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While the rest of South America suffers, Chile is politically stable, relatively prosperous and enjoying 'the best years in its history'

By Joseph Contreras
NEWSWEEK

Aug. 12 issue — There was a time not that long ago when the fate of Augusto Pinochet was a burning issue for Chileans of all political persuasions. His enemies welcomed his detention in England four years ago on an arrest warrant issued by a Spanish magistrate. His supporters celebrated Pinochet's subsequent release from house arrest and return to his native land. But when the ailing 86-year-old ex-dictator resigned from the Chilean Senate last month, practically none of his countrymen took to the streets to hail or lament his departure from the political stage.

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UNLIKE SOME LATIN American societies that continue to relive their pasts, most Chileans prefer to focus on the present and look forward to a better future.

That viewpoint was reflected in the muted reaction of President Ricardo Lagos to the news of Pinochet's resignation.

"A chapter of history has been closed," said

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Lagos, the longtime leader of former president Salvador Allende's Socialist Party, who spent four years in exile during the Pinochet era. "We hope this brings a bit more calm to all sectors of society."

In a region racked by political unrest, economic crisis and falling standards of living, Chile remains, remarkably, a country that works. In an era when many traditional political parties have fallen into disrepute and few heads of state entertain any hope of being re-elected, the same center-left coalition has governed Chile since democracy was restored in 1990. The gap between the haves and the have-nots has changed little since Pinochet was voted out of office, and unemployment is on the rise. But the percentage of Chileans living below the official poverty line has been cut in half, the economy's vital signs remain healthy and the country is in most respects the envy of its neighbors. "There remains much to be done," says Sergio Bitar, a former senator who held the post of mining minister when Allende was toppled by Pinochet in a bloody 1973 military coup. "But these past 12 years have been the best years in the history of the country."

The outside world has endorsed that view. The Economist Intelligence Unit recently rated Chile as the most attractive country for foreign investment in all of Latin America, ahead of Mexico and Brazil. A survey of 91 countries conducted by the Berlin-based Transparency International organization included Chile among the 20 nations with the lowest levels of corruption. The country's image as a stable democracy with an open economy has paid off: last year alone, foreign companies invested \$5.5 billion, a 49 percent increase over 2000. "What Chile did in essence was to sit down and figure out what should be done to make the country more competitive," says U.S. Ambassador William Brownfield. "They have successfully marketed themselves as an attractive place to invest, do business and trade."

Few other Latin American countries enjoy a similar reputation abroad. And as several economies in the region swoon, a sense of resentment and betrayal is spreading across the hemisphere. In the early 1990s a host of governments embraced the Washington Consensus, a model of economic growth based on free trade, fiscal discipline and the privatization of state-owned enterprises. Latin America was promised open U.S. markets for its exports and greater access to lending institutions in exchange for acceptance of the neoliberal gospel. But when financial crises rocked Mexico and Southeast Asia in the mid-1990s and the worldwide economic boom later ran out of gas, the foreign loan pipeline dried up and cash-strapped countries like Argentina were left to fend for themselves. Politicians who once touted neoliberal policies have



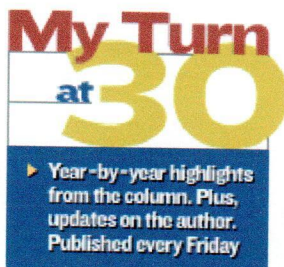
on display at a summit of South American presidents in Ecuador last month. "We are fed up with rhetoric," said the host country's foreign minister, Heinz Moeller. "I have received so many slaps on the back from the United States that it's begun to hurt. Offers are worthless, what counts is action."

Even Latin America's showcase country has felt the sting of broken promises. Chile opened talks with the United States over a free-trade treaty in the early years of the Clinton era, but negotiations have been stalled for years awaiting an explicit commitment from the U.S. Congress not to amend any final accord with Santiago. That commitment finally arrived last week, when the Senate joined the House of Representatives in approving Trade Promotion Authority legislation. It will allow the Bush administration to complete trade deals with Chile and other countries without fear that Congress will tinker with the terms. That doesn't mean that U.S. legislators will pass every trade accord placed before them, but they can't meddle with the particulars.

In the meantime, the Lagos government signed a similar trade accord with the European Union last May. The Chileans are moving ahead on other fronts, too: the Lagos government has opened discussions with South Korea and hopes to wrap up a trade agreement with New Zealand in the near future. "It's a shame that the Europeans have taken the lead instead of the United States," says Finance Minister Nicolas Eyzaguirre. "We've been in line for so many years, and there is no reason to postpone a free-trade agreement with Chile."

The backlash against "el modelo" has not yet surfaced in Chile, in part because the economy is managing to weather the global slump. The country's gross domestic product is likely to increase by about 2.5 percent this year. That may seem a modest number by the standards of the 1990s, but it is respectable in comparison with the rest of Latin America, which as a whole is expected to shrink by nearly 1 percent in 2002. Chile posted a \$1.5 billion trade surplus last year, and while copper still accounts for more than a third of all exports, the aggressive marketing of commodities like wine, salmon and paper products has insulated the country somewhat from price swings in the copper market. The harsher effects of neoliberal policies have been tempered by increased social-welfare spending. University student enrollment has more than doubled since 1990, and the number of free meals served in public schools each day has risen dramatically. "Like any other modern country, Chile has a market economy, but it doesn't have a market society," President Lagos told NEWSWEEK in an interview. "Workers in Chile realize that the country's growth has benefited them."

The depression that is devastating Argentina has left Chile largely unscathed. The so-called tango effect has sent



and triggered a round of capital flight from Uruguayan banks. But apart from some local companies that invested heavily in Argentina's electricity sector, Chile has not felt any significant fallout from that country's economic meltdown. A conscious decision to diversify the country's export markets deserves much of the credit. Santiago chose to limit its involvement with the Mercosur trading bloc, and Argentina ranks far down the list of markets for Chilean exports.

Not all of Chile's 15 million citizens have shared equally in the fruits of the country's economic expansion, however. Joblessness is officially estimated at about 9 percent, but independent experts say the number of Chileans who are either out of work or underemployed is closer to 15 percent. The decision to throw open the doors of all Chilean industries to foreign capital has hit trade unions especially hard. Thousands of unionized workers were laid off throughout the 1990s as local companies were driven out of business by an influx of cheaper manufactured goods from Brazil and other countries. Others saw the gap between their salaries and the minimum wage shrink to less than \$15 a month. Employees earn less in real terms today than they did six years ago, according to Jose Ortiz of the Central United Workers labor federation.

The inability of successive democratic governments to narrow the gap between rich and poor is a source of particular concern. While the economy has doubled in size since the early 1990s, nearly two thirds of Chile's national income remains concentrated in the hands of the most affluent 20 percent of the population.

Government officials counter that only one in five Chileans lives below the poverty line, a vast improvement over the 1980s when nearly half of the population fell into that category. But independent economists reject the official poverty line of \$60 per month as artificially low. In reality, says Marcel Claude of the Terram Foundation, a Santiago think tank, Chile has the most skewed distribution of wealth in Latin America after Brazil.

"We can no longer use the same criteria for measuring poverty that were used 20 or 30 years ago," argues Claude, a former central bank official. "When you take

into consideration other factors like the quality of housing and air pollution...

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necessary means to lead a dignified life.” Left-wing critics latch onto such arguments as evidence that the ruling coalition—composed of the Christian Democrats, the Socialists and two other parties—has largely preserved the system inherited from the Pinochet regime.

But in many ways today’s Chile is a very different place from the bitterly divided society ruled by Pinochet. The mass demonstrations that helped engineer his defeat in the 1988 plebiscite are a thing of the past, and no general strike has taken place since the restoration of democracy. The polarization of the Pinochet era has been replaced by a spirit of consensus. The televised images of looting and violent protest that engulfed much of Argentina last December are difficult to imagine on the streets of Santiago.

Can other Latin American countries duplicate the Chilean model? In most instances the answer is probably no. Chile’s leaders have steered clear of the foreign debt trap that has transformed larger and far more richly endowed countries into virtual hostages of the International Monetary Fund. Unlike some of his fellow military autocrats, Pinochet resisted the temptation to loot the national treasury, thereby upholding a tradition of probity that pre-dated his seizure of power and carries on to this day. And if there is such a thing as national character, most Chileans are imbued with values like diligence, punctuality and respect for the law. “We are conservative in that respect,” explains the ex-senator Sergio Bitar. Whatever the mix of politics, economics and culture, Chile’s success recipe is very much its own.

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