Doing business in Chile and Colombia

Chile

Capital: Santiago de Chile
Area: 0.76 million sq km
Population: 17 million
Official language: Spanish
Currency: Chilean Peso ($)
Literacy rate: 97%
Unemployment rate: 6.6% (Oct – Dec 2011)
Foreign Direct Investment inflows: US$ 17.5 billion (2011)

Colombia

Capital: Bogotá
Area: 2 million sq km
Population: 46 million
Official language: Spanish
Currency: Colombian Peso ($)
Literacy rate: 93.3%
Unemployment rate: 10.8% (2011)
Foreign Direct Investment inflows: US$ 14 billion (2011)

In June 2012 Chile, Peru, Colombia and Mexico signed an accord creating the Pacific Alliance to integrate their economies, establishing a bloc that accounts for more than 35% of Latin America's GDP. All the countries involved have the most open and outwardly focused economies of the region.

As part of that alliance, Chile and Colombia become even more interesting markets. Chile has traditionally been regarded as one of the most dynamic and stable economies in Latin America, with the average annual growth rate from 1985 to 2010 standing at 5.5%, among the highest worldwide. With 17 million inhabitants, Chile is not densely populated; however, its population has one of the highest levels of acquisition power in the region.

In Colombia's case, considering the security troubles of its past, the last 10 years have been important for the rebuilding of the country's image. Colombia is now regarded as an attractive market due to the sound economic management of the country, the business friendly environment and the crackdown on illegality. This new reality is reflected in the fact that the Economist Intelligence Unit and HSBC believe Colombia to be one of the world's emerging economies with one of the best prospects for growth over the coming decades (CIVETS). Colombia has around 45 million inhabitants. The expansion of the middle class has also helped support economic growth.

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Both Chile and Colombia have market-oriented economies with high levels of foreign trade and strong financial institutions. Chile has exceptional sovereign ratings and maintains the lowest country risk in Latin America. Its economic stability, monetary discipline and a strong political environment are the key elements of Chile's strong performance. In the case of Colombia, all three major ratings agencies have upgraded the country's investment grade, even though economic development is hindered by inadequate infrastructure.

In Chile, exports account for more than one-third of GDP, with commodities making up some three-quarters of total exports. The export of oil and coal remain key to Colombia's economic growth. Colombia's real GDP grew 5.7% in 2011 and inflation ended 2011 at 3.7% (up from 2.3%), continuing almost a decade of strong economic performance. Chile's real GDP growth stood at 6.5% in 2011, with inflation at 3.3%, up from 1.4% the previous year. Colombia still has one of the highest unemployment rates in the region at 10.8% (down from 11.8%), while Chile has an unemployment rate of 6.6% (down from 7.7% in 2010).

Chile claims to have more bilateral or regional trade agreements than any other country, including those with the European Union, Mercosur, China, India, South Korea and Mexico. Chile offers tax benefits for investment and its corporate income tax rate of 17% (temporarily increased to 18.5% due to the country's earthquake reconstruction programme) is one of the lowest in the world.

The Colombian government is perhaps the most outwardly focused in the region. It has set out rules to improve the business environment, which include treating foreign-sourced investment identically to domestic investment. Colombia's aggressive promotion of free trade agreements in recent years has bolstered its ability to face external shocks that may arise.

In Latin America business is more about people and relationships than about companies; this is particularly relevant in the case of Colombia, where building strong relationships and trust is key for business development. Chile is perhaps one of the countries in Latin America where this is of lesser importance, due to its longstanding tradition of professionalization.

Colombia has a strategic geographic location, at a three-hour flight from Miami, with coastlines both in the Caribbean and the Pacific. Colombia's geographic diversity has also led to strong cultural differences between its regions. An understanding of regional laws and governmental structure at the local level is considered to be extremely important. Although less than in the past, concerns over the clarity of the regulatory framework across all sectors and worries relating to security and illegality remain to some degree.

Media sector

According to data published by local economic newspaper Portafolio, Colombia's media and entertainment sector billed 8 thousand million USD in 2011 (surpassing countries like Argentina) and is expected to reach 13 thousand million USD by 2015. This data includes music recordings, films, video games, radio, TV and online advertisement, and newspaper and books publications, among others.

Colombia's audio-visual production industry is currently one of the most dynamic in Latin America, with 73% of the companies in the sector located in the capital, Bogotá. There are some benefits to investing in the sector; for example, equipment imported temporarily into the country for film production is not subject to IVA (Colombian equivalent to VAT). Also, foreign audio-visual productions can claim back all VAT paid on services acquired in Colombia, subject to compliance with all criteria established in the law.

Colombia's Film Law creates a transferable tax credit for contributors who donate to or invest in film projects certified as Colombian productions or co-productions. These qualifying productions can claim 41.23 %. The Colombian participation in a co-production has to be at least 20% of the total cost of the production and there are further requirements in terms of the ratio of national to foreign actors and personnel used in the production.

Colombia's infrastructure is very strong in terms of its ability to provide adequate support for foreign film production. In addition, the law for incentivising local film production has helped create a larger local crew base with greater expertise. It is important to consider local differences when producing in Colombia. For example, every city has a different permit system and so foreign producers should contact the Colombian Film Commission to ensure the correct information is received.

On the other hand, Chile has no direct tax benefits in place for audio-visual productions and the country is not party of many international production agreements. However, the State of Chile does provide around 10 million USD per annum in cinema aid. With modern infrastructure, low-cost labour and a large variety of natural location settings, Chile is an attractive destination for audio-visual productions. The country's highly skilled but competitively priced labour, the economic and political stability and sustained growth make Chile one of the most attractive investment environments.

Both countries are said to be working towards promoting new laws that will make them more competitive in order to attract more local and overseas investments to their audio-visual production industry.

In terms of the advertising industry, the 2011 Gunn Report shows Colombia ranks 42nd and Chile ranks 43rd in the World Rank Ad market size. The 2011 Gunn Report ranks Colombia 23rd (up from 27th) and Chile 27th (down from 25th) in terms of most awarded countries.

Several studies indicate that, for both Chile and Colombia, it is in digital media where the growth opportunities really lie, not only in terms of online advertising, but also in terms of access to mobile networks, as internet and mobile penetration continue to increase.

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