

>> **Is Colombia a Paradise for investors?**

Colombia >> 10 >> 2013

There is no doubt Colombia is an interesting place for investors. One of the main reasons investment promoters could mention to invest in this country with 47 million inhabitants, is the country's economy sustained growth. They would be saying the truth since the GDP average growth during the past 3 years was 4.8%. They could also mention the emerging middle class, and once again it would be true since along the past decade the per capita income has grown and it is now three times higher, US\$8,000. Perhaps they could also mention the country's demographic bonus with 60% of its population of working age.

For those who prefer lower costs, there is a report carried out by the Boston Consulting Group which shows that in five years' time the labor costs in China for manufactured products will be the same as in the USA. This will make costs of local production more attracting and another fact to take into account is the country's proximity to the USA, the world's major market.

Nevertheless, these arguments can be found in almost all countries in Latin America. We should offer more specific arguments to convince investors to bet for Barranquilla instead of going to Belo Horizonte, Medellin or Monterrey.

We could then, talk about the improvements in education. Between 2008 and 2012 the coverage of secondary education rose from 71% to 76% in Colombia. It is not an incredible

percentage, but, compared to the 73% in Mexico which has the reputation —justifiably— of being the bastion of "high tech" industrialization of the area or to the 68% of Panama, the main receptor of investment and the country that grows the most in the hemisphere, the data are not too bad.

The price of the company's is also an aspect to be taken into account. Regarding the share's price and the companies' utilities traded in the Stock Exchange, Colombian companies are cheap. By the end of last year this proportion was 21.5 in Mexico, 23.2 in Chile and 19.3 in Colombia. This data show that Colombian companies are cheaper, a good sign for those willing to buy companies in a growing market.

On the other hand, there are some advantages in certain areas in Colombia that distinguish the country from its neighbors.

CASE BY CASE

The Colombian oil sector grew fast thanks to the 90s reforms. The National Hydrocarbons Agency, created with the reforms allotted in auctions blocks for exploration and exploitation. Many of them were sold in auction by Colombians who later got funds to work on them in the Toronto Stock Exchange together with the crude oil tankers in Alberta. There were great discoveries and large fortunes were made. The most famous one is probably the one by Pacific Rubiales, a company formed by former officials of the Venezuelan company Pdvesa. In two years, the price of the Pacific's share multiplied by 13. It rose from less than 3 Canadian dollars to 35 between 2009 and 2011. Nowadays it is around 20 dollars having multiplied by eight. But there are further cases. Probably less famous but believe me, there are more.

Canadian investors have no longer interest due to the current oil price and the threat of lower prices once shale oil will be exploited in large scale. For these reasons, local companies are looking for new capital to meet their investment obligations with the NHA. Here a message for investors: you can take part in the auction of the 135 wells to be drilled in 2014 or you can buy companies that need that capital. The current possibility of acquisition in the market is wide.

During the past three years the FDI in the rural sector was around US\$100 million per year. It never represented more than 1% of the total FDI. In Colombia there are still long tracts in los Llanos to colonize. Uncultivated agricultural



plots are extremely limited in the world. However, investing on them is not an easy task due to regulation problems and land's titling. Some companies are already investing but there are further interesting opportunities for those willing to develop input supplies projects, water management or greenhouse crops which represent aspects of the country that still need to be developed.

As for tourism there are some interesting possibilities due to the tax exemption during 30 years for hotel projects and the increase on Latin-American tourism. The Pacific Alliance could also be key for the sector since it would offer different destinations in Mexico, Peru, Colombia and Chile all together; something very interesting for long-distance travelers who prefer to visit several places from a region in just one trip. This would really make the difference when attracting tourists from China, the world's biggest producer of international tourists. More than 30 million Chinese tourists travelled to other countries, not neighbor countries, during the last year. They mainly went to Europe and spent an average of US\$8,000 in each trip. Chinese tourism grew in Peru by 25% in 2012, by 35% in Mexico and in Brazil it surprisingly grew by 48%. The pending task is for *concierges* and receptionists to speak mandarin.

Regarding *retails*, Colombia has a feature founded by the largest French companies some years ago. . Even not counting on the middle class growth., the country's rates of new households is the highest in Latin America. This is an important fact for those selling furniture or household goods.

Some are already seeing the clear advantages in these sectors. Regarding trading, restaurants and hotels, the FDI went from US\$220 million in 2010 to US\$1.600 in 2012.

We cannot forget mining. Colombia holds the 10th world's position regarding coal production. The problem is that production is focused on the wrong ocean. Exportation is done through the Atlantic Ocean and the transportation costs are very high to take it to the Chinese market in the Panamax vessels crossing the Panama Canal. This problem could be soon solved with the coming expansion of the canal.

Colombia holds the 20th position regarding gold production; and what is more, it is a good prospectus for the continent due to its location in the metal's reserve belt going from Chile to Panama. There are also opportunities regarding services for the mining industry for investors who do not want to face Canadian, North American and Brazilian investors who already have their own business in the country.

Another not-so-known sector for investment is energy. According to the World Bank, the energy Colombia produces would be the equivalent of 105,500 Kilotons of oil equivalent. This means all the fossil and renewable energy sources put into their equivalent numbers in oil. We can easily compare the difference with the Argentinian figures (79,000Kt) or the Chilean ones (9,200Kt). Colombian figures are closer to the French ones which are 135,600 Kt. But what makes the Colombian production more interesting is that it is a clean production. Almost 80% of the energy production is hydraulic. Paraguay is the only country in Latin America with a cleaner production.

"Colombia was in 2012 the third country with the highest FDI, foreign direct investment, in Latin America"

A project that is being carried out and that has recently gained power is the possibility to interconnect Colombia with those deficit countries regarding energy such as Chile. It is part of the Pacific Alliance agenda and also of the agenda of the USA Department of State, which considers it a priority for the region.

All that we have mentioned can be improved by deepening in the business of the Pacific Alliance which is a commercial agreement among Mexico, Chile, Peru and Colombia and which should make trading and people circulation among the country members easier. The most interesting fact of the Alliance is its

practical approach. It aims to achieve a joint inclusion in the untapped markets such as Africa and some places in Middle East but especially in Asia. The members share some commercial offices in countries like Turkey and they do joint tourism promotion. Thanks to the rules of origin Colombian supplies can be used in Mexican manufacturing or in Chilean or Peruvian agro-industrial products going to Asia or other markets where they have no presence. Three years ago this advantage was completely unexpected.

INTEREST LIST

With the current economic stagnation and the low rate incomes coming from the projects in the first world, these lists of opportunities call the attention of those who still consider BRIC as the only emerging countries.

According to figures some have turned interest into action. Colombia was in 2012 the third country with the highest FDI, foreign direct investment, in Latin America. The first country was Brazil with an investment of US\$65,300 million; then Chile with more than US\$30,300 million; and then Colombia with an investment of US\$15,900 million (before Mexico which had an investment of US\$12,700 million in 2012). Colombia received 9.1% of the total foreign investment in the region.

We are not exaggerating when we say these FDI numbers have no precedent in the national history. What is more, ten years ago it was inconceivable since Latin America was not an attracting neighbor and Colombia was one of the riskiest countries. In 1993 South America only received an investment of US\$8,000 million and Colombia just US\$959; but global macro-economy changes.

Is everything about it good? Of course not, we just need to ask the World Economic Forum. Regarding competitiveness Colombia holds position 69th among 144 countries. It also has serious corruption problems (position 96th regarding subordination), state bureaucracy inefficiency (104th regarding waste on public expenditure) and there is a big failure in infrastructures (holding position 93rd).

Maybe that is the reason why, so far, major investors are the ones who know how to work in difficult environments. I am not saying that they know how to suborn, but they know how to work and thrive without suborning. Along the past three years FDI has come from Chile (24%), the USA (20%), the UK (13%), Canada (8%) and Spain (8%).

Investment from Anguilla and Panama which concentrate investment from all countries including Colombian reinvestment reached 20% during the same period. What is then the surprise? China has not entered in Colombia. The Chinese net FDI during the past three years only represented 0.4% of the total.

The moral of the story is that Colombia is a good country for investment. It is not the Garden of Eden and it is not even close to it. But, for those living with a zero interest rate, an unemployment rate of 28% and negative economic growth, it would be good to expand their operating maps as well as their Excel sheets to countries like Colombia. Who knows, maybe 40 9 40 9' N 740 3' O end up being good coordinates.



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