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Uribe Can't Escape Death Squad Scrutiny as Tourism Thrives

By Helen Murphy



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July 31 (Bloomberg) -- The three-car train pulls past miles of lush banana plantations into the Colombian town of Aracataca after a 55-mile (89-kilometer) trip inland from the Caribbean coastal city of Santa Marta. Remote Aracataca is the birthplace of Nobel Prize-winning author Gabriel Garcia Marquez and was fictionalized as Macondo in his novel "One Hundred Years of Solitude."

The train, which will start making regular runs in 2008, is Colombia's latest effort to attract tourists to a country plagued by more than four decades of drug-funded violence and kidnappings. Garcia Marquez himself, 80, is aboard for this test run in June. His boyhood home is being refurbished like that of the novel's Buendia family and will be opened to the public.

Thousands of shoeless children line the route leading to Aracataca's white-washed rail station. "The train will bring pride and prosperity to our town," says Casimira Salgado, 49, who adds that her grandmother served as midwife during Garcia Marquez's birth. "We will really be on the map."

Luring tourists -- and investors -- to the land of guerrillas and death squads is not just a fantasy in the style of Garcia Marquez, the inventor of "magical realism." Since President Alvaro Uribe took office in August 2002, violence by drug gangs, narcotics-funded guerrillas and paramilitary fighters has plummeted.

Kidnapping fell by 76 percent from 2002 through 2006, and homicides were down 40 percent. About 40,000 paramilitary and guerrilla fighters have handed in their weapons in return for reduced jail sentences and job training.

Foreign Investment Up

As a result, almost 2 million foreign travelers checked in to Colombia's hotels last year, bringing in \$2 billion in foreign currency and helping maintain the fastest economic

growth in almost 30 years. The Colombian economy grew 6.8 percent in 2006 compared with Mexico's 4.8 percent and Brazil's 3.7 percent. Foreign direct investment was \$6.5 billion, triple the \$2.1 billion in 2002.

“The three main objectives of my administration are to consolidate security, secure the confidence of national and international investors in Colombia and to fulfill our social goals,” says Uribe, 55, in an interview in his Bogota office.

Uribe, a former mayor of Medellin who has a law degree from the University of Antioquia and studied finance and administration at Harvard University, was elected to a second term as Colombia's president on May 28, 2006, with 62 percent of the vote. His father was killed by guerrillas two decades ago, and he has survived at least 18 assassination attempts.

11 Lawmakers Dead

As Uribe's efforts to convince the world it's safe to visit Colombia seem to be paying off, there's been a new outbreak of violence. On June 18, 11 state lawmakers who had been held hostage for five years by guerrillas of the Revolutionary Armed Forces of Colombia (FARC) were killed.

The guerrillas say the hostages were caught in crossfire when a squad of soldiers attempted to free them; Uribe says troops were nowhere near the jungle encampment and the hostages were murdered by the rebels. Andres Penate, head of Colombia's intelligence agency, says the lawmakers were ordered killed after a skirmish between rival FARC factions.

The deputies died just weeks after Uribe freed 150 jailed rebel fighters in a bid to win freedom for 57 political captives, including three U.S. citizens and a former presidential candidate, Ingrid Betancourt, who has been held since 2002. There are more than 3,000 hostages in total.

Politicians Arrested

At the same time, Uribe's government is being rocked by scandal. The federal attorney general's office has brought charges against 14 federal lawmakers who are supporters of Uribe, and dozens of local and regional politicians, alleging that they promised to support the paramilitaries in return for votes.

The politicians' names were found on a computer owned by paramilitary leader Rodrigo Tovar Pupo, known as Jorge 40. One of those arrested is Senator Alvaro Araujo, 39, the brother of former Foreign Minister Maria Consuelo Araujo. She resigned over the matter.

Uribe political opponents like Senator Gustavo Petro say that members of Uribe's family are paramilitary sympathizers and that terrorists have found refuge on Uribe's family-owned farms. Uribe has denied all illegal activity, and has asked Colombia's chief prosecutor to investigate allegations that paramilitaries helped finance his 2002 presidential campaign.

Former paramilitary leaders, after being offered partial amnesty by Uribe, have confessed to launching a murderous campaign against Colombians they considered sympathetic to the FARC. As of mid-July, they had led police to 760 cadavers around the country. The attorney general says he expects the total to approach 4,000.

8 Percent Growth

Even as the scandal unfolds, Colombia's economic expansion continues. Growth in the first quarter was an annualized 8 percent, compared with 5.36 percent for the same period a year ago. Colombia's IGBC stock index is up more than 1,150 percent since Uribe took office. This year it has declined 1.26 percent as investors have shifted their money to Brazil and Mexico to take advantage of shares with more growth potential, says Edgar Jimenez, an analyst at Bogota-based brokerage Promotora Bursatil de Colombia SA.

Gray Newman, chief Latin America economist at Morgan Stanley in New York, doesn't expect the recent guerrilla violence or controversy over the paramilitaries to have a long-term effect on stocks. "The markets are more likely to focus on what they see on their screens: the positive macro economic development," he says.

Car Sales Triple

Demand for consumer and capital goods has been brisk. Annual car sales have tripled since 2002, while Colombia's jobless rate dropped to 11.8 percent in May from almost 18 percent at the beginning of 2002. House prices in Bogota soared 44 percent last year, according to the government.

Consumer-oriented companies have powered the boom in the stock market. Shares of Corp. Financiera Colombiana SA, the nation's biggest financial company, gained 83 percent last year, while the stock of Almacenes Exito SA, the biggest retailer, rose 108 percent. "Consumers have been buying like crazy," Jimenez says.

Shares of Mineros SA, which mines and markets precious metals and minerals, grew 67 percent in 2006 as prices for commodities boomed around the world.

The spending spree has ignited inflation, which was an annualized 6.03 percent in June, near a three-year high. The government is expected to announce July inflation figures tomorrow. From April 2006 to the end of July, the central bank raised the benchmark overnight lending rate 3.25 percentage points to 9.25 percent, the highest since October 2001, in an effort to cool the economy and curb price rises.

Rising Interest Rates

As a result, says Finance Minister Oscar Ivan Zuluaga, Colombia's gross domestic product growth may fall to 6 percent this year and to 5 percent in 2008.

Rising interest rates have forced up the value of the Colombian peso, something that may discourage tourists. The currency was up 23 percent against the U.S. dollar in the 12 months ended on July 30.

That hurts the exports that make up 18.7 percent of Colombia's \$130 billion GDP. Exports in 2006, including oil, were \$24.4 billion, up from \$11.9 billion in 2002, when the price of oil was a quarter of its current level.

To offset the currency's rise, the government has offered subsidies and loans to exporters hurt by the peso's rally and imposed short-term capital controls. Investors buying local stocks and bonds with foreign capital must now deposit 40 percent of the value of their purchases in cash with the central bank for six months.

'Costly Distortions'

`` Capital controls are seldom effective, create costly distortions in the allocation of capital and, perhaps more important, tend to scare away precisely the type of capital a country wishes to attract," says Alberto Ramos, a senior Latin America economist at Goldman Sachs Group Inc. in New York.

Though the government expects tourism to account for just 2.4 percent of GDP in 2007, its rapid growth is a measure of the health of the overall society, says Oscar Rueda, vice minister of the Ministry of Trade, Industry and Tourism. `` Each new hotel room we put in Colombia is a new job for someone," Rueda says. `` Each time a tourist dines out or drives a kilometer in a taxi, it's money in the economy. People are not so worried about security here now."

Martina Alisuag, a hedge fund analyst in New York, spent a late May weekend with three friends in Cartagena's old walled city, on Colombia's Caribbean coast. `` Everyone said we were crazy to come here, but this place is amazing," says Alisuag, 30, as she sits on a private, white-sand beach in the Islas del Rosario, just off the coast of Cartagena. `` Kidnapping is our greatest fear, and we know all about the paramilitary killings, but we have felt safe here."

Interior Off Limits

While the bulk of Colombia remains off limits to all except the most intrepid traveler, Caribbean cities like Cartagena and Santa Marta are opening up. `` I would not have come here five years ago," says Dajana Cestic, 48, a Yugoslav-born doctor now living in New York who also traveled to Cartagena in May. `` I would definitely like to return, and next time, I will visit places that were considered off limits, like Medellin."

Medellin, home to drug kingpin Pablo Escobar and his Medellin Cartel in the 1980s, was for many years the murder capital of Latin America. It's also Colombia's industrial center. Foreign direct investment in the city climbed to \$88 million in the 12 months ended in June, from \$44.7 million in calendar 2004, according to the National Planning Department.

Medellin Exports Rise

Building permits more than doubled from '02 to '05, according to the mayor's office. Exports, mainly of textiles and flowers, from Antioquia province, where the city is located, also more than doubled.

Uribe says that although his effort to revive the economy has paid off, Colombia still faces a violent future that is bound to scare away some investors and tourists.

`` Nothing has been easy in my country," he says. `` For every positive point you gain, you have to fight the hardest you can." Uribe will know that his best efforts have failed if next year the train to Aracataca pulls into the station with half of its seats empty.

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