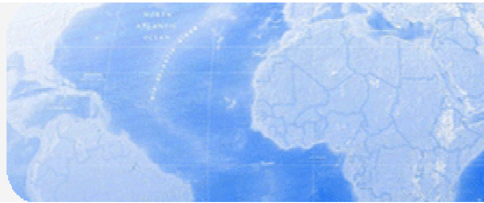

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FDI Policies in Times of Conflict: The Case of Colombia

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Abstract

This paper looks at how open FDI policies have been put in place in Colombia since the beginning of the 1990s. The authors look at the relative capacity of Colombia to attract FDI, the cost of the conflict on the economy and investment levels, and the impact of FDI on growth and development. They find that although Colombia was initially less successful in attracting FDI than its neighbours, in part because of the intensification of the conflict and the violence generated by the drug cartels in the beginning of the 1990s, from the mid-1990s onwards, it systematically performed slightly above the regional average with respect to attracting FDI. The available estimations of the costs of the conflict do not allow for firm conclusions about the cost in terms of foregone FDI to be drawn. Surveys among private businesses indicate, however, that the indirect costs (including foregone FDI) could be significantly higher than the outcomes of the macro-economic estimates. Finally, although there are good theoretical reasons to believe that FDI generates positive spillover effects for domestic firms, estimations with firm-level panel data do not always reveal their existence.

1. Introduction

This chapter looks at how open FDI policies have been put in place in Colombia since the beginning of the 1990s and we assess their effectiveness. The beginning of the 1990s marks an important moment in Colombian modern history when a peace process with the M-19 and some other insurgent groups was concluded, a new Political Constitution was adopted, and a new (open) economic model was implemented, known as the *apertura* programme.

Unfortunately, although this was undoubtedly a landmark year in Colombian history, it did not result in a corresponding definitive turning point in the course of the conflict. The conflict even intensified and only recently have there been signals (and objective indications) that the intensity is again decreasing. It is indeed the hope of many Colombians that the conflict is nearing its end, but this depends on a combination of factors.

Section two presents the main features of the (still ongoing) conflict in Colombia. Section three meanwhile illustrates the linkages between the various governments' internal management of the conflict and the formulation and implementation of external policies, including external economic policies and diplomacy. Section four then presents the development of the FDI policies, followed by an assessment of their effectiveness. For that purpose, we will look at the relative capacity of Colombia to attract FDI, the direct measurement of the cost of the conflict on the economy and investment levels, and finally, the impact of FDI on growth and development. Section five concludes.

2. The Colombian conflict

Colombia is a country known for its long tradition of political violence. It is worth mentioning that at the beginning of the XXth Century (1899-1902) Colombia suffered a violent confrontation on a national scale between the two traditional political parties –the Liberal and Conservative parties–, commonly known as the "War of a Thousand Days". This episode set a precedent for a new period of political confrontation between these parties during the early 1950s (1948-1955), referred to as "*La Violencia*". As mentioned by CSIS (2007): "*A plethora of factors drove the violence, ranging from the traditional struggle in Colombian history between federalism and central authority, to religious factors, party loyalty, local politics, economic advantage, and personal vendettas. Following a rare period of military rule, the Liberals and Conservatives entered into the "National Front" coalition agreement which allowed them to alternate in the presidency between 1958 and 1974 and return the country to a semblance of internal peace*".

The situation of the current conflict emerged in the 1960s, when two armed groups were formed: the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN). FARC was created in 1966 after government forces attacked a leftist rural militia, aligned with the Liberal Party, during the *La Violencia* period. It has been the most 'successful' group over time, focussing on rural insurgency. Soon thereafter, pro-Castro university students founded the ELN and several other insurgent groups were born. The Colombian army nearly eliminated the ELN by the mid-1970s and kept the FARC on the defensive in isolated rural areas.

A third important guerrilla movement –the M-19– and several smaller groups laid down their arms in 1990, and many of the members of these groups are currently active politicians.

As the guerrilla became stronger in terms of number of militants, regional coverage and income, rural landowners, with large amounts of land formed armed "self-defence" groups against them. These became the precursors to the paramilitary forces of the late 1980s and 1990s.

In fact, the paramilitary (self-defense) groups began to form at the end of the 1970s. But only it was only in the late 1980s that they underwent a transformation to the extent that by themid-1990s they had created a cartel, involving most of these groups and became a representative organisation, known as the United Self-Defense Groups of Colombia (AUC). These groups built their strength on their connections with the drugs trade in the second half of the 1980s. It was only after they had gained this power that they began to develop a political agenda.

Illicit drugs have financed the insurgent FARC and the far-right AUC to a large extent during the last two and a half decades. For this reason drug trafficking is a crucial determinant of the Colombian conflict.

At the beginning of the current decade, estimates of FARC's strength, in terms of numbers of combatants, fluctuated between 15,000 and 20,000. Although figures are not completely reliable, it is not inconceivable that today, in 2008, the number has halved due to the combined effect of losing combatants in fighting and desertion (Wieland 2008a). ELN at one stage numbered 5,000 combatants, but is also believed to number far fewer today.

At the beginning of 2005 and after 18 months of negotiations with the government of Uribe, some 30000 paramilitary fighters were supposedly demobilised, including the AUC chiefs, but the facts have demonstrated that the paramilitaries are maintaining their networks with drug traffickers and keeping their illegal assets intact, particularly in rural Colombia.

The Colombian conflict is difficult to categorize (McLean 2002).[1] It could be said that, at least initially, it belonged to what Rogers (2002) has called the category of "*anti-elite insurgencies and rebellions often stemming from the development of radical social movements*" as a result of socio-economic divisions. Ethnic, religious or (sub-) nationalist drivers are indeed absent in the Colombian case. It is (was?) not inconceivable, in a more pessimistic scenario, that the internal conflict might gradually move towards a so-called "*complex regional conflict*" (Buzan, 1991).

To fall within the definition of a civil war, the conflict, apart from being predominantly internal, should show two additional characteristics: a remarkable scale and a sufficient level of socialisation. The scale of the conflict was initially, and until the 1980s, very limited. According to a common criterion for characterising civil wars –causing a minimum of 1000 conflict-related casualties per year– the Colombian conflict was not a civil war for many years (Singer and Small, 1982). After the intensification of the conflict from the end of the 1980s the number of annual casualties began to rise above 1000. Restrepo *et al.* (2003) estimate an annual average of about 3,150 conflict-related casualties in the period from 1988 to2002. However, according to the State Failure Task Force (Gurr, 1998), even now the

[1] See also, De Lombaerde et al. (2010) on which the following paragraphs are based.

conflict should not be characterised as a civil war, but rather as a guerilla war of considerable intensity (causing between 1000 and 10000 political casualties per year).

The predominant view appears to be that the conflict does not demonstrate remarkable levels of socialisation. From an objective point of view, it does affect the majority of the population in some way or another, especially the people who have been displaced by force and violence from their rural properties, (some 3,5 million medium and small farm owners, which is equivalent to almost 8% of the Colombian population). However, the illegal armed groups have not succeeded in mobilising important sectors of the population and in polarising society (Posada, 2001). It would therefore not be accurate to call the Colombian conflict a civil war (Pizarro, 2002; cf. Ramírez Tobón 2002). The moderate levels of socialisation of the conflict are linked to its apparent coexistence with relatively solid institutions and a considerable degree of state legitimacy. In this light it is an a-typical conflict, when placed in a global and comparative perspective[2].

The long duration of the conflict contributes to its complexity, because elements of auto-sustainability have developed, such as action-reaction patterns and the institutionalisation of violence as a way to settle differences. The conflict has acquired new characteristics over the last decades. On the one hand, there was a move from a "war of guerrillas" to a "war of positions". On the other hand, the modes of financing this "war" have changed and increased in volume, due to increasing involvement with the illegal drugs trade and the rise of the so-called extortion and "kidnap industry". This corroborates Collier's analysis of civil wars over the period 1965-1999 and his conclusion that the financial viability of organisations in conflict, often related to the existence of natural resources, is a major variable in explaining the existence of today's conflicts (Collier, 2000).

At this point, it is worth stressing, as argued by Crisis Group (2005), that *"[t]he prospect for bringing an end to Colombia's armed conflict would also be much increased if demand for drugs could be reduced in the large US and European consumption centres, since this would cut the profit margin of the armed groups as well as international drug trafficking organisations. To achieve this, ... [t]hey should also examine urgently whether harm reduction measures*" are needed.

3. The shaping of external policies in times of conflict

Traditionally, Colombia has maintained close ties with the United States. In fact, Colombia received considerable US assistance under the Alliance for Progress program of the 1960s.

The main US plan of cooperation with Latin America and the Caribbean was launched in Miami 1994 at the Summit of the Americas in the presence of 34 Heads of State of the

[2] Considering indicators of state legitimacy, such as participation rates in national elections, legal opacity, corruption perceptions, or corruption, Colombia scores better than the lowest score available for the EU [see: http://www.electionworld.org; http://www.opacity-index.com; http://www.transparency.org]. The legal environment and the freedom of the press is comparable to Italy's (Deutsch 2004). It is also true, however, that Colombia scores significantly below the EU benchmark on the Gini coefficient, demonstrating the limited redistributive capacity of the Colombian state (Human Development Report 2005).

hemisphere. The approved Action Plan's main objectives included: strengthening democracy through, among others, combating the problem of illegal drugs and related crimes and eliminating the threat of internal and international terrorism, promoting prosperity through economic integration and free trade, eradicating poverty and guaranteeing sustainable development.

This Plan follows the postulates of the Washington Consensus in the area of economics, in particular in promoting free trade and investment, economic integration and free markets. It also stresses political aims such as the strengthening of democracy and combating illegal drugs, related crimes and terrorism. The latter political objective corresponds to one of the most acute problems frequently stressed by the US public. These problems were emphasised even more after 9/11/2001.

Unfortunately, Colombia is probably the American country which confronts the most serious crisis related to illegal drug trafficking and internal terrorism. It is worth remembering that the FARC and the ELN have been on the US State Department's list of international terrorist organisations since 1997; the AUC was included on 10 September 2001. All three are also on the European Union's similar list (Crisis Group, 2003). At the same time, Colombia has become the first supplier of cocaine to the US market.

For these reasons Colombia has been a natural partner country for the US in promoting and applying the Agenda and Plan of Action of the Americas. In fact, since the early 1990s Colombia and the other Andean countries, except Venezuela, have been enjoying unilateral tariff reductions from the US in recognition of the combat against drug trafficking in their countries. This is an application of the principle of international correspondence between consumer and producer countries of illegal drugs. This cooperation was reinforced in the case of Colombia at the end of the 1990s when the US Congressional approved the so called Plan Colombia. In fact, in September 1999, the Colombian president announced an ambitious "*Plan for Peace, Prosperity, and the Strengthening of the State*" commonly known as *Plan Colombia*. The plan laid out strategic objectives over a six year period, including a target to, " reduce the cultivation, processing and distribution of narcotics by 50 percent." Key objectives included counter-drug efforts, neutralising the drug economy, strengthening the armed forces and police, providing alternative development opportunities to coca cultivation and eradicating illicit crops through aerial spraying. The budget of the Plan Colombia for six years was estimated around $7,5 billion, $4 billion to be provided by Colombia and $3,5 billion basically from the US (CSIS, 2007). The Plan has been prolonged under the presidency of Álvaro Uribe with the label of *Plan Patriota*.

According to UNDP, underlying this strategy is the belief that "*the end of drugs would mean the end of the (armed) conflict (and) the end of the conflict would bring the end of the drug business*" (UNDP, 2003:306). This is part of the logic behind both aerial spraying of coca and poppy crops under Plan Colombia and President Uribe's Democratic Security policy (Crisis Group, 2003).

Therefore, the special role played by Colombia in the Hemispheric Plan of Action being promoted by the US is clear. Obviously it imposes serious constraints on the autonomy of the Colombian government. In fact, the international agenda of Colombian governments, and to a large extent also their internal agenda, bear much relation to the main guidelines of the US

international agenda, and especially its hemispheric agenda. It is not fortuitous that Colombia is considered to be the American country which is most closely aligned to US interests.

It is within this geo-political context that Colombia developed its FDI policies.

4. FDI policies

4.1 The reorientation of FDI policies, *apertura*, and the 1991 Constitution

Until the end of the 1980s, Colombia adhered to the common Andean foreign investment regime as established by Decision 24 of the Council of the Cartagena Agreement in 1971[3]. The principle elements of this regime were the following:

- Obligatory authorisation and registration of each investment project by the competent national authority;
- Prohibition of FDI in infrastructure, communications, electricity, public services, waste collection, and the financial sector;
- Restrictions on the authorisation of FDI in those sectors where foreign firms would enter to compete with domestic ones;
- Prohibition of take-overs of existing national firms, except for very specific circumstances like, for example, risk of bankruptcy.
- Principle of forced and programmed transformation of foreign companies into national or mixed companies in a time span of 15 years (the rule) or 20 years (the exception)[4]; for existing companies foreign participation had to be brought down to maximum 85% within three years, and maximum 55% within ten years; new companies should have minimum 15% of national capital at the moment of their creation;
- Non-application of trade preferences derived from the Agreement to goods produced by foreign companies, for those companies that fail to comply with the programmed ownership transformation plan;
- Restriction of access to official long-term credits for foreign companies;
- Free repatriation of utilities up to 14% of the invested capital[5], and free repatriation of capital (De Lombaerde and Pedraza, 2005).

Colombia implemented this Decision through Decree-Law 1900 of 1973, and complemented it with the “Exchange Statute” (Decree 444 of 1967). The latter decree established strict exchange controls and intervention mechanisms for FDI and in other areas.

A confluence of factors in the 1980s led to a reorientation of FDI policies in the region. Countries faced massive capital outflow and sharp foreign exchange restrictions. In addition, it became clear that the integration process, as a development strategy, showed poor results (Reina and Zuluaga, 1998).

[3] Foreign firms were defined as firms with foreign ownership of total capital of more than 49%. Mixed companies were defined as companies with a participation of foreign shareholders between 20 and 49%, and national companies as those with 20% or less of foreign participation. For an early discussion of the common FDI regime incorporated in Decision 24, see Tironi (1978).

[4] Applying to Bolivia and Ecuador.

[5] Later, this percentage was raised to 20% by Decision 103.

Decision 220 of 1987 replaced Decision 24 and related decisions. It gave each country certain autonomy in the design of its FDI policies. The requirements, according to which foreign firms could associate themselves with local firms and benefit from the trade liberalisation programme, were made more flexible. The list of restricted industries for FDI was abolished and it was left for the consideration of each member state to take measures related to profit remittances.[6]

By the end of the 1980s and the beginning of the 1990s, the Andean region adopted a new development model based on the opening up ("*apertura*") of the economy and the implementation of structural reform programmes. It is in this context that investment regimes, foreign capital markets and exchange markets were liberalised (OECD, 1999; Agosín, 1996; Anzola, 1997).

Decisions 291 and 292 adopted in 1991 by the Andean countries liberalised the FDI regime and eliminated discrimination between foreign and national investors. Goods produced by foreign firms were entitled to benefit fully from the trade liberalisation programme.

The Andean rules left the individual countries with the possibility to deepen the liberalisation of the FDI regime further. Colombia decided to reform its legislation in 1991 (Law 9 of 1991 on the Exchange Regime, further regulated by the Statute of Foreign Investment, Resolution 51 of 1991). The government sought to reach three related objectives: (i) to substantially reduce restrictions to FDI, (ii) to actively promote foreign investment, and (iii) to manage political risks (Hommes et al., 1994:71-78).

The liberalisation of the Andean investment regime practically coincided with the adoption of a new Constitution in Colombia. After a Constituent Assembly, some of whose delegates had participated in the M-19 and other smaller guerrilla groups who laid down their arms, the new Political Constitution was adopted in 1991. The new Constitution was quite ambitious and included several innovations, such as: the strengthening of economic and social rights, the incorporation of an economic liberalisation and integration agenda, the reform of the judicial sector, the decentralisation of the state, and so on. Of special relevance for the new FDI regime were articles 13 (right to equality), art. 58 (right to private property), art. 100 (rights of foreigners), art. 333 economic freedom), and art. 334 (role of the state in regulating the economy).

4.2. The current investment regime

Decree 2080 of 2000 sought to further expand FDI, facilitating capital mobility and simplifying administrative procedures, especially in the area of financial investment and the operation of investment funds in Colombia (Cubillos and Navas, 2000; De Lombaerde and Lizarazo, 2001). The principles of the current foreign investment regime are: equal treatment, universality, automatic nature, and stability (box 1).[7] The

[6] In Colombia, this Decision was adopted through Resolution 49 of 1989.

[7] The applicable legislation to FDI in Colombia includes: Law 45 of 1990, Decree Law 663 of 1993 (financial system), Decree 2080 of 2000, Law 680 of 2001, Decree 1844 of 2003, Decree 4210 of 2004, Resolution 8 of 2000 issued by the *Banco de la República* (as amended), Regulatory Circular Letter DCIN 83 issued on 15 December 2005 by the *Banco de la República*, Decree 4474 of 2005, Law

only obligation for most of the FDI is registering before the central bank (*Banco de la República*) (DNP, 2001).

Direct foreign investment is thereby defined as an investment made to: (i) "acquire interests, shares, corporate quotas, bonds required to be converted into shares or any other contribution representing an interest share in the capital stock of a company; (ii) acquire rights in autonomous equities created through a merchant trust contract as a means to develop a company or for the purchase, sale and management of interest shares in companies not registered in the National Record of Securities and issuers; (iii) acquire real estate, stock certificates in real estate securitisation processes or real estate funds, through either public or private offers, (iv) acquire contributions through deeds and contracts when such deeds and contracts do not represent a direct interest share in the company's capital and the returns generated by the investment depend on the company's profits. That is the case of technological transfer, collaboration, concession, administrative service and licensing contracts; (v) make investments in branches created in Colombia by foreign corporations, investing in the branch's capital or as a supplementary capital investment (additional to the assigned capital); and (vi) acquire participations in private capital funds" (Proexport, 2008:5-6)

963 of 2005 (Investor's Legal Stability Law), Decree 1940 of 2006, Decree 1888 of 2008, and Decree 1999 of 2008.

Box 1: Principles of current Colombian foreign investment regime

Equal treatment: Foreign investments are treated the same as national investments. Therefore, the imposition of discriminatory conditions or treatment that may imply more favorable conditions for foreign investments are not admitted;

Universality: Foreign investment is welcome in all sectors of the economy, except in the following cases: (i) activities in the area of national defense and security; (ii) management, processing and disposal of toxic hazardous or radioactive waste not produced in the country; (iii) concessionaries of open television services, where foreign investment may not exceed 40% of the concessionary's corporate capital; (iv) private security and vigilance companies.

Automatic nature: Foreign investment does not require prior authorisation, except when made in the above-mentioned special regimes, as well as investments in the financial sector, which in some cases require the prior authorisation of the Financial Superintendence. Investments in the hydrocarbon and mining sector as well as portfolio investments are subject to a special regime for which investors must normally apply.

Stability: Investment reimbursement and profit remittance conditions in force on the date on which investments are registered may not be modified in any way that may be detrimental to the investor, except on a temporary basis, when the country's international reserves fall below the three-month imports mark.[8]

Source: Proexport (2008:4-5).

With respect to investment promotion and the management of political risk, Colombia has entered a number of international agreements. Firstly, these include bilateral investment treaties (BITs), covering both promotion and protection, that have been signed with a number of countries since the beginning of the nineties, including: the UK, Italy, Peru, Cuba (1994), Chile (2000), Spain (2005), Guatemala and Switzerland (2006) (Table 1).[9] Secondly,

[8] In addition, investors who invest a value greater than 7500 legal monthly minimum wages can enter into a contract of legal stability with the government (Law 963 of 2005, declared constitutional by Sentence C-242 of 2006). This possibility does not apply to portfolio investments. Recently, these and other measures to protect foreign investment are being criticised by various analysts (Semana, 2008; Umaña, 2008).

[9] Colombia also entered into BIT negotiations with the US, Germany, Canada, Argentina, the Netherlands, France (Ramírez, 1996; Lizarazo, 1997:122). Because of objections from the Constitutional Court with respect to the clauses on expropriation and compensation, the BITs negotiated in the 1990s could not be ratified immediately (Sentences C-358 of 1996 and C-379 of 1996) (Lizarazo, 1997:119-121). Article 58 of the Constitution was reformed by Legislative Act 01 of 1999.

Colombia is covered by the Overseas Private Investment Corporation (OPIC) since an Exchange of Notes on 3 April 1985 between the Colombian and US governments (Restrepo Uribe, 1997:16-20).

On the other hand, Colombia has been a member of the Multilateral Investment Guarantee Agency (MIGA), a World Bank agency since 1994 (Law 149 of 1994) and of the International Centre for the Settlement of Investment Disputes (ICSID) since 1995 (Law 267 of 1995)[10].

Table 1: BITs signed by Colombia, as of 1 June 2008

Partner country	Date of signature	Date of entry into force
Chile	25 January 2000	-
Cuba	16 July 1994	-
Guatemala	5 June 2006	-
Italy	9 March 1994	-
Peru	26 April 1994	21 March 2004
Spain	9 June 1995	-
	31 March 2005	22 November 2007
Switzerland	17 March 2006	-
United Kingdom	9 March 1994	-

Source: Lizarazo (1997); UNCTAD Investment Instruments Online [www.unctad.org] (last visited 6 Nov. 2008).

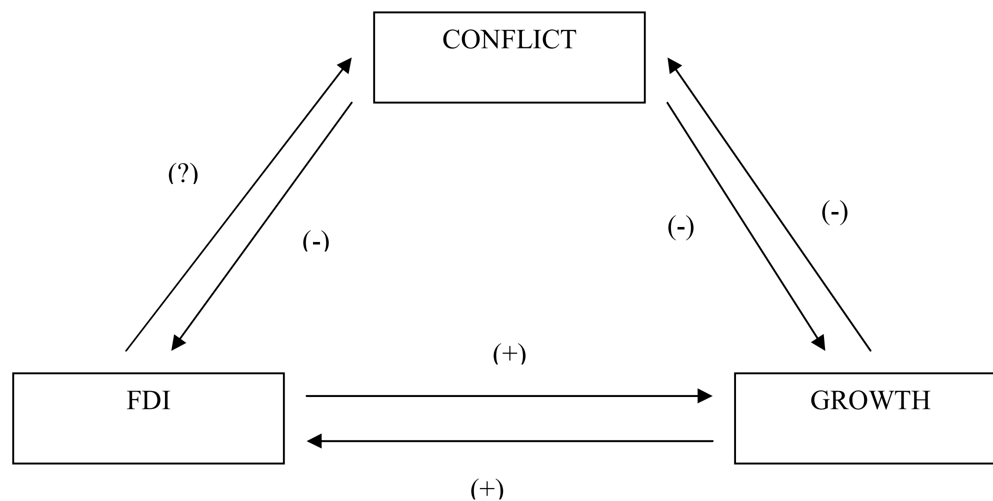
5. Effectiveness of FDI policies in times of conflict

There are different ways of approaching the effectiveness of FDI policies in a context of conflict. One approach is to look at FDI inflows in a comparative perspective and attribute possible underperformance to the existence of the conflict. This is done in section 5.1 Another approach is to try to measure the direct impact (i.e. cost) of the conflict in terms of investment and FDI, which is explored in section 5.2. The inverse of this relationship is the contribution of FDI to peace or conflict. The effectiveness of FDI policies can further not only be measured in terms of FDI inflows but also in terms of the contribution of attracted FDI to

[10] On Colombia's participation in multilateral investment protection mechanisms, see for example, Restrepo (1997).

growth and development. This is tackled in section 5.3. The complex interactions between the variables involved are shown in the (simplified) figure 1, together with the expected signs of the relationships. These interactions will be further discussed in the subsequent sections.

Figure 1: Interactions between conflict, FDI and growth



5.1. FDI inflows in comparative perspective

The drastic changes in the FDI regimes in Latin America have had a visible impact on FDI inflows from the rest of the world (table 2).[11] If we compare the second half of the 1980s with the second half of the 1990s, FDI inflows as a percentage of GDP, almost double in CAN. Colombia is the exception here, probably attributable to the continuation and even accentuation of the conflict, combined with drugs related terrorism. The figure for Chile is relatively high but stable. This is explained by the fact that Chile had already liberalised its FDI policy in the seventies. Argentina is a similar case.

[11] See also, Agosín (1996).

Table 2: FDI Inflows in Latin America (% of GDP)

	1985-1990	1995-2000
Andean Community (CAN)	1,08	1,96
Bolivia	*0,71*	*4,57*
Colombia	*2,70*	*1,61*
Ecuador	*1,31*	*1,79*
Peru	*0,17*	*2,21*
Venezuela	*0,28*	*2,00*
CARICOM	0,71	3,16
CACM	1,55	1,22
MERCOSUR	0,73	1,37
Mexico	1,68	1,59
Chile	3,76	3,69

Source: Stein *et al.* (2002:225).

Looking at the UNCTAD figures on FDI inflows over a longer time period (1985-2007) (annexes 1-3), the following can be observed. For most of the years, Colombia shows higher figures for FDI inflows as a percentage of gross fixed capital formation (GFCF) than the average for South America. A clear upward shift of the series is observable from 1996 onwards. From then on, the figures are systematically higher than 10%. 2005 was a peak year, when Colombia showed the highest proportion of FDI in GFCF in South America (42%). Inward FDI stocks as a percentage of GDP in 2007 are slightly higher than the figure for South America.

UNCTAD developed a methodology to assess inward FDI potential, FDI performance, and their relationship through a series of indicators (Box 2). Table 3 shows that Colombia's potential continuously worsened in the 1990s, with the exception of the final years, and that it stabilised in the present decade at relatively low levels.[12] The performance picture is different, however. The adverse potential has only partly been translated into low performance and the current performance levels are (again) comparable to the levels at the beginning of the 1990s. The combination of both indexes in a matrix classifies Colombia in recent years systematically as "low potential" but in most of the years as a country that is performing "above potential" (Figure 2).

[12] Mesa and Parra (2006) add relatively high tax levels and relatively low productivity increases in Colombia as additional adverse factors for attracting FDI.

Box 2: UNCTAD Inward FDI Potential and Performance Index Methodology

The UNCTAD Inward FDI Potential Index (POT_i) monitors the joint evolution of a set of variables that are likely to affect the decision to invest in the country by foreign investors. The index is calculated as an unweighted arithmetic average of the normalised values of 12 variables. These are:

- GDP per capita,
- Rate of GDP growth over the previous ten years,
- Share of exports in GDP,
- Number of (mobile) telephones per 1000 inhabitants,
- Commercial energy use per capita,
- Share of R&D spending in GDP,
- Share of tertiary studies in the population,
- Country risk,
- World market share of exports of natural resources,
- World market share of imports of parts and components for automobiles and electronic products,
- World market share of exports of services,
- Share of world FDI inward stock.

The UNCTAD Inward FDI Performance Index (PER_i) monitors inward FDI in a particular country compared to its relative economic importance.
It is calculated as: $PER_i = (FDI_i / FDI_w) / (GDP_i / GDP_w)$
Where: FDI_i = FDI inflows in country i; FDI_w = world FDI inflows; GDP_i = GDP in country I; GDP_w = world GDP.

Source: www.unctad.org (last visited 19 Nov. 2008)

Table 3: Colombian scores on UNCTAD's FDI Potential and Performance Indexes

	POTi			PERi		
Period	Rank	N	Score	Rank	N	Score
1988-1990	58	140	0,141	42	140	1,106
1989-1991	56	140	0,147	45	140	1,428
1990-1992	71	140	0,170	52	140	1,695
1991-1993	71	140	0,172	50	140	1,956
1992-1994	80	140	0,166	48	140	1,981
1993-1995	86	140	0,173	65	140	1,437
1994-1996	86	140	0,163	57	140	1,782
1995-1997	100	140	0,149	39	140	2,403
1996-1998	90	140	0,164	38	140	2,179
1997-1999	89	140	0,162	61	140	1,354
1998-2000	86	140	0,159	82	140	0,706
1999-2001	101	140	0,146	78	140	0,736
2000-2002	101	140	0,144	69	140	0,953
2001-2003	103	140	0,132	64	140	1,317
2002-2004	104	141	0,135	69	140	1,450
2003-2005	97	141	0,136	41	141	2,813
2004-2006	94	141	0,148	41	141	2,487
2005-2007	-	-	-	44	141	2,144

Note: POT_i scores are between 0 (lowest potential) and 1 (highest potential); PER_i scores greater than 1 point to countries receiving more FDI than its relative economic weight would suggest; scores below 1 point to the opposite.
Source: www.unctad.org (last visited 19 Nov. 2008)

Figure 2: Colombia's position in UNCTAD's matrices of inward FDI performance and potential

		FDI performance	
		High	Low
FDI Potential	High	*"front runners"* 1990	*"below potential"*
	Low	*"above potential"* 1995 2002 2003 2005 2006	*"under-performers"* 2001 2004

Source: www.unctad.org (last visited 19 Nov. 2008)

5.2. The economic cost of the Colombian conflict

Another way of assessing the impact of the conflict on the levels of inflowing FDI is by estimating its cost in terms of production and investment levels in general, and particularly in terms of FDI. However, whereas Colombian scholarship has been quite active on this front, both at the methodological level, and with respect to actual estimations, separate estimations for aggregate FDI do not seem to be available. The macro-economic cost estimates range between 0,5 and 7,4 percent of GDP (table 4). These estimates mostly concentrate on direct costs, as the indirect costs, such as foregone investments are more difficult to estimate. Only in recent studies like Pinto et al. (2005) are indirect costs dealt with but not in an exhaustive way. The figures therefore might well underestimate actual economic costs.

Table 4: Estimations of the economic cost of the Colombian conflict

Study	Results
Rubio (1995)	Direct cost of illegal activities in terms of lost growth: 2% of GDP in 1993
Granada and Rojas (1995)	Cost of armed violence: 4,2% of annual GDP (1991-1994)
Trujillo and Badel (1998)	Cost of urban violence: 2,1% of annual GDP (1991-1996) Total cost of armed violence: 2,4% of annual GDP
Echeverry, Piraquive and Salazar (1999)	GDP below long-term average. Investment needed to reach peace: 8% of GDP
Londoño and Guerrero (1999)	Costs of criminal activities (direct material losses: 6,4% of GDP Costs of violence (loss of productivity and investment): 2% of GDP
Echeverry, Salazar and Navas (2001)	Loss of annual growth of production due to armed violence and its long-term trajectory: around 0,5% of GDP
Pinto, Vergara and Lahuerta (2005)	Estimated total cost of conflict: 7,4% of GDP in 2003 (direct costs: 88%; indirect costs: 12%)

Source: Pinto, Vergara and Lahuerta (2005).

By contrast, a more recent survey amongst employers suggests that the economic costs have tended to be underestimated. The results indicate that foregone FDI and indirect costs in general, could be far more significant than macro-economic studies suggest. According to Rettberg's survey results (Rettberg, 2008), indirect costs are perceived as far greater than direct costs, and lost business opportunities (including those involving foreign partners and FDI) are ranked as the most important cost category (table 5). Earlier results from a survey targeted at executives of foreign companies operating in the Andean region (Vial, 2002) also pointed to the very negative evaluation of (transport) security conditions in Colombia from an investor point of view.

As indicated before (figure 1), the extent to which FDI contributes to peace or conflict is a more ambiguous relationship and will not be further elaborated here.[13]

Table 5: Ranking of perceived direct and indirect costs by Colombian private sector (survey results)

Rank	Cost	Type of cost	Average score
1	Lost business opportunities	Indirect	0,399
2	Increased expenditure on insurance policies	Indirect	0,378
3	Increased expenditure on security	Indirect	0,374
4	Lost sales due to damages in distribution and transportation networks	Indirect	0,339
5	Delays in product delivery	Indirect	0,331
6	Lost sales due to changes in markets and demand	Indirect	0,279
7	Threats	Direct	0,062
8	Extortion	Direct	0,041
9	Lost sales due to plant closures	Direct	0,036
10	Attacks against companies	Direct	0,029
11	Attacks against workers	Direct	0,029

Source: Rettberg (2008:26).

[13] On the role of the private sector in the peace processes in Colombia, El Salvador and Guatemala, see, for example, Rettberg (2007). The study does not, however, discriminate between the domestic and the foreign private sector (multinational enterprises).

5.3. FDI and growth

There are good theoretical arguments in favour of (promoting) FDI inflows. These foreign investments can contribute to enhancing the competitiveness of the domestic economy, technical change and innovation, more competition, higher exports and so on.

As far as we can see, there is no clear econometric evidence available that shows, at the macro-level, the specific contribution of FDI inflows to economic growth in Colombia. There is some evidence on trade liberalisation, but it appears to have negligible (although positive) effects on growth (Perilla Jiménez, 2006).

There is, however, some micro-level evidence. For example, productivity indicators of foreign and domestic companies have been compared, using firm-level data from the DANE Annual Manufacturing Survey (AMS) for the 1995-1999 period. Labour productivity, capital/labour ratios, unit remuneration, and the unit labour costs have been calculated (annex 4).[14][15] The results are shown as ratios of the average indicator for the foreign firms over the average for the local firms.[16] A value of 2,0 for labour productivity, for example, indicates that the foreign affiliates obtained productivity levels twice as high as the competing local firms. The general conclusion is that foreign affiliates are more productive than local ones. Foreign affiliates are more capital intensive than local firms, which confirms previous studies on Colombia's manufacturing industry (Misas, 1993; Agudelo and Silva, 1996). Likewise, foreign affiliates show higher average levels of labour productivity. Only for the Leather sector, local firms seem to be more productive than their foreign counterparts. Foreign affiliates also exhibit higher unit remuneration, consistent with Misas' observations (Misas, 1993). Finally, foreign owned companies operate with lower unit labour costs than local companies.

This general result of higher productivity levels for foreign affiliates suggests that there might be scope for positive productivity spillovers. In De Lombaerde and Pedraza (2005) we tested the hypothesis of positive spillovers using firm-level data from the *Superintendencia de Sociedades* (Superintendence of Companies) for the period 1995-2000. The information from this source was accounting information, therefore it was necessary first to calculate the economic variables to be included in the econometric model.[17]

Starting with an initial sample of about 2000 firms, due to problems with availability and consistency of the data, finally 1533 manufacturing firms were selected. Foreign firms were

[14] The indicators were calculated by manufacturing establishment, but because of the statistical secrecy obligation, we were not given access to the results at that level. It was necessary to aggregate the results by industrial sector at the 3-digit level ISIC Rev 2.

[15] For a discrimination of the comparisons by firm size, see Pedraza (2003).

[16] Foreign firms were defined here as companies with a positive (> 0%) ratio of foreign capital.

[17] The sample of the *Superintendencia de Sociedades* has certain particularities. First, the companies included are mostly large, given the fact that the Superintendence has a controlling function over large companies (Decree 3100 of 1997). Second, the companies included have mainly legal personality as "sociedad limitada" or "sociedad anónima", and exclude companies with financial activities.The firm-level data from the Annual Manufacturing Survey (DANE) is not available for the public, only on an aggregated level. This would, however, be an interesting alternative source of information on firms, and would also permit the analysis of spillover effects via vertical linkages. A disclosure of the information by the authorities is a necessary prerequisite.

defined as those firms that register a fraction of foreign ownership superior to 0%.[18] This discrimination was done using the same data source. According to this definition, 23% of the firms in the sample were called "firms with FDI" or "foreign firms", the remaining 77% "local firms".

Using the AMS criteria to classify the companies by size, 19% are considered as large companies ($\geq$ 200 employed), 47% as medium-sised (51-199 employed), and 34% as small (10-50 employed). The most important subsectors (ISIC Rev 2) represented in the sample, were: Pharmaceuticals (18,44% of total number of companies), Industrial Chemical Substances (8,07%), Food (7,49%), Plastic Products (7,49%), and Metal Products, except Machines and Equipment (6,34%). Of the 346 firms with FDI, the majority (65.5%) shows a majority stake for foreign capital (> 50% of assets).[19] The sample is relatively representative. The 1533 firms represent on average 65% of total sales registered in the AMS for the 1995-1999 period.

The econometric model that was estimated is similar to those estimated by Haddad and Harrison (1993), Aitken and Harrison (1999), and Barrios (2000). A log-linear production function was estimated, in which the production level is modelled as a function of its inputs (capital and labour) and variables that measure the presence of FDI within the firm and in each manufacturing subsector. Answers to two questions were sought: (i) Is foreign ownership of a firm positively associated with its productivity?, and (ii) Is foreign ownership in a sector related to productivity levels of local firms competing in the same sector through positive spillover effects?

On the one hand, the coefficient capturing FDI at the firm level suggests that an increase of foreign ownership in a firm, from 0 to 100%, increases its production in 0,03%. However, the coefficient is not statistically significant so that there is very weak evidence that firms that receive FDI benefit from it. The low value and lack of statistical significance of the variable is surprising, given the evidence of superior productivity of foreign affiliates (see before). Nevertheless, other empirical studies also revealed mixed and unclear results. For example, whereas the value for this coefficient was 10,5% and statistically significant for Venezuela, in Spain it was 0,1% and not significant.[20]

One possible explanation for these differences in the results might be related to the differences between the type of samples that were used. As we mentioned before, our sample of firms controlled by the *Superintendencia de Sociedades* is biased in terms of scale and legal type of company. The results might also be explained by the way in which foreign involvement is measured. Instead of using foreign ownership (expressed as a percentage of total assets), it might be necessary to measure directly foreign involvement in the management of the affiliate (flows of knowledge and experience), and the type and intensity of institutional arrangements and/or technological dependence between affiliates and headquarters. Finally, it might also be necessary to consider longer periods of time so that learning curves may become visible.

[18] This definition of foreign firms was also used in Aitken and Harrison (1999) for Venezuela. However, other criteria for foreign ownership have also been used (> 5% or > 10% of total assets); without altering the conclusions. See, Pedraza (2002).

[19] See also, Misas (1993) and Steiner and Giedion (1995).

[20] Blömstrom and Sjöholm (1999), and Haddad and Harrison (1993) also failed to find significant positive coefficients for this variable.

On the other hand, the coefficient capturing FDI at the sectoral level is positive and statistically significant, although very small. An increase of 10% in foreign participation in a sector, would augment the production of local firms in 0,04%, *ceteris paribus*. These effects continue to be positive and small if we limit the estimation to local firms without FDI. The value of the coefficients is very similar although it is only statistically significant when the assets variable is used for the measurement of the sectoral FDI presence.

In a comparative perspective, whereas the studies performed with aggregate data and cross-section estimations found evidence that the presence of foreign companies is beneficial for the domestic firms, estimations with firm-level panel data revealed less optimistic conclusions. The study on Venezuela found a significant negative coefficient for the sectoral FDI variable, the one on Morocco a negative but not significant coefficient, whereas the study on Spain revealed a small but not significant effect, with changing signs according to the model specification. The results for Colombia seem thus to confirm the weak evidence of positive productivity spillovers from FDI.[21]

A number of authors have pointed to the fact that positive FDI spillovers are more likely when the local firms have the management and production capacity to absorb them, and/or when the technological knowledge gap is not too great (Kokko, 1994; Kokko et al., 1996; Barrios, 2000). In order to confirm these results, separate estimations were performed for subsamples with high and low labour productivity levels. We found that the existence of significant positive spillovers is indeed limited to the case of sectors with higher productivity levels.

Finally, our results, which showed spillovers that were small in magnitude are consistent with the conclusions obtained by Steiner and Giedion (1995) in their qualitative assessment of FDI in Colombian manufacturing industries.[22] They found that the manufacturing firms with foreign participation make apparently little effort to transfer and diffuse technology, not even internally, in spite of the fact that foreign affiliates consider that one of their principle advantages vis-à-vis local firms is the possession of technological resources.

[21] These results were confirmed by separate estimations for subsamples of firms, classified according to size. These estimations never resulted in statistically significant coefficients for the firm-level FDI variable. They were positive for large and medium-sised firms, but negative for small firms. The coefficients showing the spillover effects continued to be significant in most cases, although they were not important in magnitude. Certain variation has been observed with varying measurements of foreign participation (assets *versus* sales) (Pedraza, 2002). “Better” results with the sales variable suggest that the effect of FDI on competition levels might be crucial for explaining positive spillovers. Further research, involving direct measurements of the effect of FDI policies on the level and nature of competition, would be needed on this point. On the nexus between *apertura* and industrial concentration in Colombia, see, De Lombaerde (2004).

[22] Steiner and Giedion (1995) report on the results of a questionnaire among foreign-owned firms based in Colombia, they analysed the determinants of FDI and the contribution of foreign firms to development and the transfer of technology.

6. Conclusions

The change in the FDI policy regime in the Andean region at the beginning of the 1990s has had a clear positive impact on the volume of incoming FDI flows in the region. Colombia also liberalised its FDI regime, in line with the new orientation of the economic chapters in the Constitution of 1991, the policy orientations of the governments in power, business interests in Colombia, and the priorities set in its relationship with the US, its principal economic and political partner.

Colombia was initially less successful in attracting FDI than its neighbours, in part because of the intensification of the conflict and the violence generated by the drug cartels in the beginning of the 1990s. But from the mid-1990s onwards, it systematically performed slightly above the regional average with respect to attracting FDI. UNCTAD's methodology shows that although Colombia has a potential that is below the average (because of factors including those that are related to the existence of the conflict), over recent years it has almost continuously performed "above potential".

The available estimations of the costs of the conflict do not allow for firm conclusions about the cost in terms of foregone FDI to be drawn. Surveys among private businesses indicate, however, that the indirect costs (including foregone FDI) could be significantly higher than the outcomes of the macro-economic estimates.

Finally, although there are good theoretical reasons to believe that FDI generates positive spillover effects for domestic firms, estimations with firm-level panel data do not always reveal their existence. The econometric results for Colombia show no or very weak (and not significant) spillover effects. If positive effects on the productivity of domestic firms are found at all, they are apparently completely absorbed by the most productive domestic firms. Therefore, positive productivity spillovers should not be taken for granted, or at least not be overestimated. This being said, it can be affirmed that foreign companies are on average more productive than the local ones, although scale effects obviously also play a role in relation to this.

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Annex 1: FDI inflows as a percentage of Gross Fixed Capital Formation, by host region and economy, 1985 - 2007

Region/economy	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
South America	4,3	1,6	2,3	4,1	2,9	3,2	3,8	6,5	4,3	6,6	6,9	11,8	16,0	17,2	31,2	25,6	18,6	17,4	13,8	17,0	15,4	12,0	15,4
Argentina	5,9	3,1	-0,1	4,8	8,6	9,3	8,8	11,6	6,2	7,1	12,1	14,1	16,1	12,2	46,9	22,6	5,7	17,6	8,4	14,1	13,4	10,1	9,0
Bolivia	2,2	3,2	8,2	5,7	6,4	11,0	12,4	13,3	12,9	14,7	35,9	35,9	56,8	52,2	63,9	49,0	62,2	54,4	19,0	7,7	-23,2	17,2	9,6
Brazil	3,8	0,6	1,8	3,7	1,0	1,0	1,5	2,9	1,5	1,9	3,0	7,2	11,8	18,6	28,2	30,3	23,9	20,0	12,0	17,0	10,7	10,6	15,0
Chile	4,4	8,9	18,9	16,9	16,9	8,0	10,2	8,5	8,0	18,6	16,2	24,1	23,5	22,3	57,6	31,2	28,2	17,8	28,9	38,9	27,9	25,8	42,9
Colombia	*11,4*	*7,4*	*3,4*	*1,8*	*5,5*	*5,1*	*5,2*	*7,3*	*6,9*	*7,8*	*4,7*	*14,8*	*25,6*	*15,1*	*13,1*	*23,0*	*22,6*	*17,9*	*13,0*	*16,6*	*41,8*	*21,5*	*22,9*
Ecuador	2,4	3,8	5,1	7,2	7,8	6,4	6,9	7,2	16,6	16,4	11,9	13,0	17,1	18,8	22,9	22,1	29,3	13,5	14,3	11,9	6,0	3,0	1,8
Guyana	1,9	-6,6	3,8	2,4	-1,6	4,7	10,0	73,0	28,7	43,0	26,4	30,0	15,7	14,8	17,2	24,5	20,4	15,8	10,0	11,9	28,8	24,8	31,5
Paraguay	0,9	2,6	0,9	0,5	1,4	6,6	5,9	8,9	5,0	7,8	5,5	7,6	12,0	22,3	7,1	8,4	7,5	1,1	2,6	2,9	3,7	9,6	8,3
Peru	0,0	0,5	0,5	0,4	0,9	0,7	-0,1	-1,3	11,9	34,5	19,8	27,7	15,2	12,3	17,3	7,5	11,4	21,6	12,2	12,8	17,7	19,4	22,8
Uruguay	-1,7	6,4	6,0	5,2	4,2	4,6	2,7	0,6	4,6	6,1	6,0	4,8	4,0	4,8	7,8	10,3	12,8	15,6	39,4	22,3	40,8	49,9	27,4
Venezuela, Bolivarian Republic of	0,7	-1,4	3,5	3,9	6,7	9,9	1,9	11,4	2,8	6,7	5,9	15,2	28,4	19,1	12,4	19,1	12,5	3,8	15,8	7,2	8,8	-1,5	1,2

Source: UNCTAD World Investment Report

Annex 2: Inward FDI stock as a percentage of GDP, by host region and economy, 1985 - 2007

Region/economy	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
South America	10,1	9,5	9,9	9,4	9,4	9,6	9,8	11,3	11,8	11,7	9,6	10,9	13,9	17,0	22,4	23,6	27,4	28,6	31,6	29,7	27,6	26,4	27,7
Argentina	3,6	3,6	3,4	3,9	7,7	5,5	5,4	6,5	7,1	7,9	9,9	11,2	14,3	16,0	21,8	23,8	29,6	42,3	37,2	34,3	30,1	27,9	25,2
Bolivia	15,1	15,3	14,5	13,8	15,0	21,1	20,5	21,1	22,9	24,0	23,3	26,9	28,4	38,5	51,7	61,8	72,4	82,9	56,9	56,5	51,4	44,7	40,6
Brazil	11,5	10,4	10,7	9,7	7,7	8,5	9,5	12,1	12,5	11,3	6,8	7,1	8,6	12,6	17,4	19,0	22,1	19,9	24,0	24,3	22,2	22,0	25,0
Chile	65,8	62,8	57,7	53,1	50,7	48,1	44,2	38,6	38,5	38,2	33,9	38,6	41,7	47,4	59,6	60,8	63,4	62,9	73,1	63,3	62,7	55,0	64,4
Colombia	*5,4*	*6,4*	*6,9*	*6,5*	*7,0*	*7,3*	*7,4*	*7,4*	*7,1*	*6,4*	*6,9*	*12,1*	*18,5*	*16,9*	*15,6*	*13,3*	*18,8*	*22,2*	*25,9*	*25,3*	*30,0*	*33,2*	*32,7*
Ecuador	5,8	8,9	10,2	11,5	12,5	14,5	14,4	14,7	17,2	17,0	17,9	19,4	20,5	24,6	38,1	44,4	39,6	30,8	29,8	28,7	26,5	24,5	23,2
Guyana	9,0	6,3	10,7	9,4	9,7	11,3	16,4	54,5	58,6	69,7	73,1	77,6	80,0	89,7	99,2	106,1	114,1	117,9	118,7	115,7	119,8	121,2	119,7
Paraguay	6,8	6,3	7,8	6,0	8,6	8,5	8,5	10,2	10,9	11,6	8,0	9,5	11,0	15,1	16,7	18,7	17,6	17,7	19,6	16,5	17,2	19,2	16,7
Peru	7,7	5,3	3,3	4,0	3,7	4,5	4,0	4,2	4,7	9,9	10,3	12,0	13,1	14,6	19,0	20,7	21,9	22,1	21,0	19,1	20,0	20,8	22,7
Uruguay	9,7	8,4	7,4	7,8	8,1	8,0	7,0	5,6	5,4	5,6	5,8	6,2	6,4	7,0	8,6	10,4	13,0	11,4	16,1	16,0	17,1	21,7	22,0
Venezuela, Bolivarian Republic of	2,6	2,3	3,9	4,3	7,4	8,2	7,9	10,3	11,1	12,8	11,0	15,3	28,8	31,7	32,1	30,3	31,8	42,0	49,5	37,7	30,6	24,6	19,3

Source: UNCTAD World Investment Report.

Annex 3: Inward FDI stock as a percentage of GDP, by host region and economy, 1986 - 2007 (annual percentage point variations)

Region/economy	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
South America	-0,6	0,3	-0,5	0,0	0,2	0,2	1,5	0,5	-0,1	-2,1	1,3	3,1	3,1	5,4	1,2	3,8	1,1	3,0	-1,9	-2,2	-1,2	1,3
Argentina	-0,1	-0,1	0,4	3,9	-2,2	-0,1	1,1	0,6	0,9	1,9	1,4	3,1	1,6	5,9	1,9	5,8	12,7	-5,0	-3,0	-4,2	-2,2	-2,7
Bolivia	0,2	-0,8	-0,7	1,1	6,1	-0,6	0,6	1,8	1,1	-0,7	3,6	1,5	10,2	13,2	10,1	10,6	10,5	-26,0	-0,4	-5,1	-6,7	-4,1
Brazil	-1,1	0,3	-0,9	-2,1	0,8	1,0	2,6	0,4	-1,1	-4,5	0,3	1,6	4,0	4,8	1,5	3,1	-2,1	4,1	0,3	-2,1	-0,1	3,0
Chile	-3,0	-5,1	-4,6	-2,3	-2,7	-3,9	-5,6	-0,1	-0,3	-4,3	4,7	3,1	5,7	12,2	1,3	2,6	-0,5	10,2	-9,8	-0,5	-7,8	9,4
Colombia	*1,1*	*0,5*	*-0,5*	*0,5*	*0,4*	*0,0*	*0,1*	*-0,4*	*-0,7*	*0,6*	*5,2*	*6,3*	*-1,6*	*-1,3*	*-2,2*	*5,4*	*3,4*	*3,7*	*-0,6*	*4,7*	*3,2*	*-0,5*
Ecuador	3,0	1,3	1,3	1,0	2,0	0,0	0,3	2,5	-0,2	0,9	1,4	1,1	4,1	13,6	6,3	-4,9	-8,8	-1,0	-1,1	-2,2	-2,0	-1,3
Guyana	-2,7	4,5	-1,3	0,3	1,6	5,1	38,1	4,1	11,1	3,4	4,5	2,4	9,7	9,6	6,9	7,9	3,8	0,8	-3,0	4,1	1,4	-1,5
Paraguay	-0,5	1,4	-1,8	2,6	-0,1	0,0	1,7	0,7	0,7	-3,7	1,5	1,5	4,1	1,5	2,0	-1,1	0,1	1,9	-3,1	0,6	2,0	-2,5
Peru	-2,4	-2,0	0,8	-0,4	0,9	-0,6	0,2	0,5	5,2	0,4	1,8	1,1	1,5	4,4	1,7	1,2	0,2	-1,1	-1,9	0,9	0,8	1,9
Uruguay	-1,3	-1,0	0,4	0,3	-0,1	-1,0	-1,5	-0,1	0,1	0,3	0,3	0,2	0,5	1,6	1,8	2,6	-1,5	4,7	-0,1	1,1	4,6	0,3
Venezuela, Bolivarian Republic of	-0,3	1,6	0,5	3,1	0,8	-0,3	2,4	0,8	1,7	-1,8	4,3	13,5	2,9	0,5	-1,8	1,5	10,2	7,5	-11,9	-7,1	-6,0	-5,4

Source: Calculations of the authors on the basis of Annex 2.

Annex 4: Comparison of productivity indicators, 1995-1999

ISIC	Manufacturing sectors	PL[a]	UR[a]	K/L[a]	ULC[a]
311	Food	1.73*	1.22	1.46	0.77*
312	Other food	2.50*	1.39*	3.11*	0.84
313	Beverages	1.49	1.01	1.76*	0.62*
321	Textiles	1.72*	1.22*	1.29	0.71*
322	Garments	1.57*	1.24*	1.74	0.95
323	Leather products	0.68*	1.18	1.10	1.82*
324	Footwear	1.32*	1.41*	1.71*	1.07
331	Wooden products	1.21	1.24*	1.10	1.18
332	Furniture etc.	2.35*	1.49*	2.84*	0.62*
341	Wood pulp, paper and cardboard	1.40*	1.28*	1.60	0.94
342	Printing and editorials	1.51*	1.10	1.13	0.80*
351	Industrial chemical substances	2.66*	1.38*	2.98*	0.58*
352	Pharmaceuticals, soaps	2.27*	1.68*	2.80*	0.84
354	Derivatives of oil and coal	1.66	2.02*	2.36*	1.37
355	Rubber products	2.00*	1.54	3.23	0.74*
356	Plastic products	1.94*	1.31	2.65*	0.69*
361	Objects of clay, porcelain, etc.	1.23	1.08	1.77*	0.63
362	Glass	3.37*	1.85*	4.54*	0.55*
369	Non-metal mineral products	1.89*	1.30*	2.24*	0.59*
371	Basic iron and steel industry	2.65*	1.63*	3.69*	0.57*
372	Basic manufacturing of non-ferrous metals	1.07	1.27*	1.52	0.92
381	Metal products, except machines and equipment	2.01*	1.37*	1.91*	0.74*
382	Machines, except electrical	1.62*	1.31*	1.93*	0.87
383	Electrical machines and equipment	2.23*	1.87*	2.42*	0.93

384	Transportation material	2.76*	1.44*	1.66*	0.47*
385	Professional and scientific material	3.71*	1.49*	2.22*	0.51*
390	Other manufacturing industries	1.60*	1.47*	1.19	0.99

Source: Annual Manufacturing Survey (AMS) DANE 1995-1999; De Lombaerde and Pedraza (2005).

PL = productivity of labour, UR = unit remuneration, K/L = capital/labour ratio, ULC = unit labour cost.
[a] Ratio of average performance of foreign affiliates over average performance of local firms.

* = differences between averages statistically significant at 5% level.