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BRITISH EMBASSY,
BUENOS AIRES.

ARGENTINA: ANNUAL REVIEW FOR 1981

SUMMARY

1. The year of President Viola, whom the Junta dismissed in December, was less than a disaster but very disappointing in nearly all regards - largely owing to his own and his ministerial team's indecisiveness and inability to inspire confidence (paragraphs 1 - 4).
2. General Galtieri, the Army Commander-in-Chief, who succeeds him as nominated President, has chosen a more promising team, but they will have a hard task both to deal with their economic inheritance in conditions of world recession and to find a meaningful completion to the "process of political renewal" (paragraphs 5 and 6).
3. A difficult year in Anglo-Argentine relations because of enhanced sensitivities on both sides regarding the Falklands issue, of a growing contrast between UK and US attitudes to the military regime and the hesitancy which, with very adverse press coverage in the UK, less experienced British exporters have felt about venturing into the Argentine market. But we hope figures, when available, will show we have kept our share of the market and, next year, the Argentines themselves may at least spend less time shooting into their own goal (paragraphs 7 and 8).



014/1

BRITISH EMBASSY,
BUENOS AIRES.

1 January, 1982

The Right Honourable
The Lord Carrington PC KC MG MC MP
etc etc etc

My Lord

ARGENTINA: ANNUAL REVIEW FOR 1981

1981 has been, for Argentina, the year of President Viola. He was confirmed by the Military Junta as President designate just before it started, was inaugurated in office at the end of March and was removed "for reasons of state" in mid-December.

Though neither the year nor the Presidency were quite the disaster which an unsympathetic European press has alleged, both were pretty disappointing and characterised by a failure to get to grips with what is basically wrong with this so unnecessarily unsatisfactory country.

2. Argentina in 1981 has been neither a military dictatorship in the ordinary sense nor in a state of economic collapse. It has spent the whole year in a positive ferment of political debate, in which outspoken criticism has easily out-shouted constructive ideas. It has, meanwhile, retained its position as one of the world's four or five main food exporters, achieved virtual self-


/sufficiency



sufficiency in energy requirements and remained a country with one of the highest per capita incomes in Latin America. But the end of term marking is still quite definitely "Does not try hard enough". There has been no real progress to record in the "process of political renewal", to which the military interventors dedicated themselves in 1976, aimed at creating conditions for stable, pluralist democracy in the country. Pragmatic tinkering with the basically monetarist economic strategy embarked on in 1976 has produced an 80% devaluation of the freely-traded financial peso, a reversion to inflation approaching an annual rate of 150%, an ominous foreign indebtedness coupled with a serious decline in reserves. All this without achieving any significant "reoxygenisation" of Argentina's apparently incurably lame duck industrial sector or avoiding a serious rise in unemployment. The problem in Argentina - for fifty years - is not that it is sinking into collapse, but that it is repeatedly failing to achieve even the least competent level of growth. In this sense, 1981 has been one of Argentina's classically bad years.

3. A considerable share of responsibility for this poor showing is rightly laid at General Viola's door. Groomed and presented as the shrewdest politician the military could produce to bridge the gap back to civilian rule, he has proved inarticulate, indecisive and incapable of

/evoking




evoking any coherent conduct of government from a disparate assortment of ministers which he assembled with paralysing slowness during the earlier part of this year. Much of the economic ills the country has suffered in recent months can be ascribed to a sense of blinded uncertainty and shaken confidence, following inconclusive decisions arrived at far too late in an atmosphere of rumour, speculation, leaks and denials. Similarly, if the political "proceso" seemed to have lost direction, much of the trouble derived from the growing tendency of the three Commanders-in-Chief, who constitute the Junta, to check and query even the smallest detail of government business.

4. In the conduct of foreign relations, Dr Oscar Camili6n - the not un-able if somewhat meretricious civilian Foreign Minister chosen by Viola - was a particular victim of this hamstringing suspicion. His (quite successful) efforts to get United States/Argentine relations back with President Reagan onto a level of greater mutual respect and cooperation, his attempt to counterbalance any awkwardness arising either from this or from Argentina's embarrassingly exclusive commercial links with the Soviet Union by emphasising Argentina's stance among the non-aligned, his manoeuvring to weaken by widening the dispute with Chile, where the papal mediation over the Beagle Channel had come up with ideas very difficult for Argentina to swallow - in these and many other

/matters

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matters, Camili6n was repeatedly undermined or up-staged by Junta members acting without consultation or warning.

5. In this the worst offender was certainly the army commander, Lt General Galtieri, who is now to take over as President, while (for 1982) retaining his command. It is clear that 1982 will be his year as much as 1981 was Viola's. He has chosen a good team of civilised, liberal-minded but decisive and respected Ministers. In all these adjectives they show a great improvement on their predecessors. They certainly should do better, if circumstances give them half a chance.

6. Objectively these circumstances are one of a severe domestic and persisting world recession, of depleted reserves, scarce credit and an uncomfortably high level of unemployment. Subjectively they include a President who has at times in the past shown an inclination to spontaneity rather than sagacity of judgement, a delicate balance of agreed political strategy inside the armed forces (with the new Naval Commander-in-Chief a much stronger character than his predecessor) and the extreme difficulty for anyone to produce a convincing prescription to complete the "process of political renewal" in any meaningful way.

7. Meanwhile it has not been an easy year for the United Kingdom in its relations with the Argentine Republic, either politically or in export promotion. In the former, as regards /the Falklands,



the Falklands, we have had to walk like Agag all year to avoid offence to Argentine, Islander or Falkland lobby sensitivities during what must be the longest electoral period per voter anywhere in the world. We have come through without a bust-up, but certainly with the Argentines and the Islanders more on each others' nerves than a year ago. Meanwhile, President Reagan's switch to an effusive cultivation of the present Argentine regime has left our comparative coolness (though less assertive than that of some of our Western European colleagues) the more conspicuous. We should like to increase our trade with Argentina and (despite the cloud of ignorance in which we are working as a result of the UK Civil Service strike) we hope to have at least retained our share of what has been this year a very difficult market. But the publicity which the UK press so readily affords to any story of Argentine incompetence, imminent collapse or arrogant stupidity has, alas, been only too regularly fed by President Viola's government this year. Only those who know that most stories of Argentine demise tend to be exaggerated have had the courage to sow now for reaping later.

8. 1981 has been a pretty difficult year for most countries. Argentina has been exceptional only to the extent that a higher than average proportion of the difficulty has been self-induced. For her, as for the rest of us, one can only hope that 1982 will be better. At least Argentina may spend

/less



less time shooting into its own goal.

9. I am sending copies of this despatch to Her Majesty's Representatives at Montevideo, Santiago, Asuncion, La Paz, Brasilia and Washington and to the Governor of the Falkland Islands and to the Department of Trade.

I am

My Lord

Yours faithfully

Anthony Williams

21/1/82

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29 JAN 1982			
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PS/Mr Lyde		[initials]	

Mr Fearn, SA Dept 13 (2)

- 1) [initials]
- 2) Mr [initials]
- Mr Bright

J. [initials] 20/1

ARGENTINA: 1981 ANNUAL REVIEW

A ① 1. I submit Mr Williams's Annual Review, together with my draft letter of acknowledgement. The despatch is being printed as a Diplomatic Report.

2. The despatch is neat, if a little thin. By putting the shortcomings of the past year into a broader perspective, Mr Williams gives them a slightly better gloss. But the fact remains that 1981 was a bad year for Argentina: and that, in terms of economic advancement and political maturity, Argentina has for too long moved either sideways or downwards. Following the replacement of President Viola by General Galtieri, the economy now seems on first evidence to be in more competent hands. But it remains too heavily cushioned by the agricultural sector and by new energy resources; and the promised streamlining of the unwieldy and inefficient public sector, in which the military retain a strong and direct interest, will be an uphill struggle. Politically, despite the rather greater freedom of expression, a managed evolution back towards more representative government seems as far away as ever and General Galtieri does not look the man to push this along with any conviction. The military regime seems increasingly brittle and without clear purpose.

3. Anglo-Argentine relations also took a step back in 1981. Our trade figures inevitably suffered. At a political level our bilateral dealings were outwardly cordial enough and human rights issues remained no more than a familiar background irritant. But the lack of expected movement on the Falklands dispute has caused increasing friction at the edges; and in 1982 this looks like getting worse rather than better. Since the end of 1980, the leaseback initiative has (at least temporarily) foundered, Islander opinion has hardened against any movement in the dispute and our need to respond to Islander wishes, allied to the domestic political implications, has prevented us from adopting any positive policy other than trying somehow to keep the Argentines in a dialogue to which we have little to contribute. While we managed to avoid matters developing into a confrontation, we shall be fortunate to do this for a further year unless Islanders' attitudes change.

[Signature]

P R Fearn
South America Dept

19 January 1982

The despatch is well worth reading in full. TBurg 20/1.

cc PS/PUS
Mr Day
Research Dept

14 (3)

Foreign and Commonwealth Office

London SW1A 2AH

28 January 1982

A J Williams Esq CMG
BUENOS AIRES

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Miss Combs
ccs
28/1
1/1/82

Dear Anthony

ANNUAL REVIEW

1. Many thanks for your 1981 Annual Review, which is being printed as a Diplomatic Report.
2. You are right to put Argentina's misfortunes over the past year into perspective. But the fact remains that, in terms of economic advancement and political maturity, Argentina has for too long moved either sideways or downwards. Nobody expected much of Viola's administration, but equally nobody thought it would be the failure it was. The inability of the Argentine economy to pull itself together, despite the country's substantial advantages in natural resources, remains frustrating. Also, whatever the ritual obeisances by the military to the principle of the proceso, there was very little evidence in 1981 of any real will to make substantive progress. We may hope for better results on the economic front from Galtieri's team and I note what you say in your letter of 22 January about Galtieri's apparent commitment to the proceso. But despite the changes the military remain in firm charge; a return to more representative government remains as distant a goal as ever. The way may be being paved for an officialista Government, but unless it is freely elected and not subject to the military, it is difficult to see that it would be much of an improvement on the present system.
3. I can only agree with what you say about Anglo-Argentine relations in 1981 - and I can see little hope for improvement in 1982. The keystone of the relationship remains the Falklands dispute. This is not the place to philosophise on that, but unless the Islanders modify their attitudes (which is unlikely) we are going to find it increasingly difficult to persuade the Argentines of the virtues of continuing to seek a solution by negotiation. On trade, I hope that the eventual figures will indeed show that Anglo-Argentine trade has not suffered too much in 1981, but the DOT are not over-sanguine. No high-level visits are in prospect. In this climate, it will require a lot of hard work to maintain our relations even at their present level: we are very grateful for all you and your staff have done and are doing.

*G. M. ...
Kob...*

P R Fearn
South America Dept

cc R M Hunt Esq CMG
PORT STANLEY