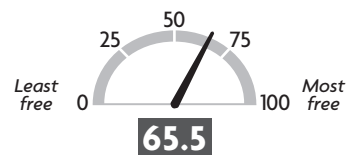


COLOMBIA

Economic Freedom Score



World Rank: **58**

Regional Rank: **12**

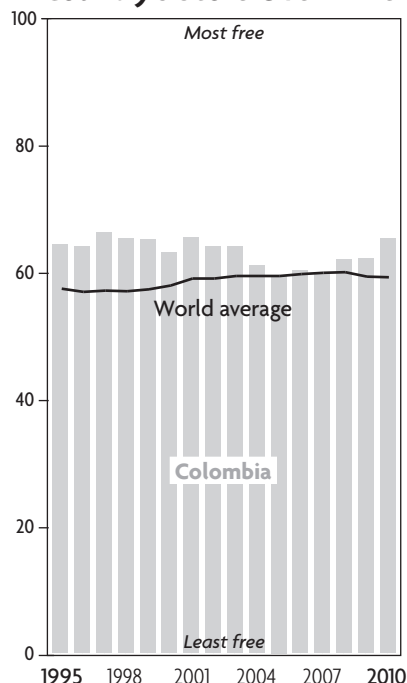
Colombia's economic freedom score is 65.5, making its economy the 58th freest in the 2010 *Index*. Its overall score is 3.2 points higher than last year, reflecting improved business and labor freedom, better protection of property rights, and reduced corruption. Colombia is ranked 12th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the regional average.

As one of South America's most stable economies, Colombia continues its transition to greater economic freedom. Improvements in its entrepreneurial environment, facilitated by openness to trade and investment, have led to steady economic growth. Recent reforms have focused on improving regulation and fostering a strong private sector.

Colombia's overall economic freedom remains obstructed by persistent institutional weaknesses. The rule of law remains problematic. Despite nominal openness to foreign investment, regulations are complex and uncertain. Business contracts are generally respected, but judicial corruption undermines legal transparency and efficiency. State ownership is limited to a few utilities, but public expenditure is high because of large transfers to regional state-owned enterprises.

BACKGROUND: Colombia is one of South America's oldest continuous democracies. President Alvaro Uribe, re-elected by a landslide in 2006, has restored security by enforcing the law against both the Revolutionary Armed Forces of Colombia and its anti-Communist paramilitary nemesis. He has also waged a vigorous war on narcotics trafficking. The quality of life has improved substantially, and unemployment has dropped significantly. Like all of Latin America, Colombia was buffeted by global economic turbulence in 2008–2009. The economy depends heavily on exports of petroleum, coffee, and cut flowers. A trade agreement with the U.S. that would encourage economic diversification and stimulate further growth was submitted to the U.S. Congress in 2008 but is still awaiting action. Uribe has been seeking constitutional changes to allow him to run for a third consecutive term.

Country's Score Over Time



Quick Facts

Population: 44.5 million

GDP (PPP): \$395.7 billion

2.5% growth in 2008

5.7% 5-year compound annual growth

\$8,885 per capita

Unemployment: 11.3%

Inflation (CPI): 7.0%

FDI Inflow: \$10.6 billion

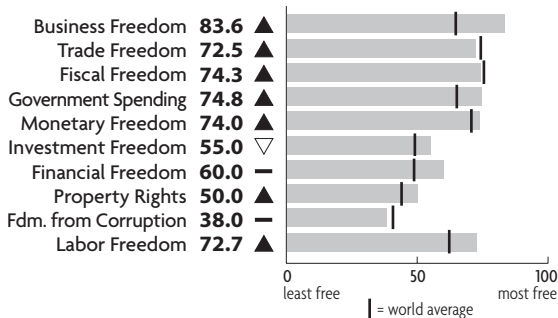
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

COLOMBIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 83.6

The overall freedom to start, operate, and close a business is relatively well protected under Colombia's regulatory environment. Starting a business takes 20 days, compared to the world average of 35 days. Obtaining a business license takes much less than the world average of 18 procedures and 218 days.

TRADE FREEDOM — 72.5

Colombia's weighted average tariff rate was 8.7 percent in 2008. Import bans and restrictions, import price bands for certain goods, services market access limits, restrictive standards and regulations, restrictive import licensing, issues involving the enforcement of intellectual property rights, non-transparent customs administration and valuation, export-promotion programs, and corruption add to the cost of trade. Ten points were deducted from Colombia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 74.3

The top income and corporate tax rates are 33 percent. Other taxes include a value-added tax (VAT) and a financial transactions tax. In the most recent year, overall tax revenue as a percentage of GDP was 19.8 percent. Tax evasion, though on the decline, is still relatively high.

GOVERNMENT SPENDING — 74.8

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 29.0 percent of GDP.

MONETARY FREEDOM — 74

Inflation has been relatively moderate, averaging 6.4 percent between 2006 and 2008. The government controls prices for ground and air transport, some pharmaceutical products, petroleum derivatives, natural gas, some petrochemicals, public utility services, residential rents, schoolbooks, and school tuition, and the Agriculture Ministry may intervene temporarily to freeze prices of basic foodstuffs through agreements with regional wholesalers. Ten points were deducted from Colombia's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 55

Foreign investment receives national treatment, and 100 percent foreign ownership is permitted in most sectors. Foreign investment in television concessions and nation-

wide private television operators, radio broadcasting, movie production, maritime agencies, national airlines, and shipping companies is limited to minority stakes. The legal and regulatory systems are generally transparent and consistent with international norms. Frequent changes in business rules and a burdensome judiciary impede investment. For firms with more than 10 employees, no more than 10 percent of the general workforce and 20 percent of specialists can be foreign nationals. Foreign investments must be registered with the central bank to allow repatriation of profits and remittances and to access foreign exchange. Residents who work in certain internationally related companies may hold foreign exchange accounts. Assets expropriated by eminent domain will be compensated.

FINANCIAL FREEDOM — 60

Colombia's relatively large financial sector has become more stable and modern. Banking has undergone significant consolidation and privatization since early 2000. The government has strengthened regulations and seized some banks for falling below solvency requirements. Seven of the 17 commercial banks are foreign-owned. Two private financial groups account for about 45 percent of bank assets. Foreign banks accounted for less than 20 percent of total assets in 2008. Credit is allocated on market terms. As of early 2008, the government retained 15 percent of total banking assets. Foreign companies are prominent in the insurance sector, and competition has intensified since 2003. Colombia's small capital market provides limited access to long-term credit. The market is heavily concentrated in government bonds. Accounting for only 5 percent of total trading, equity trading is dominated by a few listed companies.

PROPERTY RIGHTS — 50

Colombia's constitution explicitly protects the right to private property. Contracts are generally respected. Arbitration is complex and dilatory, especially with regard to the enforcement of awards. The law guarantees indemnification in expropriation cases. Enforcement of intellectual property rights remains erratic. Infringements, especially unauthorized use of trademarks, are common. In areas still controlled by terrorist groups, property rights cannot be guaranteed.

FREEDOM FROM CORRUPTION — 38

Corruption is perceived as significant. Colombia ranks 70th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Despite notable improvements in fighting corruption and narcotics trafficking, concerns remain over the influence of criminal organizations on the police, the military, and lower levels of the judiciary and civil service.

LABOR FREEDOM — 72.7

Labor regulations have become more flexible. The non-salary cost of employing a worker remains somewhat burdensome, but dismissing a redundant employee can be relatively inexpensive. Regulations controlling work hours are relatively flexible.