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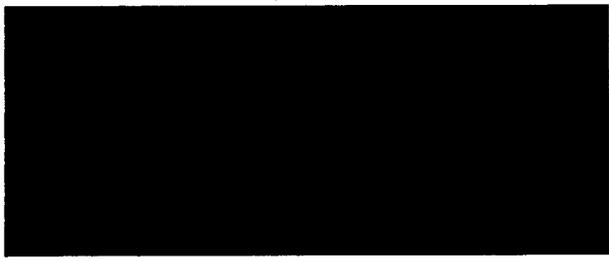
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Chile: Prospects for Pinochet



An Intelligence Assessment



Declassified and
Approved for Release
July 2000

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May 1983

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Prospects for Pinochet

Key Judgments

*Information available
as of 17 May 1983
was used in this report.*

The Pinochet regime will face continuing recession and mounting political pressures, in our view, through the rest of this year. We expect the President's adversaries—unilaterally and occasionally in unison—to capitalize on the poor economic outlook to significantly expand the level of antigovernment activity. In particular, we expect opposition labor forces to become more active. We do not believe, however, that the Chilean opposition will be able during 1983 to form the kind of multiparty front necessary to:

- Force the government to revise its policies.
- Offer an alternative political force.
- Effectively threaten Pinochet's hold on power by undermining his support.

we believe that Pinochet will respond firmly to the growing pressures and will avoid making significant concessions, especially in the way of political liberalization. He will reaffirm his commitment to the present timetable for restoring full civilian rule in the 1990s and to reorienting the economy away from Allende's socialist model. We do not expect that progress in stabilizing the economy or restoring the government's international credibility will be rapid.

We assess that Pinochet will continue to threaten severe consequences for any group attempting to disrupt his administration's course. Following the nonviolent "Day of National Protest" on 11 May, for example, the government arrested several hundred participants, ordered the prosecution of protest organizers, and banned news broadcasts by a national independent radio network that reported on protest activities. Pinochet may balance his hardline approach with cosmetic gestures calculated to reduce discontent, deflect criticism, and keep the opposition off balance.

We believe Pinochet's popular support will decline in 1983, but we do not expect this to pose a serious threat to his rule. The memory of the chaotic Allende period still grips most Chileans and is a strong factor in promoting stability. Further, and key to our judgment, is the belief

that the military will continue to back the President. There may be occasional objections to specific policies, particularly from the Air Force and the Navy, but the President's firm control of the Army will enable him to dominate all the services. Moreover, the civilian opposition still lacks a clear strategy for dealing with the military's solid backing for Pinochet.

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Pinochet believes normalization of relations with the United States is long overdue. We expect Chile's present economic crisis will lead Pinochet to again look to Washington for various types of economic cooperation. But he also wants renewed military ties and economic assistance, which require US certification. If Argentina is certified and Chile is not, US influence in Chile will decline significantly. Chilean nationalism would be aroused and public support for Pinochet would probably increase because various groups—including some of the moderate opposition—would regard such action by Washington as discriminatory, harmful to Chile's national security, and regionally destabilizing. Pinochet's responses could include withdrawal from joint naval exercises, increased efforts to acquire arms, more frequent anti-US stances at international forums, closing off US-Chilean military exchanges, even less sensitivity to human rights than is now the case, and a reduced voice for the moderates among his advisers.

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Chile: Prospects for Pinochet

Introduction

Domestic and international setbacks have weakened President Pinochet's position in the past year

After a six-year boom (1976-81), Chile's economy suffered a serious reversal induced as much by internal as external factors. In 1982 GDP dropped by 14 percent, unemployment rose above 25 percent, and several large business and financial institutions collapsed. This recession has given the repressed and largely inactive opposition a long-sought issue to exploit, in our view, and has eroded public confidence in the regime. Government failures on the economic front have weakened a primary rationale for authoritarian rule and have made the public—including some proregime elements—receptive to increased political activity.

A less significant consideration in this changing climate is the regional trend toward democratization, which has contributed to the regime's isolation at home and abroad. The replacement of military governments in Peru, Ecuador, and Bolivia and the coming transition to civilian rule in Argentina and Brazil could broaden sentiment in Chile to accelerate the return to civilian rule. We do not believe that this trend toward democratization, however, will have much direct influence on Pinochet's thinking.

This paper assesses the impact of the changing climate in Chile on the various opposition forces and conservative progovernment groups, Pinochet's response to the growing pressures on his regime, the effects of growing political opposition on the President's base of support in the military, and the implications of Pinochet's problems for US-Chilean relations.

Resurgent Opposition

We assume that Pinochet's power base in the military will endure through this year and that his greatest problems would result from the formation of an opposition front—broad-based, nonpartisan, and drawn from the working and middle classes—similar

to the one that undermined the Allende government. We believe the formation of such a front over the near term is unlikely. The political parties (officially "in recess"), labor, and student groups will continue this year to explore points of convergence, but old personal animosities and ideological disagreements will take time to overcome. Meanwhile, the regime will place roadblocks in the way of opposition unity. Thus, we expect that opposition elements probably will cooperate intermittently and coordinate some activities, but probably will not merge into a unified movement by the end of this year.

The Christian Democratic Party's Key Role. The centrist Christian Democratic Party (PDC)—the largest and most effective democratic force in Chile—will play a pivotal role in any opposition endeavors, in our view. Not only has the PDC stepped up activity in the past year, but a number of PDC members have become heavily involved in promoting a coalition of political parties, students, and labor. The most active opposition group to date, the National Development Project, was formed by two Christian Democratic ex-parliamentarians and receives strong PDC backing.

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The Chilean Economic Plunge

Following growth that averaged nearly 7 percent during 1976-81, GDP nosedived by 14 percent last year, undermining public confidence in Pinochet's market-oriented policies. The slide began in late 1981, when falling export earnings coincided with sharply reduced domestic demand, resulting from the government's tight fiscal policies. Only the mining sector grew significantly. Commerce, manufacturing, and construction—sectors of large-scale employment—all contracted by 15 percent or more. The economic slide reduced workers' living standards in sharp contrast to the gains they recorded in the late 1970s. The rate of unemployment doubled to more than 25 percent. The sharpest drops came in manufacturing and among skilled professionals. Following a series of devaluations that began near midyear, import price increases pushed inflation to over 20 percent in 1982 as compared to only 9 percent the year before. As a result, the level of real wages in December 1982 was down 16 percent from a year earlier. ■

Reduced demand quickly translated into sharply lower import levels. Plunging imports pushed the trade balance into surplus from a \$2.5 billion deficit in 1981. Increased interest payments on the external debt, however, partially offset the trade improvement. Even so, the current account deficit declined to \$2.4 billion—a 50-percent improvement over the previous year. ■

A 75-percent drop in net loan inflows combined with capital flight forced the overall balance of payments

from a small surplus in 1981 to a \$1.2 billion deficit last year. Despite the drawing down of reserves to cover the shortfall, gross foreign debt grew by 10 percent to \$17.1 billion, adding to a rising debt service burden. About two-thirds of foreign debt is attributable to private-sector borrowing, and \$3.3 billion of the total is payable within a year. ■

The financial squeeze sent Chile to the IMF for help, and in January 1983 a package of \$880 million was approved. In addition to providing an injection of foreign exchange, the Fund program was expected to bolster the confidence of international bankers who were being asked for \$1.4 billion in new loans during 1983 as well as the rescheduling of maturing credits. Government intervention in the troubled banking sector and government spending and monetary expansion in excess of Fund targets have brought at least a temporary halt to additional draws from the Fund, placing about \$420 million as well as banker confidence in jeopardy. ■

Santiago hopes to meet the June IMF performance targets and regain Fund draws and banker cooperation. We believe growth for 1983 will be in the range of 2 to 4 percent. Gradually rising copper prices are expected to help push up export earnings, but a current account deficit of more than \$1.5 billion is likely to remain. Even assuming net capital flows do not diminish further, reserves will continue to decline this year. ■

We ■ believe that the moderate PDC majority is likely to dominate the party's strategy and actions. The moderates probably believe that it is in their best interest to avoid any further polarization and radicalization of Chilean society as well as any new civilian-military confrontation. ■

Leftist Coalition. We [redacted] judge that, although greater cooperation among the left is likely this year, several problems will prevent the formation of a potent leftist front. Ideological and personal conflicts as well as the schism between exiled and domestic leaders probably will continue to be more acute among leftists than among centrists. Disagreements over the doctrine of armed struggle and acceptance of foreign support—Soviet and Cuban—also will continue to impede collaboration. [redacted]

The banned Chilean Communist Party (PCCH)—which numbers between 10,000 and 25,000—will continue to dominate the left, in our view. A well-developed clandestine network has enabled the PCCH to survive repression better than the other leftist parties. The Communists have maintained contacts with a broad spectrum of parties, including the PDC, and have begun rebuilding their infrastructure within labor and the universities. [redacted]

Because of the party's organizational strength and commitment, it has been at the forefront of opposition demonstrations. On 24 March the Communist Party orchestrated the largest, most violent, and best organized demonstrations since the military came to power. [redacted]

The longstanding internal-external split in the Communist Party could be aggravated by what we expect will be a period of increased opposition activity. For some time, the internal leadership of the party has paid only lipservice to the exiles' persistent calls for armed revolution and has worked to restrain the party's violence-prone youth wing. Continued economic hardship, however, and the resulting increase in opposition activities will, we believe, encourage exiles and youth to push for a violent campaign, thus potentially polarizing leftist opinion. [redacted]

The numerous non-Communist leftist groups may occasionally coordinate antigovernment activities but are not likely to join in a united front. The Socialist Convergence, a coalition of nonviolent Socialist parties, has distanced itself from the Communists. [redacted]

[redacted] the Convergence is not subversive and it seeks a coalition with the PDC.

More damaged by repression than the other parties, the Socialist parties will probably continue to be hampered by lack of funding and organizational problems. [redacted]

Labor and the Parties. We believe the organized political parties will have more success over the coming year than they have had in drawing workers into antigovernment activities. [redacted]

[redacted] the PDC has made gains with the Democratic Labor Confederation, and the Communists have increased their influence in the National Trade Union Coordinating Group, which has been the most active antigovernment labor group. [redacted]

Although labor dissatisfaction will grow and widespread labor unrest is a possibility, numerous factors militate against the development of a massive, unified, antigovernment labor offensive. Labor has borne the brunt of military repression, and government restrictions on labor remain tight and effective. In addition, the unsolved murder of a prominent labor leader involved in promising efforts to unify the unions undoubtedly has intimidated other organizers, who believe that the government approved of and may have ordered the killing. Moreover, ideological differences will continue to hamper unification efforts; the democratic labor confederation, for example, refuses to join forces with the Communist-influenced National Trade Union Coordinating Group. Another factor is the widespread sentiment against returning to the intense politicization of the Allende years, when labor interests were subordinated to political concerns. Finally, the economic crisis has made many workers afraid of losing their jobs if they take part in political activities. All of these factors contributed to the decision by the copperworkers union to call off plans to stage a national strike on 11 May. The more symbolic "Day of National Protest" that replaced the planned strike—and included nonviolent streetcorner demonstrations, horn blowing, pot banging, and school absenteeism—was judged sufficiently successful by its organizers to lead them to plan a similar

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action on 11 June. The government believes the opposition will stage such activities monthly until the 11 September anniversary of Allende's downfall, when large-scale protests are expected. [REDACTED]

Students. Student groups, in our view, will play an increasingly important role in opposition activities this year. Despite government restrictions on political organizing, the parties recently have had considerable success in rebuilding campus affiliates. [REDACTED]

The Church. We believe that the Roman Catholic Church will continue this year to criticize government actions seen as oppressive, but in nonconfrontational ways. [REDACTED] the Pinochet regime still considers the Church to be hostile, even though it has reached a modus vivendi with the government. In fact, we judge that most of the hierarchy opposes Pinochet, and some low-ranking clergy are working against the regime by organizing activist social programs and urging the public to express objections to government policies. Moreover, the Church has extensive contacts with most political parties, in particular the Christian Democrats, who maintain their provincial network primarily through the Church. Government officials, for their part, reportedly recognize that the Church could cause them serious problems. [REDACTED]

Conservative Stirrings. We believe the regime is concerned also over growing discontent among conservative groups. Shaken by the economic crisis and disappointed by the government's erratic response, conservative democratic forces have begun to criticize the administration. These groups have emphasized publicly the necessity for economic adjustments to restore growth and bolster their financial positions, and some would like to see the transition to civilian rule accelerated, we believe. In December, several conservative groups demonstrated against some of the regime's economic policies. The subsequent expulsion from Chile of a conservative leader provoked vociferous reaction from all conservative parties and even

from some of the progovernment press. Conservative spokesmen and the leading daily newspaper—also proregime—publicly counseled the government to behave moderately after the "Day of National Protest" on 11 May. [REDACTED]

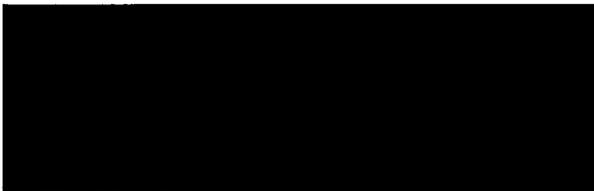
We believe that through 1983 the conservatives will become more politically active, seek to influence government policies, and take advantage of any political opening. The conservatives will continue also to discuss cooperation with other parties, principally the PDC. [REDACTED]

Unless the economy collapses, we [REDACTED] foresee little conservative involvement in major antigovernment movements this year. The democratic right best remembers the chaos of the Allende years and is fearful of a resurgent left. In this context, the conservative groups still support the military regime as a necessary stage in the transition to democracy. In the face of mounting leftist-orchestrated activism, they may feel compelled to close ranks behind the regime. [REDACTED]

Opposition Activities. At least through the end of this year, we expect the opposition as a whole to step up its activities, which to date have included demonstrations, rallies, organizing, and publishing manifestos calling for economic reform and democratization. Such manifestos have been issued by a broad spectrum of groups: parties, labor, and the Church. [REDACTED]

[REDACTED] but if the economy continues to stagnate, even the moderate parties may become more active—in order not to lose support to the left. [REDACTED]

We believe the chance is small that widespread terrorism will accompany a surge in opposition activities. The terrorist Movement of the Revolutionary Left (MIR) may renew isolated bombings and other attacks, but lacks the capability to conduct a major campaign. [REDACTED]



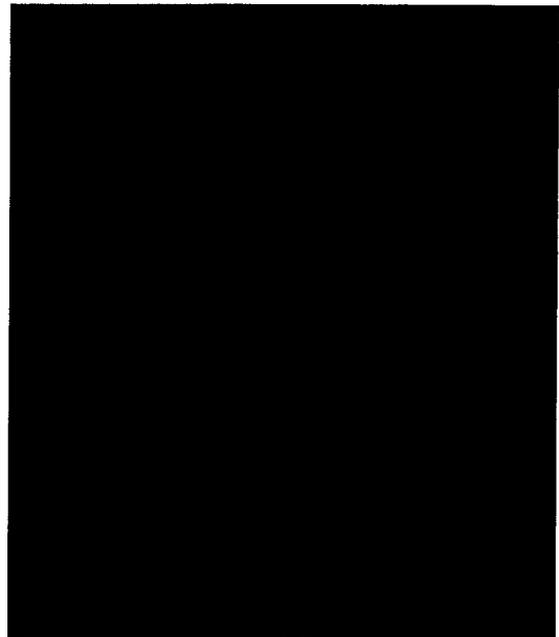
Pinochet Under Pressure

Policy Needs. Hardliners (*duros*) and moderates (*blandos*) in the Pinochet government have debated for years, such issues as the pace of restoring civilian rule, restrictions on civil liberties, and responses to opposition activities. *Duros* believe that Chile is the target of Communist-inspired international subversion, in the face of which only tough policies will succeed. *Blandos* argue that repressive policies will polarize society and weaken the regime by alienating moderate supporters. The President has periodically followed some of the advice of the *blandos* but has never strayed from the fundamental strategy of firmness that he believes has served him well during difficult periods. [REDACTED]

Although Pinochet is concerned about the economic crisis and about present as well as potential levels of unrest, he is at present showing no signs [REDACTED] of making major policy changes. [REDACTED]

[REDACTED] In speeches, the President has reiterated his determination to proceed with the prescribed transition to civilian rule. He has insisted that accelerating the transition would prevent true democratization by subjecting the system to the machinations of nonrepresentative, self-aggrandizing parties. Finally, he has promised to deal harshly with any groups that attempt to disrupt his administration. [REDACTED]

In the economic sphere Pinochet apparently intends to continue to support free market principles, while making adjustments to promote recovery and improve public welfare. In its recent emergency program, the regime included liberal domestic debt refinancing, temporary tariff surcharges against predatory foreign competition, and three bonuses in 1983 for public employees. The measures reflect what we see as the regime's determination to complement free market mechanisms to correct economic deficiencies while recognizing that an upturn in the world economy is necessary to lift Chile from recession. [REDACTED]



Chilean President Augusto Pinochet

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Pinochet's overriding priority, however, is to reestablish at home and abroad the credibility of his regime's economic policies. The economic plunge has shaken confidence in Pinochet's free market policies, and dismissing four Finance Ministers, including the architect of the recently ended economic miracle, only heightened public apprehension. The mishandling last year of the peso devaluation also revealed some policy confusion. After publicly insisting it would maintain a fixed rate of 39 pesos per US dollar, Santiago devalued by 18 percent in June. Subsequently, it switched exchange rate policy—adopting floating rates and then exchange rate bands—adding to concern about disarray in economic policymaking and eroding support for Pinochet. The abrupt intervention in the management of more than a dozen banks¹—which began only days after an agreement with the International Monetary Fund was signed in January—added to the climate of uncertainty. We have seen no indications that these problems have led to serious divisions within the government, but neither do we

¹ Since 1980, the Chilean Government has responded to financial mismanagement by exercising tighter regulation over banking operations rather than placing these institutions under government control. [REDACTED]

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expect Pinochet to achieve rapid progress in restoring the economy or his government's international credibility. [REDACTED]

Even though Pinochet opposes a substantial political opening, he is likely to make gestures designed to deflect criticism and keep the opposition off balance. Last year he established a commission to initiate a process for the return of exiles. Intended primarily to deprive the opposition of an issue, the program led to the return of a few hundred politically insignificant figures and ignored all prominent exiles. The process continues, nevertheless, and we believe Pinochet may be more generous on this front. In a speech last March commemorating the second anniversary of the constitution, Pinochet announced another high-level commission—this one to study the implementation of the constitution's specific provisions. [REDACTED]

Military Attitudes. Public speculation and rumor-mongering about military attitudes have grown along with the economic downturn and opposition activity. Opposition politicians are constantly looking for discontent among military officers, [REDACTED]

[REDACTED], and some opposition groups apparently have been attempting to foster it. One widely circulating rumor claims that the US Government has been urging the military to replace Pinochet. In February, the international press reported—erroneously—that the Air Force had arrested Pinochet and seized the government. [REDACTED]

[REDACTED] the armed forces are deeply concerned by the economic crisis and growing political pressures, but are not demoralized. [REDACTED]

[REDACTED] and the Air Force and Navy members of the junta have disagreed with Pinochet on certain decisions, notably the devaluations last summer. For the most part, however, these officers have directed their criticism at the economic team. [REDACTED]

As a whole, the armed forces still share Pinochet's distrust and dislike of politicians. Most officers are dedicated to preventing a resurgence of the left in Chile. Moreover, the military believes that the moderate parties, in particular the Christian Democrats, bear much of the blame for the ascendancy of Allende

and the ensuing chaos. Consequently, so far as we know, no factions within the military have established a working relationship with any political parties or groups. [REDACTED]

We believe that the military remains firmly behind President Pinochet. The Army is the most loyal—and powerful—service, while the Air Force has been the most independent. [REDACTED]

[REDACTED] An astute politician, Pinochet has handpicked every general in the Army for a decade and has retired any suspected of disloyalty or presidential ambition. The prospect for a colonels' movement is minimal, we believe, largely because of the Chilean military's strong tradition of loyalty, service, and strict observance of the chain of command. [REDACTED]

Implications for the US

Chile's present straits probably will complicate its relations with the United States. We believe Chileans are likely to view bilateral issues primarily in the context of their current internal problems. This means that Washington's position on international and bilateral financial and commercial questions will be evaluated largely in terms of how it affects Chile's efforts to stabilize its economy. Santiago will look to the United States for assistance in this regard. Moreover, although disappointed that full political-military relations have not been reestablished, the Pinochet administration probably expects eventual support from the Reagan administration and will scrutinize US policies for positive signals. [REDACTED]

The questions of human rights and US certification will become increasingly sensitive bilateral issues. Chilean officials recognize the costs that hardline domestic policies impose on the nation's international standing. [REDACTED]



Certification for Argentina at the same time it was denied for Chile probably would, in our view, aggravate Pinochet's siege mentality and significantly reduce US influence in Chile. The action would arouse nationalist sentiment among Chileans, antagonize pro-US senior officers, deepen anti-US feelings among junior officers, and even upset some moderate opposition leaders. These groups probably would view it as discriminatory, harmful to Chile's national security, and regionally destabilizing. Thus, Pinochet could capitalize on this reaction to regain some of his popular support. In reaction to such a US move, we believe Pinochet would:

- Withdraw from the UNITAS joint naval exercise in August, but not necessarily close the door on future participation.
- Close off almost all exchanges and cooperation between the Chilean and US militaries.
- Step up efforts to acquire arms from non-Communist sources.
- Increasingly oppose the United States in international forums on issues that do not involve vital Chilean interests or conflict with Pinochet's anti-Communist principles.
- More frequently ignore moderate advisers and others who have counseled him to court Washington in hopes of gaining certification.
- Become less sensitive to domestic and international—especially US—pressure to respect human rights.

Pinochet probably would not alter significantly Chile's international economic policies, however, because Chile's needs at present are too great. 

From the Chilean perspective, US certification of only Argentina would assure Buenos Aires's military superiority and, by enhancing Chile's pariah status, spur what the Chileans regard as the Argentines' aggressive tendencies. We believe Pinochet's commitment to peaceful resolution of Chile's disputes with Argentina, Peru, and Bolivia would probably not change because it stems from pragmatic recognition that Chile is militarily vulnerable. Thus, Pinochet is unlikely to engage in military adventures to divert public attention from problems at home. 

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