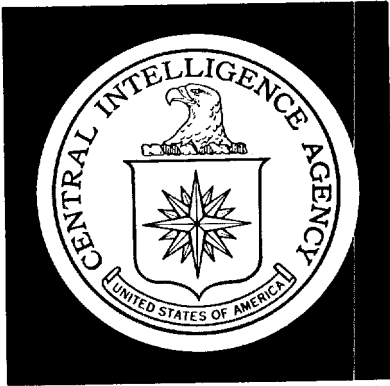


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DIRECTORATE OF
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WEEKLY SUMMARY

Special Report

The Economic Role of the Argentine Military

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THE ECONOMIC ROLE OF THE ARGENTINE MILITARY

In the last century the Argentine armed forces have developed an important role in the economic life of the country. Military officers were among the first promoters of the doctrine that the nation could achieve greatness through industrial expansion. Through the early 1950s, a commitment to develop heavy industry, a preference for state intervention in the economy, and a suspicion of foreign capital were important tenets of military thinking. The military moved into top positions in a number of state-controlled enterprises and autonomous agencies that were created to promote national growth and provide public services.

A strong nationalistic current still pervades the armed forces, although the ultranationalists lost some of their previously strong influence among the military as a result of an economic decline and the fall of dictator Juan Peron in 1955. The officers' present economic doctrine, to the extent that a consensus exists, is directed toward broad, long-term goals such as "modernization" and "national transformation." Although the direction of the economy has remained in the hands of civilian technicians since the Onganía administration came to power in 1966, the military view their continued important role in industry as contributing to national security through economic development.

BACKGROUND

The military have played an economic role in Argentina since approximately the last quarter of the 19th century. During the early period the army was engaged in expanding the nation's frontiers and contributing to the creation of the infrastructure that made possible Argentina's very rapid growth up until World War I. The army carried out extensive campaigns to drive the Indians off vast areas of land in the far south and west, making 100 million acres available for agriculture and pasture land. Their desire to see rapid development for Argentina placed most military officers strongly on the side of those civilians who advocated technological change. Many military men were in the forefront of national groups that promoted the development of modern communications media—especially the telegraph—and transportation systems.

The wealth provided by Argentina's remarkable economic expansion made possible the acquisition of a considerable quantity of modern arms for an increasingly well trained and professional military. By the turn of the century Argentina had built up a substantial naval force and was moving to modernize its army. Arms purchases were justified as necessary to maintain parity with the armed forces of Brazil and of Chile, with which Argentina had long-standing border disputes. Moreover, by World War I the country's armed forces had reached a level of training, equipment, and morale attesting its international stature.

EARLY INDUSTRIALIZATION EFFORTS

It was not until World War I, however, when Argentina was cut off from its primary European sources of arms and other necessities such as

fuels, that the military established their first domestic arms production capability—a small arms factory. Many officers, as a result of their wartime experience in munitions manufacture and the widespread propagation of the newly fashionable doctrine of economic nationalism, became ardent exponents of industrial development, especially with respect to the heavier industries. In contrast with the landowning oligarchy, who favored laissez-faire capitalism, free trade, and economic development stimulated by the influx of foreign capital, the armed forces showed an increasing preference for state-operated enterprise developed by domestic capital.

The military sought for themselves an important role in the pursuit of these economic aims by expanding technical and engineering education for officers. The most significant step in this direction was the establishment in 1930 of the Superior Technical School (EST) to meet the need for technically trained officers, a need that was not being filled by the existing military schools. The EST was founded primarily to furnish officers to direct the operations of the armaments plants. At the same time it provided a center to study technical problems related to the development of basic industries that could enhance national defense.

The first director (1931-34), Lt. Col. (later General) Manuel Savio, was a strong supporter of the military position on the need for heavy industries. Both as director and professor of industrial labor organization, Savio shaped the thinking of many young officers trained in the EST, which remains the primary supplier of military engineers. Another outstanding military proponent of industrialization was General Carlos Mosconi, who was largely responsible for the founding of the State Oilfields Company in 1922 and served as its first director.

The work of these and other technically oriented officers paved the way for the emergence of the military as a significant force in the development of and the growing state administration of the Argentine economy.

During the period from the late 1920s through the early 1940s, the armed forces saw some of their plans for industrialization materialize. The government made earnest efforts to manufacture military equipment locally. A military aircraft factory was established in Cordoba in 1927; this plant became the nucleus of the air force's National Directorate of Aeronautical Manufacture and Research (DINFIA). Between 1935 and 1938, the navy constructed eight minesweepers and two corvettes—the first naval craft to be built in Argentine yards. The onset of World War II saw the enactment of legislation creating the General Directorate of Military Factories. This agency subsequently exercised broad responsibility for the exploration and exploitation of industrial ores and for the development of heavy industries either on its own or in partnership with private enterprises. By the end of the war the military factories had produced a prototype 32-ton tank and a series of wooden training aircraft.

POSTWAR DEVELOPMENT

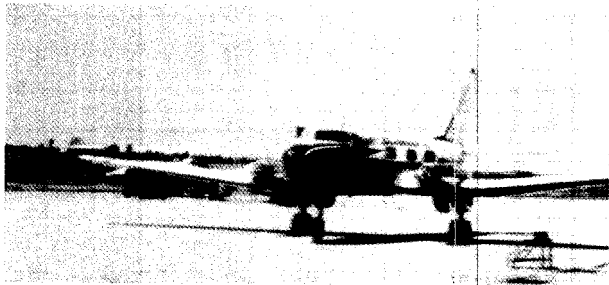
Following Peron's accession to power in 1946, the several military factories and installations grew to employ large numbers of civilians and to command important natural resources and financial assets. These factories supplied civilian as well as military users with industrial materials such as iron, steel, chemicals, and some consumer goods.

Under Peron, the navy's State Shipyards and Naval Factories, located at the Rio Santiago base near La Plata, were greatly expanded. Aside from

building two patrol frigates in the early 1950s, these yards have been used almost entirely for commercial production of tankers, cargo ships, and similar craft. The navy currently wants to obtain new destroyer escorts or frigates and to assemble at least one of them at Río Santiago. The naval repair yards at the main naval base at Puerto Belgrano handle all types of repairs and overhauls, both for the navy and for private shipping lines, because there are no commercial facilities for this type of work.

A considerable number of the navy's ships are used primarily for carrying coastal trade, installing and maintaining navigational aids, and carrying out hydrographic research. The navy also provides sea transportation to all ports south of Bahía Blanca where use of commercial carriers would be uneconomic. The navy mans the port captain administration, which has made some progress in reorganizing Argentina's notoriously inefficient ports.

Argentina has one of Latin America's two major aircraft industries. From 1927 through 1967, some 929 aircraft and 360 aircraft engines



**"Guarani II" Aircraft Produced
by Argentine Air Force Factory**

were produced, primarily at the DINFIA plant in Córdoba. Some were prototype jet combat aircraft of original design, but most were trainer and

general purpose units, including types assembled from imported components under license. In early 1968 DINFIA was replaced by the Research and Development Command of the air force. The Córdoba plant became the Military Aircraft Factory under the Research and Development Command. With a labor force of around 7,000, it now produces civilian and military aircraft, parts, and rockets.

The National Directorate of Civil Aviation, under a retired air force general, supervises and regulates the activities of Argentine private and commercial aviation. Through the directorate, the government operates two major civil aviation training schools and nine regional schools; these provide almost all pilots for the country's airlines. The air force operates a civil transport service which provides regularly scheduled passenger and mail service to 14 domestic points. Many of Argentina's airfields are operated jointly by the military and civilian airlines.

The most important of the military industrial complexes is the army's General Directorate of Military Factories. In the past, the directorate produced railroad rolling stock, oilfield equipment, and other types of heavy machinery. Currently, it has made Argentina almost self-sufficient in the production of small arms, associated ammunition, and explosives for army use and for the civilian market. In recent years the army has turned increasing attention to establishing a capacity for the production of major combat items. This is one of the principal goals of the "European Plan" adopted under Onganía in 1966. One move toward implementing this plan was the signing of a contract with France in 1968 for 60 AMX-13 tanks, with a stipulation that some of them would be assembled in Argentina. A private firm that has retired military officers among its directors is currently engaged in this project.



French AMX-13 Tank
Being Assembled in Argentina

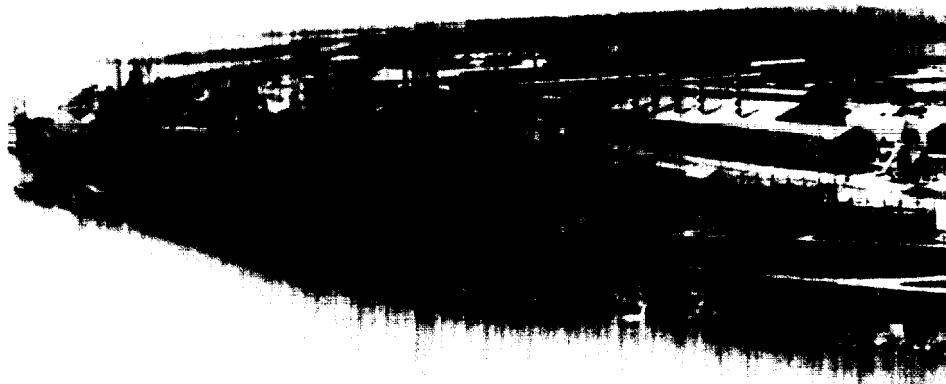
In 1947, the army undertook its most grandiose and ambitious enterprise—the construction of the “General Manuel Savio” integrated steel mill at San Nicolas on the Parana River between Buenos Aires and Rosario. In the mid-1940s the General Directorate of Military Factories had begun operating a small steel mill at Zapla, in Jujuy Province, using the iron deposits located there. The San Nicolas plant, however, was envisioned as one of the largest in Latin America.

The plant is operated by the Argentine Mixed Siderurgical Company (SOMISA) in which a retired army general serves as president and the military dominate its management. The government controls most of the stock, but SOMISA is authorized to obtain from private sources capital up to 90 percent of the enterprise's total subscribed capital.

Iron ore for the mill was to be obtained from a deposit operated by the General Directorate of Military Factories at Sierra Grande, Rio Negro Province, and coal from the field at El Turbio, Santa Cruz Province. Some imports of iron ore and coal were planned to supplement the domestic sources. The plant has been expanded substantially since its inauguration in 1960, and an annual production target of 2.2 million tons of steel has been set for 1974.

Large portions of western and southern Argentina have never been systematically explored for commercial mineral deposits. The first large-scale photographic exploration program—the Plan Cordillerana—has recently been carried out along the Andean chain. This program is financed

“General Manuel Savio” Steel Mill



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jointly by the General Directorate of Military Factories, the National Geological and Mining Institute, and the United Nations. Some deposits of copper and other minerals have been located that may be commercially exploitable.

OUTLOOK

Since the mid 1950s, there appears to have been some decline in the military's preference for state-operated industry as opposed to private enterprise and in its aversion to foreign capital. One factor leading to this change has been the inability of the economy to generate sufficient capital to finance the desired industrial expansion. Officers also recognize that the military factories generally operate at a higher cost than equivalent civilian enterprises, and that their real cost is disguised by the fact that they receive government subsidies and provide services at artificially low rates.

One sign of this somewhat altered attitude came during the last years of the Peron government, when the military accepted the transfer of state-owned motor vehicle production installations to foreign-financed private firms. Later, during the Arturo Frondizi administration, the military reversed its former ultranationalistic position and went along with the government's decision to invite foreign oil companies to participate in the expansion of the petroleum industry.

The Ongania administration's economic policies have stressed economic liberalism, private enterprise, and foreign investment. Military support for this program is essentially based on pragmatic grounds and will probably continue as long as it is directed toward the achievement of such long-term goals as "national transformation" and "modernization." The military have left control of most sectors of the economy in civilian hands, although an active duty general does head the nationalized railroads, probably because of their strategic importance.

Despite the military's shift away from the extremes of state intervention and from the ultranationalistic justification of their role in economic development, military leaders are still inclined to view industrial power as the necessary foundation for national and military power and to see themselves as pioneers in the development of basic industry and strategic resources. There is no sign that they would willingly relinquish the special position they have acquired through complexes such as the General Directorate of Military Factories, the State Shipyards and Naval Factories, and the air force Research and Development Command. The military now hope to use these facilities to produce equipment to be sold to other Latin American countries. During recent years the armed forces have expanded their activities into the new and challenging fields of nuclear energy and rocketry.

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