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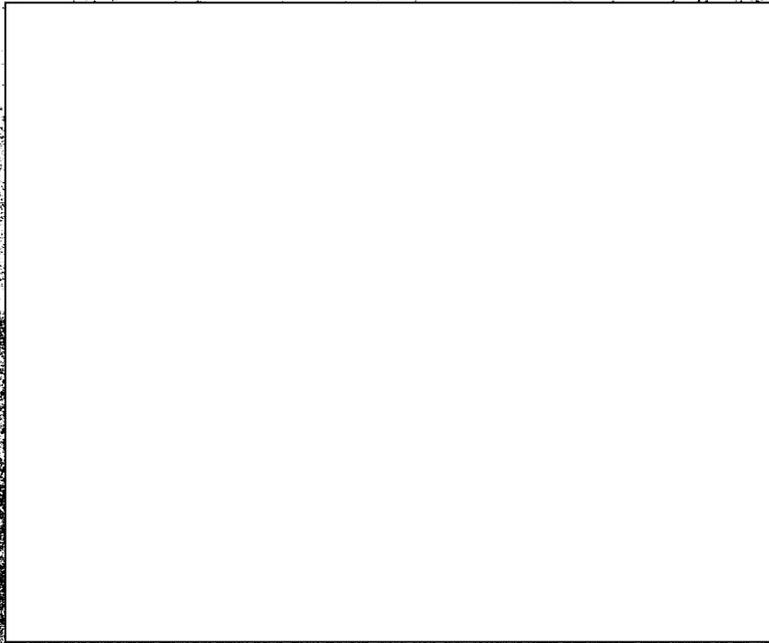
NATIONAL INTELLIGENCE ESTIMATE

The Outlook for Brazil

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NIE 93-1-75
11 July 1975

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APPROVED FOR RELEASE
DATE: APR 2002



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NIE 93-1-75

THE OUTLOOK FOR BRAZIL

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The Assistant Chief of Staff for Intelligence, Department of the Army

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THE OUTLOOK FOR BRAZIL

PRECIS

Brazil's long-term economic prospects are good, but in the shorter term it will experience reduced rates of growth, relatively high rates of inflation, and large deficits in its balance of trade.

- Brazil's prospective growth rate for 1975 constitutes good performance by current world standards, although it will be a disappointment of expectations after the 10 percent annual growth of 1968-1974.
- Discontent with economic conditions contributed to the unexpected success of the opposition party in last November's election.
- Should economic conditions appreciably worsen, the regime would become increasingly vulnerable to attack by its domestic critics and there could be a resurgence of economic nationalism.

President Geisel has undertaken to liberalize the political system through a process which has come to be known as "decompression."

- The aim is to ease controls on political activity and to widen participation in the political process.
- "Decompression" has had some important results, including the remarkably free 1974 congressional elections and some easing of press censorship.
- But it rests on a fragile consensus among various groups not to challenge the *status quo* in any serious way, and it has run into opposition from conservative members of the military hierarchy.

— The outlook for political liberalization in Brazil, although better than at any time since 1968, is still not particularly favorable.

— A return to civilian rule in the next few years is highly unlikely.

Pragmatic considerations, particularly economic ones, will continue to guide the formulation of Brazilian foreign policy.

— Preferential treatment for Brazilian exports will be a primary goal, and protectionist measures by the developed countries will be viewed as inimical to Brazil's vital interests.

— Brazil has aspirations to a role as an emerging world power, and its policymakers have a sophisticated understanding of the reality of economic interdependence and of the constraints imposed on Brazil's autonomy by its need for foreign capital, technology, and raw materials.

— Nonetheless, Brazil remains an underdeveloped country, and it will side with such countries on many issues in order to secure economic concessions and to force a redistribution of the world's wealth to its own advantage.

— Brazil cannot aspire to become spokesman for the Spanish-speaking countries of Latin America, but wants to solidify its position as the paramount power there so that it can play an international role as an emerging major power.

While Brazil has almost certainly not made a decision to develop nuclear weapons, the government does not want to foreclose this option.

— It sees nuclear power as an important factor in supplying its future energy requirements.

— It regards US pressure to sign the Nuclear Nonproliferation Treaty as an unacceptable infringement of its sovereign rights.

— It is purchasing from West Germany the technology and facilities for a complete nuclear fuel cycle.

Within a framework of strong traditional ties, Brazil's foreign policy will almost certainly diverge increasingly from that of the US.

— Disagreements are most likely to involve economic issues and will probably become more numerous with the passage of time.

— Despite differences on specific issues, Brazil overall will continue to desire close and cooperative relations with the US.

DISCUSSION

BACKGROUND

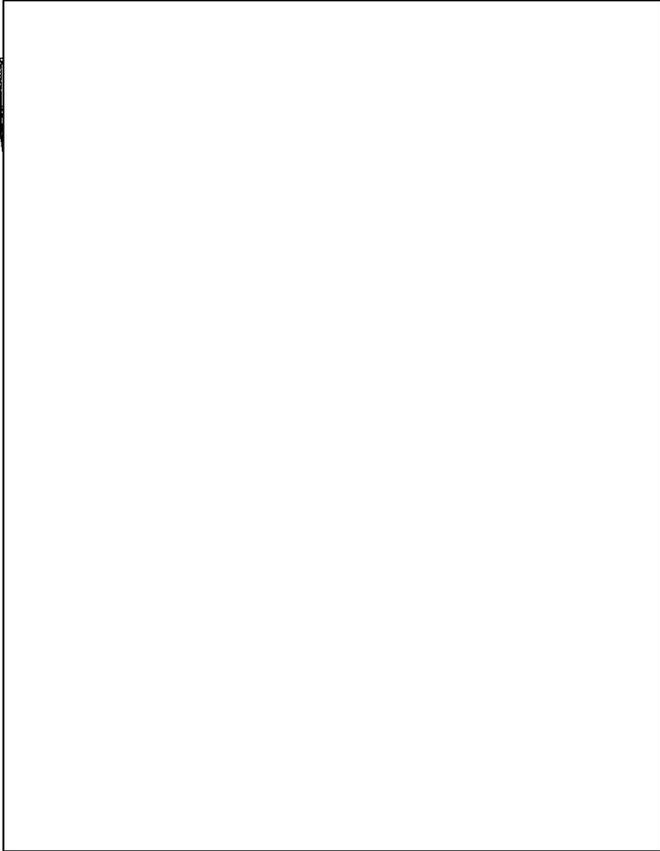
1. Eleven years have passed since the military-led rebellion which overthrew leftist-oriented President Joao Goulart on March 31, 1964. At the time, most civilians, including politicians who backed the coup, assumed that the intervention was of the sort well established in the Brazilian political tradition and that power would soon revert to civilian hands. Most military leaders, however, came to see their role in the reformation and development of Brazil as a longer-term undertaking. The succeeding years brought a series of measures which progressively restricted political activity and consolidated military control. These measures were justified as necessary to transform Brazil into a developed nation and to reform its political structure.

2. By the end of 1968, the regime had brought the political opposition under effective control, and by 1970 had virtually eliminated leftist terrorists. To do this, it resorted to many repressive measures, including press censorship, arbitrary arrest in cases of suspected subversion, and in some cases torture and murder of political prisoners. The regime's tactics intimidated most Brazilian opponents who remained in the country, while its economic successes created a large degree of support among important sectors of the population. Many Brazil-

ians were also inspired by the prospect of at last realizing Brazil's elusive quest for national greatness.

3. A unique system has evolved in Brazil. While the armed forces leadership retains ultimate authority and discretion over basic policy, economic strategy and operational functions are left to bureaucracies managed by technocrats and, in some cases, by qualified retired military officers. Political power is centered in the presidency, which since 1964 has always been filled by a retired general. In the economic area, the regime has been particularly responsive to industrialist and entrepreneurial groups concentrated in Sao Paulo, whose interests have been reflected in the choice of economic planners and the policies followed.

4. Ernesto Geisel assumed the presidency in March 1974 amid speculation that he would initiate a political liberalization designed to increase popular participation in government and broaden the the political base of the regime. Almost simultaneously, clouds began to appear on Brazil's economic horizon. A remarkably free election took place in November 1974 which resulted in significant gains for the sanctioned opposition party and aroused expectations in many quarters of greater political freedom. At present, there is increasing uncertainty about the future direction of the gov-



progressively from more than 90 percent in 1964 to a low of 15.5 percent in 1973. The accuracy of these figures has often been questioned, however, and the rate for 1973 concealed a large element of repressed inflation which was reflected in the much higher rate for 1974. Despite continuing inflation, a complex system of automatic monetary correction (commonly called indexing¹) has helped rationalize economic decision-making and encourage domestic savings.

7. The Brazilian economic boom has been characterized by exceptionally strong growth in the industrial sector and in exports. Industrial production has increased by nearly 150 percent since 1965, and in 1973 alone it increased by 15 percent. The automobile and chemical industries have shown the largest increases, but all major industries have expanded at an impressive pace, with the industrial sector representing a growing share of total GNP (25 percent in 1967 to 30 percent in 1974). A program of domestic export incentives and a series of frequent mini-devaluations have helped keep Brazilian products competitive on the world market. Since 1969 the total value of exports has more than doubled, and in 1973 the figure jumped by 55 percent over the previous year. Manufactured products have experienced the greatest increase, nearly doubling their share of the total. Nonetheless, three fourths of Brazilian exports are still primary products and semimanufactures.

8. Development planning for 1975-1979 reveals a change of emphasis from concentration on certain dynamic industries toward a more balanced growth of the whole economy. The planning stresses a drive for import substitution in capital goods and raw materials, and stimulation of internal consumption. It also reflects a growing realization that, given the changing price picture in primary products,

¹ This is the technique of adjusting the nominal value of a wide range of assets and contracts such as government bonds, rents, and savings accounts, to a so-called objective price index. The value of a financial transaction or asset is automatically readjusted over time so that it does not lose "real" value, thus reducing the need to anticipate the effects of inflation when the transaction is originally negotiated.

ernment and the economy, and about the degree of "decompression" that will be tolerated.

THE ECONOMIC SITUATION

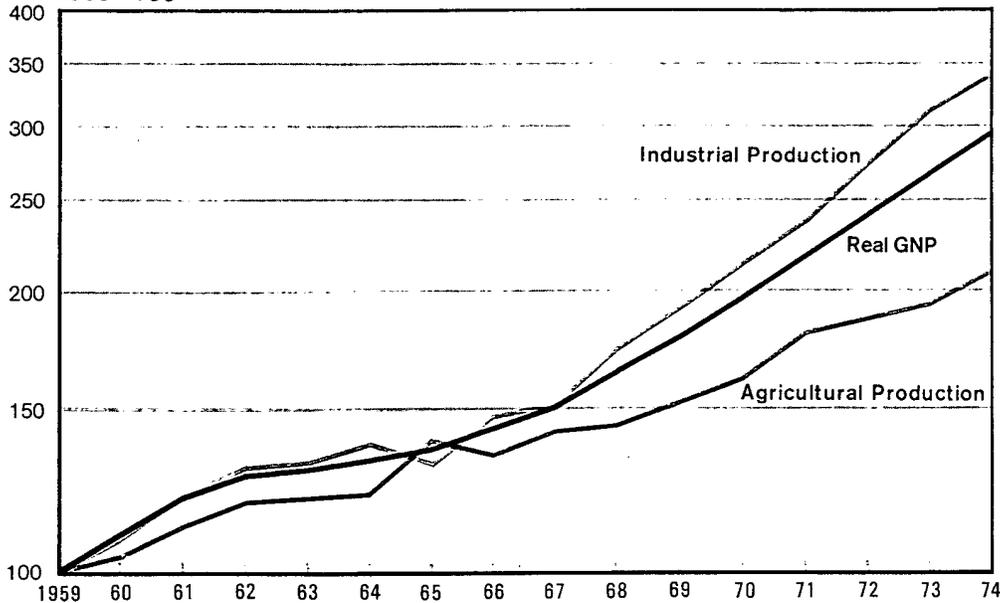
5. With the possible exception of national security, economic development has remained the principal preoccupation of the regime established in 1964. The Brazilian economy experienced a recession from 1964 to 1967, a period during which inflation was brought to a manageable level. But the drastic economic measures taken during that period laid the basis for an impressive period of expansion under the direction of Finance Minister Delfim Neto (1967-1974). During 1968-1974, gross national product (GNP) grew by about 10 percent each year (see Figure 1).

6. In the politically sensitive area of inflation, Brazil had considerable success through 1973. The official figures for annual rates of inflation fell

Figure 1

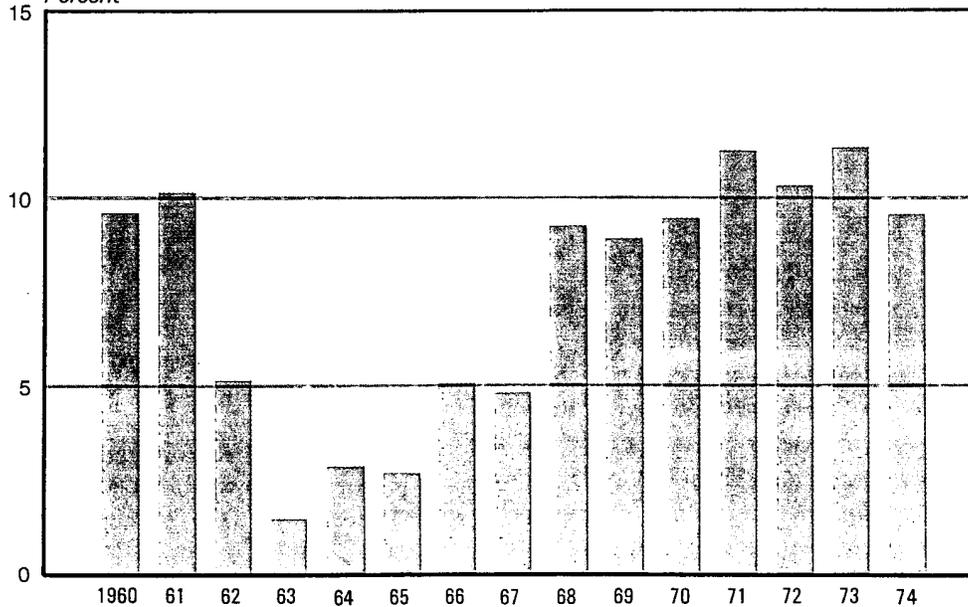
Growth of Brazil's GNP, Industry and Agriculture

1959=100



Brazil's Annual Increase in Real GNP

Percent



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Brazil's future prosperity may depend more on developing its agricultural potential than on its ability to market its manufactures abroad. The planning de-emphasizes grandiose projects such as the Trans-Amazonian highway, and it cautions against exaggerated expectations for growth.

9. Despite the phenomenal growth of the Brazilian economy during the past six years, severe problems remain. Development has been uneven and concentrated in the center-south, particularly in highly urbanized areas in the states of Rio de Janeiro, Sao Paulo, and Minas Gerais. Other parts of the nation have done much less well. The northeast, for example, remains seriously underdeveloped despite many government attempts to encourage economic activity in the area. Inequities in income distribution persist, with the benefits of growth heavily concentrated at the highest income levels. Additionally, millions of Brazilians continue to live on the fringes of the money economy and minimum wage laws and literacy campaigns have yet to reach them.

10. Strains are developing that will almost certainly diminish Brazil's sustained high rate of growth for the next year or two. Although the government has remained publicly bullish about the economic outlook, the growth rate will probably drop to about 5 percent or less this year and chances are at least even that it will be no better in 1976. A growth rate of about 5 percent would still represent good performance, particularly in comparison with stagnation in the developed world, but would mean a substantial drop from the 10 percent averaged since 1968, the year the "miracle" began.

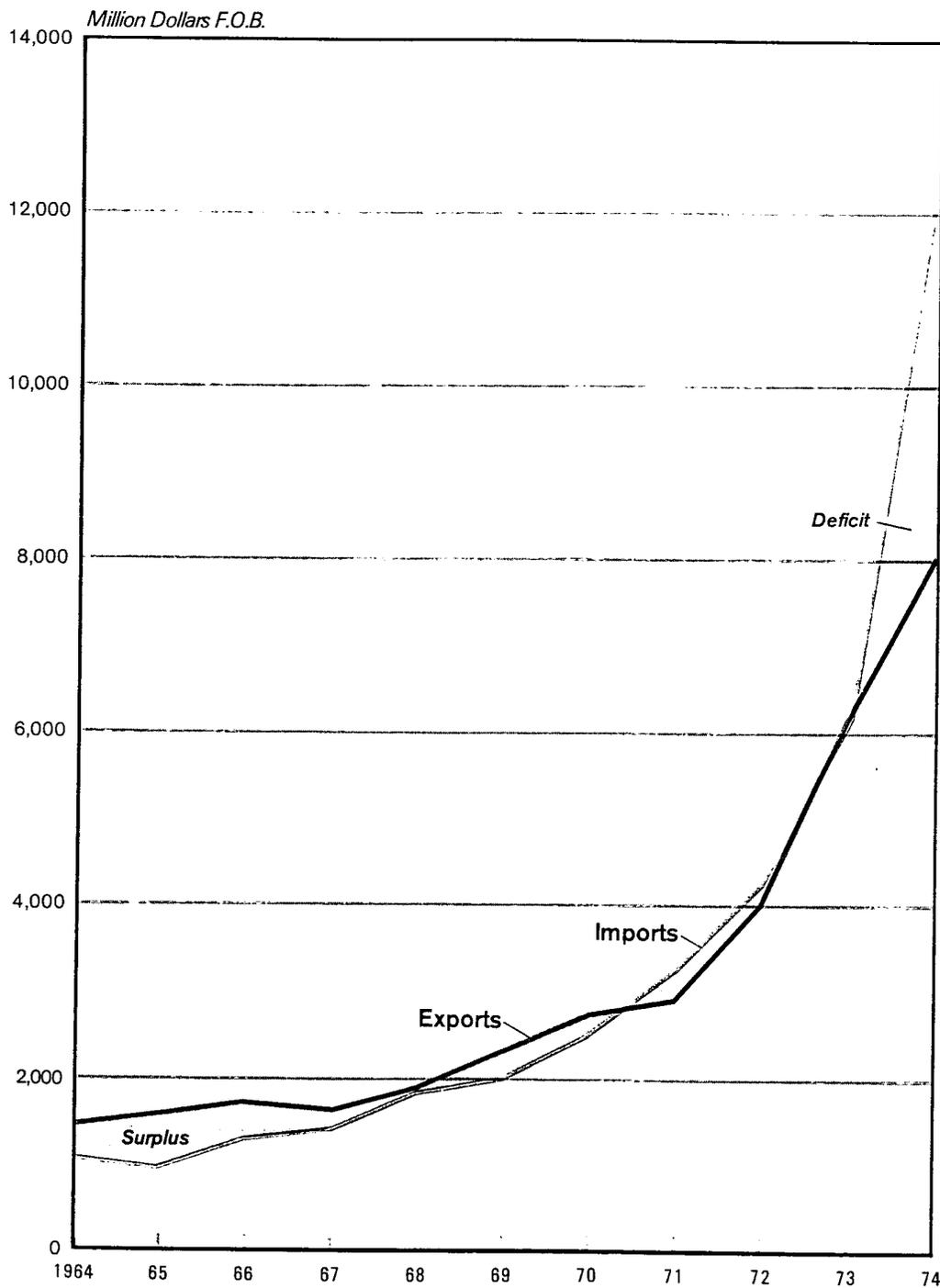
11. Chief among Brazil's problems is the increasing deficit in the balance of trade, which has become a constraint on economic growth (see Figure 2). Attention has been focused primarily on the skyrocketing expenditures for imported petroleum (about 80 percent of Brazil's consumption), which more than tripled during 1974, but Brazil's outlay for imported goods has jumped by extraordinary amounts in all major commodity groups. Exports continued to increase at a respectable rate during

1974, but not rapidly enough to compensate for the soaring costs of imports. The combined trade deficit and outflow for services produced a deficit on current account of approximately US \$7 billion in 1974.

12. During the past five years, Brazil has been able to offset its current account deficit by attracting massive inflows of capital from abroad. New direct foreign investment rose from US \$63 million in 1968 to about \$1 billion in 1974, and the total accumulated direct foreign investment (including reinvested profits) climbed from \$3.6 billion to \$6.6 billion in the same period. The US accounts for the largest share of direct foreign investment with about 37 percent of the total, but Japan has increased its investment more rapidly than any other nation in the last three years and now accounts for over 8 percent of foreign direct investment. The bulk of

Brazil's Trade Balance

Figure 2



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foreign capital has entered Brazil in the form of medium- and long-term loans and financial credits, which provided a net inflow of US \$4.6 billion in 1974 alone.

13. The influx of foreign capital has had a salutary effect on the growth of the Brazilian economy, but it has also increased the degree of foreign ownership in important sectors. In view of nationalistic sentiments, this has exacerbated a politically sensitive situation. A 1973 survey reported that among the top 30 firms (in terms of gross sales), 18 were foreign-owned, eight government-owned, and only four Brazilian privately-owned. Foreign-owned companies predominate among the largest firms in capital goods, consumer durables and non-durables, and intermediate products.

14. By the end of 1973, the entry of foreign capital had enabled Brazil to accumulate exchange reserves in excess of US \$6 billion, which gave it the seventh-highest figure in the world. Although foreign capital continued to enter the country in large amounts during 1974, the inflow was not sufficient to fill the gap on current account. Brazil lost more than \$1 billion in reserves during 1974, and the total stood at less than \$4.2 billion by the end of May 1975. The ratio between net foreign debt and exports, which had reached a low point of 1.04 in 1973, climbed to 1.52 by the end of 1974, and will increase further in 1975—reflecting a worsening foreign debt position. A lowered growth rate and strict import controls will dampen demand for imports this year.

15. The Geisel administration has meanwhile redoubled its efforts to secure foreign capital. The Finance Ministry has reduced the minimum term for foreign loans from ten years to five, while slashing taxes on foreign interest payments and other charges on foreign loans. The goal is clearly to maintain Brazil's attractiveness for foreign investment. Despite some recent improvement in receipts of foreign capital, the efficacy of such measures remains doubtful. Brazilian efforts to secure Arab petrodollars for investment projects have so far met with only minimal success, but negotiations

with Kuwait and Saudi Arabia are continuing and might provide needed foreign capital which is in short supply under current market conditions.

16. External and internal pressures have aggravated Brazil's chronic problem with inflation. The downward trend in the inflation rate was dramatically reversed in 1974, when official figures showed a general price increase of about 35 percent, more than double that of 1973. It appears probable that high inflation rates will plague Brazil for some time to come, because of the world-wide inflationary trend, stringent import controls, and the Geisel administration's policy of more liberal wage increases.

FOREIGN POLICY

17. In recent years, Brazil has become more closely integrated into the world economy. Consequently, economic considerations have become a much more important factor in Brazilian foreign policy.

18. Brazil continues an aggressive search for new markets for its products, not only in the industrialized Western nations, but also among communist and developing countries as well. It has altered its positions on international issues in an attempt to eliminate points of friction with trading partners. Brazil has intensified its relations with the Soviet Union, recognized Communist China, and upgraded its representation in Eastern Europe; each of these movements has been accompanied by significant economic initiatives. Even before the Portuguese coup of April 1974, Brazil abandoned its tacit support of Lisbon's policy in Africa in hopes of securing economic and diplomatic advantages in Black Africa. Trade figures reflect the success of Brazilian efforts. The US and Western Europe bought more than three fourths of Brazil's exports in 1963, but purchased only slightly more than half in 1973. During the same period, Brazil's exports to countries other than the US and Western Europe increased by more than 700 percent (from US \$297 million to \$2.5 billion).

19. Brazil is heavily dependent on imported oil, most of it from Arab sources. The energy crisis brought about an abrupt shift in Brazilian foreign policy—from "equidistance" in the Arab-Israeli dispute to support of the Arab cause. Brazil is attempting to exploit this change to secure investment funds from Kuwait and Saudi Arabia. The overseas arm of PETROBRAS, Brazil's state petroleum monopoly, is expanding oil exploration and production activities in the Middle East, and Brazil is pursuing other opportunities for trade, investment, and technical assistance in the region.

20. Simultaneously, Brazil is attempting to diversify its sources of energy to make itself less vulnerable to politically inspired market manipulations. It is investing in the oil and gas fields of eastern Bolivia and has concluded petroleum import agreements with the Soviet Union, Peru, Nigeria, and Mexico. Urgent efforts to develop hydroelectric power in the Parana basin have produced strengthened ties with Paraguay and have aggravated Brazil's always prickly relationship with Argentina. The government is encouraging the exploitation of Brazil's low-grade coal deposits as an alternative to use of oil and high-quality imported coal. Energy sources are also being expanded through the development of nuclear power.

21. Brazil's drive to increase domestic sources of oil has led to intensified off-shore explorations, and PETROBRAS has discovered a major oil field off Rio de Janeiro state. Its size is uncertain, and it cannot be brought into production until 1978 or 1979 at the earliest. The find raised overly optimistic hopes of near self-sufficiency in oil by the early 1980s. At best, the new discoveries will enable Brazil to meet 50-60 percent of its domestic demand for petroleum by that time, compared with 20 percent at present. PETROBRAS' success makes it highly unlikely that Brazil will reverse its traditional policy and allow foreign oil companies to engage in exploration and production activities in Brazil.

22. Brazil's economic advances, along with its physical size and large population, have contributed

to a feeling akin to "manifest destiny" as an emerging major power. Brazil exerts an increasing influence in the economics and politics of Paraguay, Uruguay, and Bolivia, and fear of Brazilian power has produced defensive reactions in Argentina, Peru, and Venezuela. Brazil has attempted to reassure the Spanish-speaking nations of the continent that its intentions are non-aggressive, but it remains apprehensive that sub-regional organizations such as the Andean Group may be used to thwart Brazil's interests, particularly if Argentina should join. In Latin America, Brazil wants to solidify its position as the paramount power. It cannot realistically aspire to become spokesman for the area, since the Spanish-speaking countries will not grant it such a role, but it does want a secure base from which it can exercise what it considers to be its international role as an emerging major power.

23. Not yet developed, but clearly aspiring to play a world role, Brazil finds itself in something of a dilemma. On the one hand, it has a foot in the camp of less developed countries bent on securing economic concessions from the industrialized nations and gaining a greater share of the world's wealth. On the other hand, Brazil's political orientation makes it suspect to the Third World, and the closer Brazil comes to realizing its developmental goals, the less it has in common with these countries.

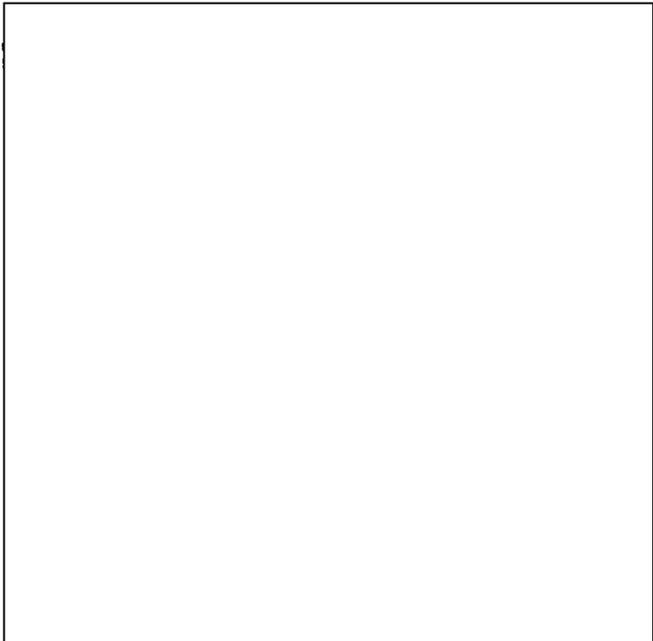
24. Brasilia seeks to minimize the difficulties posed by this dilemma, and to capitalize on opportunities to advance its economic interests and enhance its political position. Thus Brazil supports efforts by less developed countries to gain preferential access to markets in the major countries and higher prices for exports of primary products. In these efforts, Brazil seeks to project itself as a responsible, reasonable defender of Third World interests, capable of standing up to the industrialized nations. Brazil's advocacy of such interests falls well short, however, of outright confrontation with the developed countries. Brazil has increasingly come to believe that commodity cartels are, in the long run, impractical for the products it exports. It has been hurt by OPEC's success in raising petroleum prices, and its dependence on other essential

raw materials would make it vulnerable to reprisals if it assumed a position of confrontation with the developed countries. The principal thrust of current policy is to concentrate on bilateral agreements which meet Brazil's particular interests, while regarding international commodity agreements as a means of preserving favorable terms of trade for the primary products Brazil produces.

25. The importance to the Brazilian economy of expanding exports has made Brazil acutely sensitive to protectionist measures by the US and other developed nations. The controversy over countervailing duties on shoes illustrates Brazilian fears that the US will take similar action against a wider range of Brazilian products, and certain provisions of the US 1974 Trade Reform Act have reinforced such anxieties. Pending complaints against other imports from Brazil threaten to complicate US-Brazilian relations in coming months. Brazilians are convinced of the need for the US and the rest of the developed world to grant preferential treatment to manufactured exports of developing nations as well as to their primary products and semi-manufactures. Despite its pretensions to global importance, Brazil is not yet a developed nation, and inclusion of its products in a general system of preferences through multilateral trade negotiations remains one of the primary goals of Brazilian foreign policy.

26. Within the framework of still strong traditional ties, there are increasing divergences between Brazil and the US, particularly on economic issues. Although there is a large degree of exaggeration in the idea that Brazil has followed the US lead since 1964, Foreign Minister Silveira (who advocated an "independent foreign policy" in the early 1960s) has repeatedly insisted that Brazil is not subject to "automatic alignments." Pragmatic, non-ideological initiatives to expand Brazil's international options have met with little effective resistance in Brazil, even from conservative elements suspicious of relations with Communist countries.

27. The government remains strongly opposed to communism on ideological grounds, and despite



Brazil's growing economic relations with communist countries, the armed forces are mistrustful of their political motives, particularly the Soviet Union. The government vigorously suppresses any overt domestic activities by the Communist Party and other leftist groups, even while it is increasingly willing to deal internationally on a pragmatic basis with Marxist regimes. Its ideological bent and traditional ties with the US (particularly strong within the armed forces) give the regime a pro-Western orientation, but from the Brazilian standpoint, East-West rivalry is of only minor importance in deciding Brazil's position on most international issues of primary interest to it.

28. Brazil regards US pressures to sign the Nuclear Nonproliferation Treaty as an unacceptable infringement of its sovereign rights and a means of fixing global power relationships in their present form. Brazilian intransigence on this question stems not only from its apprehension over Argentina's lead in nuclear technology but, more fundamentally, from its self-image as an emerging world power. Brazil will not accept any blanket treaty restrictions against peaceful nuclear explosions. It views the proliferation of ever more sophisticated weapons among the super powers as the basic problem in achieving disarmament.

29. Brazil sees atomic energy as an important factor in supplying its future energy requirements; its first nuclear power plant should begin operation in 1979, and eight others are planned through 1990. Failure to secure a guaranteed supply of enriched uranium from the US for the planned power reactors caused Brazil to look elsewhere for cooperation on nuclear matters. West Germany has agreed to supply Brazil with technology and facilities for a complete nuclear fuel cycle including a fuel fabrication facility, eight power reactors, a uranium enrichment facility using the commercially unproven Becker nozzle process, and a fuel reprocessing plant. All nuclear equipment, facilities, and materials including technology will be subject to International Atomic Energy Agency safeguards.

30. The Brazilians have almost certainly not made a decision to develop nuclear weapons, but the government does not want to foreclose this option. If Brazil were to embark on such an endeavor in the near future using indigenous facilities, it probably could develop a nuclear device by the early 1980s, by circumventing safeguard agreements. Nuclear testing and further development probably requiring at least two years would be necessary to provide a weaponized version suitable for delivery by combat aircraft.

DOMESTIC POLITICS

31. The principal constituency of the government since 1964 has been the Brazilian armed forces. Active or retired senior military officers occupy the presidency and several key positions in the cabinet, and all fundamental policy decisions are considered with an eye to their acceptability to the armed forces. Enormous powers are concentrated in the executive through a series of Institutional Acts. These acts have enabled the military to dismantle the old political system, to cancel certain electoral mandates, and to suspend the right of habeas corpus. They were also used to close Congress for a time.

32. The regime has drawn its principal civilian support from businessmen who have benefited con-

spicuously from the developmental and fiscal policies followed since 1964, particularly industrial and commercial interests concentrated in Sao Paulo. In addition, the government has enjoyed considerable backing from the middle and upper-middle classes and from professionals, technocrats, and civil servants. Much of this support is based on pragmatic economic interests, i.e., a loss of political freedom and influence has been accepted as the price of economic development and prosperity.

33. The principal opponents and critics of the regime since 1964, aside from extremists and out-right terrorists, have been elements of the clergy, students and intellectuals, and some politicians and labor leaders. None of these—alone or in combination—poses a serious threat to the regime. Members of the clergy, including portions of the church hierarchy, have from time to time expressed their concern about abuses of human rights in Brazil, including the resort to arbitrary arrests and the use of torture. These are issues on which most of the Church as an institution can unite, but it has rarely been an important political force in Brazil. The government-controlled labor unions have never exercised much political influence in Brazil, and since 1964 their power has been reduced to almost nothing.

34. The regime has been strengthened by economic success and by the belief widely held in Brazil that the country is at last on its way to achieving its rightful place in the world. This has bolstered its view that only an authoritarian, well-integrated government, free from the conflicting interests represented by politicians, can propel Brazil from the ranks of the underdeveloped countries to the status of a world power. Conversely, a slowdown in economic growth will almost certainly increase opposition to the administration. It would also raise questions about the military-based regime's unique capacity to fulfill its self-proclaimed role and about the legitimacy of the military's claim to power.

35. By 1974 an annual growth rate of 10 percent had come to assume an almost magical quality, and

the anticipated fall to a growth rate of 5 percent or less in 1975 represents a disappointment of expectations. Consequently, the administration has initiated a series of announcements designed to prepare the public psychologically. Working- and middle-class citizens were already showing a certain amount of restiveness because of the high cost of living, shortages, tight consumer credit, and the failure to significantly improve real wages. Brazil requires a 3 percent annual growth in GNP merely to maintain a constant level of GNP *per capita*.

36. In anticipation of embarrassing returns in the congressional elections of November 1974, the administration authorized an "emergency" wage adjustment and relaxed controls on consumer credit. This was the first major departure in the regime's incomes policy since 1966, when the system of annual adjustments in wages was adopted. The move was consistent with the general policy of the Geisel administration—embodied in the new five-year plan—which places greater emphasis on a more equitable distribution of wealth. It had little apparent effect on the size of the protest vote, however.

37. Discontent with economic conditions contributed to the unexpectedly strong wave of support for the officially-sanctioned opposition party, the MDB (Movimento Democratico Brasileiro), particularly in the more developed states. Although the Brazilian congress has been virtually impotent, many voters seized the opportunity to express their displeasure with the administration's economic policies by voting against candidates of ARENA (Alianca Renovadora Nacional), the party of the government. The magnitude of the victory surprised even the leaders of the opposition. The MDB won about 60 percent of the total senatorial vote, nearly half of the seats in the lower house of Congress, 16 out of 21 contested Senate seats, and control of legislative assemblies in several states including the most important: Sao Paulo, Rio Grande do Sul, Parana, Guanabara, and Rio de Janeiro (the last two joined in a single state in March 1975).

38. President Geisel's commitment to holding the elections and abiding by the results symbolizes his

pledge to liberalize the political system through a process which has come to be known as "decompression." The term has no precise meaning; broadly, it represents an easing of controls on political activity and a widening of participation in the political process. Geisel and his supporters appear to want the benefits which derive from a system that has the appearance of legality, is not unduly repressive, and embodies rules and procedures designed to prevent unauthorized acts by the police and the military security services. Geisel shows no sign, however, of relinquishing the vast powers he inherited. He and his supporters share the conviction, almost unanimous within the military establishment, that the old politics must not be allowed to return, and that come what may, the Institutional Acts must become a part of the Brazilian constitutional system.

39. The process of decompression has had a number of other manifestations. It has included an attempt at dialogue with liberal clerics and students and an effort to restore some of Congress' long dissipated prestige. It has been reflected in several of Geisel's appointments, most notably that of General Golbery do Couto e Silva as Chief of the Civil Household. Golbery has led the effort to rebuild relations with the Church and the academic community. There has also been an easing of press censorship. Previously taboo subjects are now being cautiously aired in the media, but editors, for the most part, have exercised great restraint for fear of government reprisals.

40. The supporters of decompression have a number of interrelated reasons for pushing it at this time. They are probably spurred by an acute awareness that the military has exercised power in Brazil for over 11 years, despite various statements about restoring democratic rule. Indeed, each of Geisel's immediate predecessors promised to restore democracy in his term of office. Geisel also appears to be seeking a broader base of support for the regime, particularly in view of the less favorable economic prospects. Some proponents of political liberalization have apparently concluded that by allowing limited freedom to established institutions, and by

resorting to extraordinary measures as little as possible, Brazil will in the longer run be less subject to political tensions and easier to govern. Institutional self-interest also plays a part; there is concern within the military that if individuals and groups cannot let off steam, there will ultimately be an erosion of confidence, or even an explosion, that would affect the prestige and position of the military.

41. Geisel's efforts at liberalization are running into opposition from conservative members of the military. Some, particularly in the security forces, feel that the President is creating an atmosphere of permissiveness that threatens the revolution itself. There is concern that subversives will be emboldened or that past excesses committed in the name of national security will come to light. The President's top intelligence officer, Major General Baptista Figueiredo, is one of a number reportedly disturbed by recent rapprochements with the USSR and China, and by the administration's relatively conciliatory attitude toward domestic dissidents. The Army Minister, General Frota, also reportedly among the opponents of liberalization, at times has sought to convey the misgivings of the conservatives to the President. The conservatives have been alarmed by Geisel's proclivity to follow the advice of General Golbery and Foreign Minister Silveira and ignore their position on important issues. Golbery has become the principal target of hardliners determined to check or reverse the process of political liberalization.

42. The intelligence services believe that the government has become increasingly dissociated from its military base, sacrificing support from the armed forces in its desire to cultivate civilian favor. They support a more equitable distribution of wealth, in order to eliminate disparities which "subversives" can exploit, but they also advocate stricter censorship and the more vigorous prosecution of dissidents and subversives. They are clearly disturbed by the Portuguese revolution and by political violence in Argentina, and fear a new outbreak of terrorism in Brazil if vigilance is lessened. They oppose any political thaw which would allow greater freedom

of expression for "communists"—a category which in their eyes includes many left-wing priests, journalists, intellectuals, professors, students, and politicians.

43. There is considerable evidence that Geisel does not have full control of the activities of the internal security forces. Even though the President and top military officials have expressed firm opposition to the torture of political prisoners, such practices continue, while the President and other authorities have been given incomplete or misleading information about these activities. The pattern of political arrests since Geisel's inauguration suggests strongly that the security forces operate with considerable independence, selecting targets designed not only to intimidate critics of the military regime and other "subversives," but also to embarrass the administration and impede its attempts to open up the political process.

OUTLOOK

44. Although long-run prospects for Brazil's economy are good, it will experience a slower rate of growth, high inflation, and serious trade imbalances during the next year or two. The gravity of these problems will depend to a great extent upon external economic forces over which Brazil has little or no control. The uncertainty of commodity price movements and of the speed of recovery from the world-wide recession are factors which complicate any prediction. Should economic problems increase appreciably, the Geisel administration and the "revolution" would come under further attack from various elements of society. At the same time as grounds for criticism become increasingly evident military hard-liners will oppose more vigorously any opening of the regime to wider participation.

45. Another possible consequence of an economic slowdown is a resurgence of economic nationalism. A serious downturn would tend to further debilitate the domestic private sector relative to foreign firms which have access to foreign sources of credit through parent companies and are therefore better able to withstand economic contractions. Increased

dependence on foreign sources of capital and a widening trade deficit may make servicing the foreign debt more difficult. Such conditions would bring strong pressure from nationalists in both military and entrepreneurial circles to revise the present policies which permit virtually unrestricted participation of foreign capital in the Brazilian economy and could bring about stricter controls of foreign-owned companies.

46. Doubt remains about how far Geisel is willing or able to go in terms of decompression. He undoubtedly realizes that his power ultimately depends on the backing of the armed forces. Civilian support for his administration and his austere personal style is lukewarm at best, and greater freedom of expression is unlikely to result in praise for the regime or for the President himself. Geisel will probably moderate his political openings to the civilian sector according to his readings of the limits of military conservatives' forbearance. Should he overstep those limits, or should the opposition press too hard, he will be subject to increasing pressures to restore political restrictions and might be forced to replace key officials with others more acceptable to the hard-liners.

47. Given the military's concern for maintaining an appearance of order, unity, and rationality in government, Geisel will probably complete his five-year term in office, although some observers insist he would resign rather than yield against his judgment to demands by hard-liners for greater repression. Differences between the President and the hard-liners could, however, affect the selection of a successor. Although a choice is unlikely to become a matter of urgent concern within the military for another two years or so, it is possible that the conservatives could force Geisel to accept a hard-line candidate not of his own choosing for the presidency in 1979.

48. An overt clash within the armed forces is extremely unlikely. Geisel has loyal officers in most key command positions. It would be very difficult for disgruntled officers to organize a successful conspiracy even if they were inclined to do so, and at present they have neither the inclination nor the

strength. On the other hand, Geisel cannot ignore the opinions of the hard-liners, particularly if they reflect those of a substantial sector of the armed forces. In the improbable event of a crisis of confidence, senior officers would be hard put to choose between loyalty to Geisel and his policies and the desire to maintain unity within the armed forces. Past experience indicates the choice would probably be the latter.

49. The 1974 congressional elections immensely complicated Brazil's political future. Despite efforts by ARENA and the administration to present the MDB gains as a healthy sign of developing political maturity and proof that democracy exists in Brazil, the returns have raised questions about one of the justifications for the regime's claim on power. The MDB leadership has stressed that it intends to be a "responsible" opposition, but its actions will be severely circumscribed by the limits of "responsibility," the definition of which remains with the administration. The MDB will not be permitted to question the bases of the regime, and the implicit threat of reprisals will limit the extent to which the opposition leadership will wish to criticize the administration. Some more radical congressmen may, however, ignore such proscriptions and pursue sensitive issues on which the administration would prefer to remain silent. The opposition has, in effect, received a mandate of a sort which will be very difficult, if not impossible, to exercise.

50. The administration, for its part, would find it more difficult than before the elections to justify and carry out a renewed policy of widespread repression, but it retains the legal and institutional apparatus for a selective crackdown if it feels itself challenged. To date, military reaction to the elections has been muted and cautiously optimistic for the most part, and one group of junior officers reportedly issued a manifesto calling for increased popular democracy. Some high-ranking officers, nevertheless, questioned the wisdom of permitting the elections and applied pressure (without success) to negate their results. Continued military acceptance of the election results is contingent upon

a cooperative attitude on the part of the opposition. Should MDB politicians seriously provoke the administration, it will probably respond decisively—possibly with exemplary punishment and intimidation.

51. In general, the outlook for political liberalization in Brazil, although better than at any time since 1968, is still not particularly favorable. Any significant easing of restrictions on the press or the Congress inevitably results in criticism of the regime which the military has been psychologically unable to accept. A continuing theme which retains its appeal within the armed forces is the desire to remove government from the corruption of political forces until such time as those forces could be reformed to work harmoniously for the common good. An elected legislature, even in its emasculated form, represents a frequent irritant, not only to hard-line elements, but to a wide spectrum of the armed forces.

52. It is difficult to envision the development of conditions under which the military would voluntarily permit a return to civilian rule. Even if the armed forces were willing, the country lacks civilian politicians with the national stature and a sufficient constituency to assume control. Cancellations of political rights and political arrests decimated the ranks of politicians, and the regime has undercut civilians who have tried to achieve national prominence. The two authorized parties are artificial aggregations which are now divided into factions and would almost certainly disintegrate into their component elements if allowed to do so. With rare exceptions, leading military figures have declined to take an active role in either party, and the con-

tempt of the officer corps for professional politicians makes very unlikely a fusion of the constitutional political structure with *de facto* sources of power. The military-based regime has never trusted its own civilian political arm, and there is no evidence that this will change in the near future.

53. Brazil's foreign policy will almost certainly diverge increasingly from that of the US as it pursues its own interests throughout the world. Disagreements are most likely to involve economic issues such as trade, nuclear proliferation, and the role of multinational corporations. Brazil will continue to side with the less developed countries on many issues, as it strives to escape its traditionally dependent role vis-a-vis the US and Western Europe. In Latin America, Brazil has no desire to act as a surrogate for the US and finds that conspicuously solicitous treatment by Washington complicates relations with its Spanish-American neighbors.

54. Despite differences on specific issues, Brazil will continue overall to desire close and cooperative relations with the US, which will continue to be very important to Brazil in the economic and security fields. Brazil clearly recognizes the realities of economic interdependence and the constraints imposed upon its own autonomy by its need for foreign capital, technology, and raw materials. As a rapidly industrializing society of continental dimensions, Brazil will be a growing market for US exports and US foreign investment. It recognizes the US as the primary defender of the non-communist world and identifies with US security objectives, particularly in the hemisphere.

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