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Colombia: Organizing for Competitiveness

Colombia had experienced decades of conflict fueled by drug trafficking and a complex network of guerrillas and paramilitary groups. Despite this, the country had managed to sustain positive economic growth and a measure of economic stability.[1] Since President Alvaro Uribe had taken office in 2002, Colombia had achieved unprecedented security improvements which had boosted economic growth. However, the country was still registering growth rates well below successful mid-income countries.

In 2006, the government created the National System for Competitiveness (NSC), a new organization for economic planning and collaboration with the private sector. A national economic plan was released in 2008. The government and the Private Council on Competitiveness were evaluating whether the new plan and organizational structure was sufficient to put Colombia on a new economic trajectory.

Country Background

Colombia, with 45 million inhabitants, was located on the northwestern tip of South America, bordered by Panama towards the northwest, Venezuela and Brazil to the east, and Peru and Ecuador to the south. The country had access to both the Caribbean Sea and the Pacific Ocean (see **Exhibit 1**). The Republic of Colombia was the fifth largest country in Latin America after Brazil, Argentina, Mexico and Peru. With a surface area of 1,139,000 square kilometers, it was about the same size as South Africa and about twice the size of France. Colombia had the third largest Spanish-speaking population in the world after Mexico and Spain. The country was ethnically diverse, with descendants of indigenous natives, African slaves and immigrants from Europe and some Middle Eastern countries.

The country's geography was highly diverse, ranging from flat coastal lands and eastern plains to a number of peaks that rose above 15,000 feet in the three mountain ranges of Los Andes that stretched across the country from south to north. Despite being in the tropics, Colombia enjoyed a wide variety of year-round climates determined by the altitude of its regions and cities. Colombia's territory encompassed the Amazon rainforest as well as the wet forests of Chocó-Darién, placing Colombia among the world's top five countries in terms of biodiversity.[2] While it occupied less than 1% of the surface of the earth, the country had 10% of all forms of animal and plant life. Worldwide, Colombia ranked first in the number of species of birds and amphibians, second in plants, and third in mammals.

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Colombia was the oldest democracy in Latin America and had a long tradition of constitutional government. The political system was considered one of the oldest and most institutionalized in Latin America.[3] Colombia had, almost without exception, elected civil governments through popular vote. In a region prone to military dictatorships, Colombia had the fewest on the continent; the longest of which lasted only four years. The Conservative and Liberal parties, founded in 1843 and 1848, respectively, were two of the oldest surviving political parties in all of the Americas. However, tensions between the two parties had frequently erupted into violence. Also, when the Constitution was amended in 1991, small parties and movements proliferated, weakening the traditional two-party system.[4]

The president and vice president were elected by direct popular vote for four-year terms, and the president acted as head of state. Legislative power rested in a bicameral congress. The judicial branch was divided into four jurisdictions: the Constitutional Court, the Supreme Court, the State Council, and the Superior Council of the Judicature.

There were two levels of local government in Colombia: 32 departments (the equivalent of states or provinces) and 1,099 municipalities (the equivalent of counties). Most of the population lived in urban areas (74%). In 2007, there were 18 cities with a population of 300,000 or more, mostly located in the highlands, compared to 11 in Peru and three in Chile. Nine eastern lowlands departments, constituting of about 54% of Colombia's land area, contained less than 3% of the population.

During most of the twentieth century, Colombia's government structure had been centralized nationally, which had led to unrest in local communities. The 1991 Constitution reformed the three branches (i.e., legislative, executive and judicial) and adopted a more decentralized administrative structure which expanded the resources and responsibilities that were to be controlled by subnational governments.

History of Colombia's Economic Development

At the time Christopher Columbus landed on the American continent, the most prominent ancient Colombian cultures were the *Tayronas* in the Caribbean Sea and the *Muiscas* in the Andes Mountains. These were considered to be among the most developed political systems in South America at that time after the *Incas*.[5]

The conquest of the Colombian territory began in 1508 and was led by the Spaniard Vasco Nuñez de Balboa, the first European to discover the Pacific Ocean, followed by a colonization process that imposed Catholicism on the native people and brought slaves from Africa to exploit gold mines and plantations. The *Viceroyalty of New Granada* was created by Spain in 1717 comprising what later became Colombia, Venezuela, Ecuador and Panama, with the capital at Bogotá. In 1819 *New Granada* achieved its independence from Spain, and 10 years later Ecuador and Venezuela seceded. The Republic of Colombia was formed in 1886 which included what was now Panama. The separation of Panama from Colombia took place in 1903 with the support of the United States to support completion of the construction of the *Panama Canal*. The two-party political system emerged from differences between Simon Bolivar and Francisco de Paula Santander, prominent Colombian political leaders, which later turned into violence during the "*One Thousand Day War*" that left 100,000 people dead between 1899 and 1902.

Due to the country's size, topography, and poor infrastructure, Colombian regions developed as heavily self-contained units. Interregional trade was difficult, leading to a fragmented domestic market and large variations in economic and social development.[6] Roads and railroads were constructed primarily to connect towns and villages within the same region, with poor interregional connections due to high construction costs. From the nineteenth century until the middle of the twentieth century, much of the population lived in rural areas in small towns and villages concentrated in the Andean and Caribbean areas of the country.[7]

Colombia began to export coffee and tobacco in the late nineteenth century, which triggered one of the country's most significant growth periods registering annual growth of 6% from 1913 to 1929. Coffee exports boomed, rising from 7% to 75% of the country's total exports from 1870 to the mid-1920s.

The coffee boom induced development in a significant portion of the country. Transportation and communication networks developed for coffee ushered in a period of urbanization and industrialization. From 1929 to 1945, the economy grew at an annual rate of 4%, despite being affected by the Great Depression and the collapse of the international coffee prices. The banana cluster started in Colombia in the beginning of the twentieth century, when the United Fruit Company established plantations in the north, and the German firm Albingia Consortium began operations in the Pacific region.

La Violencia

Political differences within the country escalated during the period called *La Violencia* ("The Violence"), starting in 1946. Riots over assassination of a populist political leader from the liberal party left more than 180,000 Colombians dead. *La Violencia* ended in 1953, when General Gustavo Rojas overthrew the president and established a military regime. In 1957, General Rojas was forced to step down, and a coalition called *Frente Nacional* ("National Front") emerged. The *Frente Nacional* established a system by which each traditional political party agreed to alternate the presidency, and "parity" between the liberals and conservatives for positions in Congress, cabinet, courts, departments, and municipalities. The agreement lasted four presidential terms until 1974.

During the 1950s and 1960s, as interprovincial infrastructure improved, companies began to compete at the national level. Many industrial companies located their plants within the triangle formed by Bogotá, Medellin and Cali to take advantage of the relatively large accessible market. Economic activity concentrated toward the country's center, with the municipalities located closer to Bogotá experiencing more rapid economic growth than others.[8]

Colombia's economic policy during this period followed the import substitution model advocated by the Economic Commission for Latin America and the Caribbean (ECLAC). Domestic firms were encouraged to emulate and replace foreign companies with heavy governmental support so that tradable goods could be produced locally. Reliance on quantitative import restrictions and high import tariffs increased.

The *Frente Nacional* had closed the door to new political parties, but this prompted the creation of guerrilla movements inspired by the success of the Cuban Revolution. The FARC (*Revolutionary Armed Forces of Colombia*) and the ELN (*National Liberation Army*), two of the oldest revolutionary guerrilla movements in Latin America with Marxist doctrines, emerged in the mid 1960s. A third revolutionary guerrilla group, the M-19, was formed after the 1974 elections when General Gustavo Rojas lost.

Fueled by growing illegal drug demand in Europe and the United States, drug cartels emerged in the 1970s to take control of domestic production and foreign supply routes of marihuana and later cocaine. Among the most notorious was the Medellín cartel, headed by Pablo Escobar. Guerrilla groups began cultivating their own coca crops and establishing cocaine laboratories as supplemental sources of income.

Since 1969, Colombia had been a member of the Andean Community (CAN), a trade block that had not achieved much success due to frequent border and political conflicts. In the 1970s, Colombia's economic strategy shifted to an export promotion model based on a managed exchange rate (crawling peg) and governmental subsidies

In the early 1980s a global recession, falling exports and high interest rates caused many Latin American countries to default on their foreign loans. With growth averaging 2.6% between 1980 and 1985, Colombia was an overachiever during Latin America's "lost decade," due in part to high coffee prices and possibly the local demand fueled by drug-trafficking revenues. By adhering to orthodox macroeconomic policies, Colombia met its debt obligation and avoided the hyperinflation common in other Latin American countries in the 1980s.

La Apertura ("The Opening")

At the end of the 1980s, the country began a series of important reforms led initially by President Virgilio Barco (1986 to 1990). President Barco laid the foundations for government decentralization by encouraging community participation in public affairs. Responsibility was gradually transferred to municipal governments for basic services: water supply, sewers, roads, health, education, welfare and agricultural assistance, among others. As local governments played a larger role in public administration and economic development, they became more accountable to their constituencies. Governors and majors were elected by popular vote.

Despite greater local autonomy, guerrilla groups gained support in all regions of Colombia. The level of domestic violence increased, and drug trafficking grew rapidly. The Colombian government began extraditing drug lords to the United States. The decade ended with the murder by the drug cartels of Luis Carlos Galan, the favored 1990 Liberal Party presidential candidate. Two other liberal presidential candidates were also assassinated.

Galan's campaign director, Cesar Gaviria (1990 to 1994), won the presidential election by a large margin. Peace talks with M-19 succeeded in 1990, and President Gaviria called for a National Constitutional Assembly to amend the Constitution, which was ratified on July 4, 1991. Reforms included improvements in government decentralization, the judicial system, and the protection of civil rights such as the "tutela," which allowed immediate court action for an individual who felt his constitutional rights were being violated. Reforms also gave the Central Bank (BDR) independence and established its primary objective as maintaining purchasing power of the currency.[9] The health and pension systems were also reformed.

Gaviria then set out to upgrade Colombia's competitiveness and to open the economy to foreign competition. His government hired an international consulting company to perform a competitiveness assessment and formulate recommendations. The Ministry of Foreign Trade was created to coordinate national competitiveness policy. Quantitative restrictions to trade were dismantled and average import tariffs fell from 43.7% in 1989 to 11.7% in 1992. Almost all sectors were opened to foreign investment, although agricultural products remained protected through a price band system.

Colombia adopted an open foreign investment regime and abolished the power of Congress to expropriate without compensation. The financial system was opened to international competitors. Government created policies to curtail monopolistic and oligopolistic abuse, regulate both public and private natural monopolies,[10] and privatize state-owned enterprises. Colombia's main ports in Buenaventura in the Pacific Ocean, and Cartagena and Barranquilla in the Caribbean, were opened to private investment and operation, which considerably improved their efficiency. The value of imports plus exports as a percentage of GDP increased from 24% in 1990 to 33% in 1993.[11] Tariffs were eliminated between Colombia, Mexico and Venezuela under the 1995 G-3 free trade agreement that included a 10-year linear tariff reduction program. Beginning with the First Summit of the Americas in Miami in 1994, Colombia, together with every country in the western hemisphere except Cuba, took part in an effort to establish the Free Trade Area of the Americas (FTAA). However, the lack of leadership from Brazil and the United States meant the effort eventually stalled.[12] The National Council of Science and Technology (CNCyT) was created in 1990 as an advisory body to the government, with members from academia and the scientific community. R&D projects in the private sector were encouraged with tax incentives of up to 125% for investments in CNCyT certified projects.

Unfortunately, however, domestic conflict continued.[13] As a consequence of the ineffectiveness of government in some regions of the country, new paramilitary groups emerged, including the *Autodefensas Unidas de Colombia* ("United Self defense Forces of Colombia or AUC"), to fight the guerrilla groups and terrorize small landholding farmers suspected of supporting or sympathizing with guerillas. Paramilitary combatants were sometimes paid by drug cartels and landowners, and backed by right-wing elements in the army and the police. The AUC engaged in a series of massacres and assassinations, often with tacit or active support from various elements of the government's security forces. Some provinces were under the political control of paramilitary commanders, while others were run by guerrilla leaders.

President Ernesto Samper took office in 1994 (1994–1998), though the alleged connection between his campaign and drug money from the Cali Cartel brought the election result into question. The resulting political crises and the deterioration of the fiscal accounts led Colombia's growth rate to fall from nearly 6% to 0.6% between 1994 and 1998. In 1997, the economy was also hit by the Asian financial crisis and a decline in prices for major exports. The Samper administration emphasized social welfare programs and spending targeting Colombia's lower income population, with the central government deficit rising to nearly 5% of GDP.[14,15]

Andres Pastrana was elected president in 1998 (1998-2002) on a platform of opening negotiations with the FARC. He inherited an economy in crisis, with a difficult internal security situation and global economic turbulence. Colombia experienced the most severe economic crisis in its history with GDP growth of less than 1% in 1998, and a deep recession with a negative GDP growth of 4.5% in 1999, the first negative growth since 1931. The country's currency experienced episodes of devaluation between 1999 and 2000, with the aim of boosting exports and attracting foreign investment. Colombian trade with the United States benefited from the Andean Trade-Promotion and Drug-Eradication Act (ATPDEA), a temporary trade preference system enacted in 2002 to provide alternatives to cocaine production.

Every country in the region except Colombia and Paraguay experienced higher economic growth during the 1990s compared to the 1980s. Colombia's underperformance was partially attributed to the drop in productivity and investment caused by violence, primarily from the drug trade.[16]Government resources were used to bail out companies in the financial sector and some banks were nationalized. Bankrupt firms cut employment, interest rates began to climb, and loans defaulted. The financial system was in severe crisis by 1999.

Foreign competition and the economic crisis forced the main Colombian business groups to adopt more focused corporate strategies. Some companies began to expand their operations to neighboring countries.

The negotiations with FARC failed after four years of conversations. During this time, the paramilitaries multiplied and achieved supremacy in important agricultural, coca and oil producing areas as well as in strategic corridors for drugs and arms trafficking, including some urban centers. Pastrana secured $1.3 billion from the United States (*Plan Colombia*) as part of an antidrug strategy, which included efforts at social and economic revitalization, military training and illegal crop eradication

The Uribe Administration

Alvaro Uribe, a right of center former senator and governor of his home region, Antioquia. His father had been assassinated by the FARC in a kidnapping attempt in 1983. Uribe was known for his motto of "*Work, Work and Work*." Uribe was the first presidential candidate to win an election in the first round since the Constitution had been amended in 1991.[17]

Uribe advocated the more active involvement of Colombian society in the fight against guerrilla and illegal groups. He launched the fiercest military offensive in 40 years, temporarily raising corporate taxes until 2006 to help fund this initiative. Government regained control of major roads and transportation corridors, and expanded its presence into regions that had previously been under the control of illegal groups. The country experienced an unprecedented improvement in security.[18]

The AUC announced a unilateral cease-fire in 2002, and the government gave political status to the AUC in July 2003. More than 31,000 members from 35 paramilitary groups were demobilized following negotiations.[19] However, the government still came under fire for moving too slowly in bringing paramilitary fighters to justice. Remnants of these groups were still operating in newly organized small and regional groups. Strong connections were also revealed between paramilitaries and the country's political class,[20] and to a lesser degree, the Colombian armed forces. Sixty-eight Colombian members of congress came under investigation, half of whom were later arrested.[21]

In 2006, the government signed a free-trade agreement with the United States (still awaiting U.S. Congress ratification at the end of 2008). In 2006, Chile and Colombia signed a free trade agreement. In May 2006, Venezuela denounced and withdrew from the G-3 free trade agreement though it remained enforced between Colombia and Mexico.

In 2003, President Uribe and his political allies proposed a Constitutional amendment to allow a president to serve a second term. After it was approved by Congress, Uribe won the 2006 elections with an unprecedented 62% of the vote. However, leftist presidents were elected in Venezuela, Ecuador and Bolivia, and tensions with neighbors rose due to the conflicts, guerrilla crossings, flows of refugees, and the spread of drug crops. Relations with Nicaragua and Venezuela were also strained due to territorial disputes.

The Colombian Economy in 2008

In 2007, Colombia experienced the highest growth rate in 30 years, or 8.2%.[22] However, the longer term average growth rate and GDP per capita were still low by Latin American standards. Extreme poverty accounted for 12% of the population and the unemployment rate had fallen from 15.5% in 2001 to 11.9% by March 2008, but was still a major concern.[23] Income inequality remained one of the highest in Latin America.[24]

Colombia's labor productivity (GDP per hour worked) ranked 10th among 17 Latin American countries[25] (**Exhibit 2**), Total investment grew to 27.8% of GDP in 2007 from 12.7% in 1999, and the country risk spread (EMBI) declined to 107 basis points in June 2007 from 1,066 basis points in

September 2002. Foreign direct investment (FDI) jumped to $9 billion in 2007 from $2 billion in 2002,[26] but was still lower in relative terms compared to other countries at similar levels of development (**Exhibit 4**).

Exports, especially commodities such as oil, sugar and palm oil, rose rapidly in 2008. Higher value added product exports decreased 9.5%. Colombia had a small trade surplus but average trade per capita from 2005 to 2007 was among the lowest in the region ($1,313), compared with Mexico ($5,158) and Chile ($6,625) (see **Exhibit 5**).[27]

Colombia had free trade agreements with Canada and a significant number of Latin-American countries, among them, Mexico, Chile, Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua, Panama, Cuba, and country members of MERCOSUR, and AEC (Caribbean countries). Colombia was also negotiating trade agreements with the European Union and EFTA[28] countries.

The current account deficit of 2.9% of GDP[29] was covered by long-term financing flows, including FDI and remittances. In 2008, Colombia's foreign debt was US$ 45 billion (26% of GDP).[30] Inflation averaged 5.7% in 2007[31] and rose to a level of 7.2% in 2008.

As overall security levels improved, Colombia began to recover local and foreign investor confidence. Corruption was lower than in most Latin American countries but still high compared to advanced countries' standards.[32] Uribe's government had been making an effort to attack corruption, but in 2008, the Transparency International *Corruption Perception Index* still ranked Colombia 70th of 180 countries.

The Colombian Business Environment

Colombia's business environment was highly uneven. Comparative business environment indicators are shown in **Exhibit 6.**

Physical Infrastructure The country had 164,000 kilometers in roads but only 12,775 km were paved, and just 427 km were two-lane highways.[33] Wet conditions often led to poor logistical connections to the main ports. Security conditions also constrained transportation in some areas and increased its costs. Rail transport remained underdeveloped. The national railroad system, once the country's main mode of transport, had been neglected in favor of road development and accounted for only about a quarter of freight. Just 160,000 rail passenger journeys were made in 2005 as compared to more than five million in 1972.[34] Projects were underway in several departments to more fully use rivers for transportation as a cost efficient alternative.

Colombia had 20 main airports, 11 of which provided international connections. Eldorado International Airport in Bogotá was the largest in Latin American in terms of cargo and third largest in terms of passengers. Avianca, a privately owned company, was the second oldest airline in the world still operating under its original name, after Dutch KLM.[35] Low-cost airlines had entered the market in 2007 but high airport fees had kept them away from Eldorado Airport.[36]

Colombia had significantly improved its customs procedures, but still ranked poorly against other Latin American competitors. Overall, the World Bank ranked Colombia 82nd out of 150 countries in logistics performance, lower than every country in Latin America except Bolivia. Total logistics costs in Colombia were higher than in Brazil (13%), Argentina (20%), and Mexico (38%).[37]

Colombia had a lower penetration of phone lines and computers than in Argentina, Mexico, Brazil or Chile. However, three mobile phone operators engaged in fierce competition, and by the end of 2007 the mobile phone penetration was four times greater than fixed line telephones. Eighty-five percent of Colombians had a mobile phone subscription. Internet and broadband penetration of users was the largest in Latin America (55%).

Human Resources Public expenditures on education were 4% of GDP compared to 2.6% in Chile and 3.8% in Brazil, but quality was low. English literacy was limited, with less than 1% of the population bilingual.[38] However, Colombia's accent-free Spanish was valued by call-center and media related companies serving Latin American markets. Tertiary education covered 31% of students, well below the levels of Argentina (65%), Chile (48%) and Venezuela (41%).[39] In 2007, Colombia had 190 universities[40] including technological colleges but graduates were perceived by businesspeople as poorly equipped for the economy. Law-related careers accounted for 7.1% of total graduates versus 1.8% with math and science degrees.[41] In general, the relationship between the private sector and the university system was weak.[42]

Life expectancy was 73 years and infant mortality had decreased to 22 per 1,000 births, lower than the Latin American average[43] (see **Exhibit 3**). People with unmet basic needs, such as access to public services, housing, water and education, was still at a level of 27.6%. By 2008 the nationally subsidized health care system covered 80% of the population.[44]

Financial Markets Colombia's financial sector was relatively underdeveloped, with assets of 60% of GDP compared to 106% in Brazil and 83% in Chile. Credit and capital market access was limited. Firms complained about burdensome and shifting financial regulations as well as a financial transactions tax.[45] The corporate bond market was small and access to venture capital was limited.[46]

Domestic equity shares traded on a single stock exchange with a market capitalization of 59% of GDP in 2007.[47] Pension fund investments were limited and 44% of pension portfolios were in government bonds, higher than in Chile (7.8%). Assets of pension funds had increased to 18% of GDP (from 3% in 1995), but still lower than Chile's 52.8%.

Science, Technology and Innovation National expenditure in R&D accounted for 0.3% of GDP and the number of patents per 1,000 researchers was less than a tenth of Brazil's and Mexico's. Colombia ranked 76 out of 137 countries (13th among 23 Latin American economies) based on the World Bank Knowledge Economy Index. In 2008, a new national policy was launched to foster innovation, aiming to train Ph.D.'s, encourage R&D, promote constant technological updates within Colombian firms, and share knowledge among institutions.[48]

Trade and Competition The average tariff on Colombia's agricultural and non-agricultural imports was 16.6% and 11.8% respectively in 2007. In 2008, foreign portfolio investment was deregulated by eliminating the required minimum investment period of two years. Legal stability contracts were used to promote new foreign investments and to increase existing investments in Colombia. These contracts provided 20 year government guarantees to investors that investment rules would not be altered.

By mid-2008, the country had 10 FTZs distributed throughout the country, with a further 21 approved, and another 13 under study. Corporate tax rate within these zones was 15%. By 2008, FTZs attracted investments of US$1.9 billion and generated 131,000 new jobs.[49] However, one concern was the weak connections existing companies in FTZs had with outside local businesses and suppliers.[50] Corporate taxes for companies located outside Free Trade Zones (FTZs) were reduced to 33% in 2008 from 34% in 2007.

The time required to close a business was reduced significantly, with Colombia ranked 30th among 181 countries.[51]

Colombian Clusters

Industrial activity in Colombia was dominated by a few large private groups and numerous small and medium-sized enterprises. By 2007, the 50 largest Colombian companies accounted for 45% of aggregate profits, down from 76% in 2002.[52] The largest companies were concentrated in the oil and gas, telecommunications, retail, and mining industries.

Fifty-nine percent of Colombia's small businesses participated in the informal economy, higher than in Chile (32%), Brazil (53%) and Mexico (54%). A World Bank survey revealed that 57% of Colombian businesses that employed more than five workers competed with informal companies.[53]

Service related activities accounted for 55% of GDP, followed by manufacturing (15%), agribusiness (8%), and mining (5%). Leading agricultural clusters included coffee, flowers, bananas, sugar, and palm oil. The main non-agricultural clusters included oil, gas and petrochemicals, coal, automobiles and vehicle parts, tourism, emeralds and gold, and textile and apparel (see **Exhibit 7**). Construction, a major employer of unskilled labor, accounted for just over 5% of GDP. Financial services represented around 17% of GDP.

Coffee For many years, coffee generated the majority of Colombia's foreign income, and it had played a major role on employment, regional development, and social stability in coffee-growing areas.

In 2007, coffee exports generated $1.7 billion in revenues or 11.5% of the world's total[54] and accounted for 5.7% of Colombian exports. The industry directly employed about 800,000 people, representing nearly a third of total rural employment. About three million people were employed in the overall cluster (including production, harvesting, transformation, and marketing) located mainly in the Andean region. Almost 90% of the coffee producers were small farmers with less than three hectares and dependent upon family labor.

Colombia had developed the most comprehensive production, export and marketing system of any coffee producing country. The National Federation of Coffee Growers (Federacafe), a private non-profit organization, acted as an exporter and an intermediary between Colombian coffee growers and other independent exporters. In addition, Federacafe undertook scientific research, agricultural extension, diversification of coffee-related income and marketing campaigns for Colombian coffee (*100% Colombian Coffee, Juan Valdéz*). Since 1930, Federacafe had invested more than $2 billion in physical and social infrastructure in the areas where coffee was grown, and had been referred to as Colombia's "parallel government."

Flowers Colombia was the world´s second largest producer of cut flowers after the Netherlands, and the world's leading carnation exporter. About 12% of the Colombian exports were concentrated on one day, St. Valentine's, which had stimulated the development of an efficient logistical platform. Colombia's diversity of ecosystems and micro-climates offered ideal conditions for the 50 flower varieties that were exported, and proximity to the United States market by plane made it feasible to cut the flowers in Colombia in the morning and have them in Miami by lunch time. The United States, Canada and Puerto Rico accounted for 80% of the US$ 1.2 billion Colombian flower´s exports in 2007.

The Association of Colombian Flower Exporters (Asocolflores) was a non-profit association developed to promote Colombian flowers in international markets, perform scientific research, and improve environmental and social sustainability. Asocolflores encouraged diversification and promoted investments in airport infrastructure and logistics as well as opening a center for innovation (Ceniflores) in 2004, to support research, promote technological development, and enhance the competitiveness of Colombian floriculture.[55] By 2007, nearly 400 farms were dedicated to producing flowers, of which 90% were located in the Bogota Savannah near Eldorado International Airport. The cluster employed nearly 200,000 people, including 25% of all female rural employment.

Palm Oil Colombia was the world's fifth largest producer of palm oil and the largest on the American continent. The cluster employed 100,000 people. Colombia had higher production costs than its main competitors, Malaysia and Indonesia, mainly as a result of higher wages. However, Colombian production was considered more environmentally sustainable, with plantations in the Caribbean and Orinoquia regions not requiring forest conversion to palm oil production.

Under the coordination of Fedepalma, its institution for collaboration, the cluster had developed a shared vision to expand cultivated areas and increase value added through diversification into palm oil-derived products. Biodiesel production began in 2007 and was expected to meet the Colombian government's mandatory 5% blend with petrodiesel. The government had provided subsidized credit lines and direct investment subsidies.

Bananas Colombia was the world's fourth largest exporter of bananas, with a 10% world market share. Bananas accounted for 92% of the fresh fruit exported by Colombia. The main production was concentrated in the northwest part of the country. The cluster had been heavily affected by labor conflicts and constant guerrilla attacks. An alliance between Augura (an institution for collaboration), the government, the army, the church and the community had led the way for a recovery that had resulted in increased investment and exports.

Sugar Sugar accounted for 0.7% of Colombia's GDP and supported direct and indirect employment of 250,000 workers, located in the south-central part of Colombia in the Andean region. Even though Colombia had one of the highest agronomic yields in the world, the production cost remained 30% higher than in Brazil's (the lowest-cost producer country) due to the cost of irrigation. In addition to farmers and mills, the cluster included more than 40 companies producing sugar-based products, 11 alcohol and liquor producers, two energy plants, and several sucrochemical manufacturers. Asocaña (institute for collaboration), and its spinoff research institute (Cenicana), were credited with a positive impact on the cluster, including the creation of new plant varieties that increased yield from 8.3 tons of sugar per hectare in 1980 to 12.8 in 2007.[56]

As part of the diversification efforts, some sugar mills had converted a portion of their production into Ethanol with an annual production of 275 million liters, while some implemented energy generation projects equivalent to 120 MW using the residual biomass from sugar production.

Oil, Gas and Petrochemicals Colombia was the fourth largest petrochemical exporting country in Latin America, accounting for 25% of exports earnings and 3% of GDP in 2007.[57] The cluster employed more than 75,000 people. Oil and gas exploitation began in 1916 with a concession to ExxonMobil. Ecopetrol, the national petroleum company, took over management in 1951 when the rights expired.[58] Ecopetrol's regulatory functions were separated and moved to the National Hydrocarbon Agency in 2003. Ecopetrol went public in the second half of 2007 with 20% of the company's stock sold to more than 475,000 Colombians, and became the second Latin American petroleum company to trade on the NYSE after Brazil's Petrobras.[59]

By 2008, major multinationals like BP, ExxonMobil, Chevron, Petrobras, Drumond, BHP Billiton, Schlumberger, and Haliburton were actively operating in Colombia. The cluster included more than 1,200 Colombian firms providing equipment, maintenance, pipes, transportation, oilfield engineering and supporting services and 30 specialized institutions including universities, research centers, petroleum engineering councils and business associations. Acoplasticos, the main institution for collaboration, worked with the government to increase cluster's competitiveness. Local business management expertise was a major concern with 80% of the local firms having less than 10 employees, and half of firms less than six years old.[60] The cluster experienced a shortage of skilled labor as multinationals recruited local talent for their foreign operations, and local universities and training centers failed to meet the demand for skilled workers.

Coal Colombia was the world's fifth largest exporter of coal. Coal was the second largest export of Colombia after petroleum (0.7% of GDP), the majority passing through the Caribbean Sea to European markets. The cluster employed more than 20,000 people. Colombian coal burned relatively clean, meeting worldwide sulfur regulations[61] and was ideal for use in steam generators. However, export growth was constrained by the lack of adequate port infrastructure and an environmentally safe railroad. Exploration and development was led by multinational companies such as Drummond and Glencore International,[62] with production concentrated in the Caribbean region.

Automobiles and Vehicle Parts Colombia had three carmakers: Sofasa, a subsidiary of Renault established in 1969; Compañia Colombiana Automotriz, a subsidiary of Ford established in the early 1960s; and Colmotores, a subsidiary of GM established in 1956. In motorcycles, the Colombian market was dominated by a subsidiary of Suzuki (Japan) established in 1982, and Auteco, a national manufacturer of Kawasaki bikes. Hino, a Japanese truck manufacturer, produced 8,000 trucks for export to Peru, Ecuador, and Central-America. Colombia's vehicle and parts cluster employed more than 20,000 people[63] and accounted for 0.5% of GDP in 2007. Colombia exported $1.3 billion in automobiles, motorcycles, and vehicle parts, mainly to neighboring countries.

Textile and Apparel The textile and apparel cluster, with a legacy of more than 100 years, accounted for 1.6% of national GDP, generating more than 600,000 direct and indirect jobs, and exporting $1,957 million in 2007.[64] Production had grown by 47% between 2002 and 2006. Colombia had become one of the main fashion centers in Latin America, featuring trade shows which brought together companies from several countries. Most companies were vertically integrated and located in Antioquia and Bogota.

Tourism Colombia offered a variety of inland and coastal tourist sites, including seven UNESCO World Heritage sites. Tourism was Colombia's third largest foreign currency earner with $2.3 billion in 2008 (excluding remittances). Tourist volume had increased as security improved and about three million foreign tourists spent an average of $950 per visit in 2007.[65] Twenty-two percent of all tourists arrived from the United States and 16.5% from Venezuela. Colombia had started a country image campaign (*Colombia is Passion*) in 2005 to diminish negative perceptions and to reduce travel warnings issued by foreign governments.

Colombian Regions and Departments

Colombia was divided into 32 departments (or provinces) that made up six distinct regional areas within the country: Andean; Caribbean; Pacific; Orinoquia; Amazon; and Insular. The level of economic development varied widely across Colombia's departments (see **Exhibit 8**). Income per capita in Bogota was four times that of departments such as Chocó and Putumayo. Colombia's four main metropolitan areas accounted for nearly 70% of the manufacturing firms in the country.[66] Provinces that were depressed economically often suffered from physical and social infrastructure deficiencies, strong guerrilla presence, and high concentration of illicit drug production.

Andean This region included 15 provinces and had the highest concentration of population and economic activity. The province of Cundinamarca alone, including Bogotá, generated 27.5% of national GDP, and accounted for 88% of Colombia's flower production. Responsible for 15% of national GDP, Antioquia was Colombia's largest producer of energy, bananas and gold. Medellin, the capital of Antioquia, had a population of two million inhabitants and was an important industrial and production center. The three provinces of Risaralda, Caldas and Quindío were known as historical centers of coffee cultivation, and accounted for 6% of Colombia's population. Due to their economic, historical, and entertainment attractions including several theme parks, these departments were a destination for many local and foreign tourists. Their capital cities, Pereira, Manizales and Armenia, had populations of more than 450,000 inhabitants. The provinces of Santander and Norte de Santander generated 8% of country's total GDP, while their capital cities, Bucaramanga (pop. 565,000) and Cucuta (pop. 720,000), were important industrial development centers. Barrancabermeja, Santander's second largest city, was the center of Colombia's oil and gas cluster.

Caribbean This region included the provinces of Guajira, Atlántico, Magdalena, Sucre, and Córdoba, and part of Bolivar and Cesar. It was characterized by lowlands along the Caribbean coast, and flat plains formed by the deposition of sediments carried down by the Cauca and Magdalena rivers. First settled by Europeans, the Caribbean region was home to the historic port cities of Santa Marta and Cartagena. This region also included the Sierra Nevada de Santa Marta mountain range and the Guajira Desert where the coal cluster was centered. The provinces of Atlántico and Bolivar generated 4.5% and 3.8% of national GDP, and their capitals, Barranquilla and Cartagena, were busy sea ports. Barranquilla (pop. 1.4 million) had a large industrial base with an important logistics cluster, while Cartagena (pop. 1 million), with its well-preserved colonial architecture, was Colombia's main tourist destination and a UNESCO World Heritage City.

Pacific This region was located on Colombia's Pacific coast and included the province of Chocó and parts of Valle del Cauca, Cauca and Nariño. Distinguished by high humidity and precipitation, the population was mainly Afro-Colombian (including several indigenous settlements). The economy was based on mining, timber, fishing, and agriculture. The province of Valle del Cauca generated 11.5% of the country's GDP and its capital, Cali, was the third largest city in Colombia, with 2.3 million inhabitants. The sugar cluster was one of the province's main economic activities and other regional clusters included printing and publishing, and pharmaceutics. Buenaventura, Colombia's most important port, was located on the Pacific coast and handled almost 50% of Colombia's international trade.

Amazon and Orinoquia Despite being rich in natural resources and biodiversity, these two regions generated only 7% of Colombia's GDP and were less densely populated (3 million total). The main economic activities were livestock, forestry, agriculture (palm oil), and oil exploitation.

Organizing for Competitiveness

Beginning in the early 1990s, Colombia's government began to reorganize itself to improve competitiveness. In 1992, the Gaviria's administration created the Ministry of Foreign Trade to initiate an economic modernization process and coordinate competitiveness policy. The same year an international consulting firm recommended nine strategic actions for Colombia: (1) create centers for innovation; (2) promote cluster initiatives; (3) improve the quality and mix of the local demand; (4) formalize strategy in education; (5) restructure business education; (6) enhance specialized training programs; (7) develop an economic press and media; (8) sell the image of Colombia; and (9) create a National Council of Competitiveness. Few of the recommendations of the study were implemented by the Gaviria government.

In 1995, the Samper government created the National Council of Competitiveness under the direction of the Ministry of Economic Development. Comprised of a majority of public sector representatives, the council reported directly to the President. Among the council's initiatives was to bring together the institution for collaboration and key companies of each sector to sign collaboration agreements for industry-specific initiatives to increase competitiveness. Under these, the private sector took some steps to collaborate and integrate supply chains, but the ending of government subsidies led many competitiveness agreements to lapse.

Pastrana's administration focused on trade policy to increase and diversify Colombian exports as the primary driver of economic growth in its 1998 National Development Plan. The Ministry of Foreign Trade was assigned to attract FDI and lead competitiveness policy. The Pastrana government eliminated the National Council of Competitiveness and moved its functions to the Foreign Trade Commission within the Ministry of Foreign Trade. A ten-year Strategic Export Plan was designed, and a network structure (*Colombia Compite*) was created to promote public-private dialogue to identify concrete actions to improve productivity. Meetings were organized by the government every six months to make this dialogue operational.[67] While there was some improvement in coordination and more private initiatives, exports grew only 10% between 1998 and 2002.

Government Organization in 2002

The Colombian government had been traditionally organized around broad economic sectors (i.e., agricultural, energy) and functions (i.e., education, infrastructure, science & technology). **Exhibit 9** shows the organization of the central government in 2002. There were 16 ministries, six administrative departments, four high presidential advisors, and five special programs that spanned a number of ministries, all of them under the direct supervision of the president. Some cross-ministerial councils coordinated policy making and implementation. The National Planning Department (DNP) was the executive agency in charge of recommending and promoting economic policy in Colombia. There were other public institutions that covered specific areas under the direction of each ministry and department. In total, there were more than 200 public institutions that belonged to the national government. During Uribe's term, 181 public institutions would be restructured, 44 eliminated, and 14 newly created.

The National Economic and Social Policy Council (CONPES), created in 1958, was the highest national planning authority in 2002. Headed by the president and including nine ministers, the president of the Central Bank, the chairman of the National Federation of Coffee Growers, and two presidential advisors, CONPES approved policy documents prepared by the DNP.

The private sector principally influenced public policy through lobbying efforts by industry associations. Colombia had a rich variety of such organizations including 38 active associations representing agriculture alone.[68] While initially concentrating on seeking government protection and subsidies, some associations had begun efforts to enhance the competitiveness of their members.

In 2002, President Uribe merged the Ministry of Economic Development and the Ministry of Foreign Trade into the Ministry of Trade, Industry and Tourism (MCIT), which was responsible for defining and coordinating competitiveness policy, including foreign trade, foreign investment, and tourism. In practice, the coordination of the competitiveness agenda occurred in the DNP. The *Colombia Compite* network was abandoned.

The MCIT could convene the Higher Council of Foreign Trade, which advised the Government on matters relating to foreign policy. This council included the president, seven ministers, the director of DNP and the general manager of the Central Bank. The private sector participated in trade policy formulation through the Joint Committee on Foreign Trade, which included the Higher Council of Foreign Trade and representatives of the main trade associations. As part of the MCIT there were 10 public entities with a diverse range of objectives including the national artisans institute (*Artesanias de Colombia*), the National Trade Bank (*Bancoldex*), and *Proexport*, an economic development agency that promoted exports and foreign investment. The Foreign Direct Investment Council, with members from the private sector and academia, advised *Proexport* on FDI policy, and the Free Trade Zones Commission approved new FTZ proposed by the private sector.

Creating the National System for Competitiveness

As Colombia negotiated a free trade agreement with the United States in 2004, the private sector asked the government to implement a competitiveness plan. The resulting plan (*Internal Agenda for Productivity and Competitiveness)* was developed after multiple meetings with businesses, industry associations, and national- and departmental NGOs between 2004 and 2006 to help Colombia compete in a post-FTA world. This planning exercise was coordinated by the National Planning Department. At the same time, DNP worked on Plan 2019, which proposed a medium- and long-term "vision" for the country, to commemorate 200 years of independence. This initiative created some confusion with the Internal Agenda.

Concerned by the lack of continuity and progress in past competitiveness initiatives, private sector leaders became increasingly engaged in the competitiveness agenda. With pressure and support from the private sector, President Uribe created a new "National System for Competitiveness (NSC)" in 2006 (see **Exhibit 10**). The NSC was centered in a National Commission on Competitiveness, which was headed by the president. Its membership consisted of eight ministers, four high-level public officials, and 11 representatives from the private sector, labor unions, academia and other institutions**.** It acted as an advisory group that made recommendations on competitiveness policy and monitored implementation. The *Presidential Office for Competitiveness and Productivity,* directed by the Presidential Chief Advisor on Competitiveness, was responsible for coordinating government competitiveness programs and interfacing with the Commission. DNP coordinated the technical support to the NSC and presented the competitiveness program to CONPES for approval.

The NSC concept also included the creation of competitiveness organizations at the departmental level. Since 2007, 30 regional councils had been created, each with its own organizational structure and composition, and in some departments with heavy private sector representation. The Competitiveness Initiative of Santander, for example, was a lean organization consisting of top regional private sector CEOs. Under the leadership of Martha Pinto de Hart, former minister of communications, it played an important role in generating a regional action plan (see **Exhibit 10b**). The Ministry of Trade, Industry and Tourism revived *Colombia Compite* and proposed an open annual private-public competitiveness forum.

In 2007, private sector leaders decided to create the *Private Council on Competitiveness* (PCC) to develop a unified set of private sector recommendations and lead a more effective dialogue with government. PCC membership consisted of 32 CEOs of important companies, four university presidents, and four directors of important Colombian institutions for collaboration. Hernando Jose Gomez, former chief negotiator of Colombia-US FTA, was appointed as the first chairman of the PCC. Five members of the PCC were also members of the National Commission on Competitiveness. The PCC, the National Planning Department, the MCIT, and the *Presidential Office for Competitiveness and Productivity* became the joint executive secretariat of the NSC (see **Exhibit 10**).

The Private Council on Competitiveness became one of the driving forces behind the NSC. The PCC completed an annual competitiveness report, the first step to monitoring national policy on competitiveness. It also evaluated the competitiveness of Colombian departments and proposed ways in which public policies and investments could promote departmental convergence.

Over time, participation in NSC varied. As Hernando Jose Gomez explained, "The National Commission on Competitiveness has worked well between the government and the private sector…but, the rest of actors, such as the representatives from academia, workers and regions, do not yet have a clear role within the system."[69]

To improve the operation of the NSC, an Executive Committee was created with four members: the Director of the DNP; the Minister of Trade, Industry and Tourism; the Presidential Chief Advisor on Competitiveness; and the Director of the Private Council on Competitiveness. The Executive Committee could make decisions between formal meetings. An Operational Committee of vice-ministers was also created for better coordination of the different government agencies.

A New Economic Plan for Colombia

In June 2008, the PCC, working together with the DNP, the Ministry of Trade, Industry and Tourism, and the *Presidential Office for Competitiveness and Productivity*, produced the National Competitiveness Policy, a policy document which was approved by CONPES. It set high aspirations:

> In 2032, Colombia will be one of the top three most competitive countries in Latin America, and will have an income level per capita equivalent to one of a medium-high income country, through an export economy of goods and services of high value and innovation, with a business environment that fosters domestic and foreign investment, achieving regional convergence, and improving the opportunity of formal employment, increasing quality of life and reducing poverty levels.[70]

The strategy itself involved efforts in 14 policy areas: building world class sectors; productivity improvement; business and labor formalization; science, technology and innovation; education and labor skills; infrastructure and logistics; provision of financial services; agricultural sector competitiveness; infrastructure for mines and energy; environmental sustainability for competitiveness; tax simplification; information technologies; contract enforcement; and strengthening the National System for Competitiveness (see **Exhibit 11**).

The strategy to build "world-class" sectors sought to develop selected export clusters with potential. These were clusters in the tourism, apparel and textiles, BOP services, auto parts, energy and related services, communication, and cosmetics industries. This approach had generated debate about the role of government and the neutrality of public policy and investment.

Another area of the strategy was to upgrade and enhance those existing clusters in which Colombia had lagging productivity to become world class competitors. The strategy sought to close the gap by facilitating industry collaboration and product innovation.

The strategy also sought to make the business environment more competitive, promote rivalry, attract foreign investment, consolidate free trade agreements, and build public-private partnerships.

To enhance business formalization, the strategy sought to simplify legal requirements and control informality. To address labor informality, labor market information and strengthening the rights of workers were recommended. The strategy also recommended fostering entrepreneurship by simplifying the number of steps required for business creation in order to promote labor formality.

For the science, technology and innovation sector, the strategy called for restructuring the current National System of Science and Technology using improved institutions to allocate financial resources for research and innovation activities. It also proposed to strengthen the research capability of public and private research centers and universities, and provided funding to the private sector for technology appropriation and innovation.

One of the most ambitious policy areas in the strategy was related to education and labor skills. The plan proposed to launch a new education and training model for Colombia that responded to the needs of the private sector. It also proposed to strengthen the technical education system and consolidate the Public Employment Service and Labor Observatory in order to analyze the labor market and make it more efficient. In addition, improving the language skills of the population was a goal.

In transportation and logistics, the strategy aimed to attract private investment to finance infrastructure projects and optimize public funds to maximize their impact. It also proposed the development of strategic infrastructure corridors for trade that included multi-modal transportation solutions.

In the financial sector, the strategy called for improving access to financial services, particularly by SMEs. Regulatory instruments were proposed to facilitate the use of the capital market by domestic and foreign companies and to incentivize the development of private equity and venture capital funds. It also proposed increased regulation of the derivatives market.

Two priority sectors were identified in the strategy: mining and energy, and agriculture. For the mining and energy sector, increasing the number of energy sources, making the mining process environmentally safe, and setting competitive prices for both domestic and international markets, were emphasized. For the agricultural sector, the strategy called for increased penetration into international markets. Its main goals included improving productivity at the farm level and the efficiency of marketing systems.

The strategy also included other policy areas such as environmental sustainability; the use of information and communication technologies; and the simplification of the tax system. Finally, contract enforcement improvement was considered a strategic priority to improve Colombia's ranking in the World Bank *Doing Business* report.

The competitiveness strategy itself described numerous specific activities that were to be undertaken by the government across the 14 policy areas. The activities, organized into "product areas," described a range of government actions that were seen as integral to the implementation process. The World Class Sector Strategy, for example, contained 19 product areas and 60 diverse activities (see **Exhibit 12**). Critics of the National Competitiveness Policy wondered if it articulated a clear overall strategy for Colombia, and whether it had simply borrowed past government initiatives that had not yet been implemented.

Next Steps

In December 2008, motivated by the economic crisis, and six months after the National Competitiveness Policy was approved, the PCC put forward specific recommendations to President Uribe to address 10 critical areas for competitiveness and practical advice for their implementation. Some were similar to those made a year earlier, which had not yet been acted upon by the government. Hernando Jose Gomez explained: "…some recommendations made by the PCC were not implemented because of budget restrictions…some ministries supported enthusiastically the proposed policy changes, while others only did so based on direct orders by the president."[71]

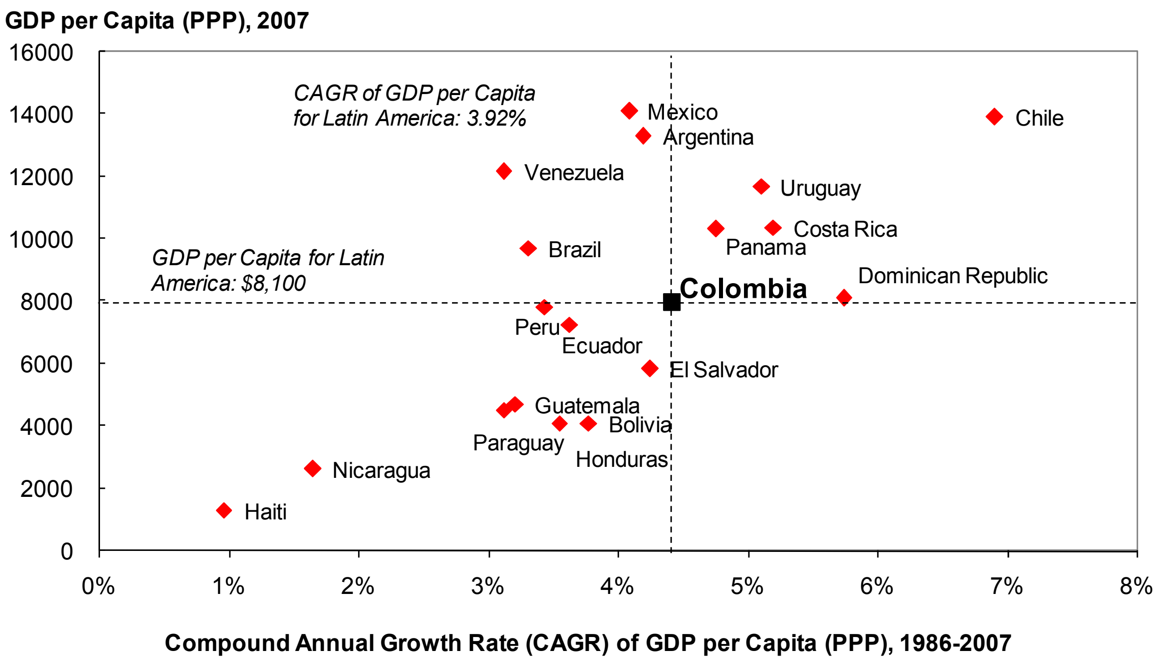
At the same time, some subnational initiatives were losing steam, a potential sign of "competitiveness fatigue." Business leaders had found it difficult to point to specific improvements resulting from competitiveness initiatives, and were concerned about additional layers of bureaucracy in the Regional Competitiveness Councils[72] Leaders of the NSC had to demonstrate to fellow citizens that this time was different.

As the 2010 presidential cycle started to heat up, debate about the National Competitiveness Policy continued. Would it prove effective in moving Colombia to a middle income country?

Exhibit 1 Map of Colombia

Source: Adapted from the Economist Intelligence Unit – Colombia Country Profile 2007.

Exhibit 2 Colombia's Overall Economic Performance versus Latin American Countries, 1986-2007



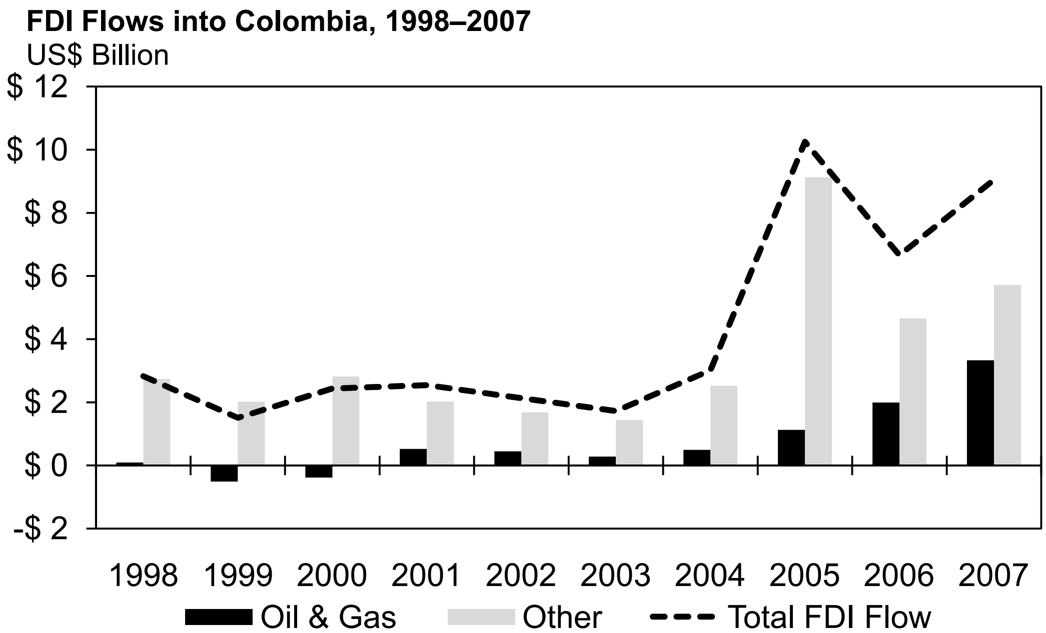
Source: Compiled by casewriters from the International Monetary Fund, World Economic Outlook Database, October 2008.

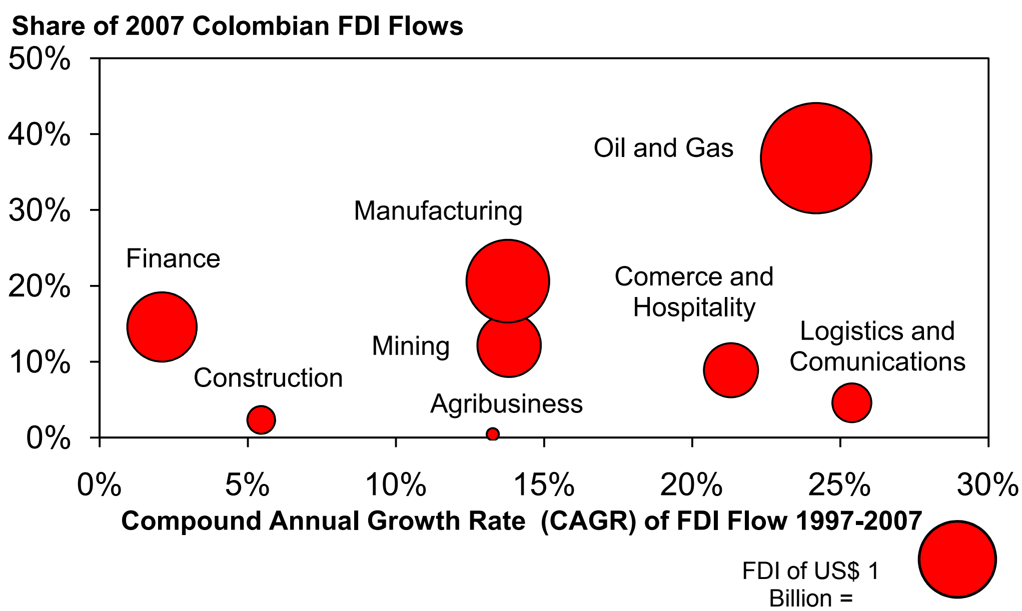
Exhibit 3 Basic Economic Indicators, Selected Latin American countries

Indicator	Year	Colombia	Brazil	Peru	Chile	Costa Rica
Population						
Population, total (million)	2007	46.1	191.6	27.9	16.6	4.5
Population growth (annual %)	2007	1.2	1.2	1.1	1.0	1.4
Urban population (% of total)	2007	74.2	85.1	71.3	88.2	62.7
Death rate (deaths per 1,000 population)	2006	5.5	6.3	6.1	5.3	4.0
Health and Education						
Life expectancy at birth, total (years)	2006	72.6	72.1	71.1	78.3	78.7
Mortality rate, infant (per 1,000 live births)	2006	16.6	18.6	21.2	8.1	10.7
Health expenditure, total (% of GDP)	2005	7.3	7.9	4.3	5.4	7.1
Health expenditure, per capita (current $)	2005	201	371	125	396	327
Public spending on education, total (% of GDP)	2006	4.7	N/A	2.5	3.2	4.7
Overall Economic Indicators						
GDP (current $b)	2007	172.0	1,314.2	109.1	163.9	25.2
Average GDP Growth Rate (last 5 years, %)	2007	5.9	3.8	6.5	5.0	6.5
Average GDP Growth Rate (last 10 years, %)	2007	3.3	2.8	4.1	3.8	5.5
Average GDP Growth Rate (last 20 years, %)	2007	3.7	2.4	2.5	5.9	5.1
GDP, PPP (current international $b)	2007	320.9	1,833.6	218.8	230.4	47.5
GDP per capita, PPP (current international $)	2007	6,958.0	9,569.9	7,842.0	13,885.4	10,638.4
GDP per capita growth (annual %)	2007	6.2	4.2	7.8	4.1	4.8
Inflation, consumer prices (annual %)	2007	5.7	3.6	1.8	4.4	9.4
External debt, total (DOD, current $b)	2006	39.7	194.1	28.2	48.0	6.8
External debt, total (% of GNI)	2006	26.9	18.7	33.3	37.9	31.9
Military expenditure (% of GDP)	2007	3.8	1.6	1.1	3.4	N/A
Trade and Investment Flows						
Exports of goods and services (current $b)	2007	33.4	168.9	29.9	78.0	12.8
Exports of goods and services (% of GDP)	2007	19.4	12.9	27.4	47.6	50.9
Exports of goods and services (annual % growth)	2007	1.4	3.5	6.4	9.9	13.2
Imports of goods and services (current $ b)	2007	35.2	140.2	21.3	55.1	14.5
Imports of goods and services (% of GDP)	2007	20.5	10.7	19.5	33.6	57.6
Imports of goods and services (annual % growth)	2007	15.4	13.2	13.2	14.3	13.9
Net trade goods and services (current $b)	2007	-3.2	26.7	N/A	22.5	-1.3
Current account balance (% of GDP)	2007	-3.4	0.1	N/A	4.4	-5.9
FDI, net inflows (current $b)	2006	6.5	18.8	3.5	8.0	1.5
FDI, net inflows (% of GDP)	2006	4.8	1.8	3.7	5.4	6.6
GDP Structure (% of GDP)						
Agriculture, value added (% of GDP)	2006	12.0	5.1	6.8	4.1	8.8
Industry, value added (% of GDP)	2006	35.7	30.9	37.5	47.7	29.4
Services, etc., value added (% of GDP)	2006	52.3	64.0	55.7	48.2	61.8
Information Technology						
International Internet bandwidth (bits per person)	2005	495.6	149.9	366.6	779.6	241.3
Internet users (per 100 people)	2007	26.2	26.1	27.4	33.6	33.6
Broadband subscribers (per 100 people)	2007	2.6	4.2	2.0	7.2	2.9
Personal computers (per 100 people)	2005	4.2	16.1	10.3	14.1	23.1
Telephone mainlines (per 100 people)	2007	17.2	20.6	9.6	20.4	32.2
Mobile phone subscribers (per 100 people)	2007	73.6	63.1	55.3	84.1	33.8
Population covered by mobile telephony (%)	2006	83.0	89.4	87.0	100.0	87.0
Financial Markets						
Credit to private sector (% of GDP)	2007	39.6	49.8	20.7	88.8	45.9
Domestic credit provided by banking sector (% GDP)	2007	50.2	95.9	15.9	90.3	48.4
Market capitalization of listed companies (% of GDP)	2007	59.3	104.3	97.1	129.9	8.1

Sources: Compiled by casewriters from World Development Indicators (2008) and International Monetary Fund, World Economic Outlook Database, October 2008.

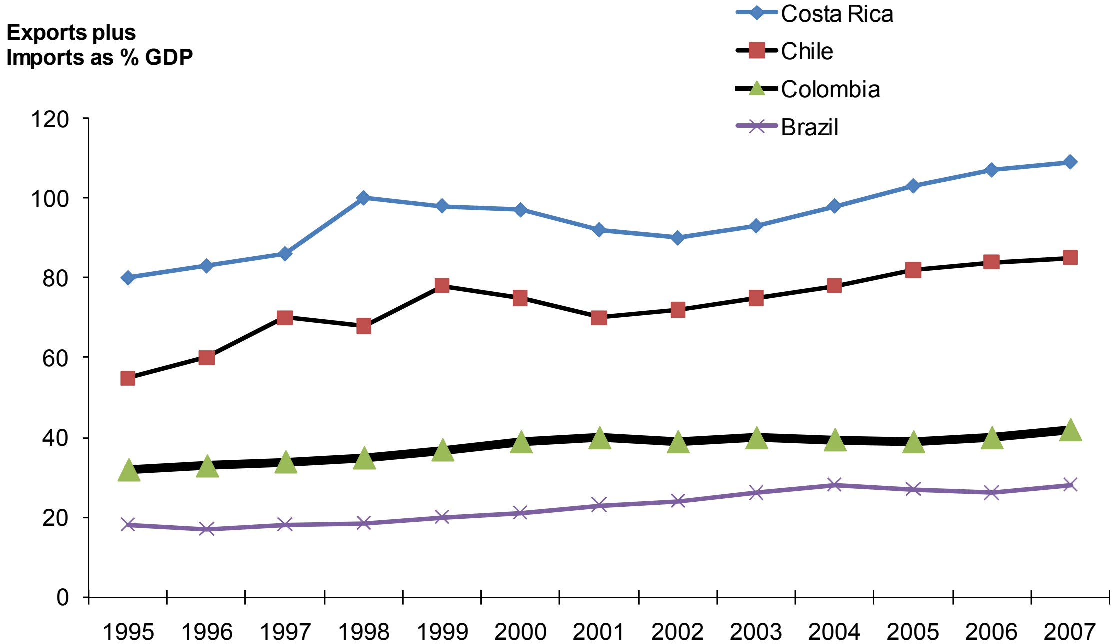
Exhibit 4 Colombian Foreign Direct Investment Flows





Source: Compiled by casewriters from Central Bank of Colombia (Banco de la República de Colombia) data.

Exhibit 5 Trade Intensity, Selected Latin American Countries



Source: Compiled by casewriters from WTO (2007) data.

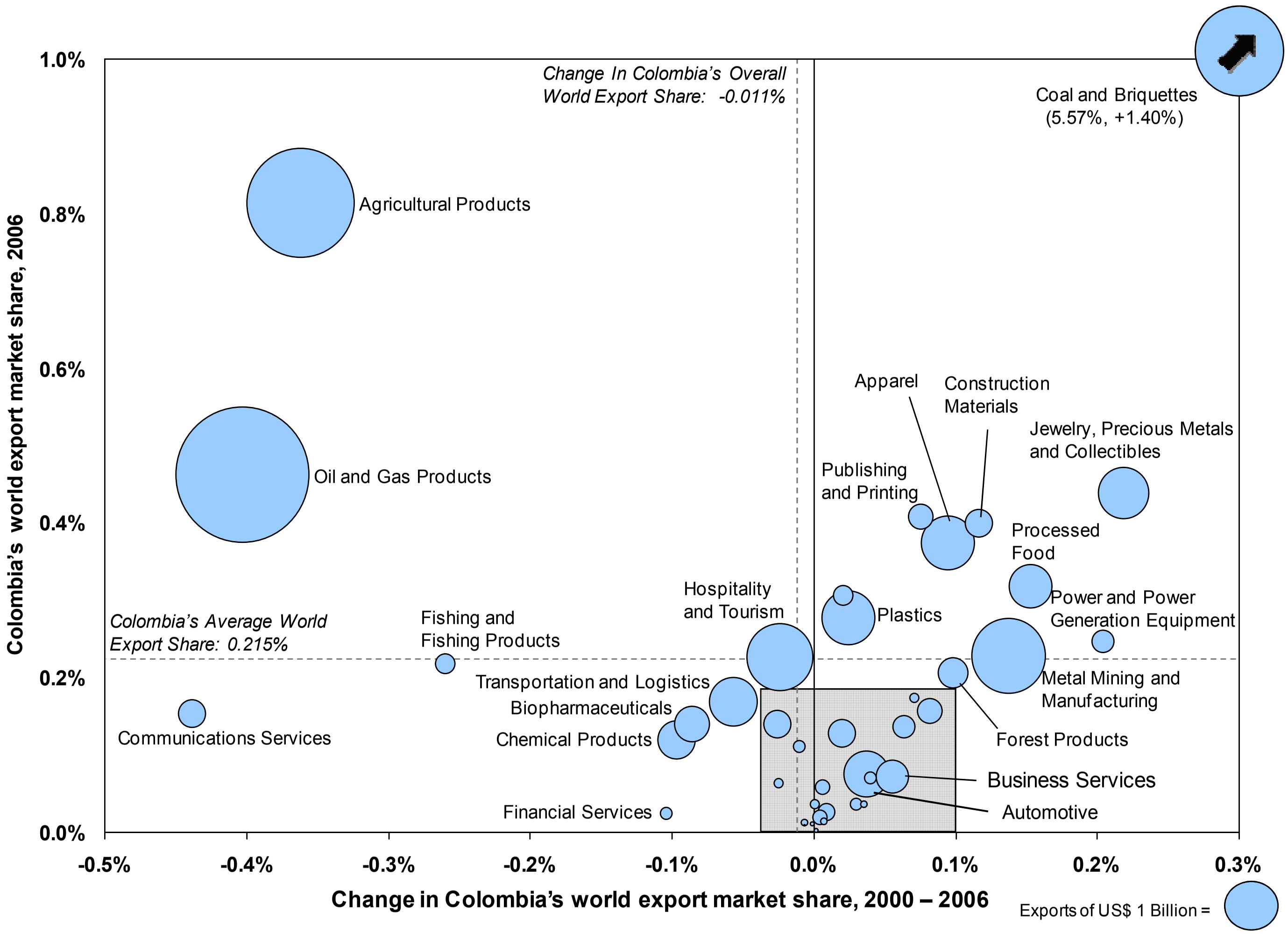
Exhibit 6 Competitiveness Indicators, Colombia's Ranking among 137 Countries, versus Selected Latin American Countries

	Colombia	Brazil	Peru	Chile	Costa Rica
NATIONAL BUSINESS ENVIRONMENT	**61**	**51**	**79**	**30**	**50**
FACTOR (INPUT) CONDITIONS	**75**	**68**	**89**	**35**	**58**
Logistical infrastructure	77	86	106	32	84
Communications infrastructure	68	56	78	44	73
Administrative infrastructure	114	132	106	34	101
Capital market infrastructure	67	41	49	29	61
Financial market sophistication	66	11	44	22	69
Soundness of banks	83	12	40	15	43
Venture capital availability	68	60	49	34	71
Innovation infrastructure	69	61	112	45	32
Quality of scientific research institutions	66	45	126	70	37
Availability of scientists and engineers	80	50	100	45	49
Tertiary enrollment	68	75	58	41	78
Utility patents per million population	112	75	105	42	58
DEMAND CONDITIONS	**49**	**48**	**89**	**34**	**39**
Buyer sophistication	59	65	54	26	37
Presence of demanding regulatory standards	62	36	73	37	46
Stringency of environmental regulations	67	30	92	31	25
RELATED AND SUPPORTING INDUSTRIES AND CLUSTERS	**50**	**34**	**73**	**45**	**59**
State of cluster development	54	43	67	49	70
Extent of collaboration in clusters	51	53	81	60	65
CONTEXT FOR STRATEGY AND RIVALRY	**81**	**65**	**51**	**20**	**46**
Cooperation in labor-employer relations	51	73	74	66	8
Pay and productivity	109	39	95	28	42
FDI and technology transfer	93	33	37	19	8
Impact of taxation on incentives to work and invest	102	134	58	59	47
Intellectual property protection	73	78	122	77	71
Prevalence of trade barriers	110	102	49	4	88
Intensity of local competition	70	44	48	26	41
Extent of market dominance (by business groups)	89	27	73	48	23
Strength of investor protection	19	50	15	26	118
Rigidity of employment	40	93	112	32	54
Regulatory quality	63	74	66	19	51
Tariff rate	97	103	80	33	72

Note: Ranking versus 134 Countries (lower rank is better).

Source: Compiled by casewriters from the *Global Competitiveness Report 2008-2009*: Business Competitiveness Index, World Economic Forum.

Exhibit 7 Cluster composition of exports, Colombia, 1998–2006



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOD Statistics (2009).

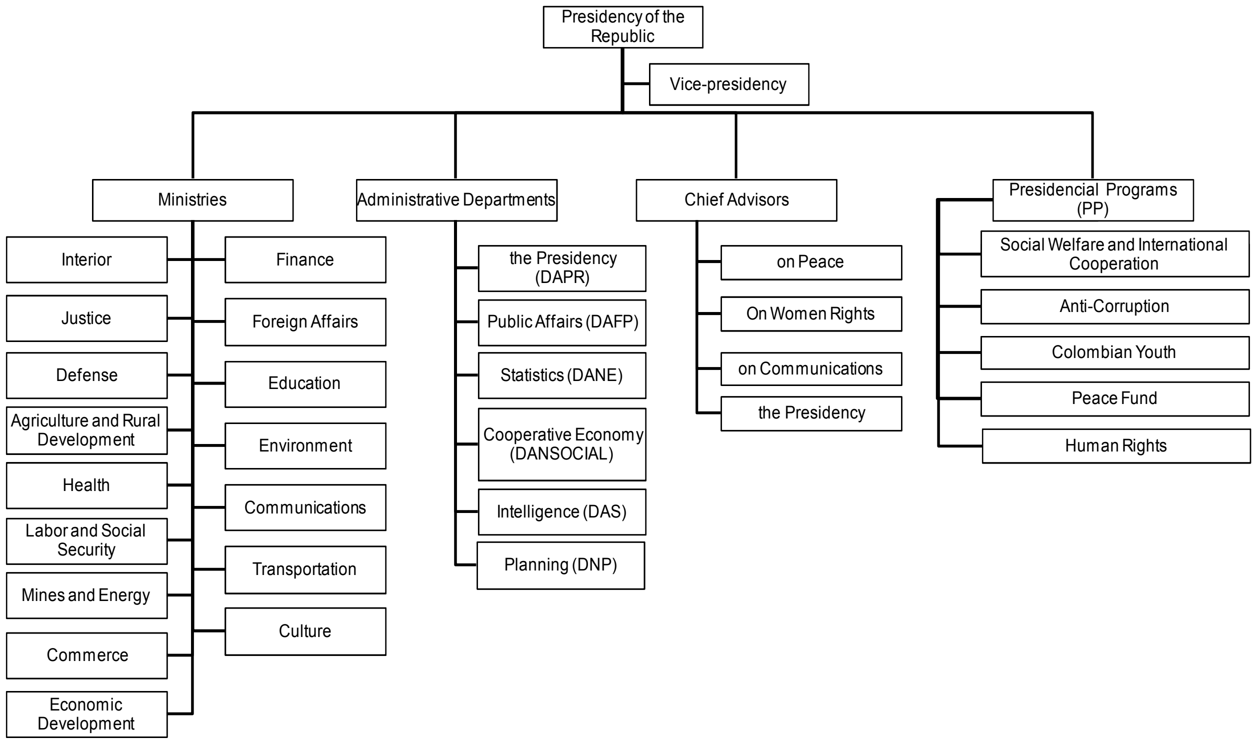
Exhibit 8 Economic Performance of Colombian Departments

Department	GDP per capita US$ (2006)	Exports per Capita US$ (2006)	Business Formality (2005)	Public Finance Index (ECLAC 2004)	Infrastructure Index (ECLAC 2004)	Human Development Index (ECLAC 2004)
Bogotá D. C.	5,812	252	58%	100.0	100.0	100.0
Santander	5,407	158	40%	51.8	72.4	53.4
Antioquia	4,063	495	44%	97.2	82.4	55.5
Valle	4,043	388	49%	17.0	86.5	47.7
Cundinamarca	3,660	696	34%	60.6	100.0	100.0
Boyacá	3,421	64	29%	83.9	49.4	46.3
Risaralda	3,153	402	47%	75.1	79.2	44.7
Caldas	2,956	473	39%	54.5	79.6	29.9
Huila	2,841	159	24%	55.9	60.5	35.7
Tolima	2,545	118	28%	45.4	66.5	23.4
Quindío	2,466	252	37%	62.1	86.4	41.4
Cauca	2,057	134	19%	55.5	39.4	21.2
Norte Santander	2,044	67	28%	64.6	55.1	10.7
Nariño	1,814	56	15%	81.7	46.9	10.9
Cesar	3,229	176	25%	76.1	50.9	9.8
Bolivar	3,150	543	26%	62.2	47.3	21.1
Atlantico	3,011	294	39%	77.6	81.8	29.6
La Guajira	2,749	6	18%	45.1	42.5	17.2
Cordoba	2,431	3	19%	86.0	43.7	5.2
Magdalena	1,893	210	25%	74.3	44.4	1.2
Sucre	1,551	32	17%	74.5	43.4	8.0
Pacific Region						
Choco	1,261	2	25%	0	0	0
Orinoquia Region						
Casanare	17,152	1	28%	N.A.	N.A.	N.A.
Arauca	5,365	50	19%	N.A.	N.A.	N.A.
Meta	3,910	2	42%	69,6	43,5	42,4
Vichada	3,085	2	8%	N.A.	N.A.	N.A.
Amazon Region						
Amazonas	1,854	9	20%	N.A.	N.A.	N.A.
Caqueta	1,701	0	19%	N.A.	N.A.	N.A.
Guania	1,620	1	10%	N.A.	N.A.	N.A.
Guaviare	1,595	N.A.	15%	N.A.	N.A.	N.A.
Putumayo	1,413	0	14%	N.A.	N.A.	N.A.
Vaupés	1,204	0	2%	N.A.	N.A.	N.A.
Insular Region						
San Andres y Providencia	4,118	125	47%	N.A.	N.A.	N.A.

Note: Public Finance Index based on local government debt, debt coverage, transfers from central government, local government investment and savings. Infrastructure Index based on utilities, transport and communications infrastructure. Human Capital Index based on education and health systems.

Source: Casewriters based on data from the Economic Commission for Latin America and the Caribbean (2007).

Exhibit 9 Organization of the Colombian Government, Executive Branch, 2002



Source: Casewriters.

Exhibit 10 Structure of Colombia's National System for Competitiveness, 2008

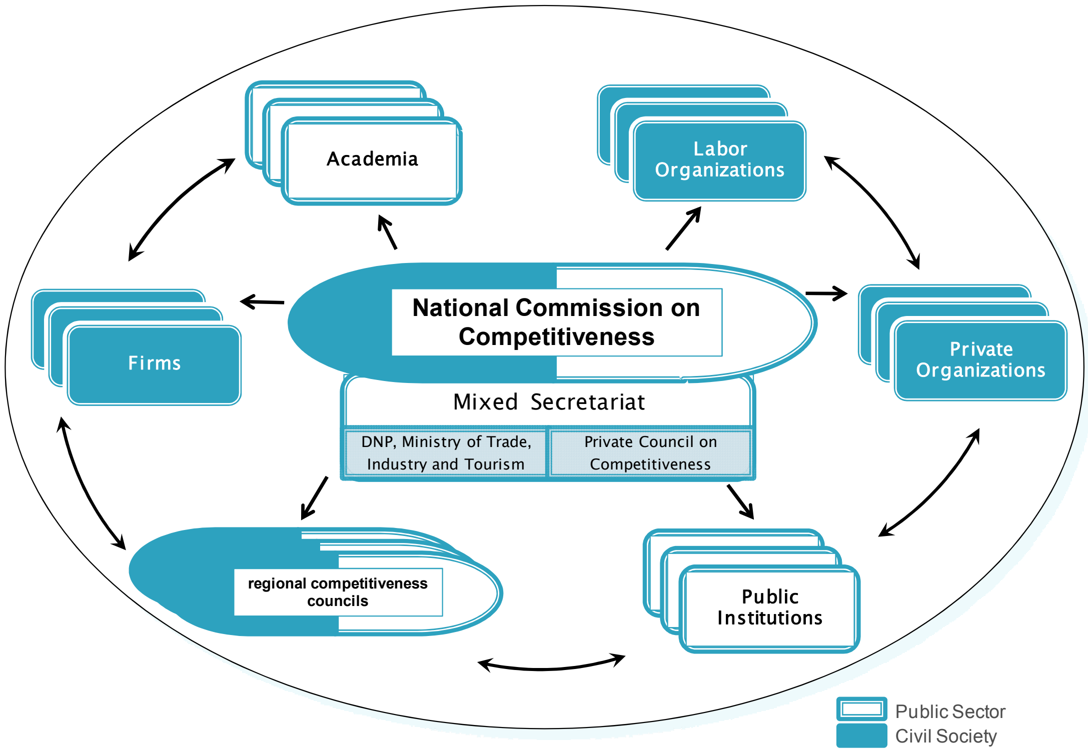
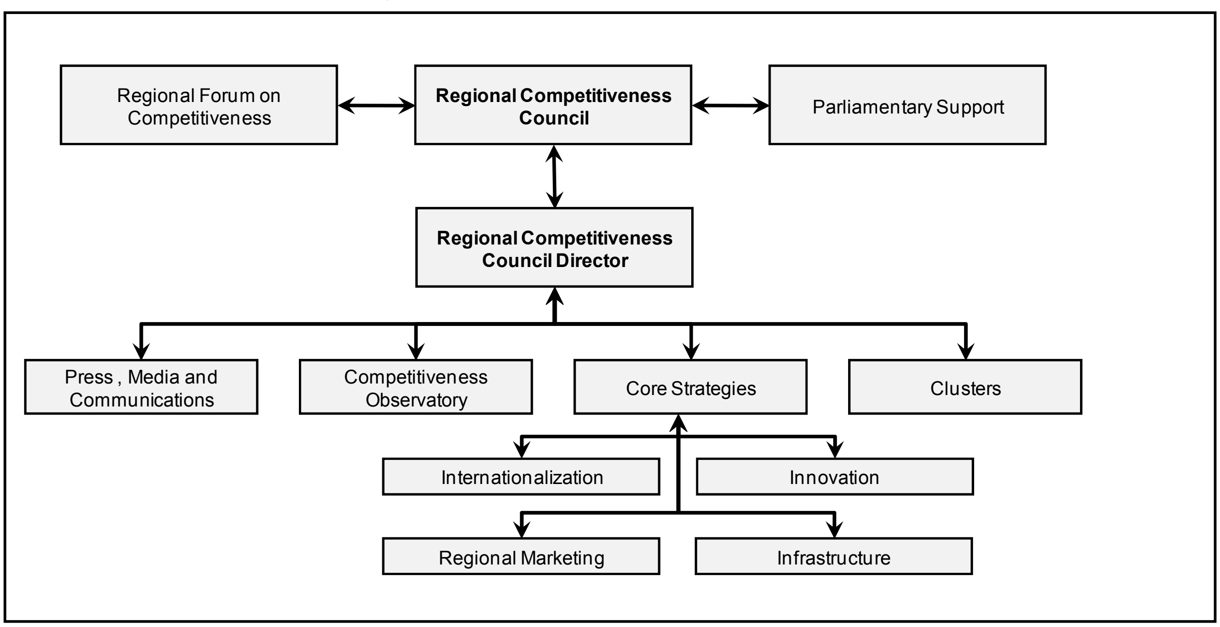
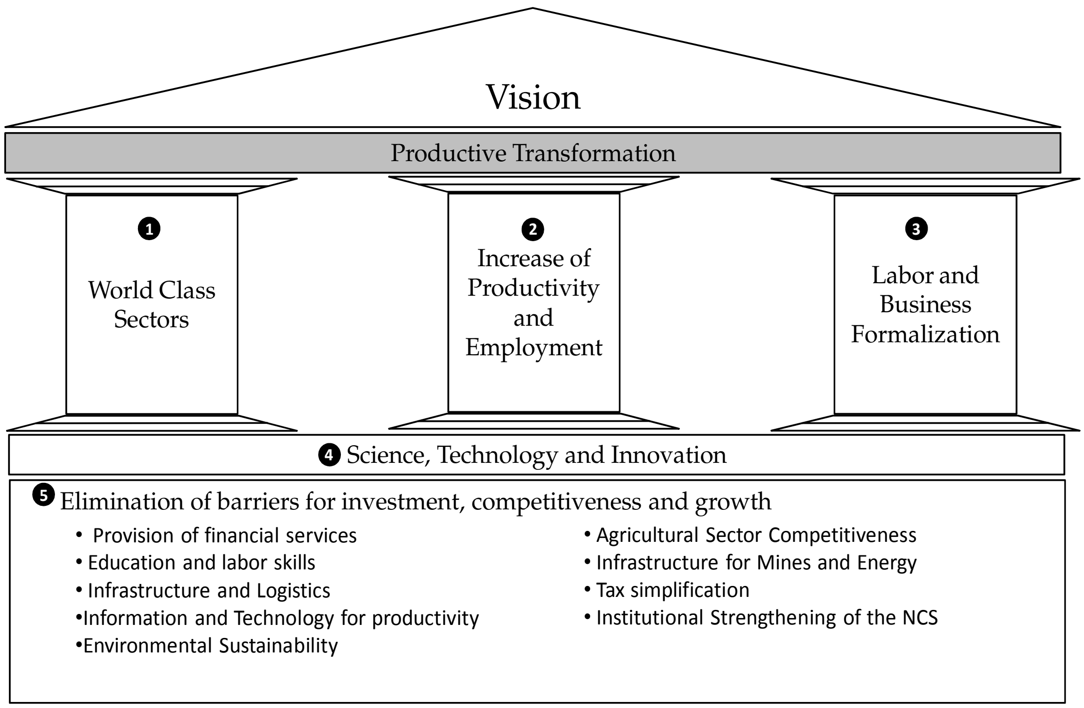


Exhibit 10b Example of a Regional Competitiveness Council; Santander Department



Source: Compiled by casewriters from the Presidential Office for Competitiveness and Productivity, and Santander Competitivo (2009).

Exhibit 11 Schematic Representation of the National Competitiveness Policy, 2008



Source: Compiled by casewriters from the Presidential Office for Competitiveness and Productivity, 2007, and Consejo Nacional de Política Económica y Social (CONPES), 2008.

Exhibit 12 Colombia's National Competitiveness Policy, World Class Sector Strategy, Product and Activity Matrix

	Product	Activities
1. Investment Attraction	Development and implementation of business plans for world class sectors	Development of business plan methodology
		Implementation of business plans for world class sectors
		Launch of the World Class Sectors strategy
	Promotion of investment mechanisms	Organization of events in capitals and major cities in Free Trade Zones (FTZs) and Legal Stability Contracts
		Feedback exercises with prestigious law firms
		Proposal to develop permanent FTZs
		Processing 60 applications for legal stability contracts approved for the four- year presidential term
		Fourteen stability contracts signed
		Twenty new concepts from the Technical Secretariat of the Free Trade Zones Commission on FTZ applications and 20 decisions on Master Plans.
		Monitoring reports on FTZ.
		Annual reports on legal stability contracts
	Creation and implementation of a registry system of people with English proficiency	Technical and economic analysis on the creation of a registry system
		Launching the initiative
		Creation of a web site for a national registry
2. Legal Framework for Investment	Regulatory changes to improve the business climate within the country	Actualization of competition regulations
		Diagnosis of the firm structure framework
		Bill for the reform of the firm structure framework
		Duty-free importation of raw materials used in the export of services
		Project to reform accounting and financial information practices
		Creation of the Direction of Business Climate within the Ministry of Trade, Industry and Tourism
		Training in five cities on the importance of FDI and on the Integrated System of Obstacles to Investment
		Permanent update of the centralized electronic system on investment procedures in Colombia
		Identification of the investment procedures to be optimized
	Prevention and strengthening dispute resolution with foreign investors	Policy document on the Government strengthening strategy
		Educational program for government employees in international agreements and dispute resolution with investors
		Project on the regulatory framework for implementation
		Development of a judicial instrument to establish an institutional structure for the prevention and adequate management of dispute resolutions with investors, based on international investment agreements signed by Colombia
		Implementation of an Inter-institutional Committee to coordinate efforts to increase FDI in world class sectors, and promote the acceptance and protection of FDI by public officials
3.Public-Private Dialog	Performing and monitoring annual national competitiveness forums	Report on the recommendations formulated in each forum
		Policy document on the strategy of the brand "Colombia is Passion"

Exhibit 12 (continued) Colombia's National Competitiveness Policy, World Class Sectors Strategy, Product and Activity Matrix

	Product	Activities
4: Trade and Investment Agreements	Negotiation and implementation of trade and investment agreements	Finishing the negotiation process of a trade agreement with EFTA. Legal revision and signing of the agreement
		Finishing the negotiation process of a trade agreement with Canada. Legal revision and signing of the agreement
		Carrying out the fourth and fifth rounds of negotiations with the European Union
		Management of Congress approval upon signing and completing the negotiation
	Improvement of current trade agreements	Revision of the trade agreement with Peru
		Tariff reduction on selected Mexican industrial and agricultural goods.
	Negotiation and implementation of investment agreements	Negotiations and implementation of investment agreements according to the agenda of the Foreign Trade Commission
	Improvement of the statistics and the analysis of service sector trading	Report on the results of the National Survey of 2006
		Report on the results of the first quarter service survey –Q4 2007
	Creation of opportunities in Asian markets	Participation of Colombia in APEC ministers meeting and workgroups
		Latin American Pacific Basin: participate in the Mexico and Chile meetings.
		Monitoring constant product requirements within Asian markets with the collaboration of the network of Colombian embassies.
		Coordination with the Chinese Embassy for the seventh Commission meeting in Beijing
		Formation of the Dignitary´s Group and occurrence of three meetings
5. Reduce trade related procedures	Simplification of trade related regulation	Consulting the World Bank on IT for trade process improvement
		Supporting and monitoring the implementation of the IADB study on best practices for trade
		Completion of an unique form module for trade
		Development of an electronic payment option for simultaneous inspection activities
		Coordination with control authorities on the elaboration of a simultaneous inspection manual
		Coordination and monitoring the physical inspection process of goods in ports, airports and frontiers, with collaboration of control authorities, Ministry of Transportation and Proexport
6.Colombia a World Class Tourist Destination	Improvement of tourist infrastructure for regional development	Inventory of national infrastructure needs
		Construction of an action plan that establishes responsibilities among national and regional government agencies involved in execution
		Adding tourist stops in the new concession contracts
	Creation of a Superior Council on Tourism	Creation of a Superior Council on Tourism
		Organization of the first meeting of the Superior Council on Tourism
	Regional commitment for the development of local tourism clusters	Cluster action plans revisited and improved
		Regulation to launch cluster development initiatives
	Quality improvement for tourism	Technical studies to identify beaches and ecosystems in the Caribbean and Insular regions that need special intervention
	Safety in tourist destinations	Starting a program to improve education and resources for the tourism police
	Diversification of tourist products	Information gathering to improve road signs and symbols for tourism
		National program on road signs and symbols for tourism

Source: Translation of the Matrix I, page 18, compiled by casewriters from the National Competitiveness Policy, CONPES 3527, June 2008.

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