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The Director of Central Intelligence

Washington, D.C. 20505

NIC 01264-87
20 March 1987

National Intelligence Council

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

VIA: National Intelligence Officer for Warning

FROM: Robert D. Vickers, Jr.
National Intelligence Officer for Latin America

SUBJECT: Latin America Warning and Forecast Meeting
March 1987

1. The following items were discussed at the Intelligence Community's Warning and Forecast Meeting held on 18 March 1987.

Nicaragua

2. Despite the resignation of Arturo Cruz, resistance leaders continue to meet to resolve differences and expand the political directorate. A successful outcome is possible, but serious obstacles remain and progress on outlining and implementing reforms on critical issues will almost certainly be slow. While the leadership has quickly agreed on how additional funds would be administered, for example, the more potentially divisive issues such as expanding the resistance directorate and civil-military relations are yet to be addressed. The views and future role of FDN chief Calero and his field commanders is also uncertain. The plan now is to allow the various resistance groups to decide among themselves who should serve on the expanded seven-member directorate, and a tentative deadline of 1 May--which may be optimistic--has been set to effect the reforms.

Meanwhile, Arias' Central American peace proposal and his other recent initiatives may complicate the reform effort. In order to reinforce his image as an neutral "honest broker," he has warned UNO leaders that they would have to leave the country if they assumed control over insurgent military operations. The Arias' peace proposal also complicates the insurgent position, because it calls for an immediate suspension of US military assistance as a prerequisite for a settlement without first gaining firm commitments on internal reforms and negotiations with the armed opposition from the Sandinistas. Looking toward the Central American summit in late April, which will focus on the proposal, the Sandinistas will likely try to avoid making a final decision and prolong negotiations to await the outcome of US Congressional action on future aid to the resistance.

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WARNING ISSUE: If the current round of unity talks collapse, it will seriously damage the international image of the Nicaraguan resistance and threaten continued external support. To split the Core Four and place the US on the defensive, Nicaragua may agree to accept an unmodified version of Arias' peace plan.

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3. The military stalemate continues for now, but the insurgents maintain the battlefield initiative, and there are indications that they are moving into the western part of the country, which is a critical rice growing area. The rebels have yet to receive any external support, but the French may be debating direct assistance. The regime, plagued by domestic unrest in the capital and maintenance problems with its helicopter fleet, has yet to launch its long-awaited offensive against rebel strongholds. Bouterse's support in the military is also uncertain. For now, the government will probably focus on diplomatic activity, looking for economic and military aid to bolster the regime. Bouterse, for example, will almost certainly use the draft constitution to demonstrate his commitment to peaceful change in Suriname. Meanwhile, there are no indications thus far that the recent government delegation to Libya won any pledges of support. Bouterse is probably anxious for Libyan aid, but still fears US retaliation. For its part, Tripoli apparently has tried to contact rebel forces, presumably anticipating Bouterse's departure. Bouterse, however, probably will not leave on his own and rebel leader Brunswijk probably lacks the backing to replace him if he does leave office.

WARNING ISSUE: If the insurgents manage to open a western front and receive French assistance, the military balance could shift to the rebels.

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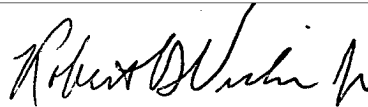
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Brazil and the Debt Crisis

4. One month after the suspension of payments, Brazil has yet to define a strategy for negotiating with foreign creditors, and continues to seek a "political solution" based on an agreement with the banks that Brazil must avoid destabilizing austerity measures and be allowed to grow sufficiently to reduce unemployment. Neither side is likely to give and confrontation is almost certain. Brasilia plans to put forward a proposal to the banks by the end of March that calls for growth rates of 6 to 7 percent and perhaps \$5 billion in new lending without making necessary internal reforms. For their part, the lenders appear determined to hang tough and are prepared to write off large portions of the Brazilian debt in coming months. They also apparently have rushed to complete pending agreements with other countries, such as Mexico, in an effort to isolate Brazil in the region and discourage similar moves by other debtors. At least for now, President Sarney enjoys broad popular and military support for the moratorium, but mounting economic pressures may erode his base in coming weeks--labor unrest has increased steadily since before the moratorium. Only serious economic deterioration, however, would force Sarney to introduce austerity measures and protracted negotiations are likely. His declining fortunes may encourage the constituent assembly to call early presidential elections, possibly by 1988. The lenders' strategy probably has forestalled any interest by other debtors in following Brazil's path.

WARNING ISSUE: Deteriorating economic conditions in Brazil will likely spark additional labor unrest and could prompt military intervention. The stress of the situation may also adversely affect Sarney's emotional and physical health and cause him to resign.

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Robert D. Vickers, Jr.

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Participating in the NIO/Latin America Warning Meeting of 18 March 1987 were representatives of the following agencies:

- DIA: DIO/DIA
- DIA/DE3
- DIA/DB3C1
- DIA/DB3C2
- DIA/DB3C3
- DIA/OA-5
- JSI-4B

National Security Agency

Department of State/INR

CIA Participants:

- ALA
- OGI
- OIA
- LDA
- OIR
- DO/LA [redacted]
- DO/CAR
- DO/CATF
- DO/EPS
- NIO/W
- ICS/HC
- NPIC
- FBIS

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 1 - HQ USMC/INTP (Bullen)
 1 - ONI (LaBauve)
 1 - NAVOPINTCEN (Conant)
 1 - USArmy (Brown)
 1 - USA/SOUTHCOM (Col. Stewart)
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 1 - USAF (Silva, Mines)
 1 - Vice President's Office (Watson)
 1 - NWS [redacted] 25X1
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