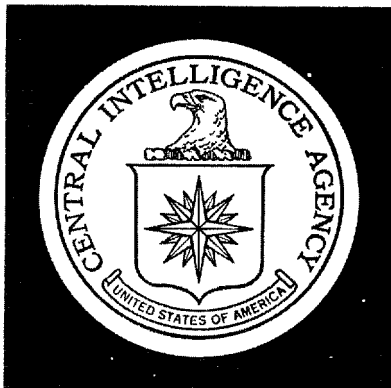


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WEEKLY SUMMARY

Special Report

Latin America Looks to Eastern Europe

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LATIN AMERICA LOOKS TO EASTERN EUROPE

The recent surge of interest in Latin America in exploring closer relations with the Communist countries of Eastern Europe is shared by governments and individuals of every political hue. It is based primarily on a determination to reduce dependence on the US, and on a general lack of progress in industrialization and in obtaining higher prices and more stable markets in developed Western countries for raw materials basic to most Latin American economies.

The translation of these and other frustrations into action has coincided with a skillful campaign in the area by the USSR to establish itself as a reasonable and respectable world power not identified with the revolutionary efforts of Fidel Castro. Soviet representatives have made contacts in political and cultural fields, contacts which can prove useful to them over the long term. At the same time the USSR's East European allies, already active in Latin American trade, have sent numerous missions to explore new possibilities for their own economic expansion.

Latin Americans share the disposition to explore thoroughly what the Communist countries have to offer, and warnings against the dangers of Soviet subversion have diminished. This growing curiosity is fostered by psychological compulsions that are convincing to governments as disparate in philosophies, economics, and previous Communist trade experience as Venezuela and Argentina. Arguments that the trade potential is limited and demonstrably fluctuating are offset in Latin American opinion by rising sales to Eastern Europe of coffee, bananas, and other traditional exports at a time of bumper crops, falling prices, and internal pressures for faster economic development.

The Trade Potential

The increase from \$149 million to \$400 million in Latin American exports (not including Cuba) to Communist countries between 1960 and 1966 is miniscule

in relation to world trade volumes. The percentage of increase was significant, however, to the Latin Americans at that time, and it built up favorable trade balances for every Latin American country involved except Venezuela. These

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BLOC REPRESENTATION IN LATIN AMERICA

	USSR	Czech	Poland	Hungary	Yugoslavia	Rumania	Bulgaria	E. Germany
Argentina	Commercial & Technical Mission ★	Commercial & Technical Mission ★	Commercial & Technical Mission ★	Commercial & Technical Mission ★	Commercial & Technical Mission ★		★	★
Bolivia					Consulate ★			
Brazil	Commercial Mission ★	Commercial Mission ★	Commercial Mission ★	Commercial Mission ★	Commercial Mission ★	Commercial Mission ★	Commercial Mission ★	Trade Mission ★
Chile	Commercial Mission ★	Commercial Mission ★						Commercial Mission ★
Colombia	★	Consulate	Consulate	Commercial Mission			Consulate	Commercial Mission
Costa Rica		Trade Mission	Trade Mission ★					
Ecuador								Trade Mission
Haiti			Trade Mission ★					
Mexico	Trade Mission ★	Trade Mission ★	Trade Mission ★					
Panama		Consulate in Prague						
Peru		Exploring Consular Relations	Exploring Consular Relations Trade Office		Consulate General			
Uruguay	Trade Mission ★	Trade Mission ★	Trade Mission ★	Trade Mission ★	Trade Mission ★	Trade Mission ★	Trade Mission ★	Trade Mission ★
Venezuela		Trade Mission ★						

★ Denotes having diplomatic relations

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countries consider it vital to retain their new markets and to find others. To do so, they must soon respond to growing pressures to accept Communist products and credits in return. Latin American officials are convinced that to conduct these growing exchanges most effectively they need consular and probably full diplomatic relations.

Soundings through representatives in other capitals and at the UN have met with a mixture of Soviet interest and restraint that is apparently reassuring to the Latin Americans, none of whom seem unaware that these dealings have political implications for their relations with the US. On the contrary they seem anxious to advertise and justify them while carrying on behind-the-scenes exchanges which, however unsophisticated, are carefully considered.

The Andean Group

In South America the regional economic Andean Group--Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela--best illustrates various stages in stepping up ties with Eastern Europe from a minimal base.

Chile has resumed or established relations with the USSR, Czechoslovakia, Poland, Hungary, Bulgaria, and Rumania since Eduardo Frei became president in November 1964. His expressed belief in the advantages for Chile of wider political and economic ties was considerably buttressed by his hope that for-

mal relations with Moscow in particular would give his administration a more leftist image, curb the influential Chilean Communist party, and serve as a bridge toward reducing Cuban meddling in other Latin American countries. His hopes are unrealized, but nearly one hundred Eastern Europeans have become an accepted part of the Chilean scene.

The personable and effective Soviet ambassador Anikin, who left in early March, established a rapport with leaders of most Chilean political groups and captained a successful cultural and propagandistic effort that established Soviet bona fides among Chileans. He scrupulously avoided raising suspicions and minimized contact with Chilean Communist leaders who, nevertheless, have benefited politically from his successes. Despite these successes and a stream of delegations from the USSR and other bloc countries, economic results for Chile have been small. There has been no significant trade increase since resumption of relations, and a \$57 million credit from the USSR remains untouched.

President Frei has shown a growing disenchantment in recent months with the domestic political effects of the Soviet presence, and his government's lack of enthusiasm toward Soviet offers has been the greatest blow to economic implementation of the new ties. Nevertheless, he is reported by several sources to have recommended that all members of the Andean group restore relations with the USSR.

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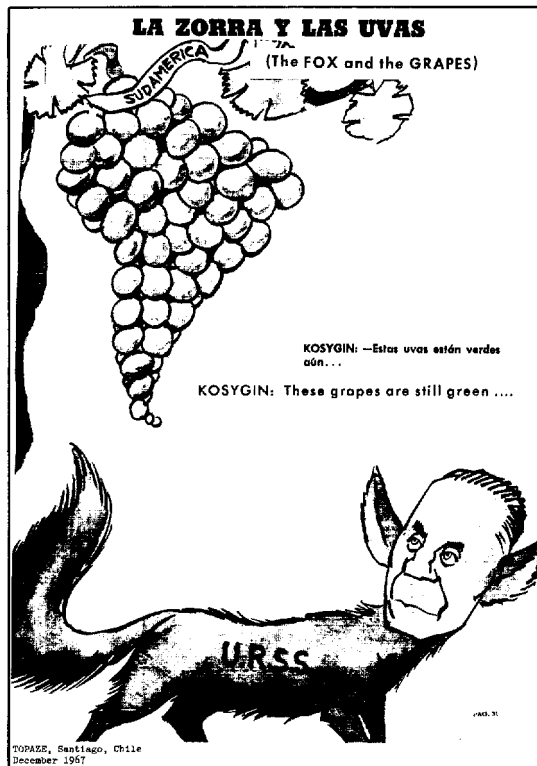
COMMUNIST ECONOMIC CREDITS and GRANTS to LATIN AMERICA

1958 — Dec 1967

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Recipient Country	Total	Extended		Drawn		
		USSR	Eastern Europe	Total	USSR	Eastern Europe
Argentina	62.7	44.0	18.7	36.5	31.3	5.2
Brazil	313.6	88.0	225.6	29.0	0	29.0
Chile	54.8	54.8	0	0	0	0
Ecuador	5.0	0	5.0	0	0	0
Uruguay	10.0	0	10.0	0	0	0
Million US \$	446.1	186.8	259.3	65.5	31.3	34.2

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Colombia did so in January 1968, following a year of increasing trade and cultural contacts with Communist European countries. President Carlos Lleras Restrepo reportedly became convinced during this period that the advantages of bloc relations outweighed possible drawbacks. Lleras has frequently expressed his rationale for increased relations with Communist countries as a right to badly needed markets and a responsibility to become familiar with more of the non-Western areas of an increasingly interdependent world. The semiofficial Colombian Coffee Growers' Association, one of the most articulate advocates of expanded Communist ties, has been conducting the growing trade with the USSR under a barter agreement. Lleras decided, however, that government-to-government official relations would be more effective in realizing the full potential of exchanges. He also renewed diplomatic relations with Yugoslavia and Rumania and consular relations with Poland and Bulgaria.

President Raul Leoni of Venezuela has done most of the groundwork toward resuming full relations with the USSR and in his state of the union message on 18 March he indicated that the move would be made soon. Leoni recently admitted that Venezuelan hopes of using the possibility of relations to exert leverage on Moscow against Castro have been abandoned. It appears that guerrilla activities, recently at a low level, have less to do with the decision than considerations that resumption of relations with the USSR may affect

his party's chances in next December's elections. In the meantime, a Venezuelan economic delegation will soon visit the USSR and other Communist countries to explore trade and credit possibilities.

In Ecuador, substantially increased sales of cocoa, coffee, and bananas to East European countries have encouraged businessmen and officials to step up exploration of further possibilities. Several sources claim that Ecuador will join the rest of the Andean Group in re-establishing diplomatic relations with the USSR during 1968. A study on the advisability of this step reportedly was made by the Ecuadorean Foreign Ministry in February and officials expect to sign a trade agreement with the USSR in the near future.

A shipload of bananas for Communist countries left Guayaquil in February on the first of six new refrigerated ships bought specifically for this trade. Government publicity emphasized that this new trade signified "economic independence." Poland has offered to finance all or part of Ecuador's massive electrification program and a Czech trade mission is at present visiting Quito in an attempt to stimulate trade.

Recent agreements with Hungary and Poland guarantee payment of trade imbalances in dollars, and Ecuadoreans seem to feel that this and the beneficial effects of recent sales overshadow the prospect of soon being forced to import Eastern European goods under the barter system in order to retain markets there.

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The Peruvian foreign minister announced on 15 March that negotiations are under way to establish consular relations with Poland and Czechoslovakia and that a trade mission will soon visit those countries. Peru as yet has no trade with the USSR and diplomatic relations do not seem imminent. The Soviet minister in Brazil said in January, however, that the Peruvian Government had asked to send a commercial/diplomatic delegation to the USSR. Restoration of full relations is known to be under study in Lima and the impetus from other Andean Group members may speed the process.

Sales of Peruvian fishmeal in 1966 placed that country third, though far behind Argentina and Brazil, in non-Cuban Latin American exports to Eastern Europe. Despite some concern among the influential Peruvian military oversecuritry risks, conservative entrepreneurs, congressmen, and news media are campaigning for more trade with the bloc. The Belaunde government newspaper claims that bloc trade is essential if Peru is to diversify its exports. The paper has urged decisive action to assure that other countries do not pre-empt "this market of vast potential."

The Bolivian Government's concern over world prices for its major export, tin, and resentment over US sales of tin stockpiles were President Barrientos' expressed reasons for his recent public offer to restore commercial relations with the USSR in return for tin pur-

chases at "reasonable prices." Economic necessities may have overcome Barrientos's charge in 1967 that the USSR indirectly supported the Cuban-backed guerrilla activity in Bolivia. As in the case of other small countries, Bolivia's minor Communist trade has been primarily with Czechoslovakia.

Atlantic Coast Countries

The Atlantic Coast countries' experience with Eastern Europe is more extensive and of longer standing, in both economic and diplomatic relations. Apart from Cuba, Argentina and Brazil have the largest Communist trade by volume. Of all the Latin American countries Uruguay in 1962 sold the highest percentage of its exports to Eastern Europe.

Argentina's pragmatic view of relations with Communist countries is that they have provided significant if fluctuating markets in recent years for traditional wool, wheat, and meat exports which are meeting resistance in Western markets for a variety of reasons. Instead of discouraging the Argentines, the sharp drop in exports to Communist markets in 1966 seems actually to have encouraged their efforts to regain these outlets and expand them.

The Ongania government keeps the representatives from all the Eastern European countries resident in Buenos Aires under close surveillance. For their part the Soviets are downplaying any political role and are concentrating on the military regime's interest

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in revitalizing the Argentine economy. Despite preference for Western financing for the huge El Chocon hydroelectric project, Argentina has not completely discouraged Soviet offers of partial backing while waiting for a firm commitment from the World Bank.

Uruguay too believes that its fluctuating trade with the Communist countries justifies greater efforts to stabilize rather than to abandon it as unreliable. Skeptical of the prospect of recovering markets in Western Europe because of Common Market policies, Uruguay has succeeded in reviving sales to East Europe from their low of 5.3 percent of total exports in 1965. They may soon reach 8 to 10 percent, considered normal, although the high water mark of 16.8 percent in 1962 seems unlikely to be reached again. The Uruguayan Government suspects that bloc representatives encourage the chronic and damaging labor agitation that besets Uruguay, but has a relaxed and permissive attitude toward the activities of those representatives. Relations with the USSR have recovered from a low point in late 1966--when several Soviet officials were ousted--mostly because of determined Soviet efforts to mend diplomatic fences. A renewed Soviet effort to get Uruguay to sign a \$20-million trade credit pending for two years may be successful.

Although Brazil's diplomatic attitude toward the USSR cooled when Joao Goulart was ousted in 1964, the Castello Branco government sent its minister of economy

to Moscow that same year to explore expansion of economic relations. This ambivalence has continued. Suspicion of Soviet political motives has not kept Brazilian trade with the USSR from rising proportionately with its total trade in recent years, and in 1966 a Soviet credit of \$100 million was accepted. As has happened with Soviet credits to other Latin American economies, this one is still waiting for feasible projects.

Brazil's fears of Soviet subversion, however, have apparently been allayed by the gradual arrival of a new, younger, more affable and more trade-minded group of Soviet representatives. The recent tolerant attitude has been marked by a relaxation of vigilance over just what the numerous Soviet and other East European representatives in Brazil are doing. As recently as 25 March, Foreign Minister Magalhaes Pinto urged greater trade with Communist nations, particularly the Soviet Union. He asserted that the USSR is "as interested in placing its goods in our markets as we are in placing ours in theirs."

Brazil's size and economic potential make it an attractive target and the USSR is persisting in efforts to exploit its regained respectability. A trade office has been established in the major industrial city of Sao Paulo and projects to utilize the credit agreement are being actively sought. A longstanding Soviet interest in assisting the exploitation of oil bearing shale has been revived. The Costa e Silva government has reaffirmed its interest in Communist

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trade possibilities by revitalizing an interministerial agency to coordinate and promote all aspects of economic exchanges with Eastern Europe. Brazil already has diplomatic relations with all countries there except East Germany, which has large trade offices in Rio and Sao Paulo as well as in several other Latin American countries. Like them Brazil finds East Germany a useful trading partner.

Middle America

As with most of its foreign policy, Mexico's relations with Eastern Europe are unique among Latin American countries. It has had diplomatic relations with the USSR since 1924, except for a short period in the early thirties, and with Poland and Czechoslovakia since 1952. The presence of over one hundred employees in the Soviet Embassy in Mexico City is inconsistent with the negligible amount of trade between the two countries, although some Mexican sales to Communist countries are probably masked by statistics. Mexico shows little interest in increasing its trade with the bloc, perhaps because its rate of economic development and its diversified trade pattern make the effort not worth the problems involved in barter agreements and unfamiliar equipment.

Soviet-Mexican diplomatic relations are merely perfunctory. President Diaz Ordaz did not find time to accept a farewell call by the recently departed Soviet ambassador, a rather

marked snub for a diplomat who had represented a major power in Mexico for six years. There seems to be a tacit understanding that so long as the numerous Soviet representatives do not meddle in domestic Mexican affairs or effectively assist the rather sorry Mexican Communist parties, their activities will not be curbed. These activities seem to be directed primarily toward the US and, to a lesser degree, toward support for Central American Communist parties.

Only in the fields of the arts and propaganda, traditionally dominated in Mexico by leftists, have the Soviets found a receptive attitude. Soviet cultural institutes have not thrived, however, and a recent Soviet lecturer seems to have met with some challenge to his observations on the bourgeois nature of the Mexican Revolution.

The small countries of the Central American Common Market share with the Andean Group the move active recent interest in exploring greater sales opportunities in Eastern Europe. A combination of bumper coffee crops and economic slowdowns has led to encouraging sales already this year and to plans to send trade delegations for further negotiations. Although these sales outside the International Coffee Agreement are made at lower prices, El Salvador and Guatemala have already shipped in 1968 nearly 60,000 bags of coffee to Poland, Rumania, and Hungary which would otherwise

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have brought no income or required expensive storage. Additional sales to these bloc countries totaling \$25 million worth of coffee are presently being discussed, a sharp increase from 1966 sales of \$2 million from all Central America to all Communist countries. Such quantity sales will certainly drop sharply, particularly since Colombia's resumption of relations with the USSR and other bloc countries will surely involve more purchases of competing high-grade Colombian coffee. In any case a smaller surplus crop is predicted next season and the need for nonquota sales will be less. Meanwhile, the seeming advantages of bloc markets in time of need thus far have impressed Central American officials.

Costa Rican Communists have played a major role in efforts to step up trade relations with the USSR as a means of alleviating their country's growing economic problems. The Trejos government has shown an interest and in January received a Soviet delegation which offered credits and technical assistance for four specific projects. The Soviets have not followed up their offer and have left the matter pending.

In Nicaragua, the bandwagon syndrome in viewing East European trade as the antidote to US economic policies is evident in declarations by officials of the right-wing government. One commented that projected US duties would lead to a search for markets behind the Iron Curtain.

Culture and Propaganda

Cultural, propagandistic, and sports presentations from Communist countries are generally well received in the several Latin American countries where the governments permit or encourage them. Curiosity gives the performers an entree, and their very presence is flattering for countries frequently short on native cultural attractions. The impact of the Ber-yozhka Ballet or the Moscow Circus in Santiago or Bogota, for example, is certain to be greater than in New York. In addition, the quality of most of the Communist offerings has been high enough to appeal to critical Latin Americans of many political persuasions who fancy themselves as cultural connoisseurs. Poet Yevtushenko's four-month swing through Uruguay, Chile, Colombia, and Mexico seemed effectively to demonstrate to Latin Americans that Soviet intellectuals are not restrained by their government. The Soviets lead in this field, but other East European countries contribute to the tours that have established Communist entertainers and soccer teams as part of the scene in much of Latin America.

Diplomatic relations are not essential to a welcoming atmosphere. Although Argentina has had ties with the USSR since 1946, its government is cold to cultural overtures. The attitude of the Brazilian Government since the ouster of Goulart has also been less than enthusiastic, particularly in 1967. Like Argentina, Brazil tries to narrow Communist relations to the

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economic field. In Colombia, however, interest in cultural exchanges with the USSR rose noticeable along with trade ties before the renewal of diplomatic relations in January 1968. Consular relations were also renewed with Poland, a scientific and technical agreement was signed, and a Polish guest conductor had a five-week tour with the Bogota symphony. The active Soviet-Colombian Cultural Institute graced its celebration of the fiftieth anniversary of the October Revolution with a noted Soviet professor who was also collecting material for a comprehensive study of Colombia by experts from both countries, which is soon to be published in the USSR.

Chilean receptivity to Soviet cultural overtures has been very warm but the Frei government has dragged its feet during prolonged negotiations for a cultural agreement. The new Chilean ambassador to Moscow, Oscar Pinochet, reportedly felt that former Soviet ambassador Anikin, usually the most suave of diplomats, used pressure tactics in an attempt to get educational exchanges that would not be subject to Chilean Government direction. Although the agreement has not yet been signed, 12 busy Soviet cultural institutes attract students to courses--including English and business training--and offer such attractions as the bargain air tours that carried nearly 500 Chileans to the USSR in late 1967. The Soviet magazine published in Chile and Spanish is well received, and the Soviet nationals represent-

ing TASS, Pravda, Radio Moscow, and Novosti have made a creditable record of establishing friendly contacts and of placing material in Chilean publications and TV. Free trips to Moscow for rectors of all eight Chilean universities and for numerous journalists have helped set up a rapport.

The number of Latin American students going to iron curtain countries for university training varies widely, with Bolivia, for example, now estimated to have 300 students there and Brazil only about 150. Many who seek the fully-paid scholarships in Eastern Europe are not Communist but lack means or cannot get into the usually overcrowded universities of Latin America. They may also be primarily seeking broader experience or more sophisticated training, but most are either influenced by the inevitable political indoctrination or sufficiently repelled by it to withdraw. The opportunities open to graduates of Patrice Lumumba Friendship University have proven very limited to Chileans despite the substantial Communist influence in the country's educational system. Both in Bolivia and in Uruguay, however, a substantial number of graduates are working throughout the educational system.

While academic subjects combined with subtle political indoctrination are the order of the day for most Latin American students studying in iron curtain countries, a few carefully selected trainees in the USSR are offered a one-year cadre school course in guerrilla

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warfare. This training program concentrates on guerrilla tactics and organization, firearms training, communications, and sabotage. The school emphasizes the peaceful road to power for the most part, but teaches that the final phase of this approach will always be armed conflict in reaction to US intervention. It has become clear, in the Soviet dispute with Castro, however, that Moscow believes that armed revolution in Latin America has little prospect for success in the foreseeable future.

Official tolerance in Latin America of travel to the USSR appears to be directly related to the legal status of the local Communist party. The extensive opportunities for travel to Communist areas have undoubtedly strengthened the Uruguayan Communist Party, whose Secretary General Rodney Arismendi is closely attuned to Moscow.

Science and Technology

The launching of Sputnik in 1957 made a deep impression on Latin Americans, and the USSR lost little time in cashing in on its new scientific prestige.

In 1958 an agreement with Chile gave the Soviets their first opportunity to make stellar observations in the southern hemisphere. Soviet astronomers arrived in 1962 to help set up the University of Chile observatory at Cerro Calan, and teams of their successors still work there under a 20-year agreement for joint use of equipment. The advantages for Chilean scientists afforded by the arrange-

ment outweigh doubts reported by one source about the dominant role of their more proficient Soviet counterparts.

Astronomical work is being expanded by the Soviets at another Chilean site, Cerro Robles, which was of particular interest to Soviet astronaut Leonov when he visited Chile in 1966. A large and specially designed photoelectric telescope was installed the following year and some unidentified equipment for Cerros Robles, which was reluctantly admitted by Chilean authorities, may be designed for earth satellite tracking. This location would fill a gap in the Soviet world-wide optical space trading network.

Chilean geologists have been flattered by a gift of Soviet research material exhibited at the Antarctic Research Symposium held in Santiago in September 1966, and by a Soviet offer to exchange maps and other geological findings. The Soviets also discussed scientific cooperation and joint research in the Tierra del Fuego region with the Chilean Antarctic Institute, possibly in relation to the establishment in February 1968 of the fifth permanent Soviet research station in the Antarctic for glaciological and aerometeorological observations.

Propaganda from Moscow Radio is well chosen to exacerbate Latin American sensitivities in scientific fields. During the 100 hours of Spanish broadcasts each week, there have been claims of a US military plan to install strategic rockets with

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nuclear warheads in secret locations in Latin America. TASS has played up the alleged scientific "brain drain" to the US, which deeply concerns many Latin American countries.

Soviet ships described as engaged in scientific research call frequently at Brazilian ports.

An extensive program of oceanographic research has been conducted off the long Chilean coast by Soviet vessels since 1965, accompanied by a propaganda campaign lauding its scientific value. Chile has not objected to this activity within its claimed 200-mile territorial waters, possibly because of its own limited capacity to exploit their rich potential.

In March 1968, a visiting Soviet mission reportedly offered to build fishing ports and to provide machinery, installation and technical assistance for a fish processing plant in southern Chile. They also will help introduce Alaskan salmon in the waters off southern Chile, using 35,000 salmon eggs given Chile by the US Peace Corps. There are indications that the USSR is eager to establish an operating base for a fishing fleet in that area.

Chile's attitude is in distinct contrast to that of the East Coast countries. Argentina, concerned over extensive Soviet fishing activities in its coastal waters, acted to reduce this exploitation of its resources last year by extending its territorial sea to 200 miles and imposing high licensing fees. Sub-

sequently, Brazilian naval officers warned that the large Soviet fishing fleet was moving to its coastal waters. In March, the Uruguayan Government formally protested to Moscow on the matter.

Problems for the Latin Americans

In their eagerness to seek East European markets, Latin Americans have tended to minimize the problems bloc trade will entail. Thus far they have not fully realized that further expansion is unlikely without barter agreements they will doubtless find onerous. It will be difficult, for example, to find equipment sufficiently adaptable and attractive to replace the Western installations and goods basic to most economies of this hemisphere. In the past, concern over a lack of spare parts or repair facilities has made Latin American buyers wary. Presently however, transportation equipment from the bloc is being tried out in some quantity in Colombia. If it proves acceptable, Colombian interest in purchasing Soviet transport planes might be rekindled.

Another problem is that hopeful officials sign government-to-government agreements, which must in large part be implemented by usually conservative Latin American businessmen who have some difficulty in dealing with state-run economies. Paradoxically, however, it is the businessmen in several countries who are the most persistent advocates of more economic relations with Eastern Europe. In some cases they probably want

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to share in the early benefits before the difficulties set in, to make profit from cash sales that make the barter agreements more palatable.

The Communist countries, particularly the smaller ones, are sufficiently interested in this small but growing aspect of their trade to send numerous missions to Latin America. Some of these missions are headed by high-ranking officials empowered to make a few concessions. Cash purchases such as the Soviet Union made for over \$2 million worth of Ecuadorean cacao in January are one. Agreements to settle swing balances, presently favorable to the Latin Americans, in convertible currencies have been made in some exchange agreements basically barter in nature. The Soviet credits to Chile and Brazil and the one offered to Uruguay included a commitment to take up to 30 per-

cent of total imports from those countries in processed goods, a reluctant concession to the Latin American determination to industrialize and lessen dependence on uncertain markets for new materials.

Prospects

The chances seem good that all the Latin American countries will continue to expand their relations with Eastern Europe. The desire to diversify international contacts is strong, both as a matter of prestige and in response to or in anticipation of domestic political pressures as well as what they consider economic necessity. Simultaneously, the Communist European countries are obviously increasingly interested in seizing every opportunity to weaken or supplant US interests and influence in Latin America. (SECRET NO FOREIGN DISSEM)

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