

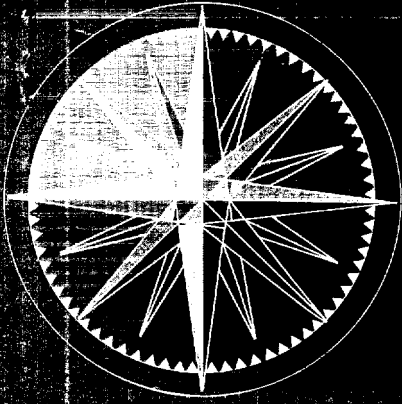
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Release 2006/12/16 : CIA-RDP79-00927A004600070002-5

2 October 1964

OCI No. 0351/64A

Copy No. 55



SPECIAL REPORT

IMPLICATIONS OF THE RECENT ELECTIONS IN CHILE

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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IMPLICATIONS OF THE RECENT ELECTIONS IN CHILE

President-elect Eduardo Frei won an impressive victory in the 4 September elections, but faces some formidable problems when he assumes office on 3 November. He will have to deal with a serious financial situation aggravated by inflation, a burdensome foreign debt, an adverse balance of payments, and inadequate agricultural production. He will be handicapped by the weakness of his Christian Democratic Party in Congress, a weakness that will continue at least through the March 1965 congressional elections. Frei must also balance conflicting nationalist and company interests if he is to secure a new agreement with the important US-owned copper companies. Although he expects to reach satisfactory arrangements, his copper policy, zeal for social reform, probable recognition of the USSR and satellites, and casual attitude toward domestic Communist threats make Frei a potentially difficult, although not impossible, ally.

Election Results

In the Chilean presidential election of 4 September, Christian Democrat Eduardo Frei won 56 percent of the vote. The Communist-Socialist Popular Revolutionary Action Front's (FRAP) Salvador Allende secured only 39 percent, with the small remainder going to the Radical Party's Julio Duran. Frei is the first candidate since 1942 to gain an absolute majority. A high 86.5 percent of the registered electorate voted, less than one percent of the ballots were invalidated, and the election proceeded with complete calm and order.

Analysis of Election Returns

Frei ran surprisingly well throughout the country's 25 prov-

inces and among all segments of the population. His margins of loss were slight in five of the six provinces where he ran behind Allende, whereas he outdistanced Allende decisively in areas of high population density. Only in the depressed, coal mining province of Arauco, long a FRAP stronghold, was Frei beaten badly. By contrast, he accumulated an overwhelming lead in the key provinces of Santiago and Valparaiso, where 51 percent of the total valid votes were cast. Assisted by his unexpected strength among the slum dwellers and his unparalleled appeal to women voters, Frei outdrew Allende by approximately 323,000 votes in these important districts, tallying 60.5 percent against Allende's 35.7. The women voters, who never before exceeded 35 percent of the

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presidential electorate, increased their share to 46.6 percent and rallied to Frei.

Allende's attraction failed in historically leftist northern Chile where he even lost the support of the copper miners. Apparently many of them feared the loss of their privileged position in the Chilean labor force, and were apprehensive that Allende's advocated nationalization would reduce some of their benefits.

Frei's sweep included victories in Valdivia, which had practically been written off by the Frei high command, and in Curico, scene of the impressive FRAP landslide in the March 1964 by-election. Frei also exceeded all expectations by out polling Allende among campesinos (peasant farmers), especially in the central valley of Chile.

The Communist Party (PCCh) thesis of the peaceful route to power (via pacifica) received a serious setback which may increase the strength of Chinese-line splinter groups. Allende, however, nearly tripled his 1958 vote, increased his percentage of the electorate from 29 to 39, and confirmed that Chilean Marxism remains a force to be reckoned with. PCCh chairman Senator Corvalan said that a "stage" in the Marxist movement has ended, but he insisted that the movement itself is irreversible in Chile.

The single most important campaign issue contributing to

Allende's defeat was undoubtedly the people's fear of Communism which was exploited and dramatized during the campaign. Nationalistic Chileans were determined not to let their country become a second Cuba. Both Allende and the Communist press admitted that fear of Communism was the dominant factor in FRAP's defeat. The democratic press commented that Fidel Castro was the big loser in this election. Despite FRAP's feebly contrived efforts to claim US Government intervention, FRAP was never able to regain the initiative it began to lose when the Cuban-sponsored--and FRAP-supported--Second Latin American Youth Conference failed in March 1964. FRAP was kept on the defensive throughout the campaign, with the exception of a few weeks after the Curico by-election.

Frei's Problems

The almost charismatic figure of Frei was presented to the electorate as the face of change and the spirit of hope. Frei, however, must now meet the realities of governing a country that is a net importer of food, is deeply enmeshed in a serious inflationary cycle, depends on copper earnings for the bulk of its foreign exchange, has a chronic budgetary deficit and a critical external debt, and needs a continuous input of foreign grants and loans. Without substantial foreign assistance, Frei will find it difficult, if not impossible, to fulfill the broad aspirations which he has stimulated and is publicly committed to satisfy.

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The first problem Frei will face is the formation of a government, which he said will be composed of Christian Democratic Party (PDC) technicians and independents. His party has relatively few members experienced in public administration. His second problem, which will endure at least until after the March 1965 congressional elections, is that the PDC is a minority party in Congress, holding only 4 Senate seats out of 45, and 28 deputies out of 147. Frei, therefore, will need at least the votes of the Conservatives and Liberals in the Chamber; in the Senate, where the situation is even less promising, he will need the backing of Liberals, Conservatives, and some Radicals if he is to have effective legislative support. Substantial assistance from them is unlikely, however, and Frei rejects all thought of FRAP cooperation. This will make it difficult for him to establish a record of accomplishment on his stated program prior to the March congressional elections.

Frei might, although it is unlikely, choose to run head-on against the sense of the Congress in his use of the interim special powers which in recent years new Chilean presidents have been granted by Congress for the period it is not in session. He may thereby attempt to carry through parts of his program and to create the basis for Christian Democratic gains in March. He may seek to demonstrate that he needs a PDC con-

gressional bloc strong enough to sustain a presidential veto if he is to implement his plans for social and economic reform. Fifty deputies would meet this need. Frei has stated that after the congressional elections he may find it necessary to make changes in his cabinet to conform with election results.

In the fiscal field, Frei's pressing problem is to renegotiate

**FREI**

Chile's external debt burden which he estimates at approximately \$290 million annually. By refinancing he hopes to reduce debt repayments and interest to approximately \$120 million a year, which he feels Chile can afford. In the event the debt renegotiation is not successful, Frei feels that he will require \$470 million from all outside sources in the next calendar year. Of this sum, \$290 million will be used for

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debt payment and \$180 million for new social programs and balance-of-payments financing. He has said that large external assistance will be justified only by a proportionately large Chilean internal effort.

Frei knows the escudo should be devalued to bring it close to the broker's rate, but is apprehensive about such an action's political feasibility. Apparently, outgoing President Alessandri is reluctant to take this unpopular step, although he is permitting some erosion of the rate. Frei will try to reduce inflation to less than 10 percent a year by increasing foreign exchange earnings, probably by raising copper production and cutting imports.

Frei's Program

Frei's program also includes ambitious plans for agrarian reform, industrialization, the construction of 360,000 housing units in the next six years, a broader educational program, and other social measures. Although land distribution will continue at a deliberate pace, Frei, in his economic program, will probably place major emphasis on price policies, higher tariffs, tax and credit measures, and the reduction of imports. Generally speaking, his reforms, assuming he has the funds to implement them, are probably more in line with Alliance for Progress objectives than the program of the Alessandri government.

With the United States, Frei expects "the best possible" relations. He stated that to hate the US is "suicidal strategically," but he cautioned that US-Chilean relations must be on a basis of mutual respect. There are, however, points of potential conflict between the United States and Frei's Chile. The ambitious reform program depends heavily on continued US aid at the current level or higher. Should this aid not be forthcoming, Frei's domestic program and politics will be adversely affected and a certain coolness in relations with the United States may result.

Frei is primarily interested, as regards copper, in new investment and increased foreign exchange earnings. Major elements of his copper policy are to increase the production of copper in Chile, to insist that all copper be refined locally, to "associate" with the companies in new investments, and to exert some influence over copper sales. The most difficult phase of this program is marketing control. In return for these concessions he seems prepared to modify the copper tax structure and to provide the copper companies with assured stability. Basically, Frei would like to create a more favorable climate for badly needed foreign investment, but simultaneously he does not wish to lose control of the economy to foreign interests. He, therefore, insists on a strong measure of government supervision. He

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expects to achieve his ends in direct negotiations with the copper companies, but if he fails, miscellaneous threats and actions, inevitably involving the US, might result.

Frei will probably grant diplomatic recognition to some Communist countries, although he has stated that he will not renew relations with Cuba or recognize Communist China or East Germany.

He has also publicly stated that he will trade with any country, regardless of ideology, and has not excluded the direct sale of strategically-important copper to the USSR. Alessandri has sold copper directly to Red China.

Concerning the OAS and its measures against Cuba, Frei said that he admires the consistency of Mexico's attitude, and he believes that "after the US elections" it may be possible to "look for a peaceful solution to the Cuban problem within a framework of nonintervention and self-determination."

Frei's treatment of the threat of internal Communist subversion is unlikely to be

more vigorous than the permissive attitude of Alessandri. He recognizes, however, that FRAP may resort to violence, particularly in the labor field.

Outlook

Frei will be a less accommodating and a more nationalistic ally than Alessandri, because of his zeal for reform. Frei's favorable attributes more than offset this. He is genuinely anti-Communist and democratic, is close to the European tradition of temperate Christian Democracy, has demonstrated a firm resolve to remain in the democratic camp, and follows policies that are more in line with Alliance for Progress objectives. Frei has a keen awareness and appreciation of the vital importance of US and international loans, and as a responsible person with no trace of the demagogue, it would appear that he will be guided, in the long run, by Chile's economic realities and interests of hemispheric solidarity. With some good fortune and tactful handling, Frei could become an outstanding leader and statesman in Latin America and an exceptionally valuable, [redacted] friend of the United States. (SECRET)

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