Executive summary

Colombia, the fourth largest economy in Latin America, is back on stage after decades of conflict. In the last two decades, Colombia has made much progress. Its citizens live better. The GDP per capita doubled between 2000 and 2017, and the economy grew at an annual average of 4.3%, the second highest growth rate in Latin American after Peru and doubling the rate of growth of the region. In the same period, the poverty rate declined from 50% to 28%. However, the incidence of poverty is still higher than in other countries in the region, such as Peru (20%) and Chile (12%). Investors' confidence grew and the country has taken steps to re-brand itself as a nation open to business and innovation. In 2017, Colombia's inward stock of Foreign Direct Investment (FDI) reached 57% of GDP, ranking among the highest in the Latin America and Caribbean region and above the OECD average. In addition, firms in Colombia are starting to use digital technologies for business. Thanks to improved digital connectivity and targeted policies for start-up development, Colombia is now the fifth largest hub by number of start-ups in Latin America and the fourth largest by venture capital.

To continue progressing, Colombia needs to address the structural weaknesses that are holding back future progress. Productivity has not increased enough to bring Colombia on a par with more advanced economies. Since the 2000s, Colombia's labour productivity has been stable at 25% of that of the United States. Colombia could benefit more from trade and investment. The economy is specialised in exporting natural resources and, despite a relatively long tradition of manufacturing, this activity is becoming less relevant and less competitive. In 1990-2015, Colombia fell in the Competitive Industrial Performance Index, which benchmarks the ability of countries to produce and export manufactured goods competitively, from the 57th to the 69th position in the ranking. The share of manufacturing in GDP is nowadays half of what it was in the 1980s and domestic manufacturing is struggling to compete in global markets. In 2017, primary production and mining accounted for 80% of exports, 10% more than in the 1990s. In addition, few places are benefiting from trade and investment. In 2015-2017, three regions (Bogotá, Cundinamarca and Antioquia) accounted for more than 60% of total FDI inflows in 2015-2017. Moreover, Colombia continues to invest little in innovation. The research and development (R&D) expenditure over GDP is stable around 0.25% of GDP, well below the OECD average of 2.35%, and even below other countries in Latin America, such as Chile (0.39%). The private sector is also not investing enough. Business expenditure on R&D in Colombia is 0.11% of GDP, 15 times less than the OECD average. While the private sector gap in innovation is particularly high for SMEs, 46% of large firms innovate in Colombia, which is higher with respect to peers in the region, such as Chile (30%). This could prove an advantage for Colombia to fast track technology adoption and creation in the economy.

To move forward, Colombia can leverage on established and well-respected planning capacities and track record in policies to promote production development. Next to the DNP, the centre for national strategic planning, and the other line ministries, Colombia can count on a set of well-established private sector institutions. For example the National

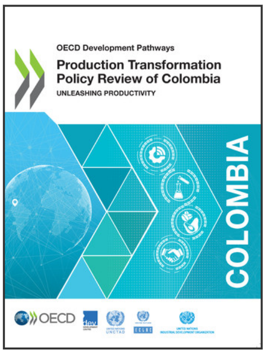
Industrial Association (ANDI), the National Confederation of Chambers of Commerce (Confecámaras), and the Private Council for Competitiveness (CPC) convey private sector views on national policies for production development.

The Production Development Policy (PDP) 2016-2025 represents a good basis to move forward, notably on two fronts: i) it has explicitly created a mechanism to work with regions on identifying priorities for production development and ii) it has enabled co-ordination among different ministries in areas linked to strengthening the competitiveness of firms. In going forward, Colombia could put clearer emphasis on industry 4.0 and new technologies and ensure greater co-ordination of production transformation polices with science, technology and innovation. Additionally, production development policies need to gain higher priority in the national strategy. Only in this way, they can achieve the level of coordination, continuity and funding needed to secure impact.

Throughout this PTPR (Production Transformation Policy Review) process that involved an extensive consultation with multiple national and international stakeholders, three game changers emerged as key to enabling the country to move forward:

- *Strengthening the government's planning and anticipatory capacities to shape the future.* The country needs to update the planning process to cope with a fast-changing global landscape and to respond to growing demands for accountability and transparency. Colombia could update its planning structure by creating new incentives to shift the focus from drawing up documents to achieving a shared commitment to budget allocation and policy implementation, ensuring the participation of all stakeholders to the strategic thinking process, and endowing the DNP with a centre for strategic thinking and policy foresight.
- *Tapping the productivity potential of all regions*. To unleash its competitiveness potential, Colombia needs to enable all regions and territories to develop. This requires a two-track approach. The country needs to get the enabling factors right. Red tape and a poor communication infrastructure are holding back productivity and the competitiveness of firms. At the same time, it needs to consolidate past policy efforts and update them by improving the prioritisation process by adopting a challenge-driven and place-based approach, and by taking into account the opportunities of the Industry 4.0.
- *Activating mechanisms to benefit more from trade and investment.* To do so the country could improve its participation in global value chains in higher value added activities, such as services. This could be done by leveraging on a modern quality infrastructure system that would enable domestic firms to operate in an Industry 4.0 and fast-changing industrial landscape. At the same time, trade and investment agreements could include provisions to foster learning in domestic firms.

Advancing towards the realisation of a competitive and innovative nation and at the same time opening up opportunities for all territories and people is paramount for Colombia. In doing so, the country needs to leverage on its institutions and experience in policy planning to achieve a shared vision and create the conditions for implementing it within a time-horizon that goes beyond political cycles.



From:

Production Transformation Policy Review of Colombia

Unleashing Productivity

Access the complete publication at:

https://doi.org/10.1787/9789264312289-en

Please cite this chapter as:

OECD/United Nations/United Nations Industrial Development Organization (2019), “Executive summary”, in *Production Transformation Policy Review of Colombia: Unleashing Productivity*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/283a9151-en