

Colombia

Colombia offers foreign investors an attractive domestic market. Three conditions support this statement: the growing purchasing power to the population; a relatively large internal market complemented by the Andean market; and several strategically located poles of development within the country providing favourable opportunities to access regional and world markets.

*COINVERTIR*¹

Introduction

- 11.1 In 1810 Colombia declared independence from Spain but was not able to secure a lasting separation until 1819 when Simón Bolívar defeated the loyalists at Boyacá.² A federation of Gran Colombia was formed that included the countries that had fought together under Bolívar to defeat the Spanish. This federation comprising Venezuela, Colombia, Ecuador and Panama did not last long. Panama was annexed in 1821 and Ecuador and Venezuela seceded in 1830 to form independent countries.
- 11.2 Shortly after independence there emerged deep divisions in Colombian politics that were to shape the country's modern development. There was rivalry between the conservatives and the liberals and this continued throughout the 19th and early 20th centuries, coming to a head in 'La Violencia' a period of confrontation that lasted from 1948 to 1958 in which some 250,000 people lost their lives.³

1 COINVERTIR, website, <http://www.coinvertir.org.co> Colombian Economy, Potential Market.

2 DFAT, Country Brief.

3 *ibid.*

- 11.3 An end to the ten-year violence came with the formation of a bipartisan National Front where the two parties agreed to rotate the presidency and share cabinet positions. Rotation of the presidency continued until 1974 when the National Front lapsed however the parties have continued to share power.⁴
- 11.4 During the 1960s several guerilla groups emerged, with the FARC – Fuerzas Armadas Revolucionarias de Colombia - being the first. Other groups formed but the FARC along with the Ejército Nacional de Liberación (ELN) are the major active groups today and operate between 10,000-15,000 guerillas.⁵
- 11.5 The guerillas ideological *raison d'être* has given way to involvement in the narcotics industry and kidnapping. They are powerful and control large areas of the Colombian countryside especially in the oil rich south east and the lucrative coal basins in the north east. Their activities present serious security risks and are estimated to be worth US\$500 million per year. In recent years there has been an emergence of right wing paramilitary groups that have taken up arms against the guerillas and this has added to the complications of the situation.
- 11.6 With the inauguration of Andrés Pastrana as President in August 1998 there followed a commitment to set up peace talks with the guerilla groups and to embark on a peace plan. The government recognised that the problems of escalating violence and economic stagnation needed to be tackled.
- 11.7 The government is committed to implementing Plan Colombia, a set of strategies designed to support the most pressing needs of the Colombian people in relation to peace, economic and social growth and the strengthening of the State:
- Plan Colombia has been conceived as an integrated plan which seeks to create a climate favourable to peace through economic recovery, the strengthening of national defense and security, the justice system, the defense of human rights and democratization and social development.⁶
- 11.8 Drug trafficking has had a profound effect on Colombia and has according to its Foreign Ministry weakened its institutions, democracy, principles, values and the economy. Moreover drug trafficking has had a great influence on the escalation of the conflict and violations of human rights to

4 *ibid.*

5 *ibid.*

6 Ministry of Foreign Affairs of Colombia, *Summary of the Content and Scope of Plan Colombia*, Santafé de Bogotá, December 1999.

the extent that it has become an important source of finance for the guerillas and the paramilitary. Furthermore it has a devastating effect on the environment.⁷ The impact of drugs on the social and economic fabric of Colombia and the hopes for the future that Plan Colombia will bring were emphasised to the Trade Sub-Committee in discussions with government officials in Bogotá. The Sub-Committee was told that some 48 per cent of the police and armed forces budget goes towards fighting drugs.

- 11.9 One point that arose consistently in discussions with Colombian officials including President Pastrana was that the security issue is greatly exaggerated overseas leaving the impression that there is a civil war going on in Colombia. Although security is an issue one can be safe in Bogotá and the government and guerillas have travelled together to Europe to look at structures of government.
- 11.10 As COINVERTIR told the Trade Sub-Committee, drugs and guerillas have been part of Colombian life for a very long time and although the security problem has been around for 40 years Colombia has the oldest democracy in South America. There was concern that by focusing on the negative things in relation to Colombia the positives such as the business opportunities never see the light of day.
- 11.11 The government through Plan Colombia seeks the cooperation of the entire international community to solve the problems derived from drug trafficking on the principle of shared responsibility in the struggle against the world problem of drugs. The Plan is estimated to cost US\$7.500 billion over 3 years with Colombia providing US\$4 billion, and the remaining US\$3.5 billion coming from the international community. The US Congress has passed a bill to provide some US\$1.3 billion to Plan Colombia with the multilateral banks providing US\$1 billion.
- 11.12 The cornerstone of the Plan is the anti-drug strategy and an essential part of this effort is the strategy for alternative development. As part of this process the government aims to encourage other forms of agriculture and other profitable activities among peasant farmers and their families who are currently engaged in the growing of unlawful crops. One of the crops that the government is looking at is palm oil as it will provide a quick return on the investment thereby providing alternative income to the income derived from illegal crops. The government is looking to Malaysia to assist with this development.
- 11.13 During the meeting with the Trade Sub-Committee, President Pastrana raised a very pertinent point concerning the drug problem – all countries

7 *ibid.*

are affected by the situation and it would be hypocritical if they close their eyes to the efforts that Colombia is making to decrease the production of drugs. Australia is only across the Pacific and it cannot be said that it is not Australia's problem and it is too far away for Australia to be concerned.

- 11.14 The Committee congratulates the Colombian government on its efforts to solve the drug problem and to bring about a peace plan to address the concomitant security issue.

Overview of the Economy

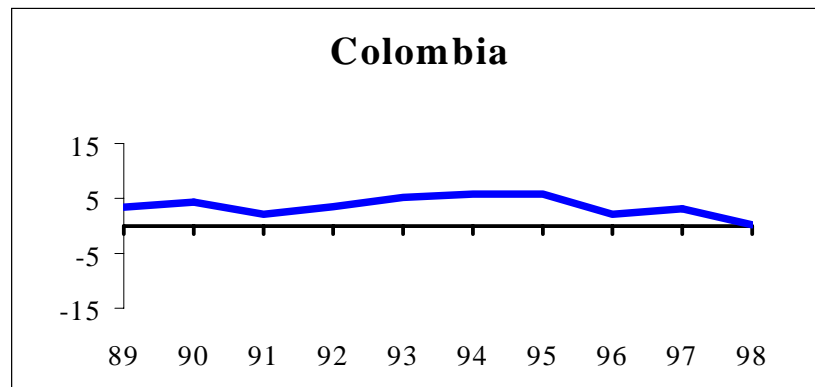
- 11.15 Against the backdrop of security and drug problems, the Colombian economy over the last quarter of a century has outperformed all Latin America main economies with an average economic growth rate of 4.5 per cent. Over the last 15 years growth at 4.15 per cent has been second only to Chile with 5.00 per cent. As DFAT points out more importantly Colombia's GDP growth volatility, at 1.9 per cent, is one of the most stable in the world. This can be compared to 2.2 per cent for industrialised countries, 3.4 per cent for South East Asia and 4.7 per cent for the rest of Latin America. Moreover Colombia was the only Latin American country not to default or restructure its foreign debt during the 1980s.⁸
- 11.16 Doubts about the strength of the Colombian economy have arisen as the country endures its deepest recession in 50 years.⁹ The strong growth in the Colombian economy declined as a result of economic mismanagement due to the severe political crisis¹⁰ in 1995-98 with growth sliding from 5.7 per cent in 1994 down to 2.0 per cent in 1998. Other factors that exacerbated the situation in 1998 were the Asian crisis and a fall in prices for Colombia's major exports. Furthermore excessive borrowing along with high interest rates and poor regulation and control have left the Colombian financial system weak and vulnerable. Figure 11.1 shows real GDP growth over the ten years from 1989 to 1998.

8 DFAT, Country Brief.

9 *ibid.*

10 The previous Samper administration was dogged by serious allegations of financial association with a drug cartel, violence increased and there were a series of fiscal blow-outs that damaged Colombia's previous impeccable economic record.

Figure 11.1 Real GDP Growth – 1989-1998

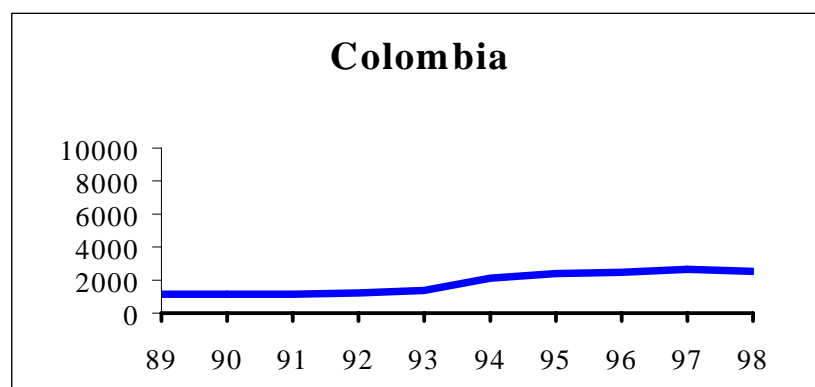


Source *Australia's Trade with the Americas, 1993-94 & 1998, Department of Foreign Affairs and Trade, Canberra.*

11.17 This recession is a genuine economic downturn and the Pastrana government has taken a number of important steps to revitalise the economy with the aim to improve fiscal management, reduce interest rates and undertake structural reform. The government announced in July 1999 that it had reached a funding agreement with the IMF that gives Colombia access to a US\$3 billion extended loan facility. This facility is further to the US\$2 billion secured from other organisations.

11.18 Colombia has high rates of inflation with it being at 17.7 per cent in 1997 and down to 9.2 per cent in 1999. With the impact of the recession and a weak financial system the rate of inflation rate is not expected to improve markedly. Moreover Colombia has low levels of per capita income and Figure 11.2 shows GDP per capita from 1989 to 1998.

Figure 11.2 GDP Per Capita – 1989-1998



Source *Australia's Trade with the Americas, 1998, Department of Foreign Affairs and Trade, Canberra, and IMF/IFS and EIU Country Reports.*

11.19 In a snapshot of Colombia that DFAT presented to the Committee the following points were made:¹¹

- Worst recession since Great Depression.
- Low commodity prices.
- Situation exacerbated by worsening security situation.
- Mining and mining services interests.
- Opportunities in mining, agriculture and education services.
- Impediments – IPR,¹² security.

11.20 The last three points will be discussed in the next section.

The Nature of the Trade and Investment Relationship

11.21 DFAT describes Australia-Colombia relations as healthy and characterised by close cooperation in the Cairns Group. The relation is a modest one and to date the focus has been on shared membership of the Cairns Group with trade and investment the driving force behind the relationship.¹³ Colombia is a full member of the Pacific Basin Economic Council (PBEC) and a member of two APEC working groups – energy cooperation and telecommunications. It is seeking full membership of APEC.

11.22 Colombia as a country was ranked 79th in 1999 on the value of merchandise trade with Australia. This placed Colombia 5th on the list of South American countries behind Brazil, Chile, Argentina and Peru. On the 1999 figures Colombia as a destination for Australia's merchandise exports is ranked 77th with exports totalling \$27.532 million. This is an increase of 41.7 per cent over the previous year's figures, a very significant increase that was not matched by any of the other seven South American countries. In fact, with the exception of Venezuela that had a 3.4 per cent growth, the other six South American countries all showed a decline as an export market for Australia. However on a trend line from 1994 to 1999 there has been a 9.2 per cent decline in merchandise exports to Colombia and some of the reasons for this decline could be found in the pre-Pastrana period of difficulties.

11.23 As a source of merchandise imports Colombia ranks 70th with some \$17.848 million worth of goods being imported into Australia. However

11 DFAT, Transcript, 13 August 1999, p. 39.

12 Intellectual property rights

13 DFAT, Country Brief.

this represents a fall of 7.8 per cent over the previous year but a trend increase for the period 1994 to 1999 of 8.0 per cent.

- 11.24 Major Australian imports from Colombia in 1998 were coffee and coffee substitutes - \$9.73 million; insecticides, rodenticides, herbicides - \$3.54 million; nitrogen-function compounds - \$1.85 million and confidential items - \$1.59 million. Australia's major exports to Colombia in 1998 were confidential items - \$5.56 million; telecommunications equipment - \$2.10 million; milk and cream - \$1.98 million and printed matter - \$1.71 million.
- 11.25 In terms of competitors, Australia is competing with the US, Venezuela, Japan and Germany as a source of imports to Colombia with the US the biggest import market by a wide margin. In 1997 Australia ranked 26th. Colombia's main export markets are again led by the US followed by Venezuela, then Germany and Ecuador with Australia coming in at 44th spot in 1997.
- 11.26 Australian interests in Colombia have been in the mining sector and related services. Three companies are active in mining, namely QNI, Rio Tinto and Sedgman Coal. QNI is part owner of Cerro Matoso nickel mine with estimated reserves of 25 million tonnes. Rio Tinto is part owner of the Cerrejón Norte/Central coal project. Colombia has the largest coal reserves in South America and Sedgman coal is involved in coal washing at the Cerrejón Norte mine. The Minister for Energy and Mines described the nickel mine as being very important to Colombia and it is one of the biggest in the world. Furthermore the Colombian government is trying to change the laws of the mining code with the aim to decrease the red tape and facilitate foreign investment.
- 11.27 In relation to services, Mincom, a Brisbane based company, is involved in information technology providing technical support for the mining sector.
- 11.28 Nu-Lec Pty Ltd, the Australian manufacturer of medium voltage pole mounted distribution switchgear, has successfully exported product to Colombia, one of the 52 countries it exports to globally.

Opportunities for Australian Business

- 11.29 With a population of 42.3 million of which 71 per cent live in urban areas, Colombia offers a large domestic market with increasing purchasing power. This domestic market is complemented by the Andean market with a combined population of 109 million. There are no tariffs between the five Andean countries and 20 per cent of Colombia's trade is with the Andean countries.

- 11.30 In offering foreign investors an attractive domestic market, COINVERTIR¹⁴ points out that the several poles of regional development place Colombia in a strategic position to serve foreign markets. The poles are centred on four cities that account for about 30 per cent of the population and are equipped with infrastructure that caters to the needs of the domestic market and exports.¹⁵ The cities are Bogotá, the capital, that has a population of nearly 7 million, Medellin, Cali and Barranquilla that each have over 1 million people.
- 11.31 In terms of commercial opportunities, agriculture, mining and energy and education are sectors that are extremely attractive for Australian investment and know-how. Other sectors include telecommunications services and equipment, rail and port infrastructure and information technology. It is interesting to note that Australian telecommunications exports were the second highest export to Colombia in 1998 (the latest available figures) and had not figured in the top four exports in previous years.

Infrastructure

- 11.32 As the Minister for Energy and Mines pointed out to the Trade Sub-Committee, the rail system in Colombia is very run down and the government plans to implement projects that can make rail competitive with roads. In the north of the country a major open cut coal mine has been opened up – a joint venture between the state of Colombia and Exxon that produces some 18 million tonnes of coal a year. The Minister noted that Colombia is just privatising its 50 per cent of the project. What accompanied the development of the mine was a 150 kilometre railway that has provided state of the art infrastructure.

Mining

- 11.33 Clearly in the area of mining there are opportunities in infrastructure development, concessions, mine system operation, coal washing and remote mine site catering.
- 11.34 Colombia produces gold, silver, platinum and iron ore. Gold is an area where there should have been better development although the areas where gold is found have a major security problem. With Australian gold mining expertise the development of the Colombian gold industry is an opportunity if the security issue can be overcome.
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14 COINVERTIR, Colombia's foreign investment promotion agency, is a non-profit mixed corporation set up by the government and leading national and multinational companies to promote foreign investment in Colombia.

15 COINVERTIR website, op cit.

- 11.35 The Energy and Mining Minister informed the Trade Sub-Committee that the Atlantic coast is becoming a major area of interest for investment and export-oriented industries as the area is close to the United States and has little guerilla activity because of its isolation. This area would be worth Austrade exploring the opportunities that are available for Australian business.

Agribusiness

- 11.36 DFAT has noted significant Colombian interest in Australian agribusiness know-how.¹⁶ This interest was confirmed during discussions with the Vice-Minister of Foreign Affairs in Bogotá. Areas of opportunity include technical cooperation and technology transfer, especially in the sugar cane, dairy, livestock and tropical fruit industries. Dairy exports – milk and cream – are currently the third largest Australian export to Colombia but there is competition from North American and EU suppliers with subsidised product. However Australian technical expertise and technology transfer, especially in increasing productivity and managing drought production in a range of agricultural industries presents considerable scope in Colombia.
- 11.37 One area that was raised in discussions was Australian expertise in hydroponics, and the advantages this type of growing gives in terms of production and quality control, especially for the restaurant market.

Tourism

- 11.38 There is little doubt that Colombia offers excellent tourism potential. The appeal and charm of the old quarter of Bogotá alone is what picture postcards are made of. Cartagena on the Gulf of Mexico coast is a port of call for Caribbean cruise ships. Moreover with the diversity of landscape, Colombia as an eco-tourist destination would flourish and Australia is well placed to capitalise on such development. With the expertise of Australian tourism and the international recognition of Australian hospitality schools there is enormous scope for Australian business to provide the much needed input into assisting Colombia to develop tourism to be a key sector in its economy.

Education

- 11.39 Colombia is second only to Brazil as a source of international students coming to Australia from South America. The University of Wollongong (UOW) has been actively promoting Australian education in South

16 DFAT, Submission, p. 291.

America since 1996. UOW was one of the first Australian universities to enter the South American market and had already established a presence long before the Asian economic crisis.¹⁷ In 1997 Colombia along with Venezuela became the focus of the university's efforts.¹⁸

- 11.40 From a base of one Latin American student at the beginning of 1998 there were 29 students enrolled in degree courses at UOW in 1999.¹⁹ UOW already has an agreement for exchange of academics with the first academic coming from Medellin and there are a number of students from areas outside of Bogotá. The university offers 12 half tuition scholarships a year through their scholarship scheme LACASA (Latin America Caribbean Academic Scholarship Award), for postgraduate coursework programs and also through various student loan agencies in Latin America.
- 11.41 IDP Education Australia is now very active in the Colombian market opening an office in Bogotá in September 1999. IDP provides and promotes international access to Australia's intellectual, education and training resources, doing this through the creation and delivery of a range of services on a commercial basis.²⁰ During the first half of 1999 IDP investigated the education market in Latin America in relation to its major business areas, namely student recruitment and related activities, and international projects. The result was that representation was established in São Paulo, Brazil on 1 September 1999 followed a few days later with the opening of the office in Bogotá.
- 11.42 In September 1999, IDP arranged major Australian education promotions in Colombia, Venezuela and Mexico where 23 Australian institutions participated. It should be noted that IDP received overwhelming interest – 3000 visitors to the Bogotá promotion (2000 turned away), 5000 at Caracas and good support in Mexico City.
- 11.43 The Minister for Education, Training and Youth Affairs, the Hon Dr Kemp, MP, profiled the success of Australia's international education in a media release dated 6 March 2000. He noted that international students are coming to Australia from an increasingly diverse range of countries and cited Colombia, one of the smaller emerging markets, where student

17 UOW, Submission, p. 652.

18 Brazil and Argentina were the first countries visited by UOW.

19 UOW, Submission, op cit.

20 IDP, a non-profit company operating on commercial principles was established in 1969 and is wholly owned by some 37 Australian tertiary education institutions. Among its business interests are project and training management, student advisory and recruitment services, promotions, publications, English language training and testing services, conferences and information services, and research and consultancies in international education.

numbers have increased markedly in 1999 – by some 155 per cent. The Minister said that:

As well as economic benefits, international students bring a range of other positive benefits to communities across Australia by promoting the internationalisation of the Australian education system. The impact of cross-cultural skilling of young Australians, and the development of strong interpersonal relations underpins the efforts of Australia's future trade, diplomatic and political relations.²¹

- 11.44 The education market in Colombia is a very promising one for Australian institutions. However the major impediment to doing business in this sector is the Australian immigration department's requirements and the practices and procedures that the DIMA office in Santiago employs that play into the hands of Australia's competitors in this market.
- 11.45 Australian business is often criticised as being a late entrant to markets thereby missing out on valuable opportunities. Australians are not necessarily seen as being at the cutting edge of taking up opportunities in *greenfield* markets. The opportunities that are available in Colombia present such a scenario for Australian business. If business is willing to take the risks in spite of the security situation in Colombia then they will find themselves in on the ground floor. The Committee sees enormous potential in Colombia and if the Colombians are able to solve the security issue then the country will move ahead rapidly and Australian business can be to the forefront of that progress.

Market Access Issues

- 11.46 While preferential trade agreements can assist Colombia to become an export platform they can disadvantage Australian exporters. COINVERTIR describes the preferential trade agreement situation:

In 1990, the European Union granted Colombia and the Andean countries preferential trading rights for ten years via a Special Cooperation Program due to end in 2004. Under this new system, known as the Andean Generalized System of Preference, 95% of customs items are duty-free. This accounts for 60% of Colombian exports to the community. Likewise, Colombian products enjoy preferential access to the markets of the United States and [sic] majority of South American countries. Under the Andean Trade Preference Act (ATPA), Colombian exports have unilateral

21 Media Release, Minister for Education, Training and Youth Affairs, *Australia's international education success story continues*, KO28/00, 6 March 2000.

preferential access to the United States up to the year 2001. As a member of the Andean Community, Colombia enjoys free trade with other members including Ecuador, Bolivia, Peru and Venezuela. Colombia has also signed free trade agreements with Chile and Mexico. In addition, as part of the Latin American Integration Association (ALADI), Colombia enjoys preferential trading rights for certain goods in the MERCOSUR countries. In this respect, the Andean Community countries are negotiating with MERCOSUR to set up a free trade zone between these two regional trading blocks.²²

- 11.47 Along with Mexico and Venezuela, Colombia is a member of the Group of Three that was set up in 1995. Removal of tariff and non-tariff barriers, unified customs procedures and cooperation accords in various non-trade areas are part of the agreement with the aim to eliminate internal trade barriers within 10 years.
- 11.48 What is of particular interest is that Colombia has special conditions for duty-free zones where exports are exempt from both income tax and import duties on imports. These zones may have significance for Australian businesses that wish to establish off shore operations and take advantage of the benefits.
- 11.49 Other market access issues include the restriction of the movement of personnel in several professional areas such as architecture, engineering, law and construction; protective practices for tariffs and inadequate protection of intellectual property rights. On the matter of inadequate protection of intellectual property rights, companies cited the need to speed up the timeframe for obtaining a patent and streamlining the process, provide adequate and speedy measures to address piracy and introduce mechanisms to protect know-how and exclusive use of information.²³

22 COINVERTIR website, see Colombian Economy.

23 COINVERTIR carried out a survey in the last quarter of 1999 of 121 companies with foreign investment in Colombia to gather information that would help remove obstacles to doing business in Colombia.