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**VITAL***Situation Report*

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The Economic Situation

After the labor unrest of last March and April<sup>1</sup> Portugal's economic situation improved considerably during the summer, until other countries' exchange shortages began to cut off the foreign markets of Portuguese traditional exports. While the Portuguese fiscal and monetary situation is sound and the country still has considerable dollar assets, its foreign exchange is decreasing faster than it can be replenished.

Although the economic situation is unlikely to deteriorate in the foreseeable future to a point where it could cause the downfall of the regime, it is already evident that Portugal must find a market for its accumulating surpluses in order to maintain even the present standard of living. So much depends on the ability of Portugal to find foreign markets for its surpluses in order to pay for essential imports that the solution of its present economic difficulties lies less in the hands of the Portuguese Government than in those of its trading partners.

Fully recognizing the nature of the present economic situation, the Portuguese Government accepted the invitation to participate in the Conference on European Economic Cooperation, not with the intention of getting foreign credits that it does not need but chiefly as a means of finding markets for its surpluses. While the government has publicly accepted the European Recovery Program with enthusiasm,<sup>2</sup> Salazar has privately expressed some doubt as to its full success because, he says, the political basis for effective cooperation among the various countries does not yet exist.<sup>3</sup>

Nevertheless the solution to Portugal's economic ills is a successful ERP. The alternative would have to be severe retrenchment at home until such time as the situation abroad improved sufficiently to absorb the country's surpluses. The resultant further lowering of the standard of living would not represent a state of affairs to which the Portuguese people are unaccustomed, but neither would it be conducive to political stability.

The Colonial Question

The present worldwide movement toward the self-government of colonial peoples, and particularly the establishment of the Dominions of India and Pakistan as independent states, have brought to the fore the Portuguese colonial problem. As a colonial power Portugal fears for the future of its empire in general and for its possessions in India in particular.

1. OIR-1121.160, "Labor Unrest in Portugal," April 21, 1947, pp. 18-24, CONFIDENTIAL.

2. OIR.1121.170, "Portuguese Reaction to the European Recovery Program," November 21, 1947, pp. 11-15, RESTRICTED.

3. Summary of Interview given by Dr. Salazar on October 9, 1947 to members of Smith-Mundt Congressional Group, enclosure to D-209, Lisbon, October 14, 1947, SECRET.

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Portugal's deep concern over the present colonial movement for self-government has been shown on numerous occasions during the past year.<sup>1</sup> Some of the general measures the government has taken with the aim of preventing or arresting this movement have been (1) the encouragement of emigration to the colonies,<sup>2</sup> (2) a law to protect the prospective Portuguese emigrant against exploitation,<sup>3</sup> (3) loans to the various colonies for public improvements,<sup>4</sup> (4) conferences with other colonial powers looking toward improved health conditions,<sup>5</sup> and (5) publicity concerning the degree of self-government, democracy, and other benefits the colonies allegedly enjoy under Portuguese rule.<sup>6</sup>

Portugal has been particularly anxious about the fate of Portuguese India.<sup>7</sup> Although Salazar sent Pandit Nehru a message of good wishes on the occasion of the inauguration of the new Dominion of India and received in reply a brief message of thanks,<sup>8</sup> only the present unsettled situation in India is postponing a demand for the release of Portuguese India from Portuguese rule. At present the Portuguese Government is continuing to send troops to Goa, the capital of its Indian possessions, a step that anti-government Goan Youth League circles in Bombay have claimed is directed against a revival of the movement inside Goa against Portuguese rule.<sup>9</sup> But that Salazar sees the inevitability of some change is indicated by the fact that in a speech he made to the National Assembly on November 24 he showed a somewhat moderated attitude that is the more striking in comparison with the previously inflexible manner of Portuguese officials toward Goa. In referring to the importance of the Portuguese port of Mormugão to India, Salazar said that there would be no great difficulty in finding a solution compatible with the interests of both Portugal and the Dominion of India. He referred indirectly to the need for alterations in the administration of Portuguese India required under the new circumstances, and to the people's aspirations to increase their responsibilities.<sup>10</sup>

Two events occurred before Salazar's speech which may, respectively, have influenced the Portuguese attitude toward India and be an indication of an already changed policy. One is France's policy in granting a certain degree of autonomy to the French Establishments in India; the other was the recall of the unpopular governor general of Portuguese India, Dr. José Bossa, in September.<sup>12</sup> Dr. Bossa's name had been associated with repressive measures

1. OIR-1121.155, "Political Changes in Portuguese and French India," January 27, 1947, pp. 21-25, SECRET.
2. REF-325.2469/T1787, Emigration and Immigration, July 8, 1947, UNCLASSIFIED.
3. Press Memorandum, American Embassy, Lisbon, October 8, 1947.
4. Review of Events in the Portuguese Colonies During September 1947, enclosure to D-199, Lisbon, October 7, 1947, CONFIDENTIAL.
5. D-148, Lisbon, September 5, 1947, UNCLASSIFIED.
6. D-51, Lisbon, July 5, 1947, CONFIDENTIAL.
7. OIR, Intelligence Digest, July 10, 1947, pp. 2-3, SECRET.
8. A-228, Lisbon, August 19, 1947, UNCLASSIFIED.
9. D-579, Bombay, November 5, 1947, UNCLASSIFIED.
10. FBIB Daily Report (Europe), November 26, 1947, pp. FFF-4, UNCLASSIFIED.
11. R-151, Madras, October 17, 1947, UNCLASSIFIED.
12. Review of Events in the Portuguese Colonies During September 1947, enclosure to D-199, Lisbon, October 7, 1947, CONFIDENTIAL.

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against the Goan Nationalists. The Portuguese press has been allowed to report on the attitude of the French toward their colonies in India,<sup>1</sup> a fact that may mean a gradual preparation of the Portuguese people for a change of policy on the Portuguese-India question. In short, instead of remaining adamant in its attitude toward the colonial problem in India, the Portuguese Government now seems likely to follow a more conciliatory policy in order to try to maintain its possessions as long as possible rather than adopt an intransigent attitude that would have no chance of ultimate success.

The other two colonies that are apt to give the Portuguese Government cause for anxiety in the future are Macao and Timor. For the present, however, there is no danger of an immediate secession of either colony. Concerning the demand by certain Chinese nationalist elements for the return of Macao to China,<sup>2</sup> Chiang Kai-shek has recently made the statement that China does not wish the return of Macao and has ordered the cessation of any "movement of opinion" advocating the return of that Portuguese colony.<sup>3</sup> As for Timor, the greatest danger of trouble there is its proximity to the Indonesian Republic. This proximity may at some distant date draw that colony under Indonesian rule, but at the present time there is no movement afoot that would indicate an immediate danger of Portugal losing Timor.

International Situation

At present, perhaps, Portugal enjoys greater esteem internationally than at any time since before the downfall of the monarchy. With the exception of the USSR and its satellites, most countries have friendly relations with Portugal, and the foreign press has carried numerous articles praising the Portuguese regime and the country's political stability and relatively favorable economic situation.

In his speech before the opening of the National Assembly on November 25, Salazar made a statement to the effect that while he did not place too much faith in the cure of the world's ills through international conferences and the like, he followed the policy of encouraging his government to participate in them so that it might not be thought that Portugal was an obstacle to world peace. Salazar's statement comes at the end of a year in which Portugal not only has accepted all invitations by the Western world to participate in international conferences and organizations but has made serious efforts to make its contribution a real one. In line with this policy Portugal did not withdraw its request for admission into the UN despite the fact that it believed that the USSR would again use its veto, as it did, to keep Portugal out.<sup>4</sup>

1. A-358, Lisbon, November 25, 1947, CONFIDENTIAL.
2. OIR-1121.155, "Political Changes in Portuguese and French India," January 27, 1947, pp. 21-25, SECRET.
3. D-211, Lisbon, October 15, 1947, UNCLASSIFIED.
4. Press Memorandum, American Embassy, Lisbon, November 26, 1947.

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While Portugal continues its close collaboration with its old ally, Great Britain, postwar conditions have made the US more important to Portugal's foreign trade. Great Britain, unable to pay for its imports from Portugal, has sought and received further credits from the latter.<sup>1</sup> The Portuguese for their part are willing to facilitate credits to the UK in order to maintain as much as possible of their previous markets in that country. However, it is the US that is able to furnish Portugal such essential goods as coal, wheat, machinery, and tin plate for the canning of sardines.<sup>2</sup>

Furthermore, with the dwindling of British power, the Portuguese appear to be looking toward the US as the only world power capable of protecting their colonies and as the most effective barrier against the spread of Communism from the USSR. In 1947 Portuguese-American ties have been consolidated through closer collaboration in several fields, including the continued use of an Azores air base by the US Air Transport Command and negotiation of an extension of this privilege.

At the same time the ideological gulf separating Portugal from the Communist world continued in evidence throughout the year. At the time of the Lisbon dockworkers' "slowdown" last April, the Portuguese Government charged that the labor unrest had been instigated by Communists. The International Police asserted that three different leaders and instigators were operating in Portugal on orders from the Yugoslav Legation in Lisbon.<sup>3</sup> The Portuguese Government was so convinced of the veracity of this charge, that after the departure in May of the Yugoslav Chargé d'Affaires, who was accused of being involved in the "slowdown," it has refused to grant visas to any proposed Yugoslav chargé d'affaires.<sup>4</sup>

Conclusion

The most significant fact of 1947 in Portuguese affairs has been the government's ability to deal effectively with the military opposition without causing a split in either the armed forces or the cabinet. This show of strength enhances the position of Salazar as presidential elections approach and will give him a freer hand in steering his government amid the political repercussions that the advent of a new President may cause. Portugal enters 1948 with a government which, whatever its shortcomings from the democratic point of view, has proved capable of improving the country's economic situation during a critical time, of directing its colonial policy along a more enlightened path, and of managing its international relations so as to remain on friendly terms with the great powers most likely to further Portuguese interests.

1. A-359, Lisbon, November 25, 1947, RESTRICTED.
2. A-334, Lisbon, November 6, 1947, RESTRICTED.
3. OIR-1121.160, "Labor Unrest in Portugal," April 21, 1947, pp. 18-24, CONFIDENTIAL.
4. D-222, Lisbon, October 17, 1947, SECRET.

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