



**Foreign  
Assessment  
Center**



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# Latin America Review

14 December 1978

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LATIN AMERICA REVIEW

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The Foreign Ministers' meeting this week has apparently not resolved the differences between the two countries, which have continued to make final military preparations. [Redacted]

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The dispute over territorial claims in the Beagle Channel area is typical of many South American boundary problems that stem from early, ambiguously worded agreements and treaties formulated before accurate maps were available. [Redacted]

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The North-South policies of President Perez are motivated more by ideology and politics than by a calculation of economic costs and benefits, but pursuit of the New International Economic Order has been one primary goal. [Redacted]

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[Redacted]

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The scorecard for President Lucas' first five months in office is mixed but generally negative, reflecting his lackluster leadership image and failure to make much progress in domestic programs or foreign affairs. [Redacted]

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Argentina-Chile: Latest Beagle Channel Talks Fail [REDACTED]

Chilean Foreign Minister Cubillos and Argentine Foreign Minister Pastor apparently made no progress this week in their talks intended to avert a military action in the Beagle Channel dispute. No joint communique was issued the press that the talks failed. Cubillos reportedly came to Buenos Aires with proposals that were unacceptable to Argentine President Videla and military leaders. [REDACTED]

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Both sides have continued to make final military preparations. Argentina has moved combat units from all four military corps to the Chilean border and has sent its major naval ships to sea. Chile has placed its Army and police units on full alert, has closed some border crossings, and has ordered its combat ships to move southward from the main port of Valparaiso, probably to the Beagle Channel area. [REDACTED]

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A leading Argentine newspaper has stated that the United States has asked the Organization of American States to intervene in the dispute. The Argentine Government repeatedly has expressed its receptivity to direct US involvement or mediation, but could easily interpret an appeal to the OAS at this time as a legalistic move that will benefit the Chileans, who have the juridical advantage in the dispute. [REDACTED]

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There is still a possibility that a military move can be averted, but the fundamental dispute appears intractable and not easily susceptible to outside mediation since there is a basic clash of national interests. Chile shows no willingness to renegotiate its maritime boundary claims, which have the weight of international law behind them. Argentina, on the other hand, believes that factors affecting its national security and potential for economic growth are at stake and wants the issue handled in a political, nonlegal, context. [REDACTED]

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ARGENTINA-CHILE: Background on Beagle Channel Dispute

The dispute between Argentina and Chile over the Beagle Channel and related territorial claims is typical of many South American boundary problems that stem from early, ambiguously worded agreements and treaties formulated before accurate maps were available. Recent efforts at negotiation and arbitration have failed, largely because neither side is prepared to accept any compromise on the major issues.

The Beagle Channel serves as an alternate route to the Strait of Magellan and to the course around Cape Horn for travel between the Atlantic and the Pacific Oceans. A treaty negotiated in 1881 stipulated that the boundary between Argentina and Chile should run north-south through Tierra del Fuego, dividing Isla Grande into two parts, with Argentina getting the eastern part and Chile the western part. All islands along the Atlantic coast were to belong to Argentina; those south of the Beagle Channel as far as Cape Horn and all along the Pacific coast were to belong to Chile.

The Chileans soon claimed that the north-south line dividing Isla Grande was to stop at the northern shore of the Beagle Channel, so that the channel itself as well as all territory to the south belonged to Chile. The Argentines countered that the north-south line reaches midchannel and that a portion of the channel belongs to them. The Chileans also held that the channel extends eastward as far as Cabo San Pio, making the small islands of Picton, Lennox, and Nueva theirs; the Argentines claimed that the channel turns southward to the west of Picton and Lennox, and the islands are, therefore, Argentine.

Picton, Lennox, and Nueva have no more than a dozen or so Chilean residents and no Argentines. With the possible exception of some nitrate deposits, they contain

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no known mineral or other resources of significance. In recent years, however, the importance of Tierra del Fuego has grown. Oilfields and enormous sheep ranches occupy the northern part of the region. In the south, Ushuaia, Argentina, has grown to a town of 6,000 inhabitants, with an airfield, a naval base, a hydroelectric plant, and a road that allows access to the northern part of the island. Chile maintains a small naval base at Puerto Williams, south of the Beagle Channel on Isla Navarino. The town has an airstrip, a radio station, a hotel, and a civilian population of about 700.

A series of incidents, including one in 1967 in which a Chilean PT boat was fired on by an Argentine patrol ship, led Chile to seek British arbitration of the lingering channel dispute. Argentina rejected the idea but signed a treaty in 1972 submitting the claim to the International Court of Justice. The Court's verdict would go to the British for approval or disapproval.

In May 1977, the Court decided that the Beagle Channel should be divided between the two countries and the disputed islands awarded to Chile. Implementation of the decision, which was accepted by the British, was set for February 1978. In December 1977, however, Argentina--which had already indicated it would not accept the Court's ruling--began a press campaign and a number of economic and military moves to prompt concessions from Chile.

Presidents Videla and Pinochet met in Mendoza, Argentina, in January 1978 and in Puerto Montt, Chile, in February and signed agreements creating a joint commission and outlining a phased negotiating process. The first phase ended in April without any significant progress.

In the second phase of negotiations, attention shifted away from the islands in the mouth of the Beagle Channel to a number of smaller islands to the south, including Evout, Barnevelt, and Hornos. Argentina wants a boundary line that would run through these islands before the line turns south along the Cape Horn meridian or, better yet, a boundary that would place one or more of the islands entirely in Argentine territory. Intrusion of the Chileans into the Atlantic is resented by the

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Argentines, who feel that it breaks a gentlemen's agreement between the two countries that Argentina should be an Atlantic power and Chile exclusively a Pacific power.

Argentina is particularly concerned about the effect the Court's awards to Chile might have on control of ocean resources; both countries claim sovereignty over resources within 200 miles of the coast. Continental shelf petroleum and coastal fisheries are the resources of greatest interest, but their value and extent in the area are unknown. An additional Argentine concern is that the Court ruling will adversely affect Argentina's Antarctic claim, which overlaps that of Chile. Argentina presumably fears that any extension of Chilean territory eastward into the Atlantic will lend weight to Chilean claims to territory directly to the south on the Antarctic Peninsula.

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Venezuela and the North-South Dialogue

Summary

Venezuela's President Perez has made pursuit of the New International Economic Order (NIEO) one of the primary goals of a broad foreign policy that seeks to gain new international influence and prestige. His North-South policies are based more on ideological and political motives than on a calculation of economic costs and benefits. Under the new administration that takes office in March 1979, however, it is likely that other issues--particularly the question of increased government oil income--will gain in relative importance. Nevertheless, Venezuela will continue to be concerned with most of the issues covered by the NIEO, and its interest in such issues as technology transfer to help reduce its dependency on a dwindling oil supply, and growing domestic economic concerns, will generally preclude it from seriously challenging fundamental US interests in bilateral or multilateral forums.

\* \* \*

In the 15 years before the energy crisis of 1973-1974, Venezuela was quietly and gradually emerging as an important actor in hemispheric and international affairs. Venezuela played a leading role in founding OPEC, the Betancourt Doctrine enhanced its moral influence in Latin America, and Caracas assumed a leading role in stressing Latin American solidarity as a counterpoise to the traditional US dominance in the region.

The two critical years of the Arab oil embargo and the attendant dramatic rise in world petroleum prices were the key events that accelerated Venezuela's entry into high-stakes international diplomacy and hemisphere politics. The financial windfall that earned Venezuela nearly US \$30 billion in oil revenues enabled it to implement an ambitious and activist foreign policy that had not been feasible before the oil boom years. Venezuela's financial fortunes also coincided with the inauguration in March 1974 of President Carlos Andres Perez,

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whose personality, monumental ego, and soaring ambition complemented the country's economic and political well-being.

### Perceptions and Perez

In November 1976, President Perez capped nearly three years of active international politicking with a neatly balanced round of state visits that demonstrated Venezuela's new influence and prestige. In a major speech to the United Nations on the eve of his 15-day trip to Italy, the Vatican, the Soviet Union, United Kingdom and a number of lesser European capitals, Perez spoke as if Venezuela were not only the voice of Latin America, but of OPEC, the Third World, and Western democratic nations as well. Perez spoke for Venezuela as a nation that is Latin American, developing, a member of the Third World, Western, democratic, critical of alignments and dictatorships, and a defender of the right of OPEC to fix petroleum prices--though concerned lest price hikes damage the economies of petroleum importing countries.

Since 1958, Venezuelan foreign policy has been strongly influenced by domestic political goals and by an economic development strategy tied to these goals. They include:

- Institutionalization of the democratic system that had emerged from the shadow of the Perez Jimenez dictatorship.
- Control and nationalization of the major extractive industries on which Venezuela's economic well-being depends.
- Diversification of economic growth and development of a nonoil based economic infrastructure.
- The sharing of the benefits of diversification by all income groups, thereby narrowing the great gap between those at the top and the bottom of the economic ladder.

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Except for the failure to narrow the disparity between income groups, most Venezuelans would say that the 20 years of democratic rule have been successful. The Perez administration has launched an ambitious five-year public and private investment program in basic industries, agriculture, and human resources. This priority objective, in turn, has determined the recent direction of Venezuelan foreign policy and its objectives, which are:

- Safeguarding and nurturing government oil revenues.
- Achievement of Third World demands for a NIEO.
- Extension of Venezuelan influence in Latin America beyond that required by security.
- Accommodation with the United States whenever possible.

In its application, Venezuela's foreign policy has been an intriguing blend of personal style, pragmatism, idealism, and moralist impulses. For the United States, this blend has been at its most frustrating and irritating in Venezuela's championing of the NIEO.

Perez has been in the forefront of Third World demands for a fundamental restructuring of the present international economic order. Among OPEC leaders, Perez has been the principal champion of using petroleum as an instrument for creating a new economic system that benefits--first and foremost--the raw material producers. He has taken the lead in proposing that petrodollars be recycled in ways to benefit the developing countries. Venezuela has also been generous over the past four years in using some of its \$30 billion in oil revenues to help non-oil producers of the Third World.

Despite domestic political opposition and criticism that Venezuela should be using its oil revenues exclusively on internal projects, the extent of its international lending--almost \$4.4 billion--and the degree of

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its involvement in the North-South negotiations make it clear that achieving a NIEO will remain a priority item in the few months remaining of Perez's term of office.

### Rationale for the North-South Dialogue

The rationale for championing Third World demands for a NIEO is not so obvious. Unlike the goal of maintaining and if possible increasing the flow of oil income, the NIEO will not contribute to Venezuela's economic development. Much of the explanation for Venezuela's advocacy of the NIEO lies in the interplay of Venezuela's petroleum diplomacy, the continued political effectiveness of OPEC, and NIEO demands. Perez suggests, for example, that the OPEC experience could be emulated by other raw material producers. He is not immune, however, to the charge that Venezuela and other OPEC countries are to blame for the worldwide inflationary spiral and are benefiting at the expense of the Third World countries.

By emphasizing OPEC solidarity with the Third World, Perez provides a justification for Venezuelan demands for ever-increasing hikes in the price of petroleum. Perez's desire to deflect the "beggar thy neighbor" accusations against Venezuela's petroleum policy--voiced in particularly harsh terms by its Central American and Caribbean neighbors--was, in part the motivation for Venezuela's international lending program. While initially greeted with considerable praise by the potential recipients, it was soon apparent that Venezuelan funds would be made available only if repayment were made on commercial terms. In short, Venezuelan money would be available, but not at cut-rate prices.

Venezuela's active role in the NIEO negotiations is almost certainly not based on a cost-benefit analysis of what the program demanded by the Third World would mean for Venezuela's economic development. Its attitudes on North-South issues are basically politically and ideologically motivated. Venezuela has given rhetorical support to the proposition that UNCTAD's integrated approach to raw materials and commodities would make excellent sense in assuring stable and more favorable terms of trade for developing countries. It is doubtful, however, whether the UNCTAD program would represent an economic

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gain to Venezuela. The nation would undoubtedly be called upon to make a sizable contribution to the Common Fund to help LDCs finance a price-stabilizing international commodity agreement; Venezuela, however, is a net importer of the commodities whose prices would be increased. It is equally difficult to see how Venezuela could have much of an economic stake in other prominent NIEO issues, with the exception of technology transfer. At least in the midterm, access to the markets of developed countries is not central to Venezuelan economic development and debt relief appears to be irrelevant.

In the long term, perhaps 1983 and thereafter, Venezuela's attitude toward North-South issues may tend to relate more closely to its own perceived economic interests because Venezuela is committed to a program of domestic economic development, one result of which eventually will be to make Venezuela less dependent on oil as a source of income. At the same time, Venezuela appears to be moving into a period characterized by worrisome trade and payments deficits, declining foreign exchange reserve levels, and growing domestic and international debt, though these have not yet reached danger points. Eventually, however, North-South issues--such as debt relief, access to developed country markets, trade barriers, reforms in the international financial institutions and a better deal for producers of basic commodities and semi-finished products--could become increasingly relevant to Venezuela.

Venezuela's ties with the Third World thus rest on a very narrow foundation of a few perceived common interests and objectives, mortared together by the moralist impulses and personal desires of President Perez and other Venezuelan leaders.

#### Policies and Decisionmaking

Whether this mix will stand the passage of time is questionable. The very nature of the foreign policy decisionmaking process in Venezuela suggests that the record that Perez has managed to achieve may not outlast by too long his term of office, and that at the very least substantial modification of policy is inevitable.

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Relatively few people within the Venezuelan Government have a direct hand in formulating North-South policy or, for that matter, most issues of important national policy. The acceptance of the "caudillismo" principle, whereby one man or a few party elders decide what is best for a political party, or the country it governs, has been imposed on a governmental superstructure. This has been true of all democratically elected governments in Venezuela since the overthrow of the Perez Jimenez military dictatorship in 1958. Perez has carried the principle further than party elders would like by generally eliminating them from the consultative process except on matters of marginal interest to Perez.

The dynamics of Venezuela's role in the North-South dialogue will almost certainly change when the new Social Christian President Luis Herrera Campins takes office. The new administration will be preoccupied with growing economic problems at home, including payments deficits, growing debt and, by Venezuelan standards, a disturbing rate of inflation. Certainly, the new team of economic policymakers will need time to become informed of the various issues and to learn how to operate in multilateral forums.

Although the pro - Third World policy has struck a responsive moral chord among some Venezuelans, it almost certainly will not correspond to the ambitions of the leadership that will take power in March. For these decisionmakers, Perez's Third World policy does not make an obvious contribution to Venezuela's economic development, it does not have a strong constituency among the informed Venezuelan public, and it is clearly subordinate to the foreign policy goal of maximizing government oil income. It is this goal alone that is likely to be given top priority after March.



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Guatemala: An Assessment of the Lucas Administration

Guatemalan President Fernando Romeo Lucas has a mixed but generally negative scorecard after five months in office. Domestically, Lucas has failed to project an image of leadership and most government programs have not made much headway. In foreign affairs, he has been preoccupied with Nicaragua and has yet to take significant actions on the Belize issue.

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His wooden public personality and infrequent appearances have saddled the administration with an image problem from the outset. Overall, the level of competence in the Lucas administration appears lower than that of his predecessor, Kjell Laugerud. Foreign Minister Rafael Castillo Valdez, for example, is regarded as "neither dexterous nor particularly effective." Vice President Franciso Villagran Kramer, quite possibly the most intellectually adept figure in a rather mediocre government, has proven to be politically maladroit and without any real base of support. His outspoken liberal-left views have left him sniping on the sidelines at what is a clearly conservative administration despite its center-left campaign rhetoric.

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The sense of malaise in the top layer of government has been particularly apparent in its "do nothing" approach to economic issues. Underemployment, inflation, and frequent supply shortages continue despite relatively healthy growth of the gross national product. The established families that dominate the private sector have been able to modernize their businesses without being burdened by a progressive tax structure. Social development programs are accorded a slightly greater share in the budget for next year, but there is little concrete evidence of the much-touted emphasis on improving conditions in the Indian highlands--in his campaign, Lucas dwelt on his Indian peasant ancestry and pledged reforms. With regard to his promise to stamp out corruption, the US Embassy has commented that "the signs are not encouraging."

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Lucas and his colleagues successfully weathered a serious challenge in October when a rise in bus fares--a break in the pattern of rigid price controls--triggered nine days of rioting and strikes in Guatemala City that left some 25 dead and 300 wounded. The apparent indecisiveness of Lucas, however, raised further questions about his leadership. The military was unhappy that the President, possibly influenced by the US stance on human rights, chose not to impose a state of siege to deal with the leftist student, political, and labor groups inciting the violence. The eventual rollback of the fare boost, combined with intervention by security forces, pleased neither side. [redacted]

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The military appears to be operating with greater independence under Lucas, a former Defense Minister. It has finessed the human rights restrictions attached to US assistance by purchasing hardware elsewhere and has aroused some concern in the private sector by threatening to develop competing investments. [redacted]

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Contrary to earlier predictions that Lucas would take a hard line on Belize, the US Embassy now believes that he is showing a "willingness to settle for a small territorial concession." The administration's flexibility, however, has yet to be tested. Lucas may well prefer to see an indefinite extension of the status quo rather than confront such a nettlesome issue. [redacted]

At the least, Guatemala is unlikely to accept passively any preparatory moves by the British toward granting independence to Belize before the dispute is resolved. [redacted]

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[redacted] while there is no evidence of any erosion in the military's loyalty to Lucas, the strength of the Army's sentiments on Belize is such that a dispute over policy on that issue could unhinge support for Lucas. [redacted]

Thus far, Lucas and his top officials have been distracted from the Belize issue by events in Nicaragua, which they regard as a far more pressing problem because of their perception that the fallout from a premature departure of Nicaraguan President Somoza could have a destabilizing effect on the entire region. Guatemalan

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officials have already discussed with their Central American neighbors preliminary contingency plans for joint military intervention in Nicaragua. Although the planning is still in its early stages, it reflects the depth of Guatemalan concern over the situation. Given this pre-occupation, Guatemala will be even more inclined to seek to postpone any further talks on Belize for at least a few months.

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ECUADOR: The ruling Supreme Council on 6 December authorized the electoral tribunal to proceed with the second round of the presidential election and the parliamentary election, both set for 8 April 1979. The council's decree was accompanied by a strong reaffirmation of the electoral process from President Poveda. The official statements appear to dispel recent doubts concerning the ruling military's resolve to implement the long-promised transition to civilian rule. Front-running populist candidate Jaime Roldos will face Sixto Duran-Ballen of the center-right coalition in the presidential runoff.

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