

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

Translator

2602

CONFIDENTIAL
DOCUMENT EN FRET, A REMPLIR
AU BUREAU 1.124 EXT. COPY

720

ORIGINAL: ENGLISH/FRENCH
19th November, 1965

NATO SECRET
DOCUMENT
C-M(65)91

THE SITUATION IN LATIN AMERICA

Note by the Chairman of the Expert Working Group

Experts from Belgium, Canada, Denmark, France, Germany, Italy, the Netherlands, the United Kingdom and the United States met at NATO Headquarters from 2nd to 5th November, 1965.

2. In view of the considerable increase during recent months in the number of critical areas in Latin America, Experts found it indispensable to expand the General Assessment. The attached report does not cover developments subsequent to 5th November, 1965. It contains two parts:

- Part I: Policy Implications
- Part II: General Assessment.

(Signed) Joachim JAENICKE

OTAN/NATO,
Paris, XVIe.

NATO SECRET

DECLASSIFIED - PUBLIC DISCLOSURE / DECLASSIFIE - MISE EN LECTURE PUBLIQUE

PART I - POLICY IMPLICATIONS

1. Some changes are apparently occurring in the strategy and tactics of the international Communist movement in Latin America that will give increased emphasis to the development of national Communist parties. These changes result in large part from the drawing together of Cuba and the USSR at the November 1964 Havana Conference, and the resultant isolation of the Chinese Communists as a part of the overall revolutionary movement in Latin America.

2. The NATO Governments should anticipate a period of intense rather competitive activity among national Communist groups and parties in Latin America countries, as the Communists seek new approaches to gain public acceptance and control over political apparatus through popular fronts, parliamentary co-operation, continued propaganda and infiltration of public opinion and educational institutions. Guerilla and terrorist movements will also continue and doubtless receive support from some Cuban-trained and Chinese-line Communists and, in some cases, from Moscow-oriented parties and from the Soviet Union and Cuba.

3. The changes that have occurred in Soviet/Cuban relations and their consequence for the management and organization of Communist parties makes consultation and co-operation among NATO Governments' Missions in Latin America increasingly important. The results of such consultation might include more effective efforts to:

- (a) counter Communist propaganda on the lines, for instance, arising out of the work of the Committee on Information and Cultural Relations;
- (b) co-operate regarding the activities of public and private programmes undertaken for purposes of influencing attitudes and practices of business, labour, youth and education in Latin America.

4. Noting that Communism continues to make significant inroads in Latin American intellectual circles, especially in the universities, it appears advisable to get intellectuals better acquainted with realities in Western and Communist countries, to intensify the exchange of professors, graduates and students, and to provide for closer relations between the universities of Latin America and those of countries of the Alliance. Attention should also be paid to the increasing efforts which Communism is making to win influence in the information media.

5. The Dominican crisis and the part played in it by the United States, the Organization of American States (OAS) and the United Nations have highlighted the complexity and the delicacy of intervention by third parties in the affairs of countries whose internal problems begin to involve international or regional peace and security. At the Rio Conference, the OAS will address itself to possible arrangements for taking effective collective action in such cases and to seeking a formula aimed at reconciling the principle of regional security, with particular reference to the Communist threat, and the principles of national sovereignty and non-intervention. The members of NATO should follow these discussions closely as they concern NATO as an alliance of freedom-loving countries as well as the interest of NATO countries as members of the United Nations.

6. The social and economic problems of Latin America continue to be such a source of danger as to merit the need for action by member governments to contribute toward their solution. Consideration of such action may be particularly useful in appropriate cases in the forum of the Development Assistance Committee of the OECD.

7. Some Latin American countries wish to show a more independent attitude and seek to assert their national personality through an intensification of their foreign relations with countries outside the hemisphere. It would be advisable to channel this desire towards the strengthening of the traditional ties between them and Western European countries to help to ensure that Latin America remains a firm element of the free world.

8. In Argentina the results of recent elections show that given the basic weaknesses of the Illia Government there are possibilities of the Peronists winning power by constitutional means and of the Armed Forces taking action to prevent this. Either possibility would present problems to the members of the Alliance.

PART II - GENERAL ASSESSMENT

A. INTER-AMERICAN RELATIONS AND THE FORTHCOMING SPECIAL INTER-AMERICAN CONFERENCE AT RIO DE JANEIRO

9. During the past six months much world attention has focussed on the revolutionary situation in the Dominican Republic and the way in which the United States and the Organization of American States (OAS) have responded to it. At the base of these responses lie differences of opinion which were expressed within the OAS and elsewhere on organizational and procedural problems that have long been the subjects of inter-American concern: the collective maintenance of effective regional security; protection against external aggression; and the progressive development of modern political, economic and social conditions in all the American republics.

10. The most direct concern of OAS in the Dominican Republic has been to effect an end to violence and assist in the establishment of a provisional government that is intended to provide the basis for restoration of a popularly supported constitutional government. Among the things which the OAS has accomplished or facilitated have been: a cease-fire; establishment of an Inter-American Peace Force; negotiation of instruments essential to political reconciliation of the opposing Dominican forces; and assistance in the establishment of the provisional government. It remains to be seen to what extent the objectives of the OAS will have been reached ultimately.

11. Plans are now under way to co-ordinate economic assistance in ways that will help rehabilitate the weakened Dominican economy in line with the programmes of the Alliance for Progress. From early in the crisis the United Nations Security Council has taken an interest in the situation and has had a mission in the Dominican Republic.

12. Events in the Dominican Republic have also brought to the surface certain problems in inter-American affairs which have caused misunderstandings and disagreement and which will be difficult to solve. These revolve mainly around the conflict between the traditional principle of non-intervention and the recognised need for the maintenance of security.

13. The OAS Charter asserts the principle of non-intervention, while the Inter-American Treaty of Reciprocal Assistance (Rio Treaty, 1947) provides for collective action in the event of an armed attack, or "an aggression which is not an armed attack", against any American state. It does not, however, deal explicitly with the question of what action might be taken, and by whom, in cases of infiltration and subversion. The continued threat of these more subtle forms of hostility has raised questions which will have to be examined at Rio. It has also raised, or revived, questions bearing upon the relationship of the OAS to the United Nations.

14. The twice postponed Rio meeting is now scheduled for 17th November, 1965. The calling of the Conference stems from a generally felt need among OAS members to air basic inter-American issues since they have not done so for twelve years. The Dominican crisis has given additional importance to this meeting.

15. It is expected that the first two items on the Agenda (functioning and strengthening the inter-American system; economic and social development of the hemisphere) will be the most discussed. Firm commitments on new Charter arrangements relating to political and economic operations of the OAS are likely to be held over for later meetings of the Organization.

B. THE ALLIANCE FOR PROGRESS

16. Despite the strains that have developed in inter-American relations during the past six months, the Alliance for Progress has continued to command the attentive support of all the governments. On a regional basis, the annual target of 2.5% growth in per capita income shows promise of being achieved in 1965 as it was in 1964. However, this growth has been uneven among the individual countries, as has the pace of implementation of economic and social reforms that are regarded as basic to maintaining the growth process. Further malaise has been expressed about Latin America's percentage of world exports and the prices of certain commodities.

17. These were among the considerations that prompted the Chairman of the Inter-American Committee for the Alliance for Progress (CIAP) to address a letter to the Presidents of all Alliance for Progress countries last August. The CIAP letter recognised the forward movement that the Alliance has achieved but advised that efforts would have to be redoubled if the frustrations of underdevelopment were to be overcome and available aid money successfully absorbed into programmes for improvements in economic and social conditions. The letter also asked that developed countries expand their aid to Latin America, reconsider proposals to increase world liquidity and consider the temporary employment of defensive preferences within the hemisphere to compensate for those granted to other less developed regions by the United Kingdom and the European Economic Community.

18. An attempt to encourage economic integration in Latin America was made in a report by four prominent Latin American economists(1). Prepared in response to an initiative of Chile's President Frei, the report outlined a set of regional institutions for a common market similar to Europe's but going beyond it in many ways. Unfortunately, the degree of consensus or drive behind the integration effort, outside of Central America, is not encouraging.

(1) Felipe Herrera, President of the Inter-American Development Bank; Carlos Sanz de Santamaria, Chairman of the Inter-American Committee for the Alliance for Progress; Paul Prebisch, Secretary General of the United Nations Trade and Development Conference; and Jose Antonio Mayobre, Executive Secretary of the United Nations Economic Commission for Latin America. It should be noted that their report does not constitute the official views of their respective organizations.

C. THE ECONOMIC SITUATION IN LATIN AMERICA

19. According to statistics which became available during the last six months, the general economic situation in 1964 picked up again in most countries of the continent. However, in some countries, such as Brazil, activity lagged behind until 1965.

(a) Improvement of the rate of economic growth

Overall economic development

20. The overall gross domestic product of Latin America appears to have risen by some 5.5% in 1964, a rate which may be considered as the highest since 1960 and superior to the mean rate for the 1950-1960 decade. This rate appears to have been maintained during the early months of 1965. Taking into account the population growth over the same period, the domestic product and actual per capita income would therefore seem to show an average increase of between 2.5% and 3% in Latin American countries as a whole.

21. Countries can be divided into three groups as regards the conditions of their overall economic development during the last few months.

- (i) Those countries whose economic expansion has gathered considerable momentum; this group includes:

Mexico, Peru, Venezuela and various Central American countries such as Guatamala, El Salvador and Nicaragua.

- (ii) Those countries which have barely succeeded in making up the ground lost during earlier years:

both the Argentine and Uruguay come within this category, although there are important differences in the development and economic structure of these two countries.

- (iii) Those countries which, although they have raised the level of their production and incomes, have continued at a very moderate rate of growth:

Columbia, Chile and Ecuador are in this category.

DECLASSIFIED - PUBLIC DISCLOSURE / DECLASSIFIE - MISE EN LECTURE PUBLIQUE

Principal factors of economic growth

22. The increase in the payments from abroad has had an especially dynamic effect on the economic progress of the continent. This may be attributed to three main factors:

- the increase in the volume of certain exports from most countries;
- the general rise of prices of certain raw material exports;
- the comparatively high level of foreign investment in Latin America.

In this connection note should be taken of contributions by member governments to the Inter-American Development Bank and of the agreement to conclude a refinancing arrangement with Argentina reached recently by the Paris Club.

23. Internal investments, which showed an appreciable rise in 1964, appear to have played an even more decisive rôle in boosting the rate of expansion.

(b) Development of the external sector

Development of exports and improvement of import capacity

24. While the volume of exports has tended to become stabilised, the balance of trade has ceased to deteriorate since 1962.

25. The purchasing power of Latin America's exports, which rose by only 1.8% between 1955 and 1960, has risen by 4½% over the last year.

Improvement of the trade balance

26. In 1964, the overall balance of trade index for the area showed an increase of 8% over 1962. In spite of this recovery, the situation remains most unfavourable for Latin America when compared with that prevailing during the post-war years up to 1958.

(c) Development of inflationary pressures

27. Inflation is still extremely serious in the Argentine, Brazil, Chile, Columbia and Uruguay.

28. The Economic Commission for Latin America (ECLA) at present places the Latin American countries in three categories:

- (i) those in which the rate of inflation has been especially serious (the Argentine, Brazil, Chile, Columbia, Uruguay);
- (ii) those in which it has been comparatively slight (Bolivia, Ecuador, Peru, Paraguay);
- and (iii) those in which price levels have remained almost stationary (Venezuela, Costa Rica, El Salvador, Guatamala, Haiti, Honduras, Mexico, Nicaragua, Panama and the Dominican Republic).

29. While the new trend apparent since the beginning of 1964 is satisfactory, it should give rise to no illusions. Some Latin American countries have continued to depend for their economic growth on external demand for primary products. This situation demonstrates that the relative prosperity of these countries is still heavily dependent on the external situation and requires the overhaul of certain archaic structures in Latin American economies.

30. The principles underlying the reforms at present being implemented by President Frei in Chile could with advantage be acted on by other Latin American countries.

D. DOMINICAN REPUBLIC

31. On 3rd September, 1965 a provisional government under Hector Garcia Godoy was installed under arrangements which provide for the holding of elections within nine months.

32. Provisional President Garcia Godoy continues to face problems of extreme delicacy and complexity in bridging unresolved differences between the more extreme elements of the factions involved in the recent conflict. Among the most critical of the problems are: disarming the civil population, curbing the power of the military commanders, returning rebel personnel to the regular military forces and police with their former ranks, getting the Dominican economy moving once more, and preparing for elections in which ex-Presidents like Juan Bosch and Joaquim Balaguer are likely to play a rôle.

33. Strikes, dissension among students and renewed violence in many sectors point to the difficulties the provisional government is meeting.

E. CUBA

34. At the beginning of October the somewhat slowly evolving United Party of the Socialist Revolution (PURS) was transformed into and renamed the Communist Party of Cuba. This development constituted the formal institutionalisation of the Cuban revolution along orthodox Soviet lines. Most of the leaders in the new party machinery remain, however, those personally associated with Castro from revolutionary days who are usually called the "new" Communists, rather than the leaders of the old Cuban Communist Party. The new party structure, while buttressing the personal leadership of Fidel Castro at this time, might also acquire a momentum which would threaten his position in the future.

35. The régime appears to be firmly established, with a basis of popular support accompanied by an increasingly efficient apparatus of control and security. There are no signs of local resistance.

36. The disappearance of Che Guevara remains an intriguing mystery with no satisfactory explanation of his fate or whereabouts. It is agreed that there were serious differences between Castro and Guevara concerning the material incentives which Castro has favoured and the position of Cuba in the Sino/Soviet dispute.

37. The recently completed sugar harvest of over six million tons, the fourth largest in Cuban history, was an outstanding achievement but the organized effort and climatic conditions which made it possible reduced other forms of agricultural output.

38. The outstanding sugar crop has not helped Cuba in its international economic position as much as it might have done because of the depressed price of sugar on world markets. The Soviet Union has continued to support the Cuban economy particularly by the provision of substantial hard currency credits needed to purchase requirements in the West. This help has, if anything, accentuated the economic dependence of Cuba on the Soviet Union.

39. Since 1962, the Cuban leaders have shown greater sympathy for the Chinese conception of world revolutionary change than for the principles of co-existence advocated by the Soviet Union, but since 1964 that trend has begun to reverse itself. There have been several indications of displeasure with Peking, particularly the behaviour of the Chinese Communist mission in Havana, and a few pro-Chinese sources have begun to accuse Castro of "revisionism". Nevertheless, the threat of subversion supported by Cuba remains real in Latin America and, to some extent, in Africa. The fall of Ben Bella in June was a shock to Castro. Castro made an inordinate fuss of the Moroccan Ben Barka during the latter's visit to Havana in September, and gave treatment appropriate to a friendly Head of State to Gaston Soumialot, the Congolese rebel leader, a few days earlier.

40. Next January Cuba plans to play host to a non-governmental conference(1) being organized as an anti-Western manifestation of the Third World. Delegates from the Soviet Union and Communist China are expected to attend.

41. Recently Castro indicated his willingness to permit the departure of Cubans wishing to join relatives in the United States. It is considered that this "generosity" illustrates more a desire to get rid of unreliable elements and to make propaganda than an attempt to achieve an accommodation with the United States.

F. COMMUNIST ACTIVITIES IN LATIN AMERICA

42. The meaning of the Havana Conference of Latin American Communist Parties held in November 1964 has been clarified by later events, indicating that there now exists an agreed tactical line of the Cuban, Soviet and Latin American Communist Parties. This line represents a compromise between the former Cuban emphasis on violent means and the greater emphasis which was placed by the Soviet and Latin American Communist Parties on peaceful means to achieve power. Thus while the Communist Parties in Latin America are now agreed that they are unlikely in most cases to secure power without resort to violence, there exists a new drive to win respectability and popular support through coalitions, "front" organizations and parliamentary means.

43. The Communists are now willing to pose as democrats and to engage in dialogue with all reformist elements, including Catholics, and, in some cases, no longer insist on being the leaders of such fronts.

44. In Chile the Communist/Socialist United Front (FRAP) is divided. The Communists now talk increasingly of collaboration with the Christian Democrats whilst the Socialist Party flatly rejects this possibility.

45. In Venezuela the Communists made a major effort earlier in the year to revive their campaign against the government on two fronts, i.e. mass civic action demanding "a government of peace and democracy" and renewed preparations for violence by the Armed Forces of National Liberation. This policy was approved by the Venezuelan Communist Central Committee in April.

(1) "First Solidarity Conference of the Peoples of Africa, Asia and Latin America"

46. In Columbia subversive activities are on the increase, and in Peru too they have made some progress. This violence represents the outcome of training over several years of members of this movement in Cuba, North Korea and other Communist countries. At what level Cuban aid in men and arms continues to be given at present is a question difficult to answer. In both of these countries, it seems that successful military action has been taken against the rebels and that for the moment at least the latter have been obliged to take refuge in isolated areas. The difficulties which appear to be facing the Peruvian Government, however, are not of a military nature but arise in the political sphere and because of rioting among students and in rural areas.

47. In Guatemala, although guerillas continue to act with impunity both in the capital and in the country, they have made little further progress.

48. The predominance of intellectuals and students amongst the guerillas is another illustration of the important inroads which Communism continues to make in intellectual circles. Communist activities in the universities, schools, teacher training institutes and teachers' unions prove that these attempts at infiltration are aimed at the future leaders of Latin America.

49. The Communists also seek to widen their influence in the field of information. They propose to establish an outwardly independent Latin American association of journalists. These efforts to influence public opinion in Latin America, which originate in Prague (International Organization of Journalists), are conducted via a cover organization in Montevideo (Commission for Information and Co-operation among Latin American Journalists (CICPLA)). The IOJ held a meeting of its Executive Committee in Santiago in September. Brazil, Chile, Uruguay and Peru were included in a Latin American tour by two members of the Soviet feature agency, NOVOSTI, in June and July. The agency aims to increase the number of its branches in the area to about 70. The Director-General of TASS visited Brazil in October and TASS is negotiating for the sale of its services to newspapers in Montevideo, Santiago and Buenos Aires.

50. There has been increased activity in Latin America by the Communist states of Eastern Europe and the Soviet-Occupied Zone of Germany. Moscow is trying to engage them more actively in that part of the world. Latin American trade unionists are journeying more often to Prague, the seat of the World Federation of Trade Unions. Poland's infiltration activities are mainly concentrated in the cultural field.

DECLASSIFIED - PUBLIC DISCLOSURE / DECLASSIFIE - MISE EN LECTURE PUBLIQUE

51. It is worth noting that stations of the East European countries (particularly Poland and Czechoslovakia) have almost drawn level with Moscow in terms of weekly broadcasts in Spanish to Latin America, and are well ahead as regards Portuguese. Bulgaria is making particular efforts to attract tourists to areas which have repeatedly turned out to serve as hunting-grounds for the recruitment of Communist agents.

52. The Communist régime in the Soviet-occupied part of Germany has, during the past six months, continued to increase its activities in Latin America and contrived to arouse interest by making politically inspired favourable offers in the trade sector. The offer of a credit of eight million dollars to Uruguay is a case in point. Pankow maintains in Montevideo, in addition to a permanent chamber-of-commerce delegation, a cultural institute and an ADN news agency.

53. Similar activity is developed by Pankow in Columbia, in particular by taking advantage of the interest of the powerful association of coffee planters in barter transactions. It is against this background that one should view the recent decision of the Columbian Chamber of Deputies to invite a delegation of the so-called People's Chamber of the Soviet-Occupied Zone to discuss, amongst other things, diplomatic relations between Columbia and the Soviet Zone.

G. AREAS THREATENED BY OTHER FACTORS OF UNREST

Bolivia

54. Although the economic conditions have improved to some extent during the past six months, as a result of an increase in production and productivity essentially in the private mining sector, the tin miners remain a source of disquiet, held in check by force. As long as the uneasy balance between the co-Presidents, Generals Barrientos and Ovando, is maintained, the government will probably be able to keep the situation under control. The fact that the principal resistance to the government has come from the miners is a reflection of the extreme harshness of their lives, which makes them susceptible to agitation, their possession of arms and explosives, their concentration in a small area and the recent return from exile or hiding of their left wing union leaders.

55. The students also have recently expressed vociferous opposition. A coherent alliance between the most important left and left-centre groups, including Trotskyists and Communists, is beginning to emerge. Great discord among the other political parties is an obstruction to the return of civilian rule.

British Guiana

56. The security situation has remained relatively calm since the last elections when Mr. Burnham's Party narrowly defeated that of Dr. Jagan. A Constitutional Conference is being held in London at present which will undoubtedly decide upon independence for British Guiana in 1966. It is still not clear whether Dr. Jagan's Party (the PPP) will attempt to prevent this from happening by resort to violence. A split has developed within the PPP on this question with Jagan counselling caution and others, perhaps with Chinese connections, calling for action. Mr. Burnham's aim is to reduce racial tensions particularly by rapid economic advance whilst building up internal security forces to replace the British troops who would normally leave with the grant of independence. The situation is complicated by the claim of Venezuela to more than half of British Guiana.

Colombia

57. The political weakness of the government, which is based on a pact between the Liberals and Conservatives, has made the adoption of fiscal and economic measures to deal with the present economic problems extremely difficult. However, the threat of subversion from guerillas, student and labour unions may well keep the Parties supported by the oligarchy together long enough for the present government to complete its term. The political atmosphere is dominated by the campaign for the presidential elections in March 1966.

Guatemala

58. In Guatemala the de facto government of Colonel Peralta remains in power in spite of six months of rumours of possible coups. Presidential and congressional elections are due in March 1966, before the entry into force of the new Constitution which allows for the return of the left wing exiled politicians. The outcome of the elections is difficult to predict and the political contest between the two military candidates, Colonel Aguilar and Colonel Ponciano, could lead to divisions within the Armed Forces which, particularly if attempts were made by the government to rig the elections in favour of Aguilar, might give rise to civil strife. This would present opportunities to the extremists and guerillas similar to those of which they took advantage in the Dominican Republic.

Honduras

59. The military government, which has been in power since the coup of October 1963, converted itself into a constitutional government with General Lopez as President last June through elections generally believed to be fraudulent. Popular sympathy for the deposed Liberal ex-President, Villeda Morales, remains strong and although the Armed Forces are under the control of officers believed to be loyal to the President, he is not necessarily popular with the troops and there have been signs that there could be divisions in the Armed Forces. There are believed to be some guerillas active in the countryside and in July the Communists were able to take advantage of an industrial dispute to foment a general strike which led to more demonstrations and a temporary state of siege.

Haiti

60. The mediaeval tyranny of Dr. Duvalier continues. The depressed economic situation has worsened and discontent has been kept under control only by the use of terror and the systematic extirpation of elements supposedly antagonistic to the régime. There is little doubt that an explosion could occur in that country at any time if the people thought that there was a realistic chance of overthrowing Dr. Duvalier. Haitian exiles in many parts of the world are beginning to feel that their time may now have come and are making plans for action. These include some with Communist indoctrination who have been working in Africa. Some Haitian exiles have been fighting on the "Constitutionalist" side in the Dominican Republic and are believed ready to take part in an armed struggle in Haiti. However the Dominican régime may end and the likelihood is great that civil strife may occur which could assume devastating proportions and possibly also lead to a Communist take-over.

Peru

61. President Belaunde continues to find great difficulty in making progress with his programme of social and economic reform. This is because the centre groups which support it are divided in the Congress between the majority opposition coalition and the minority Government Alliance. To retain the support of his own left wing Belaunde must resist the temptation to co-operate with the opposition in order to secure the passage of his legislation. His Christian Democrat allies in particular are opposed to coming to terms with the opposition. Both the government and opposition parties use issues such as the guerillas and the crisis in the Dominican Republic as political footfalls. Political considerations are thus severely hampering peaceful social and economic change, such as agrarian reform, essential to diminish the long-term danger of revolution which arises from the deep social, economic and racial divisions of the country.

62. Rumours of a military coup as a solution to the political dilemma recur from time to time but the Armed Forces are likely to continue their support for Belaunde so long as he is able to agree to effective action against Communism without falling into too marked a dependence on the opposition parties.

Uruguay

63. The economic situation is gradually deteriorating, due to the government's incompetent handling of the budget, the decline of foreign reserves, the heavy burden of short-term debts, diminishing production and unhalted inflation. The collegiate system of government continues to show itself unable to cope with the problems. The necessity of constitutional reform of the executive to establish a presidential form of government with a number of cabinet ministers is discussed in public but has so far not been seriously contemplated in Congress. The economic situation has been exploited by the Communists who have set up a "Congress of the People" and fomented a general strike which did not prove to be wholly effective. The government were forced to take emergency measures. The situation has led the Argentine and Brazilian military secretly to consider joint measures.

H. BRAZIL

64. Until October the government managed to maintain the essentials of a democratic system, notwithstanding the wishes of the "hard line" military faction to steer a more dictatorial course. The economic situation showed a marked improvement. The balance of payments also improved, and industry was recovering from recession.

65. The essential dilemma of the Brazilian political scene was, however, demonstrated by the results of the elections for eleven state governors held at the beginning of October. President Castello Branco withstood pressures to cancel these elections, regarding them as part of the return to democracy which he had promised on taking office, but agreed to the disqualification on legal and technical grounds of some of the candidates less acceptable to the government. The fact that the elections took place at all, and appear to have been freely and fairly conducted, was a success for the moderate policies of the President as against the "hard line". The outcome was in part a victory for the opposition parties, the Social Democrats and the Labour Party.

DECLASSIFIED - PUBLIC DISCLOSURE / DECLASSIFIE - MISE EN LECTURE PUBLIQUE

66. The reaction of the "hard line" to these events was sufficient to force President Castello Branco into action to strengthen the Federal Government's powers. On 27th October, 1965 the President promulgated a second Institutional Act, it having been made clear that support in Congress for legislation granting the minimum powers required would not be forthcoming.

67. The main provisions of the new Institutional Act provide for indirect election by the Congress of Brazil's next President, while specifically declaring Castello Branco ineligible; abolish all activities of the existing political parties, greatly enlarge the President's authority by permitting him to suspend the national Congress, to legislate by decree, to declare a state of siege, and to enlarge the Supreme Court from 11 to 16 members. The Act's provisions expire 15th March, 1967, the date upon which the next President is scheduled to take office.

I. ARGENTINA

68. The internal political situation remains dominated by the question of how to integrate the powerful Peronist forces in the system based on the existence of political parties. In general, the Peronist deputies in Congress have followed an essentially moderate line and it cannot be ruled out that the majority of Peronists, if they were to achieve parliamentary or provincial power in the elections due in 1966 and 1967 would conduct policies which might fall within the framework acceptable in a democracy. Even though the Armed Forces may be basically reluctant to intervene again in politics, it remains doubtful whether they would allow the Peronists to take power.

69. In spite of certain improvements in the economic situation such as the growth of industrial production, good crops and better results in the collection of taxes, the economic and budgetary position of Argentina remains difficult and it is believed that much firmer action than the generally weak government has so far taken will be necessary to control inflation and to improve the balance of payments.

J. THE PANAMA CANAL

70. The agreement reached in September 1965 between the United States and Panama on the canal treaty negotiations has decreased in large measure the tension which existed between the two countries. Under the new treaty arrangements, the 1903 Treaty and its amendments are to be abrogated and Panamanian sovereignty over the Canal Zone is to be recognised. Unlike the old treaty, the new arrangements are to provide for their own termination. Provision is to be made for integration of the employees of the Canal. Furthermore, studies will be made of possible sea level canal routes in Panama. The agreement contemplates that the present canal and any new one will remain open to vessels of all nations, and that tolls will be maintained at a reasonable level. Future developments will, of course, to a large extent depend on the stability of the Robles Government.

K. LATIN AMERICA AND EUROPE

President Saragat's visit to six Latin American countries

71. The enthusiastic welcome given to President Saragat and Minister Fanfani by the public and governments in the countries visited (Brazil, Uruguay, Argentina, Chile, Peru and Venezuela), appears to be a positive sign of the political orientation of Latin American public opinion. Apart from the traditional ties of friendship on the bilateral plane between Italy and the Latin American countries where important Italian communities are established, other reasons contributed to the success of the tour.

72. By their greeting of President Saragat, whose stand against both Communism and Fascism is well known, and Minister Fanfani, the Latin Americans showed their approval of the Italian message: social justice in freedom and peace. The two Italian statesmen repeatedly encouraged the South American leaders to carry out those reforms which are indispensable if the future of their countries is to be peaceful evolution and not revolution.

73. The statements made by President Saragat to the effect that the interest of Italy in increasing her ties and those of Europe in general with Latin America is not aimed at competing with or replacing anyone else, was fully understood, as was his idea that the "partnership" between Europe and North America should be extended to Latin America.

74. The response to this idea further enhances the value of the Italian goodwill mission, which appropriately fits into the picture of the various visits made to Latin America by other West European leaders, the most recent being those of the Grand Duke of Luxembourg and King Baudouin.

75. Minister Fanfani's proposal to establish in Rome, under joint administration, an Italo-Latin American institute for cultural, economic and human relations met with favourable response on the part of Latin American officials.

President Frei's visit to Europe

76. In the context of European/Latin American relations a significant event was the visit to Europe in July 1965 of Chilean President Frei. While President Frei considered that ties with Europe were of particular importance to Latin America, he emphasised the friendly relations existing between his country and the United States and his firm intention to maintain these.