1999 Country Reports on Economic Policy and Trade Practices
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COLOMBIA

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment: 2/ 3/			
Nominal GDP	96.2	89.7	87.9
Real GDP Growth (pct)	3.1	0.6	-3.5
GDP by Sector:			
Agriculture	17.6	17.4	15.8
Manufacturing	17.3	17.5	15.9
Services (includes financial)	30	29.5	26.7
Commerce	11.1	11.2	10.1
Government 4/	27	27.5	26.6
Per Capita GDP (US$)	2,440	2,243	2,219
Labor Force (000s) 5/	16,908	17,212	17,521
Unemployment Rate (pct)	13.3	15.9	20.0
Money and Prices (annual percentage growth): 6/			
Money Supply Growth (M2)	24.6	20.5	18.0
Consumer Price Inflation	17.7	16.7	11.0
Exchange Rate (Peso/US$ annual average)			
Official	1,141.1	1,425.9	1,750.0
Balance of Payments and Trade: 7/			
Total Exports FOB	11.6	10.8	10.9
Exports to U.S.	4.2	4.0	4.6
Total Imports CIF	15.3	14.6	11.1
Imports from U.S.	5.8	4.6	4.5
Trade Balance	-3.7	-3.8	-0.2
Balance with U.S.	-1.6	-0.6	0.1
Current Account Deficit/GDP (pct)	-5.8	-5.9	-2.8
External Public Debt	16.1	18.4	20.4
Debt Service Payments/GDP (pct)	3.5	3.7	2.6
Fiscal Deficit/GDP (pct)	-4.4	-4.5	-4.0
Gold and Foreign Exchange Reserves	9.9	8.7	8.4
Development Aid from U.S. (US$ millions) 8/	0.1	0.1	0.1
Aid from All Other Sources	N/A	N/A	N/A

1/ 1999 figures are estimates based on available monthly data in October.

2/ Percentage changes calculated in local currency.
3/ Sources for all figures in section except government spending are National Department of Statistics (DANE). For government spending: Ministry of Finance.
4/ Approved national budget. Source: Ministry of Finance.
5/ Economically active population for the whole country.
6/ Source: Banco de la Republica (BDR).
7/ Source: Ministry of Foreign Trade.
8/ Aid reflects U.S. AID program only.

1. General Policy Framework

Colombia is a free-market economy with major commercial and investment links to the United States. Transition from a highly regulated economic regime has been underway for a decade. The United States is Colombia's largest trading partner, receiving 37.2 percent of Colombia's exports and providing 32 percent of Colombia's imports in 1998. More than 70 percent of Colombian exports to the United States are primary products such as food (mainly coffee, bananas, flowers, tuna, shrimp, and sugar), and fuel (petroleum and coal). The United States also holds the largest country share of foreign direct investment: $4.3 billion, or 28.1 percent of the estimated total direct foreign investment of $15.4 billion.

In 1990, the administration of President Cesar Gaviria (1990-94) initiated economic liberalization, or "apertura," and it has continued since then. Its start consisted of tariff reductions, financial deregulation, privatization of state-owned enterprises, and adoption of a more liberal foreign exchange regime. Almost all sectors became open to foreign investment although agricultural products remained protected. A price-band system to determine tariffs for agricultural products excluded them from the liberalization process. Import license requirements were eliminated for most products though some agricultural products still require licenses.

Until 1997, Colombia had enjoyed a fairly stable economy. The first five years of liberalization were characterized by high economic growth rates of between four and five percent annually. Subsequently, the GDP growth rate fell until it was 0.6 percent in 1998, the lowest in the last fifty years. The National Planning Department (DNP) projects a 3.5 percent contraction in real GDP for 1999. However, private analysts project a decline of as much as 5.0 percent, which would be the worst recession of the century. The Samper administration (1994-98) adopted social welfare policies which targeted Colombia's poor population. However, these reforms led to higher government spending which increased the fiscal deficit and public sector debt. Financing the larger deficits pushed interest rates higher, with contractionary effects on the private sector. The construction industry, one of the largest employment sectors in Colombia, was particularly hard-hit by the tight credit conditions. Unemployment increased dramatically as the economy slowed, reaching 15.9 percent by year-end of 1998. As of September 1999 unemployment stood at 20.1 percent.

The government of Andres Pastrana, which came into power in 1998 has attempted to strengthen Colombia's public finances and has sought an agreement with the International Monetary Fund (IMF). However, the fiscal deficit continued to widen this year, as the recession has weakened government revenues, rising to an estimated 6.2 percent of GDP from 3.9 percent in 1998. However, the fiscal deficit is scheduled to decline to 3.6 percent of GDP in 2000 under the IMF program, and to 2.5 percent in 2001.

Between 1990 and 1999 the government privatized a number of state-owned banks, ports, railroads, and mining companies. It also sold concessions to private providers of telecommunications and broadcasting services that began using the government-owned spectra. The Pastrana administration (1998-2002) also has plans to privatize the remaining profitable public enterprises, including two electricity generating companies, ISA and ISAGEN, plus 14 electric distributors, and the 50 percent government-owned share of the Carbocol mining company.

Several tax reforms have been implemented over the last years. In December 1998, the Colombian Congress passed Law 488, which lowered the value-added tax (VAT) from 16 to 15 percent effective November 1, 1999, and increased the number of goods and services subject to the VAT. Law 488 established a common tax regime for small taxpayers and increased the stamp tax paid on all written contracts from one to one-and-a-half percent.

The Central Bank conducts monetary policy based on targeted growth rates of monetary aggregates which must be consistent with final inflation and economic growth expectations. The Central Bank intervenes in the money market to reduce the volatility of interest rates, and until September 1999 it had been actively intervening in the foreign exchange market to maintain the foreign exchange rate within a band system. In 1998, inflation was 16.7 percent, only 0.7 percent higher than the expected target but significantly lower than the 21.6 percent registered in 1996. As of September 1999, inflation reached its lowest level in decades, 9.8 percent. The official target for 1999 has been dropped to 12 percent.

2. Exchange Rate Policy

The Colombian peso has floated freely against the dollar and other currencies since September 25, 1999, when the Central Bank abandoned the crawling band exchange regime. Under that system, the Bank intervened in the market by buying or selling dollars to keep the dollar's price in pesos within the band, which it was forced to adjust twice in the previous year (September 1998 and June 1999) in response to exchange market pressure. The exchange rate stabilized soon after abolition of the band and the peso actually recovered slightly. As of mid-December 1999, the peso had depreciated 20 percent from the beginning of the year. The peso's depreciation has reduced the price competitiveness of U.S. exports to Colombia, while boosting the competitiveness of Colombian exports to the United States. Currency depreciation together with import compression due to recession has brought a dramatic turnaround in Colombia's overall trade balance, as well as its bilateral balance with the United States. Through September 1999, Colombia's overall trade balance has swung from a $2.7 billion deficit to a $1.1 billion surplus, while the U.S.-Colombia trade balance swung from a $292 million U.S. surplus to a $1.8 billion deficit.

3. Structural Policies

As member of the Andean Community, Colombia has had a Common External Tariff (CET) in effect since 1995. The CET has different duty levels that vary from 0 to 20 percent for most non-agricultural products. A special Andean price-band system (based on domestic and international prices) is applied to calculate tariffs of agricultural imports. Tariff rates for agricultural products subject to the price-band system vary between 78 and 246 percent. Fourteen basic agricultural commodities including wheat, sorghum, corn, rice, barley, milk, and chicken parts, and an additional 120 commodities considered substitute or related products are subject to tariffs calculated under the price-band system. The government also regulates prices of electricity, water, sewage, and telephone services, public transportation, rents, education tuition, and pharmaceuticals. Colombia's special import-export system for machinery and its free trade zones constitute export subsidies. Colombia's tax rebate certificate program (CERT) also contains a subsidy component which the Colombian government has stated it will replace with an equitable drawback system, although it has not yet done so.

Rising fiscal deficits forced the authorities to adopt several tax reforms over the last year. Law 488, approved in December 1998, lowered the value-added tax (VAT) from 16 to 15 percent while it increased the number of goods and services subject to the VAT. Colombia also assesses a discriminatory VAT of 35 percent on whiskey aged for less than 12 years, which is more characteristic of U.S. whiskey, versus a rate of 20 percent for whiskey aged for 12 or more years, most of which comes from Europe. This tax regime on distilled spirits appears to violate Colombia's WTO obligation whereby a member cannot provide an advantage or favor to products of one WTO member without according the same advantage to "like products" of another member. A unified tax regime for small taxpayers was created to simplify the tax collection process. In December 1998 the government decreed an economic emergency under which it instituted a tax on all transactions in the financial system at a rate of 0.2 percent. The tax on financial transactions commonly known as the "two per thousand" tax was initially to remain in effect until December 31, 1999. However, on January 25, 1999 an earthquake devastated Colombia's coffee region. This tragedy frustrated the government's hope of meeting its lower spending targets and the tax was extended until 2001. The government is currently studying the possibility of making the tax permanent in its next tax reform proposal to Congress. The proposal will also include measures to regulate regional taxes. Other major taxation issues include the future of the 35 percent income tax, a "war tax" on the export value of crude oil, gas, coal, and nickel (in effect until 2000), and a requirement that all corporations invest 0.6 percent of their liquid assets in the seven-year term "peace bonds" which are freely negotiable and bear a return equivalent to inflation plus 10 points.

All foreign investment in petroleum exploration and development in Colombia must be carried out under a profit-sharing association contract between the investor and the state petroleum company, "Ecopetrol." U.S. oil companies have voiced interest in increasing exploration and development in Colombia if contract and tax requirements are made more flexible. The Pastrana administration has responded by making the terms of association contracts significantly more liberal.

Under the current Andean Pact automotive policy, Colombia and Venezuela impose strict regional content requirements for the automotive assembly industry.

After a period of lack of interest during the Samper administration in continuing liberalization, the Pastrana administration has taken a number of concrete steps to promote trade and investment. These have included the signing of an agreement in October 1998 with the U.S. Government establishing periodic Trade and Investment Council meetings with the Andean Community, efforts to improve oversight of the television sector and reduce cable and satellite signal piracy, and issuance of a Presidential Directive in early 1999 requiring all Colombian public entities to respect international copyrights. The administration also successfully pressed for an amendment repealing an article in the 1991 Constitution which allowed expropriation of foreign investment without compensation.

4. Debt Management Policies

Colombia's history of continuous timely servicing of its international debt obligations and, at least until recently, modest external debt burden earned the country one of the few “investment” grade credit ratings from the major rating companies. However, in 1999, Standard & Poors, Moody’s, and Duff & Phelps downgraded Colombia’s debt, citing Colombia's faltering peace process, increased security concerns, and insufficient progress in fiscal consolidation. The rating downgrades had little impact on the secondary market prices of Colombian debt, as the move had largely been priced into the market already. Colombian debt had traded at significantly wider spreads than would be indicated by its "investment grade" rating for some time.

The international financial institutions announced their intention in September 1999 to provide $6.9 billion to finance the Colombian government’s fiscal adjustment and development programs through 2002: $2.7 billion from the International Monetary Fund, $1.7 billion from the Inter-American Development Bank, $1.4 billion from the World Bank, $600 million from the Andean Development Corporation, and $500 million from the Latin American Reserve Fund.

In September 1998, the Central Bank reduced its imposed deposit requirement on foreign borrowing from 25 to 10 percent (the term of the deposit was also reduced from 12 to 6 months). In January 1999, the Central Bank completely removed the deposit requirement for import-related borrowing while maintaining a 10 percent deposit requirement on export-related foreign borrowing operations.

5. Aid

The U.S. Agency for International Development (USAID) office in Bogota coordinates the provision of resources for development programs in Colombia. Its Operating Year Budget (OYB) for 1999 was $18.3 million and the estimated OYB for 2000 is $11 million. The USAID/Colombia current program portfolio totals approximately $103 million.

U.S. aid and assistance to the Colombian National Police and other counternarcotics programs is coordinated by the Narcotics Affairs Section (NAS) in Bogota. Total narcotics-related aid is programmed to amount approximately to $300 million in 1999.

U.S. military training assistance to the Colombian Army, Air Force and Navy totals $1,590,000 for 1999.

6. Significant Barriers to U.S. Exports

Import Licenses: Prior import licenses are still required for various commodities, narcotics-precursor chemicals, armaments and munitions, donations, and some imports by government entities. Though the government abolished most import licensing requirements in 1991, it has continued to use prior import licensing to restrict importation of certain agricultural products such as powdered milk (during Colombia’s high milk production season) and chicken parts. In addition, the Ministry of Agriculture must approve import licenses for products which, if imported, would compete with domestic products. Some of these products, which include important U.S. exports to Colombia, are wheat, malting barley, corn, rice, sorghum, and wheat flour.

Services Barriers: The provision of legal services is limited to law firms licensed under Colombian law. Foreign law firms can operate in Colombia only by forming a joint venture with a Colombian law firm and operating under the licenses of the Colombian lawyers in the firm. Insurance companies require a commercial presence in order to sell policies other than those for international travel or reinsurance. Colombia permits the establishment of 100 percent-owned subsidiaries, but not branch offices, of foreign insurance companies. Colombia denies market access to foreign maritime insurers. A commercial presence is required to provide information processing services. Colombian television broadcast laws (Law 182/95 and Law 375/96) impose several restrictions to foreign investment. For example, foreign investors must be actively engaged in television operation in their home country. Their investments are limited to 15 percent of the total capital of local television production companies and must involve an implicit transfer of technology. At least 50 percent of programmed advertising broadcast on television must have local content.

Investment Barriers: Colombian law provides for equal treatment of foreign and national investors. 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. All foreign investors (acting as individuals or investment funds) must receive prior approval from the Banking Superintendency to acquire an equity participation of five percent or more in a Colombian financial entity. As a measure against money laundering, Foreign Direct Investment (FDI) in real estate is prohibited except in connection with other investment activities. Colombian law requires that at least 80 percent of employees of companies in the mining and hydrocarbons sector be Colombian nationals. It also requires that foreign employees in financial institutions be limited to managers, legal representatives and technicians. Colombia limits foreign ownership of telecommunication companies to 70 percent. An economic needs test determines market access and national treatment for cellular, PCS, long distance, and international telecommunications services.

All foreign investment must be registered with the Central Bank's foreign exchange office within three months in order to insure the right to repatriate profits and remittances. All foreign investors, like domestic investors, must obtain a license from the Superintendent of Companies and register with the local chamber of commerce.

Standards, Testing, Labeling, and Certification: The Colombian Foreign Trade Institute (INCOMEX) requires specific technical standards for a variety of products. The particular specifications are established by the Colombian Institute of Technical Standards (ICONTEC), or under ISO-9000. Certificates of conformity must be obtained from the Superintendency of Industry and Commerce before importing products that are subject to technical standards.

Government Procurement Practices: Law 80 of 1993 is Colombia's government procurement and contracting law. It affords equal treatment to foreign companies on a reciprocal basis and eliminates the 20 percent surcharge previously added to foreign bids. In implementing Law 80, the Colombian government established a requirement that foreign firms without an active local headquarters in Colombia certify that Colombian companies enjoy reciprocity in similar bids under their countries' procurement legislation. A local agent or legal representative is required for all government contracts. When foreign firms bid under equal conditions, the contract is usually awarded to the one that incorporates a greater number of domestic workers, involves more domestic content, or provides better conditions for transfer of new technology. Some U.S. companies have complained of corruption and lack of transparency in bidding and contracting processes. Colombia is not a party to the WTO agreement on government procurement.

Customs Procedures: Imported merchandise inspection can be prearranged through preshipment inspection entry, and duties can be prepaid through commercial banks. For certain items, preshipment inspection is mandatory.

7. Export Subsidies Policies

Colombia has sharply reduced its export subsidies, and its subsidy practices are generally compatible with WTO standards. At present, the government manages only two export subsidy programs. One, the CERT (Certificado de Reembolso Tributario), refunds a percentage of the Free on Board (FOB) value of an export. Under a 1990 bilateral agreement, the CERT does not apply to goods exported to the U.S. The other export subsidy, known as the "Plan Vallejo," allows for duty exemptions on the import of capital goods and raw materials used to manufacture goods that are subsequently exported. Colombia's free-trade zones also constitute an export subsidy through the mechanism of tax exemptions on imported inputs. The U.S. and Colombian flower industries, with the approval of the U.S. Department of Commerce and Justice, finalized a settlement agreement to terminate the longstanding antidumping duty orders and to utilize resources spent on dumping duties and direct it towards promotion of flowers in the U.S. market. However, there are currently five antidumping reviews still under litigation. The sunset review of the antidumping orders on Colombian cut flowers will also be terminated as a result of this agreement.

8. Protection of U.S. Intellectual Property

Despite improvements in 1999, Colombia remains on the "Watch List" under the Special 301 provision of the 1988 Omnibus Trade Act because of concerns regarding effective protection of intellectual property rights. It has been on the "Watch List" every year since 1991. Colombia has ratified, but not yet fully implemented, the provisions of the World Trade Organization (WTO) agreement on Trade Related Aspects of Intellectual Property (TRIPS). A major issue has been the Colombian Government's failure to license legitimate pay television operators and to pursue pirate operators. As of November 1999, the Colombian Government completed licensing for 114 cable television operators. Colombia's Television Broadcast Law increased legal protection for all copyrighted programming by regulating satellite dishes, but enforcement has only recently begun through a licensing process that is scheduled to be completed by the end of 1999. Colombia has created a Special Investigative Unit within the Prosecutor General's Office dedicated to intellectual property rights issues. This unit began functioning in November 1999.

Colombia, which is a WTO member, has ratified its Uruguay Round implementing legislation. It is a member of the World Intellectual Property Organization (WIPO) and has negotiated to join the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty and the Union for the Protection of New Plant Varieties. Colombia belongs to the Berne and Universal Copyright Conventions, the Buenos Aires and Washington Conventions, the Rome Convention on Copyrights, and the Geneva Convention for Phonograms. It is not a member of the Brussels Convention on Satellite Signals.

Patent and Trademarks: Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection. Colombia requires registration and use of a trademark in Colombia to exercise trademark protection. Trademark registration has a 10-year duration and may be renewed for successive 10-year periods. Although Colombian law provides, for example, 20-year protection for patents and reversal of burden of proof in cases of alleged patent infringement, it is deficient in the areas of compulsory licensing provisions, working requirements, biotechnology inventions, transitional ("pipeline") protection, and protection from parallel imports. Enforcement of trademark legislation in Colombia is showing some progress, but contraband and counterfeiting are widespread. U.S. pharmaceutical firms continue to press for a range of legislative and administrative reforms. The Superintendency of Industry and Commerce acts as the local patent and trademark office in Colombia. This agency suffers greatly from a backlog of trademark and patent applications exceeding 25,000 as of June 1999.

Copyrights: Colombia's 1993 Copyright Law increased penalties for copyright piracy. In April 1999, President Pastrana issued a directive to all government and educational institutions to respect copyrights and avoid the use or purchase of pirated printed works, software and audio/video material. The most recent available data from the International Intellectual Property Alliance (IIPA) suggests that while there is less counterfeit merchandise available in the Colombian market, U.S. industries continue to lose substantial revenue from piracy—$151 million in 1997. Enforcement problems consistently arise not only with inadequate police activity, but also in the judicial system, where there have been complaints about the lack of respect for preservation of evidence and frequent perjury. The IIPA estimates that videocassette piracy represents approximately 60 percent of the video market; sound recording piracy 60 percent of the market; and business software piracy 73 percent of the market. Satellite programmers estimate there are about 3.6 million Colombian households that receive satellite signals, of which only 200,000 are legally subscribed. The Colombian Government, as mentioned above, has already initiated a licensing process designed to make illegal operators responsible for paying copyright fees. The licensing process, if effective, should reduce the widespread piracy by legitimizing non-royalty paying service providers.

New Technologies: Colombia has a modern copyright law which gives protection for computer software for 50 years and defines computer software as copyrightable subject matter but does not classify it as a literary work. Semiconductor design layouts are not protected under Colombian law.

9. Worker Rights

a. The Right of Association: Colombian law recognizes the rights of workers to organize unions and to strike. The labor code provides for automatic recognition of unions that obtain at least 25 signatures from potential members and that comply with a simple registration process at the Labor Ministry. The law penalizes interference with freedom of association. It allows unions to freely determine internal rules, elect officials and manage activities, and forbids the dissolution of trade unions by administrative fiat. Unions are free to join international confederations without government restrictions.

b. The Right to Organize and Bargain Collectively: The constitution protects the right of workers to organize and engage in collective bargaining. Workers in larger firms and public services have been the most successful in organizing, but these organized workers represent only a small portion of the economically active population. According to the Labor Ministry's Planning Bureau figures, approximately five percent (926,155 affiliates) of Colombia's total work force is organized into 5,544 unions. However, the most recent estimate for 1999 by the Colombian Union School (ENS) accounts for 3,560 labor unions with 872,635 affiliates. Accurate estimates are difficult to obtain due to the high rate at which new unions are created and old ones disappear. High unemployment (19.8 percent as of September 1999), traditional anti-union attitudes, union disorganization and weak leadership limit workers' bargaining power in all sectors.

c. Prohibition of Forced or Compulsory Labor: The constitution forbids slavery and any form of forced or compulsory labor, and this prohibition is respected in practice.

d. Minimum Age for Employment of Children: The constitution bans the employment of children under the age of 14 in most jobs, and the labor code prohibits the granting of work permits to youths under the age of 18. This provision is respected in large enterprises and in major cities. Nevertheless, Colombia's extensive and expanding informal economy remains effectively outside government control. Statistics vary: according to different studies (Labor Ministry and Los Andes University among the most reliable), there are between 1.5 and 2 million working children between the ages of 12 and 17. According to ENS, the number of working children in that range of ages is 1.8 million for 1999. These children work -- often under substandard conditions -- in agriculture or in the informal sector, as street vendors, in leather tanning, and in small family-operated mines. According to these studies, 80 percent of the working children work in the informal sector, and 90 percent of the working children perform risky or dangerous activities.

e. Acceptable Conditions of Work: The government sets a uniform minimum wage for workers every January to serve as a benchmark for wage bargaining. The minimum wage for 1999 is approximately $135 (236,460 pesos) per month. Because the minimum wage is based on the government's target inflation rate, which has been exceeded in recent years, the minimum wage has not kept up with inflation. By government estimates, the price of the low-income family shopping basket ("canasta familiar") is 2.4 times the minimum wage. For medium-income families, the price of the shopping basket is 6.1 times the minimum wage. Seventy percent of the Colombian workers earn twice the minimum wage or less. The law provides for a standard 8-hour workday and 48-hour workweek, but does not specifically require a weekly rest period of at least 24 hours. Legislation provides comprehensive protection for workers' occupational safety and health, but these standards are difficult to enforce, in part due to the small number of Labor Ministry inspectors.

f. Rights in Sectors with U.S. Investment: U.S. foreign direct investment is concentrated principally in the petroleum, coal mining, chemicals and manufacturing industries. Worker rights conditions in those sectors tend to be superior to those prevailing elsewhere in the economy, owing to the large size and high degree of organization of the enterprises.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,159
Total Manufacturing		1,094
Food & Kindred Products	301	
Chemicals & Allied Products	352	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	25	
Transportation Equipment	(1)	
Other Manufacturing	307	
Wholesale Trade		168
Banking		(1)
Finance/Insurance/Real Estate		808
Services		87
Other Industries		(1)
TOTAL ALL INDUSTRIES		4,317

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.