Department of the Global Economics

Bachelor's Thesis

The Development and Ways of Implementation of International Investment Project "Hotel Business in Colombia"

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Specialty 292: International economic relations
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The Bachelor's Thesis

Assignment

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1. Title : The Development and Ways of Implementation of International Investment Project " Hotel Business in Colombia"

2. Supervisor___ Anatolii Zadoia, Doctor of Science, Full Professor

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3. Deadline for submission of work completed by the 1.06.21

4.Aim

To grow scientifically accepted suggestions and recommendations on advancement and usage of worldwide Investment project in Colombia

5.Thesis outline (list of issues to be developed)

Acknowledgment of the target set in the proposition achieved thought and settling of the going with tasks: to find the effect of new pursuit activity and execution of the endeavor in Colombia to analyze the way of thinking of developing the plan of investment of Colombia and trade streams the conditions of globalization; to examine the customs rule in Colombia To give a consistent evaluation of the investment approaches in the circle of new money related development of Colombia to fundamentally survey designs in the headway of Colombia new direct theory; to perceive the basic pieces of overall hypothesis and how the public authority oversee pulling in anticipated new monetary supporters; to separate possible positive and negative consequences for Colombia increments

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7. Calendar of work execution

no	Name of the stages of qualification work	The deadline for the work stages	
		according to the plan	in fact
1.	Section 1	01.04.21	
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3.	Section 3	15.05.21	
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Abstract

Ayari Amel. ***The Development and Ways of Implementation of the International Investment Project "Hotel Business in Colombia"***.

In these chapters the aims are to develop a broad understanding of the relationship between tourism and development in Colombia. Tourism is a growing sector within the tourism industry. We are going to understand the high-impact public policies related to tourism as well as the gains and gaps to be overcome. The main findings point out that Colombia is at a juncture where tourism is starting to bloom. Whatever is planned and how it is done in terms of public policy will determine the future model for its development. As such, tourism can become a strategic instrument for decentralization processes, regional and local dynamics, and strengthening the rule of law.

The hypothesis about progress and execution of the worldwide investment project work gives a considered revenue in Colombia Tourism industry. The possibility of the business being researched requires capital endeavor, savvy capacities and assessment of the financial and theory climate of Colombia. Moreover, looking at the current situation in Colombia market and business region capacity of the site of an especially proposed project. The guideline plan of this recommendation is to discover and measure the reachability appropriateness and financial conceivable outcomes of Tourism industry and the business on goings in Colombia

Keywords: Investment Climate, international investment project, Colombia, tourism industry, International Trade, GDP

Анотація

Аярі Амель. Розробка та шляхи реалізації міжнародного інвестиційного проекту «Готельний бізнес в Колумбії».

У цих розділах цілями є розвиток широкого розуміння взаємозв'язку між туризмом та розвитком у Колумбії. Туризм - зростаючий сектор туристичної галузі. Ми збираємось зрозуміти суть державної політики, пов’язаної з туризмом, а також здобутки та прогалини, які потрібно подолати. Основні висновки вказують на те, що Колумбія знаходиться на стику, коли туризм починає процвітати. Що б не планувалось і як це робиться з точки зору державної політики, буде визначати майбутню модель її розвитку. Таким чином, туризм може стати стратегічним інструментом процесів децентралізації, регіональної та місцевої динаміки та зміцнення верховенства права.

Гіпотеза про хід та виконання роботи за міжнародним інвестиційним проектом дає значний дохід у туристичній галузі Колумбії. Можливість досліджуваного бізнесу вимагає капіталовкладень, кмітливості та оцінки фінансового та теоретичного клімату Колумбії. Більше того, дивлячись на поточну ситуацію на ринку Колумбії та потенціал ділового регіону з боку реалізації спеціально запропонованого проекту. Орієнтовний план наших рекомендацій полягає у виявленні та вимірюванні доцільності та фінансово можливих результатів туристичної індустрії та ділового бізнесу в Колумбії.

Ключові слова: Інвестиційний клімат, міжнародний інвестиційний проект, Колумбія, туристична галузь, міжнародна торгівля, ВВП

CONTENTS

Introduction

Truth of the subject. International investment is one of the standard discussions, disputes, and conversations in this current reality; the economy is the foundation and the super plan of every nation today. The basic piece of overall monetary issue is that the country can have the choice to create its nation to attract new interest to build its economy to resolve people's issues.

Assessment of Investment climate in a country on this endeavor l am going to look at is the Investment climate of a country called Colombia

So first of all, what does investment mean? So, investment or to invest means

To allocate money with the expectation of a positive benefit/return in the future. In other words, to invest means owning an asset or an item with the goal of generating income from the investment or the appreciation of your investment which is an increase in the value of the asset over a period of time. When you invest it always requires a sacrifice of some present asset that you own today such as time, money, or effort (https://en.m.wikipedia.org/wiki/Investment).

The Theoretical significance: This exploration tries to additionally investigate deductively approved ideas and proposals on progression and utilization of overall Investment project in Colombia

Practical significance: The Columbia government can counsel a few suggestions from this examination in dynamic interaction given that it's implementable.

Object of research: International investment in Colombia

Subject of this research: To grow scientifically accepted suggestions and recommendations on advancement and usage of worldwide Investment project in Colombia

Methodologies of Research: includes the Compilation facts and relevant information, analysis of theories and historicity, and recommendation of solutions.

SECTION 1

COLOMBIA ECONOMY: THE CURRENT SITUATION, DEVELOPMENT TRENDS AND MAJOR PROBLEMS

1.1. General qualities of the advancement of Colombia economy

President Ivan Duque Marquez began his presidential term on August 7th, 2018, and it will end on August 7, 2022. Duque, from the Democratic Center party, won the elections by achieving 53.95% of the votes (10,351,304 votes) while his rival Gustavo Petro reached 41.83% (8,024,697 votes). The main pillars of its government are legality, entrepreneurship, and equity, with transversal axes in terms of infrastructure, environmental sustainability and innovation (www.worldbank.org).

Colombia has received a massive and accelerating inflow of migrants from Venezuela. Approximately 1.8 million Venezuelans have arrived in Colombia as of December 2020, according to Colombian official statistics. Colombia has taken a leading role in adopting an open borders policy and implementing good practices in the provision of services to Venezuelan migrants and returned Colombians in areas such as education to health, services of employment and humanitarian aid.

Colombia has a track record of prudent macroeconomic and fiscal management, anchored on an inflation targeting regime, a flexible exchange rate, and a rule-based fiscal framework, which allowed the economy to grow uninterrupted since 2000. Also, Colombia halved poverty over the past ten years.

However, productivity growth is low and it has actually been a drag on economic growth. A large infrastructure gap, low labor productivity, low trade integration and barriers to domestic competition are among the factors that weigh on total factor productivity. Exports are highly concentrated in non-renewable commodities (oil in particular), which increases the exposure of the economy to price shocks. Finally, Colombia is one of the countries with the highest income inequality and labor market informality in Latin America.

After slowing down to 1.4 percent in 2017, economic growth accelerated to 3.3 percent in 2019, driven by robust private consumption and stronger investment. Growth was on track to accelerate further in 2020, but the COVID-19 pandemic hit the economy hard, causing a very deep recession.

The Government responded promptly to the crisis and took decisive actions to protect lives and livelihood, and to support the economy. On the fiscal front, the Government announced a sizable fiscal package for 2020 totaling over COP 31 trillion (or almost 3 percent of 2019 GDP), to provide additional resources for the health system, increase transfers for vulnerable groups through the expansion of existing programs and the establishment of new ones (Ingreso solidario, an unconditional cash transfer program, and VAT reimbursements for low-income segments of the population), delay tax collection in selected sectors, lower tariffs for strategic health imports, and help hard-hit firms pay employees. In addition, the government also set up special lines of credit and loan guarantees for firms in selected sectors or that have been deeply affected by the crisis, potentially totaling 72 trillion (or 6.8 percent of 2019 GDP). To ensure adequate fiscal support, the suspension clause of the fiscal rule was activated for 2020 and 2021. On the monetary front, the central bank cut its intervention rate 250 basis points between March and September and reduced it to its lowest historical level. In addition, it introduced a broad range of measures to increase liquidity (www.worldbank.org).

These measures are expected to mitigate the impact on the economy of COVID-19 and of the public health measures taken to contain its spread. Yet, the economy is projected to contract 7.2 percent in 2020. A rebound in growth is expected for 2021-2022, provided that the pandemic is short-lived. The low interest rate environment, facilitated by the central bank, is expected to boost private consumption growth to the extent that COVID-19 containment measures are eased. It is also expected to facilitate a gradual rebound in investment as major infrastructure projects such as the 4G road and the Bogota metro projects resume at full speed. Inflation is expected to fall towards the lower part of the central bank's targeted range, as exchange rate pass through pressures are tempered by weak demand.

The lower oil prices and reductions in global demand are expected to compensate the demand-driven drop in imports, while strong inflows of remittances and lower dividends to foreign direct investors are expected to cause the current account deficit to improve slightly, from 4.2 percent of GDP in 2019 to 4.1 percent of GDP in 2020. A normalization of trade flows and an unfolding of backlogs of dividend payments to foreign direct investors is expected to cause the current account deficit rebound in 2021, until it stabilizes at 4.2 percent of GDP in 2022 (www.worldbank.org)

Beyond the medium-term, the outlook depends on the duration and severity of the crisis, the way and speed at which the fiscal deficit will be reduced, and the country's ability to address existing structural bottlenecks.

Fig 1.1 Colombia GDP from 2012 to 2020

Source: IMF

Table 1.1

COLOMBIA: Real domestic GDP growth.

Source: IMF

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency	
323.80	333.60	382.10	4.00	1960 - 2019	USD Billion	Yearly	Current USD

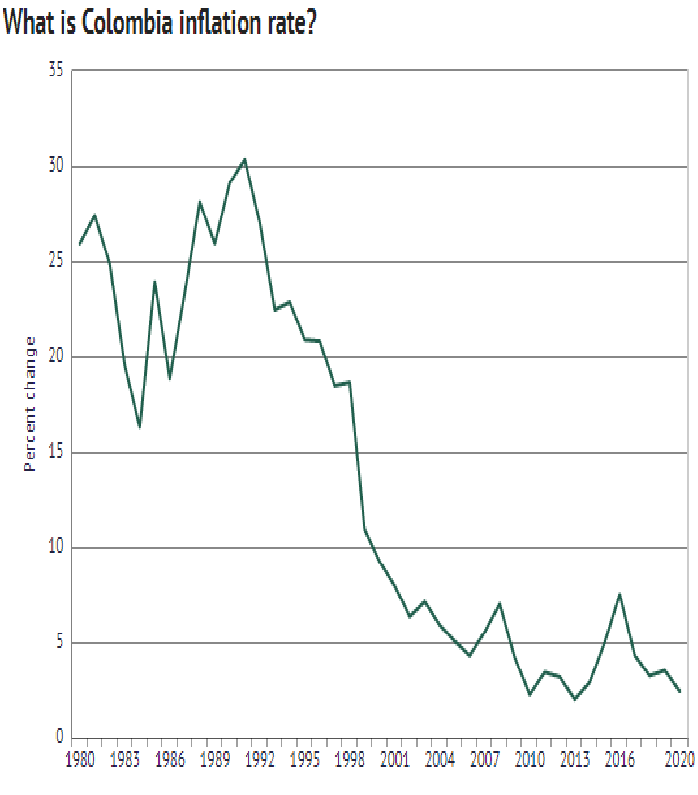
Colombia GDP	Last	Previous	Highest	Lowest	Unit	
GDP Growth Rate	6.00	9.40	9.40	-14.80	percent	[+]
GDP Annual Growth Rate	-3.60	-8.50	7.90	-15.80	percent	[+]
GDP	323.80	333.60	382.10	4.00	USD Billion	[+]
GDP Constant Prices	230008.99	203789.79	238714.59	100710.10	COP Billion	[+]
Gross Fixed Capital Formation	38522.72	37972.07	49982.51	9542.00	COP Billion	[+]
GDP per capita	7842.90	7696.30	7842.90	2339.40	USD	[+]
GDP per capita PPP	14730.88	14455.59	14730.88	8390.84	USD	[+]
GDP From Agriculture	14296.27	14714.33	14714.33	5454.00	COP Billion	[+]
GDP From Construction	10755.16	10403.10	15375.17	2927.00	COP Billion	[+]
GDP From Manufacturing	27220.27	25010.15	27283.34	9441.00	COP Billion	[+]
GDP From Mining	9029.63	8867.38	12711.10	4899.00	COP Billion	[+]
GDP From Transport	9509.10	8133.41	11437.74	4460.00	COP Billion	[+]
GDP From Utilities	6813.00	6567.00	6876.00	2895.00	COP Billion	[+]

The gross domestic product (GDP) measures of national income and output for a given country's economy. The gross domestic product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time.

The inflation rate for consumer prices in Colombia moved over the past 40 years between 2.0% and 30.3%. For 2019, an inflation rate of 3.5% was calculated.

During the observation period from 1979 to 2019, the **average inflation rate was 14.5%** per year. Overall, the price increase was 19,622.44 %. An item that cost 100 Peso in 1979 was so charged 19,722.44 Peso in the beginning of 2020.

In only a very few countries, the price increase is that high. The rate of 30.3% in 1991 means, that compared to the previous year all prices have been increased by an average of 30.3%. In comparison to other countries, the drastic price increases are no longer on average. Usually this is a sign of political and economic turmoil.In 2020, inflation rate for Colombia was 2.4 %. Though Colombia inflation rate fluctuated substantially in recent years, it tended to decrease through 2001 - 2020 period ending at 2.4 % in 2020 (*Fig.1.2*)



DATE	VALUE	CHANGE, %
2020	2.4	-30.70 %
2019	3.5	8.77 %
2018	3.2	-24.97 %
2017	4.3	-42.53 %
2016	7.5	50.44 %
2015	5.0	71.71 %
2014	2.9	43.72 %
2013	2.0	-36.25 %
2012	3.2	-7.22 %

Fig 1.2. Inflation rate between (1980-2020)

Source :(statista.com)

High inflation and unemployment also confronted Colombia in the late 1980s. Although Colombia was able to avoid the hyperinflation characteristic of

Argentina and Brazil in the 1980s, persistent annual increases in the consumer price index (CPI) of 20 to 25 percent had been evident since the mid-1970s.

Higher coffee revenues in the 1970s caused rapid increases in demand and costs, which boosted inflation. This occurred at a time when the Third World was also experiencing rising oil prices. As the economy entered the 1981-85 recession, accelerated deficit spending by the government continued to fuel inflation. By the early 1980s, Colombia had entered a period of rising prices combined with economic stagnation. The rapid growth of the money supply and frequent devaluations of the peso also fed inflation in the 1980s.

The annual inflation rate dipped below 20 percent in 1983 for the first time in more than a decade, only to surge upward again in 1985. In 1986 government efforts to control public debt and funnel windfall proceeds from that year's coffee boom into the public sector may have eased inflationary pressures, but the CPI nevertheless rose by 21 percent.

Inflation was estimated at 25 percent in 1987, fueled by price increases in domestically produced items, including housing, food, and clothing. In the case of food prices, shortfalls in domestic production shot prices upward, increasing dependence on more expensive foreign foodstuffs. A price-indexed minimum wage and market adjustments throughout the wage structure also contributed to inflation. In 1987 the minimum wage rose by 24 percent, nearly equaling the price increases for the year.

The large number of United States dollars that entered Colombia illegally because of the drug trade also contributed to inflationary pressures by raising the overall level of demand. Estimates varied as to the relative importance of the drug trade, but most observers believed that it may have accounted for as much as 25 to 30 percent of total inflation in the 1980s.

Government efforts to ameliorate the effects of inflation proved relatively unsuccessful because of the combined effects of wage indexing, drug money, and volatile prices, which prompted economists to forecast inflation rates above 20 percent into the 1990s. Furthermore, it appeared that the government was reconciled to this level of inflation and would likely give priority to other economic problems.

Rising unemployment was also part of the economic malaise of the early 1980s. Although the economic boom of the 1970s had caused some researchers to conclude that unemployment would not be a serious problem in the 1980s, the Colombian unemployment rate rose steadily from 8.4 percent in 1981 to 14.9 percent by June 1986. The trend was finally reversed in 1987, as all sectors of the economy began to expand following the 1986 coffee boom. Unemployment fell to 12 percent in 1987, the lowest level since 1982, and continued to decline in early 1988. Although a welcome sign, this reduction reconfirmed Colombia's continued dependence on coffee.

Colombia's demographic makeup changed substantially after the 1940s. Although birth rates declined steadily (the population grew only 2 percent in 1986), the labor force expanded rapidly. By 1985 the size of the economically active population had reached 11.3 million people, or 38 percent of the population. This represented an average annual growth rate of 3.9 percent from 1973 to 1985, with women and youths accounting for most of the increase. (knoema.com)

By 1985 one-third of the labor force consisted of women, many of whom were housewives who had recently entered the job market because of the attractive wages. Studies suggested that this addition to the work force accounted for much of the increase in family income among the very poor.

The rise in the number of adolescent workers constituted the other significant demographic development. Because there was an influx of relatively uneducated and unskilled young workers into the labor market, many youths found it impossible to gain employment. The unemployment rate was highest in the fifteen to nineteen age-group, reaching 30 percent by 1986. Planners hoped that this situation would correct itself as demographic trends changed in the 1990s and as government efforts to keep young people in school longer began to have an effect.

Internal migration trends also affected the urban labor market. By the late 1980s, Colombia had become a predominantly urban society, with over two-thirds of the population residing in cities. In contrast, as recently as the 1950s the population had been concentrated principally in rural areas.

Shifts in employment activity over time made these rural-to- urban migration patterns evident. As the country became more urbanized, it also became less dependent on the agricultural sector for employment. In 1938 nearly 60 percent of the population worked in agriculture and resided in rural areas. By 1984, however, only a third of the labor force was engaged in agricultural activity; most workers were employed in services, commerce, manufacturing, and construction.

Wage levels and type of employment also depended on education. Improvements in education occurred at all levels after 1951, when 42 percent of the labor force was uneducated and only 50 percent and 7 percent, respectively, had finished primary and secondary school. By 1978 only 16 percent of the work force was considered uneducated; 55 percent had finished primary school, and 24 percent had graduated from a secondary program. Most of the urban unemployed, however, continued to be rural migrants and others having little or no formal education.

Local business costs also affected employment levels. In a broad sense, Colombian capital and labor could be easily substituted for each other; consequently, the manufacturing sector inclined toward a capital-intensive export strategy in the late 1960s. As a result, fewer workers were employed in this sector than might have been the case had a more labor-intensive approach been taken.

The cost of labor was relatively high in Colombia. This resulted, in part, from social legislation and demands made by unions, including minimum wage requirements and nonwage compensation such as severance and vacation pay, pensions, and disability allowances. Some economists also argued that government subsidies designed to encourage investment actually placed the marginal and relative costs of capital at below-market rates and at levels significantly lower than the cost of labor for many businesses. This situation appeared unlikely to change without some type of government initiative.

Of increasing interest in the labor market was the level of segmentation, which could be conceptually represented by dividing the work force into two categories--the formal and informal sectors. The formal sector, or traditional labor market, is easily identified in national employment data. The informal sector, by contrast, is a segregated portion of the employment market characterized by a lack of formal record keeping and by small enterprises that employ little capital and only a few, if any, usually undereducated employees. Many economists believed that the informal sector constituted as much as half of the labor force in the 1980s, including many peasants and other workers engaged in drug production and trafficking. The informal sector played an important role in absorbing unskilled workers who would otherwise have remained unemployed; the nature of this sector, however, dictated those wages remain well below those of the formal sector, and other nonwage compensation, such as paid leave or insurance, was unavailable to the workers. Those engaged in the drug business were the exception. They usually earned wages or salaries in excess of what their skills would bring in the formal employment market.

1.2. Primary changes in the economy throughout the long term

Colombian economy has experienced reasonable economic growth since the major reform efforts of the early 1990s. However, the growth witnessed during this period can best be characterized as slower as and more volatile than growth prior to The 1980. The Colombian economy also has experienced a significant restructuring, characterized by greater integration into the world economy, growing importance of oil and mining exports and of mining and services in

GDP. In addition, Colombia has experience larger private sector participation in economic. Activity but also larger state spending, particularly in social services. As of 2013, Colombia faces various challenges associated with managing an uncertain international economic environment and reversing adverse long-term trends, notably high domestic inequalities and the weakening of its manufacturing and agricultural sectors. Even more importantly, it must reform its economic and social policies to implement the outcome of the ongoing peace process. The interaction between domestic and external factors has affected the Colombian economy over the past decades. the major challenges that the Colombian economy faces today is divided in five parts: first the major domestic and external factors affecting the economy, The second examines the "dual-track" reform agenda that the country has followed since the early 1990s, the third and fourth is the macroeconomic performance, the fifth is the evolution of economic structure.

Factors Affecting the Colombian Economy

The evolution of the Colombian economy has been affected over the past quarter century by two set of factors. The first are the major reforms implemented in the early 1990s, which in fact responded, in a sort of dual track, to entirely different challenges that the country faced at the time. On the one hand, a series of market liberalization reforms were enacted, aimed at more fully integrating Colombia into the global economy and expanding private sector development. According to the authorities, these reforms were aimed at overcoming the inefficiencies that the inward-looking development model with heavy state interventions had generated, which were constraining productivity and therefore economic growth. On the other hand, the demands for a more equitable society, which were also seen as part of a peace-building effort, led to the decision to convene a Constitutional Assembly in 1991 that changed the century-old 1886

Constitution. In economic and social terms, the 1991 Constitution placed economic and social rights as the center of public policies and created a more decentralized system of social service provision, along with reforms that can be considered as part of the market liberalization agenda, notably the creation of an autonomous central bank (Banco de la República). The second set of factors that have affected the performance of the Colombian economy have external origins. The most favorable were: the very high (super-cycle) of commodity, particularly of energy and mineral prices since 2004 the boom of international trade that characterized the 1986-2007 period; the ample (though still somewhat unstable) access to financing from international capital markets at exceptional conditions in terms of costs and maturity since the mid-2000s, which included the return, in 2011, to the investment-grade status that the economy had lost in 1999; and the opportunities that the United States and Spain offered for (regular and irregular) migration up to 2007, which also led to a rapid growth of migrants' remittances. The most adverse external factors have been two major international crises: the succession of emerging-country financial crises that started in East Asia in 1997, and the global (or, better, North-Atlantic) financial crisis, which started with the collapse of subprime lending in the United States and the bankruptcy of some European banks during the summer of 2007, and was speeded up with the collapse of the investment bank Lehman Brothers in September 2008.

The September 2008 shock led to the most dramatic global financial meltdown since that of Wall Street in October 1929, to a deep global recession – now called the "Great Recession" by many analysts— and to a collapse of international trade that was initially steeper than during the Great Depression of the 1930s.

Although the global economy and global trade have experienced since the 2nd/3rd quarters of 2009 a "multi-speed" recovery, to use International Monetary Fund's terminology, there are two effects that are more permanent: it has sharply slowed down the growth of international trade5 and closed the opportunities for migrants. It may also be starting to affect a third: a weakening of commodity prices, leading perhaps to the end of the super-cycle of commodity prices that the world economy has experienced over the past decade. In this way, among the very favorable trends experienced until 2007-2008, only remains firmly in place: ample access to external financing, though at somewhat less exceptional conditions since mid2013, due to the tendency of US interest rates to normalize.

The Dual-Track Reform Agenda

The reform agenda that Colombia adopted in the early 1990s is clearly atypical by the standards of the market reforms that Latin American and other developing countries adopted during the last two decades of the twentieth century. Indeed, the mix of a market liberalization agenda with a more active state intervention to guarantee economic and social rights is peculiar by international standards. For this reason, it is hard to refer to these reforms as a "neo-liberal" agenda –although the first component did contain some neo-liberal elements. Also, although some reforms were initiated in the mid-1980s under World Bank pressure as well as the weight of ideological trends and demonstration effects from other countries in the region, the reforms had a clearly domestic origin, as reflected not in the particular mix of policies but also the modalities that some of them adopted. As already indicated, the first part of the agenda aimed at overcoming the inefficiencies and slow economic growth that, according to the authorities, had been the result of excessive protection and state intervention. In this view, market reforms would accelerate productivity and therefore GDP growth. This was reflected, first of all, in the trade liberalization that was launched by the Barco Administration in 1990 and was radicalized and accelerated by the Gaviria Administration in 1990-1991. As a result, average tariffs fell in a short period of time – from an average of 44 percent prior to the 1990 reforms to 12 percent by March 1992—, quantitative import restrictions were essentially eliminated –except during a transition for sensitive agricultural goods—, and export incentives were reduced to make them consistent with World Trade Organization (WTO) rules. This was accompanied by the revitalization of the Andean Group (transformed into the Andean Community in 1997) starting with the Presidential summit in the Galápagos Islands in December 1989, which led to (mostly) full trade liberalization among its members, and the subscription of free trade agreements with several Latin American countries.

Macroeconomic Performance

The expectation of the supporters of the liberalization agenda that reforms would lead to rapid productivity and economic growth have not materialized. Table 2 presents the performance in terms of GDP growth and the volatility of this variable during the post-reform period (1990- 2012) compared to the historical performance during the period of state-led industrialization (1950-1980).18 The decrease in economic growth in Colombia, from an average of 5.1 to 3.7 percent is stronger than the unweighted average for Latin America, though more moderate than the slowdown of the region's weighted average, which is heavily influenced by the poor performance of the two largest economies (Brazil and Mexico) in recent decades. As a result, whereas Colombia's performance was somewhat better than the unweighted regional average in the earlier period, it has been somewhat worse since 1990.

Changing Structural Patterns

Economic structures have changed significantly as a result of the liberalization reforms but also of external shocks, particularly the commodity-price boom that took off in 2004. As a result, Colombia is more open to trade and foreign investment, some Colombian firms have expanded abroad, the private sector plays a growing role in activities that were previously reserved for the state, the share of mining and services in GDP has increased at the cost of agriculture and manufacturing, and oil and mining have come to dominate exports. Rising trade coefficients. Export coefficients have increased in a step-wise fashion, with two major jumps: the first one during the second half of the 1980s, and thus prior to the trade liberalization proper, and the second during the crisis at the turn of the century. It is remarkable that exports in real terms have growth at a similar rate than overall GDP during the major periods of expansion (1991-1997 and since 2003), making it difficult to claim that trade liberalization has generated export-led growth. Import coefficients show a steeper but unstable rise, with sharp increases during periods of expansion that were not entirely reversed during the crisis of the late twentieth century. the mix of these export and import patterns has been a sharp deterioration of external accounts during periods of economic growth. They have also affected changes in economic structure.

Challenges

The analysis indicates that the best results of the dual-track reform agenda that was put in place in the early 1990s has been improved access by the poor to social services, leading to rapidly falling poverty as measured by unsatisfied basic needs and multidimensional poverty. Significant challenges remain in this area, however, in terms of access in rural areas, quality of services, and organization of service provision, particularly in health. The Colombian economy has experienced also reasonable economic growth since the early 1990s, but much weaker and more volatile than during state-led industrialization. Growth has been more dynamic since 2004, thanks to the most impressive terms of trade boom in over a century, and growth in per capita terms has been enhanced by falling population growth. Overall, it can thus be argued that the 1991 Constitution has been more successful than economic liberalization in inducing positive trends. One deficiency of both has been, however, the incapacity to improve income distribution, and to reduce rural-urban gaps and labor market informality. It can be argued again that most of these negative trends are associated with the incapacity of the liberalization agenda to induce a growth pattern with favorable social trends. The Colombian economy shows improvements in other areas: in reducing inflation, increasing investment, in attracting FDI and contributing to the growing family of “multilatinas” and, notably, in expanding its service economy and exploiting its mineral wealth, with the latter now dominating the country's export basket. At the same time, countercyclical macroeconomic policy has become less capable of smoothing out external shocks –though with a better 33 performance in this regard during the recent global financial crisis than that which hit the developing world at the end of the twentieth century. Growing mining and service sectors have also come at the cost of a weakening of agriculture and manufacturing, which were in the past the pillars of the diversification of the Colombian economy, including its regional diversity – both, no doubt, significant past strengths of the country. This indicates that the most important challenge for Colombia lies in improving equity, particularly improving its extremely high-income distribution and reducing the large rural-urban gap. Both of these challenges are central to peace-building, either if the ongoing peace negotiations succeed but also if they fail. In economic terms, a stronger agricultural sector and a re-industrialization drive based on strong production and technology policies must also be at the center of economic policy. Given the contribution that exchange rate overvaluation has played in the adverse trends experienced by agriculture and manufacturing, it is important to design a macroeconomic policy in which the objective of a competitive exchange rate is placed at the center, indeed as part of a broader effort to rebuild a stronger counter-cyclical macroeconomic policy (policydialogue.org).

1.3. Colombia work market and its cooperation in global relocation measure:

Steady economic growth in the last decade has increased prosperity in Colombia, therefore boosting consumption too. However, this has been accompanied by a growing amount of waste. Most of the waste collected from urban areas is disposed of in properly managed landfill sites, although these are increasingly reaching their limits in larger cities. Waste disposal is usually carried out by private operators.

For decades, however, the task of collecting and separating out recyclables such as plastics, glass and cardboard has been performed by an army of some 47,000 waste-pickers. Due to the informal nature of their work, the Constitutional Court of Colombia has recognized them as a particularly disadvantaged group. A five-year strategy has been adopted to gradually formalize their status, regulate their activities and therefore remove the social stigma associated with their work. This will benefit women in particular.

In addition, the country's National Circular Economy Strategy ushers in a transition from the current one-way system of resource use to a circular model. This means recycling raw materials instead of incinerating them or sending them to landfill. Putting the strategy into practice will require intensive collaboration between the state, the private sector and civil society, for example to identify innovative business models in the recycling industry and change consumer behaviour. Another equally important goal is to permanently and cost-effectively integrate the country's waste-pickers into the circular economy.

The project supports this transition and helps its Colombian partners deal with the many social, economic and environmental challenges involved.

Objective

Selected metropolitan areas have improved waste recycling with the aid of circular economy strategies.

1. **Boosting the recycling of specific waste in the focus cities.** The goal is to increase the recycling rate by 10 per cent in Bogotá and 15 per cent in Cúcuta. To achieve this, the project works with private companies, which are investing in four business models for recycling certain waste products. The public administration and private sector receive support in

implementing local and inclusive circular economy strategies that raise awareness among consumers and businesses.

2. **Creating an enabling environment at national level for those involved in the circular economy strategy.** The project supports the Ministry of Housing, City and Territory and Ministry of Environment in compiling a national waste catalogue. Discussions involve the state, companies and civil society. The project is also preparing a handbook on standardizing processes for collecting and evaluating waste-related data, including greenhouse gas emissions in the waste sector. In addition, a digital waste monitoring system is to be developed for the public administration. This will enable cities and districts to report every six months on the type and amount of waste that has been collected and document action taken for disposal and recycling.

3. **Improving the range of training measures focusing on the circular economy.**

Two training programs are planned for city and district administrations and the private sector. The programs support the implementation of the circular economy strategy. The project is also planning to carry out two training programs for waste-pickers and their associations. Formalization and business management are just two of the topics that they will cover. The programs will be piloted in Bogotá and Cúcuta. The aim of these measures is to integrate 1,500 waste-pickers working on an informal basis into the formal recycling structures. Women are to account for at least 30 per cent of this total.

SECTION 2.
FOREIGN ECONOMIC ACTIVITY OF COLOMBIA: TOURISM INDUSTRY

2.1. Tourism Industry of Colombia

Tourism in the **economy**. The tourism sector currently contributes 2% to Colombia's **GDP**. Tourism has become the primary services export in Colombia and the second overall export behind the oil industry, generating 52% of foreign exchange. Colombia has major **attractions** for a tourist destination, such as **Cartagena** and its historic surroundings, which are on the UNESCO World Heritage List; the insular department of San Andrés, Providencia y Santa Catalina; and Santa Marta and the surrounding area.

The contribution of travel and tourism to GDP was US$5,880.3bn (2.0% of total GDP) in 2016. Tourism generated 556,135 jobs (2.5% of total employment) in 2016. Foreign tourist visits were predicted to have risen from 0.6 million in 2007 to 4 million in 2017 Responsible tourism became a peremptory need for Colombia because it minimizes negative social, economic and environmental impacts and makes positive contributions to the conservation of natural and cultural heritage. the Colombian Minister of Commerce, Industry, and Tourism, confirmed that the average growth of the country’s tourism in 2013 remained at the same rate as in the past three years. The Republic of Colombia is set to reach four-million international travelers this year.

Peso in the **Recent Growth of International Arrivals**

According to the fiscal forecast disclosed by Rojas and board members, international arrivals will be increasing at 4 to 4.5% rate throughout the second to fourth quarters of 2014 while for the Americas, growth will be spanning from 3 to 4%. For the past three years, Colombia has exhibited a 5.5% average growth of the tourism industry.

For the collective amount of visitors that landed in the country in 2013, 1,726,300 visitors were accounted for land, sea and air travel. To be more precise, 306, 694 were passengers by cruise, 561,703 were residents of Colombia, while the remaining 1,153,248 stemmed from border integration zones. (www.tourism-review.com)

Colombian Tourism and Technology

The tourism industry of Colombia had always been low on internet presence. However, it has gradually gotten connected online through both industry and consumer driven initiatives. EnMiColombia.com, for instance, was launched by Grand Solutions back in 2012 serving as a steadfast social network edged to cater past and present visitors and potential tourists to the republic.

The platform gives the travelers enough space to share their experiences, travel stories, uploading media files such as photos and videos, as well as searching for the latest discounts on air, land and sea travel passages.

Another contributor would be Colombia.travel that launched a streamlined iPhone app back in 2012, which allows travelers to plan Colombian holidays in advance through an event calendar, easy-use-map integrated with possible interest points throughout the 17 republic regions.

Among the most noteworthy for the developments would be Worksurfers.co site that allows those who travel as a work or business requirement to organize their stay within the republic. Each development is therefore specified for a certain target group in the travel industry.

Change of Social Tourism Perspectives

Colombia has had the travel industry solely based on popular neighborhoods, fabulous hotel chains and other elements along the line just to broaden their social benefits. With Mayor Gustavo Petro's direction, Bogota is currently working on guided tours that will draw visitors into natural attractions, ethnic streets, indigenous zones, as well as the architectural landmarks of the city that would give a more meriting impression to inbound travelers. This perspective change will be of the essence in driving wealth to the city, particularly to the low-income sectors, and not continue reinforcing those that can standalone by themselves due to foreign popularity.

Seeking Global Recognition

Colombia is finally grossing the kind of international attention it had sought since then. In contrast to the past conditions of Colombian travel, it is now on the commendable rather than the warning list. National Geography has even featured the northern coast of the republic, claiming it to be among the 2012 best trips by natural beauties and preserves. In addition, Bogota recently passed a tourism safety test conducted by a global expert’s team, drawing more potential visitors to it for the coming peak seasons.

Fortifying Hospitality Sectors

It comes to no questions that hotels are vital for travelers. The hospitality sector of Colombia has begun refacing hotels with environmental concepts, and a good example would be Aloft Bogota Airport, which received a Leadership in Energy and Environmental Design Certification after having replaced its roofs with greener options, and thanks to its integration with a rainwater recycling system, as well as parking spaces exclusive for bicycles and low-emissions vehicles. Bogota's Bio Hotel will also open a couple of properties in cities such as Barranquilla, Bucaramanga and Cali by mid-2014.

Shunning the Dangerous Reputation Away

The threatening image of the Colombia has been existent since early 80's. Since it has been stifling the inbound travels, they are now focusing on improving the security conditions on a fuller scale in order to let the tourism sector flourish.

Fig 2.1. Foreign tourism revenue

Source: tourism organization

Colombia set another record for international travel and tourism revenue last year, with the country bringing in nearly $5.7 billion USD from foreign visitor spending in 2016, according to the nation's Ministry of Commerce, Industry, and Tourism.

This was more than half a billion dollars, or 8.6% growth, above the $5.2 billion USD reported in 2015 and puts the industry second in terms of generating foreign exchange after the oil sector, which brought in some $10.1 billion USD last year, per the ministry. The two leaders were followed by coal ($4.6 billion USD) and coffee ($2.4 billion USD).The ministry noted that foreign tourism revenue has nearly doubled — a growth rate of 86.6% — since 2010, when the sector accounted for $3.1 billion USD in revenue. Going back to 1995, when Colombia was in the middle of the most dangerous era in its history, that number was only $887 million USD (inflation adjusted), according to United Nations. (World Tourism Organization).

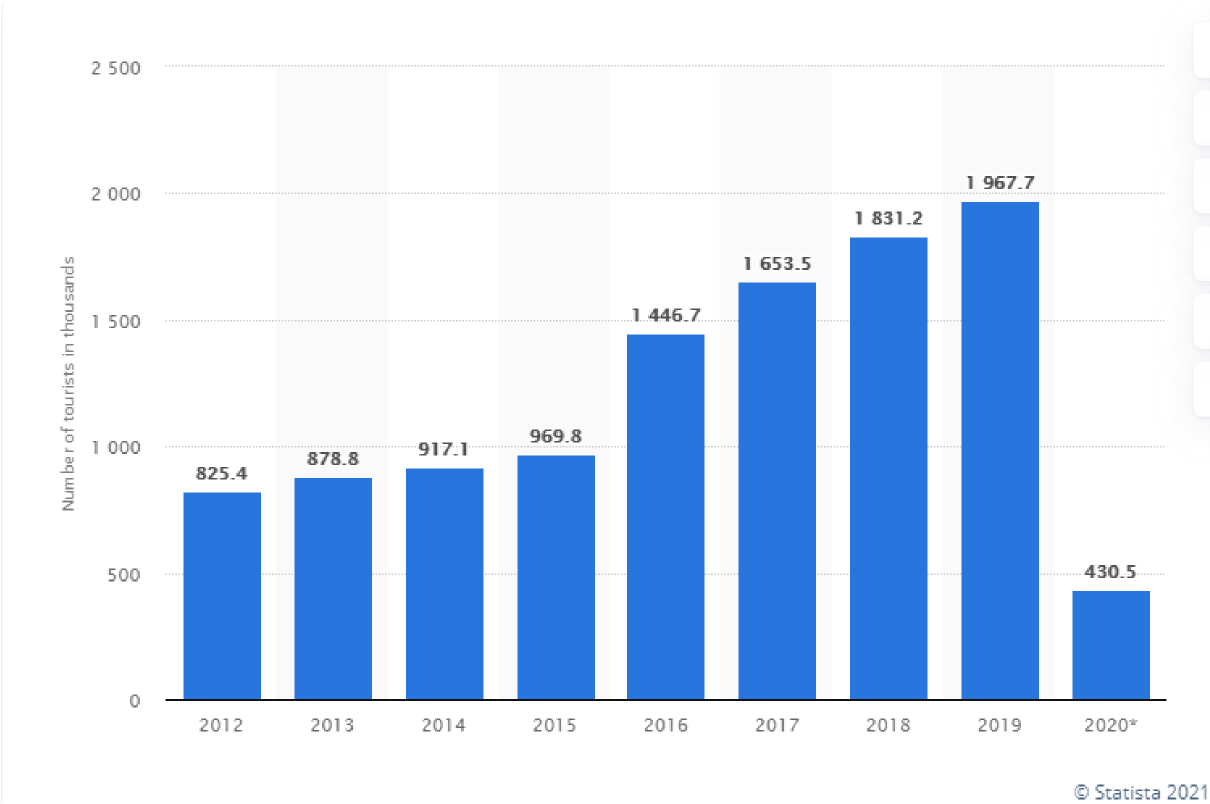


Fig 2.2. Number of Tourist in Colombia 2012 -2020

Source: (www.statista.com)

The number of visitors in Colombia's national parks surged by over 138 percent between 2012 and 2019. In the latter year, nearly two million tourists visited the country's natural parks. In contrast, due to the effects of the COVID-19 pandemic, these sites welcomed around 430.5 thousand visitors during the first half of 2020, which represents 21.9 percent of the figure registered in 2019.

2.2. The extension and the fundamental heading of Foreign direct investment in Colombia:

Colombia's legal and regulatory systems are generally transparent and consistent with international norms. The country has a comprehensive legal framework for business and foreign direct investment (FDI). The U.S.-Colombia Trade Promotion Agreement (CTPA), which took effect on May 15, 2012, has strengthened bilateral trade and investment. Through the CTPA and several international conventions and treaties, Colombia's dispute settlement mechanisms have improved. Weaknesses include protection of intellectual property rights (IPR), as Colombia has yet to implement certain IPR-related provisions of the CTPA. Colombia was on the U.S. Trade Representative's Special 301 Priority Watch List in 2018.

The Colombian government has made a concerted effort to develop efficient capital markets, attract investment, and create jobs. However, the government has struggled both to replace the lost energy-sector revenues after the price of oil, its largest export, collapsed in 2014, and to adjust to a concomitant devaluation of the peso. President Ivan Duque took office in August 7, 2018. The new administration passed a tax reform on December 2018, aimed at alleviating the tax burden on companies, increasing private investment, and strengthening economic growth.

Restrictions on foreign ownership in specific sectors still exist. FDI decreased 20.4 percent from 2017 to 2018, with more than half of the 2018 inflow dedicated to the extractives, finance, and transportation sectors. Roughly half of the Colombian workforce is in the informal economy, and unemployment registered at 9.7 percent for 2018.

Security in Colombia has improved significantly in recent years, with kidnappings down from 3,572 cases in 2000 to 170 cases in 2018. Since the 2016 peace agreement between the government and the country's largest terrorist organization, the Revolutionary Armed Forces of Colombia (FARC), Colombia has experienced a significant decrease in terrorist activity. Negotiations between the National Liberation Army (ELN), another terrorist organization, and the government have stalled, and the ELN continues its attacks on energy infrastructure and security forces. The ELN is one of several powerful narco-criminal operations that poses a threat to commercial activity and investment, especially in rural zones outside of government control. Despite improved security conditions, coca production is at the highest levels since the 1990s.

Corruption remains a significant challenge in Colombia. The World Economic Forum's Global Competitiveness Index (2018) ranked Colombia 60 out of 137 countries. The Colombian government continues to work on improving its business climate, but U.S. and other foreign investors have voiced complaints about non-tariff and bureaucratic barriers to trade and investment at the national, regional, and municipal levels.

The Colombian government actively encourages foreign direct investment (FDI). In the early 1990s, the country began economic liberalization reforms, which provided for national treatment of foreign investors, lifted controls on remittance of profits and capital, and allowed foreign investment in most sectors. Colombia imposes the same investment restrictions on foreign investors that it does on national investors. Generally, foreign investors may participate in the privatization of state-owned enterprises without restrictions. All FDI involving the establishment of a commercial presence in Colombia requires registration with the Superintendence of Corporations ('Superintendencia de Sociedades') and the local chamber of commerce. All conditions being equal during tender processes, national offers are preferred over foreign offers. Assuming equal conditions among foreign bidders, those with major Colombian national workforce resources, significant national capital, and/or better conditions to facilitate technology transfers are preferred.

ProColombia is the Colombian government entity that promotes international tourism, foreign investment, and non-traditional exports. ProColombia assists foreign companies that wish to enter the Colombian market by addressing specific needs, such as identifying contacts in the public and private sectors, organizing visit agendas, and accompanying companies during visits to Colombia. All services are free of charge and confidential. Business process outsourcing, software and IT services, cosmetics, health services, automotive manufacturing, textiles, graphic communications, and electric energy are priority sectors. ProColombia’s “Invest in Colombia” web portal offers detailed information about opportunities in agribusiness, manufacturing, and services in Colombia (www.investincolombia.com.co/sectors).

2.3. Analysis of investment climate in Colombia and its attractiveness to USA investors

The United States-Colombia Trade Promotion Agreement (CTPA) was signed on November 22, 2006. Colombia's Congress approved the CTPA and a protocol of amendment in 2007. Colombia's Constitutional Court completed its review in July 2008, and concluded that the Agreement conforms to Colombia's Constitution. The United States and Colombia implemented the CTPA on May 15, 2012.

U.S.-Colombia Trade Facts

In 2019, Colombia GDP was an estimated $327.9 billion (current market exchange rates); real GDP was up by an estimated 3.3%; and the population was 50 million. (Source: IMF)

U.S. goods and services trade with Colombia totaled an estimated $40.7 billion in 2019. Exports were $22.0 billion; imports were $18.7 billion. The U.S. goods and services trade surplus with Colombia was $3.3 billion in 2019.

Colombia is currently our 25th largest goods trading partner with $28.9 billion in total (two way) goods trade during 2019. Goods exports totaled $14.7 billion; goods imports totaled $14.2 billion. The U.S. goods trade surplus with Colombia was $580 million in 2019.

Trade in services with Colombia (exports and imports) totaled an estimated $11.8 billion in 2019. Services exports were $7.2 billion; services imports were $4.5 billion. The U.S. services trade surplus with Colombia was $2.7 billion in 2019.

Exports

- Colombia was the United States' 22nd largest goods export market in 2019.
- U.S. goods exports to Colombia in 2019 were $14.7 billion, down 2.4% ($367 million) from 2018 but up 56.0% from 2009. U.S. exports to Colombia are up 2.9% from 2011 (pre-FTA).
- The top export categories (2-digit HS) in 2019 were: mineral fuels ($3.5 billion), machinery ($1.6 billion), electrical machinery ($1.1 billion), organic chemicals ($971 million), and cereals (corn) ($872 million).
- U.S. total exports of agricultural products to Colombia totaled $2.7 billion in 2019, our 12th largest agricultural export market. Leading domestic export categories include: corn ($682 million), soybean meal ($412 million), soybeans ($223 million), pork & pork products ($221 million), and dairy products ($145 million).
- U.S. exports of services to Colombia were an estimated $7.2 billion in 2019, 3.3% ($248 million) less than 2018, but 76.6% greater than 2009 levels. Leading services exports from the U.S. to Colombia were in the travel, transport, and telecommunications, computer, and information services sectors.

Imports

- Colombia was the United States' 25th largest supplier of goods imports in 2019.
- U.S. goods imports from Colombia totaled $14.2 billion in 2019, up 3.0% ($414 million) from 2018, and up 25% from 2009. U.S. imports from Colombia are down 38.7% from 2011 (pre-FTA).
- The top import categories (2-digit HS) in 2019 were: mineral fuels ($8.6 billion), coffee, tea & spice (coffee) ($1.2 billion), live trees and plants ($816 million), precious metal and stone (gold) ($753 million), and special other (low value estimates) ($353 million).
- U.S. total imports of agricultural products from Colombia totaled $2.7 billion in 2019, our 13th largest supplier of agricultural imports. Leading

categories include: unroasted coffee ($1.1 billion), nursery products ($816 million), bananas and plantains ($172 million), roasted & instant coffee ($119 million), and snack foods ($76 million).

- U.S. imports of services from Colombia were an estimated $4.5 billion in 2019, 6.3% ($269 million) more than 2018, and 177% greater than 2009 levels. Leading services imports from Colombia to the U.S. were in the travel, transport, and intellectual property (industrial processes) sectors.

The Doing Business index compiled by the World Bank, which measures the ease of doing business in a country, ranked Colombia as a leader in the region. The country climbed nineteen points compared to the previous year.

According to the Doing Business report, Colombia has the best investment climate in the region occupying the 34th position among 189 countries that were surveyed. This report takes into account the ease of starting a business, registering property, accessing credit, paying taxes and making international trade transactions.

The report highlights Colombia's economy and the significant progress it has made during the last year. Much of this is due to the strong momentum that has been set in investments and promotion that has placed Colombia as a destination for doing business during the last ten years. This effort has resulted in an increase of Foreign Direct Investment by more than nine times creating an outstanding economic landscape. According to the Central Bank of Colombia at the end of 2013, the FDI in Colombia grew 8.0% higher than in 2012 (US $ 1.244 Billion).

Colombia is the third largest economy in the region and one of the countries with greater economic stability. During the last six years, the economy has grown on average well over 4%. During 2013, the country surpassed Latin America and the Caribbean overall rates; growing by 4.3%, while the region reached 2.6%.

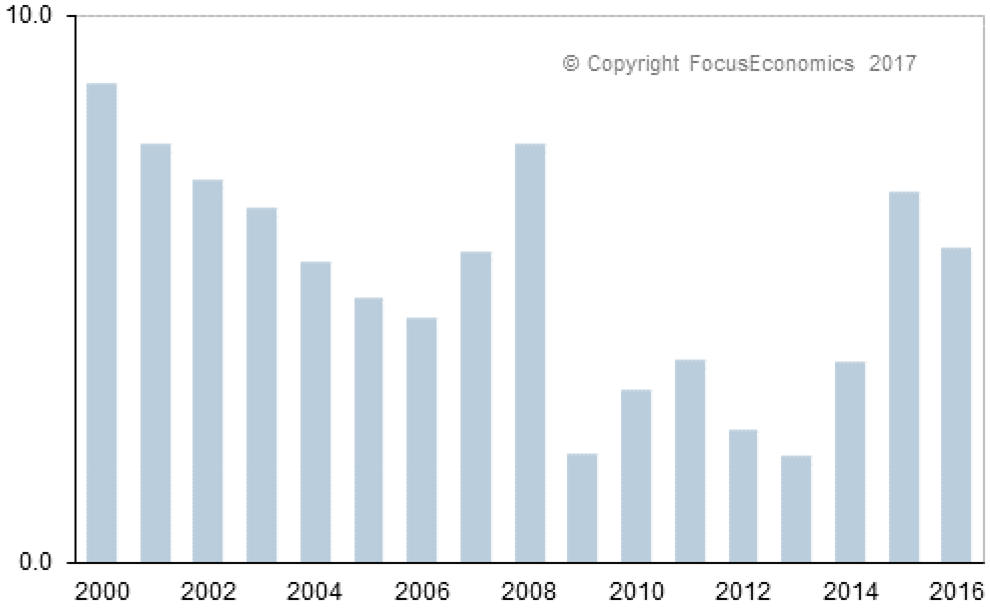


Fig 2.3.Colombia inflation (2000-2016)

Exchange rate of Colombia

Fig 2.4 Colombia exchange rate (July 2019)

The Colombian peso strengthened in recent weeks, thanks to higher oil prices and a weaker U.S. dollar. On 5 July, the peso traded at 3,212 per USD, which was 2.9% stronger than its value the same day in June. The peso was also up 1.1% year-to-date but was down 10.4% over the same month of the previous year.

In June, the peso clawed back some of the losses the currency suffered in April and May when adjustments to the fiscal rule raised concerns over the pace of fiscal reform. The gains were mainly driven by favorable price developments for oil and a weaker greenback. Latin American currencies overall were also given an additional boost by hopes of progress in U.S.–China trade negotiations and that IMF Chief Christine Lagarde’s recent nomination to head the ECB will translate into maintaining the Bank’s dovish stance going forward.

Panelists participating in the Latin Focus Consensus Forecast project that the Colombian peso will end 2019 at 3,209 per USD and 2020 at 3,180 per USD.

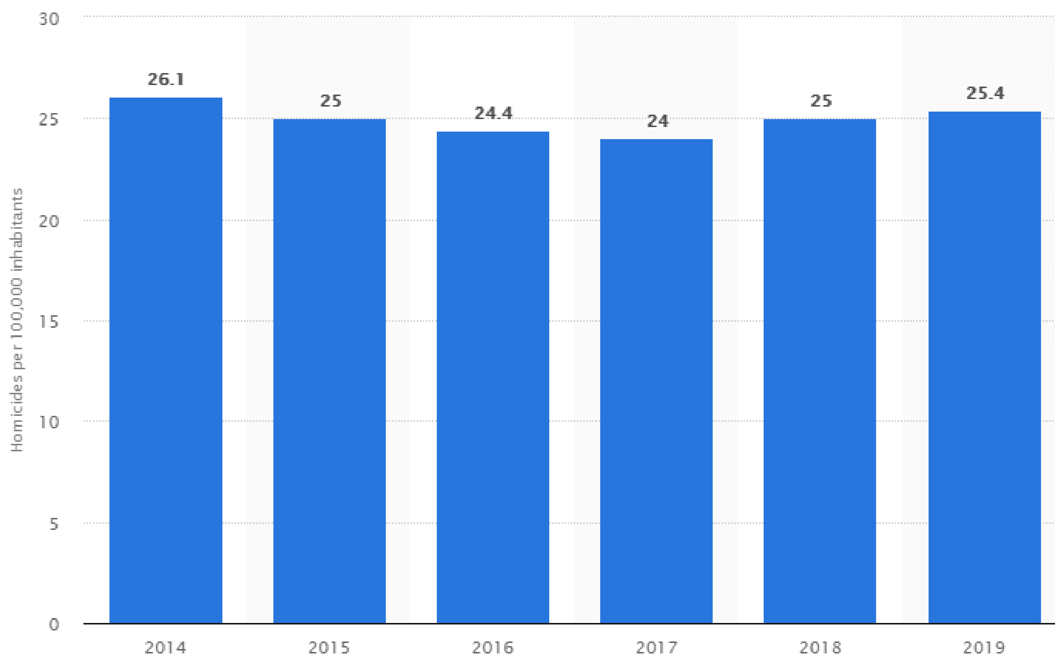


Fig 2.5. Crime rate between (2014-2019)

Source: Statista 2021

In 2019, there were approximately 25.4 homicides per 100,000 inhabitants in the country, up from a homicide rate of 25 a year earlier. The homicide rate in

Colombia has been stable since 2014 with the numbers varying between 24 and 26.1 homicides per 100,000 inhabitants.

The economic impact of conflict, terrorism, homicides and sexual assaults in Colombia was over $275 billion, about a third of the country's GDP.

According to a report by the Institute for Economics and Peace), Colombia ranks eighth in the world when it comes to the cost of violence. The study, which aggregates different ways that violence can impact the economy, shows that it cost Colombia 34% of its GDP in 2017, compared to 16% in Venezuela and 8% in Iran.

"The economic impact of violence in the 10 most affected countries was equivalent to 45% of their GDP," states the report. In comparison, in the ten most peaceful countries it accounts for just 2.4% of their GDP.

Direct costs stem from funerals and medical treatments for victims as well as the burden on health institutions, the judicial system, and public safety.

What is unusual about this report is that it also takes into account the costs of containing violence as well as the consequences of violence on the economy. For example, "Analysis of 730 business ventures in Colombia from 1997 to 2001 found that with higher levels of violence, new ventures were less likely to survive and profit."

The anticipation of future violence causes changes in consumption and work-related decisions, leading to increased transportation costs, reduced productivity, lower consumption, and a lagging economy. In 2017, violence cost the world economy a total of $14.76 trillion, almost $2,000 per person. In Colombia, the cost of violence was $4,700 per person last year.

Since 2012, the economic impact of violence on the global economy has increased by 16%, corresponding to the start of the Syrian war. Syria tops the list as the most affected country.

Latin America is the most violent region in the world for interpersonal violence, homicide and violent crimes, which make up 67% of the regional cost.

In Colombia and Venezuela alone, the impact of homicides is the equivalent of 13% of their GDP.

These figures reflect a deteriorating situation in Latin America.

As many as 50% of people in South America have reported a fear of victimization; a fear that has a large impact on mental health and indirectly affects the economy. The report – which converts all costs into PPP or international dollars to ensure parity – states that military expenditure is the single largest contributor, totaling $5.5 trillion, followed by internal security expenditures such as prisons and police, totaling $3.8 trillion.

It draws a distinction between violence prevention and costs that are the consequence of violence and points out that “Although it may seem logical to increase the spending on violence containment to the point where the cost of violence and violence containment even out, what is more important is understanding which programs are cost effective.”

Colombia and many other countries are spending a large percentage of valuable resources containing and preventing violence. And ultimately, the less money countries spend on homicides, violent crimes, and armed conflict means the more money they have for health, business, education and infrastructure.

The statistic shows Colombia's trade balance from 2009 to 2019. Trade balance is the value of exported goods minus the value of imported goods. A positive trade balance signifies a trade surplus, while a negative value signifies a trade deficit. In 2019, Colombia's trade deficit amounted to around 13.24 billion U.S. dollars (Fig. 2.6).

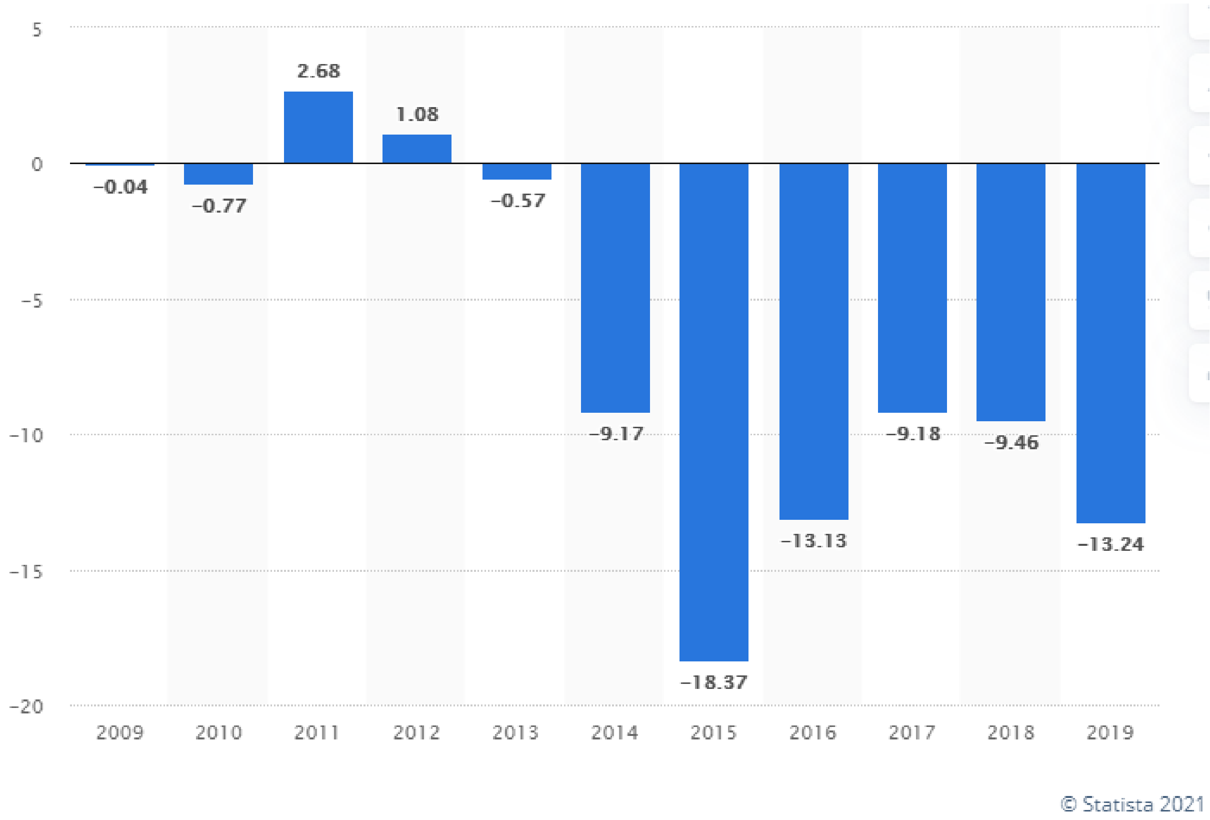


Fig 2.6. Trade balance between (2009-2019)

Colombia is the United States' third-largest export market in Latin America behind Mexico and Brazil. U.S. exports to Colombia in 2010 were $12.1 billion, up 26% from the previous year. U.S. imports from Colombia in 2010 were $15.6 billion, up 38% from 2009 due to high crude oil prices and a low dollar. Colombia's major exports are petroleum, coffee, coal, nickel, cut flowers, and bananas. The United States is Colombia's largest trading partner, representing about 41% of Colombia's exports and 27% of its imports.

SECTION 3.
DEVELOPMENT OF INTERNATIONAL INVESTMENT PROJECT AND ASSESSMENT OF ITS ATTRACTIVENESS

3.1. Purpose of the project and analysis of the tourism business

The Travel and Tourism market represents approximately 3.8 percent of Colombia's GDP and is the third leading source of foreign exchange behind oil and coal. Colombia's Ministry of Commerce, Industry and Tourism (MinCIT) announced that the country's tourism revenues reached nearly USD 5.8 billion in 2018, an annual increase of 13 percent. The country received more than 6.8 million foreign tourists in 2018, an annual increase of 10 percent over the 6.1 million foreign visitors in 2017. Revenues from tourism have nearly doubled since 2010, according to MinCIT, and the government's goal is to reach USD 40 billion in tourism revenues by 2022. According to the Colombian government, the tourism sector accounted for USD 8 of every USD 10 that entered the country in 2018. The increase in airline routes to Colombia has been a significant contributor to tourism growth. Last year alone the Colombian civil aviation authorities approved 42 new national routes and 20 new international routes for 15 airlines. Recent announcements include those by American Airlines, now offering a direct route between Miami and Pereira, and Delta, scheduled to start non-stop service between Bogotá and New York City in December 2019.

The Colombian Government is making rural development and tourism high priorities to ensure the 2016 peace agreement with the FARC guerrillas is sustainable and to diversify the economy from oil dependence. New opportunities in the tourism sector are emerging for U.S. firms beyond the traditional accommodation of Colombian travelers to the United States. After years of conflict with the FARC, Colombia's tourism sector had been unable to reach its potential, especially in the more remote areas of the country that have potential for eco-tourism, agriculture tourism (coffee plantations), mountain hiking, river rafting, bird watching, camping, rainforest exploration, etc. As crime rates decrease, the country's image abroad improves, infrastructure improvements are made to the county's highway system, and as the government pushes to develop this industry, Colombia's domestic tourism sector is starting to see significant growth, and with it will come demand for hospitality services, training, hotel construction and renovations, tourism operators, hotel equipment and furnishings.

3.2. Validation of the Tourism industry

Table 3.1

Expected Requirement to Start the Investment Project

No	**Name of Requirement**	**Amount** $
1	**2**	**3**
1	Cost of procurement of the principal	450,000.00
2	Lawful discussions	2,000.00
3	Lawful methodology (counting organization)	1,5000.00
4	design of the hotel	50,000.00
5	agency opening store	10,000.00
6	Programming equipment for the hotel	12,000.00
7	Rebranding	6,000.00
8	Kitchen apparatus	4,000.00
9	Scouting cost	12,000.00
10	Stationary and miscellaneous	2,000.00
11	Marketing expenses	20,000.00
12	Promoting costs advertisement	4,0000.00
13	Additional investment to the office (end of the 1st year)	50,000.00
	Total investment:	**(1)623,500.00 (2)76,000.00**

The hotel and tourism infrastructure sector in Colombia offers various options ranging from luxury hotels, ecolodge, entertainment to other mixed-use projects where it can be acquired existing assets, generate alliances with local companies, hotel chains or carry out joint investments between capital funds and other local businesses.

To insure that the investement will be successful, the principal asset put into the venture is the hotel they work to develop their **company's** mission and think of strategies to achieve the organization's goals. A **principal** need to be able to plan short-term and long-term objectives when implementing **business** plans.

Costs will integrate authorized conferences and some lawful strategies, the two of them important to explore through idiosyncrasies and hindrances during the time spent buying the workplace(hotel). The costs will be needed for remodel of the hotel and put new furniture and innovation that can suit the business. Different preconditions to begin the operational obligations incorporate the accompanying things, re-marking, fixed and incidental. To finish the hotel designs, in addition we need to get kitchen machines and stock to finish all the process.

The coming process of costs will be scouting costs and promoting publicizing costs. All out venture essential will record to around $623,500.00 for the main year, and extra $76,000.00 for the following year. We were given the restriction of restitution time of three years. At this level our hotel is carping and tasks has started seriously so we can start to make perfect deals.

We will need to register for a variety of state and federal taxes before we can open for business.

In order to register for taxes you will need to apply for an EIN. It's really easy but very important step to do.

Taxable income bracket		Tax calculation	Tax rate in income bracket
FROM (COP)	TO (COP)	COP	Percent
0	30,824,110	0	0%
30,824,110	48,074,300	(Taxable income – 30,824,110) x 19%	19%
48,074,300	115,943,900	(Taxable income – 48,074,300) x 28% + 3,277,536	28%
115,943,900	Onwards	(Taxable income – 115,943,900) x 33% +22,281,024	33%

Colombia 2015 Tax Table

Fig 3.1. Taxes (2015)

Colombia has progressive income tax rates like in the U.S. that max out in Colombia at 33%. Since January 2015 companies operating in Colombia have been challenged to a new tax reform. It seems to be a negative issue for foreign companies but it is necessary to take a look deeply to realize the real impact on multinational companies. Lately, Latin American countries are in a constant battle to attract Foreign Direct Investment and Colombia has not been an exception being considered as an investment nowadays. Incentives such as 1429 law, which gives tax benefits in the first 5 years of operation, the attractiveness of the SAS type business entity, among others, have strengthened the investments. pay depletion are relied upon to separate as following during the three given years:

Table 3.2

1 Year Monthly Salary Distribution

No	**Position**					
		Workers	Salary$	Total salary $	Taxes paid by the company$	Total gross salary $
1	2	3	4	5	6	7
1	Chief financial officer	1	2000.00	2000.00	540.00	2540.00
2	Specialist recruitment manager	2	1500.00	3000.00	540.00	3540.00
3	Cashier	4	2000.00	8000.00	1440.00	9440.00
4	Hotel general Manager	2	1500.00	3000.00	540.00	3540.00
5	Executive chief	4	1200.00	4,800.00	864.00	5664.00
6	Cleaner and concierge	3	500.00	1,500	270.00	1770.00
7	Specialist controller	4	1000.00	4000.00	720.00	4720.00
8	Salary premium			500	90.00	590.00
Total		**20**		**26,850.00**	**5,004.00**	**31,584.00**

During the first year, month to other pay expenditure is distribute between the important staff (20).1 Chief financial officer, 2 Specialist recruitment, manager 4 cashier, 2 Hotel general Manager,4 Executive chief, 3 Cleaner and concierge. 4 Specialist controller. Month to other the utilization is relied upon to average about $26,850.00, including $500.00 to be spent on reimbursement charges. Expenses payable by the organization are $5,004.00 adding to the complete reparations uses at the mark of $31,584.

Table 3.3

2 Year Monthly Salary Distribution.

No	**Position**	Workers	Salary€	Total salary €	Taxes paid by the company€	Total gross salary €
1	2	3	4	5	6	7
1	Chief financial officer	1	2000.00	2000.00	540.00	2540.00
2	Specialist recruitment manager	2	1500.00	3000.00	540.00	3540.00
3	Cashier	4	2000.00	8000.00	1440.00	9440.00
4	Hotel general manager	2	1500.00	3000.00	540.00	3540.00
5	Executive chief	4	1200.00	4,800.00	864.00	5664.00
6	Cleaner and concierge	5	500.00	2,5000	450.00	2950.00
7	Specialist controller	4	1000.00	4000.00	720.00	4720.00
8	Salary premium			1000.00	90.00	1090.00
Total		**22**		**29,850.00**	**5,274.00**	**35,124.00**

During the second year, month to other pay expenditure are distribute between the important staff which increased to (22).1 Chief financial officer, 2 Specialist recruitment, manager 4 cashier, 2 Hotel general Manager,4 Executive chief, 5 Cleaner and concierge. 4 Specialist controller. Month to other the utilization are relied upon to average about $29,850.00, including $1000.00 to be spent on compensation charges expanded. Charges payable by the organization are $5,274.00 adding to the absolute compensation consumptions at the mark of $35,124.

Table 3.4

3 Year Monthly Salary Distribution.

No	Position	Workers	Salary€	Total salary €	Taxes paid by the company€	Total gross salary €
1	2	3	4	5	6	7
1	Chief financial officer	1	2000.00	2000.00	540.00	2540.00
2	Specialist recruitment manager	4	1500.00	6000.00	1080.00	7080.00
3	Cashier	4	2000.00	8000.00	1440.00	9440.00
4	Hotel general manager	2	1500.00	3000.00	540.00	3540.00
5	Executive chief	4	1200.00	4,800.00	864.00	5664.00
6	Cleaner and concierge	5	500.00	2,5000	450.00	2950.00
7	Specialist controller	6	1000.00	6000.00	1080.00	7080.00
8	Salary premium			1000.00	360.00	2360.00
Total		**26**		**34,300.00**	**6,354.00**	**40,654.00**

During the third year, month to other pay expenditure is distribute between the important staff which are increased to (26).1 Chief financial officer, 4 Specialist recruitment manager, 4 cashier, 2 Hotel general Manager,4 Executive chief, 5 Cleaner and concierge. 6 Specialist controller. Month to other the utilization is relied upon to average about $34,300.00, including $2000.00 to be spent on reimbursement charges. Expenses payable by the organization are $6,354.00 adding to the complete reparations uses at the mark of $40,654.

There is an improvement from year to other and the number of the stuff has increased during 3 years which provide the progress of tourism sector in Colombia and investing in hotels is a good deal.

There are multiple consumptions to mentions which are remoted into four classes like administrations, food sources, different costs (Internet, security…) and occasions. Month to other whole is given so the use is dispersed uniformly – every one of the figures communicated in the following table.

Table 3.5

Other monthly expenditures.

No	**Name of expenditure**	1 year	2 year	3 year
1	**2**	**3**	**4**	**5**
1	Services	$3000.00	$4000.00	$5000.00
2	Food	$1000.00	$2000.00	$3000.00
3	Event	$250.00	$500.00	$750.00
4	Others	$500.00	$750.00	$1000.00
Total		**$4750.00**	**$7250.00**	**$9750.00**

During the three years of execution of the postulation the hotel project, the mass sum of different uses will progressively increase from $4,750.00 in the main year to $7,250.00 in the second and will ultimately arrive at the peak of $9,750 with all sums communicated each one month.

The following table summarize the utilization of every one and infer all out costs each every time of execution.

Table 3.6

Total expenditures.

	Salary Expenditure €		**Other expenditure €**		**Total€**
	Monthly	Annually	Monthly	Annually	
1	2	3	4	5	6
1 year	31,584.00	379,008.00	4,750.00	57,000.00	436,008.00
2 year	35,124.00	421,488.00	7,250.00	87,000.00	508,488.00
3year	40,654.00	487,848.80	9,750.00	117,000.00	604,848.00

As we notice in the first year the consumptions are $ 436,008.00, month to month uses at $ 36,334.00. the second year the consumptions has increased to be

$ 508,488.00, month to month uses at $ 42,374.00; for the third year, all out uses are to be $ 604,848.00, month to month consumptions at $50,404.00

This summarizes the fragment of figuring costs for the project.

Break-even point calculation

The coming table in concluding the break-even point make back to the beginning of the investment highlight comprehend what costs to settle the reality of the proceed. To figure the earn back the initial investment point, it is necessary to incorporate duties into the base necessity of profits.

In Colombia the vat rate is 15%. That applies on the off chance that the limit $ 6,574.70 is defeated every year, which is the situation in any capacity. The company charge is 28%, every one of the estimations explained in the coming Table 3.7

Table 3.7

Break -even point calculation

Year	Expenditures (monthly)	Calculation	Daily minimum, $/day
1	2	3	4
Year 1	$ 36,334.00	1st month: 36,334.00/ 30 = 1211.13 2nd month: 46,248.00* / 30 = 1,412.47 *(36,334.00x2 – 6,574.70 + 15%) + 36,334.00= 9,914 + 27,661.85 = 46,248.00 after 3rd: (36,334.00+ 15.00%) / 30 = 1,392.80	1211.13 1,541.60 1,392.80 Average: 1,380.00
Year 2	$42,374.00	42,374.00+ 15.00%) / 30 = 1,623.300	1,623.30
Year 3	$50,404.00	$50,404.00+ 15.00%) / 30 = 1932.00	1932.00

The first-year monthly expenditures are set to be $ 36,334.00, both salary and other expenditures. To find out the break-even point, it is necessary to consider taxation on turnover: Colombia has first $ 6,574.70 to be subjected only to corporate tax, whilst turnover that exceeds the value of $ 6,574.70 is to be taxed by the value-added tax, what divides the calculation of break-even point into two parts: before the $ 6,574.70 limit and after. After that we receive three results: for the first month, for the second one and for the rest ten months: from these three we derive average daily requirement to earn to break even between financial flows in the project, for the first year the break- even point per day is $ 1,380.00. With increase of both salary and other expenses, break-even point for the second year increases to $ 1,623.300 per day, and peaks at $1932.00 per day during the third year.

Estimating revenues

The next inflection– calculation sequence is going to take the direction to

Revenues – potential incomes. For the reason of suitability of further calculation, the first step is going to require simulation of full capacity business operating at its possible maximum. In the following Table included basic services that can be provided at the start of the project. At this point, it is clear that the break-even point is accomplishable.

Table 3.8

The project investment Hotel revenues

No	Name of service rendered	Year 1		Year 2		Year 3	
		Price $	Total $	Price $	Total $	Price $	Total $
1	2	3	4	5	6	7	8
1	booking	10.00	300.00	20.00	600.00	30.00	900.00
2	Pick up from airport	30.00	900.00	60.00	1800.00	90.00	2700.00
3	Conferences and meetings	150.00	4500.00	300.00	9000.00	450.00	13,500.00
4	Lease	60.00	1800.00	90.00	2700.00	120.00	3,600.00
5	Valet parking	20.00	600.00	40.00	1200.00	60.00	1,800.00
6	Recordkeeping administration	15.00	450.00	30.00	900.00	45.00	1,350.00
7	Excursions and guide tours	40.00	1,200.00	80.00	2400.00	120.00	3,600.00
8	Services	10.00	300.00	20.00	600.00	30.00	900.00
9	Commission	25.00	750.00	50.00	1500.00	75.00	2250.00
10	Internet	10.00	300.00	20.00	600.00	30.00	900.00
	Total	**370.00**	**11,100.00**	**710.00**	**21,300.00**	**1,050.00**	**31,500.00**
	Total	**11,100.00**	**333,000.00**	**21,300.00**	**639,000.00**	**31,500.00**	**945,000.00**
	Total	**133,000.00**	**3,996,000.00**	**255,600.00**	**7,668,000.00**	**378,000.00**	**11,340,000**

The project of the hotel can maximum extreme limit offer $ 11,100.00 every day income, $ 333,000.00 month to month income and yearly limit of $ 3,996,000.00 in the main year of activity. In the second year of activity day by day most extreme increments to $ 21,300.00, month to month greatest bounces up to $ 639,000.00, and complete most extreme income is relied upon to reach $ 7,668,000.00. In addition, to close, the third year day by day most extreme is relied upon to be $ 31,500.00, month to month sum coming to $ 945,000.00, and totaling at the mark of $ 11,340,000.00.

Table 3.9

Averaging Revenues

Name	**First year**	**Second year**	**Third year**
	Maximum estimation		
1	2	3	4
hotel revenues	$333.000.00	$639,000.00	$945.000.00
Breakeven estimation			
Earnings estimation daily	$1,380.00	$1623.30	$1,932.00
Earnings estimation monthly	$41,400.00	$48,699.00	€57,960.00
Average estimation			
Average earnings daily	$187,200.00	$343,849.50	$595,287.50
Average earnings annually	€1,166,400.00	€2,430,360.00	€2,946,900.00

Table 3.10

Investment effectiveness

Profile	First year	Second year	Third year
1	2	3	4
Revenue	$3,996,000.00	$7,668,000.00	$11,340,000
Expenditure	$436,008.00	$460,488.00	$604,848.00
VAT 15%	$599,400	$1,150,200.00	$1,701,000.00
Profit before earnings	$3,559,992.00	$7,207,512.00	$10,735,152.00
Tax 28%	$999,797.76	$2,018,103.36	$3,175,200.00
Net income	$1,960,794.24	$ 4,039,208.64	$5,858,952.00

3.3. Assessment of international investment project attractiveness and estimated income calculations

Upcoming to ascertaining general pay, it is important to survey if the investment project is profitable or not. For that point, it is important to discover the markdown rate, at which investment sources of info and returns will be balanced considering the course of time.

Table 3.11

Inflation rate

Year	Inflation rate
2019	4.52
2020	3.30
2021	2.12

After the calculation, the discount rate is as following:

$i = 1.0452 \times 1.0330 \times 1.0212 - 1 = 0.102$

Over the three years of implementation of the project, the discount rate is Expected to change as following:

$1 + i1 = 1.102$

$1 + i2 = 1.102^2 = 1.21$

$1 + i3 = 1.102^3 = 1.33$

The next step is to calculate discounted outflow, what is done in three steps:

1) Discounted outflow for the first year: $5,657,894.73

DCF1 = 6,235,000.00/ 1.102 = $5,657,894.73

2) Discounted outflow for the second year: $ 628099.17

DCF2 = 7,60,000/ 1.21 = 628099.17

3) Total discounted outflow: $6,285,993.9

DCFT = 5657894.73+628099.17=6,285,993.9

After that, consider all inflows – net income that is not redistributed into production but is going to undergo the repatriation procedure.

1) Discounted inflow for the first year: $ 1,690.340.00

DCF1 = (1,960,794.24– 5%) / 1.102 = 1,862,754.53 / 1.102 = 1,690.340.00

2) Discounted inflow for the second year: $ 2,620,892.16

DCF2 = (4,039,208.64– 5%) / 1.21 = 3,171,279.51 / 1.21 = 2,620,892.16

3) Discounted inflow for the third year: $ 3,146590.00752

DCF3 = (5,858,952.00– 5%) / 1.33 = 4,184964.71 / 1.33 = 3,146590.00752

4) Total discounted inflow: $ 7457822.16752

DCFT = $1,690,340.00 +$ 2,620,892.16 + $ 3,146,590.00752=$7457822.16752

The following is to calculate indicators to assess attractiveness of the hotel investment project. Starting from the calculating the Net Present Value which is the difference between the discounted inflow and outflow, then Profitability Index which is the result of dividing the discounted inflow by discounted outflow, and calculation of the Payback Period which is the result of dividing the discounted outflow by average annual income.

Net Present Value = 7,457,822.16752– 6,285,993.9 = 1171828.26752

Profitability Index = 7,457,822.16752/ 6,285,993.9 = 1.19

Payback Period = 6,285993.9/ (7,457,822.16752 / 3) = 6,285993.9 / 2485940.72251 = 2.53 years =

The project should be considered as profitable. The profitability index is greater than one, what also confirms the beneficial project which is the Payback period is 2.53 years.

Conclusion

Tourism is a long-term source of economic growth for developing countries Colombia has experienced an economic slowdown due to its significant drop in oil prices and tightened budget. Economists surmise that these actions are just temporary, a decisive move to reduce inflation. Fortunately, the situation has alleviated, thanks to public infrastructure projects and growth in private investment. Like a chain reaction, such events also improved the number of hotels being built in light of the growing tourism industry.

The Colombian hotel industry boom offers valuable prospects which many have been utilizing. Presently, many Colombians have been moving forward to the digital age. This entails that consumers regard purchases or hotel reservations via electronic means as a more efficient approach compared to a face-to-face transaction. Technology improves marketing approaches by a hundredfold. The Colombian hotel industry sees long-term potential from such advancement since it multiplies prospects in a cost-efficient manner. Many hospitality establishments will soon focus more on digital transformation to interact with tourists online and increase sales further. According to Colombia's tourism giant Cotelco, the hotel industry continues to grow in 2018. The occupation rates in July 2018 soars high at 56.85%, compared to last year's 54.05%. Cotelco's national executive president Gustavo Adolfo Toro Velásquez states that this progress is caused by two factors. The first reason is the realization of significant events like the election, which boosts corporate interests. Another determinant comes from the promotion efforts of entities such as ProColombia and the Ministry of Commerce, Industry and Tourism.

The Colombian hotel industry entices investors worldwide to visit flourishing cities like Bogota and Cartagena. These two lively cities are naturally prosperous, partly due to foreign buyers and business investors making the most of Colombia's tourism boom.

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