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Articles

El Salvador: Limited Prospects for Economic Growth

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El Salvador achieved an expansion in real GDP of 1.5 percent in 1984—the first economic growth in the past five years. Considering the countrywide insurgency and the narrow political and economic constraints forced on President Duarte's administration, this performance was credible. Nevertheless, this growth resulted almost wholly from higher government spending and increased foreign aid.

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Prospects for boosting economic growth much more, in our estimation, are poor. Military and political pressures severely constrain Duarte's flexibility. In light of the security situation, we foresee little chance that depressed living standards will improve much during the remainder of Duarte's term. Foreign aid of $550-600 million per year would be required to maintain annual growth at just 1 percent through 1989. Some $1 billion per year would be required to achieve the average 3-percent growth needed to maintain living standards. Even if the insurgency ended soon and current aid levels were maintained, we judge that enduring financial, supply, and distribution problems would limit economic growth to 3 percent annually.

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The Crippled Economy

When Duarte was inaugurated last June, he took over a crippled and beleaguered economy. Five years of civil war had ravaged productive capacity, while economic reforms designed to ease social inequities fed a massive flight of capital and entrepreneurs. During 1979-83, real output of goods and services fell by one-fourth. Living standards deteriorated as unemployment grew, and per capita real incomes—and consumption—plummeted more than one-third.

Table 1
El Salvador: Foreign Economic Assistance

Million US $

	1981	1982	1983	1984 [a]
Total	**326**	**477**	**502**	**605**
United States	100	178	242	335
Inter-American Development Bank	61	48	85	100
International Monetary Fund	43	68	35	
Venezuela	41	39	50	40
Others	81	144	90	130

[a] Estimated.

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Only increased government spending, supported by generous foreign asisstance, prevented sharper declines.

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The insurgency and redistributive economic policies introduced by the military–Christian Democratic junta in 1980 were responsible for most of the economic decline. The guerrillas' strategy of targeting the economy damaged productive capacity and seriously disrupted agricultural, industrial, and commercial activities. The US Embassy estimates the cost of the direct damage and lost production at $1 billion during 1979-84. The land reform, nationalization of banks, and establishment of government monopolies for coffee and sugar exports brought additional problems. Teamed with the insurgency, these drastic policy changes caused private investment to plummet, many businesses to

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Table 2
El Salvador:
Balance of Payments

Million US $

	1982	1983	1984 [a]
Current account balance	−152	−96	−128
Trade balance	−183	−155	−183
Exports, f.o.b.	700	737	798
Coffee	403	402	440
Cotton	45	56	35
Sugar	16	40	45
Manufactured goods to CACM countries	174	168	180
Other	62	71	98
Imports, c.i.f.	883	892	981
Net services	−140	−151	−175
Net transfers	171	210	230
Capital account balance	222	276	101
Net official capital	267	274	103
Net private capital	−44	−4	−7
Errors and omissions	−1	6	5
Net change in international reserves	**70**	**180**	**−27**

[a] Preliminary estimate.

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fold, and capital flight to skyrocket. Land tenure uncertainties caused by the agrarian reform resulted in reduced planting and farm maintenance. Strict banking requirements greatly reduced access to badly needed working capital for many farmers and businessmen. State marketing agencies further reduced incentives by paying low prices to producers.

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In this environment, the balance of payments deteriorated rapidly. According to various estimates, Salvadorans took more than $1 billion out of the country during 1979-83. During the same period, export earnings in real terms were halved. The principal export crops—coffee, cotton, and sugar—and manufactured goods traded in the Central American Common Market (CACM) all shared in the decline. To offset this drop, San Salvador cut import volumes by one-third by restricting access to foreign currency under government exchange controls imposed in 1980. The controls allowed the government to delay devaluing the colon—whose par value has been fixed at US $1 = 2.5 colones for over 50 years—but it depressed farm prices and severely undermined the competitiveness of manufactured exports. Nevertheless, the government stayed current in servicing its external debt.

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The sharp decline in national output caused unemployment to rise from single-digit levels before 1979 to 35 percent by 1983. Despite cuts in real wages, workers' fears of more job losses kept strike activity by organized labor low. While the national wage and price freeze during 1980-83 effectively held down wages, prices rose freely because growing shortages undercut inadequate enforcement efforts. Inflation—averaging 15 percent per year—was fueled by heavy domestic borrowing to finance the soaring public deficits. Government revenues were hard hit as the economic slide eroded the tax base, and a growing number of consumers and businessmen joined the underground economy to avoid taxes and to cushion losses.

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Large amounts of economic assistance allowed economic output to hold constant in 1983, after falling by an average 6 percent per year during the previous four years. The inflow of funds reduced foreign payments deficits and allowed an increase in international reserves. Export earnings ended a three-year decline by rising 5 percent, largely because of a higher sugar quota from the United States. While the fiscal deficit was also reduced by adherence to austerity guidelines of an IMF standby loan, inflation increased slightly.

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Duarte Takes Over

Duarte's focus on crucial military, political, and social problems has constrained him from taking bold economic initiatives. His strategy has been largely one of delaying unpopular economic adjustments until progress is made in stabilizing the military situation. Meanwhile, substantial success in increasing foreign economic assistance has enabled him to postpone making tough economic choices.

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The ruling Christian Democrats have long advocated an activist and redistributive role for the government in the economy. Duarte, however, is constrained by his need to maintain crucial support from the private sector and the military. As a result, he has avoided confrontations with business, and some initial hostility appears to be fading. Nevertheless, minor legislation approved by Duarte to encourage livestock production tends to reflect the administration's priorities by restricting most benefits to small-scale operations.

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Duarte's ability to gain private-sector support is constrained by pressures from organized labor, which uniformly backed his election. Labor expects social reforms to continue under the Christian Democrats, and they are eager to recoup losses in real income. Recognizing Duarte's dilemma, the guerrillas are trying to foment labor unrest through the unions they control. Union activism and strike activity increased prior to the spring elections and continued throughout 1984. In a budget-busting move, Duarte was pressured into granting public-sector employees a large wage increase in July to avoid strikes.

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Thus far, Duarte has balked at opening discussions with the IMF on a new standby arrangement because of his reluctance to impose austerity measures such as tax increase and currency devaluation, which he views as harming the poor. Duarte, however, has told US Embassy officials he plans to ask for a tax increase after the National Assembly election in March and to officially devalue the colon by the end of 1985. He showed some flexibility on the exchange rate issue by allowing additional transactions for imports and exports to move to the parallel foreign exchange market in July and December. We estimate that 35 percent of foreign exchange transactions now take place at the parallel rate of US $1=4 colones, compared to 15 percent when Duarte took office, an effective devaluation of 10 percent.

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Preliminary central bank estimates show that real GDP grew 1.5 percent last year. Increased imports spurred manufacturing, while high government spending boosted utilities, transportation, and construction. The United States and Inter-American Development Bank provided foreign exchange for imported goods and raw materials that helped manufacturers to overcome foreign exchange shortages under the government's allocation system. Poor agricultural performance attributed to weak incentives, and sabotage by the insurgents was largely offset by the continued growth in the government sector. Higher spending, particularly for the military, and public-sector wage increases, pushed the deficit to record levels.

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Table 3
El Salvador: Composition of GDP

Percent

	1979	1984 [a]
Agriculture	24	25
Commerce	21	16
Manufacturing	19	16
Government	9	13
Financial services	7	9
Transportation and communications	6	6
Construction	4	3
Utilities	3	4
Other	7	8

[a] Estimated.

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A second year of growth in export earnings and another large increase in foreign aid allowed the first real import growth since 1978. Still, the import expansion was capped by the substantial rise in debt servicing—to 25 percent of exports—because the grace period ended on many loans. Among other pluses, worker remittances increased, wider use of the parallel foreign exchange market boosted the volume of nontraditional exports by a healthy 20 percent, capital flight remained in check, and some foreign investors indicated interest in El Salvador for the first time in six years.

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The slight economic growth was not enough to keep per capita income from falling for the sixth consecutive year, although two wage hikes allowed public-sector employees to raise their real income somewhat. While the inflation rate dipped slightly because of increased imports and tight business and consumer credit, the unemployment rate remained steady.

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Meager Economic Prospects

The economy is so depressed, and the impediments to recovery so large, that we see only a small chance that Duarte will be able to increase economic growth much during the rest of his tenure, which ends in 1989. Unless the security situation substantially improves, we expect economic growth to stay at an average of about 1 percent annually. Even if the war ended soon, we project that import constraints and the bleak business climate would maintain economic growth at the rate of population increase. Only the best of circumstances—including an unlikely jump in already unprecedented levels of foreign aid—would allow the economy to expand by more than 3 percent, thus raising the standard of living.

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To have any chance for boosting living standards, Duarte must gain the support of international creditors and local business and labor leaders. To do this, we believe El Salvador would have to adopt the kind of budget, trade, credit, and foreign exchange policies that the IMF would endorse. At the same time, Duarte would have to overcome his antibusiness image without alienating labor. While international creditors will expect higher taxes, wage restraints, and a sharp currency devaluation, business leaders will push for financial concessions as labor demands a quick boost in wages. Organized labor and consumers will resist a devaluation because of its expected impact on inflation. Achieving all of this would require considerable skill and luck.

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Duarte's success in overcoming embedded economic problems will be critically dependent on the status of the insurgency and on the financial support of foreign lenders and donors. To assess El Salvador's medium-term potential, we have analyzed import requirements under alternative military situations. In each scenario we have targeted an average annual 1-percent growth during 1985-89 as well as a 3-percent growth path and examined the implicit domestic savings and foreign financial requirements. We then estimated El Salvador's ability to finance required imports, with and without increased foreign aid.

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Scenario I—No Major Change in the Insurgency. In this case, guerrilla forces continue to demonstrate their military capabilities in the face of aggressive Army operations, despite Duarte's peace efforts. Because they prove unable to extend their influence significantly in new areas, however, we would expect them to increase attacks on economic targets and efforts to disrupt key coffee, cotton, and sugar harvests. The Duarte government continues to resolve economic policy differences with labor and business through compromise but is still constrained from bold initiatives or controversial decisions. In this environment, only those businessmen willing to take high risks for potentially large profits would commit resources to the economy. Some others would try to cut their losses, reviving the flight of capital and human resources although at much lower levels than in the past.

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Even for El Salvador to achieve an annual 1-percent growth through 1989 in these circumstances, it would be necessary to finance rising current account deficits. We calculate that 5-percent annual growth in import volume would be needed to sustain 1-percent economic expansion. Imports would be needed first to restore depleted stocks of industrial raw materials, intermediate goods, agrochemicals, and spare parts, and then to replace damaged machines and equipment and begin to expand the capital stock. Meanwhile, in our judgment, export earnings still would expand by no more than 5 percent yearly because of continued guerrilla interdiction and uncertain world commodity markets.

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If, as we expect, foreign investors and lenders remain chary of El Salvador, the burden will fall to foreign official assistance to fill balance-of-payments financing requirements of $550-600 million each year. These funds would be required to cover annual trade and service deficits of $300-350 million yearly and public debt amortization obligations and capital flight projected to average $250 million per annum. To meet these requirements—and achieve just 1-percent annual growth through 1989—foreign financial flows from official sources would have to stay at current levels for the next five years.

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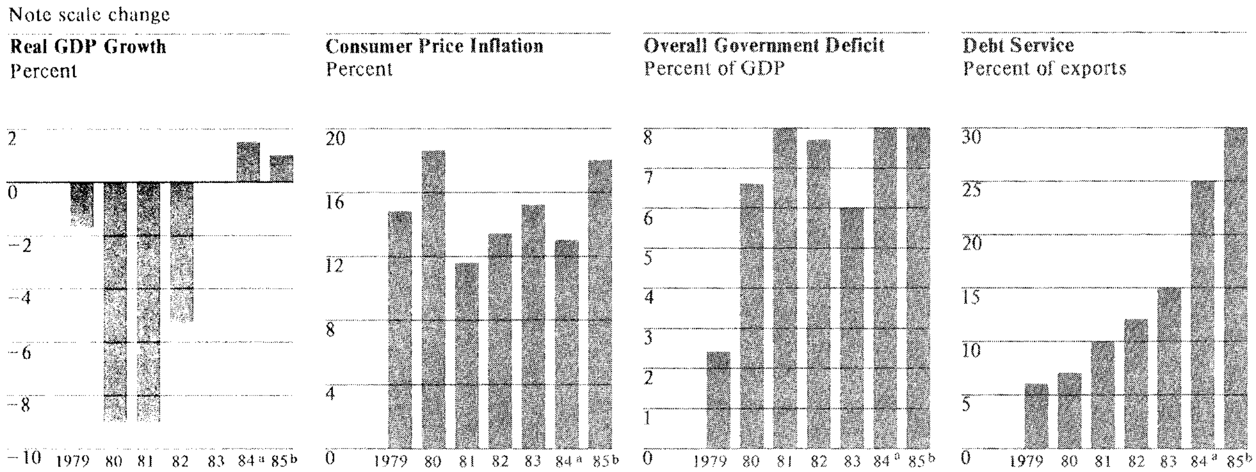
El Salvador: Economic Indicators, 1979-85



[a] Estimated.
[b] Projected.

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To achieve annual 3-percent economic growth—just enough to offset population growth—during 1985-89, El Salvador would have to finance substantially higher foreign payments deficits. We calculate that total imports would need to rise 12 percent per year. This would increase the trade and services deficit to the $700-750 million range. In this circumstance, we expect that the increased debt service caused by greater borrowing would be largely offset by lower capital flight encouraged by new opportunities offered by the higher economic expansion. Nevertheless, just to achieve 3-percent growth would require $950 million to $1 billion each year in foreign assistance—a 60- to 65-percent increase over current levels. 25X1

Scenario II—Improved Security Situation. A reduced guerrilla threat—either by mutual cease-fire or by a shift in the tactical balance in favor of the military—would further encourage the private sector, as long as the insurgents' military efforts are not replaced by equally violent terrorism and economic sabotage. Even if the war ended, however, an enormous effort would be required to revitalize the economy. The US Embassy estimates that restoring basic government services by rebuilding bridges, and electrical and water systems, and replacing damaged buildings and equipment would require $150 million in public investment. Gearing up privately owned factories and boosting agricultural production probably would require additional money and a much longer time. 25X1

Some short-term economic gains would be achieved by more fully utilizing existing productive capacity. Reduced risk of terrorist attacks would encourage farmers to plant more acreage and enable them to attain substantially greater crop harvests. In addition, enhanced government protection of electric power facilities would permit significant increases in industrial production. We calculate that rising output of cash crops and manufactured goods might spur an expansion of exports by about 10 percent yearly. 25X1

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We believe an expansion of private capital formation and commercial bank credit also would occur, but slowly. Domestic and foreign businessmen would be likely to proceed cautiously until they were convinced that the improved security conditions would endure. At the same time, however, the public sector would be in a better financial position to contribute to economic recovery as a result of rechanneling defense spending and higher export tax revenues. [redacted] 25X1

In this situation, El Salvador could achieve 1-percent average economic growth with foreign assistance of about one-half current levels. Higher exports would add an average $120 million per year to foreign exchange earnings during 1985-89, reducing the trade and service deficit to $200-250 million per year. We also believe that these circumstances over time would encourage Salvadorans to bring money back into the country and that renewed commercial credits and foreign investment would supply another $120 million or so. [redacted] 25X1

In the 3-percent economic growth case, we calculate that the trade and services deficit would total $580-630 million per year. In this case, we would also expect an increase in private capital flows as opportunities for profits encourage local and foreign investors. We anticipate that the best El Salvador could expect from foreign commercial bankers would be $200 million per year, twice the prewar average but roughly equal to amortization obligations. Despite increased private financial flows, foreign aid of roughly $550-600 million per year would still be required. [redacted] 25X1

[redacted] 25X1

Honduras: Confusion Over "Continuismo" [redacted]

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25X1 President Suazo apparently has been thwarted for now in his efforts to extend his term in office. [redacted]
25X1 [redacted] Suazo had been contemplating such a move, despite constitutional provisions requiring him to step down after general elections to be held this November. Suazo initially tried to undercut resistance to an extension by denying the opposition National Party and other critics access to political power. Senior military officers, however, expressed strong opposition to this
25X1 maneuvering [redacted]
25X1 [redacted] Since the new year the armed forces high command has appeared content that Suazo has yielded to its pressures against an extension. Nevertheless, we believe that Suazo seeks to continue to play a central role in the political arena as elections for a successor approach and that he will remain disinclined to halt efforts to lock his opponents out of the political process. Such a course could prompt the
25X1 military again to take a more active role. [redacted]

"Continuismo"

Since taking office in 1982 as Honduras's first civilian president after a decade of direct military rule, Suazo consistently has denied having an interest in extending his term beyond the four years mandated by the Constitution. Nevertheless, we believe that throughout 1984 Suazo at least acquiesced in supporters' efforts to lay the groundwork for "continuismo." According to the US Embassy, a Suazo supporter said that the President's commitment to elections in November was simply "role playing," and that his close political advisers, with his blessing, have drafted legislation to bypass the constitutional restrictions on presidential terms. Some ruling Liberal Party congressmen also are arguing publicly that a
25X1 large but, we believe, manageable backlog in voter registration precludes fair elections this year. [redacted]
25X1 [redacted]

Apparently to weaken political opposition to "continuismo," Suazo has used various party and government mechanisms to deny critics access to power within their parties. This strategy has caused deep divisions among party factions. According to the Embassy, Suazo's faction in the Liberal Party has systematically excluded all dissidents from party positions and has falsely accused some of plotting to assassinate the President last November. [redacted] 25X1

Embassy reporting indicates, moreover, that the government repeatedly has denied legal recognition—essential for organizing a political group and fielding candidates in elections—to factions in the National Party that are critical of Suazo's political maneuvering. Dissident Nationalists hold nine of 14 seats on the party Central Committee, but the Electoral Tribunal and Supreme Court—both stacked by Suazo—have refused to grant them official status. Instead, the Tribunal and Supreme Court have recognized a faction that apparently has received substantial funds from Suazo in return for support since early 1984. [redacted] 25X1

Political and Military Opposition

Opposition politicians are concerned that Suazo's efforts to deny them legal status have made it impossible for them to participate effectively in the elections. A group of disenfranchised members of both parties, some of whom were bitter rivals in the past, has condemned "continuismo" and manipulation of the parties, and has threatened an election boycott. In addition, [redacted] 25X1
many of the dissidents have formed a secret united opposition front to counter Suazo's efforts. The diversity of the front's membership and its lack of legal recognition probably will prevent them from running a presidential candidate this year, but we believe this increasingly powerful group of dissidents conceivably could mount a disruptive boycott of the elections. [redacted] 25X1

Meanwhile, the armed forces high command fears that Suazo's moves endanger Honduran stability by debilitating democratic institutions and giving the country's small and generally ineffective left—the only political group that remains largely unaffected by government manipulation—attractive issues around which to rally popular discontent. The Embassy reports senior military officers categorically rejected a Suazo confidant's recent effort to enlist their support for "continuismo." [redacted]

Senior officers are concerned that a confrontation with Suazo would project an image of Honduran disunity at a time of growing domestic concern about the Contadora talks and about US intentions in the region. The officers, therefore, have limited themselves to less direct means of moderating the President's efforts. Armed forces chief Lopez recently asserted publicly that the military would not tolerate politicians who seek "immoderate power" and who are "causing divisions within the Honduran people." Military members of the National Security Council succeeded in persuading that body to announce it would guarantee presidential succession in November. [redacted] 25X1

Lopez apparently believes that Suazo has abandoned "continuismo" efforts, at least for the time being. The Embassy reports that, in a sharp departure from his earlier statement, Lopez recently praised the President publicly for his support of democracy. The armed forces chief made no mention, however, of what assurances he had received from the President that elections would be held on schedule. [redacted] 25X1

Outlook

At a minimum, Suazo wants to maintain his central role in Honduran politics as a successor is chosen. His long record of political intrigue and perseverance indicates that he probably will be reluctant to cease maneuvering in the immediate future, and we believe he will continue to manipulate his opponents, particularly in the National Party, at least until a Liberal Party victory in November is assured. Faced with increasingly bleak electoral prospects, Nationalist dissidents probably will remain active in the united opposition front, and, if chances of a boycott in November grow, tensions between Suazo and the armed forces could be renewed. Under such circumstances, the military may feel obligated to confront the President and force him to open up the political process. [redacted] 25X1

[redacted] 25X1

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Argentina: Army Materiel Industry

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Argentina's army materiel industry, second only to Brazil's in Latin America, produces a wide range of weapons, including tanks, armored vehicles, artillery, and small arms. Most ground forces weapons are copied from foreign equipment, but Argentina is beginning to implement its own designs and modifications in a drive to produce totally indigenous arms. To date, overseas sales have been extremely limited because of high costs, export restrictions set by coproducers, and—most of all—by the industry's concentration on meeting domestic military needs. In addition, the budgetary squeeze currently affecting most of the government's activities is forcing delays in several weapon programs. We believe that expansion of exports will be necessary if the industry is to prosper.

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Structure and Funding

The Argentine weapons industry is approximately 80 percent government owned. The government's Armed Forces Scientific and Technical Research Center (CITEFA) directs weapons research and development programs and allocates the industry's share of the national budget. The technology developed by CITEFA is passed to Military Industries (Fabricaciones Militares, or FM), the government production conglomerate, which includes about a dozen principal plants and a number of support facilities. Most of Argentina's arms production facilities, including an expanding private sector, are located in the Buenos Aires–Cordoba industrial corridor.

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Historically, the Argentine military has managed arms production, and funding has been part of the overall defense budget. After the restoration of civilian rule in late 1983, however, the Ministry of Defense assumed control of CITEFA and FM. The government is now considering the establishment of a separate budget allocation for the industry, probably to insulate it from the impact of sharp cuts expected in the 1985 defense allocation.

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TAM tank

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Current Programs

Armored Vehicles. Argentina's armored vehicle production capability was developed through a series of agreements with West European companies during the 1970s. The most significant contract was signed in 1974 with the Thyssen Henschel company of West Germany. It provided for the design, development, and construction of prototypes for the Argentine Medium Tank, or TAM, and for a family of related armored vehicles. The West German firm completed the first prototype of the TAM in 1976, and production began in Argentina three years later. TAMSE, a government-owned Argentine company, manufactures the turret and chassis and assembles the tank. The engine, transmission, and fire-control system are provided by Thyssen Henschel. 25X1

The TAM, like other Argentine ground forces equipment, was developed for Argentina's Army, and little, if any, consideration was initially given to its exportability. Negotiations have been conducted in recent years with several countries—among them Iran, Taiwan, Malaysia, and Peru—but there have been no TAM export sales. There are several underlying reasons for this, in our judgment:

- Because the Argentine Army reportedly needs no more than 200 TAMs, the production level has remained low and unit costs are high.

Argentine Arms Production Facilities

Scientific and Technical Research Center of the Armed Forces (CITEFA). *Designs and develops weapon systems. Government owned.*

Military Industries (FM). *Government arms production conglomerate. Directs all government production of weapon systems. Government owned.*

Banfield Arms Plant Metro. *Produces 9-mm machine pistol and a 37-mm tear gas pistol. Privately owned.*

TAMSE/Boulogne Tank Assembly Plant. *Assembles TAM tanks and VCTP APCs. Government owned.*

Buenos Aires Shipyard and Artillery Plant. *Produces the 155-mm towed howitzer. Government owned.*

Fray Luis Beltran Military Plant. *Produces various types of ammunition, handgrenades, rifle grenades, and Mathogo antitank guided missile. Government owned.*

Pilar Explosives Plant. *Produces pyrotechnic products. Government owned.*

Quilmes Ammunition Plant. *Produces various types of ammunition. Government owned.*

Rio Tercero Military Factory. *Produces 105-mm recoilless rifles; mortar, howitzer, and naval gun ammunition; antitank rockets; 500- and 1,000-pound bombs; and Mathogo warhead. Government owned.*

Domingo Matheu Small-Arms Plant. *Produces 7.62-mm rifle parts and 9-mm machine pistols. Government owned.*

San Martin Armored Vehicle and Telecommunications Equipment Plant. *Produces chassis of TAM tank and VCTP APCs, night vision devices, field telephones, and electronics. Government owned.*

Villa Maria Explosives and Solid-Propellant Plant. *Produces propellants. Government owned.*

Pescarmona Metallurgic Industries. *Produces tank and armored vehicle engines and castings. Privately owned.*

TENSA. *Produces brakes and tracks for the TAM tank. Developed the TAM turrets. Performs military engineering and design work. Privately owned.*

[redacted] 25X1

- Bonn has placed export restrictions on all tanks using West German components. This has particularly affected sales to controversial buyers such as Iran.
- There is a limited Third World market for light tanks.
- The TAM has not been proved in battle.
- 25X1 There is stiff competition from newer and less expensive light tanks. [redacted]

The Argentines are taking steps to try to improve the TAM's marketability. [redacted] attempting to circumvent export restrictions by producing an all-Argentine TAM. [redacted] a TAM prototype with a domestic engine has already been produced, but we believe efforts to manufacture the tank with Argentine components will probably be unsuccessful because of technical and funding limitations.[1] [redacted] 25X1

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FM has three other armored vehicle programs based on the original Thyssen design for the TAM. The VCTP, an armored personnel carrier, carries a

[redacted] 25X1

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20-mm cannon and a 7.62-mm machinegun. The Argentine Army now has 150 VCTPs in service and has ordered 150 more. A limited number of VCTMs, mortar-carrying versions of the VCTP, have also been delivered to the Army. In addition, FM has produced a prototype for a tank recovery vehicle based on the TAM, but it has not been completed because of lack of funds to purchase a recovery crane from West Germany. These vehicles face many of the same marketing problems confronting the TAM, and at present there are no active foreign customers. [redacted] 25X1

25X1 [redacted] for intermediate work. The vehicles were then shipped to Italy, where Oto Melara finished assembly. The Italian firm, however, now refuses to release the completed vehicles because Argentina failed to pay its bills. [redacted] 25X1

Press reports indicate that series production of an Israeli-Argentine multipurpose armored vehicle began in November 1984 and that 90 percent of the components are being made in Argentina. This four-wheel-drive vehicle can be used for troop transport and can be equipped with antitank rockets, antiaircraft cannons, and machineguns. Thus far, only Argentina's border guard force is scheduled to receive the vehicles, but there have been indications in the Argentine press that Peru may place an order. [redacted] 25X1

FM also produces armored vehicles and their components under license for West European firms. It manufactures components of the AMX-13 light tank and the AMX-VC1 tracked armored personnel carrier for a French company; assembly is completed in France. A Swiss firm recently selected Argentina to produce components for its M-3 and M-16 APCs, [redacted] FM is also being considered by two Italian firms for joint production of an armored vehicle now under development. [redacted] 25X1 25X1

Pampero multiple rocket launcher system [redacted] 25X1

Rockets and Missiles. CITEFA has independently designed two major rocket systems for the Army: the Pampero multiple rocket launcher and a follow-on, the SAPBA-1. The Pampero, designed as a battlefield support system, has a range of 12 kilometers. It has a 16-tube launcher and can be mounted on either a trailer or a vehicle. It is now in series production. The SAPBA-1 system builds on the Pampero design, but has a 40-tube launcher with 127-mm rockets and increased range. [redacted] 25X1 25X1

The Mathogo antitank missile, similar to West European designs of the 1950s, is manufactured by FM. An entirely Argentine product, the Mathogo is wire guided, operable by one person, and has a range of 2 kilometers, [redacted] It is available in either an infantry or pack type and a helicopter-launched version. [redacted] 25X1 25X1

To date, there have been no export sales of these rocket and missile systems because of competition from other producing countries. [redacted] 25X1

Artillery. Argentina's drive to produce totally indigenous weapons is evident in its artillery programs. FM has begun producing the "Model 81" 155-mm howitzer, which uses only Argentine components. Ammunition for the Model 81 is made under French license. According to the US defense attache in Buenos Aires, Argentina sold some of this ammunition to Iran in 1984. [redacted] 25X1

Mathogo wire-guided antitank missile [redacted]

Mortars in the Argentine inventory were originally of West German design, but two indigenous mortars—81-mm and 120-mm versions—were developed in the early 1980s. Both are in the Argentine Army's inventories, but there is no evidence of export sales. [redacted] 25X1

In addition, FM is involved in two coproduction programs involving artillery systems. Together with a French firm, FM produces 105-mm towed artillery pieces, mortars, and shells. It also produces antiaircraft artillery weapons in cooperation with a Swiss firm, Oerlikon-Burhle. FM and Oerlikon-Burhle are discussing the possible expansion of their agreement to encompass license production of 20-mm and 40-mm antiaircraft weapons. [redacted] 25X1

Small Arms and Ammunition. Small-arms production by the public and private sectors has been sufficient to meet domestic needs for the past several years. FM manufactures various NATO-designed rifles and machineguns under Belgian license, and the Banfield Arms Plant, a private concern, is a significant producer of pistols, machineguns, and automatic rifles. Ammunition is produced in Argentina for all calibers of weapons made in the country. Again, export sales have been limited. [redacted] 25X1

Refit Programs. The privately owned Argentine firm TENSA is reportedly directing the reconditioning of Soviet-made T-55 tanks belonging to Peru. This program encompasses the replacement of the T-55's turret and 100-mm gun with the TAM turret and 105-mm gun. The gun replacement affords only a slight gain in firepower, but it complements the Peruvian military's current policy of decreasing its dependence on the Soviets in favor of more diversified sources of maintenance and supplies. [redacted] 25X1 25X1

Planned Programs

[redacted] the industry's main goal for the future is to expand its export sales to offset its current budgetary problems. FM hopes to achieve this objective by: 25X1

- Arranging for coproduction programs that will further enhance Argentine technical capabilities.
- Upgrading existing systems, thereby increasing their marketability.
- Deemphasizing production for the Argentine Army. [redacted] 25X1

TAMSE, the TAM tank production firm, is considering a plan for assembly of Austrian-made vehicles under license, according to a source of the US defense attache. Possible candidates include Austrian SK-105 light tank/tank destroyers, all-terrain vehicles, and wheeled vehicles. TAMSE would deactivate one of its two TAM production lines and would assemble the Austrian vehicles under license using imported components. It would export the finished vehicles according to the manufacturer's instructions. The Argentine Army is not expected to be a customer for these vehicles. [redacted] 25X1

[redacted] 25X1 Funding for two prototypes was approved in mid-1983, and the first of these is scheduled for completion early this year. These howitzers will be entirely Argentine, with steel from a domestic steel mill and barrels from the government's Rio Tercero Military Factory. [redacted] 25X1

25X1 [redacted]

CITEFA is also testing variants of the Pampero rocket launcher system. A launcher with a projected range of 30 kilometers is under development. CITEFA also has stated that an air-to-surface version of the Pampero rocket launcher has been successfully tested on the Argentine-made IA-58 Pucara ground attack aircraft. [redacted] 25X1

[redacted] and its variants. The preproduction stage is complete, with machinery in place at FM's San Martin facility, but budget constraints are delaying the start of series production. [redacted] 25X1

Development of a new antitank missile, the MATVA, is under way at CITEFA. It appears to be based on the Milan missile, produced by Euromissile, a West European conglomerate. The Milan performed successfully for Argentina in the 1982 Falklands conflict. [redacted] 25X1

25X1 [redacted]

Outlook

Budget constraints affecting all aspects of the Argentine military will continue to be a major concern of the arms industry for the near term. We therefore expect that manufacturers will begin to deemphasize production for the Argentine Army and give top priority to increasing export sales. To boost exports, the Argentines would need to launch a comprehensive marketing program similar to Brazil's. They would need to perform more market research and develop new products that conform to customer requirements. If exports cannot be increased, the industry's financial problems will worsen, resulting in further program delays and perhaps cancellations of current as well as planned programs. [redacted] 25X1

Even if exports rise, Argentina will remain dependent on Western suppliers for several years to come. The drive to reduce this dependence will continue, in our view, and increasingly complex indigenous programs will result, but Argentina will continue to lag a distant second behind Brazil as a regional arms producer. [redacted] 25X1

[redacted] 25X1

25X1

Latin America Briefs

Uruguay

Sanguinetti and the Communists [redacted] 25X1

President-elect Sanguinetti is likely to legalize the Uruguayan Communist Party after he takes office in March, [redacted] Uruguay's 25X1 military rulers declared the Soviet-backed party illegal after seizing power in 1973. The party's First Secretary, Rodney Arismendi, directed party activity from exile in the USSR and Argentina, according to press [redacted] Last 25X1 November, with the transition process under way, the military allowed Arismendi and other party officials to return to Uruguay. Arismendi already has met with Sanguinetti to discuss the party's future role. [redacted] 25X1

Sanguinetti has said that he opposes Communism and hopes to weaken the party's strong influence within Uruguay's labor movement, but he also has advocated active participation by all political parties in the democratic process. By allowing the roughly 7,500-member party to operate legally, Sanguinetti probably believes it will be easier for his government to contain and monitor Communist activity. The Uruguayan Communists may continue to maintain their underground self-defense, financial, and propaganda apparatus, [redacted] 25X1 [redacted] but we do not believe the party is strong enough to pose a serious threat to 25X1 Sanguinetti's government in the near term. Legalization, however, would likely displease Uruguay's conservative military leaders, particularly because Sanguinetti reportedly also plans to upgrade diplomatic relations with Cuba and Nicaragua. Sanguinetti probably calculates that the military—which supported Colorado Party in the November elections—will give him some room to maneuver and will not challenge his actions early in his administration. [redacted] 25X1

[redacted] [redacted] 25X1

25X1

Paraguay

Potential Successor to Stroessner [redacted] 25X1

Luis Maria Argana, the president of Paraguay's Supreme Court, is emerging as a leading contender eventually to succeed 72-year-old President Stroessner, [redacted] Argana is 25X1 considered the most acceptable successor by the armed forces and the public, and is highly regarded by Stroessner as well. [redacted] Argana also 25X1 appears to have considerable support within both the hardline authoritarian and more moderate factions of the ruling Colorado Party. [redacted] 25X1

Among Argana's main strengths is his reputation for greater personal honesty than most other senior Paraguayan officials. As head of the Supreme Court, he is reported to have removed a number of corrupt officials from the country's judicial system. Stroessner is scheduled to spend a week in West Germany in July and reportedly will designate Argana as Acting President during that period. This appointment, in our view, would underscore Argana's good standing with the President. [redacted] 25X1

[redacted] there are several other civilian and military 25X1 leaders who still have a chance to succeed Stroessner. The President's apparent intention to remain in office for at least a few more years leaves ample time for other contenders to maneuver. One key figure is Maj. Gen. Andres Rodriguez, widely regarded as Paraguay's military strongman and the second most powerful person in the country. US Embassy [redacted] reporting suggests that 25X1 Rodriguez may dominate the armed forces and be a major power broker in the post-Stroessner era, [redacted] 25X1 25X1

Dominican Republic

Edging Closer to IMF Accord [redacted] 25X1

After more than a year of contentious negotiations with the IMF, President Jorge Blanco late last month announced new austerity measures aimed at securing a $65-70 million standby loan. The measures include unification of the exchange rate and hefty export surcharges, the latter partially replacing a tax package that the Fund had wanted but had been rejected in early January by the Dominican Senate. The exchange rate adjustment caused prices of many basic commodities, especially foods and petroleum products, to increase immediately. Prices for gasoline and kerosene soared 34 percent and 87 percent, respectively, and electricity rates for residential users increased as much as 68 percent. These measures could pave the way for a new standby loan as early as March and allow Santo Domingo to reschedule its burgeoning foreign debt and gain access to much-needed new lending. [redacted] 25X1

Although the actions have provoked some backlash, popular reaction so far has been less violent than last April, when similar price hikes caused riots that killed more than 60 people. Nevertheless, political realities have prompted the President to soften the impact of the new measures. To help keep labor quiet, he announced plans to increase the minimum wage by 20 percent and pledged to continue subsidizing sales of some food and medicine. He also promised improved housing and other services for the military and a new health plan for teachers. Jorge Blanco's demonstrated willingness to use force to contain violence also will restrain popular outbursts. Quick actions by security forces, including the occupation of the headquarters of a major union, played a major role in dissuading opposition groups from attempting violent protests. [redacted] 25X1

Dominica

Opposition Prepares for Elections [redacted] 25X1

The formation of a new party, the Labor Party of Dominica, was announced on 18 January, following several months of negotiations between opposition leaders. Led by social democrat Michael Douglas, the party comprises members of the United Dominica Labor Party and the Dominica Labor Party, as well as a number of independents, including former Freedom Party Communications and Works Minister Henry Dyer. Although the Marxist Dominica Liberation Movement participated in the alliance talks, [redacted] the Liberation Movement has opted not to field any candidates in the general elections to be held this year. Instead, the Movement—badly weakened since the departure of leader Bill Riviere in mid-1984—reportedly intends to support the Labor Party, using the influence it has in the farm community. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

[redacted] We 25X1
believe the unified opposition will present a stronger challenge to the ruling party in this election than in the 1980 contest, in which the Freedom Party captured 17 of the 21 House of Assembly seats. Douglas, nonetheless, admits that the ruling party will be difficult to defeat and, in a recent conversation with US Embassy officers, conceded that Charles probably will win a second term, albeit by a reduced majority. [redacted] 25X1

St. Vincent

Labor Party Rebuilding 25X1

Political infighting in the opposition Labor Party is likely to continue following the replacement of former Prime Minister Cato after 30 years as party leader. In a special convention held on 22 January, former Deputy Prime Minister Tannis—deputy leader of the Labor Party since 1958—was elected to succeed the ailing Cato, who stepped down as party leader in November. Friction between the party's old guard and the younger members has increased since the party was ousted from power in elections last July. It won only four of the 13 elected seats in the House of Assembly. Younger members place much of the blame for the party's defeat on the corruption and inefficiency of party veterans. The choice of Tannis over ex–Minister of Trade and Agriculture Beach, who represents the younger faction, shows that a majority of the party favors continuity in its leadership. In these circumstances, Tannis will face a difficult task in trying to make peace and strengthen the demoralized party. 25X1

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