



Directorate of  
Intelligence

~~Secret~~

**MASTER FILE COPY**  
**DO NOT GIVE OUT  
OR MARK ON**



25X1

**Latin America  
Review** 

25X1

8 May 1987

~~Secret~~

ALA LAR 87-011  
8 May 1987

Copy 436

**Page Denied**

Secret

25X1

**Latin America  
Review**

25X1

8 May 1987

Page

**Articles****Libya-South America: Promoting Terrorism**

1

25X1

25X1

Libya's political ties to South American terrorist and extremist groups constitute a low-level threat to US interests in the area. These groups have accepted some arms and training from Tripoli, but none so far has accepted Qadhafi's leadership.

25X1

**Jamaica: Make Way for the General Election**

5

25X1

25X1

Jamaica's two major political parties are actively preparing for a national election that must be held by December 1988, but Prime Minister Seaga may call the election sooner if he believes his party can win a third consecutive term.

25X1

**Ecuador: The Left Gets Ready for the 1988 Election**

7

25X1

25X1

Rodrigo Borja, who lost narrowly to President Febres-Cordero in the 1984 election, has emerged as the odds-on favorite to become Ecuador's next president in 1988. Borja won the nomination of his moderate socialist Democratic Left party in a landslide in March, and he has already started to campaign aggressively.

25X1

**Venezuela's Stalled Economy**

11

25X1

25X1

Venezuela faces economic stagnation and a growing financial bind this year as President Lusinchi's administration boosts public spending, particularly wage hikes, while imposing a variety of restrictions on the private sector. We predict the public-sector deficit will jump to 8 percent of GDP this year and inflation may increase to 25 percent.

25X1

*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,*

25X1

Secret

ALA LAR 87-011  
8 May 1987

Secret

[Redacted]

25X1

**Latin America**

**Review** [Redacted]

25X1

**Articles**

**Libya-South America:  
Promoting Terrorism** [Redacted]

25X1

We believe that Libya's political ties to South American terrorist and extremist groups constitute a low-level threat to US interests in the area. South American groups [Redacted] [Redacted] have justified attacks on US targets as protests against Washington's opposition to Libyan leader Qadhafi, but none so far has accepted Qadhafi's leadership. Nevertheless, South American governments are reluctant to condemn Qadhafi for fear that he might retaliate by inciting local unrest. [Redacted]

[Redacted] the Libyans have political ties to a few leftwing Peronist splinter groups and some small leftist political parties, including the Movement Toward Socialism. In September 1986 a few of these groups agreed to attack US targets in Buenos Aires in the event of another US air raid on Tripoli. [Redacted] More typically, however, the Libyans turn down local fringe groups. [Redacted]

25X1

25X1

25X1

25X1

25X1

25X1

**A Limited and Expedient Relationship**

Libya, in our view, has limited objectives in South America. [Redacted] because of their proximity to the United States and to generally weak governments, the Caribbean islands are Tripoli's main target in the Western Hemisphere. [Redacted] Libya has offered only small amounts of financial aid to its South American contacts. We believe that Libya's relatively modest operations in South America primarily support Tripoli's Caribbean operations while granting Qadhafi satisfaction that he is fielding a truly global effort to weaken the United States. [Redacted]

**Arms, Training, and Financial Support**

We believe Libya's fickle record as a patron, limited resources, and the second-order priority Tripoli attaches to the region all reinforce the preference of South American extremist groups for Cuban or Soviet assistance. Tripoli, however, has provided limited financial assistance and sporadic training to Colombia's M-19 and Ecuador's Alvaro Lives! (AVC) terrorists, and since 1985 has been discussing assistance with the Chilean MIR. Such contacts, in our view, have not decisively contributed to the overall capabilities of these groups. [Redacted]

25X1

25X1

25X1

25X1

South American radicals take a cautious view of Libyan patronage, underscoring the cultural incompatibility of the region for Qadhafi. The more established organizations, such as the M-19 in Colombia and the Movement of the Revolutionary Left (MIR) in Chile, [Redacted]

Colombia's M-19 guerrillas have had a relationship with Libya since 1978. Libya met M-19's basic funding requirements from 1978 to 1982, and trained approximately 40 of its guerrillas in explosives and basic military skills in 1983, [Redacted]

25X1

25X1

25X1

25X1

[Redacted] tend to look to Tripoli for help when support from Cuba or the Soviet Union is not available. Smaller groups, with little hope of securing Cuban backing, are initiating contact with Libya. In Argentina, for example, [Redacted]

[Redacted] Libyan financing and training for the M-19 appear to have ended shortly thereafter, probably because the Colombians were receiving assistance from Havana and were dissatisfied with the quality of Libyan training. Since then, Libya has

25X1

Secret

ALA LAR 87-011  
8 May 1987

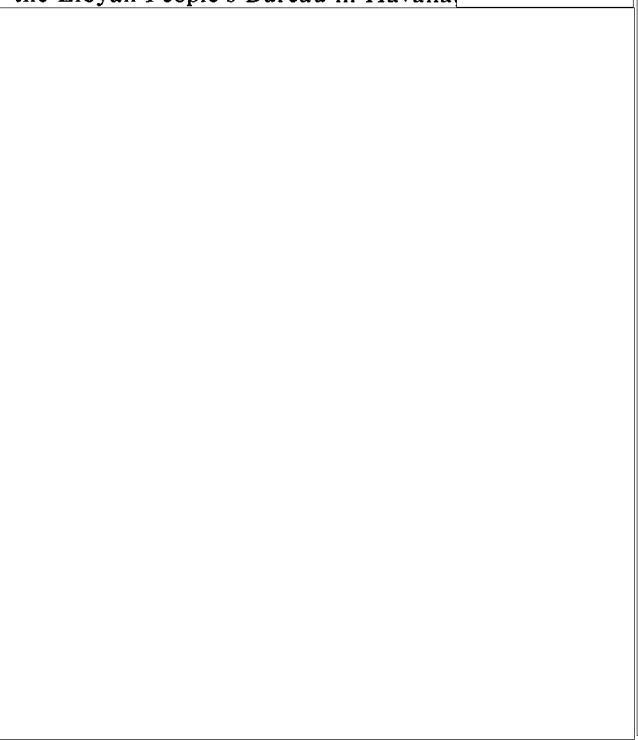
apparently offered to renew assistance to the M-19, but we cannot determine if any of these promises has been fulfilled. [redacted]

The AVC terrorists in Ecuador have had a limited relationship with Libya, primarily through their links to the M-19. The AVC reportedly first made contact with Libya in 1983, participating in the same training course offered to the M-19. Since then, sporadic contact between Tripoli and AVC members has been reported [redacted]

Last year, however, Ecuadorean police dealt the AVC a series of severe setbacks, and we doubt that the group will revive any time soon—even if Libya provides some assistance. [redacted]

Chile's MIR has so far received little more than promises of aid. [redacted]

[redacted] The relationship reportedly began when Tripoli promised to provide funds to an organization in Argentina providing support to far-left groups inside Chile—if the MIR launched a more visible military campaign. As of early 1987, the MIR was confident of receiving training and funding—probably to mount an insurgency in southern Chile—through the Libyan People's Bureau in Havana. [redacted]



25X1

25X1

25X1

25X1

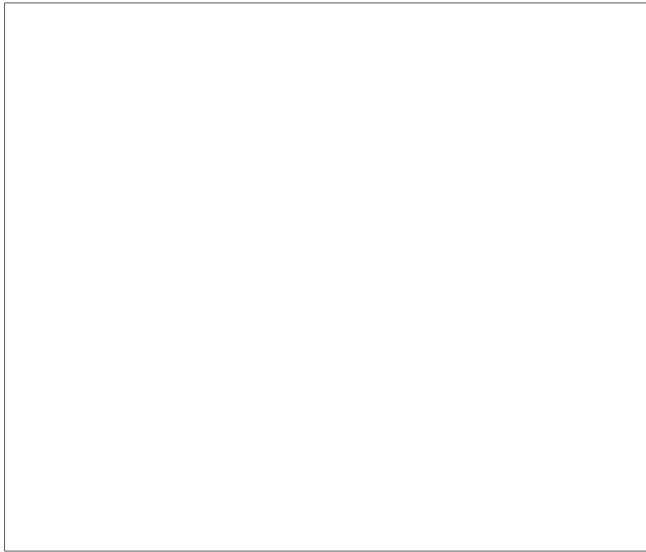
25X1  
25X1

25X1  
25X1

**Page Denied**

25X1  
25X1

Secret



On the other hand, reporting from [redacted] [redacted] US embassies indicates area governments take the Libyan threat seriously. Argentine officials, for instance, said after the US raid on Tripoli that they feared an outbreak of Libyan-inspired terrorism, while the Brazilians expressed concern over the impact of Libyan activities on their large Arab community. Moreover, over the past year, most countries have stepped up surveillance of Libyans and have improved security arrangements for US facilities throughout the region. [redacted]

25X1  
25X1

**Outlook**

We do not expect the Libyans to make significant progress in whipping up anti-US activity in South America, but their activities in the region will remain hostile to US interests in the foreseeable future. Libyan activism is likely to stay focused on the Caribbean, with South America serving as a source of logistic support and a target of opportunity. As long as Libyan representatives keep a low profile and do not engage in blatantly illegal operations or terrorism, South American governments will probably tolerate their presence. [redacted]

25X1

25X1

25X1



**South American Governments Respond**

South American governments—caught between their desire for commercial deals with Tripoli and their fear of Libyan-backed terrorism—have responded ambivalently to the Libyan presence in the region. Most governments want to maintain good relations with Tripoli in order to promote profitable economic ties or Third World political ties—such as common membership in OPEC for Venezuela or in the Non-aligned Movement for Peru—and reduce the possibility of Libyan-inspired subversion. Argentina, Brazil, and Venezuela have appeased Qadhafi by neither reducing the Libyan diplomatic presence nor preventing Tripoli from sending economic and military delegations, according to US embassies in the area. [redacted]

25X1

Secret

**Jamaica: Make Way for the General Election**

25X1

Jamaica's two major political parties are actively preparing for a national election that must be held by December 1988. Prime Minister Seaga may call the election much sooner if he foresees a good chance that his ruling Jamaica Labor Party (JLP) can win a third consecutive term. Reliable public opinion polls over the past year have consistently favored opposition leader and former Prime Minister Michael Manley in a contest with Seaga. Seaga's shrewd political tactics, however, have recently slowed the opposition's momentum. Moreover, Manley's recent illness and growing divisiveness in his People's National Party (PNP) threaten to set back his bid to defeat Seaga.

**Seaga Gaining Ground**

Seaga's party is recovering from a demoralizing defeat by Manley's party in local elections last July and is striving to regain the initiative. JLP leaders have taken a number of steps recently to organize an effective campaign for a national election to be called as early as midyear.

[Redacted]

Since the JLP's trouncing in the local elections, Seaga has taken a number of actions designed to improve his party's chances in a national contest. Last October, Seaga threatened to resign as JLP leader and Prime Minister in a tactic to shore up his support within the party. In our view, the threat also was probably intended to alarm IMF officials, with whom Seaga was involved in tough

negotiations for a new agreement at the time. The US Embassy in Kingston says Seaga's ploy succeeded in rallying support for him within the JLP. Moreover, he concluded a favorable new agreement with the IMF in January, bolstering his image at home while depriving the PNP of a key election issue.

25X1

Seaga's political tactics have helped to throw the PNP into confusion and frustrate its campaign for an immediate election.

25X1

[Redacted]

25X6  
25X6

25X1

25X1

25X1  
25X1

25X1

**Opposition Progress and Setbacks**

Manley has adopted more moderate tactics than in the past that, until a few weeks ago, appeared to have significantly improved his electoral chances.

25X1

Manley's moderation of his leftist image, exemplified by his public endorsement of the latest IMF agreement, has raised his standing with the business community.

25X1

25X1  
25X1

[Redacted]

Public opinion polls taken recently showed Manley defeating Seaga by 10 to 15 percentage points in a national election.

25X1

25X1

[Redacted]

25X1  
25X1





the personal commitment of Seaga and Manley to rein in their armed supporters and declare that such activity will not be tolerated. Clashes between JLP and PNP gangs during the 1980 election campaign claimed roughly 800 lives, according to the Embassy.

25X1



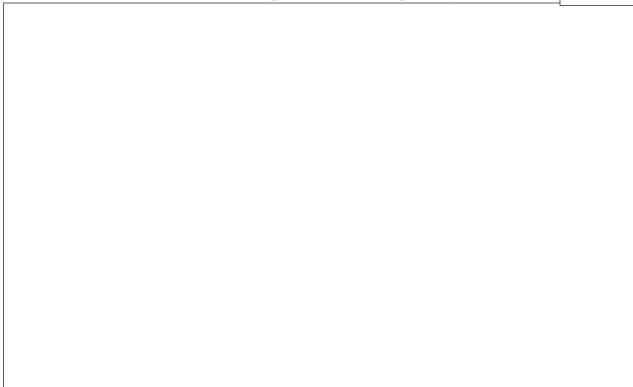
25X1

**Outlook**

In our view, Seaga may be tempted to opt for a snap election later this year if opinion polls show his party gaining in popularity and divisiveness continues to grow in the opposition. According to the Embassy, Seaga said last month that he would not call an election while Manley is recovering from surgery because he fears such a move could cause a negative public reaction and backfire. Despite these assurances, we believe his options would be increasingly limited and his chances of winning possibly diminished if he were to wait until next year, especially since our analysis of Jamaica's IMF program shows that the austerity measures mandated by the Fund will begin to take hold more firmly in 1988.

Although the opposition, like the JLP, is enhancing its electoral readiness in preparation for elections, the question of whether Manley will be able to return as an effective leader hangs over the party's future.

25X1



We believe infighting within the opposition is likely to increase during Manley's absence from the political fray over the next few months. Some radicals—acting without Manley's or Patterson's approval—may, in our view, resort to political violence to keep pressure on Seaga. Nevertheless, we believe the PNP will hold together as long as Manley's return to full leadership seems to be on track, if only because party leftists are likely to continue to believe that he is their best chance of gaining power.

25X1  
25X1

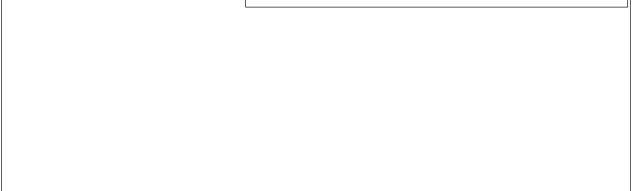
25X1

**Prospects for Political Violence**

Although the local elections last July were relatively peaceful, and the Embassy reports both major parties are discussing ways of limiting electoral violence, there are indications that an upsurge in clashes between JLP and PNP armed gangs may occur once an election is called.

Manley's health is certain to have a profound effect on the course of political events in Jamaica in the near term. If Manley returns to lead the PNP by early summer and quickly reasserts his leadership, we believe the moderates will continue to dominate the party, enabling the PNP to retain a good chance of winning the election. If Manley is unable to exert full leadership by the time the party's national conference is held in September, however, we believe open splits between moderates and radicals in the PNP might shift the electoral odds in favor of Seaga and the JLP.

25X1  
25X1



The

Embassy says the key to limiting electoral violence is

25X1  
25X1

**Ecuador: The Left Gets Ready  
for the 1988 Election** [redacted]

25X1

Rodrigo Borja, who lost narrowly to President Febres-Cordero in the 1984 election, has emerged as the odds-on favorite to become Ecuador's next president in 1988. Ecuador's constitution prohibits Febres-Cordero from seeking a second term. Since he founded the moderate socialist Democratic Left party, Borja has been its standard bearer twice and built the party into the strongest and best organized of the several parties that constitute the center left. Borja won his party's nomination in a landslide vote in internal elections in March, and has already started to campaign aggressively. He is aiming his appeal largely at voters who are disillusioned with the current administration, but are unlikely to favor a far-left candidate. [redacted]



*Democratic left candidate  
Rodrigo Borja* [redacted]

25X1

*Hoy*

A center-left victory is virtually assured in view of the sharp setbacks and failures of Febres-Cordero's conservative administration. The administration's misfortunes have bolstered all opposition groups—including the most radical, which are likely to gain additional seats in Congress and increased leverage over the moderate left. Prospects of such gains have already aroused new anxieties within the politicized military and could jeopardize the election and the democratic succession. [redacted]

party continues to work quietly with the government on various substantive matters, restoration of the coalition is highly unlikely. [redacted]

25X1

25X1

[redacted] one of Bucaram's objectives is to enhance the political prospects of his party's presidential candidate, Angel Duarte, by attracting center-right voters disillusioned with the current administration. Febres-Cordero personally dislikes Duarte and has tried to quash his candidacy, but Febres-Cordero's own embattled party has not been able to come up with a candidate of its own. [redacted]

25X1

25X1

25X1

**Febres-Cordero and the Political Right**

The political right, which consists of several center-right and centrist groups, including Febres-Cordero's Social Christian party, is in disarray. According to US Embassy sources, groups formerly collaborating with the government have maintained some distance, believing identification with a discredited administration will doom their electoral prospects. This disenchantment began shortly after the government lost control of Congress in elections last June and it has accelerated in recent months. In early February, for example, conservative leader Averroes Bucaram, once a key participant in the government coalition, formally broke with the administration after losing control of the municipal council in Guayaquil. Although Bucaram's Concentration of Popular Forces

Duarte will probably emerge as the only viable candidate for the embattled right. He is clearly the local favorite in Guayas Province and in its key city, Guayaquil, and he can probably extend his support into other coastal conservative strongholds. His prospects on the national level, however, must still be rated slim. Early Ecuadorean polls give him 30 percent of the vote at best. [redacted]

25X1

**The Resurgence of the Democratic Left**

Borja is clearly the frontrunner in a crowded presidential race. He has begun to heal rifts within his own party and to revive its grassroots strength. His



Conservative candidate  
Angel Duarte [redacted]

Vistazo

aggressive campaign tactics, which include frequent attacks on the administration and effective manipulation of the media, mark him as the leading critic of an unpopular government. [redacted]

[redacted] Borja plans to emphasize the themes of nationalism, anti-imperialism, and statist economic policies during the campaign. He will almost certainly intensify his attacks on the free market policies of the Febres-Cordero administration, citing the need for more government intervention in the economy. [redacted]

Despite his efforts to discredit the current government, Borja realizes he must walk a tightrope to avoid antagonizing an already wary military. He has stated publicly that he is not a Communist [redacted]

[redacted] He is likely to resist pressures from his party's left wing, which has been urging him to adopt a more radical platform. [redacted]

**The Far-Left's Role**

Far-left parties made impressive gains in last June's congressional elections, and now occupy 13 seats in the 71-seat unicameral Congress. They frequently assault the administration with cries for impeachment. Their constituencies come mostly from labor, students, and the urban and rural poor, but a lack of ideological cohesion—Maoists are pitted against orthodox Communists—inhibit their ability to form a united front. [redacted]

[redacted] both the Maoist Popular Democratic Movement,

---

**Ecuador's Political Parties**

**Right to Center Parties**

- National Reconstruction Front (FRN)
- Social Christian Party (PSC)
- Conservative Party (PC)
- Radical Liberal Party (PL)

**Centrist Parties That Have Supported the Government**

- Concentration of Popular Forces (CFP)
- Alfalist Radical Front (FRA)

**Center-Left Opposition Parties**

- Revolutionary Popular Action Party (APRE)
- Ecuadorean Democratic Action (ADE)
- Democratic Party (PD)
- Ecuadorean Roldosista Party (PRE)
- People, Change and Democracy (PCD)
- Popular Democracy (DP)
- Democratic Left (ID)

**Far-Left Parties**

- Broad Leftist Front (FASI)
- Socialist Front (PSE/PSRE)
- Popular Democratic Movement (MPD)

[redacted]

the most radical party in Ecuador, and the Socialist Front seek agreement on a united electoral slate, but rivalries have stymied their efforts so far. [redacted]

Activist tactics are nevertheless continuing to win new adherents for the far left. Most recently, these parties have played on economic grievances to organize violent and effective antigovernment demonstrations. Radical groups, for example, were in the forefront of a nationwide work stoppage in March that succeeded in paralyzing Quito and other major cities for the first time since Febres-Cordero took office. The far left is

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

not likely to win the presidential election, but it may displace the right as the second strongest political force in Ecuador. Radical politicians could position themselves as power brokers in the next Congress, particularly if they gain six or seven additional seats.

[Redacted]

**Military Unease and Potential for Conflict**

Sustained military support for civilian rule remains a crucial and unresolved issue for the 1988 election. The armed forces, which relinquished power in 1979, have become highly politicized during the Febres-Cordero administration. Recurrent clashing between rebel Air Force and loyal Army forces has opened wounds that will not easily heal. Many Army leaders blame the far left for exploiting the Air Force mutinies and doubt the ability and determination of moderate leftists, such as Borja, to contain extremist pressures. Some in the military argue that the center left is yielding

power to the radicals and fear that an opposition government—seeking to throw out supporters of Febres-Cordero—might lash out against the armed forces.

[Redacted]

25X1

In our view, the military has turned more conservative and reactive than when it ceded power back to the civilians. Although the massive economic problems confronting Ecuador may restrain their willingness to assume power directly, senior officers will demand a strong voice, if not the role of final arbiter, in monitoring all major political developments between now and the election.

[Redacted]

25X1

25X1

[Redacted]

25X1

**Venezuela's Stalled  
Economy**

25X1

Venezuela faces economic stagnation and a growing financial bind this year as President Lusinchi's administration boosts public spending, particularly wage hikes, while imposing a variety of restrictions on the private sector. We predict the public-sector deficit will jump from 6 percent to nearly 8 percent of GDP this year and inflation may increase to 25 percent. Caracas is seeking external funding and is likely to draw down reserves to avoid much-needed but unpopular reforms. The administration probably will seek to reopen negotiations on its public-sector debt in an effort to match terms recently granted to Argentina—a maneuver that will benefit Lusinchi politically, but will probably encounter resistance from creditors.

boost the economy in time to influence the 1988 elections. The collapse of world oil prices in early 1986, however, partly undermined the attempt—oil revenues fell by \$5.7 billion, precipitating a current account deficit of \$2.2 billion. Nonetheless, Venezuela achieved about 2 percent real growth—the first since 1982.

25X1

**Trends Under Lusinchi**

Lusinchi began his term in 1984 by instituting a stabilization plan to reduce the fiscal and foreign payments deficits that had grown under the previous administration. The government devalued the bolivar, tightened import controls, reduced access to foreign exchange, and placed limits on public-sector spending.

Because Lusinchi failed to anticipate the extent of the oil price decline, and his penchant for consensus-building delayed important economic policy decisions, needed adjustment measures were postponed until last December. By then foreign exchange reserves had fallen by \$3.9 billion to a level of \$5 billion. The new reform package included a 70-percent devaluation, which significantly narrowed the difference between preferential and free market exchange rates. Lusinchi also imposed tighter controls on imports. To make the economic package palatable to his labor constituency, he retained price controls on basic consumer goods, granted a 25-percent increase in the minimum wage, and avoided cuts in his three-year development plan.

25X1

25X1  
25X1

This shock treatment initially proved successful. In 1984, Venezuela posted a \$4.4 billion surplus in the current account of the balance of payments, and foreign exchange reserves rose by \$1.3 billion to nearly \$8 billion. The following year, real GDP declined by less than 1 percent—its smallest decrease in three years, and the public-sector budget recorded a surplus equal to 3 percent of GDP. In addition, inflation fell from 16 percent in 1984 to 9 percent in 1985, and Venezuela rescheduled \$21.2 billion in foreign public debt—the first Latin American country to obtain a multiyear rescheduling agreement without an accompanying IMF program.

The impact of these adjustment measures has begun to reverberate through the economy. The annual inflation rate increased from 12.7 percent in December to 14.3 percent in February, and the government estimates that it will top off at 20 percent by the end of the year—a figure we consider overly optimistic based on developments so far. Delays in the approval process for imports at the preferential exchange rate are creating shortages of raw materials, and higher import costs have led some industries to raise product prices by as much as 60 percent. On 29 April the government announced several measures designed to please its large labor constituency. They included wage increases averaging 25 percent, a 120-day ban on the dismissal of workers, and a three-month price freeze on essential goods and services.

25X1

25X1

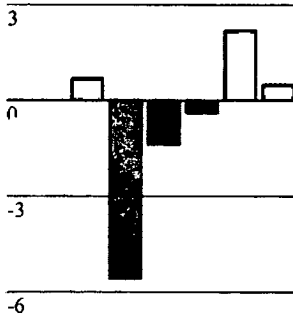
Backing off from the stabilization policy, the administration bowed to public pressure for economic growth and announced a three-year plan of large infrastructure projects in early 1986 calculated to

Secret

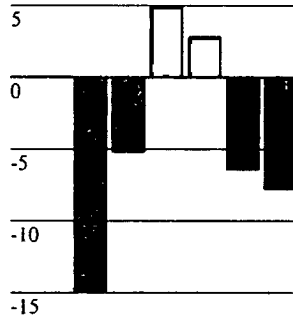
**Venezuela: Selected Economic Indicators, 1982-87**

*Note scale change*

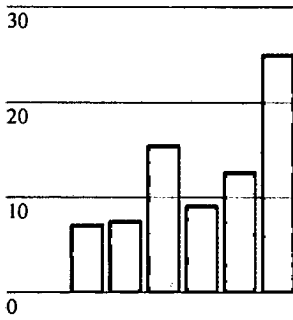
**Real GDP Growth**  
Percent



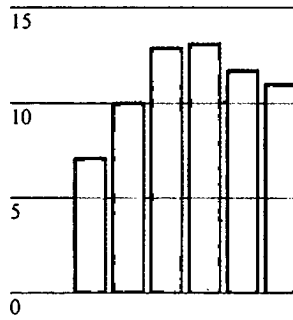
**Public-Sector Balance as a Share of GDP**  
Percent



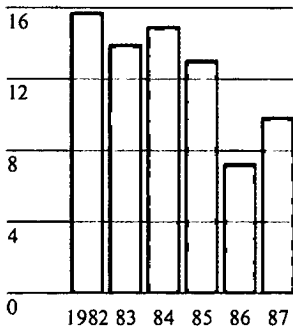
**Consumer Price Growth<sup>a</sup>**  
Percent



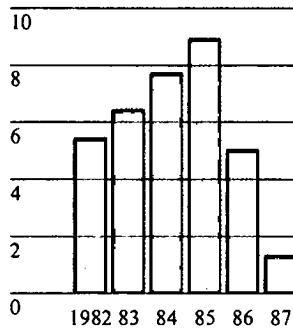
**Unemployment**  
Percent



**Oil Export Earnings**  
Billion US \$



**Foreign Exchange Reserves, Yearend<sup>b</sup>**  
Billion US \$



<sup>a</sup> Change from the previous December.

<sup>b</sup> Excludes gold.

<sup>c</sup> Projected.

**Financing the Deficit**

Lushinchi plans to finance his ambitious infrastructure development plan and other budgetary expenses through a mix of domestic and external sources. Caracas proposes to increase the amount of government debt that the Central Bank can acquire. In addition, it wants to raise the limits on the share of a bank's capital that may be invested in government financial instruments, and permit loans to state agencies of up to 40 percent of capital.

**Dealing With Foreign Creditors**

Because of growing political pressure to obtain more favorable repayment terms, Venezuela has adopted tougher positions in its debt negotiations with foreign banks despite its increased financial needs. After months of hard bargaining, Caracas and its Bank Advisory Committee agreed in February to revise the \$21 billion public-debt rescheduling package signed in 1985.

**Domestic Pressures on the Rise**

The renewed efforts to obtain additional concessions on debt are motivated largely by preelection political pressures. The major opposition party has stepped up its criticism of Lushinchi's economic policy, claiming that Venezuela is bowing to foreign interests. Public attention has focused on Brazil's announcement of a payments moratorium and more recently Argentina's debt relief package.

25X1  
25X1

25X1  
25X1

25X1

25X1

312566 5-87

Secret

Secret

**Venezuela: Current Account Balance, 1982-87***Billion US \$*

	1982	1983	1984	1985	1986	1987 <sup>a</sup>
Current account balance	-3.2	3.6	4.4	3.1	-2.2	-0.7
Trade balance	3.9	8.2	8.8	6.9	1.1	3.3
Exports, f.o.b.	16.5	14.9	16.0	14.2	8.7	11.3
Oil	15.6	13.8	14.9	12.9	7.2	9.8 <sup>b</sup>
Nonoil	0.9	1.1	1.1	1.3	1.5	1.5
Imports, f.o.b.	12.6	6.7	7.2	7.3	7.6	8.0
Net services and transfers	-7.1	-4.6	-4.4	-3.8	-3.3	-4.0

<sup>a</sup> Estimated.<sup>b</sup> Assumes oil prices at \$17 per barrel.

25X1

**Outlook**

Because of government controls on prices and access to foreign exchange, the private sector is likely to experience a slowdown this year, dragging GDP growth to near zero. The recent devaluation will probably cause consumer prices to double to at least 25 percent by the end of the year, and the administration's efforts to expand public expenditures and raise wages will spur more inflation. With the reopening of public-debt negotiations imminent, Venezuela may push for new loans as well as interest rate concessions, and threaten to postpone \$400 million in principal payments due next year unless banks offer new funds. Lusinchi is unlikely to make any major economic policy adjustments during the remainder of his term, leaving the next administration—barring a resurgence in oil prices—with critically low foreign exchange reserves, a large deficit, and high inflation.

25X1

25X1

8  
8

**Secret**