

**ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
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13	D/OCA				
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15	D/PERS				
16	D/Ex Staff				
17	D/ALA/DI		X		
18	NIO/LA		X		
19	C/LA/DO		X		
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SUSPENSE \_\_\_\_\_

Date

Remarks To 17: This memo arrived via WASHFAX after 1500 today, too late for your PCC meeting.

**STAT**

[Signature Box]

Executive Secretary  
7 Nov 89

Date

ER 89-4910/1

**3637** (10-81)

ER 89-4910/1

~~SECRET~~PCC DISCUSSION PAPER -- CHILEIntroduction

Pinochet's defeat in the October 5, 1988 plebiscite set the stage for the transition to democracy in Chile. Presidential and Congressional elections are scheduled for December 14, 1989. Christian Democrat Patricio Aylwin is the front-runner in the presidential race. Aylwin is from the relatively conservative wing of his party, but he is the candidate of a broad coalition which includes socialists and declared support from the Communist Party. Opposing Aylwin are two independents from the center-right: former Finance Minister Hernan Buchi and businessman Francisco Javier Errazuriz.

Considering the wide swings in economic and social policies in Chile over the past twenty years, it is surprising the degree to which the three Chilean presidential candidates agree on maintaining the outlines of the current free-market economic model while at the same time increasing social spending. Aylwin favors a slightly larger role for the state and restoring power to the unions, but would encourage the private sector to remain the primary engine of growth. Buchi would retain current policies but would increase social spending by relying more on the private sector to provide services. Errazuriz has a more populist approach which promises free health and education for the poor and elimination of the mortgage indexation system.

There is some consensus among the candidates that the greatest political problem facing the new civilian government will be asserting control over Chile's military. However, Aylwin would have the greatest difficulty in this process. Aylwin's coalition has declared its intent to pursue justice in human rights cases and its desire to see President Pinochet retire from his position as Commander in Chief. Some members of his coalition have questioned the military's role in a democratic society.

The new government will take power on March 11, 1990. If Aylwin, as expected, is elected the next President of Chile, he will need strong support from the U.S. and other countries to bolster himself in negotiating with the military on the transition. This PCC meeting has been called to discuss how the USG should normalize relations with the new civilian government and respond to its likely request for assistance.

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DECL: OADR



US Interests

Our first priority must be to support the democratic process in Chile: Political stability and progress in other areas of U.S. interest depend upon the ability of the new government to gain broad support and establish its legitimacy in a short period of time. The new government will have to negotiate with the military on three main issues: the pursuit of justice in human rights cases, the future of Pinochet as Commander in Chief, and the role of the Armed Forces in the new democratic Chile. The civilian politicians and senior military officers do not trust each other. There is mutual suspicion and great uncertainty about the intentions of all parties. (And many U.S. congressmen and staff will be suspicious about the real authorities of any elected government, especially while Pinochet remains on the scene.) The U.S. can play a role in this process by encouraging dialog between the civilians and the military, even though our influence with the armed services, especially the army, is not great.

A second priority is to support free market economic policies encouraging continued growth. It is important that the Chileans demonstrate to the rest of Latin America that democracy is not incompatible with sound economic policies and growth. The Pinochet government achieved remarkable economic success at considerable social expense. And, while the adjustment process continues, the question now is whether democracy can deliver -- both economically and politically. We also have a strong interest that the Chileans continue sound, responsible external debt management policies. U.S. investors have substantial sums at stake in Chile and are looking to the USG to monitor the situation closely and protect their interests if necessary.

In order to broaden our relations with the new government we must resolve the Letelier case. This is the key to reopening a security assistance program with Chile and to fully restoring military and political relationships. We are confident that an Aylwin government will want to resolve the case quickly.

In sum, the transition to democracy in Chile will create new realities, calling for a review of U.S. policy toward the country. Policy issues to be discussed at the PCC meeting include:

- political support for the new government,
- security assistance,
- economic assistance,
- narcotics control assistance,
- restoration of GSP and OPIC eligibility, and
- support for further Chilean debt reduction operations.

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MESSAGE NO. \_\_\_\_\_ CLASSIFICATION SECRET No. Pages 2

FROM: J. Cassman ARA/sc 7-2575 5411  
 (Officer name) (Office symbol) (Extension) (Room Number)

MESSAGE DESCRIPTION \_\_\_\_\_

<u>TO: (Agency)</u>	<u>DELIVER TO:</u>	<u>Extension</u>	<u>Room No.</u>
<u>NSC</u>	<u>Brent Scowcroft, NSA</u>	<u>456-2255</u>	_____
<u>USTR</u>	<u>Gary Edson, Chief of Staff</u>	<u>595-6850</u>	<u>209</u>
<u>TREASURY</u>	<u>Linda Walker, Exec. Sec.</u>	<u>566-2867</u>	<u>3408</u>
<u>CIA</u>	<u>H. Lawrence Sandall, Exec. Sec.</u>	_____	<u>7E13</u>
<u>JCS</u>	<u>Capt. Anthony Maness, Exec. Asst.</u>	<u>695-5066</u>	<u>2E865</u>
<u>DEFENSE</u>	<u>Col. George P. Cole, Jr., Exec. Sec.</u>	<u>691-4398</u>	<u>3E880</u>

FOR: CLEARANCE  INFORMATION  PER REQUEST  COMMENT

REMARKS: CHILE PCC DISCUSSION TAPER

STAT

S/S Officer: [Signature]