CHAPTER - III
THE DEPREDATIONS OF U.S. MONOPOLY CAPITAL IN LATIN AMERICAN STATES AND ITS LEVERAGE TO INFLUENCE THEIR DEPENDENT ECONOMY - A CASE STUDY OF CHILEAN ECONOMY UNDER ALLENDE ADMINISTRATION.

Latin America is one of the world's potentially wealthiest regions - extremely in natural resources. Chile could be ranked, during the 70s, the first among Latin American countries in the production of minerals other than petroleum while copper was most important. Chile was producing about one seventh of the world's copper during this period. But, incidentally, the Chilean economy had been structurally linked with foreign capital. Chile, therefore, had a compulsive dependence upon the United States in economic matters. The most visible sign of dependence was Chile's 80 percent dependence on copper for foreign exchange, an industry 80 percent owned by the U.S. based multinational corporations. The Chilean economy was also heavily dependent on imports of foreign goods, industrial spare parts, food, and military hardware from the United States. She had also to depend on international banks and lending institutions, long-term investments, and debt refinancing; and on the U.S. and Europe for modern
technology and the corresponding training and know-how.

Chilean dependence on the United States was at its peak during Frei regime. Chile was considered then the showpiece for the Alliance for Progress. Large scale aid was poured in Chile. The prosperity of the Frei era depended to large extent, on constant flow of foreign capital to balance the budget and keep on development programmes. Restriction on the free flow of capital could automatically disturb the Chilean economy. In other words, the infiltration of U.S. capital in Chile seriously increased its vulnerability to U.S. destabilising tactics which could be observed during the Allende years.

CHILEAN ECONOMY UNDER STATE CONTROL:

President Salvador Allende, ignoring the U.S. political and economic considerations, sought to form a government in order to obtain the power to carry out the revolutionary transformation of his country. He tried, after securing power, to break away from dependence upon U.S. capital.¹ He declared in a message to the Chilean

Congress that "we want to control Chile's economy so that it doesn't continue to be used for the benefits of a minority of Chileans and of powerful foreign groups." Following these objectives, he built the Chilean economy upon new bases of nationalisation. Allende regime, thus, embarked upon expropriating the means of production traditionally controlled by the private monopoly houses. The Popular United government nationalised 14 textile mills in addition to the copper mines. The metallurgical, steel, and cement factories also became state-owned industries. Meat, fabricating plants etc. were nationalised. Almost all private banks, numbering 22, were the next in nationalisation process. For, Allende government believed that bank-services should be put at the disposal of the whole country. Allende brought three-fifths of bank deposits, and 80 percent of all bank credits under state control. Thus, his government established, merely within a year, almost complete state control over the key economic sectors.

As a consequence of nationalisation, the U.S. government again frantically searched for alternative ways to prevent Allende's transition to socialism. The U.S. administration launched two comprehensive plans to frustrate Allende's

socialist experiment and, in fact, to get rid of him. The first was designed to paralyse the wheels of the Chilean economy placing financial strangulation on Chilean economy, and the second consisted of underground promotion of civil war in Chile through channelising massive financial assistance to the rebels which could turn the events into a military coup. Following the strategy, the U.S. government continued its military aid to Chile and maintained secret contacts with her high-ranking military officials.

The first U.S. plan provided a definite and real shape of U.S. – Chilean economic relations during Allende years. The U.S. foreign economic policy, obviously, reveal it.

FORMATION, IMPLEMENTATION AND IMPLICATIONS OF U.S. FOREIGN ECONOMIC POLICY

The U.S. policy-makers were deeply conscious of Chilean political development after 1970 Presidential elections. They believed that these development might affect the whole region. They assumed that Chilean success in her socialist experiment would inentably promote similar experiments elsewhere in the region. The Chilean failure
on the other hand, would provide good excuse to the United States to condemn the new economic experimentation. Washington was also conscious of an outside threat. The countries of western and eastern Europe, Japan and China, and the Soviet Union were emerging competitors in the world market. The increasing economic competition attracted them to the whole Latin America for investment and for raw material for industries at home.

Thus, growing economic competition in the world forced the United States to assume that she might lose her long-established and generally accepted exclusive economic privilege in Latin America. The U.S. policy-makers thought that stringent economic relations would not be capable alone to maintain American hegemony in the region. Hence, an imperative demand of direct political control through established or dependent democratic government if possible or military regime if necessary in Latin America, appeared feasible to the White House.³

Obviously, the U.S. endeavours to frustrate Allende's socialist programmes intensified after expropriation of the foreign assets by his government. Though, Allende was sincerely
desiring to check Chile's external economic resources and to modify economic relations with the United States but the U.S. government gradually withdrew its financial assistance to his government and thus, adopted the policy of economic squeeze against Chile.

THE U.S. STRATEGY OF ECONOMIC SQUEEZE:

In response to Allende's Marxist steps the U.S. dominated monopolies and the financial oligarchy in Chile announced their intentions to punish popular United government creating financial chaos in the country. Open antagonism and the gradual deterioration of Chilean political and economic structure were the two specific motivation of the U.S. strategy against Chilean march to socialism.

Thus, the U.S. strategic objectives were originated from Salvador Allende's victory in Chile which was considered in Washington the most significant political development in the region since Fidel Castro marched triumphantly into Havana more than a decade ago. Allende declared just after

the electoral victory that "we have triumphed to definitely overthrow imperialist exploitation, to end the monopolies, to carry out a serious and profound agrarian reform, and to nationalise banking and credit operations - And in doing so, Chile will open a path that other people of America and the world can follow." Thus, the election of Marxist government in Santiago and its left oriented model brought country's political and economic interests under the U.S. "attack."

The U.S. devices to put Chilean economy out of gear through economic squeeze, were essentially threefold, (1) an international Credit squeeze via mobilisation of support for the U.S. position within the international financial institutions and amongst Chile's international creditors; (2) the elaboration of an ideology of "lack of creditworthiness" based on conditions (inflation, disinvestment etc.) created in large part, by the U.S. credit blockade; and (3) the identification of gradual economic deterioration with internal government policy, thus creating the economic basis for polarizing Chilean society in a manner favourable to the groups of the owners of large properties. 7


Significantly, the U.S. government exhibited that it was keen to negotiate the differences with Chile. The U.S. policy-makers appeared as moderate and desirous to "avoid a direct confrontation," therefore, showed their trust in negotiations. While it was only a tactical element in the overall U.S. strategy. In fact, it was designed to allow time for the economic squeeze of Chile so that Chilean economy could further deteriorate and direct military intervention become inevitable. For instance, the U.S. Ambassador in Chile Mr. Nathaniel Davis in a secret memorandum to the State Department in early 1971, laid stress on the fact that a military coup would only take place when public opposition to the Allende government became "so overwhelming and discontent so great, that military intervention is overwhelmingly invited."

The U.S. Strategic conceptions were intended to boost the U.S. economic interests by all efforts in competition with the economically sound outside nations. The U.S. policy-makers anticipated similar threats from the western hemisphere which ultimately led the establishment of the

8. Ibid, p. 81.
Council on International Economic Policy (CIEP) in January 1971. The CIEP organisation came into existence, in addition to the Treasury Department, to satisfy President Nixon's keen desire for a coherent and rational U.S. foreign policy approach based on prolonged and long-range structural developments in the region. It played quite significant role in the making of the U.S. strategy against Allende government.

THE ROLE OF CIEP AND THE TREASURY DEPARTMENT IN THE MAKING OF U.S. POLICY:

The Council on International Economic Policy was expected to provide expert analysis on international issues so that a consistency between international and domestic economic policy could be achieved. President Nixon looked the advantages of the Council in "protecting and improving the earnings of foreign investments." Mr. Peter G. Peterson, the Director of CIEP, presenting a sketch of the new U.S. foreign economic policy in a study requested by the President,

suggested that "in the wake of rapidly developing and competitive economic potentiality in the world, it has become essential to realise that political, economic and security questions are inseparable in long-range policy planning, and that it is the global relationships which in the end must be protected and nurtured." 12

The Treasury Department had equal involvement in the formulation and implementation of the U.S. foreign economic policy. John Connally, Secretary of the Treasury Department was the key figure in the implementation of the U.S. foreign economic policy which emerged entirely in a new shape after Allende accession. His influence empowered him to reclaim Treasury's pre-eminence in the making of the U.S. policy towards Chile. He also utilised his position as Chairman of National Advisory Council on International Monetary and Financial policies, which had the responsibility to recommend the frame work of possible strategy of the U.S. government in response to loan requests from the international financial institutions, and to obtain substantial strength of votes in these institutions. 13 Notably the U.S. executive directors


in the boards of the World Bank, Inter-American Development Bank, and the International Development Association were Treasury Officials, and were immediately responsible to the Secretary of Treasury.

Both the CIEP and the Treasury Department gazed upon the adverse Chilean affairs in a global perspective. Their officials perceived that the U.S. interests, with the emergence of a socialist government in Chile, would not only suffer in that country but might experience similar threats of nationalisations from other parts of the region. The American apprehensions soon became verified, when the government of Ecuador and Guyana made various contemporary attempts to nationalise the U.S. assets. The U.S. government proceeded with "hard-hearted" policy to deal with the emerging nationalist overtones in Ecuador and Guyana. The Ecuadorian and the Guyanese state of affair provided a pre-understanding of U.S. global policy which could be adopted in dealing with expropriation attempts of the U.S. property in the region.

THE U.S. GLOBAL POLICY HINTS AGAINST NATIONALISATIONS IN ECUADOR AND GUYANA:

The U.S. policy of economic offensive against Chile was, regional in nature. It was aimed to neutralise
the attempts of autonomous national economic development in any part of her "sphere of influence". President Nixon's thesis was that "so long as security of American investments (was) secured, Washington will smile on Latin Americans." This close convergence of the U.S. policy and the business interests of the U.S. Corporations, manifested in White House response to expropriation of All American Cables and Radio, a subsidiary of ITT by Ecuadorian regime. Ecuador offered ITT $575,000 in compensation as against the latter's demand for $600,000. The Corporation sought the U.S. assistance to invoke sanctions and refusal of all economic assistance to Ecuador in future until the ITT demand had been met the ITT was determined to teach the Ecuadorians a lesson as a matter of principle. They were trying to teach all of Latin America a lesson."

The ITT's actions proved productive mainly due to the uncritical support it received from the Treasury Department. The U.S. government restrained from sanctioning


any new loan to Ecuador during 1971, and a $15.8 million AID authorisation was put off until a settlement was reached with the ITT. The United State's effective position in the Inter American Development Bank successfully prevented the approval of three loans to Ecuador totalling $21.5 million until the controversy solved in favour of ITT. The Ecuador case, significantly, warned the Latin Americans that the United States would invoke sanctions even when a token sum of money was involved. In June 1971, the U.S. executive director to the World Bank, Robert E. Wieczorowiski, refrained from voting on a $6 million loan to Guyana for flood control, maintaining that it was too early to assess the progress of compensation negotiations between the Guyanese government and a recently nationalised Canadian Bauxite Corporation (ALCAN), with substantial U.S. ownership. A Treasury official, explain the U.S. decision remarked, "When we directed an abstention or negative vote on Guyana, we were concerned that if Guyana followed through on its bauxite nationalisation, there would be a wave of nationalisations sweeping the Caribbean."

In addition, John R. Petty, Assistant Secretary of the Treasury for International Affairs, argued before the House Subcommittee on Inter-American Affairs, that the U.S. approach to the question of compensation payments for expropriated U.S.-owned properties was consistent with long-standing World Bank policy. In his words, the U.S. vote on the Guyanese case was a "signal to the management of the World Bank that we thought that administration of the policy was not quite the way, we read the Cards." He indicated that there were "economic Costs involved in expropriation for the host country, and that if they seek to pursue their policy, the costs will be incurred." Thus, the U.S. government seemed hostile not only to expropriation without adequate compensation, but to the very principle of nationalisation itself.

Significantly, when Allende assumed office more than one hundred U.S. corporation had comfortably established themselves in Chile. Obviously, the U.S.

18. The U.S. government had the control of approximately one-quarter of the votes on the World Bank board, giving it a virtual veto power over loan decisions.


had deep economic interests in Chile, and therefore, nationalisation of the U.S. Corporations and denial of prompt and adequate compensation to them by the Allende regime immediately irritated the U.S. government. The U.S. economic pressure on the Allende government began to mount from the very beginning. The U.S. aggressive postures towards the Allende government on compensation controversy, therefore, became the centre point of the U.S. - Chilean economic relations.

FORTHCOMING U.S. AGGRESSIVE POSTURES REGARDING COMPENSATION DEAL:

The U.S. policy-makers were severely annoyed and excited over the Chilean attempt to expropriate the U.S. Copper Companies.\(^2\) It was obvious that forthcoming U.S. policy postures would be offensive in dealing with the foreign governments who nationalised U.S. investment properties without adequate compensation. One U.S. official stated, "obviously in some cases our interests may outweigh the effects of expropriation. But generally, countries that expropriate our assets will be on notice that this will generate a fresh policy review at very

\(^{21}\) The Copper resources in Chile have been traditionally exploited by two U.S. Corporations, Anaconda copper Co., through its subsidiaries the Andes Copper Mining Co. and Chile Exploration Co.; and the Aennecott Copper Corp. through its subsidiary the Braden Copper Co.
high levels of government."  

The United States denounced the Allende Doctrine which permitted Chilean government to unilaterally determine whether a given company has made excess profits in the post and deduct according to these profits from the value of the nationalised property. The U.S. government regarded it as an extreme departure from the traditional course with various implications around the world. The U.S. Secretary of State, William Rogers threatened, in an official statement, to reduce the general level of U.S. aid to the underdeveloped world in case of nationalisation of the U.S. assets. He observed that Chilean "course of action could have adverse effect on the international development process."  

It is important here to remember that Allende's steps against the so-called U.S. economic interest were a part of his general offensive against private Chilean interests. Allende created a new hope among Chileans. The U.S. administration in the beginning, could not mobilise

the internal groups inside Chile in its favour, because there was flowing a new zeal of nationalism in Chile particularly after expropriation of foreign assets. Even the opposition in Chile was in favour of these nationalist sentiments. The Chilean opposition parties, reacting to the Roger's statement, publicly declared their full support to the government's economic measures. For instance, the Christian Democratic Party declared, "In matters where the national interest is at stake, there is no distinction between the Government and the opposition." The Opposition stand indirectly helped Allende government in gaining effective control over the foreign corporations by means of nationalisations.

The U.S. administration had already taken adventure to prevent Allende's take over, but was still not exhausted. It formulated a new policy of harsh credit blockade of Chile. The U.S. Corporations played a key role in making of the new U.S. policy toward Chile. They suggested various policy options to the White House in order to meet the socialist challenge in Chile. Later, the U.S. policy

absorbed these proposals, without any reservations, against Chile.

PROPOSED POLICY OPTIONS BY THE U.S. CORPORATIONS:

In fact, the large scale support to Allende on expropriation of the U.S. assets left no option for the U.S. Corporations other than to persuade Washington to adopt strong and swift measures against Santiago. In October 1971, the executives of the six U.S. Corporations with substantial holdings in Chile met William Rogers for an "open discussion of their predicament and the possible response of his government." Rogers stated in the meeting that the Nixon administration was a "business administration" in favour of business and its mission was to protect business. He warned that Chile's socialist steps could have a domine effect throughout Latin America in the absence of strong U.S. retaliatory action. He demanded, therefore, an informal embargo on spare-parts and

26. The six were, Anaconda, Ford Motor Company, First City Bank, Bank of America, Ralston Purina, and ITT.
29. The similar argument was expressed by the U.S. government in dealing with El Salvador and Nicaragua.
material being shipped to Chile and stop all aid to Chile unless the expropriated copper companies received swift and adequate compensation.

The ITT also proposed policy options in a memorandum during September and October 1971. It suggested the formation of a special NSC task force to put pressure on Chile. It suggested following actions:

1. Continue loan restrictions in the International banks, such as those the Export-Import Bank has already exhibited.

2. U.S. private banks must follow the same way.

3. Confer with foreign banking sources with the same thing in mind.

4. Delay buying (copper) from Chile over the next six months.

5. Bring about a scarcity of U.S. dollars in Chile.

6. Discuss with CIA, how it can assist the six month squeeze.

7. Come to have the reliable sources within Chilean military.  

30. Ibid., p. 940.
In a revised version of the ITT's "White Paper" (1970) on Chile, following possible State Department actions were discussed among the U.S. policy:

1. Exercise the U.S. veto in the Inter-American Development Bank against various Chilean requests of loans.

2. Through exercise of U.S. veto or pressure, close the flow of any pending or future World Bank loans to Chile.

3. Maintain the refusal of the U.S. Export-Import Bank to grant any loans to Chile.

4. Make known the State Department's deep concern and anger with Chile's flagrant negligence of norms of international law in nationalisation without adequate compensation; and impel the U.S. banking community to refrain from extending any further credits to Chile. If possible, extend this to international banking circles.

5. Stop all AID projects that are still in the government considerations.

6. Embargo imports from Chile into the United States. 31

31. Ibid., p. 971. Value of Chile exports to the United States at that time was about $154 million.
The discussions between the Assistant Secretary of Treasury for International Affairs, John Hennessy, and the Chairman of the Senate Subcommittee on Multinational Corporations, Frank Curch, during the hearings on the ITT efforts to overthrow the Allende regime in 1970 and 1971, portrayed the politico-economic nature of the U.S. credit blockade of Chile during Allende administration. Questioned on the immediate termination of credits by the U.S. governmental agencies and the multilateral development institutions to the new Chilean government, Hennessy revealed that these decisions were discussed when Allende came into office with the radical economic programmes.\textsuperscript{32} The U.S. administration adopted the proposed course of actions by the U.S. corporations and immediately implemented credit blockade of Chile.

\textbf{IMPLEMENTATION OF CREDIT BLOCKADE:}

Actually, as Allende was sworn in as President, Chile began to experience oppressive behaviour of the U.S. government, and the U.S. influenced private and international banks. Notably, almost 80 percent of all

Table 2

CHILE

Foreign Aid from Selected U.S. Government Agencies and International Organisations ($M) in the Allende Period

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. AID</td>
<td>1.5</td>
<td>1.0</td>
<td>0.8</td>
<td></td>
<td>3.3</td>
</tr>
<tr>
<td>U.S. Food for Peace (PL-480)</td>
<td>6.3</td>
<td>5.9</td>
<td>2.5</td>
<td></td>
<td>14.7</td>
</tr>
<tr>
<td>U.S. Military Assistance</td>
<td>5.7</td>
<td>12.3</td>
<td>15.0</td>
<td></td>
<td>33.0</td>
</tr>
<tr>
<td>U.S. Export Import Bank</td>
<td>-</td>
<td>1.6</td>
<td>3.1</td>
<td></td>
<td>4.7</td>
</tr>
<tr>
<td>IBRD</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>IDB</td>
<td>12.0</td>
<td>0.1</td>
<td>5.2</td>
<td></td>
<td>17.3</td>
</tr>
</tbody>
</table>

short-term credits to Chile came from U.S. suppliers and the U.S. banks. During Allende's tenure, aid disturbances to Chile from the U.S., the AID, the Export-Import Bank, the World Bank (IBRD), and the Inter-American Development Bank (IDB), remained negligible, while short-term line of credits from the U.S. private banks declined around $30 million. While, over one billion economic assistance to Chile had been granted during the Frei regime from the U.S. Agency for International Development, the U.S. Export-Import Bank, the World Bank, and the IDB. His government constantly received $200 million to $300 million in short-term lines of commercial credits from the U.S. private banks.

The virtual eliminations of long-term development loans from AID, IDB, and IBRD, and increasing demands for the immediate repayment of debt obligations incurred by the Allende predecessors paralyzed the Chilean economy. In addition, the gradual loss of short-term credits seriously restricted Chile's opportunity to import adequate quantities of essential goods of daily use. It severely affected the standard of living and economic productivity of the country.

The Export-Import Bank made it clear to Chile that any loans or guarantees from the Bank would only be reopened after the settlement of the copper conflict. The Bank also terminated all loan guarantees to the U.S. commercial banks and exporters engaged in business activities in Chile, even the "disbursements of direct loans that had been previously negotiated the Frei government....."  

In addition, Eximbank Chairman Henry Kearns announced in June 1971 that a pending loan application by Chile to finance the purchase of three U.S. Boeing passenger jets had been put into the shelf in the absence of proper assurances on compensation for the expropriated U.S. Copper Companies.  

Significantly, on the one side, John H. Crimmins, Acting Assistant Secretary of State justified the bank decision before the Senate Foreign Relations Committee and on the other, spoke in favour of an already recommended $6 million increase in U.S. military credits to Chile.

The United State 'heavy-handed' policy and its contradictory nature particularly in military aspect received

widespread criticism. The Washington Post regarded it "a major failure of American policy", and commented that "no self-respecting government, Marxist or otherwise, can be expected to dance a jog for Henry Kearns."

Nevertheless, the U.S. government also sabotaged the loans tunnels of the multilateral aid institutions to Chile, specifically belonging to the Inter-American Development Bank and the World Bank. Before Allende came into power, the IDB and the IBRD credits to Chile were totalled $80 million. The IDB granted no long-term development loan to the Allende government except two educational loans totaling $11.6 million to the Austral and Catholic Universities, citadel institutions of the Chilean opposition. Further, a loan request from Chile, for the construction of a petrochemical complex totaling $30 million, was repudiated because the U.S. executive director expressed his displeasure about a bank plan to send a technical mission to Chile to evaluate the request. Besides, various Chilean projects enumerated in detail, were

37. Ibid.
38. See, Link, April 15, 1973, p. 34.
submitted to the World Bank for consideration but the Bank didn't award a single loan to Chile. For instance, The U.S. State Department turned down Chilean request to send an appraisal mission to Chile to evaluate a fruit-processing plant project under Allende's agrarian reform programme which was considered crucial in improving Chile's balance of payments situation. Notwithstanding, Chile maintained its debt service obligations to the bank. At the 1972 annual meeting of the Board of Governor of the World Bank, Alfonso Inostroza, the Chilean representative, perceived that disbursements from loans approved in the pre-Allende period were approximately equal to Chile's payments to the bank. He remarked, "If no fresh credits are granted to us, the time will come when Chile's debt service payments to the Bank exceed the sums which it received from it. The paradox would then come to pass of Chile becoming a net exporter of capital to the World Bank instead of the Bank assisting Chile." 41

Significantly, Mr. Walker, the undersecretary of the Treasury Department, explained before a Congressional Subcommittee who did seek information in October 1971 about

40. Ibid.

41. Quoted in James Petras & Morris Morley...op. cit. pp. 94-95.
the possible position of the United States within the World Bank or the Inter-American Development Bank in response to a loan request from Allende government, to quote him:

"I would put it within the context of an expropriation of property in which there has been absolutely no indication up to this time that the compensation will be adequate and timely. On that basis if a loan to Chile were to come up today in the Inter-American Development Bank or the World Bank, the World Bank has a rule and they would not lend to Chile under these circumstances." 43

The attitude of the International Monetary Fund towards the Allende government appeared to be much ambiguous. Although, Pierre Paul Schweitzer, President of the IMF frankly admitted that "its economic demands often were politically unacceptable to government caught in the exigencies of development." 44 However, the IMF assisted

42. U.S. Nationals comprised only 18 percent of the total staff of the Inter-American Development Bank and approximately 27 percent of the total staff of the World Bank/International Development Association, in both Institutions, U.S. officials occupy about 42 percent of the top management positions.


Chile's debt renegotiation and strived against the U.S. demand that Chile must accept a standby agreement. The IMF loans to Chile of $39.5 million and $42.8 million from the export compensation fund in 1971 and 1972 reflected the fact to some degree that the IMF, unlike a bank, is a "mechanism to assist member countries with foreign exchange difficulties, moreover, since the IMF had clear authority to make compensatory loans for this type of foreign exchange shortfall, the U.S. did'nt object." 45

The role of the IMF concerning Chile, as quite expected, was not pleasing to the White House. It was exposed when the United States attempted to replace Schweitzer, However, the U.S. attempt was strongly and successfully opposed by the Latin American and European members of the fund. In fact, European members of the IMF had greater impact on IMF policies in Comparison of the American influence within the World Bank. It is also significant to note here that the IMF granted loans to Chile for very specific and limited purposes. Long-term development assistance credits remained dependent on the acceptance of austerity IMF standby agreements, which would have limited the Allende


By January 1973, the Allende government had drawn $187.8 million in credits from the IMF.
government's internal economic autonomy and had a negative impact on the standard of living of the working class, the major social basis of the support for the Allende regime. 46

Thus, the United States government was trying with all means to suffocate Chilean economy. The increasing impact of U.S. economic embargo on the Chilean economy resulted in a rigorous deterioration of Chilean economy by early 1973.

Her economy thus shattered and adduced adequate grounds for the U.S. to continue credit squeeze on the basis of Chile's supposed lack of creditworthiness. It was the U.S. efforts that Chile became disastrously isolated in the world money market. 47 A former Nixon Administration official stated, "The only thing we did was to cause problems for them when they tried to borrow money." 48 Factually, the U.S. government converted the economic blockade of Chile into reality, for the U.S. policy-maker were capable to exert influence upon the international financial institutions. Besides, the proximity of interests between the

46. See, James Petras ...... op. cit., pp. 96-97.
47. Newsweek, September 24, 1973, p. 16.
48. Ibid., p. 20.
U.S. and the multilateral banks also assisted U.S. assault on Chilean economy.

PROXIMITY OF INTERESTS BETWEEN THE WHITE HOUSE AND THE MULTILATERAL BANKS:

There were close understanding between the U.S. Corporate interests and the White House policy. Both possessed and pursued common purposes and strategies. This proximity of relations was enlarged to embrace the main international institutions, which strongly and directly influence the international credit to a country. A study conducted for the House Foreign Affairs Committee, carefully worked out in detail the U.S. role, its nature and advantages, within the multilateral development banks:

"........ while the United States is not the majority stockholder in any of the banks, it is the major stockholder in the World Bank Group and in the IDB, and one of the major stockholders in the ADB (Asian Development Bank). The analogy suggested is that the banks, like any corporations, have an obligation to look to the interests of their principal stockholders and cannot afford any prolonged erosion of political and economic support from these members...."
In most instances, strongly voiced U.S. concern about an aspect of a loan appears to be sufficient to bring about a reexamination of the policy in question. Using the analogy of "losing the battle to win the war," the U.S. approve a loan about which it has voiced criticisms if the loan is generally acceptable in other respects, anticipating that U.S. influence is great enough to bring pressure on the bank not to continue that policy without sufficient justification."49 Therefore, "the banks have channelled funds to countries in which the United States had strategic and diplomatic interests and have refrained from lending to countries with which the United States has had investment disputes."50 In conclusion, the study remarked that "participation in the banks serves two general foreign policy interests of the United States. First, the banks assist in pursuit of general goals involving the structure of international affairs and the prestige and influence of the United States. Second, they serve as vehicles for assisting countries favoured by the United States and for influencing economic affairs of countries with which the U.S. government has international disagreements."51

50. Ibid., p. 5.
51. Ibid., p. 131.
Thus, joined hands of the U.S. corporations, the government agencies and the international banks adversely affected the marketing, trade, investment, and credit opportunities to Chile in the international market. It also exposed the fact that a strong Octopus of international power bloc had emerged, which practically occupied the surface of the world market, and hence was quite susceptible to world's trade and credit of considerable amount. Chilean economy was totally surrounded by this U.S. - backed Octopus. However, Allende tried his best to escape from its injury which pushed him to socialist bloc. His government asked for financial assistance from the prominent countries of the socialist bloc, the mere alternative before Allende. The Soviet Camp and China provided all possible financial and technological help, in response, to Allende regime. Allende government wholeheartedly recognised socialist countries and favoured their domestic and international ideals.

CHILEAN APPROACH TO SOCIALIST BLOC:

The Allende government established diplomatic relations with China, Cuba, North Vietnam, North Korea, and East Germany - all belonging to the Soviet Camp except China. Chile became the third country in Latin America after Cuba
and Canada which recognised China. She was the second state in Latin America which recognised Castro's Cuba (The first was Mexico). In 1964, the Latin America States with the exception of Mexico had broken off with Havana. Allende also declared to join the camp of non-aligned countries of the Third World. 52

Chilean endeavour to face economic adversity springing up due to U.S. pressures, led her in the direction of the Soviet orbit. Chile attempted to rescue her economy from the U.S. economic aggression and searched alternative sources of financing and new trading partners outside the western hemisphere. She successfully renegotiated $300 million in debts to foreign governments and private creditors, and obtained $600 million in credits and loans from countries of the socialist bloc and western sources in 1972. Loans up to $395 million were contracted from the Communist countries including China.

Thus, as the United States swiftly turned unfriendly towards Chile, other countries like Peru, Mexico, the Soviet Union, Cuba and China increased their support of the Allende government. Significantly, Allende paid a convenient, fruitful and friendly visit to Mexico, Cuba and the Soviet

Union in 1972. At the end of his visit to Mexico, a joint communique Condemning U.S. imperialism, released on 4 December, 1972, stated that "some international business houses were violating the principle of non-intervention in the internal affairs of developing countries. The commercial giants were going against the sovereign rights of developing countries in assuming control of their own natural resources in keeping with their own legislation, and in developing these resources in accordance with realities of the existing national situation."53

Allende takeover in Chile was welcomed with great enthusiasm in the Soviet Union with these words, "It has not been the gun but the actions of the revolutionary class which have enabled the people to take over political power."54 Allende was assured, during his visit, by the Soviet Union of approximately $500 million in hard currency loans to cover Chile's rapidly mounting import bill.55 The Soviet leaders also promised massive technical assistance, to faster the development of copper, chemical,

mining and fishing industries in Chile. Soviet credits made available to Chile around March 1973 were about S 260 million. The Soviet Union also concluded an agreement with Chile in 1973 to deliver 5,000 tractors. However, most significantly, the Soviet Union experienced massive agricultural failures in 70s, therefore, couldn't afford or rescue another Cuba in the western hemisphere from the U.S. assault.

Thus, the U.S. enmity and its unprovoked attack on the Chilean economy, primarily designed to contain socialist influence into Chile, were responsible enough to Chile's move nearer to the socialist bloc countries in order to protect her national economic interests. While, on the other, the experience of the Cuban Missile Crisis in 1962 had already conveyed a message to the whole Latin America that the Soviet presence in any part of the region would certainly agitate the U.S. security considerations.


57. Ibid.

and thus endanger global peace. However, Allende had stated many times that Chile will not provide any place for the military base to the Soviet Union. But, fear-psychosis of Cuban and Soviet infiltration was prevailing on the U.S. minds. The U.S. policy-makers, therefore, could'nt trust Allende's assurances. In fact, after burning fingers in Cuba, the U.S. was smarting under the mortification of Chile following the socialist path. The U.S. government, for this reason, cashed its capital monopoly in Chile in a calculated manner and gradually stifled Chilean economy. The assistance from the Soviet Union and its satellite governments could'nt defend Chilean economy from U.S. strokes. The overall health-chart of Chilean economy during Allende years itself revealed it.

A COMPREHENSIVE PORTRAIT OF CHILEAN ECONOMY:

During 1971 and 1972, before the prints of U.S. credit squeeze became visible, the economic policies of the Allende government were proved to be more fruitful than those of the reformist Frei administration. In the first two years, production was raised twice in comparison of

preceeding Frei government. The wages fund constituting 51 percent gross national income in 1965-70, went up to 62.8 percent. A study conducted by the Inter-American Committee on the Alliance for Progress, after analysing Allende's policies through 1972, confirmed a great attainment of the Allende government i.e. the elimination of economic stagnation and the achievement of "a more equitable distribution of the benefits of economic growth." The study concluded that "in 1972, the country's economy is in a situation of almost full utilization of its productive capacity, following a year marked by high growth levels. Unemployment has been reduced markedly and a broad process of redistribution of income, and accelerated agrarian reform has been carried out." Unemployment was brought to an all time low, from 8.3 percent to 3 percent in December 1972. In the sphere of Agrarian reforms in the first two years, Popular Unity government had expropriated 3,278 landholdings comprising 528,000 hectares, which benefit 40,000 peasant families.

61. OAS, Inter-American Social and Economic Council, Inter American Committee on the Alliance for Progress, p.12.
62. Ibid., p. 148.
Taking into account all aspects of the Chilean economic environment, we can draw the fact that it was first touched by the precipitous decline in country's foreign exchange reserves. In September 1972, foreign exchange reserves had declined from almost $300 million to around $40 million within the period of just over a year. When Allende took office, Chile had $345 million foreign reserves but by the end of 1972, it had disappeared and Chile was forced to plead for rescheduling of more than $2.5 billion in international debts.65 Nearly one-third of the Chile's total export earnings in 1970, 1971, and 1972 were absorbed by the foreign debt, following rising import prices and thus remained primarily responsible for such sharp decline in foreign exchange reserves. The cost of Chile's major import—food, rose sharply from $170 million in 1970 to $444 million in 1972.66 Expanded consumer demand stimulated by redistribution of income (real wages went up 30 percent in 1972), and declining agricultural production in 1972 in Chile led both to a vast increase in costly food imports and an escalating rate of inflation that rose by 164 percent in the same year.67 Her industrial

65. Also see, Newsweek, September 24, 1973.
production and agricultural production between 1970-73 as a whole, declined by 12 percent and 30 percent respectively.\textsuperscript{68} In addition, the increasing domestic demand and the declining world price of copper further weakened the Chilean economy. Due to precipitous drop in the price of copper, the copper income of Chile declined by 16.2 percent in 1971, despite increased production.\textsuperscript{69} Besides, disappearance of U.S. credits, and the U.S. rejection to compromise Chile's public debt shattered the economic structure of Chile. Finally, peremptory claim of the U.S. suppliers for cash in advance for essential raw materials and spare parts sales to Chile proved to be grievously disastrous to the Chilean economy. By late 1972, the Chilean Ministry of Economy estimated that almost one-third of the diesel trucks at Chuqicamate copper mine, 30 percent of the privately owned city-buses, 21 percent of all taxis, and 33 percent of State-owned buses in Chile couldn't operate because of the lack of spare-parts or tyres. In overall terms, the value of machinery and transport equipment exported to Chile by the U.S. Firms declined from $152.6 million in 1970 to $110 million in 1971.


\textsuperscript{69} Ian, Lumsden, "Dependency, Revolution, and Development in Latin America," \ldots op. cit., p. 543.
The Allende government's budget in 1973 ran a 53 percent deficit.\textsuperscript{70} In 1973, Chile's economy was in increasingly desperate straits. Allende's attempts to turn the country into a socialist paradise had left the Chilean economy in shambles. Chile faced skyrocketing inflation, consumer goods shortages and constant political unrest. Labour strike at the El Teniente copper mine in 1973 which was producing one-third of Chile's copper, truckers' strike in the same year, supported by the strike of nearly half a million shopkeepers, doctors, bus-drivers, and taxi-drivers, the strike of the pilots of LAN-Chile the national airline, stormed the Chilean normal life.\textsuperscript{71}

Ultimately Chile, thus facing severe internal political confrontation could'nt meet defiantly and sufficiently the villainous assaults of the United States on her economy. She could'nt face, at last in 1973, the past external obligations and current economic pressures simultaneously, and therefore, failed to maintain her progress. Thus, the U.S. foreign economic policy, deliberately planned to frustrate Allende's dreams of socialism,

\textsuperscript{70} For a detailed study of Chilean political affairs during Allende period, See, Paul, E. Sigmund, "Allende and the myth makers in the wake of Chile's Coup," \textit{International Perspective}, March/April, 1974.

perfectly dictated the U.S. - Chilean economic relations in a manner consistent with the U.S. global economic interests. The entire structure of Chilean economy received severe implications of shrewdly designed economic offensive of the U.S. In fact, the copper dispute and heavy debt burden on Allende government greatly increased the gravity of the U.S. assault on Chilean economy. The copper entanglement between the elder and younger brothers and debt squeeze by the former produced calamitous consequences for Chilean economic life, and therefore, needs distinct discussion.

THE COPPER CRISIS AND U.S. EMBARGO:

Chile historic dependent economy and accompanying decapitation of her economy were the prime causes of her slow progress, and proved responsible to develop the vulnerable structure of her economy. The U.S.-based multinational corporations had been in an advantageous position in the Chilean economy. These defects of the Chilean economy equipped the U.S. multilateral Corporations which controlled approximately 80 percent Chilean production, with political and economic tools which confined Allende's aspirations of autonomous economic development of Chilean economy.

72. See, Link, July 25, 1971, p.35.
companies were encouraged to double output by 1972 in
return for decreased taxation and other advantages, including
new investment capital provided by Chilean stock purchases
of 25 percent to 51 percent of the various mines, government
loans, and government guaranteed loans negotiated with the
Export Import Bank and the other U.S. financial institutions.
But significantly, an amount of $579 million new investments
of borrowed capital between 1966 and 1970 failed to increase
copper production. While the copper corporation accumulated
$632 million in debts without investing any of their own
capital. It means their profits increased substantially
due to the "Chileanisation" programme. The copper companies,
in addition, entered into contracts of big loans with the
guarantee of the Chilean government but even then, copper
production in Chile stagnated between 1966 and 1970, as
the following table shows:

<table>
<thead>
<tr>
<th>Chile: Copper Production 1966-1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>(thousands of metric tons)</td>
</tr>
<tr>
<td>Large scale mining operations</td>
</tr>
<tr>
<td>536</td>
</tr>
</tbody>
</table>

75. Inter-American Committee on the Alliance for Progress, p. 127.
### Table A-1 (i)

**CHILE**

**ANA CONDA AND KENNECOTT: PROFITABILITY AND INVESTMENTS, 1969**

<table>
<thead>
<tr>
<th></th>
<th>Investments worldwide</th>
<th>Investments in Chile</th>
<th>% investments in Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anaconda</td>
<td>$1,116,170,000</td>
<td>$199,030,000</td>
<td>16.64%</td>
</tr>
<tr>
<td>Kennecott</td>
<td>1,108,155,000</td>
<td>145,877,000</td>
<td>13.16%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Profits worldwide</th>
<th>Profits in Chile</th>
<th>% profits in Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anaconda</td>
<td>$99,313,000</td>
<td>$78,692,000</td>
<td>79.24%</td>
</tr>
<tr>
<td>Kennecott</td>
<td>165,395,000</td>
<td>35,338,000</td>
<td>21.37</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Rate of return worldwide</th>
<th>Rate of return in Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anaconda</td>
<td>8.5%</td>
<td>39.5%</td>
</tr>
<tr>
<td>Kennecott</td>
<td>15.0%</td>
<td>24.1%</td>
</tr>
</tbody>
</table>

Besides, the Frei government proposed new twenty year tax agreement characterised by crudity and had the element which were favourable to copper companies.  

Actually, Frei's 'Chileanisation' programme favoured the foreign companies at every point in the policy negotiations. For instance, the terms, under which El Teniente, the world's largest underground copper mine of the Kennecott, was partially nationalised, were so generous that Kennecott ended the process of negotiation with a higher benefit cost ratio than the other companies involved in the negotiation and the Chilean government was left with practically no net benefits at all. Notably, the profits of Anaconda and Kennecott between 1965 and 1971, were amounted to $426 million and $198 million respectively.

Thus, Frei's "Chileanisation" experienced enormous foreign debts, stagnant production, and huge repatriated profit margins. After Frei, government Allende's endeavour to neutralise these terrifying detriments and redress the

76. Norman Girvan, "Copper in Chile,"...op. cit., p. 61.
78. See, Link, April 15, 1973, p. 34.
balance between the national and the multinational corporations through nationalisations and its compensation based on retroactive excess profits tax, served as the ideological pretext for the U.S. credit and financial restrictions, as well as, triggering the embargo by the U.S. Corporations.79

President Allende declared in 1971 that "we shall have real power when copper and steel are under our control, when saltpetre is genuinely under our control..... when we control imports and exports through the state, when we have collectivised a major portion of our national production......Hence, our basic, most vital, principle is one to nationalise copper, Chile's fundamental source of wealth."80 Consequently, the Allende government made copper mines a national assets. It was severe blow to U.S. monopoly in Copper production in Chile. The dispute over the compensation to be paid to the U.S. owned copper mines intensified further the copper crisis between the U.S. and Chile.

COMPENSATION CONTROVERSY AND EARNED PROFITS OF THE COPPER MINES:

Allende proposed a formula for compensation, payments, to the copper companies, as already described, which comprised

deductions for capital remittances abroad, excess profits, and mine depletion. However, an analysis of copper investment and earned profits in Chilean economy by these companies before and during Allende period provide better background of understanding of Allende's proposed formula regarding compensation payments to nationalised the U.S. copper mines.

Anaconda and Kennecott's combined net profits and depreciation allowances from Chile, between 1915 and 1968, totalled $2,011 million. Only $378 million of this amount was reinvested in the industry.81 Significantly, during 1930-70, the investors in copper mines had been able to extract $4,500 million, 50 percent of the total national wealth, in profits on an original investment of a more $30 million.82 Between 1953 and 1968, the U.S. mining and smelting operations, approximately 90 percent copper, earned profits of $1,036 million but reinvestments and new investments totalled a meagre $71 million.83 The extent of exploitation may be more distinctly marked if we locate the Anaconda and Kennecott's profits from their Chilean subsidiaries within a comparative context. Since 1915, the

81. See, Norman Girvan, ...... op. cit., p. 60.
83: James Petras & Morris Morley,..........op. cit., p.108.
average dollar of revenue from their Chilean operations consistently yielded a greater surplus than that of their domestic operations, except for a few years in the early 1950s.\footnote{Norman Girvan, \textit{op. cit.}, p. 60.} Besides, if we compare the worldwide profitability levels of Anaconda and Kennecott with the rate of return on their Chilean investments, the results are noticeable. Between 1955 and 1970, Anaconda showed an annual rate of return on its entire global investments of 7.18 percent, but only 3.49 percent if Chile is excluded.\footnote{See, James Petras \& Morris Morley, \textit{op. cit.}, pp. 109-201.} The rate of return on its Chilean operations alone, during the same period, was 20.1\% percent while Kennecott's global rate of return was 11.63 percent, and 10 percent excluding Chile.\footnote{Ibid.} Shockingly, Kennecott's Chilean operations amount was 34.84 percent.\footnote{Ibid.} Specifically, during the "Chileanisation" period, the high rate of profits continued. The rate of return on all U.S. investments in the Chilean copper industry in 1967 was 27 percent.\footnote{Ibid.} In 1968, it was 26 percent.\footnote{Ibid.} The figure for Anaconda in 1969 was 39.5 percent, while for Kennecott,
it was 24.1 percent. According to another statistics, Anaconda and Kennecott earned 21.5 percent and 52.8 percent profits respectively between 1955-1970 in Chile. While on September 29, 1971, Allende government proclaimed that $774 million would be deducted as excess profits from any compensation due to Anaconda and Kennecott copper mines for the nationalisation of their Chilean assets. Thus, Kennecott and Anaconda's huge profits from their Chilean operations around the world was the basic consideration of the Allende government regarding compensation decision.

COMPENSATION POLICY AND ITS OUTCOME:

In response to nationalisation policy, the U.S. government warned Allende that his intentions would seriously affect bilateral relations at the government to government level. The Allende government ignored the U.S. Warnings, and the Chilean Congress unanimously passed a constitutional amendment in July 1971, which grated power to the Controller General to fix the compensation to the nationalised foreign assets within 90 days.

In October, 1971, the Chilean Controller General, following the Allende formula of excess profits, concluded


that no compensation should be paid to Anaconda company
and Kennecott Copper Corporation for their nationalised
mines because they had already earned huge profits for more
than their capital investments.

Obviously, both the mines sharply reacted. The
Kennecott President, Frank R. Milliken declared that the
Corporation was determined to obtain immediate and adequate
compensation for its 49 percent interest in its El Teniente
mine.94 Anaconda Vice-Chairman, William E. Quigley also
asserted that the company would take legal help and defend
its interest against Chilean government's arbitrary
compensation.95 The President of Kennecott mine stated that his Corporation would "pursue in other nations its
remedies for the confiscated assets."96 The El Teniente
Company sent a letter to all Chilean copper importers
and urged them to take all essential steps" in order to
protect our rights, with regard to such copper and other
metals or products, and with regard to their proceeds."97

94. Kennecott had $92.7 million in El Teniente notes.
95. See, "The Kennecott's White Paper on Chile's Expropriation of the El Teniente Copper Mine," Inter-
96. Quoted in Gerd Wilcke, "Kennecott To Write off Chile
97. See, James J. Nagle, "Kennecott Acts on Chile's Copper,"
New York Times, October 5, 1972, p. 67. Also see, "Freeze
is Lifted on Chile's Copper," New York Times, November
30, 1972, p. 63.
In fact, Kennecott's strategy outside Chile was designed to block the payments to Chilean Copper Corporation (CODELCO). In this regard, West Germany, Chile's biggest copper customer received Kennecott's request for embargo on a $12.5 million shipment to West Germany. It remained in affect for sometime. Seizing payments, the various legal actions, seized payments for Chilean copper shipments to Sweden, Britain, Italy, Holland, and other European countries which however proved partially successful but certainly influential. The strategy of the U.S. copper companies was to pressurize the overall direction of Chilean copper exports in Western Europe. In 1971, approximately, 66 percent of Chile's total copper exports went to six Western European Countries Belgium, France, West Germany, Italy, Britain and Sweden—while the U.S. market absorbed only 8.5 percent copper exports. In addition, Kennecott's legal actions had been "timed for what was known in the trade as 'the mating season' when buyers and sellers get together to make their contracts for the following year."  

100. See James Petras, .......op. cit., p.111.
Furthermore, as an outcome of Kennecott's global offensive, the loans previously negotiated by Chile with Canadian and Dutch banks were suspended. 102

Anaconda, however, continued to follow the Chilean legal process to obtain its compensation claim and attempted to seek more alternative possible actions "in jurisdiction outside Chile." 103

Thus, Anaconda and Kennecott formed their respective designs to pressurise Allende government for the favourable settlement of copper dispute while the gradual decline of copper prices in international market further deteriorated the copper crisis in Chile. Notably, Chile was totally dependent on Copper revenues for its foreign exchange which had dropped by $200 million in 1971 as a result of declining international market prices.

DECLINE OF COPPER PRICES IN WORLD MARKET:

During 1968 to 1970, the last two years of the Frei regime, the international market price for copper exceeded any other year of the 1960s by at least 10 cents a pound.


In 1969, copper sold for 66.56 cents a pound in the world market. But in 1970, there was a slight decrease to 64.20 cents a pound. However, during 1970 to 1972, the first two years of the Allende government, the international market price of copper sharply declined, 49.27 cents a pound in 1971 and 48.20 cents a pound in 1972. As a return to a previous state, the world price of copper was estimated 66 cents a pound in 1973. The Chilean government mining agency, CODELCO, has estimated that for every one cent decline in the international price of copper, brought $15 million loss per year to the copper exporter state, comparison between the last two years of the Frei government and the three years of the Allende government, manifests that the average annual price for copper on the international market was 65.38 cents a pound for 1969-1970 as compared to 54.49 cents a pound during 1971-1973. The above average yearly price for copper from 1969 to 1973, 65.38 cents a pound meant that the Allende government would have received an extra $490 million. 104

Thus, the declining copper prices in the international market, and the firm intentions of the U.S. government and

the U.S. corporations to impose economic embargo on Chile, threatened the entire Chilean economic structure with grave consequences. There was a great deal of interaction during embargo period between the executives of the U.S. Corporations and the U.S. administrative officials specially within the NSC State Department and Treasury Department which were the key policy making bodies of the U.S. government.

Allende severely criticised U.S. political and economic offences and misdemeanours by the multinational U.S. corporations against his government in the General Assembly of the UN on December 4, 1972. He expressed his belief that these aggressions could not be severed from a particular situation created and excited by the policies of the U.S. government. Describing his country "a victim of serious U.S. aggression," he drew Assembly's attention to U.S. covert activities which were designed to topple his government. He asserted that "we are confronted by the forces operating in the shadow, having no flag, and possessing powerful weapons located in most diverse vantage points... There is external pressure on Chile designed to cut her off from the rest of the world, strangle our economy, paralyse our trade and to deprive us of the access to sources of
Allende's fierced criticism of the U.S. political and economic aggressions, significantly, took place at a time when his government itself was passing through vehement social and political confrontations inside Chile. The organised opposition, backed by the CIA and the U.S. government, was also attempting to create economic chaos to destabilise Allende regime. They were also encouraging a civilian military coup in Chile. The U.S. Corporations harassment and legal efforts against the Allende government was actually motivated to overthrow his Marxist government. Their hostility increased when the Chilean special Copper Tribunal refused to review its "no compensation" policy. Later, the aggrieved copper companies appealed the Overseas Private Investment Corporation (OPIC) to provide economic assistance.

The OPIC was established by the Foreign Assistance Act of 1969 as a successor to AID's investment guarantee programme for the U.S. Corporations, operating in developing countries. The purpose of OPIC was to secure U.S. investments 105.

---

from losses i.e., "loss of investment due to expropriation, nationalisation, or confiscation by foreign government." The OPIC was regarded in political terms as backing force of the global expansion of the U.S. multilateral Corporations and to provide a solid support to them in confrontation with foreign governments.

Factually, OPIC's activities had impressive impacts on U.S. government policy. The OPIC intervened, without hesitation, in negotiations between the Allende government and the particular U.S. Corporations for the settlement of compensation claims. In its memorandum, OPIC favoured full payment of $11.89 million to Anaconda, and $66.9 million out of a requested $74.4 million by Kennecott.

Thus, the private embargo initiated by the Copper Corporations Complemented the economic pressure generated by the U.S. officials. The close ties between the Corporations and the U.S. government reflected the common purposes pursued...

106. See, James Petras, .........op. cit., p. 113.
within different spheres of competence. Through corporate contacts in markets and political ties with U.S. officials, the economic embargo became one more ingredient incorporated in the formula to overthrow the Allende government. The copper dispute severely stimulated U.S. activities against the Santiago regime and the heavy debt burden on Chile, in addition, and subsequent debt squeeze of the country buried all the future prospects of survival of the Allende's socialist government. The heavy debt obligations on Chile during Allende presidency suffocated chilean economy in a distinct way.

DEBT BURDEN ON CHILE AND THE U.S. DEBT SQUEEZE

The foreign debt on Chile was like an albatross around the neck of the Allende government. Financial trade, and credit squeeze already denied new economic resources to Chile. In addition, the U.S. began to pressurise Allende government to make payments on schedule. Obviously, the U.S. debt squeeze was tended to extract financial resources from Chile. Regarding payments, the U.S. administration perceived a no loss strategy. In other words,

111. Ibid., p.114.
### Table A-35

**CHILE**


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Multilateral agencies</td>
<td>349.0</td>
<td>381.4</td>
<td>435.6</td>
<td>483.4</td>
<td>38.5</td>
</tr>
<tr>
<td>2. Paris Club</td>
<td>2020.0</td>
<td>2060.0</td>
<td>2094.3</td>
<td>2159.3</td>
<td>6.9</td>
</tr>
<tr>
<td>3. Socialist block</td>
<td>14.0</td>
<td>6.6</td>
<td>37.6</td>
<td>40.0</td>
<td>185.7</td>
</tr>
<tr>
<td>4. Other European Countries and Latin American Countries</td>
<td>9.0</td>
<td>18.9</td>
<td>65.2</td>
<td>149.8</td>
<td>1564.4</td>
</tr>
<tr>
<td>5. Capital Contributions in the form of Credits</td>
<td>111.0</td>
<td>111.0</td>
<td>111.0</td>
<td>111.0</td>
<td>0.0</td>
</tr>
<tr>
<td>6. Total external medium and long-range debt</td>
<td>2526.0</td>
<td>2577.9</td>
<td>2743.7</td>
<td>2943.6</td>
<td>16.7</td>
</tr>
<tr>
<td>-Annual growth (%)</td>
<td>-</td>
<td>2.1</td>
<td>6.4</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td>7. Short term Credits</td>
<td>78.0</td>
<td>90.5</td>
<td>353.0</td>
<td>478.0</td>
<td>512.8</td>
</tr>
<tr>
<td>-Annual growth (%)</td>
<td>-</td>
<td>16.0</td>
<td>290.0</td>
<td>35.4</td>
<td></td>
</tr>
</tbody>
</table>

**Percentage variation**

**SOURCE:** I am Roxborogh, ...............op. cit., p. 155.
if Chile paid up, it would have to divert scarce funds from popular programmes and development projects, thus generating political opposition; and if Chile didn't pay, its international credit rating would decline, new loans from non-U.S. sources would not be forthcoming, and loss of financing of imports would cause an economic decline generating political discontent. Even then, Allende searched for financial assistance in Europe and tried to settle the debt issue with the U.S. government.

DEBT NEGOTIATIONS:

In November 1971, Allende declared that Chile would try to renegotiate with her Western European creditors and the U.S. on debt payment. It is here important to remember that debts on Chile were accumulated mostly by the previous Alessandri and Frei governments. Debt on Chile in 1969 was $2,084 million. While, more than half of the approximately $3.83 billion public and private debt as of December 1970 was owed to the U.S. government agencies and U.S. private lenders. The external public debt was put at $3.17 billion and the external private debt at

112. Ibid., pp. 114-115.
$ 659,000. The estimated total debt for 1971 was approximately $3.26 billion. The World Bank figure for Chile's external public debt as of December 31, 1970, approximately $2.5 billion, seriously understates the extent of Chile's indebtedness under the Frei government. In March 1973, Acting Assistant Secretary of State for Inter-American Affairs John H. Crimmins estimated that the United States held 55 percent of Chile's debt to public agencies and 36 percent of the debt to private lenders. 114

The copper issue and matter of 3 billion foreign debt on Chile did arise as subject of attention at the "Paris Club" 115 talks. The Treasury Department suddenly cropped out as a main leading U.S. government agency in the traditional place of the State Department, in the U.S. delegation at the Paris talks. The U.S. policy-makers deemed that the Treasury would possibly be able to "keep Chile's feet to the fire" over the copper expropriations. 116


Also see, Juan de Onis, "Chile, $3 billion in Debt, Asks creditor to Accept Moratorium on Payments," New York Times, January 20, 1972, p. 4.

All efforts for renegotiation on Chile's external debt could not obtain success, to some extent because of Chile's refusal to accept an IMF standby agreement as a requirement for renegotiation. Chile didn't favor the agreement because she considered it as an hinderance in future in the fulfillment of her ambition of autonomy in internal economic policy. Chilean officials believed that the agreement would formulate "norms concerning wages and prices policy, fiscal and monetary policy, and trade and exchange policy. And this would almost certainly mean an end to the present domestic expansion in Chile, a curbing of government expenditure and credit, and an insistence upon movement towards the trade liberalisation and devaluation." 117

Even then, in April 1972, an agreement in principle to renegotiate Chile's debt schedule on a bilateral basis with each creditor nation was concluded. In return, Chile agreed, of course in ambiguous manner, for "just compensation for all nationalizations," in compliance with chilean and international law. 118 The creditor partners prepared to reschedule 70 percent of the interest and major payments payable from November 1971 through December 1972, denying a

117. See James Petras, .... op. cit., p.116.
Chilean request for an extension until December 1974. Almost three quarters of the $97 million eligible for rescheduling was owed to the U.S. government, which carried on for "just compensation" for nationalised U.S. properties a precondition for bilateral U.S. Chilean negotiations.

Thus, Chile, successfully arranged debt agreements with its Western European creditors denying IMF standby loan as demanded by the United States. But, Chile couldn't moderate the rigid U.S. position on renegotiation, and hence bilateral agreement couldn't be signed.

Thus was the time as already described, when Chile was experiencing an intense internal social and political struggle particularly in the late 1972. At that time, Chile seemed strongly desirous to clear up problems with the United States.119 Discussions were resumed on the debt issue but without any perceptible alteration in U.S. stand. In addition, the U.S. attached the proposed rescheduling with a modus vivendi on expropriated U.S. assets.120 Interestingly, the CIA was now represented on the U.S. delegation, at a time when the CIA was actively involved to promote anti-government


demonstrations in Chile. In other words, the United States was clearly intended to accelerate pressures on the Chilean economy to topple Salvador Allende. However, Allende repeatedly alleged that huge amounts of dollars were entering into Chile to organise strikes and anti-Allende campaigns and on the other, infiltrating their influence in the Chilean armed forces to overthrow the Allende regime by military means if necessary.\footnote{121} Thus, the extreme polarisation of political forces in Chile before the military coup on 11 September, 1973 aggravated the regime's economic difficulties and made confrontation unavoidable. The fact remained that the U.S. government's hardened attitude towards Santiago made any compromise impossible.

To sum up, the United States always refused every proposal of bilateral agreement with Chile and appeared to believe that any compromise with her would weaken American moves, and demoralise the internal political opposition against Allende's socialist regime. Factually, Allende failed to understand the U.S. tactics. He was looking to a settlement with the United States on mutual differences and could not properly anticipate U.S. tactics. He also failed

to understand the U.S. bargaining strength. While, the momentum and opposition strength in Chile, and irritation within the Allende coalition had gradually gained striking roots in Chile. Consequently, the United States cherished these hostile sentiments in Chile. In such a hostile environment, "there was no discrete set of issues that could have been negotiated and settled." The prolonged and ineffectual negotiations over the copper compensation dispute were put forward by the U.S. policy-makers mere to conceal their real objectives against the proposed socialist political system in Chile. The U.S. encumbrance over debt payments permitted them to harass the Chilean government. In consequence Allende regime could not achieve the economic resources due to debt pressure. Thus, deliberated negotiations, heavy debt weight, and failure in settlement with the U.S. copper mines provided an opportunity to the U.S. government to maintain pressure on Chile without appearing to do so.

POLITICAL CONSIDERATIONS IN THE FORMULATION OF U.S. POLICY IN LATIN AMERICA:

Mainly the four political considerations during the 70s could be characterised as playing vital role in the formulation of U.S. policy in Latin America in general.
and affecting economic relations with Chile in particular.

1. In the spirit of Monroe Doctrine, the United States believed herself as the defender of the common good in the region and as the promoter of the Latin American interests.

2. Simultaneously, the U.S. had been determined after advent of Castro in Cuba and "Vietnam Syndrome", to prevent any repetition of another "Cuba" or "Vietnam" in Latin America.  

3. After the second world war, the United States had become the centre of the international economic system and also directly linked with the international political status-quo of power balance with which, the U.S. believed, a "stable" and "peaceful" Latin America could play an important supportive role. The U.S. policy-makers visualised that they could dedicate their energies to more important and urgent areas of U.S. concern outside the western hemisphere if the region remained secure, peaceful and stable according to their own terms. That's why, the U.S. administrations have been concerned with any anti U.S. real of imagined threat emerged in the region. Factually, the whole region had

become a part of the cold war framework. Any communist or leftist's movement, therefore, was firmly believed as a threat to U.S. regional and global interests.

4. In Latin America dominated by the U.S. fiat everyone was regarded as an enemy of Washington who did wish to restore natural resources to the ownership of the nation. Obviously, U.S. policy in Latin America always favoured strongest and most effective anti-communist organisations and tactics as well.

The political considerations which played vital role in the formulation of the U.S. policy towards Allende's movement of socialism could also be well observed in President Nixon's foreign policy sketch in his statement issued in January 1972.

NIXON'S STUBBORN FOREIGN POLICY POSTURES - AN ANALYSIS:

President Nixon's statement primarily contained main contours of stringent U.S. position on expropriation in respect of Chile and Latin America as a whole:

".......When a country expropriates a significant U.S. interest without making : reasonable provision for .

such compensation to U.S. citizens, we will presume that the United States will not extend new bilateral economic benefits to the expropriating country unless and until it is determined that the country is taking reasonable steps to provide adequate compensation or that there are major factors affecting the U.S. interests which require continuance of all or part of these benefits.

On the face of the expropriatory circumstances just described, we will presume that the United States Government will withhold its support from loans under consideration in multilateral development banks.¹²⁴

Nixon's policy statement provided the legal justification for the Treasury Department's activities in Chile since 1969 in pursuit of larger U.S. policy goals. Thus, the statement exposed that the Treasury Department re-emerged as a central and opn directing force in U.S. international economic policy. Nixon's firmly state that the U.S. investors would be protected if expropriations took place anywhere in the region. The Presidential assistant and Executive Director of CIEP, Peter Peterson also stated that this hardline policy was designed to provide "investment security for U.S. investment capital in the underdeveloped world."¹²⁵


¹²⁵ Quoted in James Petras ..... op.cit.,p.100.
However, Nixon's policy statement received criticism from various sides. Few sectors of the U.S. business community were of the opinion that the policy was short-sighted and potentially counterproductive. A former NSC policy adviser raised doubts that this tactics might affect long-term U.S. economic interests in Latin America. We quote -

"In 1972 approach places great emphasis upon the issue of compensation. In fact, the position is that no expropriation is legal, but negative, and something which affects our aid policy, and our actions in the international agencies. This is a short-sighted point of view. This type of policy may be creating harm. Antagonistic response being applied in cases of expropriation reinforces attitudes, and therefore, affects attitudes on a whole range of other issues important to the United States." 126

Majority of U.S. businessmen argued that the expropriation tangle or threat was indispensably confined to Chile which had been already answered by the United States denying all economic assistance. The U.S. business community considered fertile to generalise whole Latin America with

126. Quoted in James Petras... op. cit., p.198.
Chile for the reason that U.S. relations were affected merely with Chile. However, the main thrust of the Nixon policy was to form designs of the external pressures on the Allende government for the purpose of aggravating Chilean internal economic tumult and to fade the shineness and attractiveness of the Chilean socialist model in the western hemisphere. Allende's Chile was considered as the linchpin in Latin American struggle to redefine its political and economic relationships with the United States. Significantly, the approaches of the above criticisms were not in opposition to the principles enunciated by Nixon but to their capability of being applied to Latin America, because the whole region, in their views, was porous and well allowing the U.S. access and wealth.

About one month before the military coup of September 1973, in which Allende government was overthrown and Allende was killed or committed suicide, Nixon's policy geared for a major confrontation with Allende's Chile. Accepting hostile state of mind of the U.S. policy-makers, a former NSC staff member, with the charge of Latin America, made comments:

"It would be difficult for us to isolate investment-expropriation issues from political issues....I think it is very difficult for Allende to work out a solution which the U.S. government could ever consider a reasonable one. 128

In support of Nixon's "high profile" statement on expropriations, the U.S. administration immutably supported passage of the Gonzalez Amendment by the U.S. Congress. The amendment demanded the President to direct the U.S. executive directors engaged in the different multilateral aid institutions to try to deny the loans or financial assistance to any country which nationalised or expropriated U.S.-owned properties; declared invalid the existing agreements with U.S. Corporations; or applied discriminatory taxes or restrictions in the way of expropriation. In addition, the implementation of this policy could be prevented only if the president came to the conclusion that a substantial compensation has been arranged or the dispute has been referred to the rules of the convention for the settlement of Investment Disputes for arbitration, or "good faith negotiations are in progress aimed at providing prompt, adequate, and effective compensation under the applicable principles of international law." 129

Thus, the Nixon Policy was a ruthless warfare against the restrictions on investments, nationalisation of foreign owned enterprises and other measures by Latin American governments against the depredations of U.S. monopoly capital in order to maintain its hegemony over Latin America, originally claimed in the Monroe Doctrine.

Thus, the general deterioration of the international position of U.S. monopoly capital by the increased competition for markets from emerging industrialised nations of the world, and by the weakening of the dollar in the 60s exaggerated the significance of Latin America for the Americans.

CONCLUSION:

The whole discussion of the U.S. Chilean economic relations and particularly the U.S. policy towards socialist Chile during Allende presidency, could be summerised with four main features which broadly determined the economic relationship between Chile and the United States and provided a definite shape to American strategy against Allende regime:

1. The economic relationship was highly unbalanced in favour of the United States. The U.S. foreign trade to

Chile was a small fraction of the total but for Chile it represented a very high percentage in an economy whose budget was much more dependent on foreign exchange earnings and that was also controlled by the U.S.

2. The U.S. owned multinational corporations had gradually permeated into almost all critical sectors of the Chilean economy through massive capital investments and therefore, had deep influence on the U.S. foreign economic policy.

3. The U.S. had highly influential voting power and in few cases an effective veto almost in all of the international financial institutions upon which Chile was dependent for credits and long-term financing. The U.S. government fully exploited its influence in these institutions in order to procure strategic advantages in Chile.

4. Chile had become the largest per capita recipient of the U.S. direct foreign aid in Latin America during the 60s. In this period, Chile received over a billion dollars U.S. aid. It constructed the Chilean economic structure entirely dependent on the U.S. investments and therefore, could not face financial earthquake caused by the United States.

Chile, thus, was tragically suffering from infection of U.S. massive financial influx in 1970. It had given the U.S. foreign economic policy a terrible leverage which could deeply influence Chilean external and internal economic
structure. Obviously, Chile experienced extreme degree of U.S. hostility. The Chilean dependence on the United States always put the ball in U.S. court. The U.S. government as an engine supplying motive power for economic machinery of Chile, actually hollowed out the Chilean economic structure. The U.S. government keeping firm control over the steering wheel of Chilean economy, ultimately drove bilateral economic relations towards deep depressions but, simultaneously, maintained close links with Chilean military. The continuance of military aid to Chile was also a supplementary part of the U.S. plan devised to eradicate magnanimity of socialism from Chile. History proves that U.S. designs accomplished its objectives by exciting internal tumult in Chile and skilfully instigating Chilean military to overthrow Allende regime. Chilean military once regarded as custodian of democracy, itself demolished democratic institution by a bloody military coup in 1973. The U.S. policy in its strange contradictory manner, on the one side imposed economic and financial blockade on Allende regime and on the other multiplied military aid to Chile.

*****