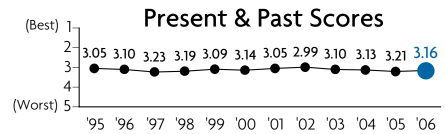
COLOMBIA

Rank: 91

Score: 3.16

Category: Mostly Unfree



QUICK STUDY

SCORES

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Population: 44,584,000

Total area: 1,138,910 sq. km

GDP: $89.9 billion

GDP growth rate: 3.9%

GDP per capita: $2,017

Major exports: oil, coal, coffee, apparel

Exports of goods and services: $18.6 billion

Major export trading partners: US 47.1%, Ecuador 5.9%, Venezuela 5.3%

Major imports: consumer goods, transportation equipment, chemicals

Imports of goods and services: $19 billion

Major import trading partners: US 29.6%, Brazil 5.5%, Mexico 5.4%, Venezuela 5.2%, Japan 4.6%

Foreign direct investment (net): $789.6 million

2003 Data (in constant 2000 US dollars)

Despite troubles in surrounding countries, Colombia continues to make strides toward providing a more secure environment in which democracy and markets can flourish. Thanks to President Alvaro Uribe Velez's Democratic Security strategy, Colombians have resumed traveling by car throughout much of the countryside and hotels are enjoying higher occupancy rates. More numerous and professional armed forces and police have brought pressure to bear on the country's three illegal armed groups (the Colombian Revolutionary Armed Forces, National Liberation Army, and United Self-Defense Forces), driving the Marxist rebels further into rural hideouts and the paramilitary self-defense forces into disarmament negotiations. Cocaine and heroin seizures have increased 43 percent and 72 percent, respectively. From 2003 to 2004, homicides declined by 13 percent, kidnappings decreased by 42 percent, terrorist attacks dropped from 1,125 to 657, and irregular combatant demobilizations surged by 29 percent. Legitimate exports rose by 24 percent, and the GDP growth rate for 2004 was 4 percent. Justice reforms implemented in 2005, such as oral public trials, are relieving serious backlogs in criminal cases and cutting crime rates in Bogotá and nearby cities where courts have been built. Colombia's trade policy score is 0.5 point better this year. As a result, its overall score is 0.05 point better this year.

TRADE POLICY

Score: **3.5**–Better (high level of protectionism)

According to the World Bank, Colombia's weighted average tariff rate in 2004 was 9.6 percent, down from the 10.1 percent for 2002 reported in the 2005 *Index*. The U.S. Trade Representative reports that some commodities are protected by a "price band" system, tariff rate quotas on some agricultural products, import licenses, and cumbersome customs procedures. Based on the lower tariff rate, as well as a revision of the trade factor methodology, Colombia's trade policy score is 0.5 point better this year.

FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **3.5**–Stable (high tax rates)

Score—Corporate Taxation: **5**–Stable (very high tax rates)

Score—Change in Government Expenditures: **3**–Stable (very low decrease)

Final Score: **4.1**–Stable (high cost of government)

Deloitte reports that Colombia's top income tax rate is 38.5 percent. The top corporate tax rate is also 38.5 percent. In 2003, according to the International Monetary Fund, government expenditures as a share of GDP decreased by 0.3 percentage point to 20.5 percent, compared to a 0.1 percentage point increase in 2002.

GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **3.5**–Stable (high level)

Based on data from the World Bank, the government consumed 21.3 percent of GDP in 2003. In the same year, according to the International Monetary Fund, Colombia received 12.99 percent of its total revenues from state-owned enterprises and government ownership of property.

MONETARY POLICY

Score: **3**–Stable (moderate level of inflation)

From 1995 to 2004, Colombia's weighted average annual rate of inflation was 6.38 percent.

CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: **3**–Stable (moderate barriers)

Colombia has an open foreign investment regime and permits 100 percent investment in most sectors of the economy. According to the U.S. Trade Representative, "Colombian law requires that foreign investments be accorded national treatment. One hundred percent foreign ownership is permitted in most sectors of the Colombian economy; exceptions include activities related to national security and the disposal of hazardous waste. Investment screening has been largely eliminated, and the registration mechanisms that still exist are generally mere formalities and non-discriminatory." Foreign investment in television network and programming companies is capped at 40 percent. Aside from formal restrictions, reports the U.S. Department of Commerce, "the largest obstacle to greater openness to foreign investment in the country is the high level of legal instability. Excess regulations and constant changes to the rules affect the country's competitiveness to attract investment, resulting in additional operation costs for foreign firms." A one-year minimum stay for portfolio foreign investment was enacted in December 2004. The International Monetary Fund reports that residents who work in certain internationally related companies may hold foreign exchange accounts. Payments and transfers must be registered with the central bank and may be subject to approval and quantitative limits. All foreign investment must be registered with the central bank.

BANKING AND FINANCE

Score: **2**–Stable (low level of restrictions)

The Colombian financial sector is still recovering from the 1998–1999 crisis. Reforms permitting universal banking have facilitated mergers and consolidation. Foreign banks have complete access to credit and the entire financial system, and the private sector directs almost all credit. Domestic banks may sell securities, insurance policies, and investment services, and domestic and foreign banks are treated as equals. The Economist Intelligence Unit reports that the two largest financial conglomerates, Grupo Sarmiento Angulo and Grupo Empresarial Antioqueno, account for 44 percent of total financial sector assets and that there were "57 private financial institutions operating in Colombia" as of May 2005: "28 commercial banks (including five mortgage banks, four of which are state-owned; eleven domestic-owned; and eight foreign-owned); four [finance companies]; and 25 [commercial financing companies] (including ten specialized in leasing). There are six official institutions." Foreign banks accounted for 17.8 percent of total bank assets at the end of 2004. The government is in the process of privatizing its state-owned banks. According to the U.S. Department of Commerce, "While the Colombian Government still directs credit to some areas (notably agriculture), credit is, for the most part, allocated by the private financial market."

WAGES AND PRICES

Score: **2**–Stable (low level of intervention)

The market sets most prices. However, according to the Economist Intelligence Unit, the government controls the prices of "ground- and air-transport fares, a few pharmaceutical products, petroleum derivatives, natural gas, some petrochemicals, public utility services, residential rents, schoolbooks and school tuition. To avoid speculation, the agriculture ministry may also intervene temporarily to freeze the prices of basic foodstuffs through agreements with regional wholesalers." The government sets a uniform minimum wage.

PROPERTY RIGHTS

Score: **4**–Stable (low level of protection)

"Although the Supreme Court is held in high regard," reports the Economist Intelligence Unit, "the lower levels of the Judiciary and civil service are susceptible to corruption and intimidation.… Nevertheless, business contracts are generally respected. The legislature approved the Reform to the Prosecutor-General's Office in 2004, which will shift the present criminal system to a US-style prosecutorial system. This system was first implemented in Bogotá in January 2005 and should speed up the criminal justice system and reduce impunity." According to the U.S. Department of Commerce, "Foreign investors find the arbitration process in Colombia complex and dilatory, especially with regard to enforcement of awards." Terrorism in some areas of the country is a serious impediment to investment.

REGULATION

Score: **3**–Stable (moderate level)

The U.S. Department of Commerce reports that "government bureaucracy still constitutes a barrier…for both local and foreign companies." According to the Economist Intelligence Unit, however, "The present administration has had some modest success in further reducing the state's presence in the economy by merging and restructuring state firms and simplifying procedures to eliminate red tape." The U.S. Trade Representative reports that some sectors, including legal services, insurance, distribution services, advertising, and data processing, need further deregulation. Labor laws are somewhat rigid. Statutory fringe benefits include vacation days, end-of-the-year bonuses, paid holidays, social security, and health insurance. The U.S. Department of Commerce reports that bureaucratic corruption remains a problem despite the anti-corruption efforts of different administrations.

INFORMAL MARKET

Score: **3.5**–Stable (high level of activity)

Transparency International's 2004 score for Colombia is 3.8. Therefore, Colombia's informal market score is 3.5 this year.