

~~SECRET~~

SYSTEM II  
90257

NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

National Security Council Meeting  
March 13, 1987, 11:00 a.m. - 12:00 p.m. Cabinet Room

SUBJECT: South American Democracy (u)

PARTICIPANTS:

The President

The Vice President's Office:  
Craig Fuller

CIA:  
Robert Gates  
Robert Vickers

State:  
George P. Shultz  
Elliott Abrams

USTR:  
Amb Michael B. Smith

Treasury:  
Richard G. Darman

JCS:  
Robert T. Herres  
John H. Moellering

OSD:  
Caspar W. Weinberger  
Richard L. Armitage

AID:  
Peter McPherson

Commerce:  
Malcolm Baldrige

USIA:  
Charles Z. Wick

Education:  
Wendell Willkie

White House:  
Howard H. Baker  
Frank C. Carlucci  
David Chew  
Jose Sorzano (NSC)  
Jacqueline Tillman (NSC)

OMB:  
Joseph Wright  
Wayne Arny

Minutes

President Reagan: I know it is no secret to most of you that I have a vision of a democratic Western Hemisphere where the United States has warm and solid relations with all the countries of the hemisphere. That's why my first trip as President was to Latin America. We've had well-intentioned policies in the past that resulted in the United States being thought of as the colossus of

~~SECRET~~

Declassify on: OADR

DECLASSIFIED

NLS M05-016 #19195

BY WJ NARA, DATE 12/21/05

the north, and we offered a lot of advice and rarely heard theirs. But there is no reason why this should still be. We are all Americans, from the Tierra del Fuego to the North Pole. There is no reason why we could not be the force for good in the world that we could be. But they have a chip on their shoulder from the way they were treated by us in the past. (U)

Since I've considered this a priority of this Administration, I've pretty much had an open door policy for the new Latin democratic presidents, and over the last six years, have met with most of them here at the White House. In reflecting on what I've heard from them, I am struck by their deep desire to make sure their democracies survive, the difficulties they face in achieving this, and also, how much they want and need our help so they can make it. (U)

The special challenge for them seems to be managing their debts, and Soviet diplomatic inroads, terrorism and narcotics in some cases are important problems for them as well. I've told these Latin American presidents that we are not the "colossus of the north" anymore, that those days are over. But we want to help them as much as we can. It's in our national interests that we do so. So I'm glad that we are meeting to make sure we are doing all we can to support, protect and preserve democracy in South America. (U)

Just about fifteen minutes ago I was talking about how selective the Soviets are in the set of quotations they use from Lenin. They use the ones they like and print them in their books. But there is one quote of Lenin that we need to remember for this meeting today. Lenin discussed their approach to world communism and said they would first take Eastern Europe, which they have already done. Then, they would organize the hordes of Asia. Well, they have made great progress there. Then they would move to Latin America. In taking Latin America, the United States, the last bastion of imperialism, would be isolated and fall into their hands like overripe fruit. These are the stakes we are talking about today. (U)

APNSA Frank Carlucci: Thank you Mr. President. This review is appropriate because the last time the NSC considered South America was four years ago after the Malvinas/Falklands war. Much has happened in South America since then. It's important to keep in mind that the inter-American system is the oldest international regional organism in the world and after World War II, when Harry Truman began his great work of creating the security networks that constitute our modern alliances today, the Rio Treaty was the first the U.S. entered into. (U)

We have tended to be very preoccupied by Central America, yet we should not only worry about the back yard, we should worry about the neighborhood too. And there have been spectacular developments in South America today. Eight countries are democracies and two are in transition. And we see real dynamism in the leadership that has resulted from the democratic changes. The caliber of the South American presidents is high; they are serious and capable men. The greatest threat to them today is the debt problem and the need for economic structural reforms. One issue we might think about is whether our debt policy should show greater sensitivity to the political obstacles it represents to them. And perhaps we should not be overly worked up when one of them gets off the reservation, like Brazil and Ecuador; perhaps we could accommodate a bit more. And what about Gorbachev's visit to the region? And why are the South Americans not supporting us on democracy in Nicaragua? Have we done enough to get all the facts out about Central America? Can we link the South American and Central American democracies? (S)

Is it not in our best interests to institutionalize the South American democracies into the Western democratic alliance? Where is the mirror image of the Brezhnev Doctrine that insures the irreversibility of democratic gains? We need to generate a domestic consensus to insure that these gains are guaranteed to stay. Those of us who follow Latin American affairs know that our attention span is short when dealing with this part of the world. The pattern is very cyclical. Because it is essential to our national security, we react with attention when our interests are challenged. And it ebbs when the situation lessens. We need to institutionalize a long-term policy that is mutually reinforcing, and geared at a level of attention that is sustainable over time and that can enjoy bipartisan Congressional support. (S)

We don't have all the resources we could give to the region. But are we focussing our aid, Peter, to places where it can get the maximum results, where we can get the maximum value for the dollar, so we can assure that these democratic reforms are here to stay? (S)

Bob Gates: Mr. President, I'd like to focus on the debt and Gorbachev's visit to the region. The recent decision by Brazil to suspend payments on its foreign debt is a reminder of the seriousness this problem poses for democratic governments in South America. In a number of countries there is the sense of being victimized by the industrial world. To give you a sense of the debt, Brazil owes \$110 billion, Mexico owes \$104 billion, and

Argentina owes \$24 billion. In many cases, such as in Brazil and Argentina, the massive foreign debts of these countries were incurred under previous military regimes, and as a result, the general public is often unwilling to accept harsh economic austerity measures to meet debt payments that were incurred under previous military regimes. The democratically elected governments are increasingly unwilling or unable to impose them. (S)

Thus, these and other governments are advocating economic growth rather than austerity as the best prescription to promote long-term prosperity and meet their foreign debt obligations. Furthermore, they see the debt issue as a political as much as an economic problem, and they are looking to the U.S. and Western Europe for a political solution to the problem in the long run. In Brazil, for example, the situation continues to deteriorate. The import reductions have greatly reduced access to materials for production. There has been a seaman's strike. The Army is guarding nine oil refineries. There is labor unrest. President Sarney is recovering politically but we don't see him putting an economic program in place that can eventually get him out of this situation. (S)

Major Latin American debtors are watching the Brazilian situation closely to see how it is resolved, and while several have expressed support for Brazil's actions, none except Cuba have pushed for joint action or a debtors cartel. But Brazil's action legitimizes radical action on the debt, especially when these actions are taken by moderates like Sarney and supported by the Army. With little prospect of substantial improvement over the next few years, we believe there is an escalating risk of serious confrontation between the region's governments and their international creditors. (S)

Next, we have good evidence from a wide variety of sources that Soviet Secretary Gorbachev is planning an unprecedented visit to South America within the next year. Such a visit follows intensive diplomatic activity on the part of the Soviets. Last year, for example, the Foreign Ministers of Uruguay, Brazil and Argentina visited Moscow and the Mexican and Peruvian Foreign Ministers may go in the spring. Shevenaravy went to Mexico in October and may go back to Brazil, Mexico, and Lima. The Moscow party boss was just in Nicaragua. (S)

The Soviet leader may attempt to link a visit with a potential U.S. summit later this year, and then go on to Mexico, Peru, Argentina, Brazil, and Uruguay, with possible stops in Nicaragua

and Cuba as well. We've got a map of a potential itinerary. (Maps were distributed). For very little cost to them, they can reap major benefits: the chipping away of the Monroe Doctrine and increasing their political access. More broadly, the trip can demonstrate the legitimacy of a Soviet role in the Western Hemisphere, and increase trade and cultural links with the new South American democracies. They can attempt to shift our economic and military resources further away from the Middle East and other regions to this hemisphere and help consolidate Nicaragua. So this is a considerable payoff. (S)

President Reagan: Of course, if they're first going to Mexico, maybe Montezuma can be engaged. (laughter) (S)

Bob Gates: We'll do what we can, sir. (laughter) (S)

Secretary Shultz: I have a handout for you. I realize this is very unlike the State Department. (laughter) [Secretary Shultz distributed copies of a new report issued by the State Department: Democracy in Latin America and the Caribbean: The Promise and the Challenge.] This is by way of registering what has been happening in the hemisphere in the last ten years. The map in the middle of the book shows the extent of the change and if you turn to the next page, you'll see a list of the various things the United States has been doing. (S)

There is more we can do, but we have programs involving the National Endowment for Democracy, the administration of justice, electoral institutions, strengthening legislative capacities, anti-narcotics assistance, and civil-military relations. We put this out to get some serious attention from the press to what is going on down there. (S)

The sweep of democracy is a good thing for the United States. Our problem is to do all we can so that democracy takes root and stays. Democracy is the best insurance we can have against efforts there from the USSR. Well, they are free to go down there and visit if they want; there's no law against that. It's what they see and think and have to contend with when they're there that counts, and now it's democracy. Also, as Frank mentioned, on the plus side are the very capable people in leadership positions produced by these democratic processes. Some have turned out better than expected. President Sarney is one, considering the unique and difficult circumstances that led to his becoming Brazil's president. So there are some very good people. (S)

And we have to recognize that almost all of these countries are experiencing great difficulties. These new democratic presidents are trying to govern in turmoil, with economic problems, drugs, and terrorism. It's different from place to place. In Ecuador, the earthquake caused many more deaths and economic damage than we originally thought. We have been responding on the disaster side, but I think there is a strong argument for a Vice Presidential trip down there next week to show our support. (S)

I'd like to go on now to what we are doing operationally. First, the best small program we have is IMET for training military officers. However these countries go, the role of the military will be strong, and in most cases, potentially positive. We need more contacts with them as professionals to reinforce their non-political roles. But IMET levels fell off under Carter and we don't now have adequate funding. We should give this a larger priority. We should counter with the same in political and economic areas too, to develop professional contacts with U.S. people, educators, and so on. We might refocus for this. The amount of funding for these programs is small, but in the current atmosphere, even getting \$2 million on hand for this is hard. But we should give attention to it. (S)

On the debt and the economic situation. Lots of work has been done. Treasury has the lead with the Baker Plan. It has been well received but has been difficult to implement. I think we should be prepared to roll over sometimes but when we do, we have to remember this is other people's money. And in large part, it is the things they don't do that cause severe problems. Brazil is a good example. Brazil put in controls, and as these programs often do, they work well for a period of time and people get euphoric. It's the classic excuse for not shutting down the money supply and cutting the budget. And now it has exploded. So it's not the debt. It's that they didn't do what they had to do. (S)

We have put out sensible talk from the beginning of the Administration about what it takes to make it work. From your speech in Philadelphia, to Cancun, and to the Baker Plan, all good stuff, and the international system is absorbing it gradually. But they keep fighting it. (S)

The best measure of how well a country is doing is by monitoring voluntary capital flows. Their own capital flowing out is a marker to watch. It is interesting that the capital flow in Mexico finally turned and last year they had a net inflow. So it's an interesting indicator. (S)

I think we have a strong debt strategy, and I'm sure Dick will talk about it. But before you jump in, I think we have to look very carefully. The commercial banking system is much more insulated and less vulnerable than earlier. But I must say I can't believe the regulations over our own banking system will not let them take loan losses against these loans. That's why I don't agree with Treasury. (laughter) (S)

And we are working with the Department of Justice and USIA in an administration of Justice program to help strengthen the judiciary systems. (S)

So I see that we have five problem countries: Suriname is in a transition of some kind, the situation there is not stable and bears careful watching. We may get another democracy out of it. Chile is another problem and Paraguay. And, on the other side of the spectrum, there are Cuba and Nicaragua. We focus on the Central America picture and the Contra problem. We are in the throes of that now. If we lose the Contras, it will be a big loss. The South Americans have two big fears: one is U.S. military intervention in the area; and the other is their fear that we might pull the plug and walk away and let Gorbachev walk in. This is all they are reading. And then people like Dodd and others fan these fears. They are really doubtful about our staying power. (S)

Drugs represent a big threat to the South Americans, especially in the Andean countries. A country like Colombia has everything going for it: resources, new oil, coal, and a strong democratic tradition. But they have a vicious drug problem that is tearing it to pieces. (S)

So the trends are powerful in good directions. Economic education is taking place, democracy is in place, but the situation is tremendously fragile. Operationally, we know what we want to do, are doing, and could do better if we have a little more money. But in this town, all I hear is "how can you want more money for foreign policy when Medic Aid does not have enough?" I'm sick of hearing that. (laughter) (S)

APNSA Frank Carlucci: In support of what you were saying, as the options continue becoming clearer in Nicaragua, democracy versus communism, our policy has to be consistent, especially regarding Chile and Paraguay. But second, have we really done all we can to get our point of view across about this? (S)

12

Secretary Shultz: No, but we work on it hard and incessantly. But we confront the active opposition of Mexico. The others are mainly passive. The South Americans want Central America settled so we can pay attention to them. They see the threat. But they also see this big program going on in Nicaragua that they fear we're going to walk away from it and leave them facing the fallout of the fighting, refugees, and so on. (S)

Secretary Baldrige: On the South America point, as difficult as it is, it is not hard just to get South America's support. The American people, the average person, still isn't sure about what we're looking for there, what we think "success" is. If our people don't understand, it is easy to understand why the South Americans don't. (S)

Secretary Shultz: We have been explaining Central America constantly and endlessly. When was it, Mr. President, when you gave that speech to the Congress, four years ago? We have reiterated that what we want in Nicaragua should be structured to the will of the people. And we'd like to get there through negotiations. (S)

USIA Director Wick: Mac is right. People are confused because Dodd says what we say isn't true. That's why people don't agree. We're facing the pulling of the plug here. That's why I'd like to suggest a summit meeting between you and the key leaders of South and Central America to tell them where we are and what our shared interests are. (S)

President Reagan: We have to face up to it. Nicaragua, like the Soviet Union and Cuba, has a massive disinformation campaign entrenched in our media. Dodd and Kerry and the likes of them are always on the front page. The other side isn't. I remember several years ago when a Catholic Bishop was leading a group of refugees out of Nicaragua into Honduras. The story in the media was that they were being attacked by the Contras. He was an American Bishop and was in Iowa by then so I called him and he said, well no, they were being attacked by the Sandinistas and had been rescued by the Contras. But you never read about that. (S)

I was watching the debate on Contra aid the other day on Channel 8 and the things the opposition was getting away with were unbelievable. (S)



And Charlie, I didn't know Gallup was international, but they took a poll of the people in the other Central American democracies, and overwhelmingly the people see Nicaragua as a threat and the people don't want us to leave the area. Eighty percent of Hondurans said their safety was guaranteed by our military maneuvers. Now where have you read that in the American press? So all of us have to go directly to the American people. (C)

Some days when I've made a speech and watch the TV news that night, oh you see me, and my lips are moving all right, but you're hearing someone else's voice talking about what I said. (C)

Secretary Shultz: Well we did have one minor triumph, on human rights in Cuba. We got to within one vote of winning and getting that point across. (C)

President Reagan: And what did the American people read about it? (C)

Jose Sorzano: That we were defeated. (C)

Secretary Weinberger: I have a flyer here for you, Mr. President, to show you how elevated the debate has become. This is something from the Joe Coulter debate. He talks about the three major Contra leaders, one's name is Uno and has forgotten the other two names. (laughter) (C)

But this is a meeting on South America and we are running short of time, so I'll be brief. Nothing about the importance of this region has changed since the Monroe Doctrine was enunciated. It was a vital region then; it is a vital region now. We are concerned about the debt burden gradually forcing the breakdown of the democracies. (S)

For us, one of the most difficult obstacles has been the reduction of IMET and with it, the reduction of American influence in the region. General Herres told me an interesting statistic. In 1985 of the ten Air Force Chiefs in the region had been U.S.-trained. Their replacements are French and British trained. We have very few Latin Americans here for training. We spent \$150 million in IMET in the 1960s, \$17 million in the 1970s, and are down to \$8 million now. We need direct influence. (C)

When we went to Bolivia for Blast Furnace, only 45 percent of the Bolivian helicopters were operational. After we were there, we got them up to seventy eight percent. In El Salvador, they are usually between seventy-five to eighty percent operational, the rest of them in the other countries are down at about thirty percent. This is the result of our withdrawal. We need to regain the consensus of support for the Monroe Doctrine, a bipartisan view in North America to work in this hemisphere. (S)

On scholarships, there are currently twenty thousand students that have been trained by Cuba and the USSR. We need people in the Congress who understand how vital the region is and how vital it is that we help them in the ways they want. And on a long-range basis. We should increase economic aid if we can get it appropriated. (S)

The Soviets are trying to increase their influence in the Pacific and in the South American countries. So we need a broad consensus about building a strong and friendly South America. (S)

President Reagan: They have worked with twenty thousand students? How many are in the U.S. on scholarships? (S)

Director Wick: It's in the hundreds. (S)

General Herres: IMET is a high leverage program. In my generation, at the academies, flight schools, war colleges, and other schools there were always Latin Americans. That generation is soon to retire and there is no follow-on generation. As a matter of fact, in Peru we have been totally replaced by the USSR. Getting them here to the States is important in de-politicizing the military. Six to eight months here has a great influence. (S)

Senator Baker: In my opinion, IMET is the best money spent in foreign relations. (S)

Deputy Secretary Darman: First, Frank, I do want to make it clear that we have made an important shift from one emphasizing austerity to one emphasizing growth. In fact, the countries have by and large moved from contraction to growth. Second, many have made economic changes. But, I don't want to sell them short or appear as though there aren't any problems. (S)

Brazil and Argentina are the major debtors, Mexico is a special case so I'll leave it out. But most of the countries have good chances of settling with the banks and if so, Brazil will be

isolated. Brazil came up with a harebrained scheme of indexing the whole economy and these policies just don't work out politically in the long run. Inflation was up twenty percent this month, it was running at 3000 percent in February 20 and is running around seven hundred percent. This obviously is not sustainable so they have to get out of it. (S)

There was a serious risk that the debt strategy would fail, but we passed it. The banks were about to shoot themselves in the foot and were holding up negotiations. We were at the point where many of the negotiations were stacked up and there was a great deal of frustration. Then Brazil took its action and we were facing a potential debtors cartel. But now the banks have moved on Argentina, Chile, Mexico, and Venezuela so we don't think there is any immediate danger of this. (S)

We think we have to constantly push on economic reforms but obviously don't want to get to the point where it is counter-productive. So we are constantly testing the balance that can work. (S)

In a general way, I think we can justifiably say that the debt strategy can be improved and has improved. Banks negotiations are proceeding better; options for financing are out there. But I don't think you'll see the debt converted to equity soon, this will only happen over time and with major changes in economic policies and stable political systems. So, we're faced with continuing negotiations, these are frustrating and tedious. (S)

I'd like to thank Secretary Shultz for taking the lead in emphasizing the need to shift to growth. But the process is country-by-country and is very tedious. (S)

Senator Baker: And I'd like to add that apparently I have a stake in this. Dick Darman handed me a note earlier saying that if the South American loans go, they're going to change the name of the Baker Plan to the Howard Baker Plan. (laughter) (S)

Secretary Shultz: My sense is that we have covered a lot of ground and we have a lot out there. To have it effectively operational so it will make sense, perhaps we should draw the threads together and make a program out of it. Put the pieces together. (S)

APNSA Frank Carlucci: I agree. And I hope you've looked at the paper because it has some provocative ideas about how we might institutionalize a process for the region. (S)

Secretary Baldrige: There are a couple of pages on trade. In general, we just don't talk enough about it, especially in our USIA programs. The U.S. has a big advantage in trade in South America. We took in 54 percent of their exports, while the Europeans were at 30 percent and the Japanese only at 9 percent. So we're taking in their exports. And we don't use this or talk about this enough. (S)

Secretary Shultz: Mac makes a good point. But when we speak of trade, what they think about is informatics in Brazil and flowers in Colombia. (S)

Secretary Baldrige: But where else can they go? We tell them to diversify their exports then slap them with counterveiling duties when they do. (S)

~~SECRET~~

~~SECRET~~

SYSTEM II  
90257

NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

March 17, 1987

ACTION

MEMORANDUM FOR FRANK C. CARLUCCI

FROM: JOSE S. SORZANO

SUBJECT: Minutes of National Security Council Meeting,  
March 13, 1987, 11:00-12:00, Cabinet Room on  
South American Democracy

Attached at Tab I are the minutes for the NSC meeting on South American democracy which took place on March 13 in the Cabinet Room.

RECOMMENDATION

That you approve the minutes at Tab I.

Approve

Disapprove

Attachment

Tab I - Minutes of NSC Meeting

Prepared by: Jacqueline Tillman

DECLASSIFIED  
White House Guidelines, August 28, 1997  
By Inf NARA, Date 11/1/07

~~SECRET~~

Declassify on: OADR

~~SECRET~~