



Director of
Central
Intelligence

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NOFORN NOCONTRACT



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National Intelligence Daily

Saturday
2 January 1988



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2 January 1988

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The Accord

Under the US-Mexican agreement, creditor banks would exchange their Mexican Government debt at a discount for as much as \$10 billion of new 20-year Mexican bonds. To make the deal more attractive to banks, the US Treasury has agreed to guarantee the Mexican bonds by issuing bonds of its own to Mexico for about \$2 billion.

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SOUTH AMERICA: Reactions to US-Mexican Debt Plan

Major South American debtors are reacting with wary optimism to the debt-relief scheme unveiled by the US and Mexico early this week. [REDACTED] b3

South Americans are pleased that Western creditors are embracing in the Mexican scheme a conviction held by many regional debtor countries that their commercial debt should be devalued through secondary market discounts. While key Latin debtors—including Brazil and Argentina—have called the scheme a positive development that they hope will eventually benefit other debtors, they are expressing concern that the arrangement was tailored to Mexico's situation and may not easily be applied to their own critical debt problems. [REDACTED] b3

Most foreign bank creditors have welcomed the scheme, according to press reports. A number of small- to medium-sized international banks intend to take advantage of the opportunity to shed their Mexican debt for perhaps as little as 50 cents on the dollar, although larger banks have yet to indicate their plans for participation. [REDACTED] b3

b3 [REDACTED] The US-Mexican debt plan is less suited to Brazil or Argentina. Both are short of foreign exchange and would be unable or unwilling to foot the bill for a comparable US Treasury bond guarantee. [REDACTED] b3

Brazil would not qualify for the guarantee so long as its interest payments remained in arrears and it refused to subscribe to an IMF program. Brasilia's relations with bank creditors may become more contentious because it will probably insist on concessions as generous as those accorded Mexico but without the costs of an IMF program or large foreign exchange expenditures. [REDACTED] b3

Buenos Aires probably will expect the US and creditor banks to extend it special treatment because Argentina, like Mexico, has continued to honor its debt commitments. [REDACTED] b3

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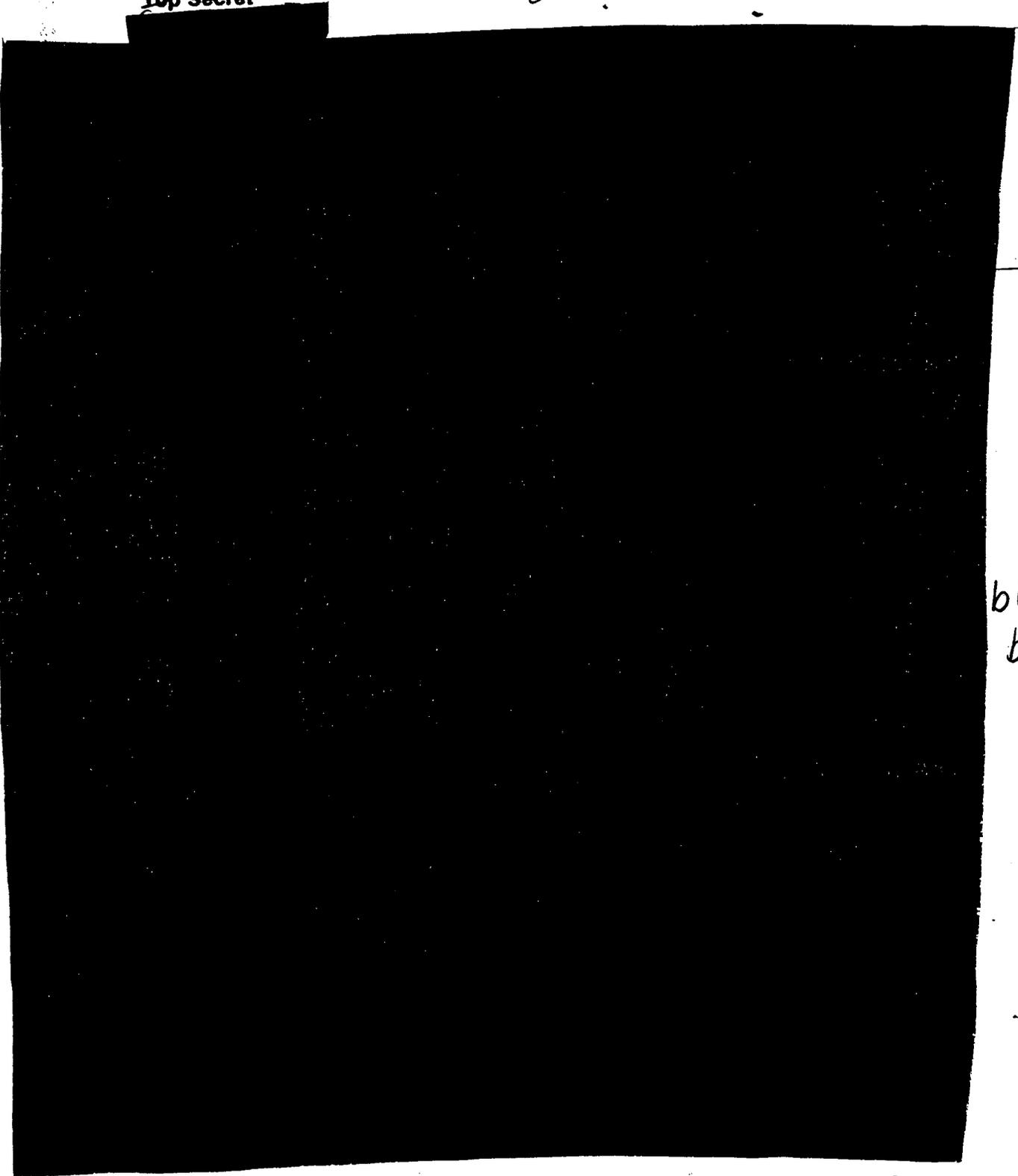
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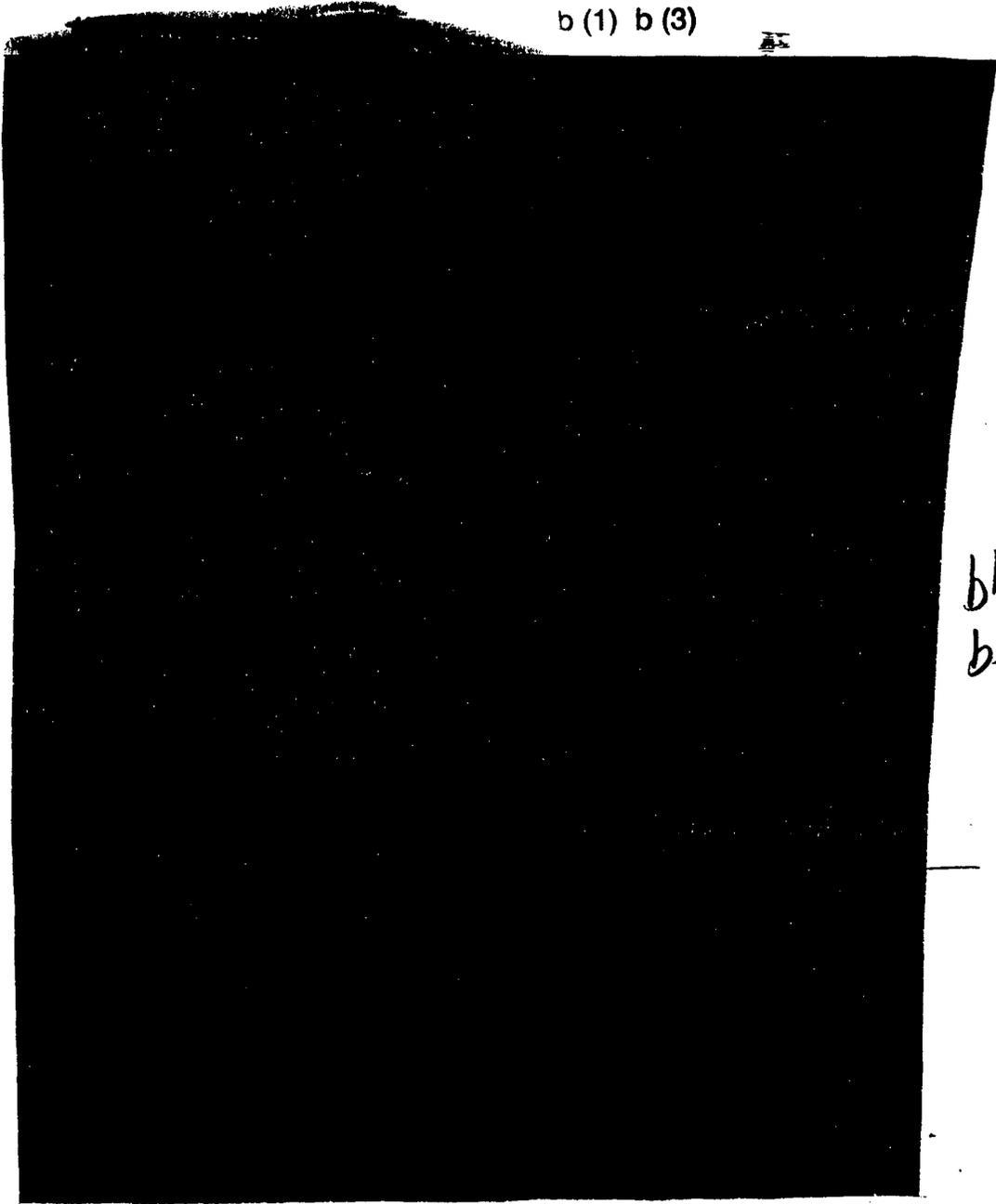
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[REDACTED]

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HAITI: Coping With Foreign Aid Cuts

Haiti is trying to ease the impact of recent aid cuts but probably will face a financial crisis shortly after the election period ends early next month. To cope with the suspension of \$69 million in US and multilateral balance-of-payments support, Port-au-Prince has raised gasoline taxes, delayed paying civil servants, and announced a 20-percent cut in the salaries of military officers.

[REDACTED] stocks of wheat, petroleum, and edible oil are sufficient to last through early next month but foreign exchange reserves will cover no more than a normal six-week supply of imports.

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The ruling council almost certainly wants to avoid imposing austerity measures before the scheduled inauguration of a civilian president on 7 February. The military salary cuts merely rescind a portion of the 90-percent increase in base pay granted to all military personnel in October. To retain the military's loyalty, the government probably will shift the burden of most budget cuts to the civilian sector. Such a move, however, risks a new round of popular unrest as the full impact of the measures begins to take hold by March.

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WEST GERMANY-USSR: Strauss in Moscow

The visit of Bavarian Minister-President Franz Josef Strauss to Moscow earlier this week is likely to increase West German optimism about Soviet domestic and foreign policies. Following the trip, Strauss referred to a new chapter in Soviet-West German relations and said the INF accord—which he has criticized on military grounds—could improve the climate for other arms negotiations. Strauss urged General Secretary Gorbachev to accept cuts in tactical nuclear weapons in conjunction with conventional arms reductions.

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[REDACTED] the two men also agreed that a global ban on chemical weapons would be verifiable. The Bavarian state's leader called as well for expanded East-West trade and discussed possible Soviet-West German cooperation in building an experimental nuclear reactor.

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[REDACTED]

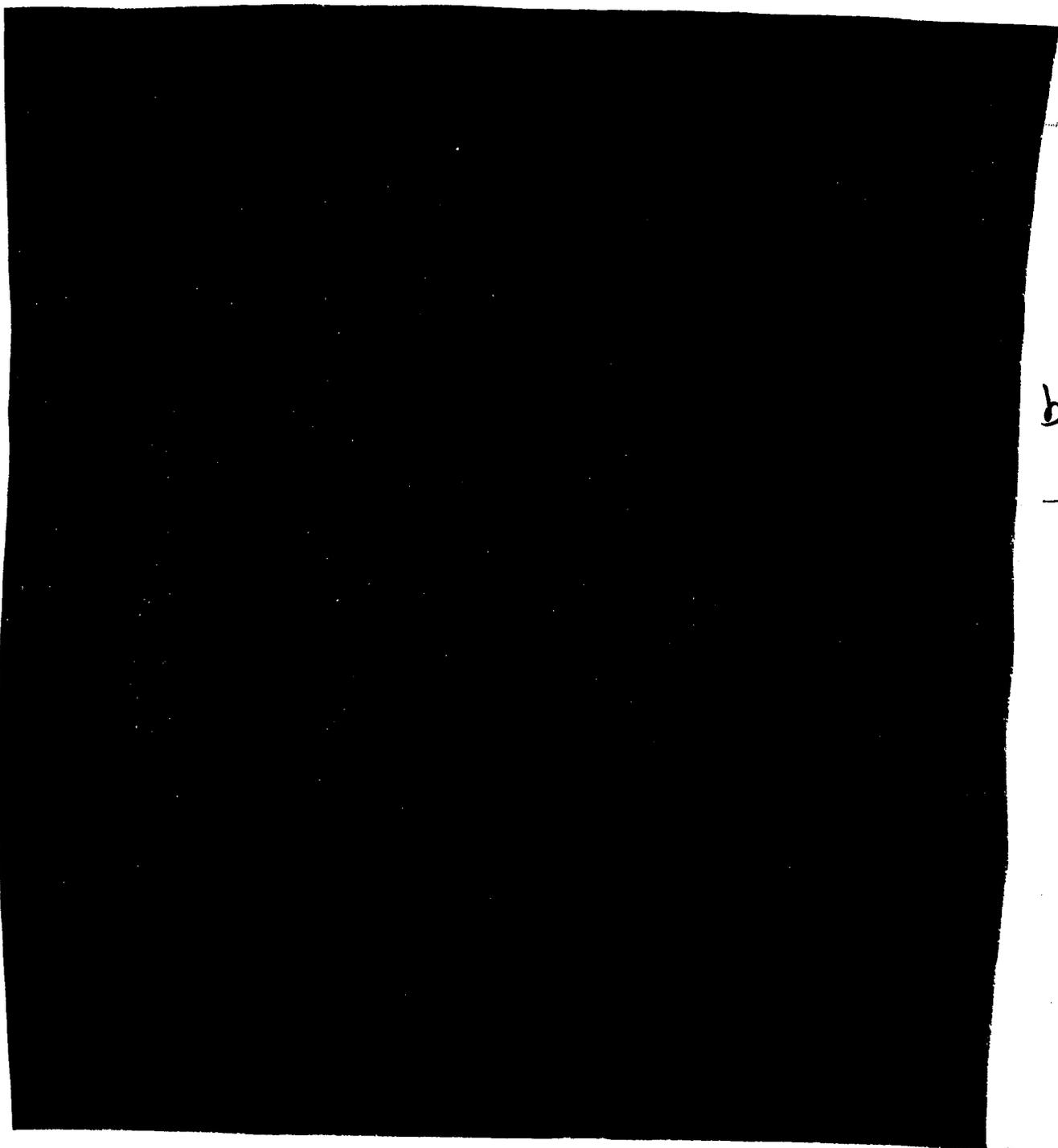
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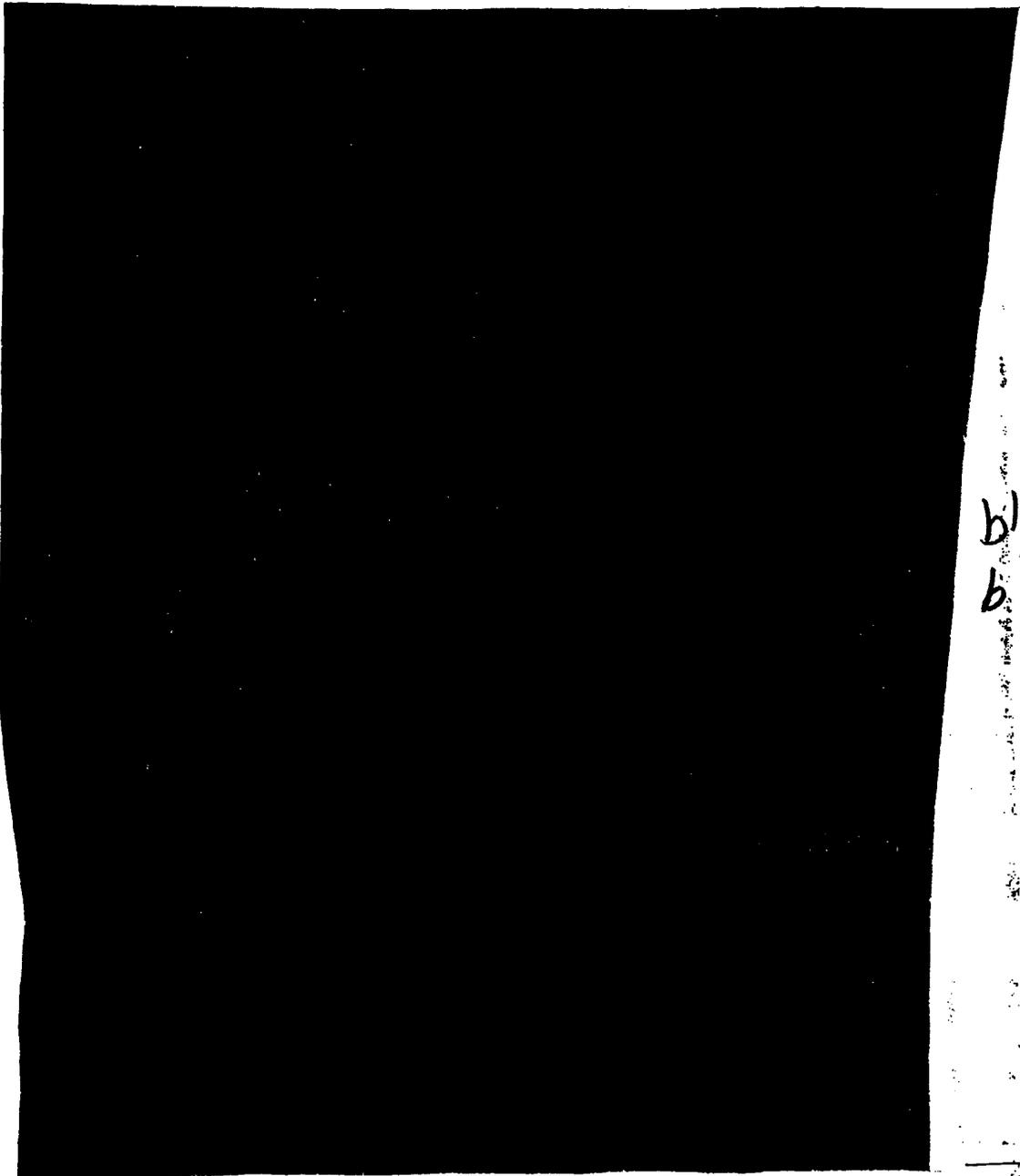
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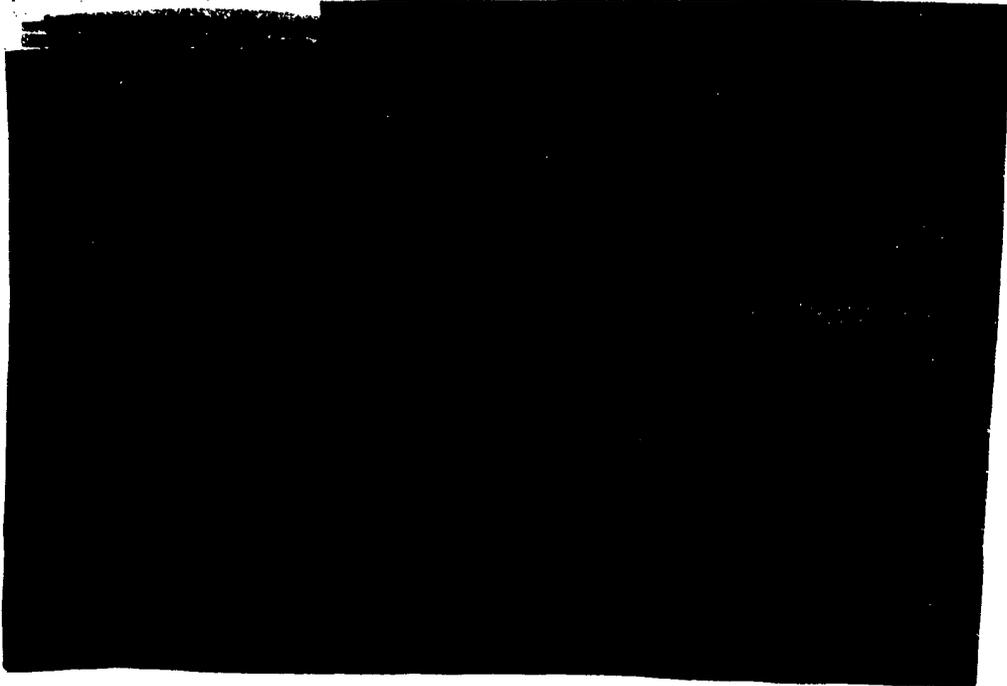
FRANCE-LUXEMBOURG: Acquittals in Diversion Case

A Luxembourg court has acquitted five French nationals on charges of violating the grand duchy's laws on technology diversion. The court, however, affirmed the Luxembourg Government's actions in May 1985 to seize the US-made ion etcher—used in microelectronics production—en route to Moscow.

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The case demonstrates the difficulties in enforcing multilateral export controls, particularly differing national laws that are not designed to control multinational shipping routes. The court reasoned that the primary defendant, although selling illegally to the USSR, had not intended to ship the controlled item through Luxembourg and therefore had not knowingly violated its laws. The Luxembourg Government can appeal the court's decision but probably will not because it is more concerned about offending Paris than about enforcing COCOM rules.

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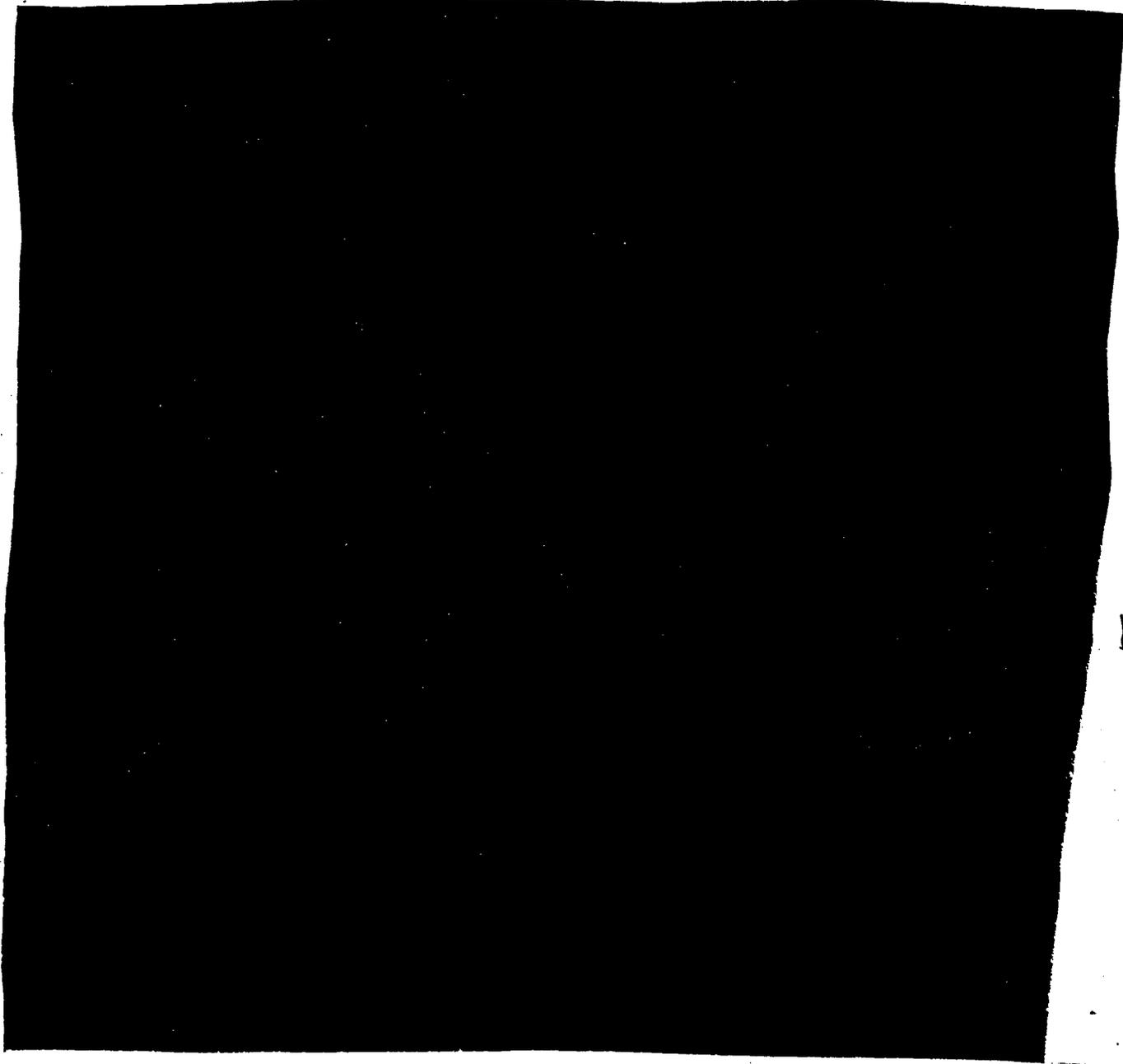
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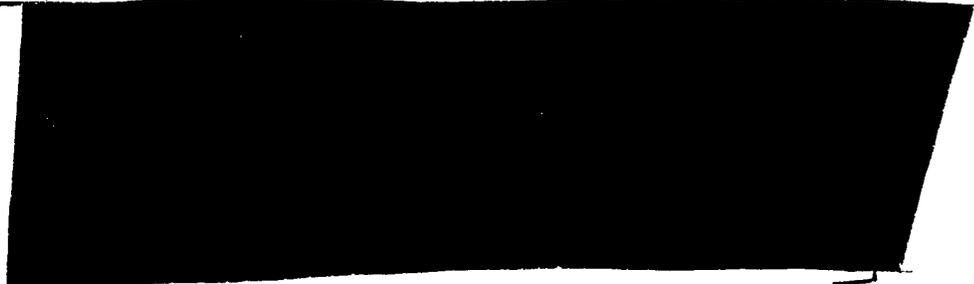
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In Brief

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— Sudanese radio claims town of Qaysan near Ethiopian border retaken ... rebels who had seized town three weeks ago reportedly fled ... will boost Army morale.

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— Bangladesh President set parliamentary elections for 28 February ... opposition parties say they will boycott ... Ershad's efforts to woo opposition defectors failing ... could shift local elections from mid-February to increase voter turnout.

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— Mohammed Abdul Munim appointed Bangladesh Finance Minister ... honest, efficient technocrat ... had held commerce and agriculture portfolios ... Ershad wants to maintain competent economic leadership during current turmoil.

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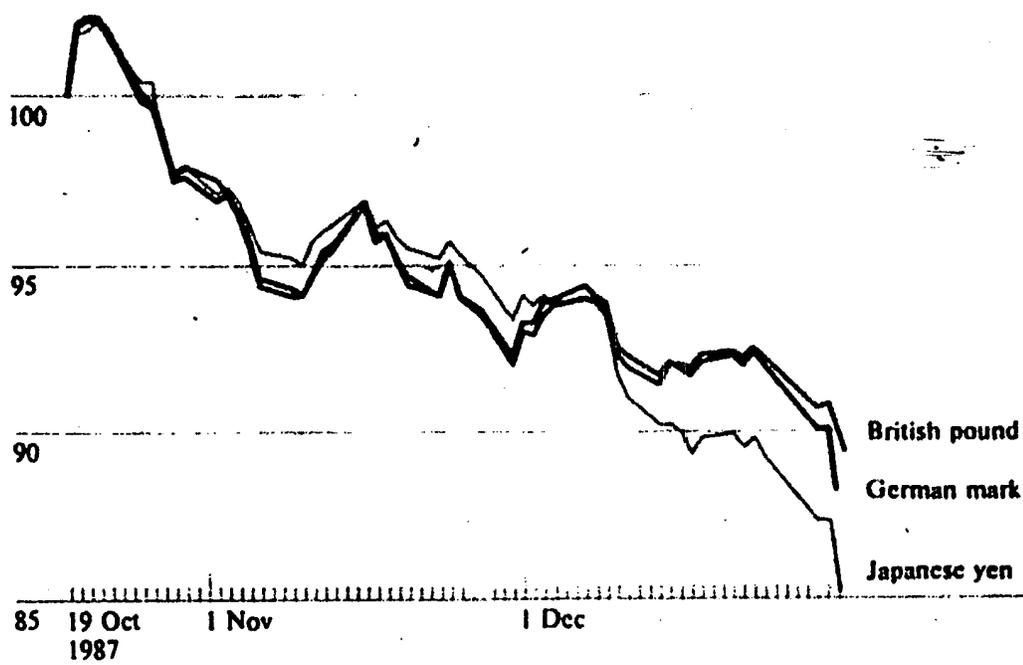
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Decline in US Dollar Since 19 October

19 October Exchange Rates = 100

105



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Special Analysis

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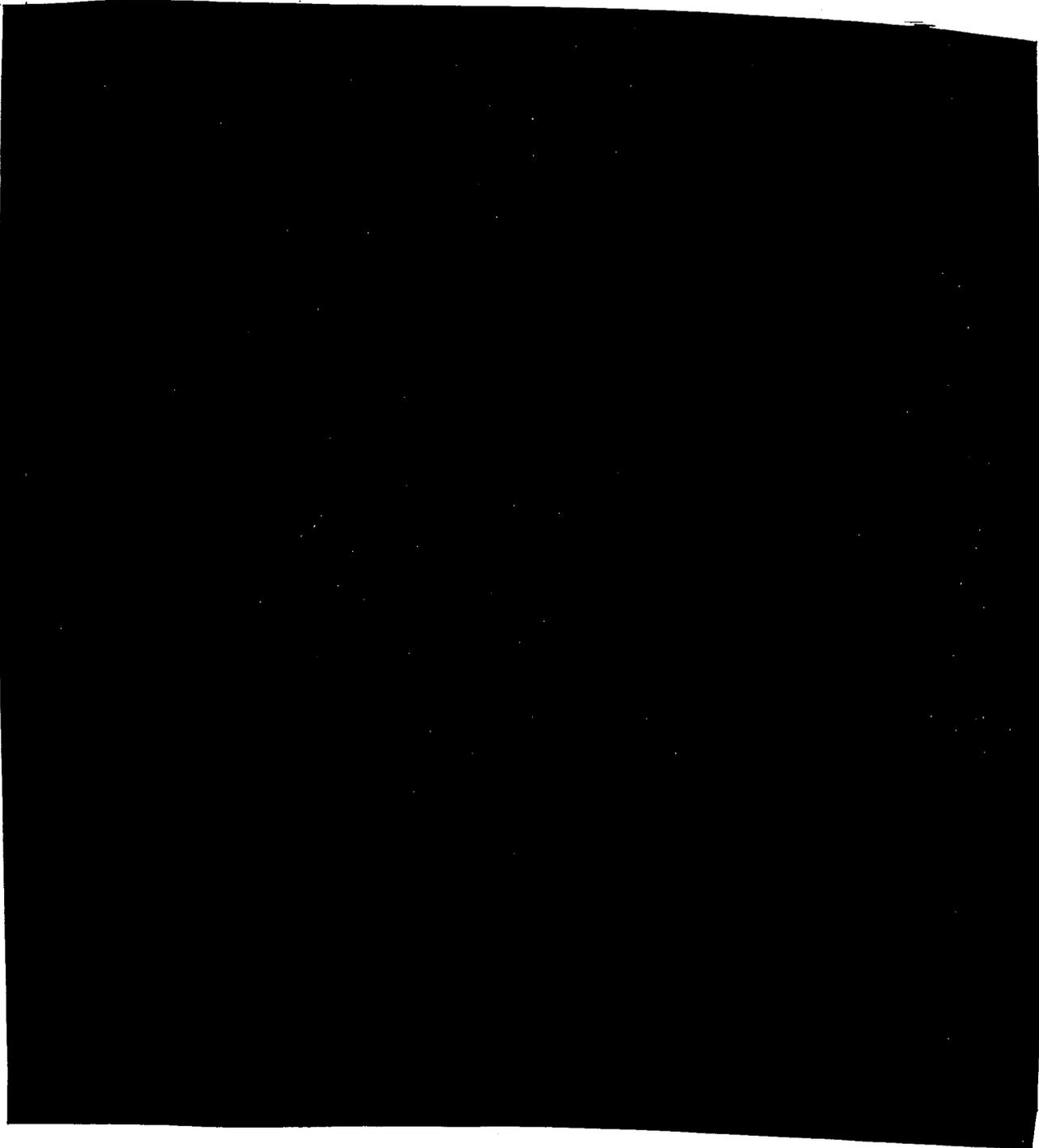
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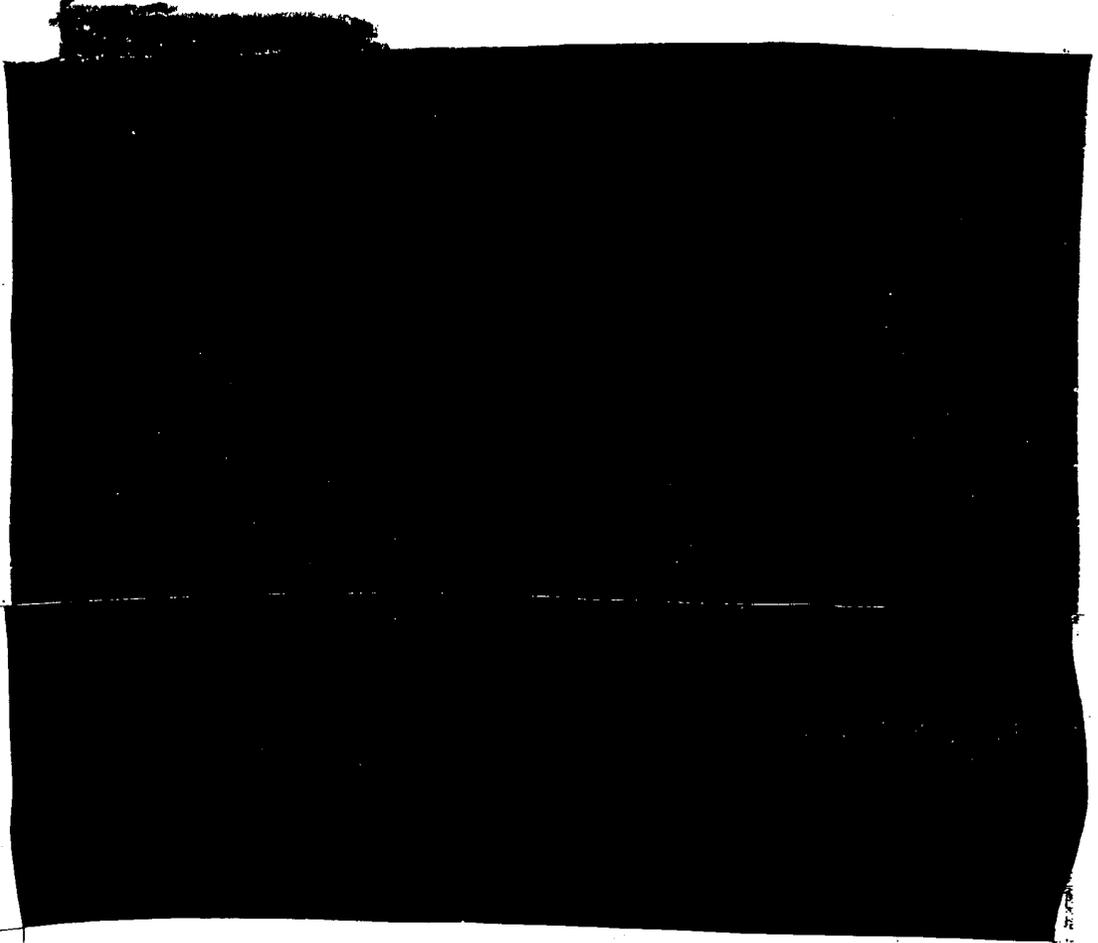
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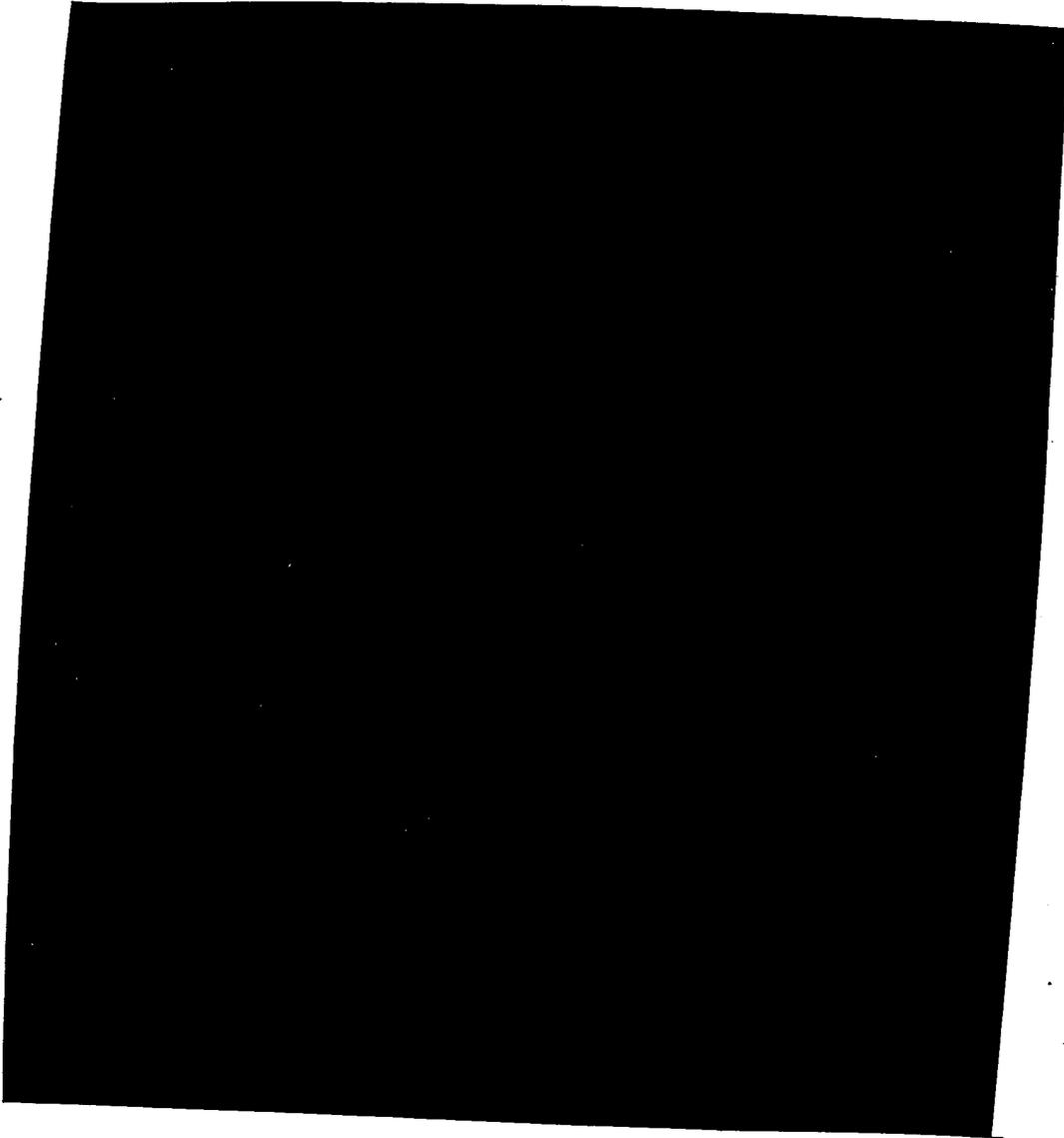
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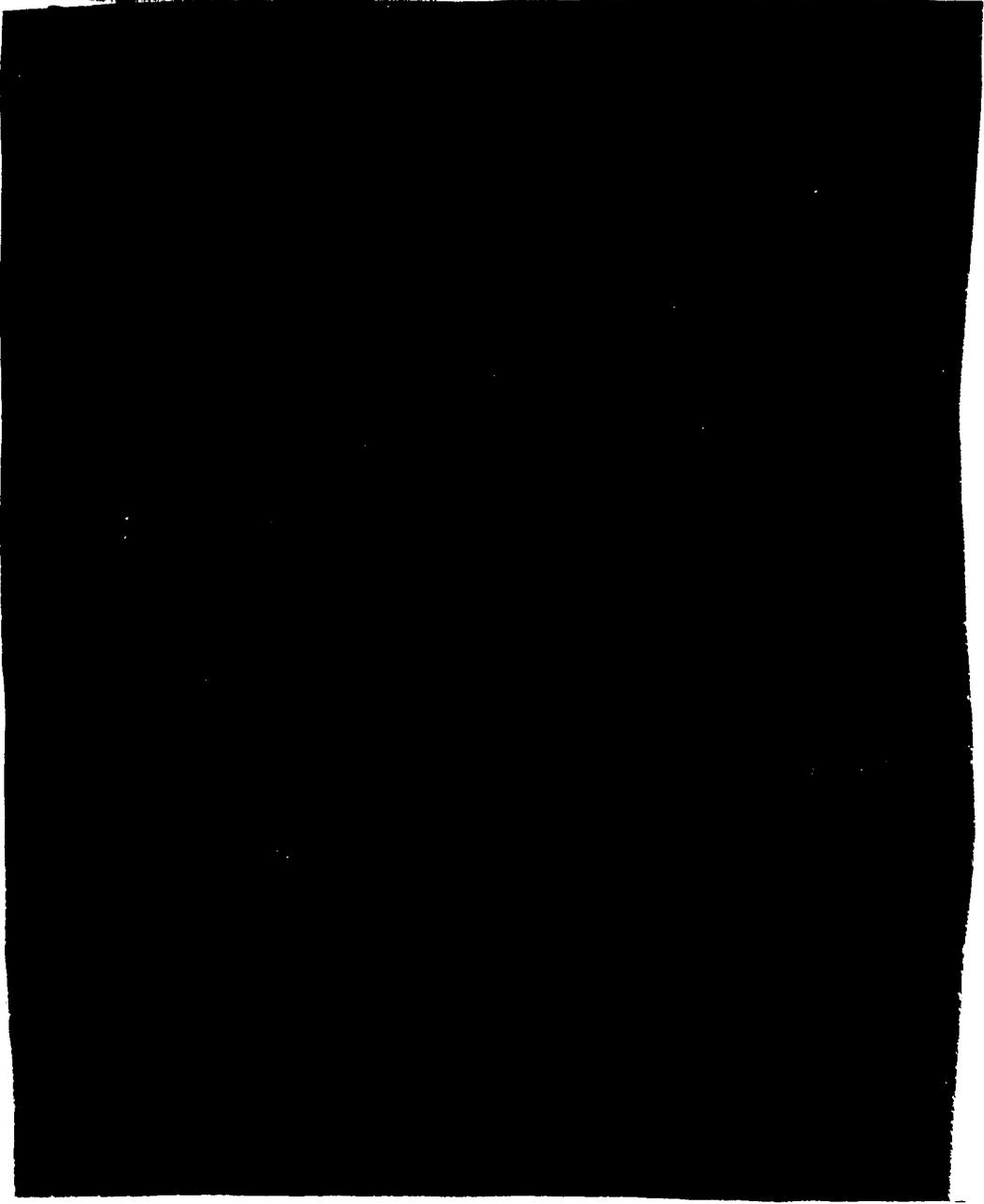
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Special Analysis



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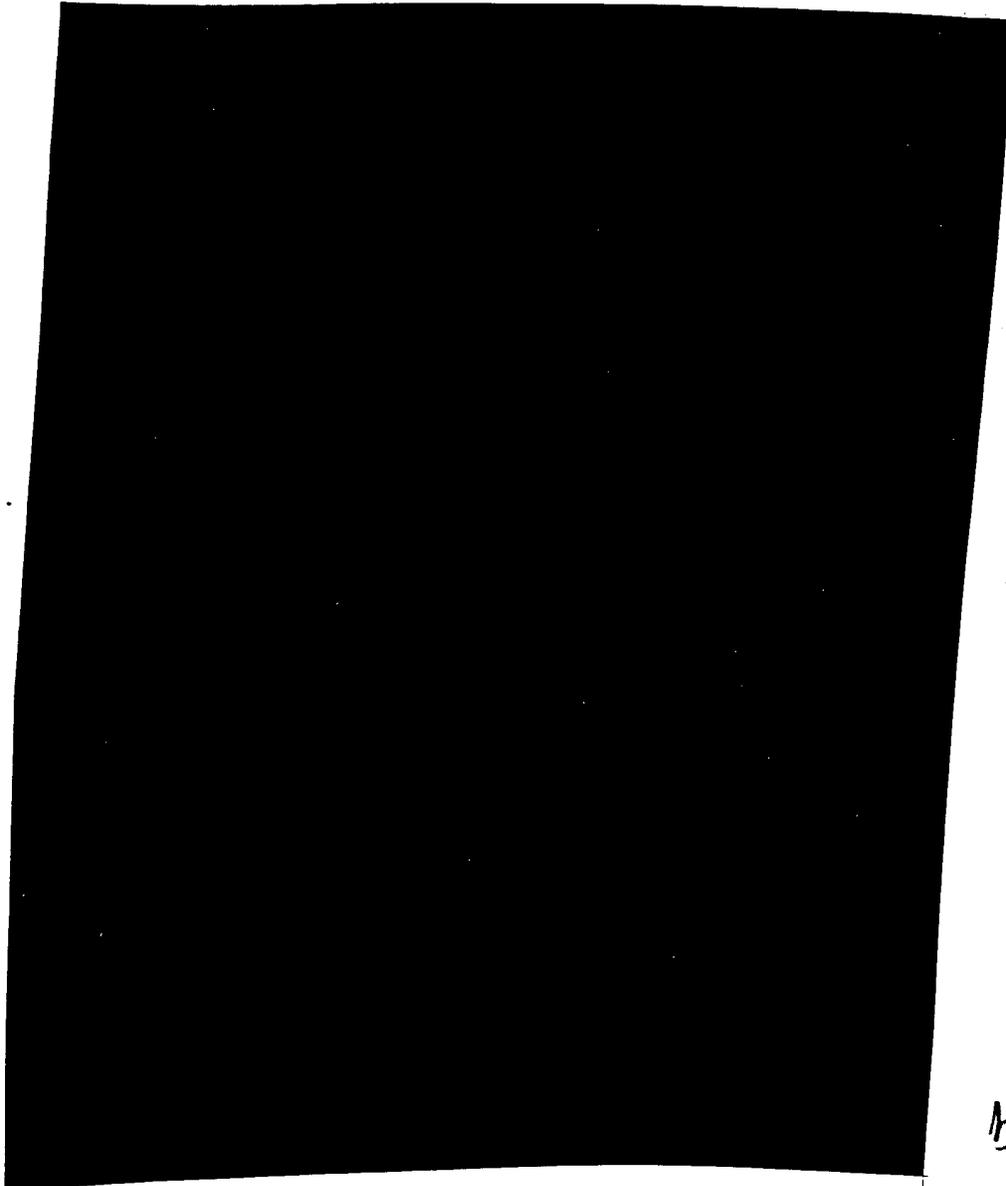
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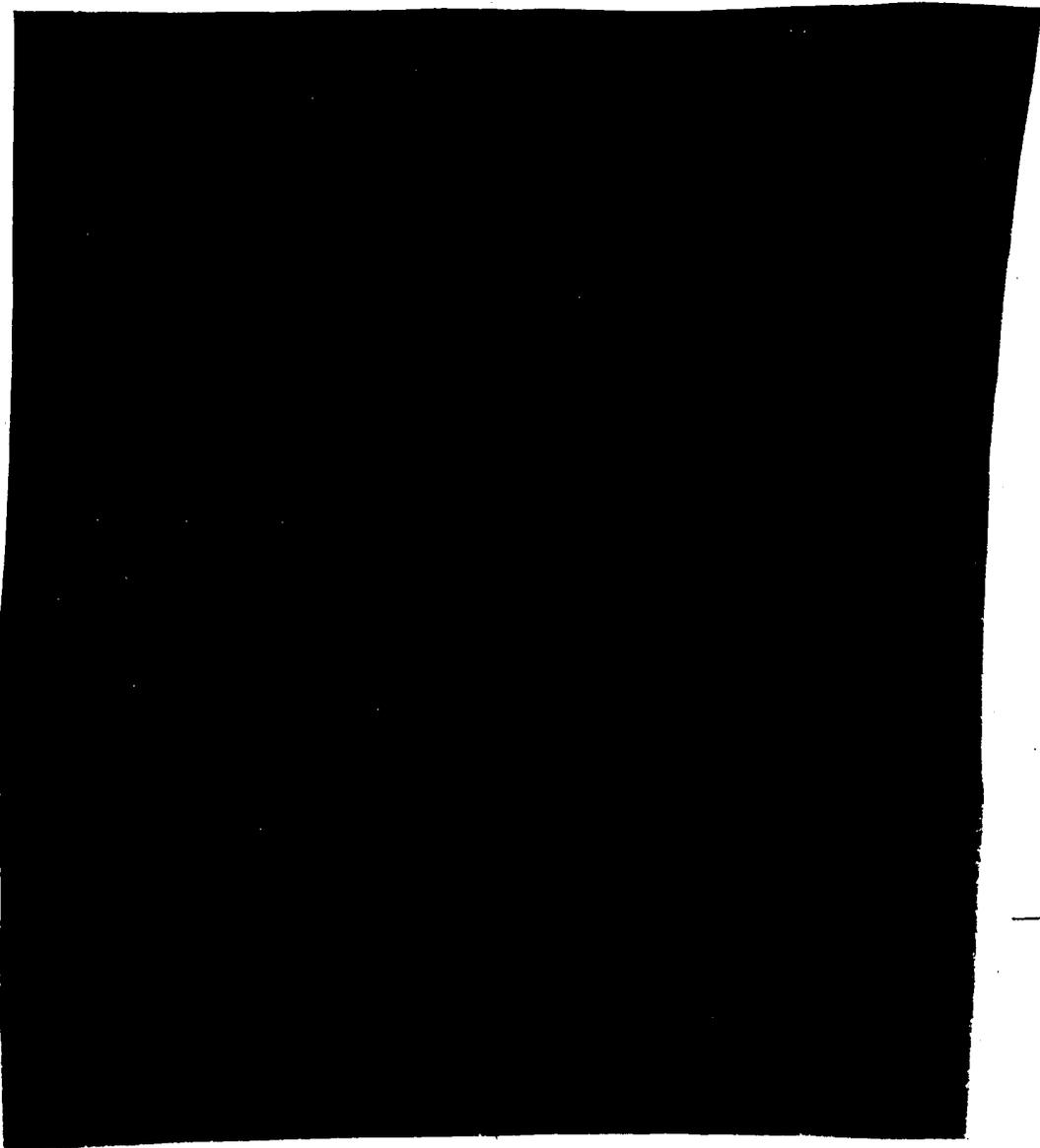
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