



## Columbia FDI Profiles

Country profiles of inward and outward foreign direct investment  
issued by the Vale Columbia Center on Sustainable International Investment

June 13, 2012

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### Inward FDI in Colombia and its policy context, 2012

by

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*Colombia's current Government, in office since August 2010, has continued to pursue in 2010-2011 the open policies established by the previous one. The country continues to receive increasing amounts of foreign direct investment (FDI) and has the potential to maintain this positive trend. Although there have been some modifications in the regulatory framework and uncertainty regarding sustainable investment, 2010 witnessed the continuation of positive FDI growth. In 2011, credit-rating agencies recognized the country's efforts and raised Colombia's debt rating up to investment grade, a rating that was lost eleven years ago. To facilitate the further internationalization of the Colombian economy, the Government is expanding the number of its investment and commercial treaties to a wider range of foreign economies. Among others, new bilateral investment treaties with India, China and the United Kingdom, as well as other initiatives, could have a positive impact on IFDI growth and its contribution to economic development.*

#### Trends and developments

Back in 2000, Colombia was rarely a target for foreign investors, and the country's inward FDI (IFDI) stock was low compared to those of its neighbors Peru and Venezuela, locations seemingly preferred by multinational enterprises (MNEs) to manage their Andean operations.<sup>1</sup> However, that trend has shifted since 2005 and, by 2008, with Colombia's IFDI stock rising to

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<sup>1</sup> The historical background and the longer-term development of Colombia's IFDI and its main determinants were analyzed in a previous *Columbia FDI Profile* (see Miguel Posada Betancourt, "Inward FDI in Colombia and its policy context," *Columbia FDI Profiles* (ISSN: 2159-2268) November 2010, available at: [www.vcc.columbia.edu](http://www.vcc.columbia.edu).) This article is an update of that *Profile* and includes an analysis of Colombia's FDI stock and flows in 2010 and other recent developments with respect to IFDI in Colombia.

US\$ 67 billion, it had already surpassed both those countries' IFDI stocks (annex table 1). The positive trend has continued, with the year-end data for 2011 showing Colombia's IFDI stock standing at US\$ 96 billion, a 16% increase compared to 2010 and a compound annual growth rate of 17.2% for the 2005-2011 period.<sup>2</sup>

### *Country-level developments*

Despite Colombia's size and economic potential, until 2005, IFDI was relatively low. Most IFDI in the 1990s was a consequence of privatizations rather than market-led opportunities for new investment projects. In 1999, the worst year in Colombia's late-1990s economic crisis, the economy received US\$ 1.5 billion of FDI and, in 2000, FDI flows amounted barely to 3% of GDP. During the economic recovery from 2000 to 2003, IFDI flows grew steadily, peaking at US\$ 2.5 billion in 2001 (annex table 2). In 2005, however, Colombia received US\$ 10.3 billion in FDI inflows (or 8.3% of the country's GDP), the highest in its history, led by the (78.1%) acquisition of the largest Colombian brewery, Bavaria, by SAB Miller (United Kingdom). Despite sustained domestic economic growth, however, the global financial and economic crises led to a decrease in FDI flows in 2009, to US\$ 7 billion (representing around 3.2% of the country's GDP) and in 2010 to US\$ 6.9 billion, a decrease of 3% compared to 2009 flows.

Although FDI flows in 2010 were marginally lower than those in 2009, preliminary information for 2011 is encouraging: Flows of US\$ 13.2 billion in 2011 amounted to 192% of total 2010 flows.<sup>3</sup>

Over the past few years, the Government has made important efforts to diversify the sectoral distribution of FDI, as it remains concentrated in the extractive industries (annex table 3), with 38% of total IFDI flows in 2011 going to oil and petroleum and another 20% to mining and quarrying. Of the remaining FDI, 17% was invested in commercial establishments and only 4% in manufacturing activities.

In comparison to 2009, in 2010 all but four industries experienced a decrease in FDI flows.<sup>4</sup> The industries with the largest cutbacks were transportation, storage and communications (-222%), public utilities (-104%), commerce, restaurants and hotels (-38%), and mining and quarrying (-42%). The only industries with increased flows were financial establishments (74%), community services (25%), oil (14%), and construction (14%). However, IFDI flows returned in 2011 with large increases in sectors such as utilities (1,510%), commercial establishments (512%), agriculture (96%), and oil (83%). Despite decreases in flow level, IFDI stock rose in all industries in 2010, with the exception of the transportation, storage and communications industry (with disinvestments of US\$ 526 million).<sup>5</sup>

Latin America as a whole still remains a region that mainly attracts projects of relatively low technology intensity. Like its regional counterparts, Colombia does not seem to be attracting enough technology-intensive projects. In 2010, only 2% of Colombia's newly announced FDI projects in the manufacturing industry were aimed at high-tech sectors, whereas 54% went to

<sup>2</sup> Author's own calculations, based on FDI stock data from Colombia's Central Bank and the National Statistics Department data on GDP (annex tables 1 and 2 in this *Profile*).

<sup>3</sup> Banco de la República Colombia, Balance of payments, April 2012, available at: [www.banrep.gov.co](http://www.banrep.gov.co).

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

medium-low technology intensity sectors, 30% went to sectors with medium-high intensity and low-tech sectors received 13% of the new projects.<sup>6</sup> It should be noted that, with regard to projects related to research and development (R&D) also, Colombia lags behind its neighbors: in 2010, Latin America attracted only 5.5% of worldwide projects related to R&D activities, mainly concentrated in Brazil.<sup>7</sup>

Internally, Colombia's economic activities tend to gravitate toward a couple of strong regions; as a result, the geographical location of IFDI remains highly concentrated. During 2009 and the first quarter of 2010, the capital of Colombia, Bogotá DC, and the region of Cundinamarca, in which Bogota is located, captured 78% of total FDI flows, followed by Antioquia (8%), Valle del Cauca (5%), and Bolivar (4%). Although the numbers still show a highly concentrated distribution of FDI flows, the situation has changed somewhat in the past six years. In 2004, for example, Bogotá and the region of Cundinamarca received 91% of total FDI flows, compared to 78% in 2009.<sup>8</sup> This double-digit percentage decline in their shares in just five years suggests that other regions have started to gain competitiveness as locations for FDI, and are now considered, at least by some investors, as viable alternatives to the country's capital and its vicinity.<sup>9</sup> This improvement in the regional distribution of FDI within Colombia may be the result of improvements such as additions to, and wider availability of, human capital or the reduction of impediments to starting a company and doing business.<sup>10</sup> Nevertheless, the fact that almost 80% of FDI is still concentrated in or near the capital city and the remaining 20% in the 31 other regions combined calls for policy attention.

In terms of geographical distribution of FDI sources, 2010 showed significant changes from previous years in the origin of FDI flows.<sup>11</sup> The United States,<sup>12</sup> historically Colombia's largest trade partner, had FDI of only US\$ 13 million dollars in 2010 (annex table 4), marking a steep decline in comparison to 2009 when US FDI flows to the country totalled US\$ 1.8 billion, or the 2005-2008 period, when average annual flows from the United States were US\$ 1.4 billion.<sup>13</sup> Excluding FDI from the financial centers and with the decline of U.S. FDI flows, the United Kingdom was the most important source of FDI in the Colombian economy in 2010, with US\$ 191.4 million, followed by Canada (US\$ 162.8 million) and Brazil (US\$ 53.6 million).

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<sup>6</sup> United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2010* (Santiago, Chile: United Nations ECLAC, July 2011), also available at: [www.cepal.org](http://www.cepal.org), p. 61. The classification into sectors of varying technology intensity relates to manufacturing industries only (see annex table A-1 in the source cited for the classification of manufacturing industries by technology intensity).

<sup>7</sup> Ibid.

<sup>8</sup> Cámara de Comercio de Bogotá, "Tablero de indicadores de Bogotá, Inversión extranjera" IQ 2006, IIIQ 2010.gfg

<sup>9</sup> See "Bogotá y Medellín se pelean sede de innovación de Kimberly", *Portafolio*, August 2011, available at <http://www.portafolio.co/negocios/Bogotá-y-Medellín-se-%25E2%2580%2598pelean%25E2%2580%2599-sede-innovacion-kimberly>.

<sup>10</sup> According to IFC's *Doing Business in Colombia, 2010*, the best city to start a business in Colombia is Manizales, while Bogotá is number 12 and Medellín number 16.

<sup>11</sup> The precise origins of total FDI in Colombia are hard to determine as a large share of the flows pass through financial centers in the Caribbean. In 2011, US\$ 613.7 million entered through Panama, Anguilla, Bermudas, Cayman Islands, Barbados, Aruba, Bahamas, British Virgin Islands, and Curacao.

<sup>12</sup> Including Puerto Rico.

<sup>13</sup> Author's own calculations, based on Banco de la República Colombia, Balance of payments, August 2011, available at: [www.banrepo.gov.co](http://www.banrepo.gov.co).

Overall, in spite of large increases in FDI to Colombia from most of the Latin American region, large disinvestments by investors from Mexico and Chile more than offset the increases in FDI from other countries, resulting in a negative figure for FDI from the region as a whole in 2010 (annex table 4). IFDI flows from Europe to Colombia amounted to US\$ 109.5 despite disinvestments from important countries such as Spain (US\$ -18.1 million) and Germany (US\$ -23.2 million).<sup>14</sup> Finally, investments from the Asia-Pacific (APAC) region remain marginal; for example, according to the United Nations ECLAC, in 2010 China invested US\$ 15 billion in Latin America, and according to government sources only US\$ 6.2 million reached Colombia.<sup>15</sup> FDI from India reached only US\$ 0.5 million. Both the Government and the private sector realize there is a large potential to increase investment flows from emerging economies and have increased efforts to strengthen political and commercial relationships with the Asia Pacific region.<sup>16</sup>

In 2011, Colombia received significant FDI flows from traditional investors such as Spain (US\$ 732.5 million), United States (US\$ 526.3 million), Chile (US\$ 583.0), and the United Kingdom (US\$ 390.4 million). These values more than offset the small investments or disinvestments presented in 2010. It is therefore too early as regard to Colombia to talk about a wide diversification of FDI home economies. Nonetheless, Colombia's policymakers are making efforts to attract IFDI from a wider range of sources. A wider home-economy distribution of IFDI could have positive outcomes for the country by reducing the risk of depending on a small number of investment sources and enlarging commercial relationships with an expanded pool of nations.

### *The corporate players*

Of the ten largest non-financial companies in Colombia, six are foreign affiliates of MNEs, providing goods and services in different economic sectors (annex tables 5) and playing an important role in the Colombian economy. Over the 2009-2010 period, seven companies have remained in the top ten ranking; four of them are from the mining, oil and gas industries, confirming the importance of those industries in the economy. In line with the favorable economic environment, all foreign affiliates showed double digit growth in their 2010 sales in comparison to the 2009 figures.<sup>17</sup>

The largest foreign financial institutions in Colombia can be found in the banking and pension fund industries (annex tables 5b). However, domestic institutions dominate the local financial

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<sup>14</sup> It is important to mention that these national FDI values do not take into consideration FDI from profit reinvestments that, for 2010, amounted a total of US\$ 2.7 billion, or investments in the oil sector (US\$ 2.8 billion) and US\$ 3.7 billion in profit reinvestments and US\$ 5.1 billion in the oil sector in 2011.

<sup>15</sup> ECLAC, *op. cit.* The ECLAC report only indicates US\$ 3 million of Chinese FDI in Colombia, however for consistency reasons Colombia's Central Bank information is used here.

<sup>16</sup> For additional information please refer to "Con su visita a Japón, Vietnam y China, La canciller Holguín reforzó su política de acercamiento hacia Asia", Ministerio de Relaciones Exteriores, available at: <http://www.cancilleria.gov.co/news/news/node/2604> and "Ministra Holguín llegó de China con resultados concretos en materia de comercio y cooperación" Ministerio de Relaciones Exteriores available at: <http://www.cancilleria.gov.co/news/news/node/2598>

<sup>17</sup> Author's own calculations, based on "Las 100 empresas más grandes de Colombia... y las 900 siguientes," *Revista Semana*, Special Edition no. 1513, Bogotá, May 2011.

industry, which stands in contrast to the non-financial sector in which foreign MNEs are among the largest in the country.

The Colombian financial industry has shown some opportunities for foreign investors, as illustrated by the \$1 billion purchase by Scotiabank of a 51% stake in Banco Colpatría in 2011, one of the largest banks in the country,<sup>18</sup> or the consolidation of JP Morgan's investment banking operations. However, this industry is more relevant as a source of outward foreign investment than as a recipient of IFDI,<sup>19</sup> as Colombian financial institutions have recently entered the Central American market and, contrary to the global financial industry's recent tendency to consolidate operations, Colombian banks are expanding their operations.<sup>20</sup>

The importance of extractive industries in the country, coupled with the high commodity prices, is reflected in the importance of established foreign affiliates in those industries and their positive financial results as well as in merger and acquisition (M&A) deals. In 2010 three of the four largest cross-border M&A deals in Colombia took place in the mining, oil and gas industries, for an estimated total of US\$ 2.7 billion or 39% of total IFDI flows in 2010 (annex table 6).

The importance of Latin American MNEs or "translatinas" in FDI flows into Colombia continues, even while 2010 witnessed important investments by MNEs from other countries in the region. However, while 2009 experienced important investments in the commercial and manufacturing sectors, regional FDI in 2010 focused on natural resources. The top M&A deals completed in these years can be found in annex table 6, including cross-border acquisitions of companies such as Empresas Copec (Chile), Gerdau (Brazil), Ternium SA (Argentina), Estrella International Energy (Argentina), and Gasco SA (Chile).

According to UNCTAD, Colombia hosted 106 greenfield FDI projects in 2010, valued at US\$ 8.8 billion; this represents an additional 45 projects in comparison to 2009, and the largest annual number in the past five years.<sup>21</sup> Among these, the largest investments came from Canada, Luxembourg and Brazil (annex table 7). Furthermore, preliminary data for 2011 show a dynamic year, with 51 greenfield projects valued at US\$ 2.9 billion already identified as of April 2011.<sup>22</sup>

### **Effects of the recent global crises**

The Colombian economy was fairly resilient to the recent global financial and economic crises. Over the 2008-2009 period, FDI flows decreased by 33%, but nonetheless represented historically high numbers in Colombia. One visible consequence of the crises was the decrease of FDI flows from the country's traditional partners such as the United States and Spain. The

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<sup>18</sup> "Scotiabank buys stake in Colombian bank", *The Wall Street Journal*, October 21, 2011, available at: <http://online.wsj.com/article/SB10001424052970204485304576643353880991840.html>

<sup>19</sup> See, Ana María Poveda Garcés, "Outward FDI from Colombia and its policy context", *Columbia FDI Profiles* (ISSN: 2159-2268), September 1, 2011, available at [www.vcc.columbia.edu](http://www.vcc.columbia.edu).

<sup>20</sup> "La banca Colombiana 'coloniza' a Centroamerica," *El Pais*, January 25, 2012. Available at <http://www.elpais.com.co/elpais/economia/noticias/banca-colombiana-coloniza-centroamerica>

<sup>21</sup> UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production and Development* (Geneva: UNCTAD, 2011), annex tables I.8 and I.9, pp. 209-211.

<sup>22</sup> Ibid.

median shares of FDI flows from these countries in Colombia's IFDI for the period 2003-2006 stood at 34% in the case of the United States and 10% in the case of Spain, whereas the same shares for 2007-2010 stood at 28% and 5%, respectively.<sup>23</sup> Both for political and economic reasons, Colombia learned the importance of diversification. Policymakers realized the importance of improving the country's relations with other emerging markets, particularly the Asia-Pacific region. Accordingly, Colombia has begun the diversification of its international relations, and though it would be unrealistic to disregard the impact of Europe and the United States in Colombia's FDI inflows, it is likely there will be a sustained increase in IFDI from other regions of the world, as strategic armour to confront any possible incoming crisis, as for instance the Eurozone debt crisis.

### The policy scene

Over 2010 and 2011, Colombia continued working on further internationalizing its economy by entering into new trade and investment agreements. As of April 2012, Colombia has nine Free Trade Agreements (FTAs) in force<sup>24</sup> with Canada, the Central American triangle,<sup>25</sup> the Andean Community (CAN),<sup>26</sup> some CARICOM-member countries<sup>27</sup> Chile, Cuba,<sup>28</sup> Mercosur,<sup>29</sup> Mexico, and the European Free Trade Association (EFTA).<sup>30</sup> The FTA with the United States was approved by the US Congress in October 2011 and is entered into force in 15 May 2012; the the FTA with the European Union is in the texts-conciliation stage. Furthermore, Colombia is currently negotiating FTAs with Israel, Panama, Republic of Korea, and Turkey, as well as a "partial" agreement treaty with Venezuela. Most recently, Colombia has started talks too with Japan<sup>31</sup> and the United Arab Emirates<sup>32</sup> to negotiate trade treaties.

As of April 2012, Colombia has double taxation treaties (DTTs) in effect with Spain, Chile and

<sup>23</sup> Author's own calculations, based on Banco de la República, Balance of payments, August 2011, op. cit.

<sup>24</sup> Based on information regarding FTAs (including economic partnership agreements) made available to the public by the Ministerio de Comercio, Industria y Turismo (MCIT), available at [www.tlc.gov.co](http://www.tlc.gov.co)

<sup>25</sup> Comprising Guatemala, El Salvador and Honduras.

<sup>26</sup> Comprising Bolivia, Colombia, Ecuador, and Peru.

<sup>27</sup> The free trade agreement between Colombia and CARICOM currently was signed by the following CARICOM member-countries: Antigua and Barbuda, Barbados, Belize, Dominica, Guyana, Grenada, Jamaica, Monserrat, Trinidad and Tobago, St. Kitts and Nevis, St. Lucía, and Vicente and the Grenadines. Bahamas is not part of the agreement as the country is outside CARICOM's common market and Surinam and Haiti are also outside the agreement, as they became CARICOM members after the treaty was signed. For additional information see MICT, available at: <http://www.tlc.gov.co/publicaciones.php?id=11951>

<sup>28</sup> Commercial relations between Colombia and Cuba are governed by the Economic Complementation Agreement No. 49 signed in 2000 under the framework of the Latin American association for Integration (ALADI) and entered into force on July 10, 2001.

<sup>29</sup> Comprising Argentina, Brazil, Chile, Uruguay, and Paraguay

<sup>30</sup> Comprising Iceland, Lichtenstein, Norway, and Switzerland. The EFTA-Colombia FTA was ratified by Switzerland on October 29, 2009 and by Lichtenstein on November 26, 2009. Ratification by Norway and Iceland is still pending.

<sup>31</sup> "Colombia y Japón iniciarán estudio conjunto para el acuerdo de asociación económica," *Presidencia de la Republica*, 12 September 2011, available at:

[http://wsp.presidencia.gov.co/Prensa/2011/Septiembre/Paginas/20110912\\_08.aspx](http://wsp.presidencia.gov.co/Prensa/2011/Septiembre/Paginas/20110912_08.aspx)

[http://wsp.presidencia.gov.co/Prensa/2011/Septiembre/Paginas/20110912\\_08.aspx](http://wsp.presidencia.gov.co/Prensa/2011/Septiembre/Paginas/20110912_08.aspx)

<sup>32</sup> See, "Canciller de Emiratos Árabes Unidos visitará Colombia el martes," *El Espectador*,

March 11, 2012, available at: <http://www.elespectador.com/noticias/politica/articulo-331754-canciller-de-emiratos-arabes-unidos-visitara-colombia-el-martes>

Switzerland and has also signed DTTs with Canada, Mexico, Korea, Portugal, and India. Colombia has in effect bilateral investment treaties (BITs) with Peru, Switzerland and Spain, most recently China, India and United Kingdom, and others including South Korea and Japan are pending approval.<sup>33</sup>

On the domestic policy front, by the end of 2010, the Colombian Government passed a number of reforms that could affect IFDI.<sup>34</sup> One important modification was the elimination of the 30% special capital expenditure deduction for the acquisition of productive, tangible fixed assets. This applies as from the tax year 2011.<sup>35</sup> Another potentially important development was announced by the Government in July 2011, in which it presented legislation to the Congress to modify the Colombian arbitration law.<sup>36</sup> Currently, the Colombian law on recognition and enforcement of foreign arbitral awards does not follow the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, also known as the “New York Arbitration Convention.” With the proposed changes, the new law would be based on and would follow the New York Convention guidelines.

In order to prepare better for attracting and benefiting more from potential new FDI flows, the national investment promotion agency (IPA), Invest in Colombia, has been growing and aggressively promoting the country as a profitable destination, focussing on various industries and services that have a high social and economic impact. At the same time, regional IPAs have been developed in cities like Bogotá (Invest in Bogotá), Medellín (Agencia de Cooperación e Inversión de Medellín), Barranquilla (ProBarranquilla), and Cali (Invest Pacific); these IPAs serve both the cities and their regions, promoting investments that will have a lasting impact in terms of jobs and have the potential to make a large and positive impact in the development of the country. These IPAs, however, do not have specific instruments or guidelines for environmentally sustainable investments.

With respect to the environment, Colombian environmental law is centered on the concept of sustainable development. It is contained in the Political Constitution of 1991, which included the environment as a collective right, in the Code of Natural Renewable Resources and of Protection to the Environment of 1974, and the precepts of the United Nations Conference of Rio held in 1992. The uses of environmental resources by domestic firms as well as foreign affiliates are subject to various types of controls and regulations.<sup>37</sup> As for its enforcement and effectiveness, there are mixed views and reports.<sup>38</sup>

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<sup>33</sup> See “Colombia Business and Investment Guide 2012” pgs.28, 29. Ernst & Young Ltda, April 2012, available at: <http://www.ey.com/CO/es/Newsroom/Colombia-Business-and-Investment-Guide-2012>

<sup>34</sup> Law 1430, December 2010.

<sup>35</sup> The 30% deduction continues to apply for (a) taxpayers with a legal stability agreement; and (b) taxpayers that filed a petition for approval of legal stability agreement prior to November 1, 2010.

<sup>36</sup> Proyecto de Ley “*Por medio de la cual se expide el Estatuto de Arbitraje Nacional e Internacional y se dictan otras disposiciones*,” July 26, 2011, available at: <http://www.mij.gov.co/Ministerio/Library/Resource/Documents/ProyectosAgendaLegislativa/Anteproyecto%20Arbitraje2097.pdf> as of the first week of May 2012 the proposal was still under debate by the Congress.

<sup>37</sup> There are several control tools to protect the quality of the air, water, trees, solid and hazardous waste, noise, and external visual advertising and these are enforced by the main environmental authorities, the Ministry of Environment and Sustainable Development, which is a spin off entity from the former Ministry of Environment, Housing and Territorial Development, and the Regional Autonomous Environmental Agencies (“CAR”).

<sup>38</sup> Ana María Poveda Garcés, *op.cit.*

In recent years, the mining industry has received particular emphasis as the investments in this sector represent a large share of the country's FDI. There seems to be a consensus in the civil society about the importance of preserving the environment, strengthened by local media and environmental organizations whose investigations have raised public attention when sensitive projects are under consideration.<sup>39</sup>

### Special developments

There have been a number of interesting developments in Colombia's economy with implications for IFDI, of which two are considered here. One is that the Government has had to consider the environmental aspects of natural resources exploitation, which is a testament to the increasing strength of Colombian civil society. In addition, there have been changes in the Colombian economy's standing in world financial markets.

The debate over sustainable investment and natural resource exploitation reached popular-interest levels in 2010 and 2011 when the Canadian mining company Greystar Resources Ltd. requested an environmental permit to exploit an open pit gold mine covering an area of 1.100 hectares in a "Páramo" – a high-altitude Andean, protected ecosystem in the north-eastern region of Santander, called Santurbán. More recently, local entrepreneurs and the resort management and development company Six Senses Resorts & Spas announced the construction of a seven stars luxury hotel located in the Tayrona National Park.<sup>40</sup> Both projects encountered considerable opposition from civil society, the media, activists, and local authorities, especially for their impact on the ecosystem and the exploitation of sacred native indigenous land without relevant approval.<sup>41</sup> In both cases, after being widely documented by the local media, the projects were (at least temporarily) withdrawn.

The previous examples are proof of increasing supervision and influence on certain kinds of production activities from civil society, and both the Government and private sector are aware they now must increase their efforts to structure and approve sustainable projects with additional collaborative negotiations rather than just presenting environment and economic development as competing forces. In addition to the environmental impact studies each project must comply with, Colombia has in place regulations to protect ecosystems such as the Páramos<sup>42</sup> and the indigenous lands. With accelerated FDI inflows, however, the authorities must be careful to keep promoting investments without gambling with the sustainability of the ecosystem and vulnerable native groups.

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<sup>39</sup> For additional information, please refer to "Los poderes detrás del páramo de Santurbán" and "la escandalosa adjudicación de títulos mineros en parques naturales", *La Silla Vacía*, available at <http://www.lasillavacia.com/historia/los-poderes-detras-del-paramo-de-santurban-22387> and <http://www.lasillavacia.com/historia/la-escandalosa-adjudicacion-de-titulos-mineros-en-parques-naturales-26448>

<sup>40</sup> María del Rosario Arrázola, "Los empresarios del Tayrona", Octubre 2011 available at: <http://www.elespectador.com/impreso/nacional/articulo-306953-los-empresarios-del-tayrona>

<sup>41</sup> It is important to point out that regulations are in place to ensure the participation and approval of local native indigenous communities in potential projects in the areas of their influence.

<sup>42</sup> Decree 2811 of 1974 and Law 1382 of 2010; the latter was deemed unconstitutional in 2011 by the Constitutional Court; however, the law is to be applicable for two additional years before a new, more robust law is expected to replace it.



In this regard, sustainable development is now more than ever present in the debate. Mining remains a highly unregulated and dangerous activity that presents a challenge for the country's ability to reach a sustainable balance between the exploitation of natural resources and the protection of the environment.

Another important development with likely implications for IFDI was the upgrading of Colombia's credit debt rating in 2011 by Standard & Poors, Moody's Investor Services and Fitch Ratings, the three largest credit rating agencies, reflecting a change from the highest speculative grade to the lowest investment grade. This is a boost of confidence in the Colombian economy after 11 years of credit-rating in a junk category. The rise in the country's credit ratings has the potential to foster additional investments both in debt and portfolio capital and other forms; as explained by the head of the country's National Planning Department, it is forecast that the new ratings will help Colombia reach US\$ 14 billion in IFDI by 2014.<sup>43</sup>

## Conclusions

With the Colombian economy's positive growth path and an improved image abroad, boosted by the recovery of the country's credit-rating to investment grade, FDI inflows are expected to double over the next five years.<sup>44</sup> To achieve this goal, Colombia is in the process of diversifying its commercial partners. The FTA with Canada, the FTA negotiations with the Republic of Korea, and efforts to foster commerce with Japan and Turkey, in addition to the BITs with the United Kingdom, China and India, will be important tools to further develop Colombia's international commercial relationships. The implementation of these agreements will expand the spectrum of Colombia's commercial partners, and help lower the country's dependence on a few historical markets and sources of FDI.

As a result of this commercial diversification, an increasing portion of FDI flows will most likely come from regions like Asia and Latin America. However, it is expected that FDI in the extractive sector will continue to represent the largest share of total FDI and, so, the challenge to attract foreign capital in non-extractive sectors remains.

Finally, with all the good news, much work remains to be done. Large investments in infrastructure and education must be made to ensure the country's competitiveness benefits from trade agreements with larger and more developed economies, and attract increasing FDI flows. Additionally, Colombia needs to increase efforts to reduce poverty and inequality levels as the country remains one of the most unequal countries in the world.<sup>45</sup> A better future depends on

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<sup>43</sup> Andrea Jaramillo and Bill Koenig, "Colombia's credit rating raised to investment grade by Moody's; Peso gains", *Bloomberg*, May 31, 2011. <http://www.bloomberg.com/news/2011-05-31/colombia-s-credit-rating-raised-to-investment-grade-by-moody-s-peso-gains.html>

<sup>44</sup> Ministerio de Comercio, Industria y Turismo de Colombia, *Planeación Estratégica sectorial 2010-2014*" [http://www.sic.gov.co/archivo\\_descarga.php?idcategoria=15487](http://www.sic.gov.co/archivo_descarga.php?idcategoria=15487)

<sup>45</sup> The country's income Gini coefficient for Colombia is among the highest in the world, lower only than those of the Comoros, Haiti and Angola, making it the fourth most unequal country in the world. See UNDP, *Human Development Report 2011: Sustainability and Equity. A Better Future for All* (New York: UNDP, 2011), available at <http://hdr.undp.org/en/reports/global/hdr2011/download/>

Colombia's effective response to the inequality challenges as well as managing the unbalanced sectorial and geographic distribution of FDI-recipient regions and municipalities it faces.

### **Additional readings**

*Guía Legal para hacer negocios en Colombia* (Bogotá: Ministerio de Comercio, Industria y Turismo, Proexport, Brigard & Urrutia, Brigard & Castro, June 2011).

*Boletín Legal de Comercio Internacional* (Bogotá: Lewin & Wills Abogados, February 2011).

CECODES, *Cambiando el rumbo 2010: Casos de Sostenibilidad en Colombia* (Bogotá: CECODES, February 2011).

Bureau of Economic, Energy and Business Affairs, *2011 Investment Climate Statement – Colombia*, (Washington DC, US State Department, March 2011).

### **Useful websites**

For National Economic and Social Statistics: National Department of Statistics, Colombia, available at: [www.dane.gov.co](http://www.dane.gov.co).

For economic statistics: Banco de la República, Colombia, available at: [www.banrep.gov.co](http://www.banrep.gov.co).

For FDI statistics and operational costs: Invest in Colombia, Colombia, available at: <http://www.investincolombia.com.co>.

For International Trade information: Ministry of Commerce, Industry and Tourism, Colombia, available at: [www.mincomercio.gov.co](http://www.mincomercio.gov.co).

For information regarding investment opportunities in Bogota: Bogota's Investment Promotion Agency, Colombia, available at: [www.investinbogota.com](http://www.investinbogota.com)

For information regarding investment opportunities in Barranquilla: Barranquilla's Investment Promotion Agency, Colombia, available at: [www.probarranquilla.org](http://www.probarranquilla.org)

For information regarding investment opportunities in Medellín: Medellín's agency of cooperation and investment, Colombia, available at: [www.aciMedellín.org](http://www.aciMedellín.org)

For information regarding investment opportunities in the Pacific region: Pacific region Investment Promotion Agency, Colombia, available at [www.investpacific.org](http://www.investpacific.org)

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The Vale Columbia Center on Sustainable International Investment (VCC), led by Lisa Sachs, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It is a leading forum on issues related to foreign direct investment (FDI), paying special attention to the impact of such investment on sustainable development. Its objectives are to analyze important topical policy-oriented issues related to FDI and to develop and disseminate practical approaches and solutions. ([www.vcc.columbia.edu](http://www.vcc.columbia.edu))

## Statistical annex

### Annex table 1. Colombia: inward FDI stock, 2000-2011

(US\$ billion)

Economy	2000	2005	2006	2007	2008	2009	2010	2011
Colombia	11	37	45	56	67	75	82	96
Memorandum: comparator economies								
Chile	46	74	80	99	99	121	139	n.a.
Venezuela	35	44	46	44	43	41	38	n.a.
Peru	11	16	20	27	32	34	42	n.a.
Ecuador	6	10	10	10	11	12	12	n.a.
Bolivia	5	5	5	5	6	6	7	n.a.

Source: For Colombia, Banco de La República, Exchange Balance, Bogotá, April, 2012, available at: [http://www.banrep.gov.co/series-estadisticas/see\\_s\\_externo.htm](http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm); for comparator economies: UNCTAD's FDI/TNC database, available at: [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics).

### Annex table 2. Colombia: inward FDI flows, 2000-2011

(US\$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Colombia	2.4	2.5	2.1	1.7	3.0	10.3	6.7	9.1	10.6	7.1	6.9	13.2
Memorandum: comparator economies												
Chile	4.9	4.2	2.6	4.3	7.2	7	7.3	12.5	15.1	12.9	15.1	17.3
Venezuela	4.7	3.7	0.8	2.0	1.5	2.6	-0.5	1.0	0.3	-3.1	-1.4	5.3
Peru	0.8	1.1	2.2	1.3	1.6	2.6	3.5	5.5	6.9	5.6	7.3	7.7
Ecuador	-0.02	0.5	0.8	0.9	0.8	0.5	0.3	0.2	1	0.3	0.2	0.4
Bolivia	0.7	0.7	0.7	0.2	0.1	-0.3	0.3	0.4	0.5	0.4	0.7	0.9

Source: Banco de la República, Balance of Payments, (Bogotá, April 2012), available at: [http://www.banrep.gov.co/series-estadisticas/see\\_s\\_externo.htm](http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm); for comparator economies: 2000-2010 data from UNCTAD's FDI/TNC database, available at: [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics) and for 2011 data, ECLAC, *Foreign Direct Investment in Latin America and the Caribbean, 2011* available at: <http://www.cepal.org/publicaciones/xml/0/46570/2012-181-LIE-WEB.pdf>

**Annex table 3. Colombia: sectoral distribution of inward FDI flows, 2000, 2010, and 2011**

(US\$ million)

<b>Sector / industry</b>	<b>2000</b>	<b>2010 <sup>a</sup></b>	<b>2011 <sup>a</sup></b>
<b>All sectors / industries</b>	<b>2,436</b>	<b>6,899</b>	<b>13,234</b>
<b>Primary</b>	<b>123</b>	<b>4,603</b>	<b>7,835</b>
Agriculture, forestry, and fishing	0	67	131
Mining, quarrying and petroleum	123	4,536	7,704
Mining and quarrying	507	1,755	2,621
Petroleum	-384	2,781	5,083
<b>Secondary</b>	<b>535</b>	<b>954</b>	<b>987</b>
Manufactures	556	656	533
Construction	-21	298	454
<b>Services</b>	<b>1,779</b>	<b>1,343</b>	<b>4,412</b>
Commerce, restaurants, hotels	10	370	2,264
Utilities	13	36	585
Transport, warehouse and communications	876	-425	1,421
Financial establishments	792	1,252	343
Communal services	88	110	-201

*Source:* Banco de la República, Balance of payments, (Bogotá, February 2011), available at: [http://www.banrep.gov.co/series-estadisticas/see\\_s\\_externo.htm](http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm)

<sup>a</sup> Preliminary.

**Annex table 4. Colombia: geographical distribution of inward FDI flows, 2000, 2010, 2011 <sup>a</sup>**

(US\$ million)

Region / economy	2000	2010	2011
<b>World<sup>a</sup></b>	<b>3,266.1</b>	<b>1,163.7</b>	<b>4,419.1</b>
<b>Developed economies</b>	<b>2,169.8</b>	<b>248.8</b>	<b>2,666.8</b>
<b>Europe</b>	<b>1,380.5</b>	<b>109.5</b>	<b>1,947.2</b>
<b>European Union</b>	<b>1,316.3</b>	<b>62.8</b>	<b>1,822.8</b>
Austria	0	24	21.1
Denmark	71.2	3.5	-0.6
France	2.9	34.1	46.3
Germany	81.5	-23.2	25.3
Ireland	-2.6	7.3	0.8
Italy	1.8	17.6	15.2
Luxembourg	105.2	-29.9	33.8
Netherlands	156.2	-159.3	809.6
Spain	479.2	-18.1	732.5
Sweden	15.6	3	-254.8
United Kingdom	405	191.4	390.4
<b>North America</b>	<b>784.2</b>	<b>175.8</b>	<b>700.0</b>
Canada	663.9	162.8	173.8
United States <sup>b</sup>	120.3	13	526.3
<b>Other developed countries</b>	<b>5.1</b>	<b>-36.5</b>	<b>19.5</b>
Australia	n.a.	3.2	9.8
Japan	5.1	-39.7	9.8
<b>Developing economies</b>	<b>1,083.45</b>	<b>878.34</b>	<b>1,752.32</b>
<b>Africa</b>	<b>-18.00</b>	<b>0</b>	<b>0</b>
<b>Asia and Oceania</b>	<b>4.5</b>	<b>8.9</b>	<b>18.2</b>
China	4.5	6.2	12.4
Korea, Republic of	0.0	1.3	2.7
India	0.0	0.5	0.6
<b>Latin America and Caribbean</b>	<b>22.4</b>	<b>-528.5</b>	<b>1,077.7</b>
Brazil	4.6	53.6	206.4
Chile	9.7	-52	583.0
Costa Rica	3.6	10.3	7.4
Mexico	23.1	-623.1	80.3
Peru	0	10.7	19.1
Uruguay	0.3	14	26.9
Venezuela	-20.4	40	20.2
<b>Financial centers</b>	<b>1,087.3</b>	<b>1,424.7</b>	<b>613.7</b>
Anguilla	n.a.	552.7	183.6
Bermudas	253.4	220.4	9.3
Panama	259.0	572.2	649.6
<b>Unspecified destination</b>	<b>-17.9</b>	<b>9.7</b>	<b>42.7</b>

Source: Banco de la República, Balance of Payments Preliminary Data, Bogotá, August 2011, April 2012, available at: [http://www.banrep.gov.co/series-estadisticas/see\\_s\\_externo.htm](http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm)

<sup>a</sup> Data do not include profit reinvestments nor investments in the petroleum sector.

<sup>b</sup> Includes Puerto Rico.

**Annex table 5. Colombia: principal non-financial foreign affiliates in the country, ranked by total foreign sales in Colombia, 2010**

Rank	Name	Industry	Sales 2010 (US\$ million)	Assets 2010 (US\$ million)
1	Almacenes Exito	Wholesale distribution	3,953.9	3,497.4
2	Comcel	Telecommunications	3,302.3	4,639.7
3	Avianca Taca	Transport	2,802.8	3,681.8
4	Exxon Mobil	Oil and gas operations	2,642.5	625.4
5	Bavaria S.A.	Beverages	2,554.8	4,783.7
6	Carbones del Cerrejon	Coal	2,355.1	2,108.1
7	Carrefour	Wholesale distribution	2,133.3	1,963.5
8	Telefonica de Colombia	Telecommunications	2,051.3	4,126.9
9	Drummond	Mining	1,934.0	2,019.2
10	Pacific Rubiales	Oil	1,661.5	3,886.1

Source: "Las 100 empresas más grandes de Colombia (...y las 900 siguientes)," *Revista Semana*, Special Edition No. 1513, Bogotá, May 2011.

<sup>a</sup> Average COP/USD exchange rate used for 2010: 1,898.6 COP per USD.

**Annex table 5a. Colombia: principal financial foreign affiliates in the country, ranked by total foreign assets in Colombia, 2010**

Rank	Name	Industry	Assets (US\$ million)
1	BBVA	Banks	11,632.3
2	Horizonte	Pension funds	8,339.5
3	Colfondos	Pension funds	7,437.5
4	ING pensiones y cesantias	Pension funds	6,041.2
5	GNB Sudameris	Banks	4,372.5
6	Citibank	Banks	4,322.8
7	Banco Santander	Banks	3,537.3
8	Skandia	Pension funds	2,575.4
9	HSBC	Banks	1,089.8
10	JP Morgan	Investment banking	388.1

Source: Superintendencia Financiera de Colombia, available at <http://www.superfinanciera.gov.co/>

<sup>a</sup> Average COP/USD exchange rate used for 2010: 1,898.6 COP per US\$.

**Annex table 6. Colombia: main M&A deals, by inward investing firm, 2008-2010**

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value (US\$ million)
2010	Glencore International AG	Switzerland	Xstrata Coal South America-	Bituminous coal and lignite surface mining	100.0	2,250.0
2010	Empresas Copec SA	Chile	Proenergia Internacional SA	Petroleum and petroleum products wholesalers	47.2	239.9
2010	Citigroup Global Markets Ltd	United Kingdom	Almacenes Exito SA	Department stores	5.8	216.3
2010	Medoro Resources Ltd	Canada	Frontino Gold Mines Ltd	Gold ores	100.0	198.4
2010	Goldman Sachs Group Inc	United States	Cia Carbones del Cesar SA-La	Bituminous coal and lignite surface mining	100.0	100.2
2010	Ternium SA	Argentina	Ferrasa SA	Steel works, blast furnaces, and rolling mills	54.0	74.5
2010	Gerdau SA	Brazil	Cleary Holdings Corp	Products of petroleum and coal	49.1	57.0
2010	Goldman Sachs Group Inc	United States	Adromi Capital Corp	Offices of holding companies	100.0	51.0
2010	Ventana Gold Corp	Canada	Minera La Bodega-Certain Asts	Gold ores	100.0	48.0
2010	London Mining PLC	United Kingdom	International Coal Co	Bituminous coal and lignite surface mining	80.0	44.5
2010	Medoro Resources Ltd	Canada	Mineros Nacionales SA	Gold ores	94.5	35.0
2010	Office Depot de Mexico SA	Mexico	Carvajal SA-Stationery	Stationery and office supplies	100.00	23.00
2010	Estrella International Energy	Argentina	STS de los Andes SA	Drilling oil and gas wells	100.00	18.06
2010	Gasco SA	Chile	Inversiones GLP ESP	Offices of holding companies, nec	70.00	17.29
2010	Tapestry Resource Corp	Canada	Gran Colombia Gold SA	Gold ores	100.00	16.46
2009	Cia Vale do Rio Doce SA	Brazil	Cementos Argos SA-Coal Mine	Cement, hydraulic	100.0	373.0
2009	Cia Vale do Rio Doce SA	Brazil	Undisclosed Coal Assets,	Bituminous coal and lignite surface mining	100.0	305.8
2009	Kimberly-Clark Corp	United States	Colombiana Kimberly Colpapel	Sanitary paper products	31.3	289.0
2009	Inversiones Argos SA	Colombia	Colinversiones	Offices of holding companies	15.3	119.2
2009	Investor Group	Chile	Bavaria SA-Agua Brisa Bottled	Bottled & canned soft drinks & carbonated waters	100.0	92.0
2009	Cencosud	Chile	Easy Colombia SA	Grocery stores	30.0	60.0



<b>Year</b>	<b>Acquiring company</b>	<b>Home economy</b>	<b>Target company</b>	<b>Target industry</b>	<b>Shares acquired (%)</b>	<b>Estimated/ announced transaction value (US\$ million)</b>
2009	Orkam Holding Colombia NV	Netherlands	Makro Supermayorista SA	Grocery stores	43.6	37.6
2009	Corporacion Farmaceutica	Chile	Laboratorios Synthesis Ltda-	Pharmaceutical preparations	100.0	18.0
2009	Mexichem SAB de CV	Mexico	Geon Polimeros Andinos SA	Industrial organic chemicals	50.0	13.5
2009	Orofino Gold Corp	Canada	Sur de Bolivar Group of Gold P	Gold ores	55.0	12.8
2008	GE Money	United States	Banco Colpatría SA	Banks	39.3	228.0
2008	Pacific Rubiales Energy Corp	Canada	Kappa Energy Holdings Ltd	Crude petroleum and natural gas	100.0	168.0
2008	Indura SA	Chile	Cyrogas SA	General industrial machinery and equipment	100.0	139.2
2008	Brysam Global Partners	United States	Banco Caja Social SA	Banks	18.8	101.7
2008	GE Money	United States	Banco Colpatría SA	Banks	10.7	72.8
2008	Grupo Votorantim	Brazil	Acerias Paz del Rio SA	Steel works, blast furnaces, and rolling mills	n.a.	68.3
2008	Stratton Spain SL	Spain	Multienlace SA	Business services	n.a.	62.4
2008	B2Gold Corp	Canada	AngloGold Ashanti Ltd-Mineral	Chemical and fertilizer mineral mining	100.0	47.5
2008	CAF	Venezuela	Transportadora de Gas del	Natural gas transmission	n.a.	40.0
2008	Xira Invest Inc	Panama	Carbones Colombianos	Coal mining services	n.a.	25.0

*Source:* The author, based on Thomson ONE Banker, Thomson Reuters.

**Annex table 7. Colombia: main greenfield projects, by inward investing firm, 2008-2010**

(US\$ million)

<b>Year</b>	<b>Investing company</b>	<b>Home economy</b>	<b>Industry</b>	<b>Value</b>
2010	Pacific Rubiales	Canada	Coal, oil and natural gas	2,000.0
2010	Greystar Resources	Canada	Metals	600.0
2010	Millicom International Cellular	Luxembourg	Communications	512.0
2010	Hejoassu Administracao	Brazil	Metals	327.0 <sup>a</sup>
2010	Canacol Energy	Canada	Coal, oil and natural gas	307.7 <sup>a</sup>
2010	Canacol Energy	Canada	Coal, oil and natural gas	307.7 <sup>a</sup>
2010	Drummond	United States	Coal, oil and natural gas	282.6 <sup>a</sup>
2010	Alange Energy	Canada	Coal, oil and natural gas	282.6 <sup>a</sup>
2010	EBX Group	Brazil	Coal, oil and natural gas	282.6 <sup>a</sup>
2010	EBX Group	Brazil	Coal, oil and natural gas	282.6 <sup>a</sup>
2009	Cisneros Group of Companies	Venezuela	Leisure and entertainment	250.0
2009	Inveravante	Spain	Coal, oil and natural gas	200.0
2009	Telefonica	Spain	Communications	180.0
2009	Terremark Worldwide	United States	Communications	171.1 <sup>a</sup>
2009	Global Crossing	Bermuda	Communications	171.1 <sup>a</sup>
2009	Royal Vopak	Netherlands	Transportation	149.3 <sup>a</sup>
2009	SkyPostal Networks	United States	Transportation	149.3 <sup>a</sup>
2009	InterOil Exploration and Production ASA	Norway	Coal, oil and natural gas	139.5 <sup>a</sup>
2009	Carrefour	France	Food and tobacco	131.3
2009	Farmatodo	Venezuela	Pharmaceuticals	100.0
2008	Glencore International	Switzerland	Coal, oil and natural gas	3,000.0
2008	Votorantim Group	Brazil	Metals	1,500.0
2008	Endesa	Spain	Alternative/renewable energy	900.0
2008	Carrefour	France	Food and tobacco	300.0

2008	Cambridge Mineral Resources	United Kingdom	Metals	283.2 <sup>a</sup>
2008	Toyota Motor	Japan	Automotive OEM	232.2 <sup>a</sup>
2008	Endesa	Spain	Coal, oil and natural gas	229.0 <sup>a</sup>
2008	Related Group	United States	Hotels and tourism	200.0
2008	Kimberly-Clark	United States	Paper, printing and packaging	161.4 <sup>a</sup>
2008	Saint-Gobain	France	Ceramics and glass	160.0

*Source:* The author, based on fDi Intelligence, a service from the Financial Times Ltd.

<sup>a</sup> Estimated investment.