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Collection Name BAILEY, NORMAN: FILES

Withdrawer

KML 8/30/2011

File Folder SOUTH AMERICAN POLICY (JUNE-AUGUST 1982)

FOIA

M10-353/1

Box Number 2

DENNISON

3

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
117593	MEMO	ALFONSO SAPIA-BOSCH TO WILLIAM CLARK RE NSSD <i>R 5/18/2015 M353/1</i>	1	6/18/1982	B1
117594	MEMO	WILLIAM CLARK TO THE PRESIDENT RE NSSD	1	ND	B1
117595	PAPER	RE NSSD	2	ND	B1
117596	MEMO	NORMAN BAILEY & ALFONSO SAPIA-BOSCH TO WILLIAM CLARK RE ARGENTINE DEBT SITUATION <i>R 5/18/2015 M353/1</i>	2	8/26/1982	B1

The above documents were not referred for declassification review at time of processing

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SYSTEM II

117593

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~SECRET~~

June 18, 1982

So Am.

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: ALFONSO SAPIA-BOSCH *ASB.*

SUBJECT: NSSD on U.S. Relations with Latin America
as a Result of the Falklands Crisis

I have waited for a week for a response from State on the last draft NSSD that I sent to Tom Enders. Everything was on track in our informal dealings; then I was told the Department would send you official comments.

I have made as many of the changes as I have been able to glean from the Department.

As presently constructed, the NSSD (at Tab A) provides a sound framework to address the President's concerns on the status of our relations with Latin America and to develop new approaches to the region. What I will work toward is a more dynamic and consistent policy particularly toward South America, where U.S. interests are most vulnerable.

~~F~~ *sup*Draine, Blair, Lilac and Bailey concur.

Recommendation

That you sign your memorandum to the President (Tab I) sending the NSSD to the President for his signature.

Approve _____ Disapprove _____

Attachments

Tab I Clark memo to the President
Tab A NSSD

~~SECRET~~

Review on June 18, 1988

DECLASSIFIED

NLRR M3581 #117593

BY RW NARA DATE 5/10/15

~~SECRET~~

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Collection Name

BAILEY, NORMAN: Files

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<i>ID</i>	<i>Document Type</i> <i>Document Description</i>	<i>No of</i> <i>pages</i>	<i>Doc Date</i>	<i>Restric-</i> <i>tions</i>
117594	MEMO WILLIAM CLARK TO THE PRESIDENT RE NSSD	1	ND	B1

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3 A

WITHDRAWAL SHEET

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SOUTH AMERICAN POLICY (JUNE-AUGUST 1982)

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117595	PAPER RE NSSD	2	ND	B1

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W. Past 6/27/82 40°
Am 7

The Falklands: God Save the Company Islands

To the end, the illusion remained intact. "Falkland Islands once more under the government desired by their inhabitants—God save the queen." This was the message sent by the commander of the British soldiers to Margaret Thatcher after Argentine troops surrendered.

The message, if accuracy means more than battlefield rhetoric, should have read: "Falkland Islands once more under the government

Colman McCarthy

desired by the Falkland Islands Company, formerly owned by Charington Industrial Holdings but now part of the Coalite energy conglomerate—God save the board of directors, the investors and the Tory members of Parliament who backed the sending of young Britons to their death to protect the company's assets."

The Falklands are company islands. The Thatcher government's impulsive and uninspired reaction to the junta's land grab was loftily projected as a matter of principle: First, aggression must not be tolerated and, second, the islanders' wishes must be respected. But a principle also at work, the mop swishing dirt off the floor before it is waxed to a shine, was government at the service of the economic self-interest of a major multinational.

More than 40 percent of the Falkland's two large islands belong to a London company that is part of a corporate empire with yearly sales of \$1 billion. The Falklands' sole bank is owned by the company. The only cargo ship hauling wool to England is chartered by the company. The monopoly of the absentee-landlord-moneylords was so powerful that only as recently as two years ago, after citizen agitation, was another company allowed to compete as a wool-marketing agent for what few privately owned sheep ranches there are.

As the Thatcher gunboats steamed to the South Atlantic, an idyllic image of pastoral serenity was manufactured about the Falklands. These 1,800 sheepmen and their families were depicted as proud individualists whose spirit of indepen-

reported and as any low-rank professor at the London School of Economics could have said, "Few of the islanders own their own farmland." A 1976 British government report told of a "continuing history of dependence of a great majority of Falkland Islanders . . . Scarcely any of them have a stake in the place." As for the rewards of the islanders' hard labor, the report added that the pattern was to "channel undistributed profits to the United Kingdom."

The history of Latin America runs deep with outside military intervention on behalf of distant commercialism. In 1931, Gen. Smedley Butler, the U.S. Marine commander who put a pugil stick to slogans of nationalism, described himself as "a high class muscle man for Big Business, Wall Street and the bankers . . . I helped purify Nicaragua for the international banking house of Brown Brothers in 1909-1912. I helped make Mexico and especially Tampico safe for American oil interests in 1914. I brought light to the Dominican Republic for sugar interests in 1916. I helped make Haiti and Cuba a decent place for the National City [Bank] boys to collect revenue in. I helped in the rape of half a dozen Central American republics for the benefit of Wall Street . . . I was rewarded with honors, medals and promotions."

It is questionable whether Thatcher would have reacted militarily if indeed the Falklands were only a distant outpost of a few struggling farmers. Galtieri could have been dealt with as a hostage-taker, not the first on the current scene. Nonviolent forces could have been marshaled: negotiating, diplomacy, economic sanctions. She might also have urged Coalite to sell its subsidiary to Argentina, a deal the latter had been proposing for years. Thatcher could have made a noble speech to Parliament—"We are a nation of laws that shall not be drawn into a conflict of arms"—and her Tory backers could have called out their "hear, hears."

But, rejecting nonviolent solutions, Thatcher called up the troops. A fair amount were boys from the working classes who couldn't find jobs in the worsening British economy and joined the military as a last resort.

MEMORANDUM

NATIONAL SECURITY COUNCIL

July 6, 1982

MEMORANDUM FOR ROGER FONTAINE
AL SAPIA-BOSCH

FROM: NORMAN A. BAILEY *NAB*
SUBJECT: Situation in Argentina

Dr. Siegfried Marks, Chief Economist of Esso Inter-america, called me today to report on his recent trip to the southern cone. His main points:

-- An unstable Peronist government or a right-wing army dictatorship are the most likely alternatives in Argentina.

-- The top military leadership is still strongly pro-American.

-- The leftist Peronists are returning to the country. The two most prominent are Galimberti and Abal Medina (who was allied with the Montoneros). A Peronist, mid-rank officer coup is a possibility. Prime candidate for President/dictator in such a case -- army Gen. (Ret.) Jorge Carcagno.

-- Civilian leadership almost totally lacking.

-- The army may disintegrate under pressure of defeat.

-- Argentina will have to reschedule its external debt.

-- Free market economic policies have no support now.

-- Real economic growth since 1973 has been zero.

-- He estimates 1982 inflation will be 200%.

cc: Tom Reed
Dick Boverie
Don Gregg

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BUREAU OF INTELLIGENCE AND RESEARCH

ASSESSMENTS AND RESEARCH

(U) POLICY DILEMMAS IN BRAZIL-AFRICA RELATIONS: A BELLWETHER FOR FUTURE SOUTH-SOUTH TIES?^{1/}

Summary

Without rejecting ties to the North, and with a minimum of stridency, Brazil is exploiting the Third World component of its mixed identity to advance its economic development and political status as a capitalist Third World leader. It is using the concept of South-South relations to project a cooperative, fraternal image to other less developed countries (LDCs). Brazil hopes these expanding relationships will help alleviate its potentially severe energy, debt burden, and trade problems.

Africa is the region outside South America that has been selected for special attention. This emerging Brazil-Africa relationship may well be the most important example of cross-continental ties among LDCs. The connection merits close observation because, if this attempt falls short of mutual advantage, the viability of the intercontinental South-South concept can be thrown into serious question.

Among Brazil's disadvantages in dealing with black Africa are its:

- inability to deliver the level of economic cooperation Africa would like;

^{1/} This report is based on a paper prepared by Wayne Selcher of Elizabethtown College under contract with the Department of State. It is part of a larger INR external research project currently under way which will examine Brazil-Africa relations in considerably more detail. Findings and conclusions expressed herein are those of the author and do not necessarily represent official Department of State policy or views.

- conservative military regime;
- reluctance to get involved in African political issues;
- competition with established powers;
- problems of finance for projects;
- racial system, which has come under increasingly critical African scrutiny as more Africans visit Brazil; and
- continuing significant level of trade with South Africa.

On the other hand, Brazil has largely overcome earlier criticism of its support for Portuguese colonialism and has developed closer relations with Angola and Mozambique. The Brazilians maintain that they can offer more appropriate "tropicalized" products and that they are more willing to transfer technology without political strings than other, more traditional, suppliers.

African receptivity to Brazil is good, but the problem of follow-through in sustaining initiatives continues to hinder real progress on a broad front. Economic ties have expanded significantly in the past decade, but as relations pass from the declarative stage to the realization of projects, each side needs a clearer appreciation of what the other can or cannot contribute.

* * * * *

Brazil's Third World Thrust

During the 1970s, Brazil established itself as a rising middle power in international relations with credible aspirations for eventual major-power status. Although not a fully industrialized economy, Brazil is nevertheless assuming the profile of an importer of raw materials and an exporter of manufactured goods and services. Its international conduct over the last decade has been greatly affected by the new interests and vulnerabilities which it has been taking on. Even greater changes can be expected in the decade of the 1980s because of a set of severe energy, debt burden, and trade problems which cannot be adequately addressed within the patterns of relationships in place at the end of the 1970s.

Brazilian observers generally are pessimistic about substantial gains from the North-South dialogue. Brazil is therefore adopting a qualitatively new foreign policy stance and philosophy. Without rejecting ties to the North, and with a minimum of stridency, Brazil is systematically exploiting the Third World component of its mixed identity to advance its economic development and political status as a capitalist Third World leader. Fundamentally, Brazil is seeking to gain more economic autonomy by developing Third World markets and sources of supply for its own industry. By 1980, 42.8 percent of Brazil's total trade turnover was with Third World countries, compared with 30.9 percent in 1975.

The key to this strategy is advancement of the concept of South-South cooperation, a "horizontal" relationship among developing countries to serve as an alternative to (but not a replacement of) their "vertical" relations of dependency on the North. Brazilian diplomacy did not originate the South-South idea but has seized upon it imaginatively and discretely as a symbol upon which to project the claim that, in the Third World, Brazil's cooperation is of a more desirable quality--a new, long-term, more useful, and less exploitative kind than that of either East or West. Brazil's economic size, intermediate development level, and comparative advantages as the largest newly industrializing country (NIC) should assure it of a major global role among LDCs.

Sub-Saharan Africa is the region of Brazil's greatest initiatives outside the South American Continent. Brazilian exports to the area increased from approximately \$30 million in 1970 to about \$850 million in 1980. These dealings, in which Brazil is the major partner, could foreshadow some characteristics of Brazil's

more participatory Third World stance and provide insight into the viability of closer relationships between more and less developed Third World states.

The progress of Brazil's relationship with Africa has been remarkable over the last decade, with broadening areas of cooperation and complementarity. Although it may well be the most diversified cross-continental relationship among LDCs, it has proceeded with little long-range planning or sense of coordination. Some disappointments and points of attrition have already arisen as relations have become more intense. Unintended consequences may arise, as each side relates to the other from a different set of national circumstances, priority of interests, and global perspectives.

Political Credentials and Economic Interests

The contradictions of its position between the First and Third Worlds require considerable deliberate effort for Brazil to assert bona fide Third World membership while maintaining favorable bilateral relationships with key countries of the West. Africans tend to see Brazil as large and developed, while Brazilians describe their nation as poor, weak, and much more limited in potential to cooperate with Africa than the major states already involved.

The conservative character of Brazil's Government and its only relatively recent anticolonialism (after steady support for Portugal) caused frictions with Africa until the end of the 1970s. Brasilia saw it necessary to compensate for those doubts with a number of diplomatic initiatives to win African confidence. The success of each of these moves was interpreted by the Foreign Ministry as a "green light" of acceptance for further approaches to the continent. Still, the political distance involved in accommodation regularly provides some interesting incongruities.

Even though political interests may eventually accrue with the development of commercial involvement in Africa, Brazil resists new political entanglements in the Third World. Whereas African foreign policy style tends to be highly political, symbolic, and rhetorical, Brazil's is marked by cautiousness, restraint, nonideological pragmatism, and nonconfrontation, with a clear reluctance to take unambiguous positions on controversial issues not directly affecting the country. The African image of Brazil as a country still largely in the US sphere of influence persists. Thus, to gain favor with Africa, Brazil has had to be more outspoken on issues affecting that continent than on those elsewhere in the Third World (with the partial exception of Arab-Israeli questions). That posture has evolved only gradually and with constant African prodding.

Africans heretofore have been satisfied, although less than completely, with the symbolism of a change in pronouncements. Brazil is not yet in the problem-solving stage in Africa, but both African and Western governments now are starting to ascribe some significance to Brazil's stands on African matters. Brazil, in turn, sees an image value in its Africa policy for its emerging global role. It is therefore paying more attention to articulating positions on African questions in talks with a wider range of countries, yet without allowing itself to be excessively pressured or endangering the good will it has carefully managed to build in Africa. Brazil definitely does not interpret its growing economic influence in Angola, for example, as having political significance as a Western presence.

African receptivity to Brazil varies between that of the pragmatists, who are interested primarily in economic contributions, and that of the ideologues or militants, who place political considerations foremost and criticize Brazilian Third Worldism as insincere and opportunistic. Although Brazilian actions are tailored to appeal to the first group, which has predominated in official circles, a least-common-denominator type of attention is paid to the claims of the more vociferous purists, mainly intellectuals and radical leaders, who usually remain unassuageable. Rapprochement with Angola was gained with relative ease and speed, but only with the successful September 1981 visit of Mozambique's Foreign Minister Chissano to Brazil were political relations with Maputo really thawed.

More than any other single factor, commercial opportunities determine the priority accorded by Brasilia to ties with various countries. Those with markets for exports (particularly manufactures), projects for Brazilian participation, and resources to sell (particularly petroleum) rank highest on the list. Greatest activity has been carried on with Nigeria, Angola, Zaire, Gabon, the Ivory Coast, and (recently) Mozambique, with a lower level of interaction with Senegal, Ghana, and Zambia. Brazil maintains formal diplomatic relations with nearly every African country, but dealings with most of them have been relatively sporadic and minimal, often largely for the symbolic political content involved.

In future practice, those stable countries that can pay their way will receive the bulk of Brazilian attention, while most poorer countries or those with less trade complementarity will be limited to "political relations." Portuguese-speaking Guinea-Bissau and Sao Tome and Principe fit in as special Fourth World exceptions, the only ones in which the relationship is heavily donative on Brazil's part. As a matter of strategy, Foreign Ministry officials dealing with Africa first firmed up ties with the generally more moderate west African governments (the linkage of longest standing), recently turned to thorough consolidation of

deeper relations with the socialist Lusophone states, and, in the near future (building upon Angola and Mozambique), intend to extend some attention to the other countries of southern and east coast Africa.

Brazil is now the world's sixth largest exporter of arms, with sales in rapid expansion. Most of Brazil's arms trade is carried out with the Middle East and Latin America, but African nations are now being targeted as potentially important customers. Most sales thus far have involved aircraft, patrol boats for coastal surveillance, armored vehicles, guns, and ammunition. Brazil's military sales policy is attractive to Africa because of appropriate technology, effectiveness, price competitiveness, and lack of political preconditions. Brazil is considering creation of military attache positions in an increasing number of key African embassies. Military cooperation agreements, such as those for training and technical advisers, cannot be ruled out, but more significant military ties do not appear imminent.

A Matter of Race and Culture

Brazil has emphasized geographic ties, linguistic and cultural similarities, and its system of race relations in its approach to Africa since 1961. Because of this emphasis and because culture and race are important reference points in the African world view, the accuracy of Brazil's claim of affinity is crucial to success as relations intensify. African unfamiliarity with Brazil has caused many to accept at face value official Brazil's assertions of the prestige enjoyed by the African element of Brazil's culture and of the absence of a racial problem. Numerous African diplomats and businesspersons who have visited Brazil, however, criticize the white view of race and culture there.

Africans find not only strong racial discrimination in Brazil, but also that Brazil's whites give little prestige to the country's African roots. Brazil is not yet a common topic in African newspapers and magazines, but the reports which do appear are beginning to contain references to this counter-image. The cultural affinities assertion may become an impediment as the real status of Afro-Brazilians becomes more widely known in Africa. Even African leaders sympathetic to the economic advantages of the relationship might find it difficult to justify morally the de facto exclusion of blacks from Brazil-Africa relations when Brazil claims to be second only to Nigeria in size of black population.

It is not beyond conjecture that African governments important to Brazil, such as Nigeria, may quietly make representation to the Brazilian Government to address the situation of Afro-Brazilians and to obtain acknowledgment of the problem and visible

progress toward solution before relations may be allowed to grow intimate. On the other hand, in Brazil's current political climate, race is only barely nascent as an issue and is far overshadowed by larger questions of social justice and political liberties for the population as a whole.

Brazil and the Established Powers

Unlike the major powers of East or West, Brazil does not export ideology or social planning, nor does African cooperation with Brazil involve serious sovereignty concerns or implications for either East-West or African politics. Africans generally perceive a positive difference relative to the West in Brazilians' more relaxed and cordial style, adaptability to African culture, and lower level of condescension and paternalism, but the commercial promotion and the priority of the profit motive remain similar. Beyond touting its medium level of development, to which Africans can relate easily, Brazil is willing to take risks greater than those run by Western powers, to barter, and to extend more favorable benefits.

For the time being, the African venture is being subsidized as an investment in developing what is for Brazil a sizable future market which established powers see as of marginal importance. Lower prices on simpler but more durable ("tropicalized") goods, including automobiles and commercial vehicles, iron and steel products, shoes, processed foods, etc., are combined with technical assistance and training on the more sophisticated purchases to establish competitiveness. Brazilian salespersons stress willingness to transfer intermediate or appropriate technology to Africa without strings and to train local skilled labor. But some Africans comment that such transfer in practice is not as rapid or as complete as they would like and that it is a lower priority for Brazil than is trade.

Further, Brazil's reluctance to make investments, stemming from lack of experience, capital shortages, or concerns about instability, is criticized by Africans. Commercial relations with Africa in the recent past have suffered from Brazil's overconcentration on what it can sell and less concern about what it can buy. Brazil has been generous in granting lines of supplier's credits but is unable to compete with larger powers. Even so, some loans may have to be renegotiated or become de facto write-offs.

Only recently have Africans come to consider some of the limitations on Brazil's cooperation. The extensiveness of Brazil's activities and the number and choice of countries with which it will become deeply involved will be restricted by domestic demands and priorities; its status as a major debtor, a

large petroleum importer, and a technology-importing nation; and its insistence on ultimate profitability. Joint ventures with third countries would be one solution to this problem, along with association with the larger local companies. Brazil is trying to arrange triangular deals with African initiative, Brazilian expertise, and third party hard-currency financing. Cooperation with Portugal in the Lusophone states has been discussed. Among other potential partners are European countries that lack their own African networks.

Brazil is also trying to establish the principle that, in the cause of South-South relations, preference in execution should be given to other LDCs when multilateral funds design African projects. Cooperation with the development fund of the Organization of Petroleum Exporting Countries (OPEC) would be an asset for Brazil, which is already sensitive to defusing the charge that its African venture is largely a front to channel activity of multinational corporations under a false South-South label. The Arab countries have proved very cautious in their finances and, until late 1980, slow to help Brazil with petrodollars. In the name of South-South cooperation, however, partnership with OPEC in the Third World may be more likely in the future.

Brazilian Policy Toward Southern Africa

The most problematic region in Africa for Brazil has been southern Africa, because of Brasilia's previous support for Portuguese colonialism, its unwillingness to follow fully the African line toward South Africa, and the establishment of Marxist governments in Luanda and Maputo. It is in policy toward this region that strains between Brazil's Third World and First World ties have been the most pronounced.

In the cases of Angola and Mozambique, Brazil would like to see the emergence in the longer run of a Portuguese-speaking community of nations with Brazil as major partner. But, because of the pre-1974 connotation of the "Afro-Luso-Brazilian Community" notion as a prop for Portuguese colonialism, it is still too early to promote this idea. The Africans involved might well take Brazil's support for such a community as an indication of sphere-of-influence ambitions. Brazil would prefer to see the gradual development of a "community of equals" on African initiative, with Brazil invited to join only when African confidence in its intentions was higher.

Meanwhile, Brazil has become one of the significant trade, aid, and investment partners of Angola and Mozambique. Although Brazil is uncomfortable with the Cuban presence in Angola, the Foreign Ministry is gambling on the stability of the MPLA government and is reluctant to irritate it. Brazil has been

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vehement in condemning South African attacks on Angola. It also recognizes the Southwest Africa People's Organization (SWAPO) as the representative of the people of Namibia but resists the establishment in Brazil of a SWAPO office.

Belying its rhetoric, Brazil has only gradually weakened its ties, still refuses to break relations, and carries on a significant level of trade with South Africa. Official relations with South African diplomats in Brasilia are correct but aloof. In its Pretoria legation, Brazil maintains only a chargé d'affaires with the rank of second secretary and conducts no trade promotion activities in the country. African demands for total isolation of South Africa are causing greater pressure on Brasilia, which continues to vacillate with occasional small concessions timed to garner some political value. The Foreign Ministry still finds it incongruous and unprofitable to yield to the severance demands of African states, several of which maintain their own economic relations with South Africa.

Persistent rumors about Brazilian participation in a South Atlantic Treaty Organization (SATO), with possible South African membership, also have clashed with Brazil's uncomfortable position on South Africa, its regionalist idea of the South Atlantic as a conceptual link with Africa, and the role of Angola as one of the chief pillars of its African venture. Minimizing the Soviet threat in the region, some Brazilian foreign policy spokespersons have begun to refer to the South Atlantic as an "avenue," "basin," or "frontier" of vital national interest and a "zone of peace." This affirmation allows Brazil to take an offensive stand against persistent African accusations of intent to participate in a SATO and to stake a claim to a political role in South Atlantic affairs, even before it has a blue-water navy. Because this interest in keeping the South Atlantic from becoming a geopolitical chessboard for the great powers is shared by black Africa and during 1981 appeared in joint communiqués with Nigeria, Senegal, and the Congo, the concept may be further developed to influence Western policymaking on the issue.

How Deep and Lasting a Relationship?

Within the Brazilian Foreign Ministry, the lines of African policy are now apparently well accepted. The Foreign Ministry has had a free hand as frontrunner in setting political, economic, and financial policy toward Africa, stressing the long-run view but with no clear strategy or goals beyond the policy's role as a vehicle in Brazil's South-South plans. Other ministries dealing in foreign affairs (such as the Treasury and Planning Ministries) are more wary of the uncertainties and costs. Conservative naval sectors voiced opposition to policy toward southern Africa from 1975 to 1977 and still have quiet reservations about the South

Atlantic policy. A serious expansion of the relationship would bring in new political actors and subsequent policy complications. With time, in view of the degree of subsidization involved, the venture will need some respectable breakthrough to overcome skepticism in the bureaucracy outside the Foreign Ministry.

In recent years, Brazil has developed a small cadre of bureaucrats with experience in African affairs, complemented by some quality opposite numbers in such private sector activities as trade, banking, and services. The Foreign Ministry still has to "sell" Africa to the cautious business community, for Ministry plans and political preparations run well ahead of private sector followup. Although certain foreign policy stances toward Africa have occasioned controversy, the present course of action appears to enjoy broad public support. Political instability, organizational weaknesses, and expertise on Brazil on the African side have been more problematical, although the African level of acceptance for and interest in Brazil is high.

The last few years have seen the establishment of institutionalized frameworks for cooperation in the form of numerous treaties and joint commissions, but the problem of consolidation or follow-through in sustaining initiatives continues to hinder real progress on a broad front. The next several years will be difficult ones for Brazil-Africa because of the political and economic crises on both sides, a decline in African ability to pay, and Brazil's search for goods to take in return for its manufactures. Only after several years of the recently more intense interchange between Brazil and Africa will the results demonstrate whether Brazil will be able to offer a new type of cooperative alternative to Africa or whether there will be essentially a smaller scale reproduction of the characteristics of post-colonial Western relations with Africa. In the meantime, the connection merits close observation because, if the Brazil-Africa attempt falls short of mutual advantage, the viability of the intercontinental South-South concept can be thrown into serious question.

Prepared by Kenneth Roberts
x21252

Approved by E. Raymond Platig
x21342

MEMORANDUM

6025

NATIONAL SECURITY COUNCIL

August 26, 1982

~~CONFIDENTIAL~~
INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *MB*
ALFONSO SAPIA-BOSCH

SUBJECT: The Argentine Debt Situation

On Monday, August 23, Norman Bailey was called by Rod Lindsay, President of Morgan Guaranty Trust, who expressed grave concern over the possibility of a unilateral Argentine moratorium on debt payments. Morgan had acted as intermediary between the Argentines and the British in an effort to get the Argentine liquid assets released. He said that they had given up on that effort, that they had information that the Argentine government was considering declaring a moratorium, that such a move at this time would be most disturbing to the financial markets and that they were having great difficulty finding anyone to talk to in Buenos Aires.

Morgan is arguably the best run major bank in the U.S. and not given to panic.

Norman discussed the matter with Al Sapia-Bosch and mentioned it to Bud McFarlane. We then asked Argentine Ambassador Takacs and OAS Secretary General Orfila to consult with us. (Orfila not in his OAS capacity but simply as a prominent, knowledgeable and well-connected Argentine.) They both indicated great difficulty in identifying the proper individuals who could be approached with some effect. A name mentioned by both was army commander Nicolaidis but without enthusiasm, Orfila going so far as to describe him as a "cave-man" with no understanding of economic or financial matters and possibly in favor of "teaching the gringos" a lesson by stopping debt payments.

In light of the above, which we believe to be accurate, it would appear that any demarche to the Argentines would have little chance of success. Nevertheless, the threat to the international financial system, already reeling from multiple blows, is so great that the effort should perhaps be made anyway to try to convince them to:

- (1) Reach agreement with the IMF.

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(2) Enter rescheduling talks with the private banks.

(3) Request Paris Club rescheduling of official debt.

(4) Reach agreement with the British (the only sticking point now is landing rights for British Caledonian in Buenos Aires).

As arguments concerning the stability of the international financial system might be quite ineffective, more specific quids should be offered to the Argentines along the lines of Al's previous memos.

Incidentally, in the course of the week, the Argentine Minister of Economy and head of the central bank resigned.

cc: Roger Fontaine
Henry Nau
Roger Robinson