COLOMBIA

What’s happening in the economy

Colombia is the fourth largest economy in Latin America. It has expanded at an average annual rate of 3.2 per cent over the five years from 2013–2017.

With sound macroeconomic fundamentals, recovering oil and commodity prices, a substantial infrastructure investment program and private consumption growth, GDP is forecast to rise by 2.8 per cent in 2018 and 3.6 per cent in 2019. Colombia’s commitment to fiscal discipline has underpinned its investment credit rating since 2013 (Baa2-Moody’s; BBB-Fitch; BBB-S&P). As an OECD country since May 2018, Colombia’s middle class is expected to grow to 37 per cent of the population by 2020 and 46 per cent by 2025.

Colombia is the third largest destination for FDI in Latin America, receiving USD 14.5 billion in 2017 (up 5.63 per cent from 2016). The stock of Australian investment in Colombia was AUD 510 million in 2017. Colombia is the fourth largest business partner for Australia in Latin America as reflected in the recent Australian International Business Survey. Colombia’s investment in Australia decreased to AUD –1 million (–111 per cent) in 2017, but an increase is expected for 2018 given the investments noted below.

Recent reforms improved Colombia’s investment climate by simplifying the corporate tax regime and tackling tax evasion. The corporate tax rate will drop to 33 per cent from 2019 (from the current 36 per cent). President Ivan Duque has committed to implement further tax cuts and simplify administrative processes.

President Duque has also pledged to reduce the country’s dependence on extractive industry exports (oil, gas, coal and nickel) that accounted for 55 per cent of exports in 2017. Corruption, lack of infrastructure, legal uncertainty (especially within the extractive industries), insecurity in some areas left by the Revolutionary Armed Forces of Colombia (FARC guerrillas), and deep income inequalities remain major challenges.

Key facts and figures

- Population: 49.3 million (2017)
- GDP: USD 328 billion (2018)
- GDP growth: 2.8% (IMF forecast 2018)
- GDP per capita: USD 6,581 (2018)
- Political system: presidential democracy
- Total exports to Colombia: AUD 576 million (2017)
- Total imports from Colombia: AUD 179 million (2017)
- Major Australian exports: education services, goods vehicles, and electrical circuits and machinery
- Major Australian imports: coffee, coal and crude vegetable matter
- Australian investment in Colombia: AUD 510 million (2017)
- Major investments: mining and mining equipment, technology and services, manufacturing
- Colombian investment in Australia: AUD 1 million (2017)
- Aid relationship: AUD 500,000 towards demining to support the peace process and AUD 135,000 Direct Aid Program
Trade, investment, and commercial opportunities and activities

- Colombia is a founding member of the Pacific Alliance but is not part of the TPP or APEC. Australia is currently negotiating an FTA with the Pacific Alliance (Chile, Peru, Mexico and Colombia). At October 2018, 51 Australian companies have an office in Colombia, of which:
  - 33 per cent were in mining/METS
  - 12 per cent were in education, and
  - 7.84 per cent were in agriculture.

- Recent flagship investments include the IMF’s AUD 976 million acquisition of OHL (to be renamed Aleatica), Fortescue Metals Group’s 64 mining concessions in southern Colombia, and Orica’s recent investment of USD18 million in its second global explosives plant.

- Colombia has continued to reap a peace dividend—estimated at 2 per cent of GDP—after the historic 2016 peace agreement between the government and the former FARC guerrilla movement:
  - improvements to the security environment have opened previously off-limits areas to investment in mining, renewable energy, agribusiness, water treatment, infrastructure and tourism.

- Colombia’s extractives sector includes high-quality thermal coal (Colombia is the world’s fourth largest exporter), nickel, emeralds, copper, gold, silver and platinum:
  - much of Colombia’s mining potential remains unexplored. Australia’s mining companies in Colombia include BHP (coal), South 32 (nickel) and FMG’s recent application for concessions targeting copper and gold. Australian METS include Worley Parsons, Austin Engineering and Cardno. Continued mining sector growth will provide further opportunities for Australian business.

- Colombia is a major oil producer, which accounts for 35 per cent of exports and 10 per cent of government revenue:
  - in 2015, the government reformed its regulatory framework to incentivise investment in hydrocarbons and there are early signs of a pick-up in activity
  - in 2017, 578 exploration and development wells were drilled – an increase of 182 per cent over 2016
  - Colombia’s proven reserves of natural gas were 3.8 million cubic feet at the end of 2017, although production levels are currently insufficient to meet domestic demand, and
  - Colombia and Australia signed MOUs on mining in 2014 and on hydrocarbons in 2015.

- Education remains one of Australia’s largest service exports to Colombia and was worth AUD 493 million in 2017. In 2017, 21,426 Colombians enrolled in Australian courses—up 26.5 per cent from 2016—making Colombia Australia’s ninth largest market by enrolments and third largest for ELICOS behind China and Brazil. In 2016, the Colombian Government launched an ambitious strategy aiming to make Colombia the most educated country in Latin America by 2025. Demand for offshore education services are expected to increase as Colombia’s economy continues to develop, underpinned by an expanding outward-looking middle class.
Colombia’s infrastructure deficit is estimated at over USD 135 billion, with major investments needed in roads and rail, health, education, water and sanitation. In 2010, the government committed USD 70 billion to upgrade roads, ports, airports, rail and social infrastructure, and a further USD 4 billion to fund over 200 projects in utilities. The current infrastructure development and construction boom will continue to provide opportunities for Australian firms, such as IFM, Macquarie Capital, Worley Parsons and AMOG (engineering), Orica (explosives) and Aconex (construction management software).

Agriculture is another growth sector which increased by 4.9 per cent in 2017 and accounted for six per cent of GDP. The livestock sector, representing 20 per cent of all agricultural production, is predominantly small scale—82 per cent of growers own less than 50 animals—with potential for increasing economies of scale. Between 2016–2018, the government will invest USD 500 million to lift productivity. Expansion of the sector provides opportunities for Australian agribusiness (for example Nufarm, which currently operates out of Cali) and potential for technical cooperation. There are also opportunities for Australia to assist in basin and on-farm water management.

In the post-conflict era, resettlement of populations in former FARC zones will require investment in basic infrastructure, offering opportunities for Australian companies. There are tax concessions for renewable energy generation and Australian experience in delivering smart grid solutions could benefit Colombia’s regional and remote areas.

Colombia has a global reputation as a pioneer and leader in health care services and is one of the most popular destinations for medical tourism. The country is also home to world-renowned tropical medicine research institutions and universities. Monash University is working with Antioquia University as part of the World Mosquito Program and Cochlear recently opened its first direct-to-market office in Latin America.

Tourism is growing strongly in both directions. In 2017 Colombia received 16,839 Australian visitors (up 7.5 per cent from the previous year) while Australia received 8,149 Colombian tourists.

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