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NSC MEETING ON SOUTH AMERICA DEMOCRACY
13 March 1987

The recent decision by Brazil to suspend payments on its foreign debt is a reminder that one of the most serious problems facing democratic governments in South America is the debt issue. Sense of victimizing by industrial nations runs deep. Brazil \$110 billion; Mexico \$104 billion; Argentina \$50 billion.

- In many cases, such as in Brazil and Argentina, the massive foreign debts of these countries were incurred under previous military regimes.
- As a result, the general public is often unwilling to accept harsh economic austerity measures to meet debt payments, and the democratically elected governments are increasingly reluctant to impose them.
- Thus, these and other governments are advocating economic growth rather than austerity as the best prescription to promote long-term prosperity and meet their foreign debt obligations.
- Furthermore, and importantly, they see the debt issue as a political as much as an economic problem, and they are looking to the US and Western Europe for a political solution to the problem in the long run.

In Brazil the economic situation continues to deteriorate.

- import reductions (lack of foreign exchange) affecting business opportunities.
- seaman's strike brought foreign trade to a halt.
- Army occupation -- 9 refineries used to preempt oil industry strike.
- spreading labor unrest.
- Sarney recovering politically but not capit on rebound to implement economic adjustment.

Major Latin American debtors are watching the Brazilian situation closely to see how it is resolved. Brazil's action enhances the legitimacy of radical action against creditors. Economic policymakers

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respected; Sarney regarded as moderate, pro-Western. Backed by military. While several debtors have expressed support for Brazil's actions, none except Cuba have pushed for joint action or a debtors cartel.

- Nevertheless, the long term environment for substantial debt repayment by most South American debtors shows little sign of improvement.
- As a result of poor export performance due primarily to weak commodity prices, the current account balance of the major Latin American debtors deteriorated dramatically last year. Slight surplus in 85 to \$12 billion deficit in 86.
- Their collective financial position was further weakened by the increasing reluctance of foreign commercial banks to make large new loan commitments.
- With little prospect of substantial improvement over the next few years, we believe there is an escalating risk of serious confrontations between the region's governments and their international creditors.

We have good evidence from a wide variety of sources that Soviet Secretary Gorbachev is planning an unprecedented visit to South America within the next year.

- The Soviet leader may attempt to link the visit with a potential US summit meeting later this year, and then go on to Mexico, Peru, Argentina, Brazil and Uruguay, with possible stops in Nicaragua and Cuba as well.

Under General Secretary Gorbachev's leadership Soviet diplomacy has been increasingly active throughout the Third World. Gorbachev's proposed visit follows an unprecedented series of exchanges between high level Soviet and Latin American officials in the past 18 months.

- Argentine President Aflonsin visited Moscow in late 1986 and Presidents Sanguinetti of Uruguay and de la Madrid of Mexico are on the agenda this year.
- In the last year and a half the Foreign Ministers of Uruguay, Brazil, and Argentina visited the USSR.
- Mexico's Foreign Minister Sepulveda is reportedly scheduled to go in April and, according to a generally reliable source, Peruvian Foreign Minister Wagner will also make the journey to the Soviet Union this spring.
- Foreign Minister Shevardnadze visited Mexico last October and is reportedly scheduled to visit Brasilia, Montevideo, and possibly Lima this fall.
- Moscow appears to be conscientiously laying the groundwork to reap maximum benefit from Gorbachev's visit to Latin America.

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Gorbachev probably contemplates significant political payoffs -- both regional and international -- for a small expenditure in expanding contact with Latin America. He is attempting to increase anti-Americanism and neutralize US political clout in the area. Moreover, he is hoping to use his presence to gain greater political access and better trade terms from the Latin Americans. Among other gains he probably seeks are:

- Acknowledging the legitimacy of the USSR as an actor in Western Hemispheric affairs; furthering the assault on the Monroe Doctrine.
- Drawing US attention away from areas, such as the Middle East, of more importance to the USSR, and possibly recalling increasing US military and economic resources back to this hemisphere.
- Aiding the consolidation of the Sandinista regime by playing on regional concerns about US military support for the Nicaraguan insurgents and portraying himself as supportive of regional peace initiatives in order to gain a reputation as a peacemaker in the hemisphere.
- Hoping to project this image into international fora and increase his support in groups such as the UN or the NAM. Gorbachev also hopes to enlist regional support for Soviet positions on disarmament issues such as SDI.

Although Moscow will be more interested in political gain in its competition with the United States, the Latins hope the visit will foster long-term trade expansion with the USSR. They are likely, however, to be disappointed. The Latin Americans will probably continue to find standard Soviet trade terms -- countertrade or barter and insistence on greater balance -- unattractive and the Soviet trade bureaucracy unresponsive. Nonetheless, trip likely will be a political and propaganda success.

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