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 conflict 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.

(Figure 1)
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.

![Figure 2](image2.jpg)

![Figure 3](image3.jpg)

![Figure 4](image4.jpg)
Conclusion

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.

Reference

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