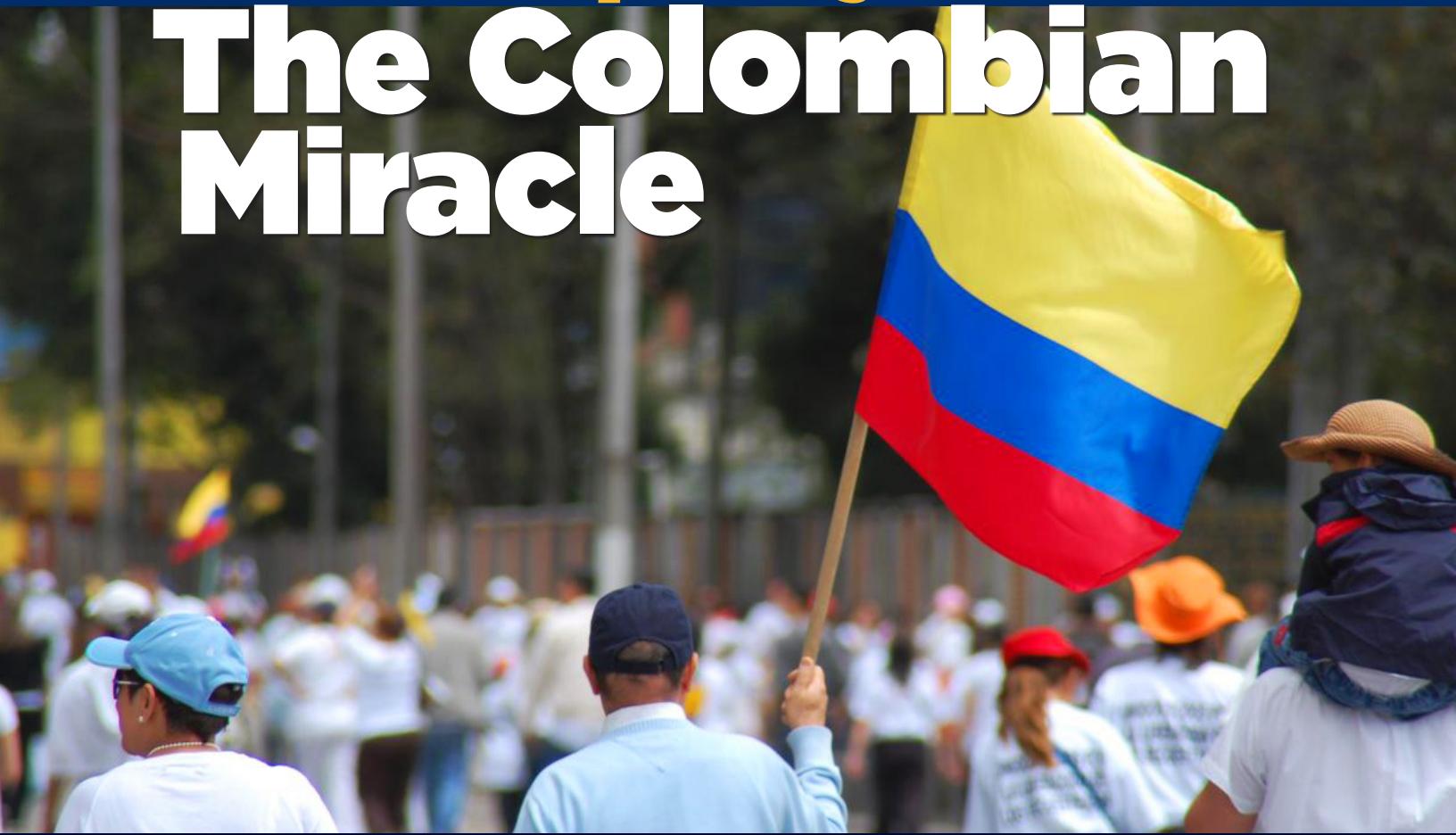


Path to Peace and Prosperity

The Colombian Miracle



By Miguel Silva



Atlantic Council

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Introduction

The Colombia of today would have been nearly impossible to imagine at the turn of the century. But its transformations are real and are a lesson for what is possible when consensus is made a national priority.

Numbers only begin to tell the story. From 2000 to 2010, Colombia multiplied its gross domestic product (GDP) fourfold¹ and moved up seven positions on the International Monetary Fund's list of countries by GDP size—from thirty-nine to thirty-two.² An economy that for most of the twentieth century was heavily dependent on coffee exports³ and a backward import substitution industrialization model started to open up to the world.⁴ In 2010, a McKinsey report concluded, “Colombia has enjoyed a surprising political and economic turnaround over the past decade.”⁵

A bigger and growing economy is not Colombia's only achievement. The majority of Colombians now enjoy much improved security. This is a result of tough security policies aimed at narco-traffickers and guerrilla groups, leading to positive movement toward peace and the historic September 23, 2015, announcement that a deal to end the hemisphere's last armed conflict is within reach.

Social indicators also began to improve considerably. From 2010 to 2014, an estimated 2.4 million people left poverty to join the middle class;⁶ a decade earlier—from 2002 to 2011—poverty rates fell from 50 percent to 34 percent.⁷ Education is also more accessible. In the past, political connections helped determine who got into school. Today, primary and secondary education are free.

Social advances also characterize Colombian society. Those who previously were defenseless against discrimination today have tools such as the *acción de tutela*, a petition procedure that provides an expedited judicial process to protect individual



Welcome to the club? President Juan Manuel Santos addresses an OECD Conference in Paris, France.

rights. Cities also have become internationally renowned. Medellín and Cartagena, known in the 1990s for high crime rates, have received prestigious international awards as the world's most innovative⁸ city and the most attractive for tourism, respectively.⁹

Despite this, Colombia today is at a critical crossroads. The economic, social, and political successes of the past twenty years are under stress, with the country polarized about how to move forward. Yet, any analysis of Colombia's future requires an understanding of the overwhelmingly positive trends of the past two decades. Four questions emerge: Is the “Colombian miracle” a true metamorphosis? What made this miracle possible? What challenges does Colombia face to reach the next rung on its socioeconomic ladder? And what can other countries learn from this turnaround?

Security: Crucial for Colombia's Transformation

Although peace is potentially closer than ever, Colombia is still home to the world's longest armed conflict. Its origins stretch to the mid-1960s, but the initial catalyst dates back to the 1948 assassination of Liberal caudillo Jorge Eliécer Gaitán. This unleashed "La Violencia"—two decades in which Liberal and Conservative party members killed one another in a struggle for political power. The two parties finally agreed in 1958 to alternate the presidency every four years and equally divide all other governmental positions. However, as was the case in many Latin American countries, left-wing guerilla groups—including the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) that still exist today—emerged and gained strength in the decades after the Cuban Revolution.

Fast-forward to the 1980s, the "lost decade" of Latin America, characterized by soaring external debt and hyperinflation. Colombia managed its economy reasonably well. Inflation rates teetered around 24 percent while those of countries such as Argentina (437 percent) and Brazil (340 percent) skyrocketed.¹⁰ Nevertheless, Colombia struggled with weak institutions as a result of the growing drug cartels. The presence and power of cartels made implausible even the most basic of state functions. Back then, few were betting on the Andean nation.

The drug war consumed the country, and a number of right-wing paramilitary organizations emerged. Insecurity engulfed Colombia, with guerilla and paramilitary groups weakening the rule of law and committing countless human rights violations and war crimes.¹¹ At the end of the 1990s and the start of the 2000s, Colombia held many unwanted global leadership positions. It had the world's highest number of kidnappings and occupied the number-one position for cocaine exports.¹² Within five years, the area of cultivated coca fields grew by 74 percent.¹³ In 2002, it became the world's homicide capital, with 70 homicides per 100,000 inhabitants.¹⁴ Six million people have been displaced due to violence.¹⁵

But the past twenty-five years marked a new beginning—a time when Colombia came together as a nation to fight insecurity, tackle considerable social challenges, and pave the way for sustainable economic development.



The armed forces are widely credited for helping to usher in Colombia's security transformation. Here, troops are prepared for inspection.

The Necessary Consensus

The fundamental achievements associated with the “Colombian miracle” are twofold: the strengthening of democratic institutions through a constituent assembly and the restoration of national security. A broad consensus emerged to face the drug-trafficking cartels on all fronts: political, legal, legislative, and military. The power of the cartels was not merely an issue of drug consumption, policing, or foreign affairs. Rather, it was a very real threat to national security that endangered Colombia’s future. The character and patience of Colombian citizens were put to the test during this bloody struggle, requiring cooperation and solidarity across all areas of public life, including political parties and civil society. The lesson for Colombians—and for other countries that face similar challenges—is that drug trafficking will erode institutions that lack clear, cross-sectorial consensus.

The 1991 Constitution ended the two-party political system, opening the space for other parties to enter the political spectrum.

Three guerrilla groups were demobilized and included in the constituent assembly. At the same time, the constitutional changes addressed the lack of openness of legal democratic institutions. The new constitution achieved other important objectives as well. It gave rights to minorities, decentralized power to the regions and cities, and strengthened the judiciary. A powerful, newly created Attorney General’s office was given real capacity to confront crime.

Another unifying force gave momentum to opening the political system: the need to confront the guerrillas, whose military power was then a real threat to the stability of Colombia.

This effort against the FARC was led by President Álvaro

Uribe (2002–2010), elected with the mandate of restoring security. The strength of the FARC during the inconclusive dialogues of the Andrés Pastrana administration (1998–2002) horrified Colombian voters, who favored the candidate that promised the FARC’s defeat; they then elected Uribe’s Minister of Defense, Juan Manuel Santos to succeed him.

Strengthening the armed forces played a central role in the restoration of security. This was the result of strong Colombian public investment and key US support through Plan Colombia, a bipartisan aid package created during President Bill Clinton’s administration through which more than \$5 billion¹⁶ went to combat the drug trade. Public investments and foreign aid helped the country build a larger and more professional military.

In the past fifteen years, kidnappings have been reduced by 92 percent, homicides dropped by 45 percent, and terrorist attacks decreased by 71 percent.¹⁷ From 2002 to 2012, FARC troop numbers dropped significantly, and their political prestige withered.

Two years into Santos’ first term, with security significantly improved, the President reopened peace talks with the FARC. With the announcement that a deal on the main sticking point of transitional justice had been reached, the peace process now looks likely to finally bring an end to the armed conflict, with a March 2016 deadline.

Constitutional changes, the growing power of local democracy, and security improvements showed that the country was better prepared to fight lawlessness and to restore citizen confidence in Colombia’s institutions. Another positive transformation also began to take shape: impressive improvements in social and economic conditions.

PEACE TALKS TODAY

Three years ago (November 2012), the Colombian government relaunched peace negotiations with the FARC in Havana, Cuba. Five topics have been under discussion: agrarian reform; political participation; drugs; end of conflict (transitional justice); and victims’ rights to truth and reparations. Both parties have reached a preliminary agreement on four of these points. The historic September 23 announcement of a solution to issues of human rights and judicial accountability paves the way for a final deal in the next six months. This is when Colombia faces the most difficult challenges yet—peace-making and peace-building. Among other things, agreements at a national level should be adjusted to local and regional needs and circumstances. Will the Colombian people support a final agreement when it is put before them?

Maintaining Consensus: The Economic and Social Revolution

In a country with profound inequalities, constitutional changes and success in the security realm alone could not provide long-term political accord. Indeed, the consensus that brought together disparate public- and private-sector leaders did not end with constitutional changes and security.

A major political and social effort was needed to extend the social improvements that are critical to today's Colombian miracle. The country is now a leader in improving access to basic public and health care services, reducing poverty levels, increasing infrastructure investments, and bringing in direct foreign investment.

Access to Public and Health Care Services

In the early 1990s, Colombia faced serious challenges in terms of health care services. Less than 20 percent of the population had health insurance coverage. In 1993, the Law on Social Security (Law

100) helped change that, with mandates that resulted in universal health care coverage, along with access to better quality services. Health insurance coverage expanded to more than 90 percent of the population by 2012, bringing increased financial protection to Colombian families, particularly to the poorest ones. Health indicators also improved. Life expectancy increased from sixty-eight to seventy-two years between 1991 and 2009, and child mortality (under five years old) decreased from thirty-five deaths to twenty per thousand live births.¹⁸

Colombia also experienced an important upgrade in public services. From 1993 to 2012, access to public water systems increased from 78 percent to 92 percent, and sewage system access rose from 61 percent to 85 percent. Electric power coverage grew from 75 percent to 94 percent. All of these quality of life improvements were achieved, in large part, because of targeted investment in poor urban and rural areas—a demographic of great concern.

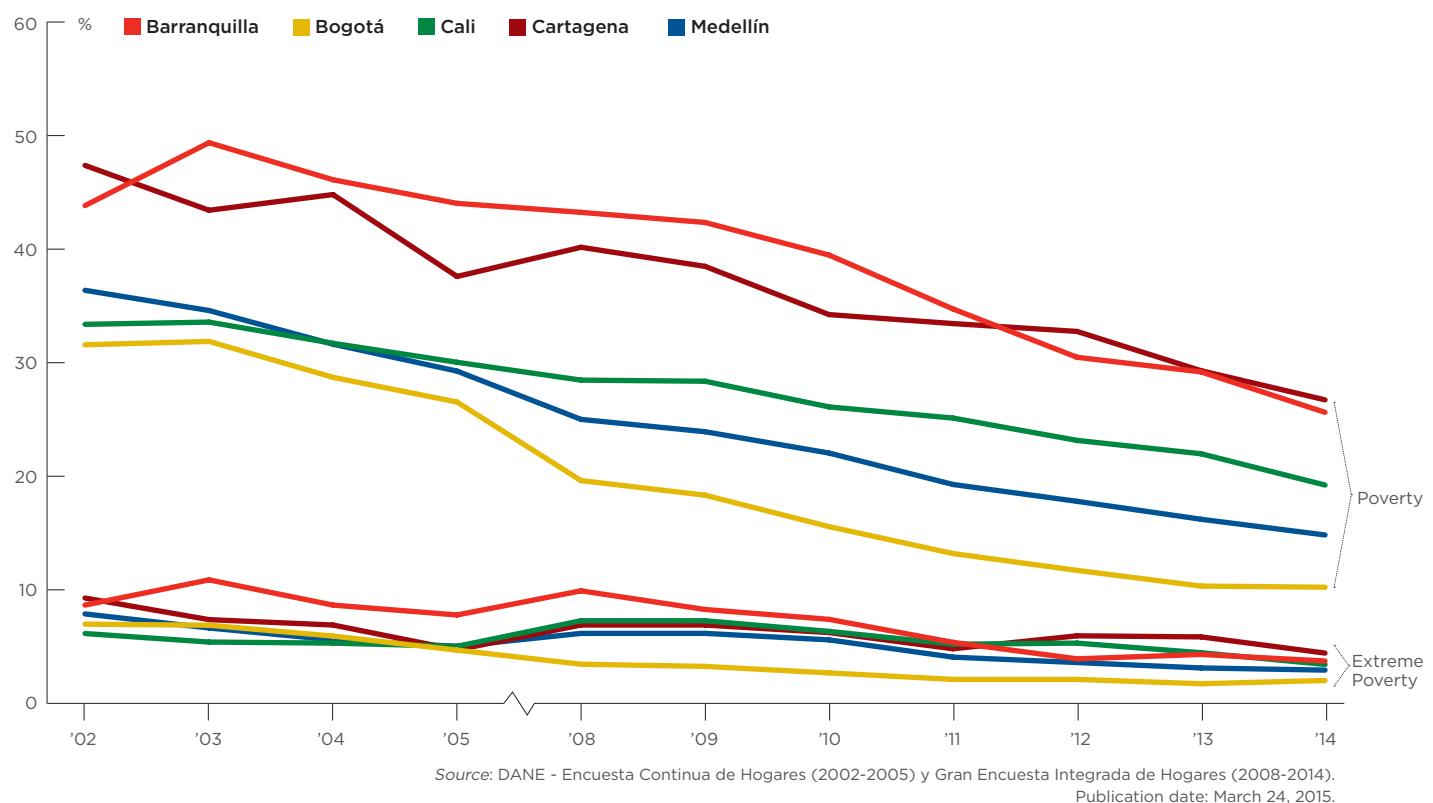
Poverty Reduction

Efforts to implement policies that address poverty, combined with the determination to improve the nation's business climate, resulted in further accomplishments. In the past two decades, Colombia has cut in half the number of people living in poverty, with fewer than 10 million now among the ranks of the poor.¹⁹ The Colombia Development Plan 2014-2018 has made unprecedented advances in equity and poverty reduction. The Gini coefficient was reduced from 0.56 to 0.54 (which means Colombia moved from a low point to average among its Latin American neighbors), the poverty rate was reduced by ten percentage points (to 29 percent), and extreme



Now, more of a shot at social mobility. A coffee farm worker in the department of Cauca.

FIGURE 1. Poverty Levels in Colombia, 2002–2014 (Percentages)



poverty fell from 12 percent to 8 percent [see figure 1]. The result was that 2.4 million people emerged from poverty and 1.5 million from extreme poverty. Never before in its modern history has Colombia had an extreme poverty rate of just a single digit.²⁰

How was such a drastic reduction in poverty levels achieved? The answer lies, in part, in the launch of a number of public aid programs, including *Familias en Acción*, Colombia's largest and most successful conditional cash transfer program. Introduced in 2001, it was helping to support more than 2.2 million families just eight years later.²¹ More importantly, the immense reduction in poverty resulted yet again from consensus. This time around the appropriate economic model to follow: austerity in public spending, an orthodox handling of public finances, and relatively little government intervention in the market.

Increased Investment

Throughout the 1990s, Colombia went down a path of opening its economy and starting a process of liberalizing and modernizing its national industry.

Much of what was achieved is due to the persistent work of a generation of economists who formulated economic policy in the 1990s. That generation occupied—with few exceptions—two essential positions for ensuring compliance with the goals proposed: the Finance Ministry and the Department of National Planning. The Central Bank, made independent by the 1991 Constitution, also played a critical role; it formulated and maintained monetary and economic policies that helped Colombia position itself as one of the most macroeconomic stable nations in the region.

According to Mauricio Cardenas, current Minister of Finance, after 1991, Colombia gradually moved from a closed-market economy to a technocracy, with greater focus on appointing experts to its Central Bank. Because of this transition, the inflation rate decreased significantly, getting closer to the long-term goal of 3 percent.²²

Amid the social revolution and the successful restoration of security, Colombia—which in the 1990s was among the least likely of foreign investment recipients, with investments barely exceeding \$2 billion—received more than \$16 billion in foreign direct investment (FDI) in 2014.²³ This is



Educational access is up, but quality remains a concern. Here, students at a rural high school in the department of Antioquia.

equivalent to a 500 percent increase over the past thirteen years.²⁴ Today, Colombia is ranked eighteenth on the list of FDI recipients generated by the Trade and Development Conference of the United Nations.²⁵

Additionally, in 2014, data from ProColombia, the national export and FDI promotion agency, show that investment in sectors other than oil and mining reached 60 percent of total FDI.²⁶ Colombia is becoming increasingly dynamic. In just one year, from 2013 to 2014, investment in Colombia's financial services sector increased by 14 percent,²⁷ and investment in construction services increased by 102 percent.²⁸

The country has pursued an aggressive agenda of bilateral and multilateral free trade agreements (FTAs). In the past five years, it has signed FTAs with the United States, the European Union, Mexico, Chile, Peru, the European Free Trade Association (Iceland, Norway, Switzerland, and Liechtenstein), several Central American nations, and Canada, among others.

However, the Pacific Alliance (which also includes Chile, Mexico, and Peru) is perhaps the

most important integration and trade initiative that Colombia is building. The four countries share a belief in the advantages of the market economy, free trade, and openness to FDI. Soon the Pacific Alliance will be able to compete with the rest of the world, with a marketplace of 215 million people and the free movement of goods, services, and citizens in the four countries.

Infrastructure Bonus

Economic development has come alongside a massive ramping up of infrastructure. The country's largest cities—Bogotá (8 million inhabitants), Medellín (2.5 million), and Cali (2.3 million)—and those in the next tier—Barranquilla (1.3 million), Cartagena (1 million), and Cúcuta (700,000)—continue to benefit from impressive construction of public and private infrastructure, transportation links, and other projects critical to urban quality of life and commercial activity.²⁹ The opening of the economy in the 1990s and the later privatization of ports and airports attracted new and sizable investments—\$5 billion in the past twenty years.³⁰ Once controlled by political patronage and customs mafias for contraband and drug-trafficking activities, Colombia is now home to modern ports with robust shipping activity. This upgrade is not limited to just the ports—the Bogotá, Medellín, Cali, Cartagena, and Barranquilla airports have also been modernized. The result: increased national competitiveness and export prospects.

The infrastructure focus is staggering. Between 2013 and 2018, the country will have invested between \$50 billion and \$60 billion in infrastructure modernization, with a focus on highway improvements.³¹ Results are already visible: the once nine-hour road trip between Bogotá and Medellín now takes only six.

More work still needs to be done. Transporting a container from Bogotá to the Caribbean coast costs more than shipping it from Cartagena to a Japanese port.³² The hope is that in less than a year, the thousand-kilometer trip to Cartagena will take half as much time as it did five years ago. The secret behind this success: a sober technocracy and an orthodox economic policy, joined by a dynamic private sector and a hardworking, diligent workforce.

Testing the Consensus

Much of what Colombia has achieved throughout the past two and a half decades is due to consensus—sometimes explicit and other times implicit—about what had to be done. Here lies the key to what some call the Colombian miracle.

Today, however, major political, social, and economic pressures are stressing the very consensus that brought Colombia so much progress. Without renewed political agreement regarding the country's direction, Colombia could enter an era of polarization and division that would make further change difficult and slow the country's transformation. This process has already started.

There was consensus in the political space.

Security was restored and other critical institutional changes were made. However, institutional legitimacy and public trust have worsened in recent years. Corruption scandals are tainting local and regional administrations, government budgets sometimes make their way into the hands of a political class interested in deepening traditional patronage, and the judiciary and

some oversight agencies are seen as increasingly politicized. This has eroded the confidence of citizens in democratic institutions.

Perhaps more importantly, the current peace process has entered its final phase. The issues being discussed have moved away from agrarian reform, victims, and drug trafficking. The two sides have done what many thought would be impossible: resolve issues of transitional justice. The remaining to-do list includes terms for disarmament, mechanisms to implement and verify the agreement, a date for a final ceasefire, and citizen endorsement.



A new image. Medellín, once known for its crime, is now associated with innovation.



Next up, the ballot box? Colombians who have marched for peace may soon be able to vote for it.

This will probably require legal and constitutional reforms. But right-wing parties, under the leadership of former President Uribe, have mounted a fierce opposition to the peace process that has divided the country and undermined public confidence in the process. Leaders of all political parties—except Uribe's—accompanied President Santos on the plane to Havana for the September 23 announcement. Uribe opposes Santos' approach to peace; he left behind a legacy of military toughness that is counter to Santos' style. Still, the government has not been able to neutralize Uribe and his opposition movement. So, although support for the process is still high, confidence in the government to lead the peace-making and peace-building has been low.

Moreover, signing a peace agreement with the FARC will not quickly bring peace. The process will require a massive political and financial effort. Translating rhetoric into actionable peace will not be easy—and it will be expensive. Citizen endorsement will be critical, but the instrument for endorsement is not yet clear. An electoral defeat of

the government and its allies (the approval rating for Santos fell to 29 percent in recent months, according to Gallup, although it has recently moved back to the low 40s)³³ would lead to rejection of the agreement by the public and the defeat of the most comprehensive peace effort in the country's history.

There was consensus in the economic arena. The handling of the economy proved fundamental, as it allowed for relatively uninterrupted growth between 1985 and today. Consensus, however, is always easier with an expanding pie—which is no longer the case. Recent economic growth is unlikely to be sustained due to the low prices of commodities, particularly oil and coal.

Oil earnings in 2015 will be down by 60 percent from 2013,³⁴ a sizable hit, since oil money currently represents 20 percent of government revenue.³⁵ This has required measures to reduce public spending. Additionally, the looming deficit has led the government to ram through Congress a hasty tax reform package that dramatically increased taxes on entrepreneurs. The result has been a newfound polarization. The country's productive elites have become irate, believing that they are shouldering the lion's share of the downturn. As the country moves forward, spreading the tax burden will become a critical national discussion. These financial dislocations—and the fear of a worsening economy—could fuel the growth of populist hard-left politicians, who could find political traction.

And there was social consensus. Social reforms improved livelihoods through modernized labor laws and eased employment restrictions for the private sector. The social security law found support among all political parties, as did most of the instruments that sought to reduce poverty and improve public services. Yet in any economic downturn, the most vulnerable suffer most. All

social programs are currently under budget stress.

But, more than any other, it is education that is building into a major political fight. Major change is required, with a focus on quality rather than just expansion of access. Restructuring the education system will require the courage to unleash a political battle at the very moment when Colombian polarization is at its highest.

The need for educational reform is inescapable. Conclusions from the Program for International Student Assessment (PISA) tests administered in the past few years are quite concerning, as “a very high proportion of young people in school lack the basic skills needed to function in modern society.”³⁶ When comparing the figures for net educational coverage with Organization for Economic Co-operation and Development (OECD) countries in the early 2000s, Colombia reached the OECD average only in primary school coverage. And PISA results have also begun to demonstrate huge issues with quality. In 2012, of sixty-five countries, Colombia ranked sixty-third for math skills. The OECD and the World Bank point out that poor secondary education is translating into tertiary challenges.³⁷

What Does the Future Look Like?

Change may be on the horizon, driven by Colombia’s accession to the OECD, which is on track for 2016. The process has made it necessary to implement an agenda for good governance³⁸ that will strengthen Colombian institutions and the rule of law.

In January 2015, the OECD published a report titled “Colombia, Policy Priorities for Inclusive Development.” In it, the organization outlined a series of challenges that Colombia must take on to complete the process of becoming an OECD member. It calls for significant improvements to inequality and to mitigating the middle-income trap.

Despite its recent economic growth, one of the largest regional inequalities in terms of GDP per capita is found in the countryside. At the same time, Colombia has remained a middle-income country for the past sixty years. To address these problems, a significant effort is required to improve workforce training, increase productivity, and create higher-quality jobs through activities with higher added value and greater innovation.

Another major challenge is increasing the number of workers in the formal labor market.

Although the figures are not very reliable, informal labor is thought to comprise between 59 percent and 73 percent of total employment. High government charges and wage costs make employers think twice before hiring a worker for an indefinite period. A series of disincentives make it unlikely

that those in the informal sector will move to the formal sector. Resolving these issues and creating a minimum wage differential for younger workers would help in finding a long-term solution.

Challenges extend to other areas as well, including health care, competitiveness, infrastructure, environment, business climate, and cooperation between the national government and local authorities.

Signing a peace agreement with the FARC will not quickly bring peace. The process will require a massive political and financial effort.

Recommendations

Colombia faces many challenges, but it has seen much worse—and has found its way to favorable outcomes. The continuation of the Colombian miracle will require refocusing the political center around important policies that are difficult to implement but critical for continued progress. The requirements of OECD accession can provide politicians of the right and the left with some convenient political cover to make the hard choices that will enable change and transformation.

1 Strengthen support for the peace process.

Although a majority of Colombians supports the peace process, the opposition has built widespread distrust of the negotiations. Once a peace deal is signed, there will be little time to build a supportive political majority. With negotiations now entering their final months, this must be priority number one.



It will be of primary importance in building overall support for the peace process to explain what has been agreed upon and to complete and formally sign the peace deal in the next six months. Issues such as the disarmament of the FARC and establishment of the Transitional Justice Tribunal will be challenging. Ensuring that former combatants can participate in the formal labor market will also be critical. Although the FARC has said that this process is not about economic reintegration, a large-scale effort is needed between the government and the private sector so that ex-combatants who are not part of FARC political activities or guilty of war crimes can enter the formal workforce. Left outside formality, they will likely return to a life of violence.

The United States and its Western allies should not back out now, or leave this in the hands of the Colombians. Instead, they should continue

supporting the country in the model of a Plan Colombia 2.0, with investments in the countryside's infrastructure, and other forms of support in the political, legal, and social spheres.

2 Eliminate obstacles to innovation, industrial production, and exports, and enacting new



FTAs. This is required to open more markets to Colombian goods and services. In particular, Colombia must lead the Pacific Alliance to achieve its short-term goals, so that it can better compete in the global marketplace. Colombia is also the only one of the four Pacific Alliance countries that is not yet a part of the Trans-Pacific Partnership (TPP), which was finalized in October 2015 and is awaiting signature and ratification by the twelve Pacific Rim signatories. The TPP provides a good pretext for Colombia to synchronize its laws with TPP standards, once the agreement's terms are made public and it is ratified, with the possibility of future accession.

3 Build a consensus for political reform to



attack political corruption at the local, regional, and national levels, and to modernize the judiciary. If the mainstream political parties are not able to push through new political reforms, the fight against corruption will be an attractive political rallying point for politicians. It is, today, the weakest point in Colombia's institutions.

Colombia is at a critical crossroads. Continued reforms at the institutional level, political consensus and citizen support, and less dependence on oil revenue could help it achieve an income per capita similar to that of Spain. But the perpetuation of political division is a threat. Colombia could lose its way and succumb to faulty economic policies. It is the time for Colombia to double-down on its miracle.

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About the Author

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