4186	102579.242	1.90062377	102579.242	194964.546	0.50482356	1769.05338
2013	1.68432E+13	3.22819E+13	316059947	158809862	53291.1277	106058.848	1.91661484	106058.848	203273.962	0.50246753	1803.79144
2014	1.75507E+13	3.37714E+13	318386329	159540139	55123.8498	110007.928	1.92422236	110007.928	211679.715	0.50108979	1845.85495
2015	1.8206E+13	3.53919E+13	320738994	160644681	56762.7295	113330.99	1.94396524	113330.99	220311.506	0.50085797	1876.44695
2016	1.86951E+13	3.71281E+13	323071755	162448669	57866.7449	115083.189	1.98598032	115083.189	228552.948	0.50282535	1882.27444
2017	1.94773E+13	3.87454E+13	325122128	163971527	59907.7543	118784.87	1.98925643	118784.87	236293.567	0.50433826	1921.36774
2018	2.05331E+13	4.04746E+13	326838199	165307010	62823.3094	124211.655	1.97119179	124211.655	244844.994	0.50577628	1985.47888
2019	2.1381E+13	4.24003E+13	328329953	167100511	65120.3947	127952.787	1.98308726	127952.787	253741.542	0.50894081	2021.09111
2020	2.10605E+13	4.44146E+13	331511512	165641653	63528.6343	127144.793	2.10890703	127144.793	268136.547	0.49965581	1971.72605
2021	2.33151E+13	4.61831E+13	332031554	166189867	70219.4725	140291.83	1.98082687	140291.83	277893.826	0.50052432	2149.83971

(Figure 2)

The Colombian stock exchange market is nearly 150 years old, but stock turnover is inactive, and few financial derivatives are traded. According to the World Bank, Colombia's domestic stock market capitalization is 106.32 billion U.S. dollars. Colombia is an emerging country in terms of average GDP and capital-output rate. Still, it is not well suited for stock investment and has better prospects for investment in oil and securities. The Colombian Government should maintain a stable monetary policy to minimize inflation risks. A regular

exchange rate policy would attract investment, as fluctuations can increase risk. Colombia could sign bilateral and multilateral investment agreements with other countries to provide legal protection and dispute settlement mechanisms to protect the interests of foreign investors. Policies such as tax incentives, investment incentives, and special economic zones are offered to attract foreign investment. These policies could include tax breaks, tariff preferences, and facilities within special economic zones.

	A	B	EE	EF	EG	EH	EI	EJ	EK	EL
1			2021	2021	2021	2021	2021	2021		
2	Country/Territory	Code	Estimate	StdErr	NumSrc	Rank	Lower	Upper		
31	Brazil	BRA	0.28	0.13	13.00	56.04	48.79	61.35		
46	Colombia	COL	0.10	0.13	12.00	50.72	41.06	57.00		
202	United States	USA	0.90	0.14	11.00	74.88	66.67	88.41		

VoiceandAccountability Political StabilityNoViolence GovernmentEffectiveness RegulatoryQuality RuleofLaw ControllofCorruption

(Figure 3)

	A	B	EE	EF	EG	EH	EI	EJ	EK	EL
1			2021	2021	2021	2021	2021	2021		
2	Country/Territory	Code	Estimate	StdErr	NumSrc	Rank	Lower	Upper		
31	Brazil	BRA	-0.48	0.16	12.00	34.62	25.48	49.52		
46	Colombia	COL	-0.34	0.16	12.00	43.75	29.81	51.44		
202	United States	USA	1.05	0.16	10.00	83.65	77.88	86.54		

VoiceandAccountability Political StabilityNoViolence GovernmentEffectiveness RegulatoryQuality RuleofLaw ControllofCorruption

(Figure 4)

Conculsion

Colombia provides attractive business prospects backed up by enormous natural resources and growing economic circumstances. To make educated selections, investors should carefully evaluate the aspects highlighted in this research. The commitment of the Colombian Government to creating a favorable business climate and addressing problems will be critical in attracting foreign capital and achieving long-term economic growth.

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