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ECONOMICS

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The Two Colombias

BOGOTÁ – In Medellín, Colombia's second-largest city, you can listen to an impressive presentation by the mayor's office about emerging industrial parks and new technology firms. Then, a glance at your smartphone reveals that guerrillas have kidnapped an army general, and that negotiations to end a decades-long civil war with the Revolutionary Armed Forces of Colombia (FARC), Latin America's oldest guerrilla group, are at a standstill.

Colombia is the only country in Latin America where you can attend seminars at world-class universities, learn about mushrooming multinationals, and chat with supremely competent policymakers, all the while knowing that citizens are confronting one another with machetes and bazookas just a few dozen miles away. In this sense, Colombia is two countries, which have been at war with each other for far too long.

On the one hand, there is the Colombia of rapid economic growth and booming foreign investment, of refurbished cities and innovative social policies. On the other hand, there is the Colombia of Gabriel García Márquez's fictional Colonel Aureliano Buendía, who started 17 civil wars – and lost all of them.

The bad news is that the struggle between the two Colombias has taken a tremendous human toll, with many citizens having suffered through poverty, warfare, and human-rights violations for most, if not all, of their lives. The good news is that the modern Colombia, the country of peace and progress, is winning.

The fruits of that victory can be seen in places like Medellín, which, just 20 years ago, was synonymous with drug cartels and violence. Today, mayors and city planners from all over the world, eager to learn about urban renewal, flock to Medellín, which boasts public libraries that take culture to hillside shanties and gleaming cable cars that haul residents to and from work every day. It is difficult to think of a city that has undergone as dramatic a transformation as Medellín in recent years (though Dubai and Shanghai may be in the running).

The country as a whole has also experienced significant economic progress. Since the 2008 financial crisis, Colombia, along with Peru, has been South America's top economic performer. As growth slows throughout the region, owing to falling commodity prices and the end of quantitative easing in the United States, Colombia's economy is actually accelerating. The International Monetary Fund expects growth to reach a respectable 4.8% this year and 4.5% in 2015.

To be sure, the sharp drop in world oil prices is bad for Colombia, which in recent years has become a major hydrocarbons producer. But strong budget rules, similar to Chile's, keep fiscal policy well anchored. And the government has indicated that, if the need arises, it is prepared to raise taxes to achieve its goal of gradually reducing public debt and improving public services. The business community, despite some initial reluctance, seems willing to go along.

Colombia remains a highly unequal society, with the Gini coefficient, a common measure of inequality, hovering around 0.5 – in the same range as Brazil and Chile. The problem has many causes, one of which is a poorly functioning labor market that forces many Colombians to accept informal work or no work at all.

But the government does not shy away from talk of redistribution. Indeed, it has already initiated transfers (such as pension increases for poor retirees), and its policies have contributed to five consecutive years of declining unemployment.

As Finance Minister Mauricio Cárdenas observed in a spirited speech to a banking convention last week in Medellín, though President Juan Manuel Santos' administration is historically rooted in Colombia's center-right political forces, its fiscal prudence and activist social policy qualify it as an adherent of the social-democratic "third way."

In the coming years, two factors could propel Colombia's continued development. One is the Pacific Alliance, which also includes Mexico, Peru, and Chile. Firms learn to export new products by selling them in regional markets. But, in South America, the rhetoric of trade integration has often been stifled by the harsh reality of protectionism. Fortunately, with the consolidation of a free-trade bloc among the Pacific Rim countries – home to 215 million people and accounting for 37% of Latin America's GDP – this is changing.

The second factor – which has yet to arrive – is peace, in the form of a definite cessation of hostilities with FARC. This is not the first time that talks have been suspended, and it might not be the last. But never before have negotiations progressed so far, reaching substantial agreements in several areas.

Nothing is more important than building a Colombia where citizens no longer fear being caught in a hail of bullets or being dragged from their homes in the middle of the night. At the same time, one should not underestimate the economic dividend of peace, which economists in Bogotá have estimated could boost GDP growth by as much as one percentage point annually for a decade or more.

A quarter-century ago, a safe and prosperous Colombia seemed impossible. Yet it is now within reach. At a time of intensifying political conflict and painfully few success stories, Colombians are giving the world reason for hope.

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