



Solitude No More

EMERGING FROM THE SHADOWS OF THE DRUG CARTELS, **COLOMBIA** IS FAST BECOMING A MAJOR PLAYER IN LATIN AMERICA, WRITES MARK MOBIUS

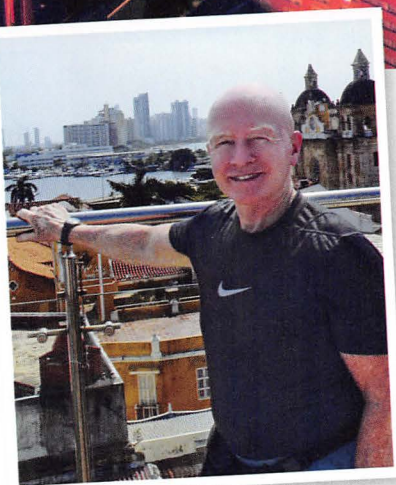
TEN YEARS SINCE MY LAST VISIT TO Colombia, I was really impressed by the improvements I saw on my recent return. Though the drug cartels have made Medellín and Cali internationally infamous, these cities seemed peaceful and remote on account of their mountainous locations.

But let's talk about the capital, Bogotá. We began our business at the Colombian government offices, and were impressed by the knowledgeable and capable officials. Much to our surprise, the finance minister greeted us in German; he informed us that he had studied in Mainz and Kiel. He said the Colombian economy has been booming and a lot of foreign direct investment is entering the country. The Colombian government is among the most rational and reform-minded in Latin America, implementing the consistent and market-friendly economic policies Chile embraced over 30 years ago. The Colombians have embarked on an array of reforms to improve the tax system and the economy's efficiency. The government aims to achieve GDP growth in the range of 5 to 7 per cent in the coming years, and to decrease unemployment substantially by the end of the decade.

The capital market remains bond- and debt-oriented with a rather shallow equity share market. The main reason for this is that expanding local pension funds gobble up a large portion of the market's shares, since their weighting in domestic equity went from 5 to 35 per cent in a relatively short period of time. A notable change is the May 2011 stock exchange integration between Colombia, Chile and Peru, creating the second-largest equity exchange in the region. Mexico's stock exchange also looks to be on board, as it signed a letter of intent in December.

Trade and tourism promotion agency Proexport Colombia is expanding its reach, especially in Asia and the Middle East. Not only is it encouraging capital to flow into the country, the agency also facilitates outward investment by Colombian companies, as this eventually leads to more trade. Proexport officials admitted that Colombia's drug and guerrilla problems have been an issue, but there has been marked improvement, with the government taking control of large areas of guerrilla territory and driving out druglords.

At the Central Bank in downtown Bogotá, the general manager confirmed an optimistic economic outlook coupled with the awareness that one of Colombia's main challenges is a lack of



MAKING INROADS

FROM TOP
Bogotá – bright
lights, big city;
Mark Mobius in
Cartagena



ON THE UP

The Central Bank of Colombia forecasts an optimistic outlook

The Colombian government is among the most reform-minded in Latin America

and production activities. Ecopetrol continues to look at expansion downstream in refining and has evaluated about 600 potential projects. Its Cartagena refinery is expanding capacity from 80,000 to 275,000 barrels. Investors were pleased with its generous dividend payout ratio of 70 per cent of profits.

I remember when people mockingly referred to Colombia's national airline Avianca as *avianunca*, which means "never fly" (in reference to its poor service). In 2004, Avianca emerged from Chapter 11 bankruptcy with a reorganisation plan, and was acquired by the Bolivia-born and Brazil-educated entrepreneur Germán Efromovich. In December 2009, Avianca merged with TACA, a group of Central American airlines. Combining their fleets and networks, the alliance created a single airline brand with the widest coverage in Latin America by coordinating operations between Bogotá, San Salvador, San José and Lima. The group will become part of Star Alliance in May and take in US\$40 million in revenues, which more than offsets the US\$5 million entry fee. An open-sky agreement with the US will start in 2013. Colombia is becoming an important hub for other Latin American airlines such as the new Chilean-Brazilian merger LATAM and Panama-based Copa.

On previous trips, I had invested in the Medellín-based Sindicato Antioqueño conglomerate's National Chocolates. It's now changed its name to Nutresa and has become Latin America's fourth-largest diversified food producer. Their focus is mostly on Spanish-speaking countries such as Peru and Mexico, but it is increasing regional exposure through acquisitions, for instance their recent purchase of a biscuit company in the US. The company has interests in meat, chocolates, cookies, coffee, pasta and ice-cream. During the past 10 years, the company has grown sales at an annual average of 20 per cent. International sales account for more than 25 per cent; in each country of operation it employs local management, with just a handful of Colombians.

All of our visits left us convinced that there are many capable and experienced people who have the ambition and knowledge to put Colombia firmly on the global investment map. ■

infrastructure. He pointed out growth in mining, construction and retail sectors, high consumer confidence and dynamic foreign direct investment in Colombia. Portfolio investors are happy to learn that Colombia has never imposed limits on money exiting the country. "Physical barriers" are rarely implemented, instead transaction costs are increased when inward flows must be controlled.

Referring to rising oil discoveries in the country, the finance minister stressed that Colombia is "not an oil country but a country with oil" – with enough reserves for the next 10 years, not 90 years as is the case with neighbouring Venezuela. To find out more, we visited Ecopetrol, Colombia's largest integrated oil company, in which the Colombian government holds an 89.9 per cent stake. Ecopetrol ranks in the top 40 oil companies in the world, and is one of the four principal oil companies in Latin America. In Colombia, it owns the main refinery as well as most of the network of oil and multi-purpose pipelines, and accounts for 60 per cent of total production. Ecopetrol is also involved in exploration and production in Brazil, Peru and the US Gulf of Mexico.

Until 2003, Ecopetrol was a traditional state-owned oil company that monopolised the industry. Exploration and production contracts were granted to private companies and Ecopetrol then took a stake in the production. But in 2003, the governmental functions of the company were transferred to an independent regulatory body, so Ecopetrol brought in foreign partners and expertise to start up in-house exploration

COLOMBIA AT A GLANCE

NAME República de Colombia
OFFICIAL LANGUAGE Spanish
POPULATION 44.7 million
LABOUR FORCE 22.5 million
URBAN POPULATION 75%
UNEMPLOYMENT (2011 EST.) 11.2%
LIFE EXPECTANCY 74.5 years
LITERACY RATE 90%
LAND AREA 1.04 million sqkm
LAND AREA (GLOBAL RANK) 26
GDP (2011 EST.) US\$467bn
FOREIGN RESERVES (2011 EST.) US\$35.8bn
EXCHANGE RATE (2012) US\$1 = 1,777 pesos