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Guatemala: Prospects for the New Government

National Intelligence Estimate

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February 1986

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NIE 82-86

GUATEMALA: PROSPECTS FOR
THE NEW GOVERNMENT

Information available as of 30 January 1986 was used in the preparation of this Estimate, which was approved by the National Foreign Intelligence Board on 13 February 1986.

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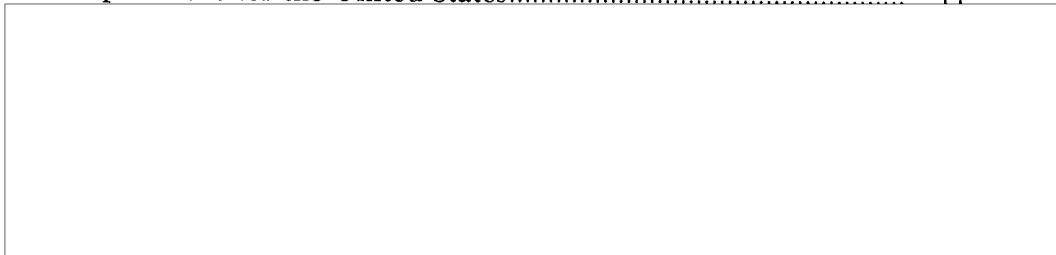
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SCOPE NOTE

The recent inauguration of President Vinicio Cerezo Arevalo in Guatemala has brought to power the first civilian leader of the country in almost two decades. The new President is faced with serious economic problems, a delicate political relationship with the armed forces, a persistent leftist insurgency, and continuing political violence. In the foreign policy area, Cerezo has given early indications that he will take an active role in regional affairs, as well as expand Guatemala's international ties in an effort to attract greater foreign aid. This Estimate will address the prospects for the new government over the next year or so, beginning with internal economic, political, and military problems and then examining how its foreign policies are likely to evolve. It will also discuss the implications to the United States of various alternative outlooks. [redacted]

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A more highly classified annex to this Estimate, "Foreign Support to the Insurgents," is being published separately. [redacted]

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KEY JUDGMENTS

The inauguration of President Vinicio Cerezo and the installation of a new civilian government is a decisive step toward the US goal of a stable democratic system in Guatemala, but continued progress toward that goal is far from assured. Cerezo will need all the support he can marshal if he is to solve the serious economic and political problems he will face over the coming year. Although there is a reasonable chance that Cerezo will be able to manage effectively the problems he confronts, miscalculations—particularly on economic matters or relations with the military—could jeopardize the long-term prospects not only of his government, but also of the democratic process. [REDACTED]

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Guatemala is suffering its worst economic crisis in half a century, and the economy will be Cerezo's most pressing problem. The President will need to implement an effective domestic economic austerity program to attract increased foreign assistance and to halt the severe economic decline. Needed reforms will entail increased taxes and reduced public subsidies, probably resulting in considerable public opposition. We believe that there is a better-than-even chance that he will adopt an economic adjustment program, but there is considerable risk that, through excessive compromise, Cerezo will undercut the effectiveness of his austerity program, leading to further stagnation. Furthermore, there is some evidence Cerezo lacks confidence in the private sector; therefore, another less likely possibility is that he might pursue a more antibusiness economic policy of widespread price controls, substantial wage increases, and greater public spending. This would probably make it difficult for Cerezo to attract sufficient foreign economic support to prevent an accelerated economic decline. [REDACTED]

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The maintenance of positive relations with the military will be an important political priority for Cerezo. The armed forces—which strongly supported the return to civilian rule—will be relatively tolerant of the new administration but will be firmly opposed to any attempt to bring the military to account for past human rights violations.¹ Cerezo, for his part, is likely to take a careful approach to this issue, ruling out retribution against the armed forces as a whole for past abuses but supporting investigations by the Supreme Court into specific allegations of disappearances or homicide. Other issues, such as the conduct of the counterinsurgency and the military budget, will be potential sources of

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[redacted]

friction, but we believe both civilian and military leaders will work to keep disagreements within manageable limits. As a consequence, we judge that there will be only a small chance of a coup over the coming year [redacted]

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The size and effectiveness of the radical leftist insurgency has been reduced substantially since 1982, and it does not now constitute a serious threat to the government. We do not expect a substantial resurgence in guerrilla activity in 1986, but the insurgents are likely to receive sufficient external support, particularly Cuban and Nicaraguan, to remain a viable military force. The Guatemalan military is capable of keeping the insurgency contained but will not be able significantly to increase pressure on the guerrillas without additional foreign military aid. The armed forces suffer important mobility, maintenance, and communications deficiencies, which continue to limit their effectiveness. Although Cerezo is likely to extend an amnesty offer to the guerrillas, a negotiated end to the guerrilla war in 1986 is unlikely. We see little enthusiasm among the insurgents, the military, or even with Cerezo himself for such talks. [redacted]

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We believe Cerezo is unlikely to effect dramatic changes in Guatemalan foreign policy in his first year, but the direction of his efforts may cause some friction with the United States. He will seek, particularly in his rhetoric, to establish his independence from the United States, and his policy of active neutrality may put him at odds with the United States on various issues—particularly Nicaragua. Cerezo is not pro-Sandinista, but he is relatively optimistic about the extent to which diplomatic pressure can induce the Sandinistas toward moderation. Therefore, he will probably cultivate greater contacts with Managua, and publicly criticize US assistance to the anti-Sandinista armed resistance. Under Cerezo, Guatemala probably will take a more active role in the Contadora process, and Cerezo will strengthen relations with other Christian Democratic parties and governments in Central America—including that of Salvadoran President Duarte. [redacted]

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We see little danger that Guatemala will be drawn into the Soviet-Cuban orbit over the coming year. Cerezo has raised the possibility of establishing relations with Cuba, although we do not believe that this is motivated by any sympathy for Cuba or that he regards this as an important priority. Instead, he is likely to make improved relations with Mexico a top priority and eventually move to resolve Guatemala's long-standing dispute with Belize. [redacted]


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Beyond the development of democracy and foreign policy, US interests will be principally engaged in Guatemala on questions of aid


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and human rights. Cerezo will probably solicit US support in debt rescheduling and discussions with the IMF. Guatemala will also continue to make gradual progress on human rights, although we do not expect this issue to recede in importance and visibility. In addition, we judge that narcotics trafficking could become a more important bilateral issue during 1986. 

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We are cautiously optimistic that Guatemala will make progress in consolidating its democratic institutions in 1986. However, the system will remain fragile and vulnerable to internal and external developments beyond its control, such as a new world recession or an inability to attract necessary foreign assistance. Thus, while we expect no significant adverse developments in Guatemala during the coming year, we are not equally confident about the long-term prospects for the democratic system. 

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DISCUSSION

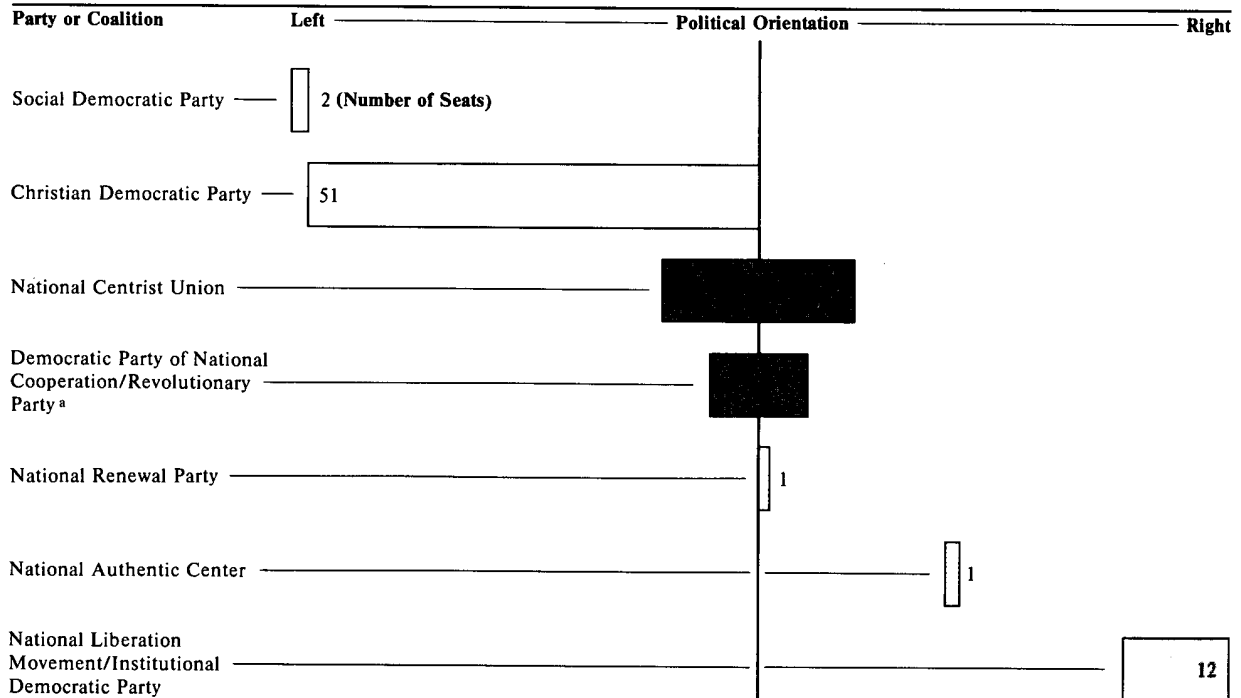
1. The inauguration of President Vinicio Cerezo and the installation of a new Congress on 14 January marked the successful fruition of a three-year transition from military to civilian rule in Guatemala. The general elections of November 1985 provided Cerezo and his center-left Christian Democratic Party (DCG) an unexpectedly strong victory. In a field of eight, Cerezo captured 39 percent of the vote, while second-place finisher Jorge Carpio Nicolle of the moderate National Centrist Union (UCN) managed 20 percent. Further, the DCG gained an absolute majority in the 100-member congress, winning 51 seats. Cerezo's re-

sounding 68-percent victory over Carpio in the 8 December presidential runoff election capped the DCG's successes.

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2. The open and honest elections will provide the new government a greater degree of domestic and international legitimacy than previous governments. The armed forces, under former chief of state General Mejia, maintained a strict neutrality in the electoral process, and the balloting was peaceful and fairly administered. Rightist parties did poorly, winning only 13 congressional seats and suffering surprising defeats

Figure 1
Representation in the Congress



^a Jorge Serrano, leader of the Democratic Party of National Cooperation, reportedly is forming a new "moderately conservative" party called the Social Action Movement.



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in their eastern Guatemala strongholds. Cerezo's main formal political opposition will be from the centrist UCN rather than the right. The widespread acceptance of the electoral results and his clear majority in Congress should place Cerezo's government on a firm political footing. [redacted]

3. Cerezo will need all the domestic and international support he can marshal, as he will face serious economic and political problems at the outset of his term. Guatemala is confronting its worst economic crisis in half a century. Cerezo's task of restoring economic growth will be made more difficult by the failure of the previous government to take timely and effective economic adjustment measures. He will be forced to make critical—and potentially unpopular—economic decisions early in his term or risk further economic decline. Moreover, although the armed forces fully support the transition, many officers will be apprehensive about the influence of antimilitary elements within the DCG. Cerezo will be constantly challenged by the need to avoid excessive friction in his relations with the military. Finally, Cerezo will be tested by Guatemala's tenacious insurgency and continued political violence. A failure to continue to contain the insurgency is likely to hinder Guatemala's economic recovery and cause increased friction with the rightist political parties and the armed forces.

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America's largest resource base and population, Guatemala has the potential to be the most dynamic economy in the region. Per capita GDP, however, has fallen by nearly 20 percent from its 1980 peak, a decline unprecedented in the lifetime of most Guatemalans. As with most less developed countries, Guatemala's economy was hit hard by the sharp rise in oil prices in 1979, the ensuing world recession, and worsening terms of trade as commodity prices fell. The situation was exacerbated by domestic and regional turmoil—tourism earnings plummeted while the Central American Common Market (CACM) was seriously disrupted. The failure of successive military governments to take necessary adjustment measures also contributed to economic decline. [redacted]

5. The situation Cerezo inherits is serious but probably can be turned around if the government acts decisively to implement a comprehensive economic stabilization program. Guatemala is experiencing significant external imbalances, mounting arrears, and a growing fiscal deficit. Foreign exchange reserves are exhausted:

- The GDP, which declined about 1.5 percent in 1985, will probably remain sluggish.
- Guatemala is experiencing unprecedented inflation—the rate rose at least 30 percent in 1985 compared with less than 4 percent in the previous year. Inflation is likely to increase in 1986 unless the government restores fiscal and monetary discipline.

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The Economy

4. The most pressing problem the new government will face is a deteriorating economy. With Central

Guatemala: Balance of Payments

Million US \$

	1983	1984	1985 ^a	1986 ^b
Current account balance	-224	-377	-285	-245
Trade balance	36	-50	29	125
Exports (f.o.b.)	1,092	1,132	1,123	1,275
Imports (f.o.b.)	-1,056	-1,182	-1,094	-1,150
Net services	-290	-356	-336	-400
Net transfers	30	29	22	30
Capital account balance, errors and omissions	313	92	99	-30
Net change in international reserves (excludes stock of arrears)	89	-285	-186	-275

^a Estimated.^b Projected.

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- The unfinanced balance-of-payments gap, excluding the stock of arrears (\$500 million), totaled \$186 million in 1985 and will worsen substantially in 1986 without a significant change in economic policies. As a result, the local currency—the quetzal—will remain under severe pressure.
- Debt service obligations will peak this year, rising to some 50 percent of export earnings unless some relief is provided. [redacted]

6. If Cerezo is to establish the basis for a long-term recovery and obtain increased foreign assistance, he will have to implement economic adjustment and austerity measures. These, however, will have a significant potential to provoke public protest. An important first step in an adjustment program would be the unification of the exchange rates for the quetzal—in effect, a devaluation. Cerezo will also be pressed to eliminate fuel subsidies, increasing the domestic price of gasoline and of fuel-dependent public services such as electricity and transportation. When the Mejia government attempted to increase bus fares in September 1985, the resultant furor threatened Mejia's position and caused him to rescind the increases. These measures would be inflationary in the near term, cutting living standards for Guatemala's poor and lower middle classes—the principal constituency of the DCG—thus adding to the political costs of austerity measures. [redacted]

7. An effective adjustment program would require that Cerezo reduce the fiscal gap; this would involve significant improvement in Guatemala's extremely inefficient tax system. Tax receipts as a percentage of GNP are among the lowest in the hemisphere and have been declining. The private sector is unlikely to support any rise in taxes unless the government also relaxes price controls and adopts other reforms. Mejia's imposition of export taxes and increased import duties and value-added taxes in April 1985 met with a firestorm of protest from the business community. Mejia responded by withdrawing the increases and removing the Minister of Finance. The private sector, which is concerned about the influence of antibusiness elements within the DCG, will be Cerezo's most important political adversary and a chief obstacle to some economic reforms. There is some evidence that Cerezo lacks confidence in the business community. However, if Cerezo and his economic team continue to consult the business community, as they apparently have since the election, the private sector will be less of an obstacle than previously. [redacted]

8. Another immediate concern for Cerezo will be a severe foreign exchange shortage, particularly in the first six months of 1986. To alleviate this problem, Cerezo is seeking to gain a substantial increase in foreign aid. Although he will rely heavily on the United States, Western Europe, and Japan, Cerezo will also look to Venezuela and Mexico to assure the continued supply of oil. Guatemala will be hard pressed to meet immediate debt obligations unless it can obtain relief from official and commercial creditors. To be successful in obtaining increased assistance and debt relief will require that Guatemala develop an adjustment program endorsed by the IMF. [redacted]

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9. There is a wide range of potential outcomes for the Guatemalan economy over the course of Cerezo's term, and we believe that his actions over the first year will have a critical impact on long-term economic developments. Thus far, Cerezo has publicly indicated he will pursue necessary adjustment measures and will avoid radical departures in economic policy. [redacted]

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[redacted] We believe political conditions over the first six months of his administration would permit implementation of an adjustment program acceptable to the IMF. If Cerezo follows appropriate policies over the next two years or so, we believe the economy will stand a good chance of returning to positive per capita GDP growth. [redacted]

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10. However, we are uncertain as to the depth of Cerezo's commitment to an austerity program and his ability to enforce such a plan. Although his economic team is counseling decisive actions, he has yet to detail his economic policies. There is some evidence that he underestimates the stringency of actions he will need to undertake to obtain substantial foreign aid. He is likely to attempt to strike a balance between competing priorities, such as a reduction in the deficit versus maintenance of public subsidies. Excessive compromises of an adjustment policy will run the risk of undercutting its benefits, limiting chances of reaching an agreement with the IMF and threatening to prolong economic stagnation. [redacted]

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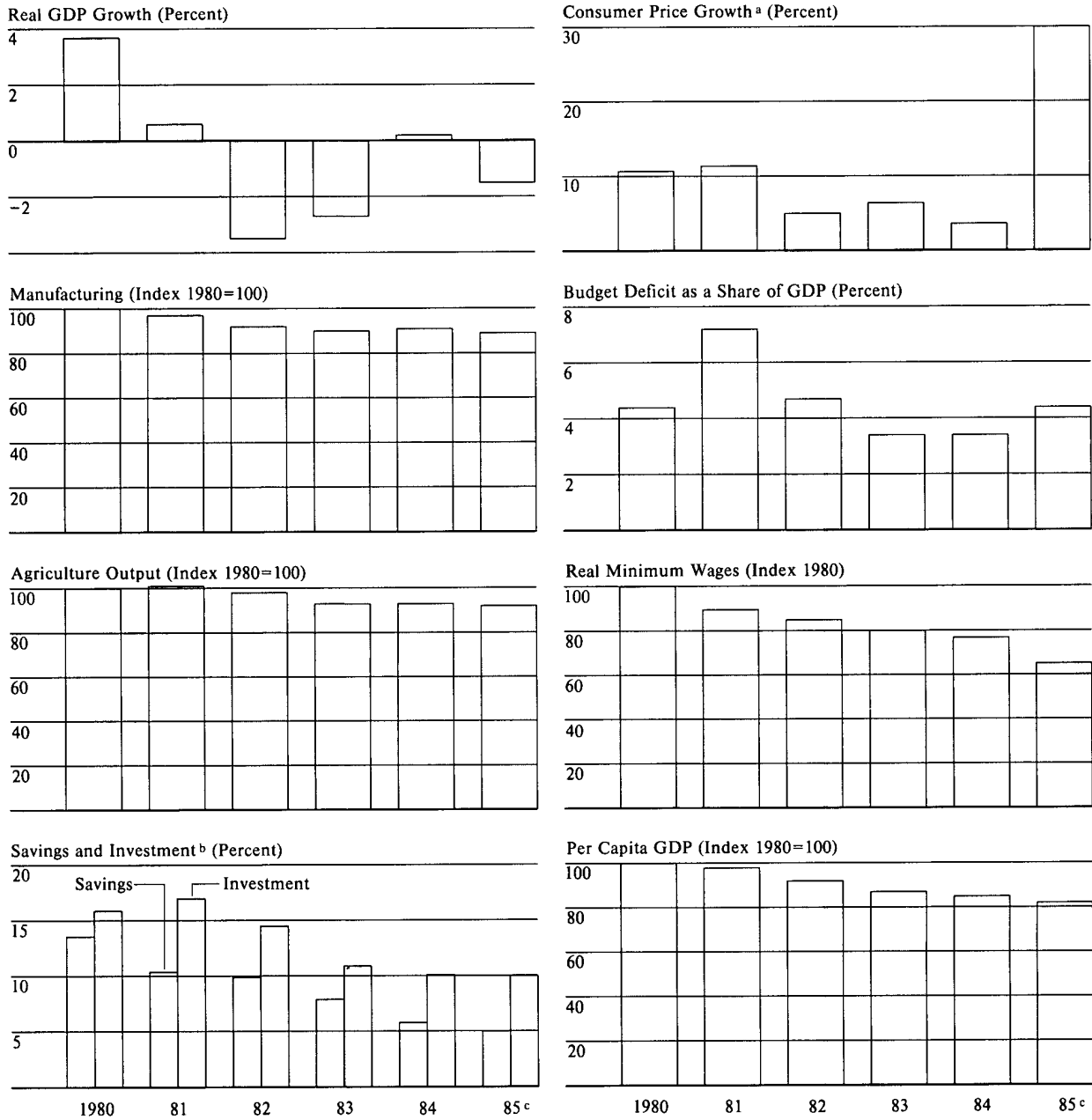
11. A less likely possibility is that Cerezo may abandon austerity and pursue a populist agenda. The role of the small but increasingly influential labor movement could be important in pushing Cerezo to take such steps. The principal labor group, the moderate leftist Confederation of Guatemalan Syndicalist Unity (CUSG), is reportedly inclined to grant Cerezo time to establish his economic program, but some

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Figure 2
Guatemala: Selected Economic Indicators



^a Average annual.
^b Gross national savings and gross capital formation as a share of GDP.
^c Estimated.




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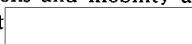
public employee unions could initiate strikes early in the administration. If Cerezo is unable to show progress on the economy, labor actions are likely to increase as the year progresses. There will then be a growing chance—though still less than 50-50—that he will accede to union and leftist calls for large wage increases and more radical economic policies. Should he do so, the consequences for the economy would be sharply negative. Such populist policies, in our assessment, would be counterproductive, possibly leading to a debt moratorium, increased capital flight, depreciation of the currency, explosive inflation, and sharper economic downturn. 

Civilian Military Relations

12. The military has been the dominant political institution in Guatemala for the past 30 years and until recently had generally regarded Cerezo as a potentially dangerous radical. The maintenance of positive relations with the military will clearly be an important priority for Cerezo. His task will be made easier by the extent of his electoral victory and the fact that the armed forces are anxious to relinquish the responsibilities of government. The appointment of General Hernandez—a moderate, apolitical, and unassuming officer—as Minister of Defense will further facilitate smooth military relations with the civilian government. We believe there has been a broad attitudinal shift within the armed forces in favor of civilian government and the democratic process. Although this sentiment is largely grounded on institutional self-interest, it does reflect a greater reluctance to involve the military too deeply in politics. Therefore, we expect the military to be relatively tolerant of the new administration, at least initially. 


13. There will be, nevertheless, clear limits to the military's tolerance. The issue with the most potential for causing civilian-military tensions over the coming year will be human rights. The armed forces will be firmly opposed to any attempt to bring military personnel to account for past violations. At the same time, Cerezo will be under some pressure internationally and from domestic organizations such as the Catholic Church and the Mutual Support Group (GAM)—comprising relatives of missing persons—to resolve what they consider to be politically motivated homicides, abductions, and disappearances. So far Cerezo has handled the issue judiciously, ruling out extensive investigations of military involvement in past crimes but indicating that those committing abuses in the future will be brought to justice. Somewhat more ambiguously, he has stated that he will abide by legal

The Guatemalan Military


With a strength of about 33,000, the Guatemalan Army is spread among 20 active military zones, each containing at least one infantry battalion. The Army is a well-trained and competent counterinsurgency force. A principal asset is its highly motivated and relatively young officer corps; the proportion of senior officers is small, and lieutenants and captains comprise over 80 percent of the corps. Principal arms suppliers include Western Europe, Israel, and Argentina. Guatemala produces its own small arms ammunition but has experienced shortages in larger munitions, including mortar and artillery rounds. Other deficiencies include inadequate communications and mobility and insufficient engineer equipment 

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The Air Force inventory consists of about 100 aircraft, including 32 helicopters—most of US origin—and 10 A-37B light attack jets. The cutoff of US military aid in 1977 severely affected the maintenance of US-supplied aircraft. The operational availability of helicopters, even by relatively loose Guatemalan standards, is probably less than 50 percent. The A-37s often lack functioning safety equipment, such as ejection seats. Despite this, the Air Force has provided effective tactical support to the Army. The small Navy, consisting of 11 patrol craft, an amphibious craft, and two hydrographic survey ships, can provide local security but cannot effectively monitor Guatemala's coasts. 

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actions conducted by the Supreme Court, suggesting that he would not block investigations of past violence and disappearances on a case-by-case basis. 

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14. We judge that the military would, at most, acquiesce in disciplining individual junior officers for violations perpetrated after the inauguration of the new regime. The military granted itself an amnesty just before leaving office that is currently under review by the new Congress. Nevertheless, Cerezo appears to understand the military's sensitivities, and he is unlikely to seek the removal or trial of senior officers or press for a broad investigation into previous abuses. Were he to do so, the armed forces would strongly resist, and we believe the chances of a coup would rise significantly. 

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15. Another issue that could sharply divide Cerezo and the armed forces will be the conduct of the counterinsurgency. The military opposes the disbanding of the Civil Defense Force (CDF) or moves to place the CDF under more direct civilian control and supervision. Nevertheless, Cerezo has proposed local referendums to determine the status of CDF units, and

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[REDACTED]

Political Violence in Guatemala

Violence has long been embedded in Guatemalan political culture. Since at least the 1950s, politically motivated murders and abductions have been carried out by insurgents, government security forces, political factions, and private individuals. The country's reputation for violence, however, reached its peak under the government of Gen. Romeo Lucas Garcia (1978-82). As the insurgency gained momentum in 1981, the government responded with a campaign of violence against the presumed supporters of the guerrillas in the countryside—especially against the largely Indian population of the central highlands. Moreover, Lucas condoned—and in some cases probably directed—a policy of eliminating leftist opponents of the government, including labor leaders and moderate leftists not connected with the insurgency. During this period, a number of DCG political organizers were killed, and Cerezo himself was the target of at least three assassination attempts. [REDACTED]

The excesses of the Lucas government produced a backlash within the armed forces, resulting in a coup that brought retired Gen. Efraim Rios Montt to power. Rios Montt and his successor moved with some success to reduce the level of violence. Gauging the extent of this success is extremely difficult because it is often impossible to identify the perpetrators of political violence or even to differentiate between political and criminal violence. Nevertheless, US Embassy figures suggest that politically motivated violence has been significantly reduced and is now on the order of 8 percent of what it was in 1981. [REDACTED]

We do not believe that the armed forces are systematically pursuing a policy of repression in the countryside. For example, the "poles of development"—model villages in the highlands—have been attacked by some human rights groups as concentration camps, but exten-

sive investigation [REDACTED] has failed to substantiate these charges. Abuses in the field, however, do remain a serious problem, though we judge that these are largely carried out by junior officers and isolated detachments. A key difficulty is that the military fails to prosecute the offenders. Officers guilty of serious violations are generally reassigned to positions where they can be more easily controlled by their superiors. [REDACTED]

From an institutional point of view, the National Police (PN) probably poses the most serious human rights problems. The PN is notoriously corrupt, and some officers are suspected of having operated as hired killers. The police agency responsible for criminal investigations, the Department of Technical Investigations (DIT), has the worst reputation of violence. Cerezo has vowed to reorganize the police and abolish the DIT, and we believe that the professionalization of Guatemala's police organizations would ultimately yield significant improvements in the human rights environment. [REDACTED]

We expect that, though Cerezo will move cautiously in addressing the problem of political violence, he will be able to make gradual progress in further curbing human rights violations. Two key factors that could frustrate his efforts will be the economy and insurgent strategy. A continued deterioration of the economy would probably produce some increase in the level of violence conducted by leftwing and rightwing extremists. In particular, there is already some evidence of reemergence of rightwing violence, probably intended as a warning to Cerezo over his economic policies. Additionally, political violence would be greatly exacerbated were the insurgents to adopt a strategy of intensive urban terrorism. Such a strategy could provoke a harsh response by the security forces. [REDACTED]

this is likely to be a continuing point of contention. In addition, we judge the armed forces would accept surrender and amnesty discussions with the guerrillas but would reject negotiations involving any government concessions such as a cease-fire, the recognition of "liberated zones," or the granting of any political advantages to insurgent organizations. For his part, Cerezo has downplayed the idea of peace talks. He has accepted in theory unconditional discussions with the insurgents but on at least one occasion has stated that he would put them off for a year while he consolidates his political position. [REDACTED]

16. There will be other points of civilian-military contention, but we do not expect them to have a critical impact on the new regime—especially in its first year. The military budget, for example, could be

an area of dispute. In the past, the armed forces have been able to augment their funds by tapping the budgets of other ministries. Cerezo will seek to prevent this and gain greater control over military spending. Another sensitive area will be the internal administration of the armed forces, particularly such key matters as retirements, promotions, and duty assignments. The military hierarchy will strenuously protect these prerogatives from civilian intrusion. In none of these cases do we believe that Cerezo will be inclined to take drastic actions. [REDACTED]


17. Both the armed forces and Cerezo are likely to work to keep any disagreements within manageable limits. There are circumstances that could trigger coup-plotting, most notably should Cerezo reverse himself and attempt to exact retribution for past

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human rights offenses or other wrongdoing by the military or should the government interfere with the military's corporate interests or professional autonomy. We do not expect widespread public disturbances over government policies, but should public order deteriorate, the potential for a coup would increase if the armed forces felt that Cerezo mishandled the situation or lost control. We believe that over the next year, however, these are unlikely eventualities and that there will be only a small chance of a military coup.

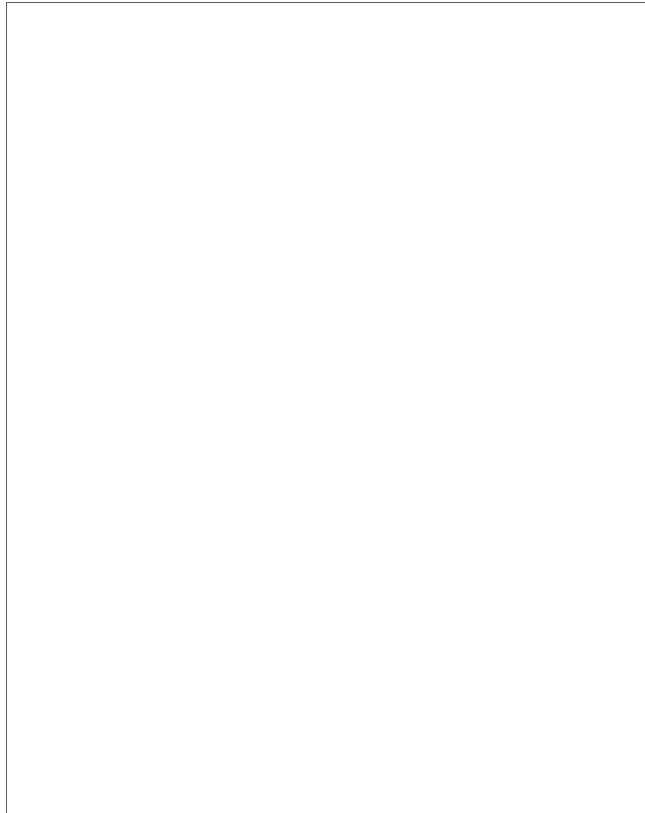
- There is a somewhat greater probability that, through a series of gradual missteps, Cerezo could over the longer term compromise his position with the military and provoke some sentiment for a coup. Should it occur, a coup would almost certainly intensify domestic political polarization and violence and result in an adverse international reaction. 


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The Insurgency


18. Guatemala has had an insurgency problem since the 1960s, but a number of factors—corruption and repression under the Lucas government, the success of the Sandinistas, and increased Cuban support to regional revolutionaries—led to a dramatic increase in guerrilla activity beginning in 1979. Insurgent forces grew from fewer than 1,000 combatants to about 3,000, and by early 1982 the three principal guerrilla organizations threatened to wrest control of key northern and western departments from the government. The Army responded with a more aggressive—and sometimes brutal—counterinsurgency effort that drove many Indians into refuge in Mexico. 



to about 1,500 and has severely undercut their popular support. The guerrillas are restricted principally to a belt about 50 miles wide along the border with Mexico and are generally isolated from key population centers. The insurgents do not now present a critical threat to public security, but they remain a viable military force. The three major insurgent groups are well organized, reasonably well armed, and able to make use of safehavens on Mexican territory. The level and scope of combat operations is—and is likely to remain—limited, although the guerrillas have been able to inflict more casualties on government forces than they themselves have suffered during the past year, due to greater guerrilla reliance on mines, booby traps, and ambushes. 

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19. In March 1982 a military coup spearheaded by reformist-minded officers brought to power retired Gen. Efraim Rios Montt, who rapidly implemented a new civic action program while continuing the emphasis on maintaining the tactical initiative. This “bullets and beans” strategy—continued by General Mejia—relies on an estimated 900,000-man Civil Defense Force to more directly involve the civilian population in the establishment of local security, military civic action companies to bring to rural areas tangible benefits of cooperation with the government, and “poles of development”—rebuilt and newly built model villages—to revitalize the largely Indian-populated central and western highlands. 

20. The implementation of this strategy, complemented by an amnesty, has reduced insurgent forces

21. Insurgent capabilities were buttressed by Cuban, Soviet, and Nicaraguan support in the form of training, financial aid, and some military supplies in the early 1980s, and we believe that this continues, particularly in the areas of training and financial assistance. The insurgents capture insufficient supplies for their own needs and require some external support. The guerrillas have received some M-16s—which were traced to former US stocks in Vietnam—Soviet-style grenade launchers, and other small arms. There is good evidence that, historically, arms have arrived via Cuba and Nicaragua, and we suspect that this pattern continues. In addition, arms and supplies are also

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received from insurgent support units in Mexico and Belize. Cuba and Nicaragua have also played a central role in attempting to unify the insurgent movement under an umbrella organization, the Guatemalan National Revolutionary Unity (URNG). [redacted]

22. Over the next year, we see little chance for a dramatic growth of the insurgency. The guerrillas will probably play a waiting game, preserving their forces in the hope that over the long run their prospects will improve if Cerezo proves unable to cope with Guatemala's problems. The insurgents will retain the capability to mount small ambushes and harassing attacks against the military. In addition, we expect that the guerrillas will continue to use terrorism, assassinations, and sabotage against economically important targets. We expect that the insurgents will seek to strengthen their urban terrorist networks, which so far have been effectively neutralized by government security forces. Although we believe that most insurgents will support these tactics, some rebel leaders may try to adopt a two-track strategy like that used by the FMLN in El Salvador. This strategy would include the continuation of military pressure while seeking direct negotiations with the government. The guerrillas are also likely to step up their political efforts, particularly through attempts to subvert labor unions and human rights groups.

— On the whole, however, we believe the insurgents—who lack popular support and urban organization—will remain only a peripheral political force and will not pose a critical threat to public security through Cerezo's first year. [redacted]

23. On the other hand, we do not expect a substantial reduction in the insurgency in the next 12 months. The armed forces are currently stretched to the limits of their resources and will have a difficult time increasing their counterinsurgency efforts. The principal limitations of the military are transportation, communications, and logistics. The lack of mobility has been a serious handicap because a key element of the government's counterinsurgency tactics is the rapid movement of troops to seek out aggressively and maintain contact with insurgent forces in their remote operating areas. The magnitude of this task becomes clearer when we recognize that the Guatemalan armed forces are responsible for securing an area over five times larger than El Salvador but with 10,000 fewer troops than their Salvadoran counterparts. [redacted]

Foreign Policy

24. Guatemala began to emerge from its longstanding diplomatic isolation in 1982 after the Rios Montt coup. Since then, greater efforts have been made to improve Guatemala's international image and reduce its international isolation resulting from its poor human rights record. Mejia's attempts to stem political violence and support the electoral process laid the foundations for improvements in Guatemala's diplomatic relations. This was exemplified by the reestablishment of relations with Spain, which had been ruptured in early 1980. Guatemala also began to take a more active role in regional matters with its participation in the Contadora talks:

— Guatemalan policy, traditionally anti-Communist, has been supportive of broad US policy goals, but on specific Contadora issues this support has often been tentative, cautious, and limited. This has stemmed in part from the military's resentment of the United States over human rights issues and the cutoff of US military aid in 1977. It has also reflected a tendency to draw closer to Mexico's position on Contadora, as Guatemala has become more dependent on Mexican oil assistance, and has sought cooperation on refugee and other border issues. [redacted]

25. We do not expect that Cerezo will effect dramatic changes in Guatemalan foreign policy, especially in his first year. His principal goal will be to improve Guatemala's international image and its standing with potential Western aid donors. Cerezo appears strongly committed to a regional political solution to Central American problems. Along with his support for the Contadora process, he has suggested the creation of a Central American Parliament, including the Sandinistas, as a mechanism for resolving economic and political problems. He also sponsored a meeting of most Central American leaders, including President Ortega of Nicaragua, immediately after his inauguration. [redacted]

26. Cerezo has stated he will follow a policy of "active neutrality," which probably reflects a desire to establish—in principle—his independence of the United States and of East-West conflict. This will lead to somewhat more of a nonaligned tone in foreign policy rhetoric and increased friction with the United States on some issues. But there will be important counterweights to any neutralist tendencies. Cerezo is neither viscerally anti-US nor ideologically opposed to US

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policy objectives in Central America. He also recognizes a political kinship with fellow Christian Democrat Jose Napoleon Duarte, President of El Salvador. Further, he has some appreciation of the dangers posed by the consolidation of a Marxist-Leninist regime in Nicaragua. We believe this constellation of attitudes will result in a policy of continued support for the United States on most Central American issues but disagreements on some key points, particularly Nicaragua. [redacted]

27. Guatemalan relations with Nicaragua are likely to reflect an interplay of countervailing tendencies. On one hand, the military and most of the DCG hierarchy, including Cerezo, regard the Sandinistas with some suspicion. Vice President Roberto Carpio, for example, has stated in private to the US Ambassador that the regime in Managua is a permanent threat to peace in the region and should be overthrown. On the other hand, Cerezo has some hope that through diplomatic pressure the Sandinistas could be induced to democratize the Nicaraguan political system. We expect that to maintain diplomatic leverage he will cultivate increased contacts with the Nicaraguan leadership and the democratic opposition but is likely to avoid harsh public criticism of the Sandinistas. We doubt, however, that Cerezo will move toward substantially closer relations with Managua unless he perceives evidence of a significant liberalization of the Nicaraguan regime.

— Consistent with his hopes for a peaceful evolution toward democracy in Nicaragua, Cerezo will not—at least publicly—be supportive of any military moves against the Sandinistas and will be openly critical of US assistance to the anti-Sandinista armed resistance. This could change if Managua is revealed to be providing substantial direct assistance to Guatemalan insurgents, if the Sandinistas take more aggressive actions against their neighbors, or if they impose significantly tighter totalitarian controls on the domestic political system. [redacted]

28. Cerezo has raised the possibility of establishing diplomatic relations with Cuba, but we have no indication that he regards this as an immediate foreign policy priority. We are uncertain of his motivation for this suggestion, but we do not believe that it represents any sympathy for Cuba or its goals. He may regard the initiation of relations as a means of demonstrating Guatemala's neutralist policy as well as moderating Cuban policy toward Guatemala. In any event, we see

little danger that Guatemala will be drawn into the Soviet-Cuban orbit over the coming year. [redacted]

29. Guatemalan relations with Mexico will be a major foreign policy preoccupation for Cerezo. We judge that for both countries the maintenance of positive relations will be a clear priority. The status of Guatemalan refugees in Mexico, the use of Mexican territory by Guatemalan insurgents, and the provision of Mexican oil to Guatemala will continue to be the central bilateral issues. Mexican President de la Madrid has, according to a recent report, expressed concern over the influx of foreigners—mostly Guatemalans—illegally entering Mexico across its southern border. There are perhaps 45,000 Guatemalan refugees currently in Mexico, and they are viewed as a potential security threat by the Mexican military. Although the refugee problem will be a sensitive matter, we believe that it will remain manageable. Cerezo and de la Madrid will strive to contain disagreements on the issue, and we doubt that it will produce sharp frictions between the two countries.

[redacted]

30. A more volatile issue will be Guatemalan guerrilla use of Mexican safehavens. There is substantial evidence that the insurgents use Mexican territory for rest and recuperation, clandestine transport of supplies, and recruitment among the Guatemalan refugee population. Complaints by the Guatemalan Government have led to some Mexican actions—such as the relocation of refugee camps away from the border area—but Mexican resources are insufficient to effectively monitor the extensive border area. We believe that Guatemala's recognition of Mexico's importance as an oil supplier and Mexico's perception of Guatemala as a potential ally in the diplomatic arena will work to limit conflict on other issues. The de la Madrid administration also will share Cerezo's desire to contain the insurgency, fearing it could further spill over into Mexico. [redacted]

31. Guatemala's longstanding territorial claim on Belize is not likely to surface as a major issue during Cerezo's first year. Guatemala does not recognize Belizean sovereignty and has officially regarded Belize as Guatemalan territory. In past discussions with the British—who maintain a military force in Belize—the Guatemalan Government has scaled back its demands. So far the talks have foundered on the question of territorial concessions. Cerezo will be flexible in seeking a peaceful solution—he has already met privately with Belizean Prime Minister Esquivel—but the issue

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probably does not enjoy an immediate priority on his foreign policy agenda. To facilitate an agreement, he will probably establish formal diplomatic relations with the United Kingdom, but we do not expect major developments in negotiations soon.

- A related problem will be Guatemalan insurgents in Belize. We have some evidence that the FAR uses Belizean territory as a logistics and communications base and possibly as a route for arms and narcotics smuggling. There will be a small chance that Guatemalan Army operations near Belize will result in border incursions and incidents with Belizean or British forces. However, unless guerrilla use of Belize increases dramatically—an unlikely development—we do not believe that border problems will pose major difficulties for the Guatemalan or Belizean Governments. [redacted]

Implications for the United States

32. The installation of a new civilian government is a decisive step toward the US goal of a stable democratic political system in Guatemala, but continued progress toward that end is far from assured. We believe that Cerezo's administration will almost certainly survive its first year in office, especially because its task will be initially eased by a general enthusiasm for the return to civilian rule, moderation on the part of the military and important sectors of organized labor, and by the disarray of the right. But the decisions Cerezo takes—or fails to take—will have a critical impact on the longer term viability both of his government and of the democratic process. [redacted]

33. We envision three possible scenarios for the progress of Cerezo's administration over the coming year.

- First, there is a better-than-even chance that Cerezo will be able to consolidate his position, pursue an economic adjustment program, contain his political opposition, and avoid antagonizing the military. Our chief concerns are that he will fail to take all the actions necessary to stabilize the economy or that his economic policy will become a patchwork of compromise and half-measures, often at cross-purposes with one another. Nevertheless, Cerezo has so far indicated he has a good perception of potential problems and the political skills to resolve them successfully.

- A less likely possibility is that Cerezo might shrink from making difficult decisions or over-

play his hand. In such a scenario, we would anticipate heightened activism by the private sector, labor, and rightist political parties as the economy deteriorates, with an increased likelihood of public demonstrations and disturbances. The confidence of the military in the government's ability to preserve public order would gradually erode, though a coup in the first year or two of the administration would be unlikely.

- The scenario with the most potential for disruption in the short term would be the aggressive pursuit by Cerezo of a populist, antibusiness economic policy. If Cerezo's attempts to secure private-sector cooperation in economic reform were frustrated, he might follow a more leftist economic agenda. Although this scenario is much less likely than those discussed above, it is not implausible. In this case, Cerezo's broad base of support would fracture, and he would lose the center, portending a dangerous polarization of the political spectrum. Political violence would undoubtedly increase, and certain sectors of the military would begin to actively consider the possibility of a "rescue operation"—as some officers have termed previous coups. [redacted]


34. Beyond the development of democracy and foreign policy, US interests will be principally engaged in Guatemala on questions of aid and human rights. Cerezo will look to the United States for increased economic aid, but we believe he has a realistic appreciation for the level of assistance he can expect during 1986. He has not requested increased military aid, but we expect that the military will purchase spare parts, vehicles, and perhaps communications and engineering equipment from the United States. Cerezo will also seek US support in rescheduling Guatemala's external debt and reaching an agreement with the IMF. There is no indication that he plans on taking a confrontational approach to the debt issue, but surging debt repayment requirements this year could raise pressures on him to follow the Peruvian example and unilaterally limit repayment. We expect Cerezo to make continued progress on human rights issues, particularly if he follows through on his stated intent to reorganize the national police and the criminal justice system. He will press for US assistance in police training, and we judge that such training would greatly contribute to raising the professionalism of the police. We do not expect the human rights issue to recede in importance and visibility, however. [redacted]


35. An issue that may emerge into greater bilateral prominence in the next year is narcotics trafficking.

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Guatemala is well suited as a narcotics transshipment point. It offers traffickers good access by land, sea, and air and a relatively permissive environment, as the security forces have a very limited capability to police Guatemala's borders—radar coverage, for example, is nonexistent outside Guatemala City. Though we lack information on the extent of trafficking, we believe that the increase in trafficking throughout Central America could lead to a rise in transshipment through Guatemala. There are also limited indications of insurgent involvement with drug traffickers. We expect that, if the drug problem becomes increasingly significant, Cerezo will be cooperative with the United States on drug enforcement matters. 

yond—the time frame of this Estimate, the system will remain fragile and vulnerable to internal and external developments, such as a new world recession or an inability to attract sufficient foreign aid. We also recognize that one lesson of recent political history in Central America is that, given unsettled domestic conditions and sufficient external support, insurgencies can grow dramatically within a short space of time. Thus, although we do not expect significant adverse developments in Guatemala over the coming year, we are not equally confident about the long-term prospects for Guatemalan democracy. The depth of the country's economic problems, the fragility of the emerging political system, the tenacity of the insurgent threat, and the political violence will render Guatemala of continuing concern to the United States for some time to come. 

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36. We are cautiously optimistic that Guatemala will make progress in consolidating its democratic institutions in 1986. However, through—and be-

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