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Chile: Pinochet Under Pressure



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An Intelligence Assessment

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ALA 84-10067
July 1984

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Chile: Pinochet Under Pressure



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An Intelligence Assessment

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This assessment was prepared by 
with a contribution by  both of the
Office of African and Latin American Analysis. It
was coordinated with the Directorate of Operations.
Comments and queries are welcome and may be
directed to the Chief, South America Division, ALA,

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**Chile:
Pinochet Under Pressure**

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Key Judgments*Information available
as of 1 July 1984
was used in this report.*

Since mid-1982 the Chilean political scene has changed—irreversibly we believe—in some ways that have worked to President Pinochet's disadvantage:

- Public attitudes toward the government's free market economic policies have been soured by a recession and foreign debt problems, and opinion polls show most Chileans now believe Pinochet should step down before his term ends in 1989.
- Trade unions and political parties have undergone a revival that has brought political life back to Chile and resulted in the formation of the National Workers Command and three major political blocs—the leftist Popular Democratic Movement, the centrist Democratic Alliance, and the conservative Group of Eight.
- Radical leftists have become more politically active—holding public meetings and participating in informal discussions with moderate parties—and the Chilean Communist Party has developed a nationwide organizational base that is second only to the Christian Democratic Party.
- The number, sophistication, and boldness of radical leftist terrorist attacks have escalated dramatically in the past 10 months, prompting the adoption of new antiterrorist legislation and an increase in rightwing extremist attacks against political opposition figures.
- Military solidarity with Pinochet has suffered its first strains over differences in how to handle political dissent and the timetable for returning Chile to civilian rule.

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Since the middle of 1983 the opposition has attempted to foment mass protest activity to force Pinochet's resignation and the early restoration of civilian rule. The opposition hopes to make a major push for concessions before mid-December 1984, when Chile's unique tradition of "summer" political recess will again undercut their momentum. We believe the next six months will be important as a watershed that will determine whether Pinochet can arrest the erosion in his fortunes and finish his term solidly in control or whether the opposition can establish a base from which to launch increasingly effective challenges in successive years.

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We judge that in the approaching months the government will pursue a twofold strategy of negotiation and repression. We expect the moderate political and labor opposition to agree to negotiate but also to stage protests and a national strike. These actions will be designed primarily to press Pinochet to set a date for congressional and presidential elections. Pinochet probably will respond to a national strike by arresting organizers and firing workers, but we believe he will also offer concessions to some groups of workers in order to undermine labor solidarity. He will probably stall on the election issues. 


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Despite building pressure on Pinochet, the support he receives from the armed forces will probably be kept intact by economic policy adjustments and the military's apprehension about increasing terrorism, prosecutions of military officials for human rights abuses in Argentina, and the future policies of civilian politicians in Chile. If this support begins to break down, however, we believe Pinochet will make major concessions on political policies to the junta and conservative political groups in order to retain his hold on power. Overall, we judge that he stands about three chances in four of remaining in office during the next six months. 


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We judge there is about a 1-in-4 chance that the armed forces will replace Pinochet with another military figure to safeguard their own institutional interests. They would be inclined to remove Pinochet if they were faced with increasing public disorders, a series of effective national strikes, growing political cohesion among opposition political groups, and continued economic stagnation. 

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We see almost no likelihood that leftist elements could come to power in 1984, even though we expect them to increase their terrorist attacks and exploit any opportunity to promote their interests. Should the radical left improve its strength and terrorist activities well above current levels, through some combination of greatly increased Soviet and Cuban support or internal events, we believe the military and upper and middle classes would rally strongly behind Pinochet. 

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We judge threats to US political and economic interests from the two most probable scenarios—Pinochet remains President or is replaced by a somewhat less hardline military figure—are minimal. US direct investments in Chile are small, and Santiago has and continues to behave responsibly in renegotiating its foreign debt and adhering to IMF performance guidelines. Only if the influence of the radical left increased dramatically would US interests begin to be jeopardized. A dramatic rise in terrorism would pose the greatest security threat to US diplomatic and business personnel and commercial facilities. These interests would be least jeopardized if a negotiated settlement outlining a smooth return to civilian rule before 1989 is reached. 

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Figure 1



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**Chile:
Pinochet Under Pressure** 

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Introduction

In late 1982, President Augusto Pinochet witnessed the first serious manifestations of popular and political opposition to his regime since he had come to power in the military coup of 1973. The opposition movement drew its initial strength from growing public resentment over hardships spawned by the serious economic recession that had begun the previous year. In 1983 these challenges evolved into a full-blown protest movement, as long quiescent political parties and labor unions began reorganizing, formed opposition coalitions, and staged nationwide days of protest each month. Radical leftist groups carried out an increasing number of terrorist actions, contributing to the sense of turmoil.¹ 

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The armed forces, the base of Pinochet's power, grew concerned that a crisis was developing and encouraged the President to accelerate the transition to civilian rule—scheduled for 1989—to reduce dissent. Pinochet was able to engage the moderate political opposition coalition in dialogue and, without making significant concessions, gain the three-month breathing space associated with the traditional political recess of the Chilean "summer." 

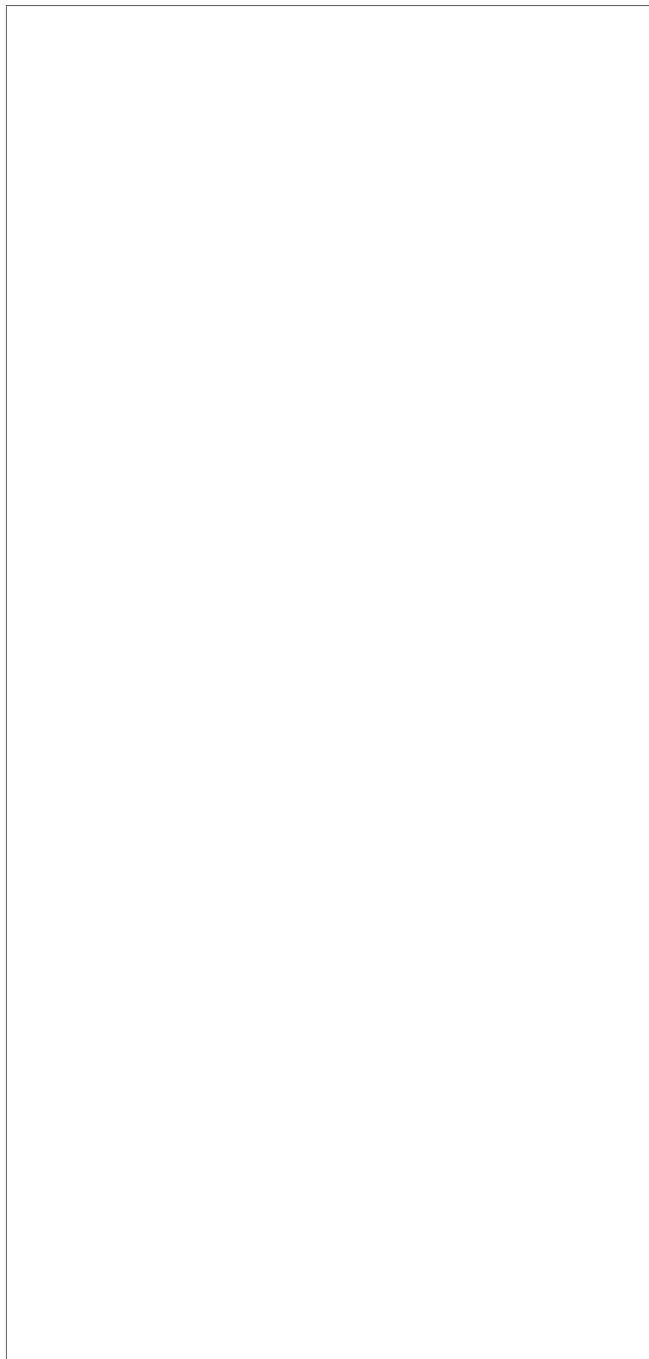
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The developments last year, nevertheless, produced a dramatic change in the political atmosphere throughout the country compared to the Chile of the last decade. This year, therefore, could be an important watershed that will determine whether the pace of change will continue and increasingly weaken Pinochet's hold on power or whether, instead, he can decisively arrest the erosion in his fortunes and finish his term in 1989 solidly in control. 

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A Different Chile

New Attitudes in 1984. We believe the Pinochet government's premise that political restrictions were an acceptable price for Chileans to pay for economic



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prosperity has lost credibility over the past year. Press accounts and polls confirm that public attitudes toward Pinochet's free market economic policies have soured since the economic downturn began three years ago. The severe recession, which started in mid-1981 and lasted into the fourth quarter of 1983, demolished Chile's financial network and led to high unemployment rates, two successive years of declining real wages, and arrests of several prominent businessmen and government economic officials. [redacted]

Opinion polls indicate that most Chileans' views of the schedule for returning the country to civilian rule in 1989—outlined in the Constitution they approved in 1980—have also changed. A majority now apparently favors accelerating the political transition. This is particularly true since talks between Interior Minister Jarpa and democratic opposition leaders broke down in September 1983—leaving people more cynical regarding Pinochet's willingness to make a commitment in principle and within a specific time frame to a transfer of political power. Pinochet has contributed to public cynicism, in our view, by reversing many of the liberalization measures he enacted in 1983—he is increasingly viewed as a person who gives concessions only under extreme pressure and recants as soon as possible. [redacted]

The Revival of Political Life. Political activity—from party organizing to coffee shop debate—has returned to Chile. In 1982, trade unions began organizing in earnest to protest restrictive labor policies, the murder of a prominent labor leader, and a government decision to lower the wage floor for collective bargaining agreements. In April 1983 five of the largest labor confederations formed the National Workers Command (CNT) and called the first national day of protest. Copper and transport workers led a national strike in June. [redacted]

Political parties also took advantage of rising discontent. Five center-left parties formed the first opposition coalition, the Democratic Alliance (AD), last August. Extreme leftist groups, after being denied admission to the Alliance for their refusal to disavow violence, formed the Popular Democratic Movement (MDP) in October. Most Socialist factions coalesced into a loose bloc last fall. Conservatives were slower to organize, but formed several parties and an umbrella

Table 1
Chilean Labor Blocs

CNT (National Workers Command); opposition President: Rodolfo Seguel
CTC (Copperworkers Confederation) Rodolfo Seguel, Christian Democrat
CNS (National Labor Coordinator) Manuel Bustos, Christian Democrat (associated with ICFTU)
UDT (Union of Democratic Workers) Hernol Flores, Social Democrat (associated with AFL-CIO)
CEPCH (Confederation of Private Employees) Federico Mujica, Independent
FUT (United Workers Front) Humberto Soto (associated with CLAT)
MSU (United Trade Union Movement); opposition President: Emilio Torres
FRENAO (National Front of Autonomous Organizations); progovernment President: Manuel Contreras
Movimiento Nacional Sindicalista President: Werner Von Bischoff-sausen
Other influential labor leaders
Guillermo Medina—GOC-appointed labor member on the Council of State
Jose Ruiz di Giorgio—Chilean Oil Workers Union
Juan Jara—taxicab owners/drivers
Adolfo Quinteros—transport owners/drivers
Rafael Cumsille—Retail Business Confederation
Political breakdown of organized labor ^a
Of elected trade union leaders:
70 percent are opposed to government
20 percent are progovernment
10 percent are independent or nonpolitical
Within the opposition:
60 percent are oriented toward PDC
30 percent are Communist
10 percent are other leftists—Socialist, Radical, Christian Left, MAPU, and MIR

^a US Embassy estimates, March 1984.

[redacted]

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organization known as the Group of Eight by March 1984. Although political parties are still legally "recessed", US Embassy [redacted] report that all have been recruiting new members, holding meetings, strengthening grassroots organizations, and developing strategies to press for and take advantage of a faster transition to civilian rule. [redacted]

Major labor and political blocs have worked to become more unified both internally and with each other. For example, representatives of the National Workers Command officially met for the first time with their counterparts in the Democratic Alliance and Popular Democratic Movement to coordinate strategies before the first national protest of 1984 on 27 March. Also, negotiations between the centrist Democratic Alliance political coalition and the rightist Group of Eight have been under way for several months, and [redacted] drafts of proposed joint transition proposals have been discussed. Many problems still impede unity—personal and ideological conflicts between moderates and leftists still complicate many discussion sessions, [redacted]

Growing Radical Strength. Another important change has occurred in the strategies and capabilities of radical-left political groups. Several groups, especially the Chilean Communist Party (PCCh), have strengthened their organizations and increased their political activities over the past two years. [redacted] beginning in the fall of 1982, Socialist and Communist groups began to cooperate informally with moderates and human rights groups to press for the return of exiles, a popular national cause. These links evolved to the point that in 1983 the moderate Democratic Alliance was able to persuade leftists to limit their appeals for violence during several national protest days. The leftists recognize they have difficulty staging protests on their own (an attempt to do so without AD or labor support in October 1983 failed), but [redacted] Democratic Alliance leaders recognize that leftists can easily sabotage peaceful protests if they are not included in the planning. [redacted]

The Communist-dominated Popular Democratic Movement held its first national convention in February 1984 in Santiago. MDP spokesman, Manuel Almeyda, outlined a platform calling for Pinochet's resignation, prosecution of military leaders, and a national strike. Leftists also have been building "front" groups, such as the Metropolitan Poor Peoples' Coordinator and the Command of Social and Popular Organizations, [redacted]

[redacted] The US Embassy reports that the Communist Party's nationwide organizational structure—though not its membership—is now second only to that of the Christian Democratic Party, Chile's largest party. [redacted]

Rising Terrorism. By early 1983, Chile's principal terrorist group, the Movement of the Revolutionary Left or MIR, had been seriously crippled by the Chilean security forces. [redacted]

Other violent leftist groups—the Socialist/Almeyda faction and "La Chispa"—were hampered by government surveillance and exiled leadership. [redacted]

Despite these difficulties, the MIR, PCCh, and violent Socialists continued to carry out sporadic bombings and attacks on government officials. They were assisted, [redacted] by new activists smuggled into Chile after training by Cuba, Communist Bloc countries, and international terrorist groups. Beginning with a series of bombings of subway, railway, and powerlines in March 1983, leftist terrorists escalated attacks by the end of the year to bombings that blacked out the 1,000-mile-long Central Valley, assassinations of police, and the murder of the military intendant of Santiago. [redacted]

[redacted] during the first four months of 1984, there were 222 terrorist bombings reported compared to 46 over the same period in 1983. Terrorists also employed more aggressive and sophisticated techniques—launching group attacks against several police stations and bombing an occupied Carabinero (national police) bus. [redacted]

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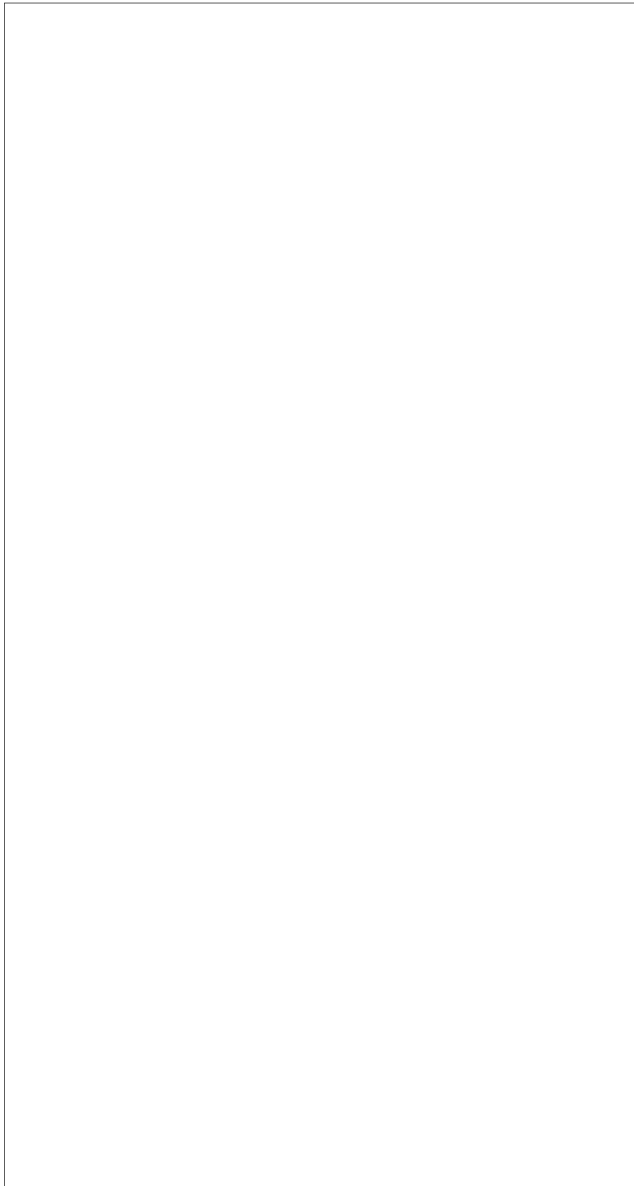
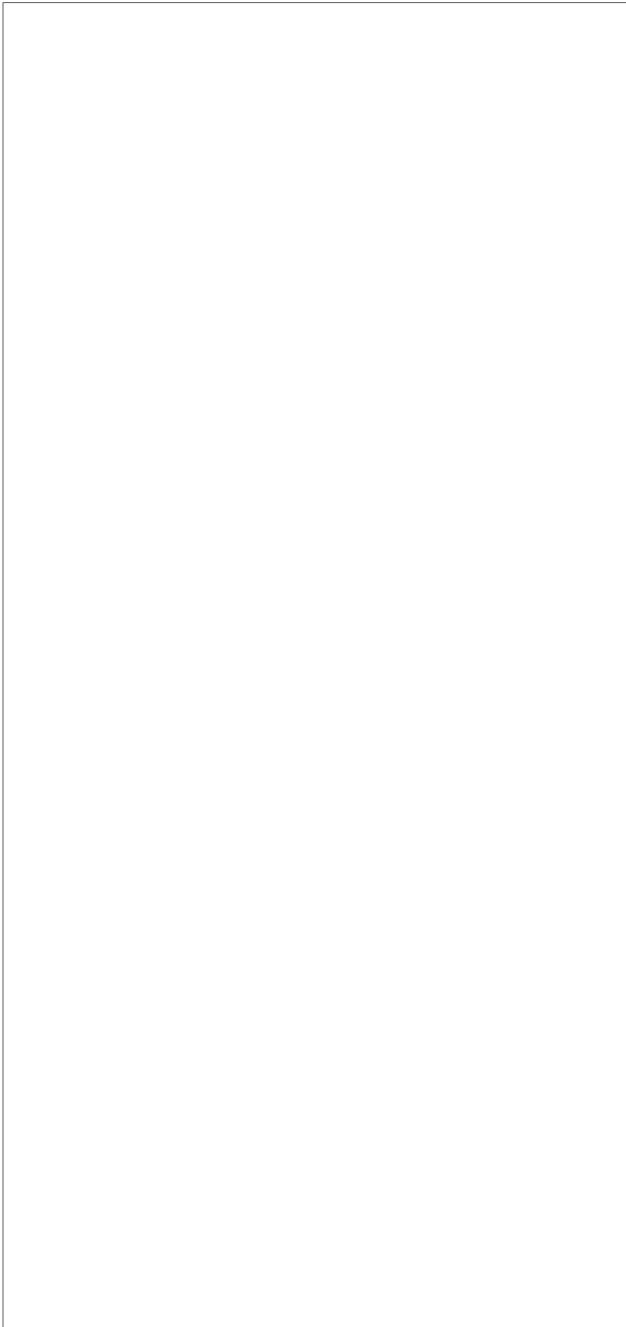
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Leftist terrorism is prompting increased counteractions by the Carabineros, Center for National Intelligence (CNI) agents, and rightwing extremist groups.

[redacted] during the first week in April President Pinochet established a commission made up of top military and government security chiefs to direct antiterrorist activities. [redacted]



[redacted] The government also enacted new and strong antiterrorist legislation in May. [redacted]

Vigilante groups, such as the Chilean Anti-Communist Association (ACHA), have also begun combating alleged leftists. [redacted]



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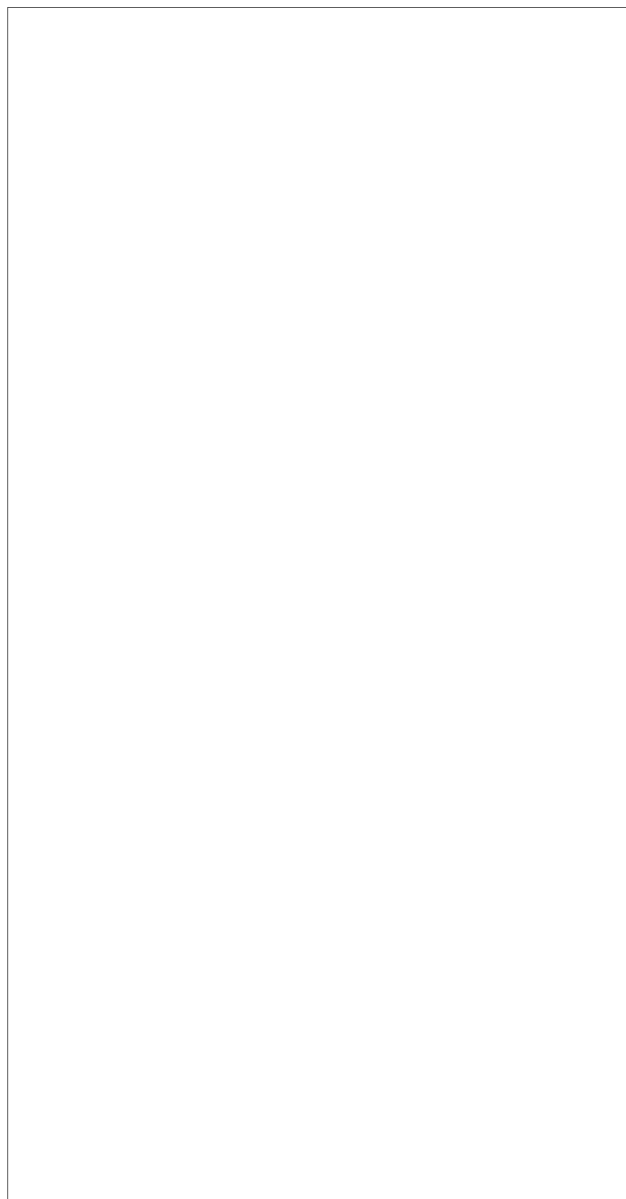
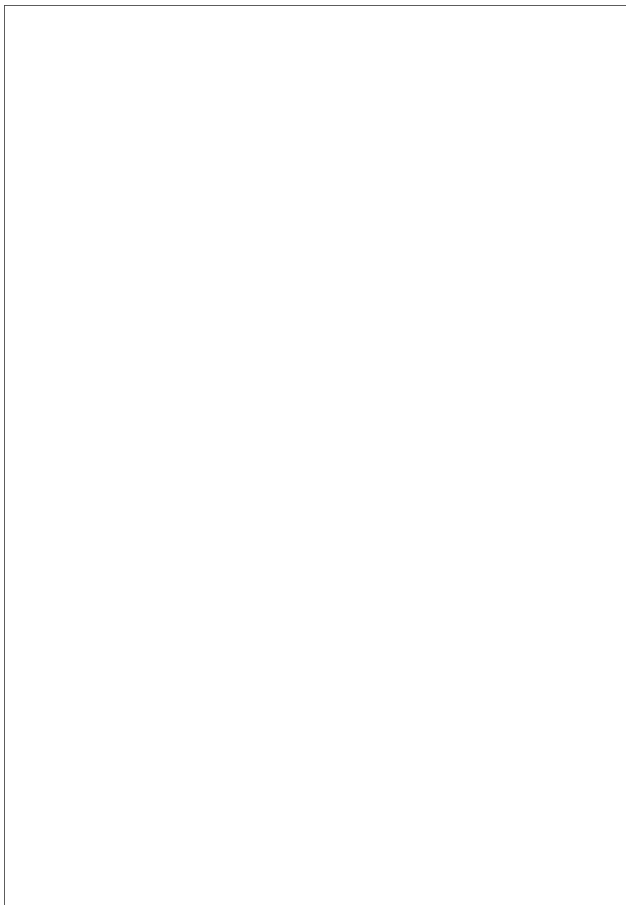
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Changes in Military Perceptions. Another important change is that for the first time military solidarity with Pinochet has been strained, and his ability to demand unquestioning support from the armed forces has been weakened. We know less about attitudes within the military than most sectors, because it is a very insular institution, Pinochet is one of its own, and officials of the US mission have had limited access since US arms sales to Chile were embargoed in the late 1970s. Nevertheless, [redacted]

[redacted] US military attaches have detected growing concern during the last year among members of the junta—the commanders of the Navy, Air Force, and Carabineros and an Army representative who function as the legislative authority—over the potential impact of the transition on their interests. They and

other concerned members of the armed forces have been influenced by continuing economic difficulties, reports of corrupt financial practices by Pinochet and members of his family, his domineering style, and rising political pressures. So far, the strongest criticism of the regime has come from the Air Force and Navy, which have historically felt less personal loyalty to Pinochet than the Army. The Army and the Carabineros remain the principal bulwarks for the regime. They support Pinochet's continuation in office, [redacted]

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Nevertheless, the recent strains in the President's relationship with the armed forces are, in our view, unprecedented. For example, Air Force commander Matthei and Navy Admiral Merino have repeatedly expressed discontent with Pinochet's frequent lack of consultation with the junta on major policy decisions,

[redacted]

[redacted] In December the President proposed publicly and to the junta a new antiterrorist law that would give agents of the Center for National Intelligence the power of arrest, give military courts jurisdiction in terrorist cases, and impose the death penalty for conviction on terrorist charges.

[redacted]

[redacted] junta members are concerned over the possibility that Pinochet might allow their authority to be assumed in two or three years by an elected congress while his position as President would remain unaffected until 1989. Pinochet announced in June that this proposal would not be considered until constitutional problems are worked out. [redacted]

We believe the junta and the armed services are philosophically committed to the 1980 Constitution, but are more willing than Pinochet to work out a peaceful political solution. In our view, this is because they are more concerned than Pinochet by the protests and the possibility that the armed forces will have to participate in increasingly harsher crackdowns to control disorder. [redacted]

[redacted]

[redacted]

[redacted] US defense attaches note that all the junta members are disinclined to have their services take on internal police functions again, fearing it will deplete their resources and lead to a loss of respect for the military. Matthei and Merino have expressed opinions that pressures would ease if Pinochet established a timetable of specific steps in the political transition. [redacted]

[redacted] Matthei has indicated he prefers accelerating the entire process by two years, and [redacted]

[redacted] Admiral Merino met with leaders of the conservative Group of Eight bloc to discuss transition proposals in May. The US Embassy notes that this is the first public venture by the junta into political consultations. [redacted]

Signs of strain between Pinochet and the 60,000-man Army, the keystone in his power base, are less evident. We believe some strain exists because Army commanders fear that their service could become embroiled in the political controversy. [redacted]

[redacted]

Criticism of his policies by the junta and by retired officers who supported the coup seems to bother Pinochet. He is reported [redacted]

[redacted] to have been so unhappy with open criticism from Matthei and Merino that he has considered firing them, as he fired junta member Air Force General Leigh in 1978.

[redacted] the US Embassy doubt that Pinochet could do so without damaging his political and military bases of support. [redacted]

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We believe that, on balance, Pinochet's support from the armed forces has held up because of other factors

- The armed forces are skeptical about the motives and abilities of civilian politicians.
- Senior officers fear the uncertainties surrounding transition to civilian rule, particularly the question of their accountability for human rights abuses.
- Many in the military believe Pinochet wants to prevent a resurgence of the far left, an objective they support.

Has Pinochet Changed? Pinochet has always shrewdly balanced tactics of concession and repression. US defense attaches note that he has typically practiced "brinkmanship"—holding a tough line until confrontation is imminent, then pragmatically offering the minimal concessions needed to relieve the pressure. In 1983, [redacted] Pinochet felt compelled by wavering among his military backers to grant more concessions to the opposition than he wanted and to check his instinct to crack down. He agreed to speed the return of exiles, reduce press censorship, release opposition leaders from jail, initiate a dialogue with the opposition, and lift the state of siege. [redacted]

We see no evidence that Pinochet's responses to pressures to date represent a fundamental change in his views. His record instead remains one of making changes only under strong duress and using the first opportunity to reverse them. Lengthy procedures for the return of exiles were reinstated at the end of 1983. In 1984, Pinochet has reimposed prohibitions against multiunion meetings and requirements for permits 10 days in advance for public meetings, renewed the state of emergency, imposed curfews, exiled opponents, and prompted enactment of new and stricter antiterrorist and libel laws. Thus, his basic convictions—that organized labor and political party activists could again pave the way for an Allende, that he alone can save Chile from Communism, and that serving out his term as President until 1989 is in the national interest—all appear to us unchanged. [redacted]

The Critical Variables in 1984

Protest Activity. If, as we believe, Pinochet grants meaningful concessions only under pressure, the most critical variable affecting Chile's political course in

1984 will be the level of protest activity. The first national day of protest on 27 March followed the pattern developed last year—Chileans were asked to keep children home from school, avoid shopping or conducting business, hold neighborhood or factory meetings, and bang pots and pans in the evening. The opposition judged the protest a success because it shut down transportation and commerce in Santiago, where 40 percent of Chile's population lives, and because of the relatively low level of violence. The US Embassy reported that participation was on a par with some of last year's larger protests. Organizers were also pleased that participation in other cities exceeded previous protests. [redacted]

The government, on the other hand, felt that its hardline measures—prior arrests of Communist leaders, a massive police presence, and curfews—were successful in controlling violence and reducing participation in the protest, and that these measures in themselves accounted for the commercial shutdown in Santiago. Carabineros reported, however, that people appeared to be bolder than under similar circumstances last year, [redacted]

[redacted] On-the-scene observers reported thousands of people standing on major streets "waiting for something to happen," and some candidly expressing grievances in the presence of Carabineros in riot gear. On balance, we believe, the protest gave the opposition the opportunity to reestablish its momentum after the "summer" (December 1983 to March 1984) lull in political activity, and it confirmed that Pinochet is still on the defensive. [redacted]

Since March, there have been efforts to initiate political dialogue, in our view and the US Embassy's, because both sides realized they were looking down the road at confrontation and political polarization. The appeal of Santiago Archbishop Fresno in March for all parties to come up with timetables and transition proposals and to begin a dialogue was endorsed by the CNT and AD, and Interior Minister Jarpa agreed to meet with church mediators, according to press reports. We believe both sides recognize that a lack of rapid progress in these talks could quickly

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The Catholic Church in Chile

The Catholic Church has played a key role in holding the Pinochet government to account for human rights abuses such as disappearances and torture. It also has provided a haven for intellectuals dismissed from the universities and has founded a human rights organization—the Vicariate of Solidarity—that has served as a model for similar institutions worldwide. When activist Cardinal Silva retired in June 1983, the government was relieved that one of its harshest critics was being replaced by a conservative who it believed would be more amenable.

While the conservative new Archbishop of Santiago, Juan Fresno, has stoutly maintained the church's support of human rights, he has tried to mediate between opposition and government forces. In two key instances, he has played a role in bringing the parties together for talks. In August 1983 he succeeded in bringing Democratic Alliance leaders together with Interior Minister Jarpa, thus lowering the level of tension and violence. Following his call in March for renewed efforts at dialogue, the National Workers Command, the Democratic Alliance, and several smaller conservative parties have held consultations and developed specific proposals for a political transition. Fresno has attempted to keep the church impartial to facilitate dialogue, and he has used the moral authority of the church to condemn intransigence on both sides and terrorism.

polarize the situation, since there have been previous disappointments in attempts at dialogue, and because leftist groups in organized labor are continuing to push for a national strike.

Leaders of the National Workers Command are now carefully gauging the views of workers before voting on a national strike. According to the US Embassy, they hope for what Copperworkers union chief Seguel terms "iron solidarity" and the particular backing of workers in the transport, copper, business, and professional sectors. This caution has been shared by the moderate political forces. We note that the risk opposition leaders run in moving with such care is that, by failing to seize the initiative, they may miss

opportunities to increase the pressure on the government and instead become dependent on Pinochet's missteps to catalyze support for protests.

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In our view, the opposition hopes that continuing protests and a national strike will force Pinochet to use the armed services for crowd control and repression. This will encourage the armed services to reassess whether the maintenance of Pinochet in power is compatible with their institutional integrity. We believe opposition leaders also seek, through peaceful protests, to convince the military that the democratic opposition is a powerful political force, but one that is responsible, capable of controlling leftists, and the best chance Chile has to return to civilian rule.

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Level of Terrorist Activity. Terrorism is rising, and we expect it to continue to do so.

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We assume these extremists hope both to demonstrate that the government is not able to manage the country and to provoke Pinochet into stronger repression that will alienate more of the populace. Thus, successful terrorist attacks would enable leftists, in their view, to recruit more youths and radicals into their ranks.

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Most observers acknowledge that increasing terrorism presents a major problem for the moderate opposition, because it frightens the middle class and the military, damages the reputation of the opposition movement as a responsible force, and buttresses Pinochet's rationale for hardline policies. Therefore, the Democratic Alliance and National Workers Command have tried hard to ensure nonviolence during their activities.

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The Effect of Presidential Policies. Another factor affecting events this year will be the impact of Pinochet's policies on political developments and the perceptions of the military. His mix of force and limited compromises served him well in 1983 by

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keeping opponents off balance and temporarily reassuring the military. According to the US Embassy, however, the alternating policies have made opposition leaders more skeptical and wary of dialogue with Pinochet or Interior Minister Jarpa since they see the talks as stalling tactics that do not offer real opportunities for substantive changes. [redacted]

During the next six months, we believe more significant government concessions on the transition timetable will be necessary to reduce dissent, and policies of repression will have a greater chance of provoking a backlash. The military tends to judge Pinochet's policies in terms of their effectiveness, and, thus, is likely to be satisfied with cosmetic gestures only if they reduce opposition to the government. Moreover, as previously noted, they are not pleased by increased repression. [redacted]

External Influences. In our view, the prosecution by the new civilian government in Argentina of senior military officers for human rights abuses will affect military and civilian attitudes in Chile. Chilean Communists have already said publicly that top Chilean military leaders should be similarly tried. Although moderate opposition leaders have not taken a clear stand on the issue, [redacted] the specter of trials for human rights abuses has made Chilean officers fearful of being punished for alleged tortures and disappearances under the Pinochet administration. We believe this has strengthened support for President Pinochet among some officers who fear an early return of the government to civilian opponents. [redacted]

Other regional developments could influence events in Chile to a limited extent:

- Continued progress in the transition to civilian rule in Uruguay and Brazil will encourage the democratic opposition in Chile.
- Belief by Chilean authorities that Argentina or Bolivia is becoming a haven for Chilean leftists could lead to increased military solidarity with Pinochet because of his acknowledged effectiveness in resisting Communist subversion.

- In the unlikely event that Chile's longstanding border disputes with Peru and Argentina sparked conflict, the military and much of the public would temporarily rally to Pinochet. [redacted] 25X1

Soviet, East European, Libyan, Cuban, Nicaraguan, and Latin American and international terrorist groups' support for leftist activities in Chile has been and will continue to be troublesome. [redacted] 25X1

[redacted] previous external support has included training, travel, funding, and technical support to the Chilean Communist Party and other leftist groups. Havana and Moscow harbor special antipathy for Pinochet as the agent of Allende's downfall. [redacted] 25X1

Havana has provided guerrilla warfare training in Cuba for hundreds of Chileans and since 1979 has infiltrated scores of terrorists into the country to strengthen the pro-Cuban presence in the leftist opposition. Recently, the US Embassy concluded that Havana may also be backing the Manuel Rodriguez Patriotic Front, a shadowy group that has claimed responsibility for numerous recent bombings. Chilean MIR terrorists are [redacted] gaining combat experience and training by participating in insurgencies in Central America. We judge it unlikely, however, that the Soviets or their surrogates would significantly increase their current level of support during the remainder of this year because the potential for insurrection in Chile is still very low. [redacted] 25X1

[redacted] they, nevertheless, remain alert to seize the earliest opportunity to strengthen the radical left's hand when it appears likely to pay off. [redacted] 25X1

[redacted] 25X1

Economic Performance. The economic downturn that began in 1981 helped launch the protest movement. We believe the pace and direction of political change this year, however, are less likely than in the past two years to be influenced by the performance of the economy, popular perceptions of economic conditions, or changes in government economic policies. [redacted] 25X1

Chile currently is undergoing a slow recovery, and, despite predictions of 2- to 4-percent growth in 1984, we and the US Embassy foresee no dramatic improvement in the economic status of most Chileans this [redacted] 25X1

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Economic Outlook for 1984

The Chilean private sector is still reeling under a financial system that is nearly insolvent because of bad debts arising from the 1982 recession. With poor prospects of funding new investment domestically, Santiago is looking to foreign funds to supplement recovery. Early this year, Finance Minister Carlos Caceres tried to spark an upturn—necessary to reduce unemployment—by rescheduling external debt, requesting new foreign money under IMF auspices, enacting a new minerals law to encourage foreign investment, and changing the tax law to stimulate savings for domestic investment. These measures, along with a negligible inflation rate and a drop in unemployment from 16 percent in December 1983 to 14.7 percent in the first two months of 1984, appeared promising. [redacted]

The efforts, however, apparently were not producing the quick results Pinochet was seeking. The new minerals law and tax laws probably will not have much impact until next year, since investors and savers will take time to study the laws before taking advantage of them. Caceres also tried to dismantle the public works program and was hesitant to use major economic stimulants because he feared increased inflation and upsetting the syndication of the 1984 commercial bank loan package. Despite his careful balancing, inflation increased a sharp 2.5 percentage points in March after dropping 0.2 point in February and unemployment rose slightly. [redacted]

[redacted] Pinochet decided in March to install a new economic team because he became convinced that the slow economic recovery was fueling political opposition activity and that Caceres had not pushed hard enough for more expansionary IMF targets. [redacted]

The new economic team is publicly calling for cautious reflation and continuity with Caceres's economic recovery program to avoid a confrontation with international bankers. Finance Minister Luis Escobar has agreed to an IMF request to continue the program negotiated for the first half of the year, but has

already asked the Fund to consider easing the spending targets from 4.8 percent of GDP to 5.6 percent to help finance reactivation for the second half of the year. Economy Minister Collados has promised to reduce unemployment without jeopardizing IMF targets by helping construction and agriculture and providing domestic firms with debt relief. [redacted]

Nonetheless, we believe more expansionist measures are likely because of the political pressure to reduce unemployment. [redacted]

[redacted] Though Caceres had planned to dismantle the public works program, Escobar has shelved the step and is planning to double the wages of those in such programs, according to US Embassy reports. [redacted]

The new economic team also is promising to resolve financial-sector insolvency and to provide debt relief to reduce the drag on economic recovery. According to press reports, Escobar has indicated he will encourage specific lending in each province that addresses its respective employment needs. The loan programs for the provinces and debt relief efforts are likely to be inflationary and threaten IMF compliance. [redacted]

If Escobar gains IMF support for his recovery program—and we judge the odds are about 50 percent—Chile is likely to have 4-percent growth, 13- to 14-percent unemployment, and 35- to 40-percent annual inflation by the end of this year. The balance of payments probably will worsen as increased consumer demand spurs imports and the current account deficit increases from \$1.3 billion last year to over \$1.8 billion. Reserves could fall by as much as \$1 billion to cover the shortfall. [redacted]

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year. It is unlikely, therefore, that Pinochet will benefit very much politically from this limited upturn in the economy. [redacted]

Information on public expectations concerning the economy is mixed: spokesmen for some business sectors acknowledge signs of recovery and applaud recent changes in the government's economic policies and ministers, but many ordinary Chileans are pessimistic. [redacted]

Overall, we judge that Pinochet has reduced his vulnerability on the economic issue in recent months by changing some policies and policymakers. Following a lengthy power struggle within the Cabinet, Interior Minister Jarpa was able to convince the President that Finance Minister Caceres's austerity program was contributing to political unrest. Pinochet replaced Caceres with a new economic team that announced increased spending to reduce unemployment and boost wages in the government's make-work programs. These changes are popular but will take time to have a positive impact. [redacted]

Outlook for the Second Half of 1984

We judge that in the last half of 1984 the government will pursue a twofold strategy of negotiation and repression, and that the opposition will follow a strategy of negotiating while staging periodic protests and preparing for a national strike. Pinochet will try to string out for as long as he can the concessions he has to offer: a political parties law, creation of voter registers and an election court, setting a date for election of a congress, and offering the opportunity for plebiscites on constitutional changes. He will, thus, try to buy time, divide his opponents, reduce their popular backing, and attempt to prevent a strike. [redacted]

With regard to the variables, we believe:

- Political terrorism and assassinations by groups on the left and right will increase this year. To some extent, this will call into question the government's ability to maintain order, but on balance the trend will favor Pinochet by alarming the middle class.
- Pinochet's tactics toward the opposition will lose effectiveness as the year passes and his motives become clearer. The military will support his policies so long as they do not provoke a serious backlash.

Chile's Looming Foreign Financing Constraint

With one of the lowest savings rates in South America, Chile needs new money to support recovery without unleashing rapid inflation. Despite Santiago's past cooperation with the IMF, foreign banks are reluctant to extend fresh credit because of poor repayment prospects, signs of continuing political restiveness, and concern about Chile's future economic policies. Although by the end of March bankers had rescheduled over 95 percent of both public and private external debt for 1983 and 1984, they had yet to begin disbursement of a new \$780 million loan promised in February. [redacted]

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Chile's new economic team agreed to comply with the original IMF program through June. Bankers responded by subscribing the new loan by the first of June. Chile drew half of the loan on 28 June and probably will draw the remainder soon. [redacted]

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[redacted]

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How- ever, Chile may fall out of IMF compliance by September, thus making any additional loan unlikely. Without new money, Chile would be strained to service interest and import payments, threatening its trade credit lines. Should Chile's trade credit lines be cut, Santiago would be unable to sustain imports required to nourish a revival of domestic economic activity. Instead, the economy would be forced to limp along under an external constraint that would produce low growth and high inflation—and continuing political restiveness. [redacted]

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Chile could rectify its balance-of-payments problems with a devaluation—reducing imports—however, the government will probably be forced to draw down at least 25 percent of its \$2 billion in foreign reserves to support recovery programs. Unless exports rally strongly—and we believe they will not—expansionist efforts would produce accelerating inflation. Increased domestic spending, financed by rapid monetary expansion, would collide with reduced imports, leading to spot shortages and disruptions in production by the end of the year. The result would be an aborted recovery, with Pinochet possibly turning to an economic team that would sponsor greater government involvement in the economy. [redacted]

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- Economic recovery will be too modest to benefit the regime, but Pinochet will continue to make policy adjustments that will reduce his vulnerability to opposition attacks on the issue.
- External factors will have a major bearing only in extreme, and unlikely, cases, such as extensive prosecutions of military officers in Argentina for human rights abuses, a serious threat of hostilities with Peru or Argentina, or large-scale Soviet or Cuban aid to the opposition. [redacted]

In view of these likely developments, therefore, we believe protests will continue. If they remain fairly peaceful and do not provide a pretext for a government crackdown, a dialogue could continue. If negotiations on a timetable for returning Chile to civilian rule are not well under way in August, however, or if protests swell above last year's levels, a national strike is likely before the end of 1984. Neither labor nor opposition groups believe they could sustain a prolonged stoppage, and the strike is likely to be of two or three days' duration. This is because some workers remain fearful of losing their jobs in a prolonged strike, the government can manipulate some labor leaders, and people in the poorer neighborhoods do not have the food storage facilities to sustain an indefinite strike. [redacted]

A major labor leader has suggested in public statements that the strike would be only one component of the opposition's strategy of pressure rather than the culmination of it. Nevertheless, it is a tactic that seriously concerns Pinochet. He will probably react harshly to a national strike—preemptive arrests of strike organizers, mass firings, and aggressive strike breaking—but he will continue to offer concessions to some groups of workers to undermine labor solidarity. Only a very successful strike and continuing protests consistently larger than those of last year would be likely to impress the military and impel Pinochet to grant real concessions on the transition. We believe, however, that in the end he would rather do so than risk alienating his support in the armed forces. [redacted]

We judge there is roughly a 3-in-4 chance that Pinochet will still be in office at the end of the year. That he will accomplish this by negotiating a formal compromise plan enabling him to serve out his term

until 1989 is unlikely. Rather, we expect he will survive either because his strategy will succeed in recapturing some public support and dividing his opponents; opposition groups will be unable to exploit opportunities; or, as a last resort, he will grant concessions shortening certain phases of the transition. [redacted]

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US Embassy and defense attache personnel believe Pinochet's chances of finishing out the year are slightly better. Their somewhat greater optimism stems from several factors, which we also recognize but do not weigh as heavily:

- Despite the advances it has made, the opposition has still not persuaded the mainstream of Chilean society, and especially the military, that it could responsibly and effectively rule Chile. 25X1
- Increasing terrorism as well as the challenge of a national strike will cause the military to rally behind Pinochet in the short term, even though these factors could weaken his position over the longer term.
- Despite increased pressures, the military's fears of chaos and retribution have disinclined it to turn power over quickly to civilians. 25X1
- The effectiveness of Pinochet's tactics is proved, although that effectiveness is declining. [redacted] 25X1

We ascribe somewhat less weight to these considerations than the Embassy because, while they have been constants in recent years, the Chilean political scene is changing irreversibly, and this introduces uncertainties. Also, we believe Pinochet's past tendency to crack down on and rally public support behind opposition figures could easily recur. This also could, in turn, affect military thinking about the wisdom of Pinochet's policies. [redacted]

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Alternative Scenarios

We believe there is about 1 chance in 4 that, as a result of protests and strikes well above last year's levels, the junta and top military officers will increasingly see Pinochet as a liability. Their dissatisfaction

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over his domineering style and efforts to cut them out of decisionmaking will be less a factor than their fear that the military's institutional integrity is being threatened by a swelling protest movement. US Embassy sources note that opposition leaders have acknowledged the need in 1984 to exceed the level of previous protests in terms of numbers of participants, direct impact on the economy, and demonstration of moderate control of the movement. Some US Embassy officers suggest that the level of disorders before the 1973 coup would be an appropriate standard against which to measure potential unrest. That is, a situation approaching the rolling strikes and near chaos of that period would be at least necessary before the military would seriously consider ousting Pinochet. []

Under these circumstances, the high command would quietly urge Pinochet to adopt a clear timetable for accelerating the transition. If he refused, or agreed but did not carry through, armed forces leaders would carefully work to build a consensus favoring his removal. The deeply rooted hierarchical traditions and rigid discipline within the military make it unlikely that the armed forces would splinter over the issue or that major elements would move without a consensus. He would probably recognize the futility of resistance, since the armed forces would act only with near unanimity, and accept some graceful premise to step down. The high command would probably appoint an interim military president and junta to rule and negotiate a plan for turning the government over to civilians within two years. []

We see a negligible chance that radical leftists could come to power this year. They have neither the political nor armed force to accomplish this in the face of solid determination on the part of the military and the general population to prevent it. []

Indicators That Would Alter Outlook

Indicators that our most likely scenario is not on track include:

- A mass resignation of the President's cabinet or shakeup in the military.
- The complete domination of the opposition movement by the radical left.
- A refusal by the carabineros or the armed forces to go into the streets to control demonstrations.

- A serious rupture within the labor or political coalitions caused by ideological conflicts, personal jealousies, or disagreements over strategy.
- Protests that become very violent and result in numerous (more than 50) deaths.
- Argentine Government prosecution of military officers at every level for human rights abuses. []

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Implications for the United States

US economic interests in Chile are concentrated in banking and mining, but investment has been relatively low because of the recession, political instability, and doubts that the very favorable foreign investment law will survive beyond Pinochet. US banks hold about 50 percent of Chile's \$11 billion private-sector debt. Banking interests have conducted debt renegotiations fairly easily with Chile and, given Santiago's disinclination to participate in a debtors' cartel, will probably be able to do so in the future. However, should bankers cut off new lending, foreign exchange needs from Chile's reactivation efforts could prompt an interest payment moratorium by fall. The United States is not vitally dependent on Chile as a source for copper—Chile's major export. []

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We and the US Embassy judge that no vital US political or security interests will be in peril through the end of 1984 if events unfold as we expect. Chile's location makes it important in any long-term US strategy for Pacific Basin security. Its strategic importance would grow if the Panama Canal were closed because the Straits of Magellan would become the only Atlantic-Pacific transit. Based on our view of Chilean domestic developments this year, access to the Straits or Chilean participation in Pacific security arrangements will not be issues of concern. We believe US political interests would begin to be jeopardized only if the extreme left were able dramatically to increase its numerical and military strength and political influence—conditions that we judge require extensive preparations and are low probabilities within the next six months. US interests would face the greatest threat from a dramatic rise in terrorism and would be least jeopardized by a negotiated settlement hastening the return to civilian rule. []

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Table 2
Principal Plans for a Transition to Civilian Rule

	Accept Validity of 1980 Constitution	Implementation of Political Laws	Establishment of a Congress	Presidential Term	Return to Full Democracy
Constitution of 1980	Yes	Direct military rule until 1989; military-dominated National Security Council; no definite timetable or mechanism	1990	Pinochet until 1989; junta selects candidate in 1989 subject to plebiscite approval; if rejected, open presidential elections in 1990	1990 or 1997
Left					
Popular Democratic Movement February 1984 * Manuel Almeyda's statement	No	Democratic national accord; go back to 1925 constitution until new one is adopted	1984	Pinochet's immediate resignation	1984
Center					
Democratic Alliance August 1983 Manifesto	No	Universal suffrage in 1984; Constituent Assembly called to write new constitution; provisional government for 18 months	1984	Pinochet's immediate resignation	1985
April 1984 AD President Valdes's statement	Subject to vote	August 1983 Democratic Alliance plan plus agreement within 45 days among all democratic sectors on plan to return Chile to democracy in 1985, on constitutional statute, and on procedure for establishing political laws	1985	Pinochet's immediate resignation	1985
National Workers Command March 1984 CNT President's statement	No	National Commission for Reconciliation (representatives of political, social and economic sectors; armed forces; church; and Supreme Court) draws up plan for returning Chile to democracy	1985	New president in 1985	1985
Right					
Group of Eight April 1984 public statement	Yes	Enact law on political parties' future electoral system in 1984; hold plebiscite in 1985 to reform current Constitution	1986	1989	1989

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Table 2 (continued)
Principal Plans for a Transition to Civilian Rule

	Accept Validity of 1980 Constitution	Implementation of Political Laws	Establishment of a Congress	Presidential Term	Return to Full Democracy
Pinochet 1973-84 public statements	Yes	(1) Plan for appointive bodies or indirect elections based on local and regional development councils (2) Civilian-military movement to support government (3) Political parties' law in 1984; electoral system, tribunal, and register laws, and congressional organization laws in 1985	1990/1987 ^a proposal to amend Constitution to enable Pinochet to "consult" the people through plebiscites on important political issues; ^a one item of consultation may be to move elections to 1987	Pinochet until 1989	1989
Interior Minister Jarpa 1983-84 public statements, [redacted]	Yes	Publish political parties law by midyear; enact laws governing general elections, electoral registration, election tribunals, congressional organization, then hold plebiscite, electoral campaign, and congressional elections.	1987?	Pinochet until 1989	1987-89
Air Force junta member Matthei March 1984 public statements, [redacted]	Yes	Publish political parties law by end of 1984; electoral registers and board by end of 1985; plebiscite in 1986 to amend constitution	1987?	1987-89	1987-89

^a Dates when the plans were proposed.

[redacted]

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Figure 2
Spectrum of Chile's Political Parties

MDP - Popular Democratic Movement				Socialist Bloc				AD - Democratic Alliance Social Democratic Federation				Conservatives Ex-Group of Eight													
MIR	PCCA	PSCCh-La Chirpa*	PSCCh/Alm	MAPU/OC	MAPU	IC	PSCCh	USOPO	PR	PSD	PDC	DR	ML	FN	PADENA	UDI	DR	TDS	MSC	MUN	MAN	Juntas	AN	ACHA	National
Movement of the Revolutionary Left	Communist Party	Socialist Party "La Chirpa"	Socialist Party Almeyda faction	Site Popular Action Movement/ Worker-Peasant	Site Popular Action Movement	Christian Left	Socialist	People's Socialist Union	Radical Party	Social Democratic Party	Christian Democratic Party	Republican Right	Movimiento Liberal	National Party	National Democratic Party	Independent Democratic Union	Radical Democrats	Democratic Socialist Workshops	Social Christian Movement	National Union Movement	National Action Movement		National Vanguard	Chilean Anti-Communist Action	National Popular Movement
MDP Group: Spokesman: Mamuel Almeyda Membership: 100-150 MIR: Andres Pascal Altamir PCCA: Luis Corvalan Lepe PSCCh/Alm: Rafael Ruiz Mowatelli PSCCh/Almeyda: Clodomiro Almeyda MAPU/OC faction: José than 20,000				Socialist Bloc Group: Spokesman: Ricardo Nunez Socialist Bloc: Marcelo Contreras MAPU/OC faction: Oscar Garrido MAPU: Sergio Apple IC: Carlos Briones				AD Group: Spokesman: Miguel Salazar AD: Leonardo Muñoz Socialist: Sergio Toro PR: Miguel Salazar PSD: Javier Diaz PDC: Patricio Morales DR: Engelberto Frías				Conservatives Ex-Group of Eight: Carmen Saez FN: Mario Ferrer PADENA: Sergio Fernandez UDI: Jaime Torneo DR: Luis Santibañez TDS: Juan de Dios Carrasco MSC: Federico Wirthgabby MUN: President Pinchet MAN: Cesar Hidalgo/Cabo Juntas: Patricio Cobo AN: Roberto Flores ACHA: Ramón Valde National Popular Movement: (Regional leaders) National Vanguard: Jorge Vargas Diaz Chilean Anti-Communist Action: Hernan Errazuriz National Popular Movement: Sergio Diaz, Jr.													
Associated Youth Groups Youth branch of MDP: Aida Paz Youth Command for Recuperation of Democracy: Victor Contreras Youth Department of Metropolitan Poor People's Coordinator: Bernardo Echeverria Youth Department of National Labor Coordinator: Defense of Youth's Rights Committee: JCCCh - Communist Party Youth: 				Associated Youth Groups AID - Democratic Youth Alliance: 24th Congress Wing of PSCh: PSD: PDC: DR: Radical Party Youth: 				Associated Youth Groups FN: Gustavo Vargas UDI: Andres Chedevick MUN: Alberto Espinosa MAN: (various names) Juvenal Republicans: Oscar Davis																	

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