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Weekly Contributions 34-50

[Redacted Box]

22 August 1950

CURRENT DEVELOPMENTS

GENERAL: It is not likely that QAS machinery will be used in connection with the problem of Latin American material assistance in Korea (p. 2).

NORTHERN AREA: Cuba's economy has been strengthened by the increased sugar demand resulting from the Korean situation (p. 2).

CENTRAL AREA: Brazil, which had contemplated shipment of strategic quartz crystals to Czechoslovakia, may well be deterred from this sale, despite the lack of basic agreements which might protect US interests in such cases (p. 2).

SOUTHERN AREA: Bolivia's efficiency as a producer of petroleum will be substantially improved if, as is planned, a US firm is called to manage oil operations (p. 2).

SPECIAL SUBJECTS

The Current Situation in Honduras 4

The Current Situation in Argentina. 7

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1. GENERAL: OAS Collective Action Regarding Korea

The recent Chilean suggestion that Latin American responses to the UN request of 14 July for material assistance in Korea be coordinated through the OAS is not likely to be followed at this time since the US and some of the other American republics feel that OAS collective action at this stage would only delay matters further.

Should the international situation be aggravated, however, it is possible that a suggestion from one or more countries for a meeting of Foreign Ministers of the OAS to consider Hemisphere interests would receive general acceptance by Latin American governments.

2. CUBA: Increased Demand for Sugar Strengthens Entire Economy

An increased demand for sugar, developing as a result of the Korean situation, has had a favorable effect on Cuba's economic prospects in general. As sugar is the mainspring of the economy, the US purchase of an additional 600,000 tons on 4 August — combined with increasing demands by other users — has been felt in every phase of the economy. Prior to the outbreak of hostilities in Korea, it had appeared that there would be a large carry-over of unsold sugar from the 1950 harvest, and this fact tended to darken future prospects. All this has been changed since 25 June 1950 and boom conditions have been reestablished. It is true that concomitant boom effects such as higher prices and temporary scarcities of imported goods have also made their appearance, but this is less important than the changed sugar situation. Both economic and political stability will be favorably affected as the Prío administration will be saved from several difficult problems of its own making and can count on sufficient income to cover its immediate obligations.

✓ 3. BRAZIL: Government May Refuse Quartz Sales to Czechoslovakia

The Brazilian government may well be influenced by US moral pressure to prevent the contemplated shipment of 600 kilos of quartz crystals to Czechoslovakia. Representatives from that country reportedly have been active recently in attempts to purchase large quantities of Brazilian quartz, presumably for transshipment to the USSR. That vitally strategic mineral ranks high among the USSR's needs of essential materials — as it does for the US.

This negotiated purchase by Czechoslovakia points up the lack of a basic agreement with Brazil (or with any Latin American nation) for the denial of strategic materials of value to the Soviet war effort.

4. BOLIVIA: Possible Management of Government Petroleum Agency by US Firm

President Urriolagoitia's approval of a US proposal that the government petroleum agency (YPFB) engage a US firm to manage

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its operations may lead to the implementation of this plan, which would increase YPFB's efficiency and further the development of Bolivia's substantial petroleum resources. The plan represents a new approach to the contentious subject of foreign control of domestic industry in that the US experts, who in fact will control actual operation of YPFB, will be presented to the public as only advisors or consultants. As YPFB has experienced financial and production difficulties during recent months, management of its operations by a US firm would contribute to the early attainment of self-sufficiency in nearly all petroleum products with consequent benefit to the Bolivian economy.

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The Current Situation in Honduras

(Summary -- The Gálvez administration remains stable despite uncertainties regarding the president's health. The economic situation is relatively favorable. Honduras remains singularly free of communist activity. The current situation of the military establishment is not known. Friendly relations are maintained with neighboring countries.

-- Nothing in the current situation importantly modifies long-standing advantages for US security interests deriving from Honduras' thorough-going support of the US and Hemisphere unity.)

Political

There has been a singular lack of noteworthy political activity in Honduras during the past six months.

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Able Vice President Lozano, who also serves as Minister of Interior and Minister of Development, to all appearances seems to have recovered from his pique at not being forewarned of Gálvez' proposed trip to the US and remains the most salutary and constructive influence

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[] Lezano's order discouraging political activities prior to the official opening of the 1954 general elections has hindered but not altogether estopped the first attempts of the opposition Liberal Party to reorganize itself after its lamentable performance in the 1948 campaign. Two new Liberal leaders, Flores and Morales, appear capable of resuscitating the now moribund Party to the point where it will almost assuredly be a significant political force by 1954. While the state of Gálvez' health and the concomitant question of his leaving the country creates a certain degree of uncertainty, the lack of effective opposition to the present administration suggests continuing political stability in Honduras for at least the next six months.

Economic

Economic activity remains at a satisfactory level. Banana exports for the first three months of 1950 totalled 2.6 million stems and equalled shipments for the corresponding 1949 quarter. Overall expenditures of the fruit companies are currently 13% lower than last year because of a 20% personnel reduction. This layoff resulted from the companies' completion of a post-war construction program, and the present labor force of more than 30,000 will be maintained or slightly augmented. The fruit companies are still spending over \$5 million quarterly in Honduras, and the country has ample dollar exchange for import requirements. 1949/50 coffee shipments will probably exceed by one million pounds the 8 million pounds shipped in 1948/49, and prevailing high prices will swell the incomes of numerous small farmers. Government revenues, which have shown a consistent upward trend in the past several years, are exceeding expenditures by a comfortable margin.

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There have been a number of significant developments in civil aviation. The modern national airport recently opened at Toncontin, complete with passenger facilities and offices for domestic internal and international airlines serving Tegucigalpa, will benefit the tourist industry. A new domestic air freight line, ANHSA, has been established, with Joe Silverthorne as manager and with the financial backing of prominent government officials. ANHSA has received government assistance in various ways including a lucrative contract for carrying aguardiente, a liquor produced under government monopoly. Silverthorne had a hand in drafting the new aviation law, which contains provisions decidedly adverse to the interests of the established internal airlines, TACA and the Pan-American Airways affiliate, SAHSA. If these provisions are strictly enforced TACA and SAHSA, whose margin of profit is slim, might be driven out of business, an eventuality that would impair the already inadequate transportation system of the country.

The establishment on 1 July of a government owned Central Bank and a Development Bank under the auspices of the International Monetary Fund may ultimately prove an important factor in the economic development of the country. The Central Bank, which will act inter alia as the government's fiscal agent, exchange control authority and bank supervisor, is intended to provide a more flexible monetary system and to regulate the expansion of credit, which at present is rather unresponsive to the needs of the country. The Development Bank was created as a source of credit and investment funds in areas not reached by private banks, most notably in the agricultural field, and also to provide auxiliary services such as technical advice and experimental stations. The initial capital of the Central Bank is \$250,000 and that of the Development Bank \$750,000, the latter to be increased annually at the rate of about \$700,000 from taxes earmarked for the purpose. While it is true that these institutions are starting out on a small scale and that initial operations will be hampered by the lack of qualified personnel and jealousies of special groups, D/IA believes that in time they will contribute modestly and perhaps even significantly to Honduras' economic advancement.

The same congressional commission that drafted the new banking legislation is also studying revision of the revenue system with a view to making it more productive and efficient. The commission's studies so far have led to the levying adoption of an income tax which, in the fiscal year closed 30 June 1950, is estimated to have yielded \$3 million of additional revenue, at least half of which came from the fruit companies. This levy exempts a great majority of the population but, as experience is gained, will probably be extended to middle and lower income groups and make possible greater public expenditures for economic development. Additional legislation is expected to eliminate at least some of the inconsistencies and overly burdensome features of the present customs collection system, which hinder trade and, in certain instances, have even resulted in decreased government revenues.

Subversive

Honduras remains singularly free of communist activity. The only known organized subversive element is the Partido Democrático Revolucionario Hondureño, a group of about 225 violently anti-CIA leftists who are active in the north coast

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banana region. The PDRH has printed numerous attacks on the fruit companies with funds and propaganda from Guatemala and Mexico. It is also believed to have directed acts of minor sabotage against fruit company properties. This agitation has stirred some unrest among the workers, and it appears likely that the government will not tolerate these disruptive activities much longer.

Military

Since the withdrawal of the resident US Army Attaché last year, no significant developments affecting the military establishment have been reported.

International

Honduras continues, at least superficially, cordial relations with its neighbors and is following the US lead in most international matters. Relations with Guatemala, which were something less than friendly around the turn of the year because of the alleged mistreatment of the Honduran football team in Guatemala, have recently improved. This improvement is attributable at least in part to Guatemala's co-operation in disbanding a small group of armed Honduran dissidents operating along the border and the exceptional virtuosity of the Guatemalan national symphony which had been sent to play at the opening of the Honduran Central and Development Banks (see Economic). Honduras recognized Viet Nam shortly after the US did so, has ratified the charter of the Organisation of the American States and has indicated its approval of the US-UN position on Korea. The US is assured of the continuing co-operation of the government and a great majority of Hondurans in most international matters.

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The Current Situation in Argentina

(Summary -- Improvement in government stability continues. The economic situation continues to be unfavorable. The Government's anti-Communist campaign has been intensified. The Rio Treaty was ratified but popular opposition will preclude the sending of Argentine troops to Korea.

-- US security interests are favored by ratification of the Rio Treaty and by continuing improvement in stability, but are unfavorably affected by Argentina's reaction to the Korean crisis which occasions considerable doubt as to the availability of Argentine military support in the future.)

Political

The moderate improvement in government stability [] Wkly, 23 May 50) has continued as the Korean crisis has led to anticipation of betterment in the economic situation through expansion of exports, and as the administration position has improved in relation to labor and the opposition. Although Perón's apparent retreat on the question of aid to Korea (see International) demonstrated some limitation on his ability to lead the Argentine nation, his prompt return to the "Third Position" appears to have reunited his support. During recent months the government also improved its immediate position by ending the protracted portworkers strike which had posed a threat to economic recovery (see [] Wkly, 25 Jul 50). It also succeeded in maintaining a relatively low incidence of strikes but only at the cost of substantially larger increases in wages which can be expected to add to inflationary pressures. There are indications that the Communists may significantly aggravate this problem of the wage spiral (see Subversive). The Peronista campaign to eliminate the Radical opposition party was furthered by the resignation of half of the Radical deputies in protest against the Perón 1949 revision of the Constitution and by a cleavage in Radical ranks on the issue of ratification of the Rio Pact. [] estimates that during the next three months the Perón administration will continue to strengthen its position by capitalizing on growing optimism regarding prospects for economic improvement and by further developing its corporate-state-type organization of the Argentine society [] Wkly, 27 Jun 50).

Economic

The economic situation remains unfavorable despite an increase in exports and despite favorable developments in Argentina's international economic relations.

Among these favorable developments is an improvement in Argentina's bargaining position stemming from more competitive price policies and increased efforts to revitalize trade and financial relations with other countries. The honeymoon in US-Argentine economic relations continued with discussions underway relating to the use of the Eximbank loan, with an agreement for reciprocal

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exemption of income tax on transportation companies, and with the importation into Argentina of dollar oil under the one-year agreements negotiated in anticipation of the loan. Negotiations with Western European countries offer prospects for improvement in Argentina's trade and financial position. An agreement with Western Germany for the exchange of agricultural products for machinery and manufactured goods (US\$124 million each way) arranges for trade that should prove highly beneficial to the Argentine economy. A new trade agreement with Switzerland includes provision for resumption of financial transfers and may set a precedent for agreements that Argentina is negotiating with other countries including France, Belgium, Italy, and Sweden. Although negotiations with the UK have degenerated to a stalemate over a new meat price and meat shipments have been suspended, this impasse largely reflects an improvement in Argentina's bargaining position (See [] Wkly, 18 Jul 50).

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However, these favorable developments have not been sufficient to counteract the fundamental disequilibrium in the economy. Inflationary pressures persist with monetary expansion continuing, goods in short supply, renewal of wage increases and relatively low levels of productivity. Furthermore, an anticipated increase of 16 percent in federal expenditures for 1951, as well as an indicated liberalization of private credit — particularly to agriculture — will further the course of inflation in the short run.

Although certain benefits should result from continued government's efforts toward economic reform and toward improved economic relations with other countries, no fundamental change in the unfavorable economic situation can be expected during the next few months.

Military

Recent statements by the Argentine Minister of Defense and the Chief of Staff of Coordination for the Armed Forces indicate that the armed forces supported and approved action taken by Perón in recommending ratification of the Rio Treaty and in issuing instructions to the Argentine UN representative to approve the action of the US in Korea. Support of the US position on this issue is in line with other evidence of a continuing favorable disposition of the Argentine Armed Forces toward the US. This evidence includes: expressions by defense leaders of a desire to adjust to Hemisphere plans for military cooperation; reorganization of the top command along lines of the US unification plan; purchases — actual and requested — of US equipment; and visits of high defense officials to the US. Though technical reorientation of the Argentine army in the direction of US doctrines and equipment has only begun, it is probable that the Argentine army, excluding certain extreme nationalist army elements, would favor alignment with the US in the event of US-USSR hostilities.

Subversive

Although a bill to outlaw the Communist Party was withdrawn, evidently in deference to Third Position policy, the Perón administration noticeably intensified its campaign against Communist activity. Police cracked down on numerous demonstrations against Argentine participation in Korea; Police

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Chief Bertollo publicly warned non-Communists against being duped into signing "Peace" petitions; [redacted]

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[redacted] the Communists have succeeded, in the guise of loyal Peronistas, in attaining second level leadership in several CGT unions, and have effectively prevailed on the rank and file to respond to a technique called "Perón plus one" (when the CGT union demands a ten peso increase in wages the Communists demand eleven).

International

The ratification of the Rio Treaty on 28 June by the Argentine Chamber of Deputies is the most important Argentine contribution to Hemisphere solidarity since World War II, but "grass roots" reaction to the Korean crisis will probably prevent direct military support of the UN action. Although the administration early intimated that troops might be sent to Korea it soon decided to retreat to a Third Position stand in which "the people will decide". The vigor of the adverse reaction among Communists, nationalist-isolationists and Peronistas as well, which led the administration to retreat, indicated that Perón's incessant propaganda appeals to isolationist sentiment has nurtured public attitudes which will make it very difficult for the government to employ military forces internationally unless Argentine security is clearly involved. Perón's revival of the ABC (Argentina, Brazil, Chile) bloc there in the context of union to resist foreign imperialism, as well as his condoning of the Peronista press intervention for the Vargas candidacy in Brazil, evidenced a new assertiveness in international relations after a considerable period of relative quiescence. It is quite likely that this increased activity in relation to neighboring countries is evidence that Perón considers this period -- when world hostilities may be imminent -- a good one in which to lay the groundwork for the extension of Argentine influence.

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