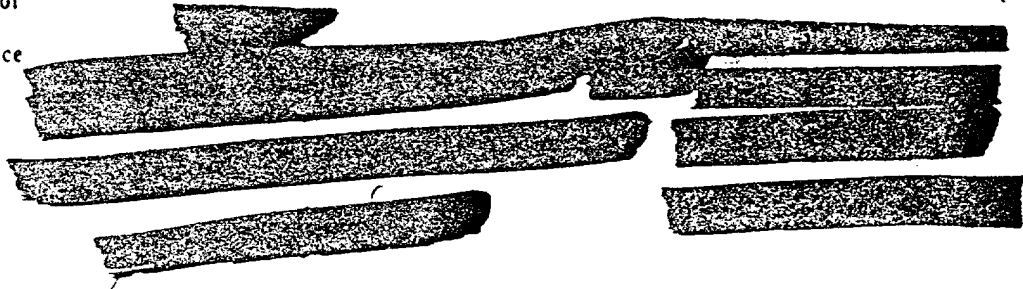




Director of
Central
Intelligence



Insurgency and Instability in Central America

National Intelligence Estimate

[REDACTED]

NATIONAL SECURITY INFORMATION

[REDACTED]

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INSURGENCY AND INSTABILITY
IN CENTRAL AMERICA

Information as of 4 September 1981 was
used in the preparation of this Estimate.





THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and Treasury.




Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps





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KEY JUDGMENTS

Communist exploitation of trends in Central America constitutes the most serious challenge to US interests and freedom of action in the hemisphere since Cuba became allied with the USSR. A continuation of the present trends could result in victory for the extreme left in El Salvador, and such a victory would heighten prospects for the revolutionaries in Guatemala. It may be that those Communist and radical Arab forces providing external support and management help to the insurgencies intend to make Central America a battleground over the next few years which would distract, weaken, and undermine the United States in other parts of the world. The evolution of these scenarios would bring the revolution to Mexico's border, thereby raising the risks of internal destabilization and infiltration by radical leftists.



We believe that prospects are dim for halting Central America's slide toward increasing instability within the next 12 to 15 months. During this period, political extremism and economic deprivation probably will intensify, producing domestic conditions conducive to further revolutionary growth.

Perceiving a weakening of US influence and capability and opportunities to undermine US prestige, Castro since 1978 has increased virtually all types of assistance to revolutionaries in the region, including arms, funding, and training. Under the present circumstances we see little likelihood that Cuba will alter its present course.

The Soviet Union, while allowing Cuba to take the lead, has gradually expanded its involvement—efforts complemented by East European nations, some Communist and Arab states, and the PLO. Given the current situation, Moscow is unlikely to abandon this tack.

The principal objectives of Cuba and the USSR in Central America are to consolidate the Sandinista revolution in Nicaragua, and to use Nicaragua as a base for spreading leftist insurgency elsewhere in the region. Indeed by virtue of its location, cooperation with Communist and other radical advisers, and support for Central American insurgencies, Nicaragua has become the hub of the revolutionary wheel in Central America.

External support has enabled the Sandinistas to build what is already the region's largest standing army; Nicaragua's armed forces



[REDACTED]

will overshadow those of its Central American neighbors by 1983. Managua's leaders consider that they must protect the Sandinista revolution by building up Nicaragua's armed strength. At the same time, however, this buildup is intimidating governments in the region and will give the Sandinistas added confidence to expand their export of revolution.

With Moscow and Havana—and now Managua and others—providing material resources, training, and organizing expertise, home-grown radical movements in other Central American countries are gaining direction and strength.

In *El Salvador*, the flow of supplies through Nicaragua to the insurgents has been climbing slowly in recent months. As long as the guerrillas continue to receive outside support, we see little prospect for a marked shift in favor of the armed forces. Hence we expect the war to drag on indecisively for the next 12 to 15 months.

We believe that arms shipments will continue to grow in coming months, fueling an insurgent offensive aimed at sabotaging the economy and disrupting the elections scheduled for next March. Further economic deterioration or a series of spectacular guerrilla actions could decisively shift momentum against the government.¹

[REDACTED]

¹ The Assistant Chief of Staff for Intelligence, Department of the Army, believes that the last sentence should instead read, "And in the event of further economic deterioration or a series of spectacular guerrilla actions, the chances would be even that momentum would shift decisively against the government."

[REDACTED]

[REDACTED]

[REDACTED]

Some 12 Latin American states have condemned the recent French-Mexican statement recognizing the legitimacy of the left in El Salvador. Moreover, the Christian Democrats of Europe and Latin America for the most part still support President Duarte. Nonetheless, international political support for Central American revolutionaries, especially by West European socialists and Mexico, is likely to continue. We judge that Mexico's influence will weigh against US interests and—as the conflict in El Salvador drags on—the United States will continue to encounter friction in relations with Mexico, France, and other states over Central America policies.

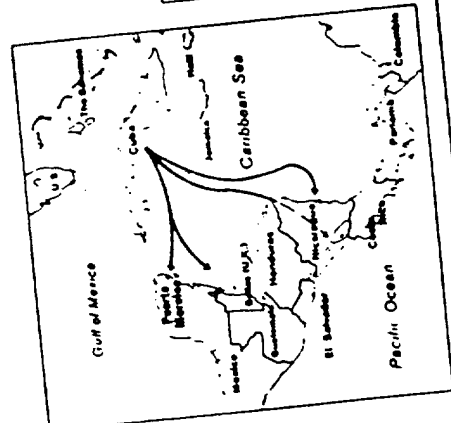
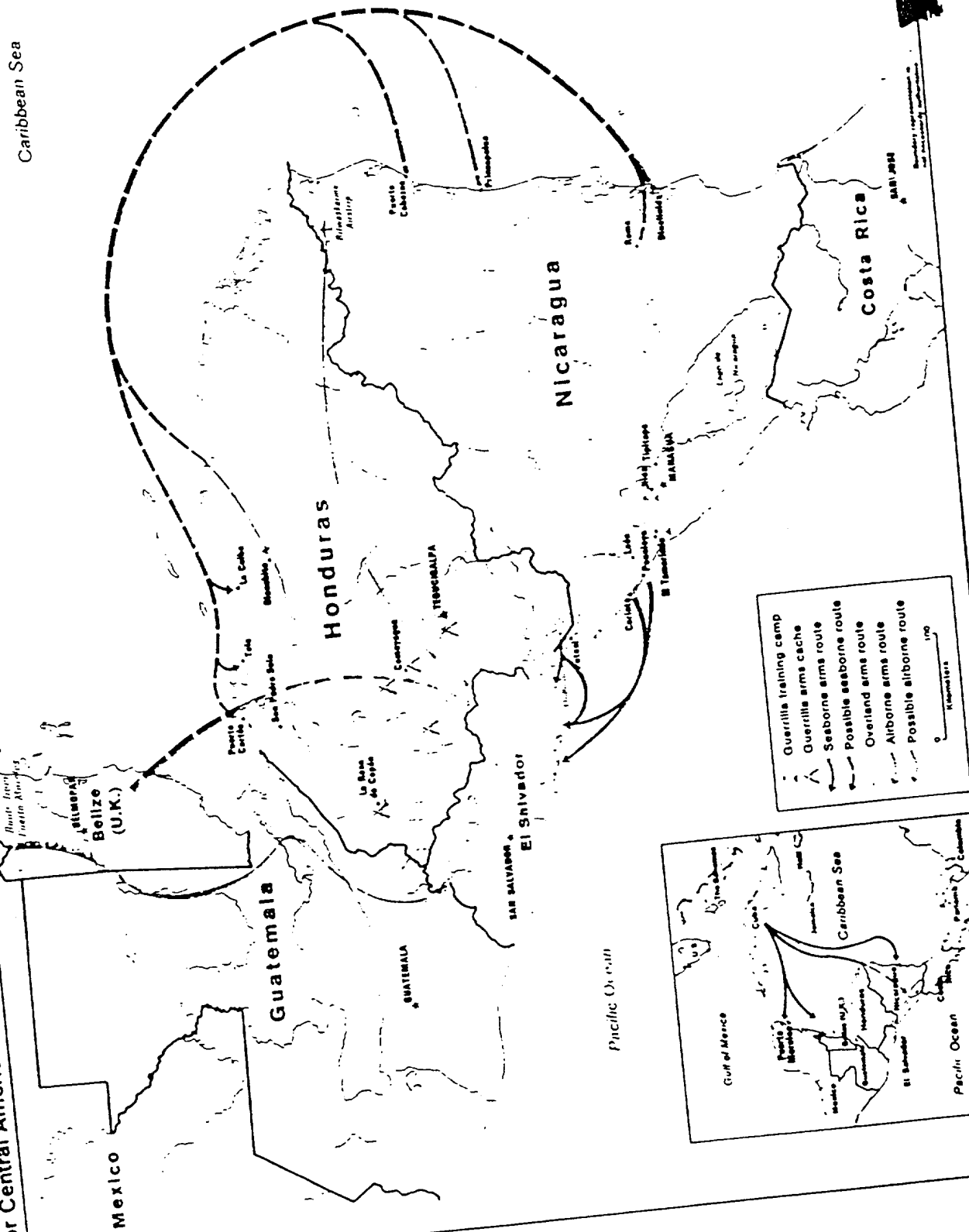
In *Nicaragua*, meanwhile, given a continuance of present circumstances, we judge that the Sandinistas will be likely to maintain their evolution toward a totalitarian Marxist state over the next 12 to 15 months, giving ground temporarily on individual issues but continuing efforts to isolate and politically emasculate democratic forces. The stagnating economy will remain the Sandinistas' major vulnerability, since no foreign government, not even the USSR, seems likely to assume the financial burdens.


Because the US interpretation of events and trends in the region is not shared by many governments, any US effort seen to be stifling revolutionary forces will carry political liabilities. Failing to rise to the Communist challenge, however, would have serious costs for the United States. The hemisphere's political landscape could be altered significantly if the generally weak governments are left to fend for themselves.

Inaction could lead to still more brazen outside radical interference and make the anti-Communist players less amenable to US influence. US credibility would suffer accordingly.

Any defensive *interdiction effort* would have to center on Honduras. Increased efforts there could significantly damage the Salvadoran insurgents' lifeline, but whether this would make them a containable threat is uncertain.

Major Central American Arms Routes





Disruption of the support network funneling into *El Salvador* is central to thwarting further guerrilla gains. Even success in this matter would not in itself remedy the many basic causes of instability. Minimal economic growth in *El Salvador* and *Guatemala* would come only at tremendous financial costs.





DISCUSSION

1. The Communist exploitation of trends in Central America is the most blatant challenge to US interests in the hemisphere since Castro transformed Cuba into a radical Marxist state. Cuba, the USSR, and other entities are now boldly attempting to undermine the United States in its own sphere of influence and, in the process, to distract it from other strategic concerns. The internationalization of the struggle in Central America by Cuba and the USSR and the buildup of Cuban, Nicaraguan, and insurgent military strength assure the Soviets and the Cubans some net gain: either they will succeed in the bid for new client states, or their ejection will come only at high cost to the United States. The longer they have to consolidate their inroads, the costlier it will be for the United States to try to reverse the trend.

2. Central America's slide toward increasing instability probably will accelerate within the next 12 to 15 months. The greatly expanded arms shipments from the USSR to Cuba, the continuing flow of weapons and trained guerrillas from Nicaragua and Cuba to El Salvador and Guatemala, and the Sandinistas' military buildup underscore a pattern of actions designed to exploit conditions already receptive to insurgency and revolutionary growth.

3. During the period of this Estimate, a continuation of these actions will intensify political extremism and economic deprivation throughout the region. As violence increasingly is accepted as the only hope for real change, insurgent groups will continue to expand. Government efforts to remedy national problems will be further inhibited by a scarcity of resources, widespread violence, and the deep-rooted nature of the difficulties.

The Cuban and Soviet Roles

4. *Havana*, acting vigorously to take advantage of these factors, is unlikely under present circumstances to moderate its course. The Castro regime saw the Sandinistas' toppling of Nicaragua's Somoza as symptomatic of a regional climate receptive to destabilization. Perceiving a weakening of US influence and

capability and opportunities to undermine US prestige, Castro in the past three years has increased virtually all types of assistance to revolutionaries in Central America, including arms, funding, and training.

5. *The Soviet Union* has come to share Castro's optimism for revolutionary prospects in Central America. Eager to embarrass the United States in its own sphere of influence and intent on discrediting Washington in the eyes of the Third World, Moscow has gradually expanded its involvement—efforts complemented by East European nations, some Communist and radical Arab states, and the PLO. Nevertheless, Moscow sees the area as less immediately important than does Cuba. The USSR is also concerned with protecting its diplomatic and commercial ties in Latin America, and recognizes that its actions there could further strain its relations with Washington and rally the US public behind tougher actions. These constraints and Cuba's success in Nicaragua underlie Moscow's willingness to let the Cubans take the lead in advancing regional revolutionary causes, a tack it is unlikely to change. Soviet leaders almost certainly consider that their Central American course confronts the United States with a serious policy dilemma: in their view, if Washington does not respond forcefully in Central America, insurgent strength there will grow; and, if the United States does respond forcefully, Moscow will count on exploiting widespread world criticism of US "imperialism" in Central America—and in the process distract attention from Soviet embarrassment in Afghanistan and Poland.

Regional Trends

6. With Havana—and now Managua and others—providing material resources, training, and organizing expertise, the radical movements have gained direction and strength. The psychological boost of having allies to counter the United States, and the practical impact of reasonably steady resupplies, have significantly bolstered their potential. The importance of external factors varies, however, over time and from

[REDACTED]

country to country. They are a major element in the staying power of the left in El Salvador, for instance, but not nearly so important yet in Guatemala.¹

7. Nevertheless, no country in the region is immune from destabilizing trends.

— In *El Salvador*, the 24,000-man armed forces and police are stalemated by 4,000 to 4,500 generally well armed and trained insurgents.² We expect the war to drag on indecisively over the next 12 to 15 months. Despite interdiction efforts, the guerrillas are continuing to receive outside support sufficient to sustain a protracted war of attrition. A more widespread insurgent offensive is likely late this year or early in 1982. Meanwhile, the government remains vulnerable to the corrosive economic and political effects of the insurgency, and it is possible that further economic deterioration or a series of spectacular guerrilla actions could decisively shift momentum against the government.³

[REDACTED]

[REDACTED]

Nicaragua's Military Buildup

8. For Cuba and the USSR, the immediate objective in Central America is consolidating the Sandinista revolution in Nicaragua. Support of insurgency elsewhere—while a complementary and important goal—is one with a more elastic time frame.

9. The issue of the Sandinistas' survival raises the stakes for these players—immensely so for Havana. Cuban prestige is deeply committed and a secret defense pact has been concluded. Under most circumstances, Castro would be willing to send Cuban troops to defend the regime in Managua against a serious challenge.⁴ We believe that only impending US mili-

¹ See annex A, "Country Outlooks," for details on national situations.

² It should be stressed that information on insurgent strength, casualties, recruitment, and supply links is incomplete.

³ The Assistant Chief of Staff for Intelligence, Department of the Army, believes that the last sentence should instead read, "And in the event of further economic deterioration or a series of spectacular guerrilla actions, the chances would be even that momentum would shift decisively against the government."

⁴ See annex B for details on the Cuban armed forces and the Soviet military presence in Cuba.

[REDACTED]

[REDACTED]

[REDACTED]

tary retaliation and the strongest of Soviet warnings would deter him.

10. Havana's determination to help consolidate the Sandinista revolution and its desire to use Managua as a support base for insurgents throughout the region are underscored by the substantial Cuban presence throughout the country—a total of 5,200 to 5,650 personnel,³ including approximately 1,500 military and 150 to 200 security advisers. Moscow's physical presence is small but growing—45 to 68 personnel, including 35 at its Embassy. It has provided military advisers and instructors, and has delivered some transport aircraft.

11. External support—primarily Cuban—has been instrumental in allowing the Sandinistas to transform a fragmented guerrilla force of 4,000 to 5,000 men into Central America's largest standing army. Nicaragua, with a population of only 2.5 million, has an estimated 22,000 to 27,000 men on active duty plus an equal number of organized reservists. (In contrast, Somoza's National Guard had only 10,500 men in 1979.)

12. Given present goals and recruitment patterns, together with a continuation of current levels of external supply, we expect the Nicaraguan armed forces to reach 40,000 within the next year, with an additional 40,000 reservists sufficiently trained to be integrated into the army. Substantial numbers of less trained militia will serve as an irregular territorial backup. Managua's leaders consider that they must protect the Sandinista revolution by building up Nicaragua's armed strength. At the same time, however, this buildup is intimidating governments in the region and is giving the Sandinistas added confidence to expand their export of revolution. Managua's armed forces will overshadow those of its Central American neighbors by 1983—sooner but for a shortage of trained officers and NCOs, problems with logistics, and a lack of proficiency with newly acquired weapons.

13. The Soviets are closely collaborating with Havana on the flow of military supplies to Nicaragua. Current inventories reflect major increases over the last two years in almost all categories of ground force

³ The total includes 2,000 teachers who returned home in July 1981 but will be replaced by February 1982.

light weapons, including undetermined quantities of rocket-propelled grenade launchers, Czechoslovak rifles and submachineguns, and Soviet AK-47s. The Sandinista arsenal also includes at least 12 Soviet 152-mm howitzers, 23 to 28 Soviet-made T-54 55 tanks, and an undetermined but large number of SA-7 surface-to-air missiles. In addition, preparations for the introduction of MIG aircraft reportedly have accelerated, and they could arrive by early 1982. This would enable Nicaragua to offset Honduras's present air advantage.

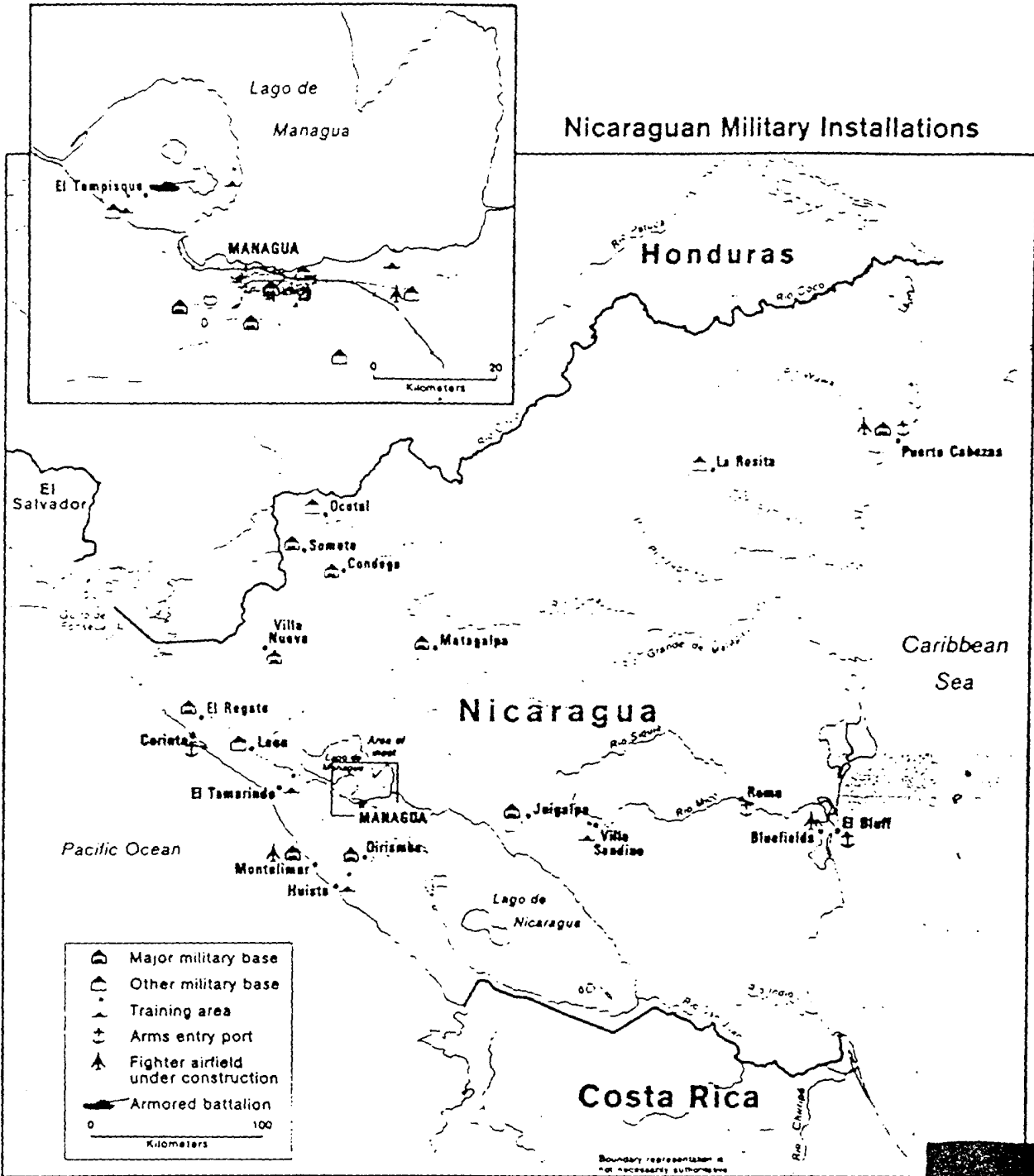
14. Havana's historical links to the Sandinista movement, and especially its close relationship with the dominant Sandinista clique, point to a further deepening of ties. Cuban training programs are extremely broad and reinforce Cuban influence on the Nicaraguan Army structure, strategy, and philosophy. In addition to training provided by Cubans in Nicaragua, several hundred Nicaraguans are also training or studying in Cuba at any one time. Recent and planned acquisitions of Soviet weapons will increase dependence on both Cuban and, to a lesser extent, Soviet technicians and advisers. The surge in Soviet arms deliveries to Cuba this year apparently in part includes weapons to be transhipped through Cuba as well as replacements for Cuban arms previously shipped to Nicaragua.

15. [REDACTED]

16. [REDACTED]



Nicaraguan Military Installations



63300 9-81



[REDACTED]

[REDACTED]

17.

18

The Spread of Revolution

19. By virtue of its location, its cooperation with a host of Communist and other radical advisers, and its support for Central American insurgents, Nicaragua has become the hub of the revolutionary wheel in Central America. The initial emphasis on aid to the Salvadoran insurgency 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.

20. Aid to regional insurgents is an integral part of Managua's military as well as political strategy. The Sandinistas hope to tie down the armed forces of their neighbors while organizing an insurgent fifth column. As Nicaragua's military capability grows, its export of the revolution is likely to increase because it will be less susceptible to outside pressure. The Sandinistas' internal control is already extensive enough to protect sub rosa operations.

21. Domestic political and economic difficulties will probably not slow either the Sandinistas' conven-

tional military expansion or the growth of their insurgent support network. If anything, pressures from the Nicaraguan democratic opposition and from armed counterrevolutionary bands will accelerate the Sandinistas' military schedule and stiffen their commitment to Central American insurgents. The belief that their domestic opponents are linked to the United States and to conservative regimes in the area strengthens the Sandinistas' willingness to aid revolutionaries in El Salvador, Honduras, and Guatemala as a means of ensuring their own security.

22. The steady buildup of a diversified support capability points toward significantly increased weapons flows to El Salvador later this year. The slowdown in aid earlier this year was clearly a tactical reaction to the defeat of the guerrillas' January offensive and US diplomatic pressures. We believe the flow of supplies has been climbing slowly in recent months and is now sufficient to maintain present levels of rebel activity in El Salvador. Both Nicaragua and the Salvadoran guerrillas reportedly plan increased shipments during the November-February period because of favorable dry season conditions and the Salvadoran left's desire to disrupt the scheduled March elections.

23. The supply and support patterns flow in part from Cuba's return to more militant backing of Latin American revolutionaries, and the strong seconding of this policy by Moscow. The Soviets have complemented Havana's increased activism by encouraging the formation of an umbrella revolutionary organization in El Salvador and by urging the Communist parties in Guatemala and Honduras to join broad revolutionary fronts. The USSR has also played a role in the supply of arms from both Cuba and third parties such as the Vietnamese. With Havana making eventual armed revolution in Honduras one of its objectives, Moscow has undertaken paramilitary training of Hondurans in the USSR for the first time since the mid-1960s and will participate in political training of Hondurans in Havana.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

26. Many West European socialists have been sobered by repressive Sandinista policies and are concerned over the anti-Americanism that their vocal criticism of the United States has helped to inspire. They will probably ease away from their mediation initiative in El Salvador and express revolutionary sympathy with more discretion—for the small socialist party in El Salvador, for instance, rather than unreservedly for the entire left.

27. [REDACTED] most West Europeans remain skeptical that Washington is willing to accept what they view as inevitable and necessary social transformations. [REDACTED]

[REDACTED] Christian Democrats of Europe and Latin America have for the most part continued to support President Duarte and the Salvadoran Christian Democrats, while opposing the extreme left as well as the extreme right. Meanwhile, if the conflict in El Salvador drags on, the United States will again encounter friction in relations with some West Europeans and others. And a rapid buildup of opposition to US policies—keyed to leftist gains in the area—remains an ever-present possibility.

28. Mexico's regional policy has become somewhat more pragmatic—especially toward El Salvador.

[REDACTED] Elements of balance, such as financial aid to all regional governments, are outweighed by ideological affinity and material backing for radical causes. [REDACTED]

[REDACTED]

29. *Venezuela* will continue as the strongest supporter of US policy in the area, but it is probably approaching the practical limits of its involvement. Increasingly pessimistic over trends in Central America, it will probably soon move to a harder public line toward the Sandinistas. The Venezuelans will continue to pump financial and political aid into El Salvador, but they see the country's two greatest problems—the deteriorating economy and the external support of the insurgents—as requiring substantially greater US efforts.

[REDACTED]

30. *Colombia* has even greater cause for apprehension, having been the recent target of Cuban-supported subversion. This concern has caused the Turbay government to seek increased political and economic ties with neighboring countries and to begin a modest military modernization program. Military leaders in *Argentina* and *Chile* consider the crisis in Central America primarily a US problem. They would like to be supportive of governments in El Salvador, Guatemala and Honduras.

31. [REDACTED]

[REDACTED]

Implications for the United States

35. Dealing with the challenge in Central America will be complicated by the fact that the US interpretation of events and trends in the region is not shared by many governments. Not only will the nonaligned countries continue for the most part to sympathize with the Central American revolutionaries, but so will Mexico and much of Western Europe—and parts of the US public as well. International leftist propaganda has been enormously successful, and US credibility remains low.

36. In this situation, almost any US effort seen to be stifling the revolutionary forces will carry political liabilities. Particularly, any action smacking of military intervention will revive the historical nightmare of the Yankee big stick throughout Latin America, even among such countries as Venezuela and Brazil, which tend to support overall US policy.

[REDACTED]

37. Yet, failing to rise to the Communist challenge will almost certainly involve serious costs for the United States. The hemisphere's political landscape could be significantly altered if the generally weak governments are left to fend for themselves against the multinational revolutionary offensive.

38.

[REDACTED]

33. Moscow and Havana aim to see leftist ideology spread and, over time, to see leftist regimes come to power, as underscored by: support networks that lace Central America; Cuba's sponsorship of a guerrilla assault on Colombia, showing that Havana's subversion is not restricted to rightwing dictatorial governments; and the Castro regime's continuing assistance to revolutionaries throughout Latin America.

34. In this context, we expect that the USSR and Cuba would move quickly to take advantage of any opportunities that arise in the Caribbean. Nevertheless, their attention will remain focused primarily on current objectives in Nicaragua, El Salvador, and Guatemala.

39. The US response to the insurgency in El Salvador involves even greater risks. On the one hand, there is no guarantee that the guerrillas will be decisively defeated even if the United States substantially increases its support to the government. On the other

[REDACTED]

hand, inaction could lead to still more brazen outside radical interference in the region, damage US credibility, and make the anti-Communist players less amenable to US influence.

40. The challenges involved in slowing the insurgent threat pale beside Central America's socioeconomic inequities. Even assuming that political violence could be reasonably controlled and that the attitudes of the elite sectors of those nations directly threatened would change, we estimate that minimal economic growth in El Salvador and Guatemala would require a total of roughly half a billion dollars annually from foreign sources over the next three to

five years; and the annual cost for the region as a whole could approximate twice that amount.

41. Because development and stabilization are necessarily long-range goals, and because dealing with them is inhibited by continuing outside aid for the Central American insurgents, the most critical problem for the near term is disruption of the guerrilla support network funneling into El Salvador. Nicaragua and Cuba—the sources of supply—could be targeted offensively at high political risk.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

ANNEX A

Country Outlooks

El Salvador

1. Over the next 12 to 15 months, the war in El Salvador probably will drag on indecisively. As long as the guerrillas receive effective outside support, a dramatic shift in favor of the armed forces is remote (less than 10 percent); at best, improvements in the government's military position will come slowly. In the meantime, the junta will be vulnerable to the corrosive economic and political effects of the insurgency. In the event of a steady economic deterioration or a series of spectacular guerrilla actions, there is some chance—perhaps 20 percent—that the momentum could shift decisively against the government during the period of this Estimate.¹

2. Support funneled through Havana and Managua is critical to insurgent capabilities, and at present is sufficient to maintain current levels of activity indefinitely. Rebel command headquarters in Nicaragua coordinates tactical operations, resupply, and the dispatch of personnel. Programs in Nicaragua and Cuba provide a reasonably steady return of trained Salvadoran insurgents.

3. The guerrillas appear to have increased their force beyond the 4,000-man level existing at the time of the January offensive; we estimate that their strength is now approaching 4,500. Whatever their actual casualty and desertion rates—and our suspicions suggest they are relatively low—recruitment or impressment appear sufficient to enable them at a minimum to continue a protracted war of attrition:

4. In addition, the guerrillas' communications net is expanding, arms stores are up, and operations continue

¹ The Assistant Chief of Staff for Intelligence, Department of the Army, and the National Intelligence Officer for Latin America believe that the judgment in the last sentence of this paragraph should instead read, "... there is an even chance—50-50—that the momentum"

to gain sophistication. While there are significant personality and tactical divisions among the various groups, there is a consensus on the need for a prolonged struggle irrespective of domestic political circumstances. This insurgent strategy will result in continuing attacks on economic and infrastructure targets, together with hit-and-run operations to wear down the government—all at minimal cost to the guerrillas.

5. A more widespread insurgent offensive is likely late this year or early next. Some planning has been reported and the supply network is being made ready for the November-February dry season. Even in the absence of increased popular support, the guerrillas will probably see a political need some time around the election period for widespread, headline-generating attacks, which could snowball.

6. Internationalist fighters—who probably number several hundred—are not a major factor, although they do provide a psychological boost to the local insurgents. Their battle experience will provide cadres, such as a reported several dozen Costa Rican guerrillas, that can return home to train others and foment further unrest. Nicaragua almost certainly supplies the largest single contingent. Moreover, the appearance in El Salvador (or Guatemala) of Nicaraguan "freedom fighter" Eden Pastora would, at least initially, seriously unsettle government officials. Given Pastora's reputation, we cannot rule out some spectacular operation paralleling his takeover of the Nicaraguan National Palace in 1978.

7. The military's counterinsurgency effort has made some slow gains, but these have disrupted rather than debilitated insurgent forces. Guerrilla commanders display both the confidence and ability to avoid encirclement, in part because of the armed forces' limited manpower. There has been no significant breakdown in military morale. Interdiction and rapid-reaction capabilities are inadequate and, to move beyond essentially reactive tactics, the army requires

[REDACTED]

improved transport, an increased air and naval capability, and better tactical and national intelligence.

8. The current balance of forces—some 24,000 government troops and police opposing 4,000 to 4,500 regular guerrillas and several thousand additional "irregulars"—gives the Duarte government far less than the 10-to-1 force advantage generally considered necessary to defeat an insurgency. Government—and indeed guerrilla—efforts to expand forces substantially will be aided by the availability of manpower from the large and unemployed young male population. The government, however, will be hindered especially by serious budgetary restraints and a critical shortage of officers and NCOs.

9. In addition, junta efforts to attract civilian support will be hampered by its inability to control indiscriminate violence by security forces and right-wing death squads. This failure will also blunt attempts to gain increased international backing.

10. [REDACTED]

13. If the favored Christian Democrats emerge in a strengthened position, they could attract labor, business, and other sectors. Failure to make a strong showing, however, would greatly increase the chances that the Christian Democrats will be attacked and perhaps shunted aside by military and private-sector leaders. Any such sidelining of the Christian Democrats—the only credible reform element in the government—will significantly boost long-term insurgent prospects.

14. Similarly, the guerrillas would gain from the collapse of the government's agrarian reform program. A lack of funds and technical expertise already is hobbling implementation of the program—potentially among Latin America's most sweeping. Moreover, both extremes of the political spectrum perceive it as a danger and are responding to it with threats and violence.

15. The economy will probably be the country's most serious problem over the next year. Severely worsening terms of trade, guerrilla damage to the infrastructure, and the loss of private-sector confidence have produced an economic downturn that even sizable sums of foreign aid alone could not readily reverse. Until the violence can be arrested and the private sector has some assurance of consistent stabilization policies, foreign aid—even as much as \$500 million annually—will do little more than shore up living conditions and provide basic necessities to refugees. Without these measures, polarization and political anarchy will accelerate and could, by default, result in a radical Marxist victory.

12. Although the elections pose a significant risk for the Christian Democrats, they are unlikely to have substantial impact on the insurgency over the next 12 to 15 months. The left is not likely to participate in the electoral process, and the general populace—as well as a significant sector of international opinion—will regard the elections with cynicism. Nevertheless, a contest held without major fraud or disruption would increase the government's legitimacy.

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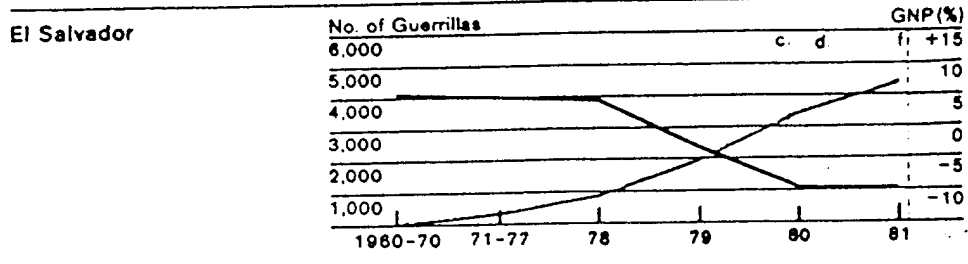
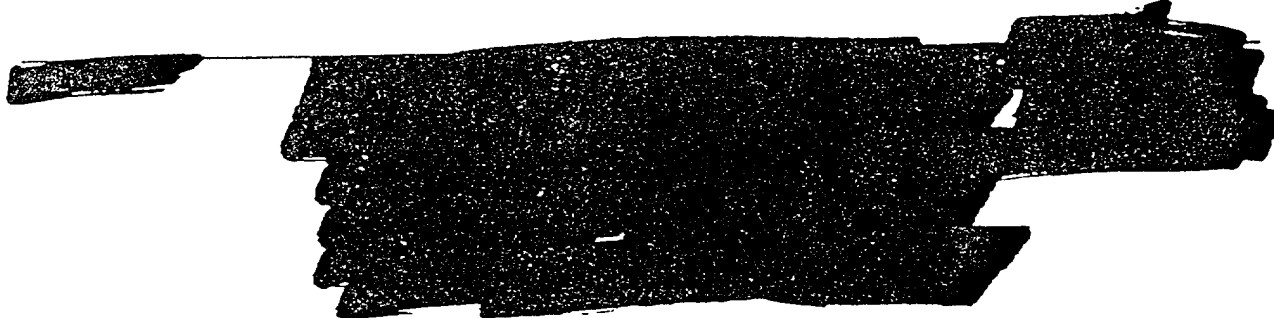
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[REDACTED]

[REDACTED]

Annex C

Central America: Guerrilla Strengths, Economic Growth Rates, 1960-81



- c. 12/79-Havana meeting on El Salvador, Guatemala
- d. 3/80-Land reform in El Salvador
- f. 1/81-Failure of offensive in El Salvador



	60-70	71-77	78	79	80	81
El Salvador No. of Guerrillas	0	300	850	2,000	3,500	4,500
GNP (%)	+5.5	+4.9	+4.4	-3.5	-10	-10

Notes: Red line designates numbers of guerrillas. Black line designates annual percentage of GNP growth in comparison with previous year. For 1960-77, the data refer to the average for the years indicated. The GNP axes do not all refer to the same quantity of change.

