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Unrest in Colombia

When you find yourself surrounded by a squad of masked, black-clad fighters with their machine guns aimed at you, you can be pretty sure you're about to have a bad day. The sense of foreboding was especially strong when this happened to me on a deserted road high up in the Colombian mountains, just after my jeep passed an abandoned one-room schoolhouse with "ELN Vive" spray painted on its wall, announcing that one of Colombia's main rebel groups was active in the area. My only other feeling at the time was consternation: When my Colombian wife had talked me into letting her take our two young sons to spend the summer at her family's coffee plantation outside the city of Manizales, she had assured me that it was perfectly safe. I was now on my way to pick them up and bring them home from this supposedly safe mountainside. As I watched the gunmen approaching my jeep, I realized that "safe" is a relative term for Colombians.

Once the soldiers had emerged out of the tall grass along the road and made my driver stop, their leader walked up and motioned for me to surrender my passport. In situations like this, the moment you hand over a U.S. passport is the moment you start to feel like you have a bullseye painted on your back. But as he examined mine, it gave me time to look more closely at the fighters. Their uniforms were all brand new and of the finest quality, including their Kevlar helmets. Their M16 rifles were so new they didn't have a single scuff on them.

The commander handed back my passport, assured me his squad would be patrolling nearby if my family needed help, and motioned me onward. I had just been rescued by Colombian soldiers trained and equipped by the U.S. Department of Defense under the "Plan Colombia" aid program.

An Imperfect Peace

That summer of 2007 was right in the middle of an important transition period when Colombia's decades-long civil war was beginning to wind down. Soon, aggressive tactics by the Colombian military and huge amounts of U.S. aid began to stifle the country's Marxist guerillas and the right-wing paramilitaries that had been fighting them for years. The civil war finally ended with a [formal peace agreement in 2016, which required the rebels to admit their culpability to a Truth Commission in return for being reintegrated into society and the political process \(with a small, guaranteed representation in Congress\)](#). Most of the former guerillas have disbanded and held up their end of the bargain as required under the deal, although they haven't had much success in elections. Smaller numbers have remained in the field and morphed into gangs dealing in narcotics, extortion, and the like.

As might be expected, Colombia's economy and political life rebounded smartly in the period immediately following the peace deal. However, the country's trajectory since then offers a cautionary tale that merely ending a war doesn't guarantee prosperity and social stability. After its initial growth rebound and social euphoria, Colombia has faced a number of simmering

issues that touched off weeks of violent protests this spring.

Today's Crisis

Colombia's unrest this spring can be traced most immediately to a series of protests in Chile during 2019. In that unrest, a Chilean [government proposal to modestly raise subway fares in Santiago touched a nerve and sparked weeks of violent protests](#).

Those protests eventually spawned copycat protests throughout the region, including in Colombia. In each country where the unrest spread, swaths of lower- and middle-class citizens seemed to decide that they had had enough of elitist government officials focused only on their own interests and out of touch with the challenges faced by average citizens.

The protests of 2019 eventually died down, and in the midst of the coronavirus pandemic in 2020, they appeared to be forgotten. However, that was merely the calm before the storm. In late April 2021, the unrest in Colombia [was reignited when President Duque proposed a tax reform bill designed to bring Colombia's budget back into balance and preserve the country's investment-grade debt rating following the reduced revenue and increased spending associated with the pandemic](#).

- As in Chile during 2019, the immediate spark to the protests came from relatively minor tax hikes. The proposed reform would have raised Colombia's existing value-added tax (VAT) and broadened it to include more goods and services.
 - The application of those new taxes was galling to some lower- and middle-class Colombians who felt they were suffering enough from the pandemic. For example, the reform would have [extended the VAT to](#)

[funeral services, just as Colombia was facing a new surge of deaths from the coronavirus](#).

A separate provision would have hiked charges for municipal water, even as it left mineral water, enjoyed mostly by the upper classes, untaxed.

- To make matters worse, the Duque government was also working on a healthcare reform that would have eased privatization of the country's health services, just when multitudes of Colombians were in need of public healthcare because of the pandemic.
- Finally, these proposals, which were seen as piling additional burdens on average Colombians, were especially angering to the country's youth, who had long faced limited economic opportunities, especially after the end of the global commodity boom in the early 2000s.
- To his credit, President Duque quickly recognized the extent of the anger, fired his finance minister, withdrew his tax proposal in favor of an alternative plan that would hike taxes on companies, and launched a series of discussions with protest leaders. At the same time, however, [Colombian police and security forces took a tough stance against the protestors](#). Although the officers were often being attacked, multiple reports indicated they had used live ammunition against the protestors, killing dozens, while other reports suggested some protestors were tortured or even "disappeared." Those actions apparently touched a nerve among the legions of Colombians frustrated with a general sense of insecurity.

Throughout May, the Colombian protests morphed to a loosely organized movement under the partial control of a "National

Strike Committee” dominated by trade unions and social activists. Across the country, protestors occupied key road intersections, erected barricades, marched, and torched police stations. All told, dozens of Colombians died in the demonstrations, and the barricades brought commerce to a halt across most of the largest cities in the country.

The protests and barricades were only dismantled in mid-June, when COVID-19 infections began to rise again. [Because of the new wave of infections, the strike committee leaders called a temporary halt to the barricades and protests until late July.](#) In Cali, which was arguably the hardest-hit city in the country, the [last barricade was removed on June 28.](#) The halt has been mostly respected elsewhere as well, although the latest reports indicate that some “wildcat” protests and barricades continue.

What Caused Today’s Crisis?

In our view, a key question is why Colombian society was so primed to break out in angry, violent protests against the Duque fiscal reform. As in Chile and other countries in 2019, why were those fiscal measures so hateful? What had left Colombian political attitudes like dry tinder just waiting for a match to light them on fire? We think the phenomenon can be traced to several important developments since the end of Colombia’s civil war:

Lagging Economic Growth. The end of the civil war did provide a temporary boost to Colombia’s economic growth, at least relative to its peers in Latin America. Based on data from the International Monetary Fund, Colombia’s per-capita gross domestic product (GDP) grew at an average annual rate of 1.3% in the three years ended in 2019, while per-capita GDP in the entire Latin American region *declined* at an

average rate of 0.3%. That means Colombia’s growth advantage over the region as a whole had more than doubled versus the 20-year period ended in 2016, when Colombia’s per-capita GDP had risen at an average rate of 2.1% and the region’s grew at a rate of 1.4% (see Figure 1). All the same, the relative burst of growth after the war wasn’t enough to arrest the longer-term growth slowdown that Colombia has suffered since the end of the early-2000s commodity boom. The growth in Colombia’s per-capita GDP after the peace deal remained far below the average growth rates of 4.0% or more experienced during the boom years (see Figure 2). Various other indicators also point to weakening economic fundamentals for Colombia in recent years.

Figure 1.

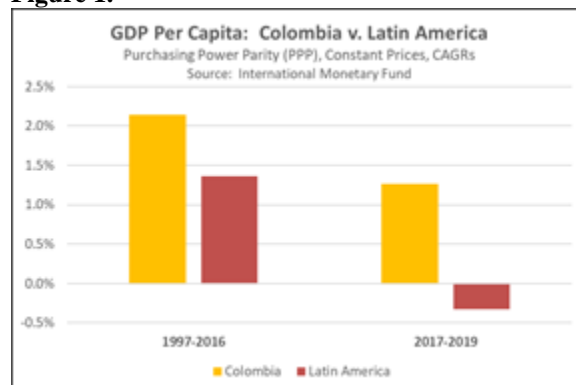


Figure 2.



Social Stability. Naturally, the end of the civil war eliminated a lot of organized

military and paramilitary violence in Colombia, especially in the countryside. Without doubt, that was a boon for Colombians, and the greater stability probably explains a lot of the economic surge in the period after the peace deal. All the same, Colombian violence reasserted itself, and Colombians gradually realized that they still faced a high rate of crime and criminal violence. Without the distraction of military and paramilitary violence, the country's corruption and heavy-handed police tactics stood out in high relief.

Implications for Latin America

The 2021 protests in Colombia illustrate just how badly the country's government and security forces have squandered their reputation after bringing the civil war to an end just five years earlier. Those very same soldiers and police officers who gave a sense of security to me and other Colombians toward the end of the conflict and immediately afterward are now seen as part of the problem. Tellingly, opinion polling at the outset of the crisis showed that [fully 73% of Colombians supported the initial national strike on April 28](#). Even after weeks of transportation disruptions from the resulting street barricades, polling in the hard-hit city of Cali during late May and early June showed that a [plurality of 38% of respondents believed such barricades were necessary for the protestors to have their concerns heard](#). Still other polling indicates that Senator Gustavo Petro, a former Marxist guerilla and left-wing mayor of Bogotá, is gaining significant support ahead of the presidential elections scheduled for 2022.

More broadly, we think Colombia's unrest is just one example of the common frustrations just below the surface throughout Latin America. The lesson is that neither the successful conclusion of a civil war nor achieving relatively stronger economic

growth compared to neighboring countries is enough to guarantee social stability. Now that the entire region is suffering from a slowdown in growth after the great commodity boom of the early 2000s, and as so many countries in the region have suffered high death rates and fiscal pressures because of the COVID-19 pandemic, the region's middle and lower classes are frustrated and angry.

In fact, social psychology researchers such as James C. Davies have discovered that revolutions and mass protests are more likely to occur in a society when a period of improving economic and social conditions is followed by a short, sharp reversal.¹ In the U.S., for example, Davies traces the urban Black riots of the 1960s to a sense that the economic and social gains of the World War II period were deteriorating, despite the passage of major civil rights laws in the middle of that decade. Similarly, some have traced the popular pushback against the 1991 coup in the Soviet Union to citizens' refusal to give up the freedoms they had just gained from President Gorbachev's policies of *glasnost* and *perestroika*. Even in literature on investment psychology, researchers have noted that investors tend to be more focused on loss aversion than they are on potential gains. If all this is true, it suggests that the post-boom growth slowdown in Latin America has left the region much more susceptible to political and social unrest than it otherwise would be. In this situation, it can take only the smallest of sparks – a tiny hike in subway fares or a move to tax funeral services – to touch off violent protests, street barricades, vandalism, and political turmoil.

¹ See discussion of the psychology of scarcity: Cialdini, Robert. (2021). *Influence: The Psychology of Persuasion*. New York, NY: Harper Collins.

Investment Ramifications

For investors, the key risk to watch is that the Colombian unrest spreads to other countries in the region with larger stock markets, just as Chile's unrest spread to other countries in 2019. The biggest risk would be if the unrest spreads to Brazil, where the government is already under pressure due to its ineffective response to the COVID-19 crisis and increasing corruption scandals. Since Brazilian equities are widely held by international investors, increased social unrest in Brazil would be widely felt. Besides posing a risk to Brazilian equities, any spread of the Colombian unrest could have a negative impact on Chilean, Peruvian, and Argentine stocks as well. Since many other developing countries outside Latin America are also reliant on commodity exports and may be

suffering a similar post-boom slowdown in growth, the upheaval could spread even further throughout the emerging markets.

If the unrest intensifies in Colombia or elsewhere in the region, the region's key commodity exports (ranging from oil, coal, and copper to soybeans, wheat, and corn) could also potentially be disrupted. If that were to happen, the resulting commodity price increases would add further fuel to global inflation concerns, which would in turn weigh on bond prices.

Patrick Fearon-Hernandez, CFA
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