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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

NEAC 3035-79

National Intelligence Officers

7 June 1979

NSC review completed

MEMORANDUM FOR: Deputy Director for National Foreign Assessment

FROM : Acting NIO for Latin America

SUBJECT : Forecast of Impending Developments in Nicaragua

[Redacted]

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1. This memorandum contains my judgement on the likely unfolding of events in Nicaragua over the next 18 months or so. [Redacted] 25X1

2. The political ferment and violence in Nicaragua is leading to an overthrow of the government which, unlike palace revolutions in Bolivia, Peru, and Argentina, will be a true revolution in the sense that virtually all social and political structures will be changed radically when the dust settles. [Redacted]

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3. While there may be some effort to hold elections in an attempt to establish a representative government after Somoza is ousted, in my judgement, this would fail because of the intensity of popular feelings that all vestiges of the Somoza regime must be abolished. [Redacted]

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4. I believe that a revolutionary council would be established headed by "Commandant Zero" or one of the other insurgent leaders. The National Guard would doubtless be disbanded and replaced by a revolutionary army with the responsibility for preventing foreign incursions from Guatemala, Honduras, El Salvador, or elsewhere, and to maintain internal order. [Redacted]

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5. I anticipate that all private enterprises would be nationalized, probably without compensation. The Revolutionary Council would then set about establishing a government bearing a strong resemblance to that established by Fidel Castro after the overthrow of Batista. [Redacted]

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6. A revolutionary court would go through the motions of trying Somoza and those members of the Somoza regime and the oligarchy who remained in Nicaragua, finding them guilty of crimes against the Nicaraguan people, [Redacted]

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[Redacted]

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executing most, and exiling a few. US and other foreign businessmen would be expelled from the country and forced to leave behind all their valuables. Some might be tried and imprisoned for supporting Somoza. [redacted]

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7. Early after its establishment, the new regime would recognize Cuba and probably invite Fidel Castro to visit the country. It would condemn the US for its long history of support to the Somoza regime, but would probably heed Castro's advice not to alienate the US totally. Castro would doubtless offer to send technicians to Nicaragua to assist the new government in getting established and offer advisors to assist in forming the army and the security forces. These offers of Cuban assistance would be accepted with alacrity. [redacted]

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8. Insurgents' success in ousting Somoza and replacing him with a revolutionary/socialist government would stimulate restive forces in El Salvador to take similar action against the Romero government and the so-called "14 families" which control the economy of El Salvador. It would likely also have profound repercussions in Guatemala where the Cuban-backed Guerrilla Army of the Poor (EGP) has harrassed the government of President Lucas. While I do not anticipate that the EGP would succeed in overthrowing Lucas, its insurgent activity would add to the malaise of the region. [redacted]

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9. The foreign beneficiary of all this would be Cuba and, indirectly, the Soviet Union, both of which would view the events as an erosion of US influence in the Western Hemisphere. The USSR would stay in the shadows but provide Cuba with any support it needed. [redacted]

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10. Omitted from the above scenario is any action the United States or other nations might take to prevent this eventuality. Without discussing the various options available, which would require a much longer paper than this, it is my considered opinion that none would do more than to slow down or temporarily derail the train of events. [redacted]

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[redacted]

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Distribution:

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**THE DIRECTOR OF
CENTRAL INTELLIGENCE**

Deputy Director for National Foreign Assessment

8 June 1979

NOTE FOR The DDCI

Fraut

I thought you would be interested
in the attached forecast on Nicaragua
[REDACTED] I have also
sent a copy to the Director.

[REDACTED]

Robert R. Bowie

Attachment:
as stated

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PRC MEETING

June 11, 1979, 4:00 P.M.
White House Situation Room

PRM-46: U.S. Policy Toward Central America

AGENDA

1. Overview of the Situation
2. U.S. Objectives
3. Approach and Strategies to the Region
4. National Strategies
 - El Salvador
 - Guatemala
 - Honduras
 - Nicaragua

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Prepared by Tarnoff/State
DATE X 6/6/89

Reviewed by Tarnoff/State
RDS-3

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PRM-46

U.S. POLICIES TOWARD CENTRAL AMERICA

I. THE PROBLEMS

Events in Nicaragua and El Salvador have transformed Central America into a potential arena for revolution and international conflict. The northern tier of Central America is gripped by a polarizing dynamic of violence, repression and radicalization. Pessimism is pervasive and uncertainty high throughout the region.

The major threats to U.S. interests are:

- the stalemate in Nicaragua, where the consequences of Somoza's efforts to perpetuate himself in power are increasingly endangering our strategic, security, human rights and development interests;
- the spread of violence and radicalization
--spawned by the resistance of most ruling elites to peaceful change-- which is increasing both the temptation and the ability of Cuba to penetrate the area; and
- the fragility of moderate political forces, which are being ground between the millstones of revolution and reaction.

If we vacillate, or choose wrongly, our national security interests, our prestige, and our relations elsewhere in Latin America will suffer. If we can contribute to constructive solutions that facilitate wider political participation and economic progress, our moral authority and leadership will be enhanced.

A. NATURE OF THE CRISES

1. General Problems and Common Threats.

The nations of Central America share a number of inter-related and complex problems:

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(RDS-3 6/6/89 - Viron P. Vaky)

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- Socio-political fragmentation. With the exception of Costa Rica, societies are characterized by deep class and ethnic divisions, endemic violence, political atomization, distrust and corruption. Neither the demands of new middle class entrepreneurs and professionals, nor the minimal needs of workers and peasants, whose ranks have been swollen by the population explosion, have been met. Growing social tensions and defeated aspirations have become natural breeding grounds for alienation, rage and terrorism. This, in turn, provides new grounds for conservative intransigence.
- Weak government leadership. Except for Costa Rica and Nicaragua, government leadership in the region is generally weak and mediocre. Except for Costa Rica and Honduras, leadership has generally been repressive. Movements expressing pressures for modernization or more basic demands for equity have been continuously frustrated by electoral manipulation and violence, much of it officially condoned or inspired. The murder, exile, or cooption of opposition leaders has hindered evolutionary change, and strained the legitimacy of existing governments and laws.
- Institutional weaknesses. Institutions of all kinds--from public order and social services to press and political parties--are being undermined by socio-economic pressures, human rights violations and terrorism. These dynamics in turn produce ineffective governments obsessed with survival, and a growing tendency to blame the United States for the region's difficulties.
- Underdevelopment. Again with the exception of Costa Rica, virtually all of the Central American countries are characterized by gross maldistribution of income. The poor majority suffer malnutrition and illiteracy. Unemployment and underemployment are high and growing.
- Intraregional conflicts retard cooperation, increase political tensions and hinder the formation of a stronger regional economy.

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Recent developments have been exacerbated by underlying problems:

- Economic stress in the form of world inflation, politically-induced capital-flight, fluctuating commodity prices, and recession have decreased real incomes, and lessened the ability of governments to meet popular needs. Petroleum costs have quadrupled, with increasingly severe cumulative effects.
- The upsurge of terrorism increases the intransigence of those benefitting from the status quo, and strengthens tendencies to misidentify the issues by focusing on terrorism rather than the underlying core problems.
- Domestic deterioration is expanding opportunities for radicalization and invites external intervention. The threats of a) radicalization of the region or parts of it, b) Cuban involvement, and c) serious international conflict in Nicaragua are all growing rapidly.

2. The National Context.

These common trends come together in different, even idiosyncratic ways in individual countries:

- In Nicaragua, forty years of personal rule by a family of classic Caudillos unwilling to share power appears headed for a violent end.
- In El Salvador, a conservative military-civilian ruling group, which fraudulently blocked electoral change, is now confronted with both centrist and increasingly violent radical opponents.
- Guatemala is relatively stable, but its Government is reacting with repression in an attempt to guarantee the status quo.

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- In Honduras, the region's poorest country, a military regime is preparing transition to constitutional rule.
- Finally, Costa Rica, the area's only practicing democracy, is experiencing internal political and economic stresses stimulated by its neighbors' crises.

3. The Special Impact of Nicaragua.

Events in Nicaragua have become the immediate catalyst for instability and political turmoil, illuminating starkly a region increasingly trapped between revolutionary and reactionary violence.

Just as Costa Rica has long been the area's democratic ideal, Nicaragua has been its authoritarian nerve center. The fact that all the power and skill of the Somozas has proved insufficient to eliminate the Sandinista challenge has terrified conservatives and inspired revolutionaries throughout Central America.

There is a growing consensus that, unless a middle ground can be developed facilitating Somoza's early safe departure, current processes of polarization in Nicaragua are more likely to lead to an extremist regime, possibly with Marxist participation, than to the reconsolidation of Somoza's personal power.

Whereas continued strife in Nicaragua would increase propensities for repression elsewhere, an early negotiated transition would have a significant positive impact on prospects for regional stability and reform.

B. DEVELOPING A U.S. RESPONSE.

Central America is thus undergoing both an immediate crisis of political authority and an underlying crisis of social organization and economic development. In addition, the presence of distinct national crises as well as common problems creates both regional and country-specific dilemmas.

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Neither crisis can be ignored and prompt policy choices with regard to both are urgently needed.

Structure of this memorandum. U.S. options, and the major decisions required to implement them, are set forth in Part III, after a discussion of U.S. interests and objectives in Part II.

Annex 1 provides additional data on regional linkages and conflicts. Annex 2 analyzes individual country situations in greater detail. Annexes 3 and 4 elaborate particular options on Nicaragua and El Salvador.

II. U.S. INTERESTS AND OBJECTIVES

A. U.S. INTERESTS

The symbolism of Central America's geographic proximity and of our deep past involvements creates special U.S. interests in Central American peace, prosperity and cooperation.

Although U.S. interests in individual Central American countries are generally minor, a number of important interests are identifiable with regard to Central America as a whole. In addition to reasonably stable and friendly governments, these include:

- strategic support for the effective operation of the Panama Canal, and denial of the region to use by forces hostile to the U.S.;
- security against armed conflicts and external intervention;
- human rights, including the development of viable democratic institutions; and
- economic and social development through domestic reform and increased regional cooperation and integration.

Individual U.S. citizens and groups assign radically different and conflicting priorities to these interests. Some emphasize strategic considerations and security, and urge support for any government that claims to be friendly

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and anti-communist. Others emphasize development considerations or human rights, and would deny support to governments on those grounds. Both viewpoints have ample support. The resulting divergencies among U.S. interest groups make formulation of policy toward the region particularly difficult, and have contributed to a sense of drift in our relations.

Non-controversial U.S. interests include the protection of U.S. citizens and property, control of narcotics trafficking and illegal immigration, fisheries and Central American support for U.S. regional and global economic policies. These interests all require a degree of Central American cooperation that is hindered by instability and confrontation.

B. U.S. OBJECTIVES

In light of the threats and conditions identified in Part I, the following policy objectives would advance U.S. interests:

- movement toward more open political systems, free elections, and democratic processes;
- strengthening of centrist and moderate groups and the linkages among them;
- a diminution in the appeal and power of radical elements and Castro-linked groups;
- economic and social development which would improve the services and opportunities available to the people, and reduce the vulnerabilities and frustrations that lead to political tensions;
- renewed momentum toward greater regional economic cooperation and integration as an effective framework to foster modernization and reduce intra-regional tensions, including demographic problems;
- better observance of human rights, an end to terrorism from both left and right, and a cessation of such practices as political assassination and torture;

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- resolution of the area's international conflicts, especially the Honduras-El Salvador dispute; and
- a friendly perception of the U.S. and willingness to cooperate with us for larger goals, including strategic considerations related to both the Panama Canal and the hemisphere's security.

C. CONFLICTS AMONG OBJECTIVES AND APPROACHES

In combination, these objectives would advance all our major interests. The obstacles to their pursuit include:

- our influence over Central American events, although still substantial, is not controlling. Official assistance and other governmental programs are relatively limited. Economic assistance, even if increased, would have a delayed impact; use of U.S. military force, once the ultimate sanction for our influence, is not a politically acceptable option.
- our multiple interactions with the region -- and the conflicting priorities assigned to U.S. interests -- impede the consistent application of what leverage we do have to secure any one objective.
- particular objectives, though part of a coherent over-all approach, can conflict in implementation or in time sequence.

Conflicts among objectives can take varying forms. They are particularly acute with regard to U.S. policies toward established governments and toward military institutions where there is repression. When does U.S. pressure induce change, and when does it intensify intransigence or create a vacuum? Conversely, when do U.S. attempts to induce change through close relations inadvertently strengthen a particular regime or reduce its incentives for reform?

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Depending upon how we prioritize our interests and objectives and how we analyze each situation, policies toward particular countries may require both sanctions and support, in varying combinations at different moments. Such judgements can be extremely difficult in the sharply polarized atmosphere of Central America, where even a determination to eschew intervention can alienate all groups.

Conflicts among objectives, and the interpretations required to decide on the use or non-use of particular policy instruments, are only resolvable on a case-by-case basis. Part III sets forth the decisions we face now.

III. SPECIFIC STRATEGIES AND DECISIONS

A. REGIONAL STRATEGIES

Because of the common context within which each country is evolving, and the impact of each situation on others, some regional approaches and regional dimensions to our policies are required.

It is essential that we reverse perceptions of U.S. withdrawal or vacillation. This will be important both domestically and for our influence in Central America. Steps we can take are to:

- publicly articulate a specific policy with regard to individual situations;
- consult closely with Congress to explain what we are doing (or not doing);
- convey our positions directly to individual governments, moderate political forces, and regional institutions, possibly demonstrating our concern and interest through one or more high-level visits; and
- increase contacts with other interested governments, including Venezuela, Colombia, Mexico, Panama, and Costa Rica, exploring also means of working with the Western Europeans, Canadians, and Japanese, who share our concerns. Mexico's recent actions have led it to be perceived as a key player.

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Because events are moving very rapidly, an accurate understanding of the various situations in the region is indispensable. We need to increase informal contacts with and our understanding of:

- the left and right extremes, as well as centrists and moderates; and
- the military, especially the younger officers.

We should consider the need to influence and retain contact with all major institutions likely to play key roles, including the military.

Consistent with specific country strategies, we should stimulate regional economic cooperation as a means of facilitating ties among civilian professionals and entrepreneurs, providing a moderate framework for development, and reducing tensions among countries (See Annex 1). We should:

- Help design regional projects and orient bilateral and multilateral assistance toward planning and financing them.
- Encourage projects with a regional employment creation focus.
- Consider increasing bilateral inputs, including rapidly disbursing assistance like SSA and PL 480 as well as AID levels wherever in accordance with country strategies.
- Examine the feasibility of a multilateral consortium approach like the IBRD-led Caribbean Group.

B. COUNTRY STRATEGIES

1. NICARAGUA: The core issue in Nicaragua is transition from personal dynastic rule. The dynamics center on how succession will occur -- violence, overthrow, coup, negotiated transition agreement, elections.

Somoza and the Sandinistas are at a military impasse, neither able to defeat the other. The result is a downward spiral, increasing polarization and the erosion

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of Somoza's staying power. The longer this process continues, the more likely an explosive, radical outcome. The more bloodshed and resentments Somoza creates, the less likely the prospects for peaceful change. The longer succession takes to resolve, the greater the chances of international conflict and radicalization in what is otherwise an essentially conservative society.

We have four basic options:

Option One: Support Somoza to put down the Sandinista insurrection and eliminate the danger of external intervention, then seek a transition formula with Somoza and the centrist forces.

Option Two: Seek first to convince Somoza to negotiate his early departure, then work to design a transition for a successor government. Stand ready to isolate him if he refuses.

Option Three: Take an active lead now to catalyze a negotiated transition, dealing with all sides, offering to help and proposing ideas.

Option Four: Remain neutral, disassociate from Somoza, let nature take its course and wait for a future opportunity to re-engage.

Option One would seek to avoid a collapse of the existing order before a succession is in place, and a possible radical or Cuban-linked takeover in the resulting vacuum. We would seek to cut off international support to the Sandinistas; assistance to Somoza would be more in the nature of not interfering with economic aid or military equipment, but could involve renewed U.S. military and economic assistance. Assuming stability could be restored, we would expect Somoza's cooperation in negotiating a transition; we would assume that once his most radical opponents are defeated, Somoza would not try to perpetuate his family in power with purely cosmetic changes.

Option Two would try for a transition with the opposite tactic. It would first involve a frank statement to Somoza that we believe he should agree to an early transition formula. We would undertake

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as many of the following as feasible: continue suspending all bilateral aid; oppose or delay IFI aid; delay sending an Ambassador; seek to cut off military supplies to Somoza; interrupt the IMF standby arrangement if targets are unmet; encourage opposition elements; seek to obtain support of other nations for pressure on Somoza; enunciate our perception that Somoza's intransigence is the problem; strengthen our posture on human rights and strongly condemn the regime for violations, working with Mexico and Venezuela to call an OAS meeting to discuss the IAHR report and sanctions. We would essentially be in an adversary relationship to Somoza. We would begin to work with the opposition to develop a transition plan only when we had clear indications that Somoza was prepared to negotiate his departure from power. If Somoza remained intransigent, we would continue to apply all legitimate pressures -- including commercial sanctions if possible -- on the National Guard and the Liberal Party to mount a solution. The basic premise would be that, unless we force events, Somoza will not discuss a transition before 1981. An attempt to negotiate a settlement on what would appear to be Somoza's terms, would only split the opposition and ensure continued violence.

Option Three would have us take an active lead immediately in seeking to bring about a transition, working with all sides; we would argue with Somoza to accept the inevitable; encourage the centrist opposition to coalesce and come up with an action plan; suggest ideas and dialogue with all sides; offer good offices; seek cooperation of other nations in our efforts; seek to cut off arms flow to both sides so as to reduce violence; maintain pressures as at present on Somoza to make clear we are serious, and warn him we will disassociate if he remains intransigent. We would encourage and deal with elements in the National Guard and Liberal Party. The premise here would be that time is of the essence: the situation is now too volatile and far gone to expect a formula to arise spontaneously from within the body politic, but fears of deterioration might very well now be ripe for outside catalytic ideas to prosper. This option could seek either agreement on a 1981 time frame or on explicitly earlier transition as circumstances warrant. It would move immediately to catalyze a solution by having it evolve through the interplay of convincing Somoza and building a coherent opposition position.

Because Option Three would require a complicated and subtle orchestration, Annex 3 explains in more detail what a game plan under this option might look like.

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Option Four is a fallback from Option Two. It would assume that we have no immediate capacity to affect the situation and that conditions are not now ripe for a successful mediation. We would avoid actions that could appear supportive of Somoza, and to the extent that domestic U.S. realities allowed, join other democratic states in pressuring for a democratic solution. While failing to bring a rapid end to the bloodshed, this approach could keep our options open and permit a switch toward active mediation later, e.g., a 1981 formula might appear more even-handed, and more acceptable to all the opposition, if proposed in 6-9 months. The risk would be that the situation in Nicaragua might deteriorate swiftly beyond the point where any mediation was feasible, and that we would lose an opportunity for avoiding further violence and a radical (or even more harshly repressive) turn in events. This option also may feed perceptions of U.S. immobility and inability to influence developments.

Comment. While pros and cons for all four options are outlined below, it should be emphasized that the assurance of success for any of the options is extremely uncertain. The options must be assessed, therefore, not only in terms of which is best but which may be least bad, and which may leave the U.S. positioned best to deal with confusion, disorder, and political uncertainty in the future as well as problems elsewhere in Central America.

Option One. Help Somoza Eliminate Sandinista Threat, Then Seek a Transition.

Pros:

- designed to guard against the contingency of a radical takeover;
- would be supported by major conservative elements in the Congress and the nation, and would protect the Administration from a "Who lost Nicaragua?" problem.
- by ending violence and the potential for international intervention, might make it easier for Somoza to accept departure from power later without losing face.

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- even if unsuccessful, will have demonstrated our willingness to stand by traditional allies under ~~siege~~ siege.

Cons:

- there is no guarantee that our helping Somoza will enable him to eliminate the threat; it may only induce Cuba to up the ante and in fact intensify the violence and conflict.
- would pit us against our democratic friends -- Costa Rica, Venezuela, Panama, Mexico.
- would associate us with repression and dictatorship; we would alienate all the opposition.
- there is no guarantee that, even if the violent opposition is eliminated, we can persuade Somoza to truly leave; there may in fact be less reason for him to do so later and he could resist pressure.
- would be opposed by major liberal elements in the Congress and the nation.
- if this option were followed and Somoza were overthrown anyway, the successor government would predictably be strongly anti-American.

Option Two. Pressure Somoza, Then Seek Transition.

Pros:

- a period of sustained external and internal pressure provides the best chance to force Somoza to negotiate seriously; if it worked we would be well placed to assist an orderly transition.
- our position with the democracies, including Mexico and Venezuela, and liberal circles would be enhanced.
- our credibility with the centrist and FSLN opposition would be increased.
- if Somoza hangs tough, our options still remain open, e.g., work for 1981 elections.

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Cons:

- Our capacity to exert pressure on Somoza is limited, and his tenacity and belief that he can outlast us is intense; it is unlikely we could force him to conclude he had to leave.
- U.S. Congressional circles will resist the orchestration of sanctions, increasing the chance we will only convey an ambiguous posture -- as at present.
- we may not have the luxury of waiting a few months. The situation is deteriorating too fast. The more time passes the greater will be the dissolution of the middle, the quicker the polarization, the more likely a violent outcome.
- we do not have assurance that our options are open if Somoza hangs tough; this strategy in fact indirectly encourages a National Guard coup -- a very uncontrollable tactic.

Option Three... Stimulate a Negotiated Transition Now

Pros:

- would provide an immediate new alternative now when it is desperately needed, since one cannot emerge spontaneously and time is of the essence.
- would define a positive U.S. position publicly and focus international attention on the key issue of succession.
- would encourage the centrist opposition and give them a rallying point. Some FSLN sectors might support it if Somoza's departure appeared likely before 1981.
- would, if successful, deal with the problem of what takes Somoza's place and the threat of radicalization by negotiating an orderly replacement and transition.
- would magnify the chance of accomplishing this by involving all actors, including important institutions such as the Guard.

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- would be supported by other nations and democracies and would be consistent with our human rights and democratic policies.
- even if unsuccessful, would increase our visibility and demonstrate our concern.

Cons:

- Some believe that unless we have first forced Somoza to agree to leave and negotiate the process, would ensure a costly repetition of the mediation experience.
- Somoza might believe he could play along to relieve pressure and eventually outstare us.
- pushing or stimulating negotiations may split the centrists if we accept a 1981 formula and further discredit us if we fail; may only alienate the FSLN and reinforce conviction that violence is the only solution.
- an agreement between Somoza and the more conservative sectors of the opposition would somewhat alter the nature of the conflict but could not end it, and could align us once again with Somoza.
- if it fails, could compound the skepticism induced by the failure of the international mediation, lessening our credibility as a mediator in future opportunities.

Option 4. Neutrality

Pros:

- recognizes what is in reality our weak leverage with which to shape events, and the impossibility of outright intervention.
- with no satisfactory openings now, waiting may present us -- and the OAS -- with better grounds for re-engaging later.
- avoids identification with a repressive regime, and keeps our options open for dealing with a successor government.

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- reduces risks of being exploited by either Somoza or his opposition.

Cons:

- abandons any immediate attempt to shape events, exposing U.S. interests to the luck of the draw, and risking a radical take-over.
- pleases no one fully; the U.S. will be criticized and lose credibility.
- will at least temporarily strengthen the perceptions of U.S. impotence or lack of interest.

2. EL SALVADOR. The volatility of the Salvadoran situation results from the region's most serious social crisis. Violence from both sides is rapidly escalating, and a temporizing government has been unwilling to take the necessary steps to allow an off-again, on-again "dialogue" with opposition forces to make headway. After two years of false starts during which repressive actions by the Government have increased, the centrist forces are skeptical of Romero's intentions. Meanwhile, the left is now displaying a mounting ability to challenge, if not immediately threaten the Government. This defiance may push the Regime into even more repressive actions or become the catalyst that convinces virtually all national decision makers that a political opening is essential.

The intensity of the Salvadoran crisis makes disengagement impractical. It would gain us credit with few of the contending groups, and would leave us with no capacity to influence the resolution of the crisis. On the other hand, simply backing the Romero regime unconditionally is no more promising, both because of its unacceptably repressive nature to date and its weakness.

The only practical option we have is to seek to push the Government, the political opposition elements, and major sectors of society into cooperation and accommodation so as to consolidate a political opening and mount necessary human rights reforms. The legislative and municipal elections of 1980 would offer the necessary peg on which to hang a dialogue to that end.

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Basically, this strategy would involve the following elements:

- Public definition by us that we believe dialogue and internal accommodation and reform offer the only peaceful solution to the nation's problems, and an announcement by us that we will support efforts by the Government and the opposition to this end;
- We would tell Romero the same thing, define for him the things he should do--electoral reform, amnesty, wider political participation;
- We would increase our contacts with economic/business/military elements that currently support Romero to gain their support or acquiescence for a process of political opening;
- We would do the same thing with labor, the PDC and the MNR, urging them to close ranks, participate in a meaningful dialogue and develop proposals for the Government to consider;
- We would seek out constituent elements of the BPR for the same purpose;
- We would make clear to the Government--and to other actors--that our support will be conditioned upon progress.

In this strategy, the basic tactical decisions for us are 1) how deeply involved we should become, and 2) what tactics we should employ with the Romero Government. As regards the first, a fairly active stance is unavoidable. Movement toward dialogue is not likely to arise spontaneously. The current situation is still polarizing to the extremes.

The second question is more difficult. Basically there are two possibilities:

- an "encouragement" approach, which would involve some immediate indications of support as encouragement to enable Romero to move in the right direction, although on-going assistance and help would be directly related to progress;

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-- a "reciprocal" approach, which would begin with a distanced posture and would extend support only after the Romero Government had taken steps.

The "encouragement" approach is based on the premise that Romero's capacity to move is limited and that he needs evidence of our support to overcome his right-wing supporters' opposition to liberalization; it also assumes some unwillingness of the ruling elite to trust our word that we will actually restore normal relations and economic and military assistance if progress takes place. This approach might, however, weaken our credibility with the Church, labor, and the centrist parties.

The "reciprocal" approach is based on the reverse premises, viz., that Romero wants to move as little as possible and will use "dialogue" to gain time and split the opposition as he has for the past two years. This approach assumes that, unless pressured, Romero will not produce. The problem is that pressure alone may not be enough.

Although the tactical differences may seem subtle, the operational questions are real. For example, in the "reciprocal" approach we would maintain our current posture--oppose or delay all non-BHN AID and IFI loans, refuse all licensing of Munitions Control (MC) items and FMS cash sales; and not request FMS credit or IMET authorizations. We would loosen up in this regard only after a designated series of steps had been taken.

The "encouragement" approach would support BHN loans, sign the pending AID loan, and consider MC licensing applications and FMS cash sales for non-lethal items, all to demonstrate to Romero and others that we will support Romero in moving to a dialogue, but with a clear warning that we would tighten up if progress lagged.

Annex 4 spells out the "encouragement" and "reciprocal" variants of the dialogue option in greater detail.

Key questions are:

a) While we press for dialogue, what position do we take on:

--non-lethal MC and FMS items

--Ex-Im loans

--IFI loans

--AID BHN projects

b) What specifically would we require as evidence of progress?

3. GUATEMALA. Guatemala is reasonably stable and stronger than its neighbors, but the governing military-civilian coalition is ineffective and repressive. Discontent is ignored or eliminated. Societal tensions and political alienation are mounting under the surface and could undermine an effective electoral transition in 1982.

The issue in Guatemala is the existence of major basket one human rights violations, especially assassination of civilian leaders, and a pattern of repression that could over time lead to a crisis similar to that of El Salvador. Guatemala has also been unhelpful with regard to the Nicaraguan mediation and our efforts to deal with that situation constructively. As an important country in the Common Market arrangement, Guatemala's initiative and cooperation could be an important spur to regional integration if it were so inclined.

The lack of fluidity in the current situation suggests no particularly active U.S. role at present. Reasonable objectives would appear to be to persuade the Government to put a halt to political assassinations by right wing death squads, to work toward a civilian Presidency through a reasonably open electoral process in 1982, and to play a constructive role in regional cooperation. U.S. influence and leverage is relatively small, but the basic Guatemalan desire for a cooperative relationship with the U.S., especially given the Belize question, might give us some prospect for working out a useful relationship.

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Basically, we could:

- follow a low profile policy of as normal relations as are consistent with human rights conditions and simply wait to see what happens; or
- add somewhat more active steps of discussing human rights/assassination questions with the Lucas regime to seek an improvement in this situation, increasing contacts with enlightened elements in the military and society in general to stimulate support for a fair election and a civilian President in 1982.

Since we have few major carrots, the most effective way to seek improvement in the human rights and electoral picture may be to maintain contact, engage in consultation on regional cooperation and dialogue frankly on human rights making clear our position and holding out the hope of greater cooperation if the human rights situation improves, while also developing ties with moderate forces in the military and civilian political groups, and the church.

A more active posture could be to suggest to Lucas steps to end political assassination and official involvement in violence. Such steps could include:

- Centralization of intelligence and anti-subversive activities in a single office with clear prohibition on use of torture, with immediate notification of all arrests to that office and open access to that information; and
- prohibit hiring of regular military personnel by private landowners.
- In addition, the naming of a highly respected special prosecutor to pursue investigation and prosecution of those responsible for the Fuentes Mohr and Colom Argueta assassinations would also be helpful.

With clear evidence of government steps to halt political assassinations and the level of violence, we could respond

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positively with increased economic cooperation.

If there is continuing failure to take such steps, we could reduce our AID levels, suspend commercial sales for military and police use, oppose IFI loans, and publicly hold the government accountable for protecting its citizens' lives.

As in El Salvador, the immediate question for us is thus what kind of a relationship we maintain with the Lucas Government. What positions do we take with regard to such as:

- AID loans
- IFI loans
- FMS or MC items

4. HONDURAS: A transition from a military-dominated to a civilian government is scheduled via elections to be held in April 1980. Underdevelopment and a relatively rich endowment of land have so far spared Honduras the socio-economic problems, or the human rights violations which have soured U.S. relations with Nicaragua, El Salvador and Guatemala. Traditional parties survive as controlled outlets for political activity.

Our principal objective in Honduras is to assure that the process of transition to civilian government proceeds apace. The symbolism of U.S. support for Honduras' efforts may also be useful in our dealing with the more immediate crises in other countries.

The key question is the extent to which we are willing to commit economic and military resources to back our political preferences. Bilateral and multilateral assistance programs are partially needed to facilitate Honduras' economic development. Increased resource availability would support both short and long term U.S. goals.

The key question is should we give Honduras top priority in the reprogramming of regional assistance programs, to spur and consolidate current directions of Honduran policy and to ready an immediate U.S. "bonus" to support the transition to civilian government?

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REGIONAL LINKAGES AND CONFLICTS

Central American unity has been a powerful but unattainable ideal throughout the region's history. Some form of regional integration seems the logical answer to the fragmentation that weakens economic growth and fosters instability. Economic links increased dramatically during the last two decades, but the interests of local power groups still militate against more extensive integration.

The Central American Common Market. The formation of the Central American Common Market (CACM) in 1962 gave economic integration a historic forward push. Intra-regional trade, which accounted for \$33 million of exports in 1960, grew to \$703 million in 1977 in spite of disruptions since the 1969 El Salvador-Honduras "Soccer War". This regional trade stimulated the growth of industrial sectors in all Central American countries, particularly Guatemala and El Salvador. In addition, a network of integration institutions -- centered around CABEI (The Central American Bank for Economic Integration) and SIECA (The CACM Secretariat) -- strengthen the role and regional consciousness of the technocratic elites which are becoming an increasingly important factor in the region.

The trade policy of the CACM centered on increased internal trade and protection to promote import substitution in consumer goods. Effective in the 1960's, it has lost dynamism in the 1970's.

The treaties creating the CACM expire in 1980. While it is doubtful that the Central Americans will abandon the degree of economic integration they have achieved, it is also doubtful that they will find the political will for major initiatives. A normalization of relations between El Salvador and Honduras (see below) would improve the atmosphere.

The "Northern Tier Entente". Shared fears of insurgency and worry about the "domino effect" have led to an informal alliance among the military-dominated regimes of El Salvador, Guatemala, Honduras and Nicaragua. This involves activities

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such as information exchange about opposition and subversive elements, and even cooperation against such groups. The Presidents meet, sometimes secretly as in their consideration of the situation in Nicaragua, to coordinate actions.

Other Cooperation. Cross-border linkages of a nongovernmental, non-economic character are relatively weak. Opposition groups appear to lack the unity of vision or resources to match the regional perspective of the ruling economic and military elites. Cooperation between insurgent groups is more a question of emotional solidarity and occasional safe-havens than of operational coordination.

REGIONAL CONFLICT

Conflict within Central America is substantial. Sources of tension include:

-- Salvadoran Overpopulation. The flow of Salvadoran migrants into other countries is a constant irritant and was the basic cause of the "Soccer War" with Honduras.

-- Nationalism. Local pride and patriotism are very strong, and easily exploited by regimes anxious to divert attention from internal problems.

-- Permeable Frontiers. Individual countries have little control over movements of persons from one country to another, a fact which guerrilla groups can exploit.

-- Disparities in Development and Ideology. The contrast between democratic, relatively advanced Costa Rica and her northern neighbors is only the most striking example.

-- Economic Rivalry. Central American economies are basically competitive, not complementary.

Central America is now the scene of three international conflicts:

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El Salvador-Honduras. A complex of issues, the most basic of which was Salvadoran migration, led to open warfare in 1969. The border between the two countries has been closed since, disrupting the normal flow of people and goods. Tension has remained high, but the parties have submitted the dispute to mediation, which is now going on.

Guatemala-Belize. Guatemalan claims to Belize have delayed the U.K.'s timetable for Belizean independence. If internal Belizean support for independence grows, which seems likely, the impasse could increase tensions, and provide an opportunity for potential armed conflict and external intervention.

Nicaragua-Costa Rica. FSLN use of Costa Rican territory has heightened tensions, leading to a closing of the frontier and a rupture of diplomatic relations.

THE ROLE OF OUTSIDE POWERS

The United States. The impact of the United States on Central America is enormous and varied. Official activities and policies are but part of the picture.

Economically, the U.S. presence is overwhelming. About one-third of total Central American trade is with the U.S. The U.S. share of foreign investment is perhaps half of the total. The U.S. provides the lion's share of development assistance through the multilateral development banks.

The United States is also the most important foreign cultural and intellectual influence in Central America, in spite of the region's Hispanic heritage. The Central American elite send their children to the United States to be educated. The middle class aspire to a suburban American lifestyle. The poor in astonishing numbers leave their villages for the long and dangerous trip to work as illegal immigrants in North America.

As elsewhere in Latin America and the Caribbean, U.S. Government programs and official presence have

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declined considerably over the past decade. Economically, the U.S. has generally lost ground as the EC, Japan and intra-regional trade have assumed increasing economic importance.

Our emphasis on human rights, partly in response to increasing authoritarianism in Central America, has produced sharp reactions:

- Conservatives, especially in the militaries, feel we have cut them adrift and use human rights policies to encourage their opponents.
- Centrists appreciate our human rights posture, but would have us play a more activist role in altering political structures.
- Leftists suspect that the absence of anti-regime intervention reflects either our satisfaction with the status quo, or a fear of fundamental change, or that it masks more subtle and sometimes not yet identified "new forms of control."

All groups share to one degree or another the belief that our hesitation to employ our power openly reflects indifference, lack of leadership, even impotence.

Cuba. Since Cuba's efforts to foment revolution in Latin America failed dismally in the late 60's, Cuba has followed a two-pronged strategy of cooperating with "progressive" governments while maintaining contact with revolutionaries in countries with right-wing military regimes. Thus, in Central America, Cuba has developed close ties with Panama and has sought normal relations with Costa Rica while at the same time providing some financial assistance, training, asylum, and propaganda support to revolutionary groups in Nicaragua, El Salvador, Guatemala and Honduras.

Cuba has been cautiously skeptical about the short-term prospects of revolutionary groups in Central America. Cuban attempts to encourage unity among the various factions of the left have not been very successful. In addition, the Castro Government probably fears that direct Cuban military involvement so close to the U.S. might provoke a strong response. Cuban international activities have, therefore, been largely focussed on Africa.

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Since the FSLN offensive last fall, however, Havana may have revised upwards its estimate of prospects for change in Central America. In Nicaragua, Cuba expects a prolonged guerrilla struggle, and is providing the FSLN advice, training, financial assistance, and some arms. By the same token, Cuba undoubtedly will seek improved contacts with revolutionary groups in Guatemala, El Salvador and Honduras, encouraging them to unify their efforts.

Panama. Set apart by its deep involvement with the U.S., Panama is nonetheless an important force in Central America, with links to both military forces and radical opposition movements.

Mexico had remained largely inactive during the current crises before breaking diplomatic relations with Nicaragua in late May and urging other Latin governments to follow suit. Lopez Portillo apparently hopes to nudge the U.S. into seeking Somoza's rapid departure.

Venezuela provided some economic assistance immediately after the OPEC price increase in 1973, and under President Perez encouraged the FSLN in Nicaragua -- to the extent of almost directly intervening. President Herrera is likely to moderate that support, and broaden it to include Christian Democratic movements in Panama, Guatemala and El Salvador.

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COUNTRY SITUATIONS

Though many of the underlying sources of unrest are similar, Central America remains fundamentally fragmented. Each country has distinct governing arrangements and unique problems.

The analyses in the pages that follow seek to identify the major problems and dynamics in the four countries under review: Nicaragua, El Salvador, Guatemala, and Honduras.

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1. Nicaragua

The problem in Nicaragua is personal dynastic rule. Whereas other countries evolved toward a modern state structure with a partially institutionalized military establishment, the Nicaraguan government and National Guard remain essentially the personal instruments of the Somoza family.

Faced with a major challenge to his rule, Somoza appears grimly determined to hang on until the end of his term in May, 1981. If he remains until then, he will attempt to manipulate the selection of his successor.

The Guard has remained loyal and has contained the FSLN. But the cost has been considerable, and the Guard's reaction to either a serious military defeat, to continued hit and run attacks, to a popular uprising in Managua, or to a prolonged strike by public employees, has yet to be tested.

Somoza's Liberal Party controls the electoral machinery and retains substantial strength among public employees, rural sector groups and Somoza dependents and associates.

The centrist Broad Opposition Front (FAO) is composed of business and the traditional opposition parties and is supported by the Church. Despite some defections, it remains basically intact but demoralized by the failure of the international mediation and of non-violent tactics. The FAO is now balked -- unable to achieve its major goal, which is to remove Somoza from power.

As this situation persists, the moderate FAO will probably lose strength while various elements withdraw from politics, return to the Somocista fold, or -- as appears increasingly to be happening -- turn to the Sandinistas (FSLN).

These factors, plus their spectacular and well-reported exploits, have enabled the Sandinista movement to attract growing domestic and international

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support as the standard bearer of democratic aspirations in Nicaragua. The Sandinistas include both radical and more moderate factions united by hatred of Somoza. While they have shown that they are capable of uniting for specific periods and purposes, they have not shown the military capability to defeat him. They seem now to be growing relatively stronger vis-a-vis Somoza and the FAO.

The Sandinista movement includes a number of disparate elements, but several of its key leaders are clearly Marxist in orientation. A Sandinista victory would predictably be followed by a struggle for power between Marxist leaders, who desire to establish a revolutionary, socialist state, and others, probably a majority in the growing Sandinista ranks, whose principal aim is simply to overthrow Somoza.

The Nicaraguan conflict has brought economic collapse in its train. Government revenues have fallen off, forcing a moratorium on foreign debt payments. Massive private capital flight has created a severe balance of payments problem. Investment is nil.

The outcome of the Nicaraguan crisis is unpredictable. A National Guard coup or an unexpected collapse in the face of FSLN pressure are both possible -- or Somoza may tough it out until 1981 and then attempt to govern from behind the scenes. The essential reality of Nicaragua today is a bloody standoff: neither Somoza nor the FSLN can eliminate the other.

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2. El Salvador

El Salvador is ruled by a conservative military-civilian coalition. It has progressively declined in effectiveness as well as legitimacy as successive regimes have been forced to resort to ever greater electoral fraud and repression to retain power.

Under a constitutional system in place since 1962, military candidates are regularly elected to the Presidency under the banner of the official Partido de Conciliacion Nacional in managed elections. Internal migration and industrialization have resulted in the rapid growth of urban middle and working classes desirous of a larger share of political and economic power. The primary political expression of these groups, the Partido Democrata Cristiano (PDC) competed at the polls with increasing success in the late sixties and early seventies and is widely believed to have been defrauded of the Presidency in 1972 and 1977.

The Molina regime (1972-77) resorted increasingly to repression to maintain power. This alienated larger segments of Salvadoran society and, in particular, precipitated a conflict with Catholic Archbishop Oscar Romero which has attracted international attention. During the same period, the activities of urban guerrillas grew increasingly serious.

Under the lackluster, unimaginative President Romero (no relation to the Archbishop), El Salvador has sunk deeper in a morass of violence, repression and governmental ineffectiveness. The President's bitter dispute with Archbishop Romero, the mounting boldness of urban terrorists and the country's economic problems have cost him a considerable degree of support. He has responded with tentative moves toward conciliation with the PDC, efforts to repair the breach with the U.S. brought about by human rights violations and a tough, conservative line to retain his essential military and economic support.

~~PDC-led opposition moderates, meanwhile, are not benefiting from the growing discontent with the regime.~~ Unless they can reach an agreement with Romero and enter elections with assurance of measurable success, they will continue to lose supporters to those who no longer believe in democratic solutions.

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The radical left, now represented principally by the Bloque Popular Revolucionario (BPR), appears to be the principal beneficiary of the decline of the centrist parties. The BPR is a coalition of the main Salvadoran teachers' union and student and peasant groups. Its principal appeal is to urban working and lower middle classes, and its real support among peasant agriculturists, nil at first, may be increasing. The BPR is heavily influenced by the Marxist cadres of the FPL (Fuerzas Populares de Liberacion), the principal terrorist organization, and by revolutionary intellectuals. Its program calls for a socialist revolution in El Salvador.

Terrorist groups have also become increasingly prominent. The FPL has been mentioned. FAPU and the ERP have also carried out spectacular kidnappings, assassinations and other exploits in behalf of the "left". Right wing counter terror has predictably also increased, sometimes linked to government security forces, sometimes simply to powerful private interests.

Although an entente with the PDC and a resolution of his dispute with the Church probably offers Romero his best chance to reduce tensions, restore business confidence and dissipate support for the guerrillas, hardline elements in the military favor stepped-up repression and could precipitate a coup. Although there is some reformist sentiment among younger military officers, a military coup from this side is less likely in view of the fact that key military positions are in the hands of Romero supporters.

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3. Guatemala

Guatemala is relatively stable, but the governing military-civilian coalition is ineffective and repressive. Discontent is ignored or eliminated. Presidential succession takes place with regularity every four years, on the basis of managed elections. The dominant, conservative military faction and its civilian allies have succeeded in controlling the Presidency through military candidates throughout the '70's.

The opposition in Guatemala is divided, and intimidated. A minority within the military, represented by unsuccessful Presidential candidate Ricardo Peralta, would support a moderately reformist government. New parties of the right and center left have been intimidated by the assassination of their most prominent leaders. The labor movement is weak and divided.

While enjoying something of a resurgence since being decimated in the early 1970's, leftist guerrilla groups are isolated from the large but unassimilated Indian population in rural areas and out-gunned by right-wing terrorists in the cities.

Weak leadership by the current Lucas Government, its obvious tolerance of right-wing violence, and its unwillingness or inability to take effective action about acknowledged socio-economic inequities, have contributed to a sense of drift and malaise among politically conscious Guatemalans. Yet the economy is strong (though inflation is a worry), the balance of payments continues positive, and reserves continue to grow.

Viable civilian presidential candidates in 1982 seem the best hope for wider participation in the political system, and could bolster government legitimacy.

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4. Honduras

Socially and economically the most backward country in Central America, Honduras is also the most politically tranquil. The absence of modernization allows the traditional Conservative and Liberal parties to maintain some hold on the people's political consciousness. The private sector is weaker than in other countries and the more independent military is less ideologically defined and more responsive to popular pressures.

Land is relatively abundant and fairly evenly distributed. Occasional peasant outbursts have been effectively dissipated through a combination of reform and coercion. The latest cycle of pressure and response occurred in the mid-1970's when the Military Government approved an agrarian reform law in response to pressure by the sizeable peasant unions of Social Christian or ORIT affiliation. The Government's gradual abandonment of the agrarian reform, however, may portend future difficulties.

Elections for a Constituent Assembly are scheduled for April 1980, and will be the first major electoral test coming up in Central America. It remains to be seen whether the traditional parties, which are losing influence in some sectors, especially among youth, can channel emerging pressures for change. In the near term, however, no political force other than the military can challenge the traditional parties -- and the military appears inclined to return government to civilians.

PRM 46: Annex 3

NICARAGUA: GAME PLAN FOR STIMULATING PEACEFUL TRANSITION

In the short and medium term, the following are possible developments:

- Somoza hangs on and holds scheduled 1981 elections;
- Somoza is incapacitated or killed, in which case an immediate assumption of power by the National Guard and Liberal Party is likely, followed by a struggle for effective power;
- Continued violence, terrorism and repressive reaction creates sufficient discontent to prompt a National Guard or establishment coup;
- The Guard collapses, the regime is overthrown, and a struggle for power ensues between FSLN factions, members of the FAO, and surviving beneficiaries of the Somoza system.
- Violence and bloodshed become so serious that international mediation, negotiation or good offices again become a possibility.

These different scenarios have three common characteristics:

- Somoza is no longer in sole control of events. Even were he to hang on and hold elections in 1981, the wide distrust that these would be anything but manipulated elections would result in continued opposition and polarization.
- In each case, the existence of a vital, significant political "middle" is essential to avoid a radical outcome.
- No reconciliation, negotiation, or transitional evolution that can provide a peaceful alternative to violence is likely to emerge spontaneously. So long as the Somoza symbol remains, internal forces (i.e., Sandinistas) and external forces (Cuba, Torrijos) will continue to stir the pot.

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A peaceful resolution of Nicaragua's succession crisis will require a) the strengthening of independent political opposition capable of coherent political action; and b) the willingness of Somoza and the institutions supporting him--the Guard and the Liberal Party--to cooperate in building the psychological and institutional environment within which a true transition can be negotiated and effected. Participation and cooperation by more radical elements such as parts of the FSLN would be desirable and feasible should the political momentum for a negotiated transfer of power be established.

Common ground among these factions does not now exist. Some external catalytic stimulus is required if a transition capable of pacifying the nation is to be achieved. So long as Somoza insists on a 1981 formula, no negotiated solution will achieve all our objectives. We can nevertheless seek to attract a sector of the opposition to a 1981 formula, recognizing that violence and polarization will continue at least until Somoza's retirement is an accomplished fact.

U.S. strategy under Option Three would aim at creating the conditions and stimulating the pressures for a settlement. We would take the lead immediately so as to recapture the political momentum for a peaceful solution, working with both the opposition and Somoza himself to effect a transition. We would not attempt to dictate details or particular time frames. Allowing them to evolve from the interplay among Nicaraguans, we would seek as prompt a resolution as possible.

Tactical Elements

1. Initially, we would maintain our present cool posture regarding Somoza to retain pressure on him. Thus we would:

- Continue to suspend bilateral security' and new economic assistance programs.
- Minimize other economic assistance--Exim, CCC, IFI loans.

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- Make a major effort to halt arms shipments to both sides.

2. We would utilize Ambassador Pezzullo's arrival as the device for undertaking an active role. We would

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parallel his activities by a high level public speech or statement defining our view, calling for a negotiated resolution, and expressing our willingness to assist. We would actively seek the cooperation of other countries and the OAS to have them join us in a unified effort.

3. Inside Nicaragua, our efforts would seek to:

A. Build an effective, coherent, moderate political opposition capable of seizing the political initiative. To this end we would:

- provide advice on organization and tactics and generally encourage the FAO and other opposition groups to develop political action programs. | C4.3
- Provide advice and help in constructing a specific plan or proposal for a real transition either through the 1981 elections or earlier. For example, an action plan-- similar to the mediation proposal or the FAO proposal of last October-- might be drawn up for immediate implementation calling for:
 - Citizenship registration of all Nicaraguans under international supervision starting now;
 - Revision of the electoral law with the aid of outside experts beginning now;
 - Preparation of new electoral registers with international supervision;
 - Holding of elections under close international supervision.

B. Influence Somoza, the Liberal Party and the National Guard to accept a negotiated solution. To that end, we would:

- Have Ambassador Pezzullo lay out the concept frankly to Somoza and urge him to negotiate.

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- Warn him that if he does not the Ambassador would eventually be withdrawn and our relations get even colder.



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- Encourage other nations and media to support the moderate opposition. ||
- Encourage elements in the Liberal Party and the Guard to support such a formula.

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EL SALVADOR: GAME PLAN FOR INTERNAL DIALOGUE

The U.S. has the opportunity to use its influence to move Romero perceptibly faster toward reforms and a political opening as described in Part III. To do so, we cannot work only with Romero and his Government, although we must, of course, take steps in this direction. Equally important will be how U.S. influence can be brought to bear to persuade influential military and business backers of Romero that they have more to gain by allowing Romero to take this route than by substituting a more repressive government.

This strategy would require the following steps:

- We would instruct Ambassador Devine to seek an early appointment with President Romero to explain that a forthcoming U.S. posture would be predicated on a genuine commitment (under the "encouragement" option) or on concrete progress (under the "reciprocal" option) by the GOES to an improved human rights practice and a political opening in the 1980 elections.
- We would publicly call for dialogue and announce how we would support it.
- A high-level Department or other USG official would briefly visit El Salvador, participate in the dialogue, and explain the parameters of potential U.S. economic assistance.
- During the above-mentioned dialogue, we would make clear what we expect of the GOES:
 - Preparations for the 1980 elections should be such as to attract the participation of the PDC, the MNR and other political opposition groups.

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- The GOES should seek OAS or other assistance in preparing for such elections well in advance of March 1980. The GOES should invite OAS observers to supervise the elections.
- The GOES should reform its electoral code (perhaps with the help of the ICJ, OAS or other competent body), and reconstitute the electoral commission as a clearly non-partisan body.
- To create a climate for free political activity, the GOES should declare an amnesty for non-violent political prisoners and exiles; observe the right to organize political parties and trade unions; prevent ORDEN from harassing opposition groups; and end disappearances and arbitrary arrests, and restore the rule of law.
- The GOES should combat terrorism without resorting to violations of human rights.
- We would make clear our intention to speak out forcefully against human rights violations, and to review our policy if such violations persist or become an established pattern.
- We would step up and broaden our contacts with labor, the PDC and the MNR, urging them to close ranks, and to participate in a credible process of political opening.
- We would seek out constituent elements of such so-called "popular-based" organizations as the BPR in order to encourage their participation in a peaceful political process and isolate the extremist element. ||

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- We would work closely with Venezuela and Costa Rica whose governing Christian Democratic parties have strong ties to Salvadoran political groups.
- In order to help support the Romero Government to proceed along a road of reforms, we would:
 - Increase our contacts with the economic/business elements that currently support Romero to try to gain their support or acquiescence in the process of political opening;
 - Increase our contact with Romero's military backers (and with those who would tend to form a coup against him) for the same purpose.
- If we adopt the "encouragement" approach, we would also:
 - Take a more forthcoming position with respect to providing economic assistance to El Salvador both bilaterally and through the IFI's. Pari passu with continuation of the dialogue, we would consider positively a more comprehensive program of bilateral assistance meeting BHN criteria; support well-designed development programs financed through the IFI's; and support the establishment of a Consultative Group mechanism, headed by the IBRD, to coordinate economic assistance to El Salvador;
 - Routinely approve non-lethal munitions-controlled items for export to El Salvador;
 - Support FMS cash sales of non-lethal equipment and supplies to El Salvador;
 - If, by the end of 1979, the Romero Government was not in our view sincerely proceeding toward a political opening, we would review our policy.

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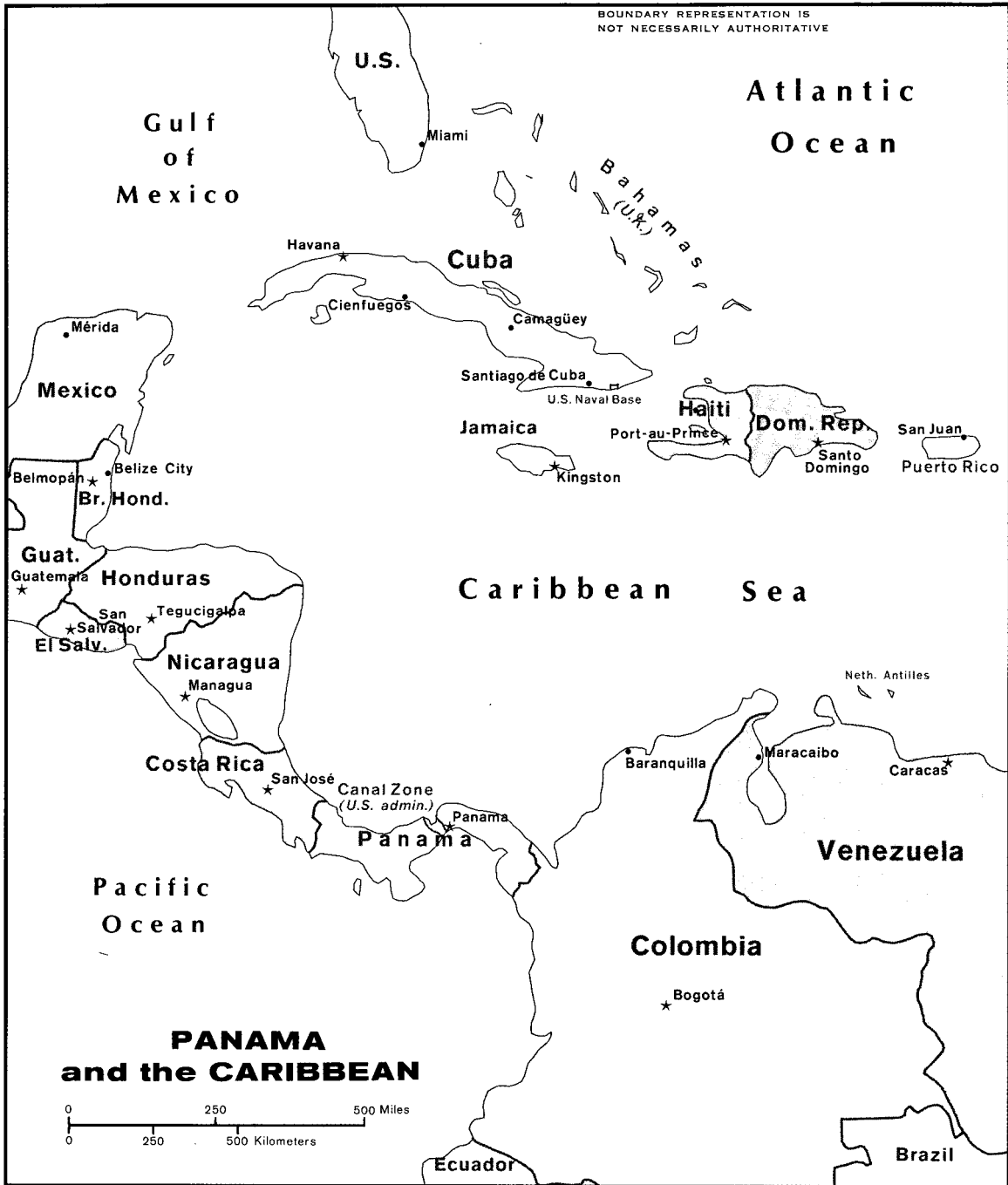
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-- If we adopt the "reciprocal" approach, we would:

- (As we have already informed Romero) attune our responses not to rhetorical commitments but to concrete steps, indicating our conditional willingness to increase economic and security assistance and to identify ourselves with the "opening" process.
- Pending a clear trend of improvement, maintain our current posture of constraints.
- As significant human rights improvements are effected and the political opening proceeds, first marginally increase our AID levels, and then alter our stance on IFI and OPIC activities.
- If the March 1980 elections come off successfully and human rights abuses are sharply curtailed, our public tone would identify us with the policies of the GOES, and we could seek substantial increases in economic assistance (with better chances of Congressional approval).
- In the absence of concrete steps amounting to a significant trend toward a political opening, we would increase our pressures and more closely identify the U.S. with the forces for change. Instruments would include IFI loans, our AID program, Milgroup, Ambassadorial presence and general public posture.

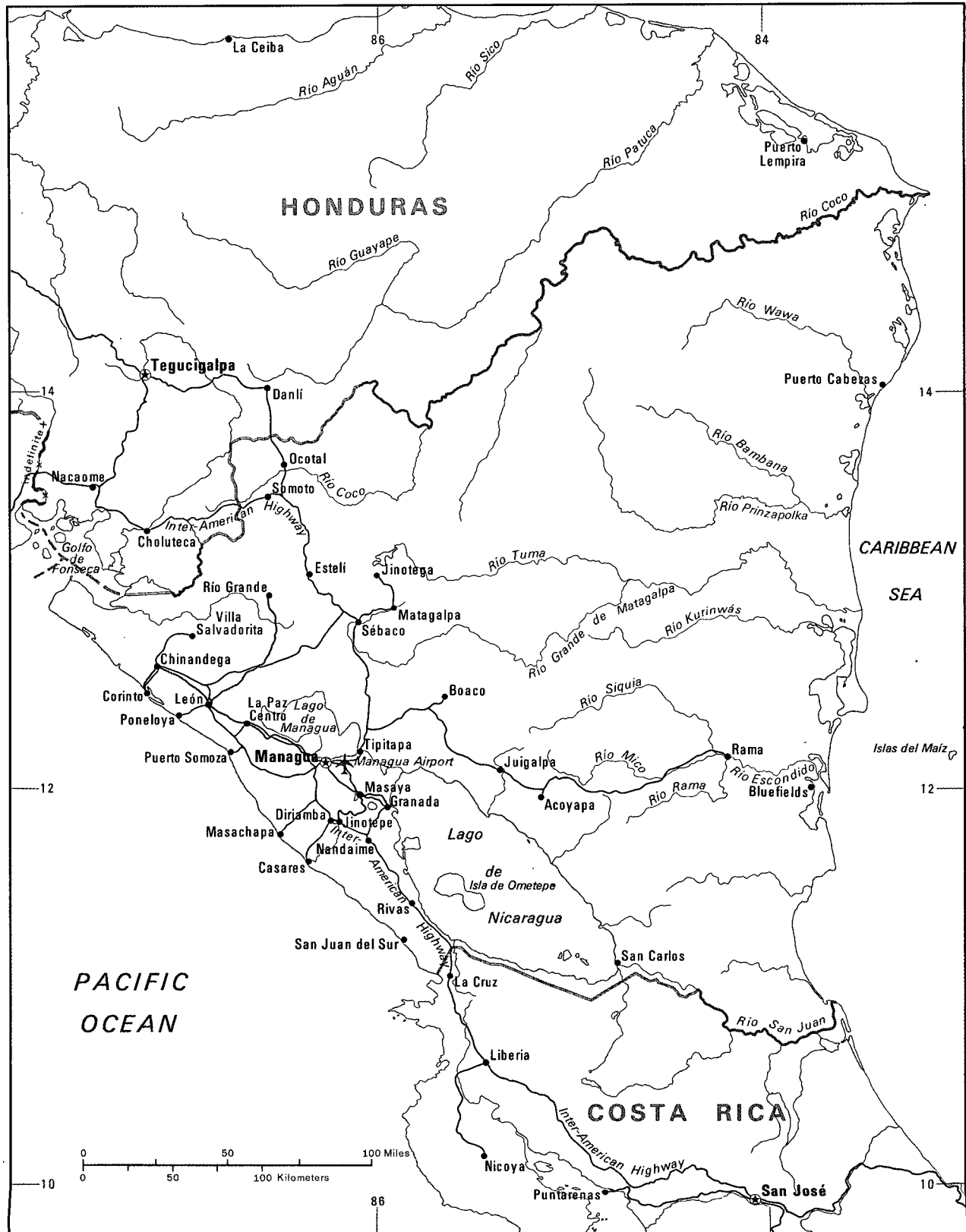
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Nicaragua



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