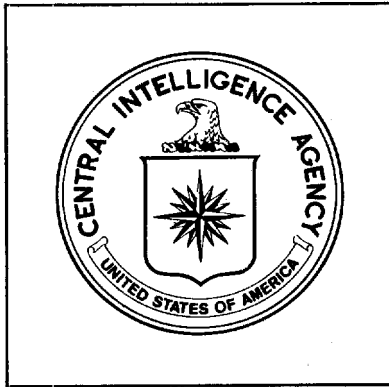


Secret



Latin America

REGIONAL AND POLITICAL ANALYSIS

State Department review completed

SOURCED

Secret

137

RP ALA 77-054
25 August 1977

25X1

Approved For Release 2006/03/17 : CIA-RDP79T00912A000700010009-3

Approved For Release 2006/03/17 : CIA-RDP79T00912A000700010009-3

SECRET



25X1

LATIN AMERICA
25 August 1977

CONTENTS

Panama: On the Road to Ratification 1

El Salvador: Terrorist Activity 5

Argentina: Changes in the Human
Rights Situation 7



25X1

St. Kitts - Nevis: Fragmentation in
the Caribbean 11

Brazil: Possible Shift in Technology
Transfer Policy 13

Colombia: Politics, Campaigns and the
Presidency 15

Birth Control vs. the Church in Brazil 19

Venezuela: Oil Agreement Postscript 21

Chilean Payments Position: Breathing
Spell 25



25X1

Brazil: Renewal of Protest 33



25X1

RP ALA 77-054
25 August 1977

SECRET

SECRET



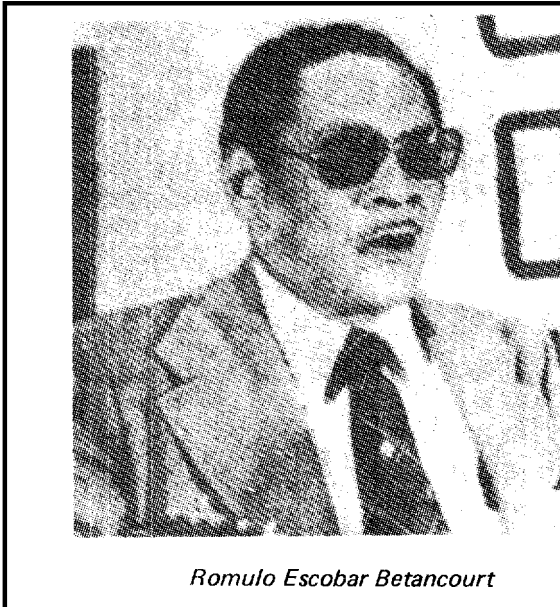
25X1



25X1

Panama: On The Road to Ratification

CPYRGHT



Romulo Escobar Betancourt

The treaty ratification debate began officially last Friday when Chief of Government Torrijos and major government figures made speeches defending the accords to a receptive legislative assembly. Backstage, the government has pressured some groups into early support for the treaty and plans to warn government officials not to risk opposition. The thrust of the government's emerging public strategy is to picture the accords as the most Panama could realistically hope to achieve and therefore a major triumph. Chief negotiator

Escobar's public threats against the US were given considerable international press play, but were taken out of context; such explosive rhetoric runs counter to the primary Panamanian strategy.

The Government Argument

General Torrijos, along with his ministers for foreign affairs, education, and planning and two leading negotiators, addressed the legislative assembly on 19 August, each discussing an aspect of the agreements. Most pushed a similar argument--that the alternatives for Panama were to:

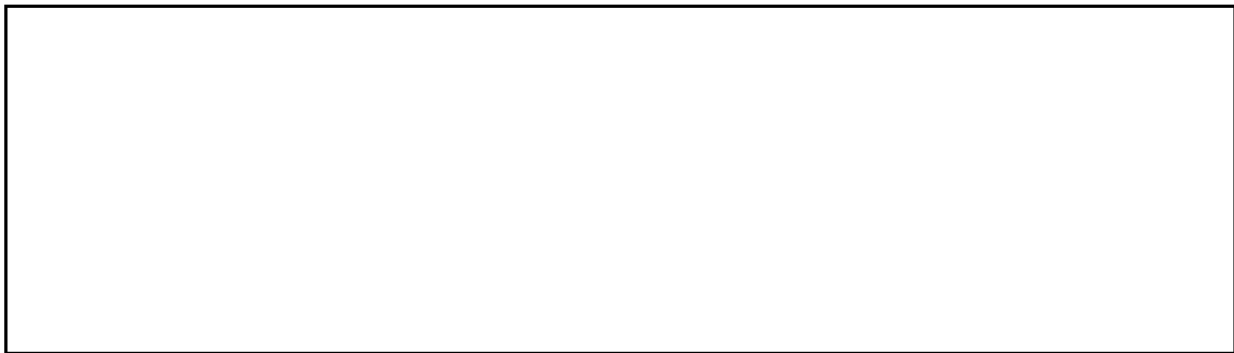
- Do without a treaty--and live with the reality of a US presence in perpetuity.
- Choose the path of violence--and sacrifice an entire generation of Panamanians.

RP ALA 77-054
25 August 1977

-- Negotiate--and achieve the best possible terms,
given the circumstances.

2
In support of their decision and the new treaty, officials are highlighting such benefits as the total \$345 million economic-military package and the \$50-60 million annuity, while exaggerating such provisions as a US commitment to reduce its military presence. A newspaper recently published a map depicting the final lands and water agreement contrasted with the 1975 positions of the two sides in order to highlight Panamanian gains. Responding predictably to the official arguments, the hand-picked legislative assembly endorsed the accomplishments of the negotiators.

1, 2
Chief treaty negotiator Escobar has been the primary public defender of the treaty and has drawn the toughest tasks--talking to student groups and defending the neutrality provisions. In addition to sounding the general government themes, Escobar has addressed his audiences with considerable candor, contending that great powers "intervene wherever they damn well please, with or without a (neutrality) pact." He has also invited critics of the treaty to attempt to dislodge the "gringos" themselves from the Canal Zone rather than spout rhetoric. Thus, although he did warn in his speech last Friday that Panama would take the path of violence if the US Congress did not approve the treaties, this was not--as international press accounts suggested--the major thrust of his remarks. On the contrary, since the treaty agreement was concluded, Escobar has been the most outspoken advocate of the negotiating path. His "threat" can more properly be read as a domestic effort to flank at least some of the recent leftist criticism directed at the government for its treaty concessions.



RP ALA 77-054
25 August 1977

SECRET

Treaty Opposition . . .

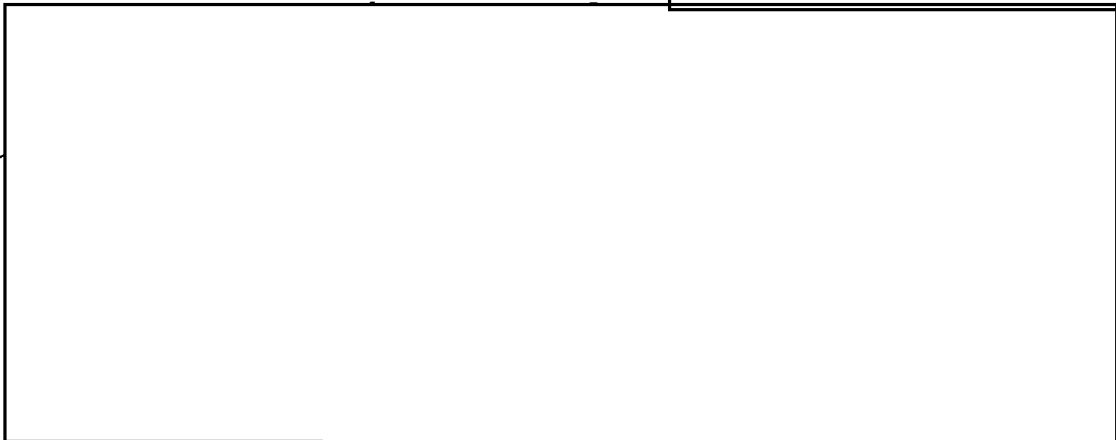
The expected domestic opposition to the treaties has been quick to surface, although insufficient to change the opinion of most observers that Torrijos should be able to produce a plebiscite victory for the accords. Last week, a pro-government daily headlined critical statements by a prominent ultranationalist lawyer, the Independent Lawyers Movement, the far left-ist Revolutionary Student Front, the Christian Democratic Party, and Panamanian exiles in Miami--all of whom were expected to oppose the new accord.

2

. . . And Government Limits

The publicity given opposition statements in a controlled newspaper was further evidence of Torrijos public commitment to permit debate, [redacted]

25X1



25X1

1, 4, 5

[redacted] Intelligence Chief Noriega's orders that student demonstrations against the US are inappropriate apparently still stands. A small group of left-ist students did enter the Foreign Ministry last week, but by the next day National Guard officers were stationed on the scene to control access to the building.

1, 6

Thus far domestic debate--still somewhat handicapped by the lack of official treaty texts--has gone about as expected. [redacted]

25X1
25X1

[redacted]
[redacted] Public enthusiasm has yet to catch

1, 4

25X1

25X1

RP ALA 77-054
25 August 1977

SECRET

SECRET

fire--a crowd of several thousand gathered at the legislative palace to launch the treaty campaign last Friday, but most were gone by the time Torrijos spoke and, as usual, his performance was mediocre. Overall, however, the government has begun to sketch out an effective argument and appears to be willing to accept at least a few public lumps in the process of securing a majority plebiscite vote.



25X1

RP ALA 77-054
25 August 1977

SECRET

25X1



El Salvador: Terrorist Activity

1 The left-wing People's Revolutionary Army (ERP) has claimed credit for placing 35 bombs in various cities throughout the country last Sunday morning. Government officials believe the well-coordinated effort was designed to goad the government into repressive action, thus negating any improvement the government may have been making in its human rights image. Although concerned over this increased activity, especially in view of the visit of the King and Queen of Spain in September, Vice President Astasio told a US Embassy officer that the government plans to prosecute any perpetrators it may arrest for criminal--rather than subversive--activity.

2 3 Sunday's events were the most widespread and best coordinated efforts of terrorist groups to date. Twenty-seven of the 35 bombs exploded, six in the capital city and 21 in other major cities and towns throughout the country--all set to explode at approximately the same time. Property damage was minimal, and only six persons were slightly injured. The degree of coordination and the relatively minor nature of the damage indicate that the action was undertaken for publicity value and as a warning to the government of the terrorists' potential. Another group, the Armed Forces of National Resistance (FARN), received a bit of publicity as well as a fat ransom by kidnaping a prominent doctor. In addition to the ransom, the FARN demanded--and got--the publication of a manifesto on the front page of four leading newspapers.

143 2 Thus far, the strongest public reaction has come from Minister of Defense Castillo, who said the violence is evidence that terrorist groups have no understanding of, or belief in, the democratic process they claim to promote. He called on the public to join forces to preserve social peace. The government has one suspect in custody and clues to the identities of others.

RP ALA 77-054
25 August 1977

SECRET

3
/ Salvadoran officials are probably right in viewing the terrorist incidents as an attempt to make the government revert to repressive tactics. Even if the new administration's efforts to improve its image are mere window-dressing rather than a sincere commitment to change, it will probably try to avoid falling into the trap being set by the terrorists.

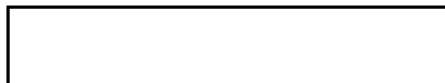


25X1



25X1

RP ALA 77-054
25 August 1977



Argentina: Changes in the Human Rights Situation

1 The government reportedly has recently made a number of changes in its countersubversive campaign that appear to be aimed at lessening human rights abuses and hastening the judicial resolution of some subversive cases. Nevertheless, the day-to-day fight against subversion reportedly still involves serious violations of human rights. Several recent "disappearances" are evidence of what appears to be an increasing use of violence and illegal counterterrorist techniques by small groups within the military and security forces, apparently for internal political purposes. Such activity is more a reflection of the regime's inability to control hard liners in the military than an indication that the government condones the use of these techniques.

1 The government has already taken steps to reduce blatant human rights abuses and to lessen the enormous margin for error tolerated in the official fight against terrorism. More cases are being turned over to military and civilian tribunals, thus reducing the number of detainees in executive custody under state-of-seige provisions. This change marks only the increased use of the judicial system, however, and will not necessarily result in improved prisoner conditions. Seriously compromised terrorists continue to be treated harshly and systematically eliminated.

1 As a result of the significantly reduced capability of the terrorist organization, the government is treating with special considerations, including reduced sentences, those arrested who are only marginally affiliated with subversives. Some detainees have been released, and others have been authorized to leave the country. The government also has published lists of those released and tried. According to US Embassy sources, a centralized computer information retrieval system and new requirements for multiple prior clearances on suspected subversives have reduced the chances of "mistakes."

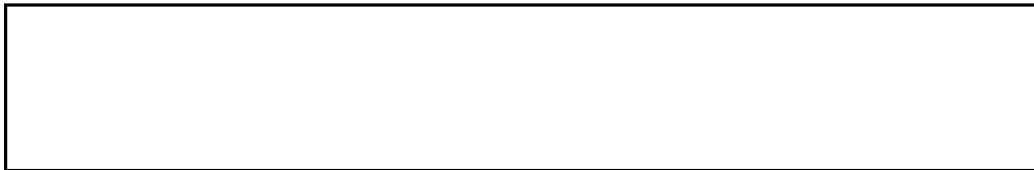
RP ALA 77-054
25 August 1977

1 The government is taking advantage of the reduced
2 terrorist threat to assert more control over and to com-
3 partment further the anti-subversive activities of its
forces. As the war against terrorism ebbs, however, the
abuses and violence that are a part of inter- and intra-
service rivalry, including schemes by some officials to
discredit others, are becoming more apparent.

1 The unsolved abduction of the Argentine Ambassador
2 to Venezuela, the disappearances, among others, of a
3 prominent labor leader in February and a number of law-
yers more recently, probably are more attributable to
internal high-level politics than a result of the war
against subversion. The backgrounds of most of the vic-
tims offer little information to connect them with ter-
rorism.

25X1

25X1



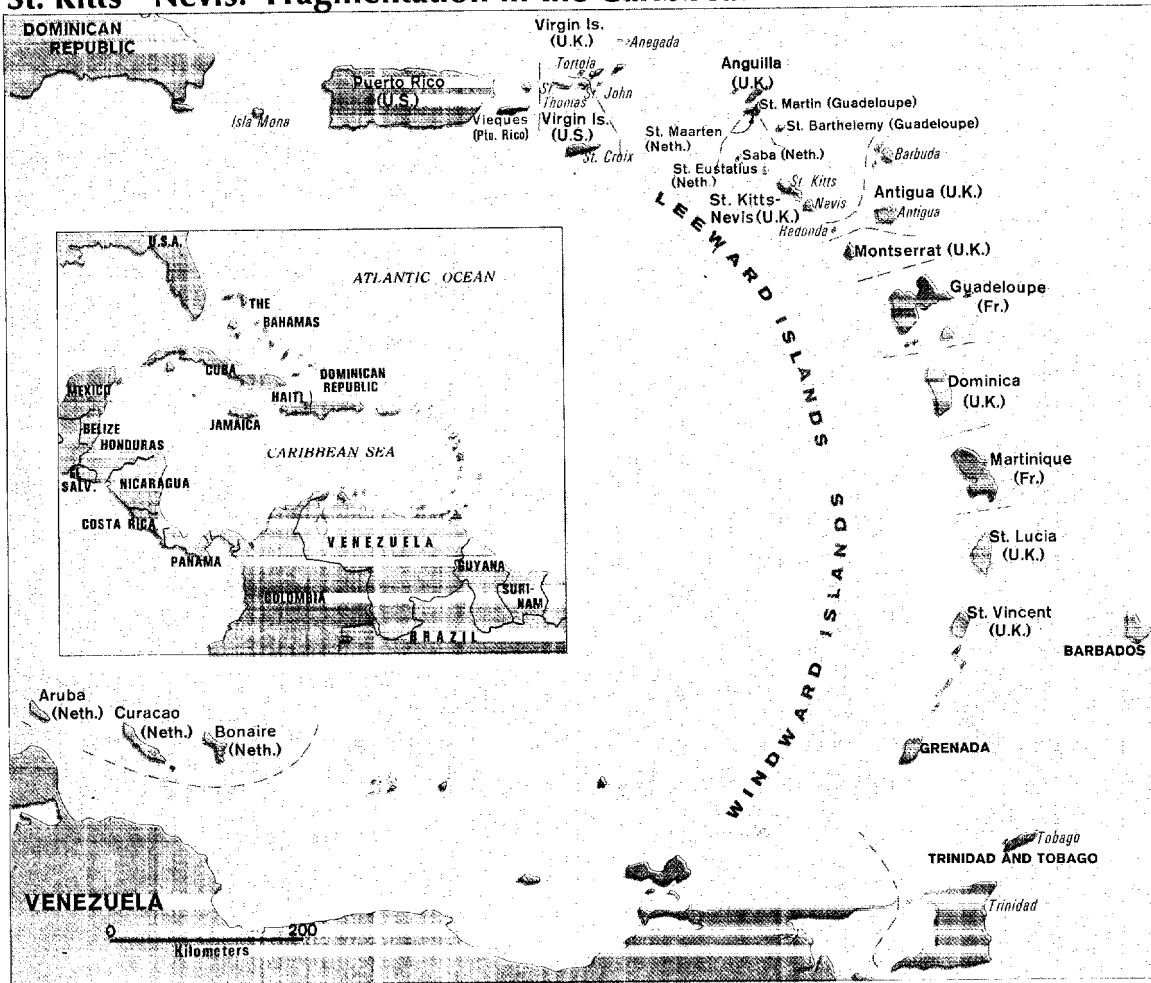
RP ALA 77-054
25 August 1977

25X1

Approved For Release 2006/03/17 : CIA-RDP79T00912A000700010009-3

Approved For Release 2006/03/17 : CIA-RDP79T00912A000700010009-3

St. Kitts - Nevis: Fragmentation in the Caribbean



522149 8-77

RP ALA 77-054
25 August 1977

SECRET



25X1

St. Kitts - Nevis: Fragmentation in the Caribbean

1, 2 The 18 August referendum on Nevis produced an overwhelming victory for those who favor separation from the St. Kitts - Nevis federation. While the near unanimous vote is not legally binding, it will complicate the attempt of federation Premier Robert Bradshaw to lead this twin-island British Associated State to independence as a joint entity.

2, 3 Residents of Nevis have for a long while adamantly refused to become independent as part of the current federation preferring instead to revert to the island's prior status as a British colony. They are fearful of Bradshaw's autocratic tendencies and are convinced that, because of their islands' smaller size, they will continue to be given second-class treatment. As it became increasingly clear this summer that Bradshaw intended to declare independence soon--perhaps before the end of the year--Nevisian leaders headed by Simeon Daniel felt compelled to call a referendum. Convinced that refusal would result in violence, Bradshaw--to the surprise of many observers--shelved his earlier threats to "crush" any attempt at secession by Nevis and allowed the referendum to be held.

2 The referendum results are not only a defeat for Bradshaw but a setback to British efforts to avoid further fragmentation of the federation. In a classic example of the problems in achieving unity among the island entities of the Caribbean,* the secession of Nevis would mean the final dismemberment of a three-island federation that also included Anguilla until it effectively broke away from the other two islands 10 years ago. It now appears likely that only resort to force by Bradshaw, severe pressure from Britain, or a



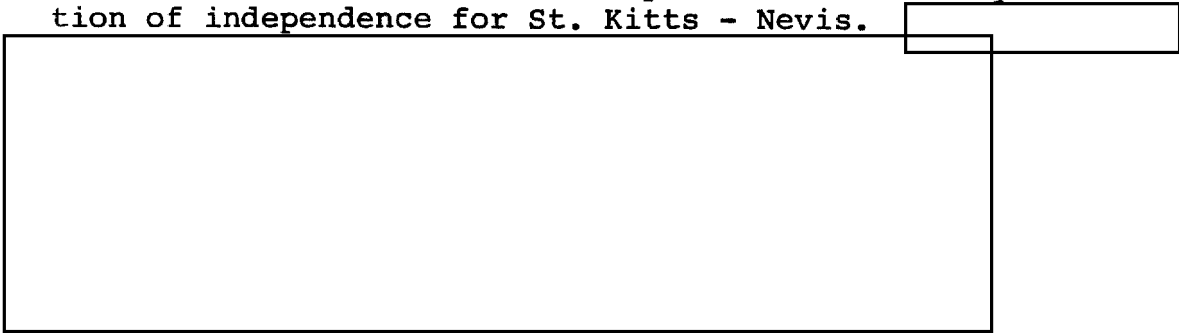
25X1

RP ALA 77-054
25 August 1977

SECRET

postponement of independence can keep St. Kitts - Nevis together. No doubt anticipating the outcome of the referendum, the leading opposition party in St. Kitts-- which would prefer to retain the present relationship with Britain--has called for a plebiscite on the question of independence for St. Kitts - Nevis.

25X1



25X1

RP ALA 77-054
25 August 1977

SECRET

25X1A



Brazil: Possible Shift in Technology Transfer Policy

The Government of Brazil recently announced its willingness to accept bids from foreign minicomputer manufacturers to establish two joint ventures in Brazil. This is a departure from recent technology policies that have sought to minimize competition in the local computer industry and may also indicate a relaxation of Brazil's very strict technology transfer code. Such a relaxation is necessary if Brazil's indigenous industries are to receive the technical assistance they need from foreign firms. US firms may not get equal consideration because of political tensions.

The Brazilian decision is the result of recent pressure by IBM to produce its System 32 small business computers at its wholly owned subsidiary in Sumare. Brazil has delayed approval of IBM's plans for several months. While the IBM operation will provide jobs and exports for Brazil and use a large percentage of Brazilian-made components, Brazil fears that it will further strengthen IBM's already dominant market position (75 percent installed value as of 1976). IBM would be too strong a competitor for Brazil's nascent minicomputer industry. The country was faced with the choices of restricting IBM, strengthening domestic industry through other foreign technology, or forcing concessions by IBM.

The decision to invite foreign firms to participate may be ineffective unless Brazil is willing to modify its technology transfer code, a requirement that any technology purchased by Brazil must be effectively transferred to the Brazilian buyer at the end of five years. Such a transfer would include all evolutionary improvements made in the technology by the original seller, and, further, would give the Brazilian buyer the right to manufacture and export to other markets. Thus the original seller could be creating his own competition. In negotiations

RP ALA 77-054
25 August 1977

SECRET

SECRET

earlier this year, Brazilian officials indicated they might even change the code to exempt certain kinds of technology.

US bids may be at a disadvantage because of political difficulties between the two governments. [redacted]

25X1

25X1

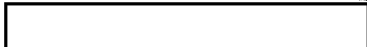


Brazilian efforts to minimize foreign participation in its computer market have been associated with the government's desire to strengthen and protect its indigenous manufacturer of small computers, the Cobra S. A. Established in 1974, Cobra is a joint venture of the Brazilian Government's computer agency (Digibras), Brazil's largest bank, a small electronics company, and the British computer manufacturer, Ferranti. In addition to producing the small Ferranti Argus-700 minicomputer, Cobra earlier this year signed a technology transfer agreement with Sycor, Inc. to produce a small business computer competitive with the IBM System 32. While opposition to foreign participation in the computer industry has emphasized minicomputers, the Brazilian definition of a minicomputer has been sufficiently general to include small business systems like the System 32.

Unless Brazilian policies toward foreign technologies are modified, it is unlikely that any of the truly capable foreign manufacturers will enter into the joint ventures. The past partnership with Ferranti, a project that was plagued with financial, design, and production problems, is an example of the results of such policies. In technology, Ferranti's minicomputer product line is among the least competitive available from foreign commercial minicomputer firms. Ferranti's heavy involvement in military electronics and bias toward total systems sales have made it historically a very unsuccessful commercial minicomputer manufacturer. [redacted]

25X1

25X1



RP ALA 77-054
25 August 1977

SECRET

25X1

Colombia: Politics, Campaigns, and the Presidency

2
As next April's national election draws nearer, the campaigns and political maneuverings of the several presidential hopefuls assume increasing urgency and importance. Although a number of independent and minor leftist party candidates are entered in the race, most attention will focus on the traditional Liberal and Conservative Party nominees--one of whom will govern Colombia for the next four years from the Palacio San Carlos, the Colombian White House.

1
Until recently, the Conservatives seemed irreconcilably split between the factions of former President Misael Pastrana Borrero and Alvaro Gomez Hurtado. Both groups, each claiming sole legitimacy as the true Conservative Party, now have agreed to unite behind Belisario Betancur, a compromise candidate who may also pick up support from dissatisfied elements of the Liberal Party.

2
The Pastrana wing of the Conservative Party will hold a national convention in October to name its candidate officially and outline the campaign platform. Even if the Gomez faction decides to hold a separate convention, the joint agreement to support Betancur's candidacy probably will not be jeopardized.

3
Betancur, a leftist-nationalist who is not well disposed toward the US, is viewed by his contemporaries and constituency as an antiestablishment politician who believes the government should be more responsive to the needs of the people. He has a complicated sense of social justice and a seemingly genuine concern for the underprivileged masses of Colombia; nevertheless, he identifies closely with the privileged class into which he has worked himself.

2
While Conservatives seek to mend their political fences, President Lopez' governing Liberal Party is taking steps to eliminate the divisiveness and inertia that have thus far hampered the party's campaign efforts. In

RP ALA 77-054
25 August 1977

SECRET

Leading Contenders for 1978 Presidential Race

Hernando Agudelo Villa
Liberal Party Contender

Carlos Lleras Restrepo
Liberal Party Contender

?

The Winner

Belisario Betancur
Conservative Party Contender

Julio Cesar Turbay
Liberal Party Contender

RP ALA /7-054
25 August 1977

SECRET

a major drive to achieve party unity among the four warring factions, former President Carlos Lleras Restrepo and party Mogul Julio Cesar Turbay Ayala--the leading contenders--met with Carlos Holmes Trujillo and Hernando Agudelo Villa to iron out details of an informal pact guaranteeing the nomination of a single candidate.

2 Under the agreement the nominee will be the candidate who receives the greatest number of popular votes in the February congressional elections, when Liberal congressional candidates will be identified with presidential aspirants. The nominee will then be proclaimed by a united Liberal Party national convention slated for early March.

3 The political pendulum may be swinging away from Turbay, the party's front-runner in weeks past, to Lleras Restrepo, an accomplished statesman whose presidency (1966-70) was characterized by well-administered fiscal programs that slowed the rate of inflation. Turbay, who played a major role in the 1974 election of President Lopez, has the President's tacit backing, but the mutual support is merely a marriage of convenience masking a longstanding personal antipathy between the two. [redacted]

25X1
25X1

2 *El Espectador*, Bogota's liberal morning newspaper, has come out in opposition to Turbay, stating that he is not qualified to manage the country's numerous and pressing problems. At the same time, *El Tiempo*, the nation's leading and highly influential news daily, has endorsed Lleras, calling him the candidate with the clearest vision of Colombia's future and the most capable person to deal with national problems.

3 Most, if indeed not all, of the numerous problems that have plagued the Lopez administration are likely to be inherited by the succeeding president. Highlighting Colombia's worsening social and economic problems are government corruption, student unrest, kidnappings, rampant crime, and guerrilla activity. A 30 percent annual rate of inflation, brought on in part by massive foreign revenues from windfall coffee exports and huge black-market profits from narcotics trafficking and contraband smuggling, has reduced the average wage earner's buying power to record lows.

RP ALA 77-054
25 August 1977

SECRET

SECRET

3 President Lopez, who twice during his tenure has had to impose a state of siege to quell massive public disturbances, is bracing for another national work stoppage scheduled for next month. The labor unions have called the strike to protest spiraling inflation, perhaps the most serious and persistent issue to be faced by next year's new chief of state.

3 The explosive social and economic situation, coupled with the political turmoil surrounding a campaign of heavy-handed, muckraking attacks on the incumbent as well as the contenders have given the military cause for concern. There is no evidence, however, of coup plotting by the armed forces. Indeed, most Colombians have a strong attachment to their country's democratic institutions, and political leaders will be careful to avoid giving the military any pretext for political intervention.

3 In the months ahead, pre-election campaigning will continue to be highly partisan and stir controversy. Many of the enduring political animosities which will characterize that campaign are a vestige of the rigid coalition system of government that was in effect from 1958-1974. The purpose of the coalition, known as the National Front, was to end the bloody, internecine political warfare that raged throughout the 1950s. Under the Front system, which was designed by leaders of the two major parties, the presidency alternated for four terms and there was parity for both Liberals and Conservatives in all public elective bodies, executive departments, and administrative posts.

3 Since the demise of the Front in 1974, however, new power blocs and political allegiances have formed in the House, Senate, department assemblies, and municipal councils. As a result, the new president's ability to solve Colombia's pressing problems will depend on the extent to which he can garner support from among the political opposition likely to emerge in February's congressional elections.

25X1

25X1

RP ALA 77-054
25 August 1977

SECRET

SECRET

2, 3
In contrast, only \$3.7 million is earmarked for the prevention of "high risk" pregnancy, and public advertisement of this program will not be permitted. As one presidential spokesman said, the government is seeking individual decisions rather than mass action. Doctors may now prescribe or provide free contraceptives in cases where age, health, mental problems, or socioeconomic family conditions cause complications, but they may not "coerce or encourage" the use of contraceptives. Abortion and sterilization are still illegal--except in a few cases.

2, 3
In an apparent attempt to head off public criticism, Health Minister Machedo observed that since Brazil is a Catholic country and the church condemns the pill, probably only a few couples will decide in favor of family planning. This observation, however, has had little soothing effect on the Brazilian clergy, who have already voiced strong opposition to the program. While conservative spokesmen predict that it will start Brazil on the path of permissiveness "from divorce to the pill to abortion to homosexuality," their more liberal colleagues assert that what is really needed is social justice along with profound reforms to alleviate the misery of the poor.

1, 2, 3
The church apparently is concerned that the government will be far more flexible in implementing the new measures than current accounts suggest. It is estimated that between three and four million Brazilians are already using contraceptives, and that the abortion rate may be as high as 2.5 million a year. Indeed, if Brazil's economic growth rate fails to keep pace with population increases and per capita income begins to decline, public opinion could well shift to favor more government sponsorship of family planning programs.

25X1

25X1

RP ALA 77-054
25 August 1977

[REDACTED]

Birth Control vs. the Church in Brazil

1, 2, 3 Recent moves by the Brazilian Government to launch a limited family planning program and to encourage birth control in "high risk" pregnancies constitutes a sharp break with the tradition of noninterference in family matters. So far, the reaction has been strongly emotional, particularly among Catholics, who--regardless of political orientation--have condemned the measure.

1, 3 Brazil's population, now approximately 110 million, is growing at an annual rate of 2.8 percent--faster than any other large country in the world, with the possible exception of Indonesia. Demographic experts predict that the population could double by the year 2000. While Brazil's food supply is adequate, serious overcrowding exists in some areas--especially in the sprawling industrial center of Sao Paulo, the economically depressed Northeast, and in certain frontier regions where the migrant population has grown rapidly and squatters have become a major problem. At the Itaipu hydroelectric site, thousands of Brazilian settlers have already poured across the Parana River to clear farming tracts in eastern Paraguay, virtually eliminating the border between the two countries.

3 The uncontrolled movement of people in search of jobs and land is obviously a subject of concern to the Geisel government. Until recently, however, it has been unwilling to tackle the issue of population control, apparently because it fears that an almost certain confrontation with the Catholic Church would only complicate its numerous political problems.

2, 3 The government's tentative moves in the name of social welfare are primarily directed toward reducing health risks to both the mother and child and, for the most part, do not address the population problem directly. Under the new plan, which will receive widespread publicity on radio and television, approximately \$50 million per year for the next four years will be devoted to health care.

RP ALA 77-054
25 August 1977

SECRET

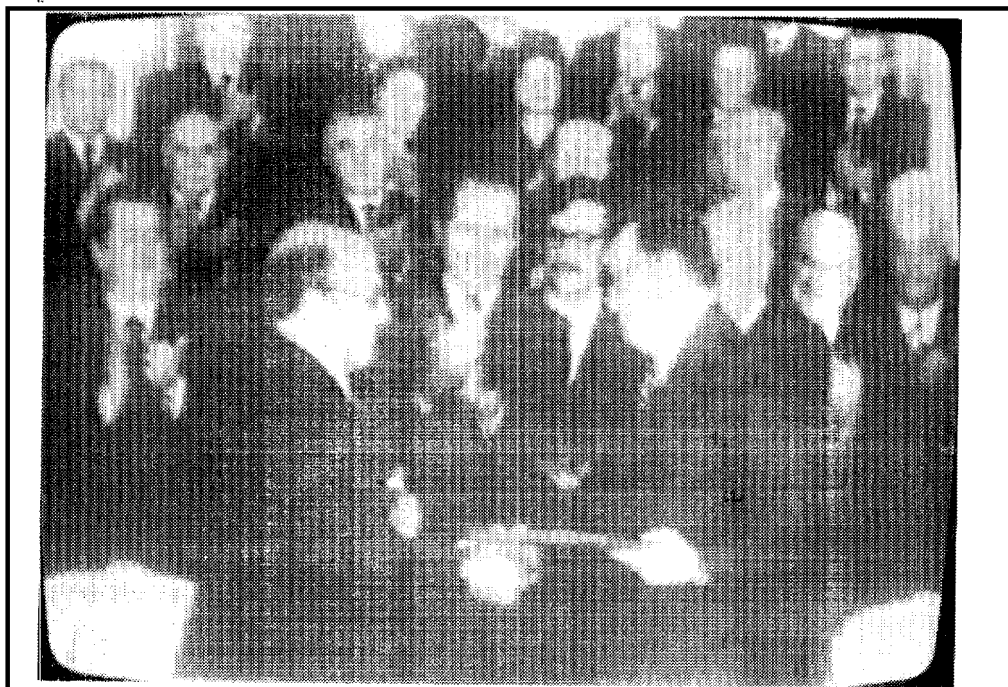


25X1

Venezuela: Oil Agreement Postscript

1, 2
The petroleum agreement announced by President Perez on his official visit to Moscow last November is a dead letter, according to recent reports.

3, 4
The "agreement in principle" with the USSR provided for Venezuela to initially sell Cuba 10,000 barrels per day of crude oil, about 8 percent of Cuba's crude requirement. In return, the USSR would supply a similar amount of petroleum to some of Venezuela's customers in Europe.



CPYRGHT

President Perez and Soviet leaders witness the signing of an oil agreement in Moscow in November 1976

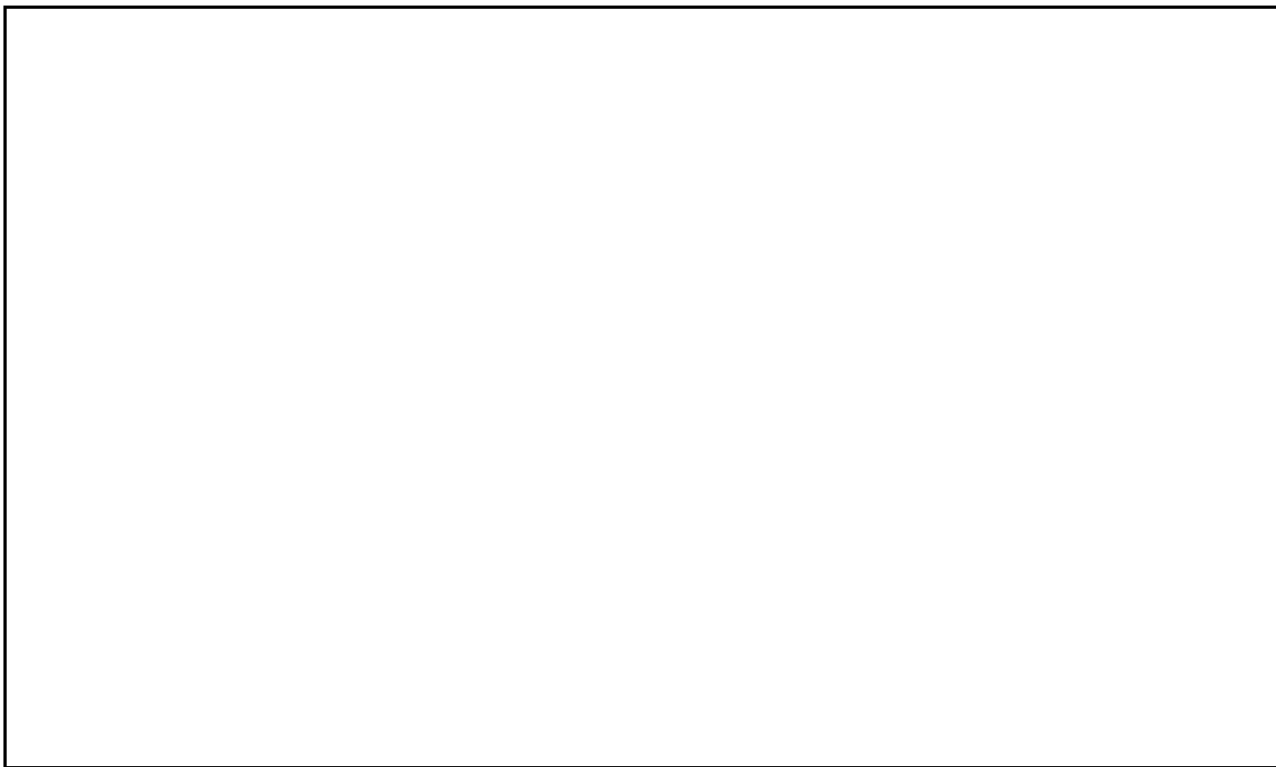
5, 6
When the agreement was announced with much fanfare by President Perez and then elaborately defended in December in an improvised "rancho-side chat" to the nation, there were a number of major obstacles preventing implementation of the deal.

RP ALA 77-154
25 August 1977

3, 2
-- Rising political opposition at home based on the promises that Venezuela would gain nothing from the arrangement, that the agreement did not represent a significant diversification of oil markets and that Venezuela would be required to ship some light crude to Cuba. The latter action would run counter to the government's stated policy to conserve light crudes and market more of its heavy crudes.

3, 2
-- The difficulty in overcoming the reluctance of Venezuela's West European customers to become overly dependent on Soviet oil and the problem of determining the equivalence of Venezuelan and Soviet oils of differing compositions.

25X1



25X1

2
[redacted] Leaders of the governing Democratic Action Party have not been enthusiastic about the agreement or about Perez' single-handed conduct of the country's policy. The party's founder and president-for-life, Romulo Betancourt,

RP ALA 77-054
25 August 1977

SECRET

has been particularly critical of the government's policy toward Cuba and anything that smacks of economic or political support for the Castro regime. If the government intends to implement this agreement, it will have to release the text to the Venezuelan Congress for debate and approval, a step that the administration has resisted until now and one that it is unlikely to take in the midst of a general election campaign.

25X1



25X1



RP ALA 77-054
25 August 1977

Chile: Foreign Financial Gap

	1973	1974	1975	1976 ¹	1977 ²
	Million US \$				
Exports, f.o.b.	1,267	2,244	1,570	2,077	2,000
Imports, f.o.b.	1,363	1,821	1,577	1,412	1,650
Net services and transfers	-363	-626	-571	-612	-680
Current account balance	-459	-203	-578	53	-330
Debt amortization	-407	-367	-524	-556	-589
Financial gap	-866	-570	-1,102	-503	-919
Medium- and long-term capital inflows	646	742	1,051	890	730
Direct private investment	0	-98	50	80	90
Official lending agencies	172	310	516	463	180
Bilateral debt relief	352	287	232	0	0
Private foreign credit	122	243	253	347	460
Net short-term capital and errors and omissions	251	-250	59	-42	0
Change in reserves	31	-78	8	345	-189
External debt at yearend (including short-term)	4,218	4,849	5,225	5,725	5,776
	Percent				
Debt service ratio					
Due	36	24	41	33	35
Paid	11	12	28	33	35

¹Provisional.

²Projected.

RP ALA 77-054
25 August 1977

SECRET

25X1

Chilean Payments Position: Breathing Spell

Two years of harsh austerity have reduced Chile's financial gap* to a manageable size. The military junta is now gradually easing austerity and allowing imports to increase by 15 to 20 percent this year. Although Santiago is counting on increased commercial bank and supplier credits, it will have to draw heavily on its small foreign reserves to cover this year's projected \$900 million financial gap.

The military government's ability to further relax demand management policies will be constrained by sluggish copper prices and difficulties in obtaining more foreign capital. Availability of foreign funds depends partly on the junta's willingness to curb its human rights violations. The recent announcement that the government has disbanded the National Intelligence Directorate (DINA) seems to be a genuine effort to curtail past abuses and modify the most severe aspects of political repression. Given the prospects for aid, even with improved human rights policies, Chile's growth for the next few years will not support a sharp rise in the living standards of most of the population.

The Allende Legacy and the 1975 Crisis

Chile's precarious payments position--in large part the aftermath of economic mismanagement by the Marxist regime of Salvador Allende (1970-73)--developed into a financial crisis in 1975. The crunch was brought on by the collapse of world copper prices and the due date

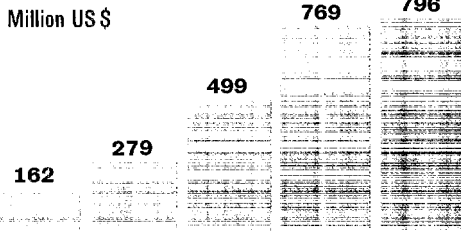
*Financial gap is defined as the current-account deficit plus amortization of medium- and long-term debt; shifts in short-term capital are not included.

RP ALA 77-054
25 August 1977

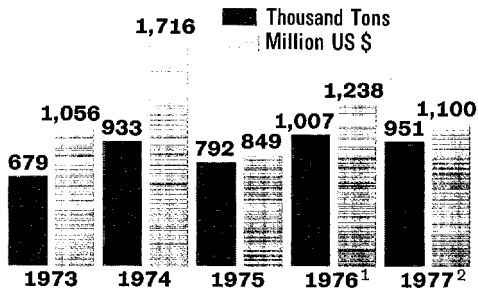
SECRET

Economic Indicators

Foreign Debt Service Payments

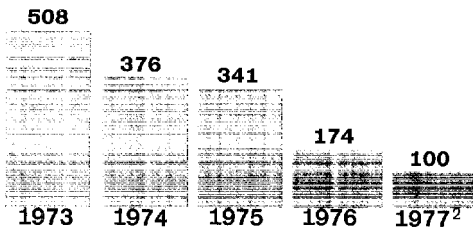


Copper Exports and Earnings

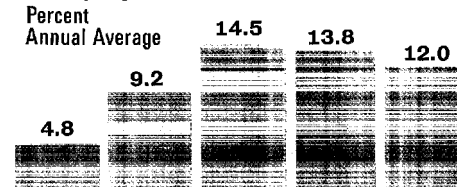


Inflation Rate

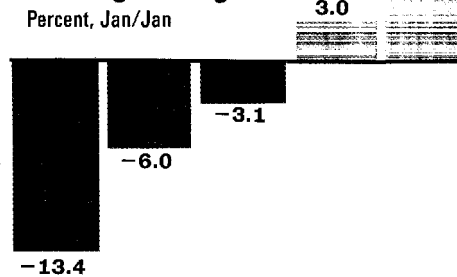
Percent, Dec/Dec



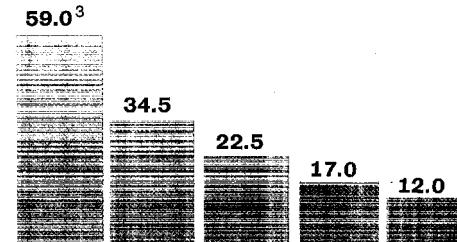
Unemployment Rate



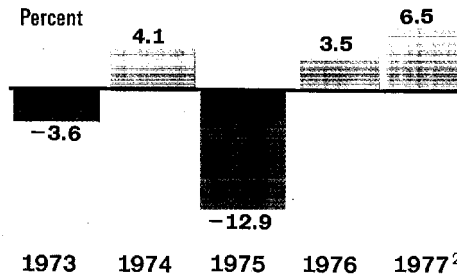
Real Wage Changes



Central Government Deficit as a Percent of Expenditures



Real GDP Growth



1. Estimated

2. Projected

3. Including large-scale deficit spending not reported in the official budget.

573722 8-77

RP ALA 77-054
25 August 1977

SECRET

of large scheduled debt repayments, which pushed the current-account deficit to \$580 million and the financial gap to \$1.1 billion. The gap was closed only by postponing roughly a third of the \$730 million in scheduled debt repayments.

To prevent an even larger deficit and ease the inflation rate, the new military government--which had seized power in September 1973--imposed an austerity program. Private sector credit all but disappeared in 1975, while government spending was slashed by one fourth. The squeeze on domestic demand cut the volume of foreign purchases by nearly one fifth; real GDP fell 13 percent and industrial output plummeted 28 percent. From the viewpoint of the military government, such unpopular and wrenching changes could be installed only by tightening the junta's already strong political grip on institutions and individuals.

Restoring Equilibrium in 1976

The effects of the austerity program carried over to 1976 when import volume fell another 13 percent to about the 1972 level. At the same time, Chile benefited from the recovery in copper prices and from rapidly expanding non-copper exports, the result of a vigorous export promotion campaign and devaluation of the peso roughly in line with the country's triple-digit inflation. Total exports gained more than 30 percent in value, allowing a small current-account surplus and more than halving the financial gap to \$500 million.

By narrowing the gap, Santiago was able to meet scheduled debt repayments for the first time since 1971. Private foreign lenders, encouraged by the government's belt-tightening and improved ability to repay its debts, provided about a \$100 million increase in long-term capital last year, more than offsetting a fall in official lending brought on by Chile's human rights policies. These funds, together with \$80 million in direct investment inflows, closed the financial gap and permitted a substantial increase in foreign exchange reserves. By the end of the year, reserves amounted to about four month's imports.

RP ALA 77-054
25 August 1977

SECRET

The improved payments situation paved the way for the gradual easing of fiscal and monetary restraints beginning in mid-1976. Despite somewhat easier private credit and increased foreign demand, real GDP rose only 3.5 percent and industrial output recovered by a mere 6.5 percent. The strongest revival occurred in the copper industry where output last year averaged 1 million tons, up from 828,000 tons in 1975. The growth in economic activity barely put a dent in the record unemployment rate. The inflation rate, fueled by continued large budget deficits and parallel monetary growth, averaged 174 percent for the year as a whole, compared with 341 percent in 1975.

The 1977 Payments Situation

We expect Chile's financial gap to widen by more than 80 percent this year, to about \$900 million. Although foreign sales are being buoyed by non-copper export earnings, sagging copper demand and prices will prevent any increase in total exports. Copper shipments this year will total about 951,000 tons, down 6 percent from last year, while copper earnings are projected to slip more than 10 percent.

At the same time, Santiago is providing enough reflation to induce a 15- to 20-percent rise in imports, leaving a trade surplus of \$350 million this year. The deficit in transportation, other services, and interest payments, together with debt amortization costs, will leave Chile with the estimated financial gap of about \$900 million in 1977.

The military government is relying on commercial bank borrowing and expanded use of supplier credits to finance the payments gap. Anticipating criticism and pressure from the US and other creditors for its human rights practices, Santiago has forgone negotiations for debt relief again this year. For the same reason, borrowing from bilateral and multilateral sources is off sharply. Funds from these sources will amount to less than half of last year's inflows. Direct investment will not grow much, partly because of bureaucratic delays in approving new projects. Consequently, a decrease in reserves of nearly \$200 million probably will be required this year.

RP ALA 77-054
25 August 1977

SECRET

SECRET

To keep import growth within bounds and maintain progress against inflation, the junta is staying with its plan to ease austerity measures only gradually. Real wages this year are being allowed to increase only about 5 percent, leaving them still well below 1972 levels. On the budgetary side, Santiago's program calls for moderate tax reductions, small increases in social spending, and some limited wage increases for government workers. In these circumstances, Santiago will run a budget deficit equal to 12 percent of government expenditures, 5 percentage points smaller than last year. Consumer credit is also being eased, but not very fast.

On balance, we estimate that these measures will allow real GDP to rise by close to the junta's 6 to 7 percent target this year. Real output for 1977 will still be slightly below the 1974 level, unemployment will remain at about 12 percent, and inflation is likely to average about 100 percent. Given the authority of the junta, Chilean labor is in no position to protest the slow revival in its real income. For its part, the business community still feels it is better off under the present regime than under the Allende government.

Looking Ahead

Unless world copper prices rise more than can reasonably be expected, the military government will be unable to further relax its austerity measures over the next few years and may have to tighten them again. Debt amortization payments will not begin to decline until after 1980, and obtaining external financing will continue to be a serious problem. By the end of this year, foreign reserves will be down to two month's import cover and thus cannot continue to underwrite increased imports. Without higher copper prices, Santiago needs \$800 million to \$900 million a year in gross capital inflows if the junta's target of 6 to 7 percent economic growth is to be met. Even though the junta seemingly is relaxing its human rights attitudes, Chile cannot count on filling much of the gap with bilateral or multi-lateral financing.

RP ALA 77-054
25 August 1977

SECRET

Substantial increases in direct foreign investment are also unlikely over the next few years. Thus, the outlook is for prolonged constraints on imports, slower economic growth, and continued high unemployment levels.

25X1



25X1



RP ALA 77-054
25 August 1977

SECRET

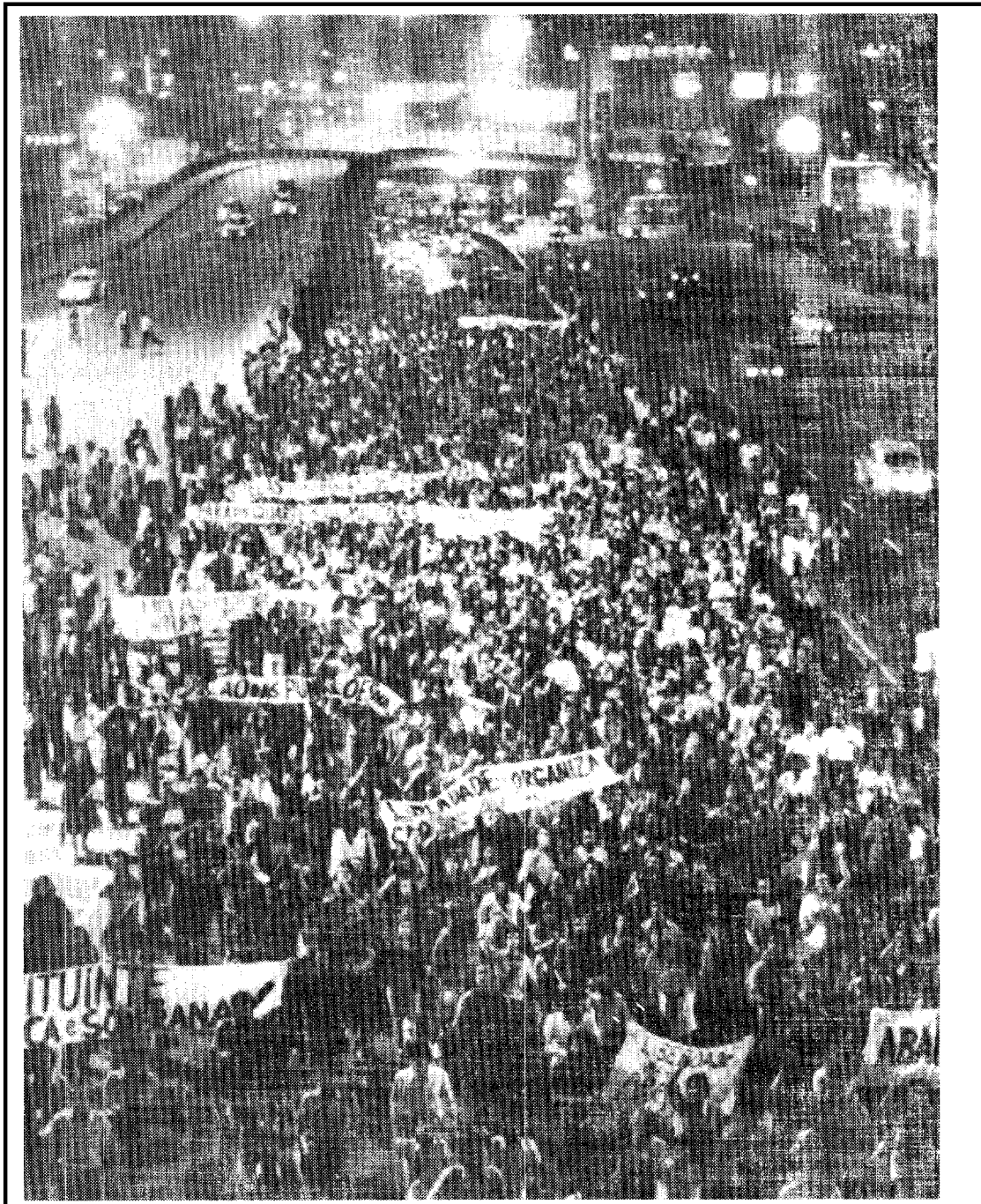
25X1

Approved For Release 2006/03/17 : CIA-RDP79T00912A000700010009-3

Approved For Release 2006/03/17 : CIA-RDP79T00912A000700010009-3

SECRET

CPYRGHT



Students in Sao Paulo Parade for Democracy

RP ALA 77-054
25 August 1977

SECRET

Albuquerque Lima has said that he thinks the letter helps President Geisel in his efforts to open paths to democracy in Brazil. The letter doubtless also gives impetus to the views of such individuals as former Minister of Industry and Commerce Severo Gomes, who recently published a book called *Time for Change* which argues that the military should return the government to civilians for economic as well as political reasons.

The publication of the letter touched off an immediate public reaction, which was strongest in Sao Paulo, but was also evident in other urban centers. A spontaneous parade through the streets of downtown Sao Paulo by students attending the law school soon grew into a peaceful demonstration of some 7,000 people. Security officials did not interfere with the parade, claiming that they did not consider it a confrontation. Since then, however, the government has taken a harder line against public protests. Several students have been arrested, and earlier this week police in Sao Paulo used tear gas and billy clubs to disperse thousands of students.

1, f The government's response to the letter, however, has been both indirect and muted. President Geisel and his top advisers have avoided making any public statements, and the presidential press secretary has refused to comment. One of the law professors who signed the letter says that he now has information that the government's reaction will continue to be mild and that no one will be punished for collaboration. The failure to respond to such a challenge can only reinforce a growing belief in educated Brazilian circles that the Geisel government and the military high command are increasingly aware of the decline in popular support for their policies and are unsure of their future political course. Continuing and increasing pressure from influential sectors of Brazilian society to return Brazil to democratic rule could conceivably bolster the chances of those civilian politicians, such as pro-government Senator Magalhaes Pinto and Minister of Education Ney Braga, who have already expressed interest in obtaining high political office--possibly the vice presidency--in the government that succeeds Geisel in 1979. It still seems highly unlikely, however, that the military--Brazil's only cohesive political institution--will be willing to return any real measure of power to civilians by that date.

RP ALA 77-054
25 August 1977

25X1

SECRET

25X1
25X1

Brazil: Renewal of Protest

1, 2, 3, 4
A letter signed by 93 Brazilian jurists calling for an immediate return to government under law is having a major political impact among educated and influential Brazilians. It has apparently provided the spark for a renewal of the student protests that swept the nation three months ago and has focused national attention on similar expressions of opinion in recent weeks by retired military leaders and former government ministers who favor a return to civilian rule.

1, 4
The letter, which was read publicly two weeks ago at Brazil's most prestigious law faculty--located in Sao Paulo--was part of a series of events commemorating the 150th anniversary of the founding of law schools in Brazil. The initial drafting, however, began late last spring after President Geisel recessed Congress for 15 days and issued a series of major decrees now popularly known as the "April Reforms." The letter, which was undoubtedly a direct response to Geisel's actions, proclaims that the Constitution is sovereign and that no law or person can be above it. It also says that "security and development"--the slogan of the Geisel administration--is the slogan of totalitarian regimes.

1, 4
Political reaction to the letter has divided along predictable lines. Pro-government leaders have called it injurious, even claiming that it is of "Communist inspiration," while members of the opposition party attribute great political significance to it as "an appeal without hate to the nation."

3, 4
Several retired military officers who have recently urged publicly that the military return to the barracks have seen their comments thrown into high relief by the timing of the letter--which has become the front page story of national news magazines and is now being circulated throughout the country for signatures. One of the most supportive statements has come from retired General Albuquerque Lima, Minister of Interior under President Costa e Silva and known for his liberal views.

RP ALA 77-054
25 August 1977

Secret

Secret