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# Latin Trade

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## CHILE'S MOST WANTED

Former dissident Ricardo Lagos is the leading candidate to become the country's next president.



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**Former dissident Ricardo Lagos is the leading candidate to become the country's next president.**

**BY GREG BROWN**  
SANTIAGO

**I**N 1988, CHILE WAS BARELY STIRRING after a decade and a half of dictatorship, when dissident Ricardo Lagos rocked the nation like an earthquake. Appearing on a live national TV program, he unexpectedly turned to the camera, pointed his finger at General Augusto Pinochet and ripped into him for renegeing on his promise to step

down before an upcoming simple yes-no vote to extend military rule another eight years. "And now, you promise the country eight more years, with torture, assassination and violation of human rights. To me, it seems inadmissible that a Chilean is so ambitious for power as to pretend to hold it for 25 years," he said, igniting the incipient campaign to oust the leader. Only months later, newspaper headlines worldwide screamed, "Chile says 'No' to Pinochet." The transition to democracy was suddenly under way.

A decade later, history's pages are turning once again before the nation's very eyes. In London, Pinochet, at age 83, is facing possible extradition to Spain on charges of genocide and torture, leaving Chile with an unexpected political vacuum. After all, even under democratically elected governments, the aging general has been a central figure in the country's political landscape. If political polls are to be trusted, Ricardo Lagos Escobar—the 61-year-old with a Ph.D. from North Carolina's Duke University, a career academic who became an anti-Pinochet lightning rod, then a post-regime minister—will be the next president of Chile.

Presidential elections are in December, but Lagos has led the *continued on page 38*

**The Dictator: Gen. Augusto Pinochet salutes his honor guard. Inset, Presidential contender Ricardo Lagos was held for questioning following an assassination attempt on Pinochet.**

PHOTOS: CLAUDIA DAUTREUILLES (PINOCHET); LAURENZA LAGOS



# CHILE'S MO



**ST WANTED**

polls for the past year. He must first defeat a longtime rival, Senate President Andrés Zaldívar (a weak third in polls), in the Concertación coalition primary on May 30. The winner faces a concerted effort from the opposition in the form of Joaquín Lavín, plus a protest candidacy from Arturo Frei Bolívar, a right-leaning coalition leader considered a dark horse and a distraction for Lavín, a young conservative mayor and unabashed *Pinochetista*. "A change in leadership is indispensable," says Eugenio Tironi, president of Santiago marketing firm Tironi & Associates and a political columnist. "Lagos, and Lavín in his own way, represents that kind of leadership."

So who is Ricardo Lagos? "That's a good question!" laughs Lagos himself. But the graying protester-turned-bureaucrat paints himself as a force for change in the tough early days of the transition back to democracy. Asked who he is not, Lagos' reply is clearly tailored to belie fears of again placing a socialist in La Moneda, Chile's presidential offices, a quarter century after the coup that ousted Salvador Allende: "I am not a sectarian. I am not an ideologue. I am what you would call, in the United States, a liberal."

Like other parts of the world in recent years, Chile seems to be questioning the conservative agenda. The Chilean "economic miracle"—cheered from Washington to Hong Kong and openly admired and



**Presently public: copper refined at a state-run Codelco plant.**

**Lagos' promise to open the state-run copper giant to private investment is clearly a political move to reduce the power of the Chilean military, which, by law, receives 10% of Codelco's nearly \$3 billion in annual revenues.**

copied by emerging economies across the globe—is clearly losing its luster. A decade of brilliant 7% average annual expansion with moderate inflation and a stellar 22% savings rate hides a steady decline in growth rates in recent years (see chart). The economy is facing a serious brake on its progress: poor roads, bridges and ports, under-qualified workers and a strained public-health system. According to local estimates, Chile needs to spend some US\$20 billion on infrastructure, which in its present state is costing the

nation almost \$2 billion annually due, among other things, to transport delays and illnesses related to poor water quality.

Riding a fine line between social healer and hard-nosed pragmatist, Lagos has managed to poll big numbers from the left while simultaneously talking of partially privatizing the last bastion of Chile's former union-heavy statist economy—Corporación Nacional del Cobre (Codelco). His promise to open the state-run copper giant to private investment is clearly a political move to reduce the power of the Chilean

military, which, by law, receives 10% of Codelco's nearly \$3 billion in annual revenues. Nonetheless, the initiative is also a clear signal to investors that Lagos is market-oriented.

The message: Spending on infrastructure, health and education is critical, even if he must sell the nation's crown jewel, Codelco, to fund his programs. "I want to be pragmatic: How do we obtain more resources for the government?" says Lagos, who was Chile's public works minister until last year. "[As minister,] I authorized criteria for private investment in infrastructure at levels never before seen in Chile, and I did it for the country. We had to double investment in infrastructure and, taking into account only public financing, we couldn't even consider it."

**The last socialist.** If it sounds like Lagos is preaching, that's because he is. Credibility on economic issues is essential to his chance at victory. The last socialist to sit in the presidential palace, La Moneda,

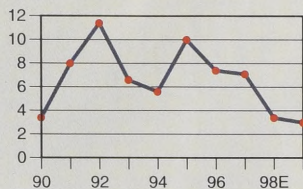
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PHOTO: CHRIS SHARP

# CHILE STATS

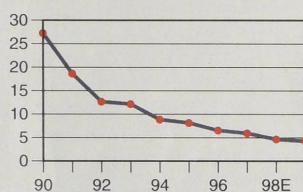
## GDP GROWTH

Percent



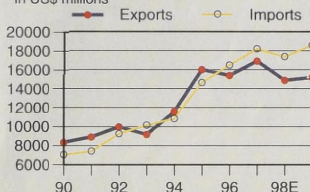
## INFLATION

Percent



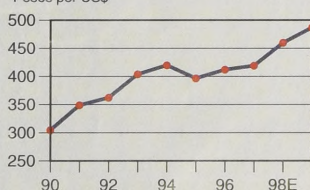
## TOTAL TRADE

In US\$ millions



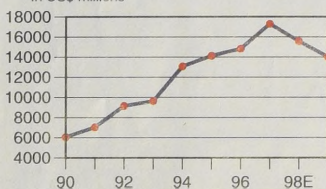
## CURRENCY EXCHANGE RATE

Pesos per US\$



## TOTAL RESERVES

In US\$ millions



E= Estimate

SOURCES: ECLAC, IMF, LATIN TRADE.



**Population: 14.8 million**  
(1998 estimate)

**1998E GDP: US\$76.6 billion**

**1998E GDP per Capita: US\$ 5,176**

**Capital: Santiago**

## CHILE

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died there, a little more than 25 years ago. Former President Salvador Allende's policies had the downtrodden at heart but the results were disastrous. Inflation zoomed to 1,000% and the economy staggered as profitable private firms and lands were forcibly taken. It seemed clear to many in Chile and abroad that the country was a hair away from becoming the next Cuba.

Taking matters into their own hands, General Augusto Pinochet and the other military governors shelled the narrowly elected government of Salvador Allende into submission. They then embarked on a reign of terror that left some 2,000 political opponents dead, thousands more tortured



and exiled from the country. Led by Pinochet, the military regime brutally restructured the economy and political reality to the core, later casting their reforms into concrete with heavy-handed constitutional revisions nonetheless approved by national referendum in 1980. Now, after two successive terms for a democratically elected centrist coalition, the country must once again choose between left and right.

"Waiting for Lagos is a matter of fear and uncertainty. Fear because of the Allende years and the takeovers, and uncertainty because it may very well not turn out to be like that," says Ricardo Schwartz, president of Chile's Association of Plastics Manufacturers.

Lagos, however, categorically rejects any suggestion that he has been somehow "rehabilitated" from his socialist roots. "I feel a little bit offended when I am asked this. I have nothing about me to rehabilitate. I have always been a democrat. I have

PHOTO: HELEN HUGHES

## CHILE

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reform and the future, of markets and growth, of good government and positive change. Each side's carefully developed political strategy is played to slightly different timbres, but the catch phrases are the same: health, education, and training.

This would be achieved, say Lagos supporters, through bettering the work force in hopes of higher pay down the road, credit for small business and increased emphasis on research and development. "Our challenge is to reinforce the trust people have in the Chilean economic model, and to ensure that people have the

perception that they participate in it," says Alvaro García, Lagos campaign manager and former economy minister under President Eduardo Frei.

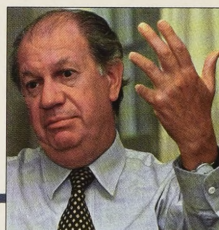
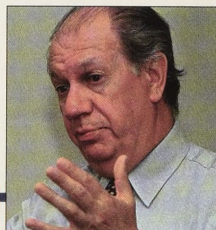
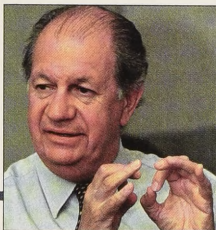
The left and right start to diverge at this juncture of economic policy, but even here the difference is minimal. "Lagos is very charismatic, or rather, he has a very good marketing apparatus, but the dangers of electing a socialist president remain," says Roberto Palumbo, acting president of Renovación Nacional, the center-right opposition party. "There is a lot of talk about social inequality despite our growth. The socialist solution for this is always to raise taxes, which increases bureaucracy and takes resources away from the productive

sectors of the economy."

Palumbo's solution: Vote for the right. "The original is always better than the photocopy," he says.

Through two successive center-left governments, Chile has maintained its course toward open markets, low tariffs and integration. Even if a socialist once again gains the presidential palace, history is on the side of continuity, business leaders predict. "Nobody is proposing changes to any of these things," says Andrés Concha, general secretary of Sociedad de Fomento Fabril, Chile's chief industrial trade group. "Politically, there is a tacit agreement that the world is going this way and Chile has to go with it or be left behind." ■

# Lagos speaks...



### On criticism that he is a "rehabilitated" socialist ...

It seems important to me that public resources be directed to social needs. It is important to build school and hospitals and let the private investment go to the highways. What I can save on spending on highways goes to social programs. This isn't being rehabilitated; this is common sense.

### On privatizing Codelco, the state-run copper company ...

It is very important to incorporate private capital into Codelco so that it can expand. Now, in order to privatize Codelco we have to stop giving 10% of Codelco's revenues to the military. I don't think there are any private investors who would be interested in Codelco until we overcome this problem. ... Also, it is important to recognize that Codelco provides more than US\$1 billion a year to the government. With Codelco privatized, with all the earnings from the sale, and adding the taxes we would earn, how much could we get?

### On the economy and development ...

Chile is a country with an economic model that works well and it should be sustained. It's a privilege that we do not have to argue about how to lower inflation. It's a privilege that we don't have to argue about how to keep the economy growing. It's a privilege that we don't have to argue about how to balance the budget; it is balanced. It is a decided privilege that our macroeconomic accounts are in order. We have to preserve this privilege. We have things to do. We have to raise the savings rate from 23% to 26-27% of GDP. We have to renew foreign investment flows into Chile and Chilean investment abroad. If we do it well we will be able to reach—I believe—investment of 30% over GDP. This is my goal.

### On inequality and its challenges ...

Regarding the problem of inequality, there are short-term and long-term solutions. In the long term, the only solution is education and training for workers. In the long term, you have to reduce the gap in worker productivity. But ending the gap in productivity means a very deep transformation of the economy. In the next century, the difference between rich countries and poor countries will be a matter of education. As the saying goes, "If you give a man a fish, he eats for a day, but if you teach him to fish..."

### On reconciliation ...

Every transition from dictatorship to democracy requires a degree of forgiveness. Not everything is forgiven. There is a measure of justice. Not everything demands justice; there is also a measure of pardon. That's how it went in South Africa, Brazil, Spain, Portugal, Argentina, Uruguay ... What has been the difference between all of these countries and Chile? There is one, a very important difference. In all of these countries, the transition concluded because there was a new consensus. The difference here is that a constitution was drawn up in the interests of Pinochet and it cannot yet be changed. The difference is that in Chile the Concertación received 55% of the vote—in any European country or in the United States if you have the majority you have the power to govern—and in Chile we don't have the power to govern because we are still the minority in the Senate. What kind of Constitution is that?

### On the proper resolution of Pinochet's problems abroad ...

I have said that things among Chileans should be dealt with in Chile. He should return, but we have a task, too. And that is to recover an institutionality in which we can all agree.

always supported human rights. I have always been against violence," Lagos says, a note of irritation rising in his voice. "Now, it is true, the world has changed, and it has changed into a global economy. And when you have a global economy, you have to think about how to organize the economy of the country. ... This is not rehabilitation; this is simply understanding the realities of life."

**Stubborn economic gap.** One of the emerging realities in Chile is a stubborn gap between rich and poor. Poverty has plummeted, thanks to military reforms sustained after the transition to democratic rule. All Chileans are earning more than in years past, but the difference between the richest 10% and poorest 40% stayed roughly the same through the mid-1990s,



**Half Full:** Buses hunt fares on the streets of Santiago.

according to United Nations studies. A city bus driver in Santiago, if he rides full 12 times a day, makes US\$5,390 a year. Meanwhile, the cost of living not including rent in Santiago is equal to that of New York City. Spend a half-hour on a street corner in Santiago and it becomes obvious that filling a bus 12 times in a day takes far more than an eight-hour shift. Dozens of cranky old buses compete for the same handful of passengers at each stop.

Add to that redundant legions of taxi-drivers, and below them the truly out-of-work. "I studied information technology, but driving a taxi is the only job I could find," complains Roberto Guerra, 29. "I have to keep a radio on in my house and leave at 3 a.m. if they call in a fare, or I make no money at all. It's hard on my family."

Politicians of all hues are recognizing these hardships as the crux of the country's political debate. Both right and left talk of

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