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Department of State TELEGRAM

19

CONFIDENTIAL 713

PAGE 01 MEXICO 07920 02 OF 02 051948Z

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ACTION ARA 16

INFO NSA 02, CIAE 00, DODE 00, GPM 04, H 02, INR 07, L 03, NSC 10, P 04,
RSC 01, SP 02, SS 25, USIA 12, AID 28, CU 04, HEW 07, PC 04, NIC 01,
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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 8177

C O N F I D E N T I A L SECTION 2 OF 2 MEXICO 7920

SUBJ: CONTINGENCY - SCENARIOS

REF: STATE 254890 AND EMBTEL 7830

MAJOR ACTUAL OUTLAYS TO NEXT ADMINISTRATION OR ELSE INSTITU-
TING 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 BOP 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

CONFIDENTIAL



Department of State

TELEGRAM

CONFIDENTIAL

PAGE 02 MEXICO 07920 02 OF 02 051948Z

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 THUS BE PREPARED TO CONSIDER FURTHER FINANCIAL SUPPORT INCLUDING FOR EXAMPLE RE-INSTITUTION 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 DEEMED 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 WOULD 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

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