

Weekly Contributions  
Latin America Branch, ORE, CIA  
22 March 1949

B/LA believes that, of the items this week, that on Argentina is most important in terms of US interests (p. 3).

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CURRENT DEVELOPMENTS



SOUTHERN DIVISION: In Paraguay, the "Democratic" Colorado Party has clinched its control of the government (p. 2). Argentina's moves to meet its economic crisis offer temporary advantages to the US (p. 3).

SPECIAL SUBJECTS

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2. PARAGUAY: The "Democratic" Colorados now have gained complete control of the government by (1) appointing a loyal commander for the Asunción cavalry division, (2) placing one of their own members in control of the Asunción police, formerly the center of Liberato Rodríguez' power, (3) reducing police military power in relation to the army by taking away their machine guns, (4) demoting Rodríguez from a key cabinet post to a secondary one, and (5) replacing other Guion Rojo officials by Demo-Colorados in posts throughout the country. In attaining these results without violence, the Demo-Colorados have made patent their predominance and now have little to fear from any subversive attempt made against them by groups of Rodríguez followers. Nolas López, formerly allied with the Rodríguez forces, has been promised the presidency in the 17 April elections if he remains loyal to the

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Demo-Colorados and breaks all ties with the Guión Rojo. He is expected to do so since the Demo-Colorado control is now complete and their victory in the elections almost a certainty. Although the Demo-Colorados are using dictatorial tactics to set up their government, they are the most capable and most nearly democratic group in the country.

3. ARGENTINA: Effects of Economic Crisis on Policy Toward US and Attitude Toward Communism

In spite of the improbability that Argentina will permanently abandon its normal objective of displacing US influence in Latin America, the US does at present enjoy a favorable bargaining position for the attainment of policy objectives in relation to that country. The extent and duration of that advantage may be considerably influenced by the degree of success achieved by the recently initiated policies of increased international cooperation and more orthodox commercial practices.

If these policies meet reasonable short-term success with promise for the future, the Perón government may be expected to intensify its anti-Communist offensive and soft-pedal its "Third Position" foreign policy. The Perón government has already increased its denunciations of strike-supported wage demands as Communist-inspired (the government is now, as a part of its attempt to control inflation, much more resistant to all wage demands), and has reinforced security measures against Communist sabotage and infiltration. The Communist Party recently broke with Perón on the issue of revision of the constitution, after pursuing previously a policy of expedient collaboration based on Perón's nuisance value to the US. Both this open break and the government's anti-Communism moves may be expected to undermine and require revision of Perón's "Third Position" foreign policy, which, though ostensibly opposed to both Communism and capitalism, has actually been used in the past principally to oppose US influence in Latin America.

If the recently initiated policies are not successful and the Perón government ceases to place confidence in US assurances of assistance in easing the dollar shortage and reverts to its former views (for example, that the US is using ECA imperialistically against Argentina), Perón may again show relative tolerance of Communism, rehabilitate the "Third Position" thesis, and turn his propaganda against the US. It is true that the Argentine Army could be expected to oppose any serious anti-US measures, since it is predominantly anti-Communist and desires improved relations with the US in order to obtain US matériel and equipment. Such opposition, however, would not necessarily deter Perón, who might attempt to use his powerful labor support to counter army influence, with resulting possibilities of violence between army and labor that would lend itself to Communist exploitation.

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The Current Situation in Guatemala

Despite oppositionist electoral victories, recurrent alarms of revolt, and prospects of an unfavorable economic situation, the leftist administration of President Arévalo appears, by Central American standards, to be stable. Furthermore, the recent compromise settlement of the United Fruit Company strike should enhance the internal stability of the regime as well as improve prospects for more friendly relations with the US. Both the nationalistic and radical aspects of the present government, however, may be expected to continue to conflict with certain US economic and foreign policy interests.

This year, as last year, congressional and municipal election returns have shown a trend away from the left. The Union National Electoral, which includes heretofore politically inactive conservative elements, has won the mayoralty contest in Guatemala City and has also won a few congressional seats. These victories, however, will probably have the effect of forcing the three government parties (the extreme leftist Partido Acción Revolucionaria; the radical Partido Renovación Nacional; and the moderate leftist Frente Popular Libertador) to cooperate more closely. With these three parties in control, the stability of the Arévalo government, insofar as the congress is concerned, appears assured.

The apparent reluctance of Colonel Arana, Chief of the Armed Forces (and the key figure in the military situation), to lead a coup against President Arévalo has further enhanced the stability of the government. Although Arana has used the threat of a military coup as a device for compelling President Arévalo to follow less radical policies, he has, without seriously weakening his control over the army, apparently resisted pressure from militant anti-Arévalo factions that have urged open revolt. Arana's own position seems secure. It is unlikely either that congress will replace him with a commander more favorable to Arévalo and the leftist parties or that the conservatives, now aware of his reluctance really to go along with them in leading a coup against Arévalo, could replace him with someone more amenable to their aims.

The less favorable economic situation that now seems to be developing, while unlikely to undermine his regime's stability, may serve to increase Arévalo's unpopularity among conservative elements. The period of post-war prosperity, which has favored him since he took office in 1945, is now drawing to a close. Government expenses last year exceeded income by \$10,800,000, though availability of \$12,700,000 surplus left over from former years leaves a net surplus. The fact that imports for the first 11 months of 1948 exceeded exports by some \$13,000,000 suggests an eventual scarcity of dollar exchange. Furthermore, indications are that inefficiency in government-operated agricultural enterprises (covering some 30 per cent of all cultivated land and yielding some 20 per cent of the

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total coffee crop) will result in smaller income from these sources. In view of these conditions, the government will probably choose to expand its public debt in order to fulfill its public-works projects (which involve extensive highway construction and hospital building) and to maintain the administrative bureaucracy that has been built up. Such debt expansion should not be difficult in view of Guatemala's present limited obligations. The prospect of extensive borrowing, however, in a country which has been singularly free of debt for many years, will increase criticism of Arévalo's policies.

The settlement of the United Fruit Company strike has restored the functioning of the Guatemalan economic system to normalcy. Although a definition of principles was avoided in arriving at the compromise solution of the labor difficulties, the settlement virtually assures all parties concerned normal working conditions for the forthcoming year and should, therefore, enhance the internal stability of the regime as well as improve prospects for more friendly relations with the US.

In face of continued US-USSR rivalry, Communist influence in Guatemala, which may be expected to continue during the coming year, will remain a source of concern to the US. Although there is no official Communist Party in Guatemala, the Partido Acción Revolucionaria (PAR) ideology is closely patterned after the Communist, and Communist influence has penetrated various government departments. This has been noticeable in the foreign service, both in Europe and Latin America. Sale of transit visas through the Guatemalan consular office in Prague is a practice possibly designed to facilitate the international movement of Communists. The connection of the Guatemalan Consulate in Milan with a mysterious Academia Culturale Adriatica may also be linked to Communist activity. In the Western Hemisphere, a case in point is the recent appointment of Alfredo Guerra Borges as Secretary of the Guatemalan Embassy in Salvador. Guerra Borges was associated with Communists in Chile, is the recipient of Communist propaganda from Cuba and Mexico, is a correspondent of Lombardo Toledano, and a good part of his time in El Salvador is expected to be devoted to organization of the local Committee for Peace and Democracy. Communist activity is apparent also in labor organizations, and the decision of labor leaders to come to terms with the United Fruit Company may be due, in part, to the advice of Lombardo Toledano, who conferred with strike leaders and PAR leaders in late January.

In the field of foreign economic affairs, Guatemala's radical doctrines will probably continue to cause difficulties for the US. Although the United Fruit dockworkers' strike has been settled, the controversial "discriminatory" features of the Labor Code have not been changed. Oil companies have had to carry on prolonged negotiations with the government for the assurance that they may profitably exploit (as contract agents)

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whatever petroleum they may discover. Although it appears that satisfactory draft contracts have finally been worked out, these must still be submitted for congressional approval. Certain other US-owned companies are currently under government pressure to pay allegedly valid back tax claims or labor claims.

In foreign political affairs Guatemala has assumed, and may be expected to continue to assume, intensely nationalistic attitudes which are in conflict with the US concepts of Hemisphere security based on unity of all 21 American Republics toward encroachments from without and on the fraternity of interest of the democracies. By actively espousing the cause of the Caribbean "democracies" and by conspiring against the "dictatorships", Guatemala has increased difficulties and antagonisms within the inter-American system. Guatemala has refused to recognize the new government of Venezuela which came into power through force, and has tried (with little apparent success) to draw El Salvador further into the "democratic" camp. The Guatemalan delegation to the Conference of the Committee on Dependent Territories has assumed a highly anti-imperial attitude and has stressed the imperial rather than the democratic traditions of the Western European powers. This tends to weaken the concept of fraternity of interest of the Western European powers and the American Republics in opposition to the USSR. Guatemala is in the forefront of those nations which denounce the existence of colonial possessions in the Western Hemisphere. In this connection the Foreign Office has already stated that the US decision not to participate in the Conference is an unforgettable slight to the free peoples of Latin America, since it aligns the US with England and "other imperialist nations" (presumably France, the Netherlands, and Denmark).

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### The Current Situation in Brazil

President Dutra's statement in his New Year's message that Brazil's major problem is economic and financial, rather than political, offers a good index of the high degree of stability enjoyed by the present government.

With Dutra entering the fourth year of his five-year term, representative government on the national, state, and municipal levels is now in full operation. Critical situations arising out of political struggle within a number of the states have been ironed out, or weathered, without resort to Federal "intervention", and the President's demonstrated resolve to maintain constitutional government has done much to restore prestige to the principles of state and local autonomy and the separation of powers. This prestige is reflected in the general confidence in Brazil that Dutra will respect the constitutional provision forbidding the president to succeed himself, and there is no reason to consider this confidence misplaced.

Brazil has, of course, two perennial foci of unrest --- its outlawed Communist Party and its deposed dictator, Getulio Vargas, neither of which is estimated to be a threat to the regime at the present time. There have, it is true, been constant rumors that Vargas will enter into an electoral alliance with the Communists in an attempt to regain the presidency in 1950, but there have been no recent indications that his political strength, even with Communist help, is equal to the task. His popularity, however, could increase if the present administration fails to find adequate solutions for Brazil's more pressing economic problems.

In an effort to solve his country's economic ills, President Dutra, in 1948, presented to Congress the SALTE Plan,\* an integral plan for the development of important sectors of Brazil's economy, and requested from the US technical assistance in an analysis of the factors in Brazil which tend to promote or retard the economic development of that country. As a result of this request the Joint Brazil-United States Technical Commission (generally known as the Abbink Mission for its chairman, Mr. John Abbink) was established.

\* The Chamber of Deputies passed the SALTE Plan in February 1949 and it is expected that the Senate will pass the bill in this session of Congress which began on 15 March 1949. Brazil's National Budget for 1949, passed by both chambers of the Legislature and signed by President Dutra, contains an allowance for expenditures of approximately US\$50 million for the SALTE Plan.

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After several months study, this commission has made many far-reaching suggestions for the improvement of Brazil's economy and finances. In order to carry out many of the suggestions, legislation will be required, and it is not likely that the Brazilian Legislature will adopt all of the measures of the report, because some of these will arouse serious opposition from certain ideological and special-interest groups. It can be expected, however, that Brazil will improve its inefficient system of tax collections as well as its national banking organization in order to strengthen internal finances, and will pass some legislation to encourage the inflow of foreign capital and technicians.

The report also puts emphasis on the lack of petroleum, a lack which retards the advancement of the woefully inadequate transportation system and adds to the chronic shortage of foreign exchange (Brazil spends approximately US\$300,000 daily for petroleum imports). Although there are possibilities for a considerable petroleum industry in Brazil, there is insufficient capital and technical skill within the country to explore and develop the oil fields. While petroleum legislation has been drafted (and has been on the agenda of the Brazilian Congress for more than a year), present chances of enactment are slight. The provisions of the bill are reported to be uninteresting to US oil firms (only 40 per cent control of the refineries and pipelines in return for large investments); and the legislators, fearful of political repercussion from extreme nationalist elements and the Communists, have hesitated to pass a bill with even these concessions. The only real possibility seems to be that some formula for Brazilian legislation acceptable to the US oil companies may be worked out with President Dutra when he visits this country in May. Such legislation must not only be satisfactory to the US firms, but also it must appear as a victory won by President Dutra, in order to weaken the attack that the Communists and Nationalists are certain to make against any investment of foreign capital in the petroleum industry.

The most articulate sector of Brazilian public opinion feels that President Dutra's coming visit to this country marks the moment for a decisive effort to improve relations with the US, which they feel have been deteriorating ever since the war. No doubt some still hope to see the improvement take the form of a direct government-to-government loan for Brazilian development. Whether the Abbink Mission report -- emphasizing Brazilian self-help and an increased inflow of private foreign capital -- will be received in Brazil as a gratifying application of President Truman's "Point 4" or as evidence of US "commercial imperialism" will depend in part on the political adroitness with which it is presented to Brazil. Anti-US feeling in Brazil, a recent article in the Rio press pointed out, is "still a superficial phenomenon", and President Dutra's reception in the US may be expected to improve the intangible as well as the material aspects of US-Brazilian relations.

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