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Latin America Review

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20 December 1985

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**Latin America
Review**

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20 December 1985

*Page***Articles****The Nicaraguan Insurgency: A Yearend Assessment**

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Although both the Sandinistas and the rebels have improved their military performance over the past year, the fighting appears stalemated, with little indication that either side can gain a decisive edge in the near term.

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Panama: The Catholic Church in Politics

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Archbishop McGrath, who recently denounced the military's role in handling the murder of an outspoken critic of the Defense Chief, has gained credibility as a peacemaker that could lead the administration to ask him to mediate differences between the regime and its opponents.

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Argentina: Civil-Military Relations

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Arrests of present and former officers who allegedly masterminded a wave of terrorist bombings have led to deteriorating relations between the government and the armed forces, but President Alfonsin is taking actions to deal firmly with coup plotters and calm the military.

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Jamaica: Accelerating Economic Slide

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The declining economy is causing concern about possible social unrest, eroding Prime Minister Seaga's already weak popular support, and boosting the electoral chances of his leftist opponents.

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Cuba: Seeking New Trade Ties to Latin America

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Despite efforts to build its regional influence through increased trade ties and renewed diplomatic ties to neighboring countries, Havana is unlikely to achieve a significant trading presence in the region.

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Brazil: Labor Tests the Sarney Administration [Redacted] 21
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Unions are confronting the new civilian government with strikes and inflationary wage demands, but they are unlikely to pose a serious threat to President Sarney over the next year. [Redacted]

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Costa Rica: Labor's Political Role [Redacted] 25
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Further labor unrest is likely next year, but limited union membership, disunity, and weak party ties probably will prevent organized labor from exercising much influence on national politics.

[Redacted]

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Articles have been coordinated as appropriate with other offices within CIA. Comments and queries regarding this publication may be directed to the Chief, Production Staff, Office of African and Latin American Analysis [Redacted]

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Articles

**The Nicaraguan Insurgency:
A Yearend Assessment** [Redacted]

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The fighting in Nicaragua, which exhibited peaks and lulls in intensity over the last year, appears stalemated, with little indication that either side can achieve a decisive edge in the near term. The course of the war has highlighted both the improved military capability of the Sandinista forces and the resiliency of the main insurgent group, the Nicaraguan Democratic Force (FDN). Events also have underscored the rebels' vulnerability to supply problems and the vagaries of external supporters. The drain on Managua's economic and manpower resources has required tighter domestic controls while further diminishing the regime's popular support and driving new recruits to the FDN. [Redacted]

unity with the FDN, some of his commanders recently initiated cooperation with the rival organization, [Redacted]. The Indian insurgents operating on the Atlantic coast, who number about 1,200, also have been plagued by logistic shortfalls and political infighting. Several factions recently formed an umbrella organization, KISAN, and are coordinating actions with the FDN. [Redacted]

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Government Strategy and Rebel Response

At the outset of 1985, Sandinista Defense Minister Humberto Ortega publicly declared it the year the insurgents would be defeated. To upgrade military capabilities, Managua increased the draft, organized elite counterinsurgency battalions—now numbering some 12 to 14—and acquired advanced Soviet equipment such as the MI-25 helicopter gunship. In addition, the US Embassy and press reported that the regime relocated much of the population in the northern border area to deny the FDN safehaven and create a free-fire zone. From February through May, the government pressured the insurgents in the north with artillery and multibattalion sweeps—interdicting infiltration routes, disrupting insurgent concentrations across the border in Honduras, and forcing the rebels to expend scarce ammunition. [Redacted]

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The Setting

Organized in 1981 by supporters of former President Somoza, the rebel forces have grown to include businessmen, civic oppositionists, and disaffected Sandinistas. The insurgents claim to be fighting for the original goals of the revolution—pluralism, a mixed economy, and nonalignment. Several political parties, businessmen's organizations, and independent labor unions comprise the small domestic opposition. In addition, the traditionally passive population of late has expressed disgruntlement over the economic situation, the draft, and state controls in a few spontaneous demonstrations, according to a variety of US Embassy and press reports. [Redacted]

For their part, the anti-Sandinistas concentrated on small unit tactics and ambushes, maintaining their integrity as a fighting force and incorporating the swelling number of recruits that increased FDN ranks from 14,000 to 18,000 during the year. [Redacted]

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Of the groups comprising the insurgency, the FDN is the largest—with some 18,000 troops—best equipped, and most viable. Staging out of Honduran bases, it operates widely in Nicaragua's northwest, central highlands, and south-central region. In the south, the forces of former Sandinista Eden Pastora have dwindled to an estimated 600 because of supply problems, poor leadership, and Sandinista military pressure. Although Pastora consistently has rejected

[Redacted]

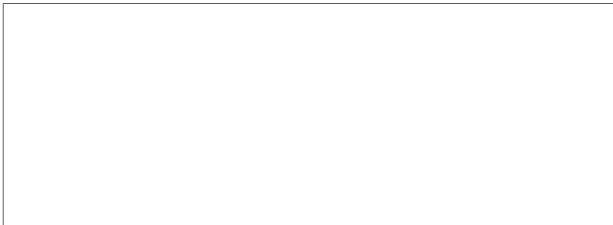
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By late spring, the rebels had alleviated some of their supply difficulties, and an increasing number of troops were able to bypass Sandinista blocking positions along the border and penetrate deeper into Nicaragua. The leasing and acquisition of new aircraft improved resupply capabilities, [redacted] and the resumption of US funding boosted morale. Moreover, the regime was forced to spread out its troops to counter expanded insurgent actions in central Zelaya, Boaco, and Chontales Departments. The FDN has sporadically challenged the regime with aggressive rebel attacks in Esteli and Chontales Departments in midsummer and along the vital arms route from Rama to Managua in the fall, demonstrating the resiliency of the insurgency. In November, Ortega publicly amended his prediction, admitting that the war probably will last into 1987. [redacted]

Nonetheless, steady improvements in Sandinista capabilities and lingering rebel difficulties averted any significant shift in momentum toward the insurgents. The regime effectively employed both helicopters and fixed-wing aircraft for close air support and convoy escort, upgraded coordination between ground and air forces, and developed a capability to intercept insurgent communications. For its part, [redacted] the FDN remained at the mercy of a tenuous supply line and Tegucigalpa's erratic support. Moreover, command and control deficiencies have limited the FDN's control over individual field commanders inside Nicaragua. [redacted]

The Political Battle

Regime efforts to garner international support were undercut by repressive domestic policies, especially the expanded state of emergency announced in mid-October. The regime's foreign strategy centered on cultivating condemnation of the insurgency and of US aid to the rebel forces through the International Court

of Justice, Contadora regional peace negotiations, the United Nations, and other international bodies. Although these efforts have had some success, a variety of recent US Embassy and press reports indicate some Latin and Western leaders are having second thoughts about their support for the Sandinistas. With the goal of denying the insurgents safehaven in neighboring countries, the regime increased diplomatic and military pressure—primarily through cross-border shelling—on Costa Rica and Honduras to agree to bilateral accommodations. At home, the Sandinistas reorganized the party and government bureaucracies, campaigned against corruption, and exhorted the population to increase revolutionary vigilance to counter US "aggression." Nonetheless, public dissatisfaction grew as a result of deepening economic hardships, tighter restrictions on civil liberties, and the renewal of military conscription, according to US Embassy reporting. [redacted]

Taking a page from the Sandinistas' book, the insurgents tried to improve their international image. In March, insurgent and exiled political leaders called for a dialogue with the regime—which Managua has repeatedly rejected—timed to coincide with a similar call by the internal opposition. In June, the formation of the United Nicaraguan Opposition (UNO) brought respected anti-Sandinista civilians into an umbrella organization incorporating the FDN and associated insurgent groups. Late in the year, UNO created a human rights staff and prosecuted some 20 FDN combatants for offenses committed against civilians. It also laid plans for a civic action medical program in the Honduran border area to promote good relations with the local population and authorities. In addition, [redacted] the FDN plans to remove several former National Guardsmen from command positions. [redacted]

The FDN has failed, however, to develop a political support base within Nicaragua. While the traditional passivity of the Nicaraguan people and fear of government retaliation present significant constraints, the FDN's vague political program for Nicaragua's future apparently has not inspired the population to

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translate its disgruntlement with the regime into acts of civil disobedience or graffiti campaigns in support of the rebel cause. [redacted]

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Outlook

We expect that the Sandinista military will be able to meet most insurgent challenges over the next several months. Given increased government firepower and capabilities, the FDN will have to make significant strides in improving logistics, training, and command and control to give it the potential to shift momentum in its favor. [redacted]

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External assistance will remain vital to each side. Continued receipt of Soviet military equipment—possibly including more advanced systems such as SA-2s—will further strengthen Sandinista forces, while increased economic aid will be necessary to prevent further deterioration in living standards and popular tolerance. For its part, the FDN will be hampered in its efforts at long-term strategic planning or significant growth in its forces by the lack of military training of many of its leaders, uncertainty generated by its still tenuous supply network, and the sensitivity of its external supporters, especially Honduras. [redacted]

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Although neither side currently is poised for victory, continued domestic disgruntlement with the regime could provide new opportunities for the rebels to establish internal support networks and attract additional recruits. To do so, the FDN needs to move into the populated areas on the Pacific coast and redouble efforts to present itself as a viable alternative to the Sandinistas. [redacted]

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Panama: The Catholic Church in Politics [redacted]

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The murder last September of Hugo Spadafora, a former government official and outspoken critic of Defense Chief Noriega, has led the Catholic Church to once again enter the political limelight. Although Panama's Archbishop McGrath has focused primarily on clerical matters and programs for the poor, he has also made periodic public statements chastising the military for its encroachment into civilian government matters. In the most recent instance, his denunciation of the military's role in the handling of the Spadafora case has made him a lightning rod for opposition protests and drawn sharp rebukes from the armed forces. Nevertheless, McGrath's measured responses during previous government crises have given him credibility as a peacemaker, and the administration could call on him again to mediate government and opposition differences. [redacted]

The Catholic Church traditionally has been a circumspect player in Panamanian politics. Archbishop McGrath, a former US citizen who has headed the Panamanian Church since 1969, has been vocal on issues such as the canal treaties and human rights, according to the US Embassy, although he generally has maintained a relatively low political profile. In another instance, during the 1984 presidential election campaign, he chastised the contenders for neglecting social and economic problems. Moreover, later in the year he played a mediating role in the political negotiations associated with then President Barletta's ill-fated fiscal reform package. [redacted]

Relations With the Military

Although the church has generally refrained from criticizing the Defense Forces directly, it has called attention to military intervention into national politics. The US Embassy reports that the Catholic hierarchy objected to the authoritarian hold on power of the military regime headed by General Torrijos, but favored Torrijos' social reforms. Relations were especially cool in 1971 when Father Gallegos, a Colombian priest organizing farmers' cooperatives, was kidnaped and murdered. Speculation centered on



La Nacion

Marcos Gregorio McGrath ... Archbishop of Panama since 1969 ... 61 years old ... born in Canal Zone ... parents US citizens ... chose Panamanian citizenship ... educated primarily in United States ... received Ph.D. in theology in Rome ... taught in Chile ... consecrated as bishop in 1961 ... involved in programs to improve the economic, social, and political well-being of Panamanians and other Latin Americans ... aspires to be next Cardinal for Central America. [redacted]

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military duplicity, and McGrath condemned the government for its failure to solve the case. In 1978 the Archbishop publicly berated the military's supremacy in the country's political/economic system, its authoritarianism, and growing corruption. [redacted]

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Recent Involvement

The advent of the Barletta government in November 1984 rekindled McGrath's political activism. Last May, a report coauthored by the Archbishop called the government corrupt and accused the military of trying to increase its power, according to the press. McGrath, along with the papal nuncio and other priests, has taken a public position in support of an impartial investigation into the murder of Spadafora, which Defense Chief Noriega has blocked—probably due to military involvement in the killing. Encouraged by the public affirmation of the church, Spadafora's family and supporters have undertaken a series of protests including a five-day vigil culminating in a rally at the papal nuncio's residence. The church also embarked on a series of religious activities to promote an effective investigation. [redacted]

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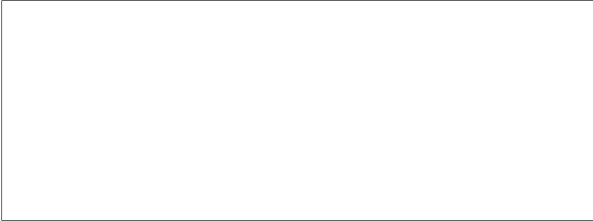
Church alignment with the public clamor for a special investigation has led to renewed friction with the military. Although the military-controlled press later

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apologized for accusing the church of sponsoring political sedition, it warned the papal nuncio that, as a diplomat, he should not intervene in domestic affairs.




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Acknowledging the tense political climate, prominent figures recently have called for the negotiation of national political reforms under the auspices of the church. The US Embassy reports that Archbishop McGrath also advocates a dialogue involving various political groups. An opposition newspaper, however, says that McGrath believes that, despite his desire to reach a political accord, such an agreement is not feasible as long as the military-backed government feels secure in its power. 

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Prospects

We believe that the church's involvement in the Spadafora controversy is another temporary excursion into politics. Archbishop McGrath probably will continue to support the Spadafora family's efforts to obtain an impartial investigation into his murder, but he is unlikely to take the lead. McGrath is likely to be constrained by recent warnings from armed forces officials and will probably return to strictly religious issues rather than risk undermining the authority of the church over the longer term. Despite his apparent unwillingness to become involved in a new dialogue between government and opposition leaders and despite recent harsh words from the military, however, the Archbishop remains the likely mediator if talks between opposing sectors are organized. 

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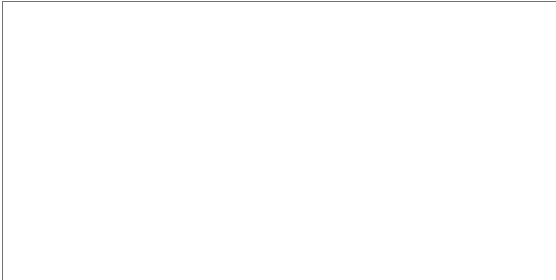
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**Argentina:
Civil-Military Relations** [redacted]

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Relations between the government and the armed forces—already strained by the trials of military leaders for human rights abuses—worsened significantly after President Alfonsin ordered the arrests in October of six active duty and retired officers. The officers were accused of masterminding the recent wave of terrorist bombings in Buenos Aires to foment political instability and discredit the Alfonsin administration. The arrests, which precipitated the President's 25 October declaration of a state of siege, raised military fears that the government was trying to smear the reputation of the armed forces and prompted numerous coup rumors. We believe, however, that Alfonsin's personal popularity and his party's strong showing in the 3 November congressional elections will enable him to deal firmly with coup plotters and, simultaneously, to take measures to calm the military. [redacted]



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We believe the bulk of the bombings were carried out by small groups of civilian and military rightwing extremists who lacked widespread support in the armed forces. They probably hoped to foster an atmosphere of lawlessness and government ineptitude that would erode public confidence in Alfonsin. They may, in our view, have chosen military targets to create the impression that the radical left had returned to the violent tactics of the 1970s.

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The Growing Crisis

Tensions between the government and the armed forces were running high before the state of siege, according to the US Embassy. The officer corps resented civilian rule because of the severe budget and personnel cuts that Alfonsin imposed on the military. The prosecution of former junta members for human rights violations under the previous military government fueled speculation in the barracks that there would be additional trials for junior and midlevel officers. Although we believe the military reluctantly accepted the convictions of a few generals and admirals, [redacted] most military personnel vehemently oppose prosecutions at the junior or field-grade level. Moreover, many officers were angered at the damage the trials inflicted on the military's public image. [redacted]

Nevertheless, it is possible that a few isolated members of the UCR or SIDE executed some of the bombings and bomb threats, either to gain sympathy votes for the UCR or to give the government an excuse to arrest its enemies on the right. Even if Alfonsin supporters were partially responsible, however, we doubt that the President or his closest advisers were aware of their actions. [redacted]

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The State of Siege

We concur with the US Embassy's judgment that, despite the increasingly frequent bombings and the high level of discontent in the officer corps, Alfonsin did not face a serious military threat prior to his declaration of the state of siege. We believe, however, that the wave of violence, combined with the urgings of his Foreign Minister and other close advisers, caused Alfonsin to overreact and order the arrests of 12 suspected civilian and military coup plotters. Alfonsin's advisers made several serious errors in drafting the arrest orders. [redacted]

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Conflict between Alfonsin and the military peaked after a spate of mostly nonlethal bombings in September and early October. The bombings, many of which were directed against military installations, set off a flurry of accusations. [redacted]

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<p>[redacted] As public and judicial criticism rose over the legality of the government's action, Alfonsin was forced to invoke the state of siege to maintain legal grounds for holding the accused. [redacted]</p>	<p>[redacted] the US Embassy [redacted] report that Alfonsin promised senior military leaders shortly after the election that he would halt the arrests for coup plotting and block human rights trials for most junior and midlevel officers. The latter</p>	<p>25X1 25X1</p>
<p>The arrests and the state of siege, in our view, fueled discontent in the armed forces and increased the chances of a military move against the government.</p>	<p>pledge will probably be effected through an amnesty law applied to both subordinate military officers and minor leftist terrorists. Such a move, in our view, would enable Alfonsin to pardon junior officers for human rights crimes and deflect some of the</p>	<p>25X1</p>
<p>[redacted] many officers viewed the arrests as part of a civilian campaign to discredit the armed forces. [redacted]</p>	<p>inevitable leftist criticism of amnesty for abuses committed under military rule. [redacted]</p>	<p>25X1 25X1</p>
<p>[redacted] rumors began circulating within the military that the detentions were forerunners of a wholesale purge of the officer corps. The US Embassy adds that some officers believed that the government planned to arrest additional individuals for plotting and intended to cripple the military further by trying junior officers for human rights violations. [redacted]</p>	<p>Press and Embassy reports indicate that the government may already have drafted an amnesty proposal and is merely determining how best to introduce it. According to the press, key Radical leaders are divided over whether the courts or Congress should have the jurisdiction to issue an amnesty. Alfonsin, according to press and US Embassy reports, favors the law's passage through Congress, but he may eventually decide to expedite the process by decreeing an amnesty in his role as commander and chief of the armed forces. [redacted]</p>	<p>25X1 25X1 25X1 25X1</p>
<p>Coup rumors spread rapidly after the arrests, according to the US Embassy [redacted]</p>	<p>Alfonsin is taking other measures to mend his relations with the armed forces and reduce the danger of a coup. [redacted]</p>	<p>25X1 25X1 25X1 25X1</p>
<p>[redacted] We believe that hotheads within the Army were indeed prepared to overthrow Alfonsin to stave off what they perceived as a threat to the institutional integrity of the armed forces. The top military leadership, however, realizing that the military lacked the popular support and civilian allies to govern successfully, reigned in the malcontents and sullenly allowed the congressional elections to be held as scheduled. [redacted]</p>	<p>[redacted] He will also pursue the Defense Ministry's plans to reorganize the armed forces and give the officer corps a clear military—rather than internal political—mission. [redacted]</p>	<p>25X1 25X1</p>
<p>Election Aftermath Under the state of siege, congressional elections were held as scheduled. Alfonsin's UCR made a strong showing, winning 44 percent of the vote and gaining an additional seat in the lower house. Moreover, the UCR did unexpectedly well in the traditionally Peronist-dominated interior provinces. We believe the election results buttressed Alfonsin's political standing and will enable him to move decisively to reduce the tensions created by the state of siege and mend overall relations with the military. [redacted]</p>	<p>To control the military—and possibly some overzealous members of his own party—Alfonsin also is reorganizing the intelligence services. Press reports [redacted] say that the government has a tentative plan to create a National Intelligence Center that would be directly responsible to the President. The plan would put both civilian and military intelligence organizations under the control of the Center and reshuffle SIDE and 601st personnel. Although the three service chiefs would have a part in managing the Center, the armed forces role would probably be limited to the collection of foreign strategic military intelligence. [redacted]</p>	<p>25X1 25X1</p>

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Risk of Coup Remains

Although civilian-military tensions are subsiding, we believe there are still certain conditions that might prompt the armed forces to attempt a coup. In the near term, the military could still move against Alfonsin if it feels threatened as an institution. Such an action would differ from traditional Argentine coups, which have enjoyed a measure of popular support and powerful civilian allies. Conditions for such a coup would include:

- Trials of junior and midlevel officers for human rights abuses. Although the President has assured the military that the trials will end with the convictions of the five ex-junta leaders, human rights and leftist groups, as well as elements within the UCR, are pressuring Alfonsin for further prosecutions.
- More arrests for coup plotting similar to those that precipitated the state of siege. Such arrests—especially if based on flimsy evidence—would almost certainly be perceived by the military as a prelude to a general purge of the armed forces.
- Organizational changes in the armed forces without prior consultation with key military leaders or changes that abolish the military's role in key areas, such as intelligence.

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Over the longer term, the danger persists that wider political and economic developments could spawn a coup. If Alfonsin's economic reform policies fail and hyperinflation returns, labor and other opposition groups would step up antigovernment agitation. Under such conditions, Alfonsin's personal popularity could fall sharply, possibly causing the President to lose control of his own party. The military—with at least the acquiescence of the public and the political elite—would probably attempt to fill the resulting leadership vacuum, as has occurred so frequently in the past.

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Jamaica: Accelerating Economic Slide [redacted]

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Unless Jamaica substantially improves its track record with the IMF and increases diversification, its economy—hobbled largely by sagging bauxite/alumina production—probably will continue to deteriorate over the next few years. With real income per capita lower than when he took office in 1980, Prime Minister Seaga fears—correctly, in our view—that social unrest would recur quickly if he complies with existing IMF stipulations to raise consumer prices on key imports or allows the Jamaican dollar to depreciate further. The IMF apparently will meet in January to consider a waiver to permit Jamaica to resume drawing on its \$118 million standby program. Even if the Fund approves a waiver, Seaga's stated unwillingness to implement needed austerity measures would impede the country's ability to retain IMF funding in the coming months. Meanwhile, the continuing economic decline will further erode Seaga's already weak popular support and boost the electoral chances of former Prime Minister Manley and his leftist People's National Party (PNP). [redacted]

Seaga's Accumulating Problems

To rebuild the flagging economy he inherited in 1980 from Manley, Seaga endorsed new policies designed to dismantle Manley's state-managed economic system and rejuvenate the private sector.¹ These included quickly arranging a \$650 million, three-year IMF package that paved the way for substantial debt relief and new funds from Western donors, especially the United States. Unprecedented foreign funding in 1981 sparked the first real growth in Jamaica in eight years—3.9 percent. This spurt, however, quickly fizzled in 1982 due to the deepening world recession and backsliding on Seaga's original promises to deregulate the economy. [redacted]

Kingston spent much of 1983 and 1984 struggling to keep on the IMF track, but by yearend 1984,

[redacted]

Jamaica's noncompliance with IMF spending targets required a waiver to retain the Fund program. Seaga publicly acknowledged that economic output fell 1 percent in 1984; slumps in key sectors—traditional agriculture, bauxite/alumina, and tourism—were largely responsible. The inflation rate in this import-dependent economy (imports are equal to 60 percent of GDP) reached 28 percent, prompting a sharp drop in real wages for most Jamaicans. Public-sector layoffs, cutbacks in the sugar and banana industries, and the closure of the Reynolds bauxite mining operations pushed the unemployment rate to about 30 percent—roughly on a par with that inherited from the Manley administration. [redacted]

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The Dismal 1985 Record

According to the World Bank, the Jamaican economy will contract 4 percent this year due to poor performances in key economic sectors. As a result, overall output in 1985 will barely match the depressed level in 1980:

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- Virtually all domestic crops showed sizable declines during the first half of the year. In addition, hurricane Kate in November reportedly destroyed several million dollars in crops, primarily fruits and vegetables destined for the US market.
- Kingston expects construction and manufacturing activities to drop more than 20 percent and 8 percent, respectively, compared with last year's already reduced level.
- The tourist industry, buffeted by bad publicity from widespread demonstrations against oil price hikes last January and increasing crime, is expected to decline by \$80-100 million; arrivals of stayover visitors fell 5 percent during the first eight months of this year, compared to the same period in 1984. In contrast, tourism in the Caribbean as a whole is up 6 percent this year. [redacted]

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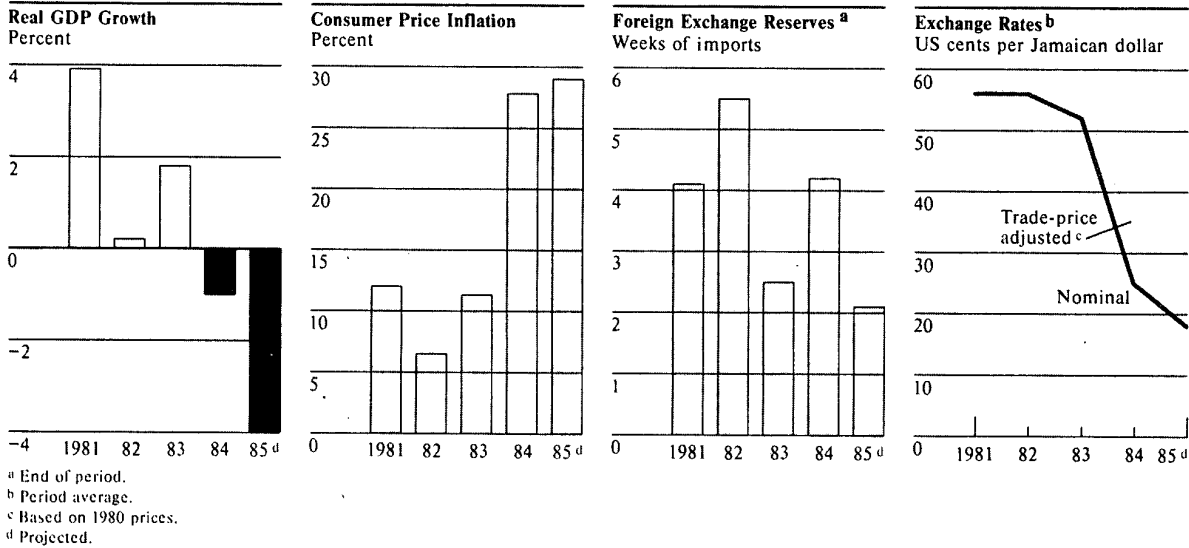
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Jamaica: Economic Indicators, 1981-85



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Perhaps most important, however, is the continuing decline in the production of bauxite/alumina—now ranking after tourism as Jamaica's largest foreign exchange earner. Press reports indicate that bauxite and alumina output fell 42 percent and 14 percent, respectively, during the first six months of 1985. This slump resulted largely because of the temporary closure of the ALCOA alumina refinery in February and weak world demand that lowered production at other facilities. Moreover, the subsequent reopening of ALCOA in mid-1985 under a government lease arrangement was offset by the July shutdown of the ALPART refinery. According to government data, bauxite production in 1985 will total only 6 million tons, or 40 percent of the peak 1974 level. [redacted]

Developments on the foreign payments front are equally bleak. Based on Embassy [redacted] reporting, we believe the balance-of-payments deficit will reach \$50 million this year despite recent commercial bank and Paris Club debt reschedulings. The declines in exports and tourism are partly responsible. During the first eight months of the year, for example, exports of

bauxite, alumina, and sugar—which account for more than half of total exports—fell by 60, 28, and 30 percent, respectively, compared to the same period in 1984. We predict that the net loss of foreign exchange in the bauxite/alumina sector alone will be at least \$150 million this year. Even though exports from other sectors—particularly light manufacturing and nontraditional agriculture—have increased sharply this year because of the depreciation of the Jamaican dollar, such sales still account for a relatively small share of total exports. [redacted]

Foot-dragging on limiting imports has compounded Jamaica's payments difficulties. Bank policies aimed at propping up the Jamaican dollar have slowed the rise in import prices. Moreover, Seaga, worried about a repetition of last January's widespread protests, has helped to maintain imports by refusing further reductions in food and petroleum subsidies. As a result, local currency prices of foreign purchases have risen, but not sufficiently to reduce imports. [redacted]

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Jamaica: Balance of Payments

Million US \$

	1981	1982	1983	1984	1985 ^b
Current account	-336.6	-400.2	-375.4	-306.2	-465.0
Trade account	-483.4	-619.2	-595.4	-437.9	-595.0
Exports (f.o.b.)	974.0	767.4	685.7	745.3	605.0
Bauxite/alumina	760.2	513.8	423.8	486.4	290.0
Other	213.8	253.6	261.9	258.9	315.0
Imports (c.i.f.)	1,457.4	1,386.6	1,281.1	1,183.2	1,200.0
Bauxite related	336.7	202.3	195.5	185.0	150.0
Other	1,120.7	1,184.3	1,085.6	998.2	1,050.0
Services (net)	22.5	68.6	118.5	4.7	-10.0
Travel	270.6	306.1	374.3	403.3	370.0
Interest payments/investment income	-201.3	-183.5	-185.1	-304.8	-270.0
Other	-46.8	-54.0	-70.7	-93.8	-110.0
Transfers (net)	124.3	150.4	101.5	127.0	140.0
Capital account	316.8	424.0	329.6	339.9	415.0
Public (net)	240.3	450.7	284.2	528.1	230.0
Private (net) ^a	0.9	20.1	-325.7	95.6	145.0
Short term (net)	75.6	-46.8	371.1	-283.8	40.0
Change in gross reserves	-19.8	23.8	-45.8	33.7	-50.0
External debt, yearend ^c	1,811.0	2,197.0	2,350.0	2,550.0	2,610.0

^a Includes errors and omissions.^b Projected.^c Guaranteed and nonguaranteed medium- and long-term obligations.

Jamaica's foreign payments problems worsened in September when the island failed to meet performance criteria under a \$118 million, 22-month standby agreement that had won IMF approval only two months previously. Seaga attributed the failure to the delayed arrival of \$19 million in USAID funds. The IMF, however, indicated that Jamaica would have missed the performance targets even if these funds had been received promptly. In an effort to salvage the standby program, Seaga has petitioned the IMF for a technical waiver, which the Fund apparently will consider in January. Moreover, in hopes of softening IMF terms, Seaga has requested that a joint team of IMF, USAID, and World Bank representatives visit Jamaica soon to analyze the economy with "fresh eyes." [redacted]

Political Impact

Jamaica's mounting economic woes have reduced the already low standard of living for most Jamaicans. We expect real GDP per capita by the end of this year to fall to only 88 percent of the 1979 level, Manley's last full year in office. Despite the maintenance of subsidies on a number of basic items, inflation has continued to erode real incomes largely because the Jamaican dollar, although weakening more slowly in recent months, has raised the prices of many imports. According to IMF data, consumer prices rose 19 percent during the first eight months of this year. In addition, although Kingston claims the unemployment rate is 25.4 percent, we believe—based on Embassy and press reporting—that the actual rate

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remains closer to 30 percent; job losses in the bauxite and public sectors alone total at least 4,200 in 1985. This summer, following weeks of labor unrest, a three-day strike by public-sector workers protesting low government wage offers and increased layoffs nearly paralyzed the nation. [redacted]

The country's deepening economic problems are spilling over into the political arena. The most recent public opinion survey by a respected Jamaican pollster indicates that Seaga's popularity has fallen to a record low and is little higher than that recorded by Manley in 1980, when he was trounced by Seaga in elections. According to the survey, less than 25 percent of those polled support the ruling Jamaica Labor Party and most Jamaicans favor a change of government. Manley's political fortunes have risen accordingly; the poll indicated he and the PNP could win 61 percent of the vote—roughly Seaga's share in 1980—if a general election were held now. [redacted]

Grim Near-Term Outlook

We believe that any recovery in the next few years hinges on Jamaica's ability to retain a valid IMF program, a prerequisite for stimulating investor interest, tapping foreign capital markets, and obtaining critical debt rescheduling agreements. Seaga, however, faces a serious dilemma in dealing with the IMF because the Fund is likely to insist that the Jamaican dollar—already substantially undervalued by historical standards—float freely and that the government phase out subsidies on food and petroleum. We believe these actions would lead quickly to significant price increases and probably new social turmoil that would further erode Seaga's already slipping political support. [redacted]

Even if Jamaica can retain the IMF's imprimatur, any turnaround still depends heavily on economic diversification because of poor prospects in traditional sectors:

- In the unlikely event that world aluminum demand increases significantly, US producers would continue to supply the bulk of the market from lower cost operations, particularly in Australia, Brazil, and Guinea.

- The sugar industry in Jamaica—as in many Caribbean countries—will have to streamline production and processing to be viable in the long run.

- Rejuvenated growth in the tourist industry will depend on the strength of the US economy and Kingston's ability to curb the recent upsurge in domestic crime, violence, and harassment of tourists by drug peddlers. Equipment shortages and growing morale problems in the security forces stemming from recent budget cuts, and the increasingly entrenched drug network operating on the island work against much, if any, improvement on this front. [redacted]

We believe that the best prospects for rapid gains are in nontraditional agriculture—particularly in high-value winter vegetables, spices, and cut flowers—and light manufacturing. The exports of both sectors are eligible for preferential entry into the US market under the Caribbean Basin Initiative and other US trade arrangements. In addition, if the Jamaican dollar continues to weaken—as it probably would if allowed to float freely—these exports would become even more price competitive. [redacted]

The overall trends provide little hope that the economy will stem its decline before 1987 at the earliest. Seaga is not likely to make any real headway in slashing unemployment or inflation. As a result, Kingston almost certainly will make increasingly urgent appeals for additional US aid, especially if—as we expect—the existing Fund program is scuttled. We believe Seaga will request help such as additional bauxite purchases, support for the country's security forces, and highly concessional aid. We also judge that, despite steady US pressure, continued economic distress will further weaken Seaga's willingness and ability to pursue drug producers and traffickers. Many Jamaican farmers will continue to view marijuana as a far more lucrative alternative than such domestic crops as manioc, yams, or beans. [redacted]

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Seaga's term of office lasts until 1988, but if he is forced to call early elections—a distinct possibility—Manley would stand a reasonable chance of winning. We would expect a Manley government to depart from Seaga's economic policies in several key respects. Based partly on statements made at a recent PNP convention, we believe Manley's economic program would include a return to a fixed foreign exchange rate and import licensing. The PNP also would not advocate divestitures of state-owned enterprises and cuts in government payrolls. Although PNP leaders have not ruled out pursuit of IMF support, enactment of nonmarket policies probably would preclude a Fund program. The chances of Jamaica declaring a moratorium on its external debt—of which \$700 million, or more than one-fourth, is owed to the United States—would increase.

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Cuba: Seeking New Trade Ties to Latin America [redacted]

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Cuba recently has stepped up efforts—through increased trade ties—to build its regional influence, renew diplomatic ties to some of its neighboring countries, and open the doors to new markets in Latin America. While Havana has had some success politically, its principal economic links will remain with the Soviet Bloc. Cuba is unlikely to achieve a significant trading presence in the region because of the need to reduce imports to save scarce hard currency, a limited export menu of mineral and agricultural products, and commitments to supply CEMA with a large proportion of the country's exports. [redacted]

increase in bilateral trade—to date, only one sale to Havana has been arranged. Montevideo's exports compete with goods that Cuba imports from the USSR and China. [redacted]

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Colombia and Cuba have agreed in principle to open official commercial representations. [redacted]

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Cuba's Motives

In our view, President Castro's attempts to renew or increase commercial ties in Latin America are motivated by a desire to reintegrate Cuba into regional political affairs as well as to alleviate domestic economic problems. Castro probably views the new, more broadly based civilian governments in Latin America as presenting an opportunity to reduce Cuba's regional isolation. Havana probably believes that an improved image would reduce the concerns of its neighbors that upgraded ties might jeopardize their relations with the United States. Concurrent with its efforts to strengthen its official political and commercial influence in the region, Havana is also expanding front company operations in the area to acquire technology and earn some hard currency, as well as to provide cover and funding for intelligence activities. [redacted]

[redacted] Castro presumably hopes that commercial ties will lead to official diplomatic relations, but President Betancur is reluctant,

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[redacted] Betancur's doubts are based on past Cuban interference in Colombia's affairs and the low level of trade and cultural relations that existed before the 1981 break. [redacted]

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Brazil and Cuba have not traded bilaterally, but are expected to resume diplomatic relations early next year, perhaps leading to a change in their trade relationship. Thus far, trade between Brazil and Cuba has occurred indirectly through third countries, such as Panama, Mexico, Venezuela, Spain, and Portugal. This trade has gradually increased over the past two years to \$1 million. According to press reports, Brazil's two major trading companies believe there is a potential for a major increase in trade. [redacted]

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Renewing Trade Ties

After President Sanguinetti repealed a 21-year-old decree prohibiting negotiations with Cuba, Uruguay and Cuba signed a bilateral trade agreement in July and resumed diplomatic relations on 17 October. In addition, Cuba reportedly received a \$5 million line of credit, most likely from a Spanish bank, [redacted] probably, in part, to finance Uruguayan agricultural exports to Cuba, [redacted]. These renewed trade ties, however, probably will not produce any major

Increasing Existing Trade

Argentina's exports to Cuba last year rose by nearly 75 percent over 1983 levels to \$165 million as a result of a \$200 million annual line of credit extended by Argentina to Cuba for 1984-86. Cuban state agencies recently purchased Argentine telecommunications and railway equipment, as well as medical supplies, [redacted]

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[redacted] Cuban exports to Argentina, however, are negligible, in part because Argentina is a sugar exporter. [redacted]

Mexico and Cuba are trying to expand bilateral trade and have set a short-term annual trade goal of \$300 million in goods and services, according to the US Embassy in Mexico City. While Cuba's imports from Mexico have been on the rise, its exports to Mexico have been declining since 1980.¹ Limited demand for Cuba's exports—Mexico is largely self-sufficient in sugar—a modest cooling in political relations, consistent with President de la Madrid's generally moderate foreign policy, and both countries' need to restrain import spending are likely to thwart their ambitious goal of tripling bilateral trade this year. [redacted]

Mexico and Cuba, nonetheless, have taken some steps to boost commercial ties. Havana and Mexico City recently agreed to grant each other most-favored-nation status, lowering respective import duties by 25 to 75 percent. Mexico and Cuba also opened lines of credit amounting to \$150 million and \$20 million, respectively, to finance their bilateral trade. Agro-industrial, sugar, metal-mechanical, and pharmaceutical trade agreements have recently been signed. [redacted]

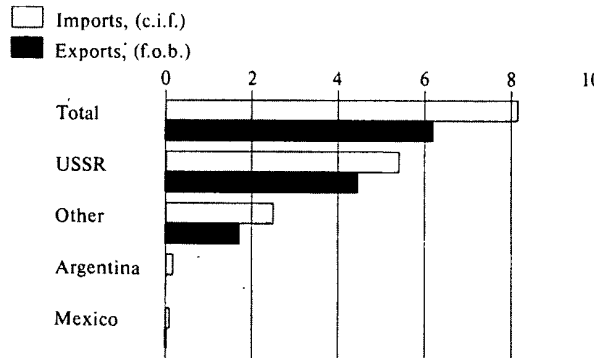
Ecuador's President Febres-Cordero signed a bilateral trade agreement and discussed the potential for trade in agricultural goods during his April visit to Cuba. Although Febres-Cordero tried to play down the significance of the trip, Castro's image in Latin America probably was improved by the visit. Ecuador's Ambassador at Large, who led a business delegation to Cuba in March, signed a reciprocal line of credit agreement, amounting to an initial \$3.6 million. [redacted]

Quito and Havana agreed to a barter deal in April that provides for the exchange of Ecuadorean grain for Cuban meat. [redacted] Ecuador

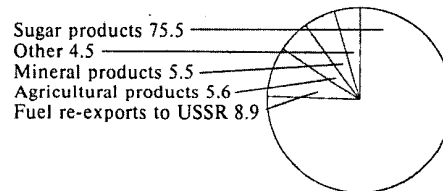
¹ Cuba's exports to Mexico fell by over 95 percent to \$12 million between 1980 and 1984 and continued to decline in the first half of 1985. Havana's imports from Mexico grew by over two and one-half times between 1980 and 1984 to \$82 million and are still rising. [redacted]

Cuba: Foreign Trade, 1984

Imports and Exports Billion US \$



Exports by Community Group Percent



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[redacted] may sell crude oil, Havana's interest in Ecuadorean oil has declined over the summer, [redacted]

Bolivia and Cuba created a commission to increase bilateral trade in May. [redacted] Currently, minimal bilateral trade consists largely of an exchange of Cuban pharmaceutical products for Bolivian tin. Cuba is also assisting Bolivia, one of Latin America's poorer countries, in technical training, health, mining, and agro-industry.

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Bolivia established an Embassy at the Charge level in Havana in the final weeks of the leftist Siles administration. New President Paz Estenssoro, however, distrusts the Castro regime and probably will rebuff any overtures to normalize relations with Cuba further. [redacted]

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Outlook and Implications for the United States

Although Cuba has been successful in improving trade ties to several Latin American countries, we believe that trade levels are not likely to increase substantially in the near future. Havana's ability to export is constrained by its reliance on a few commodities—sugar, minerals, and citrus products—most of which are obligated for Communist countries and face limited demand in Latin America. At the same time, with continued tight finances, Havana would find it difficult to boost imports from these countries. [redacted]

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Despite the limitations Cuba faces in becoming a major Latin American trader, Castro may believe that it is important to establish a commercial presence in these nations. This presence will probably be used as a base to lobby for renewal of diplomatic relations or to exert influence in the future. [redacted]

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We believe that Castro's efforts to increase ties to its Latin American neighbors will not change their attitudes toward Havana. Most regional leaders will continue to remain suspicious of Cuban interference in domestic affairs and support of insurgents. Nonetheless, Cuba's neighbors would welcome any increased hard currency earnings from trade with Havana and are being pushed by leftist interests to reestablish or increase ties to Cuba. Improving relations with Havana also provides a means for Latin American governments to assert their independence from the United States. We believe, however, that these countries will limit commercial or diplomatic ties to Cuba to avoid serious damage to their relations with the United States. [redacted]

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Brazil: Labor Tests the Sarney Administration [redacted]

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Labor unions—operating with greater freedom under civilian rule—have begun to confront the Sarney government directly with general strikes and increasingly tough and inflationary wage demands. In an effort to preempt this challenge, President Sarney has exploited the movement’s internal splits—rewarding moderate groups while cracking down on militants—proposed major labor reforms, and substantially increased the minimum wage. Infighting among union leaders for control of the movement will weaken labor’s ability to challenge the government, but the interunion rivalries will spawn numerous strikes as leaders vie for influence over the rank and file. As workers feel the crunch of rising prices, we believe there is some potential for the Workers Party to play a more influential role in Brazilian politics. On balance, we judge that Brazilian unions will remain a thorn in Sarney’s side, but they will not pose a serious threat to his authority next year. [redacted]

legally banned. Subsequently, union delegates from across the country assembled in 1981 to organize a single national labor confederation. Despite their hopes, the first National Conference of the Working Classes (CONCLAT) brought out the differences between labor moderates and militants allied with the far-left Workers Party, based in the Sao Paulo industrial area. Simultaneously, the recession severely dampened enthusiasm for labor activism, except among more militant unionists who broke away to form the rival Unified Labor Central (CUT). In the waning days of the military regime, militant labor leaders increased their criticism of government “corporatist” labor policies, staged strikes to promote their economic interests, and cooperated with the Catholic Church and political parties in an effort to gain a role as an important interest group. [redacted]

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The Unions Pounce on Sarney

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Brazilian Labor Reawakens

Through the late 1970s, Brazil’s authoritarian military rulers kept tight restraints on labor, employing a “corporatist” system to prevent its emergence as a unified political force. Labor was excluded by decree from exercising a direct role in the political process, while strikes were outlawed and local disputes were quickly settled by government intervention. To control the union leadership, the government collected dues from the workers and redistributed the funds to the various unions. Moreover, Brasilia dictated semiannual minimum wage adjustments, constraining the labor movement’s ability to achieve real wage hikes on its own. Unable to act autonomously as a pressure group or to influence government policies substantially, Brazilian labor remained docile. [redacted]

The economic recovery under way since mid-1984 and the return in early 1985 of a civilian government seen by workers as more sympathetic to their demands has emboldened Brazilian unions. US Embassy reports indicate the two main labor federations went on the offensive with a series of nationwide strikes in April. The press reported walkouts by the metalworkers and railroad workers in Sao Paulo and Rio de Janeiro and by airline workers and government employees in many states. [redacted]

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The strikes were not well received by the public. According to the US Consulate in Sao Paulo, popular support for worker demands evaporated as strikes coincided with a national tragedy—the death of President-elect Neves. CUT President Meneguelli’s public statement that the cost of labor’s demands would be directly passed onto consumers also eroded middle-class sympathy for the strikers. According to the US Embassy, strikers took 300 hostages at a General Motors plant during the June metalworkers strike, further undercutting labor’s public image. [redacted]

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Since 1978, however, unions have pushed the government gradually to liberalize its policies, availing themselves of Brazil’s freer political climate. In 1979 and 1980, for example, numerous unions walked out over demands for more generous labor settlements despite the fact that strikes remained

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Union Ties to Political Parties

Approximately half of the 8,000 unions in Brazil have developed ties to political parties. Based on US Embassy and press reports, personal ties and ideological affinity are the key factors determining union-party alliances. For example, the leaders of CONCLAT, the largest labor confederation, have maintained strong personal links to the Brazilian Democratic Movement Party—the umbrella group that was the legal moderate opposition to the military regime. Although the Movement embraces a variety of political groups, it is sympathetic to labor moderates' aspirations for reform of the corporatist labor law and improved wage settlements. In contrast, the political arm of the more militant CUT is the Workers Party of longtime labor activist Lula da Silva. This party is a more outspoken champion of worker rights and increased government spending on social services. The Workers Party receives support from the Catholic Church and labor unions in Western Europe, [redacted]

[redacted] leftist Rio de Janeiro Governor Brizola—leader of the Democratic Workers Party—has begun to court some CONCLAT leaders in hopes of furthering his presidential ambitions. Some of Brazil's civilian leaders are beginning to recognize the potential for unions to play an increasingly important role in elections. [redacted]

Press reports indicate that Lula and Brizola have also discussed a joint campaign for early presidential elections next year. Should such an effort materialize, the CUT probably would play a key role in galvanizing worker support for the campaign. [redacted]

At the same time, the Sarney administration moved adroitly to assuage labor unrest by using a mix of incentives to entice moderate leaders to restore labor peace. Labor Minister Pazzianotto—a young, reform-minded labor lawyer with ties to the Workers Party—proposed legislative measures, such as curtailing the government's direct role in settling strikes by providing for courts of arbitration to mediate labor-management impasses. The administration also

publicly renounced the right to remove labor leaders during strikes, and the 100 unions previously controlled by the government were permitted to hold elections for the first time, according to the US Embassy. Sarney doubled the minimum wage, placing it 12 percent above the rate of inflation by November, according to press reports. Finally, he turned a blind eye to the growing practice by many Brazilian companies of paying "salary advances" several times a year, according to the US Embassy. [redacted]

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Militancy Gains Ground

Despite Sarney's efforts to bolster moderate labor forces through these actions, the CUT still represents a growing challenge to the CONCLAT for leadership of the Brazilian labor movement [redacted]

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Its leaders calculated correctly that they could recruit from the CONCLAT's rank and file with appeals for militant strike action—a call which CONCLAT's leaders were reluctant to make. The CUT, as a result, gained recruits at the expense of CONCLAT, increasing its membership to over 300 unions, according to the US Embassy. To bolster its credentials among militant workers, the CUT has attacked its longstanding adversary, the Brazilian Democratic Movement, which is the largest party in the Sarney government's coalition. The US Embassy reports that one of the CUT's objectives is to increase the political standing of the Workers Party by expanding its influence outside the Sao Paulo region in preparation for elections to Congress next year. [redacted]

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In the face of these losses, the CONCLAT's leaders became mired in an internal debate over the tactics that should be used to press worker demands and whether to compete with the CUT for political influence. CONCLAT reformers have been urging greater militancy and competition with the CUT for leadership of the labor movement. Meanwhile, the CONCLAT old guard clings to the strategy of accommodation with the political and economic establishment. For example, the president of the CONCLAT national directorate—a member of the old guard—has opposed competition with the CUT, [redacted] fearing it would almost certainly entail widespread strike

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activity that would damage his close relationship with Labor Minister Pazzianotto. Nevertheless, CONCLAT leaders agreed last summer to overrule the national president and form a temporary alliance with the CUT to give the federation a new militant look. [redacted]

Sarney's Tough Response Aggravates Labor Splits

The alliance was tested this fall when the CONCLAT and the CUT launched a series of strikes, including a nationwide bankers' strike, a walkout by the Rio de Janeiro metalworkers, and a subsequent industry-wide strike by the Sao Paulo metalworkers. [redacted]

[redacted] in response, Sarney asked the labor courts to declare the bankworkers' strike illegal as a warning that his government would take forceful action when necessary. [redacted] Sarney ordered the military to prepare contingency plans to provide essential services in the event of a nationwide general strike. [redacted]

[redacted] the Communists within the CONCLAT, afraid that such militant strike activity will place the federation at odds with the government, are considering a withdrawal from the CONCLAT early next year to protest the alliance with the CUT. Conservative unionists, also unhappy with the CONCLAT-CUT alliance, have formed a new labor group, the Association of Independent Unions in Sao Paulo. The new group prefers a conciliatory path in labor-management relations, according to the US Consulate in Sao Paulo, and may well attract many moderate CONCLAT members. Moreover, the Sao Paulo metalworkers' success in negotiating a generous settlement to their latest strike may serve to persuade other unions that they have more to gain by maintaining close ties to the political and industrial establishment. [redacted]

In view of these strains, we believe that ideological and tactical differences probably will end CONCLAT-CUT cooperation early next year. The ties of both federations to political parties that are perpetual opponents will work against the alliance. We believe it likely that the CONCLAT will decide

to steer a middle course by maintaining its ties to the Brazilian Democratic Movement while giving lip-service to militancy. In contrast, the CUT is likely to continue its strident demands for wage adjustments and instigate a number of strikes, especially as press reports indicate that over 500 union contracts will be up for renegotiation in the November 1985-January 1986 period. [redacted]

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Implications for Sarney

We believe that more work stoppages will impede Sarney's ability to implement a tough stabilization program. Demands for higher wage increases probably will undermine efforts to combat inflation, already in excess of 200 percent. We also expect Sarney to take tough legal measures against CUT-inspired strikes he views as harmful to the economy or a serious threat to civil order in the coming year. This is in part because the military high command—one of Sarney's few bases of support—is likely to insist that such disruptions not be tolerated. [redacted]

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Politically, we believe Brazilian labor will remain divided, without national leadership, and unlikely to pose a direct threat to Sarney's authority. Nonetheless, as workers feel the crunch of rapidly rising inflation, we expect a modest increase in support for Workers Party candidates for Congress next year. The Workers Party candidate in the Sao Paulo mayoral election in November showed surprising strength, finishing in third place. Moreover, the party demonstrated its ability to attract support outside the Sao Paulo industrial area by winning the mayoralty in Fortaleza, an important city in the northeast. Consequently, we expect labor representatives will exercise some influence in drafting the provisions of Brazil's new constitution in early 1987. [redacted]

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**Costa Rica:
Labor's Political Role** [redacted]

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The lackluster performance of the economy in recent years has sparked increased labor agitation involving several prolonged strikes and numerous protests. Economic stabilization efforts by President Monge have strained relations with labor, while continued austerity measures—which both major presidential candidates support—augur for further labor unrest next year. Organized labor's limited membership, disunity, and weak party ties most likely will prevent it from exercising much influence on national politics over the near term. Labor might become a more important actor in politics, however, if pending legislation allowing public-sector employees to strike should pass the legislature. [redacted]

workers are affiliated with unions, and the major democratic and Communist labor unions are failing to attract a significant number of new members, according to academicians. [redacted]

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The cultural penchant of Costa Ricans for compromise and consensus has applied to labor-management relations and has worked to curb the growth of a strong labor movement, according to many observers. Embassy reporting indicates that only a small portion of the work force—about 900,000—is organized. The union movement consists of three main sectors. The independent unions, strong among agricultural producers and the national airline, are the most numerous. The democratic confederations, which include many railway, social security, and communications workers unions, as well as street vendors, bank employees, and textile workers, rank second. Communist confederations, a third major force, are most significant in the highly labor-intensive banana industry and among port workers and public employees. [redacted]

Part of organized labor's slow growth is attributable to its poor public image. For example, the 1984 Communist-led strike against United Brands, a major banana grower, contributed to a prevailing public skepticism of organized labor, reducing its already limited influence, according to the US Embassy. The Embassy also indicates that the corruption and mismanagement within the Costa Rican Confederation of Democratic Workers (CCTD) that led to its 1983 split—and birth of the rival National Workers Confederation (CNT)—also contributed to the overall poor public image of organized labor today. Moreover, a recent legislative initiative that would overturn the existing law against strikes by public service workers—which is favored by most Costa Ricans—focused further negative attention on the labor cause. [redacted]

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[redacted] The independent unions claim 46 percent of organized labor, while the democratic confederations account for 32 percent and the Communists 22 percent. [redacted]

A second factor limiting labor's impact is its inability to unite to achieve its objectives. Both the democratic and Communist labor movements are suffering from internal factionalism. [redacted] The US Embassy reports that mistrust and bitterness between the democratic labor confederations have persisted since the 1983 split and the relationship continues to be characterized by an ongoing rivalry. The two main democratic unions, the CNT and the CCTD, have not attempted to work together this year and, in fact, the CNT has raided the membership of the CCTD. [redacted]

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Limited Influence

Labor's influence in the political arena is largely circumscribed by its failure to attract more members, fragmentation in both Communist and non-Communist-dominated confederations, and a failure to align itself in recent years with the strong political party system. Less than 20 percent of Costa Rican

[redacted] the Communist-affiliated labor movement exerts more influence on national politics than its democratic counterpart—due to its numerical advantage in the agricultural sector and its control over a variety of public-sector unions—it is also divided, limiting its impact. [redacted]

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Major Costa Rican Labor Groups

	Membership	Ideology	Tactics
National Association of Educators (ANDE)	26,000	Social Democratic	Protests; strikes
National Confederation of Workers (CNT)	12,000-14,000	Social Democratic	Protests; strikes
Costa Rican Confederation of Democratic Workers (CCTD)	9,000-10,000	Social Democratic	Protests; strikes Marched in May Day parade
Social Christian Authentic Confederation of Democratic Workers (CATD)	8,000	Social Democratic	Protests strikes Marched in May Day parade
Christian Democratic Costa Rican Workers Central (CTC)	2,500	Social Democratic	Protests; strikes
Costa Rican Confederation of Workers (CTCR)	22,000	Communist	Protests; strikes
Confederated Union of Workers (CUT)	17,000	Communist	Protests; strikes
Solidarista Union (SURSAM)	35,000-40,000	Nonconfrontational	No strikes or protests; gave up collective bargaining in return for low-interest loans from credit union, subsidized commissaries, advising role in management
Claudia Solano faction of Solidarismo	8,000-10,000	Nonconfrontational; democratic	Same as above

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[redacted] for example, [redacted] a faction of the Confederated Union of Workers (CUT) did not support CUT's tactics in the strike against United Brands last year and split off to form the rival Costa Rican Confederation of Workers (CTCR). [redacted]

ruling National Liberation Party, relations with the government have become strained since the 1983 labor split, according to US Embassy reporting. [redacted]

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Increased Agitation

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Finally, organized labor has failed to develop a platform and identify itself closely with Costa Rica's political parties, which would give it a voice in the political process. In fact, another large confederation—which is neither democratic nor Communist—the Solidarity Movement, is based on a concept of labor-management harmony that precludes it from using a political party as a vehicle for achieving workers' demands, according to academicians. Meanwhile, [redacted] while the Communist-led unions have succeeded in organizing banana workers and public employees, they have not been able to convert members into political activists. Also, while the democratic CCTD traditionally enjoyed a close relationship with the

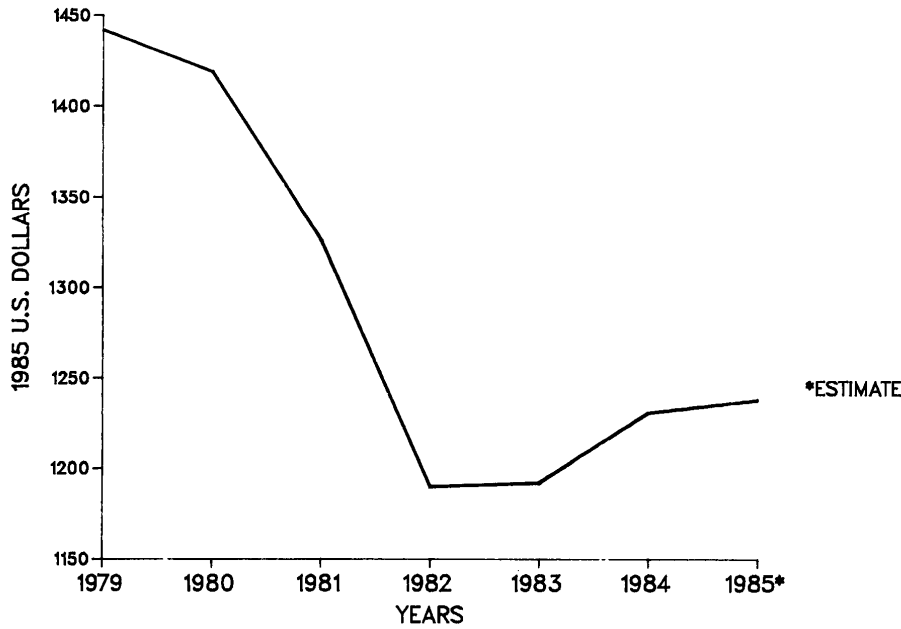
Despite the underdevelopment of organized labor, worker unrest has been on the rise, in large part due, in our view, to the declining standards of living for many Costa Ricans. For example, the 1984 walkout against United Brands proved the longest and costliest strike in the country's history, resulting in the deaths of two workers, \$31 million in losses for San Jose and the company, and significant dislocations on the Pacific coast, [redacted]. US Embassy reporting indicates four smaller strikes have plagued the economically depressed Atlantic coast region, including one by banana workers against the Standard Fruit Company that lasted 53 days. In addition, press sources reveal that in July some 3,000

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Costa Rica: Real Per Capita Gross Domestic Product



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railway workers—most belonging to a democratic labor confederation—went on strike for higher wages and industry improvements.

a loan of \$608,000 to settle overdue salaries, it did not provide a wage increase, according to press reports.

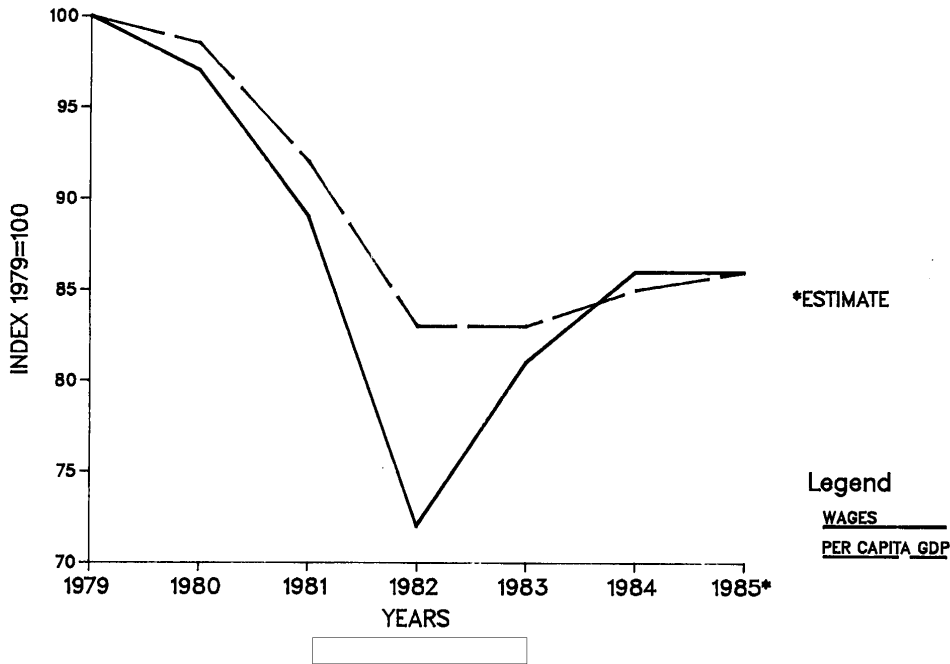
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Government Response

Increased labor agitation during President Monge's term—which ends in February—has not, however, yielded significant government concessions primarily due to the administration's scarcity of resources. For example, despite civil disturbances in San Jose's suburbs protesting increased utility rates, rates were not lowered, according to press sources. In addition, although the resolution of the railroad strike included

Monge has relied on reprisals—in the form of legal action—to cope with unrest, heightening labor's concern, according to US Embassy reporting. The Embassy also reports that, in addition, two labor reform initiatives have languished in the Legislative Assembly due in large part to opposition by business interests. The Economic Labor Sector Bill would

Costa Rica:
Real Wages and Real Per Capita Gross Domestic Product



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provide severance pay, not currently among worker benefits, and another bill would reform the outmoded 1943 Labor Code to include protection from arbitrary dismissal for private-sector workers, and the right to strike for public-sector workers, among other wide-ranging reforms. If such a labor code became law, the overwhelming number of organized workers in the public sector—13 percent of the total organized—could create economic havoc, especially since the public sector has kept effective control over critical economic spheres—including banking, utilities, the petroleum industry, and public health. [redacted]

Prospects

Given little prospect for significant economic improvement in the near term and increased labor concerns, worker unrest is likely to continue next year.

Even with an estimated 3-percent growth rate in 1985, we estimate that living standards are unlikely to return to 1979 levels before the end of the decade. The economy is unlikely to be able to generate enough new jobs to absorb the unemployed, now at 12 percent. In particular, with the closing of United Brands, no growth in jobs is expected in the Communist-dominated agricultural sector, which will probably lead to renewed leftist attempts to press for concessions. [redacted]

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We foresee little growth in labor ranks or movement toward unity even within the various confederations. The democratic labor movement's reputation for corruption and ineptitude must be overcome before a

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significant growth in the ranks will occur. Meanwhile, the militant tactics of some Communist labor factions are incompatible with Costa Rican culture and are unlikely to draw many new adherents. [redacted]

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Despite its increasing willingness to flex its muscles, the labor movement's influence on national politics is likely to remain limited in the near future. The Costa Rican press reveals that, while the presidential campaign has served to magnify the volume of worker complaints, labor's concerns have not become a major issue. Labor code reform, needed to strengthen organized labor's hand, probably will be reintroduced during the next legislative session but, given the strength of business interests, passage probably will be blocked again. [redacted]

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[redacted]

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**Latin America
Briefs**

Cuba

Hurricane Damage [redacted]

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Hurricane Kate cut a swath across central and western Cuba last month causing extensive damage in seven of Cuba's 14 provinces. Although loss of life was minimal, Havana estimates that total damages will exceed \$1 billion. Cuban officials described the hurricane damage as a devastating seven- to eight-year setback for the Castro regime. [redacted]

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Cuba's sugar crop—already reeling from a drought last summer— was hardest hit, with over 50 percent of the island's canefields either flooded or damaged by high winds. [redacted] the 1985-86 sugar harvest is expected to yield only 5.7 million tons—the lowest since 1973. Other economic sectors damaged by the storm include transportation, factories and warehouses, livestock, and the citrus and banana crops. [redacted]

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The damage is likely to have a far-reaching impact on the economy, and may have some political ramifications as well. Production shortfalls, compounded by the country's damaged distribution system, will make it more difficult—if not impossible—for Cuba to satisfy export quotas to the USSR or boost its hard currency earnings next year. This undoubtedly will aggravate Havana's economic problems and impair its ability to repay Western creditors or purchase Western inputs to production. Moreover, the costs of this natural disaster will be an additional burden on the already beleaguered Cuban consumer. President Castro may attempt to deflect popular criticism by using the hurricane as a scapegoat for the country's economic plight, as he has done with previous disasters. [redacted]

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Cuba-Bahamas

Discussing Expanded Contacts [redacted]

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Havana is trying to expand official and commercial contacts with The Bahamas, [redacted] probably in an effort to alleviate a hard currency shortage and gain access to embargoed goods. [redacted]

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We doubt that Nassau will be receptive to Cuban overtures because of its close economic ties to the United States—nearly two-thirds of Bahamian exports are geared to the US market and US visitors constitute nearly 80 percent of The Bahamas key tourist sector. Nassau also may have lingering resentment over the

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“Flamingo” incident of 1980, when Cuban jet fighters erroneously sank a Bahamian patrol vessel, killing its four crewmembers. The Bahamians probably prefer to keep diplomatic relations at a low level—currently the two countries are represented through their UN ambassadors and there is no official presence—while maintaining some bilateral contacts through cultural and limited commercial exchange. Moreover, sensitive to US concerns, Nassau probably will continue to disallow Cubana passenger flights between the two countries. [redacted]

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Peru

Local Elections [redacted]

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Peru’s ruling American Popular Revolutionary Alliance (APRA) party has unofficially won over 70 percent of the vote in mayoral byelections held on 24 November in 22 rural provinces, according to the US Embassy. These are the provinces where Sendero Luminoso guerrillas prevented elections in 1983. Insurgents attempted to disrupt voting in Ayacucho by calling a 72-hour strike, intimidating voters, and blocking roads, but were largely unsuccessful. [redacted]

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The November balloting was the first formal test of APRA’s strength since the general elections last April. Although APRA may use the results to claim that its popularity has not declined, the political significance of the local contests is limited: eligible voters in the provinces involved constitute less than 2 percent of the population; null and blank votes in some areas exceeded APRA’s total; in many voting districts the Peruvian Communist Party (PCP) provided the only opposition and in some, fear of terrorists prevented any candidates from running.

[redacted]

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Cuba Chronology

November 1985

1 November

Jose Ramon Machado Ventura and Division General Sixto Batista greet Legesse Asfaw, member of the Politburo and Secretariat of the Central Committee of the Workers Party of Ethiopia, on his arrival in Havana.

The *Washington Times* reports a US SR-71 plane that flew over Cuba on 31 October confirmed that Soviet and Bulgarian freighters at Mariel have been transferring war materiel to Nicaragua.

Fidel Castro meets with Lesotho Foreign Minister Vincent Montsi Makhele to exchange opinions on the situation in southern Africa and discuss lateral relations.

About 10,000 Cubans waving anti-US banners and chanting revolutionary slogans demonstrate outside the US Interests Section in Havana protesting the SR-71 overflight on 31 October.

Many of the protesters tell Reuters they had been called from their workplaces to protest the SR-71 overflight.

2 November

Carlos Rafael Rodriguez meets with North Korea's Foreign Trade Minister Ch'oe Chong-kun in Havana to discuss economic development in their respective countries.

Foreign Trade Minister Ricardo Cabrisas and Ch'oe Chong-kun sign a trade agreement for 1986-90 and the 1986 trade protocol.

4 November

Paris press reports that the office of the Committee for Human Rights in Cuba, based in Madrid and headed by Armando Valladares, was robbed last weekend by unidentified individuals.

Havana press announces that Hector Rodriguez Llompant and Erich Schmidt signed a trade agreement.

5 November

Legesse Asfaw and his delegation tour the Isle of Youth, where over 1,000 Ethiopian students are being trained at the Mengistu Haile-Mariam school.

According to an Austrian press summary, Erich Schmidt, Secretary of State for Commerce, Trade and Industry, is in Havana for a meeting of the Austrian-Cuban economic commission.

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6 November

The Council of State appoints Hector Rodriguez Llompart as President of the National Bank of Cuba, and Ernesto Melendez Bachs is appointed President of the State Committee for Economic Cooperation.

Granma reports on the Cuban Government's strong protest against the recent decision by US authorities to declare credits derived from the Peruvian foreign debt as value impaired.

7 November

Fidel Castro sends a message of greetings to Mikhail Gorbachev on the occasion of the 68th anniversary of the October Revolution in the USSR.

Communist Party member Jose Ramon Balaguer, speaking at a ceremony commemorating the 68th anniversary of the October Revolution, says that friendship between Cuba and the USSR will become stronger.

Soviet Ambassador Katushev, also speaking at the ceremony, notes the friendly relations between Gorbachev and Castro.

8 November

Fidel Castro meets with Legesse Asfaw. Asfaw conveys greetings from President Mengistu Haile-Mariam.

Fidel Castro meets with a US antiwar delegation headed by Rev. Paul Meyer, director of an organization called Religious Task Force Mobilization for Survival, to discuss international peace.

9 November

In Havana, AALAPSO Secretary General Rene Anillo reiterates AALAPSO support for Angola and condemns the United States for supporting South Africa.

Prensa Latina reports that Fidel Castro met with nine US priests to discuss the international situation and the world's hope for peace.

11 November

France Claixto Morales Hernandez presents his credentials as Ambassador to President Albert Rene of Seychelles.

Havana press reports that a leading US church group has invited Jose Carneado, Cuba's top religious affairs spokesman to a meeting in New York, despite a US Government ban on visits by Cuban Communist Party officials.

12 November

At an Angolan independence day ceremony in Havana, Sergio del Valle says Cuban forces will remain in Angola until the Angolan Government decides that aggressions against it have ceased.

Fidel Castro holds formal talks with the Episcopal Conference of Cuba. Secretary of the Conference de Cespedes describes the meeting as warm and positive.

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- 13 November** Adrianaribone Jean Bemananjara, Madagascar Minister of Foreign Affairs, arrives in Havana and is greeted by Isidoro Malmierca. Bemananjara will preside over the joint Cuban-Malagasy Intergovernmental Committee.
- Malmierca and Bemananjara discuss widening and strengthening bilateral relations and exchange views on the international situation and the Nonaligned Movement.
- The international labor workshop on the foreign debt, organized by the Central Organization of Cuban Trade Unions, meets in Havana. Roberto Veiga notes the urgency of canceling the foreign debt.
- 14 November** Cuba's six-month sugar harvest begins against a somber backdrop of record low world prices and a nationwide drought, which appears certain to reduce output.
- The Cuban Foreign Ministry denies that Cuban citizens were involved in the attempted coup d'etat against Liberian President Samuel K. Doe on 12 November. Before the UN Security Council, alternate ambassador Alberto Velazco criticizes the United States' revoking the Clark Amendment and its decision to increase aid to UNITA.
- 15 November** They sign a protocol on the fourth session of the joint intergovernment commission for 1987 scientific and technical cooperation. Bemananjara also signs a cooperation agreement with the Sugar Industry Ministry.
- Construction Minister Raul Cabrera delivers a message from Fidel Castro to Mexican President de la Madrid with a \$2.5 million donation to help in reconstruction of damage by the recent earthquake.
- 16 November** Peruvian Foreign Minister Allan Wagner announces that diplomatic relations with Cuba will be increased to embassy level, describing the relations as normal.
- 17 November** Cuban Foreign Ministry officials, Charge d'Affaires Jose Francisco Piedra and Jose Rivero Acosta arrive in Montevideo to reopen Cuba's diplomatic office.
- Cuban Catholics issue a document favoring dialogue between the church and Fidel Castro's government.
- 18 November** Peruvian Foreign Minister Allan Wagner tells *Vision* magazine that Cuba plays an important role in Peru's Latin American foreign policy.

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- 19 November** Caracas press reports that one Cuban was shot dead and another detained after trying to force their way into the Venezuelan Embassy in Havana.
- 20 November** Cuba and the USSR sign a bilateral cooperation protocol in Moscow for developing science and technology in the five-year plan for 1986-90.
- 21 November** Cuba unveils a draft of its next five-year economic plan, stressing the need to earn more hard currency, cut oil imports, improve efficiency and profitability, and eliminate shoddy workmanship.
- Madagascar Foreign Minister Bemananjara says that relations between his country and Cuba are excellent in matters relating to politics, economics, and scientific-technical cooperation.
- 22 November** Peruvian Foreign Minister Allan Wagner announces that the Peruvian Government will raise its ties to Cuba from charge d'affaires to ambassadorial level.
- Tribuna da Imprensa* reports that a Brazilian official was assured by President Sarney that the government has decided to resume diplomatic relations with Cuba and will make an official announcement soon.
- Carlos Rafael Rodriguez meets in Havana with Martin Malvy, French Secretary of State for Energy. Malvy and Ernesto Melendez sign agreements to increase trade and technical cooperation.
- 23 November** The British newspaper *Observer* says Fidel Castro is seeking Soviet approval for a formal declaration of war on South Africa.
- Fidel Castro bestows the Solidarity Order on Konstantin Katuchev who ends his diplomatic tour in Cuba. Carlos Rafael Rodriguez praises Katuchev's fruitful work.
- 24 November** A Cuban Foreign Ministry spokesman reports that the rumor that Cuba is planning to declare war on South Africa to put an end to apartheid and its military adventures is baseless and is sheer fantasy.

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Granma announces that Joaquin Mas Martinez will be the new Cuban Ambassador to Uruguay.

An Iranian parliamentary delegation headed by Ahmad Azizi arrives in Havana to discuss political and economic matters and expanding relations with Flavio Bravo.

Raul Sendic, founder of the Tupamaros, National Liberation Movement of Uruguay, arrives in Havana to receive medical care to recover from health problems caused during his imprisonment in Uruguay.

26 November

Fidel Castro tours seven provinces hit by Hurricane Kate. There are nearly 60,000 damaged houses and more than 5,000 houses totally destroyed. Estimated damages in the seven provinces is \$1.2 billion.

Returning from his tour of flooded sugar fields, Castro calls Hurricane Kate the "worst natural catastrophe" to strike the island nation's economy this century.

Castro orders the mobilization of thousands of workers in a bid to save the sugar cane crop damaged by Hurricane Kate.

27 November

Zimbabwean Minister of Education, Dzingai Mutumbuka, arrives in Cuba to discuss bilateral cooperation. He and his Cuban counterpart, Jose Ramon Fernandez, tour the Isle of Youth.

29 November

In his book "Fidel Castro and Religion," Fidel says there are many common things between the doctrines of the church and the revolution. The book was published in Brazil.

30 November

Vice President of the Council of State Juan Almeida arrives in Vientiane to participate in activities commemorating the 10th anniversary of the Lao People's Democratic Republic.



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