

CONFIDENTIAL

25X1

The Director of Central Intelligence  
Washington, D.C. 20505

*Chrons*

National Intelligence Council

NIC 9077-83  
19 December 1983

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

THROUGH : Harold P. Ford  
National Intelligence Officer at Large

FROM : David B. Low  
National Intelligence Officer at Large

SUBJECT : Principal Challenges Confronting US Security  
Interests in 1984

1. Nuclear Proliferation

India-Pakistan

Prospects for stability in South Asia will depend in part on the pace of Pakistan's determined effort to build a nuclear bomb. Both India and Israel are monitoring this effort, while China may still be assisting it. While we don't expect Pakistan to succeed in building a bomb in 1984, or for India to undertake a second "peaceful" explosion, the nuclear programs of both countries will continue to carry the potential for adversely affecting US security interests in the region.

Argentina-Brazil, International Safeguards

The recent announcement by Argentina that it has gained the capability of enriching uranium raises some difficult issues which will be addressed during 1984. Aside from adding a second potential route toward future production of fissile material, the announcement will (a) put pressure on Brazil to match this capability at a time when Brazil can ill-afford such an expenditure, and (b) undercut, once again, the effort by the U.S. and others to put comprehensive safeguards on such programs.

25X1

CONFIDENTIAL

CONFIDENTIAL

25X1

## 2. Chemical and Biological Warfare

UNCODED

The intrinsic difficulties of collecting CBW intelligence--whether for capabilities estimation, proliferation monitoring, use documentation or treaty monitoring--are among the most acute the Community faces. Starting with Soviet military assistance, the proliferation momentum in this arena is growing (for example, the reported use in the Iraq-Iran conflict in 1983). In addition, the disparity between Soviet and Western capabilities for such warfare increases the need for vigilance.

## 3. LDC Debt Crisis

With respect to this topic, I would call your attention to an excellent distillation of Community news which is contained in the 23 November 1983 Warning Report written by the Assistant NIO/LA (copy attached).

I agree thoroughly with the three basic conclusions thereof, namely:

- (a) In 1984 we are likely to see a growing political dimension to the crisis as domestic tolerance for continued austerity wanes and popular resentment of the IMF and US banks grows,
- (b) the refusal of US banks to put up new money or agree to more reasonable terms could spark a financial crisis just as easily as some action taken by one of our neighbors to the south, and
- (c) this, in turn, could lead one or more Latin American countries to call a unilateral moratorium on payment of interest and principal.

25X1

CONFIDENTIAL

**CONFIDENTIAL**

25X1

Looking beyond Latin America, the deteriorating financial situation in the Philippines takes on particular importance in light of the regional strategic significance of a stable Philippines.

STAT

**Attachment:  
As Stated**

**CONFIDENTIAL**

**Page Denied**

CONFIDENTIAL

The Director of Central Intelligence

Washington, D.C. 20505

NIC 8437-83  
23 November 1983

National Intelligence Council

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

FROM: [Redacted]  
Assistant NIO for Latin America

25X1

SUBJECT: November Warning and Forecast Meeting: The Debt  
Crisis in Latin America

1. The November Latin American Warning and Forecast Meeting focused entirely on the political and economic dimensions of the debt crisis. The NIO for Economics participated in the lively and productive exchange, in the course of which three basic themes emerged:

- In 1984 we are likely to see a growing political dimension to the crisis as domestic tolerance for continued austerity wanes and popular resentment of the IMF and US banks grows.
- The refusal of US banks to put up new money or agree to more reasonable terms could spark a financial crisis just as easily as some action taken by one of our neighbors to the south.
- This, in turn, could lead one or more Latin American countries to call a unilateral moratorium on payment of interest and principal. [Redacted]

25X1

Political Fallout

2. During the past year, international cooperation has averted any major default in Latin America, but there have been costs for the IMF, the debtor countries, and the industrialized nations. Although many economic observers assert that economic recovery in the United States will pull Latin America out of the current crisis, we are more pessimistic. In 1984 we expect a series of continuing crises and growing political dimension to the conflict. Mexico, Brazil, Argentina, Chile, and Peru all have adopted harsh austerity programs with cumulative negative effects on their domestic populations. Political leaders in most of these countries have only limited or fragile mandates. They will have great difficulty accommodating demands for more growth-oriented economic policies at the same time they try to meet IMF conditions and petition commercial bankers for additional financing on more lenient terms.

25X1

CL BY SIGNER  
DECL OADR

25X1

CONFIDENTIAL

CONFIDENTIAL

25X1

3. Mexico and Argentina are particular concerns. In Mexico, the ruling party has been embarrassed by its losses to the conservative opposition parties in elections in several important cities within the past year. As the government tries to limit additional losses to the opposition, the potential for political violence may increase. President de la Madrid's harsh economic initiatives are likely to become major issues. Recent polls show that most Mexicans believe that their economic situation will improve over the next year, and they may not have the patience to endure two or more years of austerity. In Argentina, the newly elected Radical administration may also find itself caught between trying to accommodate unrealistic popular expectations and negotiating an economic program acceptable to the IMF. (C)

#### Reluctant Banks

4. Under any circumstance, Argentina, Chile, Brazil, and Mexico will have to seek additional new money in 1984 to service their financial obligations. Most US regional banks, however, are unlikely to provide any money for overseas debtors, preferring to invest instead in the US economic recovery. As a result, pressure will grow on money center banks to expand their lending--a load they are increasingly reluctant to carry. As one participant observed, New York bankers no longer view themselves as "voluntary lenders" in Latin America, but as responsible "alumni" paying their allocated share to keep the institution functioning. The debtor countries can demonstrate that their people have suffered in order to put the international economic house back in order and they believe money center banks should share some of this burden. If these banks demur or because of new regulations relating to foreign loans, a financial crisis could result.

25X1

#### Unilateral Moratorium

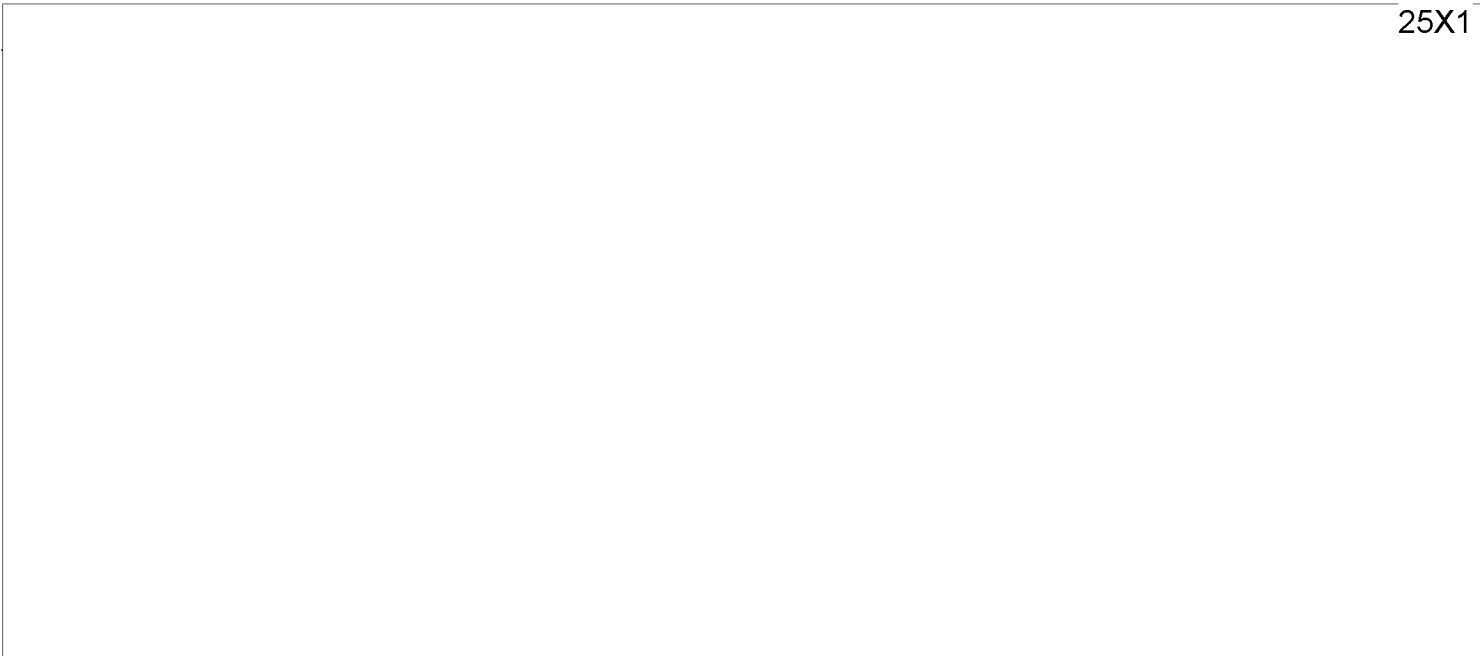
5. While unlikely, most analysts view unilateral moratoria on interest and principal payments a continuing possibility in Latin America. Brazil just completed a successful round of negotiations with the IMF, but there are indications--mostly ambiguous--that it could be preparing down the road to declare a unilateral moratorium: oil supplies are being rebuilt, foreign exchange reserves are rising, and large money transfers out of US banks have been noted recently. Although the Alfonsin government in Argentina appears willing to cooperate with the IMF, domestic pressures and the nationalistic streak in the new leadership could provoke a falling out--particularly if negotiations prove erratic or psychological factors overwhelm the economic issues at hand. Peru will almost certainly fall out of compliance in 1984 and it could declare a moratorium given the severity of its problems. If the Herrera government in Venezuela appears headed for an ignominious defeat in the December elections, he might also opt to salvage some support for the party at the last minute by repudiating their debt. It is not certain that most Latin American countries would follow suit if one country declared a unilateral moratorium. Much would depend on the specific circumstances; the reactions of US banks and the US Government; and, to a lesser extent, how the West Europeans and the Japanese respond.

25X1

2

CONFIDENTIAL

25X1



25X1

<sup>3</sup>  
**CONFIDENTIAL**



25X1