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4. PART I. GENERAL TRENDS AND MAIN EVENTS. OUTLOOK.

5. ON BALANCE, POLITICAL DEVELOPMENTS IN LATIN AMERICA SINCE WE LAST MET HAVE BEEN GENERALLY POSITIVE. EVEN ON THE ECONOMIC FRONT WE HAVE REASONS FOR SOME SATISFACTION WITH ACTIONS BEING TAKEN BY GOVERNMENTS TO COPE WITH INFLATION, ENERGY COSTS, AND WEAK COMMODITY DEMAND. HOWEVER, THE PROBLEMS ARE SEVERE, ESPECIALLY IN THE SMALLER COUNTRIES OF THE CARIBBEAN BASIN WHICH ARE HIGHLY DEPENDENT ON BASIC COMMODITIES SUCH AS SUGAR AND COFFEE.

6. INSTITUTIONAL RESISTANCE TO CUBAN AND EXTRA-HEMISPHERIC SUBVERSION WAS ENHANCED BY MOVEMENTS TOWARD REPRESENTATIVE DEMOCRACY IN URUGUAY, EL SALVADOR, AND HONDURAS, WHILE THE NEWLY-DEMOCRATIC REGIMES IN PERU AND ECUADOR PASSED TESTS OF THEIR STAYING-POWER. IN BRAZIL THE SUCCESSFUL CONSTITUTIONAL ASCENSION TO ACTING PRESIDENT OF THE CIVILIAN VICE-PRESIDENT AND THE CONTINUING "ABERTURA"; A GENERAL STATEMENT BY THE NEW PRESIDENT OF BOLIVIA ABOUT AN EVENTUAL RETURN TO DEMO-

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CRACY; AND A SOMEWHAT STRONGER COMMITMENT BY ARGENTINA'S NEW PRESIDENT, GENERAL VIOLA, PROVIDED VARYING DEGREES OF HOPE FOR INSTITUTIONAL CHANGE FOR THE BETTER. DEMOCRATIC PROCESSES REMAINED FIRMLY IMPLANTED IN VENEZUELA, COLOMBIA, AND COSTA RICA.

7. THE SOVIETS' PROXY IN THE AREA, CUBA, SUFFERED SETBACKS IN EL SALVADOR; IN COLOMBIA (WHERE M-19 GUERRILLAS TRAINED IN CUBA WERE SPECTACULARLY UNSUCCESSFUL WHEN THEY RETURNED), AND AT HOME WITH DISASTROUS ECONOMIC SHORTFALLS. CASTRO'S INORDINATELY HOSTILE ANTI-U.S. SPEECH AT THE OPENING MEETING OF THE INTER-PARLIAMENTARY UNION IN HAVANA ON SEPTEMBER 15 WAS TAKEN AS A REFLECTION OF HIS GROWING FRUSTRATION, EVEN ANXIETY.

8. POSSIBLY THE MOST SIGNIFICANT DEVELOPMENT AFFECTING LATIN AMERICA WAS THE CARIBBEAN BASIN INITIATIVE. IN JULY, CANADA, MEXICO AND VENEZUELA JOINED WITH THE UNITED STATES AT NASSAU TO PLEDGE THEMSELVES TO A CO-OPERATIVE EFFORT TO PROMOTE THE DEVELOPMENT OF THE CARIBBEAN BASIN. MEETINGS OF THE "NASSAU FOUR" HAVE BEEN FOLLOWED BY MULTILATERAL AND BILATERAL CONSULTATIONS WITH THE BASIN COUNTRIES AND OTHERS.

9. ALTHOUGH THE CBI DOES NOT INCLUDE A SECURITY ELEMENT, IT IS OUR FIRM BELIEF THAT IMPROVED ECONOMIC HEALTH IN THE AREA IS ESSENTIAL TO WESTERN SECURITY.

10. THE CBI IS INNOVATIVE. THE FOCUS WILL BE ON TRADE AND PRIVATE SECTOR INVESTMENT AS WELL AS OFFICIAL ASSISTANCE AND UPON A GREATER DEGREE OF COORDINATION AMONG DONORS, MDB'S, AND PRIVATE LENDING INSTITUTIONS. WE BELIEVE THAT THE MIX OF AID PLUS TRADE AND INVESTMENT INCENTIVES THE INTERESTED COUNTRIES ARE PUTTING TOGETHER WILL MEET THE CHALLENGES. WE HOPE EUROPEAN NATIONS WILL PARTICIPATE ACTIVELY IN THE CBI THROUGH AN EXPANDED
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CARIBBEAN CONSULTATIVE GROUP AND THE ABOUT-TO-BE-CREATED CENTRAL AMERICAN CONSULTATIVE GROUP.

11. IN EL SALVADOR THE INSURGENCY CONTINUES, ALTHOUGH PROGRESS IS BEING MADE. THE COUNTRYSIDE HAS BEEN RAVAGED BY GUERRILLAS THAT SEEK TO DISRUPT THE NATIONAL ECONOMY AND, THEY HOPE, DESTROY THE WILL OF THE PEOPLE TO MAINTAIN THE ESTABLISHED INSTITUTIONS OF LAW AND ORDER. THE DESTRUCTION OF ELECTRICAL TRANSMISSION PYLONS TYPIFIES BOTH THE WEAKNESSES AND THE POWER OF THE MARXIST FORCES. DEFEATED IN THEIR JANUARY "OFFENSIVE," THE GUERRILLAS MUST DISPERSE TO THE MOUNTAINS WHEN GOVERNMENT FORCES OPPOSE THEM, BUT THEIR DETERMINATION TO GAIN POWER WHATEVER THE COST LEADS THEM TO ATTACK THE FOUNDATIONS OF THE ECONOMY THEY CLAIM THEY WOULD MANAGE TO THE GREATER GOOD OF THE MASSES.

12. WINNING WHENEVER THEY CONFRONT THE GUERRILLAS, THE GOVERNMENT FORCES ARE BEING TRAINED AND EQUIPPED FOR AN UNCONVENTIONAL WAR OF ATTRITION. U.S. MILITARY ASSISTANCE FOR THE YEAR ENDING OCTOBER 1 WAS \$35.4 MILLION. PLANS ARE UNDERWAY FOR \$25 MILLION TO BE PROVIDED DURING THE CURRENT YEAR. IF THE SUPPLY OF ARMS AND EQUIPMENT TO THE INSURGENTS FROM ABROAD CAN BE INTERDICTED, THE GOVERNMENT CAN DEFEAT THE GUERRILLAS IN THE FIELD. HAND-IN-HAND WITH MILITARY EFFORT, MOVEMENT TOWARD DEMOCRATIC RULE IS HELPING SUSTAIN PUBLIC SUPPORT OF THE GOVERNMENT. PRESIDENT JOSE NAPOLEON DUARTE'S EXCELLENT CREDENTIALS AS A DEMOCRAT AND HIS PUBLIC APPEAL FOR ALL PARTIES TO COMPETE IN THE UPCOMING ELECTIONS CLEARLY CALLED INTO QUESTION THE CREDIBILITY OF THOSE WHO DENOUNCE HIM AS A PUPPET OF MILITARY RIGHTISTS. FOREIGN OBSERVERS WOULD HELP PROVE THE LEGITIMACY
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OF THE GOVERNMENT TO BE ELECTED NEXT YEAR, AND THE LAND REFORM PROGRAM INITIATED BY THE DUARTE GOVERNMENT

HAS HAD A MAJOR POLITICAL IMPACT. THOUSANDS OF EL SALVADOR'S POOREST CITIZENS WHO NEVER BEFORE HAD AN OPPORTUNITY TO WORK THEIR WAY OUT OF A SUBSISTENCE EXISTENCE NOW HAVE A CHANCE TO DO SO.

13. UNCERTAINTIES PREVAIL IN PANAMA SINCE THE SUDDEN DEATH OF STRONGMAN OMAR TORRIJO ON JULY 31. DESPITE HIS UNUSUAL RELATIONSHIP WITH CASTRO AND MANY MARXISTS, TORRIJOS HAD MAINTAINED STABILITY IN THE CRITICAL ISTHMUS FOR 13 YEARS AND PREVENTED EXTREMISTS FROM EITHER LEFT OR RIGHT FROM GAINING SUPREMACY.

14. JAMAICA'S PRIME MINISTER SEAGA CONTINUES HIS EFFORTS TO PUT HIS COUNTRY'S ECONOMY ON A SOUND FOOTING. HIS TASK IS MADE MORE DIFFICULT BY THE WORLD-WIDE SLUMP IN BAUXITE/ALUMINA DEMANDS AND A SHORTFALL IN DONOR ASSISTANCE. THE MOMENTUM FOR RECOVERY CONTINUES AS TO EXPRESSIONS OF INTEREST FROM PRIVATE INVESTORS, MANY OF WHOSE PROJECTS ARE NOW BEING FINALIZED. THERE ARE INDICATIONS OF LEFTIST INVOLVEMENT IN SOME OF THE CRIMINAL ACTIVITY WHICH CONTINUES TO CHALLENGE THE CAPABILITY OF THE POORLY-EQUIPPED SECURITY FORCES. THE CUBANS, WHO HAVE HAD TRADE TALKS WITH THE JAMAICANS, ARE CLEARLY STILL INTERESTED IN MAINTAINING A BASE OF INFLUENCE IN JAMIACA ALTHOUGH THEY ARE MAINTAINING A LOW PROFILE AT PRESENT.

15. IN BRAZIL, WE HAVE SEEN CAUSE FOR CONCERN IN ECONOMIC DEVELOPMENTS. A PAINFUL BUT NECESSARY READJUSTMENT HAS LED TO INCREASING UNEMPLOYMENT, WITH CONSEQUENT REINFORCEMENT OF THE DOUBTS OF SOME MILITARY LEADERS ABOUT THE WISDOM OF PROCEEDING WITH PLANS FOR ELECTIONS. THE EXPLOSION OF A BOMB BEING PLANTED BY MILITARY OFFICERS AS A TERRORIST ACT AND THE RESIGNATION OF THE CONFIDENTIAL

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CABINET MEMBER WHO WAS THE ARCHITECT OF ABERTURA CAUSE CONCERN FOR THE FUTURE. WE BELIEVE THAT MORE DEMOCRATIC INSTITUTIONS WILL GIVE BRAZIL GREATER RESILIENCY -- ENSURING THAT BRAZIL PLAYS A USEFUL REGIONAL LEADERSHIP ROLE WITH ITS LATIN AMERICAN NEIGHBORS.

16. THE OPENING OF AN OFFICIAL CUBAN REPRESENTATION IN SURINAME AS PART OF THAT COUNTRY'S INCREASINGLY THIRD-WORLD-ORIENTED FOREIGN POLICY RAISED ANOTHER ASPECT OF THE SOVIET THREAT AND GIVES CAUSE FOR CONCERN. WHILE IT IS DIFFICULT TO SEE THE OUTCOME OF THE POLITICAL SITUATION THERE, WE WERE ENCOURAGED BY OUR DISCUSSIONS WITH FOREIGN MINISTER NAARENDORP IN AUGUST. WE THINK IT IMPORTANT THAT WESTERN COUNTRIES SEEK TO EXPAND THEIR CONTACTS WITH AND INFLUENCE IN SURINAME TO HELP FORESTALL FURTHER LEFTWARD DRIFT. IN GRENADA, CERTAINLY,

IT IS CLEAR THAT THE CUBANS NOW CONTROL THE DEFENSE FORCES AND ARE SAID TO EVEN SIT IN MEETINGS OF THE CABINET.

17. THOUGH HAITI'S POLITICAL STABILITY REMAINS FRAGILE, CUBAN INFLUENCE ON THE ISLAND IS NOT A MAJOR DESTABILIZING FACTOR. THERE ARE NO KNOWN GUERRILLA FORCES IN HAITI AND THE ONLY SIGNIFICANT CUBAN INFLUENCE IS SPREAD VIA AN HOUR-A-DAY CREOLE BROADCAST ACROSS THE WINDWARD PASSAGE. EROSION OF ECONOMIC CONDITIONS CONTINUES AS DOES SEVERE AND WIDE-SPREAD POVERTY FOR THE MAJORITY OF THE ISLAND'S POPULATION.

18. WE SEE NO IMMEDIATE SECURITY THREAT IN GRENADA AND SURINAME, BUT ARE WATCHING DEVELOPMENTS CLOSELY. WE BELIEVE THE UNFOLDING OF THE CARIBBEAN BASIN INITIATIVE BEFORE THE SURINAMESE, GRENADIANS, AND OTHERS WILL
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PROVE THE BEST RESPONSE TO THEIR DALLIANCES WITH CASTRO.

19. PART II. DEVELOPMENTS AND CRISIS IN CENTRAL AMERICA.

20. POLITICAL AND SOCIO-ECONOMIC PROBLEMS OF PRESENT GOVERNMENTS

21. HISTORICALLY MOST OF CENTRAL AMERICA HAS BEEN CHARACTERIZED BY SCARCE RESOURCES, INEQUITABLE DISTRIBUTION OF INCOME, BURGEONING POPULATION RATES, AND ALLIANCES BETWEEN MILITARY AND CIVILIAN ELITES FOR THE PURPOSE OF MAINTAINING THE STATUS QUO. WITHIN THE LAST TWO YEARS THESE PROBLEMS HAVE BEEN EXACERBATED BY FALLING WORLD COFFEE PRICES, ECONOMIC STAGNATION, RISING EXPECTATIONS, AND THE SPILLOVER EFFECT OF A SUCCESSFUL REVOLUTION IN NICARAGUA IN 1979.

22. NICARAGUA: NICARAGUA'S MARXIST LEADERSHIP HAS GIVEN CUBA, THE SOVIET UNION, OTHER COMMUNIST COUNTRIES AND RADICAL ARAB STATES A Foothold IN CENTRAL AMERICA BY WHICH TO EXPLOIT EXISTING ECONOMIC, SOCIAL, AND POLITICAL IMBALANCES. COMMUNIST EXPLOITATION OF PROBLEMS IN THIS REGION CONSTITUTES A SERIOUS CHALLENGE TO WESTERN INTERESTS AND VALUES IN THE HEMISPHERE.

23. SINCE THE OVERTHROW OF SOMOZA IN NICARAGUA, THE SANDINISTA COLLEGIATE LEADERSHIP HAS CONTINUED MOVING TO RADICALIZE THE COURSE OF THE REVOLUTION. ALL BUT A FEW NON-MARXIST MEMBERS OF THE GOVERNMENT HAVE EITHER LEFT OR WERE REMOVED FROM OFFICE BY PRO-CUBAN AND SOVIET SANDINISTAS. NICARAGUA'S RESILIENT PRIVATE SECTOR AND DEMOCRATIC OPPOSITION CONTINUES TO BE HARASSED BY RADICAL SANDINISTAS, WHO GIVE LIP SERVICE TO THE

NEED FOR A PLURALISTIC SOCIETY, BUT APPEAR DETERMINED TO DESTROY OPPOSITION POLITICAL PARTIES AND FRUSTRATE NECESSARY PRIVATE SECTOR AND INTERNATIONAL INVESTMENT.
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24. THE SANDINISTAS' TWO-PRONGED APPROACH IS DESIGNED TO CONSOLIDATE INTERNAL POWER AND DEFEND THE REVOLUTION BY CONSTRUCTING A FORMIDABLE MILITARY, CLEARLY OUT OF PROPORTION TO THEIR PRESENT DEFENSE NEEDS. FOR IDEOLOGICAL AND DEFENSIVE REASONS, THEY ARE ALSO PROVIDING FUNDING, WEAPONS, TRAINING, AND GUIDANCE TO REVOLUTIONARIES IN EL SALVADOR, HONDURAS AND GUATEMALA. NICARAGUA WILL HAVE THE LARGEST ARMY IN CENTRAL AMERICA WITHIN 18 MONTHS TO TWO YEARS, IF PRESENT TRENDS CONTINUE. ITS REGULAR ARMY OF 20-27,000 IS ALREADY SIGNIFICANTLY LARGER THAN THAT OF EL SALVADOR AND TWICE THE SIZE OF THE HONDURAN ARMY. THE NICARAGUAN ARMY MAY EXPAND TO 40,000 REGULARS BY MID-1982, WITH AN ADDITIONAL 40,000 TRAINED RESERVISTS.

25. CUBA, WITH SOVIET GUIDANCE, HAS MAINTAINED A LARGE AND VARIED PRESENCE IN NICARAGUA SINCE JULY OF 1979. PARTICULARLY TROUBLESOME IS THE GUIDANCE PROVIDED BY ROUGHLY 2,000 CUBANS IN THE MINISTRIES OF SECURITY AND DEFENSE.

26. COSTA RICA: THE TRADITIONAL SHOWPLACE OF DEMOCRACY IN CENTRAL AMERICA FACES PROFOUND ECONOMIC TROUBLE AND HAS BEGUN TO EXPERIENCE TERRORISM. WHILE THE UNCHARACTERISTIC VIOLENCE WAS THE WORK OF COSTA RICANS, EVIDENCE SUGGESTS THAT THE GROUPS WERE ENCOURAGED AND SUPPORTED BY INTERNATIONAL TERRORISTS.

27. THE CARAZO REGIME'S REPEATED FAILURES TO FOLLOW THROUGH ON AGREEMENTS REACHED WITH THE INTERNATIONAL

MONETARY FUND (IMF) HAS PREVENTED IMF ASSISTANCE WITH
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INTERNATIONAL TRADE AND CREDIT PROBLEMS. WITHOUT A SATISFACTORY WORKING ARRANGEMENT WITH THE IMF, FURTHER SUBSTANTIAL WESTERN ASSISTANCE IS NOT LIKELY.

28. THE FINANCIAL CRUNCH, COMBINED WITH SCANDAL OVER ARMS SMUGGLING TO NICARAGUA AND THE RESIGNATION OF TWO FINANCE MINISTERS IN MAY OVER POLICY DIFFERENCES, HAS SEVERELY DAMAGED PRESIDENT RODRIGO CARAZO POLITICALLY.

RECENTLY, HIS ERRATIC BEHAVIOR HAS LED TO SPECULATION THAT HE IS MENTALLY UNSTABLE. CARAZO HAS ATTEMPTED TO BLUNT MOUNTING DOMESTIC CRITICISM BY ABROGATING A 1977 TECHNICAL AGREEMENT WITH THE SOVIETS AND TERMINATING CONSULAR RELATIONS WITH CUBA.

29. HONDURAS: THE VIOLENCE WRACKING OTHER COUNTRIES IN CENTRAL AMERICA IS BEGINNING TO SPREAD TO HONDURAS. LEFTIST RADICALS -- OFTEN COLLABORATING WITH FOREIGN COUNTERPARTS -- ARE UNDERTAKING A NASCENT PROGRAM OF TERRORISM. HARDLINE MILITARY OFFICERS, ABANDONING THEIR TRADITIONAL RESTRAINT, ARE RESORTING TO REPRESSIVE COUNTERMEASURES. THIS UNUSUAL VIOLENCE CASTS SOME DOUBTS ON THE COUNTRY'S SCHEDULED RETURN TO CIVILIAN RULE THROUGH ELECTIONS IN NOVEMBER. NEVERTHELESS, A WIDE RANGE OF POLITICAL PARTIES PLAN TO PARTICIPATE IN THE ELECTORAL PROCESS, INCLUDING THE SOCIALIST AND COMMUNIST PARTIES.

30. EVIDENCE SUGGESTS THAT THE NICARAGUAN SANDINISTAS HAVE DIRECT LINKS TO HONDURAN RADICALS. MANY HONDURAS MILITARY LEADERS ARE CONVINCED THAT PEACEFUL COEXISTENCE WITH NICARAGUA IS IMPOSSIBLE, DUE TO THESE COVERT TIES AND NICARAGUA'S ALARMING MILITARY BUILDUP. ANTI-SANDINISTA EXILE GROUPS OPERATING OUT OF HONDURAS PROVOKE INCIDENTS AND ARMED CLASHES WITH NICARAGUAN FORCES ALONG THE BORDER.

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31. EL SALVADOR: THE GOVERNING REVOLUTIONARY JUNTA (JRG) WILL COMPLETE TWO YEARS IN OFFICE NEXT MONTH, SURPASSING EVEN THE MOST OPTIMISTIC ESTIMATES OF ITS LONGEVITY AT THE TIME IT CAME TO POWER. THE STILL FRAGILE CHRISTIAN DEMOCRATIC/MILITARY COALITION GOVERNMENT IS SEEKING TO BROADEN ITS BASE THROUGH CONSTITUENT ELECTIONS SCHEDULED FOR MARCH 1982. DURING INDEPENDENCE CEREMONIES ON SEPTEMBER 15, PROVISIONAL PRESIDENT NAPOLEON DUARTE AGAIN APPEALED TO LEFTIST GROUPS TO LAY DOWN THEIR ARMS AND PARTICIPATE IN ELECTIONS.

32. SINCE THE FAILED JANUARY OFFENSIVE OF THE FARABUNDO MARTI NATIONAL LIBERATION FRONT (FMLN), THE ARMED LEFT HAS WAGED A WAR OF ATTRITION AGAINST THE ECONOMIC INFRASTRUCTURE OF THE COUNTRY, MOST NOTABLY THE ELECTRIC POWER SYSTEM. THIS TERRORISM HAS HAD A DEVASTATING EFFECT ON THE ECONOMY, RESULTING IN FALLING INDUSTRIAL PRODUCTION, ERODING DOMESTIC BUSINESS CONFIDENCE, A DECLINE IN EXTERNAL FINANCING, AND RISING UNEMPLOYMENT.

33. THE FMLN STILL REMAINS COMMITTED TO A MILITARY VICTORY, BUT DUE TO THE LACK OF POPULAR SUPPORT, IT

HAS ALTERED ITS TACTICS TO INCLUDE BOMBINGS, ASSASSINATIONS, AMBUSHES AND OTHER TERRORIST OPERATIONS. THE GUERRILLAS DO NOT HAVE THE CAPACITY TO STAND, DEFEND AND HOLD AREAS OF THE COUNTRY.

34. THE BANKING, MONETARY, AND AGRARIAN REFORMS BEING CARRIED OUT BY THE JRG DISTINGUISH IT FROM PREVIOUS SALVADORAN GOVERNMENTS. DUARTE HAS SUCCEEDED IN KEEPING THE JUNTA AND MILITARY LEADERS COMMITTED TO THE REFORMS, BUT THUS FAR HAS NOT BEEN COMPLETELY SUCCESSFUL IN GETTING THE MILITARY TO CURTAIL INDISCRIMINATE REPRESENTATION.

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SION. HE IS AWARE THAT HIS LEVERAGE IS LIMITED, AND HAS OPTED FOR A MEASURED APPROACH, HOPING THAT MILITARY AND SECURITY OFFICIALS WILL EVENTUALLY SEE THE DELETERIOUS INTERNATIONAL AND DOMESTIC EFFECTS OF REPRESSION.

35. DUARTE AND THE MODERATES HAVE HAD TO PROCEED CAUTIOUSLY WITH REFORMS, TO AVOID A TOTAL BREAK WITH THE MILITARY-SUPPORTED PRIVATE SECTOR. HE HAS DELAYED PHASE II OF THE AGRARIAN REFORM, FOR EXAMPLE, WHICH WOULD HAVE NATIONALIZED EL SALVADOR'S MOST PRODUCTIVE MEDIUM-SIZED LAND HOLDINGS. JUNTA LEADERS REALIZE THAT A MOVE AGAINST THESE HOLDINGS AT THIS TIME WOULD RESULT IN A FURTHER DETERIORATION OF THE ECONOMY AND WOULD CREATE MORE ENEMIES FOR THE CHRISTIAN DEMOCRATS. ADDITIONALLY, DUARTE'S SOCIAL PHILOSOPHY OF "COMMUNITARIANISM" WORRIES MANY OF THE PRIVATE SECTOR, WHO MISTAKENLY EQUATE THIS LEFT-OF-CENTER POLITICAL PERSUASION WITH COMMUNISM.

36. GUATEMALA: THE UPCOMING PRESIDENTIAL ELECTIONS WILL TEST THE GUATEMALAN GOVERNMENT'S ABILITY TO RE-ESTABLISH ITS LEGITIMACY. THE LAST TWO ELECTIONS WERE TAINTED BY FRAUD AND UNDERMINED ANY BELIEF IN THE ARMED FORCES' COMMITMENT TO THE DEMOCRATIC PROCESS. BUILDING HONEST AND REPRESENTATIVE GOVERNMENT IS NECESSARY -- BUT NOT IN ITSELF SUFFICIENT -- TO REVERSE THE TREND TOWARD POLARIZATION AND VIOLENCE. THE POLITICAL SITUATION IS FLUID, BUT IT APPEARS LIKELY THAT PRESIDENT LUCAS' SUCCESSOR WILL BE EX-MINISTER OF DEFENSE ANIBAL GUEVARA.

37. AS THE NUMBER OF POLITICALLY-MOTIVATED DEATHS RISES IN GUATEMALA, AND AS NATIONAL AND INTERNATIONAL ATTENTION FOCUSES MORE ON THE SOURCES OF THIS VIOLENCE, THERE IS EVIDENCE OF A GROWING AWARENESS ON THE PART OF THE GUATEMALAN ARMED FORCES OF THE IMPERATIVE NEED TO CURB REPRESSION BY ULTRA-RIGHTIST CIVILIANS AND

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MEMBERS OF THE SECURITY FORCES.

38. AN IMPORTANT PROPONENT OF THIS IDEA IS THE ARMY CHIEF OF STAFF, GENERAL MANUEL BENEDICTO LUCAS, BROTHER OF GUATEMALA'S CURRENT PRESIDENT. SHORTLY AFTER ASSUMING HIS POSITION IN MID-AUGUST, GENERAL LUCAS TOOK STEPS TO IMPROVE ARMY EFFECTIVENESS IN COUNTER-INSURGENCY OPERATIONS, INCLUDING AN ORDER THAT MAKES OFFICERS DIRECTLY ACCOUNTABLE FOR REPRESSIVE ACTIONS AGAINST INNOCENT CIVILIANS. GENERAL LUCAS APPEARS COMMITTED TO MAKING HIS ORDER STICK.

39. GUERRILLA MOVEMENTS AND OUTSIDE AID

40. SINCE THE RELEASE OF THE FRENCH-MEXICAN COMMUNIQUE RECOGNIZING THE SALVADORAN INSURGENTS AS A "LEGITIMATE POLITICAL FORCE," INTERNATIONAL SUPPORT FOR THE FMLN HAS BEEN DISAPPOINTING. LED BY VENEZUELA, NINE LATIN AMERICAN NATIONS SIGNED A DECLARATION REPUDIATING THE COMMUNIQUE, DECLARING IT AN ATTEMPT TO INTERVENE IN THE DOMESTIC AFFAIRS OF EL SALVADOR. FIVE OTHER LATIN AMERICAN COUNTRIES, INCLUDING BRAZIL, HAVE ISSUED SEPARATE STATEMENTS TAKING EXCEPTION TO THE DELCARATION.

41. NEVERTHELESS, NICARAGUA AND THE SOVIET UNION THROUGH ITS HEMISPHERIC PROXY, CUBA, CONTINUE TO SUPPORT INSURGENICES IN EL SALVADOR AND GUATEMALA. AFTER A BRIEF HIATUS, COVERT ARMS SUPPLY BY AIR FROM NICARAGUA TO THE SALVADORAN INSURGENTS RESUMED IN APRIL AND MAY NOW BE INCREASING. MOST SUPPLIES, HOWWER, MOVE OVERLAND THROUGH HONDURAS. THE ARMS FLOW TO EL SALVADOR IS ADEQUATE TO SUPPORT THE CURRENT LEVEL OF HOSTILITIES. THE INITIAL EMPHASIS ON AID TO THE SALVADORAN INSURGENCY
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HAS ALREADY EXPANDED TO INCLUDE THE TRAINING OF HONDURAN AND COSTA RICAN LEFTISTS, AND THE ASSUMPTION OF A LARGER ROLE IN EFFORTS TO UNIFY AND SUPPLY GUATEMALAN GUERRILLAS.

42. NICARAGUA'S SANDINISTA LEADERSHIP APPEARS TO HAVE ASSUMED A MORE IMPORTANT ROLE IN COORDINATING THE ACTIVITIES OF CENTRAL AMERICAN REVOLUTIONARIES. A 1980 UNITY AGREEMENT AMONG LEADERS OF GUATEMALA'S ARMED LEFTIST GROUPS WAS SIGNED IN MANAGUA INSTEAD OF HAVANA, WHICH HAD BEEN THE VENUE OF A SIMILAR PACT SIGNED BY FACTIONS OF THE SALVADORAN FMLN.

43. SINCE AUGUST, GUATEMALAN GOVERNMENT FORCES HAVE

HAD CONSIDERABLE SUCCESS IN FINDING AND ELIMINATING GUERRILLA SAFEHAVENS AND ARMS SUPPLY CENTERS. EXAMINATION OF CAPTURED DOCUMENTS INDICATED ONGOING NICARAGUAN AND CUBAN SUPPORT. FURTHERMORE, A CHECK OF THE SERIAL NUMBERS OF SOME CAPTURED U.S. MANUFACTURED WEAPONS TRACED THEM TO VIETNAM, RECONFIRMING COMMUNIST EXTERNAL SUPPORT FOR CENTRAL AMERICAN REVOLUTIONARIES.

44. THE STATUS OF BELIZE

45. DESPITE STRONG GUATEMALAN OPPOSITION AND EVEN SOME DOMESTIC DISSENT, BELIZE BECAME INDEPENDENT ON SEPTEMBER 21. GUATEMALA SEALED THE BORDER AND BROKE CONSULAR RELATIONS WITH GREAT BRITAIN, BUT THESE ACTIONS HAD BEEN ANTICIPATED BY BELIZEAN PREMIER PRICE AND THE BRITISH HAVE REACTED BY AUGMENTING THEIR MILITARY PRESENCE IN BELIZE.

46. BRITISH AND BELIZEAN OFFICIALS ARE REASONABLY CONFIDENT THAT GUATEMALA WILL NOT TAKE PROVOCATIVE MILITARY ACTIONS AGAINST BELIZE. THE BRITISH BELIEVE THAT RECENT
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GUATEMALAN ACTIONS REFLECT DOMESTIC PRESSURES ON PRESIDENT LUCAS TO MAKE A PUBLIC STAND AGAINST INDEPENDENCE WHILE THE BOUNDARY ISSUES REMAINS UNSOLVED. IT IS UNLIKELY THAT LUCAS WILL SUCCUMB TO EXTREMIST DEMANDS THAT GUATEMALA BREAK COMMERCIAL RELATIONS WITH GREAT BRITAIN OR SEIZE BRITISH PROPERTY.

47. IN THE NEAR-TERM, BELIZE IS EXPECTED TO BE PRO-US AND WILL PROBABLY NOT ESTABLISH DIPLOMATIC RELATIONS WITH COMMUNIST COUNTRIES, NOTABLY CUBA. RESPONDING TO U.S. AND OTHER COUNTRIES' CONCERNS, PRICE REPORTEDLY HAD DECIDED NOT TO APPOINT A LEADING CASTRO SYMPATHIZER ASSAD SHOMAN, AS FOREIGN MINISTER, BUT WILL RETAIN THAT PORTFOLIO HIMSELF.

48. FEW OTHER SHIFTS IN GOVERNMENT POSITIONS ARE EXPECTED, ALTHOUGH DEPUTY PRIMER CARL ROGERS WILL PROBABLY BE NAMED DEFENSE MINISTER. ROGERS WILL ATTEMPT TO NEGOTIATE A POST-INDEPENDENCE SECURITY AGREEMENT SPECIFYING BRITISH TROOP LEVELS AND THE DURATION OF THE BRITISH MILITARY PRESENCE, AS WELL AS SECURITY ASSISTANCE AND TRAINING FOR THE BELIZEAN DEFENSE FORCE. THE BRITISH ARE LIKELY TO AGREE TO REMAIN IN BELIZE FOR UP TO ONE YEAR, ALTHOUGH PRICE HAD HOPED THEY WOULD STAY UNTIL THE 1984 ELECTIONS.

49. BELIZE IS EXPECTED TO SEEK MEMBERSHIP IN THE NON-ALIGNED MOVEMENT, THE OAS, THE UN, AND CARICOM. ALTHOUGH

GUATEMALA IS CURRENTLY LAYING THE GROUNDWORK TO PURSUE THE BOUNDARY ISSUE IN THE UN AND TO BLOCK BELIZE'S ENTRY INTO THE OAS, LITTLE SUPPORT HAS BEEN FORTHCOMING FROM OTHER COUNTRIES.

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50. PART III. THE CARIBBEAN

51. THE MAINLY CENTRIST GOVERNMENTS THROUGHOUT THE REGION CONTINUE TO STRUGGLE WITH ECONOMIC PROBLEMS, SLOWLY LOSING GROUND. CUBAN AND GRENADAN INFLUENCE HAS NOT EXPANDED NOTICEABLY EXCEPT IN SURINAME. GRENADA'S "REVOLUTION" HAS BECOME SO RADICALIZED THAT CHANGE THROUGH NORMAL INTERNAL POLITICAL PROCESSES IS PROBABLY IMPOSSIBLE.

52. PRIME MINISTER SEAGA'S BOLD ATTEMPT TO TURN THE JAMAICAN ECONOMY AROUND IS NOT PRODUCING VISIBLE RESULTS FAST ENOUGH TO SUSTAIN THE HIGH LEVEL OF POLITICAL SUPPORT THAT SWEEPED HIM INTO OFFICE. BUT SO FAR SEAGA IS ADHERING TO HIS ECONOMIC PROGRAM AND IS RECEIVING A SUBSTANTIAL AMOUNT OF ASSISTANCE FROM FRIENDLY DONORS, ALTHOUGH PRIVATE INVESTORS ARE NOT FLOCKING IN AS EXPECTED. THE OPPOSITION, SHATTERED BY ELECTORAL DEFEAT AND A RANCOROUS INTERNECINE STRUGGLE BETWEEN LEFTISTS AND MODERATES, HAS BEEN UNABLE TO PUT ANY PRESSURE ON SEAGA. SEAGA IS NOW TALKING ABOUT ANOTHER ONE AND ONE-HALF YEARS BEFORE AN ECONOMIC TURNAROUND CAN BE EXPECTED.

53. THE MINI-STATES OF THE EASTERN CARIBBEAN CONTINUE TO STRUGGLE ALONG UNDER GENERALLY ABLE BUT FRUSTRATED GOVERNMENTS. MOST OF THEM JOINED THE NEW ORGANIZATION OF EAST CARIBBEAN STATES (OECS) IN JULY, WHICH IS SUPPOSED TO FOSTER MORE REGIONAL COOPERATION. THE HEADY NATIONALISM ENGENDERED BY THEIR RECENT INDEPENDENCE AND THE DISRUPTIVE INFLUENCE OF GRENADA PREVENT ANY CLOSE COOPERATION. ALMOST ALL THE COUNTRIES -- BARBADOS AND TRINIDAD BEING MAJOR EXCEPTIONS -- WILL NEED SUBVENTIONS FROM OUTSIDE DONORS FOR THE FORESEEABLE FUTURE JUST TO FUND THEIR MINIMAL ANNUAL BUDGET NEEDS. AS AN EXAMPLE, ANTIGUA WILL BECOME INDEPENDENT IN JANUARY

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WITH A LARGE DEBT, FISCAL INSTABILITY, AND LITTLE INCOME. HALF OF THE ISLAND'S 75,000 PEOPLE WORK FOR THE GOVERNMENT. AGRICULTURE, ONCE THE MAINSTAY OF THE ECONOMY,

HAS BEEN NEGLECTED, LEAVING ONLY TOURISM AS A MAJOR MONEY-EARNER.

54. THE DEATH OF LONG-TIME LEADER ERIC WILLIAMS IN MARCH HAS LEFT TRINIDAD WITH AN UNCERTAIN POLITICAL FUTURE. THE POLITICIANS VYING FOR POWER, HOWEVER, ARE ALL POLITICAL MODERATES AND THE UPCOMING ELECTIONS SHOULD NOT PRODUCE A GOVERNMENT INIMICAL TO THE WEST. IT COULD, HOWEVER, RESULT IN A WEAK GOVERNMENT AND ALLOW THE POTENTIALLY EXPLOSIVE RACIAL DIVISIONS WHICH WERE SWEEPED UNDER THE RUG BY WILLIAMS, TO FESTER. NEVERTHELESS, WITH A STABLE ECONOMY BASED ON OIL, TRINIDAD SHOULD CONTINUE TO BE A STABILIZING FORCE FOR MODERATE INFLUENCE THROUGHOUT THE REGION.

55. MAURICE BISHOP CONTINUES TO SOLIDIFY HIS REGIME ON GRENADA. THE 1500-MAN ARMY HAS BEEN STRENGTHENED WITH SOVIET AND CUBAN EQUIPMENT. AN ATTEMPT TO START AN OPPOSITION NEWSPAPER WAS BRUTALLY CRUSHED, AND THERE ARE NOW ABOUT 150 POLITICAL PRISONERS. POLITICAL OPPOSITION HAS ALMOST BEEN ELIMINATED. BISHOP HAS COMPLETED CONSTRUCTION OF A 75 KW RADIO TRANSMITTER WHICH SOON WILL START BLANKETTING THE CARIBBEAN WITH ANTI-WESTERN PROPAGANDA. THE CUBANS AND GRENADANS ARE CONSTRUCTING A FAIRLY SIZEABLE MILITARY FACILITY, ON A SEALED-OFF PENINSULA IN THE SOUTH OF THE ISLAND.

56. THE INSTABILITY IN SURINAME CONTINUES TO BE OF CONCERN. WHILE THE CIVILIANS IN THE GOVERNMENT CONTINUE TO PURSUE A MODERATE, PRO-WEST POLICY, THE MILITARY

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ARE EDGING EVEN CLOSER TO CUBA, GRENADA, AND LEFTIST IDEOLOGY. STRONGMAN BOUTERSE TRAVELLED TO GRENADA IN JULY AND WAS APPARENTLY IMPRESSED BY BISHOP'S "REVOLUTION."

57. THE PROSPECT FOR INSTABILITY IN THE PROSPEROUS NETHERLANDS ANTILLES WAS ENHANCED BY THE POSSIBILITY RAISED IN EARLY SEPTEMBER THAT ARUBA WOULD GO FOR QUICK INDEPENDENCE, JETTISONING THE TEN-YEAR INDEPENDENCE PROCESS CONSTRUCTED BY THE DUTCH AND AGREED TO BE THE REST OF THE SIX-ISLAND FEDERATION. ARUBA'S MOTIVES APPEAR TO BE OIL REVENUES EXPECTED TO START FLOWING SOON FROM OFFSHORE WELLS.

58. ON HIPANIOLA, THE DOMINICAN REPUBLIC IS EXPERIENCING SOME FINANCIAL DIFFICULTIES. NEVERTHELESS, NEXT YEAR'S ELECTION SHOULD PRODUCE A MODERATE GOVERNMENT AND CONTINUE THE HEALTHY DEMOCRATIC TRENDS IN THAT COUNTRY. IN HAITI, JEAN CLAUDE DUVALIER MARKED HIS TENTH ANNIVERSARY IN POWER BE BECOMING SLIGHTLY MORE

ASSERTIVE, BUT HE STILL CONTINUES TO BE EASILY INFLUENCED BY ADVISORS, THE PREEMINENT ONE BEING THE AMBITIOUS AND SOMEWHAT ANTI-U.S. THEODORE ACHILLE. ON THE SURFACE THERE APPEAR TO BE FEW CREDIBLE THREATS TO THE DUVALIER GOVERNMENT, BUT UNDERNEATH THERE IS CONSIDERABLE PLOTTING BY VARIOUS GROUPS. DUVALIER TALKS ABOUT MODERNIZING HIS REGIME AND REDUCING CORRUPTION, BUT EXPERIENCED OBSERVERS DOUBT THAT THE SYSTEM, ESSENTIALLY DESIGNED BY HIS FATHER TO CONTROL VARIOUS DISSIDENT ELEMENTS, IS CAPABLE OF MUCH REFORM WITHOUT DESTROYING ITSELF.

59. IN GUYANA, BURNHAM HAS USED THE ESCALATING BORDER DISPUTE WITH VENEZUELA TO TRY TO REGAIN SOME POPULAR SUPPORT FOR HIS SAGGING REGIME. THE PEOPLE, HOWEVER, FED UP WITH A CRUMBLING ECONOMY AND MASSIVELY CORRUPT GOVERNMENT, ARE NOT RALLYING AROUND THE FLAG. UNFOR-CONFIDENTIAL

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TUNATELY, THE ONLY REAL POLITICAL OPPOSITION TO BURNHAM REMAINS THE AGING, PRO-SOVIET CHEDDI JAGAN WHO ALSO COMMANDS LITTLE POPULAR SUPPORT. BURNHAM THUS SEEMS ASSURED OF STAYING ON TOP. HE HAS EDGED BACK TOWARD THE CUBANS IN THE LAST SIX MONTHS OUT OF PIQUE TOWARD THE U.S. FOR REFUSING TO SUPPORT NON-VIABLE AID SCHEMES. BUT IT IS DOUBTFUL IF BURNHAM WILL GET TOO CLOSE TO -- CASTRO -- SUCH A MOVE WOULD GIVE THE VENEZUELAN THE EXCUSE THEY NEED TO GRAB SOME OF GUYANA'S TERRITORY.

60. PART IV. CUBAN INTERVENTION

61. DESPITE FAILING ECONOMIC FORTUNES AT HOME AND A SERIES OF DIPLOMATIC SETBACKS THAT FOLLOWED IN THE WAKE OF THE SOVIET INVASION OF AFGHANISTAN, CUBAN INTERVENTION ABROAD CONTINUES UNABATED. INDEED, CUBAN ADVENTURISM IN SUPPORT OF VIOLENT REVOLUTION IN THE WESTERN HEMISPHERE HAS INTENSIFIED MARKEDLY. THE CUBAN PRESENCE IN AFRICA HAS REMAINED STABLE, BUT THE RECENT SOUTH AFRICAN INVASION OF ANGOLA PROMOTED AT LEAST A TOKEN INCREASE IN ITS MILITARY COMMITMENT TO THE ANGOLAN GOVERNMENT.

62. AMONG CASTRO'S THIRD WORLD EXPLOITS, EFFORTS TO UNDERMINE U.S. INFLUENCE IN LATIN AMERICA AND THE CARIBBEAN HAVE ALWAYS BEEN ACCORDED HIGH PRIORITY. MAURICE BISHOP'S MARCH 1979 COUP IN GRENADA AND THE SPECTACULAR JULY 1979 SANDINISTA VICTORY IN MANAGUA CONVINCED CASTRO THAT SUPPORT FOR ARMED REBELLION WAS THE MOST PROMISING STRATEGY FOR PURSUING HIS OBJECTIVES IN THE REGION AND RESTORING REVOLUTIONARY MOMENTUM AT HOME. DRIVEN BY HOSTILITY TOWARD AND FEAR OF THE U.S., FACTORS THAT HAVE INTENSIFIED SINCE PRESIDENT REAGAN ASSUMED OFFICE, CONFIDENTIAL

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AND SUPPORTED BY MASSIVE SOVIET ECONOMIC AND MILITARY ASSISTANCE, CASTRO IS METHODICALLY CULTIVATING LEFT-WING INSURGENCIES IN SEVERAL HEMISPHERE NATIONS.

63. CENTRAL AMERICA AND THE CARIBBEAN HAVE BEEN THE FOCAL POINT OF CUBA'S INTERVENTIONIST ACTIVITIES. CASTRO APPEARS CONVINCED THAT CIRCUMSTANCES ARE MORE PROMISING THERE THAN ELSEWHERE IN LATIN AMERICA FOR A NEAR-TERM REPETITION OF THE NICARAGUAN REVOLUTION. THE SURVIVAL AND CONSOLIDATION OF THE SANDINISTA REGIME ARE THE PRIORITY REGIONAL CONCERNS OF HAVANA, FOLLOWED BY AND LINKED TO SUBVERSION OF THE GOVERNMENTS OF EL SALVADOR AND GUATEMALA, AND SOMEWHAT FARTHER DOWN THE ROAD, HONDURAS.

64. THE CUBAN APPROACH FEATURES A HEAVY RELIANCE UPON VIOLENCE, BUT IT ALSO INCLUDES A RANGE OF SOPHISTICATED OVERT AND COVERT ACTIVITIES DESIGNED TO PROMOTE, AMONG OTHER THINGS, POPULAR SUPPORT FOR CUBAN OBJECTIVES IN TARGET COUNTRIES AND INTERNATIONAL FORA. TYPICALLY, THE INITIAL CUBAN EMPHASIS IS UPON UNIFYING THE ACTIVITIES OF OFTEN DISPARATE LEFTIST ORGANIZATIONS IN A COUNTRY. WITH THE COOPERATIVE BASIS FOR A POTENTIALLY SUCCESSFUL INSURGENCY ESTABLISHED, CUBA PROVIDES MILITARY TRAINING, WEAPONS SUPPLY, ADVICE ON STRATEGY AND TACTICS, AND PROMOTES CONTACTS WITH RADICAL ORGANIZATIONS AND STATES THAT MIGHT ALSO ASSIST THE INSURGENTS.

65. IN THE CARIBBEAN, THE CUBAN PRESENCE HAS BEEN PARTICULARLY NOTABLE IN GRENADA. SINCE BISHOP ASSUMED POWER, CUBA HAS BEEN THE DOMINANT FOREIGN INFLUENCE ON THE ISLAND. AN ADMIRER OF CASTRO, BISHOP HAS BEEN ANXIOUS TO ACCEPT CUBAN TUTELAGE AT HOME AND ALMOST REFLEXIVELY RESPONSIVE TO HAVANA'S LEAD IN INTERNATIONAL AFFAIRS.

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66. THE MOST SIGNIFICANT CUBAN ACTIVITY IN GRENADA MAY BE THE WORK OF 250 CUBANS ON THE PONT SALINES AIRPORT. THE RUNWAY WILL BE EXTENDED TO 9,800 FEET, ENABLING THE AIRPORT TO ACCOMMODATE ALL CUBAN AND SOVIET AIRCRAFT. SUCH A FACILITY WOULD ENHANCE THE EFFECTIVE RANGE OF CUBA'S MIG 23S AND PROVIDE A CONVENIENT DEPARTURE POINT FOR NON-STOP FLIGHTS TO AFRICA.

67. THE AFRICAN PHASE OF CUBAN INTERVENTION ABROAD

HAS REMAINED RELATIVELY STATIC DURING THIS PERIOD OF INCREASED ACTIVITY IN CENTRAL AMERICA. ANGOLA AND ETHIOPIA ARE STILL HOSTS FOR THE LARGEST CUBAN CONTINGENTS. ABOUT 11,000 TO 13,000 CUBAN MILITARY PERSONNEL ARE SERVING IN ETHIOPIA, INCLUDING SOME 8,000 COMBAT TROOPS. THEY ENTERED ETHIOPIA LARGELY AT THE BEHEST OF MOSCOW AND HAVE ENGAGED IN NO MAJOR COMBAT OPERATIONS SINCE THE END OF THE OGADEN WAR IN MARCH 1978.

68. CUBA'S LARGEST OVERSEAS MILITARY AND CIVILIAN CONTINGENTS ARE IN ANGOLA, NUMBERING ABOUT 17-20,000 AND 6-8,000 RESPECTIVELY. AS IN ETHIOPIA, CUBAN SOLDIERS SEE LITTLE COMBAT ACTIVITY. THEY HAVE BEEN SERVING LARGELY IN TRAINING AND SECURITY ROLES AND PROVIDING LOGISTICAL SUPPORT FOR ANGOLAN FORCES.

69. ELSEWHERE IN AFRICA, THERE ARE GROUPS OF CUBAN MILITARY AND CIVILIAN ADVISORS RANGING IN SIZE FROM ABOUT TEN TO A FEW HUNDRED IN OVER A DOZEN COUNTRIES. THEY PROVIDE A VARIETY OF TRAINING AND SECURITY SERVICES ALONG WITH TECHNICAL AND ECONOMIC ASSISTANCE.

70. THE HISTORY OF THE SOVIET-CUBAN RELATIONSHIP HAS INCLUDED PERIODS OF MARKED DISAGREEMENT OVER THE PROPER
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STRATEGY FOR PURSUING COMMUNIST OBJECTIVES IN LATIN AMERICA AND AFRICA. THE SOVIET OPPOSITION TO CASTRO'S REVOLUTIONARY ACTIVITIES WHICH PREVAILED IN THE 1960S HAS DISSOLVED, AND THERE IS EVIDENCE THE SOVIETS ARE LENDING THEIR ACTIVE SUPPORT TO SOME OF CASTRO'S ACTIVITIES, PARTICULARLY IN CENTRAL AMERICA.

71. BOTH MOSCOW AND HAVANA ARE MINDFUL THAT THEIR ACTIVITIES IN CENTRAL AMERICA AND THE CARIBBEAN COULD PROVOKE A U.S. MILITARY RESPONSE AGAINST CUBA. FURTHERMORE, CASTRO IS NOT SURE THAT HE WOULD RECEIVE SOVIET AID IN THE EVENT OF A U.S. ATTACK, AND HIS ANXIETIES ALONG THESE LINES HAVE UNDOUBTEDLY BEEN HEIGHTENED BY SPECULATION ABOUT WHAT THE U.S. MIGHT DO IF THE USSR INVADES POLAND. SUCH CONCERNS HAVE PERIODICALLY PROMPTED CASTRO TO EXTEND FEELERS CONCERNING THE REDUCTION OF BILATERAL TENSIONS WITH THE U.S. HOWEVER, CASTRO'S RECENT SPEECHES INDICATE THAT HE VIEWS THE REAGAN ADMINISTRATION AS AN UNCOMPROMISING ADVERSARY WITH WHICH RECONCILIATION OF DIFFERENCES WOULD BE IMPOSSIBLE. GIVEN THIS PERCEPTION AND CASTRO'S STRONG COMMITMENT TO HEMISPHERIC REVOLUTIONARY CAUSES, IT IS UNLIKELY THAT U.S. PRESSURE WOULD CONVINCe CASTRO TO CHANGE HIS PRESENT STRATEGY.

72. PART V. CHANCES OF SURVIVAL OF THE ANDEAN PACT

73. THE ANDEAN PACT APPEARS TO BE RETREATING FROM THE HIGHLY POLITICAL PROFILE IT STRUCK LATE LAST YEAR IN FAVOR OF A RENEWED EMPHASIS ON MORE TRADITIONAL ECONOMIC CONCERNS. AFTER A PERIOD OF ESTRANGEMENT, BOLIVIA IS ONCE AGAIN PLAYING A FULL ROLE IN PACT DELIBERATIONS. PRESIDENTS HERRERA OF VENEZUELA AND TURBAY OF COLOMBIA, ONCE MOST VIGOROUS ADVOCATES OF PACT ACTIVISM IN THE PROMOTION OF DEMOCRATIC AND PROGRESSIVE GOVERNMENTS IN LATIN AMERICA, PROBABLY REALIZED THAT
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THE PACT IS TOO FRAGILE TO PLAY SUCH A POLITICAL ROLE ON A CONTINUING BASIS.

74. THE FLURRY OF POLITICAL ACTIVITY BEGAN IN MAY 1979 DURING THE PACT'S TENTH ANNIVERSARY MEETING, AT WHICH TWO OF THE FIVE COUNTRIES REPRESENTED (COLOMBIA AND VENEZUELA) HAD NEWLY-ELECTED DEMOCRATIC GOVERNMENTS AND THE THREE OTHERS (PERU, ECUADOR AND BOLIVIA) WERE PUBLICLY COMMITTED TO ESTABLISHING DEMOCRATIC GOVERNMENTS IN THE NEAR TERM. THE FIVE, IN ADDITION TO REAFFIRMING THE PACT'S BASIC PURPOSE, ECONOMIC INTEGRATION, FOUND AN UNUSUALLY HIGH DEGREE OF AGREEMENT ON OTHER AREAS OF INCREASED COOPERATION. SOON THEREAFTER THEY PLAYED A MAJOR ROLE IN THE OAS AND ELSEWHERE IN FACILITATING THE CHANGE IN GOVERNMENT IN NICARAGUA.

75. FOLLOWING THIS TACK, AT THE AUGUST 1979 INAUGURATION OF PRESIDENT ROLDOS, PACT REPRESENTATIVES ANNOUNCED THEIR INTENTION OF FORMING AN ANDEAN PARLIAMENT AND PONSORED A JOINT DECLARATION CALLING FOR THE INSTITUTIONALIZATION OF DEMOCRACY AND FREEDOM THROUGHOUT LATIN AMERICA. THE SAME YEAR SAW THE CREATION OF AN ANDEAN PEACE FUND AND THE INSTITUTION OF A REGULAR ANDEAN FOREIGN MINISTERS' MEETING.

76. THE PACT'S POLITICAL UNITY, HOWEVER, BEGAN TO FEEL STRAINS IN LATE NOVEMBER 1979 WHEN BOLIVIA'S PROGRESS TOWARD DEMOCRACY WAS SET BACK BY AN ABORTIVE COUP. THE SUCCESSFUL MILITARY COUP OF JULY 1980 BROUGHT FORTH A STRONG CONDEMNATION FROM FELLOW PACT MEMBERS AND THE REFUSAL TO RECOGNIZE THE NEW REGIME. AT THE DECEMBER 1980 MEETING TO COMMEMORATE THE 150TH ANNIVERSARY OF BOLIVAR'S DEATH, COLOMBIA POINTEDLY EXCLUDED
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BOLIVIA, WHILE EXTENDING INVITATIONS TO COUNTRIES OUTSIDE

THE PACT. THE DECISION TO OSTRACIZE BOLIVIA WAS NOT UNIVERSALLY WELL RECEIVED. PERU, IN PARTICULAR, OBJECTED THAT THE PACT WAS DEPARTING FROM ITS ORIGINAL ECONOMIC PURPOSES, ECHOING A SENTIMENT IT ALREADY HAD EXPRESSED WHEN SQUASHING A VENEZUELAN INITIATIVE ON EL SALVADOR THE MONTH BEFORE.

77. THE PACT'S FRAGILE UNITY DETERIORATED EVEN FURTHER BY EARLY 1981. THE OUTBREAK OF HOSTILITIES BETWEEN PERU AND ECUADOR IN JANUARY SHATTERED WHATEVER UNITY REMAINED AND COMPLETELY PARALYZED ECONOMIC PROGRESS. MEETINGS OF THE ANDEAN COMMISSION SCHEDULED FOR LATE 1980 HAD ALREADY BEEN CANCELLED BY THE BOLIVIAN CHAIRMAN IN RETALIATION FOR THE TREATMENT BEING ACCORDED HIS COUNTRY.

78. IT IS DOUBTFUL, HOWEVER, THAT THE PACT WOULD HAVE MADE ANY SIGNIFICANT PROGRESS ON ITS BADLY STALLED ECONOMIC PROGRAM EVEN IF POLITICAL MATTERS HAD NOT

INTERVENED. BASIC DISAGREEMENTS ON THE SECTORAL PROGRAM AND THE COMMON EXTERNAL TARIFF, FOR INSTANCE, REALLY TRANSCEND QUESTIONS OF POLITICAL IDEOLOGY. THE NEWLY DEMOCRATIC PERUVIAN GOVERNMENT, FOR INSTANCE, HAS IMPLEMENTED LOWER TARIFFS THAN DESIRED BY ITS PACT COLLEAGUES OR ALLOWED BY SOME PACT AGREEMENTS. MOREOVER, VENEZUELA, WHICH HAS MOST VIGOROUSLY PROMOTED POLITICAL UNITY, HOSTS A BUSINESS ESTABLISHMENT WHICH IS HIGHLY PROTECTIONIST AND BASICALLY ANTAGONISTIC TO THE IDEA OF REGIONAL ECONOMIC INTEGRATION.

79. YET IT IS VENEZUELA WHICH HAS BEEN ATTEMPTING MOST VIGOROUSLY SINCE THE BEGINNING OF THE YEAR TO BREATHE LIFE INTO THE ALMOST MORIBUND PACT. BOGOTA AND CARACAS HAVE MODIFIED SOMEWHAT THEIR POSITION ON CONFIDENTIAL

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BOLIVIA, WHILE LA PAZ REALIZED IT WAS ONLY HURTING ITSELF BY ABSTAINING, AND RETURNED TO THE FOLD IN APRIL. VENEZUELA'S PRESIDENT HERRERA, THE SAME MONTH, URGED ECUADOR TO OVERCOME ITS OBJECTIONS TO COOPERATION WITH PERU AND TO REENTER THE ANDEAN DIALOGUE. WITH ECUADOR'S SOMEWHAT QUALIFIED ANNOUNCEMENT THAT IT WOULD ONCE AGAIN PARTICIPATE IN ANDEAN AFFAIRS, THE PACT BECAME WHOLE IN JULY. CONSEQUENTLY, AN AIR OF RELATIVE NORMALCY CHARACTERIZED THE RECENT SESSION OF THE ANDEAN COMMISSION. DISCOURAGING EVIDENCE OF THIS NORMALCY WAS THE LACK OF PROGRESS ON BASIC ECONOMIC ISSUES AND MUTUAL RECRIMINATION ABOUT NON-COMPLIANCE WITH EXISTING AGREEMENTS. TO PAPER OVER THE CRACKS, THE MEMBERS DECIDED TO TAKE 90 DAYS TO INDIVIDUALLY DECIDE WHAT THEIR MAJOR COMPLAINTS WERE AND TO CHECK THEIR OWN COMPLIANCE WITH

PRESENT AGREEMENTS. THE COMMISSION'S FINAL COMMUNIQUE CAN MOST OPTIMISTICALLY BE DESCRIBED AS A COMMITMENT TO MORE FLEXIBILITY AND A REORDERING OF PRIORITIES.

80. IN CONCLUSION, RECENT EVENTS SHOW THAT PACT MEMBERS ARE NOT LIKELY TO STAND BACK AND LET THE 12-YEAR OLD ORGANIZATION DISAPPEAR. PART OF THE REASON IS POLITICAL, DESPITE THE HAVOC POLITICAL ACTIVITY HAS WROUGHT. THE GOVERNMENTS OF VENEZUELA AND COLOMBIA PROBABLY STILL SEE THE PACT AS A POLITICAL INSTRUMENT, EVEN IF IT HAS NOT LIVED UP TO PAST EXPECTATIONS. OVER THE LONG TERM, HOWEVER, THE PACT'S SURVIVAL WILL DEPEND MORE ON ECONOMIC COOPERATION AND COMPROMISE THAN ON POLITICAL COMPATABILITY. THERE IS STILL LITTLE EVIDENCE THAT THE MEMBERS HAVE OVERCOME THEIR NARROW NATIONAL ECONOMIC INTERESTS IN FAVOR OF BROAD PACT OBJECTIVES.

81. PART VI. THE COUNTRIES OF THE SOUTHERN CONE --
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POLITICAL, SOCIAL AND ECONOMIC DEVELOPMENTS.

82. U.S. RELATIONS WITH SOUTHERN CONE COUNTRIES (ARGENTINA, CHILE, PARAGUAY, URUGUAY) HAVE IMPROVED SIGNIFICANTLY UNDER THE REAGAN ADMINISTRATION. IN THE WAKE OF THE EXCEPTIONAL HUMAN RIGHTS EMPHASIS OF THE PREVIOUS FOUR YEARS, THERE HAS EMERGED A MORE BALANCED, POSITIVE ATMOSPHERE. THE SHIFT IS ATTRIBUTABLE TO THE U.S. DECISION TO PURSUE HUMAN RIGHTS QUESTIONS IN A MORE RESERVED FASHION, AS WELL AS TO THE REGIONAL IMPROVEMENTS IN HUMAN RIGHTS COMPLIANCE IN RECENT YEARS. IMPROVED U.S.-SOUTHERN CONE RELATIONS ALSO REFLECT A SHARED PERCEPTION OF THE THREAT POSED TO THE WESTERN HEMISPHERE BY CUBA, THE SOVIET UNION, AND ITS SURROGATES. SOUTHERN CONE GOVERNMENTS HAVE BEEN AMONG THE STRONGEST SUPPORTERS OF U.S. POLICY IN CENTRAL AMERICA. THEY ARE PLEASED WITH WHAT THEY PERCEIVE AS THE REAGAN ADMINISTRATION'S PRAGMATIC APPROACH TO GLOBAL SECURITY ISSUES.

83. THE NEW TREND IN U.S.-SOUTHERN CONE RELATIONS HAS BEEN MANIFESTED MOST OPENLY IN A STEADY TWO-WAY STREAM OF HIGH-LEVEL VISITORS SINCE JANUARY. OTHER EVIDENCE OF IMPROVED RELATIONS INCLUDES:

-- EFFORTS BY THE U.S. EXECUTIVE BRANCH TO OBTAIN REVISION OF THE LEGISLATION BLOCKING ARGENTINE ACCESS TO U.S. MILITARY ASSISTANCE;

-- ADMINISTRATION APPROVAL OF THE TRANSFER OF CERTAIN U.S.-MANUFACTURED ARMS FROM SOUTH KOREA TO URUGUAY; AND

-- THE LIFTING OF THE BAN ON U.S. EXPORT-IMPORT BANK
. LENDING FOR CHILE, AND INCLUSION OF CHILE IN THE
. ANNUAL UNITAS JOINT NAVAL EXERCISES.

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84. ON THE DOMESTIC SCENE, ARGENTINA'S PRESIDENT, GEN. (RET.) ROBERTO EDUARDO VIOLA, HAS SURVIVED A ROCKY START FOLLOWING HIS MARCH INAUGURATION. WIDESPREAD UNCERTAINTY ABOUT THE DIRECTION OF OFFICIAL ECONOMIC POLICY, PUBLIC MANIFESTATIONS OF MILITARY DISSATISFACTION WITH VIOLA, AND THE ADMINISTRATION'S INABILITY TO PROJECT A DECISIVE IMAGE COMBINED TO PRODUCE RUMORS CONCERNING THE POSSIBLE RAPID DEMISE OF THE NEW GOVERNMENT. THE PROBLEMS, PARTICULARLY IN THE ECONOMIC SPHERE, HAVE NOT ALL BEEN SLVED, BUT VIOLA'S TENURE DOES NOT APPEAR TO BE IN IMMEDIATE JEOPARDY.

85. THE DOMINANT ECONOMIC TRENDS ARE STILL RECESSION AND HIGH INFLATION. VIOLA AND HIS ADVISORS ARE PAYING THE PRICE FOR THE SUCCESSFUL ANTI-INFLATION FIGHT WAGED BY FORMER FINANCE MINISTER JOSE MARTINEZ DE HOZ, WHO REDUCED INFLATION BELOW THE THREE-DIGIT LEVEL IN 1980, WHILE MAINTAINING FULL EMPLOYMENT AND AVOIDING REAL WAGE LOSSES. THESE SUCCESSES, HOWEVER, CAME AT THE EXPENSE OF A DEEP INDUSTRIAL RECESSION. THE SUBSEQUENT DECLINE IN REAL WAGES AND, FOR THE FIRST TIME IN YEARS, A RISE IN UNEMPLOYMENT PROVOKED MILITARY CONCERN OVER THE KIND OF SOCIAL UNREST THAT HAS BROUGHT DOWN GOVERNMENTS IN THE PAST.

86. THE PROBLEM FOR THE VIOLA TEAM IS ONE OF REACTIVATING THE NATION'S PRODUCTIVE SECTORS WITHOUT STIMULATING HYPERINFLATION. FOUR DEVALUATIONS THIS YEAR HAVE PRODUCED CONSIDERABLE IMPROVEMENT IN THE EXTERNAL TRADE ACCOUNT, AND THE GOVERNMENT HOPES THAT A GRADUALIST APPROACH WILL PRODUCE OVERALL ECONOMIC RECOVERY, PERHAPS BY THE LAST HALF OF 1982. IN GENERAL TERMS, THE GOVERNMENT'S PLAN CALLS FOR:

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-- RENEWED PRIVATE SECTOR ATIVITY STIMULATED BY THE
. IMPROVED EXTERNAL TRADE ACCOUNT AND GOVERNMENT ASSIS-
. TANCE IN DECREASING THE PRIVATE SECTOR'S DEBT BURDEN;

-- LOWER INFLATION BASED ON GRADUAL REDUCTION OF THE
. FISCAL DEFICIT; AND

-- DECLINING INTEREST RATES AS PUBLIC CONFIDENCE IN
. THE NATION'S ECONOMIC PROSPECTS IS RESTORED.

87. POLITICALLY, THE ARMED FORCES REMAIN FIRMLY IN CONTROL. AFTER VIOLA'S INAUGURATION, COUP RUMORS SPARKED BY PUBLIC DISPLAYS OF INTRA-MILITARY BICKERING SEEM TO HAVE STARTLED THE MILITARY INTO A RENEWED AWARENESS OF THEIR VULNERABILITY IF THEY WERE TO DROP THE FACADE OF UNITY. THE TRADITIONAL POLITICAL PARTIES HAVE BEEN

INCREASINGLY ACTIVE IN RECENT MONTHS, A DEVELOPMENT TOLERATED AND IN SOME MEASURE ENCOURAGED BY THE GOVERNMENT. SOME POLITICIANS ARE MAKING DEMANDS FOR FREE ELECTIONS IN 1984. DESPITE VIOLA'S COMMITMENT IN HIS INAUGURAL ADDRESS TO AN EVENTUAL RETURN TO DEMOCRACY, MILITARY LEADERS ARE NOT COMMITTING THEMSELVES TO ANY TIMETABLES AND GIVE EVERY INDICATION OF INTENDING TO APPOINT ANOTHER GENERAL TO SUCCEED VIOLA.

88. URUGUAY, WHERE PRESIDENT GEN. (RET.) GREGORIO ALVAREZ WAS INSTALLED ON SEPTEMBER 1, IS EMBARKED UPON A REASONABLY WELL-DEFINED TRANSITION PROCESS TO WHICH THE ARMED FORCES APPEAR FULLY COMMITTED. THE FOLLOWING SERIES OF STEPS IS PLANNED TO PRODUCE THE INSTALLATION OF A FREELY ELECTED PRESIDENT AND CONGRESS IN MARCH 1985, WHEN ALVAREZ' TERM EXPIRES:

-- REHABILITATION OF NEARLY ALL PROSCRIBED POLITICIANS,
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. THE RENEWAL OF POLITICAL PARTY ACTIVITIES, AND THE
. LOOSENING OF RESTRICTIONS OF MEDIA COVERAGE OF POLI-
. TICS (CURRENTLY UNDERWAY);

-- IMPLEMENTATION OF NEW POLITICAL PARTY AND ELECTORAL
. STATUTES (1982);

-- CONVOCATION OF A CONSTITUTIONAL CONVENTION (1983);

-- THE HOLDING OF A SIMULTANEOUS CONSTITUTIONAL PLEBIS-
. CITE AND GENERAL ELECTION FOR PRESIDENT AND CONGRESS
. (NOVEMBER 1984).

89. URUGUAY'S TRADITIONAL POLITICAL PARTIES HAVE AGREED TO COOPERATE IN THIS SCENARIO AND HAVE BEEN GUARANTEED MEANINGFUL PARTICIPATION IN ALL STEPS OF THE PROCESS. MILITARY-CIVILIAN COOPERATION IS CRUCIAL NOT ONLY TO ENSURE CIVILIAN ACCEPTANCE OF THE RESULTS, BUT ALSO TO REASSURE DOUBTERS IN THE ARMED FORCES THAT CIVILIANS ARE CAPABLE OF RESPONSIBLE POLITICAL CONDUCT.

90. ALVARZ HAS PUBLICLY COMMITTED HIS ADMINISTRATION TO CONTINUE THE FREE-MARKET ECONOMIC POLICIES ESTABLISHED BY ECONOMY MINISTER ARISMENDI. HE HAS ALSO, HOWEVER, APPROVED A SERIES OF MEASURES DESIGNED TO RESCUE THE FORTUES OF AGRICULTURAL PRODUCERS. HE CAN NOW EXPECT OTHER GROUPS TO PRESSURE FOR SIMILAR TREATMENT. SUCH PRESSURES, ALONG WITH ALVAREZ' 1984 ELECTORAL AMBITIONS MAY TEMPT HIM TO RETROGRESS TOWARD A MORE STATIST ECONOMIC APPROACH.

91. RECURRENT LEFTIST-INSPIRED TERRORISM HAS BEEN THE MOST SALIENT FEATURE OF CHILE'S POLITICAL PANORAMA
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DURING THE LAST SIX MONTHS. THE MOST SPECTACULAR INCIDENTS INCLUDE:

- A TRIPLE BANK ROBBERY IN LATE JUNE IN WHICH ONE . ALLEGED LEFT-WING TERRORIT WAS KILLED;
- AN ARMED ASSAULT ON TWO POLICE STATIONS ON THE SAME . DAY, USING U.S.-MADE ANTI-TANK ROCKET LAUNCHERS;
- THE ASSASSINATION IN JULY OF AN EMPLOYEE OF THE . INTELLIGENCE SERVICE (CNI), AND AN ATTACK ON A HIGH- . RANKING WOMAN OFFICER OF THE UNIFORMED POLICE WHO . HAD PREVIOUSLY WORKED WITH THE CNI; AND
- AN UNSUCCESSFUL ATTACK, USING GRENADES AND AUTOMATIC . WEAPONS, ON A LARGE STORAGE CENTER FOR GAS, OIL . AND AVIATION FUEL IN SANTIAGO.

92. MOST OF THE TERRORIST INCIDENTS, AS WELL AS PROPAGANDA STUNTS LIKE THE LATE APRIL SEIZURE OF A PROMINENT SANTIAGO RADIO STATION FOR THE PURPOSE OF BROADCASTING A PRE-RECORDED PROPAGANDA MESSAGE, CAN PROBABLY BE ATTRIBUTED TO MEMBERS OF THE CHILEAN MOVEMENT OF THE REVOLUTIONARY LEFT (MIR), SOME OF WHOM MAY HAVE RETURNED CLANDESTINELY TO CHIL AFTER RECEIVING GUERRILLA TRAINING IN CUBA AND ELSEWHERE.

93. THE GOVERNMENT HAS NOT HAD MUCH SUCCESS IN STEMMING THE UPSURGE IN TERRORISM OR ARRESTING THE PERPETRATORS. THE NOTABLE EXCEPTION TO THIS PATTERN WAS THE DISCOVERY, IN LATE JUNE, OF A SUPPORT CAMP FOR URBAN GUERRILLAS IN A REMOTE AREA EAST OF VALDIVIA, NEAR THE ARGENTINE BORDER.

94. THE PRIMARY STIMULUS FOR THE UPSWING IN TERRORISM IS PROBABLY THE LIMITED FORUM FOR POLITICAL ACTIVITY
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AND DISSENT THAT STILL PREVAILS IN CHILE. PRESIDENT PINOCHET BEGAN AN EIGHT-YEAR "TRANSITIONAL" TERM IN MARCH, BUT THERE HAVE BEEN FEW INDICATIONS OF POLITICAL LIBERALIZATION SINCE THEN. THE MEDIA ARE STILL SUBJECT TO GOVERNMENT CONTROLS AND PARTISAN POLITICAL ACTIVITY IS BANNED. AS A REMINDER OF THE RESTRAINTS THAT STILL PREVAIL, IN AUGUST THE GOVERNMENT EXPELLED FOUR PROMINENT OPPOSITION FIGURES, INCLUDING THE HEAD OF CHILE'S HUMAN RIGHTS COMMISSION, FOR VIOLATING THE "POLITICAL RECESS".

95. NEITHER THE ACTIVITIES OF THE FAR LEFT NOR THE OPPOSITION OF MODERATE POLITICIANS SEEMS TO HAVE ERODED THE WIDESPREAD POPULAR ACCEPTANCE THE REGIME ENJOYS. PINOCHET'S CONTINUED POPULARITY IS DUE LARGELY TO CHILE'S CONTINUED ECONOMIC PROSPERITY AND THE ORDERLINESS AND PREDICTABILITY THAT HAS CHARACTERIZED HIS EIGHT-YEAR RULE. CHILE'S REMARKABLE ECONOMIC RECOVERY AND GROWTH HAS SLOWED DOWN, HOWEVER, IN THE LAST YEAR, AS A RESULT OF REDUCED WORLD ECONOMIC GROWTH AND BALANCE OF PAYMENTS PROBLEMS CAUSED BY HIGH INTEREST RATES AND THE GROWING EXTERNAL DEBT. NEVERTHELESS, INFLATION IS STILL LOW BY HISTORICAL STANDARDS AND UNEMPLOYMENT IS BELOW TEN PERCENT. REAL PER CAPITAL INCOME AND STANDARDS OF LIVING FOR MOST CHILEANS CONTINUE TO SHOW GRADUAL IMPROVEMENT.

96. PART VII. SOVIET POLICY TOWARDS REVOLUTIONARY MOVEMENTS AND TOWARDS EXISTING REGIMES. IMPLICATIONS FOR ALLIED MEMBER COUNTRIES.

97. SOVIET FORTUNES IN LATIN AMERICA AND THE CARIBBEAN SUFFERED GENERALLY FROM GROWING REGIONAL HOSTILITY TOWARD CUBA AND THE TENDENCY TO VIEW MOSCOW AS THE CONFIDENTIAL

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EMINENCE GRISE BEHIND RENEWED CUBAN ADVENTURISM. THE MAJOR HEADACHE FOR SOVIET FOREIGN POLICY WAS HOW TO ASSURE CASTRO OF MOSCOW'S IMPLICIT COMMITMENT TO DEFEND CUBAN SOVEREIGNTY IN THE FACE OF MOUNTING TENSION WITH THE U.S. AND OTHER LATIN AMERICAN NATIONS, WITHOUT ACTUALLY MAKING A FORMAL COMMITMENT. THE SOLUTION, THUS FAR, HAS BEEN TO SHORE UP CASTRO'S FALTERING PRESTIGE WITH A STRONG ANTI-US PROPAGANDA CAMPAIGN DESIGNED TO PRESENT NOT ONLY CUBA, BUT GRENADA AND NICARAGUA, AS WELL, AS VICTIMS OF IRRATIONAL U.S. ANIMOSITY. DISINFORMATION CONCERNING COVERT CIA ACTIVITIES IN LATIN AMERICA PLAYED A KEY ROLE IN THE CAMPAIGN.

98. ELSEWHERE, THE FAILURE OF JANUARY'S "FINAL OFFENSIVE" BY SALVADORAN GUERRILLAS, COUPLED WITH U.S. EFFORTS TO PUBLICIZE SOVIET INVOLVEMENT IN CENTRAL AMERICAN ARMS TRAFFICKING, AT LEAST TEMPORARILY PUT A BRAKE ON MOSCOW'S MOST BLATANT MEDDLING IN THE REGION. SOVIET PROPAGANDA BACKED DOWN FROM EARLIER CLAIMS OF AN IMMINENT LEFT-WING VICTORY, BUT CONTINUED TO SUPPORT THE INSURGENT'S QUEST FOR INTERNATIONAL LEGITIMACY.

99. RELATIONS WITH NICARAGUA CONTINUED TO EXPAND, AND MOSCOW'S DETERMINATION TO SECURE ITS NICHE IN THE COUNTRY WAS EXPRESSED IN A HIGHLY-PUBLICIZED DONATION OF 20,000 TONS OF WHEAT FOLLOWING THE U.S. CUTOFF OF ECONOMIC ASSISTANCE TO NICARAGUA IN APRIL AND A SUBSEQUENT OFFER OF A \$500 MILLION CREDIT FOR THE PURCHASE OF SOVIET GOODS. A HIGH-RANKING GOVERNMENT SPOKESMAN HAS FINALLY ADMITTED THAT NICARAGUA IS BUILDING UP ITS MILITARY FORCES WITH SOVIET-SUPPLIED HARDWARE.

100. THE GROWTH OF ANTI-COMMUNIST SENTIMENT IN COSTA RICA LED TO A NOTICEABLE CHILL IN SOVIET-COSTA RICAN RELATIONS FOLLOWING PRESIDENT CARAZO'S ABROGATION OF AN ECONOMIC AND TECHNICAL COOPERATION AGREEMENT.
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101. IN SOUTH AMERICA, MOSCOW'S POSITION REMAINED RELATIVELY UNCHANGED. ECONOMIC TIES WITH BRAZIL MOVED FORWARD WITH A JULY VISIT TO MOSCOW BY PLANNING MINISTER DELFIM AND OVER ONE HUNDRED BUSINESSMEN AND GOVERNMENT OFFICIALS. THE VISIT RESULTED IN A SERIES OF AGREEMENTS WHICH COULD PROVIDE FOR A \$5 BILLION TRADE VOLUME OVER THE NEXT FIVE YEARS. THE SOVIETS HAVE THEREBY ALSO ASSURED THEMSELVES OF A SIGNIFICANT INVOLVEMENT IN THE COUNTRY DURING THE NEXT FEW YEARS OF LIBERALIZATION AND POSSIBLE POLITICAL TURMOIL. ECONOMIC RELATIONS WITH ARGENTINA, TOO, CONTINUED TO DEVELOP, BUT INDICATIONS WERE THAT IDEOLOGICAL CAUTION REMAINED A STRONG FACTOR IN THE ARGENTINE APPROACH.

102. THE ONE SIGNIFICANT CHANGE IN SOVIET FOREIGN POLICY APPEARED TO BE THE APPROVAL OF A NEW MILITANT STYLE FOR THE CHILEAN COMMUNIST PARTY AND ITS ADOPTION OF ARMED RESISTANCE TO THE PINOCHET GOVERNMENT IN ALLIANCE WITH TERRORIST GROUPS IN CHILE.

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