The Colombian peso is now, shockingly, a force to be reckoned with. In 2012, year to date, the peso has appreciated 9 percent against the U.S. dollar in an amazing currency surge that underscores the "new" Colombia. However, the Andean country is not too excited about the strong currency, understanding that it poses a serious problem for exporters.

Here is Colombia’s paradox: on the one hand it is experiencing strong economic growth and robust consumer demand, while on the other hand it is combatting rising inflation and exuberant consumer credit. Now, basic economic theory tells us that in order to combat inflation, interest rates must increase to cool off the economy. However, in a twist, it is actually the high interest rates that are attracting foreign capital, especially dollar denominations, causing the Colombian peso to appreciate to historic levels.

To understand the dynamics of the recent phenomenon Colombia is facing economically and financially, we must take into account what is occurring globally. The U.S. is in the midst of combatting its economic malaise - to put it kindly - by adopting low interest rates (Federal Discount rate is at .75 percent) in order to stimulate the economy. In fact, Federal Reserve Chairman Ben Bernanke has stated many times that he foresees low interest rates until 2014. The reason behind a low interest rate position is to encourage businesses and individuals to borrow money cheaply for investments, acquisitions, mergers, inventory, transactions, etc. The problem is that banks are apprehensive to lend money due to the scars of the recent economic crisis and the lack of political and economic uncertainty. High unemployment, stringent lending, low interest rates, a weak dollar, a depressed real estate market, and volatile consumer confidence mar the current U.S. economic landscape, definitely not resulting in a recipe for immediate prosperity.

Across the Atlantic, Europe is currently in a state of critical condition. Greece is virtually insolvent, meaning the government can no longer meet its financial obligations. Italy, the third largest issuer of debt in the world, is in austerity mode, trimming costs and transitioning from the post-Berlusconi period. Portugal and Spain are nervously hiding behind the curtain, desperately evading international eyes as the next prey. For now, it appears that a solution has been crafted under the leadership of Germany, but what started off as an economic experiment has evolved into a political crisis, making it much more difficult to find particular economic remedies. Europe is not the U.S. - the European members have a distinct history and culture that cannot be homogenized into "one" Europe. Consensus in Europe will be difficult to achieve, but necessary in order for the Euro to survive. As a result, investors are fleeing from European capital markets, looking for more stable markets to park their money.

Consequently, emerging markets have benefitted tremendously from the economic troubles of Europe and the United States. China, Brazil, Indonesia, Chile, Turkey, etc. are being for favored for having dynamic and diverse economies. Colombia also falls in this category, so much that it is part of the increasingly-popular acronym CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa), a group of countries that are considered the next wave of assuring emerging markets, analogous to the BRIC countries (Brazil, Russia, India and China).

Colombia has lived up to its billing as being being identified as an emerging market that carries tremendous potential. According to various reports, the growth in 2011 was close to 6 percent. Morgan Stanley reported recently that the Colombian economy should grow at a rate of 6 percent again in 2012, a reassuring sign of consistency. In dollar terms, the general index of the Colombian stock market is the second strongest performer this year so far (Egypt is so far the strongest, with a 44 percent gain year-to-date). Investment in infrastructure, bio-technology, natural resources, and health care continues to escalate. Participants of the financial markets have taken note of Colombia’s ascendancy, thus, capital inflows are boosting the currency. Why exactly? In short, Colombia’s central banks have higher interest rates compared to other financially stable countries. No longer is hard money afraid of Colombia - rather, it is seen as a steady investment.

China too plays a big part in Colombia’s currency appreciation. It is no secret China is in expansion mode, and in order to sustain their growth China has been heavily active in the commodities market as purchasers. China played a significant role in Colombia attracted roughly $2.9 billion in investment in the petroleum sector. There has also been a substantial increase in investment in energy and mining-a large demand coming from China-elevating Colombia to the sixth largest exporter of coal. As such, the increase of commodity prices has become key drivers of currency appreciation, stirring fears of the peso being overvalued. Brazil can attest to this as well, with a tremendous amount of exports to China, although painfully adjusting to the sharp rise of the Brazilian real, up approximately 8.3 percent since January 2012 and up 44 percent against the dollar since 2009.

Colombian leaders have not ignored the issue at hand; recently Colombia's central bank intervened in the currency market, buying dollars in order to curb the peso's strengthening. Does this strategy work? Sometimes it does and other times it does not. Nevertheless, it is a common strategy that central bankers use to tame their respective currency. In 2011, Brazil, Japan and Switzerland were heavily engaged in the currency market, intervening with aims to resist their local currency appreciation.

Two of the biggest employers of rural Colombians are the banana and flower exporters, and they have expressed grave concern in maintaining their level of employment under a strong peso. A overvalued peso renders their exports less competitive in the international marketplace, causing buyers to explore less expensive alternatives.

Colombia will for a long time grapple with currency appreciation. As long as Colombia continues to rely on its natural resources exports, the peso will be correlated to commodity prices, and further appreciation can be expected. In a recent interview, President Santos responded to this matter by noting that Colombia is investing in other sectors in order to diversify the economy. President Santos also mentioned that a fund has been established outside the country, so money will not come in directly to Colombia to affect the exchange rate between the peso and other major currencies - a strategy similar to Chile's and Norway's reserve fund. Both ideas are sound and proactive, leading experts to believe Colombia on the right track.

It is imperative for Colombia to tackle the peso head on. Colombia needs its export sectors to thrive, and new sectors to follow suit, but with a extremely strong currency, its economic goals becomes undoubtedly more challenging. Consequently, managing the exchange rate has now become a main issue for Colombians in 2012. Who would have guessed that ten years ago? The new Columbia is here.