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Weekly Contributions 40-50  
Latin America Division, ORE, CIA  
3 October 1950

CURRENT DEVELOPMENTS

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CENTRAL AREA: In Colombia, no immediate threat to stability is expected to result from a decree which names the Minister of Government, rather than the Presidential Alternate, as successor to the presidency (p. 2).

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1. CUBA: Anti-Communist Campaign May Lose Momentum

With the improvement in the Korean situation, Cuban interest in local matters is likely to overshadow completely any concern over international Communism and, as a result, the current governmental anti-Communist campaign may bog down. Serious obstacles to the continuance of the campaign already exist. Recent government moves, such as the seizure of Hoy and the firing of Communists from their jobs (D/IA Wkly, 29 Aug 50) probably will be found to be illegal. Moreover, further anti-Communist moves without congressional authorization would be politically inexpedient and, even if authorization is asked for by the administration, the multi-party congress will not necessarily agree on vigorous anti-Communist measures because members are preoccupied with party politics and are fully aware of the political strength of Cuban Communists.

2. Political Leader's Health is Important Political Factor

The course of Cuban politics may be significantly affected if Eddie Chibás, the most powerful critic opposing the Prío administration and one of the strongest potential candidates for the presidency in 1952, is incapacitated for political action by his present serious illness. On balance, his activities have benefited Cuba. It is true that the government's anti-Communist campaign has been adversely affected and that Communists undoubtedly have benefited by Chibás' charges that many of the so-called anti-Communist measures are illegal and are a serious threat to freedom of speech and other basic democratic rights. These charges have been quite effective because of Prío's frequently demonstrated policy of trying to throttle any opponent, non-Communist as well as Communist. Apart from the possibly injurious effects of these charges, however, Chibás' retirement from politics would certainly be a loss to Cuba's proponents of civil government and of honest and efficient government. Chibás is popularly regarded as that country's leading exponent of good government, and the public's belief in his usually just criticism against the Prío government has been a major factor in forcing the president to retain some capable and honest men in his cabinet, to modify a number of government measures of questionable worth, and to make periodic efforts toward honest and efficient government.

3. COLOMBIA: Decree Altering Presidential Succession Will be no Threat to Stability

The Gómez decree of 26 September, which eliminates Liberal Eduardo Santos as Presidential Alternate (comparable to US Vice President) and makes Minister of Government Domingo Sarasty the successor should Gómez become incapacitated, will further antagonize Colombian Liberals but is unlikely to provoke an immediate threat to the stability of the regime.

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4. ARGENTINA: Increased Government Effort Toward Economic Recovery

Argentine economic practice during the past several months -- in contrast to previous temporizing -- indicates significant effort to rehabilitate the economy, which has suffered declining trade and production for over two years. It is true that individual steps taken thus far fall considerably short of maximum effectiveness, but cumulatively they represent a more realistic attempt to meet specific problems. Special emphasis has been given to improving trade and financial relations with other countries, but significant, though limited, domestic reforms have also been undertaken.

Recent government efforts to improve its trade and financial relations have been directed toward meeting several principal complaints that are common in varying degrees to most of the nations with which significant trade is carried on. The first complaint, against high Argentine export prices, lost much of its force in late 1949 when Argentina initiated considerable price reductions, which have enabled it to dispose of most of its exportable surplus. The second and now paramount complaint, against Argentine restrictions on commercial and financial payments, has been met with less concrete success, but some progress has been made in regard to European countries since the May negotiations with the Eximbank to cover commercial arrears in the US. Financial arrears to France were further reduced by proceeds from linseed sales; dollar arrears to countries other than the US were reduced by more than 3 million dollars; and commercial arrears to the UK were reduced by payment of \$3.5 million for railway equipment. A new payments agreement with Switzerland provides for payment of 16 million francs for "general" financial transfers (covers 50 percent of unpaid dividends) and 18 million francs on capital account. Similar negotiations -- also including possible relaxation of Argentine restrictions on "nonessential" imports -- are under way with the UK, France, and Belgium. New exchange regulations providing for transfers of current (after 28 August 1950) profits and interest at the rate of 5 percent per year on capital investment are a further partial step in meeting the problem of financial transfers. A correlative complaint against inadequate guarantees for the protection of foreign capital, arising from uncertainty concerning expropriation and past instances of arbitrary treatment, has been countered only by verbal assurance that foreign capital enjoys equal treatment with domestic capital and by special measures designed to improve the situation of US business interests.

The most significant steps toward domestic economic reform have been special measures to stimulate -- through increased prices and special credit facilities for the producer -- agricultural and pastoral production. A number of smaller steps in the direction of economic adjustment have been taken with some degree of success, but

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some of the government's attempts to modify its complex economic controls have been only "half-way" measures and have pointed up the conflict between long- and short-term requirements. For example, the government has been compelled to relax its anti-inflationary controls on credit in order to stem the decline in production. Similarly, the new exchange rates and regulations, which should stimulate exchange earnings from exports and some new foreign investment, greatly increase the cost of imports and add an additional stimulus to inflation.

It is probable that the Argentine government will continue these steps toward economic reform at least for the next few months. Their continuance, in addition to improved prospects for the disposal of Argentine surpluses since the Korean outbreak, will mean a more favorable outlook for the Argentine economy.

5.

#### New Espionage and Sabotage Bill

The new espionage and sabotage bill recently passed by both houses of the Argentine congress and now awaiting Perón's signature will impose additional restrictions on Argentine civil liberties and may also complicate that country's foreign relations.

Two articles of the bill, intimidatory in nature, vaguely phrased and comprehensive in scope, provide prison sentences for any person, who, without authorization, disseminates "economic, political, military, financial, or industrial information, which, without being secret or confidential, is not intended for publication or diffusion ...", and for anyone who "through any means provokes public alarm or depresses the public spirit, thereby harming the nation".

This act, declared by the administration to be necessary for the maintenance of national security, is principally a refinement and extension of existing political controls. The bill is probably aimed primarily at members of the opposition, Communists, Argentine civil servants, and private statistical services. If strictly enforced, however, it could engender serious difficulties even for members of foreign missions. At the very minimum, it constitutes a threat to restrain foreign correspondents who are hostile to the administration. It may serve to provoke new foreign press attacks on Argentina and possibly to discourage new foreign capital investment.

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### The Current Situation in Peru

(Summary -- The stability of the Peruvian government has improved. The economic situation is slightly more favorable. Capabilities of the armed forces remain limited. Although the subversive potential of the Apristas has increased slightly, they are unable -- independently -- to make a major move; Communist activities continue to present no danger to the stability of the administration. Peru's relations with other countries are, in general, amicable.

-- The situation as to US interests has shown further improvement as a result of the increased stability of the government, ratification of the Rio treaty, favorable prospects for issuance of a petroleum law intended to encourage foreign capital, and Peru's support of UN action regarding Korea.)

#### Political

The stability of the Peruvian government has improved following the closely controlled general elections of 2 July, which established Odría as president and marked a transition from military to semi-constitutional government. It is true that unrest continues in Arequipa, where the army suppressed a mid-June revolt. Further, some tension arose in several departments where independent congressional slates were rejected on technicalities by government-controlled electoral boards and in several others where the congressional election results were annulled in whole or in part. Nevertheless, the half-military half-civilian cabinet has been well received throughout most of the country, and President Odría appears, in general, to have the support or acquiescence of the people and of the armed forces. All effective political opposition has virtually ceased. Because of the alleged involvement in the Arequipa revolt of the Unión Revolucionaria (largest legal opposition party), this group has been as completely deprived of freedom of action as the outlawed Apristas and Communists. Further, the opposition has received almost no representation in the new congress.

The small percentage of dissident Communists or fellow travelers in the congress have but slight influence.

D/LA estimates the Odría government's chances of retaining its present stability during coming months are excellent.

#### Economic

Peru's economic situation is slightly more favorable and, in general, economic prospects for the next quarter appear somewhat more promising. It is true that shortages of irrigation water have impaired (slightly in some cases and considerably in others) prospects for three major crops, sugar, cotton, and rice. Nevertheless, these unfavorable developments have been more than offset by favorable factors. Prices of lead, copper, and zinc, which are important exports and sources of revenue for the government and the nation, have recently increased. With the exception of one month since October 1949, the value of Peru's exports has exceeded that of its imports, which formerly (1947 through late 1949) greatly surpassed exports

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in value. Prospects are favorable for prompt passage of petroleum legislation, which is intended to encourage the investment of foreign capital and consequently increase production in Peru's petroleum industry.

In messages to congress, the government has announced the following long-range economic plans: 1) stimulation of production for domestic consumption and export, 2) gradual elimination of the remaining restrictions on imports, 3) continued service of the external debt, and 4) suspension of subsidies on domestic and imported foodstuffs and compensation for the possible resulting rise in the cost of living with mandatory wage increases. Although certain phases of this program may conceivably create new economic problems or intensify existing ones, in general, it appears sound. Further, although it is too early to predict the amount of opposition that may develop, in view of the government's control over congress the chances that these plans will be implemented seem fairly good.

#### Military

Capabilities of the Peruvian armed forces remain limited although the air force has been reorganized more closely along US lines and the army is now at full strength. The morale of the army remains low, but the incidence of subversive plots has apparently declined. The armed forces as a whole are believed loyal to Odría. (See Political section.)

#### Subversive

APRA -- the most numerous group opposing the Odría government -- has been forced virtually to suspend its underground activities because of lack of funds and the increased vigilance of the police. It has been further weakened to a slight degree by the secession of a small dissident group, which the government reportedly organized and financed. At this time APRA is too weak to make an independent major move. Nevertheless, there have been recent indications that it may have overcome its former unwillingness to cooperate with other disaffected political elements, and that its subversive potential has, therefore, increased slightly.

Communist activities continue to present no danger to the stability of the administration. Although the publicity Communists received in connection with the Stockholm Peace Appeal and their efforts on the labor front may have resulted in a slight extension of their influence, their position is not expected to improve greatly during the coming months.

#### International

Peru is, in general, on friendly terms with other nations. It is true that relations with Colombia remain somewhat strained because of the continuing Haya case which is now being tried at the Hague Court of International Justice. Furthermore, the recent reopening of Peru's boundary dispute with Ecuador during the meeting of the guarantor nations of the 1942 Río Protocol may cause further difficulty with that nation, whose alleged anti-Peruvian demonstrations have recently caused concern to the Peruvian government. On the other hand, diplomatic relations with

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Uruguay, which had been suspended since October 1948, were resumed in July. Commercial relations with the US have improved slightly as a result of the Peruvian government's plan to liquidate large US commercial debts. Peru has approved decisions taken by the UN Security Council on Korea and has placed arms, trade, financial, and communications embargoes on North Korea. It will continue to support the US in all phases of the East-West struggle. Ties with Argentina and Spain remain extremely close; Peru is playing a leading part in a movement in the UN General Assembly to modify the 1946 resolution on Spain. Peru's continuing interest in the expansion of its trade is indicated by its recent signing of a trade agreement with Yugoslavia.

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### The Current Situation in Brazil

(Summary -- The 3 October elections dominate the political scene. Ex-dictator Vargas may emerge from the close race as the successful presidential candidate. Brazil's economic and financial situation continues to improve. The armed forces remain loyal to the government and are capable of maintaining order during the election period. Increased Communist activity has resulted in only scattered local gains.

-- The anti-US sentiment in Brazil has been checked somewhat during recent weeks, and relations with other countries remain good.)

#### Political

The 3 October presidential election dominates the entire political scene in Brazil. Confusion and tension concerning the outcome continue unabated, but the election will be relatively orderly. Indications are that Getúlio Vargas will emerge the successful candidate by a narrow margin, barring last-minute chicanery by the Dutra followers. Vargas' party is expected to make a sizeable gain in the congressional elections, but it is unlikely that -- even with alliances -- it could actually control the Chamber of Deputies. Gains in the Senate will be negligible.

The presidential campaign has been almost devoid of issues, drawing its popular interest, as is traditional in Brazil, from the personalities of the candidates. Consequently it is difficult to determine at this time the extent or direction of Vargas' possible opposition to US interests. Machado could be expected to carry on the Dutra tradition of friendly and generally favorable consideration of US interests, but the ex-dictator's campaign equivocations have made it clear that he is still essentially a demagogue and opportunist. Thus far, he has committed himself only to promote the social welfare and economic development of each locality in which he has spoken. In international matters, he has adopted a "center position", apparently similar to Perón's third position. Vargas is thus free to consider in the light of future developments, such important matters as cooperation with the UN in regard to Korea, the development of Brazil's natural resources, and his stand on the entrance of additional foreign capital into Brazil's industries and mining and petroleum fields. It is almost certain that Vargas would not take a position openly hostile to the US, but he could and might reverse Brazil's past inclination to be cooperative with the US, particularly in economic matters.

#### Economic

Brazil's economic and financial situation has continued to improve over the past three months and there is no indication that the trend will be reversed in the near future. The steady rise in coffee and cocoa

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prices together with continued stringent export and import controls have made it possible to eliminate virtually all commercial dollar arrears and to accumulate a sizeable dollar surplus over and above the remaining commercial debt. Brazil will continue to enjoy a generally favorable balance of trade and an improving balance of payments situation over the next few months unless its new and vaguely formulated strategic stockpiling program is implemented more energetically than is presently indicated.

The government continues to feel its way toward better use of resources through the creation of working parties and coordinating groups like the new committees on economic mobilization, US technical aid, and cotton production. No real attack has been made, however, on the only other currently serious economic problem, that of inflation. Strikes have been few, and employment continues fairly high and steady. Recent decrees limiting the number of new banks and establishing maximum interest rates on new deposits will have the effect of setting some outside limits on credit expansion, but will not materially affect the present degree of inflation.

Short-term prospects for a substantial increase in manganese production with resulting increased exports to the US have not improved. Long-range US interests have been favored, however, by continued and accelerated exploration of the Amapá deposits by a Brazilian company in which a US firm has a 49% interest. US interests have also been favored by an order prohibiting shipments of quartz crystals to Czechoslovakia. (D/LA Wkly, 22 Aug 50)

#### Military

There have been no significant changes reported in the strength, morale, efficiency or loyalty of the armed forces during the past few months. All military regions have received instructions for dealing with possible political riots during the October elections and in each area the army is considered capable of maintaining order.

#### Subversive

The outlawed Communist Party has increased its activity in recent months, but only scattered local gains have resulted. The Communist press has increased its attacks against all presidential candidates indiscriminately and, Prestes, in a recent manifesto, asked his followers to abstain entirely from voting for president and vice-president. Attempts to gain influence by electing state and federal deputies under the banners of other parties have suffered severe set-backs in several states where electoral courts have cancelled many such candidacies, including those of the Communists' only incumbent federal deputies, Pomar and Arruda Camara. Thus the Communists stand to lose nationally though local gains may be expected, particularly in Rio Grande do Sul and the Northeast. Minor continuing set-backs have been

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suffered through police control of demonstrations and confiscation of propaganda. Implementation of Prestes' violent "national liberation" manifesto of August 1 has been limited, thus far, to renewed but largely ineffective propaganda against aid to Korea and the fixing of local quotas for signatures on "peace" petitions. During coming months Communists are not expected to make any significant improvement in their position. A certain amount of election-time disturbance, probably including some bloodshed, can be expected but local security forces are considered capable of keeping it localized.

#### International

Previously growing anti-US sentiment was checked somewhat by Brazilian sympathy with UN action following the outbreak of hostilities in Korea and by the strong stand of the US State Department against the final "Gillette Report". The sudden attack on President Dutra by the Perón press also served to draw attention from differences with the US, but a certain amount of resentment remains. Brazil was among the last to offer material aid to the Korean campaign, but as the position of the UN armed forces became increasingly serious, President Dutra requested Congressional authorization -- not yet granted -- for a contribution of US\$2.7 million in supplies and stated that Brazil would consider "further sacrifices" if conditions should require it. Meanwhile Brazil can be expected to continue her policy of prior consultation with the US on important international questions.

Relations with other countries remain good as is indicated by Brazil's election to the UN Security Council and her steadily expanding network of commercial and cultural agreements. Trade agreements have been completed with the UK, Italy and Argentina and discussions of closer rapprochement with Western Germany and Egypt are under way.