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THE OUTLOOK FOR BRAZIL

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THE OUTLOOK FOR BRAZIL

THE PROBLEM

To estimate the situation in Brazil over the next few years, with emphasis on the character of the Quadros government and its foreign policy orientation.

SUMMARY AND CONCLUSIONS

1. In Brazil the pace of change is greater than in any other Latin American country except Cuba, and its national sense of achievement sets it apart from the rest of the continent. Brazil is conscious of its growing strength and population, and powerful drives for more development and international standing underlie the nationwide political and social ferment. Consequently, Brazil's relationships with the US and the rest of the world are changing swiftly. (*Para. 11*)

2. Janio Quadros assumed the Presidency in 1961 following five years of headlong economic development under President Juscelino Kubitschek which went far toward modernizing Brazil, but cost the country economic stability. The flamboyant and free-wheeling Quadros was the popular choice to rescue Brazil from its economic difficulties, to set the financial and administrative house in order, and to enhance greatly Brazil's international prestige through an "independent" foreign policy. He has restored a measure of economic stability—aided by considerable external assistance—and has made a good start toward introducing ad-

ministrative reform and reducing corruption. (*Paras. 17-20*)

3. The financial problems the Quadros government inherited include a large foreign and domestic debt, and serious pressures on the balance of payments. However, Quadros will probably be able to engineer some improvement in the Brazilian financial and economic situation over the next year or so. He is certain to press for additional large-scale external assistance from the West and will also accept Bloc trade and development offers when he thinks it will be advantageous. (*Paras. 40-44*)

4. Despite his auspicious start Quadros is finding it difficult to make rapid progress on Brazil's main problems, and the period through October 1962, when congressional elections are scheduled, will be critical. He has already encountered criticism from conservative forces, especially the military, the press, and the Church, primarily on the ground that his foreign policy favors the Bloc. In Congress, he cannot count on a working majority and he faces other difficulties in

dealing with labor, and the fellow-traveling Vice President, Joao Goulart. Both the political parties and the labor movement are fragmented and can mount only comparatively weak opposition. Also, his conservative foes will probably be unwilling to run the risks of immediate action against him. On balance, however, we believe Quadros will be able to maneuver more or less as a free agent until after the 1962 elections. (*Paras. 21-27, 51, 53-54*)

5. The outlook beyond the 1962 elections is less certain. The congressional election will be the administration's first major political test; should the outcome constitute a vote of confidence, Quadros will be less dependent on manipulation of existing political groups, and will almost certainly step up his efforts to reorganize and reform crucial phases of Brazilian national life. We believe that he will be successful in carrying out substantial administrative reforms in an atmosphere of financial stabilization. Moreover, it is likely that he will obtain sufficient foreign assistance so that he can claim that he is maintaining a reasonable rate of development. Also, Brazil has been for many years one of the most politically mature countries in Latin America and its record in this respect weighs heavily in favor of Quadros. On balance, therefore, it is probable that the Quadros administration will stay in office until the completion of its term in 1965. (*Paras. 55-56, 58*)

6. The Communist Party (PCB) and its pro-Castro allies will probably be able to keep the poor, rural northeast in ferment. There, the 25,000-member Peasant Leagues, led by pro-Communist, pro-Castro Francisco Juliao, have become

a powerful force for social agitation among the rural laborers and tenant farmers. In general, the Communists will probably come into increasing conflict with the administration, particularly on stabilization and other matters of domestic policy. Quadros, however, will probably bear down on them whenever necessary to maintain order. In view of this watchfulness, the Communists and their pro-Castro allies are unlikely to pose a serious threat to Brazil's political stability over the next several years. (*Paras. 28-32, 57*)

7. The largely pro-US armed forces will continue to be the major limitation upon Quadros' freedom of action, although they will continue to support his administrative and economic reforms and probably will tolerate a considerable degree of neutralism in his foreign policy. Quadros' authoritarian bent probably constitutes the most serious threat to his survival as President. His determination to impose his own policies, together with his high-strung temperament, could lead to some hasty action on his part which might cause the military to lay aside their preference for constitutional order and oust him. This would be a likelihood should he move recklessly to reduce the special position of the armed forces, or to abandon Brazil's ties with the West, or should he take definite steps to perpetuate himself in power beyond 1965, in contravention of the constitution. (*Paras. 52, 58*)

8. Quadros will almost certainly continue his unorthodox methods to attain a more important role for Brazil in world affairs. Although he is unlikely to adopt a full-fledged neutralist position, he will probably drive hard bargains in future nego-

tiations with the US. It will be difficult to persuade him to renew the agreement, expiring in January 1962, giving the US rights for a guided missile tracking facility on Fernando de Noronha. However, Quadros is unlikely to jeopardize the basically close ties existing between the US and Brazil, although he may risk subjecting them to considerable strain. Should his ventures into world affairs prove unrewarding, he may be disposed, from time to time, to improve his relations with the US. (*Paras. 45-47*)

9. Quadros is committed to respect Brazil's inter-American obligations, and seems certain to insist on a key role in any important community action, although his ambitions as a statesman extend beyond the continent. He will almost certainly continue to oppose OAS or US intervention in Cuba, and is unlikely to turn on Castro as long as the issue provides him with considerable

leverage with the US. He also hopes to develop closer ties with the underdeveloped nations, especially the Africans; thus, Brazil is likely to demonstrate a more anticolonialist spirit in the future. (*Paras. 49-50*)

10. Quadros' efforts to demonstrate independence of the US have resulted in expanded trade and diplomatic relations with the Bloc. He will almost certainly re-establish diplomatic relations with the USSR before the end of 1961. He may instruct Brazil's delegate to vote for the seating of Communist China at the September 1961 session of the UN; eventually he may go so far as to establish formal diplomatic relations with Peiping. To the extent that Quadros can obtain substantial trade and economic assistance both from the Bloc and the West he will, by his example, encourage other Latin American states to seek closer relations with the Bloc. (*Para. 48*)

DISCUSSION

I. INTRODUCTION

A. General

11. The pace of change in Brazil is greater than in any other Latin American country except Cuba, and its national sense of achievement sets it apart from most of the rest of the continent. Blessed by large agricultural, mineral, and power resources, Brazil's potential has scarcely been scratched, and in many ways it still resembles a frontier nation. However, Brazil is conscious of its growing strength and population, and powerful drives for more development and a place in the international sun underlie the nationwide political and social ferment. In these circumstances, Brazil's relationships with the US and the rest of the world are changing swiftly.

12. Brazil is the largest country in Latin America both in area and in population. It is about the size of the US and its population of some 70 million is growing rapidly. It is expected to reach 120 million by 1980. According to Brazilian statistics, over half of the population is white—the remainder is mostly Negro and mixed blood. Brazil is still predominantly rural; about 60 percent of its people live in the countryside. Nearly half of the populace lives within a few hundred miles of the Atlantic Coast (see map). The population is especially dense in the southeast, where the country's economic activity is concentrated; the vast Amazon basin in the north and the central western sections of Brazil are sparsely settled. More than 40 percent of Brazil's population is under 15 years of age. More than half is illiterate.

13. In Latin America, Brazil has an unusual record for political stability and dedication to constitutional and representative government. Nevertheless, like most of the Latin American countries, it is a nation with extremes of poverty and wealth, of backwardness and sophistication. Industrialization has been rapid in recent years, but Brazil's economy is still dependent on agricultural and some mineral exports. The rural areas remain virtually untouched by change, and transportation, fuel supplies, and communications are far from adequate.

B. Recent Political and Economic Trends

14. Over the last five years Brazil has been deeply involved in an ambitious program of economic development undertaken by President Juscelino Kubitschek, who pledged himself to "50 years of progress in 5." His program stressed the construction of roads, electric power facilities, petroleum refineries, an automotive industry, and a new capital—Brasilia—in the hitherto neglected interior. Development was also the keynote of Brazil's external policies through Operation Pan America (OPA), a proposal for a joint crusade against underdevelopment in the Western Hemisphere.

15. Kubitschek made considerable progress in development, but at the cost of Brazil's financial solvency. In 1959 Kubitschek refused to accept an International Monetary Fund (IMF) proposal to reduce subsidies on certain essential imports. US unwillingness to extend new financial assistance to Brazil in the absence of a stabilization agreement with the IMF led to difficulties in US-Brazilian relations. In addition, soaring inflation and continuing large-scale corruption spurred increasing social unrest.

16. All of these factors intensified economic difficulties, and thus created widespread feeling that it was time for a change in national leadership. However, as Kubitschek neared the end of his term and Brasilia became a reality, the President's personal popularity rose and national pride swelled.

II. THE CURRENT POLITICAL SITUATION

17. Janio Quadros' resounding victory in the 1960 presidential election amounted to virtually a personal vote of confidence. He assessed correctly the national yearning for economic stability and a reduction of administrative inefficiency and corruption without renouncing further gains in development. His past accomplishments, including a term as Governor of Brazil's most important state, São Paulo, were sufficiently impressive to convince the electorate that he was the man who could set Brazil's financial and administrative house in order. Quadros' huge plurality endowed him with unusual strength and prestige, and left him virtually free of party or other commitments.

18. Quadros' campaign was skillfully shaped to appeal to conservatives while making gains in leftist and radical nationalist ranks. His promises of sound monetary policies and far-reaching reforms in government attracted business and middle income groups. São Paulo's influential bankers and industrialists were impressed by promises of undiminished progress within a balanced budget. Quadros gained additional conservative support and access to national political machinery by obtaining the nomination of the National Democratic Union (UDN) Party. By attacks on the shortcomings of the Kubitschek administration, waste and graft (his favorite election prop was a broom), neglect of public health and education, and high living costs, Quadros associated himself with the discontented urban labor vote. His promises of expanded trade and political relations with the Bloc, and an "independent" foreign policy, appealed to the left and strongly nationalistic elements.

19. On entering office, Quadros set the tone of his administration by demanding sacrifice and hard work from all Brazilians and moved at a whirlwind pace to implement his policies through a host of reform and austerity decrees. He dismissed upwards of 15,000 federal employees, instituted a one-year freeze on federal hiring, cracked down on the multi-million dollar coffee smuggling business, and instituted exchange reforms affecting certain

important imports and exports, including coffee. Moreover, Quadros decreed a substantial reduction in federal expenditures.

20. Nevertheless, in the short time since the new administration came to office the character of the President himself and some of his policies have begun to dampen the initial widespread enthusiasm for Quadros and to provoke new political tensions. Quadros is a complicated and controversial personality, whose flair for showmanship and emotional oratory often obscures his demonstrated qualities as a shrewd politician and successful administrator. Essentially conservative in economic affairs, he is liberal in social matters, but defies attempts to label him. A political lone wolf with pronounced authoritarian tendencies, he runs a strictly one-man show intolerant of any opposition, and has proved to be a master of the art of divide and rule.

21. A "Brazil firster," Quadros sees himself as the symbol of national unity and purpose. He is certain of his ability to lead Brazil to new heights on the international scene, and in this way carve a prominent niche for himself in Brazilian history. Apart from his political predilections, Quadros' behavior is to some extent a manifestation of his erratic personality; he is a man noted for emotional outbursts and an irritable and moody nature. Friends and foes of the new President have often charged that his definition of Brazilian self-interest hinges on what he believes is good for Quadros. His critics point as one example to his plans to increase the power of the President's office and to cut the armed forces down to size, both literally and figuratively.

22. Quadros has appeared impatient to establish Presidential dominance over the armed forces and has instructed officers to stay out of politics. He has put those disobeying his orders under house arrest. These actions, along with budget cuts and personnel transfers, have resulted in rising discontent in the military, which has traditionally enjoyed considerable autonomy. The majority of the higher ranks, believing close Brazil-US military cooperation to be essential, is also dissatisfied with Quadros' foreign policy because

it fears he has moved too close to neutralism by treating the US coolly and expanding relations with the Bloc.

23. Long an important stabilizing element on the political scene and largely devoid of regional and party loyalties, the Brazilian armed forces are publicly committed to constitutional government. They are, however, disposed to intervene in politics to preserve established institutions, as they did in 1955. Quadros is aware of this and has acted to blunt their criticism by assigning to the military a prominent role in rooting out graft in the government.

24. In Congress, Quadros cannot count on a working majority, since parties now aligned with him hold only about one-third of the seats. Brazil's 12 legal parties are in general all highly personalistic, and only three are organized on a nationwide basis. There is increasing factionalism in all of the parties, partly due to their heterogeneity, and partly to the bitter competition among party leaders. On the other hand, the profusion of parties and absence of sharp ideological distinctions among them have frequently resulted in coalitions for short run or local objectives. Quadros will probably exploit this condition, as well as widespread allegations of corrupt practices by Congressmen. Nevertheless, the present Congress still has over 18 months to run, and it reflects the electoral strength of the parties as it was nearly three years ago.

25. Quadros faces other difficulties in dealing with the organized labor movement (composed of some 1,800 locals affiliated with about 20 federations or other independent groups). Established under the Vargas dictatorship, the trade unions were modeled on those of the Italian corporate state, and as such became virtually a part of the government structure.¹

¹ Subsequently, they won some degree of latitude in conducting their own affairs, but the government still has the right to grant or withhold union charters, approve elected officers, control union income and expenditures, and determine whether a union has the right to strike. Also, agricultural workers and civil servants are not permitted to join unions.

Moreover, since only about 20 percent of the estimated 20 million members paid dues, the pre-Quadros administrations were able to make union leadership heavily dependent upon the federal government for funds and patronage. The Brazilian Labor Party (PTB) acted as the agent of the government in channeling funds received from the Ministry of Labor, Commerce, and Industry (and the social security and pension agencies) to the labor movement, and thereby enhanced its position among the workers. Quadros' efforts to win mass labor support and to neutralize the rabble-rousing and fellow-traveling Vice President, Joao Goulart, who is also head of the PTB, have resulted in recurrent clashes between the two men.

26. The President has also encountered criticism from conservative forces, the press, and the Church, primarily on the ground that his foreign policy favors the Bloc. In addition, his austerity measures and occasional interference with the press and radio have adversely affected influential groups.

27. Meanwhile, the President is finding it difficult to make rapid progress on Brazil's main problems despite his auspicious start. Even though he has already secured from the US and international banking circles \$1.3 billion in new loans and postponement of debts, there are enormous obstacles to maintaining the momentum of development. Public discontent over continuing price rises is mounting. Chronic budget and balance of payments problems persist, and state and federal agencies are flooding Brasilia with requests for funds.

28. Quadros is confronted with a special and urgent problem in the economically depressed northeast, which comprises one-sixth of Brazil's land area and includes about 30 percent of the total population. The inland area (sertão) of the northeast suffers from chronic drought, while in the crowded sugar producing coastal area, land is unequally distributed and badly utilized.

29. Quadros is quite properly fearful of these conditions which are already resulting in rural agitation and unrest and he is trying

hard to follow through on his campaign pledge to take prompt steps to improve the lot of the peasant. Under a \$900 million 5-year program drafted by Celso Furtado, head of SUDENE (the northeast development agency), various local revenues equal to \$500 million are earmarked for development and resettlement projects. A US grant of \$35 million in the form of PL 480 local currency funds is being extended for various small-scale projects in the area and more massive US help may be provided as a consequence of the recent visit of Celso Furtado to Washington.

30. Since 1957, the Ligas Camponesas (Peasant Leagues),² numbering some 25,000 members and led by pro-Communist Francisco Juliao, have become a powerful force for social agitation among the rural laborers and tenant farmers. Juliao has visited Cuba and Communist China, and the Leagues are heavily infiltrated by Communists. Many of their members are sympathizers with the new Cuba. They are the only organized peasant movement in Latin America looking to Cuba (and also to Communist China) as a model of agrarian reform. They are organized in cell-like groups in villages and on plantations, and provide a corps of lawyers to defend the rights of tenants; the leaders use their influence on the peasants to whip up revolutionary sentiment in the area.

31. The northeast apart, Castro's impact in Brazil has been slight and has declined from its high-water mark in 1959. Actively pro-Castro groups are composed chiefly of Communists and their sympathizers. Much of Castro's strength lies among the students but even in this group his ardent supporters are a small minority.

32. The illegal PCB is in no position to challenge the administration. A long internal struggle has cost it severely in prestige and numbers; its overall effectiveness has declined. However, its remaining estimated 25,000-30,000 members, drawn mainly from intellectual and student circles and industrial workers, constitute a disciplined

² Officially termed the *Sociedade Agricola e Pecuaria dos Plantadores de Pernambuco* (SAPP).

hard core which retains a potential for more effective action against the government. The Communists opposed Quadros in the election despite his pledge that he would not oppose legalization of the party. At present he has the Communists off balance through his policies of recognition and expanded trade deals with the Bloc, and the party is divided over the question of whether to support or oppose him.

III. THE ECONOMIC PROBLEM

33. Brazil is one of the two or three most highly industrialized countries in Latin America and has by far the richest potential of any. It is moving out of its traditional role as a producer of raw materials and is now largely self-sufficient in essential consumer products (major imports are wheat, fuels, and heavy machinery). The modern sector of the economy, centered in São Paulo and vicinity, has demonstrated great vigor in the past decade or two and produces about 80 percent of gross national product (GNP). Nevertheless, in spite of Brazil's wide range of industrialization and the abundance of its resources, the country is still underdeveloped and, although the economy is expanding and becoming diversified, economic growth is uneven. Rail and road links between the coast and interior are few and far between and even those along the coast are largely outmoded or inadequate. There is no through rail connection between the important southeast industrial complex and the rest of the country, and, apart from the Amazon, rivers are little used for transport. Meanwhile, rapid urbanization is straining public services and giving rise to serious slum conditions. In the decade from 1940 to 1950 a net movement from rural areas to cities and towns of about three and one-half million people occurred; since then the rate has been greatly accelerated by waves of migrants from depressed areas.

34. Agriculture and related industries employ more than half of the labor force, and earn almost all of Brazil's foreign exchange. Output for domestic consumption has, however, barely kept ahead of population growth dur-

ing the past decade and in the northeast and Amazon regions, farming at scant subsistence levels is widespread. Moreover, agriculture is generally backward and inefficient and only two percent of the land is under cultivation. Poor land utilization, uneven population distribution, poor health conditions, and a high degree of illiteracy stand as major obstacles to improved agricultural output.

35. Brazil has extensive mineral resources although they are largely underdeveloped as yet due to nationalistic pressure against development by foreign capital, poor rail transportation and other factors. However, Brazil is already a leading producer of strategic minerals.³ It has about one-fifth of known global iron ore reserves, much of which contains an extraordinary 67 percent of iron. Its high grade manganese reserves are estimated to be over 50 million metric tons, fourth largest in the world. However, Brazil lacks coking coal and produces only about 30 percent of its crude oil needs. Present development and exploration give little hope for important increases in crude oil production, although there are some possibilities in the development of the extensive Paraná shale oil reserves. Soviet interests are already dealing with a private Brazilian shale oil concern in São Paulo state.

36. Brazil derives about 90 percent of its export earnings from agriculture, including chiefly coffee, cotton, and cocoa; all have been hit by declining world prices. Coffee alone provides about 60 percent of Brazil's export earnings. However, with the weakening of the world price for coffee, earnings from this commodity slumped from \$1.1 billion in 1956 to \$713 million in 1960. By July 1961, the government had stockpiled about 64 million bags; yearly world consumption is about 50 million bags.⁴ The Quadros government has announced a policy of eliminating the worst

³ They include beryl, mica, monazite, quartz crystal, rutile, tungsten, tantalite, and zirconium among others.

⁴ Brazil's annual quota for sale to traditional markets—as determined by the International Coffee Agreement (ICA)—is 17.4 million bags; its annual crop varies from 27 to 45 million bags.

aspects of the coffee subsidy arrangements that contributed to overproduction and accumulation of large stocks. The new policy aims at fostering the production and export of high quality coffee (only about 60 percent is now of export quality), taking uneconomic plantings out of production, and freeing land for other agricultural output.

37. The postwar period has been one of notable economic progress in areas other than agriculture, and record production and employment levels have been attained. The economy was spurred on by a \$6 billion development program and by a sustained high level of foreign and domestic investment. GNP in recent years has been growing at the rate of about 6 percent and in 1960 was about 30 percent of total Latin American GNP. Investment in this same time span has been nearly 15 percent of GNP. Although much lower in certain areas, such as the northeast, overall per capita income increases over the last decade have averaged about 4 percent despite a booming population growth of 2.4 percent annually; average annual per capita income is about \$300.

38. The Quadros government inherited a large foreign and domestic debt. Quadros' most pressing problems have been to refinance Brazil's foreign debt of \$2.5 billion, of which \$733 million was due in 1961 (as against total estimated exchange earnings of only \$1.2 billion) and to obtain new development funds. He had to grapple with a budget imbalance of nearly 30 percent while attempting to bring down the cost of living, which had risen 26 percent from March 1960 to March 1961 in some areas. Moreover, he was forced to deal with the balance of payments deficit brought about in large part by inflationary credit and exchange policies, including subsidization of several major imports.

39. In early 1961 Quadros eased his financial problem by negotiating an aid "package" of approximately \$1.3 billion with international lending institutions, US Government and private bankers, and other Western governments, to assist in meeting his immediate obliga-

tions.⁵ In addition, he launched his campaign to secure new markets for Brazilian commodities and to seek nondollar capital goods by expanding trade links with the Bloc⁶ and with Western Europe. In an effort to balance the government's budget and stabilize prices, he has reduced borrowing from the Central Bank and proposed drastic new reserve requirements for commercial banks and measures to curb inflationary private lending. He has instituted a free-exchange system, eliminating former costly trade subsidies; has begun to curtail government payrolls, and to reduce official graft; and is attempting to place inefficient state enterprises, especially the railroads, on a sound economic footing.

40. The financial reform instituted by Quadros, plus the foreign aid package accumulated from both the Western countries and the Soviet Bloc, will probably bring about an improvement in the Brazilian financial and economic situation over the next year or so. Public grumbling over austerity measures will be softened by flexibility in their application and

⁵ The US agreed to reschedule payments over 20 years of \$305 million of Brazil's total \$530 million debt to EXIMBANK, and to provide new credits of \$338 million. US commercial banks agreed to postpone repayment obligations of \$114 million. The IMF agreed to reschedule Brazil's \$140 million debt and to extend a new standby credit of \$160 million. In addition, a number of European countries agreed, in principle, to extend new loans of \$110 million, and to postpone existing obligations amounting to about \$100 million. In the period 1953-1960 Brazil obtained credits amounting to over \$1 billion from the IMF, the US, and private US banks, but the pace of development and a gradual worsening of the terms of trade in those years led to a depletion of Brazil's foreign exchange reserves.

⁶ Since 1 February 1961 Brazil has signed or renewed trade pacts with Albania, Bulgaria, Rumania, Hungary, Poland, Czechoslovakia, and East Germany, claimed to provide for total trade goals of \$3-4 billion, cumulative, over the next five years. In addition, an agreement calling for total trade of \$80 million over the next year was signed with the USSR and trade talks were begun with Communist China. These agreements as drawn envisage an increase during the next five years in Bloc participation in Brazil's total trade from about 6 percent to around 30 percent. However, if the Bloc is to increase substantially its share of Brazilian trade greatly increased coffee imports must constitute the bulk of its purchases.

the provision of funds for development and welfare in the states. A pre-election bargain with labor to hold down wage demands for a year should also give Quadros some economic leeway over the short run.

41. The pace of economic development has undoubtedly been slowed during the current period of adjustment to new exchange and price policies. Quadros is, however, aware of the national commitment to economic development and of the severe political penalties for failure to meet expectations among many sectors of the population. Resources and energies are most likely to be directed toward remedy of social evils that threaten political stability and toward correction of the imbalance in growth between the urban and the agricultural sectors of the economy. In addition to the northeast development plans, Brazil is expected to present shortly a 10-year development program for the country as a whole. Quadros is certain to press for large-scale external assistance and will also borrow from the West to the limit of his country's capacity. In addition, he will accept Bloc trade and development offers when he thinks it will be advantageous.

42. Quadros' quest for an expansion of trade with all countries is already in full swing, especially in pursuit of nondollar sources of supply. Establishment of diplomatic relations has already accompanied negotiation of numerous trade pacts with the Soviet Bloc. In the case of East Germany, it is probable that only trade relations will be fostered in the near future. In all cases, Brazil can be expected to insist on the present policy which avoids extension of credit to the Bloc.

43. Quadros seems certain to continue to encourage foreign investment but on a more selective and restrictive basis than Kubitschek.⁷ Profits and remittances may be limited, especially in the event of a severe balance of payments crisis; foreign banks may be pushed out of certain lucrative lending operations; nationalistic policies regarding shipping and

⁷ US private direct investment is mainly in manufacturing and amounts to around a billion dollars.

insurance can be expected; and pressures against foreign exploitation of mineral deposits will probably increase. He has already put before Congress legislation to accomplish some of these aims. His determination to stabilize Brazilian monetary policy at home and abroad, coupled with his success in obtaining large-scale external assistance, will probably go a long way toward restoring Brazil's international financial standing. On the other hand, if Quadros' monetary stabilization efforts fail or foreign aid proves insufficient to provide political and economic stability, pressures on foreign interests, especially US, can be expected to intensify.

44. Even though the prospect over the short term is for at least some alleviation of Brazil's financial and economic plight, the road ahead will be far from easy. Overproduction of coffee and balance of payments problems are characteristics of Brazil's situation, and service on current foreign debts will drag on for a decade or more. Moreover, as the President's term unfolds, he probably will find that his margin for maneuver in dealing with a wide range of economic and financial problems will narrow. However, Brazil's wealth of natural resources, its great potential in iron ore and sugar, its growing industrial sector, and the rise of a middle and entrepreneurial class suggests that the country's long-range economic outlook is good.

IV. EXTERNAL AFFAIRS

45. Quadros is convinced that Brazil is becoming a world power. He believes that he can hasten this process by pursuing a dramatic and independent-minded policy in foreign affairs. Although he declares no desire to break Brazil's heretofore firm alignment with the West and probably does not see himself as a full-fledged member of the neutralist camp, he has been impressed by the success on the world scene of such prominent neutrals as Tito and Nehru. This has contributed to his hope that, by building up his country's prestige he can command respect for Brazil's counsels, in addition to obtaining economic assistance from both East and West.

46. In the past Brazil has maintained a policy of close and friendly relations with the US and almost automatically supported US policies. Brazil was a US ally in both World Wars. However, shortly after World War II Brazil felt that its aspirations for development and international standing were not receiving sufficient support from the US. This led to friction between the two countries and Brazil became progressively less responsive to US leadership. Strong US support for Argentina in recent years and US failure to back OPA were new causes for Brazilian irritation. By 1960 it began to appear that the traditionally easy relationship between the two countries was a thing of the past.

47. Given this situation, Quadros found a favorable atmosphere for his attempt to place US-Brazilian relations on a new footing, one calculated to demonstrate Brazil's independence of the US. He will probably drive hard bargains in future negotiations with the US. It will be difficult to persuade him to renew the agreement on the Fernando de Noronha guided missile tracking facility, which expires in January 1962. He will be under considerable pressure from the military to renew, but he will probably set a very stiff price. If the US is unwilling to give what he considers an adequate *quid pro quo*, Quadros may well prefer to satisfy the ultranationalists at the expense of US-Brazilian relations. Nevertheless, Quadros is unlikely to jeopardize the basically close ties existing between the countries, although he may risk subjecting them to considerable strain. Should his venture into world affairs prove unrewarding, he may be disposed, from time to time, to improve his relations with the US.

48. Partly to balance off ties with the US and the West, Quadros has expanded diplomatic and economic relations with the Bloc.⁸ He

⁸ Since 1 February 1961 diplomatic relations have been established with Rumania, Bulgaria, Hungary, and Albania. Brazil has had formal diplomatic relations with Czechoslovakia and Poland for some time. In this connection Quadros also terminated formal relations with the Baltic states' governments-in-exile.

has accepted an invitation to visit Moscow—date not yet fixed—and will almost certainly re-establish diplomatic relations with the USSR before the end of 1961. He has already been assured substantial trade and economic assistance from that quarter as the price of recognition. He has announced that he will no longer support the moratorium on the Chinese representation issue, and may instruct Brazil's delegate to vote for the seating of Peiping in the UN at its next session. Eventually he may go so far as to establish formal diplomatic relations with Communist China. To the extent that Quadros can obtain substantial trade and economic assistance both from the Bloc and the West, his example will encourage other Latin American states to seek closer relations with the Bloc.

49. Quadros is committed to respect Brazil's obligations in the inter-American community, and despite the secondary priority he assigns to things Latin American, he seems certain to insist on a key role in any important community action. Quadros' actions indicate that he does not believe Castro's Cuba to be a threat to Brazil or the Western Hemisphere, and like many Latin Americans he finds it convenient to treat the Castro problem as if it were a bilateral one between the US and Cuba. Quadros has shown considerable sympathy with the Cuban revolution and will almost certainly continue to oppose OAS or US intervention there. He is unlikely to turn on Castro as long as the Castro issue provides him considerable leverage with the US.

50. Quadros hopes to develop close ties with the underdeveloped nations as part of his program to upgrade Brazil's international prestige. He has already devoted special attention to establishing diplomatic and cultural relations with a number of African states. Much of Brazil's interest there is economic, but the Brazilians also see themselves as a bridge of western influence to Africa. While Brazil is reluctant to sacrifice its strong bonds with Portugal, it is likely to demonstrate a more active anticolonialist spirit than previously in the UN and elsewhere, as it expands relations with the Afro-Asian states.

V. THE OUTLOOK FOR THE QUADROS ADMINISTRATION

51. The period through October 1962, when the entire lower house of the legislature, two-thirds of the Senate, and half the governors are to be elected, will be critical for the Quadros government. Quadros' measures to cope with pressing economic and political problems—on the home front and abroad—will continue to arouse opposition from influential groups whose interests are adversely affected. If there is no noticeable economic and social progress, the public will become increasingly disillusioned. Moreover, his failure to delegate authority and his often high-handed way of governing seem certain to breed new political tensions.

52. The armed forces will continue to be the major limitation upon Quadros' freedom of action. They will continue to support his administrative and economic reforms and probably will tolerate a considerable degree of neutralism in his foreign policy. On his side, Quadros realizes the deep attachment of the military to the West, particularly the US, and is unlikely to act in such a way as to jeopardize his tenure by provoking the armed services on this account. Nevertheless, he will almost certainly persist in attempts to increase his control of the military. In these circumstances, the outlook is for new frictions between the armed forces and the President, as well as emerging divisions within the military along pro- and anti-Quadros lines.

53. However, Quadros has impressive short run advantages. He came to office with—and retains—enormous popular support which will, at least for a time, counteract opposition arising from his differences with the military and his lack of whole-hearted support from most political parties. He is striving energetically to strengthen his direct ties with the masses. Certainly, his early success in obtaining a large-scale aid package from the West will go far toward meeting criticism of his distant attitude toward the US and of his "soft" policy on Cuba and closer relations with the Bloc.

54. Failure to produce positive results from his austerity policies or from his social and economic improvement programs might provide issues which could be used against Quadros in the period immediately prior to the 1962 elections. However, both the political parties and the labor movement are fragmented and can mount only comparatively weak opposition. Also, his conservative foes will probably be unwilling to run the risks of immediate action against him. On balance we believe Quadros will be able to maneuver more or less as a free agent until after the 1962 elections.

55. We are less certain of the course of events beyond 1962. The congressional election will be the first major political test for the Quadros administration, and the outcome cannot be forecast. If the results are such as to constitute a vote of confidence, Quadros will be less dependent on manipulation of existing political groups, and will almost certainly step up his efforts to reorganize and reform crucial phases of Brazilian national life.

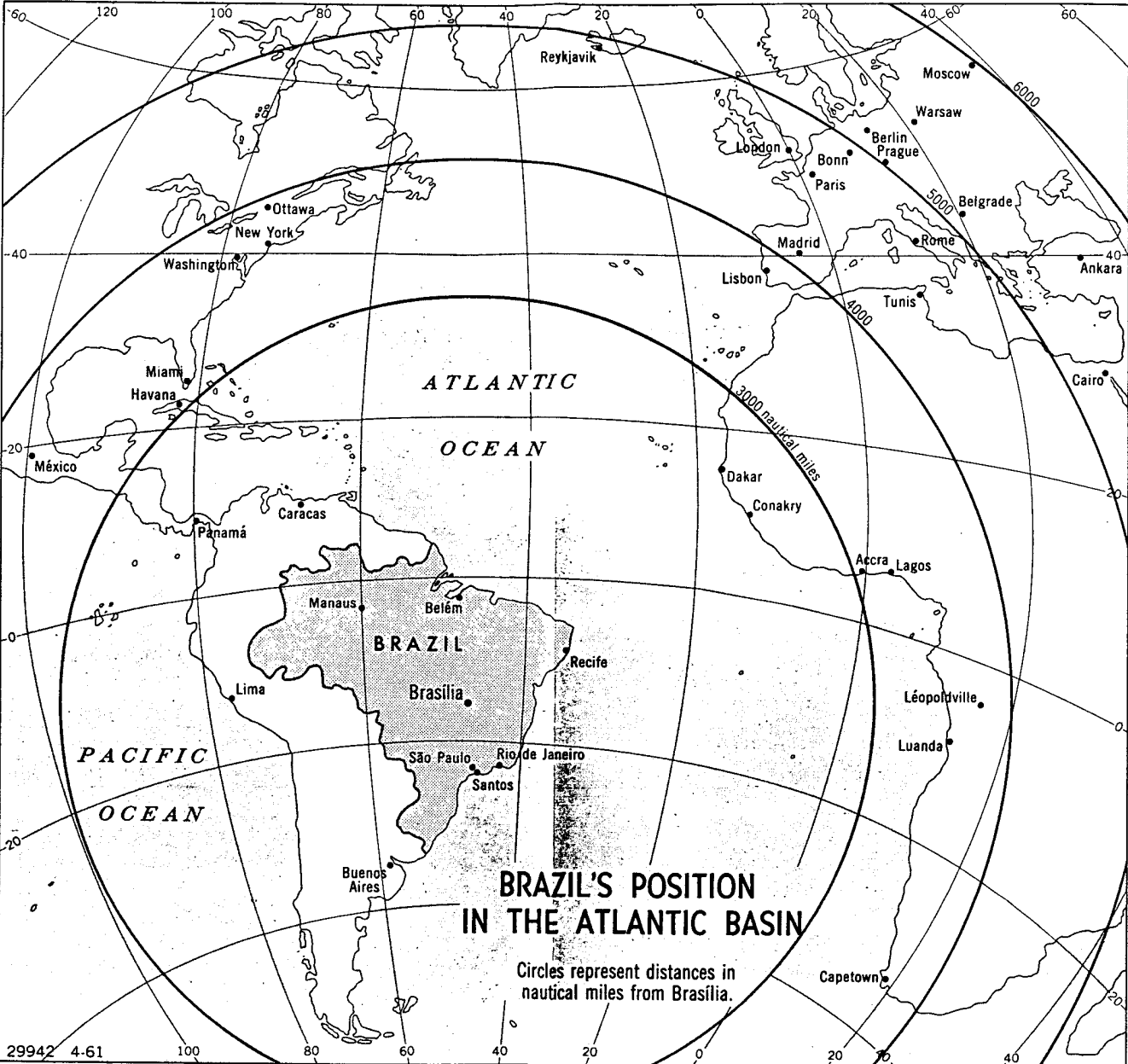
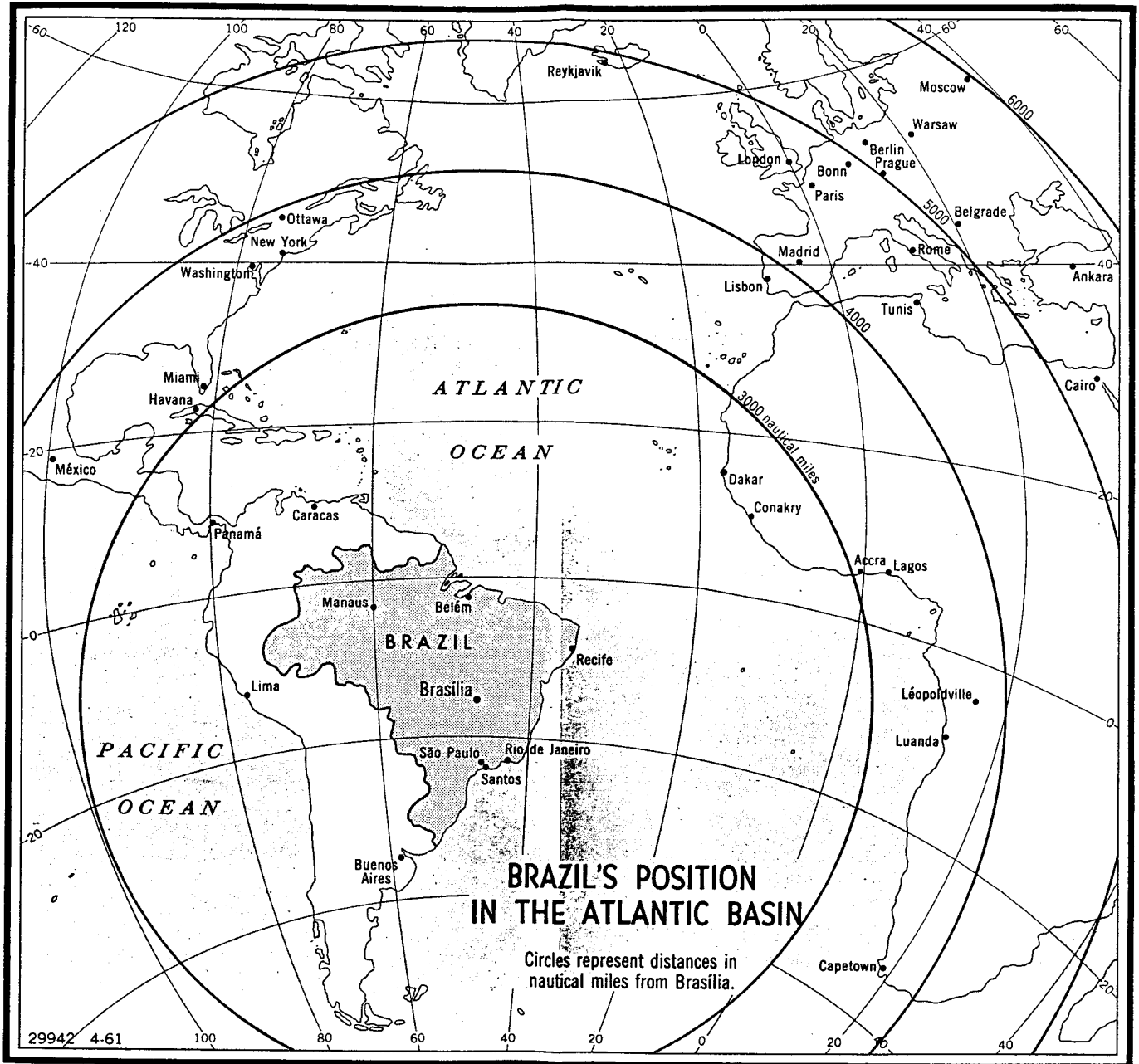
56. We believe that Quadros will be successful in carrying out substantial administrative reforms in an atmosphere of financial stabilization. It is also likely that he will obtain sufficient outside help so that he can claim that he is maintaining a reasonable rate of development. Moreover, Brazil has been for many years one of the most politically mature countries in Latin America and its record in this respect weighs heavily in favor of Quadros. Former President, now Senator, Kubitschek probably will be careful to avoid building a reputation as an obstructionist, since he plans to make a second bid for the office of Chief Executive in 1965. By and large, therefore, congressional opposition will probably be more responsible than it has been in the past.

57. The Communist Party and its pro-Castro allies will probably be able to keep the northeast in ferment. Quadros is likely to hold to his campaign promise not to oppose legalization of the PCB, and it is possible that the PCB will become legal in the next year or so. PCB legalization, coupled with expanded Bloc relations, would probably increase Communist respectability and potential. The Communists will probably come into increasing con-

flict with the administration, particularly on stabilization and other matters of domestic policy. Quadros, however, will probably bear down on them whenever necessary to maintain order. In view of this watchfulness, the Communists and their pro-Castro allies are unlikely to pose a serious threat to Brazil's political stability over the next several years.

58. Quadros' authoritarian bent probably constitutes the most serious threat to his survival as President. His impatience with the legislative process and his determination to impose his own domestic and foreign policies, together

with his high-strung temperament, could lead to some hasty action on his part which might cause the military to lay aside their preference for constitutional order and to oust him. This would be a likelihood should Quadros move recklessly to reduce the special position of the armed forces, or to abandon Brazil's ties with the West, or should he take definite steps to perpetuate himself in power beyond 1965, in contravention of the constitution. On balance, it is probable that the Quadros administration will stay in office until the completion of its term in 1965.



ATLANTIC
OCEAN

PACIFIC
OCEAN

BRAZIL

**BRAZIL'S POSITION
IN THE ATLANTIC BASIN**

Circles represent distances in
nautical miles from Brasilia.

29942 4-61

100

80

60

40

20

0

20

40

60

80

100

120

60

120

100

80

60

40

20

0

20

40

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40

20

0

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60

80

100

120

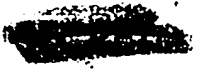
3000 nautical miles

4000

5000

6000





SECRET