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DECAPTIONED

EXDIS MIL ADDEE HANDLE AS SPECAT EXCLUSIVE

FOLLOWING STATE 170597 DTD 28JUN81 SENT ACTION SAN SALVADOR,
BEING REPEATED FOR YOUR INFO:

QUOTE SECRET STATE 170597
EXDIS - FOR AMBASSADOR HINTON FROM ENDERS
E.O. 12065: RDS-1 3 6/27/01 (ENDERS, T.O.)

REVIEW AUTHORITY: Oscar Olson, Senior
Reviewer

5-& : EAID, ES, MASS, MOPS, PINS, PINT

SUBJECT:ASSESSMENT OF SALVADORAN SITUATION

REF: SAN SALVADOR 4743

1. (S - ENTIRE TEXT)

2. THANK YOU FOR THE FRANK AND TRENCHANT DIAGNOSIS
OF CURRENT SITUATION WITH ITS OUTLINE OF POSSIBLE
REMEDIES.

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EM WE ARE WELL AWARE OF HOW FRAGILE SITUATION
REMAINS. BUT PROGRESS HAS BEEN MADE. THE MILITARY
SITUATION IS CONTAINING WITH THE JRG ON THE OFFENSIVE
AND THE EFFORTS OF OUR TRAINING AND EQUIPMENT
ONLY NOW BEING FELT. FOR ALL THAT REMAINS TO
BE DONE, THE REFORMS ARE IN PLACE. THE JUNTA
HAS STAYED TOGETHER. IF WE ARE ON THE DEFENSIVE
AGAINST THE FDR OUTSIDE EL SALVADOR, IT HAS LOST
GROUND IN-COUNTRY.

4. THIS IS THE BASE ON WHICH YOU AND WE MUST
BUILD, NOT WITH BIG RESOURCES (THE TRAFFIC SIMPLY
WON'T BEAR IT HERE) BUT WITH SKILL AND FINESSE.
IT SEEMS TO ME THAT WHAT IS NEEDED MOST NOW IS
STAYING POWER.

5. AS TO WHAT TO DO, WE HAVE HAD SOME PRELIMINARY DISCUSSIONS WITHIN DEPARTMENT--WITH SOME INPUTS FROM DOD--OF AVAILABLE OPTIONS. EVEN THOUGH OUR INITIAL THOUGHTS ARE PRELIMINARY, WE WOULD APPRECIATE YOUR COMMENTS ON THE FOLLOWING BEFORE WE BEGIN TRYING TO DEVELOP THEM FURTHER IN THE INTER-AGENCY PROCESS. SINCE RESTORATION OF POLITICAL AND ECONOMIC HEALTH IS BASIC TO EFFECTIVE MILITARY PERFORMANCE, WE ADDRESS POLITICAL AND ECONOMIC CONCERNS FIRST.

6. POLITICAL: ENDING THE RIFT

CLEARLY WE MUST RESOLVE THE INCREASINGLY DEBILITATING PUBLIC FEUD BETWEEN PRIVATE SECTOR AND DUARTE GOVERNMENT. THIS WILL ENTAIL A MORE ACTIVIST ROLE FOR U.S. IN RECONCILIATION PROCESS, IN CLOSEST POSSIBLE COOPERATION WITH VENEZUELAN. I WOULD
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PROPOSE TO TELL HINDS AND POSSIBLY OTHER EMIGRE PRIVATE SECTOR LEADERS IN NO UNCERTAIN TERMS THAT THERE NOW MUST BE A TRUCE AND PRODUCTIVE DIALOGUE.

7. THEREAFTER, WE WOULD LIKE TO SEE YOU BECOME THE BROKER BETWEEN PDC AND PRIVATE SECTOR, CAREFULLY CONSULTING -- AND REASSURING -- KEY MILITARY LEADERS BEFOREHAND AND REMAINING IN CLOSE CONTACT WITH THEM AS RECONCILIATION PROCESS UNFOLDS.

8. BEFORE BEGINNING CONSULTATIONS WITH ANY OF THE THREE PARTIES WE WOULD INFORM THE VENEZUELAN OF WHAT WE HAVE IN MIND AND ENCOURAGE THEM TO JOIN US IN LAUNCHING THE PROCESS WITH A JOINT APPEAL TO PDC, PRIVATE SECTOR AND MILITARY CONTACTS FOR A TRUCE FOLLOWED BY A PRODUCTIVE DIALOGUE.

9. WE WOULD SEE THE BASIC TERMS OF RECONCILIATION AS INCLUDING AT LEAST THE FOLLOWING, THOUGH UNDOUBTEDLY OTHERS WILL EMERGE AS THE DIALOGUE ADVANCES.

10. FROM DUARTE AND THE PDC WE WOULD ASK:

-- CLEAR COMMITMENT TO INDEFINITE POSTPONEMENT OF PHASE II IN A MANNER SUFFICIENT TO REASSURE LANDOWNERS ENOUGH TO RESUME MAINTENANCE OF PROPERTIES AND OTHER INVESTMENT.

-- EMPHASIS ON CONSOLIDATION OF EXISTING PROGRAMS UNDER PHASES I AND III, WITH INDEFINITE MORATORIUM ON NEW INITIATIVES OF FURTHER EXTENSION OF REFORMS.

-- COMMITMENT TO EARLY ACTION ON COMPENSATION

FOR INTERVENED LANDS AND HOLDINGS EXPROPRIATED
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UNDER BANKING REFORM. WE WOULD HOPE COMPENSATION EFFORT COULD BE ACCOMPANIED BY PROGRESS IN LAND TITLING.

-- SOME MUTING OF RHETORIC ABOUT "COMMUNITARIANISM" AND OTHER IDEOLOGICAL PRONOUNCEMENTS SUGGESTING COMMITMENT TO FURTHER EXPANSION OF STATE SECTOR AT EXPENSE OF PRIVATE ENTERPRISE.

11. WE WOULD ACCOMPANY OUR ENCOURAGEMENT OF ACCEPTANCE OF THESE AND OTHER RELATED TERMS WITH GENERAL ADMONITION TO DUARTE THAT POORLY CONCEIVED AND EXECUTED REFORMS ARE NOT ONLY BAD ECONOMICS, BUT ULTIMATELY BAD POLITICS AS WELL FOR PDC. WE WOULD REEMPHASIZE THAT US CANNOT BE EXPECTED UNDERWRITE DUBIOUS AND COSTLY ECONOMIC SCHEMES, NOW OR IN POST-ELECTION PERIOD. IN A WORD, WE MUST CONVINCE THE PDC THEY CAN'T HAVE IT ALL THEIR WAY. VENEZUELAN HELP ON THIS WILL BE ESSENTIAL.

12. FROM PRIVATE SECTOR WE WOULD SEEK:

-- AN END TO ATTEMPTS TO UNDERMINE OR REVERSE REFORMS THAT ARE NOW IN PLACE AND GENERALLY ACCEPTED.

-- COMMITMENT TO ELECTIONS, PUBLIC ACCEPTANCE OF DUARTE GOVERNMENT IN THE INTERIM, AND AN END TO PUBLIC SNIPING (OTHER THAN USUAL PARTISAN ELECTION CAMPAIGNING).

-- PUBLIC EXPRESSION OF WILLINGNESS TO WORK FOR
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REPATRIATION OF CAPITAL AND FOR REBUILDING FOR REBUILDING INVESTOR CONFIDENCE IN EL SALVADOR.

13. YOUR CONSULTATIONS WITH MILITARY EARLY ON IN THIS PROCESS WILL BE CRITICAL. WE SHOULD REITERATE OUR FIRMEST OPPOSITION TO ANY IDEA OF A PRE-ELECTION COUP, MAKING CLEAR THAT NON-VIOLENT RAPPROCHEMENT BETWEEN PRIVATE SECTOR AND PDC IS ESSENTIAL TO ESTABLISHMENT OF INSTITUTIONAL CONTINUITY THAT IS FUNDAMENTAL MILITARY INTEREST. AT SAME TIME, IN OUR CONSULTATIONS WE MUST ASSESS AND DEAL WITH WHAT MAY BE POCKETS OF SUSPICION WITHIN OFFICER CORPS TOWARD PRIVATE SECTOR (MOST RECENTLY VOICED BY GUTIERREZ) AND

RESISTANCE TO SHARING MORE POWER WITH THEM.
WE WOULD PARTICULARLY APPRECIATE YOUR COMMENTS
ON THIS POINT.

14. RELEVANT HERE ALSO IS IDEA, WHICH WE ARE NOW DEVELOPING, OF GOOD OFFICES ROLE FOR THE US AND POSSIBLY OTHER COUNTRIES, SUCH AS VENEZUELA, MEXICO AND COSTA RICA, IN ELECTION PREPARATIONS. BY OFFERING OURSELVES AS A "WITNESS" IN DISCUSSIONS BETWEEN CHRISTIAN DEMOCRATS IN CENTRAL ELECTORAL COMMISSION ON ONE HAND AND ACTUAL OR PROSPECTIVE POLITICAL GROUPINGS ON THE OTHER DESIRING TO EXPLORE ELECTIONS OPTION, WE COULD PROVIDE "COVER" FOR OUR INVOLVEMENT IN THE THREE-WAY TALKS DESCRIBED ABOVE. OBVIOUSLY THE ONLY PARTICIPANTS IN SUCH AN EXERCISE COULD BE THOSE ALREADY DESIGNATED BY GUTIERREZ -- I.E., PARTIES ALREADY INSCRIBED UNDER THE OLD ELECTIONS LAW AND SUCH OTHER PARTIES AS THE ELECTORAL COMMISSION INDICATES. THAT EXCLUDES THE FDR AS SUCH BUT INCLUDES UNGO'S MNR. THIS DEVICE WOULD SPARE THE PDC THE ONUS OF MEETING ALONE WITH THE OPPOSITION, AND REASSURE
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THE MILITARY THAT THEIR INTERESTS ARE NOT OVERLOOKED. ALL OF THESE TALKS WOULD BE ONLY WITHIN FRAMEWORK OF ELECTIONS PREPARATION AND WOULD ATTEMPT TO EXPLOIT RECENT INDICATIONS OF WAR WEARINESS AMONG SOME FDR FACTIONS. WE WOULD WELCOME YOUR ASSESSMENT OF LIKELY REACTION OF MILITARY AND PRIVATE SECTOR TO A US PROPOSAL OF THIS SORT AND ITS EFFECT, IF ANY, ON PARALLEL EFFORT TO BRING PDC AND PRIVATE SECTOR TOGETHER. WE ARE WELL AWARE THAT FURTHER - U.S. POLITICAL INVOLVEMENT WOULD EXPOSE US TO YET GREATER ISSUES IF THERE WERE A COUP.

15. ALTHOUGH I SHARE YOUR VILW THAT AN EARLY DUARTE VISIT CAN COMPLEMENT THIS PROCESS, IT SHOULD NOT BE DONE WITHOUT A CALL ON THE PRESIDENT AND THAT, GIVEN SHORT NOTICE AND HIS HEAVY SCHEDULE MAY BE IMPOSSIBLE TO ARRANGE AT AN EARLY DATE.

16. THE ECONOMY: I AGREE THAT THE ECONOMIC SITUATION IS PERILOUS. BUT GIVEN THE PREVAILING AUSTERITY AND CONGRESS'S SKEPTICISM ON EL SALVADOR THE PROSPECTS OF WINNING EXTENSIVE ADDITIONAL RESOURCES FOR EL SALVADOR ARE DISTINCTLY UNPROMISING. OUR IMMEDIATE REACTION IS THAT LOAN GUARANTEE OF ONE BILLION SUCH AS YOU PROPOSE WOULD HAVE - PROSPECTS AS BAD AS OR WORSE THAN LARGE SUPPLEMENTAL AND COULD COMPLICATE CONGRESSIONAL COOPERATION IN OTHER AREAS IF RAISED NOW. INDEED, WE WOULD LIKE YOUR FURTHER ANALYSIS OF WHETHER MUCH INVESTMENT WOULD OCCUR IF THE POLITICAL AND MILITARY

RISKS WERE COVERED IN THIS WAY.

17. WE SHALL CONTINUE TO PUSH TO GET AN IMF
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MISSION THERE PROMPTLY, BUT WE SHOULD NOT WAIT FOR IT. OUR LATEST INFORMATION IS THAT A MISSION IS NOT LIKELY TO BE PREPARED BEFORE END OF JULY BECAUSE GOES WILL NOT BE READY UNTIL THEN. MEANWHILE, OUR SHORT-RUN STRATEGY IS TO RECAPTURE AS MUCH AS POSSIBLE OF \$15 MILLION FORMER NICARAGUAN ESF, AND TO SEEK MORE DEVELOPMENT ASSISTANCE THAT COULD BE USED FOR FINANCING LONG-TERM PROJECTS WITH UP-FRONT CASH DEPOSITS. WE NEED YOUR IDEAS FOR HOW TO SPEND SUCH ADDITIONAL MONIES THIS FISCAL YEAR. TO JUDGE BY THE MOST RECENT ANALYSIS, SOMETHING LIKE \$25 MILLION MORE IS REQUIRED THIS YEAR. WE WILL BE CONSIDERING WHAT ELSE MIGHT BE DONE TO BUOY PRIVATE INVESTOR CONFERENCE IN EL SALVADOR. OUR IMPRESSION IS THAT SMALL NUMBER OF U.S. FIRMS IN EL SALVADOR WOULD NOT PROVIDE MUCH SCOPE FOR INCREASED OPIC EFFORT TO ENCOURAGE THEM TO REMAIN OR EXPAND, BUT WE WILL CHECK IT OUT. EXIM'S INSURANCE FACILITIES MAY BE ANOTHER POSSIBILITY. SALVADORANS THEMSELVES CAN DO A LOT TO BUILD GREATER CONFIDENCE TOWARD EL SALVADOR IN U.S. BUSINESS AND BANKING COMMUNITIES. EARLY PROGRESS TOWARD ENDING RIFT BETWEEN JRG AND PRIVATE SECTOR WOULD BE A USEFUL POSITIVE SIGN, AS WOULD ACCOMMODATION LOCAL BRANCH OF CITIBANK. WE WOULD HOPE TO HAVE AT LEAST A START IN THE RECONCILIATION PROCESS BY THE TIME OF THE VISIT.

18. MILITARY DIMENSION. YOUR ASSESSMENT OF MILITARY OUTLOOK AND MAJOR PROBLEM AREAS MATCHES OURS ON MOST POINTS. WE APPRECIATE YOUR CONCERN OVER DEVELOPMENT OF STRATEGY, AND WE WILL CERTAINLY WANT TO MONITOR THE SALVADORANS' PROGRESS CLOSELY OVER COMING MONTHS, BUT WE BELIEVE THAT SALVADORANS HAVE A BASIC STRATEGY THAT IS VIABLE AND ACCEPTABLE AND A FORCE DEVELOPMENT PLAN THAT IS CONSISTENT
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WITH IT. THEY SHOULD STICK WITH IT, AND WE SHOULD GIVE IT NECESSARY TIME TO PRODUCE RESULTS. WE SHOULD ALSO ENCOURAGE HIGH COMMAND TO SHARE MORE OF THEIR STRATEGIC THINKING WITH US. WE RECOGNIZE THAT ADJUSTMENTS AND ADAPTATIONS WILL BE NEEDED AS IT DEVELOPS AND THEY WILL PROBABLY REQUIRE HELP IN FLESHING OUT THEIR PLAN. SINCE VISIT OF GENERAL SUMNER PROVIDED US THE HIGH LEVEL REVIEW AND PROGRESS REPORT, WE FEEL THAT NO ADDITIONAL

SPECIAL MISSION IS NEEDED NOW. WE PROPOSE TO HAVE GENERAL SUMNER AND DOD REPRESENTATIVES RETURN TO SALVADOR PERIODICALLY TO REVIEW PROGRESS OF FORCE DEVELOPMENT. WE ARE ALSO CONSIDERING WHETHER ALL OR PART OF OPAT II SCHEDULED OUT IN JULY COULD REMAIN ON FOR SEVERAL WEEKS TO WORK WITH SALVADORAN MILITARY LEADERS IN FOLLOWING THROUGH ON FORCE DEVELOPMENT STUDY AND, IF NEEDED, INTELLIGENCE INSTRUCTION.

19. WE SHARE FULLY YOUR CONCERN OVER ARMED FORCES INCREASING, TAXING SHORTAGE OF SKILLED MANPOWER. WHILE THE CURRENT MTT'S ARE WORKING ON ASPECTS OF THIS GENERAL PROBLEM WE SHOULD AGAIN ENCOURAGE THE SALVADORANS TO PUT ASIDE THEIR INSTITUTIONAL HANGUPS AND TO GIVE MORE SERIOUS AND OBJECTIVE CONSIDERATIONS TO: (A) AT LEAST THE TEMPORARY ESTABLISHMENT OF AN OCS, DRAWING ON SECONDARY SCHOOL GRADUATES AND COLLEGE-TRAINED YOUTH; AND (B) CREATION OF AN NCO LEADERSHIP SCHOOL. WE UNDERSTAND PRIVATE SECTOR SPOKESMAN HAVE ENCOURAGED MILITARY TO PURSUE OCS IDEA. WE SEE POLITICAL AND SOCIAL BENEFITS, AS WELL AS MILITARY ONES, IN OPENING OFFICER CORPS TO RESERVISTS.

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WE WOULD APPRECIATE YOUR COMMENTS, INCLUDING YOUR VIEWS WHETHER IDEA OF FOREIGN CONTRACT PILOTS FOR AIR FORCE WOULD BE WORTH MENTIONING TO GARCIA AGAIN, EITHER THERE OR DURING HIS VISIT HERE.

20. LIKE YOU, WE SEE PROBLEM OF COPING WITH INFILTRATION AS CENTRAL TO MILITARY SUCCESS, AS WELL AS ONE OF MOST DIFFICULT AND TECHNICALLY COMPLEX ASPECTS OF GENERAL PROBLEM. SINE QUONON OF BETTER RESULTS IS IMPROVED INTELLIGENCE. THE PROPOSED INTELLIGENCE SURVEY TEAM HAS NOW BEEN APPROVED, WHICH COULD LEAD TO AN APPROPRIATE TRAINING PROGRAM. AN OVERALL INTERDICTION PLAN IS ALSO NEEDED, WHICH IS BEING STAFFED OUT NOW, AND WHICH SHOULD HAVE A REGIONAL APPROACH, PREFERABLY UNDER SOUTHCOM'S COORDINATION.

21. WITHIN THIS REGIONAL SETTING, BUILDING COOPERATION BETWEEN EL SALVADOR AND HONDURAS SHOULD HAVE HIGHEST PRIORITY. COOPERATION NOW BETWEEN THE TWO IS MINISCULE, WITH FEARS AND SUSPICIONS REMAINING MAJOR BARRIERS. IN THE PLANNING STAGE ARE SUCH INITIATIVES AS INTELLIGENCE EXCHANGES, PERHAPS PROVIDED IN FORM OF JOINT BRIEFINGS TO EMPHASIZE COMMON PROBLEMS. IN SEEKING TO DENY THE GUERRILLAS A SAFEHAVEN AND ENGAGE THE HONDURANS MORE IN THE ANTI-INTERDICTION EFFORT WE WILL BE LOOKING AT SUCH POSSIBLE APPROACHES AS:

-- REMOVAL OF THE REFUGEE CAMPS AWAY FROM THE BORDER, GREATER RESTRICTIONS ON FOOD SUPPLIED TO REFUGEES NOT IN RECOGNIZED CAMPS, AND MORE EFFORT TO REESETTLE REFUGEES IN THE INTERIOR OF HONDURAS OR IN OTHER COUNTRIES.

-- A LARGER HONDURAN MILITARY PRESENCE AT OR NEAR
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THE BORDER, WITH THE R GREATER INVOLVEMENT IN INTERDICTION, PARTICULARLY IN MONITORING RELATIVELY SMALL NUMBER OF PASSABLE OVERLAND ROUTES INTO EL SALVADOR.

-- GREATER SHARING BY HONDURANS OF INTELLIGENCE ON CLANDESTINE AIRCRAFT AND VEHICLE MOVEMENTS.

22. WE RECOGNIZE THAT THE HONDURANS WILL DO THIS ONLY IF WE PAY, AND WE ARE DEVELOPING MEANS BY WHICH WE MIGHT COMPENSATE THEM.

23. ANOTHER POSSIBILITY IS CREATION OF AN AERIAL (I.E. NOT LAND) FREE FIRE ZONE ON THE BORDER, INWHICH BOTH SALVADORAN AND HONDURAN PLANE COULD OPERATE.

24. THE NAVY AND AIR OPERATIONS MTT'S PROGRAMMED IN THE TRAINING PLAN WILL BE ADDRESSING OUR OPTIONS FOR TIGHTER SEA AND AIR SURVEILLANCE AND INTERDICTION. WE WILL WANT TO AGAIN EXAMINE ALL POSSIBILITIES OF USE OF OUR OWN AIRBORNE AND SEABORNE RADAR ASSETS IN HELPING SALVADORANS DETECT INFILTRATORS BY AIR AND SEA. AT THIS POINT, PROVISION OF RELATIVELY INEXPENSIVE O-2E AIRCRAFT OFFERS POSSIBILITY OF GIVING SALVADORANS A COST-EFFECTIVE AND VERSATILE SYSTEM FOR AIR SUPPORT, RECONNAISSANCE AND INTERCEPTION OF SMALL, SLOW-FLYING LIGHT AIRCRAFT.

25. OBVIOUSLY ALL THESE OPTIONS, AND THOSE THAT WILL DEVELOP IN FURTHER PLANNING, HAVE COST IMPLICATIONS THAT WILL REQUIRE CAREFUL STUDY.

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WE WILL BE WORKING CLOSELY WITH YOU, DOD, SOUTHCOM AND EMBASSY TEGUCIGALPA IN THE COMING WEEKS AS OUR PLANNING PROCEEDS.

26. LET ME HAVE YOUR QUICK REACTION TO THESE IDEAS. WE WILL PUT A PACKAGE TOGETHER FOR INTER-AGENCY APPROVAL NEXT WEEK. HAIG

UNQUOTE HAIG

SECRET

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