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AMERICA'S STAKE IN ARGENTINA

INTRODUCTION

Carlos Saul Menem, Argentina's president, has been in office only five months. Yet he has launched a bold program to overhaul his country's floundering economic and political systems by introducing free market and democratic reforms. For Menem's reform strategy to succeed, he will need greater economic and military cooperation with the United States. The stakes for him and the U.S. are high, for if he is successful with his free market strategy, Argentina, like its neighbor Chile, will become an example for the rest of Latin America. If he fails, Argentina could lapse back into but another period of military rule and economic chaos, discrediting the promise for other Latin American countries of free market reforms.

In his first 100 days in office, Menem, who heads the Justicialist (Peronist) Party and succeeded Raul Alfonsin of the Radical Civil Union Party (UCR), has worked what many impartial observers regard as several minor miracles. He has gained control over a staggering monthly inflation rate of 200 percent, has begun to privatize failing state enterprises, and has defused tensions within Argentina's restless armed forces. By trying to modernize Argentina's inefficient, state-dominated economic system, built in the 1940s by dictator Juan Domingo Peron, Menem has turned to the free market as the only alternative for solving his country's political and economic woes.¹

Reviving A Stagnant Economy. In this, Menem faces formidable obstacles. These include a weak political base for his presidency, powerful organized labor opposed to market-oriented reforms, the reemergence of leftist political violence, and continued hostility between the civilian and military sectors of society. At the end of World War II, Argentina was the world's eighth

¹ This study focuses mainly on U.S.-Argentine political and security relations; a forthcoming Heritage Foundation *Backgrounder* will review Argentina's economic situation.

largest economic power, whose standard of living rivaled that of the U.S. Today its economy has fallen to 58th in the world. Although Argentina has a highly educated populace, abundant mineral wealth, and some of the world's most fertile land, political conflict and an unproductive, state-dominated economy have impeded its development dramatically.

Force for Peace and Stability. It is no small matter to the U.S. if Menem succeeds. With a population of 32 million and a per capita gross national product (GNP) of \$2,390, Argentina is Latin America's third most populous country and third strongest economic power (in both categories after Brazil and Mexico). It also is strategically located at the southern tip of South America, commanding the south Atlantic sea lanes through which pass a significant portion of the Western Hemisphere's trade. A democratic Argentina with a growing, healthy economy could not only be a force for peace and stability in Latin America, but an important trading partner.

The U.S. can help Argentina move toward political and economic freedom. With Argentina's potential as a leading power in the Americas, Washington has a direct interest in ensuring that the Menem government's political and economic reforms serve as a model of economic growth for the rest of Latin America. To help foster a democratic and economically healthy Argentina, and to protect U.S. security interests in the South Atlantic, the U.S. should:

- ◆ ◆ Stress Washington's support for Menem's reform program.
- ◆ ◆ Press the Menem government to swap equities in Argentine companies for cancellation of foreign debts.
- ◆ ◆ Increase military assistance and training programs to encourage democracy among the military and to enhance Argentina's capability to combat terrorism and armed revolutionary groups.
- ◆ ◆ Work closely with Argentina to combat narcotics trafficking.
- ◆ ◆ Encourage Argentina to support pro-democratic forces in Central America.
- ◆ ◆ Work with Britain and Argentina to help resolve the Falkland Islands impasse.

A HISTORY OF U.S.-ARGENTINE RELATIONS

The U.S. and Argentina established formal diplomatic relations in 1823, but had little political and economic contact during the 19th century. Low points in the relationship came during World War II, when Argentina sympathized with Nazi Germany, and again during Argentina's most recent military dictatorship (1976-1983) when human rights abuses and Washington's support for Britain in the 1982 Falklands War unleashed a torrent of anti-Americanism in Argentina.

Economic Competitors. In the half century prior to Alfonsin's election, Argentina had only one real democratic government, the presidency of Arturo Frondizi from 1958 to 1962.² The U.S. and Argentina have always been economic competitors, exporting many of the same commodities, such as beef and grains. Because of the huge influx over the past two centuries of immigrants from Spain, Italy, and Germany, Argentina has always identified more closely with the culture of Europe than with that of the U.S.

Washington became increasingly concerned with Argentina's support for Nazi Germany in the 1930s and 1940s, and as a result, relations deteriorated. Pro-German attitudes within the Argentine military stemmed in part from the training its officers received from the Nazis. The government wanted to use its ties with militaristic Germany to create a powerful modern military for dominating South America.

Relations once again took a downward turn in the late 1970s. In what appears to have been a desperate attempt to divert national attention from a mismanaged economy and unite Argentines behind a failing military junta, Argentine dictator General Leopoldo Galtieri sent his military forces on April 2, 1982, to invade the British Falkland Islands, which are 300 miles off the Argentine coast in the South Atlantic. The Falklands had been claimed by both Argentina and Great Britain for 150 years. Instead of remaining neutral, as the Argentine junta had thought, the Reagan Administration stuck by its venerable British ally, actively supporting Britain's defense of the Falklands by sharing key intelligence data and slapping economic and military sanctions on Buenos Aires. The result: an outburst of anti-American feelings in Argentina and the rest of Latin America.

Disappointing Administration. Following the British victory in the Falklands War, the Argentine military in October 1983 called for democratic elections. The winner was Raul Alfonsin from the centrist Radical Civic Union Party (UCR). This made Argentina the first among the cluster of South American nations known as the "Southern Cone" (including Argentina, Brazil, Chile, Paraguay, and Uruguay) to throw off military rule in favor of civilian democracy. While initially popular with the Argentine people, Alfonsin's term ended as a disappointment with the economy failing and the rift between the military and the civilian government still strong.

Argentina elected Menem as its new president this May 14. By soundly defeating Radical Party candidate Eduardo Angeloz by 47 percent to 39 percent, Menem and the Peronists received their mandate to solve Argentina's rapidly escalating economic and political problems.³ Since then, Menem has embarked on a series of free market reforms, including the privatization of state-owned industries, and has sought to improve relations with the U.S.

2 Mark Falcoff, "A Tale of Two Policies: U.S. Relations with the Argentine Junta, 1976-1983" (Philadelphia: Foreign Policy Research Institute, 1989), p. 6.

3 Manuel Mora y Araujo and Felipe Noguera, "The 1989 Argentine Elections: Post-Election Report," Center for Strategic and International Relations Latin American Election Studies Series, Report #2, May 23, 1989, p. 1.

THE SECURITY COMPONENT OF U.S.-ARGENTINE RELATIONS

For most of this century, Argentina has not been an active player in the affairs of other Latin American countries or in Inter-American multilateral institutions like the Organization of American States (OAS). Where it has been active, Argentina often has opposed U.S. security policies. During the Alfonsin administration, for example, Buenos Aires opposed Washington's support for the Contra Freedom Fighters in Nicaragua and expressed this in the OAS. U.S.-Argentine security relations have been limited because of Argentina's historic domination by the military, its past human rights abuses, and the fallout from the Falklands War with Britain.

Argentina's Restless Military

Until the democratic election of Alfonsin, a major problem in U.S.-Argentine relations was the domination of Argentina's government by the military. The armed forces have hand picked thirteen of the 21 presidents since 1943, and mostly from within their own ranks. The undemocratic and repressive character of the military regimes made for an uneasy relationship with the U.S.⁴ The U.S., for example, refused to provide military assistance to Argentina between the late 1970s and this year because of human rights abuses believed perpetrated by the military.

The military's return to power, however, no longer seems likely. For one thing, Argentine military leaders apparently do not want to assume responsibility for the very formidable economic crisis facing Argentina. With the exception of Chile, military-controlled Latin American governments traditionally have been ineffective in spurring economic growth. For another thing, the military historically has been more sympathetic to the Peronists than to the Radicals, who have attempted to curb their influence and reduce their budget. Menem is a Peronist and therefore will enjoy substantial support in the military. And then, the Argentine military, like most of the hemisphere's armed forces, now publicly claim to support civilian government and therefore want to give it a chance.⁵

The "Dirty War" and Its Fallout

The problem of military dictatorship was revealed tragically in the so-called "Dirty War" from 1976 to 1983. This was a government counterinsurgency campaign conducted against leftist guerrillas made up of the *Montoneros* of the Peronist far-Left and the Soviet-backed People's Revolutionary Army (known as ERP, for *Ejercito Revolucionario Popular*). This war cost the lives of at least 9,000 Argentines. Soon after taking office, Alfonsin ordered a full-scale investigation into the human rights abuses of the armed forces. Approximately half a dozen former senior military leaders were convicted, including former junta commanders Generals Jorge Videla, Leopoldo Galtieri,

4 Gary Mead, "Army Casts a Shadow over Argentine Poll," *The Financial Times*, April 27, 1989, p. 7

5 David C. Jordan, "Is Peronism Democratic," *The World and I*, May, 1989, p. 128.

and Roberto Viola. Hundreds of other military personnel were found guilty, but were pardoned.

Military's Clout. The civilian government's prosecution of military leaders caused great tension between the government and the armed forces. As a result, there have been three military mutinies since civilian control returned to Argentina in 1983. On April 17, 1987, for example, Lieutenant Colonel Aldo Rico led a military rebellion against the government. Storming the Campo de Mayo military barracks on the outskirts of Buenos Aires, Rico demanded better treatment of the armed forces. Bowing to his demands, the Argentine parliament that June 5 passed legislation limiting prosecution for crimes during the "dirty war" to officers only at the highest ranks.

In another mutiny, rebellious troops led by Colonel Mohamed Ali Seineldin took over the Campo de Mayo military school in December 1988. Claiming that he did not intend to overthrow the democratic government, Seineldin nonetheless demanded that low-level cashiered officers be pardoned for their "patriotic efforts in the war against internal subversion." He also called for a pay increase for soldiers and a bigger defense budget.⁶ As an indication of the military's continuing clout in Argentina, Seineldin today is being considered for a high-level Defense Ministry job or to command an anti-narcotics task force.

In one of the new Menem government's first significant actions to restore better relations with the military, Defense Minister Italo A. Luder, announced on June 11 that the government would end some trials against Argentine military officers. In October Menem pardoned 39 senior military officers on trial for human rights abuses. This pardon was extended to at least some 175 military personnel and civilians who had participated in uprisings against the Alfonsin government in 1987 and 1988. It also was extended to three former military rulers sentenced for "mishandling" the Falklands War, and 64 people accused of leftist terrorist activity. A second round of pardons is expected in the coming months.⁷

Renewed U.S. Military Assistance

U.S. military aid to Argentina has been limited as a result of Argentina's poor human rights record. Military aid from the U.S. to Argentina ceased in 1977 when the U.S. Congress approved the so-called Humphrey-Kennedy amendment banning the sale of arms to countries violating human rights. The rise of democracy in Argentina, however, has eased U.S. resistance to military aid to Argentina. Secretary of State George Shultz, for example, met with Argentine leaders in August 1988 to reestablish a "strong military

6 See Gary W. Wynia, "Campaigning for President in Argentina," *Current History*, March 1989, p. 136 and Gary Mead, "Army Casts a Shadow over Argentine Poll," *The Financial Times*, April 27, 1989, p. 7.

7 Cristina Bonasegna, "Argentine Pardon Unlikely to resolve Rights Conflict," *The Christian Science Monitor*, October 11, 1989.

relationship" between the U.S. military and Argentine military. As a result of this and other high-level meetings between U.S. and Argentine military personnel came the agreement of last February 21, which began U.S. arms sales and training programs for Buenos Aires.

Since then Washington has given Argentina \$12.3 million to maintain and refurbish U.S.-made armored vehicles, helicopters, and other military material sold some years ago to Argentina.⁸ Menem also has stated that he is considering entering into additional U.S.-Argentine military agreements on joint training and further arms sales.

Expanding Cooperation. Through renewed U.S. military assistance, Washington hopes to gain some influence over the Argentine armed forces to keep them out of politics. This could best be achieved by fostering and reinforcing contact with U.S. military officers committed to democratic values and institutions. The U.S. also wants to assist Argentina in maintaining effective defenses against such internal and external threats as terrorism and narcotics trafficking. This expanded contact and cooperation may help ensure political stability in Argentina and could promote U.S. security interests in the South Atlantic by increasing U.S. influence in the region.

The return of democracy to Argentina has not stopped the threat posed by such leftist guerrilla and terrorist organizations as the Communist Party, the Workers Party, the Movement for Socialism, and the "All For the Fatherland" (MPT) terrorist group, a branch of the People's Revolutionary Army that was active in the 1970s.

For example, approximately 50 heavily armed men and women took over the La Tablada military base on the outskirts of Buenos Aires on January 23 in an attack that purportedly was meant to pre-empt a coup by right-wing Army officers.¹⁰ The attack, it is believed, was carried out by the "All for the Fatherland" movement. The ensuing battle involved tanks and a heavy artillery bombardment against the insurgents in the base. Some 36 people died, including seven soldiers, one policeman, and 28 terrorists.

Link to Nicaragua. After the La Tablada attack, then-Argentine Foreign Minister Dante Caputo stated that there was evidence linking the guerrillas to Nicaragua's communist Sandinista regime.¹¹ Some of the terrorists had visited Nicaragua in the previous several years, while the leader of the raid, Enrique Haroldo Gorriaran Merlo, a former Argentine leftist guerrilla and one of Argentina's most wanted fugitives, had participated in the assassina-

8 Foreign Broadcast Information Service (FBIS), "Military Agreement With U.S. Signed," February 23, 1989, p. 44.

9 James Brooke, "Food Rioting Worsens and Spreads in Argentina," *The New York Times*, June 1, 1989, p. A7.

10 "Tough Bunch, Whoever They Are," *The Economist*, January 28, 1989, p. 40.

11 Paul Bedard and Peter LaBarbara, "Nicaraguan Link Cited in Argentine Base Attack," *The Washington Times*, February 15, 1989, p. A7.

tion of former Nicaraguan dictator Anastasio Somoza in 1980. Argentine authorities also said that equipment and other evidence recovered from the guerrillas included Soviet and Chinese-made automatic rifles, hand grenades, and rockets, and Cuban cigarettes, suggesting that the raid had foreign backing.¹²

Support for Argentine revolutionaries also is coming from other Latin American terrorist groups. The Alfonsín government confirmed in April that members of "All for the Fatherland" had held a clandestine meeting in March 1989 with the Peru's Maoist Shining Path terrorist group, Latin America's most violent guerrilla organization. The meeting, which took place in the northwestern Argentine city of San Miguel de Tucumán, was apparently an effort to explore possibilities for coordinating terrorist activities in Latin America.¹³

The Falklands Issue

The ten-week Falklands War in spring 1982 was a disaster for Argentina; 600 Argentines died and \$1 billion worth of weapons were lost, including 45 aircraft. Today, the Falklands fiasco remains one of Argentina's most emotional and debated issues. Menem stated in a speech in February that Argentina "[would] not give up its efforts to obtain sovereignty over the archipelagos."¹⁴ Menem also stated that he might expropriate British assets in Argentina unless they gave up their claim over the islands.

Over the past several months, however, the Menem government has softened its position on the Falkland Islands. During a September visit to the U.S., Argentine Foreign Minister Domingo Cavallo said that in return for restoring normal air, sea, and communications links with Britain, Argentina would ask Britain to lift its restrictions on foreign shipping passing within 150 miles of the Falklands. Argentina also pledged in September to consider lifting all restrictions imposed on British companies operating in Argentina and would formally lift the "state of hostilities" that it claims still exists between the two countries. Britain and Argentina held meetings in Madrid on October 17 and 18, which resulted in reestablishment of consular and trade relations. Meanwhile, negotiations are scheduled to continue next February in Montevideo, Uruguay. These eventually could lead to the resumption of full diplomatic relations.¹⁵

U.S. and Argentina Anti-Narcotics Cooperation

Argentina is a refining and transit center for cocaine and marijuana entering the U.S. and Europe and a source of ether and other chemicals used in drug manufacturing. Cocaine enters Argentina through the northern provin-

12 Paul Bedard, "Nicaragua Link Cited in Argentine Base Attack," *The Washington Times*, February 15, 1989, p. A7.

13 FBIS, "Shining Path Reportedly Holds Meeting in Tucumán," April 18, 1989, p. 29.

14 FBIS, "Menem on Plans for Falklands, British Assets," February 21, 1989, p. 41.

15 FBIS, October 23, 1989, pp. 40-41.

ces of Salta and Jujuy, which share a rugged 300-mile border with Bolivia, where coca leaves are grown. These provinces themselves, moreover, increasingly are being used for coca cultivation.¹⁶

Argentina, however, has begun trying to control drugs. Since last year it has doubled the number of drug seizures and arrests, confiscating in 1988 alone 3.24 metric tons of marijuana and 1.17 metric tons of cocaine; over 7,000 drug arrests were made.¹⁷ The U.S. and Argentina signed a cooperation agreement this May 24 to reduce the demand for illegal drugs in Argentina and to prevent unlawful consumption, production, and trafficking of drugs in that country. The two countries will share information on regional drug trafficking activities, exchange anti-narcotics experts, and participate in joint eradication programs to destroy drug crops.¹⁸

Argentine-Soviet Relations

Argentina's relations with the Soviet Union have blossomed since the 1979 U.S. grain embargo cut off U.S. grain sales to Moscow. Since then, the USSR has become one of Argentina's largest grain consumers, importing as much as two-thirds of Argentina's total grain exports, or some 15 million metric tons. Because of a drastic fall in Argentine grain production last year, however, grain exports to the Soviet Union dropped to only 3.5 million tons. Overtaxation of Argentina's farmers over the past several years has hindered productivity. For every dollar the farmers earn from grain exports, the state claims 40 cents.

A 1986 trade agreement between Moscow and Buenos Aires commits both countries to high levels of trade through the 1990s. Traditionally, the balance of trade has favored Argentina. Consequently, the Soviet trade representative to Argentina, Anatoliy Timochenko, stated on November 8 that the two countries will soon sign additional commercial agreements that will involve expanded industrial and technological cooperation and will lead to a substantial increase in Soviet exports to Argentina.¹⁹ Moscow also concluded several agreements with Buenos Aires in the mid-1980s to help build shipping and dry dock facilities in Argentina in return for the import of such agricultural products as beef and grains.²⁰ Other Argentine exports to the U.S.S.R. include oilseed, wool, and leather; the Soviets supply Argentina with industrial equipment and technology. Overall Soviet investment in Argentina is expected to rise to \$500 million by 1990.

Dangerous Agreements. The Soviets also concluded several fishing agreements with the Alfonsin government which allow the Soviet fishing fleet to fish in Argentina's coastal waters and to use its port facilities. These agree-

16 "The International Narcotics Control Report," U.S. Department of State, March 1989, pp. 55-58.

17 *Op. cit.*, p. 19.

18 FBIS, "Pact to Fight Drugs Signed With the U.S.," May 26, 1989, p. 37.

19 FBIS, "Soviet Officials Discuss Grain Purchases," November 9, 1989, p. 1.

20 Michael G. Wilson, "A Ten-Point Program to Block Soviet Advances in South America," Heritage Foundation *Backgrounder* No. 658, June 22, 1988, p. 7.

ments, made over the past five years, could endanger U.S. security by providing Moscow opportunities to use fishing and port call privileges as cover to expand their intelligence gathering activities in the South Atlantic.

Alfonsin visited Moscow in October 1986. This was the first trip to the U.S.S.R. for an Argentine head of state. Soviet Foreign Minister Eduard Shevardnadze reciprocated, travelling to Argentina the following year. The Soviets told the Alfonsin government that they were willing to train Argentine Air Force personnel in Moscow's cosmonaut program. They also offered to cooperate in developing rocket and satellite technology, and to discuss new trade opportunities with Argentina.²¹ Since his election, Menem has stated that his government intends to continue strengthening Argentina's economic and diplomatic relations with Moscow.

Argentina's Growing Ballistic Missile and Nuclear Capabilities

Argentina's ballistic missile and nuclear policy has been of particular concern to Washington. Argentina is, in fact, one of the world's most active exporters of missile and nuclear technology to the Middle East and other potential Third World trouble areas. Examples: Argentina has exported to Iraq components of the *Condor II* ballistic missile; Argentina has exported to Algeria a nuclear research reactor; Argentina is believed to provide Iran with nuclear reactor components; Argentina is considering expanding nuclear ties with Egypt, Iraq, Saudi Arabia, and Syria.

Unlike most of the world's nuclear suppliers, Argentina has not signed the 1968 Non-Proliferation of Nuclear Weapons Treaty (NPT). The NPT attempts to halt the dissemination of nuclear weapon technology in the Third World by prohibiting the manufacture or acquisition of nuclear weapons or technology by countries without a nuclear capability. U.S. concerns over nuclear development inside Argentina focus primarily on its nuclear reprocessing plants, nuclear research reactors, and a uranium enrichment facility under construction. These facilities could be used to manufacture nuclear weapons.

Using Foreign Technology. Argentina's Air Force began its ballistic missile program in 1979. A Swiss firm was hired to manage the initial research and development, including construction of a large underground missile development facility near the northern industrial city of Cordoba. Buenos Aires began work on the *Condor I* missile in the early 1980s. It was designed with French, West German, and Italian technology, and has a range of 90 miles. Since it was first displayed publicly in 1985, the *Condor I* has been tested successfully several times, though it does not yet appear to be fully operational.

Britain revealed in 1984 that Argentina was developing a larger version of the *Condor I* able to travel at least the 300 miles to strike the Falkland Islands. The new *Condor II* ballistic missile is now known to have a 500 mile range.

21 Eric Ehrmann, "Argentina: Coup or Democracy?" *Journal of Defense and Diplomacy*, November 1987, p. 51.

Egypt joined the Argentine *Condor* II program in 1984 with Iraqi financial backing. Several Egyptian nationals were arrested in June 1988 trying to illegally ship heat-shielding missile technology out of their country for the Argentine program.

Despite Argentine claims that its missile program is for space research, these activities are of great concern to Washington because of Argentina's apparent intention to export ballistic missile components to the Middle East. The U.S. repeatedly has taken up the *Condor* issue with Argentine authorities at high-level meetings.²²

Argentina's motives for its nuclear and ballistic missile activities are profit and national pride. Buenos Aires hopes to use the money earned by nuclear exports to help pay off its \$60 billion foreign debt and wants to demonstrate that it can compete with the world's industrialized countries in high-technology exports.²³ The Argentines also want to keep pace with neighboring Brazil's growing *Sonda* ballistic missile program.

U.S.-ARGENTINE ECONOMIC RELATIONS

Before World War II, Argentina's economy rivaled that of many large European countries. Ranking as one of the world's top ten economic powers, Argentina was a leading exporter of grain and meat, and had a transportation network unsurpassed outside Europe and the U.S. Four decades of socialist, state-dominated economic policies, however, have nearly bankrupted Argentina. Its foreign debt currently is \$60 billion, the third highest in Latin America, after Brazil and Mexico.

Washington provides no economic development assistance to Buenos Aires and has not in over a decade. Argentine exports to the U.S. last year were \$1.5 billion consisting mainly of petroleum products, leather, and meat. In comparison, the U.S. imported \$10 billion in Brazilian goods.²⁴ U.S. exports to Argentina last year totaled approximately \$ 1 billion, consisting mainly of office machinery, transport equipment, chemicals, and computers. Washington announced in late September that it supported an estimated \$1.1 billion in loans to Buenos Aires from such multilateral lending institutions as the International Monetary Fund (IMF). These loans are designed to help Argentina pay the interest on its foreign debt.

Bold Campaign. After taking office in July, the Menem government immediately introduced reforms to stabilize the economy, stimulate investment, privatize industry, and promote growth. He has negotiated wage and price contracts with Argentine industry, commerce, and labor. Menem also has begun a program to overhaul Argentina's inefficient tax collecting system,

22 "Missile Proliferation in the Third World," *Strategic Survey, 1988-1989*, pp. 14-25.

23 Joel M. Rothblatt, "Argentina's Aggressive Nuclear-Export Policy," *The Christian Science Monitor*, June 8, 1989.

24 International Monetary Fund Direction of Trade Statistics Yearbook, 1989, p. 403.

reducing the number of taxes but making tax evasion, which is widespread, a criminal offense.

Most important in the long term, probably, Menem has embarked on a bold privatization campaign. Under his prodding, the Argentine legislature passed two new laws over the summer curtailing government subsidies of industry and mandating the sale to private investors of such state-owned enterprises as the railway and telephone systems. Finally, upon taking office Menem opened negotiations with Argentina's powerful labor unions to prepare the way for reducing the size of the public work force.

As a result of these reforms, inflation dropped from near 200 percent a month in June to 5.6 percent in October. While the annual growth rate for the Argentine economy is projected to contract 5 percentage points this year, it is expected to grow by 4.5 percentage points next year. Central Bank reserves, which had dropped to about \$100 million in May, are now up to \$1.8 billion, and interest rates have stabilized somewhat, averaging 10 percent per month. The Menem government also has reduced greatly barriers to foreign investment by eliminating restrictive foreign investment laws. Argentina is encouraging foreign investment in most areas of the economy, especially in agriculture and petroleum.

U.S. POLICY TOWARD ARGENTINA

In formulating its policy toward Argentina, the Bush Administration's primary objective should be to encourage and assist the Menem government's free-market economic reform and continued transition toward strong civilian democracy. To achieve this, the U.S. should:

◆ ◆ **Stress Washington's support for Menem's reform program.** Bush and Menem agreed in their first meeting, held in Washington last September, to support Argentina's free market reform program. It is important for the U.S. that Menem's reforms succeed. Not only would this serve as a model for others in Latin America, it would bring greater economic and political stability for Argentina, which is in the U.S. interest. To demonstrate U.S. support for Menem's reforms, Bush should send Secretary of State James Baker and Secretary of the Treasury Nicholas Brady to Buenos Aires soon for high-level meetings with their counterparts. They not only should discuss ways in which the U.S. could assist free market reforms in Argentina, but explore avenues of cooperation on such issues as trade, debt negotiations, terrorism, and drug trafficking.

◆ ◆ **Press the Menem government to swap equities in Argentine companies for cancellation of foreign debts.** U.S. debt policy toward Latin America should be premised upon helping countries that help themselves. As such, U.S. support for World Bank, International Monetary Fund, and Western government assistance to Argentina should depend on how aggressively the Menem government pursues free market techniques for reducing their country's \$60 billion foreign debt. One such technique is what is known as debt-equity swaps. In a debt-equity swap, the lender (such as a

U.S. bank) sells its note for the hard currency debt at a discount to a middleman. The middleman then redeems the debt from the debtor country's government for local currency or some state-owned asset, such as shares in a factory. The result of this three-way transaction: The lender recovers part of a loan that likely never would be repaid in full, the middleman becomes the investor in the local economy, and the debtor government's external debt is reduced.

◆ ◆ **Increase military assistance and training programs.** The U.S. currently provides no grants or credits for military purposes to the Menem government. Prior to 1983, such assistance was restricted because Argentina was not a democracy. Now that Argentina has had a functioning democracy for over six years, assistance should be reinstated. The level of assistance should be linked to the Menem government's response to U.S. concerns over Argentina's foreign policy, including the Falklands issue, Central America, nuclear sales to the Middle East, and their ballistic missile program. Renewed assistance should be used primarily for training and equipping Argentine military units for combating terrorists and armed guerrillas. Such assistance would enable the U.S. to improve ties with Argentina's armed forces because of the important role they play in Argentine politics.

Expanded U.S. contact with Argentina's military may help develop its respect for civilian government and protect collective security interests in South America. Washington should continue to use its International Military Education and Training (IMET) programs to foster and reinforce democratic values in the Argentine armed forces. IMET is a U.S. government grant program administered by the Department of Defense that provides technical training and personal contact between U.S. and foreign military personnel. So far this year, Washington has given Buenos Aires \$157,000 in IMET assistance.

The U.S. should also negotiate an anti-terrorism mutual assistance agreement with the Menem government focusing on military training programs, intelligence coordination, and sending U.S. equipment and arms to Argentina to combat terrorism. U.S. assistance specifically should include the sale of radar equipment, helicopters, patrol boats, night vision equipment, and armored personnel carriers. Such an agreement would cost the U.S. approximately \$20 million.

◆ ◆ **Work closely with Argentina to combat narcotics trafficking.** The Latin American drug network has spread to Argentina. The Bush Administration already has begun to deal with the problem. Washington signed an agreement with Buenos Aires this May 24 to coordinate the two government's campaigns against drug production, trafficking, and consumption. The agreement also improves cooperation in confiscating goods and profits from drug trafficking. More should be done. The Bush Administration should provide the Menem government with the resources and intelligence information to fight the traffickers. This should include the sale of such equipment as off-road vehicles, A-4 and A-37 pursuit aircraft,

helicopters, patrol boats, and small arms to interdict and eradicate drug operations.

◆ ◆ **Encourage Argentina to support pro-democratic forces in Central America.** Non-democratic forces continue to threaten Argentina's political stability. Argentina's leaders clearly understand how difficult this struggle for democracy can be. Yet they curiously remain generally aloof from the struggles inside Panama and Nicaragua to end authoritarian rule. At the very least, Washington should ask Menem to provide moral and diplomatic assistance to such democratic forces in Central America as the Nicaraguan Democratic Union (UNO) and the Panamanian civilian opposition, the Coalition of National Liberation (COLINA). The Menem government has taken a step in the right direction by refusing to recognize General Manuel Antonio Noriega's illegal regime in Panama. The Bush Administration also should encourage Buenos Aires to dispatch officials to Nicaragua to monitor the February elections there.

◆ ◆ **Work with Britain and Argentina to help resolve the Falkland Islands impasse.** The diplomatic standoff between London and Buenos Aires over the Falkland Islands appears to be easing somewhat. The two sides have agreed to send delegations to Montevideo, Uruguay this month to discuss the resumption of full diplomatic relations. This dispute, however, once again could flare into a hostile confrontation, threatening South Atlantic sea lanes and Argentina's fledgling democratic rebirth. Such a conflict would not be in U.S. interests. The Bush Administration should work with both countries to resolve the crisis by dispatching a special U.S. negotiator to help mediate between Buenos Aires and London.

CONCLUSION

Argentina may be at its most important political and economic point in its modern history. Should Menem succeed in consolidating democracy and free-market reforms in his country, Argentina could become an example for the rest of Latin America and the Third World. With Argentina's educated population and abundant natural resources, the only barrier to continued economic and democratic growth is a reversal of Menem's reform program.

Menem's success or failure is no small matter to U.S. security and economic interests in the Americas. Argentina and neighboring Brazil could emerge as a unified economic and diplomatic bloc in the Southern Hemisphere. Their leadership in Latin America and the rest of the developing world will affect U.S. interests. If Menem's reforms fail, Argentina could lapse back into military rule, and political and economic chaos, possibly destabilizing the South Atlantic region of South America. If this happens, the U.S. could be faced with the emergence of new and powerful anti-American regimes in South America.

U.S. Encouragement. The U.S. has an important role to play in encouraging economic development and democracy in Argentina. Washington should urge Menem to continue his economic and political reforms. Specifically, the

Bush Administration should encourage expanded privatization and free market reform; assist Argentina in reducing its foreign debt through such free market techniques as debt-equity swaps; increase bilateral security cooperation to combat terrorism and drug trafficking; and encourage a Argentine-British rapprochement on the Falkland Islands.

Test Case. In the long run, political and economic stability in the Western Hemisphere rests on the success or failure of reformers like Carlos Menem. Argentina, like Mexico, is currently being looked at as a test case for the rest of Latin America. If Menem fails, economic and political freedom may suffer a terrible setback throughout the rest of the Americas.

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