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DIRECTORATE OF INTELLIGENCE
5 May 1987

GUATEMALA: CHALLENGES TO THE CEREZO GOVERNMENT

SUMMARY

After almost 16 months in office, President Cerezo continues to enjoy broad support but faces complex problems on a number of fronts. His poor management of the economy is becoming an increasingly contentious issue. Pressures from international lenders to pursue economic stabilization policies are conflicting with popular demands in Guatemala for economic growth, more jobs, and land reform. Human rights abuses constitute a sensitive area in which Cerezo has had to balance public expectations against the concerns of the armed forces. Likewise, the President must consider military attitudes carefully in his dealings with the left and in pursuing an independent foreign policy. The armed forces are concerned that his reluctance to limit the political activities of insurgent-backed radical groups will increase popular support for the insurgents. They also fear that his "active neutrality" policy is too accommodating to Nicaragua and has jeopardized increased US aid. [redacted]

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Economic and foreign policy issues probably will remain Cerezo's top priorities over the next year. We believe he will continue to pursue modest stabilization measures unless popular unrest grows significantly. He almost certainly will maintain some distance from Washington on Central American issues and try to avert the isolation of Nicaragua in the region. We foresee no serious coup threat as long as the President does not meddle in internal military affairs, resists pressure to prosecute officers for past human rights abuses, supports the armed forces' counterinsurgency efforts, and moves cautiously in dealings with Soviet Bloc countries and Cuba. [redacted]

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This memorandum was prepared by [redacted]
[redacted] Office of African and Latin American Analysis. It was coordinated with the Directorate of Operations. It contains information available as of 30 April 1987. Questions and comments are welcome and should be addressed to Chief, Middle America-Caribbean Division, ALA [redacted]

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Popular expectations for change and reform are high as Cerezo nears the 16-month mark in office, and he faces difficult choices in balancing competing political and economic interests. While press and US Embassy reporting indicates that Cerezo's middle- and lower-class constituents are anxious for economic improvements, land reform, and guarantees against future human rights abuses by security forces, the military and conservative ruling elite are suspicious of his moderate-leftist tendencies and remain uneasy that he may institute changes that would threaten their interests. In addition, the military and elite are increasingly worried that the government's inability to turn the economy around could spark civil disorder and strengthen the insurgency. [Redacted]

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Cerezo's main challenge is to consolidate democratic rule while retaining the support of the armed forces. US Embassy and [Redacted] that his deference to senior military officers and his sensitivity to key military concerns have strengthened relations with the High Command, especially Defense Minister Gramajo. Some of the President's recent actions, however, have heightened high level military fears that Cerezo is intent on advancing officers loyal to him. We believe Gramajo's removal of Cerezo's hand-picked Chief of Staff in February, only one month after his appointment, was a warning to the President that the military will not tolerate civilian interference in such decisions.

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[Redacted] there also is considerable military concern--especially among junior officers--about Cerezo's reformist image, which has led to reports of coup talk. [Redacted]

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The way Cerezo has comported himself in office has irritated many military and private sector leaders. [Redacted] the President's critics point to his frequent trips abroad with large retinues, his indecisiveness on key issues [Redacted]

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[Redacted] Cerezo has appointed friends and party loyalists--many of them unqualified to high office. Moreover, while Cerezo has sought consensus on key policy issues, some party officials, businessmen, and military leaders have complained that he is unpredictable and relies on cronies rather than experts for advice. [Redacted]

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Coping With Rising Expectations

The Economy. Press and US Embassy reporting indicates the President's poor management of the economy is becoming an increasingly contentious issue. Although the stabilization program implemented last year helped reduce the budget deficit and inflationary pressures and was key to Guatemala's success in negotiating a one-third cut in its 1986 debt obligations, differences with the IMF over export policy and exchange-rate unification have hindered Guatemala's efforts to negotiate a standby loan. Moreover, the economy failed to grow in 1986, and business confidence is low. Indeed, private investment remains at levels comparable to the early 1970s, according to World Bank statistics. US Embassy [Redacted] reporting indicates that labor groups are increasingly impatient for higher wages and more work programs; some groups are planning widespread work stoppages and other civil disturbances over the next several months. [Redacted]

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We expect an economic growth rate of no more than 1 percent this year and anticipate that Cerezo's commitment to stabilization measures will slowly erode. Living standards are likely to decline further, undermining plans to enact new income taxes designed to increase government revenues. Meanwhile, the sharp drop in world coffee prices--Guatemala's major export earner--will swell the government's budget deficit, hamper efforts to boost capital spending on infrastructure and social programs, and complicate servicing the country's poorly structured foreign debt--some 50 percent of which falls due in the next three years,

[redacted] In our view, Cerezo's efforts to implement a new stabilization package this summer could be derailed by his desire to defuse popular discontent with the economy, particularly if consumer prices spiral higher as they did following the introduction of last year's program. Failure to enact needed measures--especially exchange-rate stabilization--probably will further undermine both domestic and international investor confidence in the Guatemalan economy. [redacted]

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Land Reform. Conflicting pressures over the explosive land reform issue are complicating Cerezo's efforts to establish cordial relations with business leaders and hindering prospects for recovery in the agricultural sector. US Embassy reporting indicates that peasants and labor groups are upset with Cerezo's ad-hoc approach, which has emphasized distribution of small plots from public or purchased lands while landowners remain suspicious of his long-term intentions despite his assurances that he opposes the expropriation of private property. [redacted]

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Although the High Command apparently has been reassured by Cerezo's relatively moderate stance on land reform, many officers believe he is creating unrealistic expectations among poor farmers. [redacted] recognizes the need for more equitable land distribution but is increasingly concerned that the agrarian reform movement could fuel popular support for the insurgents and ultimately destabilize the government. [redacted]

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Handling Human Rights

The need to avoid a confrontation with the military also has created a dilemma for Cerezo as he has worked to defuse popular pressure over the human rights issue. Cerezo's appointment last year of a special judge to investigate some 1,400 writs of habeas corpus on individuals who disappeared under military rule, his efforts to institute judicial reforms, and his recent signing of legislation that provides assistance to relatives of those presumed to have died in military custody, have relieved pressure for a full accounting of past abuses, according to the US Embassy. The President also was buoyed by the UN Human Rights Commission's decision to uphold last year's ruling cancelling the mandate for a special human rights observer for Guatemala. Although regular protests in the capital by the leftist-backed Mutual Support Group have kept Cerezo on the defensive, the organization's increasingly confrontational tactics have alienated many of its moderate supporters--including Archbishop Penados, who has publicly denounced the Mutual Support Group as a subversive front, according to the US Embassy. A decline in the number of politically motivated killings by almost 60 percent last year, according to US Embassy

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figures, also has dampened public fears. Moreover, the Embassy reports that the President's cautious handling of the issue has eased Army concerns about wholesale investigations and prosecutions. By balancing reforms in the police and security services [Redacted] [Redacted] with increased equipment and training in investigative techniques, Cerezo has demonstrated his commitment to reform without causing a serious backlash among defense officials. [Redacted]

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Nonetheless, some recent developments could refocus attention on Guatemala's human rights record. The reluctance of Cerezo and the High Command to punish a naval base commander implicated earlier this year in a kidnaping reinforces popular suspicions that the military remains above the law, according to the US Embassy. A recent rash of killings and other acts of violence against labor, human rights, and other social activists have sparked concern that new right-wing death squads may be beginning a campaign of terror in hopes of destabilizing the government, according to US Embassy reporting. [Redacted]

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Controlling the Radical Left

Cerezo's handling of the Marxist insurgency and far left political groups has the potential of straining relations with the armed forces. The President has firmly backed the Army's aggressive counterinsurgency campaign, which has reduced guerrilla numbers to some 1,200 to 1,500--roughly half the 1982 level--and limited rebel actions to remote areas. The US Embassy reports that Cerezo also has resisted foreign and domestic pressure to abolish the military's "model village" program and the 750,000-strong Civil Defense Force, key elements in Army strategy. Although the insurgents remain capable of high-visibility, low-risk acts of terrorism and economic sabotage, they have made no military gains since Cerezo took office. Believing the rebels are on the ropes, the officer corps is concerned about Cerezo's stated interest in talking to guerrilla leaders, according to [Redacted] [Redacted] but has been reassured somewhat by his hardline condition for a formal dialogue--that guerrillas must first lay down their arms. [Redacted]

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The President's reluctance to limit the political activities of insurgent-backed radical groups, however, is creating some friction with the armed forces. The rebels [Redacted] [Redacted] are taking advantage of the more open political climate to try to reestablish urban networks and infiltrate labor, political, and student groups. [Redacted]

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Managing Foreign Policy

Foreign policy also has created problems for Cerezo, although we believe most Guatemalans support his main goals--ending the country's international isolation and securing more foreign economic assistance. To attain these objectives, according to US Embassy reporting, the President has sought to demonstrate his independence from the

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United States while carving out a role for himself as a regional peace broker. His policy of "active neutrality"--meaning Guatemala supports neither side in the Nicaraguan conflict but works to avert Managua's isolation in the region--serves both purposes. By distancing himself from Washington, in our opinion, Cerezo has appealed to West European and Latin American governments that oppose US policy in Central America. Indeed, US Embassy reporting indicates that the President is convinced his independent stand was instrumental in winning promises of some \$300 million in economic aid from Western Europe, South America, and Mexico last year. Some Guatemalans, according to the US Embassy, also believe that Cerezo's neutral policy toward Nicaragua has persuaded the Sandinistas to restrict their support for Guatemalan guerrillas. [Redacted]

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Another manifestation of Cerezo's independent foreign policy is his flirtation with the Soviet Bloc and Cuba. [Redacted]

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[Redacted] In late February, the Soviet Ambassador to Costa Rica made a well-publicized trip to Guatemala City, where he discussed the prospects for diplomatic relations with Foreign Ministry officials and made a number of public appearances. In April, Cerezo established formal ties with Yugoslavia, with which former military regimes had maintained low-level economic and military ties. [Redacted]

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The President's foreign policy initiatives have caused some concern within the [Redacted] that many officers believe his neutrality policy is too accommodating toward the Sandinistas and has led Washington to withhold substantial increases in military aid despite Guatemala's transition to democratic rule. Although the armed forces did not object to the establishment of relations with Belgrade, [Redacted] the visit of the Soviet Ambassador heightened military fears that Cerezo may indeed plan to establish relations with the USSR or Cuba. [Redacted]

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Cerezo's policy toward the Nicaraguan conflict also has put him at odds with other Central American democracies. Cerezo views the proposed peace plan of Costa Rican President Arias as competitive with his plan for a Central American Parliament to reduce regional tensions. US Embassy reporting indicates Cerezo will try to modify the plan to enhance his own prestige, but El Salvador and Honduras are concerned that he will disregard their security interests in trying to forge an agreement. While he has told US officials he plans to push Managua for political reforms--particularly through his proposed Central American Parliament--we believe his principal objective is to secure Nicaraguan agreement to a regional settlement. [Redacted]

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Cerezo Looks Ahead

We believe economic and foreign policy will remain at the top of Cerezo's agenda during the coming year.

-- In addressing the economy, the President probably will continue to pursue modest stabilization goals--including trade and exchange-rate reforms and measures to stimulate investment. Cerezo's concern about his popular standing and fear that economic stagnation could spark unrest may compel him, however, to resist pressure to move faster on economic stabilization. He is certain to argue with IMF and US officials that economic assistance to carry out programs for employment, housing, and rural development is vital to the stability of his government and to prospects for democratic rule in Guatemala. [redacted]

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-- The President most likely will continue trying to balance his goals of an independent foreign policy with the need to cooperate more closely with Washington on selected issues. We do not expect Cerezo to alter significantly his neutrality toward Nicaragua, despite his strong desire for increased US economic and military assistance. Although he may offer token criticism of the Sandinista regime and publicly call for internal political reforms in Nicaragua, he probably will not openly support US objectives in the region. Cerezo probably will be careful not to split too sharply with Honduras and El Salvador at next month's Central American summit at Esquipulas and is unlikely to accept an accord that did not have the support of all the other Central American democracies. We doubt the President will move to strengthen ties with the Soviet Bloc or Cuba, given the military's opposition. [redacted]

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Aside from the economy, domestic issues, in our opinion, will continue to take a backseat. Although Cerezo probably will be under some international and domestic pressure to investigate future human rights abuses, we believe he will seek to avoid a confrontation with the military by maintaining a cautious policy. We expect he will continue his balancing act to avoid political controversy over land reform, but failure to maintain a steady distribution of land to peasants could spark demands for more radical reforms. We believe Cerezo will not seriously pursue a dialogue with the guerrillas, although low-level contacts with insurgent representatives may continue. [redacted]

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Sensitive to military concerns, Cerezo is unlikely to take any steps that would strain the officer corps' tolerance for civilian government in the near term. We expect the President to justify requests for US military aid by insisting that the Army's support is critical not only to the counterinsurgency effort but also to the survival of democratic rule itself. [redacted]

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