

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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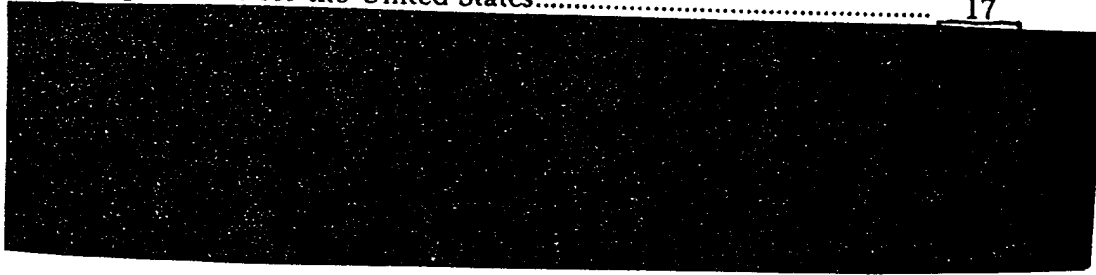
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Approved for Release  
Date 9 Dec. 1997

MAR 1998


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## SCOPE NOTE

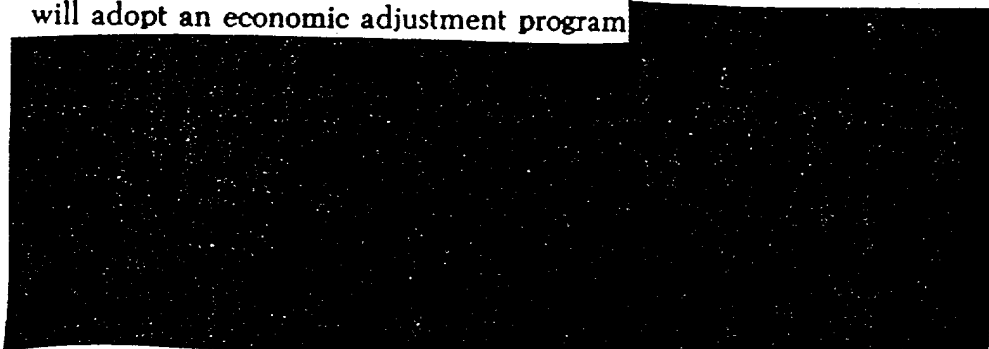
The recent inauguration of President Vinicio Cerezo Arevalo in Guatemala has brought to power the first civilian leader of the country in almost two decades. The new President is faced with serious economic problems, a delicate political relationship with the armed forces, a persistent leftist insurgency, 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. ~~(CONF)~~



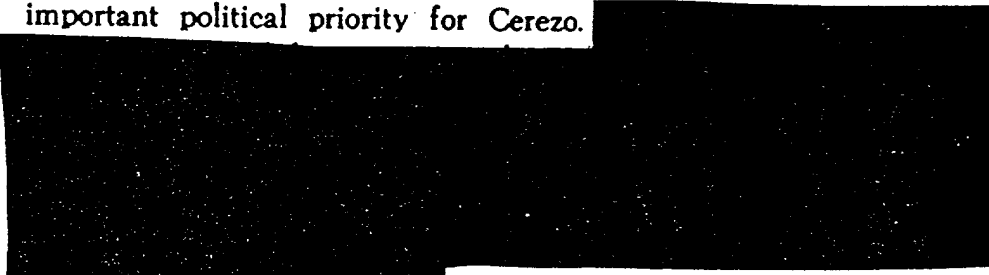
## KEY JUDGMENTS

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. (S, NT)

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



The maintenance of positive relations with the military will be an important political priority for Cerezo.

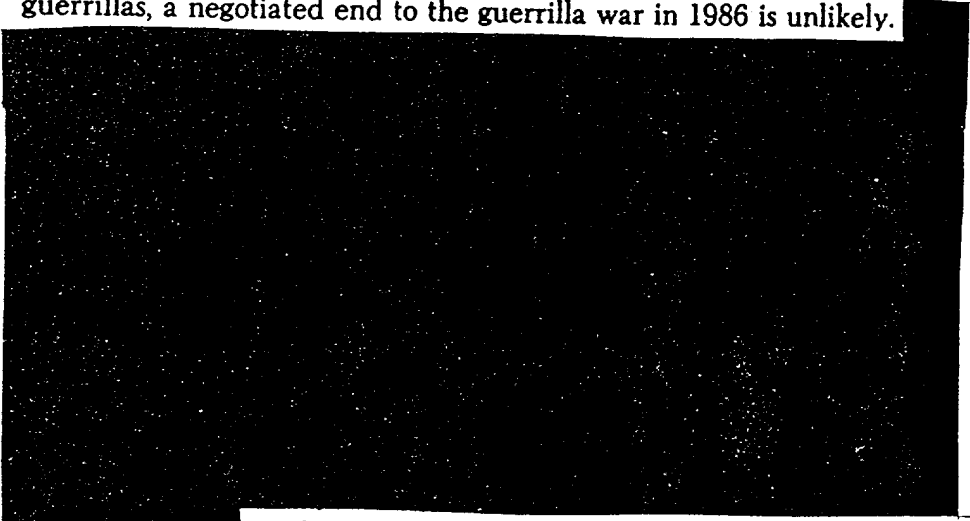


Other issues, such as the conduct of the counterinsurgency and the military budget, will be potential sources of

<sup>1</sup> See NIE IIA 86-10001, *Guatemala: Progress on Human Rights* (Secret NE, NC, OC), January 1986. (u)

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. (S/NF)

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.




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. (S/NF)

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. (S/NF)

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 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. (S-NF)

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.



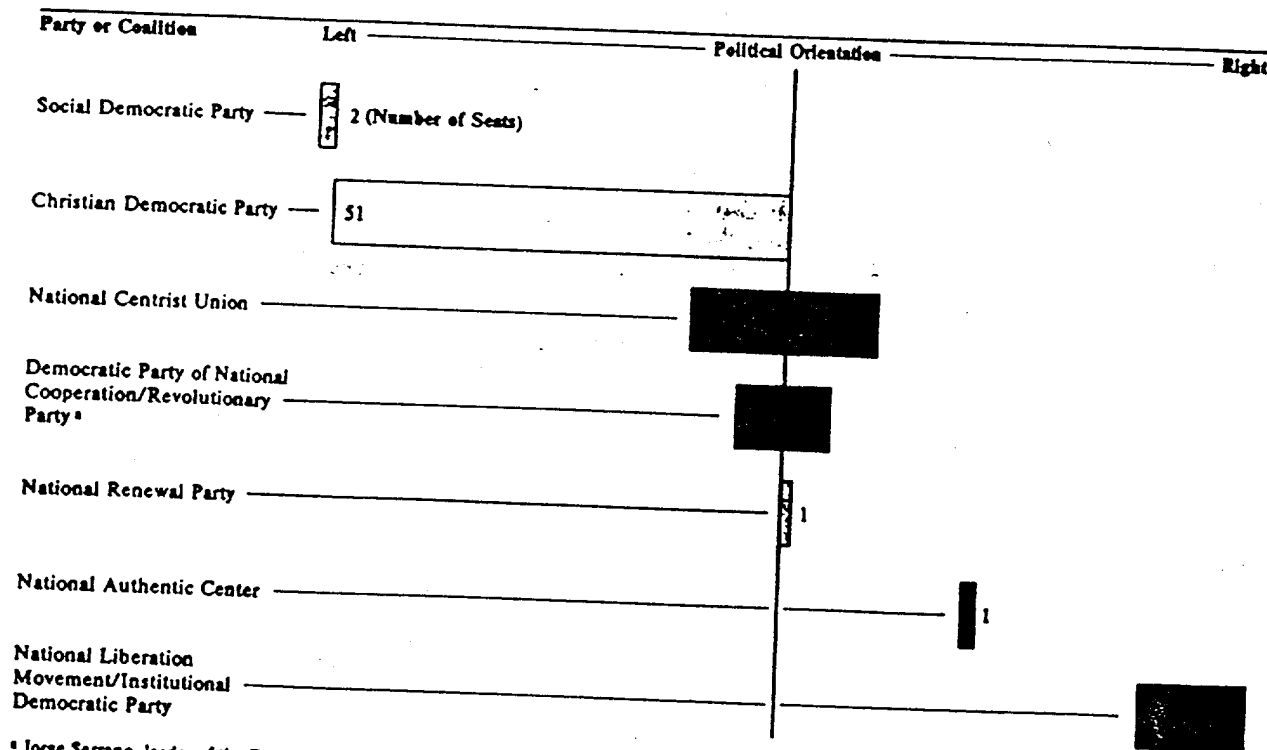
## DISCUSSION

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. (S.W.)

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**



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

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. (S, NF)

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.



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. (S, NF)

#### The Economy

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

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. (S, NF)

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.

#### Guatemala: Balance of Payments

Million US \$

	1983	1984	1985 <sup>a</sup>	1986 <sup>b</sup>
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

<sup>a</sup> Estimated.

<sup>b</sup> Projected.

This table is ~~Confidential~~ Noform.



- 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. (S/NF)

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 DCC—thus adding to the political costs of austerity measures. (S/NF)

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.



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. (S/NF)

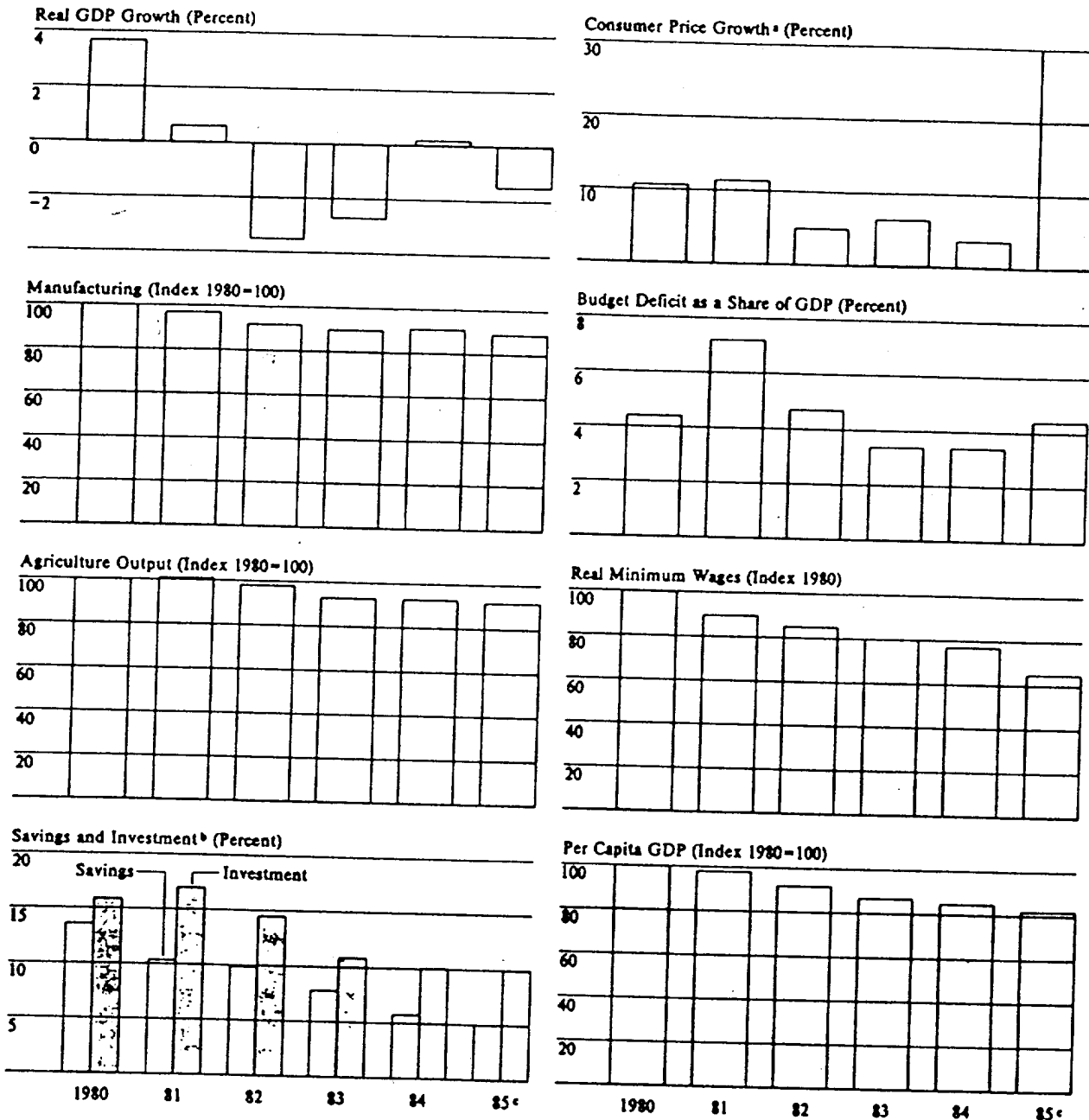
9. There is a wide range of potential outcomes for the Guatemalan economy over the course of Cerezo's term, and we believe that his actions over the first year will have a critical impact on long-term economic developments. Thus far, Cerezo has publicly indicated he will pursue necessary adjustment measures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

Cerezo has also stated that he will, initially at least, follow moderate economic policies. 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. (S/NF-UC-OC)



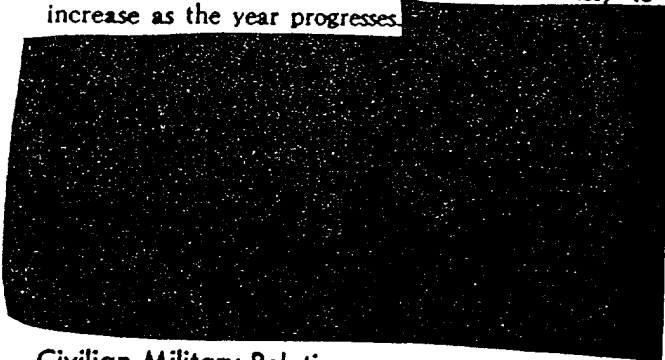
11. A less likely possibility is that Cerezo may abandon austerity and pursue a populist agenda. The role of the small but increasingly influential labor movement could be important in pushing Cerezo to take such steps. The principal labor group, the moderate leftist Confederation of Guatemalan Syndicalist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

**Figure 2**  
**Guatemala: Selected Economic Indicators**



<sup>a</sup> Average annual.  
<sup>b</sup> Gross national savings and gross capital formation as a share of GDP.  
<sup>c</sup> Estimated.

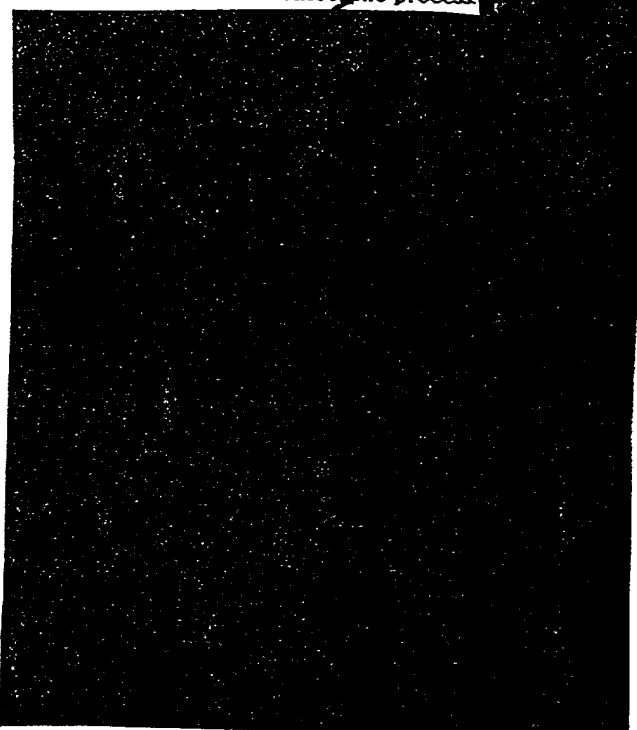
public employee unions could initiate strikes early in the administration. If Cerezo is unable to show progress on the economy, labor actions are likely to increase as the year progresses.



### Civilian Military Relations

12. The military has been the dominant political institution in Guatemala for the past 30 years.

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.

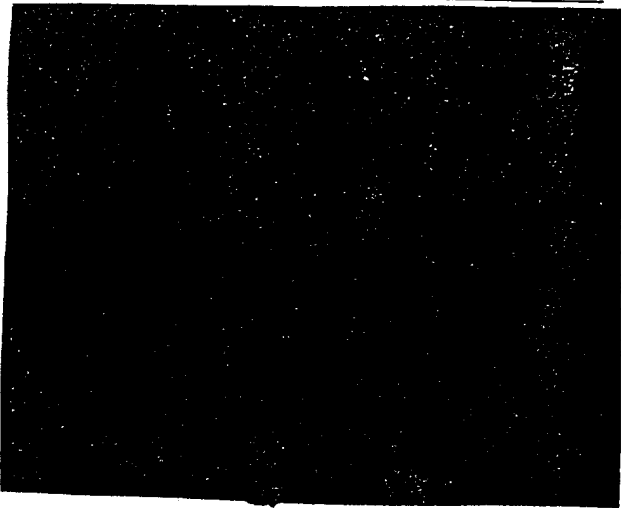


### The Guatemalan Military

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. (S)

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

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. (S)



15. 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

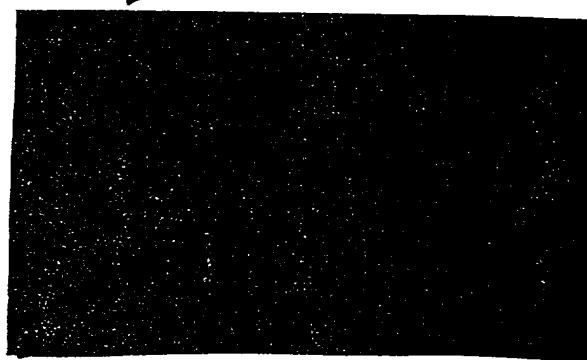
### Political Violence in Guatemala

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. (S.M.F.)

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. (C.M.F.)

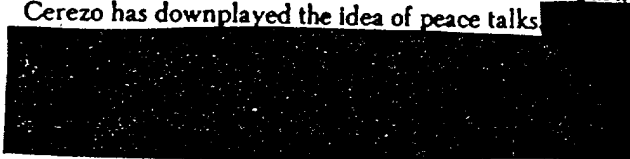
We do not believe that the armed forces are systematically pursuing a policy of repression in the countryside. For example, the "poles of development"—model villages in the highlands—have been attacked by some human rights groups as concentration camps, but exten-

sive investigation by the US Embassy 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. (S.M.F.)



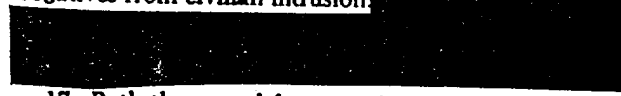
We expect that, though Cerezo will move cautiously in addressing the problem of political violence, he will be able to make gradual progress in further curbing human rights violations. Two key factors that could frustrate his efforts will be the economy and insurgent strategy. A continued deterioration 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. (S.M.F.)

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.



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.



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

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.

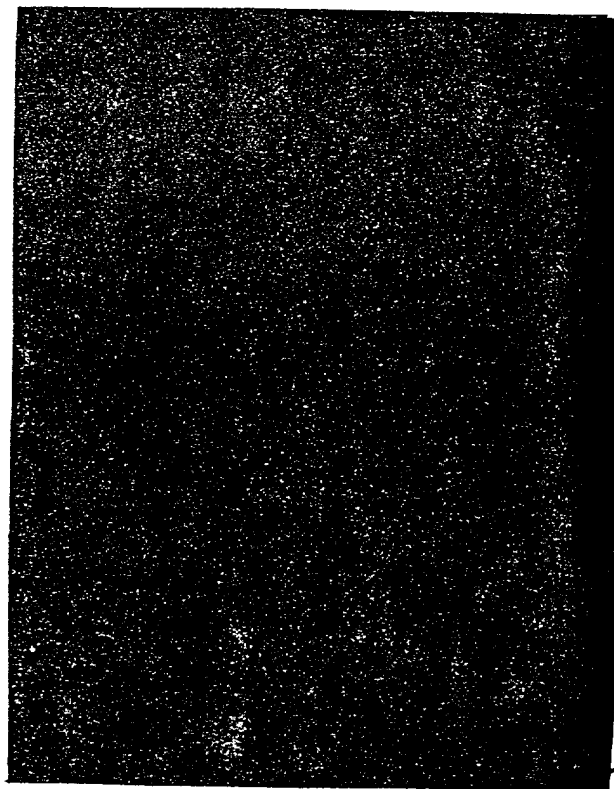
— There is a somewhat greater probability that, through a series of gradual missteps, Cerezo could over the longer term compromise his position with the military and provoke some sentiment for a coup. Should it occur, a coup would almost certainly intensify domestic political polarization and violence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

### The Insurgency

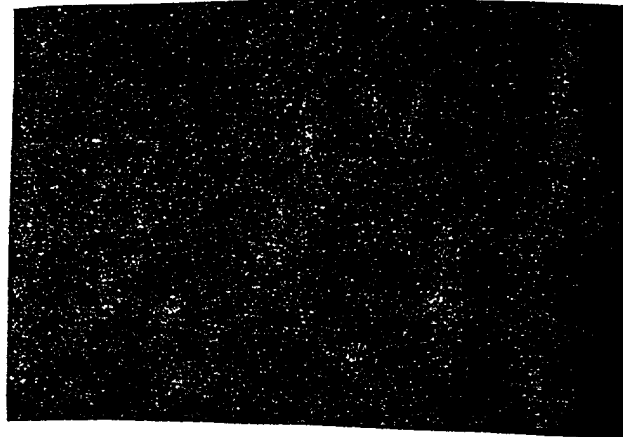
18. Guatemala has had an insurgency problem since the 1960s, but a number of factors—corruption and repression under the Lucas government, the success of the Sandinistas, and increased Cuban support to regional revolutionaries—led to a dramatic increase in guerrilla activity beginning in 1979. Insurgent 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. (S/NF)

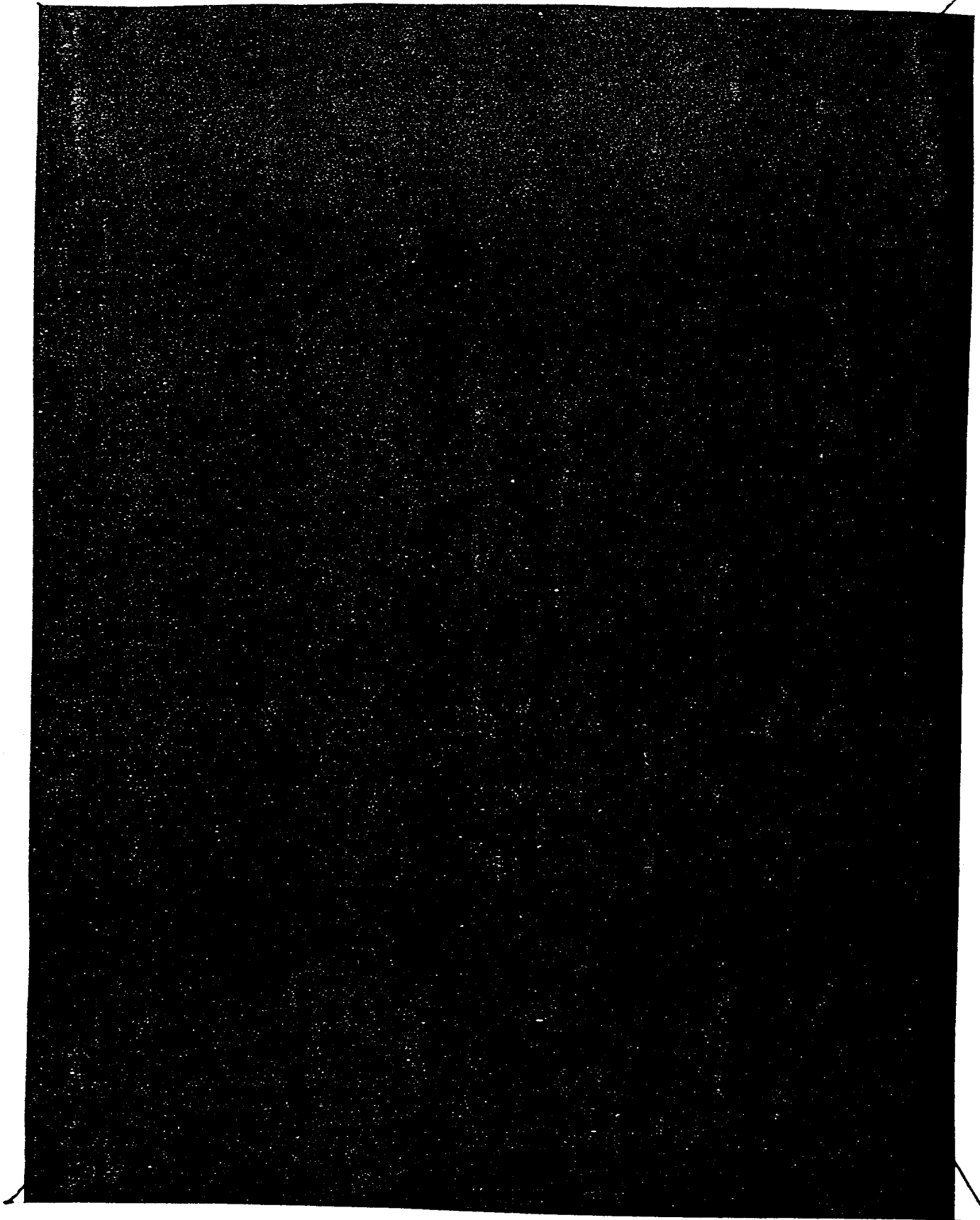
19. In March 1982 a military coup spearheaded by reformist-minded officers brought to power retired Gen. Efraim Rios Montt, who rapidly implemented a new civic action program while continuing the emphasis on maintaining the tactical initiative. This "bullets and beans" strategy—continued by General Mejia—relies 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. (S/NF)

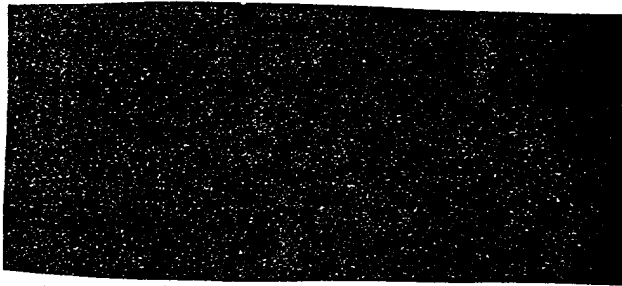
20. The implementation of this strategy, complemented by an amnesty, has reduced insurgent forces



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. (S/NF)



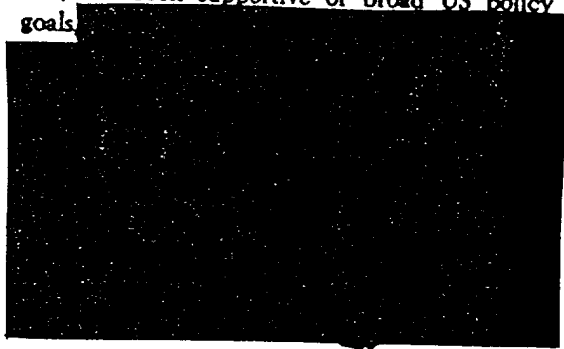




Foreign Policy

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



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.



— 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. (S, AF)

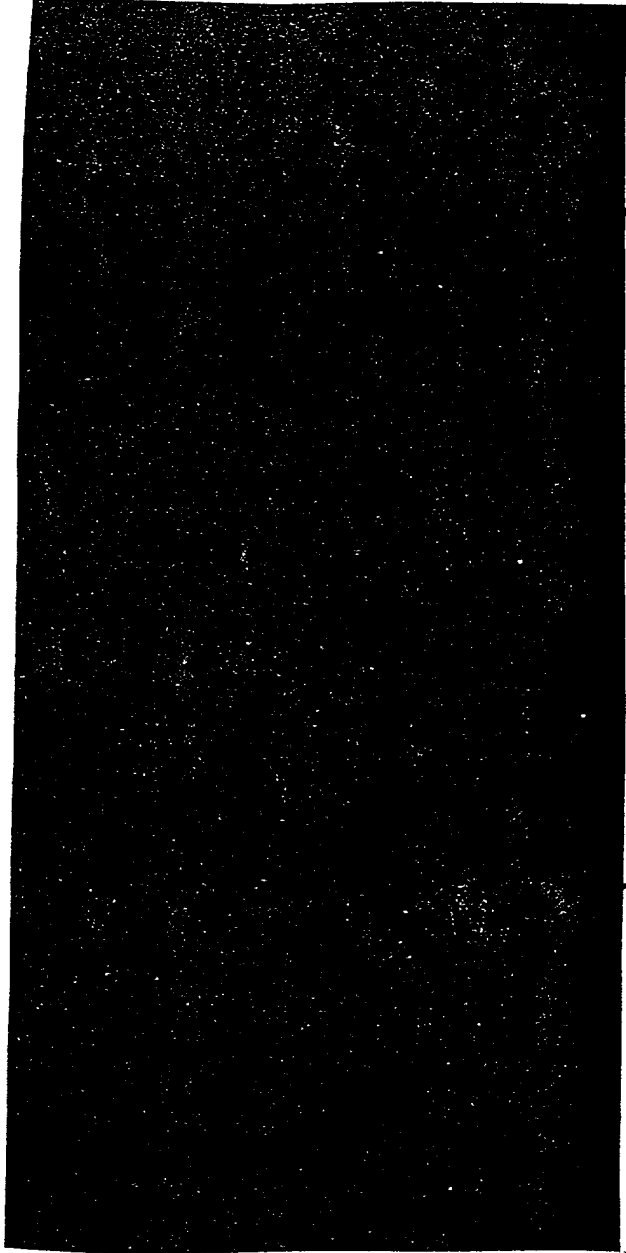
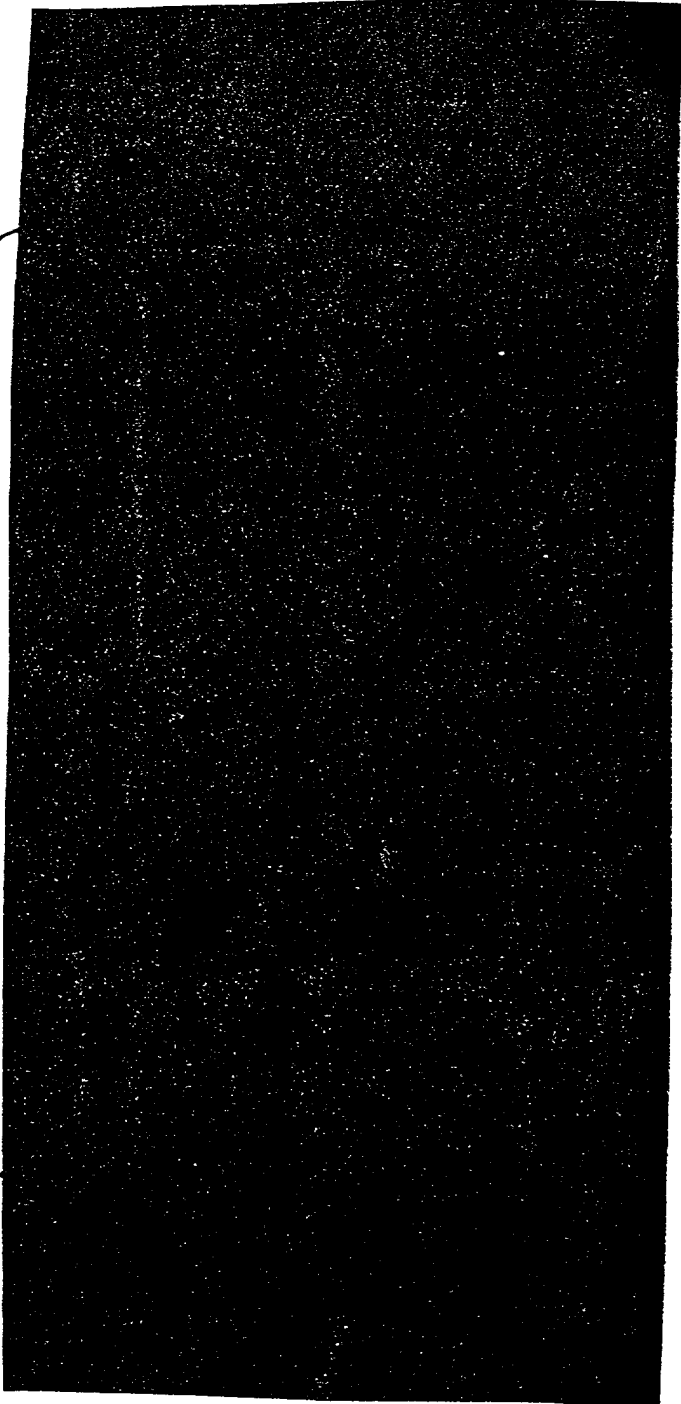
23. On the other hand, we do not expect a substantial reduction in the insurgency in the next 12 months. The armed forces are currently stretched to the limits of their resources and will have a difficult time increasing their counterinsurgency efforts. The principal limitations of the military are transportation, 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. (S, AF)

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. (S)

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.



little danger that Guatemala will be drawn into the Soviet-Cuban orbit over the coming year. ~~(S)~~



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

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.



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

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. (S, NF)

### 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. (S, NF)

33. [REDACTED] 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.

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. (S, NF)

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

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. ~~(S/NF)~~

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

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. ~~(S/NF)~~