

ASG Analysis: Colombia Elects its First Ever Leftist President

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Key takeaways

- Gustavo Petro is the new president-elect of Colombia. A former M-19 guerrilla and congressman and mayor of Bogotá, Petro will become the first left-wing president in Colombian history after he defeated independent populist Rodolfo Hernández in the June 19 runoff by securing 50.5 percent of the vote, compared to Hernández's 47.3 percent.
- The election was a clear vote for change, although not necessarily a strong vote in favor of Petro. According to Ipsos, 84 percent of Colombians believe the country is on the wrong path. Petro will be under pressure to show results after campaigning on an ambitious agenda to reorient Colombia's economic model.
- Despite concerns the losing candidate might contest the results and spark protests and instability, Colombia's institutions showed encouraging strength and resolve. Hernández quickly conceded the race in a video address less than 90 minutes after vote counting began, and center-right outgoing President Iván Duque congratulated Petro on his victory and said he would meet with the president-elect as soon as possible to facilitate a smooth transition of power.
- Petro will face significant governability challenges upon taking office. His slim margin of victory gives him a relatively weak mandate, and his Historical Pact movement's minority coalition in Congress will require him to negotiate in order to advance his agenda. Petro's combative track record as a congressman and mayor suggests he may struggle to reach compromises with opposition factions of the legislature. He has indicated he may seek to push through key reforms via executive decree, though such a maneuver would likely lead to immediate conflicts with Colombia's Constitutional Court. Petro is also inheriting an economy facing significant headwinds, with rising inflation and debt-to-GDP.
- The business community and Colombia's strategic allies will be closely watching Petro's appointments for key positions such as ministers of finance, foreign affairs, and defense. In recent weeks, Petro has touted the technical expertise of his economic advisors, including respected economists such as former Finance Ministers Rudolf Hommes and José Antonio Ocampo, as part of an apparent effort to calm market reactions to his ascending to the presidency.
- While there have been signs of nervousness in the business community after Petro's win, he moderated some of his more controversial positions during the runoff campaign and the long-term impact on the business environment in Colombia is not fully clear.

- The runoff vote was marked by a high degree of political engagement, with more than 58 percent of Colombians casting a vote – the country’s highest turnout rate in nearly 50 years. Many analysts gave Hernández a slight edge and predicted Petro would struggle to broaden his base of support in the second round, but Petro’s campaign galvanized greater turnout than expected in Caribbean and Pacific coastal areas that have historically been politically neglected.

Outlook for businesses in Colombia

ASG expects Petro’s victory to lead to an increase in short-term market volatility and likely disruptions to key government initiatives and personnel as Petro builds his team and develops his governing agenda. On the first day markets opened after the runoff vote, the Colombian peso fell by nearly 5 percent, in a sign of early nervousness in response to his victory. However, the longer-term impact on the business environment of one of Latin America’s most stable investment destinations is less clear.

Petro’s rise during the current electoral cycle after two previous unsuccessful runs for the presidency reflects voters’ growing dissatisfaction with the status quo, particularly following the widespread civil unrest that shook the country in 2021. He centered his campaign on addressing poverty and strengthening environmental protections, though his policy proposals at times lacked specifics and caused alarm among the business community. Petro has also sparked concerns with his combative rhetoric against political opponents and unclear calls for issuing broad “social pardons” for allies charged with corruption and other white-collar crimes.

Still, Petro moderated some of his more confrontational stances toward the business community during the runoff campaign, and brought a number of more centrist, establishment figures into his group of advisors in recent weeks. In his first speech as president-elect, Petro called for a “great national dialogue” to reach consensus on key issues and pledged that his administration would “develop capitalism” in Colombia, seemingly in an attempt to assuage the investor community.

Key proposals

- **Tax reform:** Petro intends to present a new tax reform package to Congress that would focus almost entirely on mitigating inequality. Rather than broadening the tax base, Petro’s proposal primarily targets the private sector and foreign investors by seeking to raise taxes on extractive industries and land holders. It would also eliminate most of the incentive programs that became a hallmark of the Duque administration, with possible exceptions only for investment projects with components that demonstrate clear social benefits. Petro has said he would not target what he calls “productive” companies.
- **Land reform:** Petro has pledged to transition Colombia to a new economic model focused on agriculture and agro-industry. As part of this effort, Petro said he would introduce agrarian reform legislation to reduce inequality in landownership and codify the right to land for rural families.
- **Fiscal policy:** The Petro campaign focused its economic policy platform on combating inequality and expanding social spending. Petro has promised to reform Colombia’s public pension system to distribute payments from private funds to three million people currently without pensions, causing concerns among investors and analysts over the country’s fiscal

sustainability and credit outlook. Petro has also stated, without providing specifics, that he would call upon the Central Bank to increase the money supply to subsidize assistance programs for small businesses and poorer segments of the population, which could lead to increased pressure on the peso.

- **Trade policy:** Petro has signaled an intention to pivot Colombia in a more protectionist direction in order to promote domestic industry. He is expected to consider instituting import tariffs in certain strategic sectors and could seek to reform or even dissolve the country's free trade zones, which have focused on attracting foreign investment. Petro has also indicated he may wish to revisit or revoke parts of the U.S.-Colombia free trade agreement, though this would require congressional approval in both countries and is unlikely to move forward.
- **Energy and the environment:** Petro has laid out ambitious plans to reform Colombia's energy sector and fully ban fossil fuel exploration as well as open pit mining. He has also called for the suspension of pilot projects that use fracking and for suspending the development of offshore deposits. Petro intends to initiate a multi-year transition process towards clean energy production in alignment with the global commitments reached at the 2021 UN COP26 conference in Glasgow – with an emphasis on wind and solar power – but he has not laid out a clear roadmap for how these initiatives would be funded in a country that remains heavily reliant on hydrocarbon exports to support its fiscal accounts. Despite these challenges, Petro's pledges to center his administration on environmental conservation and protecting the Amazon create opportunities for greater collaboration with the United States, particularly in the context of a Biden administration that has at times struggled to partner with other large countries in the region on these issues.
- **Security policy:** Petro has been a vocal critic of the approaches taken by Colombian administrations in recent decades to security and fighting transnational organized crime, and his victory signals a significant recalibration in these areas to which strategic allies like the U.S. will need to adjust. Petro has pledged to pursue a comprehensive police reform and to disband the ESMAD national security forces that were criticized for heavy-handed responses to Colombia's recent protests. A Petro administration is also likely to revisit policies such as extradition agreements with the U.S. and coca eradication in rural areas, with a greater emphasis on fully implementing Colombia's landmark 2016 peace agreement. In addition, Petro has called for renewed dialogue with the ELN guerrilla group, which was not part of the 2016 agreement. In an encouraging sign immediately following Petro's electoral victory, ELN leaders signaled a willingness to return to the negotiating table.

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