

Message Text

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EXDIS

EO 12065: GDS 11/17/86 (BOEKER, PAUL H) OR-M
TAGS: EFIN, BL
SUBJECT: US RESPONSE TO ECONOMIC PLIGHT OF BOLIVIA'S NEW
CIVILIAN GOVERNMENT

1. (C - ENTIRE TEXT)

2. THE RAVAGES OF COLONEL NATUSCH'S TWO-WEEK REGIME
AND THE POPULAR RESISTANCE TO IT HAVE LEFT BOLIVIA'S
CIVILIAN GOVERNMENT WHICH SHOULD BE FORMED LATE
TONIGHT WITH AN IMMEDIATE FINANCIAL CRISIS
AND SEVERE DAMAGE TO THE ECONOMY. REMAINING
LIQUID EXCHANGE RESERVES HAVE BEEN EXHAUSTED, THE
BANKS ARE CLOSED, THE DOLLAR (PREVIOUSLY 20/1) IS
NOW SELLING IN THE STREETS AT THE PANIC LEVEL OF 39
PESOS AND THERE IS CLEARLY NO WAY EXCHANGE TRANSACTIONS
BY THE BANKING SYSTEM CAN BE RENEWED ON MONDAY WITHOUT
A FLOAT OR DEVALUATION (MORE LIKELY A FLOAT SINCE THE
CENTRAL BANK HAS NO RESERVES TO DEFEND A NEW RATE).
AT LEAST THREE WEEKS OF MINING AND ENERGY PRODUCTION
HAVE BEEN LOST, ASSURING THAT THE GOVERNMENT'S
FINANCES AND THE BALANCE OF PAYMENTS WILL BE
HUNDREDS OF MILLIONS OF DOLLARS IN THE RED FOR 1979.
SHORT SUPPLIES OF FOOD AND FUEL, PLUS EXCHANGE RATE
DEVELOPMENTS HAVE ALREADY CAUSED PRICES OF SOME
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BASIC CONSUMPTION ITEMS IN LA PAZ TO RISE ABOUT 20 PERCENT.
PREVIOUS GOVERNMENTS HAVE MADE NO ARRANGEMENTS TO MEET
BOLIVIA'S NEEDS FOR WHEAT BEYOND JANUARY 15, 1980.

3. ONE OF THE REASONS NATUSCH AND SOME OF HIS COTERIE
YIELDED WAS THAT THE MILITARY COULD NOT FIND THEIR
WAY OUT OF THIS FINANCIAL AND ECONOMIC CRISIS. IT

WILL BE IMPORTANT FOR THE FUTURE OF THE BOLIVIAN
POLITICAL PROCESS THAT THE CIVILIAN GOVERNMENT CAN
INDEED FIND ITS WAY OUT, WITH INTERNATIONAL HELP.

4. THE US SHOULD RESPOND PROMPTLY AND GENEROUSLY TO
THE NEW GOVERNMENT'S PLIGHT. IN SIGNIFICANT PART WE
CAN DO THIS BY REVIVING ALL OUR SUSPENDED ECONOMIC
AID PROGRAMS, SOME WITH AN AMENDED FOCUS, AND
OFFERING IMMEDIATE HELP ON WHEAT IMPORTS. IN
PARTICULAR I SUGGEST THE FOLLOWING:

--OFFERING AN IMMEDIATE \$10 MILLION CCC CREDIT,
AS THE FASTEST WAY TO TRY TO GET SOME WHEAT HERE BY
MID-JANUARY. HOPEFULLY THE SECRETARY OF AGRICULTURE
CAN AGREE TO RE-PROGRAM THIS MODEST AMOUNT FOR
BOLIVIA;

--NEGOTIATING AN AMENDMENT TO THE PL-480 TITLE III
AGREEMENT AS SOON AS POSSIBLE FOR \$17 MILLION WORTH
OF WHEAT, WHICH WOULD COME IN BEHIND THE CCC WHEAT
AND MEET VIRTUALLY ALL OF BOLIVIA'S CONSUMPTION NEEDS
FOR THE REST OF FY 80. THE COUNTERPART FROM OUR
TITLE III WHEAT WILL ALSO HELP THE GOVERNMENT TO
CONTINUE SOME PUBLIC INVESTMENT IN THE RURAL SECTOR;

--WE SHOULD BE IMMEDIATELY AUTHORIZED TO CONCLUDE
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THE AGRICULTURAL CREDIT LOAN (\$14 MILLION), IN THE
NEXT WEEK OR SO.

5. THESE THREE MEASURES SHOULD, IF POSSIBLE,
BE ANNOUNCED IN A SINGLE \$41 MILLION PACKAGE, AT THE
EARLIEST POSSIBLE MOMENT. WE SHOULD OBVIOUSLY NOT
MAKE SUCH AN ANNOUNCEMENT UNTIL AN AGREEMENT IN PRINCIPLE
HAS BEEN REACHED WITH THE IMF (NOT BOARD ACTION);
HOWEVER, THIS POINT MAY COME VERY SOON, SINCE THE BASIC
ACTIONS IN THE IMF'S LONG-STANDING PROPOSALS (EXCHANGE
RATE CHANGE AND INCREASED PETROLEUM PRODUCTS PRICES)
ARE LIKELY TO BE TAKEN WITHIN THE NEXT 72 HOURS. THE
OTHER PARTS OF THE IMF PROGRAM ARE NOT CONTROVERSIAL.

6. WE SHOULD ALSO RENEW OUR EARLIER OFFER (TO
PRESIDENT GUEVARA) TO TRY TO REFLECT ANY BOLIVIAN
SUGGESTIONS IN OUR PROPOSED PROGRAM OF TIN SALES TO
BE PRESENTED TO THE ITC FOR CONSULTATION. NEUTRALIZING
ANY IMPACT OF GSA SALES ON THE TIN PRICE REMAINS VITAL
TO BOLIVIA'S PRECARIOUS PROSPECTS FOR ECONOMIC
STABILIZATION AND RECOVERY.

7. THE TIMING AND CONTENT OF DECISIONS ON MILITARY
ASSISTANCE ARE MORE COMPLEX AND SHOULD BE DEFERRED
FOR NOW. I RECOMMEND, HOWEVER, THAT WASHINGTON MOVE
AS FAST AS POSSIBLE TO PUT US IN A POSITION TO MAKE SOME
ANNOUNCEMENT ON THE ECONOMIC PACKAGE ABOVE.
BOEKER

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