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ACTION ARA 16

INFO NSA 02, CIAE 00, DOD 00, GPM 04, H 02, INR 07L 03, NSC 10, P 04,
RSC 01, SP 02, SS 25, VSIA 12, AID 28, CU 04, HEW 07, PC 04, NIC 01,
FRB 02, E 15, COM 08, TSY 11, LAB 06, SIL 01, RSR 01, XMB 06, EUR 15,
/197 W

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R 051751Z NOV 68
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8177

CONFIDENTIAL SECTION 2 OF 2 MEXICO 7920

SUBJ: CONTINGENCY - SCENARIOS

REF: STATE 254892 AND EMBTEL 7830

MAJOR ACTUAL OUTFLOWS TO NEXT ADMINISTRATION OR ELSE INSTITUING REFORMS WHICH WILL PERMIT FINANCING OF REFORMS WITHOUT NOTABLE INFLATION OR SUBSTANTIAL ADDED BORROWING.

9. WITH SUCH APPROACH, NO SPECIAL US RESPONSES NEED BE ENVISAGED BEYOND THOSE DESCRIBED ABOVE, ESPECIALLY REGARDING CENTRAL BANK COOPERATION TO AVOID APPEARANCE OF ROP CRISIS.

ALTERNATIVE THREE: MORE VIOLENCE.

10. THIS CONTINGENCY SUGGESTS GREATER RELIANCE ON FORCE WITH ENHANCED POSSIBILITY OF GREATER POLARIZATION ON MEXICAN POLITICAL SCENE.

11. PRESSURES ON PRESIDENT WOULD INCREASE FROM LEFT TO ADOPT POLICY OF CONCILIATION AND CONCESSION TO STUDENTS AND TO MORE IN DIRECTION BROAD PROGRAM REFORMS AND FROM RIGHT TO RELY ON POLICY OF REPRESSION. WHILE OUTCOME THIS INTERPLAY OF PRESSURES UNCERTAIN, EMB BELIEVES THAT TEMPERAMENT OF PRESIDENT WOULD PREDISPOSE HIM TO MEET VIOLENCE WITH FORCE. THIS WOULD REQUIRE INCREASING RELIANCE ON MILITARY WHOSE.

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INFLUENCE WOULD ACCORDINGLY INCREASE, AS WOULD THAT OF EXTREME RIGHT WHICH TENDS TO FAVOR HARD LINE. SITUATION WOULD CREATE DILEMMA FOR DIAZ ORDAZ; ON ONE HAND HE HAS NOT SHOWN HIMSELF WILLING TO MAKE CONCESSIONS UNDER PRESSURE OF VIOLENCE. ON OTHER, HE IS NOT ONE WHO WOULD WELCOME UPSET OF TRADITIONAL BALANCE BETWEEN RIGHT AND LEFT, WHICH HAS PRODUCED STABILITY IN MEXICO, OR MILITARY ASCENDENCY IN GOVT.

12. RESOLUTION OF THIS CONFLUENCE ON CONFLICTING PRESSURES WOULD OF COURSE HAVE DIRECT BEARING ON WHAT U.S. COULD OR SHOULD DO. THERE IS POSSIBILITY GOM WOULD FEEL NEED TO TAKE POSITIVE STEPS TO RESTORE SHAKEN CONFIDENCE AT HOME AND ABROAD. US SHOULD THEREFORE BE PREPARED TO CONSIDER FURTHER FINANCIAL SUPPORT INCLUDING FOR EXAMPLE RE-INSTITUTION OF EXIMBANK $90 MILLION LINE OF CREDIT TO BOM AND, SUPPORT FOR NEW LOANS FROM IDB AND IBRD. US MIGHT ALSO CONSIDER RELAXING FED RESERVE RESTRICTIONS ON COMMERCIAL BANK CREDIT, GRANTING SPECIAL AUTHORIZATIONS IN IMPORTANT CASES INVOLVING DIRECT FOREIGN INVESTMENTS ON MEXICO, AND EVEN RESUMING AID LENDING IF THESE STEPS WERE THOUGHT HELPFUL BY MEXICAN AUTHORITIES.

13. BEYOND THREE CONTINGENCIES DISCUSSED ABOVE, POSSIBILITY EXISTS THAT STUDENT AGITATION AT SOME POINT WILL RECEIVE SUFFICIENT SUPPORT FROM OTHER SECTORS TO CREATE SERIOUS PROBLEMS FOR GOM AND PRI. THIS COULD CREATE CLEAR AND PRESENT THREAT TO POLITICAL STABILITY AND CAUSE SERIOUS ECONOMIC REPERCUSSIONS. POSSIBILITY OF OVERTURN OF GOVT EITHER FROM LEFT OR RIGHT WOULD RISE AS QUESTION OF DESIRABILITY OF US SUPPORT FOR PRESUMABLY UNPOPULAR GOVT. EMBASSY CONSIDERS SUCH DEVELOPMENT UNLIKELY WITHIN NEXT FEW YEARS AND RANGE OF POSSIBILITIES TOO GREAT AND SPECULATIVE FOR USEFUL DISCUSSION AT THIS TIME. FREEMAN