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TELNO 687 OF 18 OCTOBER 1984

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IMMEDIATE

INFO PRIORITY MOD (SIC A3A), CBFFI BANK OF ENGLAND ASUNCION BRASILIA
 CARACAS MEXICO CITY MONTEVIDEO SANTIAGO UKMIS NEW YORK
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ARGENTINA : ASSESSMENT

SUMMARY

1. ALFONSIN'S APPARENT CHANGE TO A MORE REALISTIC COURSE SINCE HIS NEW YORK VISIT, THE ANNOUNCEMENT OF A TENTATIVE AGREEMENT WITH THE IMF AND OF A BEAGLE SETTLEMENT WITH CHILE MAY SIGNAL THAT THE PRESIDENT HAS AT LAST BEGUN TO GOVERN, BUT HE MUST PROVE HIS WILL AND ABILITY TO BRING THE ECONOMY UNDER CONTROL. FAILURE IN THIS WILL EVENTUALLY UNDERMINE HIS PERSONAL PRESTIGE, AND REDUCE ARGENTINE ROOM FOR MANOEUVRE IN RELATIONS WITH THE UK.

DETAIL

2. ALFONSIN'S VISIT TO NEW YORK, INCLUDING PARTICULARLY HIS INTERVIEW WITH PRESIDENT REAGAN AND HIS ENCOUNTER WITH INTERNATIONAL BBGLRS THROUGH HENRY KISSINGER SEEMS AT FIRST SIGHT TO HAVE INDUCED A MORE REALISTIC APPROACH. ON THE ECONOMIC FRONT, ALFONSIN

BBEGLERS THROUGH HENRY KISSINGER SEEMS AT FIRST SIGHT TO HAVE INDUCED A MORE REALISTIC APPROACH. ON THE ECONOMIC FRONT, ALFONSIN HAS AT LAST PUBLICLY CALLED FOR AUSTERITY, WHILE THE CENTRAL BANK, UNDER THE ORTHODOX DIRECTION OF ENRIQUE GARCIA VAZQUEZ, HAS REINED IN THE MONEY SUPPLY AND PROMOTED A CREDIT SQUEEZE. AT THE SAME TIME DEVALUATION OF THE OFFICIAL PESO/DOLLAR RATE HAS BEEN ACCELERATED, SIGNIFICANTLY REDUCING THE DISCREPANCY WITH THE BLACK MARKET LEVEL.

3. HOWEVER, A SUBSTANTIAL QUESTION MARK STILL HANGS OVER THE GOVERNMENT'S DETERMINATION AND ABILITY CONSISTENTLY TO APPLY THE PRINCIPLES AGREED WITH THE FUND. INDUSTRIALISTS ARE FACING NOT ONLY HIGH INTERESTS CHARGES, BUT ALSO PUNITIVE PRICE CONTROLS, AND WHILE THE GOVERNMENT IS IMPOSING RECESSION UPON THE PRIVATE SECTOR IT HAS STILL NOT DISCIPLINED ITS OWN EXPENDITURE. INFLATION REACHED 27.5 O/O IN SEPTEMBER, AND, DUE TO UNCHECKED EXPECTATIONS, WILL PROBABLY AGAIN BE ABOVE 20 O/O THIS MONTH. YET ALFONSIN AND ECONOMY MINISTER GRINSPUN STILL PROCLAIM THEIR COMMITMENT TO RAISING REAL WAGES BY THE END OF THE YEAR, CONTRADICTING THE TERMS OF THE MEMORANDUM OF UNDERSTANDING WITH THE IMF.

4. DESPITE GROWING CRITICISM, WITHIN HIS OWN RADICAL PARTY AND FROM THE PERONIST CONGRESSIONAL OPPOSITION, OF MODIFICATION OF HIS POPULIST ECONOMIC POLICY, ALFONSIN NEEDS TO TAKE FURTHER MEASURES IMMEDIATELY. HIS COURAGE AND CONVICTION MAY DESERT HIM NOW THAT HE IS BACK IN ARGENTINA, EVEN THOUGH THE CGT REMAIN RELATIVELY QUIET. PERCEIVING THERE IS NO REAL ALTERNATIVE TO ALFONSIN'S GOVERNMENT, THE RIGHT-WING PERONIST UNION LEADERS WILL PROBABLY BE CONTOJNT FOR THE MOMENT TO MAINTAIN THEIR POSITIONS IN THE CURRENT INTERNAL ELECTIONS AND THEIR LACK OF STOMACH FOR A FIGHT HAS BEEN RECENTLY DEMONSTRATED BY THEIR MUTED RESPONSE TO THE GOVERNMENT'S REJECTION OF A MASSIVE ACROSS-THE-BOARD PAY DEMAND FOR THEIR MEMBERS.

5. THERE IS MEANWHILE UNREST IN THE ARMED FORCES CAUSED BY BUDGETARY CUTS, BUT MORE ESPECIALLY BY THE THREAT OF INDICTMENTS FOR DIRTY WAR ACTIVITIES. WHILE THE MILITARY ARE IN NO CONDITION TO MOUNT A CONCERTED CHALLENGE TO THE ADMINISTRATION, THEY WILL CONTINUE TO REQUIRE A CAREFUL HANDLING, AS INDICATED BY THE PARA-MILITARY RAID ON THE ROSARIO COURT HOUSE DESIGNED TO FRUSTRATE HUMAN RIGHTS INVESTIGATIONS. ALFONSIN SEEMS PRUDENTLY SET ON CONCILIATION AND HAS ACCORDINGLY PLAYED DOWN THE RELUCTANCE OF THE ARMED FORCES SUPREME COUNCIL TO CONVICT FORMER JUNTA MEMBERS ON HUMAN RIGHTS CHARGES.

6. THE BEAGLE SETTLEMENT WITH CHILE IS ANOTHER POTENTIAL BONE OF CONTENTION WITH THE MILITARY, THOUGH UNLIKELY TO PROVOKE ANY MOJOR UPHEVAL. ARGENTINA, UNDER A DEMOCRATIC GOVERNMENT, SHOULD GENERALLY ABIDE BY ITS TERMS. ALFONSIN'S INTERNATIONAL IMAGE HAS BEEN CONSIDERABLY ENHANCED BY NEWS OF THE TREATY, AND AN EXTENSIVE DOMESTIC PROPAGANDA CAMPAIGN HAS ALREADY BEEN LAUNCHED, BOLSTERED BY REMARKS FROM VISITING CARDINAL CASEROLI AND AIMED AT SECURING A LARGE POSITIVE VOTE IN THE FORTHCOMING ELECTIONS. A MAJORITY

DOMESTIC PROPAGANDA CAMPAIGN HAS ALREADY BEEN LAUNCHED, BOLSTERED BY REMARKS FROM VISITING CARDINAL CASEROLI AND AIMED AT SECURING A LARGE POSITIVE VOTE IN THE FORTHCOMING PLEBISCITE. A MAJORITY IN FAVOUR SEEMS PROBABLE, BUT ITS VALUE AND ALFONSIN'S PRESTIGE COULD BE GREATLY REDUCED BY LARGE-SCALE ABSTENTION WHICH REMAINS A REAL POSSIBILITY EVEN THOUGH IT WOULD NOT NECESSARILY PREVENT RATIFICATION BY CONGRESS.

7. IF THE PRESIDENT DOES PULL OFF A SUCCESS WITH THE BEAGLE, HE WILL SUBSEQUENTLY HAVE MORE ROOM TO MANOEUVRE BOTH AT HOME, AND IN DEALINGS WITH THE UK. THERE ARE SOME INDICATIONS THAT AFTER THE UNGA, THE MFA MAY SEEK TO RESUME THE BILATERAL DIALOGUE, ALBEIT ON THE UNEQUIVOCAL UNDERSTANDING THAT FALKLANDS SOVEREIGNTY IS NOT EXCLUDED FROM THE AGENDA. FOR THE PRESENT, EFFORTS ARE HOWEVER DIRECTED TOWARDS THE UN FALKLANDS DEBATE, REGARDED BY SOME AS AN OBLIGATORY RITUAL AND BY OTHERS AS A CRUCIAL TESTING GROUND. THE FRENCH IN PARTICULAR COULD BE SEDUCED BY A MODERATE DRAFT RESOLUTION INTO LEADING OTHER WESTERN EUROPEAN COUNTRIES INTO THE ARGENTINE CAMP, ALTHOUGH THE ARGENTINES THEMSELVES ARE FAR FROM CONFIDENT OF A BETTER RESULT THAN LAST YEAR. THEIR POSITION HAS ADMITTEDLY BEEN STRENGTHENED BY THE ANNOUNCEMENT OF THE IMF AND BEAGLE AGREEMENTS, AND COMMERCIAL RESTRICTIONS ON BRITISH FIRMS HERE MAY ALSO BE LIFTED TO PROMOTE ARGENTINA'S REPUTATION FOR REASONABLENESS, AND OPEN THE WAY FOR FOREIGN DEBT NEGOTIATIONS WITH THE CLUB OF PARIS .

CONCLUSION

8. OVERALL, THE GOVERNMENT LOOKS TO BE IN RATHER HEALTHIER SHAPE THAN A FEW WEEKS AGO, BUT UNTIL IT HAS PROVEN ITS WILL AND ABILITY TO MANAGE THE ECONOMY ON LESS PROFLIGATE LINES, ANY OPTIMISM ABOUT THE COUNTRY'S FUTURE MUST REMAIN HEAVILY QUALIFIED.

JOY

POWELL-JONES

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SPNT