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The Director of Central Intelligence

Washington, D.C. 20505

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National Intelligence Council

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MEMORANDUM FOR: Acting Director of Central Intelligence

FROM: Deane E. Hoffmann
National Intelligence Officer for Economics

SUBJECT: Update on Latin American Debt Situation

1. The Latin American debt situation remains in a state of flux. Unlike previous financial crises in the 1980s, it is not certain that this will have a positive outcome.
- President Sarney's decision to halt interest payments was made, I believe, out of frustration rather than a desire to better Brazil's negotiating position with its creditors.
 - I doubt Sarney or his Finance Minister Funaro have a game plan to tackle negotiations beyond telling creditors they need a "political" solution to debt.
2. In Brazil, economic conditions continue to deteriorate.
- Import reductions caused by the lack of foreign exchange are affecting business operations.
 - A seamen's strike has brought foreign trade to a virtual halt.
 - Some US banks have attempted to cap or reduce their short-term trade credits to Brazil.
 - For their part, Brazilian banks in the US are concerned that some US banks will take legal action against their assets.
3. The US Treasury is trying to resolve other Latin debt problems to clear the decks for a hard line against Brazil, but there are several loose ends.
- Bankers are working against a 20 March deadline to complete a Mexican loan.
 - Problems with small banks could also delay planned agreements with Argentina and Ecuador.



Deane E. Hoffmann

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POTENTIAL STOPS ON GORBACHEV'S LATIN AMERICAN TOUR

[redacted] indicates that Moscow anticipates that it can combine all its desired stops in one excursion through Latin America. If scheduling problems remain, however, Gorbachev may contemplate two trips; one, for instance, in the fall 1987 that would combine a visit to Mexico City with a trip to the United States for a summit with President Reagan. At some later point, perhaps early 1988, Gorbachev might return for a swing through South America. [redacted]

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MEXICO

Mexico is a high priority stop. Soviet MFA spokesman Gennadiy Gerasimov acknowledged the coming visit during a press conference last December but said that no dates had been determined.

[redacted] makes the point that Moscow would like to link Gorbachev's stop in Mexico City with a summit meeting with Reagan in the United States. According to a

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[redacted] Soviet Deputy Foreign Minister Komplektov offered de la Madrid an August-October timeframe for the visit. De la Madrid reportedly accepted these dates even if Gorbachev did not go to the United States. [redacted]

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URUGUAY

Gorbachev and Uruguayan President Sanguinetti have officially agreed to exchange visits and Komplektov apparently worked to formalize the dates. In February Sanguinetti's Special Assistant informed the US Embassy in Montevideo that Gorbachev's visit was tentatively scheduled for next November. Various reporting indicates that Uruguay was only recently added to Gorbachev's proposed itinerary. We believe that Moscow may be using Sanguinetti's compliance as a lure to gain the agreement of the more reluctant--but more important--states of Argentina and Brazil. [redacted]

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BRAZIL

Brasilia appears reluctant to commit itself to a visit by Gorbachev. [redacted] Komplektov told Brazilian President Sarney that Gorbachev wanted to visit this year but Sarney wants to delay the visit until 1988. There have been no official statements in Moscow or Brasilia confirming the visit. [redacted]

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ARGENTINA

President Alfonsin officially invited Gorbachev to Buenos Aires during his visit to Moscow late last year. Gorbachev accepted, and, according to the US Embassy in Buenos Aires, the Argentine MFA has confirmed that the only question pending resolution is the exact date of the visit. Nevertheless, a Soviet Embassy official in Havana implied that there was a special problem in scheduling the visit to Argentina. According to the US Embassy in Moscow, Argentine diplomatic officials there claim that Alfonsin will be tied up with local elections during fall 1987 and a visit by Gorbachev would be impossible then. [REDACTED]

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PERU

Until recently, little effort had been made to incorporate Peru into Gorbachev's itinerary; but [REDACTED] indicated that by mid-February Lima and Moscow had begun discussing dates and security arrangements for a Gorbachev visit. Despite Moscow's economic and military ties to Lima, the terrorist problem and the direct targeting of Soviet interests in Peru may discourage a visit by the General Secretary. [REDACTED]

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CUBA

We have no reporting that indicates that Cuba is on Gorbachev's agenda, but it would be a breach of protocol for Gorbachev to exclude Havana from his itinerary. In addition, Gorbachev's plane would almost definitely stopover in Havana for refueling. No Soviet leader has been to Cuba since Brezhnev visited in 1974.

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NICARAGUA

Nicaraguan media has speculated that Managua will be a stopover for Gorbachev but Moscow has given no indication that Nicaragua will be included. [REDACTED] made clear that Gorbachev knows that such a visit would be highly provocative to the US and also that several other Latin American states might refuse to be part of an itinerary that included Nicaragua. [REDACTED]

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