**Final Assignment: Colombia**

Rachel Green and Abigail Klare

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Dr. Patricia Valladares-Ruiz

**Important Events and Country Background**

Colombia’s two coasts–one along the Caribbean Sea, and the other touching the Pacific Ocean–make it prime real estate for international trading. The government has worked to lower trade barriers, and Colombia has improved trade relations, in recent years, through the Pacific Alliance and other free-trade agreements. In 2019, the population was recorded to be just over fifty million, and the country remains the most densely populated Spanish speaking country in South America (Kline). The majority of young people in Colombia live in urban areas. Bogotá, for example, is Colombia’s capital and the largest city in the country–home to nearly 900,000 students attending universities and secondary education institutions.

With so many promising individuals graduating from top programs in Bogotá, the startup scene in the capital has grown exponentially during the 21st century (Egusa). The world’s largest pre-seed startup incubator, The Founder Institute has an increasingly strong presence in Bogotá and graduated its second class of startups last year. The organization exists to “globalize Silicon Valley,” introducing startup incubators across 6 continents, with a goal to employ 1 million entrepreneurs in a variety of rising industries. Rappi, an emerging on-demand delivery service, was founded in 2015 in Bogotá. With the help of Rappi, Bogotá was the first city in Colombia to gain international investors in the startup and technology scenes.

The government allows private businesses to thrive and maintain control in most sectors of the economy, including mining. The Republic only directly participates in and regulates national industries such as railroads, petroleum, cable and telephone. Colombia encourages private enterprises to flourish and enter the market by passing tax benefits and extending credit more freely to companies exploring emerging industries. This makes Colombia a safe place to introduce new technologies, a welcoming start-up incubator, despite its strong history, traditionally favoring agriculture.

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Description automatically generatedAgriculture is still the foundation of the economy in most of Colombia. In addition to agriculture, naturally occurring resources also contribute to the financial market. Colombia is rich in reserves of nonrenewable resources, like coal, gold, silver, platinum, and petroleum (Kline).

Monetary policy in Colombia is written and upheld by the Banco de la República (Monetary Policy), Colombia’s central bank, comprising more than thirty government-run banking institutions. The central bank is the government’s banker, major credit extender, and currency issuer. In 2018, Colombia’s national public debt totaled 172 million USD, or 48.2% of GDP. Colombia was one of the few Latin American that did not suffer from the debt crisis of 1980, and for the last five years, the unemployment rate has hovered around 9%. Unemployment and inflation rates have been effectively managed by the current presidential administration of Ivan Duque, and, compared to neighboring countries, Colombia’s economy is prime for investment. Colombia has the fourth largest economy in Latin America and ranked 37th in the world in 2018 (Colombia Economic Outlook). The country has a strong macroeconomic framework, supported by an inflation-targeting regime that aims to protect against the effects of potential external factors.

Amidst the COVID-19 pandemic, emergency response measures have been taken, including the introduction of a stimulus of 14.8 trillion COP, possibly expanding to 48 trillion by the end. The stimulus aims to protect and support the healthcare system, vulnerable citizen groups, and private businesses. Once the economy is able to return to operation as normal, it is expected that actions taken by the central bank now will allow for a strong rebound in economic growth in coming years (World Bank in Colombia). Hopefully, Colombia will remain one of the fastest-growing economies in the Americas.

**Politics and Stability**

With the enactment of the Constitution of 1991, Colombia became a republic, governed by three branches: executive, legislative and judicial. All citizens 18 and older vote to elect the president, who can serve up to two consecutive four-year terms. The legislative branch is made up of a Senate and a House of Representatives. Two out of the 102 members of the Senate are elected by indigenous communities. Representatives are elected by department, each department having a certain number of representatives based on the population. There are thirty-two departments in total, including Bogotá, the capital department, and each department is run by an elected governor. These departments are divided again into municipalities and governed by elected mayors (Kline). Since the Constitution of 1991, two parties have maintained most of the political power in Colombia–the Liberals and the Conservatives. Neither party has succeeded in calming the revolutionary or guerilla groups or drug cartels that have influenced Colombia’s past.

Iván Duque, a right-wing centrist politician, has been the president of Colombia since 2018, and his popularity has been on the decline, as the number of protests against his administration has increased. Protests are a common outlet for citizens to express discontent, and disapproval is often publicly demonstrated (Wallenfeldt). Colombia has seen dramatic swings in policies during presidential administration transitions, so it is difficult to home in on only a few vulnerabilities. The following summaries of two resurfacing issues will encapsulate the major problems Colombia’s political structure faces today.

Colombia’s recent history has been tainted by violent interruptions by three major groups–the Revolutionary Armed Forces of Colombia (FARC) guerillas, the United Self-Defense Forces of Colombia (AUC), and the National Liberation Army (ELN). Despite the countless meetings and agreements between countries and violent groups, peace has not lasted, and acts of terror continue today (Colombia Profile–Timeline).

More than two years ago, former president Juan Manuel Santos signed a peace agreement and called for an end to the fifty-year conflict between Colombia and FARC. The complex agreement contains 578 stipulations but aimed to solve a few key problems. The first was the government’s promise to rebuild rural communities, most notably effected during the conflict. Second, FARC promised to relinquish control of their weapons to the United Nations and return to civilian life. Lastly, war crime hearings would be facilitated by the Special Jurisdiction for Peace, and no jail time would be assigned to former rebels for involvement in the conflict. Santos and his administration hoped that immunity would convince rebels to come clean without retaliation, allowing for national reconciliation (Casey).

Today, citizens see firsthand the implications of this agreement and realize that FARC leaders and government officials have defaulted on both sides of the contract. Rural communities have seen none of the changes promised for the improvement of education, irrigation, and healthcare systems. FARC’s power may be gone, but, for the most part, daily life in rural Colombia has remained the same. As many as 3,000 FARC rebels have since taken up arms again. In areas where FARC is still inactive, the government has yet to enforce its presence and has failed to gain the confidence of citizens. People are waiting to see the government take action, protect them, and make permanent the changes, but they will continue to wait until Duque and his admiration move toward actionable solutions. The takeaway mentioned at the bottom of an article from the New York Times reads, “Peace deals are hard. Peace is harder” (Casey).

Peace is difficult to maintain anywhere, and Colombia’s neighbors are not helping Colombia on its path towards tranquility. Fleeing economic and political uncertainty, five million Venezuelan refugees left their home nation during the last few years, and nearly two million found their new home in the bordering country of Colombia (Otis). One cannot analyze economic and political risk factors without acknowledging existing tense situations in neighboring countries. Now, more than ever before the world is looking to Duque to see what actions he might take to implement policies for the protection and support of refugees, and Colombians with whom refugees inevitably interact (Otis).

As long as politics remain unstable and these problems continue without solution, the economy cannot stabilize in Colombia. Economics and politics are so closely related; one cannot be discussed without the other. Question marks and instability will remain in economics, as long as volatility reigns in Colombian politics.

**Doing Business Analysis**

When evaluating the South American region for potential new business ventures and U.S. investment, two key factors serve as dominant indicators for prosperity: economic stability and status of international economic integration. Countries throughout Central and South America have been subject to abrupt and extreme changes in both political and economic agendas in recent history. This broader landscape of regional volatility is an important factor to consider when evaluating Colombia as a potential destination for foreign investment.

  A few key metrics of analysis of the Colombian economy indicate stability and thus a fertile environment for potential new business ventures. First, of note, is the controlled inflationary environment that has underscored recent economic history in Colombia. The inflation rate has teetered between 2-4% in the last five years, and in 2018 the final cumulative metric was 3.18% (PwC Colombia 10).The ability of the central bank to monitor and control inflation is critical as volatile fluctuations in currency valuation due to over/under supply can present material impact on a foreign entities’ P/L statements as they are subject to the FX market. Moreover, a stable rate of inflation allows for more effective modelling and forecasting of future sales, revenues, and profits for any business entity.

  Another indicator of stability within the business environment is the steadiness of the unemployment rate. In 2018, the reported national unemployment rate was 9.7%, a sign of strength that the country managed to suppress the rate below double digits for consecutive years. (PwC Colombia 17). This metric is a key indicator to the economic well-being of the country, and indicative of a strong workforce with an appetite to secure employment.

  In terms of regional and international economic integration, Colombia has positioned itself to be competitive among South American countries who rely heavily on the export of goods to maintain economic health. At the end of 2018, Colombian exports amounted to $41.8B USD in value to trading partners around the world. (PwC Colombia 13). This total reflects a 10.4% year-over-year increase on 2017’s total export values (PwC Colombia 13). Nearly 60% of Colombian exports fall unto the fuel and oil and mining sector of business, a number that aligns with the country’s historical reliance on the cultivation of natural resources as its economic stronghold (PwC Colombia 13). The disproportionate concentration of exports towards this industry presents risk to the economy, though, as volatility in international oil markets has the potential to dramatically and rapidly harm the Colombian economy.

  The success and consequential growth of Colombian exports is due in large part to a free-trade agreement with the United States. As of 2018, the U.S. was the leading recipient of Colombian exports, accounting for roughly 25.4% of all export activity (Doing Business #). This number is a promising one to potential U.S. investors because it is indicative of the power of free-trade agreements. In 2012, the United States-Colombia Trade Promotion Agreement went into effect, with the intention of eliminating tariffs and mitigating barriers to U.S. services, particularly financial services. (United States-Colombia). This FTA has shown the U.S. to be a vital partner and ally of Colombia, and consequently deterred fellow economic powers like China from advancing their own economic agenda within the country. As a U.S. business evaluating Colombia as a potential ground for new ventures, the history and renewed strength of the United States-Colombia economic partnership bodes favorably in consideration.

  Lastly, a final key indicator of the business landscape analysis stems from the stated goals and agenda of current political leadership. President Iván Duque has committed to igniting the Colombian economy through entrepreneurship, seeking incentives and tax breaks for small businesses and aspiring entrepreneurs in the STEM space. (Tomaselli). Recent challenges posed by fiscal deficits present a risk to the administration’s success in achieving this goal of a more innovative, technologically savvy Colombia; however, should the prospects of the financial situation improve, it is clear that political leaders have affirmed their desire to attract investment into these rapidly developing areas of business, a sign of optimism for potential U.S. investors (Tomaselli).

**Future outlook and investment opportunities**

While the prospects of doing business in Colombia are certainly promising, material risks, closely tied to political stability, remain a key determinant of all sound business decisions. The Duque administration has stated its interest in fostering entrepreneurship and technological innovation in the country, maintaining and building on peaceful relationships with paramilitary guerilla groups, and fostering better relations with international trading partners (Tomaselli.) These aspirational desires, while favorable and friendly to new foreign investment in the short term, have little if any legitimacy when considering a broader time horizon. Should the current administration fall out of favor with the Colombian people—as has been implied through the most recent polling on administration approval—it is likely that Colombia could find itself in the midst of great political, and consequently, economic instability.

Recognizing the unpredictability of Colombian politics, it is therefore reasonable to consider the economic risks and opportunities for investment in the country. Prior to narrowing in on specific sectors of industry into which investment may prove favorable, one must assess and evaluate at least the following two macro-level risks within the Colombian economy.

First and foremost, the value of Colombian currency is heavily dependent upon the strength or weakness of international oil markets. (PwC Colombia 10). In times of limited supply and consequential appreciation of oil prices, the Colombian peso will fare well and exhibit strength in the FX market. However, a quick—and often unpredictable—drop in oil prices has the power to plummet the currency value. As recently as within the last month, the worldwide oil market has undergone shocks in pricing as Russia and Saudi Arabia ramped up production, thereby increasing supply and diminishing prices (Reed). Such volatility is a tremendous risk to potential investors and must be weighed heavily when deciding whether to invest in Colombian industry.

Additionally, an economic risk of investment into Colombia is the fact that many large companies and portions of industry remain state-run and controlled. Disagreeing political factions have called for the privatization of some industries, and the unclear future within the country over this matter presents a broader risk to new ventures (Tomaselli). Both sides’ opinions align with differences in political viewpoints which underscore broader tensions in the country. Historically, the Colombian people have utilized their voice in civil society, showing a willingness to take to protest should the cause deem it necessary. The active political climate has lasting social implications for all businesses in the country, and therefore warrants careful consideration before investment; more specifically, consideration of whether a new venture in industry is insulated from such potential disruptions in its earliest, most fragile days.

With these macro-level factors of economic and political risk considered, U.S. investment should look with a cautious optimism towards new ventures in Colombia. Its strong trading relationship with the United States as evidenced by the 2012 agreement as well as other regional trade alliances indicate an appetite for diversifying and opening economic boundaries. In addition, major metro areas, such as Bogotá boast growing numbers of a vibrant, innovative population with an appetite to move the country forward. (Kline). Leveraging this population, the technology industry has begun to establish ties to the city through successful start-up ventures like Rappi. There is immense promise for the technology industry within these urban city-centers. U.S. investors should look to the success and promise of our own Silicon Valley as a potential model for new ventures within Colombia. Lastly, there is immense promise for innovation within the agricultural sector. Agriculture has been the backbone of the Colombian economy for most of its history and U.S. investors could propel the sector forward through investment in commercialized farming equipment and innovations within the supply chains in the region (Kline). Moreover, the regulatory landscape surrounding the agriculture sector is young and subject to great influence by powerful enterprise. U.S. investors could work in partnership with the Colombian government to establish policies and best practices for innovation and advancement of the sector.

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