



Directorate of
Intelligence

MASTER FILE COPY

~~Secret~~



25X1

**DO NOT GIVE OUT
OR MARK ON**



**Latin America
Review**



25X1

15 June 1984

~~Secret~~

ALA LAR 84-011
15 June 1984

Copy **391**

Page Denied

[Redacted]

25X1

**Latin America
Review** [Redacted]

25X1

15 June 1984

25X1

	<i>Page</i>
Articles	
Brazil: Arab Involvement in Arms Production [Redacted]	1

25X1

Brasilia has followed up on its aggressive penetration of Middle Eastern arms markets by greatly expanding collaboration with its Arab clients, but the secretness of many such transactions could facilitate the transfer of Western technology to states hostile to the United States. [Redacted]

25X1

Eastern Caribbean: Regional Security After Grenada [Redacted]	5
--	---

25X1

25X1

The dramatic events in Grenada last October reemphasized to the small states of the region the need to develop a capability to defend themselves, and local leaders are now considering the possibility of creating a unified force to protect against foreign or domestic threats. [Redacted]

25X1

Suriname: Crisis Looming [Redacted]	9
--	---

25X1

Army Commander Bouterse's refusal to contemplate democratic and economic reforms is causing strains in the ruling coalition and could lead Prime Minister Udenhout and other moderates to leave the Cabinet. [Redacted]

25X1

25X1

25X1

[Redacted]

25X6

[Redacted]

[Redacted]

25X1

Uruguay: Resurgence of Labor [Redacted]

15

25X1

Uruguay's once-powerful labor movement has reemerged—wearing its old leftist stripes—and has the potential to influence the transition to civilian rule because of its ability to use economic grievances to mobilize large numbers of people. [Redacted]

25X1

Guatemala-Belize: Status of the Territorial Dispute [Redacted]

19

25X1

Although talks resumed last month in the latest effort to resolve Guatemala's longstanding claim of sovereignty over Belize, domestic constraints in both countries probably will prohibit either government from making the concessions necessary to reach an accord. [Redacted]

25X1

25X1

Briefs

Dominican Republic: IMF Talks Suspended [Redacted]

23

25X1

Mexico: New Governor Makes Good [Redacted]

23

25X1

Costa Rica: Power Shortage [Redacted]

24

25X1

[Redacted]

25X1

Articles have been coordinated as appropriate with other offices within CIA. Comments and queries regarding this publication may be directed to the Chief, Production Staff, Office of African and Latin American Analysis, [Redacted]

25X1

[Redacted]

25X1

25X1

Articles

Brazil: Arab Involvement in Arms Production

In recent years, Brazil has followed up on its aggressive penetration of Middle Eastern arms markets by expanding collaboration with Arab clients to include design, manufacture, and technical support. This practice has brought new investment capital as well as additional weapons sales. Moreover, in our view, cooperation with Iraq in rocket production could provide Brazil with an incentive to apply some technology acquired in its space launch activities to military use. Brasilia's willingness to sell arms to almost all comers, on the other hand, probably is increasing the weapons inventories of Libyan-backed insurgent groups in the Western Sahara and possibly Chad, and it could provide a conduit for Western technology to states hostile to the United States, such as Libya.

These developments have added implications for the United States in light of recent agreements with Brazil for collaboration on space and military matters. This cooperation offers the possibility of greater US influence over some Brazilian arms sales, but the secretiveness of many such transactions would make adherence to US requirements on technology transfer difficult to verify.

The Arms Industry

Since the 1970s, Brazil has become a world-class producer and exporter of war materiel. In little more than a decade, Brazil emerged as the largest manufacturer of armored cars outside the Warsaw Pact. Its aeronautical firm, Embraer, is now the sixth-largest general aircraft manufacturer in the Western world and is increasingly moving into the

international market for military aircraft as well. Three factors have contributed to this rapid growth:

- Brazil's weapons are dependable and use established rather than advanced technology.
- The government often is willing to accept trade arrangements in place of hard currency.
- Brazil, like many other arms exporters, allows its customers to use and resell its weapons without restriction.

Iraq—A Special Relationship

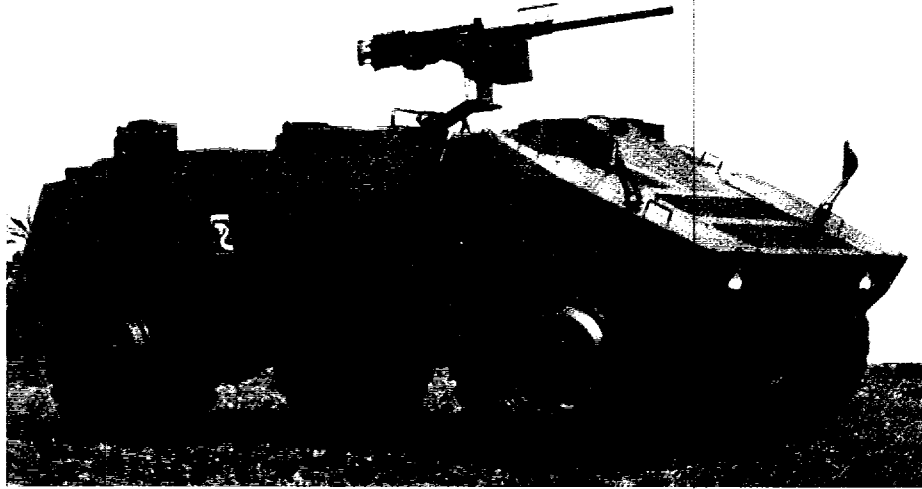
Brazil's extensive ties with its most important arms client date back to 1972, when Brasilia refused to participate in a boycott of Iraqi petroleum. By the late 1970s, Iraq had become Brazil's principal oil supplier. In addition, Brasilia contracted to explore for oil in the Middle Eastern country and discovered the significant Majnoon oilfields, which, in our judgment, cemented the economic relationship.

Arms have been among Brazil's principal exports to Iraq. Weapons agreements were first documented in 1978 at \$108 million, and soon thereafter deliveries of almost 300 armored vehicles began. After the outbreak of war with Iran in late 1980, Iraq sought new arrangements with Brazil and, in late 1981, signed an agreement to import more than \$500 million in Brazilian arms. Since then, Brazil has continued to deliver armored vehicles, ammunition, and rockets under existing contracts.

The largest cooperative project so far—a \$500 million deal for the manufacture of the Astros multiple

EE-3 Jararaca scout car [redacted]

25X1



Brazilian Defense Equipment ©

surface-to-surface rocket launching system [redacted]

25X1

Plagued by technical and financial problems, the program is running a year behind schedule. Brazil soon may be able to send two prototypes to Iraq for testing, however, and the first production models could be ready for shipment as early as the end of this year. [redacted]

install a filtering system to enable it to operate in a nuclear, biological, or chemical warfare environment. We believe these modifications were undertaken specifically to accommodate the Libyan order, although the identity of the end user—Libya, Iran, or one of Tripoli's insurgent clients—remains unclear.

25X1

[redacted] Libya already may have transferred some of its Brazilian-made weapons to insurgent associates. [redacted]

25X1

25X1

Iraq is also searching for more powerful missiles and has shown an interest in Brazil's space program. [redacted]

25X1

[redacted] Late last year, a Libyan official signed protocols of intent to buy from Brazil over \$1 billion worth of tanks, artillery, rockets, and aircraft. [redacted]

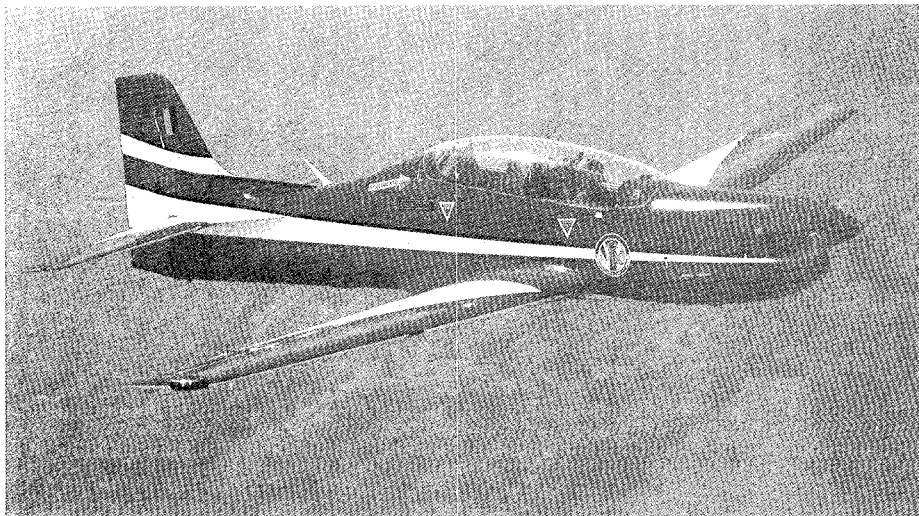
25X1

Libya
Libya—the second-largest purchaser of Brazilian arms—is also playing a greater role in the design of specific weapons systems. Last year, [redacted] negotiations for the sale of 180 Jararaca armored vehicles to Libya. Soon thereafter the press announced that Engesa would equip the vehicle to fire antitank missiles and would

25X1

25X1

Tucano trainer/light ground attack aircraft. [redacted]



Aviacao

25X1

available in 1985-86. Recent press reports indicate that last year Libya also offered to finance development of the Osorio. The president of the firm making the tank, however, claims to have signed a contract worth over \$2 billion with Saudi Arabia to develop and produce the vehicle, suggesting that the Saudis also may be involved in the program. Even if Tripoli is not the main backer, the firm's president remains optimistic regarding sales to Libya and Iraq.

[redacted]

Syria and Kuwait

Damascus reportedly has approached Brazil with a request to buy 50 to 100 armed helicopters for itself and Iran. This deal involves at least one configuration with antitank missiles fitted to Brazil's French-designed Esquilo helicopters. Progress has been impeded, however, by political uncertainties in Syria

[redacted]

Another Brazilian firm reportedly has negotiated a contract with Kuwait for 422 Urutu armored cars, which are to be mounted with a one-man turret equipped with an integral TOW antitank missile

launcher. As of early June, design work was continuing on the project, [redacted]

[redacted] although the visit of a Kuwaiti inspection team had been postponed. [redacted]

25X1
25X1
25X1

Local Arms Manufacture and Technical Support

Arab arms clients have spurred a new development in the Brazilian arms industry—the export of entire factories for weapons assembly and technical support. According to press and [redacted] Brazil will sell 10 Brazilian-built Tucano trainer/light ground attack aircraft to Egypt, which then will assemble at least 110 more under the auspices of Cairo's Arab Organization for Industrialization. Eighty of these are destined for Iraq, and the remaining 40 are for the Egyptian Air Force. The \$100 million package, the first substantial transfer of weapons technology abroad by a Brazilian firm, includes training, flight simulators, and an option for the purchase of an additional 60 Tucanos. [redacted]

[redacted]

25X1

25X1

We believe the Arab connection also may have improved the ability of Brazilian technicians to service and support Soviet and Western equipment in

25X1

Secret

Third World countries. The Brazilians already are familiar with a wide range of US armored vehicles,

[Redacted]

Prospects

Brazil's shortage of capital and the Arab states' continued interest in purchasing Brazilian weapons point to further cooperation in arms production. Although the size of recent Arab arms deals may strain Brazil's ability to produce and deliver some kinds of weapons, the largest aviation and armored vehicle firms have established records for reliability and would probably be able to fill most contracts on time. [Redacted]

Brazilian defense firms' heavy dependence on Middle Eastern markets and sources of investment carries several risks, in our view. Libya's commercial relations often have been erratic, and trade with Iraq is contingent on a number of variables:

- Baghdad may not be able to pay, or to persuade the Saudis to pay, for arms imports.
- The end of the Iran-Iraq war would dampen demand.
- Improved ties with the Soviet Union could lessen Baghdad's overall interest in Brazilian arms. [Redacted]

Aggressive sales efforts in Latin America and Africa are attracting new customers, but these markets are limited and could not compensate for the loss of Middle Eastern clients. Given Brasilia's financial woes, the armed forces likewise would be unable to pick up much of the slack. [Redacted]

Implications for the United States

We believe the continued expansion of Brazil's arms industry poses both problems and opportunities for the United States. On the positive side, Brazilian weapons producers could contribute to US interests by arming states that the US supports but for a variety of reasons, is unwilling to sell to directly. Moreover, some Brazilian weapons—simple, light armored vehicles, for example—present attractive alternatives to equivalent Soviet equipment because of their simplicity, reliability, and low cost. Their purchase by

Third World countries could not only displace Soviet materiel but also reduce the number of Soviet technicians in a particular country. [Redacted]

In areas where Brazilian and US interests diverge, however, the secrecy, export orientation, and clientele of Brazil's arms industry are likely to pose problems for Washington. Improved cooperation in military production could enhance the ability of the United States to influence Brazilian arms sales, but carries the risk that aspects of US technology could be transferred to hostile states such as Libya—or their terrorist or insurgent associates—by means of derived or imitative Brazilian technology. The growth of cooperative projects such as the joint rocket program with Iraq, moreover, carries the potential for the introduction into regions of conflict of longer range weapons incorporating advanced technology. In addition, because only a fraction of Brazilian arms production is used domestically, US technological cooperation probably will help improve the competitive edge of Brazilian weapons manufacturers more than it will contribute directly to the modernization of Brazil's armed forces. [Redacted]

[Redacted]

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

Eastern Caribbean: Regional Security After Grenada

25X1

The dramatic events in Grenada last October reemphasized to the small states of the Eastern Caribbean the need to develop a capability to defend themselves against foreign or domestic threats to their security. Several now believe the two-year-old Regional Security System (RSS) ought to be expanded significantly, and local leaders also have been discussing a new concept of a Caribbean Defense Force. There is no consensus, however, on the composition or role of this force, or how it would be funded. The RSS has been heavily dependent on funding from the United States, in addition to support from the United Kingdom and Canada, and the envisioned Defense Force would be more so. That and the lack of agreement among member states almost ensure that present plans will have to be scaled back to reflect financial and political realities.

Mission and Organization of RSS

The Regional Security System was created as a result of the memorandum of understanding signed in October 1982 by Barbados, Antigua, Dominica, St. Lucia, and St. Vincent. It was designed to fill the security gap left by Britain's departure after many Eastern Caribbean states gained independence. The agreement provides for the development of a self-defense capability by its members and enables any state to call upon the others to help put down a threat from a foreign or extralegal group. Other functions include drug interdiction, maritime search and rescue, and coping with natural disasters.

The newly independent island state of St. Kitts-Nevis was admitted to the RSS last February, and there are plans to invite Montserrat and possibly Anguilla and the British Virgin Islands when they become independent. Grenada is also expected to join the RSS sometime after national elections are held. Five of the RSS members pay \$40,000 each annually, 55 percent of the total cost, and Barbados provides the remaining 45 percent or \$175,000. Barbados also serves as the administrative headquarters of the RSS, and its

Regional Security Forces

Barbados Defense Force:

- Army includes 275 active-duty personnel and equal number of reserves, equipped with rifles and machineguns.
- Coast Guard, with 90 personnel and no reserves, has one 125-foot patrol boat, one 65-foot patrol boat, two 75-foot shrimp trawlers, and three 41-foot patrol craft.
- Police force of 350, of which 60 are in Special Security Unit.

25X1

Antigua Defense Force:

- Army of 60 with few reserves.
- Coast Guard with 10 to 15 personnel, no reserves, and one 65-foot patrol boat.
- Police force of 350; 60 in Special Security Unit.

25X1

25X1

Dominica:

- Coast Guard with one 65-foot patrol boat.
- Police force of 325; 80 in Special Security Unit.

25X1

St. Lucia:

- Coast Guard with one 65-foot patrol boat.
- Police force of 375, of which 80 are in Special Security Unit.

25X1

St. Kitts-Nevis:

- Police force of 275; 40 in Special Security Unit.

25X1

25X1

St. Vincent:

- Coast Guard with 20 to 25 personnel, no reserves, and one 65-foot patrol boat.
 - Police force of 325, of which 65 are in Special Security Unit.
-

25X1

Secret

ALA LAR 84-011
15 June 1984

Secret



US advisers training special security units on
Dominica (left) and St. Lucia [redacted]

efforts are coordinated by Col. Rudyard Lewis,
commander of the Barbados Defense Force. [redacted]

Under the original agreement, each member provides
40 personnel to the RSS for a total force of 240. Only
Barbados and Antigua have regular defense forces to
draw on. The other states have 40- to 80-member
Special Security Units composed of police personnel
with paramilitary training. Approximately 140
personnel from the RSS, in addition to almost 300
members of the Jamaican Defense Force, are now in
Grenada as part of the Caribbean Peacekeeping Force
[redacted]

US and Other Support to the RSS

Because of the limited financial resources of many
member states, United States assistance is vital to the
RSS. The United States has provided training and
material support through the Military Assistance
Program, the International Military Education and
Training Program, and the Caribbean Peacekeeping
Operation. Before the Grenada intervention, US
military assistance to the Eastern Caribbean
amounted to less than \$1 million per year. In 1984 the
total funding provided by these various programs will
be over \$22 million. [redacted]

The Peacekeeping Operation provided \$15 million in
1984 to the Special Security Units of member
states—except St. Kitts-Nevis—for weapons,
equipment, transportation, and training to perform
their duties in Grenada. In addition, the other two
programs provided \$7 million in 1984. Three 65-foot
patrol boats, costing \$100,000 each, were provided to
Antigua, Dominica, and St. Lucia in late April under
the Military Assistance Program. It will cost an
additional \$100,000 per year to equip and maintain
each of these boats. [redacted]

Proposals for FY 1985 funding, now before Congress,
include \$5 million for the Military Assistance
Program and \$5 million for the Peacekeeping Force.
To pay the operating expenses incurred in fulfilling
their peacekeeping role in Grenada, the participating
states—not including Jamaica—have requested an
additional \$10.5 million to cover the period from
25 October 1983 through 31 October 1984. [redacted]

Most of this assistance over the next five years will be
utilized to improve and strengthen the RSS. Future
priorities include air and sea transport, armored

25X1

25X1

25X1

25X1

25X1

25X1

Secret

6

Secret

Plans for Improving the Regional Security System: 1985-90

Air and sea transport for rapid reaction:

- Three helicopters with nine-passenger capacity, or STOL aircraft that can carry 12 passengers and two jeeps (estimated cost: \$10 million).
- Two landing craft (estimated cost: \$2.4 million).

[redacted]

Armored ground capability to prevent ambush:

- Two armored personnel carriers for each member state (estimated cost: \$1.8 million).
- Basic weapons and equipment upgrade (estimated cost: \$1.5 million).

[redacted]

Naval patrol capabilities:

- One 110-foot patrol boat for northern tier of islands (estimated cost: \$2 million).
- Replacement weapons for older patrol boats of the Barbados and St. Vincent Coast Guard (estimated cost: \$175,000).

[redacted]

ground transport, a greater naval patrol capability, and improvements in basic weapons with an estimated cost of over \$17 million. [redacted]

The United Kingdom and Canada have provided a limited amount of assistance to the RSS, primarily for training. Britain has furnished some \$10 million in aid, including training at Sandhurst and the Royal Marines infantry training course. Canada has provided a total of \$13 million, most of it for a Coast Guard training program. [redacted]

New Caribbean Defense Force Concept

Leaders of RSS member states, who have been studying the possibility of establishing a new Caribbean Defense Force, raised the issue during a meeting with Secretary of State Shultz last February in Barbados. The new concept envisions a land forces element in the RSS, which is now essentially a coast guard force. Proponents believe that one regional army could better deal with external aggression or mercenaries than several small national armies. They contemplate a standing army of 1,800 personnel based

in Barbados and commanded by Colonel Lewis—an arrangement similar to the Caribbean Peacekeeping Force on Grenada. Able to react rapidly to any emergency, the force would be equipped with armored personnel carriers, antitank weapons, and mortars. It would also have an air wing and three 164-foot patrol boats at its disposal. The cost of establishing such a force would be high—\$170 million over a five-year period and \$27 million per year in recurrent costs thereafter. [redacted]

25X1

According to the US Embassy in Bridgetown, however, the Eastern Caribbean leaders disagree on the composition and role of the new force as well as on how it would be financed. Barbados Prime Minister Adams has been the prime proponent of the proposal, which also has the general support of the Government of St. Vincent. St. Lucia Prime Minister Compton told the Embassy that he regards the idea as “much too ambitious,” but otherwise supports it. [redacted]

25X1

25X1

25X1

The main critic has been Dominica Prime Minister Charles, who is against the concept of a “standing army” as a result of her bad experiences with the Dominica Defense Force, which she disbanded after a coup attempt in December 1981. She is also concerned about how to foot the bill for the new organization once it is set up. Antigua’s military leaders already are jealous of Barbados’s large role in the RSS and want no expansion of the present cooperative effort, according to the Embassy. [redacted]

25X1

25X1

25X1

The Embassy also notes Prime Minister Adam’s view that Barbados, St. Vincent, and St. Lucia—the original nucleus of the RSS—might move ahead on their own. Otherwise, Adams predicted, it would take a long time for all six states to get their act together. [redacted]

25X1

25X1

Outlook

In the four months since the February meeting, no consensus has emerged among the Eastern Caribbean leaders regarding the composition and role of the Caribbean Defense Force or, more importantly, how it would be funded. The United States has informed

Secret

Secret

the leaders that it is not in favor of creating a regional standing army and that the plan is too ambitious in scope and cost, according to the Embassy. The United Kingdom and Canada also do not support the concept and, according to the Embassy, there is no chance that they would consider assistance to a military instead of a police force, nor would they provide airlift support for such an organization.

25X1

According to Embassy officials, until more thought is given to the concept by regional military planners and political leaders, the United States will limit itself to improving the capabilities of the RSS. Only after an agreement is worked out by the Eastern Caribbean leaders will the United States determine the extent of its participation in the training and equipping of the new Caribbean Defense Force.

25X1

25X1

Secret

Suriname: Crisis Looming [redacted]

25X1

Army Commander Bouterse's refusal to contemplate democratic and economic reforms, which he sees as unacceptable threats to his power, is causing strains in the ruling coalition and could lead to the departure from the Cabinet of Prime Minister Udenhout and other moderates. The accelerated pace of economic deterioration has added a sense of urgency to the political impasse. With foreign exchange reserves nearly depleted, the country must impose harsher austerity measures regardless of the outcome of negotiations with the IMF. The tense situation could lead to violence and a larger role in the government for Bouterse's leftist advisers. [redacted]

The loss of revenue from bauxite exports and the suspension of planned taxes as part of the strike settlement also widened the budget deficit this year. Government readiness to finance most of this deficit by borrowing from the Central Bank has dried up credit to the private sector. [redacted]

25X1

The IMF this month is likely to recommend slashing the budget deficit, halting Central Bank credit to the public sector, and possibly devaluing the guilder.

[redacted]

25X1

25X1

Without an IMF

program, however, most Western lenders will continue to keep their distance, and the country's financial crisis will be prolonged. [redacted]

25X1

The US Embassy reports that the mood of optimism that accompanied the formation of the interim cabinet in February, following the monthlong strike by bauxite workers, has dissipated. The diverse military, labor, and business interests in the Cabinet have failed to reach agreement on how to return Suriname to democracy or to halt the nation's economic decline. As a result, the business community is disillusioned and the trade unions are becoming restless, according to the Embassy. [redacted]

Bouterse, Udenhout, and the Left

Bouterse has undermined Udenhout's position, and most officials—recognizing Udenhout's lack of influence with Bouterse—see no reason to back the Prime Minister [redacted]

25X1

25X1

The Economic Scene

The bauxite workers' strike further damaged an economy already suffering from government mismanagement and the suspension of generous Dutch aid in December 1982. [redacted] the strike cost Suriname as much as \$74 million in anticipated foreign exchange earnings this year, forcing the government in March to declare a virtual ban on imports. [redacted]

Udenhout has been able to get some cosmetic reforms by Bouterse, but the Army commander probably sees further liberalization as a threat to his power. Although censorship was partially lifted last month, private media outlets are still severely restricted. Similarly, the Prime Minister fired several leftist radicals from government posts, only to have Bouterse later appoint some of the same officials to key positions in the economic and foreign affairs ministries. They are now in positions to block Udenhout's efforts to obtain Western financial assistance. [redacted]

25X1

25X1

25X1

The import ban is cutting deeply into living standards. About 70 percent of the country's consumer goods were imported last year, and shortages of some foods are now occurring. The US Embassy reports there is increasing talk of hoarding and evidence of price gouging. [redacted]

25X1

25X1

Secret

Bouterse probably has regained the confidence that he lost during the bauxite strike, and his fears of a US invasion after Grenada—reflected in his expulsion of Cubans from Suriname last October and his reluctance to use force against the striking workers—probably have receded. His primary goal remains the preservation of his power, and he may have reached the limit of his willingness to compromise. [redacted]

Tensions could reach a breaking point next month, when a new budget is to be announced and after the pipeline of imports ordered before the ban in March is exhausted and current stocks are depleted. Moreover, possible government moves to initiate new tax measures or spending cuts could spark unrest reminiscent of the bauxite strike earlier this year. [redacted]

25X1

Bouterse's main political weakness is a lack of popular support, which he hopes to regain with his leftist-oriented National Unity Movement. In recent weeks, he has intensified efforts to improve the Movement's ability to mobilize and regiment the population. The Movement's program calls for the establishment of an authoritarian "revolutionary democracy" and a centrally planned economy. [redacted]

Bouterse probably recognizes a need for the expertise of the business sector and the political backing of the labor unions, and has shown restraint in the past in dealing with striking workers. Nevertheless, he is likely to rely increasingly on the hardline approach advocated by his pro-Cuban leftist advisers, while blaming Udenhout and the moderates for any serious unrest that develops. [redacted]

25X1

25X1

25X1

Outlook

The Finance Minister will have a difficult time selling Bouterse on an IMF package that probably will require controversial tax increases, and deep cuts in military spending and the public payroll. Recent articles in the Surinamese Army journal strongly opposed the IMF, and Bouterse recently declared he would not allow the Fund to dictate to Suriname. Moreover, he has asked his leftist advisers to consider the advisability of accepting an IMF package in light of recent riots in the Dominican Republic over austerity measures. [redacted]

[redacted]

25X1

The business sector is unlikely to support tax hikes and budget cuts until the military shows more evidence of frugality. Increasingly concerned about the growing shortages of producer goods and the tightening credit situation, business is likely to hedge its bets by sending more money out of the country, or by emigrating. [redacted]

25X1

25X1

Secret

Page Denied

Next 2 Page(s) In Document Denied

Uruguay: Resurgence of Labor [redacted]

25X1

After 10 years of relative inactivity, Uruguay's once-powerful labor movement has reemerged—wearing its old leftist stripes—as a significant force. Its primary concern is the improvement of economic conditions for workers. The ability of labor leaders to mobilize large numbers of people to press economic grievances also gives them potential influence over the transition to civilian rule which, while scheduled for early next year, is currently stalled. We believe that labor leaders are more interested in exploiting current tensions between the military government and civilians to advance their own interests than in pressing President Alvarez to proceed with the transition. [redacted]

The labor movement operates as a relatively independent political force, despite its ties with Communists and other leftist groups. The country's two major political parties have avoided an alliance with the unions out of fear of an eventual government crackdown as well as jealousy at labor's success in projecting itself into the political arena. For his part, Alvarez seems not unhappy with labor activism. He has thwarted preparations for the transition to civilian rule, and he probably hopes that increased strikes and demonstrations will persuade both the military and political moderates to delay the process. [redacted]

Background

The leftist-controlled labor movement reached a peak of activity in the early 1970s, then was all but crushed during the military coup in 1973. The armed forces banned the leading labor confederation, the Communist-dominated National Confederation of Workers (CNT), and continued for the rest of the decade to suppress most union activity. Labor networks seemed to atrophy under military rule, and major strike activity ceased. According to US Embassy reporting, the sole labor organization allowed to operate during this time—the non-Communist General Confederation of Uruguayan Workers (CGTU)—was for the most part divided and ineffective. [redacted]

Following a military decision in 1981 to set a timetable for the restoration of civilian rule—currently scheduled to take place next March—the government began relaxing controls on labor to encourage the growth of non-Marxist trade unions. It permitted unions to organize officially and bargain collectively, which diffused some of the growing, recession-fueled labor frustration. Additional legislation approved in March eased restrictions on strikes in the public sector, although the government still considers general strikes illegal. [redacted]

25X1

Leftist Labor Reawakening

The military probably considered the CGTU well positioned to take advantage of the increased labor freedom, but the confederation had steadily lost public support over the years. According to US Embassy reporting, close identification with the military government and discredited and corrupt leadership caused the decline of the CGTU. In mid-1983 a new confederation, the Inter-Union Workers' Assembly (PIT), emerged as the preeminent labor organization in Uruguay. [redacted]

25X1

PIT's orientation is decidedly left of center; [redacted]

25X1

25X1

The US Embassy reports that leaders of the Assembly say they do not want workers divided along ideological lines, but that the Assembly has become increasingly identified with the old Communist National Confederation of Workers. For example, members of the PIT advisory commission serve as officials of the banned CNT. At the May Day rally this year, some banners and placards equating the PIT with the Confederation were seen. [redacted]

25X1

PIT's success in attracting members seems to be based on its organizational strength and its willingness to confront the government. The Assembly

25X1

Secret

sponsored a highly successful nationwide general strike in January, and the subsequent government attempt to ban PIT served only to drive it underground. Judging by its ability to organize the May Day rally in Montevideo—which, according to US Embassy and press reports, drew between 100,000 and 450,000 people—much of PIT's structure is intact and its appeal is strong. [redacted]

Since its reemergence, the focus of labor's activism has been primarily economic. Reductions in real wages, high interest rates, and increases in unemployment and inflation have stirred workers to press for wage hikes, further recognition of union rights, and improvements in working conditions. Labor has also lobbied, although less aggressively, for a return to democracy. According to press reports, among PIT's demands prompting the general strike were freedom for political prisoners and respect for civil liberties. [redacted]

Political Party Reaction

The emergence of the Workers' Assembly as a well-organized force with a potential for considerable political influence has added further tension to the civilian-military impasse over the transition to civilian rule and the nature of postelection institutions. The political parties, which have failed to develop an effective strategy to press the armed forces to move forward with liberalization, remain wary of the PIT's political role. Following the decision by PIT leaders to exclude the political parties in the May Day rally, the politicians demanded—and subsequently got—an apology. [redacted]

Neither of the two traditional political parties—the Blancos and the Colorados—appears willing to accept labor as an equal partner in pressing the military to move forward with the transition. Labor also has avoided affiliation with either party, even though each spans the ideological spectrum. Moderate factions of both parties fear that aligning with a leftist labor movement will taint them and invite harsh government reaction. According to US Embassy reporting, for example, moderate politicians supported the economic goals of the general strike in January, but felt its timing inopportune and potentially damaging to the fragile democratic opening. Furthermore, they believed it was inappropriate for

labor to make political demands. The left wings of each party, on the other hand, endorsed the strike, believing it would further press the government into accepting their conditions for the general elections scheduled for November, including restoration of political rights to opposition political figures. [redacted]

Government Strategy

Surprisingly mild official reaction to the unions' new vigor suggests that the government believes labor activism will serve its own purposes. Alvarez, who has long tried to extend his term of office, may hope that the specter of a militant leftist labor movement will force his military colleagues to reconsider their commitment to the transition. Moreover, [redacted] he appears to be convinced that moderate Uruguayans will support his ambitions if confronted with widespread civil disorder, reminiscent of that which prompted the 1973 coup. [redacted]

This could account, at least in part, for Alvarez's fairly permissive response to growing labor activism. He did not, for example, take any action to prevent the general strike in January. Although the government subsequently declared PIT illegal and prohibited media coverage of strike activities, no top labor officials were arrested, and Alvarez permitted PIT to organize and control the May Day rally. He also failed to respond to the bus workers' violation of the strike law in April, allowing workers to return to work without penalty and agreeing to form a study commission. [redacted]

Prospects

Labor leaders probably will cooperate with various factions of the political parties only to the extent that their views on issues and strategy coincide, and most likely will gravitate toward leftists in the Blanco Party. They are unlikely to tie their fate too closely to any political organization, however, given current political uncertainties and the parties' ineffectiveness in dealing with the military. [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

For its part, the military is likely to continue loosening restrictive controls on labor, while still attempting to influence the direction and development of the movement. Nevertheless, the regime has doggedly insisted through words and actions that it intends to maintain control over the transition. If labor threatens that control--in our view--it would encounter stiffer repression.

25X1

25X1

Guatemala-Belize: Status of
the Territorial Dispute

25X1

Guatemala's efforts to end its international isolation by improving its image abroad include a continuing campaign to resolve a longstanding claim of sovereignty over Belize through negotiations. Although talks resumed last month at Chief of State Mejia's initiative, we believe that domestic constraints in both Guatemala and Belize—including national elections—will prohibit either government from making the concessions necessary to reach an accord. Mejia is holding to his demand for a small territorial cession by Belize that has been previously rejected by Prime Minister Price. Despite the continuing impasse in the talks, Mejia has shown no inclination to enforce Guatemala's claim militarily.

The Guatemalan Perspective

Mejia's policy priorities at present are primarily domestic. His foremost objective is the defeat of some 2,000 insurgents, while also trying to maintain progress toward eventual civilian rule by guiding Guatemala through the constituent assembly election scheduled for 1 July and through presidential elections next year. Additional challenges include a stagnant economy and a threatened cutoff of an IMF standby agreement.

Regionally, Mejia's preoccupation with the guerrillas has led him to give priority to border problems with Mexico, which he believes functions as a critical insurgent safehaven and resupply base. Paradoxically, the Guatemalans believe that the British troop presence in Belize—part of the agreement on Belizean independence from the United Kingdom in 1981 and intended to prevent aggression by Guatemala—inhibits similar use of Belizean territory by the insurgents. Guatemala therefore fears that a resolution of the territorial dispute could speed the departure of British troops and leave Belize without adequate security guarantees against insurgent inroads.

Nevertheless, Guatemalan leaders are keenly aware that they must improve the country's poor image abroad if they are to secure financial and military aid for the counterinsurgency effort. We believe they view resolution of the Belize dispute as one step toward ending Guatemala's regional and international isolation. In our view, they would be interested in achieving a settlement if it were to include a small territorial concession by Belize, broader access to the Caribbean, and a continuing security arrangement between Belize and the United Kingdom to deter leftist subversion and insurgent activity.

25X1

Mejia's Negotiating Position

General Mejia has not fundamentally altered Guatemala's bargaining position of the past several years. Despite his recent call that the soon-to-be-elected constituent assembly include a claim to all Belizean territory in a new draft constitution, Mejia tabled a proposal last September and again in May for only a limited transfer of territory. Foreign Minister Andrade told US Embassy officials that Guatemala requires at a minimum a 2.5-mile-wide strip of coastline running approximately 18 miles north from the border, along with the southernmost offshore cays. Mejia apparently believes that this would ensure that Guatemala's access to the Caribbean is not dependent on the terms of a treaty with a potentially unstable Belize. Andrade noted that an acceptable alternative would be the cession of all Belizean territory south of the Mojo River, a proposition previously rejected by Belize. The Guatemalan military is unlikely to support any accord that does not include a Belizean territorial concession.

25X1

25X1

25X1

The Guatemalans believe their proposal—which they view as a major concession likely to cause substantial political controversy at home—places the onus of

25X1

Secret

resolving the dispute on the British and the Belizeans. Mejia and Andrade are trying to make the present proposal more attractive by asserting that the rightist-dominated constituent assembly likely to be elected on 1 July will adopt a harder line and resort to militaristic threats. Indeed, we judge that a negotiated settlement would be more difficult to achieve once the assembly is seated, particularly if it includes a claim to Belize in the new constitution.

[redacted]

A Military Solution

Guatemala has not resorted to military action over the 140-yearlong evolution of the Belize dispute, nor has Mejia apparently considered the use of force now, which he recognizes would be condemned internationally. Moreover, any attempt to annex Belizean territory would divert scarce economic and military resources from the counterinsurgency effort. As a result, we believe that only the prospect of an imminent British troop withdrawal could move the Guatemalans to consider military action. Even then, however, we judge the Guatemalans probably would only undertake small-scale incursions into Belize under the guise of "hot pursuit" of the guerrillas to induce the British to remain and thereby protect Guatemala's own security.

The View From Belize

Belize's independence and territorial integrity have overwhelming international support. In our judgment, Prime Minister Price probably will not be any more receptive to a territorial concession, however minimal, than he has been in the past. Price believes that over time Guatemala will be forced to recognize Belize's territorial integrity. As long as the British maintain their military forces in Belize to deter Guatemalan adventurism, we judge Price will resist a settlement based on a territorial cession and permit time to work in Belize's favor.

[redacted]

Belizean negotiators continue to offer Guatemala the use of the southernmost cays, road access to the southern Belize port of Punta Gorda, and a free port area in that town. Belmopan also agrees to limit its

territorial sea claim along its southern coast to 3 miles to ensure that Guatemala has a well-defined sea corridor to the open Caribbean. Belize, according to US Embassy reporting, may be willing to lease some uninhabited mainland territory, but negotiation of a lease or purchase of land would be arduous and politically sensitive in both countries.

Price must weigh the relative advantages of making concessions now in order to guarantee Belize's long-term security, or of holding out in the hope of eventually reaching agreement on Belizean terms. He is aware that a rightist civilian government in Guatemala could adopt positions far tougher than those now proposed by Mejia and the military. US Embassy reporting shows that the Belizeans also fear that any treaty agreement reached with the present military government could, however, be overturned by a civilian regime with an electoral mandate. Moreover, resolution of the territorial issue also would hasten the withdrawal of British troops, a move that would jeopardize Belize's security, damage the economy, and raise apprehension in Guatemala regarding Belize's political stability.

Price told the US Ambassador late last year that he is attempting to keep the dialogue with Guatemala alive, but we see nothing that would sufficiently compel the Belizeans any time soon to concede the territory essential for an agreement. Price is facing a tough electoral challenge this year and is unlikely to be able to gain bipartisan support for an accommodation with Guatemala. Moreover, he has been assured by the United Kingdom that its forces will remain at least until after the Belizean election. Price is, therefore, likely to defer any major decisions until after the election, when he has a better view of British intentions and of the course of political developments in Guatemala.

Outlook

Neither a negotiated settlement nor a Guatemalan attempt to annex territory militarily are likely during the next 12 months. Although discussions concerning the cession of an uninhabited cay or the lease of Belizean territory hold some hope of compromise, we

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

expect domestic events in both countries over the next year to complicate the negotiations process. In our opinion, only the rapid and total withdrawal of British forces could move the negotiations beyond their current impasse by intensifying pressure on Belize to agree to Guatemalan terms. A British withdrawal, however, would also increase the prospect of Guatemalan military action.

25X1

25X1

Secret

Latin America
Briefs**Dominican Republic**IMF Talks Suspended

25X1

President Jorge Blanco's decision in late May to suspend negotiations with the IMF could result in even greater austerity and the loss of promised foreign commercial and official financing. According to the US Embassy, Santo Domingo objected to the Fund's proposal for the immediate shift of some petroleum imports to a costlier foreign exchange rate. The opposition, as well as some ruling party leaders, charged that the measures would lead to unacceptable hardships and new violence similar to the riots that broke out last month over increased food prices. Without new loans, the government will find it difficult to sustain imports of basic commodities—many of which already are in short supply—and to service its \$3 billion foreign debt. Although Santo Domingo is likely to try to negotiate easier terms on a standby loan from the IMF in the future, the Fund probably would not agree to any major changes in the proposed austerity measures.

25X1

MexicoNew Governor Makes Good

25X1

A promising start by the new governor of Yucatan—Victor Cervera Pacheco—is improving the image of the ruling Institutional Revolutionary Party (PRI) in an important rural state. Cervera Pacheco was selected by President de la Madrid to replace the elected governor, whose inability to handle conflicts among key interest groups was damaging party unity. In keeping with nationwide PRI efforts to be more responsive to local concerns, Cervera Pacheco has staffed his Cabinet with “hometown” boys familiar with the state's problems. According to US officials, his proposals for rural reforms, industrial expansion, and improved tourism are also earning high marks.

25X1

Cervera Pacheco's most crucial job is to revitalize the ruling party in Yucatan before state and local elections scheduled for November. The center-right National Action Party has pockets of strength in the state, and Mexico City is anxious to prevent it from adding to the impressive string of electoral victories it turned in last summer. Despite the new governor's solid beginning, his task will not be easy. The PRI's local apparatus is highly factionalized, particularly in the peasant sector. US Embassy sources also report that Cervera Pacheco has longstanding enemies among the state's political elite.

25X1

25X1

Secret

We expect the administration to pull out all the stops in support of the governor. Federal authorities reportedly are behind a gerrymandering scheme to split opposition rightist strongholds and have selected a well-known politician to serve as liaison between the party's leaders in Mexico City and their local counterparts. PRI strategists also plan to expand the experimental use of primary elections to Yucatan in order to field more popular and competent candidates. Failure to reverse the downturn in PRI fortunes in the state would embarrass President de la Madrid and jeopardize the future of the PRI's nascent reform movement.

25X1

Costa Rica

Power Shortage

25X1

Two hydroelectric power plants located near Lake Arenal in northwestern Costa Rica are in danger of losing their generating capabilities. One of the turbines in the complex, which since 1980 has been supplying 50 percent of the country's power, has been damaged by debris that has broken the metal screen and disabled the cleaning mechanism that protects the turbines. The damage to the turbine has prompted the Costa Rican Electric Institute to suspend sales of electricity for at least 15 days to Honduras and Nicaragua.

25X1

To repair the turbine, officials would have to shut down the power plants, drain Lake Arenal, and rebuild the metal screen that protects the turbines from debris. This, however, would take four months and may result in a productivity loss of \$1 million a day. According to Costa Rican officials, anticipated power shortages may affect industrial production and commercial activity not only in Costa Rica and Honduras, but possibly also in Nicaragua, which Central Bank officials say receives \$1 million worth of electricity monthly from Costa Rica.

25X1

Secret

Secret

Secret