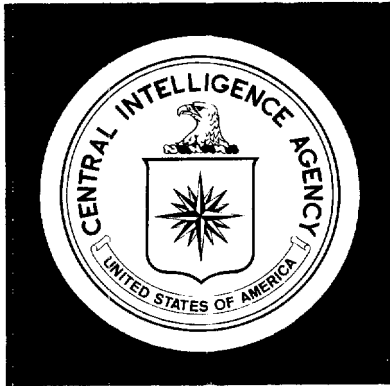


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Intelligence Memorandum

Chile After Two Years of Military Rule

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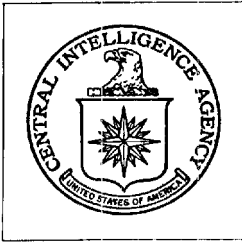
October 21, 1975
No. 0767/75

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October 21, 1975

Chile After Two Years of Military Rule

Political Outlook

The military junta that replaced Salvador Allende remains solidly in control after completing two years in power on September 11. There is every reason to expect that the junta, or something like it, will still be running Chile two years hence. Neither its status as an international outcast nor the grave economic and social problems it must deal with have produced any substantial wavering in the Pinochet government's determination to follow the course it has marked out. In essence, this calls for maintaining an authoritarian style of rule and setting its own pace for any easing of security measures or of restrictions on political activity. Pinochet's reported ouster of four influential civilian advisers— all exponents of the hard line—may be a first step in the direction of a more moderate approach.

The regime still commands the backing of the influential upper classes and a majority of the middle and lower middle classes. The people of the poorest economic strata, who supported Allende so stalwartly, have been rendered apathetic by their preoccupation with the struggle to survive and intimidated by their fear of the armed forces. The political parties have largely been silenced; those on the left have been outlawed and the others have been "recessed." Despite strong support from Moscow and Havana, Chileans in exile abroad pose no direct threat and many concede that they have little hope of overturning the government. Unity within the armed forces seems assured as long as Pinochet can avoid a further serious deterioration in the political or economic situation. We do not foresee things worsening to the point that that unity would be threatened. There is, in sum, no base of opposition from which a successful challenge to the authority of the present regime could be launched.

For the first time since seizing power, leading military officials apparently are beginning to discuss the country's political future—a subject that had been shunted aside by the moratorium on all political activity and the need for emergency economic measures after the coup. Growing international criticism and a few encouraging economic indicators may be prompting President Pinochet and his

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advisers to give more thought to the kind of political structure they want to establish in place of what they have termed an outmoded system of "unrestricted ideological pluralism." Their ideas about what should transpire in the years ahead are vague, however, suggesting that the path toward any sort of institutional reform will be long and arduous. Pinochet has frequently asserted that the armed forces should not relinquish control for some time to come, and he has still not outlined a timetable for political "normalization."

Contradictory statements by various government spokesmen suggest that there is little consensus about what type of political and legal system should be created. A commission has been at work since November 1973 drafting a new constitution to replace the 1925 document, but completion is evidently a long way off. Pinochet has announced that provisional constitutional statutes in certain specific areas are in preparation. Although some officials anticipate a constitutional referendum before 1980, their optimism may be premature.

Pinochet provided his thinking on Chile's future political structure in a televised interview in September. The president said that under a new constitution he saw room for no more than three political parties. He clearly intends to exclude the Communists, Socialists, and far leftist factions of other parties. Senior army generals have raised the possibility that these parties would represent the conservative, centrist, and moderate leftist segments of the political spectrum. Pinochet's statements cast some doubt on whether this last category would include the Christian Democrats, the country's largest and best organized political entity. What does seem certain is that the military will set strict guidelines for overseeing any future political process. To avoid what Pinochet termed the "unrestricted ideological pluralism" of many small parties, a substantial minimum registration would be required for legal recognition.

Some political exile groups, notably the less extreme members of Allende's former coalition, have reached an agreement with left-wing Christian Democrats to organize a united front. This unity will probably enable them to capitalize on the widespread anti-Chilean sentiment abroad in hopes of undermining the regime at home. The exiles probably cannot mobilize much support within Chile, and their propagandizing will amount to more a nuisance than a threat to the junta.

The government's outlawing of the leftist parties that supported Allende and the ban on all political activity by the remaining parties have squelched any well-organized channel of domestic criticism. The moratorium has posed a real dilemma for the Christian Democrats. If they refrain from any political role they risk becoming atrophied, while on the other hand a

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position of outright defiance could provoke total proscription. Party leader and former president Eduardo Frei has tried to avoid a direct confrontation between the party and the government, but his statements and those of other party functionaries have bordered dangerously on the limits of criticism tolerated by the junta. Extreme right-wing advisers have urged Pinochet to ban the party, but he has preferred to preserve the fragile *modus vivendi*, probably to avoid inciting additional censure from European countries where the Christian Democrats have influential friends.

Pinochet's recent proposal to form an advisory council of state that would include all former presidents, as well as other prominent citizens, can be viewed as primarily an effort to mollify foreign critics of the regime's anti-democratic practices. Frei would not participate without clear cut guarantees of an early return to democratic rule, however. And that appears increasingly unlikely in view of Pinochet's categorical rejection of any reversion to the status quo ante. This viewpoint was further highlighted by the government's stinging rebuff to recent statements by party leaders indicating a desire to reach an understanding with the military regime. What Pinochet may have in mind is to divide the Christian Democrats and at the same time make it impossible for them to cooperate other than on his terms. If Frei rejects the invitation to join the council, Pinochet can then proceed without the Christian Democrats, putting the blame on them for being obstructive and uncooperative. The council, which in any case is not expected to wield much influence, might then emerge as a handpicked body of sycophants.

25X1 [redacted] there is widespread sentiment within the armed forces for broader civilian participation in the government. As in other policy areas, a division of views probably does exist within the junta on the desirability of a move in this direction. Civilian advisers, particularly those on the economic team, already play a significant role in some aspects of policy making, but the military dominates the cabinet and much of the bureaucracy. Military leaders are likely to give continued lip service to this idea, but the paucity of "nonpolitical" civilians will retard any strong shift toward greater civilian encroachment in the administration. Some cosmetic changes may be made in response to continued international pressures on Chile, but the armed forces—and the army in particular—are not likely to yield their prerogatives in key areas of responsibility.

Disagreements within the junta, which nearly erupted into an open clash in August between President Pinochet and General Leigh, the air force member of the junta, have been smoothed over for the moment. Pinochet apparently bowed to the demands of his three junta colleagues and agreed to consult more regularly before making important decisions and appointments. Although tempers have been cooled, the apparent strong differences between

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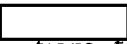
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Pinochet and Leigh will very likely put them at odds again. While General Leigh's outspoken statements to some extent represent a devil's advocate role, he also resents Pinochet's tendency to run a one-man show with little respect for the views of his ostensible partners. He has repeatedly stated that the government must show more concern for the impoverished sector of Chilean society. His recent comments suggest that he is trying to put some distance between himself and the president by advocating more relaxed economic and political policies. Leigh's candid remarks have frequently antagonized the President, but the latter has compromised where necessary to preserve the unity of the junta. Pinochet obviously is loath to present a divided face to a generally hostile outside world at a time when the government still has more than enough problems to deal with.

Despite these internal differences, it appears now that there will be no major shifts in the junta's basic outlook. Its composition may change in time, but Pinochet seems assured of his primary position. Navy dissatisfaction with the performance of junta member Admiral Merino, who has been notably inactive, may result in his replacement at some point. Leigh might also consider resigning or leaving the government if disagreements with the President become irreconcilable. There is at least a remote chance that the navy, air force, and Carabineros will gradually relinquish all political activity and, in essence, leave Pinochet and the army in charge of the government. In no case, however, do we anticipate a change in the army's predominant role.

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Opposition to the military government from the remnants of leftist groups remaining in Chile is largely checked by the vigilance of the security forces. The controversial Directorate of Intelligence (DINA) has clamped down sternly on all potential and real dissidents. DINA's heavy-handed methods, the source of much of the furor over human rights abuses, make it unlikely that anything more than occasional minor acts of terrorism or sabotage will disturb the present tranquility. Indeed, the absence of significant armed opposition to the regime and the international clamor over internal security practices seem to be slowly drawing high officials into curtailing the activities of the anti-subversion agencies. Pinochet recently ordered the circulation of  decree demanding compliance with existing procedures for detentions throughout the country. The action reportedly came after an investigation verified that maltreatment of prisoners is continuing and that people are being arrested and imprisoned without notification of their relatives.

The excesses of security forces have stimulated wide expressions of international concern, but there have been few echoes at home, except among the church hierarchy and the recessed political parties. Whatever doubts Chileans may have about the propriety of their government's

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behavior, they tend to consider it a domestic affair and resent any outside interference or questioning. Nevertheless, a few notable voices are being raised in favor of greater liberalization. General Leigh has expressed his own conviction that the government should undertake a process of "detente" and has argued against holding political prisoners indefinitely or jailing anyone on ideological grounds.

With little appreciation for the international repercussions, however, the government continues to take steps that are certain to create unfavorable reactions. After a dozen former Allende officials were released on September 12, it was revealed that some charges were still pending against them. Now the navy has begun a secret trial against nine individuals—including some of those released in September—on charges of subversion. If indictments are made, the case is likely to become a cause celebre to rival the controversial 1974 air force trials. The inclusion of Luis Corvalan, secretary general of the outlawed Chilean Communist Party, will provide Moscow and Havana with renewed ammunition for their attacks on Chile.

The measures Pinochet announced recently to put his government in a better light have done little to quiet even his mildest critics. The decision to reduce the state of siege is no more than a gesture; it is supposed to allow limited review by civil courts of cases previously considered by courts-martial, but it could easily be circumvented. Unless the government shows a genuine determination to abide by measures designed to limit abuses of its arbitrary power—and so far it has not—it cannot expect to inspire confidence about its intentions.

Economic Outlook

Chile is still struggling through an agonizing period of economic readjustment to overcome the problems inherited from the Allende era and even before. The difficulties are staggering, for Chile must deal with an inflation rate that is one of the world's highest and a serious balance-of-payments problem brought on by sharply reduced world copper prices and costly imports of foodstuffs, petroleum, and capital goods. Government economists are issuing optimistic forecasts that some improvement is in sight, but the government's ability to make a go of its economic strategy will depend a great deal on the general pace of the world-wide economic and industrial recovery.

Meanwhile, the high social cost of the government's austerity program is worrying those military leaders who are most apprehensive about the regime's ability to cope with the social dislocation caused by the deflationary program. Unemployment, for example, is up from 10 percent in late 1974 to an estimated 18-22 percent in recent months. While the

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government has sought to alleviate suffering among the lower classes by making periodic wage readjustments and maintaining low-cost public service employment projects, these palliatives have barely touched the more glaring problems. The past winter has caused severe hardship, particularly among the lower classes.

Among the negative projections, industrial output is expected to drop 20 percent for the year and a slump in domestic demand will reduce real GDP by 10 percent in 1975. The low price of copper on the world market—it dropped from an average of 93 cents in 1974 to an average of 57 cents so far this year—is the most important reason for the country's failure to increase export earnings and reduce its foreign debt, which now totals almost \$4 billion. Brazil's reported decision to increase copper purchases from Chile and the likelihood of Brazilian investment in Chilean copper mining enterprises might bring some relief. In any case, copper production is not likely to increase much in the short term. Production is expected to slip nearly 10-15 percent this year, mainly as a result of an agreement among producing nations to curtail shipments in order to prop up the world market price.

Even the positive side of the ledger shows only a few modestly hopeful signs. In recent months the annual inflation rate has been cut to half of 1974's level of 376 percent, but the trend could be reversed abruptly. Bringing inflationary pressures under sustained control will not be a quick or easy task. A policy of gradual devaluation probably will help curb Chile's endemic inflationary psychology in addition to stimulating non-traditional exports.

The government's restrictive fiscal and monetary measures have helped to restrain domestic demand and curb imports this year, perhaps by as much as 18 or 19 percent from 1974 levels. Food imports alone have decreased by 30 percent this year owing to a notable growth in agricultural production (6 percent since last year). These gains, plus a 30 percent annual increase in nontraditional exports, have encouraged the government to believe that it can slightly ease the balance-of-payments gap. Better prospects for 1976, however, will still be conditioned to some extent on a hoped-for moderate upturn in copper prices. Current indicators suggest that any increase will be modest at best.

The government is likely to succeed in trimming its deficit to 12 percent of expenditures this year compared with 55 percent in 1973 when it assumed power. The slash in public spending, however, is causing government investment outlays to shrink. In addition, uncertainty resulting from the anti-inflation program has made Chilean businessmen reluctant to undertake new projects. Private foreign investment inflows, on the other hand,

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have picked up slightly but are little more than a trickle at this point. Continued large capital flows from international financial institutions will be possible only if Chile can improve its international image.

We continue to believe that if the junta does not see substantial results from its austerity efforts by the end of the year, Pinochet will soon thereafter be casting about for possible new policies and new economic managers. As of now, however, we see at least an even chance that the current economic team headed by Minister Jorge Cauas will bring about enough of an economic recovery to guarantee retaining the basics of the current program.

International Outlook

Chile has had scant success in countering charges that it violates human rights or generating sympathy and support through diplomatic offensives and public relations campaigns. It is doubtful that Chile can expect much support at international forums, where it frequently is a target of condemnation by blocs of liberal and radical nations.

Leftists outside of Chile will never forgive the junta for overthrowing the first democratically elected Marxist government in Latin America and suppressing the political institutions that brought it to power. Allende's exiled followers form a permanent clique of living "martyrs" who manage to turn sympathy for the junta's executed and imprisoned victims into political opposition in Western capitals and much of the Third World.

Pinochet is aware of the high penalty Chile is paying for its poor image, but his actions suggest that this will not deter him from taking a go-it-alone position no matter what the costs. His last-minute decision to bar a UN human rights fact-finding mission in July hardened the negative international attitude toward Chile. Even nations nominally disposed to be cordial and impartial began to see Chile as the bete noire of international society. Predictions by Chilean diplomats that Pinochet's September speech would rectify this situation crumbled when he defended his decision to keep the UN group out of Chile and held out no hope for a change of mind.

The incident is receiving wide play in the current session of the UN. The highly unfavorable report of the UN Human Rights Commission contains shocking charges, and several Western European governments plan to sponsor a resolution condemning Chile's stand on human rights. There is little doubt but that this adverse publicity will further accentuate Chile's ostracism and diminish its ability to attract credit, especially in Western Europe.

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Continuing international pressures on Chile to change its ways may produce a token response as growing awareness of its isolation forces the junta to be more forthcoming. A hopeful sign was the recent release of a number of labor leaders who apparently had been arrested by security forces on spurious charges. Pinochet acted in this instance at the behest of US labor leader George Meany, who [REDACTED] protested the action. It is also possible that more trenchant economic considerations, such as problems in renegotiating its foreign debt, will convince the regime that adoption of a more democratic orientation is in its own best interests.

Aside from the problem of overcoming its international isolation, Chile's major foreign policy concern is the perceived threat posed by Peru. Chile's northern neighbor has acquired a growing arsenal of weapons from the Soviets and has made rapid strides in improving its military capabilities. Anxiety over the possibility that Peru plans to avenge its defeat by Chile in the War of the Pacific (1879-1883) continues to dominate the thinking of military men in Santiago. War fever swept the border area a little over a month ago when it was rumored that Peru would strike if Chile ceded a tract of land to Bolivia in an area of former Peruvian territory. Tensions have largely subsided as a result of the change of government in Lima. The new Peruvian president, Morales Bermudez, is [REDACTED]

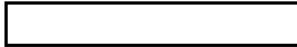
[REDACTED] less likely to engage in military adventures. Nevertheless, there is a lingering distrust of Peruvian motives, and Chile will continue to be preoccupied with building up its own forces, concentrating mainly on defensive preparations in the northern border area.

Chile has had little success in obtaining weapons abroad, and its luck is not likely to change soon. Most of the western governments that would be likely arms suppliers are disinclined to deal with the present military regime. Strong condemnation of Chile in the UN will further complicate difficulties in finding new sources of military assistance. Brazil has extended some help, but Chile is still far from fielding a force to match Peru.

Much of the concern about future Chile-Peru relations is now focused on the problem of Bolivia's quest for access to the sea. Chile agreed to negotiate the matter when diplomatic relations were resumed last February, and La Paz is pressing hard for an early settlement. Chile, meanwhile, probably has no intention of ceding territory and running the risk of alienating nationalist sentiment. Moreover, diplomatic flexibility is constrained by the terms of a 1929 protocol which requires Peruvian consent for any boundary rearrangement. Santiago apparently is thinking along lines of granting greater communications, transportation, and port facilities to Bolivia, perhaps under some long-term lease arrangement.

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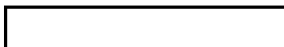
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The negotiations have only recently approached the stage of preliminary proposals, and Chile has indicated that it does not want to rush a solution. It is eager to retain Bolivia's good will in the event of conflict with Peru, but there is a limit to the price it will pay. Pinochet's reported proposal to give Bolivia control over a strip of land only if Peru can be persuaded to grant a similar stretch along its side of the border appears to be a well-calculated stroke to put the ball in Peru's court. Peru would almost certainly be unwilling to go along with such a scheme even though it has indicated support for Banzer's general objectives. As things stand now, there is a good chance that a stalemate will develop.

In the meantime, the danger of a clash between Peru and Chile over this or other problems will remain a distinct possibility. Chile can be expected to use every avenue to keep relations cordial, but there is always a chance that a diplomatic blunder or a minor border incident could blow up into a confrontation. Talks on arms limitation among the Andean nations have brought the two nations to the conference table to discuss acceptable limits on weapons procurement, but negotiations are likely to be prolonged and probably will not have much impact in stemming the headlong momentum toward acquisition of new and more advanced weapons. At best, these meetings will serve as a vehicle to allow both sides to talk and perhaps to lessen suspicions about each other's intentions.

Relations with the US have been cordial but somewhat strained. From Chile's viewpoint the difficulty stems from the US inability to respond to Chile's perceived needs, especially regarding weapons that Chile has sought to balance its currently unfavorable position vis-a-vis Peru. Chile's continuing excesses in the human rights area make it unlikely that increased US military assistance will be forthcoming. The Pinochet government still considers the US to be its major ally and hopefully the chief source of capital and technology, although the US trade and investment stake in Chile is now minor. However, growing frustration over a prolonged restriction of US arms assistance is likely to create bitterness in the months ahead.

Nonetheless, there is little chance that Chile's military leaders will find a viable substitute for the US even though they are looking actively outside the hemisphere for new friends and assistance. The most they can hope for is to ride out the current difficult situation with the expectation that an improvement in the economy and diminishing world interest in Chilean affairs will eventually bring greater support from the US and Western Europe.



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