Towards a New Industrial Policy in Colombia

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Scanning the business and political environments in South America, there is no country, with the exception of Chile, that matches Colombia in terms of stability and performance. On a large scale, Colombia has increased income levels, reduced the unemployment rate, maintain a moderate inflation rate, among others. Moreover, every time the world has faced a financial crisis or an economic slowdown, the Colombian economy has managed to escape unharmed.

Nevertheless, Colombia has faced major challenges. For example, in 2015, the country had difficulties in areas such as the fall of the oil price, El Niño (the negative impacts of climate change) affecting the agriculture sector, the closure of the border with Venezuela, and the global economic slowdown. On the positive side, the economy was marked by infrastructure projects, advances in the peace process, and productive investment projects. In 2015 the economy grew 3.1%. In 2016, Colombia was involved under uncertainty and turbulence, with high volatility in markets and economic slowdown, symptoms perceived by an increasingly integrated economy. In addition, the Colombian economy was affected by fiscal issues, exchange rate fluctuations, a possible recession in electricity, and high inflation rates, which led the Central Bank to increase the interest rate. In 2016 year, the economy had moderate growth of 2.0%. Although, according to the Colombian Ministry of Finance, the economic outlook for 2017 is projected to be 2.3%.

In international trade, between 2015 and 2016 the exports decreased 34%, caused by the decreased in the oil price, coal, and other commodities, plus the economic recession of trade partner countries. Approximately, 57% of the exports are traditional top exports such as coffee, coal, crude oil and petroleum products, and iron nickel. With this being said, the flow of foreign currency to the country decreased as well, producing a significant devaluation of the Colombian peso and an increase of the imported products. To recover the pace of exports, Colombia will have to create new products with added value and take advantage of the trade agreements signed (16 to date), especially the Pacific Alliance, consisting of Chile, Colombia, Mexico and Peru, plus the new members: Australia, Canada, New Zealand and Singapore. However, the Foreign Direct Investment – FDI has recovered in the past two years. In 2015, the FDI reached $ 11.7 million and $ 13.8 million for 2016.

In an increasingly competitive global economy economic progress cannot be left to the whims of the market alone. Collaboration between the public and private sectors to shape “market-based industrial policies” is indispensable—policies based on sound macroeconomics, legal transparency, the formation of human capital, and strong institutions. In 2015, the National Business Association of Colombia (ANDI) whose members represent 50% of the GDP published “Estrategia para una Nueva Industrialización” positioning the strategic role of the businesses for economic and social impact.

Two years later, however, in response to the quickening of changes in the world economy, ANDI re-launched its industrial policy strategy – Colombia: Un País de Oportunidades. This new version covers issues such as, productive linkage, global value chain, education, contracting labor, rules and disciplinary procedures, corruption, transparency, legal stability, tax matters and digital economy. The industrial policy strategy aims to be aligned with new technologies. The digital economy will help the industry to reduce costs, develop more efficient production processes, and attract investment resources. To leverage the digital economy, the country must improve IT infrastructure to facilitate digital transformation. Former Minister of Information Technologies and Communications, Diego Molano did precisely that via “Vive Digital,” bringing high speed Internet full coverage to all municipalities in Colombia including the poorest and furthest. Colombia’s high-tech sector is blossoming, and it is now the third largest in Latin America with more than 5,000 technology companies.

A traditionally resource-based economy, Colombia is rapidly distinguishing itself beyond mining and agriculture. As Felipe Jaramillo, Colombia’s head of ProColombia, notes, the nation’s competitiveness has been increasing in auto parts, building materials, fashion clothing, processed foods, consumer products, pharmaceuticals and glass. Tourism is on the increase, as well.

In the last 5 years, approximately 200 foreign companies began their operations in the country, building new plants, business offices, and subsidiaries. And while the U.S. is the largest foreign investor in Colombia, with nearly $16 billion invested between 2010 and 2016, with firms such as GE, IBM, Itaú Bank (Brazil), Axa Seguros (France), Ripley (Chile), HeroMoto (India), and Furukawa (Japan).

With a “peace dividend” emanating from a cessation of hostilities between the FARC and the government, Colombia’s GDP could climb by 1.1% to 1.9%. If the public and private sectors can work together to shape and implement a national industry policy such as the one developed by ANDI, the nation’s future will be a bright one for all Colombians.

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