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Weekly Contributions
Latin America Branch, ORE, CIA
23 August 1949

B/LA suggests particular attention to the item on Cuba-Peru relations (p. 2), emphasizing a situation potentially adverse to the US interest in Hemisphere solidarity, and to the article on the current but also perennial revolutionary situation in Paraguay (p. 5).

CURRENT DEVELOPMENTS

GENERAL: The "Peace and Democracy" Congress in Mexico City 5-10 September will probably bring limited Communist organizational gains (p. 2). Peru's breaking of relations with Cuba emphasizes the present impairment of the US interest in Hemisphere solidarity.

CENTRAL DIVISION: Brazilian reports of a Communist conspiracy are probably exaggerated (p. 3).

SOUTHERN DIVISION: In Chile, threatened extensive strikes point up the basic weakness of the González government (p. 3).

SPECIAL SUBJECTS

The Current Situation in Paraguay 5

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1. GENERAL: Communist Profit to be Small from "Peace" Congress

The Communist inspired "Peace" congress will probably take place as now scheduled in Mexico City from September 5 to 10, due at least in part to vigorous renewal of organizing efforts by several important Latin American Communist leaders who returned in June from meetings with other Communists in Europe. Funds and other support reportedly contributed by United States Communists seem to have helped the organizing campaign.

Communist activity and Communist-inspired publicity and propaganda for a "Peace" congress has been reported from most Latin American countries. The main Communist objectives in holding such a congress apparently are: (1) to clothe the Communists and the USSR with respectability by gaining the participation of prominent non-Communist intellectuals in the congress; (2) to link the popular desire for peace to the Communist cause by identifying Communists and the USSR as proponents of peace; and (3) to extend Communist influence by organizing permanent Communist-directed peace committees in each country under centralized control.

Communists are unlikely to be conspicuously successful in their first two objectives. Counter-propaganda has effectively dissuaded some intellectuals whose inclinations would have led to participation in a peace congress if the Communist backing had not been known and may yet persuade others to decline to participate or at least to take an independent position at the Congress. Unless counter-propaganda slackens, it is unlikely that the Mexico City "Peace" congress will win many converts to the theory that Communism means peace. The third Communist objective has greater chances of attainment. Organization of permanent peace committees into a centrally directed Communist front group has already advanced appreciably in some Latin American countries, and a Communist-directed Latin American "Peace" organization may well be formalized at the September congress.

2. Peru's rupture of diplomatic relations with Cuba on 19 August, as a result of alleged irregularities in the escape of two asylees from the Cuban Embassy in Lima, has in itself no great importance for US security interests, since it merely formalizes a rift which to all intents and purposes has existed since the present Peruvian regime came to power. It is important, however, as evidence of impairment already suffered by the US interest in Hemisphere solidarity from the increasing tension between "democratic" and "dictator" countries of Latin America. The cleavage between the two groups, sharply defined in the Caribbean area, has been of slower development

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in South America, and the South-American countries have been especially loathe to take sides in regard to Caribbean problems. The Cuban Embassy's asylee problem, paralleling as it does the delicate case of Haya de la Torre's sanctuary, and no doubt acerbated by Cuba's uninhibited press and radio comments regarding the Odría regime has not only served to force the Peruvian government to publish its dislike for the Cuban government; it may lead to further disturbing of Hemisphere solidarity if Peru's South-American opponents -- such as Uruguay, Colombia and Chile -- enter the controversy. Moreover, if the matter passes beyond press and radio controversy and reaches the OAS for official consideration, the cleavage between the two groups of countries will become more formal, and thus more difficult to repair.

3. BRAZIL: Press reports have greatly exaggerated the scope of the Communist "conspiracy" which was quashed by the police of Pôrto Alegre (capital of Rio Grande do Sul) last week. There is no evidence of a revolutionary movement timed to break out simultaneously in several states. On the contrary, what seems to have been planned in Pôrto Alegre was a local outburst of violence in connection with an attempt to hold a "regional peace conference" which had been forbidden by the police. Police action in this case followed the pattern established in other efforts to prevent the holding of local conferences in preparation for the Mexico City "Congress for Peace and Democracy" -- the "preventive" arrest of Communist leaders, followed, by way of justification, by announcement of the discovery of a revolutionary plot. Nevertheless, the tenacity with which the Communists are trying to go through with the scheduled "peace" meetings, though it is no proof of a conspiracy, does support the police in their belief that further violence may be attempted.

4. CHILE: Strikes May Threaten Government's Stability

A proposed strike that would call out the 400,000 white-collar workers of the powerful National Junta of Employees (JUNECH) now appears to be the chief threat to the Chilean administration. If this strike should materialize in the near future, climaxing disturbances that began 16 August with student-labor rioting over increased Santiago transit fares and grew into serious Communist-instigated strikes, it is to be expected that the Socialist CTCH, now supporting the government, will feel forced to join in. In this case the Communists, now attempting to foment strikes, will gain increased prestige and the President, largely without labor support, may find his position untenable.

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Indiscriminate use of drastic repressive measures by the government would play into the hands of the Communists and other administration opponents and would further alienate labor. On the other hand, Gonzalez' attempts to pursue a more leftist policy to pacify labor are not expected to benefit the administration at this late date, and may prove harmful if the conservatives, until now allies of the Executive, are alienated by the proposed reforms.

President Gonzalez, if faced by the disintegration of the pro-government coalition under stress of the present crisis and by the economic paralysis of the country in a general strike, might retire, at least temporarily, in favor of a junta expected to include the present Minister of National Defense and the Minister of Interior Admiral Holger (who handled the 1947 coal strike crisis). B/LA estimates that such a junta could restore order but could do little to solve the basic political and economic problems of the country. The retirement of President Gonzalez at this time, as a result of a protest movement led by Communists who are capitalizing on a general groundswell of discontent, would be a setback to US interests in democratic stability.

Whether the JUNECH strike takes place or not, the basic political instability of the government has been exposed and heightened by increasing economic difficulties occasioned by the decline in copper prices and the continued upward spiral of living costs. No substantive, long-range improvement in this situation is foreseen as long as agrarian reform is blocked by rightist elements and as long as Chile remains dependent upon copper and nitrate exports.

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The Current Situation in Paraguay

(Summary --- A split in the governing group and dissatisfaction among the military threaten the stability of the present regime and mark a three-month period of relative calm. Communists remain of little importance. Indications of a rapprochement with Argentina are noted in the signing of tentative commercial and military agreements between the two countries.

--- Although a US interest in stability is adversely affected by current Paraguayan political trends, Paraguay's impact on US security interests is so slight that neither any of the changes in government which appear possible at this time nor Paraguay's increased orientation towards Argentina is important to basic US interests.)

Political

The present one-party government, which had been functioning with relative smoothness and had been making some progress in its pacification and rehabilitation program, is now so seriously split that a showdown is imminent. The schism has developed from the rivalry between Federico Chaves, the Colorado Party chief, and President Molas, who aspires to control of the government and the party; it extends from the cabinet, through the rank and file of the party, and also through the army. Chaves is supported by his own faction, the older Democratic Colorados, and may receive the backing of the Democratic Colorado youth as well. Molas is supported by the extremist Quiones. A third minority group within the party supports the Minister of Interior, Mallorquin, who has not yet indicated which side of the major schism he will join. Non-Colorado elements are unimportant, as their leaders are in exile.

Army leaders, who helped install the present civilian government and who, as is usually the case in Paraguay, will be the deciding factor in the government's continuation or overthrow, are dissatisfied with their subservient role in the Molas regime and are taking sides in the political struggle. The division in the army is somewhat similar to that within the Colorado Party: Chaves appears to have the preponderance of strength, but the key to the military — and therefore, to the political — situation is the First Cavalry Division commanded by Lt. Col. Mallorquin, the brother

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of the Minister of Interior. Both brothers have refused to take a stand as between Molas and Chaves and their strategic position is strong, though it is unlikely that they can do more than sell their support to one side or the other.

A reconciliation between the major contenders is possible if Mal-lorquin's cavalry refuses to act, but the forceful expulsion of one group by the other seems more likely. Because of the basic instability of Paraguayan political institutions, any reconciliation would be short-lived, and a successful expulsion of one group by the other would not lead to long-term political stability. Aside from the setback to US interests in Hemisphere stability which another revolution would represent, none of the changes in the Paraguayan government that appear possible at this time would seriously affect these interests.

Subversive

Communist influence remains of little importance, nor have there been any real subversive moves against the government from other directions. There is no reason to believe that the plot (said to be headed by ex-President Frutos, many Guiones and former members of the police force under the Gonzalez regime), which the government claims to have thwarted, was of any great importance.

Economic

Closer commercial relations with Argentine, following the general pattern of a pro-Argentina orientation (see International), have been the keynote of the government's current economic policy. As a result of steps taken by President Molas López soon after his inauguration, an agreement has been drafted in Buenos Aires by a joint Argentine-Paraguayan commission whereby Paraguay would supply Argentina with timber, yerba mate, rice, cottonseed oil, and Paraguay's entire coco oil production. Argentina would furnish the capital for and set up an oil-pressing factory in Paraguay, would supply Paraguay with minimum quantities of wheat, textiles and dairy products, and would reduce freight rates on the Argentine-owned river boats. Mendez Paiva, Paraguayan Minister of Finance, is reported to have stated to other officials

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that the government's interest in improving commercial relations with Argentina is only an economic measure without political significance. He claimed that Argentina is the only country with which Paraguay can reach an understanding without long negotiations and the only country that will supply what is for Paraguay a substantial sum of money.

US interests in stimulating the economy of underprivileged nations and insuring the economic strength of the other American Republics would be served by a short-term agreement of this type to the extent that it has a salutary effect on the Paraguayan economy. If the agreement should continue for an extended period, however, it would tend to increase the already considerable economic influence which Argentina exercises in Paraguay.

Military

Military leaders, dissatisfied with the minor role of the army in the present regime and interested in improving their personal position, are taking a leading part in political affairs. Among them is the Commander in Chief, General Díaz de Vivar, who has attained considerable power by purging all doubtful officers to replace them with officers subservient or amenable to himself. Although Díaz de Vivar took part in the coup which placed Molas in the presidency, he is reported to favor Chaves at this time. Lt. Col. Mallorquin, commander of the key military unit, the First Cavalry Division, has not indicated which side he will favor in the current political schism. As a number of units, such as the Paraguari Artillery Regiment, favor Molas, Mallorquin would appear to have the deciding vote both in the military and the political contests.

Political activity by army leaders is so normal that there is no reason to believe that current intrigues have reduced the military effectiveness of the army or the morale of the soldiers. The state of training and organization remain low by US standards, and supplies of materiel insufficient and will probably continue so. But these deficiencies are unlikely to cut down the fighting qualities of the average Paraguayan soldier, who has proved he can give a good account of himself in any conflict.

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International

The most significant aspect of Paraguay's current foreign policy is the recent trend toward rapprochement with Argentina. The first step in that direction was evident when Argentina sent an impressive delegation, headed by Molas' friend Dr. Ivanissevich, to attend the inauguration ceremonies --- a sharp contrast to the undistinguished group that was sent to the inauguration of former President González. Through his friend Ivanissevich, Molas was able to arrange to send his Commander-in-Chief of the Armed Forces to discuss with Perón certain Paraguayan-Argentine commercial problems. As a result of these talks a tentative commercial and payments agreement was drawn up. Further Paraguayan-Argentine agreements, still in the tentative stages, include provisions for the establishment of an Argentine police mission in Asunción to reorganize the entire police department and an Argentine technical military mission to revamp the Paraguayan Military Geographic Institute and collaborate in a project to survey and map Paraguay.

The signing, without consultation with the US, of the mapping agreement may be of special significance. While the agreement is not a formal contract, it does establish the basis for a subsequent contract. Furthermore, the US Military Attaché in Asunción considers that it is in contravention to the US-Paraguay Military Mission contract. Implementation of the new agreement without US consent might embarrass the US and possibly lead other Latin-American countries to disregard US military mission contracts in a similar manner when it suits their purpose. The rapprochement with Argentina must be viewed in terms of Paraguay's peculiar geographic situation, which makes the smaller country something less than a completely free agent. In the first place, the fact that Argentina practically controls Paraguayan export trade places the latter country to some extent within the natural sphere of influence of the former; thus the moves on Molas' part to mend the rather bad Argentine-Paraguayan relations of the last two years may be considered only a recognition of the economic "facts of life." Certain groups in Paraguay, furthermore, believe that their country must, in order to maintain any reality of national independence,

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to some extent balance Argentine against Brazilian influence; and these groups can be expected to oppose any rush into the Argentine camp. Finally, Paraguay's impact on US security interests is so minor that her greater orientation towards Argentina is significant only as it adds in some small degree to Argentina's capacity to affect these interests.

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