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# TELEGRAM

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*Enders*

FROM Amembassy BUENOS AIRES CLASSIFICATION [REDACTED]

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E.O. 12812  
TAGS:  
SUBJECT:

GDS 3/3/88 (Ruser, C.W.) OR-M

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OTRA, OVIP, AR

Travel of Assistant Secretary Enders--Overview of Argentina

ARGENTINA PROJECT (S200080044)

U.S. DEPT. OF STATE, A/RPS/IPS

Margaret P. Grafeld, Director

Release ( ) Excise ( ) Deny

Exemption(s):

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ACTION: Secstate WASHDC IMMEDIATE

INFO: Amembassy CARACAS PRIORITY

[REDACTED] BUENOS AIRES 1225

CARACAS FOR ASSISTANT SECRETARY ENDERS

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1. [REDACTED] - entire text

2. Summary: The two major topics Argentine officials will wish to discuss are the situation in Central America and Bolivia, which they see as threatening Argentina's own security, and the Alemann economic program on which the Galtieri government's future so heavily depends. Galtieri and his collaborators seek close cooperation with the United States, especially in the security area and are philosophically inclined toward the West. But the GOA continues in the NAM impelled by the need for protection on human rights in international fora and by the search for support on the Malvinas/Falklands and Beagle problems. Our principal difference is in the nuclear field. Other factors in our relationship are human

DRAFTED BY: 1: CWRuser/AMB: HWSHlaudeman	DRAFTING DATE: 3/3/82	TEL. EXT.: 202	CONTENTS AND CLASSIFICATION APPROVED BY: AMB: HWSHlaudeman
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CLEARANCES: *daj.*

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rights, differences on Law of the Sea, occasionally conflicting interests in UN fora and various economic issues such as sugar and our graduation policy in the MDBs. Involvement in Central America carries a political price for the GOA domestically. The GOA also remains sensitive to attitudes and reactions of the Soviet Union, Argentina's principal export market and supporter on human rights issues.

3. Galtieri's vigorous style of leadership has dissipated the atmosphere of paralysis and drift that shrouded his predecessor's incumbency. He continues the policy of liberalization and <sup>greater</sup> respect for human rights. The deep recession and the draconian economic measures, after six years of military rule, are raising social tensions, give strong encouragement to the civilian opposition, now more vocal than ever, and leave the regime isolated. The success of the economic program, expressing a conservative-liberal philosophy, remains uncertain. As of now, Galtieri appears to have the full support of his senior Army commanders and the <sup>other two branches</sup> ~~Army~~ but if economic recovery does not begin later in the year, growing social tension could bring out latent differences in the armed services. Our own approach to the GOA should take into account the domestic and external constraints under which the Galtieri government operates,

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its domestic vulnerabilities and at least the possibility of further political changes within the next two years. End summary.

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4.

[/Assistant Secretary Enders will be visiting Argentina] during a period of uncertainty about future economic and political events--and a time of pervasive pessimism among Argentines generally about the future of their country. President Galtieri and his collaborators seek close cooperation with the United States. Especially in the area of Hemispheric security--Central America and, to some extent, Bolivia--they define Argentina's interests in terms similar to ours. His government, however, faces an exceedingly difficult situation domestically. Despite Galtieri's forceful leadership and the presence of several able ministers in the Cabinet, it remains to be seen whether his government's policies--especially its economic program, on which its fortunes so heavily depend--will be effective.

5. Our own approach must take into account the domestic and external constraints under which the Galtieri government operates, its domestic vulnerabilities and--while we foresee no early changes in Argentina's basic power structure--at least the possibility of further political changes over the next year or two.

Argentine

6. Thus there are two major topics ~~in~~ which ~~your~~ interlocutors will be interested in discussing:

-- Western security interests in the Hemisphere,

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— especially current developments in Central America; and  
-- The Argentine economy, including the Alemann economic program, and the outlook for the US economy.

I. The Domestic Situation

7. The basic problem is the economy. In 1976, when they took power, the armed services resolved to liquidate the Peronist/~~corporatist~~ herit<sup>corporatist</sup>age and ~~to~~ create a modern, open-market system. Some basic reforms were undertaken, such as giving free play to market forces, improving the finances of public-sector enterprises and opening the economy. But the failure of two ministers of the economy--Martinez de Hoz (1976-80) and then S Sigaut (1980)--to set the country on a path of stable economic growth--~~XXX~~ there has been little growth in the last six years--has produced deep dissatisfaction in the society. If the present conservative government should /fail~~x~~ with its economic program, this would mean the end of liberal market economics in Argentina and the country would turn back toward a more dirigist course. It also would eliminate most of the political influence conservatives now exercise on the Armed Forces and, through the Armed Forces, on the government.

8. The Argentine economy is now in a deep depression. Unemployment (including workers on short hours) may be 10 percent and is rising; utilization of industrial

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capacity, on the average, is some 50-60 percent. The one sector that is doing well is agriculture which continues to produce record crops and provides some two-thirds or more of Argentina's export earnings. Argentina's GNP last year declined by 6 percent.

9. More important than the low level of business activity is the general nervousness, which last year produced massive outflows of funds, successive devaluations, high interest rates and sharp decline in the level of private investment. Its origins are the progressive overvaluation of the peso under Martinez de Hoz between 1978 and 1981 (resulting from a crawling peg system coupled with continuing large public-sector deficits) and the subsequent collapse of the peso after the first 10 percent devaluation (allegedly undertaken by Martinez de Hoz at the urging of the incoming Minister, Sigaut) in February 1981. The Viola government, which took office in March, sought to reflate the economy while also seeking to stabilize the foreign exchange market; it never succeeded in restoring the confidence lost in the February devaluation. Inflation, which had been declining, increased sharply after March 1982 under the continued effect of the devaluations and progressively larger public-sector deficits. Inflation in 1980 1981

*7 We've just begun to March!*

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reached 130 percent (PI) and 180 percent (WPI).

10. When the Galtieri government took office in December, its first priority in the economic area was to control inflation and restore confidence. To do so, the new Minister of the Economy, Roberto Alemann, opted for a "shock approach"--severe austerity in the public sector (including a freeze on salaries and retirement benefits) with the goal of reducing the public deficit dramatically by mid-year--and reform of the exchange market, i.e., the unification of the commercial and financial exchange rates in a single floating rate. Reactivation of the economy was not an explicit objective; rather, Alemann's working hypothesis and prediction is that once inflation has been brought under control and confidence been restored, interest rates will come down and business activity will revive. Foreign investment is ~~expected to~~ <sup>expected to</sup> resume, especially in energy and minerals.

11. Alemann has had some initial successes--some export earnings are beginning to be repatriated, inflationary expectations are declining and the exchange market has been stable. But the large sums--export revenues and short-term money--held by Argentines abroad are not yet

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being repatriated, the recession is deepening and the government is encountering difficulties reaching its monetary targets because of falling tax revenues. Forecasters generally agree that this will be a year without growth, with inflation declining significantly but remaining somewhere in the area of 60 percent plus. In fact, growth could well be negative.

12. Galtieri, we are told, is resolutely committed to Alemann, but the draconian measures of the Alemann program come after six years of military rule, during a period of--by Argentine standards--high unemployment. The austerity program has given strong encouragement to civilian opposition leaders, now more active than ever, is fostering new efforts for unity in the labor movement and has left the government more isolated than ever--despite Galtieri's efforts to civilianize the government, through the appointment of civilians to the national government and the provincial governorships. Alemann and other conservatives believe that there is now much broader support in the Armed Forces for reform and austerity than during the tenure of Martinez de Hoz. The lesson, they say, that broad reforms are needed to revive the Argentine economy has finally been learned. But many observers sympathetic to the conservative doctrine wonder whether

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the program does not come too late in the current cycle of military rule. The Galtieri government itself expects growing social tension and political unrest but obviously hopes to ride out the storm until the economy begins to recover. There will be considerable soul-searching in the government about its course if the expected recovery does not develop.

13. Galtieri's vigorous ~~and~~ style of leadership has dissipated the atmosphere of paralysis and drift that shrouded his predecessor's incumbency. As of now, Galtieri appears to have the full support of his senior Army commanders as well as--as far as we can tell--that of Navy Commander Anaya--the key elements in Argentina's power structure. The three services have given the Galtieri government a surprising degree of authority. Galtieri normally should retire from his post as Commander-in-Chief of the Army in November of this year. He reportedly wants to find a formula that will permit him to continue in a dual capacity. This is likely to emerge as the key political question in the months ahead.
14. Galtieri continues the policy of gradual liberalization--witness the easing of remaining censorship and the government's prompt action in recent anti-Semitic incidents.

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He is appointing civilians to strengthen the conservative political forces. His political strategy remains at this time that of a gradual opening of the political process, with a party reorganization law as the next step and full resumption of legal party activity afterwards. But the mood in the country could force a quicker pace. On the other hand Galtieri wishes to find a formula that will permit him to continue in the Presidency beyond 1984--although apparently this formula entails a search for the trappings of broader civilian support.

- 15. In the Armed Forces, growing social tensions could bring out latent differences. There have been reports that the Alemann program is not popular in parts of the military and Galtieri's desire to continue in his dual capacity beyond November could cause problems. Reportedly Navy Commander Anaya, concerned over the institutional integrity of his service, would favor an early withdrawal of the military from the government. There are others, in the Navy and Air Force, who would like to begin serious discussions with the major parties on how to bring about gradual disengagement before the country becomes more polarized politically. (Such a process would extend over a period of years.)

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To increase pressure on the government, the five principal parties have formed a body of senior notables that issues statements and criticisms on national policy. The parties themselves are not highly regarded by the public which recall the poor record of civilian government but they are gaining new adherents and support as dissatisfaction with the military regime increases.

There have been various instances ~~instances~~ where Peronist salutes and songs ~~were~~ were in public used and these incidents are becoming more frequent. Despite their rhetoric, the two major parties--the Peronists and the Radicals--would be prepared to come to terms with the military. They are outmoded, riven by factions (especially the Peronists), hold vague nationalist doctrines and lack specific programs. They are largely opposed to the economic and administrative reforms, which the military have pursued over the last six years, and advocate a greater role for the state and more nationalist, protectionist policies. The Peronists remain dependent on labor and would ~~follow; and would~~ probably return to more populist policies--one of the principal causes of Argentina's economic stagnation over the last generation. In their present form, there is serious doubt whether, without the military, either party ~~they~~ could constitute an effective government. In any case, the principal obstacle to democratization remains

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the problem of the thousands of persons who disappeared during the military's war against Marxist subversion.

## II. Foreign Policy Issues

17. Notwithstanding the hopes and fears of last December, the Galtieri regime has as yet produced no significant change in Argentina's foreign policy. The GOA continues in the NAM, impelled by the need for protection on human rights in international fora and by the search for support on the Malvinas/Falklands and Beagle problems. Relations with the Soviet Union remain correct on the diplomatic level and active on the commercial side. We have reported indications of a possible chill in relations with Cuba, but that seems to be the result of a Cuban rather than an Argentine decision. Elsewhere in Latin America the relationship with Mexico is poor (a result of the Abel Medina asylum case); Argentine interest in the Andean Pact has waned as that group's political activism has vanished; and Foreign Minister Costa Mendez carries on his predecessor's efforts to build a strong relationship with Brazil.

18. Good relations with the US are a high priority for the Galtieri administration, as they were for its predecessor. We still have our differences on law of the sea

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and in the nuclear field, along with occasionally conflicting interests in UN fora (as in the case of Poland in the UNHRC) and a few minor trade problems. But Galtieri is anxious to cooperate with us on the Hemisphere's more pressing problems, particularly those in Bolivia and Central America. <sup>Involvement</sup> / ~~Involvement~~ in the latter carries a political price for the GOA, as demonstrated by the continuing clamor over purported Argentine military presences there, actual or prospective, and the denunciations of the visit here of Salvadoran Colonel Flores Lima (ref / B.A. 1128). The major political parties, without necessarily taking either side in Central America, remain attached to the country's traditional "independent" and non-interventionist policy. The GOA's association with reputedly repressive military regimes also provides a convenient opportunity to attack the nature of Argentina's own government.

19. The GOA to date has not outwardly appeared overly concerned by background noise of this kind. Costa Mendez does respond with vehement denials to questions from the press about Argentine military and/or political activities in Central America and even Army Chief of Staff Vaquero felt the need to repeat the commitment to non-interference in El Salvador's internal affairs on the occasion of decorating Flores Lima. But the latter's

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visit was given a high public profile, the Salvadorans were promised credits for military purchases here, and the Foreign Ministry went so far as to complain to us that President Reagan had failed to mention Argentina as a donor country in his CBI speech. (Foreign aid, bound to be highly unpopular with the Argentine public, is not normally publicized by the GOA.) However, behind the scenes the Foreign Ministry is increasingly uncomfortable with the high Argentine profile on Central America. Costa Mendez seems to be searching for a context more compatible with this country's traditional foreign policy in which better to present Argentina's active interest in Central America. This might take the form of a move in the OAS

B.A. 1184  
(ref / ).

- 20. Other factors in our bilateral relations include human rights, the controversy over privatization of the economy and the pace of democratization. As we have been reporting, the GOA is gradually but steadily liberalizing its controls over the society. Pen prisoners continue to be released and the government's sharp reaction to the recent desecration of Jewish graves in Mar del Plata was most gratifying. But with the end of current human rights abuses, the issue of the past disappeared has come increasingly into sharper focus and <sup>now</sup> ~~now~~ threatens to

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dominate the future politics of this country. Internationally it feeds the GOA's fears of isolation; internally it blocks the way to democratization. There is little if anything outsiders including the USG can do to help; the military's absolute opposition to any review of the "dirty war" simply cannot at this time be reconciled with the growing civilian demand for an accounting.

21. The GOA is intent on reducing the size of the public sector, taking the government out of economic activities it should not be in, selling off various government enterprises and providing increased incentives for private exploitation of the country's natural resources. Ex-President Illia, among others, has asserted that the government's intentions amount to a sell-out to the "multi-nationals". Some of our well-meaning but poorly-informed Argentine friends have been warning us that US interests will suffer as our corporations are seen as devouring the national patrimony. In fact, there is little discernible foreign investment interest in Argentina outside the hydrocarbons field. There the GOA does not contemplate turning over sub-soil rights to private companies, contrary to press and other reports. There will be an effort to improve incentives

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for exploration and production and to get the notoriously inefficient state oil company YPF out of drilling and producing.

22. The political parties and human rights groups attach great importance to the USG's position on democratization in Argentina. They believe it critical that the GOA perceive its future relationship with the US as being conditioned by unmistakable movement toward a return to constitutional government. Former Foreign Minister Camilion publicly and privately asserted that to be the case after each of his visits to the US. We have taken the line here that the USG will be gratified to see a return to democracy but how and when that is to be accomplished is for the Argentines to decide. The principal element in this problem is not, of course, the attitude of the USG, but rather the issue of the disappeared.
23. The Malvinas/Falklands and Beagle problems do not concern us directly, but one or both could ultimately have a considerably greater impact on the bilateral relationship than any of the issues previously discussed. In the wake of another futile round with the British in New York, the Foreign Ministry has just issued a rather threatening statement on the Malvinas/Falklands/ ~~(see para)~~ <sup>(ref B.A. 1184, 1197).</sup> The purpose

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may have been no more than to satisfy domestic public opinion, but we cannot be certain. Clearly, a resolution of this ancient dispute is as far off as ever and the local jingoes are speculating/~~about~~<sup>again</sup> about an armed Argentine landing in the islands. We have reported previously on indications that the Argentines might like to enlist our support in getting the British to cede. From here the Pope's Beagle mediation appears stalemated with little realistic possibility for a breakthrough. At some point before the end of the year the Chileans will presumably take their case to The Hague, effectively putting an end to the mediation. How the dispute will evolve from then on is difficult to predict, but it seems likely that we will find ourselves involved, like it or not.

24. As a result of Argentina's free-market philosophy, there have been few/~~problems~~<sup>problems</sup> in our economic relationship. The GOA is concerned over the effect of the Caribbean Basin initiative on its own sugar exports, one of its largest export items to the US market. There has been a running dispute over an Argentine export tax on raw hides, with the possibility of US retaliatory action in the next few months. A Section 301 petition has been filed alleging subsidized exports of certain metal products (carbon wire rods).

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The GOA is concerned over the US policy on graduation in the MDB; financing for its large hydro-electric power projects is at stake. Our biggest issue in the commercial area is, of course, the interest of Allis-Chalmers and Westinghouse in contracts for the Yacyreta hydro-electric power project on the Parana river. And, finally, there is Argentine concern over our CCC credit sales and, more importantly, the concerns both countries share over the SEC's export policy. The Argentines argue that these export policies to third-country markets and the enlargement of the SEC are the cause of their heavy dependence on the Soviet market.

SHLAUDEMANN

by: E.W.R.

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