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Director of
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4 June 1982

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Argentine Foreign Debt Payments

Comment: Although Economy Minister Alemann has re-affirmed Argentina's intention to pay its overseas debts, these affirmations could become meaningless if there is a change of government or if he does not stay on. Alemann has had to insist on at least three occasions during the last two weeks that he is not going to resign.

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Argentina will have to pay $10 billion in short-term debt before the end of the year, but grain exports--the principal source of foreign exchange--will only reach about $8 billion. Military expenditures and the economic costs from the loss of private investment and developed countries' export markets, as well as the damage to Alemann's economic recovery plan, will further push Argentina to consider renegotiating its foreign debt payments, perhaps as early as July.

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SPAIN: Splits in the Center Democratic Union

The ruling Center Democratic Union may break up because of its defeat in local elections last month in Andalucia. [redacted] 25X1

The Center Democrats finished a distant third in the election with 14 percent of the vote compared with 52 percent garnered by the victorious Socialists. The setback, together with the approach of national elections scheduled for no later than next spring, has intensified longstanding divisions over power and policy in the party. [redacted] 25X1

Prime Minister Calvo Sotelo is hoping to save his job by striking a compromise among the feuding factions and maintaining the party's center-right orientation. Supporters of former Prime Minister Suarez, however, are making a determined effort to turn the party back toward the center. [redacted] 25X1

Comment: The infighting reflects a broader dispute over the political shape of Spain after the next national election. Many of Suarez's backers believe the Socialists will win a plurality in that voting and want to be in position to join forces with them in a new government. They recognize that such a pact would be unacceptable to many Center Democrats but appear willing to split the party--before or after the election--to establish themselves as the "hinge" between left and right. [redacted] 25X1

Many conservative Center Democrats are uncertain of gaining a place in a Socialist-dominated government. They argue for a pact with the rightist Popular Alliance, which has outperformed their party in the two most recent regional elections. [redacted] 25X1

//Declining confidence throughout the party in Calvo Sotelo's leadership will hinder his effort to bridge these differences, and defections to both the left and right could increase in the months ahead. Early elections in the fall would then become more likely, and the Socialists' prospects of victory would be greatly enhanced.// [redacted] 25X1

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WESTERN EUROPE: Attitudes on War Between Iran and Iraq

//The Allies appear skeptical that the West can help mediate the war between Iran and Iraq, even though recent Iranian successes have raised their fears for the stability of moderate Arab governments.//

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//Italian Foreign Minister Colombo believes that Italy is in the best position to mediate the conflict and has told US officials that the Iraqis have expressed interest in such an effort. He acknowledges, however, that Iran does not now seem interested in a diplomatic solution. According to Colombo, this dissuades Italy from making a diplomatic initiative.//

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//Turkey is concerned about the religious and political impact of Iran's successes. Ankara is particularly nervous over the possibility that the Shiite revolution might spread to its territory. Turkey also still feels that undue Western pressure on Iran to agree to a diplomatic settlement might push Tehran closer to the Soviets.//

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Comment: //The Allies probably are aware that Arab states in the Persian Gulf have publicly taken a less pro-Iraqi stance toward the war, and apparently doubt that Western states can contribute effectively now to a peaceful solution acceptable to both sides. Nevertheless, given the significant West European economic and political interests in the region, the Allies will carefully watch for diplomatic openings.//

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CUBA-NICARAGUA: Cuban Aid Mission

A high-level Cuban delegation that includes First Vice President Raul Castro and the Ministers of Transportation, Education, Construction, Communication, Agriculture, and Public Health has arrived in Nicaragua to offer assistance in dealing with recent heavy flood damage. The flood reportedly has left 71 dead, 25 cities and towns without communications, and 43 bridges destroyed. Agricultural and other damage to the economy may total an estimated $185 million. [redacted] 25X1

Comment: Cuba's primary goal is to demonstrate solidarity with the Sandinistas, and a substantial effort is likely to be made to provide disaster relief. In addition, Havana probably expects to score propaganda points in Honduras, where flood damage also has been severe. The Hondurans are pointing to increased Soviet economic aid to Nicaragua to underscore their frustration with what they view as insufficient US military and economic assistance. They estimate flood damage at more than $20 million and have asked all friendly foreign governments for emergency aid. [redacted] 25X1

POLAND: Alleged Strike Call

The US Embassy believes that the "Solidarity" leaflets calling for a general strike were prepared by the security services in order to create confusion in the union's ranks. All of the Embassy's contacts believe the underground Solidarity leadership is not ready for a general strike. [redacted] 25X1 25X1

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IRAN: Delegation to Arab States

An Iranian delegation headed by the Deputy Foreign Minister is touring the United Arab Emirates, Qatar and South Yemen to discuss the US role in the region.

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Comment: The Iranians fear that the US is trying to strengthen Iraq. They want to increase divisions among the six member states of the Gulf Cooperation Council and have identified the United Arab Emirates and Qatar as the most susceptible to pressure. Although the two states have provided at least $4.6 billion in financial aid to Baghdad, they are increasingly wary of public support for Iraq because of their large Shia communities and Iranian successes in the war. Iran probably also wants to halt the United Arab Emirate's efforts to mediate between Oman and South Yemen and to seek increased South Yemeni support against Iraq.

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SPECIAL ANALYSES

ARGENTINA: The Next Government

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//The exact composition of the next government in Argentina will depend largely on the duration and outcome of the current fighting. Its leaders, however, probably would be highly nationalistic, reluctant to negotiate with the UK, and would be increasingly inclined to blame the US for Argentina's defeat. Shifts from orthodox liberal to Peronist statist economic policies to placate labor supporters could pose particularly serious problems in the medium term.//

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//Argentina's current leaders sense ultimate defeat and are attempting to carve out a fallback position that would enable the military--and perhaps even President Galtieri himself--to survive a surrender and retain power. Their prospects for doing so increase with the amount of time Argentine forces hold on and with the level of casualties they inflict.//

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//Speeches by officials of the regime are portraying the battle for the Falklands as part of a larger effort against a conspiracy of the US and other Western powers to prevent Third World countries from pursuing legitimate national interests. Washington in particular would be blamed for failing to persuade London to accept a cease-fire after hostilities intensified.

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Clinging to the Falklands

//If there is no negotiated cease-fire before an Argentine surrender, these themes would be sustained by whatever ruling group emerges. There is widespread popular support for Argentina's claim to the Falklands, as contrasted with support for Galtieri himself, and the military would be especially reluctant to give up that claim.//

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//Former Admiral Massera and other retired military leaders who could lead a coalition effort also have called for no surrender through negotiations. Civilian leaders,

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forced to reckon with the strong influence wielded by Peronists and other nationalist elements, would similarly uphold Argentina's claim and seek a reorientation of foreign policy.// [redacted] 25X1

Galtieri's Prospects

//Under the best conditions--defeat with "honor"--Galtieri probably has about an even chance of surviving for more than a short period. To stave off threats to his rule, he would move to rebuild his standing with the military and to accelerate political liberalization.// 25X1 [redacted]

//If Galtieri were replaced following an "honorable" defeat, lower ranking officers probably would conduct a housecleaning. They would pursue broadly similar policies, however, and move to rearm, share greater power with civilians, and advance the date for an election.// [redacted] 25X1

//The continuation of some form of military rule in the medium term seems likely because civilian leaders are as divided as ever. In addition, the fact that the decision to invade the Falklands was so closely held could enable particularly ambitious second-line military leaders to represent themselves as "untainted."// [redacted] 25X1

//Galtieri and the military face the greatest risk if they continue to misrepresent the tactical situation until the last moment, even though defeat now seems inevitable to the public. This could lead to the fall of the junta and leave the armed forces discredited, divided and unable to rule.// [redacted] 25X1

//In this case, civilian elements dominated by leftist elements could find themselves the country's most viable political force. Their ascendancy, however, could touch off instability. A succession of weak administrations might prompt some members of the military to attempt to seize power from objectionable leftists.// [redacted] 25X1

Economic Pressure

//Even if Galtieri manages to remain in power following a defeat, he would face increased pressure from labor unions to dismantle his economic austerity program in return for

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support offered during the conflict. A rapid and politically motivated reactivation of the economy could only be achieved at the expense of large government deficits, high inflation, and attempts to increase international borrowing. International lenders, already edgy over recent events, would be likely to withhold badly needed financing in the face of such economic mismanagement.// [redacted]

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//If the current government dissolves completely in the face of a military defeat, economic chaos could reach the levels of 1976--including hyperinflation, huge budget deficits, and a return to the printing press.// [redacted]

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