

Interview with Virgilio Barco, Executive Director, Invest in Bogotá

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As a promoter and “sales agent” for Bogotá and Colombia can please you take us through the country’s journey over the past decade and how this country, this city have evolved to become a magnet for international investment?

Colombia comes from a profound crisis which spurred a lot of changes. President Uribe was focused on the security issue which was the beginning of everything but then after that has had a committed team of people working to improve the business climate. Colombia’s consistently high position on the various “doing business” rankings is a testament to this dedication; it has to do with how deep the crisis was and the type of leadership that there has been over the past decade. Colombia has benefitted from overall interests in Latin America over the past few years. Brazil and Mexico are certainly the largest economies, but the other panorama is shifting. Argentina was an attractive market for a while but there is so much macroeconomic instability there that makes companies skittish. Chile is very stable but with a high cost structure and a small market. Central American countries are very small and Venezuela is out of the question right now. So you end up with Peru and Colombia. I think Colombia has the edge over Peru because of its larger market size and the quality of human resources. It ends up being a very interesting third destination in Latin America. We have a well diversified economy that is not just focused on natural resources. That is the picture for Colombia.

The transformation of Bogotá started even before the transformation of Colombia. The security issues were addressed here before they were at the national level. Because of that, city administrators were able to focus early on in modernizing the cities. The administrative organization, investment in education, access to free education, and the expansion of the health system show how much Bogotá has progressed. The quality of services and hospitals in Bogotá are much better than the national government ones. The city has invested a lot in its people. But of course, a lot of challenges still remain in urban mobility, the environment, and improving the quality of education now that the coverage level has been achieved.

Today Bogotá is seen as one of the major business centers in Latin America. We are alongside São Paulo, Buenos Aires, Santiago, and Mexico City as the leading business centers in Latin America. There are several elements of the value proposition. One of the most important assets is the depth and quality of the human resources. We are seeing a lot of investment in off-shore operations. Companies who need fifty to one hundred fifty engineers for off-shore services can come here for labor because it is a very scalable place due to the size of the population. You have a large labor pool but also a wealth of experience and good, quality of workers at all levels from mid-range

to managerial.

Second, the costs are very average in compared to the rest of Latin America. It is not the most expensive place, nor is it the cheapest. You have average costs and good quality of human resources which makes for an interesting cost-benefit relationship.

Additionally, the operating environment is adequate. We have a liberalized telecommunications market with a variety of providers. There is a lot of office space. It is an easy place to set up business. Another important factor is that a city of this size with the type of cultural offerings â?? nightlife, restaurants, etc â?? provides an attractive incentive. There are several companies who we are working with who are relocating to Bogotá; mainly on a quality of life basis.

Concerning the pharmaceutical industry, as you mentioned, a lot of multinational companies left in the 1990s; some because of security concerns, but others as part of the centralization trend of production and manufacturing operations. In their departure they left an industry know-how. The quality of the chemical and pharmaceutical personnel has not been lost in other words. Our human resources in the medical and pharmaceutical field are renowned throughout Latin America. Some of the multinational companies stayed and are doing contract manufacturing and export operations throughout Latin America. A lot of Colombian pharmaceutical companies purchased the plants of those who have left and have developed their own home-grown operations. They are strong, sizeable, and expanding in Latin America.

There are ongoing issues that need to be resolved between the nationals and multinationals over intellectual property. We also think that there has to be some standards in terms of bioequivalence tests for generic products. While these issues exist, the pharmaceutical industry here in Colombia is strong and is rooted in the high caliber of human resources.

The decrees in response to the current Social Emergency has caused some controversy but Colombia has one of the largest percentages of its GDP concentrated on health. The system is by no means perfect but the social security system has been expanding and has quite a large coverage. We have the basis for a sustainable system that will eventually provide universal health coverage.

What was behind the transformation of Bogotá; which, as you said, occurred before the transformation of the rest of the country?

It started about twenty years ago. First the city transformed its tax basis. It strengthened the land tax and created incentives for people to keep the appraisal of their properties up. The tax revenue of the city significantly increased. Then the city sold its electric utility to generate a huge stash of money. We had some very visionary mayors who focused on developing a stronger sense of belonging to the city amongst its citizens and encouraged them to assume their civic responsibility. Bogotá; has a voluntary tax. When people pay taxes, they can pay an additional 10% on a voluntary basis. There is a substantial number of people who pay it every year which reflects how they see the services they receive.

Mayor Peñalosa significantly upgraded the city infrastructure. He started the Transmilenio and invested in schools and health centers throughout the city. The following mayor reorganized the city's administrative structure and extended social benefits, health benefits, and universal education coverage.

Bogotá; adopted an epidemiological approach to the security issue that assessed various security-related risk factors such as homicides, weapons possession, alcohol prevalence, etc. The city was able to map out these risk trends and scale up security or regulations accordingly, such as issuing an earlier curfew or adding additional police to a neighborhood, for example. The main indicator, the

homicide rate, went down dramatically. Bogotá started all of these upgrade processes much earlier than the rest of the country.

Another one of Bogotá's strengths is its cooperation between the public and private sectors. In the early 2000s the public and private sectors of Bogotá and Cundinamarca came together for a strategic planning exercise to determine what needed to be done to improve the competitiveness and quality of life in the respective regions going forward. The blueprint which came out of it included a strategy to increase FDI in value added more export oriented sectors. A lot of FDI in Colombia is resource seeking and market seeking. There is not a lot of FDI dedicated towards Colombia serving as a platform to reach global markets. That type of FDI is typically the most interesting in terms of technology transfer, linkages, and the strengthening of new clusters which has been the focus of our work.

What specifically are those new clusters that you are focusing on?

A lot of it is in services. Ultimately what Bogotá has is people. There are not that many cities of seven million people with the same talent pool and competitive cost structure as here. That produces a lot of off-shore services – call centers, business processing outsourcing, architectural and engineering design for off-shore clients, web and editorial design, graphic arts, and software developers – who are using Bogotá as an export platform. A new and emerging service is audiovisual production. Over the past few years Fox, Sony, and NBC have purchased studios to produce content for Latin America. Bogotá is exporting major audiovisual content. There are series produced for the US – in English – which you would never know are done from here in Bogotá. A representative from Fox said that for the price it costs to produce three episodes in the US you can produce twelve episodes here.

A lot of companies are setting up corporate training centers. For example, ZTE, a Chinese telecom hardware manufacturer set up its Latin American training center here in Bogotá.

There is already significant health tourism happening but a lot of it is regional. Patients from Central America and the Caribbean are coming here. Ophthalmology, dentistry, and aesthetics have been well positioned but high complex heart surgeries are also being done here. It is a big stretch to think that in the short term a lot of American or European patients will come here for medical tourism but there is a good case for regional patients coming here. A Colombian living in the US would rather be treated here than in the States.

There is a plethora of diversity within the services sector. We are not necessarily a manufacturing place, although there are some manufacturing centers in the outskirts of Bogotá. Siemens, for example, has a very labor intensive manufacturing process division that customizes hearing aides and ships them out from Colombia. They just recently moved their plant from inside Bogotá to outside the city. They could have relocated anywhere in Colombia or the world. There is no need to stay in Bogotá where among other things the logistics of getting the machinery is not the best. But they maintained their operations here because of the quality of human resources. Overall the strength of Bogotá is services.

Is diversification of investment origins a priority as well?

About 25% of FDI in Bogotá comes from the US, 25% from Spain and the rest from Latin America. We don't see that significantly changing. If you take India as an example, their cost structure is so competitive. There is the case in services to have a near shore US operation. Some Indian companies are therefore setting up delivery centers in Latin America to complement their Indian delivery centers for IT and software. But the cost structure in Latin America is two or three times higher here than in Asia. The Chinese companies focusing on Latin America are mainly focused on

natural resources. Because of all that I don't think the mix will change very much.

How would a potential passage of a US-Colombia free trade agreement shake-up investment here in Bogotá or Colombia?

A passage would send an overall positive signal between bilateral relations. But it would not really impact the areas in which we work. Services are not taxed after all and, additionally, a lot of Colombian goods already have preferential access to the US.

To what extent do the stigma and stereotypes of Colombia's history of insecurity serve as a hindrance to foreign investment?

It is something that has completely changed since we started our work here. Our pipeline mix has changed to include a large number of US companies, particularly in services. This pipeline includes many companies who would never think about investing here years ago. The bigger concern for foreign companies is the revaluation of the peso more so than security. The misconception gap still has to be bridged but it is not a major hindrance. It still requires explanation but we are working with many foreign investors for whom the security issue is simply not an issue.

What is the degree of cooperation between Invest in Bogotá ProExport/Invest in Colombia?

We work closely with them, yet, because we don't have to focus on the whole country we have a very tailored and specific knowledge of our sectors and what Bogotá is good for.

What is an example of a "success story" of a company who, from initial inquiry to return on investment, has worked side-by-side with Invest in Bogotá?

One interesting story is ZTE (www.zte.com.cn), the Chinese telecommunications manufacturer. They were looking for a place to set up their Latin American training center. They wanted a place with good air connectivity, good quality of life, competitive costs, and close to potential partner universities. They approached us and we helped them understand the strengths and weaknesses of the universities, who would be a good partner, and we helped them broker the deal with the schools to set up the training center. We like that investment a lot because it involves a lot of technology transfer; we are improving the quality of the local education system; we are providing opportunities to students; and the people that the training center will attract from all over Latin America will create some interesting spill-overs. People will come to see Bogotá as a place of learning. We think it is a really interesting project that we added a lot of value to as an agency.

Are you eyeing the competition from other Colombian cities and their investment agencies?

I think that each city offers its own unique value proposition. Barranquilla is interesting in terms of its location. Cartagena, though not as organized as Barranquilla for investment promotion, has a lot of potential. Cali has a very strong base in pharmaceuticals and being close to the Pacific helps with logistics. I think each one has something going for it. As a capital city, we see pure competition as being Santiago, Buenos Aires, São Paulo, Lima, Mexico and Panama.

How do you create awareness about Invest in Bogotá?

We do very targeted promotions in our sectors of interest. We go to various industry events, do direct mailing, closely maintain the most current information on our webpage and we work with different allies -- networks of investment banks and law firms. It's a lot of work and is not always that easy.

In 2009 Invest in Bogota was recognized by the Foreign Investment Advisory Service of the World Bank as the best investment promotion agency outside of the OECD. What is your strategy to stay atop that list?

The core function of any investment agency is to provide timely, accurate information that reduces the time for an investor to understand why the location is good. That involves being very professional, understanding the issue from the point of view of an investor â?? not from the perspective of a bureaucrat â?? and having strong private sector skills. I think we manage a good team of people here who are very service oriented. An investor wants to know specifics about costs and capacities so we, as an investment agency, need to focus on knowing the ins and outs of the sectors where there may be interests. I believe that we do that very well.

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