



BANCO DE LA REPÚBLICA
CENTRO DE ESTUDIOS ECONÓMICOS REGIONALES (CEER) - CARTAGENA

A REGIONAL ECONOMIC POLICY FOR COLOMBIA

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- I. Introduction**
- II. Regional Economic Policy**
- III. Regional Disparities in Colombia**
- IV. Regional Economic Policy:
A Framework for Colombia**
- V. Conclusions**

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I. Introduction

- Regional economic policies are desirable in a country with persistent regional disparities over time.
- (*)Colombia is a very interesting case, because it does not have a direct and formally established regional policy in order to face disparities.
- This paper is an advance on recommendations for a future regional policies in Colombia.
- (*)First, we studied regional policy initiatives implemented in other countries and their effectiveness: European Union, Spain, Italy, and Brazil.



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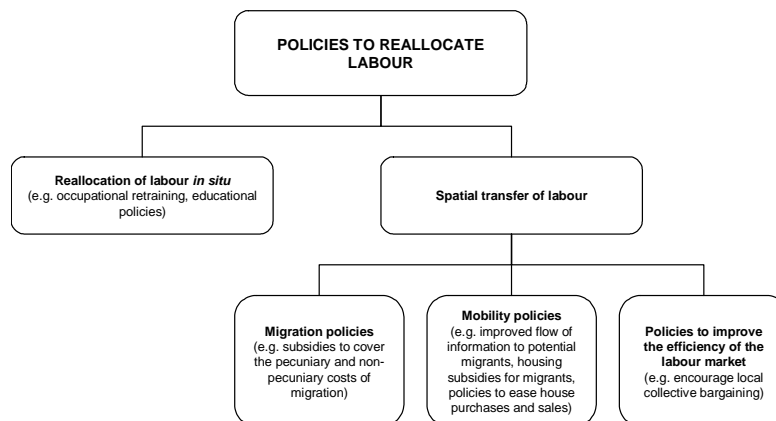


II. Regional Economic Policy

- (*)Regional policies should not be only a justification by the existence of the regional disparities.
- (*)Policy instruments can be divided into *Micro-Policies* and *Macro-Policies*.



II. Regional Economic Policy



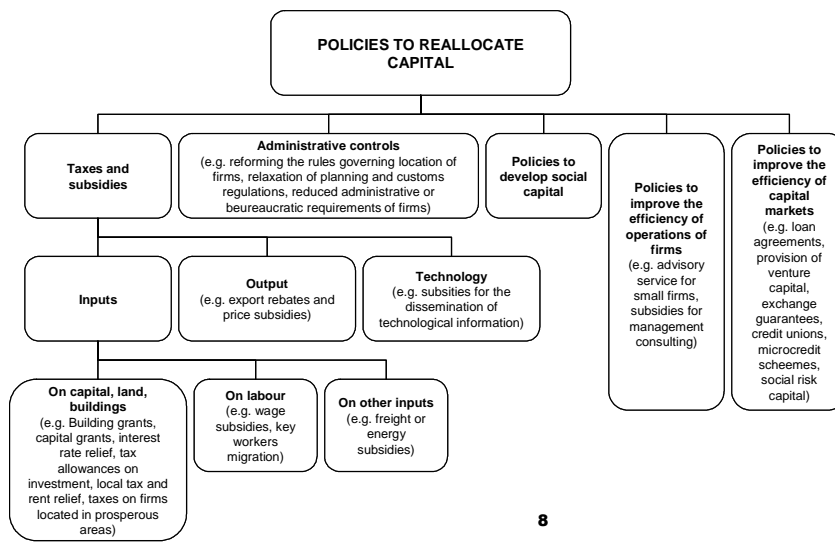


II. Regional Economic Policy

- **Impediments to labor mobility between regions:**
 - **Wage differentials often do not respond to the corresponding differentials in the marginal labor productivity.**
 - **Even if those differentials do take place, it is possible that the labor market may not fully perceive them.**
 - **Even if these happen, there are non-zero migration costs.**
- **Pecuniary costs are those easier to fund, but those non-pecuniary are not (doing more attractive destination regions).**



II. Regional Economic Policy





II. Regional Economic Policy

- Country cases: Spain, Italy, and Brazil
- (*)Spain: regional policy began with the *Comunidades Autónomas* created in 1980's. The main instrument was an Inter-territorial Compensation Fund in order to reduce regional disparities. Spain have enjoyed an additional regional benefits as a member of the European Union.
- (*)Italy: regional policy was created in 1950's, due to that strong difference between northern and southern regions. Italy also created a fund called *Mezzogiorno Fund*. And encouraged the location of new industrial firms in the Mezzogiorno. Results indicated that regional convergence was very limited between 1950's and 1970's, and thereafter regional inequality has been increasing.



II. Regional Economic Policy

- Brazil: Government has implemented some regional policies such as: infrastructure investments, incentives for private investments initiatives of the state enterprises and granting of tax exemptions. There have been mixed results from these policies: poorer regions have showed some improvements in the product growth, but this can be because those regions are frontier states rather than due to regional policies.



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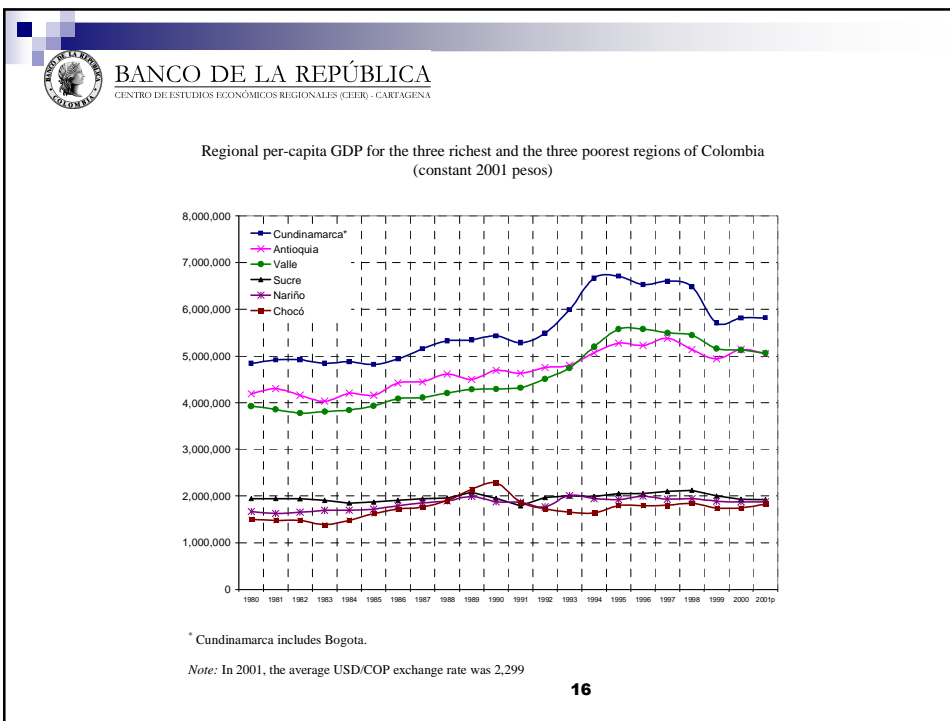
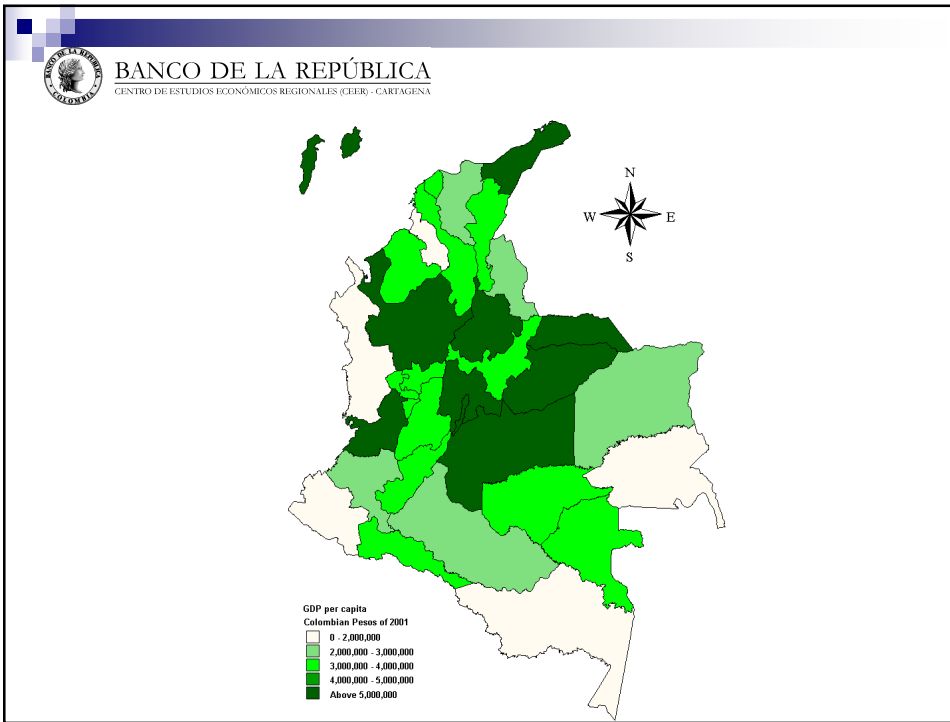


Department	Population (inhabitants)	Area (km2)	Capital city	Altitude of the capital city (meters)	Average temperature of the capital city (degrees Celsius)
Antioquia	5,454,871	63,612	Medellín	1,486	20
Atlántico	2,174,929	3,388	Barranquilla	30	28
Bolívar	2,043,508	25,978	Cartagena de Indias	2	28
Boyacá	1,375,222	23,189	Tunja	2,782	13
Caldas	1,120,691	7,888	Mamizales	2,216	16
Caquetá	427,823	88,965	Florencia	450	26
Cauca	1,277,129	29,308	Popayán	1,738	19
Cesar	979,443	22,905	Valledupar	169	28
Córdoba	1,337,610	25,020	Montería	18	28
Cundinamarca	2,184,664	22,623	Bogotá	2,600	14
Chocó	408,560	46,530	Quibdó	43	28
Huila	939,136	19,890	Neiva	442	27
La Guajira	491,511	20,848	Riohacha	3	28
Magdalena	1,308,493	23,188	Santa Marta	6	27
Meta	714,659	85,635	Villavicencio	467	25
Nariño	1,661,323	33,268	Pasto	2,527	14
Norte Santander	1,375,374	21,658	Cúcuta	320	27
Quindío	572,565	1,845	Armenia	1,483	20
Risaralda	960,585	4,140	Pereira	1,415	21
Bogotá D.C.	6,573,291	1,587	Bogotá	2,600	14
Santander	1,989,666	30,537	Bucaramanga	959	24
Sucre	809,647	10,917	Sincelejo	213	26
Tolima	1,300,944	23,562	Ibagué	1,285	22
Valle del Cauca	4,246,896	22,140	Cali	995	23
Nuevos Departamentos	1,306,852	483,127			
Amazonas	72,445	109,665	Leticia	96	29
Arauca	248,440	23,818	Arauca	125	28
Casare	293,391	44,640	Yopal	350	26
Guantá	38,370	72,238	Puerto Inírida	100	29
Guaviare	120,361	42,327	San José del Guaviare	240	28
Putumayo	341,513	24,885	Mocoa	595	25
San Andrés y Providencia	75,445	44	San Andrés	4	29
Vaupés	30,591	65,268	Mitú	180	27
Vichada	86,296	100,242	Puerto Carreño	90	28
Colombia	43,035,392	1,141,748	Bogotá 13	2,600	14



III. Regional Disparities in Colombia

- Historical background can also explain to a large extent many of the regional differences
- Violence, and its relationship with poverty, drug trafficking, guerrillas, and displaced people.
- Regional characteristics of the Colombian Economy
 - 53.2% of GDP is produced by three departments: Antioquia (14.6%), Cundinamarca including Bogotá (27.1%), and Valle del Cauca (11.4%). On the contrary, the ten departments that contributes less to the product participates with only 12.5% of the total production.
- Regional disparities





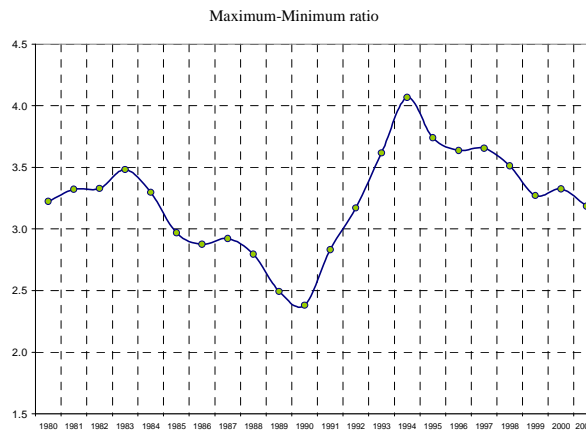
Comparative measures and economic growth for the Colombian departments

Department	GDP/capita 2001 (pesos)	GDP/capita 1980 (Colombia = 100)	GDP/capita 2001 (Colombia = 100)	Average annual GDP growth rate ^a 1980-2001 (%)
Antioquia	2,057,399	122	117	1.28
Atlántico	1,540,130	132	88	-0.51
Bolívar	1,398,715	91	80	0.85
Boyacá	1,382,306	100	79	0.13
Caldas	1,473,030	75	84	1.91
Caquetá	1,107,173	92	63	0.26
Cauca	975,536	51	56	1.67
Cesar	1,340,772	90	77	0.64
Córdoba	1,274,721	61	73	2.37
Cundinamarca **	2,318,054	138	132	1.50
Chocó	760,287	45	43	0.93
Huila	1,456,860	88	83	1.09
La Guajira	1,956,695	48	112	3.93
Magdalena	936,466	53	53	2.05
Meta	2,058,516	126	118	1.61
Nariño	777,263	49	44	0.78
Norte Santander	1,061,504	72	61	0.27
Quindío	1,308,568	119	75	0.02
Risaralda	1,371,044	81	78	1.25
Santander	2,345,318	105	134	2.04
Sucre	788,001	57	45	0.28
Tolima	1,627,078	83	93	2.22
Valle	2,056,709	114	117	2.00
Nuevos Departamentos	2,342,774	85	134	4.50
Colombia	1,751,903	100	100	1.60

^a Rates were obtained by ordinary least squares regressions of GDP per capita against an independent variable, which is a linear trend. The functional form is $y_t = y_0(1+r)^t$, which is linear in logs.
** Cundinamarca includes Bogotá.



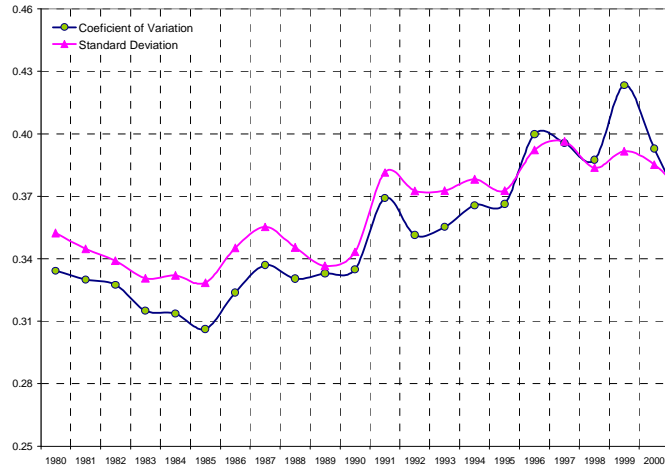
III. Regional Disparities in Colombia



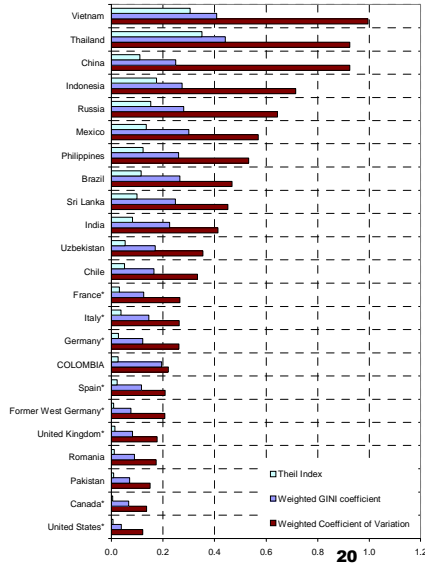


III. Regional Disparities in Colombia

Measures of sigma convergence



Comparisons of regional disparity measures in different countries



* Developed countries



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IV. Regional Economic Policy: A Framework for Colombia

- Lessons from other cases of Regional Policy Initiatives: European Union, Spain, Italy, and Brazil.
- One conclusion is that strong interventionist regional policies often produces regional divergence, while policies that generate convergence are carefully adopted initiatives taking into account their impact both at national and at regional level.
 - Inhabitants of the richer departments are significantly better educated than the inhabitants of poor departments.
 - Transport, communications, electricity, and water are investments wich has proven successful in generating regional convergence.
 - To encourage sectoral mobility of workers is another objective of a regional policy.



IV. Regional Economic Policy: A Framework for Colombia

- **Objectives of a Colombian regional policy:**
 - **Promote systemic competition**
 - **Mobilize the endogenous development potential of the regions**
 - **Encourage economic and social cohesion**
 - **Promote sustainable regional development**
 - **Encourage continental integration**
 - **Promote education in poorer regions**

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IV. Regional Economic Policy: A Framework for Colombia

- **Currently, Colombia has some policies for wealth distribution**
 - **Redistributive tax system**
 - **Division of the urban population into socio-economic strata**
 - **SISBEN programme**
- **The issue of corruption**
 - **It might prevent the effectiveness of a regional policy initiative.**
 - **The cost of corruption to the society is much higher magnitude than the funds stolen by corrupt officials.**

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V. Conclusions

- Colombia has shown regional economic disparities that are both significant and persistent over time.
- This calls for the implementation of a regional policy initiative to promote the development of the poorer regions of the country.
- We are proposing a regional policy framework for Colombia, based on a policy initiative that is currently being implemented in Brazil.
- The main objective is to promote growth of individual areas by exploiting their current advantages.
- Another objective is to promote education in the poorer regions, which both quantitatively and qualitatively lag Colombia's richer regions in the area.

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The End

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