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NIE 88-86

# Colombia: Prospects for the New Government

National Intelligence Estimate

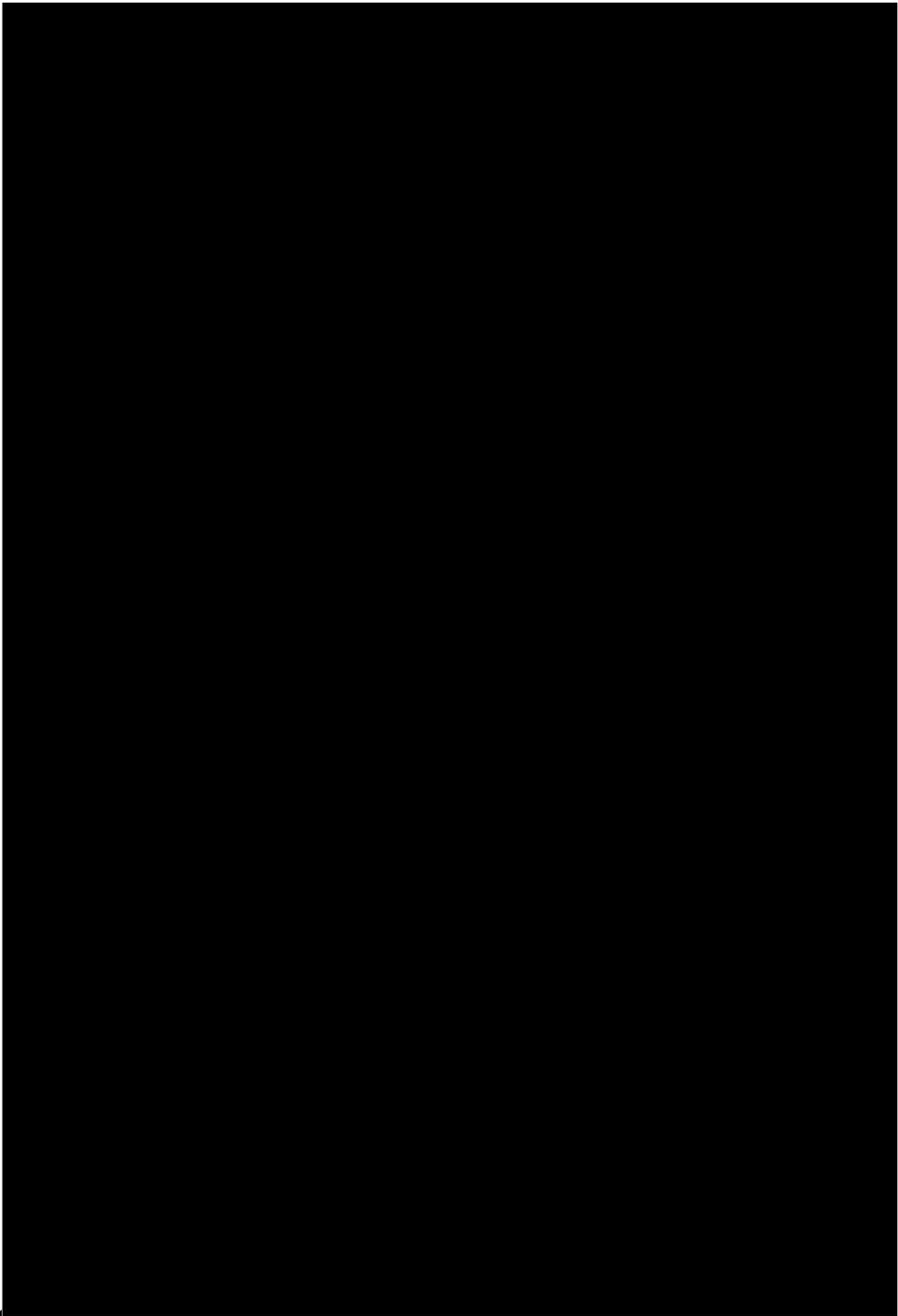
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COLOMBIA: PROSPECTS FOR THE  
NEW GOVERNMENT

Information available as of 25 September 1986 was used in the preparation of this Estimate, which was approved by the National Foreign Intelligence Board on 25 September 1986.

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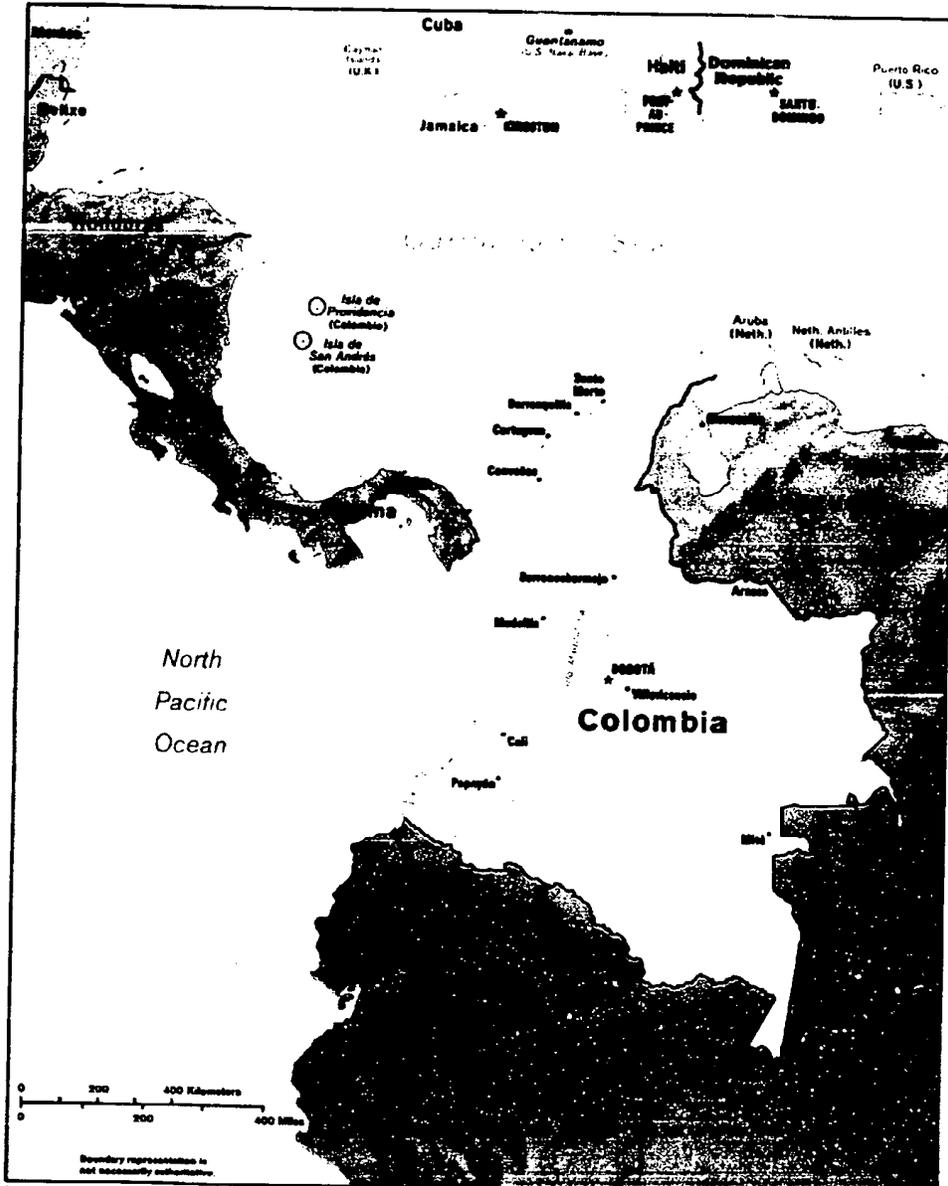
### SCOPE NOTE

Colombia, which has the third-largest population in South America and the fourth-largest economy, has suffered heavily in recent years from a persistent insurgency and a growing narcotics industry. This Estimate examines the prospects for the new Colombian Government of President Virgilio Barco over the next four years. It focuses on the problems posed by increased drug trafficking and continued insurgency and their impact on Colombia's economy and political stability. It also addresses Colombia's likely foreign policies, particularly toward Nicaragua and Cuba, as well as their implications for the United States. (S/F)

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## KEY JUDGMENTS

Colombia's newly elected government of President Virgilio Barco has been given a strong mandate by the voters and has a solid majority in Congress. We believe Barco intends to follow generally moderate domestic and foreign policies over his four-year term, but he is likely to be strongly tested by a *growing insurgency* and a *thriving illegal narcotics industry*:

- The insurgency has grown steadily over the past several years despite former President Betancur's efforts to arrange a peaceful settlement as a model for Central America.
- Thus, Barco's primary domestic concern will be the 6,500- to 10,000-man insurgency, which, if not contained, may eventually threaten political stability.

*The next year will be crucial for the continuance of the government's nominal truce* with Colombia's largest insurgent group, the Revolutionary Armed Forces of Colombia (FARC), as well as Bogota's efforts to draw other groups into peace talks:

- The government has used the truce to try to weaken the insurgency by bringing moderate insurgents into the political process and concentrating resources against guerrilla hardliners.
- The FARC has participated in elections under a Communist-backed alliance, the Patriotic Union, but has exploited the truce by refusing to give up its arms and continuing to grow in strength. Meanwhile, the Soviet Union probably continues to provide some political direction and limited financial support to the FARC through the Moscow-line Communist Party of Colombia.
- Colombia's other major insurgent groups remain outside the peace process and have formed a loose alliance to better coordinate their efforts. Led by the 19th of April Movement (M-19), they have received significant assistance from Cuba, Nicaragua, and Libya, including arms, training, and financial support; and have formed a multinational guerrilla unit, the America Battalion. Such aid is likely to continue over the next several years as these countries seek to influence Barco's domestic and foreign policies.

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Barco intends to take a harder line against the insurgents and will attempt to improve the counterinsurgency capabilities of the military and security forces, with US assistance. He also has announced a plan that would eventually require the FARC to disarm and accept verification of compliance with the truce.

Barco would like to strengthen the truce and make it more effective. He will want to keep the FARC in the peace process—even if he cannot ensure compliance—to buy time to contend with other guerrilla groups while gradually improving the military's counterinsurgency and counterterrorist capabilities.

On balance, we believe that the insurgency will remain a major threat to Barco, and he will make little progress in defeating the guerrillas over the next few years. Nevertheless, the situation will not deteriorate rapidly unless there is a complete breakdown in the truce:

- Should the truce break down completely—especially if the FARC becomes dissatisfied with its political gains or believes Barco is pushing too hard on compliance efforts—fighting between the government and the insurgents will escalate sharply.
- Nevertheless, a more serious conflict probably would not threaten Barco's tenure in office, particularly if he is able to get sufficient US aid to bolster his military and security forces.

Barco also intends to pursue an aggressive drug control program, relying on continued US assistance in an attempt to reduce Colombia's role as the major drug center in South America:

- Barco is especially concerned about the link between the insurgents and drug traffickers. The drug trade offers the insurgents access to large amounts of money to buy arms and to finance other operations. This is best documented in the case of the FARC but has been demonstrated with all major guerrilla groups.
- Government efforts to suppress drug trafficking have led to clashes with insurgents and have forced the lightly armed National Police, responsible for drug enforcement, to call for assistance from the military, which is tasked with the counterinsurgency effort. The government, moreover, has had little success in bringing major drug traffickers to justice, despite tougher laws, and the drug overlords have responded with stepped-up attacks on police and judicial officials.

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We believe that further gains against marijuana production are likely, but that Barco will be unable to significantly reduce the flow of cocaine to the United States, even if he should upgrade police and military capabilities:

- The vast financial resources available to the traffickers will enable them to undermine enforcement efforts through bribes and intimidation.
- Furthermore, Barco is likely to be reluctant to endanger the truce with FARC by authorizing aggressive military drug enforcement efforts in regions controlled by the guerrillas.

High unemployment and persistent social inequities have fostered discontent and provided fertile ground for guerrilla recruitment efforts. Barco has inherited an economy strengthened by two years of successful stabilization efforts and increased revenues from coffee, petroleum, and coal exports. His greatest fiscal challenges will be to reduce unemployment, limit inflation, and prevent mismanagement of the recent coffee bonanza while—at the same time—sustaining growth, accelerating development, and attracting new foreign investment:

- Barco's economic program includes job creation and a variety of social programs. A major focus will be on agrarian reform and efforts to improve agricultural production in rural areas, designed to reduce support for the insurgency.
- Bogota has been able to service its \$12 billion foreign debt without rescheduling, and coffee earnings and capital repatriation have pushed up reserves to \$2.5 billion. We believe Barco will continue sound economic policies but will seek larger loans and more favorable terms from international lenders.
- Despite the prospect of continued economic growth through 1990, the government is likely to have problems in distributing the benefits to the lower classes and appreciably raising the standard of living.

On foreign policy matters, we anticipate that Barco will be a reliable US ally, particularly against the Sandinista government. Colombia has played a major role in the Contadora peace process for Central America, [REDACTED]

- Barco favors Cuba's eventual readmission to the Organization of American States (OAS). Although he would prefer to maintain his distance from Castro, he may come under pressure to

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reestablish diplomatic relations. Cuba, for its part, would like to restore relations and gain more direct access to Colombia's new leftist political alliance.

- Barco is upset with Nicaragua's continued claim to the San Andres and Providencia Archipelago in the Caribbean, and relations with the Sandinistas are likely to remain cool. If the Contadora process achieves no results, his government may recommend referral of the Central American peace talks to the OAS.
- The new government's relations with other regional governments will probably be cordial, and Barco is likely to encourage bilateral drug control and counterinsurgency efforts with neighboring countries.

Barco will probably be more positively inclined toward Washington than his predecessor—he attended universities here and is married to a former US citizen. Nonetheless, as a forthright nationalist, he is sensitive to issues concerning Colombia's sovereignty and will not hesitate to assert independent views:

- He reportedly sees good relations with the United States as the cornerstone of Colombia's political and economic well-being. Colombia is the third-largest US export market in Latin America.
- Barco will look to Washington for financial aid for his social programs, and for trade concessions and intercession with international lenders.
- He also will want increased US support for his counterinsurgency, counterterrorist, and antinarcotics programs, but is unlikely to favor in-country training by US military advisers.
- Failure to obtain adequate US security assistance would hinder Barco's efforts to ensure guerrilla compliance with the truce. It would also weaken the government's antinarcotics and counterterrorist programs.

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## DISCUSSION

1. Colombia, with its large population, important agriculture and mineral wealth, and strategic location in the western Caribbean, has traditionally been an influential member of Latin American regional councils. The country has long been troubled, however, by persistent poverty and social inequities that have fueled Latin America's most prolonged insurgency. The previous President, Belisario Betancur, tried a new strategy to end the conflict. Rather than rely on military force, he attempted to negotiate a truce with the insurgent groups to bring them gradually into the political process. Meanwhile, Betancur also took a leading role as a regional peacemaker by helping to initiate the Contadora negotiations for Central America. Both efforts failed, however; the insurgency continues to grow and the Contadora talks have yet to achieve a regional peace agreement. (S)

2. Cuba, in an attempt to improve relations with the Betancur government, became more circumspect in providing support to the insurgents. Havana has continued, however, to urge the various insurgent groups to form an alliance and still provides clandestine support to the guerrillas. While the largest insurgent group, the Revolutionary Armed Forces of Colombia (FARC), has entered the peace process, the remaining groups, led by the 19th of April Movement (M-19), have broken away from the peace process and continue to advocate armed struggle. These groups still receive outside support, primarily from Cuba, Nicaragua, and Libya. The Soviets, for their part, have concentrated on political support for the FARC, which is the armed wing of the Moscow-line Colombian Communist Party. (S)

### The 1986 Election: The Political Scene

3. On 25 May 1986, Virgilio Barco Vargas—a pro-US moderate—was elected President of Colombia for a four-year term, beginning 7 August 1986. The 64-year-old Liberal Party candidate received 59 percent of the popular vote, winning an unprecedented 1.6-million-vote margin over Conservative Party candidate Alvaro Gomez Hurtado. Communist candidate Jaime Pardo Leal, of the guerrilla-backed Patriotic Union (UP), won only 4 percent of the vote. With

support in all regions and within all classes, Barco has a strong political base to implement his programs—the Liberal Party previously won a solid majority in the congressional elections in March 1986. (C)

4. Barco's hand is further strengthened by an all-Liberal Cabinet, forming an administration that breaks a 28-year pattern of power sharing with the opposition. Under the mandate of Constitutional Article 120, each of the major parties has been guaranteed representation in the executive branch, and decades of high-level deals have stifled debate between the ideologically similar Liberal and Conservative Parties and restricted the ability of the opposition to challenge the government. In a departure from this policy, Barco has shaped a predominantly one-party administration to implement his reforms, with Liberals occupying governorships, which are appointive, and top administrative positions. The opposition Conservative Party refused several national and local posts in the new government, a decision that reflects widespread bipartisan agreement on the need for constitutional change as well as anger at Barco's offer of only token representation. (C)

5. The elitism of the Colombian political system remains an issue of concern. The continued concentration of power in the political elite has made it difficult for new parties and personalities to emerge. The elite has begun to demonstrate increased flexibility in recent years, but the system still responds slowly to the needs of most Colombians. Although the traditional parties will probably survive for the foreseeable future, they will have to develop a broader commitment to social change—without returning to the reflexive obstructionism that has long characterized Colombian politics—or open the way for a serious challenge from emerging opposition groups across the political spectrum. (C)

6. The participation of the Patriotic Union in the election adds a new element to Colombia's traditional political system. The injection of a few guerrilla leaders into mainstream politics has won a measure of legitimacy for the insurgents and has begun to allow a political outlet for leftist groups outside the moderate political mainstream. If Barco cannot deliver the social

and economic reforms he has promised, the UP and other opponents may become more effective critics of his administration.<sup>1</sup> Moreover, the UP is likely to continue its efforts to cultivate grassroots political support through social programs aimed at rural farmers and townspeople. (S/P)

#### Prospects for Narcotics Control

7. Rising domestic drug abuse, increasingly frequent clashes with narcotics traffickers, and continued attacks by traffickers on judicial officials are likely to raise the priority of drug control for the new government. President Barco views the narcotics trade as a major problem, and he has expressed particular concern over the insurgent-trafficker link—with its potential to augment the strength of the major groups—and is willing to involve the military in counternarcotics operations. Barco has been receptive to continued close cooperation with US-backed antinarcotics efforts, although he probably will not favor in-country training of police and military personnel by US military advisers. He will continue current eradication, interdiction, and extradition efforts, and he is likely to follow Betancur's lead in encouraging bilateral cooperation and enforcement efforts throughout the region. (S/P)

8. Colombians continue to dominate South America's illegal marijuana and cocaine trade in terms of both volume and control, despite improved drug control efforts by Bogota since traffickers assassinated Justice Minister Rodrigo Lara Bonilla in April 1984. That event prompted former President Betancur to declare a state of siege, authorize greater military involvement in drug enforcement and prosecution, begin eradication of marijuana, and implement Bogota's 1982 extradition treaty with Washington. The government's two-year war on narcotics has had mixed success. Aerial eradication and crop seizures have reduced marijuana production by as much as 85 percent in the major growing areas near the Guajira Peninsula (Peninsula de la Guajira) but have probably encouraged expanded cultivation in other areas. (S/P)

9. Coca cultivation is limited, and most of the cocaine produced in Colombia comes from imported coca products. Most Colombian cocaine is refined in laboratories in the sparsely populated southeastern jungle from coca paste and base shipped from Bolivia

<sup>1</sup> The UP, which is the FARC's political front, was formed in 1985 under the provisions of Betancur's 1984 peace accords. FARC extended its truce with the government in March 1986. (U)

#### Narcotics Traffickers and Extradition

Following the murder of Justice Minister Rodrigo Lara Bonilla by drug traffickers in April 1984, Bogota instituted a far-reaching crackdown on narcotics traffickers. President Betancur, reversing his earlier stance, agreed to implement Colombia's bilateral extradition treaty with Washington, which took effect in 1982. Betancur signed the first extradition orders in late 1984 to approve the remand of five traffickers to the United States. Since then, Colombia's powerful drug traffickers have made repeated attempts to overturn the treaty and circumvent the extradition of individual traffickers. In mid-1984—during the chaotic period following Lara's death—a group of major traffickers met in Panama with former President Alfonso Lopez Michelsen and Attorney General Carlos Jimenez Gomez. At that meeting, the drug dealers offered to inject \$3 billion a year into Colombia's economy—then suffering the impact of a rapid erosion of foreign reserves and faced with a foreign debt of about \$11 billion—in exchange for amnesty, according to US Embassy and press reporting. News of the offer provoked a public outcry, and the traffickers' proposal was rejected. (S/P)

and Peru. The government has focused its cocaine control efforts on laboratory destruction and control of processing chemicals. Major seizures of cocaine and chemicals since 1984, combined with stepped-up laboratory raids, airstrip denial, and controls on air and ground transport, have prompted some traffickers to move their refining operations outside Colombia. This has not substantially damaged major trafficking organizations or reduced the amount of cocaine entering the United States from Colombia, estimated by the US Embassy at 50 metric tons in 1985, about three-quarters of the total entering the United States. (S/P)

10. The government has prosecuted few major traffickers, despite increased efforts to apprehend them. A comprehensive antinarcotics law passed in January 1986—still untested in court—stiffens penalties, but constitutional challenges to the law are likely, and traffickers continue to exploit legal and judicial loopholes. Extradition to the United States could become a more effective tool against drug traffickers if Barco and the new Justice Minister can prevent attempts to circumvent it. Intimidation by traffickers seriously threatens the Colombian judicial system, inhibiting arrests and slowing prosecution efforts at all levels.

Judicial officials face continuing threats from drug traffickers, and Barco has expressed concern about the effects of corruption and intimidation on the judicial system. He has pledged to protect Supreme Court judges, and will probably seek US assistance to upgrade security. (S/F)

11. Because of their vast financial resources, Colombian traffickers have the means to thwart well-conceived efforts to disrupt their operations. Although public concern over domestic drug abuse has risen, traffickers will try to undermine public support for government extradition and eradication efforts by exploiting nationalist and environmental concerns. They will also continue to subvert antinarcotics programs through bribery of law enforcement, judicial, and local governmental authorities. Corruption occurs at all levels of the law enforcement hierarchy. Some military commanders in drug-producing areas are heavily involved in narcotics-related activities. Traffickers can be expected to intensify their efforts to buy protection as the government implements planned drug control programs. (S/F)

12. We do not know the extent of the insurgents' involvement with narcotics, but their colocation with narcotics traffickers encourages frequent cooperation. The drug trade offers insurgents access to sizable amounts of money to obtain arms and equipment and finance political and social welfare programs; well-armed insurgents offer traffickers effective protection from law enforcement officials. Even where there is no evidence of systematic drug involvement, Colombian insurgent groups obtain arms through smuggling channels established and used by drug traffickers. (S/F)

13. FARC's involvement with narcotics has been well documented. Its political front, the Patriotic Union, demonstrated impressive local electoral strength in major coca-growing and cocaine production areas—narcotics proceeds probably fund UP activities. Some FARC units regularly tax and provide protection to drug cultivators and processors in large areas of rural southeastern Colombia. They obtain arms through drug traffickers, and some members occasionally cultivate coca. Government drug raids have confirmed at least one instance of cocaine processing operations at a FARC camp, and recent interdiction efforts have resulted in a series of skirmishes

with antinarcotics police. Narcotics involvement by other insurgents is less well demonstrated, although continuing reports indicate some involvement by all the major Colombian guerrilla groups.

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14. The involvement of FARC in the narcotics trade will complicate enforcement efforts for the new government. Narcotics control is primarily the responsibility of the National Police, whose antinarcotics force carried out limited US-backed eradication and interdiction operations during Betancur's administration. The police, however, carry only light arms, and the US-funded police helicopter unit is neither armed nor armored for defense against guerrillas protecting airstrips and narcotics laboratories. Consequently, in areas where insurgent presence is likely, the police rely primarily on military protection from hostile fire. (S/F)

15. The military services have been hard hit by lack of funds and training, and military personnel and helicopter gunships—whose primary mission is counterinsurgency—are not always available to support police antinarcotics operations. Moreover, although Barco may want to rescind restrictions imposed by Betancur on military operations in FARC-controlled areas, he will still have to balance drug enforcement actions against truce considerations. Unless drug traffickers and the insurgents associated with them escalate their attacks on drug enforcement officials—and unless the security forces can considerably upgrade their capabilities for operations against insurgent-backed traffickers—it is unlikely that Barco will risk endangering the truce with FARC solely to achieve bilateral narcotics control objectives. (S/F)

#### Rising Insurgency Concerns

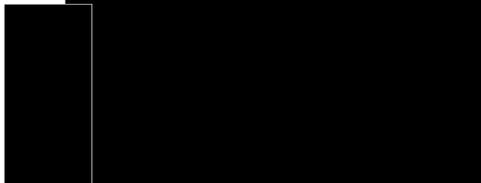
16. Colombia's political system has long survived chronic violence by several major insurgent groups, maintaining its stability because disaffected antidemocratic elements constitute a relatively small proportion of the total population. From the mid-1950s to the early 1980s, the security forces were able to contain but not eliminate guerrilla activity, keeping the total number of insurgents at a fairly constant level. This balance began to change when Betancur negotiated a



cease-fire with the major groups in 1984 and imposed constraints on military counterinsurgency actions. Since then, the guerrillas have exploited the truce to rest, regroup, rearm, and recruit, marking the beginning of a slow but steady rise in the overall level of insurgent threat to the government. (S/F)

17. The combined armed strength of the major insurgent groups is probably some 6,500 to 10,000, reflecting a steady increase over the past several years. In July 1986 the US Embassy warned that more guerrillas are active, and the level of violence is higher, than at any time since the 1950s. The security forces have been hard pressed to contain the insurgents arrayed against them, and, although the insurgents do not threaten the central government in most urban areas, their influence is growing there as well as in rural areas, where they have traditionally held sway. The challenge for Barco will be to reverse this expansion and regain the initiative. (S/F)

18. With 32 military fronts nationwide, FARC poses the most formidable long-term threat to government stability. It is the only group that still maintains an official truce with Bogota. It has used the ambiguities of the two-year-old peace process to increase its strength, consolidating its control over large areas of rural Colombia and gaining a measure of political respectability through its legal affiliate, the Patriotic Union. FARC continues to fund its operations through kidnaping, extortion, robbery, and narcotics-related activities. Its strength is conservatively estimated at 4,000 well-armed combatants, but some fronts could quadruple their forces by using lightly armed auxiliaries.



19. From Bogota's perspective, the truce with FARC buys time and enables the government to contend with the other major guerrilla groups—especially M-19, the group most influenced by Cuba, Nicaragua, and Libya, and the most active in forming alliances with other insurgent groups in Colombia and



#### The Terrorist Threat

Colombia has been considered a high-threat area for US personnel since 1984, when threats from narcotics traffickers prompted the evacuation of all US dependents. US personnel and facilities in Colombia are potential targets of three distinct kinds of violence: a high level of common crime, attacks on law enforcement officials and antinarcotics agents by drug traffickers, and operations by the country's major insurgent groups. Travel restrictions limit the movement of US personnel outside major cities. US consulates in Cali and Medellin have been closed, and the no-dependents policy still applies to all US personnel stationed in Colombia. With the level of insurgent violence rising and the state of siege—or a similar provision—likely to remain in effect, threats to US citizens and personnel in Colombia could escalate during the new administration.

Terrorist attacks on US businesses in Latin America have increased substantially since 1980. Colombia ranked first in Latin America in recorded incidents targeting US investors, with 13 attacks on US businesses in 1985—reflecting an increase in international terrorist incidents of 60 percent over 1984. This trend will probably continue throughout Barco's term, especially if rural insurgent groups conduct higher profile urban attacks in response to military pressure.

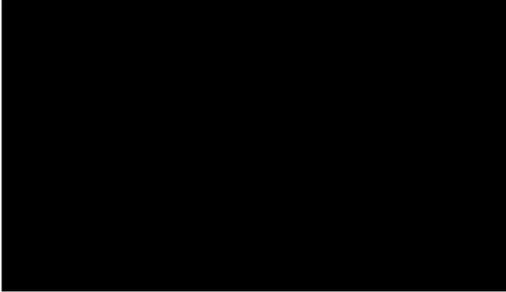
The threat to US interests will probably grow as Washington increases its financial and logistic assistance to Bogota's antinarcotics and counterinsurgency efforts. Drug enforcement officials will remain prime targets for narcotics traffickers. Enhanced security for official US installations, however, has provoked a shift in insurgent tactics, focusing most guerrilla attacks—often low-level harassment bombings—on softer targets such as US-related businesses, schools, and binational centers. This trend will probably continue during the new administration. President Barco's ability to enforce the truce with FARC will be an important factor in combating terrorist attacks; the security forces are probably not capable of protecting foreign interests from a large-scale guerrilla offensive. Moreover, although FARC is primarily a rural insurgent force, it possesses a potentially formidable urban terrorist capability which, if activated, would pose a grave threat to US personnel and facilities in Bogota. (S/F)

throughout Latin America. Despite losses of top leaders and consequent internal power struggles, M-19 has improved its rural combat capabilities over the past two years, and the government continues to view the group as a significant threat. The government has inflicted blows on M-19's urban forces, particularly

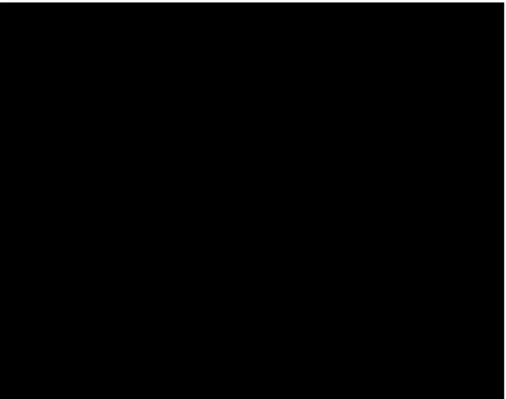


during the Palace of Justice incident, but the group still poses a terrorist threat to US personnel and facilities in Bogota. It staged a series of anti-US bombings there in May 1986, and has since threatened attacks on US Embassy personnel. M-19's total strength is estimated at 850 to 1,100 hardcore combatants, but these fighters often combine forces with other guerrilla groups. (S NF)

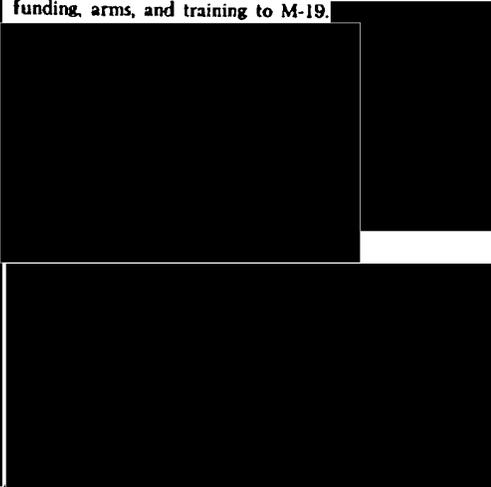
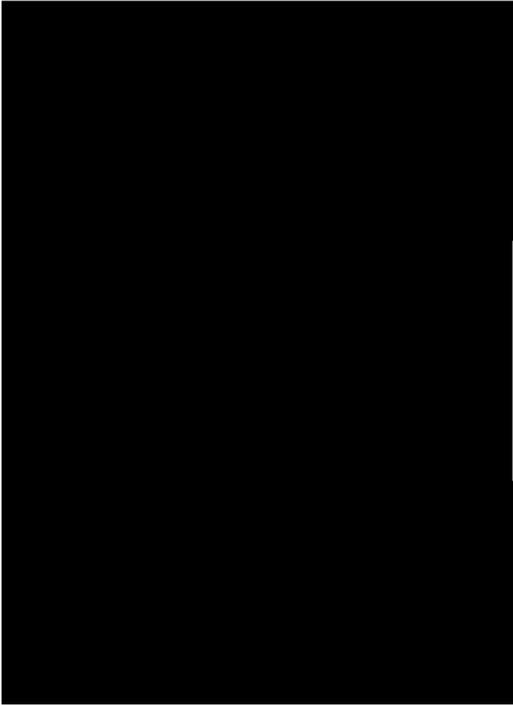
20. A significant development since late 1985 is M-19's formation of a national guerrilla coalition, which includes elements of all major insurgent groups outside the peace process. This coalition, the National Guerrilla Coordinating Committee (CNG), has served as a rallying point for insurgent propaganda and political plans, and has probably facilitated larger and more coordinated attacks than were previously possible. The CNG has also succeeded in forming a multinational rural guerrilla force, the so-called America Battalion. It probably numbers 400 to 600 insurgents and is known to contain Colombian coalition members and foreign guerrillas—most notably from the Ecuadorean Alfaró Vive, ¡Carajo! (AVC) and the Peruvian Tupac Amaru Revolutionary Movement (MRTA). (S NF)

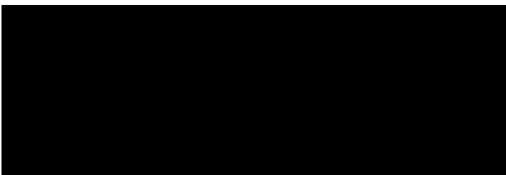
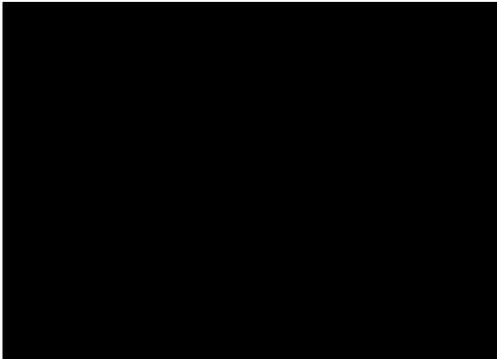


Foreign Aid to the Insurgents



24. Havana—the principal source of aid for revolutionaries throughout South America—is the most important foreign sponsor of Colombian insurgents. Fidel Castro helped establish the ELN, and still has close ties to that group. Havana has also provided extensive funding, arms, and training to M-19.





**Government Capabilities**

26. Although Barco wants to take a hard line against the insurgency, the security forces' counterinsurgency and antinarcotics capabilities continue to be hampered by personnel shortages, poor intelligence, and aging and inadequate equipment. After slashing the military budget during his first three years in office, President Betancur last year began to improve the government's capabilities. Barco will continue to strengthen counterinsurgency capabilities in an effort to increase his potential leverage against FARC and cope with the expected rise in attacks by other guerrilla groups. Nevertheless, the geographic spread of the insurgent forces, the inhospitable and often mountainous terrain, and the need to defend many critical economic and political targets will strain the military's resources. (S)

27. A more extensive counterinsurgency effort would necessitate an expansion of the armed forces. The Army reportedly plans to ask for 15,000 more troops—the minimum it estimates it will need if the FARC breaks its truce with the government. The armed forces need more helicopters to improve tactical mobility, better and secure communications equipment, and improved tactical intelligence collection, coordination, and dissemination. More extensive training in pursuit-and-engagement counterinsurgency techniques could also improve the military's performance against rural guerrilla forces (see annex A). (S)



**Prospects for the Truce**

29. The FARC will probably continue its effort to persuade other insurgents to sign a truce with the government, using the successful exploitation of its own truce as a persuasive argument. Moreover, FARC appears to be using the truce issue as a means to pursue its traditional ambition of achieving primacy among Colombia's guerrilla factions. The FARC may be considering a formal alliance with the CNG—an unprecedented show of solidarity that would strengthen the insurgents' political hand and allow FARC to press the ideological aims of its Communist Party sponsors. Having long observed de facto territorial agreements with other guerrilla groups, the FARC has also begun efforts to coordinate its operations with ELN and EPL in the major oil-producing region. FARC leaders privately argue that, once inside the peace process, groups could continue military operations but deny responsibility for them, thereby gaining a measure of protection from government enforcement actions, as FARC itself has done for the past two years. (S)

30. Ongoing talks between the FARC and the CNG may lead to a nominal alliance. In the past, such efforts have foundered because of leadership disputes and differences over tactics. These will again probably preclude formation of an effective operational alliance between the FARC and the CNG. However, the insurgents may be willing to form a loose coalition to coordinate individual actions and facilitate intelligence sharing. Any cooperation will pose a greater challenge to the security forces. Even limited coordination efforts will be well received in Havana, since they conform with longstanding Cuban objectives of fostering national and regional insurgent unification. Continued progress along these lines could prompt additional Cuban assistance to Colombian guerrillas, even at the expense of damaging prospects for improved relations with Bogota. (S/NF/OC)

31. President Barco will need to strike a delicate balance as he tries to reduce guerrilla manipulation of the peace process, even if other guerrilla groups do not join the truce. He will attempt to focus promised social and economic reforms in rural areas where insurgent



groups are strong, but guerrillas dominating such areas will not readily relinquish control to government authorities. He has also announced a six-point peace plan that will require the guerrillas to disarm and will establish verification measures to ensure compliance—strictures Betancur's peace accords never imposed. The FARC's top leader responded to the peace plan by declaring that the group will not accept ultimatums from the government, and Barco is likely to modify his requirements to postpone a confrontation with FARC. Moreover, the insurgents' policy of plausible denial—coupled with their formidable military strength—will complicate the President's efforts to enforce the truce without risking a return to open war with FARC. (S) (NF)

32. On balance, Barco will probably make little progress in defeating the insurgency over the next few years, but the situation is not likely to deteriorate rapidly unless there is a complete breakdown in the truce. Barco will try to keep the FARC in the peace process while curbing its antigovernment activities throughout the country. Mutual testing of strength between the military and the insurgents and gradually increasing clashes are likely. Continued attacks on government officials by drug traffickers and guerrillas outside the peace process will heighten security concerns and could trigger increased violence and a stronger government response to insurgent activities, as M-19's Palace of Justice assault did in 1985. (S) (NF)

33. Although violations of the truce by both sides are likely to become increasingly frequent over the next few years, a nominal truce may remain in effect indefinitely, as long as both the government and the insurgents perceive it to be advantageous. The formal end of the truce could be hastened if the Patriotic Union becomes dissatisfied with its political gains, the guerrillas openly defy Barco's truce requirements, or drug enforcement efforts spark a larger conflict. Should the truce break down completely, fighting between the government and the insurgents will escalate sharply, but Barco will probably try to forestall a nationwide conflict by limiting military actions to one area at a time. Even a serious conflict would probably not threaten Barco's tenure in office, especially if he is able to bolster his military and security forces. (S) (NF)

34. The new government will continue to seek US assistance to improve its antinarcotics, counterinsurgency, and counterterrorism capabilities. US aid and training have enabled Bogota to carry out effective drug eradication operations, target cocaine labora-

tories, and enhance military capabilities, and have recently been instrumental in developing a paramilitary counterterrorist force. US funding and training of the National Police air fleet have created a modern and well-maintained transport helicopter fleet for drug interdiction but have caused friction with the Air Force, which has been hard hit by lack of funds and cannot sustain support for antinarcotics operations. Improved antinarcotics performance will be contingent on more comprehensive integration of police and military assets. (S) (NF)

#### Economic Outlook

35. High unemployment and persistent social inequities have long fostered discontent among the poor, providing fertile ground for guerrilla recruitment. President Barco's campaign focused largely on economic concerns, and his agenda for the next four years includes a variety of measures designed to accelerate social and economic reforms while undermining guerrilla strength (see inset). Barco begins his term with the benefit of an improving economy, and he has indicated he will take full advantage of gains achieved by Betancur to deliver promised reforms, especially in rural areas where support for insurgent groups is greatest. His strongest economic assets are increased coffee revenues—an estimated \$3 billion in 1986, resulting from high world prices after a poor Brazilian crop last year—and a gradual momentum toward recovery from the economic stagnation that greeted Betancur four years ago. Following low growth rates of 3.2 percent in 1984 and only 2.5 percent in 1985, real gross domestic product (GDP) growth is forecast at 4 to 6 percent for 1986, and may average 4 percent through 1990 (see charts). (C) (NF)

36. The new government's greatest economic challenges are to reduce unemployment, limit inflation, and prevent mismanagement of the coffee bonanza, and—at the same time—to sustain growth, accelerate development, and attract new foreign investment. Bogota has been able to service its \$12 billion foreign debt without rescheduling, mainly through draw-downs of reserves. Lower government spending and increased tax revenues cut the government deficit almost in half in 1985, from 5 percent to 2.7 percent of GDP. Barco inherits a financial system less constrained by lack of liquidity and domestic corruption, with interest rates now determined by free market forces. External accounts have improved substantially during the past year, and leading Colombian firms have

### Economic Impacts of Insurgency and Drug Trafficking

Insurgent activity imposes direct costs on the economy in terms of capital damage, production losses, and rising protection expenses. The energy sector has been particularly hard hit. Several insurgent groups—especially the ELN—make frequent extortion demands on Colombian and foreign oil developers in northeastern Colombia, and the high ransoms paid by multinational corporations are likely to stimulate more kidnaping of US and other foreign employees in that area. Insurgent attacks have dealt substantial blows to oil developers: a May 1985 strike at an Occidental Petroleum drilling site inflicted damage estimated at \$2 million; dynamite attacks on the new Caño Limon pipeline in July and August 1986 stopped the oil flow for several days. The security forces will probably be unable to prevent further attacks on petroleum and mining facilities, and developers will continue to bear the brunt of protection costs. The financial impact of guerrilla activity—added to high development costs and low average well flows—may become a deterrent to investors already affected by low world oil prices. New foreign investment in 1985 totaled \$86 million—half the amount approved by the government in 1984 and the lowest figure since 1978.

Other sectors have also felt the impact of guerrilla attacks. Electrical pylons and transmission substations are frequent targets, and power facilities will probably become more vulnerable as insurgents strike at the country's economic infrastructure. Similarly, losses in commercial activity are likely to grow as guerrillas increase their operating revenues by employing robbery, kidnaping, and extortion against local banks and businesses. Agriculture has been seriously affected by the insurgency. Rural crime and guerrilla attacks on cattle ranchers have contributed to a significant drop in beef exports from 1981 to 1985. Guerrilla disruption of ranching and farming activity is probably partly responsible for the high level of annual food import bills, averaging \$400 million since the early 1980s.

The drug trade has a profound influence on the Colombian economy, manifest in the far-reaching power of major trafficking organizations. Illegal earnings from drugs probably represent at least 4 percent of GDP. Drug earnings are Colombia's second-most-important source of income after coffee—equivalent to about 20 percent of legal exports in 1985, up from 12 percent in 1983. Less than 5 percent of these revenues return to Colombia; the rest stays in the hands of intermediaries abroad, especially in the United States—but the drug proceeds that are repatriated support a wide variety of legitimate businesses, including legal and economic consulting firms, currency exchanges, and thousands of retail front businesses. The major drug money channels are smuggled US currency or Colombian pesos, smuggled goods and gold, and fraudulent invoicing of imports and exports. Illicit imports—mostly smuggled consumer goods—financed by drug money probably add \$400-500 million a year to the economy's already large informal sector, which employs more than 100,000 workers in contraband markets in 30 cities.

If the economy performs as well as expected during the new administration, drug traffickers will probably take advantage of higher domestic interest rates to return an increasing amount of cash to Colombia. Tight foreign exchange controls in Peru and implementation of banking reforms in Panama may also encourage repatriation of drug earnings. Rising drug money inflows will probably act as economic incentives to encourage more traffickers to enter the lucrative drug production and distribution market. Even if Barco pursues banking reforms initiated by Betancur to reduce the influence of drug money on Colombian society, the government is unlikely to inflict serious financial blows on major traffickers unless concerted regional and international efforts are made to monitor and curb drug money flows. (S)

refinanced their foreign debt, halting the erosion of foreign exchange reserves—due to high world interest rates and low coffee prices—that occurred after Betancur took office in 1982. By early July 1986, coffee earnings and capital repatriation had pushed foreign reserves up 57 percent, to about \$2.5 billion, since the end of last year. (C/NF)

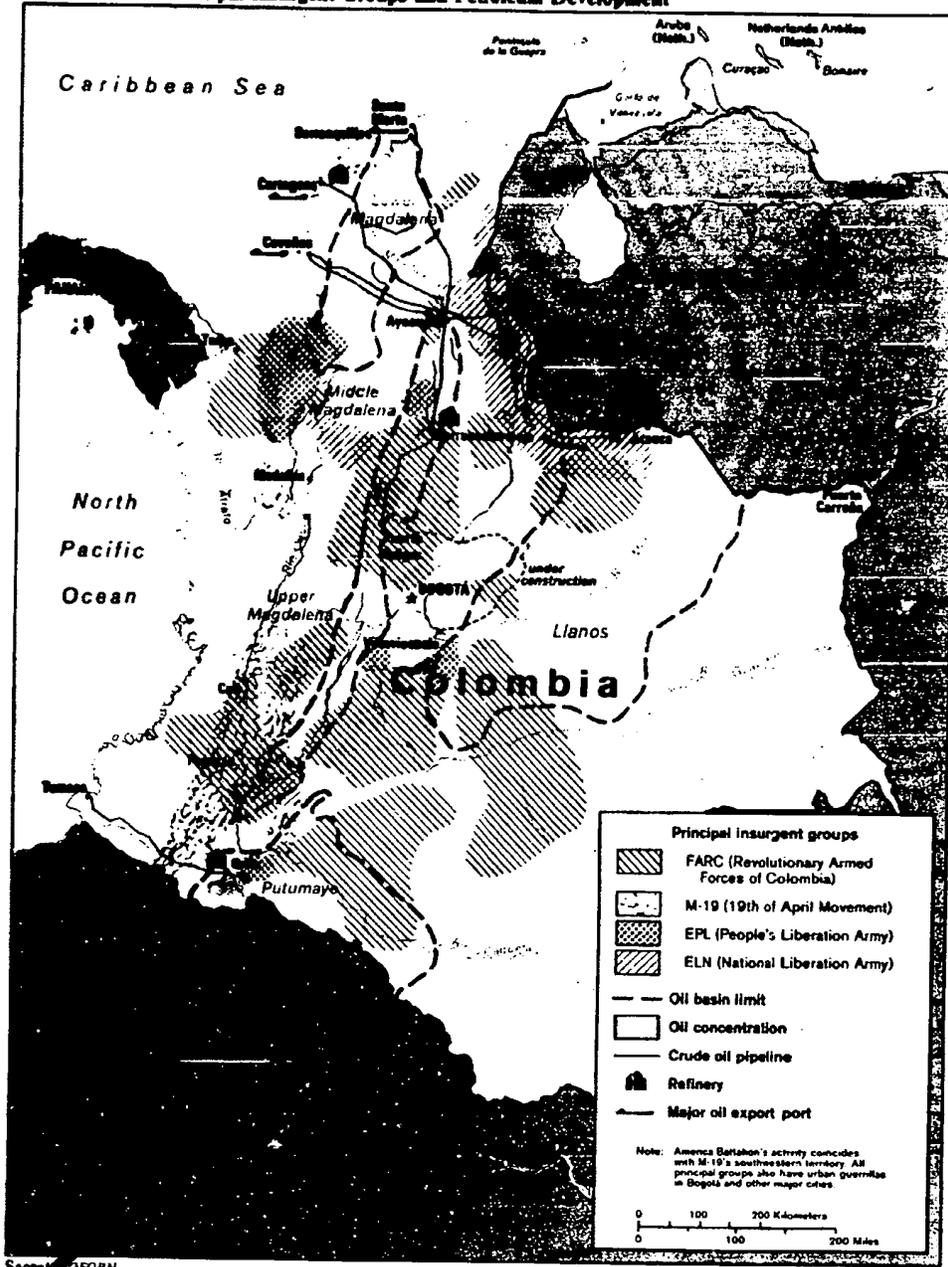
37. Coffee will continue to play an important role during the new administration, both as a primary income earner and as a challenge to fiscal management. Early this year Bogota reached an agreement with the National Coffee Federation on distribution of windfall profits, a step designed to ensure that sizable export receipts would improve public finances as well as increase the income of coffee producers. As compet-

ing exports from Brazil gradually rise in late 1987, Colombia's coffee earnings will probably decline slightly and are likely to reach the usual level of \$1.5 billion by 1988. The government's success in limiting inflation so far this year may result in an annual inflation rate of 20 to 25 percent for 1986. (C/NF)

38. The new government hopes to expand Colombia's energy sector. Oil production in 1986 has made Colombia self-sufficient for the first time since the mid-1970s. Despite low world oil prices, oil and coal export earnings this year will be roughly double 1985 levels. Barco is likely to court foreign oil companies to speed exploitation of Colombia's rich energy resources. An export surge in petroleum and coal—as well as coffee—should keep Bogota's external accounts among

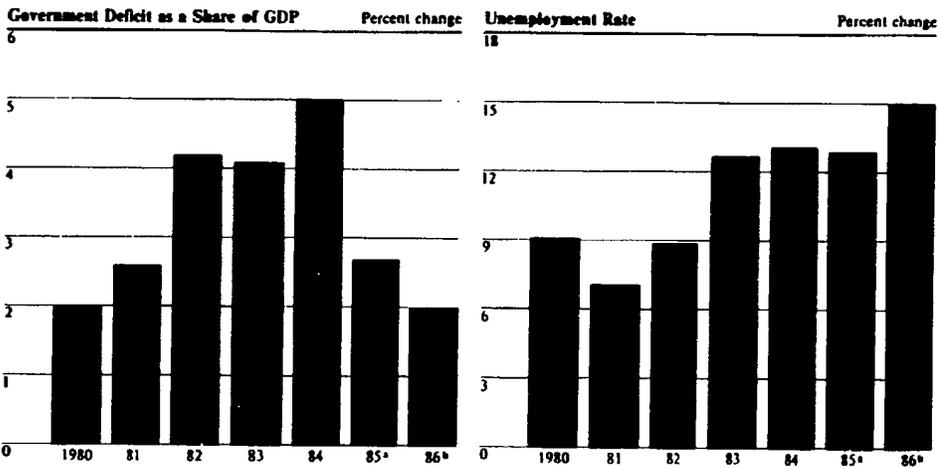
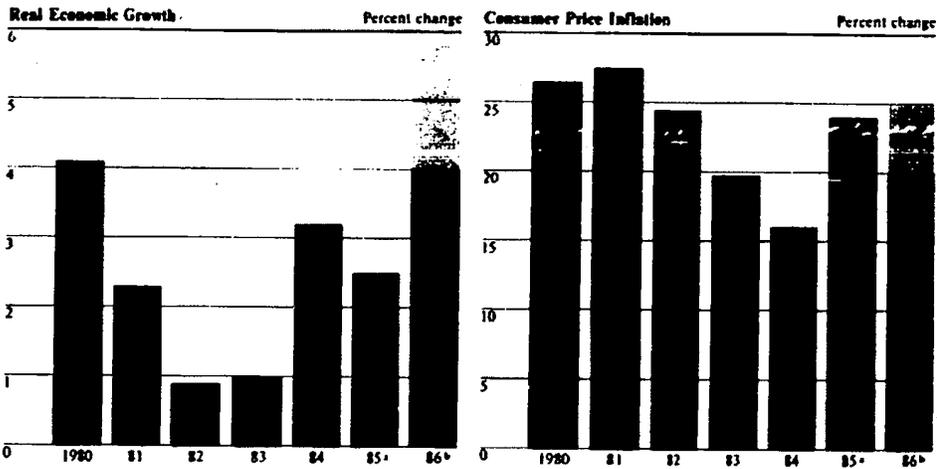
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Figure 3  
Rural Fronts of Principal Insurgent Groups and Petroleum Development



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**Colombia: Selected Economic Indicators, 1980-86**



\* Estimated.  
\* Projected (assumes Bogota maintains its stabilization program).

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**Table 1**  
**Colombia: Balance of Payments**

*Million U.S.\$*  
*(except where noted)*

	1982	1983	1984	1985 <sup>a</sup>	1986 <sup>b</sup>
<b>Current account balance</b>	-2,885	-2,828	-1,994	-1,305	-320
Trade balance	-2,076	-1,317	-312	5	1,055
Exports (f.o.b.)	3,252	3,147	3,666	4,036	5,630
Coffee	1,577	1,536	1,799	1,575	2,735
Oil	270	378	445	300	600
Coal				104	240
Imports (f.o.b.)	5,358	4,464	3,980	4,027	4,265
Net services and transfers	809	-1,509	-1,682	-1,314	-1,665
Interest on debt	649	-739	-1,096	-1,112	-1,120
Debt amortization	429	636	700	757	950
<b>Financial gap</b>	<b>3,314</b>	<b>3,482</b>	<b>2,804</b>	<b>2,072</b>	<b>1,270</b>
Direct investment	337	514	411	729	450
New medium- and long-term capital inflows (net)	1,322	983	1,278	1,173	1,870
Short-term capital and errors and omissions (net)	314	-449	-848	73	1,105
<b>Other financial items</b>					
External debt (end of year)	10,267	11,035	11,035	11,966	13,000
Short-term debt	3,109	2,872	2,230	1,966	2,000
Debt service ratio (percent) <sup>c</sup>	32	29	33	34	43
Foreign exchange reserves (end of year) <sup>d</sup>	3,861	1,901	1,364	1,595	2,500

<sup>a</sup> Estimate.

<sup>b</sup> Projected on assumption Bogota maintains stabilization program.

<sup>c</sup> As a share of exports of goods and services.

<sup>d</sup> Excludes gold.

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the healthiest in Latin America, although the government's decision in January 1986 to assume control of all oil pipelines will cause developers to look askance at Colombian oilfields even if, as seems almost certain, Barco does not enforce it. Sustained low world oil prices would not alone have a decisively adverse impact on Colombia's economy, but in combination with additional setbacks, such as a sudden drop in world coal prices or massive capital flight, could force increased drawdowns of foreign exchange reserves and strain Bogota's ability to service its debt. (s)

39. Betancur's two-year economic stabilization program has paved the way for sustained growth, but it has also exacted a significant social toll. Real wages continued to fall in 1985 as inflation outstripped salary increases, and government wages lagged inflation by 14 points before organized labor won matching increases. The mining and construction industries re-

vived in early 1986, but agriculture and commercial activity remain depressed. Unemployment stands at a record 15 percent, feeding popular discontent and encouraging movement to the informal sector, including sales of both smuggled consumer goods and narcotics. Leftist influence on organized labor—primarily a political irritant to date—has increased, and may cause problems for foreign investors if democratic labor leaders continue to lose ground to Communist labor activists. (s)

40. Job creation—Barco's top-priority campaign promise—will be a major challenge. Barco sees expansion of agricultural production as a means to offer employment opportunities to landless peasants, who have long been natural recruits for the guerrillas. He has pledged to accelerate agrarian reforms and improve provision of basic services, and emphasizes the need for agricultural and industrial development. Also, the government is likely to increase spending in

health, education, and communications, and will continue to expand construction of low-cost housing developments in both urban and rural areas. Barco's integrated rural development program—aimed at increasing food production, providing basic services, and alleviating unemployment—could substantially improve living conditions for poor Colombians. (c)

#### Foreign Policy

41. Barco will probably be more positively inclined toward Washington than his predecessor—he attended universities here and is married to a former US citizen.

Nonetheless, as a forthright nationalist, he will remain particularly sensitive to issues concerning Colombia's sovereignty and will not hesitate to assert independent views. (s)

42. Barco's statements of foreign policy objectives largely reflect traditional Colombian concerns. High on his foreign policy agenda is settlement of Colombia's longstanding dispute with Nicaragua over sovereignty of the San Andres and Providencia Archipelago off Nicaragua's Caribbean coast (see map, page 2). Barco has expressed anger at Managua's renewed claim to the islands, and may request a ruling from the International Court of Justice to reaffirm Colombian ownership on the basis of its long occupation and administration. Barco shares heightened military concern over a potential threat to San Andres and Providencia, and he will probably strengthen the islands' military defenses. The installation of a US-built radar system on San Andres Island (Isla de San Andres), which has long been delayed, would improve Colombia's early warning capability as well as assist narcotics surveillance and interdiction efforts. (s)

44. Barco is likely to be cool toward Havana, although he favors Cuba's eventual readmission to the OAS. Cultural exchanges with Cuba increased during Betancur's administration, and Havana will probably continue attempts to reestablish diplomatic relations with Bogota. Barco, under pressure from leftists within his own party, may accept such overtures, particularly if he can exact assurances from Castro that Cuban aid to Colombian insurgents will cease. Barco will probably reject Cuban attempts to expand the current low level of trade with Colombia because Havana can offer few attractive commodities. (s)

45. Colombian relations with the Soviet Union are unlikely to improve dramatically. Direct Soviet influence is limited, with no military contact and a low level of trade, and Colombian leaders are disturbed about the potential for increased penetration by Moscow. Bogota estimates that the total number of Colombians studying in the USSR may approach 2,500—second only to Cuba in total Latin American student presence there. Few Communist-trained Colombians hold prominent positions, but the Patriotic Union's congressional gains—as well as FARC's efforts to extend its influence through grassroots political and economic programs—clearly have broadened the avenues of access for the Soviets. (s)

46. Barco's relations with governments in the region are likely to be cordial, although he will probably be less outgoing and more domestically focused than his predecessor. He favors an international approach to drug control, and is likely to encourage bilateral intelligence sharing and enforcement efforts initiated by Betancur throughout Latin America. The new government will probably increase bilateral efforts to combat insurgent movements across the Venezuelan, Brazilian, and Ecuadorean borders. Barco views Venezuela as Colombia's natural ally, and wants to settle the two countries' maritime boundary dispute—dating from colonial times—over the mineral-rich Gulf of Venezuela (Golfo de Venezuela), the major Venezuelan oil export route. Previous proposals were blocked by the Venezuelan military, but improved bilateral military relations—fostered by increased joint counterinsurgent and drug control efforts along the oil pipeline on Colombia's northeast border—may smooth the way for a long-delayed settlement. (s)

**Implications for the United States**

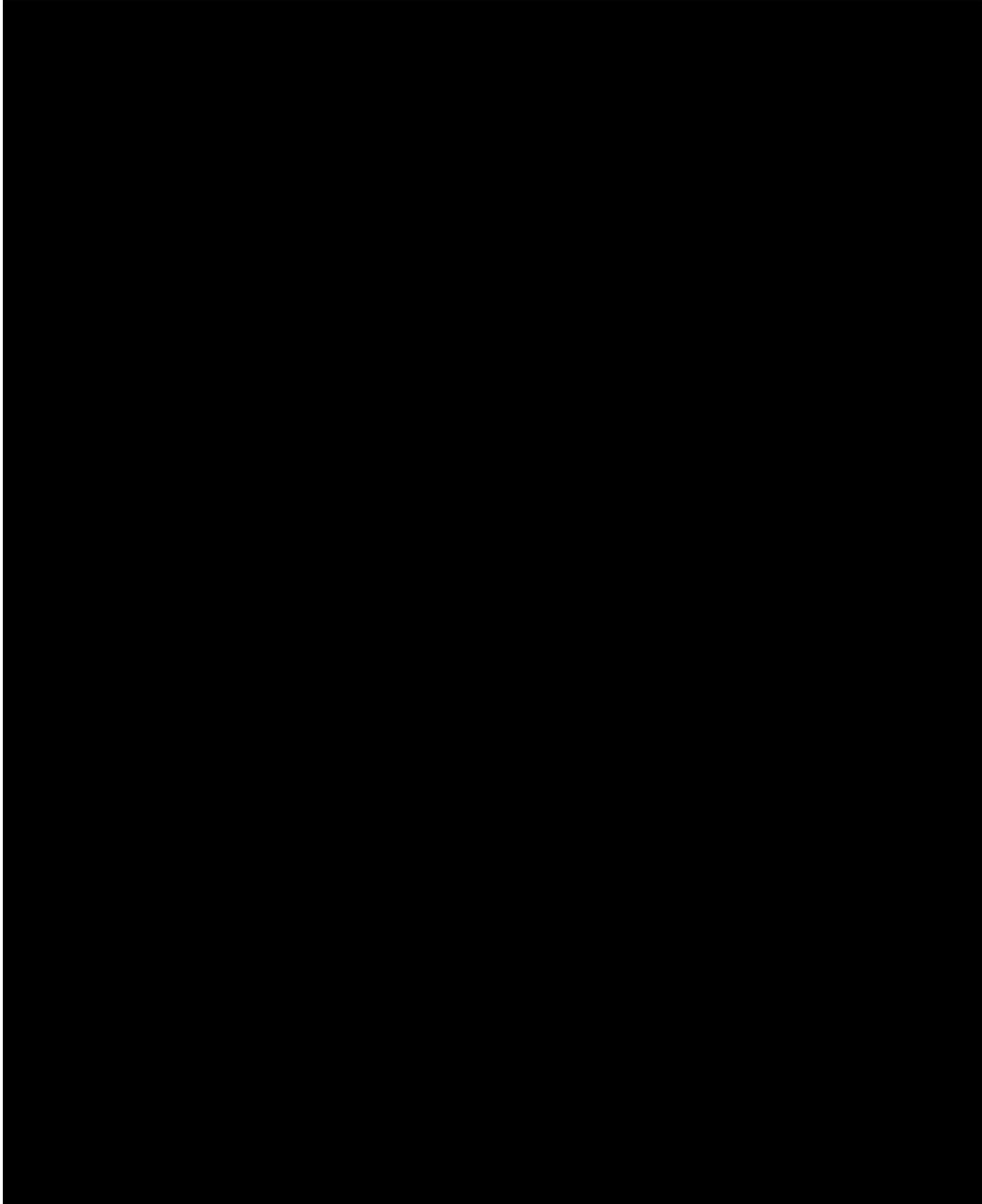
47. For both ideological and economic reasons, the new administration will probably remain closely aligned with the United States. President Barco reportedly sees relations with the United States as the cornerstone of Colombia's political and economic well-being, and is expected to act accordingly. He will look to the United States for the financial support he sees as crucial to eliminate poverty and undercut support for Communist insurgents, and he believes assistance from Washington is essential to revitalize the economy, provide for future growth, and promote the long-term stability of the Colombian democratic system. (S) (NC) (C)

48. Barco's concern about the growing power of the narcotics trade, and especially about evidence of insurgent involvement, will redound to Washington's advantage. Barco will be particularly dependent on US aid to improve the security forces' counterinsurgency capabilities, curtail narcotics production, and provide protection from terrorist attacks targeting US citizens and investors. Increased US military and antinarcotics assistance to Bogota could bolster Colombia's democratic role in the region and promote regional initiatives against drug traffickers, insurgents, and terrorists. Conversely, US failure to provide adequate security assistance would hinder Barco's efforts to improve

insurgent truce compliance and government antinarcotics performance. (S) (C)

49. US commercial interests would benefit from a sustained economic recovery in Colombia—it is the third-largest US export market in Latin America. Because Bogota wants to diversify exports, the new government is likely to criticize US countervailing duty actions on Colombian goods, including coal, textiles, and cut flowers. However, increased opportunities for US sales are likely as a result of the government's 1985 import liberalization and improved foreign exchange situation. On the regional debt front, Bogota has had a good macroeconomic management record and has adopted IMF-monitored policies. Barco will probably ask for additional loans from international financial organizations and seek easier IMF compliance targets. (C) (S)

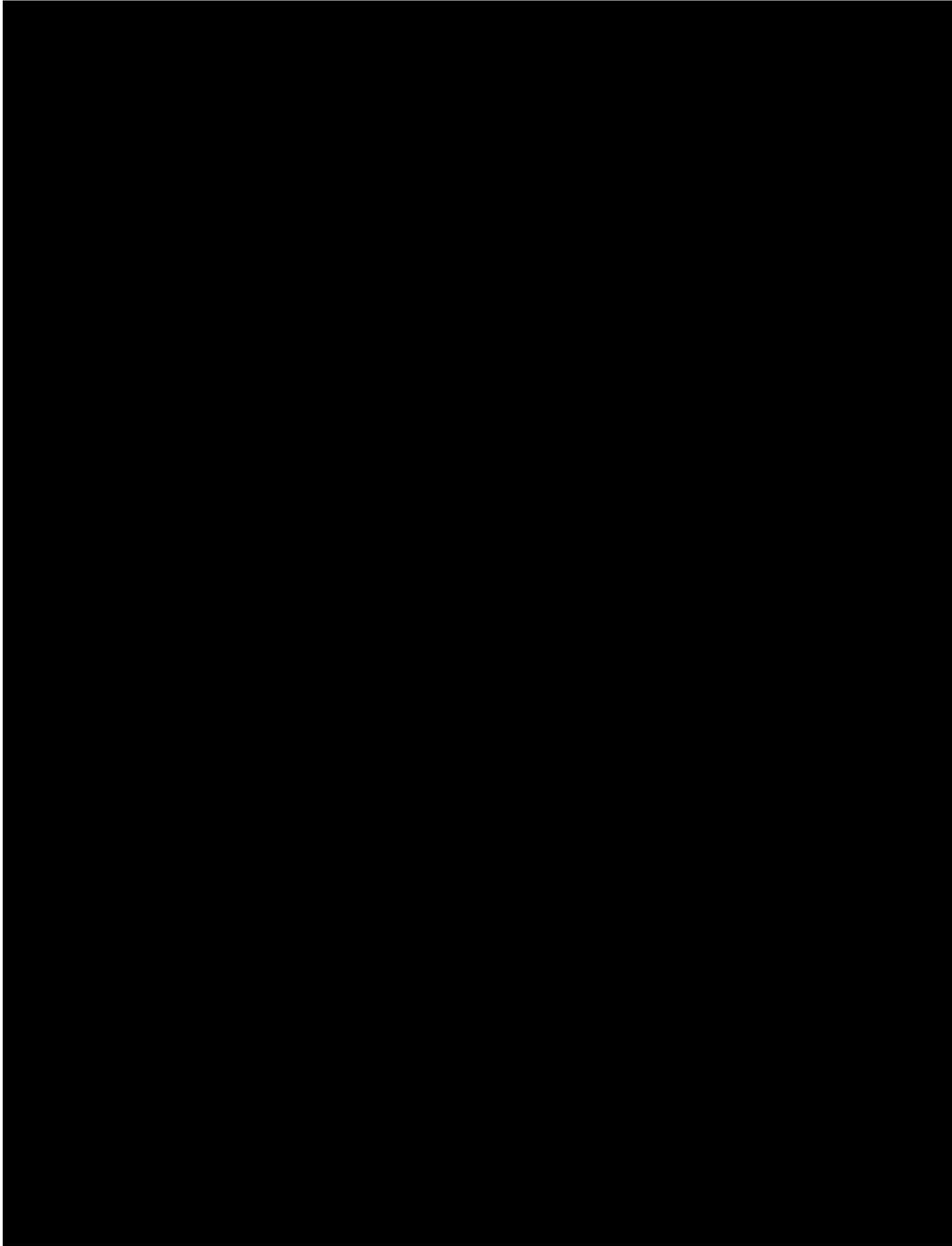
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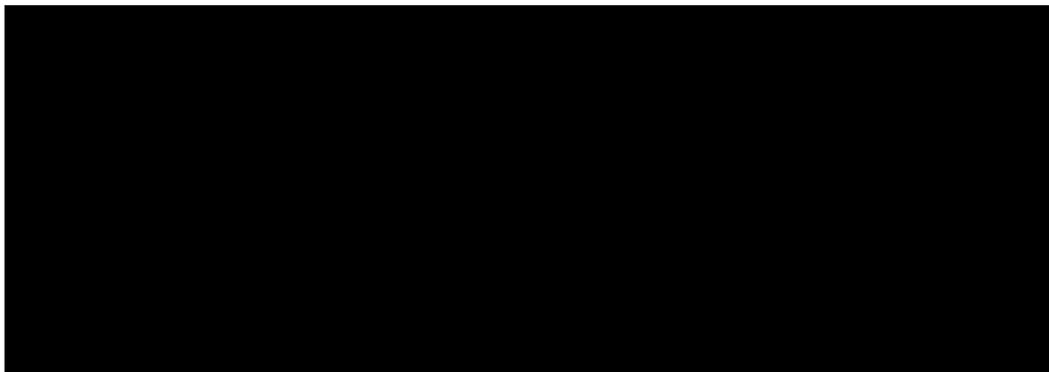
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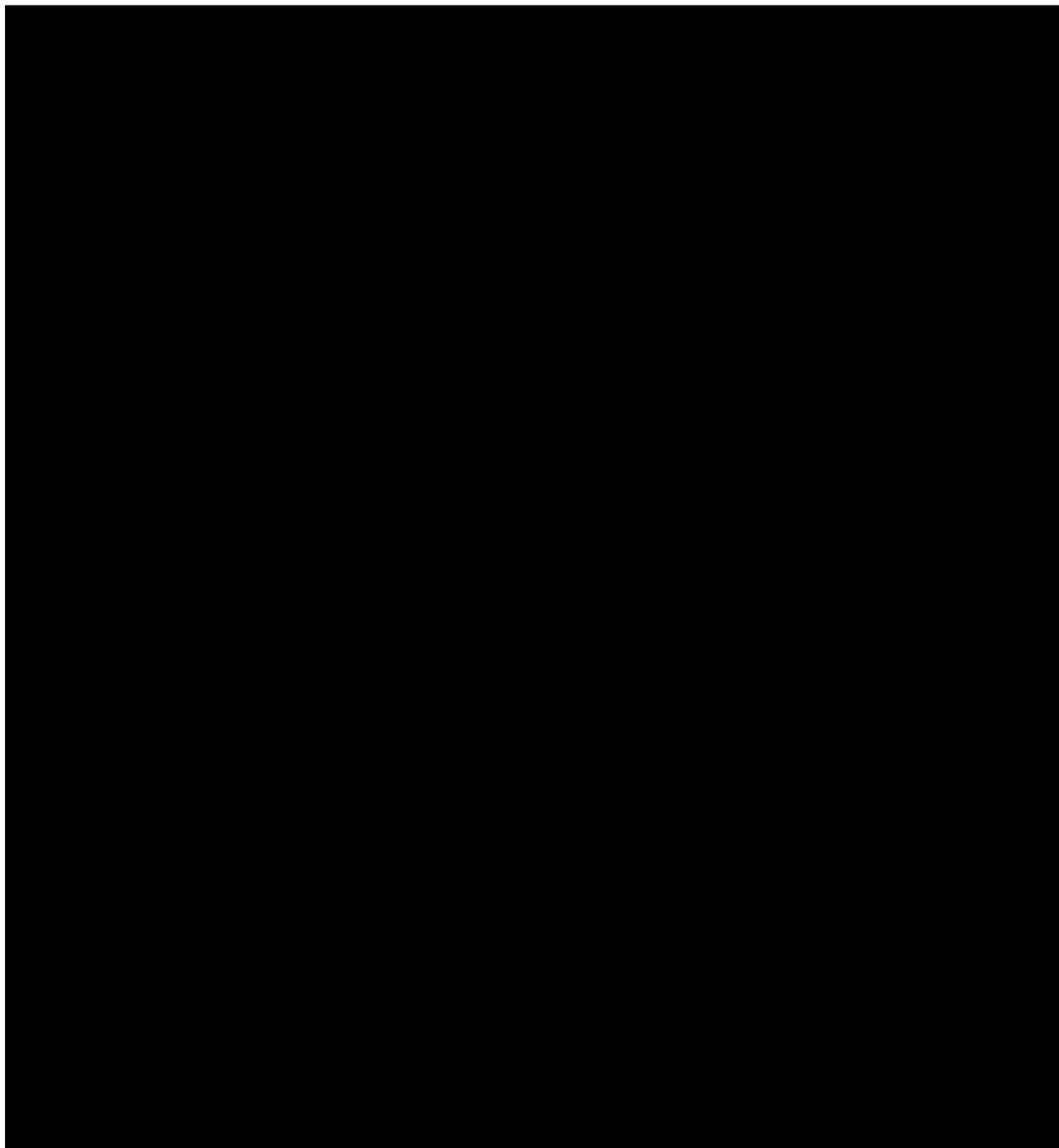


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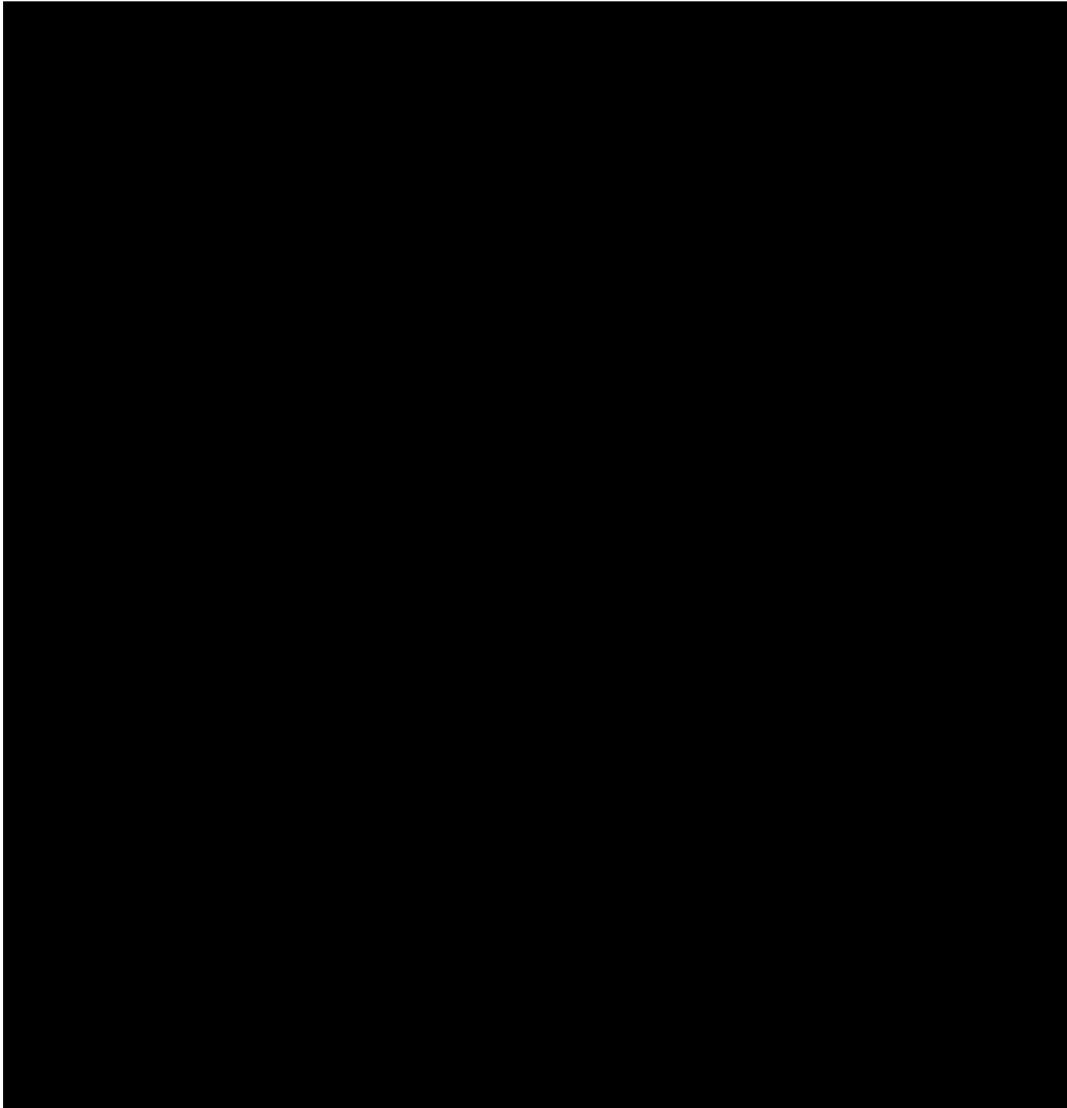
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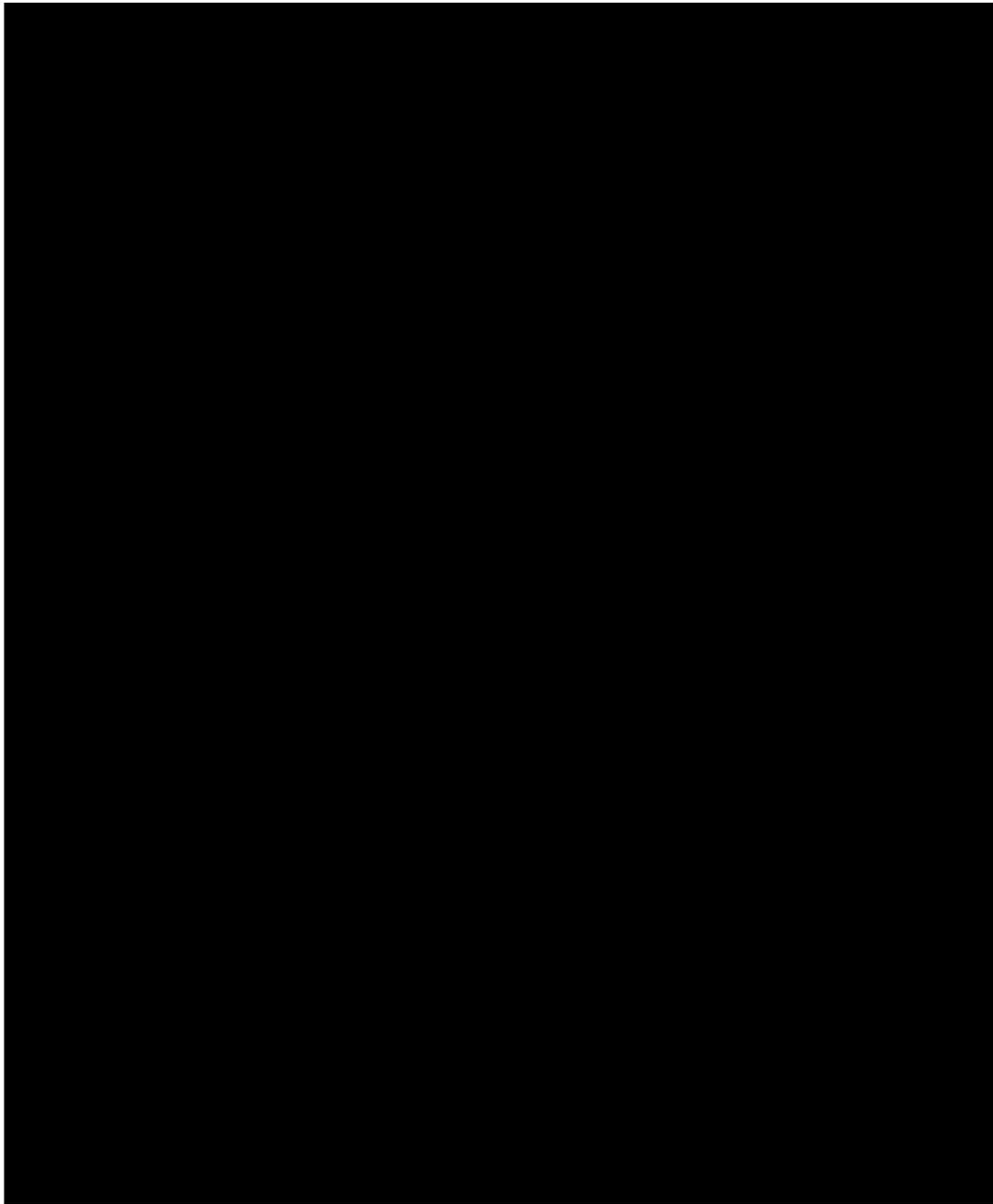
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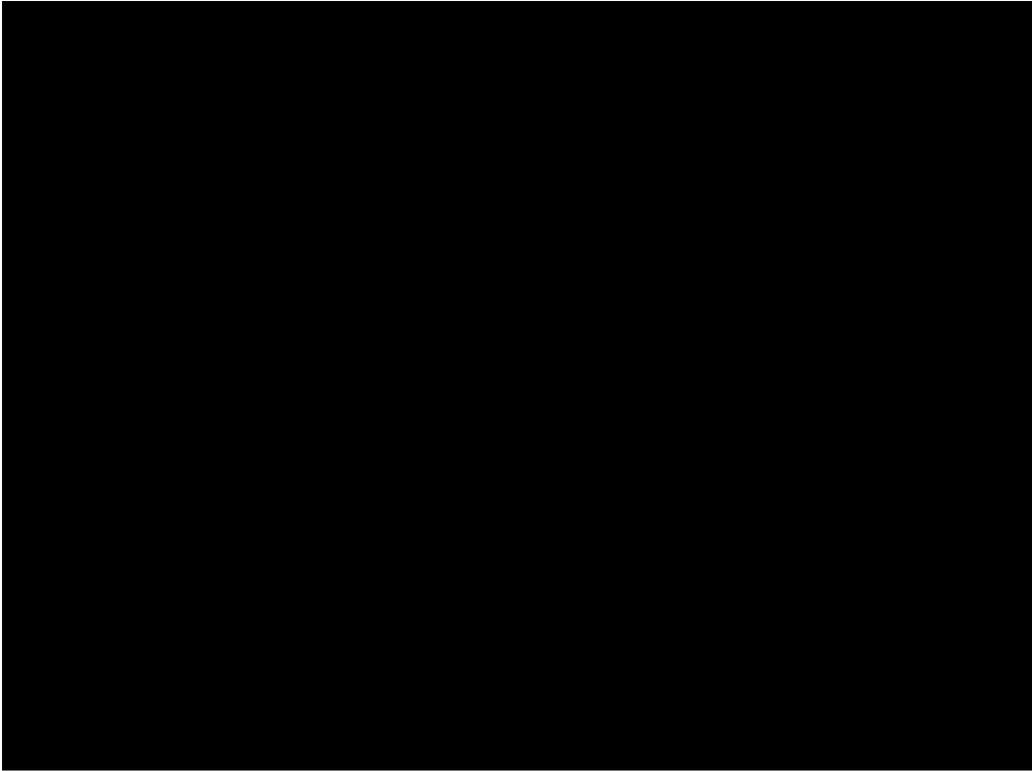
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