

Page Denied

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CENTRAL AMERICA: POLITICAL - ECONOMIC ASSESSMENTS

El Salvador

This is a critical year for El Salvador. The Magana administration must contain the insurgency, stave off economic collapse, and prepare for presidential elections in early 1984. These tasks are complicated by divisions in both the civilian government and in the military officer corps, and by possible cutbacks in international financial and material aid.

The military stalemate continues, but the five Marxist guerrilla factions and their political front groups have adopted more aggressive tactics over the last six months that threaten to weaken the provisional government. External support to the guerrillas--training, supplies, and weapons--continues at a high level, mainly from Nicaragua. El Salvador probably will require greater amounts of military aid this year if it is to gain the initiative on the battlefield. Even so, outright defeat of the

SECRET

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insurgents is unlikely. Even assuming a continuation of current scheduled aid levels, the government probably will only manage to contain the guerrillas as it moves to strengthen its economic and political programs.

As long as the military stalemate goes on, prospects for serious negotiations between the government and the guerrillas are dim. Both sides view dialogue as a political tactic and currently are not interested in compromise. Thus, the government's political focus during the year will be on preparing for the 1984 elections, while the insurgents are likely to aim at forcing their cancellation.

El Salvador's economy remains extremely vulnerable to guerrilla disruption. Economic output fell in 1982 for the fourth straight year, mainly because of inadequate security, foreign exchange shortages, political uncertainties, and considerable storm damage. Barring major unforeseen improvements in security or world economic conditions, a recovery is unlikely in 1983. Furthermore, increased flows of foreign financial assistance this year will be needed simply to prevent continuing deterioration.

The risks of a further major economic slide are considerable. Mounting unemployment--already more than 30 percent--and declining per capita income--already a third lower than in 1978--could generate popular dissatisfaction with the government. Worsening economic conditions also could strengthen the hand of the extreme right in the government, thus

SECRET

jeopardizing the reform programs that extremists blame for the country's economic problems.

Guatemala

The March 1982 coup that brought General Rios Montt to power was spurred by fraudulent national elections and the prospect that continuing corruption and repression would further polarize the nation. Staunchly anti-Communist and dedicated to defeating the 2,000-3,000 Guatemalan insurgents, Rios Montt also has instituted some reforms designed to restore the government's domestic and international legitimacy. Although he has had some success in improving human rights and containing corruption, he has moved more slowly toward his longer term goal of holding honest national elections and returning the country to civilian rule.

The government has succeeded, at least temporarily, in lessening the level of insurgent attacks. Death squad activity and killings attributable to national police elements also have been dramatically reduced, although human rights abuses--while declining--still occur in rural areas. A new counterinsurgency strategy combines military operations with civic action programs for Indian peasants, many of whom formerly supported the insurgents. The Army also is gaining support from local communities and has organized more than 300,000 civilians into civil defense forces.

Nevertheless, worsening economic conditions are a major threat to Rios Montt's administration. Depressed export markets,

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regional turmoil, and an inability to obtain foreign loans have exhausted Guatemala's exchange reserves and precipitated a decline in national output which will last at least through this year. The government is responding with tough austerity measures, which, though necessary to obtain an IMF loan, could generate political opposition.

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Further shrinkage of the economy will substantially raise an already high unemployment rate. The government also may have to cut back on social services and small development projects in the predominately Indian areas. Both eventualities could spur popular discontent and indirectly assist the guerrilla recruitment effort.

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Costa Rica

Since his inauguration in May 1982, President Monge has returned Costa Rica to a course more consistently in line with US interests in Central America and less given to the political and economic eccentricities that characterized the preceding Carazo government. In particular, Monge has conducted a tough diplomatic offensive against subversion by Nicaragua, taken a leading role in the regional effort to isolate both the Castro and Sandinista regimes, and embarked on a sorely needed economic austerity program. These policies have generated strong popular support, even in the face of reduced living standards in a nation unaccustomed to economic deprivation.

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Monge realizes that Costa Rica's badly faltering economy is his major domestic challenge. Faced with near triple-digit

inflation and one of the world's highest foreign debts in relation to GDP, he has enacted tough measures to reduce public-sector deficits, increase credit for the private sector, lift fixed prices for some basic food items, and achieve a more realistic exchange rate regime. In addition, negotiations between San Jose and foreign creditor banks for rescheduling major amounts of commercial debt are well advanced. IMF financial and policy support, together with eased debt servicing burdens may enable Costa Rica to maintain present output levels in 1983 and begin a sustained recovery in 1984.

Nevertheless, Monge knows that his support could evaporate and labor agitation could grow if living standards continue to decline and unemployment mounts. So far, however, he generally has prevailed in disputes with leftist-led labor unions, whose attempts at strikes and other disruptive actions have failed to elicit popular backing.

These failures, including the protracted Communist-backed banana workers' strike last year, are in part attributable to Monge's public charges that Nicaragua is orchestrating labor unrest through its contacts with local extremists. Although small and generally non-violent, the country's major Communist political grouping effectively controls 50,000 workers, particularly in some vital agrarian and transportation industries. Monge thus is concerned that mounting economic difficulties will lead to additional labor problems, thereby giving Nicaragua an opportunity to retaliate for his tough anti-Sandinista line.

Honduras

25X1 President Suazo, the first civilian president in over a decade, has gained widespread popularity for his efforts to stop official corruption and restore fiscal responsibility. He established from the outset a harmonious relationship with Armed Forces Commander Alvarez and with other senior military officers. The military, however, has retained a strong voice in foreign affairs and national security issues. []

25X1 Containing Nicaragua is the government's most pressing external concern. International attention has focused on alleged Honduran cooperation with anti-Sandinista forces operating along the border with Nicaragua. In addition, the Hondurans have aided the Salvadoran Army by providing helicopters and troop support against the guerrillas. []

25X1 As a result of these policies, foreign-inspired terrorism is on the rise. Honduran radical leftists, with Cuban, Nicaraguan, and Salvadoran assistance, appear determined to escalate their campaign against Tegucigalpa's pro-US policies. Although the left currently has only limited popular appeal, the Suazo administration worries that a declining economy could eventually lead to social unrest. []

25X1 The government has reason to be concerned. National output declined last year and may again this year because of slumping commodity export prices, regional instability, and a scarcity of foreign credit. President Suazo has cut back substantially on public sector expenditures in order to qualify for an IMF loan, though Honduras' ability to meet the Fund's conditions remains in

doubt. Adherence to the IMF program and a successful
rescheduling of some foreign debt will likely be crucial to
Tegucigalpa's hopes for economic revitalization

Stagnating economic activity, high unemployment, and
tightening government austerity measures could lead to serious
political problems for the Suazo government. Although Suazo now
enjoys the support of labor, this backing could be eroded by wage
restraints, a continued rise in unemployed--already exceeding 25
percent of the labor force--and cuts in government social
services. Also, the government's inability under the austerity
program to push agrarian reforms could foment increasing peasant
unrest.

Nicaragua

During the past year, the Sandinistas have made important
strides toward consolidating power with the further development
of party structures and mass organizations. The regime continues
to give priority to political indoctrination through its
education policies, dominance of the national media, and militia
training program. In addition, the Sandinistas have proposed
laws on political parties, election procedures, and the media as
part of their announced plan to hold elections in 1985.

The state of emergency declared in March 1982 has been
instrumental in controlling political opposition. Opposition
parties are prohibited from organizing demonstrations and their
only newspaper is censored. Hundreds of opposition members

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25X1 reportedly have been arrested over the last several months for alleged "counter-revolutionary" activities.

Mounting economic problems, however, are generating popular dissatisfaction with the Sandinistas. The middle class, which generally supported the regime in the past, has become increasingly alienated by political restrictions and by the erosion of the private sector's role in the economy. The government's anti-business rhetoric and policies--including "state of emergency" controls over production and sales throughout the economy--have overshadowed official incentives to foster production. Although the regime has not exercised this authority, the private sector fears that the government will nationalize more businesses in the future.

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Even the working class, the primary source of broad-based support for the Sandinista government, has become dissatisfied with economic conditions. Because of subsidized health, education, and income redistribution policies, the working class generally has provided the most enthusiastic backing for the Sandinistas. This lower income group, however, appears concerned by inflationary pressures, mounting urban unemployment, and shortages of basic consumer goods. These symptoms of an unhealthy economy will put greater pressure on the Sandinistas to reevaluate their economic policies.

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SITUATION REPORT #2

SECRET

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Directorate of Intelligence

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SITUATION REPORT #3

SECRET

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Directorate of Intelligence

EL SALVADOR

SITUATION REPORT #4



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Directorate of Intelligence

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25X1

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Directorate of Intelligence

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