COLOMBIA

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

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

	1996	1997	1998 1/
Income, Production and Employment: 2/ 3/			
Nominal GDP	88.2	96.2	96.9
Real GDP Growth (pct)	2.1	3.1	3.0
GDP by Sector:			
Agriculture	19	17.6	17.4
Manufacturing	18	17.3	17.5
Services (includes financial)	30	30	29.5
Commerce	11	11.1	11.2
Government 4/	24.2	27	27.5
Per Capita GDP (US$)	2,285	2,440	2,422
Labor Force (000s) 5/	16,433	16,908	17,212
Unemployment Rate (pct)	11.4	13.3	16.0
Money and Prices (annual percentage growth): 6/			
Money Supply Growth (M2)	16.5	24.6	20.5
Consumer Price Inflation	21.6	17.7	18.0
Exchange Rate (Peso/US$ annual average)			
Official	1,037.72	1,141.1	1,411.5
Balance of Payments and Trade: 7/			
Total Exports FOB	10.6	11.6	11.5
Exports to U.S.	4.3	4.2	4.1
Total Imports CIF	12.8	15.3	14.7
Imports from U.S.	4.7	5.8	6.6
Trade Balance	-2.2	-3.7	-3.2
Balance with U.S.	-0.4	-1.6	-2.5
Current Account Deficit/GDP (pct)	-5.0	-5.8	-6.0
External Public Debt	15.9	16.1	17.5
Debt Service Payments/GDP (pct)	3.2	3.5	3.7
Fiscal Deficit/GDP (pct)	-4.1	-4.4	-4.8
Gold and Foreign Exchange Reserves	9.9	9.9	8.4
Aid from U.S. (US$ millions) 8/	0.1	0.1	0.5
Aid from All Other Sources	N/A	N/A	N/A

1/ 1998 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 to an unrestricted access market has been underway since 1990. The U.S. is Colombia's largest trading partner, receiving 38 percent of Colombia's exports and providing 41.5 percent of Colombia's imports in 1997. More than 70 percent of Colombian exports to the U.S. are primary products like food (mainly coffee, bananas, flowers, tuna fish, shrimp, and sugar), fuel (petroleum, coal), and live animals. The U.S. is also the dominant source of foreign investment in Colombia, holding by far the largest individual country share of foreign direct investment: $4.2 billion, or 38 percent of the estimated total direct foreign investment of $11.2 billion.

Colombia's "apertura" (economic liberalization) program, was a two-stage plan for tariff reduction, financial deregulation and privatization initiated during the 1990-1994 administration of Caesar Gaviria. It eliminated import licenses for most products of the Colombian economy, except for agricultural imports, for which it created a price-band system to determine tariffs. An anti-dumping statute and a more flexible foreign-exchange regime were also adopted. Labor-reform laws aimed to provide easier contracting mechanisms, and foreign investment was deregulated for almost all sectors of the Colombian economy except national defense. To compensate for the lower tariff levels, the Value-Added Tax (VAT) was increased from 10 to 14 percent after 1991 and again to 16 percent after 1994, and a restrictive monetary policy was applied to control inflation. In the second stage of apertura, after 1993, the average tariff level was further reduced from 26.78 to 11.79 percent in a one-year period, and some surviving import licenses (on e.g., pharmaceuticals, food, and communications products) were eliminated.

Apertura also involved the privatization of state enterprises, ports, railroads, and banks. This process slowed during the first two years of Ernesto Samper's administration (1994-98), but improved in 1996-97 with the privatization of electricity generation plants, the state coal company, Carbocol, and the nation's seventh-largest bank, Banco Popular. Each privatization project requires prior approval from congress.

The Samper administration did not reject apertura, but attempted to reduce some of the economic dislocation caused by the rapid economic change which apertura entailed. A safety-net approach known as the "salto social" (targeting Colombia's poor, who constitute over a third of the population) was initiated in 1994. Its programs involved increased spending for infrastructure projects in the areas of health, education and housing, which aimed at both job creation and increasing public services over the period 1994-1998. The "salto social" was undermined, however, by failure to achieve the 6 percent GDP growth for 1996 targeted in the plan, and was all but abandoned in 1997. Official growth in real GDP for 1997 was 3.1 percent; as of November 1998 the official projections for 1998 growth range between 3.0 and 3.5 percent. Projections for 1999 are pessimistic, ranging from zero to 2.0 percent.

Agriculture (which has been particularly hard hit by apertura policies) benefits from absorption agreements, which require domestic food processors to purchase the total production of certain domestic crops at higher than "normal" prices. If processors can show that domestic crops were purchased at support prices established in absorption agreements, the government then grants them reductions in import duties paid on equivalent imported commodities. During 1997, important competitiveness agreements between the private sector and the government resulted in a new policy to improve commercialization of agricultural products, by eliminating the Institute of Agricultural Marketing ("Idema") and providing direct compensation to producers instead.

Inflation has steadily if modestly decreased most years since 1991. In 1997, inflation for the first time finished under the central bank target (18 percent). For 1998, the central bank target is 16 percent. This target will not be met, since inflation up to September 1998 (largely due to food-price effects of "El Nino") was already 15.3 percent, but as of November it looked as if the end-year figure would at least not exceed that for 1997. The peso, for years subject to revaluationary pressures due to large inflows of foreign capital, began after July 1997 to devalue sharply against the U.S. Dollar. In January 1998, the peso reached the top of its exchange-rate band, where it has remained for most of the time since.

The government has been operating with burgeoning budget deficits over the last years, caused principally by efforts to fund the national economic development plan and increased by constitutionally mandated transfers of central government funds to local governments. According to the general comptroller's office, public spending increased by 6 percentage points of the GDP between 1990 and 1998, while the government's income grew only by two percentage points of GDP during that same period. This policy of deficit spending, along with the attempt to reduce inflation, has kept interest rates high and contributed to the current economic slowdown which started mid-1996. The government fiscal deficit was 3.9 percent of GDP for 1997, and is projected to be as high as 5 percent of GDP for 1998.

Colombia formally ratified the World Trade Organization treaty on March 30, 1995.

2. Exchange Rate Policy

Colombia's exchange-rate system operates on a free-market basis and is administered by the central bank. The central bank has a set "price band" within which the daily quotation of the peso's dollar price may move; the bank intervenes in the market (buying or selling pesos) to keep the peso's value within the band. Each day the banking superintendency reports an inter-bank market rate based on commercial bank and financial corporation transactions. For 1998, the central bank set the width of the band at plus/minus 7 percentage points, with a 15 percent slope. The band was shifted upward by 9 percentage points in September 2, 1998, without any change in its slope or width.

The peso's strength through mid-1997 improved the price competitiveness of U.S. exports to Colombia and resulted in a significant shift in the balance of bilateral trade. According to Ministry of Foreign Trade statistics, Colombia's trade deficit with the U.S. grew from $0.7 billion in 1991 to $1.6 billion in 1997 (Colombia's worldwide trade deficit in 1997 was $3.8 billion.) In May 1997, the central bank imposed a deposit requirement on most types of foreign borrowing, trying to reduce revaluationary pressures on the peso. With various specific exceptions, 30 percent of all new foreign loan proceeds were to be kept in a special non-interest bearing account for 18 months. The deposit requirement was reduced to 25 percent in February 1998 in an attempt to stimulate dollar liquidity as the weakening peso threatened to surpass the bottom of the band. It was reduced further, to 10 percent in September 1998. Strikingly, the peso's depreciation by nearly 45 percent since summer 1997 has not so far been reflected in its trade balance with the U.S.

3. Structural Policies

Pricing Policies: As a member of the Andean Pact, Colombia has price regulations related to some agricultural imports. The so-called "price band" system affects products such as wheat, sorghum, corn, sugar, rice, barley, milk, and chicken parts. The government also regulates or establishes prices of gasoline, electricity, water, sewage and telephone services, public transportation, rents, education tuition, and pharmaceutical products.

Tax Policies: There is no corporate or individual tax paid on income from dividends, provided that the money stays in Colombia; if the money is subsequently transferred out of the country, a "remittance tax" of 7 percent is levied. Income derived as capital gains is taxed at 35 percent. All consumers in Colombia pay a value-added tax of 16 percent on many products, with exceptions like food, basic medicines, air tickets and books.

Colombia has had several tax reforms over the last few years and the new administration of President Andres Pastrana is already proving itself no exception. With a fiscal deficit at levels of around 5 percent of GDP and rising, fiscal adjustment is a must. As part of a package of deficit-reduction measures to be applied from January 1999, congress is currently studying a proposal to reduce the value-added tax from 16 to 15 percent and to increase the number of taxed goods, as well as measures to control evasion by providing the Colombian customs with police and military law enforcement tools.

Uncertainty created by the constant changes in the tax regime negatively affects investment flows. To help mitigate this problem, in December 1995 the Colombian Congress passed legislation authorizing the government to enter into contracts with taxpayers guaranteeing the tax rate up to a maximum of ten years. In return for this guarantee, corporations pay an additional two percentage points in corporate taxes.

Regulatory Policies: All foreign investment in petroleum exploration and development in Colombia must be carried out under a stringent profit-sharing association contract between the investor and the state petroleum company, "Ecopetrol." U.S. oil companies voice interest in increasing exploration and development in Colombia if contract and tax requirements are made more flexible. The Pastrana administration has shown early signs of recognizing world oil market realities, and a readiness to adjust the terms of new association-contracts.

Under the current Andean Pact automotive policy, Colombia and Venezuela impose strict regional content requirements in the automotive assembly industry. They also require auto assemblers to satisfy a minimum percentage foreign exchange contribution to offset foreign exchange spent on auto imports.

4. Debt Management Policies

Colombia's debt-management strategy has aimed at accessing new sources of credit in the external and domestic capital markets and on improving the debt profile of the country, generally with the objective of providing priority financing for social programs and infrastructure improvements that are key elements of the national development plan.

The government has in recent years made approximately $1.8 billion in advance debt repayments. As of June 1998, total external indebtedness (public and private) was $33 billion, approximately 35 percent of GDP.

5. Significant Barriers to U.S. Exports

Import Licenses: Prior import licenses are still required for various commodities, drug-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 powered 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 purchased under "absorption agreements." 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 those 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: A commercial presence is required 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 marine insurers.

Mining and Hydrocarbons: Colombian law requires that at least 80 percent of employees of companies in this sector be Colombian nationals.

Information Processing: A commercial presence is required to provide this service.

Advertising: At least 50 percent of programmed advertising broadcast on television must have local content.

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). Certificates of conformity must be obtained from the Superintendency of Industry and Commerce before importing products which are subject to standards.

Investment Barriers: Foreign and national investors receive equal treatment in Colombia. One hundred percent foreign ownership is permitted in virtually all sectors of the Colombian economy. Exceptions include activities related to national security and the disposal of hazardous waste. As a measure against money laundering, Foreign Direct Investment (FDI) in real estate is prohibited except in connection with other investment activities.

All foreign investments must be registered with the central bank's foreign-exchange office within three months in order to assure 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. The Ministry of Communications must approve applications in that sector.

Government Procurement Practices: Government procurement regulations, although guaranteeing national treatment to all investors, do require that foreign firms without an active local headquarters in Colombia certify that Colombian companies enjoy reciprocity in similar bids under their countries' procurement legislation. The U.S. Embassy in Bogota should be contacted for details. A local agent or legal representative is required for all government contracts, and Colombian bidders get preferential conditions under Law 80 of 1993. Given equal contracting conditions, the offer of goods and services of domestic origin is preferred. When foreign firms bid under equal conditions, the contract is usually awarded to the one that incorporates a greater number of domestic workers, that involves more domestic content, or that provides better conditions for transfer of new technology. Several road construction and airport contracts for U.S. companies have been approved with little ado; on the other hand, some U.S. companies have complained of corruption in contract 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.

6. 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 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.

7. Protection of U.S. Intellectual Property

Colombia has made improvements in its intellectual property right protection, but does not yet provide adequate, effective protection. Principally because of IPR reasons, for the last five years the USTR has placed Colombia on the "Watch List" under the Special 301 provision of the 1988 Omnibus Trade Act. As of the end of 1998, Colombia was at risk of being elevated to the "Special Watch List" because of failure to address TV piracy issues. 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 making some progress, but contraband and counterfeiting are widespread.

Copyrights: Colombia's 1993 Copyright Law increased penalties for copyright piracy. Enforcement problems consistently arise, however, not only at the police level, but also in the judicial system, where there have been complaints about the lack of respect for preservation of evidence and frequent perjury.

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. Colombia's recently passed Television Broadcast Law potentially increased protection for all copyrighted programming by regulating satellite dishes, but its enforcement has hardly begun. Semiconductor design layouts are not protected under Colombian law.

U.S. industry estimates that videocassette piracy represents over 75 percent of the video market; sound recording piracy, 66 percent of the market; and business software piracy, 67 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.

8. 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 the 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 Labor Ministry figures, approximately seven percent of Colombia's workers are organized into 2,235 unions. High unemployment (over 15 percent as of September 1998), traditional anti-union attitudes, and weak union organization and leadership limits 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. 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 1998 is approximately $150 (203,826 pesos) per month. Because the minimum wage is based on the government's target inflation rate, which has been exceeded during 1995 and 1996, the minimum wage has not kept up with inflation in recent years. By government estimates, the price of the family shopping basket ("canasta familiar") is 2.4 times the minimum wage. 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 **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,120
Total Manufacturing		1,210
Food & Kindred Products	356	
Chemicals & Allied Products	297	
Primary & Fabricated Metals	49	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	29	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		135
Banking		(1)
Finance/Insurance/Real Estate		529
Services		84
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,727

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

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