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NATIONAL INTELLIGENCE ESTIMATE

The New Course in Brazil

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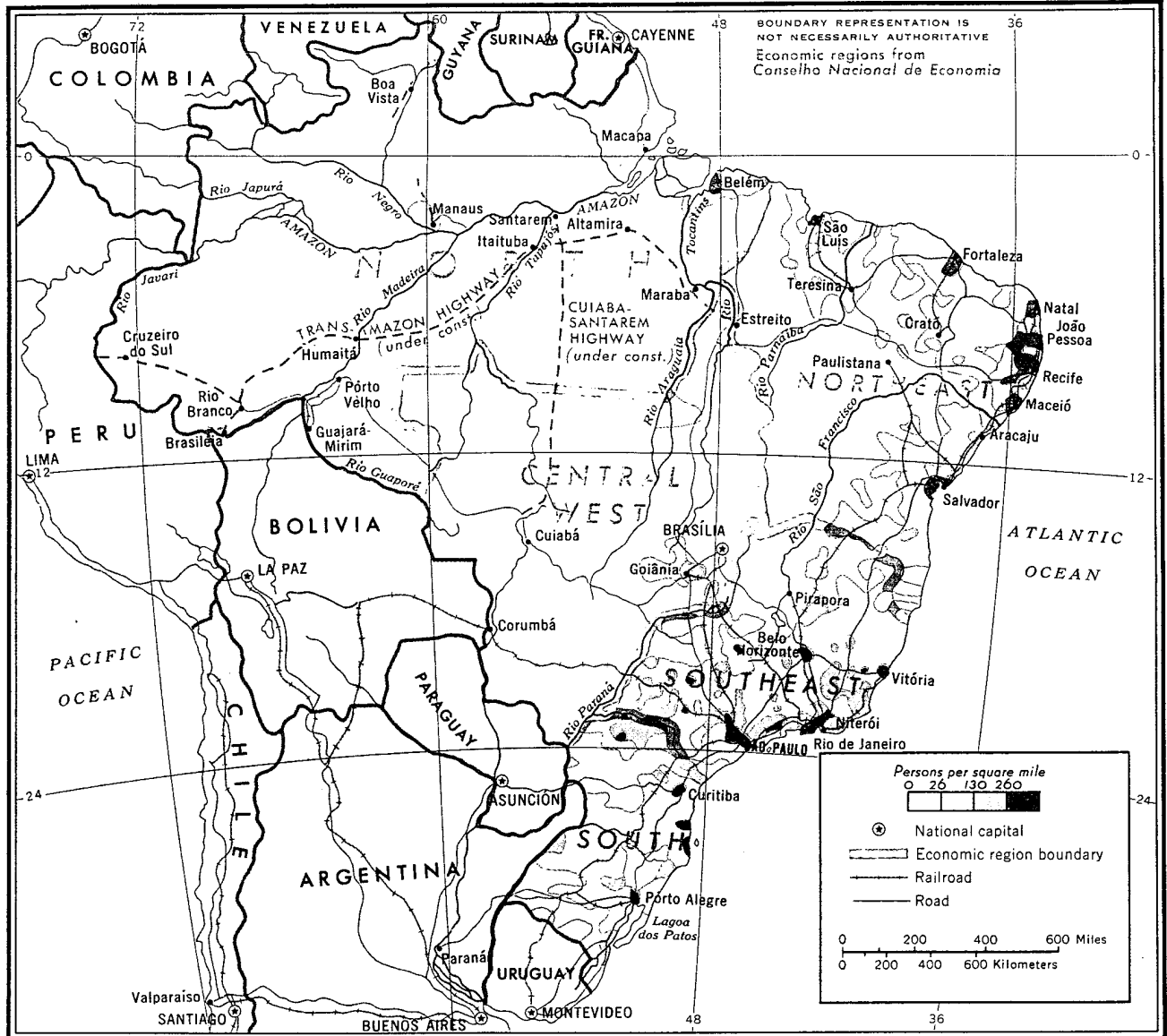
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THE NEW COURSE IN BRAZIL

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THE TRANS-AMAZON SYSTEM: Symbol of Brazil's Destiny



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THE NEW COURSE IN BRAZIL

NOTE

This Estimate assesses the situation in Brazil and the outlook for the next several years. Its principal conclusions are contained in the Outlook section, paragraphs 30 to 39.

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THE ESTIMATE

I. BACKGROUND

1. Prior to 1964, the Brazilian military had often intervened in politics, but almost never to exercise power in its own name. In 1964, a number of factors led the military to re-assess its traditional role, particularly a monumental economic crisis and a polarization of politics which increased the influence of Communists and other radicals and alienated large segments of the middle class. The military feared that these trends would consolidate the power of the left, undermine the constitution, and jeopardize prospects for national development, which it saw as essential to national security. When President Goulart encouraged indiscipline and even mutiny in the armed forces, the generals moved to take over.

2. For a time, many military leaders still seemed committed to a representative political system with a more or less independent legislature and other partial restrictions on executive power. The armed forces hierarchy, however, grew increasingly impatient with its civilian critics. As it gained confidence in

its own ability to guide the country, it came to believe that military control would be essential for some time to come. It used its extraordinary powers to stifle dissent and to increase the authority of the executive. Its goals remained the same: to eliminate corruption and self-interest in the public service, to uproot subversion, to promote rapid economic development, and to elevate Brazil to its proper place in the world. Its style of government was characterized by a kind of missionary zeal and, increasingly over time, by a high-spirited nationalism.

II. THE MILITARY RULERS AND THEIR CRITICS

3. Political power in Brazil rests ultimately with the military hierarchy headed by President Emílio Médici.¹ Congress plays virtually

¹ Médici, who succeeded President Costa e Silva in October 1969, had previously served as military attaché in Washington, Chief of the National Intelligence Service (SNI), and Commander of the powerful Third Army. He was a compromise candidate not tied to any faction in the armed forces.

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no role in major policy initiatives and, along with the judiciary, is dominated by the executive branch. There are differences of opinion within the military, and, occasionally, vigorous debate within the hierarchy, but disagreements are usually ironed out privately, and the leaders of the armed forces insist on preserving discipline and the image of unity once decisions are made. Médici himself is widely respected throughout the armed forces, and he appears to exercise more extensive control over local military authorities and the police than either of his two predecessors.

4. It is difficult to acquire hard evidence on the inner workings of the regime and on the play of forces within it and the military services as a whole. It is fairly clear, however, that there is more cohesion in the upper ranks than at any time in recent years and that almost all military officers support the current thrust of government policy. There is some evidence that factions exist in the military—some based principally on personal ties and rivalries, but others on the issues. An “ultranationalist” element remains wary of foreign influences and is concerned about the role of foreign capital in Brazil’s booming economy. Some would favor a tougher policy on subversion and kidnapping, and others a greater emphasis on social programs. But Médici’s inner circle is firmly in control of the armed forces. Uncooperative officers known for independent views (such as General Albuquerque Lima) have been passed over for promotion, forced to retire, or given unimportant assignments.

5. The Médici regime’s popularity has increased since he took office. This is true among the general populace as well as among those who have the greatest stake in the continuation of the regime. In part this is due to skillful public relations (e.g., Médici’s speeches on behalf of the underprivileged and his success in associating himself with Brazil’s vic-

torious World Cup soccer team), but there are important substantive reasons as well. The new breed of government managers, mostly with professional and technical backgrounds, is doing a better job than most of its predecessors. Moreover, the government has been successful in reducing corruption. Many of the politically aware are willing to accommodate themselves to an authoritarian government so long as it brings about prosperity and a sense of accomplishment. To others among the politically aware, the government’s suppression of liberties and its occasional crackdowns on individuals are preferable to the permissiveness and ineptitude of the Goulart administration. Médici’s state visit to Washington in December 1971 did much to increase his stature at home.

6. The most enthusiastic supporters of the regime are the industrialists of Brazil centered in São Paulo, the rapidly growing metropolis in the Southeast. Industry has benefited most from the government’s economic policies, and its leaders maintain close ties with the military establishment and the Finance Ministry. The ties between industry and the government are strengthened by the fact that many key positions in private firms are held by retired senior officers. The government also draws considerable support from the middle classes in general and from professional and technical people.

7. Overt opposition to the regime is, for the most part, muted and is limited to a small minority. Many intellectuals are unhappy with the regime’s repressive character, but they seem unwilling to challenge the authorities and thereby risk losing their jobs or ending up in prison. Lawyers, afraid of a confrontation, are tending to the technical aspects of their profession and ignoring politics. Even those students who were so active a few years ago now seem apathetic or cowed. Journalists, aware of what the government will not tolerate

in the press, rarely write anything derogatory about the regime, and labor unions, as they have been since the days of Vargas, are under the thumb of the Labor Ministry. Brazil's best popular song writers, traditionally among the sharpest critics of any government, are treading carefully.

8. This relative lack of criticism results both from the intimidation of political opponents and from the successes of the regime. Various Institutional Acts, some dating back to 1964, give the government extraordinary power to deal with dissent, even that which would be considered moderate by most standards. Moreover, the government's temporary round-up in November 1970 of several hundred liberal lawyers, politicians, and other critics served as a warning. At least as important, however, is the regime's aura of success. Its economic performance has been impressive by most standards, and it is widely believed in Brazil that the country is on the way to achieving its rightful place in the world. It is not easy to criticize a regime that is riding high. Playing the stock market has replaced political activism as a popular extracurricular activity, because of its more favorable balance of reward and penalty.

9. Brazil's small terrorist organizations have kept up their attacks on the government, but they have become increasingly divided, puzzled about tactics, and enervated. Altogether, the total number of hard-core terrorists probably amounts to no more than 100, even with the return of some activists from abroad and the addition of some more trained in Cuba. The ruthlessness and increasing effectiveness of the Brazilian security forces are chiefly responsible for the declining strength of the terrorists. Torture has often been used to gain information, and some prisoners have been killed. The three most effective leaders of the terrorist groups were successfully hunted

down.² The terrorists still pull off occasional robberies and bombings, but they have been unable to obtain any significant popular support and rarely disturb the daily routine of Brazilians. They are not a major threat to the government.

10. The most outspoken criticism of the Médici regime has come from various elements of the Catholic Church, who have been advocating social reforms and speaking out for civil liberties. The Church over the years may have lost influence in some respects (only about 10 percent of Brazil's 80 million Catholics regularly practice their faith), but it has been a powerful force in unifying the nation and remains important because of the many services it performs. In some areas, it operates the only hospitals, schools, and adult education programs. Moreover, the Church is the only institution outside the military with a national constituency. Its leaders are by no means in agreement about the appropriate secular role of the Church, but they all share the desire to preserve the freedom and perquisites of the Church.

11. The Church in Brazil is relatively conservative, and many of its leaders generally support the goals of the regime. But the liberal and moderate wings of the Church have been so active in promoting social reform that the Church has become a shield for at least some of those who are opposed to the present government. The various crusading lay organizations offer opponents of the regime a respectable alternative to the terrorist groups, and Church leaders are about the only public figures whom the government finds it difficult to muzzle. A small number of radical clerics have concluded that the only way to assist the poor,

² Carlos Marighella was killed by São Paulo police in 1969. Joaquim Câmara Ferreira met a similar fate in October 1970. Former Army Captain Carlos Lamarca was killed in September 1971 after narrowly escaping capture several times.

illiterate, and disadvantaged majority is through the use of force. A few have worked with terrorist organizations; others have broken the law by organizing rural labor unions. The Church hierarchy, though divided on other matters, has firmly opposed the government's imprisonment and occasional torture of clerics accused of subversion.

12. The regime is trying to get the word across to Church officials that it will not tolerate strong criticism from the pulpit. Nevertheless, many Church leaders still speak out in opposition to what they consider the regime's authoritarian character, obsession with subversion, and inadequate attention to social problems. The government and the Church hierarchy have periodically smoothed over the problems between the two powerful institutions, but differences in outlook keep the possibility of confrontation alive.

III. ECONOMIC AND SOCIAL PROGRAMS

13. The most significant achievement of the military governments has been Brazil's economic performance. Prior to 1961, the economy had expanded rapidly, under the stimulus of a drive towards industrialization. But the growth rate slowed sharply in 1962 and 1963, in part because of the excesses of the previous expansion and in part because of imprudent economic policies. The slowdown was accompanied by spiraling inflation, a sharp drop in the inflow of foreign capital, and large deficits in the balance of payments. In early 1964, just before the military took over, inflation was running at an average annual rate approaching 140 percent. Demands for wage increases led to serious labor unrest, and the uncertainty of the situation prompted massive flights of capital.

14. Since 1964, the efforts of the government have been directed towards providing a solid base for sustained economic growth.

The Castello Branco administration (1964-1967) addressed itself vigorously to the problem of inflation. It adopted a stabilization program, which, among other things, reduced the federal deficit, curtailed credit to the private sector, and successfully held wage increases to less than increases in the cost of living. In addition, a succession of currency devaluations stimulated exports and curtailed imports; inflows of foreign capital increased in response to the improved economic environment. But the stabilization program generally restrained economic growth, and produced near stagnation in the industrial sector. The Costa e Silva administration (1967-1969) eased the anti-inflation measures and began to focus on growth. Private investment in agriculture and industry increased, and the gross national product (GNP) rose about 5 percent in 1967 and about 7 percent in 1968.

15. Since 1968, the GNP has increased at an annual rate of 8 to 10 percent, with industrial production leading the way. Imports have risen sharply, but the strength of the export sector together with large inflows of foreign capital have added substantially to Brazil's foreign exchange reserves. Capital is now flowing into Brazil at a rate of more than a billion dollars a year. The rate of inflation has been cut to about 20 percent a year, a level considered politically acceptable in Brazil, and various devices have been adopted to minimize its impact on the economy. Of equal importance, the government has helped to foster an atmosphere of optimism within the Brazilian business community. The stock market is doing well.

16. These impressive achievements are due in part to Brazil's large internal market, its vigorous entrepreneurial class, and its broad base of resources. But they are also due in great measure to the policy initiatives of the three military governments since 1964. Since the initial attack on inflation by the Castello

Branco government, economic development has received the highest priority, as compared with efforts to reduce inflation further or to improve the distribution of income. Earlier policies that discouraged both exports and foreign investment have been reversed. Exports have been stimulated by successive devaluations of the cruzeiro and by a broad program of subsidies and fiscal incentives to exporters; foreign investment has been actively encouraged.

17. The government has been much less successful in reducing underemployment or in alleviating poverty, mostly because of the intractability of these problems, but in part because its priorities lie elsewhere. Although Brazilian statistics on employment are poor, it appears that, while unemployment is comparatively low, as much as one quarter of the labor force suffers from underemployment. Government policies in recent years have allowed wages to rise sufficiently to keep pace with the cost of living, but there has been little increase in real wage rates. Millions of underemployed workers in the cities and countryside benefit only indirectly and slowly from economic expansion, much of which is based on capital intensive rather than labor intensive forms of development. In pursuing its primary goal of growth and economic development, the regime feels under little pressure to do more for the working man, in part because labor unions are relatively powerless.

18. Brazil's rate of population growth adds to its problem of poverty. Although the rate probably has declined in recent years, it still is around 3 percent. The overall population of Brazil, according to the 1970 census, is 93 million. Under present projections, it will reach 100 million by 1973 and double that before the year 2000. Officially, the Médici regime has yet to recognize Brazil's high rate of population growth as a national problem. Indeed the line is that Brazil must continue to expand

its population in order to achieve national greatness, a wider domestic market for industrial goods, the colonization of the interior, and a stronger defense posture. In practice, the government seems to be more tolerant of family planning, though it remains extremely sensitive to foreign involvement. Family planning advice is provided by some private institutions and public clinics on local initiative, but no publicity is permitted. Despite increased use of contraceptives, the illegal abortion rate is believed to be very high.

19. For decades, economic stagnation and periodic drought in the densely populated Northeast have triggered migration to expanding industrial areas in the South. Such migration has accounted for much of the growth of the urban population. The Médici regime, like its predecessors, has tried to integrate the rural and impoverished Northeast into the modern economy—but with little success. In recent years, some industries have moved there under a government program of fiscal incentives, but little progress has been made in alleviating the massive unemployment and underemployment. The government is now putting forward a new program (*Proterra*) designed to develop the region's agricultural resources. It is not yet clear how this new program will work out. The government says it is going to promote the redistribution of land, improve infrastructure, encourage the use of sophisticated farm technology, and increase production for the market. So far the government has expropriated land from only a few inefficient sugar plantations, and it seems unwilling to challenge the powerful sugar interests that dominate the region and prosper because of government subsidies and low labor costs. Small landowners still find it difficult to obtain bank credit; sharecroppers still find it difficult to own their own land.

20. By far the government's most ambitious scheme—comparable in scope to the earlier

construction of Brasilia—is the plan to tap the natural resources of the Amazon Basin and to open it up to economic development. Two vast highways, crisscrossing the interior, are already under construction. Seven new cities are planned, and the government hopes to resettle farmers from the Northeast alongside the highways. The government hopes that the project will give a substantial boost to Brazil's economic development, though it is relatively realistic about the difficulties of exploiting the area and of getting people to settle there. Beyond this, the Trans-Amazonic program has become an important symbol for Brazil's military leaders. To them, it represents Brazil's coming of age and achieving its manifest destiny. In addition, they see security advantages in having the western frontier more accessible and want to provide access to several untapped mineral deposits.

21. In the long run, the Trans-Amazonic project will probably pay dividends in terms of national development, but in the meantime the government will have some difficult problems in trying to deal with Amazonia. Much of the soil is not especially fertile, and it tends to deteriorate rapidly under traditional methods of cultivation. Though some homesteaders have already headed west from the Northeast, the government is likely to have a difficult time persuading many others to risk the uncertainties of the frontier and to change their methods of farming. An additional problem is the huge cost of the project (over \$500 million). Funds are already being diverted from other regions, and the government may find itself spending even more than it plans.

22. For the first time in its history, Brazil now has an urban majority. In the 1960s, more than eight million people left the countryside for the cities. São Paulo alone has grown to over seven million. Shanty-towns keep growing, and so do traffic congestion and air pol-

lution. The pressures of urban life, however, have not yet created serious political problems for the regime. Most poor city-dwellers apparently prefer to be near jobs, schools, hospitals, and bright lights rather than stuck in the impoverished countryside. As their numbers and expectations increase, the government will have a more serious problem.

23. Apathy is still pervasive among the bulk of the Brazilian populace, especially in the rural areas. Most expect little of the government, be it civilian or military. For many, underemployment is a way of life. Brazil's illiteracy rate (nearly 50 percent) is among the highest in Latin America, and most school children never go beyond the fourth grade. The government has given high priority to the improvement of Brazil's educational system, and a government-sponsored literacy campaign is now under way. In the process, the regime is running the risk of increasing political consciousness among the masses. A better educated populace would probably demand more of its central government, but this is a problem and a challenge for future regimes, not that of President Médici.

IV. FOREIGN RELATIONS

24. The Brazilian Government, confident that it is rapidly putting its own house in order, is beginning to pay much more attention to foreign affairs. Médici and others in his administration are convinced that Brazil is rapidly becoming a world power and must play a role, both inside and outside Latin America, commensurate with its size and destiny. The Brazilian Government views itself as an ally of the US, especially in maintaining regional stability and in warding off Communist influence, and Médici and his ministers desire close relations with it. The present senior officers in the Brazilian Armed Forces, however, lack the special affection for

the US of those of their predecessors, such as Castello Branco, who fought alongside the US Army in World War II. Moreover, a strong focus of nationalistic sentiment has emerged in the Brazilian Foreign Office. A prominent feature of Brazilian nationalism is the desire to demonstrate independence of all outside powers, including inevitably the US.

25. The perceived interests of the two countries differ on various issues. Over the past year or so, Brazil has been in conflict with the US in a number of areas: trade policy on coffee, textiles, and ocean freight rates; Brazil's right to extend its territorial waters to 200 miles; the importance of environmental quality; criticism in the US of the Brazilian Government as repressive and authoritarian; and the unwillingness of the US to supply Brazil with certain advanced military equipment. The Brazilians, while holding firm to their positions, have clearly indicated that they want to avoid a confrontation with the US on these issues. Médici's trip to Washington took the sting out of some of them, at least for a time.

26. Brazil's attitude towards foreign investment is one of the bright spots in US-Brazilian relations. The government encourages foreign investment in such industries as steel where foreign technology and capital are needed, although it generally insists on some degree of Brazilian participation. Most sensitive sectors of the economy have been owned by the government for many years now (e.g., oil and power), which blunts the issue of control over national resources. Some other sectors are reserved for native Brazilian firms. The visibility of foreign interests and thus the degree of Brazilian hostility may be reduced by the growing use of joint ventures of various types.

27. Nevertheless, Brazil's attitude towards foreign investment is a potential future area of friction. In time, as in the past, Brazilians

could become restive over rising levels of income flowing to foreigners. Many Brazilians, especially the industrialists of São Paulo, will continue to view foreign competition and superiority in technology and financing as a threat to domestic enterprises. US investments, now totaling about \$1.7 billion, represent nearly half of all foreign investment in Brazil and would be particularly vulnerable to a change in the investment climate because of their size and visibility.

28. Brazilian officials are seeking to play a bigger role in Latin American affairs generally. Brazil has taken the lead in various inter-American and international forums on the issues of trade and territorial sea limits. It has stepped up bilateral contacts with most Latin American governments in an effort to line up support and exert continental leadership, and it is placing a lot of emphasis on intelligence collection and operations throughout southern South America. Brazil is giving increasing amounts of economic and military assistance to several countries along its borders which are faced with internal instability or potential threats from their neighbors. In Uruguay, this assistance includes support of the police and counter-terrorist groups. Brazil's military chiefs were quick to give aid to the new rightist regime in Bolivia. They are particularly worried about President Lanusse's overtures to the Peronists and are keeping their lines open to hardliners in the Argentine Armed Forces.

29. Brazil's growing power and increasing propensity to involve itself in its neighbors' affairs are arousing considerable uneasiness in certain Latin American countries. Peruvians, for example, have misgivings about the program for developing the Amazon Basin, which brings Brazil's power closer to its borders, and Venezuela is concerned about Brazil's assistance to Guyana and its potential for hegemony in Latin America generally. Brazil continues

to compete with Argentina for influence in Paraguay, Bolivia, and Uruguay. Uruguayans are preoccupied with the implicit threat of Brazilian intervention, should the Brazilians conclude that events in Uruguay threaten their interests. Brazil is also concerned about developments in Chile and their potentialities for the future, but this concern is tempered by the fact that the two countries do not have a common border.

V. OUTLOOK

30. The military intend to dominate Brazilian politics for some time to come. The armed forces now regard it as their destiny to guide Brazil to its rightful place in the world, and they have little faith that the politicians, even those of ARENA, the government-sponsored political party, would do an acceptable job of running the government. They also want to follow through on some of their major programs, such as the development of the Amazon Basin. While there may be some cosmetic changes in the government to increase the appearance of civilian representation, there is unlikely to be any substantial diminution of military control over the next several years.

31. It is difficult to envision any opposition outside the armed forces capable of overthrowing the government or of applying pressure to force it to change its ways. The government has increased its popularity, and the economic boom tends to deflate the opposition. The terrorists are growing weaker and more disorganized. The liberal intelligentsia are cowed and confused. The government has the power to intimidate critics and does not hesitate to use it. Over the longer term, the self-righteousness of the military, its intolerance of any vigorous opposition, and its tactics in dealing with what it considers subversion might lead to a sharp decline in its political

support. But for the moment there is little opponents can do but complain, and even their opportunity to do that is limited.

32. The Brazilian military has not institutionalized the succession, and military unity will be sorely tested if personal and service rivalries produce a disorganized scramble for power. Médici's presidential term runs out in March 1974, and already there has been a lot of politicking within the military establishment about the succession.³ Most of the presidential candidates are four-star generals, either on active duty or retired. If jockeying for position within the armed forces becomes too divisive, Médici may find himself pressed to run for a second term, but his health is poor and he is generally critical of *continuismo* (the desire to stay in power). No matter how the military settles the problem of succession, there will be some bruised feelings within the armed forces.

33. The economic outlook for the next five years or so is good. Investment as a percent of GNP is currently near record levels and is expected to go higher because of the continuing optimism of private investors and the government's planned developmental expenditures. Moreover, Brazil has plentiful natural resources still to develop, good management in the planning and finance ministries, and good prospects for continued political stability. Government plans call for growth for the next several years at rates equal to those of the last few years. While this may be too optimistic, it is reasonable to expect increases in GNP between the 6 percent annual average

³ Should Médici become incapacitated as a result of his poor health or die in office, Vice President Rademaker, a retired admiral, would probably be allowed to take over for a time. But the army, which is the dominant service, would insist on putting one of its own into the presidency unless the scheduled election were close at hand.

maintained from World War II through 1964 and the 8 to 10 percent achieved during the past few years.

34. The government will have recurring problems with the balance of payments over the next few years, but will probably be able to deal with them. Imports are increasing much more rapidly than exports, and debt service payments are on the rise. Brazil now has a large deficit on current account, and this is likely to increase over the next few years even if the government achieves its planned cut in the growth of imports. Nevertheless, balance-of-payments problems are not likely to be a serious restraint on economic growth. The inflow of foreign capital will probably be adequate to cover the current account deficits presently in prospect. If they are not, Brazil has sufficient foreign reserves to finance moderate balance-of-payments deficits for several years. If large balance-of-payments deficits arise, Brazil's monetary managers would take corrective action, probably including devaluation and measures to restrain internal demand.

35. The reputation of the military government depends to a large extent on the strength of the economy. The regime would almost certainly be able to stay in power even if there were a sharp downturn in the economy, but its confidence would be eroded, and the aura of success surrounding it would be diminished. Opposition elements would seek to exploit any economic weakness, and dissension would probably increase within the military itself. Many officers are playing the stock market for the first time. They are doing well now, but they could lose some of their self-confidence if the market were to tumble.

36. Brazil's serious social problems will persist even if the economy continues to grow rapidly over the next few years. High rates of population growth will aggravate some of these problems. Millions of poor countryfolk

and cityfolk with only a marginal role in economic life will continue to be on the outside looking in. The government's social programs seem unlikely to improve living conditions for the vast majority of Brazilians, except gradually and over a long period, because the drive for development will continue to limit the money available for other purposes. Nevertheless, public apathy and absorption of energies in daily problems will probably undercut any efforts to politicize the masses. Brazilians are used to governments that either cannot or will not cope with the problems of poverty.

37. Although Brazil appears headed for several more years of political stability, there are a number of potentially destabilizing factors at work in Brazilian society. The regime still governs under *ad hoc* arrangements; the final shape of Brazilian political institutions has yet to be determined. The general populace is becoming better educated and informed, more aware of what it lacks. Brazil's cities are growing so rapidly that any government would find it difficult to provide the basic services required of large urban areas. The Church, in its role as spokesman for social justice, might come to oppose the regime more vigorously, and the military leadership might become corrupted by its own absolute power, or debilitated by internal divisions.

38. The Brazilian Government will continue to view itself as an ally of the US. But Brazil will probably take an increasingly nationalistic and independent line in foreign affairs. The US will probably find it more touchy and difficult to deal with over the next several years. Trade matters will remain especially thorny issues. Brazil will continue to welcome foreign capital, but on its own terms. A considerable number of US businessmen will need to work out new arrangements with the Brazilian authorities and, in some

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cases, find ways to divest themselves of their holdings gracefully.

39. Brazil will be playing a bigger role in hemispheric affairs and seeking to fill whatever vacuum the US leaves behind. It is unlikely that Brazil will intervene openly in its neighbors' internal affairs, but the regime will

not be above using the threat of intervention or tools of diplomacy and covert action to oppose leftist regimes, to keep friendly governments in office, or to help place them there in countries such as Bolivia and Uruguay. While some countries may seek Brazil's protection, others may work together to withstand pressures from the emerging giant.

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