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DEPARTMENT OF STATE

Washington, D.C. 20520

November 5, 1982

LIMITED OFFICIAL USE
(With SECRET Attachment)

MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

Subject: Proposed NSDD and Interagency Study on U.S. Policy Toward South America (NSSD 10-82)

Attached as mandated in NSDD 10-82 are a proposed National Security Decision Directive (NSDD) and the SIG study on U.S. relations with South America. Both the NSDD and the study incorporate the comments of the twelve agencies and offices that participated in the NSSD exercise.

The draft NSDD is submitted for consideration by the President. The SIG study is submitted for the record.

L. Paul Bremer, III
Executive Secretary

Attachments:

1. Proposed NSDD.
2. SIG study.
3. Change from original SIG study.

cc: OVP - Mr. Donald Gregg
ACDA - Mr. Joseph Presel
AID - Mr. Gerald Pagano
CIA - [redacted] STAT
Commerce - Ms. Helen Robbins
DOD - Col. John Stanford
JCS - LTC Dennis Stanley
OMB - Mr. Alton Keel
Treasury - Mr. David Pickford
UNA - Amb. Harvey Feldman
USIA - Ms. Teresa Collins
USTR - Mr. Dennis Whitfield

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State Dept. review completed

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DRAFT 10/29/82

Draft NSDD in response to NSSD 10-82

U.S. POLICY TOWARD SOUTH AMERICA
IN THE WAKE OF THE FALKLANDS CRISIS

1. U.S. national interests in Latin America and the Caribbean include a region free of Soviet-dominated or other hostile governments; the development of stable and democratic political systems and institutions which promote respect for basic human rights; cooperative bilateral relations to deal with security and other issues flowing from geographic proximity; advancement of major U.S. trade and investment; access to raw materials; prevention of nuclear proliferation and maintenance of stable balances of power among the states in the region; and receptivity to U.S. leadership.

2. The Falklands crisis strained, to varying degrees, our relations with Latin American countries, and highlighted the potential for instability in South America. Our policy must address the following specific problems:

-- Instability and irredentism in Argentina, which imply new opportunities for the USSR to gain access to a strategic position in the Southern Cone;

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-- Disillusionment with U.S. leadership in Venezuela and elsewhere, which provides tempting opportunities for Cuba to reduce its inter-American isolation;

-- The increased importance of Brazil as a potential stabilizing factor in South America at a time when mounting economic and financial difficulties are also eroding our ties and influence there and in the region as a whole.

3. The highest United States priority in Latin America continues to be the prevention of further inroads by the Soviet Union or its client states in our immediate environs -- Central America, the Caribbean and Mexico.

4. To restore and assert U.S. influence in South America, the United States will:

-- Maintain its diplomatic position on the fundamental Falklands issues as it was before the crisis, specifically: U.S. neutrality on the question of sovereignty over the islands and support for negotiations or other peaceful efforts to resolve this dispute;

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-- To preserve regional political and military balance, certify Argentina and Chile jointly as eligible for U.S. military sales before the end of 1982, depending on discussions with Chile and on Argentine behavior.

-- Rebuild a close relationship with Brazil, to include Cabinet-level consultations, renewed cooperation in military training and trade, enhanced cooperation in science and technology, particularly space activities, and a dialogue on nuclear issues. To develop this process, the U.S. will seek appropriate positive action by Brazil in the non-proliferation area (e.g. restraint in exports to sensitive regions and progress in discussions on the Treaty of Tlatelolco and safeguards) in order to resolve the fuel supply issue and permit resumed nuclear cooperation. As contacts on these issues show progress, in order to encourage significant movement on non-proliferation concerns, consideration will be given to waiving Glenn/Symington to permit resumption of military training cooperation. The United States will also explore arms co-production agreements. We should also review our global sugar policy in the light of its foreign and domestic impact.

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-- Use flexibility within NSDD 5 guidelines to respond promptly to arms transfer requests. The U.S. will seek to prevent regional arms races, to preserve sub-regional arms balances, and to upgrade bilateral military ties. Measures should be sought to lessen Peru's dependence on Soviet arms supplies.

-- Promote U.S. military influence, training and doctrine through the expansion of military exchanges and increased IMET.

-- Use our influence through traditional diplomatic channels to promote democratic development and human rights so as to facilitate public support for expanded, closer relationships with the governments concerned;

-- Seek to play a supportive role by sustaining modest assistance efforts, to the extent our resources permit, in such economically weak states as Bolivia, Ecuador and Paraguay.

-- Pursue a more active bilateral diplomacy throughout the continent, while seeking to turn back efforts

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to alter the Inter-American System. We will use a series of ad hoc bilateral cabinet-level meetings with a substantial but not exclusive economic focus to show that dialogue with the U.S. is possible. The U.S. will lead with Brazil, then Mexico and Venezuela when the time is appropriate.

-- Take measures to improve collection on Soviet bloc and Cuban actions designed to create instability or problems in bilateral relations with the U.S.

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U.S. POLICY TOWARD SOUTH AMERICA IN THE WAKE OF THE FALKLANDS CRISIS

EXECUTIVE SUMMARY

The underlying lesson of the Falklands conflict was that U.S. credibility and leverage with Argentina did not match the US interests at stake. Aside from Argentina, crisis-induced damage to U.S.-Latin American relations has varied widely from country to country and appears manageable on most matters. But the potential for future conflicts and instability counsels a long-term effort to build relationships with the major players in South America to maintain local balances of power, delay nuclear proliferation, and narrow openings for the Soviet Union.

Our highest priority in Latin America should remain to prevent instability or inroads by the Soviet Union or its client states in our immediate environs -- Central America, the Caribbean and Mexico. To demonstrate that the Falklands conflict did not distract us from this central purpose and to reaffirm our constancy to friends and adversaries in this hemisphere, a number of immediate steps are desirable in this area, where further deterioration would directly affect U.S. security and well-being:

-- A decisive push for Congressional approval of the President's Caribbean Basin Initiative (CBI);

-- Strenuous efforts to secure requested FY 82 supplemental and FY 83 foreign assistance funds for Central America/Caribbean.

Policy toward South America must take into account the resource limitations imposed by our Caribbean Basin and extra-hemispheric priorities, including the need to maintain the credibility of our global arms transfer, non-proliferation and trade policies. We must also avoid the impression of a knee-jerk response to the Falklands conflict and ensure that we do not burden our effort to secure vital Central America/Caribbean funds with additional controversy.

The problems we face in South America are serious:

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-- Preserving a peaceful equilibrium between Argentina and its neighbors, especially Brazil and Chile, in the face of Argentine rearmament, exploration of the nuclear option, and reassertion of nationalism.

-- Lessening the chances of domestic instability or unfavorable policy evolution in economically vulnerable Bolivia, Ecuador, Peru, Paraguay, and Argentina (serious balance of payments problems also loom in Brazil and Chile).

-- Limiting Soviet arms transfer opportunities, particularly in Peru and possibly in Argentina.

Managing these problems will require a long-term effort to enhance relations with Brazil, Venezuela, and eventually Argentina -- the major South American economic powers and potential arbiters of security.

Brazil is of singular importance to this objective. Although reluctant to march in lockstep with the U.S. and extremely cautious in exercising influence with its neighbors, Brazil's economic, military, and institutional capabilities give Brazil formidable potential regional influence. Judging that not to build a web of organic relationships linking Brazil to the West could ultimately cause significant disruptions to our interests, the IG favors efforts to develop a U.S.-Brazilian relationship as intense as that with U.S. alliance partners in Europe.

Venezuela also is of immediate importance. The resurgence of anti-Americanism occasioned by the Falklands and the coming Venezuelan Presidential elections could weaken our cooperation on Cuba and Central America.

Our South American policy should develop in phases:

Immediately:

-- Begin to rebuild relations with Argentina in the context of political moves in the Falklands acceptable to the UK and Argentina;

-- Develop a policy on Argentine rearmament through third parties in consultation with the UK;

-- Establish a dialogue with Argentina and Brazil on nuclear security issues, the Treaty of Tlatelolco (Latin American nuclear-free zone agreement), and safeguards. With Brazil, seek concessions permitting Presidental waiver of Symington-Glenn restrictions;

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-- Nurture Cabinet-level policy consultations with Brazil, and explore the possibility of a Brazil-U.S. trade agreement as part of a new round of negotiations concentrated on the advanced developing countries;

-- Enhance science and technology cooperation, military and civilian training and exchange programs, democratic political action, and high-level U.S. visits;

-- Maintain modest assistance and other economic relief measures to the vulnerable South American states.

-- Increase intelligence collection on potential territorial disputes.

Late 1982:

-- Certify Argentina and, if possible, Chile for U.S. military aid and sales with appropriate ancillary conditions;

Early 1983:

-- If Brazilian concessions warrant, utilize waiver authorities, first to Symington-Glenn to permit limited military cooperation, then later to NNPA to resolve nuclear supply problems;

-- Address Brazil's sugar grievances, if possible.

Over time, we would also:

-- Seek to meet requests for arms transfers positively and promptly, within NSDD-5 guidelines;

-- Capitalize the Special Defense Acquisition Fund (SDAF);

-- Explore military co-production arrangements with Brazil;

-- Seek to re-orient Argentine grain trade from overdependence on the USSR;

-- Oppose development of new Cuban ties in the hemisphere; and

-- Work to reduce Peruvian military ties to the Soviet Union.

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U.S. Policy Toward South America in the Wake of the Falklands Crisis

I. U.S. INTERESTS

U.S. interests in Latin America and the Caribbean may be summarized as follows:

-- a region free of Soviet-dominated or other hostile governments requiring a significant commitment of U.S. military resources. The 1947 Rio Treaty and our ability to maintain constructive relationships and to isolate and constrain Cuba have enabled us to avoid committing significant resources to defend our southern flank.

-- stable and democratic political systems and institutions capable of dealing effectively with local social, economic, and security problems.

-- cooperative bilateral relations to deal with geographic proximity (our neighbors' cooperation is essential on issues that directly affect U.S. society, including migration, narcotics, tourism, fisheries, border cooperation, etc.) and to maintain effective collaboration on international issues. The region's 33 votes in the UN and other fora can make a major difference to achievement of U.S. global objectives.

-- protection of major U.S. trade, investment, and access to raw materials. U.S. exports to Latin America (now more than $41 billion annually) exceed those to the rest of the Third World combined, and match those to the European Community; imports of oil and raw materials are important to the U.S. economy. U.S. investment totals $38 billion, with an annual return of approximately $7 billion.

-- prevention of nuclear proliferation and maintenance of stable balance of power relationships to help prevent conflicts between hemispheric countries requiring a commitment of U.S. personnel or resources.

-- receptivity to U.S. leadership within the hemisphere, requiring an image of the U.S. as a friendly country which can be relied upon to meet its hemispheric commitments (e.g., the Caribbean Basin Initiative, support for governments threatened by insurgencies).

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Although the President's vision of region-wide cooperation had led us to make efforts to improve ties to South America, including Argentina, our priorities have been focused on Central America, the Caribbean, and Mexico. For several years now, we have pursued our South American objectives with little sustained engagement and low levels of official resources.

II. ASSESSMENT

U.S. opposition to Argentina's first use of force was widely accepted in Latin America. Despite general public support for Argentine sovereignty over the disputed islands, in only one country -- Venezuela -- did a majority (62%) approve of the Argentine military takeover. The prevalence of territorial tensions (e.g., among Argentina-Chile-Peru-Bolivia-Ecuador, Colombia-Venezuela-Guyana, Nicaragua-Colombia-Central America, Guatemala-Belize) puts a premium on the peaceful settlement of disputes. In addition, the rule of law is seen as an important "equalizer" in asymmetric hemispheric power relationships.

U.S. support for the U.K.'s military campaign to retake the islands was just as widely resented. Our open support for an extra-hemispheric power, particularly in the face of two 17-0-4 Rio Treaty votes supporting Argentine sovereignty claims, reinforced suspicions and doubts about the reliability of the U.S. commitment to Latin America. Fortunately for us, Argentina's reputation for arrogance, and the collapse of its forces on the ground, helped to cushion reactions.

We conclude that the South Atlantic crisis impaired U.S. interests and influence quite differentially according to country and issue. Underlying trade and finance patterns, for example, are unlikely to be greatly affected. In addition, much of the generalized reaction was rhetorical, and will give way with time to renewed efforts at inter-American accommodation.

The potential for long-range negative effects should not be underestimated, however. The IG identified four major problems:

-- Official state-to-state relations have been damaged, albeit unevenly. Our most severe problems are with Argentina, and to a lesser extent with Venezuela, Panama and Peru; Chile has attempted to move closer to the United States; our relations with Brazil, Mexico and the Caribbean Basin have been little affected. In geopolitical terms,

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the South American environment is more fluid, increasing the importance of Brazil.

-- Personal attitudes toward the U.S. are more critical. The perception is widespread throughout the region that our priorities lie elsewhere and hence that U.S. support is not entirely reliable. Crisis reactions weakened trust in the U.S. and damaged traditional concepts of U.S.-Latin American cooperation and common destiny.

-- Our security interests and the stability of South America have been eroded. The duration and intensity of the fighting weakened (1) the credibility of the U.S. ability to maintain hemispheric peace and stability and (2) the integrity of the Inter-American System. Both were previously assumed to guarantee that interstate conflicts in this hemisphere would be limited to a few days of actual fighting.

-- Soviet opportunities may increase, particularly in Argentina, where the Soviet Union has a long-term opening to increase trade and establish an arms relationship. In cooperation with Cuba, the Soviets are also exploiting the conflict to foster Latin American differences with the U.S. on major regional and global issues.

Although the fighting has ended, the political repercussions continue. If the U.K. attempts to determine the future status of the Falklands without reference to Argentina, U.S. association with British policies will severely hinder efforts to manage U.S. relations with key countries in South America (especially Peru, Venezuela and Argentina).

III. ANALYSIS

A. Bilateral Relations

1. Argentina. Managing relations with Argentina will entail many vexing problems. Our objectives include encouraging political moderation, economic recovery and accommodation with the UK, facilitating modest Argentine rearmament to avoid an Argentine military relationship with the Soviet Union, and discouraging Argentine development of nuclear weaponry.

Our leverage is limited. Our materiel supply to the U.K. will not be soon forgotten and could

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be used to make us the scapegoats for Argentine failures. How long this will last depends on several factors, including internal political evolution in Argentina, and U.K. willingness to return to the negotiating table. Unless the United States is seen as supporting a negotiated settlement, the prospects for basic improvements in U.S.-Argentine relations are dim.

Whether Argentina, which has Latin America's most sophisticated nuclear program, will decide to build a nuclear device as rapidly as possible is unclear. However, Argentina could develop the capability to produce significant quantities of fissile materials suitable for nuclear explosives not covered by IAEA safeguards or other commitments precluding such use. Denial of external assistance and economic constraints could delay this development, but this could happen by late 1985 (by violating safeguards on German and Canadian facilities), or by 1987-90 (using indigenously developed unsafeguarded materials and facilities).

Should Argentina build a nuclear device, Brazil would feel compelled to follow suit. Argentine or Brazilian development of a nuclear device would have serious implications for the Tlatelolco nuclear free zone treaty and could stimulate other Latin American countries to explore a future nuclear weapons option.

Argentine conventional rearmament is likely to take place initially with Western arms obtained through secondary suppliers. But Argentine resistance to a military relationship with the Soviet Union has been weakened by isolation at a time of desperate need; resistance would further weaken if access to U.S. and European arms continues to be denied. A turn to the Soviet Union for some modern weapons could take place in the medium term despite resistance from pro-Western economic elites and military concern over the training and logistical problems that would arise from the adoption of Soviet systems.

2. Peru is the only South American country whose principal military supplier is the Soviet Union. Peru was also the only country to give Argentina significant material support against the U.K. This could open new opportunities for the Soviets to supply new equipment to Peru to replace that transferred to Argentina. Opposition to these moves by President Belaunde, perhaps the most pro-American of the South American chiefs of state, is unlikely to be effective.

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3. In Bolivia, Argentine influence will continue to be significant. Should a Soviet arms connection be established with Argentina as well as Peru, Bolivia might well follow the lead of its two traditional regional allies.

4. Elsewhere in Spanish South America, reactions vary greatly. Venezuela is angry at the U.S., shamed by Argentina's collapse, and determined to find ways to organize regional cooperation independent of the U.S. Chile fears Argentine revanchism could worsen Beagle Channel tensions, and sees stronger U.S. ties as a counter to Argentina. Other countries fall in between. Ecuador cancelled a working visit to Washington by its President at the height of the crisis, but is pointedly maintaining good bilateral relations with the U.S.

5. Brazil. In this more fluid environment, Brazil could emerge as a new center of gravity -- perhaps even against its will. The crisis was a serious setback to Brazil's efforts to encourage a strong and stable Argentina with which Brazil could have a non-adversary relationship. Brazil's transfer to Argentina of Embraer 111 radar planes had the dual purpose of tilting to Argentina and making more difficult a British attack on mainland bases. Brazilian sensitivity to Argentine domestic political developments and opposition to substantial Soviet inroads in South America could lead Brazil to tilt further toward Argentina in an effort to encourage moderation and preempt an Argentine turn to the USSR.

The conclusion that Brazil will emerge as the key to the balance of power in South America is partly negative, in that we believe neither Argentina nor any of the Spanish-speaking countries can alone be a touchstone of hemispheric stability. But it is also the product of important positive considerations. Brazil has the seventh largest economy in the free world, competent leadership, and a society generally compatible with ours.

But if the South Atlantic crisis underscores our need to enter the 21st century with a web of organic interrelationships that link Brazil to the West, that goal will be impossible to attain without major efforts on our part. Brazil is not ready or eager to assume the responsibilities of regional power. Brazil is often uncomfortable among its Spanish-speaking neighbors, and has growing interests in Africa and the Middle East. Brazilian foreign policy is commercially

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pragmatic and politically very sensitive to South American fears that Brazil could act as a U.S. surrogate. Argentine instability could increase Brazilian interest in cooperating with us, but our open support for the British military response to Argentine aggression increased Brazilian sensitivities to close association with us.

From a U.S. perspective, Brazilian growth creates explicit conflicts with various aspects of U.S. global economic, nuclear and even military policies. But Brazil is also the only country in South America with which a globally significant alliance relationship is possible, and where the penalties of not developing a wide range of mutually supportive relationships would transcend bilateral issues.

6. In Central America, vested interests in ties to the United States and cultural distance from South America will limit effective anti-American nationalism. Nonetheless, our ability to deal with Nicaragua has diminished. Regional peace-keeping efforts in Central America will be more difficult to organize, with South American participation less likely. Honduran leaders, some of whom have close Argentine ties, have expressed concerns about the reliability of our commitments. Tensions between Guatemala and Belize (the only place in the hemisphere other than the Falklands where the U.K. stations combat troops) will continue to fester if unresolved. U.S. compliance with the terms of the Panama Canal Treaties will be closely scrutinized.

7. In the Caribbean, support for the U.K. by all English-speaking states except Grenada should further isolate Grenada's pro-Cuba government, but could slow cooperation with Spanish America bilaterally and through the CBI.

B. Attitudes

The conflict fueled Latin American feelings of inferiority and irrelevance to our global concerns. Emotional reactions are often transitory, and in this case were often accompanied by anger at Argentina as well. But the widely held reaction that the U.S. does not take Latin Americans seriously could inhibit cooperation in support of U.S. interests.

In the immediate aftermath of the crisis, increased North-South and non-aligned rhetoric is inevitable.

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This is especially true of spokesmen of the more emotionally-charged countries such as Venezuela, Panama, and Peru and those seeking to exploit any rift between the U.S. and the Latins (e.g. Cuba and Nicaragua). The argument that the U.S. and the U.K. acted as racist industrialized powers cooperating to keep developing countries in their place has powerful gut appeal. Such Falklands-supported "lessons" as anti-colonialism, anti-imperialism, and solidarity among the dispossessed are a shot in the arm to pan-Latin nationalism, the Non-Aligned Movement, and domestic nationalist-populist movements, like Peronismo and Aprismo, and particularly their military and leftist variants.

The lasting effects of the current mood -- which varies greatly from country to country (with Venezuela and Chile at opposite ends of the spectrum) -- will depend on how the crisis evolves, and what posture we adopt. For the moment, however, our ideological influence is reduced. Efforts by U.S. spokesmen to employ the "Western Hemisphere Ideal," "Pan-Americanism," or the broader "Western Civilization" themes as proof of a common U.S.-Latin American destiny will not prosper. In some countries our friends are not eager to be seen offering us an abrazo; instead, they are holding us at arms length until the emotional level subsides. Efforts to organize Latin-only organizations that exclude the U.S. are more likely.

Although the rhetorical battle will be uphill, Chile, Colombia, and economic elites generally will successfully resist pressures for more statist and nationalist economic policies. Internal political liberalization and concern that the United States is insensitive to its development needs could lead Brazil to adopt an ambiguous position. Mexican anti-Americanism will surface from time to time, but Mexico's unique ties to the U.S. will damp it down.

Argentina was clearly hurt by the international perception of its government as a murderous dictatorship. However, the access and influence in Latin America of Anglo-American human rights organizations -- Amnesty International, for example -- have been damaged by the ethnocentrism of their implicit claims that human rights concerns would block Argentine unity on the Malvinas.

Finally, it should be noted that some regional leaders have privately expressed the hope that we will not hold against them the pro-Argentine stance they adopted at the OAS, and that they hope to see a return to "business-as-usual" normalcy as soon as possible.

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C. Regional Stability

Military institutions, throughout the hemisphere but especially in South America, have powerful new claims to national resources. We expect that political liberalization in the region will continue, and that the region's serious financial balance of payments problems will constrain military procurement. But the ability of governments, whether military or civilian, to resist demands for modern arms has been weakened by the crisis. This is a new and potentially destabilizing factor in a region traditionally bedeviled by territorial disputes and military involvement in politics.

Before the Falklands crisis seven South American countries -- Argentina, Brazil, Chile, Colombia, Ecuador, Peru, and Venezuela -- accounted for some 80% or more of Latin America's weapons procurement. The Falklands crisis will lead to increased emphasis on all-weather systems, maintenance, self-sufficiency and larger stocks of precision-guided munitions. France (and to a lesser extent the FRG, Italy, Spain, and Israel) have the best competitive position. Soviet sales opportunities could prove substantial in Argentina as well as Peru. Military industries in Argentina, Brazil, and several other countries will be stimulated. Mexico and Central America have more limited modernization programs and will be less affected.

Training and military doctrine will remain avenues of influence. Service-to-service contacts with the U.S. and other modern militaries will be highly sought after and defended as a means of "keeping up technically." Participation in inter-American military maneuvers will be curtailed (in addition to Argentina, Brazil, Ecuador, Peru, and Venezuela have already formally pulled out of this year's UNITAS exercise), but probably only for a year or two, given their usefulness as a source of operational experience and resources.

D. Soviet-Cuban Opportunities

The Soviet Union's initial opportunity is likely to be through arms transfers to Peru and Argentina. In the 70's, Soviet subsidies enabled Peru to modernize with SU-22 fighter-bombers and T-54/55 tanks at concessional prices. Peru's ability to make heavy arms purchases from the Soviet Union without visibly losing internal or foreign policy flexibility may lead some to conclude that Soviet political influence -- and the cost in U.S. ties -- can be successfully managed.

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Argentina's massive bilateral trade imbalance with the Soviet Union is an economic incentive to both sides for an arms transfer relationship. According to Soviet figures for 1981, the USSR bought $3.3 billion -- mostly grain and meat -- from Argentina, while Argentina bought only $42.5 million in Soviet machinery and nuclear supplies. Moscow's interest in gaining a military supply position in Argentina would also appear substantial: it would consolidate its Peruvian foothold, threaten Chile, and assure access to badly needed grain imports.

Cuba also has an obvious interest in Argentina. But Argentina's leaders remain conservative, and Cuba's probes are likely to go unanswered unless a Peronist government comes to power. Cuba's chief gain from the crisis is the increase in anti-U.S. attitudes, which could erode Cuba's hemispheric isolation. Since the Falklands, for example, the government of Venezuela has begun to explore improved relations with Cuba.

IV. RECOMMENDATIONS

The IG's approach was that managing events and preserving U.S. options for the future are more realistic objectives than the often elusive goal of "improving relations". The IG also felt strongly that our response should make clear that we are neither guilty of any wrongdoing nor willing to buy friendship. Nor should we behave in a precipitate manner that suggests we can be blackmailed.

The IG agreed that Congressional approval of the President's Caribbean Basin Initiative (CBI) is critically important to our credibility. Absent significant additional resource flexibility, the central thrust of our efforts in the increasingly fluid geopolitics of South America must now be to develop a stable framework that will provide warning, leverage, and cooperation to avoid similar crises in the future.

A. Bilateral Relations

1. Following through on the CBI is more vital than ever. The CBI is critical to our credibility in Central America and the Caribbean and provides a point of contact to Venezuela and Colombia. Our failure to live up to the expectations we have created would fuel our critics' argument that the hemisphere is low on our scale of priorities. In addition to moving ahead on the CBI, we should intensify efforts

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to bridge the gaps between the Commonwealth Caribbean and Spanish America, and we should continue to press the U.K. to increase economic assistance and defer new moves to grant independence to Caribbean dependencies.

2. Rebuild relations with Argentina. Our immediate task is to ensure that neither side takes decisions that would prejudice a final resolution of the Falklands issue. The most effective step in this direction would be for the U.K. to resume negotiations with Argentina over the Falklands.

We should also ensure that we are perceived in Argentina as working to help Argentina get a basically creditworthy economy back on track. The removal of our economic sanctions should be exploited to demonstrate our interest in encouraging sound economic policies, a restoration of traditional trade patterns, and reestablishment of international creditworthiness.

3. Develop a policy toward Argentine rearmament to preempt Soviet sales. Two options are available to advance this objective, which should be promoted in consultation with the U.K.: (A) Raise no objection in principle to arms sales from Brazil, Israel, and Western European suppliers such as the FRG, Italy, Spain or France; (B) Certify Argentine eligibility for U.S. military aid and sales late this year in the absence of renewed hostilities, if we have reasonable assurance that Argentina will in the future comply with the agreements under which U.S. arms have been provided and if we can overcome problems with certification of Chile (see 5, below). Argentina is unlikely to rely on the U.S. as a supplier in any event, but certification would be politically important and could slow a turn to the USSR. Congressional resistance to certification on human rights grounds would be significant, but manageable in light of recent improvements.

4. Foster reduced Argentine dependence on the Soviet grain market. The USSR has become a major customer for Argentine grains, but is not a consistent buyer. When the Soviet demand is high, Argentina is assured badly needed revenue. But if the USSR demand declines significantly and abruptly (as has happened) the Argentines may resort out of desperation to barter arrangements (grain for arms). Increasingly the Soviets are seeking short-term credits from grain suppliers to finance their purchases. This policy has the effect of discouraging Soviet grain purchases

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from Argentina, which cannot provide financing. In light of the Soviet Union's financial constraints, we would expect the Soviets to rely less on Argentine grain in the future, which means that Argentina can be expected to diversify its markets.

5. Chile. We have a major interest in preserving the balance of power between Argentina and Chile. Despite recent events, however, Argentina is easier to certify than Chile. Special difficulties are present in the Chilean case because of the requirement that we certify that Chile has taken appropriate steps to bring the Letelier-Moffitt murderers to justice by all legal means available, and there are greater human rights problems. To go ahead with Argentina but not Chile could cost us heavily with one of the few South American states where our relations are presently undamaged, and would make it impossible to influence Chilean military orientation or human rights practices in return for restoring a security relationship. Certification and the resumption of aid and sales to Chile is our goal if Chilean conduct permits; the timing must carefully weigh these issues.

6. Seek to delay Argentine development of the unsafeguarded facilities that would give it a nuclear explosives option. Continue to work with key suppliers, especially the FRG, to minimize Argentine opportunities to acquire nuclear technology free of safeguards. Give priority to reaching an understanding with the PRC, whose established nuclear relationship with Argentina is unconstrained by the NPT or other formal arrangements. Although our influence within Argentina will be minimal in the foreseeable future, we should intensify efforts to convince Argentina that nuclear devices will degrade, not enhance, Argentine security, and that regional security would be enhanced by full entry into force of the Treaty of Tlatelolco.

7. Foster Brazilian influence as a complement to our own efforts. Our long-term goal could be to develop a relationship in which both countries act to contain and hopefully resolve potential conflicts -- not necessarily in concert, but with the full and shared knowledge that stability must be maintained. Should we fail to entice Brazil into assuming greater responsibilities, our own role would have to be greater, with correspondingly greater risks of overexposure or politically undesirable commitments (e.g., Chile).

To overcome Brazilian sensitivities to overly close public association with us will require discretion

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and patience. In expanding the Brazil relationship, moreover, we should attempt to avoid contributing to Argentine insecurities. Key steps include:

-- consulting closely and regularly in both Washington and Brasilia on the means to maintain a stable regional balance of power. We would make clear that we believe this can only be achieved over the long haul if we do not work at cross purposes. Brazil would welcome regular cabinet-level consultations on a wide range of issues as discussed between Presidents Reagan and Figueiredo; we should agree. What we could each do to maintain the balance between Chile and Argentina might be an important initial topic for exploration;

-- resolving the nuclear supply problem (which would require Brazilian acceptance of a full safeguards regime, considered to be highly unlikely, or changes in U.S. law which the Administration has decided not to seek at this time) as an important signal of our acceptance of Brazil as a responsible partner;

-- cultivating military-to-military contacts and relationships. To reinstate IMET would require a Presidential waiver and Congressional support to overcome the restrictions posed by the Symington-Glenn amendment to the Foreign Assistance Act;

-- strengthening cooperation in science and technology, taking advantage of upcoming discussions on space launch vehicle cooperation and the renewal of the bilateral S&T cooperation agreement;

-- addressing Brazil's grievances over U.S. sugar quotas, if possible. Given the constraints imposed by our domestic price support program and our GATT obligations, the only feasible remedy is to reexamine the entire domestic price support program in 1983.

-- seeking a more forward-looking trade relationship. Brazil has resented our "graduation" policy on GSP, although it has in fact had a relatively light impact on Brazil thus far. The present GSP program expires in January 1985. There is a strong likelihood that Congress will force large-scale or even total graduation

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of Brazil and other major beneficiaries of GSP. We should focus our efforts on the proposal for a new round of negotiations concentrating on the advanced developing countries. In such a negotiation, we would expect improved access for U.S. products to the Brazilian market, but would also be in a position to negotiate on products of particular interest to Brazil, and to put our trade relationship on a basis easier to sustain in the long run.

-- on MDB graduation, developing opportunities to reiterate at the senior levels that we envision flexible application of the graduation concept; in the IDB, for example, Brazil might take on a larger role as a donor, while continuing to benefit from some borrowing on other forms of assistance even after the IBRD graduation threshold is reached.

-- improving and broadening regular intelligence exchanges.

8. Increase U.S. cooperation in science and technology (a) with the governments of the Andean Pact, Argentina, Brazil, and Chile and (b) with their private sectors. A number of countries, especially Brazil, are ready for productive cooperation to mutual advantage. Such a program would coincide with the desire to strengthen indigenous R & D capability in the wake of the Falklands Crisis. Existing U.S. government programs are spread among various agencies (NASA, NSF, NIH, AID, Agriculture, and others). Although affected by policy decisions, these programs often escape policy consideration and are often not coordinated with private sector activities. The Department could sponsor an early conference, hosted and run by the NSF, of representatives from U.S. industries and research institutes involved in R & D to consider areas where cooperation between the U.S. and Latin America might be expanded, including Space, Biotechnology, Physics, Chemical Engineering, Education, Agriculture, Health, and the Environment. Using ideas outlined in the conference, an expanded program could be launched.

9. Be as bilaterally responsive as possible to individual countries. Modest assistance efforts should be sustained in Bolivia (subject to legislative constraints), Peru, Ecuador, Paraguay to limit the repercussions of Argentine economic weaknesses. Economic measures with direct negative consequences to particular countries (e.g., silver sales and Peru) should be

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reviewed carefully on their merits. We should work to prevent past tensions from coloring future relations if conditions permit (Chile, Uruguay, Bolivia). We should also be sensitive in implementing the terms of the Panama Canal treaties to avoid their becoming an issue.

B. Attitudes

1. Reiterate justification for our position. The best and only stance for us is to hold to the correctness of our opposition to the first use of force, to explain our policy not as a choice between Europe and Latin America but as one of adherence to the rule of law, and to back that up with actions that demonstrate commitment to Latin America. We should avoid giving any hint that we believe that our relationship with Latin America has been undermined. Any indication of a sense of guilt or remorse would simply fuel the emotional fires in places like Caracas and Lima. As the dust settles, our principled support for the rule of law will become more widely accepted.

2. Assiduously cultivate individual leaders to encourage symbolic ties that emphasize U.S. interest in Latin America. The most important step would be a strengthened/expanded program of visits to and from Washington by chiefs of state and other high level officials, including entree to high places when Latin leaders come to Washington, and travel to South America by senior USG officials like the Vice President and members of the Cabinet and Congress. Full use should be made of the talents of leading private sector organizations like the Americas Society.

Additional possibilities to emphasize symbolic ties were discussed inconclusively. They might include:

-- Considering a mid-1983 Presidential visit to South America, possibly in conjunction with the 200th anniversary of Bolivar's birth July 24, 1983.

-- Establishing Interparliamentary Commissions with the Congresses of selected South American countries, patterned after the Mexican model. Possibilities include Brazil, Colombia, and further down the road, Venezuela.

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3. Increased consultations among large countries were considered highly desirable, possibly in the form of an informal "library group" of political/economic representatives from the U.S., Mexico, Brazil, Argentina and perhaps Venezuela, Colombia and Peru. The purpose would be to strengthen economic cooperation and reduce political posturing by reinserting the U.S. in a constructive hemispheric dialogue. Difficulties include participation (in addition to countries, the best-qualified individuals do not all hold similar positions), auspices (U.S. or other, public or private, etc.), and periodicity (one-shot, sequential, etc.).

4. Cultivate multilateral diplomacy to complement our bilateral moves and reduce suspicions that we are trying to "divide and conquer." Maintain an active OAS presence, but focus initially on improving cooperation with subregional groupings (the Central American Democratic Community, the Andean Pact, the Amazon Basin group), and on inter-American military ties. Another option might be to encourage initiatives, preferably by others, on the peaceful settlement of current territorial disputes. Still another possibility might be to plan now for a strong U.S. role at the scheduled Special OAS General Assembly on Cooperation for Development (without, however, implying commitment of major new economic assistance to the region.)

5. Strengthen ties to key political movements. In Venezuela, for example, the Christian Democrats and the Social Democrats both have international contacts that will give their views additional impact. But any appearance of a U.S. choice between them would be highly counterproductive.

6. Promote exchange programs on a discriminating and substantive basis between U.S. and Latin American Chambers of Commerce, think tanks, universities and other national institutions, particularly in technical fields. Military-to-military contacts, private sector exchanges, and special scholarship programs should all be increased. One objective would be to recover some of the ties between technocrats lost with the termination of AID training programs in South America in the 1970s. Other exchanges should have the objective to broaden Latin American awareness of our global concerns.

7. Move forward in a low-key fashion on Secretary Haig's St. Lucia proposal to create an institute for democracy. Though originally proposed as an OAS activity, and perhaps today most practicable within the Central

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American Democratic Community, the Andean Pact, or some other sub-regional basis, the project would be best received if presented as part of a global initiative.

C. Regional Stability

1. Meet requests for arms transfers from the major South American countries as positively as possible within the policy guidelines set forth in NSDD-5. We should not press sales to Latin America as a special exception to our global arms transfer policy. We must be mindful that countries in the region may have differing objectives, and that any transfer must satisfy U.S. interests in maintaining regional stability. Within this context and consistent with U.S. interests, we should make available more advanced systems than in the past and consider making the first introduction of new systems into the region.

This approach would not enable us to regain our position as the region's primary supplier in the face of aggressive West European and Soviet marketing with concessional financing. The attractiveness of some of our technology (e.g., missiles, fighter aircraft) should, however, enable us to obtain some information and influence. The key, except for Peru, should not be the provision of significant security assistance resources (we have in any case had no materiel grant assistance to South America's key nations since 1968), but the development of a policy that can be defended as respectful, restrained and non-discriminatory.

2. Actively seek Congressional approval of the Special Defense Acquisition Fund (SDAF), with adequate capitalization and authority to meet the needs of the developing countries as well as the industrial powers. (We could have sold the A-37 to four or five Latin countries, pre-empting more costly aircraft, if the Cessna production line were still open.)

3. Consider co-production arrangements with Brazil, and perhaps symbolically on some weapons with the Andean Pact. Latin America will be looking increasingly to the development of its own materiel production. Co-production or licensing arrangements are complicated and controversial, and would take some years to develop, but could enable us to short-circuit some of the cost, leadtime, and bureaucratic delays that plague U.S. sales. Even if actual agreements do not result, an offer would symbolize our interests in a working alliance and give us a concrete subject for policy discussions and subsequent cooperation with Brazil. Entering

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into such arrangements would require Brazilian acceptance of U.S. control of re-export of the end product and of of U.S. components and technology (to, e.g., Libya, Iraq). One possiblity would be agreed production for NATO plus favorable consideration for Latin American countries as recipients and others on a case-by-case basis. The downside risk is that Brazil might not agree to controls, and that resulting friction could create additional strains on U.S.-Brazilian relations.

4. Expand military exchange programs. Seek Congressional enactment of the provision in foreign aid authorization bill (now awaiting floor action in both houses) expanding DOD authority to provide no-cost training in U.S. military schools to countries providing such training to U.S. officers, thereby facilitating expanded reciprocal training with Latin American countries. Personnel Exchange (PEP) programs in Latin America, for which no new legislation is needed, should also be expanded and given higher priority. Embassies in countries where the military play a major political role should be directed to nominate military officers for ICA's international visitor program.

5. Increase IMET and expand and upgrade the U.S. Military Schools in Panama. Promote U.S. military training and doctrine in Latin America through an agreed extension and revitalization of the U.S. Military Schools in Panama and similar mechanisms (e.g., exercises, unit exchanges and mobile training teams).

6. Direct the Arms Transfer Management Group to review inter-agency procedures for responding to arms transfer requests to reduce delays in providing policy approval and P&R/P&A data. Prompt decisions, even when our policy requires disapproval of the proposed transfer, improve our reputation as a supplier.

D. Measures to Deal with Soviet/Cuban Inroads

1. The best defense against Soviet/Cuban exploitation of the Falklands crisis is to take decisive action to protect U.S. interests and reestablish U.S. influence where damage has occurred, thereby reducing incentives for a turn to the USSR. Such actions include the whole range of recommendations included in this paper.

2. Keep the pressure on Cuba without attempting to force a rapid denouement, recognizing that the regional environment is not propitious to U.S. "power

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plays". One exception might be Namibia. We should actively oppose development of new Cuban ties in the hemisphere.

3. Reduce Peruvian military ties to the Soviets. Because of Peru's economic situation, concessional financing is essential if U.S. equipment is to compete with Soviet offers. A $30 million FMS financing program, including $25 million concessional terms, has been proposed for inclusion in the FY 84 security assistance budget and should be assigned a high priority. While the recommended level would be five times our FY 83 program for Peru, it is consistent with the levels of FMS financing offered Peru in the mid-70's. We should consider the impact of such an increase on Peru's neighbors, and balance with increases for other deserving friends, e.g., Colombia.

4. Argentina. See above, IV.A.3.

V. IMPLEMENTATION

A. Timing

Action on the CBI is vital immediately, but most of the measures and goals identified in this paper constitute a medium-term strategy to be implemented over several years. Appropriate phasing is identified in the Executive Summary.

B. Congressional Aspects

Our strategy in dealing with the public and Congress should emphasize that:

-- we have an altered situation in South America which requires steps to protect U.S. interests;

-- these steps do not involve a commitment of significant new resources, except in the case of Peru;

-- some mutual adjustments are required to permit growth of cooperation that would in time provide some restraining leverage on military and nuclear developments.

Arms Transfers. We would prefer to keep arms procurement at a low level and must avoid stimulating sales, but our interests demand that we be prepared to assist countries in maintaining regional balances

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of power to avoid new outbreaks of hostilities and prevent possible Soviet inroads. A key problem in this regard is that Congress and much informed opinion in the U.S. has traditionally opposed arms sales to Latin America as unnecessary, counterproductive, wasteful, and supportive of militarism.

In the post-Falklands environment, we believe that U.S. unresponsiveness would reduce U.S. influence and prestige in matters that many South Americans who are not military will consider vital to their national security. To influence procurement needs and the related rethinking of security interests and needs, we will need to make full use in dealing with Latin America of the more flexible arms transfer policies established by the Reagan Administration, and build Congressional support for their use.

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EXECUTIVE SUMMARY

The underlying lesson of the Falklands conflict was that U.S. credibility and leverage with Argentina did not match the US interests at stake. Aside from Argentina, crisis-induced damage to U.S.-Latin American relations has varied widely from country to country and appears manageable on most matters. But the potential for future conflicts and instability counsels a long-term effort to build relationships with the major players in South America to maintain local balances of power, delay nuclear proliferation, and narrow openings for the Soviet Union.

Our highest priority in Latin America should remain to prevent instability or inroads by the Soviet Union or its client states in our immediate environs -- Central America, the Caribbean and Mexico. To demonstrate that the Falklands conflict did not distract us from this central purpose and to reaffirm our constancy to friends and adversaries in this hemisphere, a number of immediate steps are desirable in this area, where further deterioration would directly affect U.S. security and well-being:

-- A decisive push for Congressional approval of the President's Caribbean Basin Initiative (CBI);

-- Strenuous efforts to secure requested FY 82 supplemental and FY 83 foreign assistance funds for Central America/Caribbean; and

--/Consideration of an early meeting between President Reagan and Mexican President-elect de la Madrid./

Policy toward South America must take into account the resource limitations imposed by our Caribbean Basin and extra-hemispheric priorities, including the need to maintain the credibility of our global arms transfer, non-proliferation and trade policies. We must also avoid the impression of a knee-jerk response to the Falklands conflict and ensure that we do not burden our effort to secure vital Central America/Caribbean funds with additional controversy.

The problems we face in South America are serious:

NOTE: The bracketed portion indicated above of the SIG study (first page) was deleted, as the two Presidents have now met.

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