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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

NFAC-954-81  
23 February 1981

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH : Deputy Director for National Foreign Assessment  
National Intelligence Officer for Warning

FROM : Assistant National Intelligence Officer for Latin America

SUBJECT : Monthly Warning Assessment: Latin America

1. Action Requested: none, for your information only.
2. El Salvador

The armed struggle between insurgents and security forces remains largely stalemated. Since the January offensive, the guerrillas have combined their hit-and-run tactics, picking the time and place for engaging the security forces. For the time being, there is little question that the security forces can continue to contain the threat; but over time, their prospects could become uncertain. Even if the insurgents' foreign arms supplies are cut off for a time, they appear to have on hand vast quantities of materiel on which to draw. The security forces, still suffering from major deficiencies (e.g., limited mobility, logistical and organizational problems), could find it increasingly hard to cope [redacted]

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The effort to push a negotiated solution--now being talked up by a leading spokesman for El Salvador's revolutionary front and by influential figures of the left and center elsewhere in Central America, Venezuela, and Europe--could be problematical. On the one hand, it may represent concern by El Salvador's left, stemming from the failed January offensive, US assertiveness, and recent questioning of the left outside El Salvador. The call for talks, if genuine, could reveal splits between the guerrillas--who control the front and have shown no disposition to abandon armed struggle--and the front's politicians calling for talks.

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On the other hand, if the momentum for negotiations grows, the Salvadoran junta could encounter difficulties. Pressure to negotiate could lead to strains between civilian groups and the military, who would agree only reluctantly--if at all--to meaningful talks with the left. Yet, failure to try negotiations--or at least appear willing--would have serious consequences. The junta's international image would suffer yet another blow. The Venezuelans, who have consistently supported the government, might begin to rethink their position. Finally, some Western Europeans, who have recently begun to reconsider their long hostility toward El Salvador's government and toward US support for it, might well feel they had been deliberately led astray by Washington, which has labored so hard to convince them the junta is not unreasonable and hopelessly repressive.

### 3. Nicaragua

Relations with the Sandinistas could conceivably reach their most crucial juncture yet, within the next several weeks. Nicaraguan actions during that time could well determine whether Managua and the US can continue to dialogue, or will reach a "showdown" over Nicaraguan aid to El Salvador's insurgents.

Responding to the strongest demarche yet from Washington, the Sandinistas now claim they are turning off that support. The Administration has told the Sandinistas that failure to make good would result in a public Presidential determination--delayed in their behalf--of complicity in aiding foreign terrorists, and a definitive cutoff of badly needed aid. The Administration's unannounced timetable for verifying fulfillment--or definance--is approximately 30 days.

Over the last ten days or so, we have been unable to verify further Nicaraguan shipments of arms to the guerrillas. Nonetheless, reporting does indicate they are actively seeking alternative means of supplying the insurgents, undetected. Moreover, the Sandinistas see a leftist victory in El Salvador as vital to their own survival, and are committed to helping assure an eventual guerrilla win.

If, at the end of the "probationary" period, the President cites the Sandinistas and declares the legally required aid cutoff, reaction in Managua will likely be severe. Sandinista hardliners could claim Washington's actions "prove" that cordial relations with the US are not possible after all. Under these circumstances, the Sandinistas likely would use the US as a scapegoat in excusing economic failures, and for justifying a crackdown on domestic opponents. Moreover, the US Embassy in Managua could become the target of deliberate or spontaneous harassment or even force.

### 4. Ecuador-Peru Conflict

A long-standing but generally quiescent border dispute in a remote area has brought these two countries to blows several times in the last few

weeks. Ecuador appears to have instigated the current round of incidents, which began in late January, by encroaching on territory generally regarded as Peru's. The Ecuadorans then refused, for a time, to withdraw to uncontested territory, even while invited outside observers tried to arrange negotiations.

President Belaunde of Peru heads a military establishment that is superior militarily and one which is anxious to "teach the Ecuadorans a lesson". So far, Belaunde--Peru's first civilian chief executive since 1968--has had no real difficulty in urging restraint, but the possibility of a widened conflict does exist, unless negotiations make headway soon.

5. Brazil

Brasilia continues to have difficulty coming to grips with its massive foreign debt (\$55 billion by year-end 1980) and alarming inflation (over 100 percent annually). It has taken some steps to restore the shaken confidence of international lending institutions and foreign governments, but may yet be obliged to seek help from the IMF--a move that could wound nationalistic pride. The government continues its policy of gradual political liberalization, but that process could be imperiled if Brasilia should move to impose far-reaching austerity measures to stabilize the economy.

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