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CHILE AND MERCOSUR: "ONE STRATEGIC PERSPECTIVE"

BY

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USAWC STRATEGY RESEARCH PROJECT

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by

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ABSTRACT

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This research project express concern about Political-Strategy effects related to The " Chilean Economic Cooperation Agreement", signed with Mercosur. There are many changes that are ongoing within the Chilean economy during the last two-decade. Probably this is one of the most important that occurred related with the regional integration process that some of the South America's countries carrying out in order to create conditions to build a big free trade area.

Chile has been proactive to open its economy unilaterally and now is looking for creating the best conditions to participate in some important economic blocks, as a NAFTA, MERCOSUR, the Asian-Pacific Economic Cooperation (APEC) and the European Union. The possibility of implementation of some of these processes has caught the attention of individuals on the national scene; a strong political and economic debate has started in seminars, lectures, specialized publications, etc. Most discussions have faced inherent problems almost exclusively from an economic point of view.

This project will address some of the issues and concerns of the political analysis which could identify the interrelation of effects of the above on the nation as a whole. In particularly, those related with the political-strategic effects.

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PREFACE

The integration efforts of Western Europe, first expressed in the European Economic Community and then in the European Union, have resulted in new trends in diffuse political and economic organizational changes which have taken place in different parts of the world, especially in Europe, Asia and America. These trends represent the reaction that the world economy has had towards the foreign involvement, the formation of regional blocks, the globalization production and services and the consolidation of financial markets. Chile has also been part of these efforts and its national as well as foreign economic policies have invested time and resources to ensure economic growth. Chile is thus participating in Nafta and Mercosur and is also associated with the Asian- Pacific Economic Cooperation (APEC) and the European Union.

The possible implementation of some of the above processes has caught the attention of individuals on the national scene; a strong political and economic debate has started in seminars, lectures, specialized publications, radio and TV shows etc. Most of the discussions have faced inherent problems almost exclusively from an economical point of view. There is a lack of a strong political analysis, which could identify the interrelations of effects of the above on the nation as a whole.

The initial formulation modify roles and open new patterns for the institutions that form the State, the political and social sectors must submit to changing expectations and demands and also must adopt new ways of political behavior. The Armed Forces are, of course, one of the institutions which are faced with the need to modify their role in the State and who face new possibilities and roles as the process develops.

Several different scenarios regarding the impact of Chile's association with MERCOSUR have been presented, but the effects it could have in the area of national defense are largely unanswered. An analysis of the Seminar "The Role of the Armed Forces in MERCOSUR" which took place in Buenos Aires, Argentina during 1993 indicates that within the debates from the countries participating in the Asuncion Treaty a determined effort was made to not leave out the concerns of most sectors of national life, but little emphasis on questions of national defense.

Especially during peacetime planning of security and defense of the nation, it is possible to create the political- strategic circumstances to identify those variables, which would be positively or negatively affected by the association of the country with MERCOSUR.

This paper has the following specific objectives:

- To study, within the light of contemporary historical events, the theory behind the different commercial agreements and the world tendencies regarding integration.
- To establish what is the Commercial Agreement that Chile signed with MERCOSUR and the factors that influences its application.
- Identification of the Agreement's on the political-strategic situation in the country, considering its characteristics and the possible adverse reactions.

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CHILE AND MERCOSUR: "ONE STRATEGIC PERSPECTIVE"

THE FREE MARKET TREATIES, THE ECONOMIC, PHYSICAL AND POLITICAL INTEGRATION

WHAT ARE THE FREE MARKET TREATIES ABOUT?

Free Market Treaties are the result of the changes, which took place at the end of the Second World War when the markets led by the U.S., became free. Efforts were made to create a multilateral commerce system through the signing of the General Agreement on Tariff and Trade (GATT) in 1947 and the creation of an international monetary system supported by the International Monetary Fund and the so-called International Bank for Reconstruction and Foment (the World Bank of today).¹ These liberalization attempts did not work out and barriers to international trade were raised in countries and blocks of countries. They took the form of taxes and the requirement of special permits as well as restrictions on currency conversions. The measures were aimed at the protection of the national economies, but their immediate and unforeseen effect was the interference and in some cases the blockage of the world trade.

An important tool to combat these types of barriers to international trade was the Free Trade Treaties (Preferential Trade Agreements). The best example of which is the Agreement on Tariff and Trade, which evolved into an international organization, World Trade Organization (WTO), and took over the role left vacant by the International Organization of Commerce.

HOW ARE THEY ORIGINATED?

Free Trade Agreements originate in the field of economic integration and are based on tariff preferences, which would eliminate barriers, which hinder national markets, thus creating a broader trade area that would consequently create conditions to achieve and accelerate the joint social and economic development of involved countries. The economic integration concept, in its original form, refers to the elimination of discriminations between the units or economic agents of the associated countries.² The main objective is the elimination of the discriminatory barriers thus enabling the formation of one economic entity. A broader definition, one which does not limit itself to the economic field states: "Integration is the process by which two or more countries, supported by common institutions, adopt joint measures in order to intensify their interdependence and thus obtain mutual benefits." It is then possible to deduce that two alternatives are possible as regards integration - the first is the economic alternative, based on tariff preferences. In other words, barriers are put down in order to increase the commercial exchange. The second alternative does not necessarily include the tariff reduction but rather specific cooperation measures. An example of this would be the signing of the Friendship and Peace Treaty by Chile and Argentina in 1984 which establishes specific aspects for the economic cooperation and the Physical integration

SUMMARY OF THE LATIN AMERICAN PROCESS.

The idea of unifying Latin America was born with the independence movements and the bolivarian concept of Latin-American unity. The concept was not in favor of creating as many national states as the then pre-existing Spanish Vice Royalities. Until the end of World War II, the criteria were exclusively political and it was not until then of the war that the need arose for integration from a purely economic perspective. During the Twentieth Century, the countries of Latin America has followed a development model based on replacing the industrial imports for national productions supported by the income generated by exporting primary products. This model demonstrated its weaknesses in the mid-1950's, when the Economic Commission for Latin America (ECLA) proposes the economic cooperation between Latin-American States in order to be able to extend industrialization and thus the development of the individual nations.³ At the 1957 Interamerican Economic Conference in Buenos Aires, Argentina it was stated that the need for a common market between the countries was imperative. This led the ECLA to hold a series of consultations with various entities and in 1959 the consultations were utilized to establish a basis for fundamentals to guide the process of integration. Accordingly, the ECLA proposed to start the subcontinental integration at a purely commercial level, suggesting the creation of a Custom Union, in turn would asset in the development of all the Latin American countries. This relationship between integration and development characterized the profile of the first integration processes in Latin America; these were different from those at present and will be discussed in further detail below.

The first generation integration institutions were born under the pressure of influences such as the following: The ECLA promoted a single common market, which was to keep to the model of substituting industrialization (ISI) for imports. The OAS and the United States rejected this position because they felt it motivated the radical nationalist's thesis. The proposition was the creation of small Free Commerce Treaties> The GATT, on the other hand, had a favorable position contrary to that of the IMF, which supported a strong position against the integration attempts and favored a more liberal position. This was the scenario in 1960 when the integration agreements that were signed had the clear influences of the ECLA (and the U.S. through the OAS).

The first of these Agreements was signed in Montevideo, Uruguay in February 1960 and the Latin-American Association for Free Commerce (LAAFC) was created between Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay and later Colombia, Ecuador, Venezuela and Bolivia. In December 1960 the General Treaty for Central American Economic Integration was signed. Known as the Managua Treaty, it gave birth to the Central American Common Market (CACM) among the countries of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. On the 26th of May 1969, Bolivia, Colombia, Chile, Ecuador and Peru signed the Cartagena Treaty, which allowed for the creation of the Andean Agreement (Pacto Andino).⁴ Later, Venezuela became a member and in 1976 Chile departed. The Andean Agreement was created as a subdivision of the LAAFC whose purpose is to promote and strengthen integration in the Andean countries.

In terms of commerce, within the context of the Montevideo Treaty, the results of these Integration attempts had great importance. In 1975 inter-associative commerce began to diminish. The first stage, with its good results, had duration of approximate 10 years. This was the easy stage of the integration and it was based on the assumption that integration was going to speed the economic development of the countries.

Next came a phase of slowing down in the application and use of the integration instruments of integration and the levels of interrelation between the countries are consequently reduced. These two stages marked the end in the development of the first generation of Latin-American integration.

This first generation of development meant a close relationship between the involved countries, but it also caused a slowing down or halts to integration, producing an institutional crisis. There were several reasons for this deterioration, but they may be grouped into three fundamental problems - structure, superstructure and infrastructure. Of these, the superstructure problems with their political difficulties were the most notorious and extended throughout most of the involved countries. Difficulties were also encountered within the integration institutions, since they were never given a decision-making power. This resulted in disparities between different national policies and a lack of economic coordination, which further led to inefficient distribution of the costs and benefits. Tension was thus created and a common front to face the problems never existed. It is also important to point out the lack of dynamic action aimed at strengthening integration. The U.S position in relation to the initiatives was disturbing to relationships between that country and Latin America and the Caribbean. Also, the geographic characteristics of Latin-America present inherent difficulties to inter-action and relationships between the countries, particularly those of the Andean group; the Andes Mountains form an almost impenetrable barrier to the flow of commerce. It is important to point out that inactivity of the Common Central American Market and the Andean Group, due to internal and external problems, left their structures practically no operational.

These institutional difficulties caused changes in the strategies and structures of the sponsoring organizations. In 1980 The Latin-American Association for Free Trade (ALALC) became the Latin American Integration Association (LAIA). This replaced an institution, which promoted the free multilateral commerce for another institution, which could be defined as "undetermined" regarding integration.

In this stage it is also important to point out the paralization of the Common Central American Market and the Andean Group due to internal as well as external problems which left their structures almost with no operation.

Latin-American integration entered into the 1990's with a posture that may be described as chaotic. This extreme situation resulted the design of a new integration strategy based on the idea that it becomes a mechanism for productive insertion in the worldmarket. The position of organizations such as the ECLA and the OAS was favorable, and the U.S. proposed the creation of a continental Free Market Zone.

The new scenario resulted in the rebirth of the institutions. The LAIA, for example, is today an instrument designed to promote agreements between countries, either bilaterally or unilaterally, which

may wish to strengthen their degree of integration. The Common Central American Market on the other hand is in a transformational stage to become a Central American Economic Community.

With the Quito Protocol in 1998, the Andean Group started its recovery and with the signing of the La Paz Minutes a Free Commerce Zone was activated among the associated countries. The reactivating of the old integration processes has also led to new initiatives such as "El Grupo de los 3" (G.3) that have led to the creation of a Free Market Zones among Mexico, Venezuela and Colombia, operating since the 1990's. Another agreement is that of the Free Market Treaty between Mexico and the Central American Common Market. The most important treaty has indisputably been MERCOSUR, the paradigm of the LAIA spirit

WORLD INTEGRATION TRENDS.

It is necessary to go back to the post World War II period in order to understand the situation. This period stressed the need for integration as a way to face the Cold War. The creation of the European Economic Community (EEC) was not due to economy but rather to the need to strengthen Europe to face the Soviet Union and the integration of Germany.⁵ The attempts at economic and commercial integration were multiplied through several adjustments in which the U.S. played an important part. This promoted stable coalitions that could face the Soviet threat as well as preventing attempts to achieve political independence.

Where there was no Soviet threat, such as on the North American continent, the U.S. was in opposition to attempts to strengthen integration because that would only reduce Latin American dependence on the United States.⁶ This attitude thus contributed to the failure of commercial integration efforts in Latin American during the 1960 – 1970 time frame.

Integration thus had a commercial objective but was also influenced by considerations of national security. The situation is different today after the fall of the Berlin Wall, especially from the point of view of security, since there is only one military power (The U.S.) but several world powers in the economic field where leadership is shared with Europe and Asia. It has been over ten years since the "division to govern" policy when the different members suffered the results of a largely "negative" U.S. influence. The United States is now, along with other nations, motivating the regional economic integration in order to better achieve stability and prosperity.

The present capitalist globalization stage is generating a double dynamic in the systemic structure: on the one hand the reduction of the national-state role in the establishment of the system and the rise of several integration processes among the countries. The integration processes are becoming an intermediate stage between the survival of the nation-states and globalization.⁷ There is evidence that not everything is reduced to the market, since both the unification and integration processes need the coordination of aspects that go beyond their own markets, such as currency, economic policies and even the political union. "The change from sovereignty either political or economic to a supranational entity is a fundamental problem to any international integration process".⁸ In the analysis of the new tendencies this

appears as one of the main problems that the countries must face when designing the correct integration policies.

Another element that characterizes present unification and integration processes is the existence of enterprises that are beyond the structure of the nation-state as well as beyond space in their integration process. It is therefore possible to state that a common factor to the integration processes that are on going in the world today is the tendency to overcome the national character of the market and its regulation.

The trend to overcome the nation-state has its origin in the expansionist character of the world capital system. Nevertheless, integration is an intermediate stage in the globalization of economy which allows for the formation of economic blocks which act as subsystems. Nowadays it is common to characterize economy based on the presence of a tendency towards an external opening, the formation of regional blocks, the globalization of production and services and the integration of the financial markets. It is then possible to state that the trend is to go from an "international economy" to a world economy based on the hegemony of the capital system and in the progressive formation of the world market of goods, capital and technology. In addition, there is the technological revolution the world has undergone since the 80's, especially in the field of communications, which has meant a new configuration of the international scenario.

In general most countries tend to adopt strategies focusing on the outside, eliminating or compensating for anti-exportation characteristics which the importation substitution model generated. This new setting, where economic integration is able to unify countries or continents, does not produce political unions. Thus the power and the strength of the economic unions within the Japan, North America and Western Europe triad does not precondition any political convergence which seem to be likely to occur only on a small scale. Attention must be paid to the European unification process, which may gather the largest number of conditions to achieve a political agreement amongst its associates. The internationalism is not utopian anymore; we can barely see it on the horizon. Regionalism is a reality, it does not create a superstate to replace the national government, and it creates regional government organisms. Peter F. Ducker in his book "The Post Capitalist Society"⁹ states that the move towards regionalism is irreversible. It is also inevitable and responds to new economic reality, characterized by knowledge, kept from traditional protectionism and a new form of commercial trade. A new economic unit is then required which is big enough to maintain a meaningful free commerce and strong competency within the unit. The unit must be big enough to allow for the development of high technology industries with a high degree of government protection. It is within this context that the small country obtains the best of worlds - cultural and political independence and economic integration.

CHILEAN INTEGRATION AND FREE COMMERCE TREATY POLICY

In order to make an analysis of the Chilean policies for these economic processes; it is necessary to take a historical perspective that can look at the change that the country has made in the economic and commercial area in the last 20 years. The analysis will then be focused on the policies the Chilean

Government has in relation to these matters; its position will then be compared with that of outside experts in order to determine how Chile is facing the future.

Sine 1973 Chile has made deep changes in its strategy, moving from a development directed towards the internal to a development oriented towards foreign markets. It has established a series of new objectives in the commercial policies. Some of these objectives are:

- To Make the economy more dynamic through increasing competence and market size, the absorption of technology, better usage of scale economies,¹⁰ a more efficient distribution of resources and the attraction of foreign investments.
- To establish adequate control of the monopolies which exist in several national productive sectors as a consequence of the small market size.
- To ensure better utilization of the relatively abundant productive factors in the country, labor and natural resources. The commercial opening of 1974 consisted basically of making an important reduction on tariff and other barriers and establishes a standard tariff (11% today).
- To respect the Latin-American Commerce Association (LACA) and LAIA despite their limitations.
- To leave the Pacto Andino (Andean Agreement) since the Cartagena Agreement contradicted the objectives pursued by Chilean policy.
- To strengthen commercial multilateralism through GATT negotiations.¹¹

With the above objectives in mind, Chile formulated an economic model that was compatible with the economic and productive globalization, which has been ongoing in the world for the last two decades. This model has been existent for these 20 years and Chile is facing the world as a respected partner despite its small size and its geographic location distant from the large centers of power. It presents itself as a new, emerging actor on the regional and global scenes.

The principles which have lead the commercial policy in Chile since 1974 are in accordance with GATT and include non discrimination, most favored nation clause, elimination of tariffs barriers, the absence of subsidies to exportations and a high degree of commercial opening.

Since 1990 bilateral agreements have been signed with Latin-American countries and steps are being taken to achieve a similar agreement with North America and to increase exchanges with the European Union on the one hand and on the other with the Asian Pacific Economic Cooperation (APEC).

Chilean commercial strategy has proven to be very successful. External commerce has been greatly diversified, not only in terms of the components of the exports but also in the numbers of commercial partners. The volume of exported products has tripled and Chile now ships a growing amount and variety of manufactured goods, agricultural and fishing products.

In regard to commercial partners, the largest flow of exports has been to Asia and to other countries in Latin- America; both areas among the most dynamics regions in the world. The number of external markets has doubled and the exporting companies in Chile have multiplied by a factor of 15.

Globally speaking, the growth of exports has largely overtaken increased production. In 1965, exports represented less than 12% of the GNP. At the beginning of the 1990's, this proportion had increased almost three times, reaching a third of the GNP including services. Because of this process, Chile has the most open economy in Latin America and it demonstrated that the Chilean unilateral integration strategy has been successful. Nevertheless, in the 1990's, the Government started to promote a bilateral or regional policy in which the signing of free commerce agreements ensured the entrance to markets which had tended to become commercially stagnant. At the same time demands were made to strengthen Chile's competitiveness as a nation.¹²

Chile's Minister of Finance, Mr. Eduardo Aninat Ureta, stated in April 1996 during a lectured at the National Academy for Political and Strategic Studies " **to focus on all or nothing, to belong or not to belong. These type of choices are simply to distort the debate and in my opinion deviate from the position Chile has established in its development as a country**".¹³

It is therefore visualized that policies are not to be left for one strategy or another, but that the objective is rather to favor in a simple way what Chile already chose two decades ago; a developing model based on free and competitive markets. One of its decisive components is the exporting development opening trade to another countries and areas and non-discriminatory in nature.

True or exact reason are not possible to find in an explicit policy and as academic Dominique Hachette states in his work Mercosur and its National and Regional Implications,¹⁴ it is possible to make an interpretation of the objectives pursued by the last two governments and along those lines the following objectives can be stated:

- To increase the volume and benefits derived from international commerce, as access to new markets is achieved.
- To increase the negotiating power of Chile within the multilateral GATT or that of the World Commerce Organization.
- And to reduce the possibility of being isolated outside of any regional blocks (as these develop).

Former Ambassador Mr. Carlos Mladinic, previous Chief of the Chancellery for Economic Affairs in the Chilean Ministry of Foreign Affairs, stated that Chile will not leave the international insertion strategy of Open Regionalism, i.e.:¹⁵

- Unilateral opening
- Signing of multilateral agreements
- Negotiated opening

THE ECONOMIC COOPERATION AGREEMENT CHILE-MERCOSUR AND ITS IMPACT ON THE NATIONAL LIFE.

THE ECONOMIC COOPERATION AGREEMENT.

General Facts.

As an introduction and before the details of the Agreement are approached, it is necessary to identify at least the general objectives and implications as they were originally conceived.

Mercosur has its origin in the Integration and Cooperation Agreement signed by Argentina and Brazil in 1986. Between that date and the end of 1988, both nations signed 23 protocols related to such diverse aspects as industry and capital goods, wheat supply, the creation of binational enterprises and joint economy research, transport policies, etc.

In July 1990, President Menem (Argentina) and Collor de Mello (Brazil), agreed to create by the end of 1994 a common market for South America (The South Cone). The Uruguayan Government requested its participation in the integration process and it became part of it in August 1990. Paraguay started negotiations in October of 1990 to become part of Mercosur.

With the signing of the Asuncion Treaty the 26th March 1991 by Argentina, Brazil, Paraguay and Uruguay, the Common Market for South America was officially created. This agreement is technically submitted to the Latin-American Integration Association (LAIA) under the name "Partial Reach Agreement for Economic Complementation Number 18". The treaty supports the "free circulation of goods, services and productive factors through the elimination of custom rights and tariff restrictions; the setting of a Common External Tariff (CET); the adoption of a commercial policies common for third countries; and the coordination of positions in regional and international economic or commerce conferences held in other countries. (See Figure. N^o1).

MERCOSUR

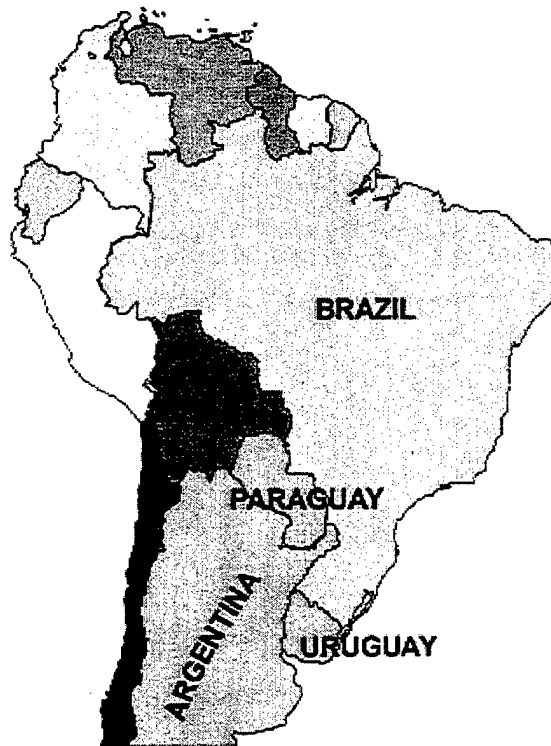


FIGURE 1 - MERCOSUR MEMBERS

Among the main objectives of the treaty are:

- The creation of an extended market.
- Economic-commercial cooperation.
- A better use of the available resources.
- Environmental preservation.
- Improvement of physical interconnections.
- Cooperation of the different sectors of economy.
- Coordination of macro economic policies.

Today, Mercosur is in a stage of integration, which could be described as an imperfect custom unit since it does not cover the universality of products implied in the Common Market as, stated in the Asuncion Treaty for 1 January 1995. The countries, which were part of Mercosur, negotiated what was called the Adaptation Regime, by which some of the products traded between the countries of the block were to pay tariffs for an unstated period of time. A list of exception to External Tariff must be added for some products. The products on this list must be excluded before the year 2001 in some cases and by 2006 in others. The goal is to see that there will be no tariffs among the states that are part of Mercosur

and that all products imported from a third party must pay the same common tariff, independently of the frontier through which they enter. According to the negotiations, the Custom Union would be operative by January 1, 2006.

Among the main aspects of this agreement are the incentives to the commerce among the member countries; the political will to protect the democratic norms of the associate countries; and the formation of a "block" with influence on the new international order which would allow improvement of the conditions under which the members would relate to other regional spaces, such as the European Union. Negotiations are now being carried out through the Mixed Mercosur-European Union Commission. The case of the Chilean integration to Mercosur must first be viewed within Chilean external policy and the concept that Chile

"Is today a country open to the world, that it depends more and more on international commerce and that it intends to strengthen its relationships to other dynamic areas of growth and technological innovation. In this context of increasing interdependence and globalization of our economy and society, exterior politics become crucial for the national development. It has ceased to be a topic which interests only a specific sector and it has transformed itself into a tool to promote the integral development of our country just like the economy or social policies" ¹⁶

Given this context and considering the strong economic position Chile has in the region and the world, Chile must use all the elements mentioned above that allow it to be more competitive. The world tendency today is to reduce tariffs and to form strategic economic alliances. Sooner or later, Chile will be forced to protectionist efforts which would have as their intend the creation of free commerce zones either unilaterally or through the creation of commercial blocks.

Chile has been inclined to open regionalism and in this context it aims to form a free commerce area within a 10-year period time. This was initiated through the signing of the Chile-Mercosur Complementary Economic Agreement agreed under the Montevideo Treaty in 1980, which was signed in San Luis Province, Argentina on 25th July 1996 and secondly through the expansion and diversification of trade and the elimination of tariff and other restrictions which affect the reciprocal commerce. (See Figure 2)



Chile, the World, and Mercosur

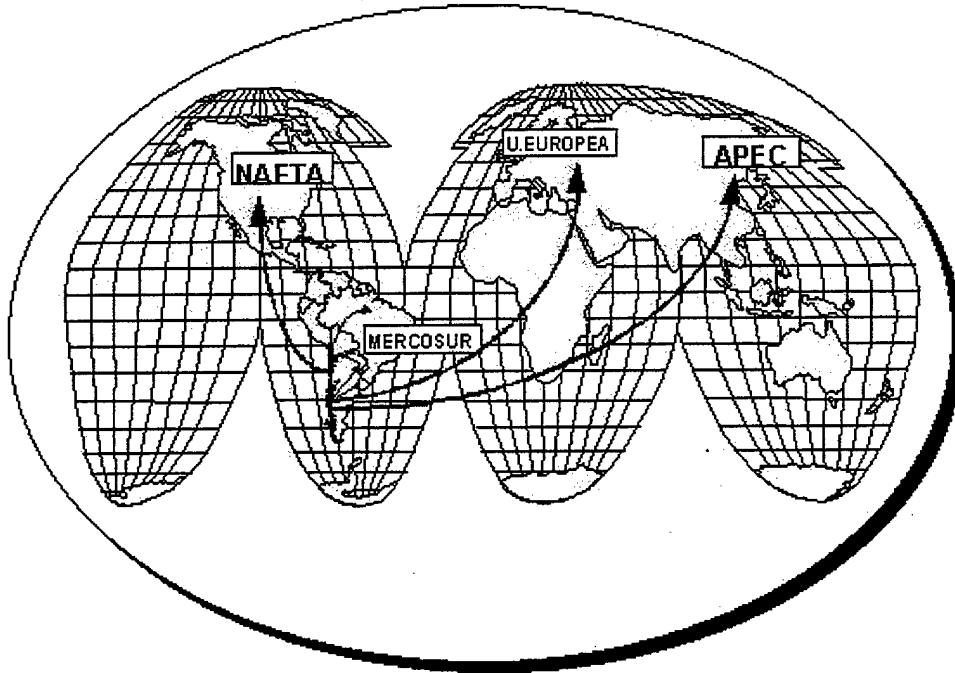


FIGURE 2 - CHILE THE WORLD AND MERCOSUR

The Economic Aspect

The Chile -Mercosur economic agreement is based on the creation of a free commerce zone where a program is set for the progressive as well as automatic elimination of restraints based on a preference system, where Chile is entitled to use a unique tariff which is also equal with that of the exterior partner. This agreement does not force Chile to subordinate its economic policies to that of the other associate countries. The country can thus keep certain independence according to its own economic situation as well as that of the other members of the Mercosur. It is precisely this point which marks the difference between being a member of the Mercosur or being an associate, as in the terms agreed upon by Chile and so stated in the Economic Cooperation Agreement.

The Legal Aspect

This Commercial Association Agreement is based on the 1980 Montevideo Treaty, which has the World Commerce Organization as a reference for the rights and duties which would rule the commercial policies and the Complementary Agreements.

As far as conflict solution is concerned the agreement countries in its Title VIII "Controversy Solution" the creation of a mechanism, which would define and agree on an arbitration procedure. Such a process would be operative on the fourth year of the agreement as it is stated in Title VIII of the document. When this procedure is not effective, the parties would adopt the arbitration procedure described in Chapter IV of the Brasilia Protocol.

The Political Aspect

The Agreement is a way of consolidation of Chilean foreign policy for Latin America. As the agreement was passed in the Senate on September 9 1996 it is possible to state that the country has taken the option of integration with the signing of multilateral agreements which open concrete perspective, for regional integration.

The Agreement signed by Chile as well as the Asuncion treaty, which forms Mercosur do not consider for the time being any supranational organizations. They are only considering organizations at the intergovernmental level, which in the case of Mercosur are defined by an organization chart. (See Figure. 3)

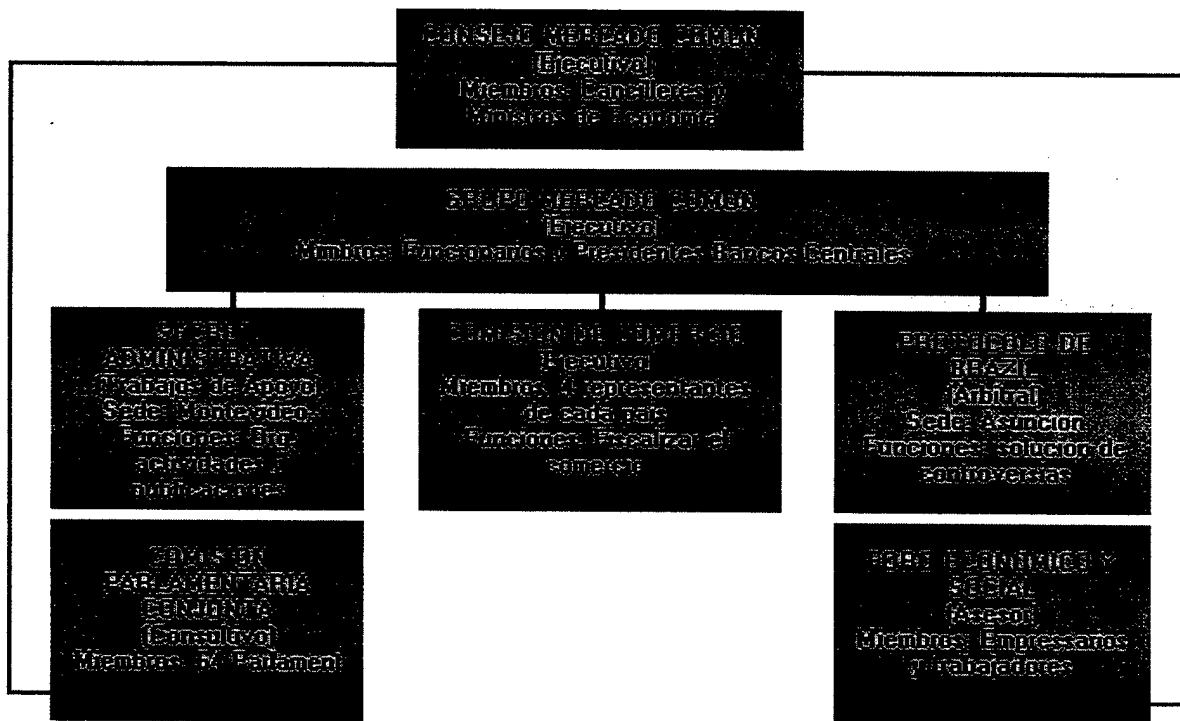


FIGURE 3 ORGANIZATION

This aspect is what differentiates Mercosur from the European Union. The 15 states in the Union, some reluctantly, have agreed to relinquish and to continue relinquishing sovereignty in some areas. This is not so in Mercosur because another model was adopted in which the authority is held on equal terms by the Presidents of all member countries.¹⁷

In the political field, the members of Mercosur signed what is known as the "Democratic Clause". It states that democratic institutions are an essential precondition for cooperation in the Asuncion Treaty, that any alteration in the democratic order is an unacceptable obstacle for the integration process of the affected nation and that the parties must be consulted if democracy is altered in a member state, so they can consider taking consequent measures against the infraction.

It then added that the countries should include a clause in which they commit to democratic principles when Mercosur signs agreements with other countries or groups of countries. Following this clause, Chile and Bolivia have signed an Adherence Protocol to Mercosur. This is a complementary aspect to the economic one and it has given rise to a controversy where arguments for and against it are presented. One example is the position presented by former Chilean senator Onofre Jarpa in *El Mercurio* newspaper where he says that this clause would mean for Chile to abandon a long tradition of the devotion of its legal system and behavior to the non intervention in the internal affairs of other countries.¹⁸ The recent Latin-American story shows that in many occasions the democratic system fails from the inside due to inefficiency and the corruption that affects many governments.

Senator Jarpa pointed out " **With such a vague norm, to identify when there is a danger for the democratic regime it is difficult to see if this danger comes from the inside or the outside or if it's due to foreign pressures**". He states that in Peru the terrorist actions and corruption of Alan García's government led to a deep democratic deterioration from the inside and it was president Fujimori's duty to confront the problem. It would have therefore been absurd, once the danger was detected, to carry out rectifications and reorganizations in order to save democracy and to apply sanctions on the top. ¹⁹

An opposite perspective can be found in the Government's official position, as stated by the President in an interview to *El Mercurio* newspaper: "Latin America is living times of change. Democracy is now present in almost all the countries of the region and there is agreement and the will to consolidate this political regime. So the decision was taken to subscribe to this compromise whose main objective is to protect the same democratic values which are present in our constitution and which are intrinsic to our political system."²⁰ This clause was created for those cases in which the Law and institutional order are broken and it contemplates the suspension of the affected country's participation in Mercosur meetings and in extreme cases the suspension of the rights and duties derived from international treaties subscribed to by the parties. Chile has signed other international treaties similar in nature such as the Agreement with the European Economic Community signed on December 20th 1990 and which was passed by the National Congress in 1991. There is evidence that something rather unprecise is being agreed upon and that it plays an important role for the continuity of the integration processes the countries of the region are implementing these actions send out signals questioning the trustworthiness of the institutions the Chilean state has designed to guarantee the 1980 Constitution. One example of such institutions is the National Security Council. The political function that is intended for the clause does not agree with the absence of supranational organizations within Mercosur.

It is also possible to state that in the political economic field the Agreement intends to create conditions for physical integration as a necessary tool to achieve the creation of an extended economic union between the parties. The details of the conditions required to achieve this goal are stated in the Physical Integration Protocol, which was signed along with the Agreement and a commitment was made in order to carry out infrastructure investments.²¹ This particular point rises great concern as well as expectations in the Government and in the different areas of the national life, since it means that the

country could become an exchange point between Pacific Asia and the South Cone of South America. This would no doubt produce an alteration in the social, economic and strategic environment of some areas of the national territory.

How the Agreement Influences the Nation.

There is no doubt that the Agreement will have a general effect in the different areas of the nation; the opening of a market with a population of some 200 million inhabitants does interest those in charge of the state and those who are responsible for the productive process, as well as the costumer themselves. It is therefore considered appropriate to go deeper only into those important aspects that due to their permanent presence in the public media may be taken into account by specialists and the authorities responsible for the different areas of the national activity.

In the economic field, the assessment of its impact is of titanic proportions, but it is no doubt worthwhile since it affects practically all areas of production. No large economic benefits are foreseen. Mercosur does not represent more than 3% of the world's gross product and therefore the potentiality of Mercosur compared to other development alternatives do not appear as a detriment to national economy. On the other hand, there is access to a natural market from the geographical point of view and, most important, is that through the Physical Integration Protocol it allows for an advantage in the production of services.

The tariff effect of the Agreement is not fundamental in the general context of the economy, since in the national case an important benefit is already obtained. As regards facilities, the Agreement poses a big challenge for the country since there is the need to carry out an important number of public works mainly in the port and road areas. Such facilities must be able to cope with the new and increased freight moving to and from Mercosur. The country is expected to become a business platform and an exchange center between Latin American and the Asian markets.

From the political -administrative organizational point of view, the Agreement takes on a very special characteristic since its impact favors eight regions, affects negatively four regions and in one region it would have no effect (12th region). The "winning" regions would be all those in the north and central part of the country (1st to 4th including the Metropolitan Region) as well as one in the south (11th region). The "loosing" areas would be those in the center- south zone of the country (7th to 10th regions). In the case of the first regions, the positive effects are associated to an increase in foreign mining investment, the bi-oceanic transport corridors, fishing, agriculture and the industries oriented towards foreign markets. The negatively affected regions would have an adverse impact on traditional agriculture, although the forestry and fishing sectors would have some benefits, such a situation would force a reorientation which would have a high social cost. This would call for a reformulating of most regional strategies and policies as regards exterior commerce, foreign investments, and facilities as well as urban development requirements.

In the political field, the Agreement represents the establishment of an integration policy towards which Chile has been aiming since 1990 and which intends to complement the successful unilateral

integration strategy with the multilateral one. The national authorities label this Agreement as a fundamental step in Chilean foreign policies with a sub-regional bend and at the same time it is a sign for the rest of Latin America so that they may adopt similar strategies with Mercosur. For example, immediately after the Chilean signing of Mercosur, the Andean Agreement and Mexico have started conversations with Mercosur.

The political field must face the impact which the interaction with other states imply, especially because the country traditionally dwelt them in a bilateral way and without the compromises the Agreement requires, such as the Physical Integration Protocol, the Democratic Clause and the large number of complex situations which must become operational in the economic field. This will mean that Chile will become involved in a new political process of international relationships, which must be carefully managed in order to minimize the risks and to exploit all of the opportunities to be derived from such a process.

THE CHILE-MERCOSUR ECONOMIC COOPERATION AGREEMENT AND ITS CONNECTION TO THE POLITICAL STRATEGIC SITUATION.

SOME CONSIDERATIONS ABOUT NATIONAL SECURITY.

The information related to the tendencies that are present in international and economic relations world wide, as well as the data that enable Chile to have clear ideas of what Mercosur is and the association the country has made with Mercosur, have been explained in the foregoing paragraphs. It is now pertinent to cover security aspects.

There is no doubt that every modern nation has the need to establish some short, medium and long term measures to structure coordinated ways of acting in order to face multiple contemporary challenges. This requires understanding some essential aspects regarding security of the nation.

FUNDAMENTALS OF NATIONAL SECURITY

There are several definitions for National Security but basically it is an element of the common well being such as Morality, Values and Material Goods. Security is therefore acknowledged as inherent to men and society. In the case of Chile, security is part of its system of law, it is present in the Constitution and in the laws that regulate specific matters.

Law Number 181 is the matrix document for national security and is now part of the legal frame of Chilean National Security. It defines security as: "Any action aiming at preserving the judicial order of the country and ensuring the nation's sovereignty in the country as well as abroad according to the Constitution, the law and international law ". There are other definitions such as that of the Chilean War Academy which declares that security does not mean the creation of a formal plan but rather it is included in ideas that constitute principles which must be applied to policies and specific plans which the country formulates.

The National Academy for Political and Strategic Studies (ANEPE) interprets security as the capacity the state has to adopt measures aiming at strengthening national power and thus avoid,

eliminate or reduce vulnerabilities. The country would thus be able to face successfully any internal or external threats or hostilities, which may affect the National Objective.

Based on the above named concepts, National Security is a demand for the common well being which is a concept bounded to the state and serves the society as a whole. In order to implement National Security, the society develops Sector, Defense and Military policies as well as the corresponding planning for the Armed Forces.

SECURITY AS CONNECTED TO THE ECONOMIC COOPERATION AGREEMENT

In order to identify such a connection, it is necessary to remember the Economic Cooperation Agreement that Chile signed with Mercosur, as well as the importance that the Chilean State gives to National Security.

These two elements are directly related; they are part of the people's well being which is the goal of all the nation's government policies. Acknowledgment that the Agreement was part of the foreign policy applied by the country during the last decades indicates that it is one of the elements of the overall political objective. It also plays its part in the economic stability of the country at the international level, establishing a foundation for a stable, less vulnerable and safer Chilean position. In order to achieve this objective, it is necessary to have a well-defined and dynamic strategy. This creates movement and permanent strategic and geopolitics positioning of countries and blocks.

The Agreement itself is connected to the National Security and its treatment must consider the different areas of Government. Attention must be paid to the development it can provide or the changes it can apply to the different factors threatening different areas of national interest.²² Mercosur is an element, which influences all areas of national activity. It introduces new forms of social, political and economic behavior and the different components of society cannot remain neutral.²³ This concept stresses the necessary relationship existing between the effectiveness of the Agreement and the elements that are part of the National Security. National Security foresees coordinated action of all of the nation's forces organized in Fields of Action,²⁴ each one of them must be studied as to their positive and/or negative impact in order to coordinate measures to improve the rentability of the product.

THE THREATS AND THEIR CONNECTION TO THE POLITICAL STRATEGIC LEVEL (FROM THE ECONOMIC COOPERATION AGREEMENT POINT OF VIEW).

The Agreement and its relationship with National Security has already been described as a dynamic element within the context of development and security and the Chilean State strongly commits itself to its principles. The State must therefore have the capacity to establish the precise relationship between opportunity and insecurity or threat factors that may arise as a result of the processes such as the ones that take place with the Chilean participation in Mercosur.

Today's perceptions have changed and, contrary to the past, an insecurity factor may not arise as an obstacle for a specific economic project. The insecurity factor, provided that is detected on time, launches a series of political- strategic actions that allow compatibility between the economic interests

and defense and security needs.²⁵ There is the need for interpretation of what is political (the Agreement) and what is strategic (what the threats imply). Such an interpretation will allow for the decision making process, thus integrating all factors in order to optimize the political objective. As far as the Agreement is concerned and in order to establish the precise link between the threats and the political strategic field, it is necessary to identify the rise of situations that may have a negative effect on the national interest. This is possible only if there is a scientific method, which can evaluate the information and the facts that may be generated from negative situations where a crisis may start. On this topic, the former Economy Minister of Chile Mr. Eduardo Aninat, states in a lecture at the ANEPE.

The dynamics of today's world and of international politics, along with the multiple factors and the transnationalization of all phenomena, demand from a small and limited capacity country like Chile a permanent tracking of the international scenario, with a strategic and multidisciplinary reading. Such readings and prospective exercises allow identifying where weaknesses, strengths and opportunities lay. This is a key element now a days for the national and economic security.²⁶

The above mentioned policies existing in the country concerning National Security clearly define the document that must bring to reality the Minister's ideas. This document is The Global Political Strategic Assessment, a planning document at the political -strategic level. It determines objectives that affect certain countries or a group of countries that may give rise to a crisis or to conflict leading to a war hypothesis.

THE OPERABILITY IMPACT OF THE COOPERATION AGREEMENT IN THE NATIONAL DEFENSE.

The Assessment of antagonistic situations.

The Economic Cooperation Agreement Chile signed with Mercosur, as has been shown in the above analysis, demonstrates that at the level of country, groups of countries, or even individuals, conflict situations may be generated which produce certain active or underlying passive confrontations which have been called "antagonisms". It is thus possible to identify the following antagonistic situations:

Following the methodology agreed upon, the Agreement Chile signed with Mercosur, especially concerning the economic aspects and also the mechanism to solve controversies, leaves a great margin for complex situations to develop in the fulfillment of the agreed tariff preferences. This is due to the complex tariff system as well as the lack of a specific mechanism for the solution of its effects. Such mechanism will only be operable after four years. It is possible to foresee that countries such as Brazil and Argentina, which are facing difficult economic times and have a tradition of breaking similar commercial agreements, may produce encounter unstable situations which may affect first the economy level and then the political one. In the case of the relationship with Argentina, the risk is even higher since it is a close neighboring country, which may imply a larger risk of threat.

Another situation, which may produce antagonism situations, is the favorable conditions for the country participating in the Mercosur environment to increase its foreign investment level in the association. The amount of Chilean investment is 58% and the main destiny is in Argentina. This

becomes especially important if we consider the above-mentioned situation in which the treatment of Chilean capital abroad may become complex, especially in Argentina and in Bolivia. To all of these the concern of some risk sectors must be added since large amounts of capital could be at risk.

The consequences may not necessarily concern only some enterprises or economic groups but also individual Chilean citizens, because of investments made by Chilean Retirement Insurance Companies. These companies have an important amount of their assets invested in foreign countries. A clear viewpoint is required to see how the national interest is being affected and so to how involved should the Chilean Government be in supporting investments abroad.

A source at the Defense Ministry declared that there is no clear position in this matter due to the difficulty in defining the national interest in certain cases. Many times the moneys in question are diversified among different foreign investment groups, which do not necessarily represent the best interests of Chile. The declaration also stated that management of these situations required detailed analysis of specific situation in order to adopt the adequate strategy, which would not alter the basic stability of the economic system.

In order to avoid the creation of antagonistic situations, the Chilean Government has signed 16 Foreign Investment Protection Agreements in which the four Mercosur countries are included, especially Argentina. These Agreement have been confirmed by the Congress and published in the Official Newspaper on the 7th of February 1995, pages 2 - 4. These reduce the possibilities of instability as a result of antagonistic situations, since allow the Government to protect the economic interests of entrepreneurs as well as the majority of the inhabitants of the country. Ambassador Pedro Daza declared that the existence of the adequate mechanism for controversy solution provides effective protection in the International Law.²⁷ It is therefore possible to declare that the antagonisms that may be generated as a result of these situations may not easily escalate to risk situations which could then become real threats to national sovereignty.

As stated in the Economic Cooperation Agreement signed by Chile with Mercosur, there is a protocol which establishes a series of measures aimed at increasing the capacity of the countries to access other countries, thus improve commercial passage for products. Chile has an especially important relevant geographic position due to its access to the Pacific. This position gives Chile an advantage in establishing relationships with other countries in the Asia-Pacific zone - the principal producers of the future. This situation transforms Chile into the central point for commercial strategy of the Mercosur countries, particularly Argentina and Brazil. All of the Mercosur countries have expressed interest in Chilean membership in Mercosur. Through this Agreement, the Mercosur countries facing the Atlantic will have access to the Pacific and along with Chile they have improved access to Southeast Asia. Controversy is related to the granting of preferential treatment, which Chile must give to other signatories.

Today, Chile's physical facilities can barely cope with its own needs and must be expanded to meet the increasing volume of traffic caused by its association with Mercosur. The efforts authorities must make to improve port facilities is therefore of great importance to avoid delays when loading and

unloading foreign products. This situation can become even worse during the periods in which Chile is exporting fruit. This time frame currently produces large traffic bottlenecks in port areas. As delineated in the above, Servicio Agrícola Ganadero (SAG). (Equivalent as Agriculture Health Department in U.S.), has pointed out difficulties dealing with the fact that the country is not ready to face the impact of opening integration corridors without running the risk of severe problems to the agricultural and livestock patrimony of the country. Again, this problem could develop into a real threat.

As the analysis unfolds, it has established the existence of a connection between Agreement and the Political Strategic level due precisely to the political nature of the Agreement in the strategic nature of the threat it poses. Later on, in this context, an analysis of the impact of the operability of the Agreement in the Political Strategic situation will be carried out. The objective is to determine a probable scenario and check the one that exists and is already perceived.

The country traditionally feels a threat situation with its neighbors due to a historical context known by the name of a "whole society" and confirmed by appropriate authorities. The threats Chile faces are not anachronistic delusions. The history the country shares with its neighbors has its positive and negative factors. Considering that the source of all conflicts is linked to the dispute over a "right" which may have different expressions but it usually refers to a right already had and which loss (effective, eventual or possible) is perceived as a despoliation; or due to the value assigned it becomes an objective to be either recovered or achieved. This conceptualization allow us to identify and state that the economic expectations as well as the possession expectations Chile has in the region make it likely of creating circumstances leading to disputes of a "right."

In the short term the so called traditionally conflict²⁸ relationships may not be far from the country's political strategic scenario, especially when the important border conflict held with Argentina (Campos de Hielo Sur) is not yet resolved. Mention must also be made to the claims Bolivia has made as regards the solution of its lack of access to the open seas, and its conditions to restoration of diplomatic relations. In the case of Peru, the motivations are the wounds left in the past and which are still open after a hundred years and which are and will be a disturbing element in the economic, political and cultural relationships.

In this traditional setting a new element must be added which implies new challenges, risks and opportunities for Chile.

Bi-Oceanic Corridors in Relation to the World and Pacific Asian Region

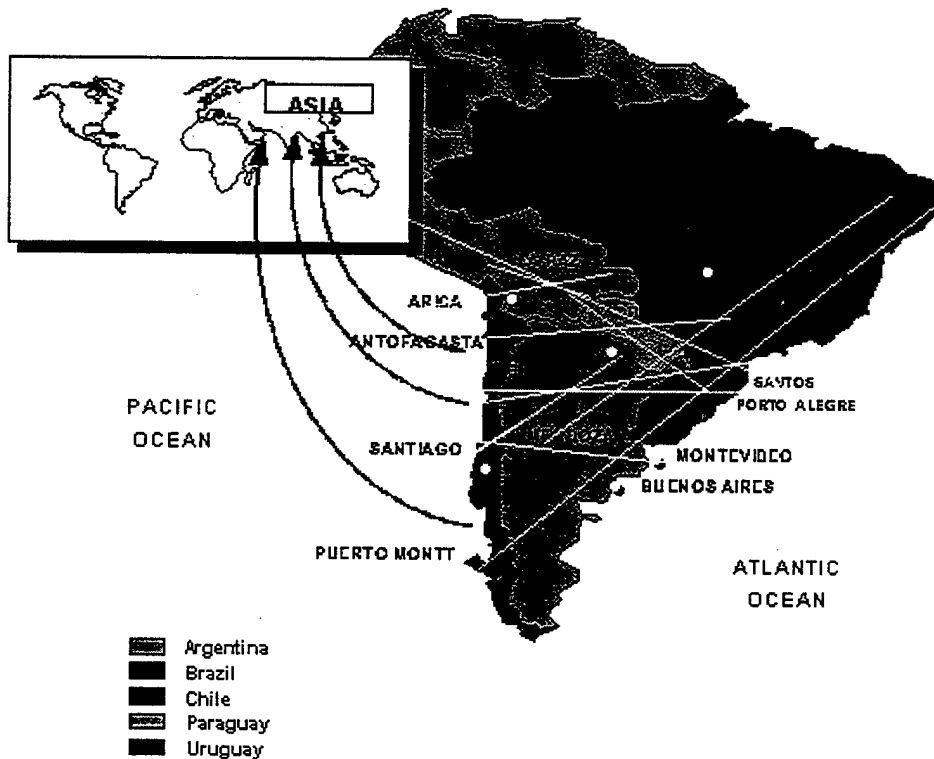


FIGURE 4 BI-OCEANIC CORRIDORS

The point is that these risks which may become threats are not clearly defined in the traditional conflict hypothesis but rather they present themselves in a diffuse manner as far as a crisis is concerned. They usually take the form of a non-fundamental situation but may become fundamental. A new scenario for the defense is thus set and in order to face this new type of threat adequate strategies, which combine the political, economic and military aspects must be designed. Another aspect, which may cause impact, is the starting of the Physical Integration Protocol, especially concerning the integration corridors and those considered bi-oceanic. (See Figure. N°4).

Chile has traditionally been geographically isolated and the border crossing points has traditionally held a high military importance especially concerning their adequate use for war.

As has already been mentioned, the traditional conflict phenomena will not be absent from the Political Strategical reality, at least in the short term. It may be therefore concluded that the implementation of the Physical Integration Protocol will transform the border crossings and the new capacity will require the design in times of new peace forms of control and protection. A conjunction of interrelated elements, which may become threats, such as security, information, sanitary control and population movement control must be taken into account.

Considering the partial result of the impact evaluation studies at the regional level that the Agreement may have, the North Region of the country seems to have the highest advantage since it is a center point of the three-bi-oceanic corridors, which will be implemented. There is also the specific option

that great foreign capitals outside Mercosur are interested in this Chilean region since it may become an access platform to Mercosur markets and their future projection in the region.

Such circumstances make the variation of the political strategic field undeniable and a special consideration must be given to the potential value this zone has and to the fact that it will serve many interests. In certain conflict situations, especially those that are initially economic conflicts, it may produce confrontations between groups, countries or groups of countries. In this case we would be facing a different phenomena to the ones traditionally taken into account in the conflict hypothesis at the political strategic level and which will demand original solutions based on the efficient coordination of the economic politic and military levels.

PROJECTION OF THE ARMED FORCES ROLE IN THIS NEW REALITY.

The integration processes modify the roles and open new patterns for the institutions that are part of the state. The political and social actors take up demands and changing expectations as they adopt new forms of political behavior. The Armed Forces are institutions, which within the context of their essential functions may have the need to adapt their role in the state and face new possibilities of acting in the process of integration.²⁹ As was mentioned in the above analysis, the Armed Forces, in the National Security System and specifically in the National Defense of Chile, will keep their historical role of fulfilling the primary social role of securing the national sovereignty. Even though there are some ideas as regards the loss of value of the concepts of sovereignty, frontiers and nationality, they must not yet, be taken as a completely proven fact. Today the principal world powers have not neglected the security of their frontiers and sovereignty, quite the contrary; these still are the main mission of their armed forces. From this point on, other functional imperatives may rise as the state develops them in a parallel way without submitting the society to a defenseless state from the military point of view.

From the perspective of the primary role it may be stated that the scenario which is being developed since the Chilean association with Mercosur may have direct and indirect new challenges for the role of the Armed Forces.

A topic which is repeatedly discussed when dealing with security, is that having a more integrated regional scenario which displays minimal security levels, among its members could minimize the traditional military role and at the same time be considering the integration of security just like the economic and political integration of the region.

These topics are being discussed at the academic level by the member countries of Mercosur. The Armed Forces are requested, especially by large international auditorship organizations, to reduce, to cut down their budget and in some cases to become some sort of "National Guard" to face difficult situations. This position is unacceptable for any armed force that has been created in a specific pattern. In this case, it is the creation and defense of a National State defined by frontiers and potential conflicts with neighbors.

The Armed Forces of the region try to defend themselves, sometimes not in the most appropriate way, by seeking refuge in maintaining old organization, which are economically unsustainable. In other

cases, strong changes are made in order to achieve a better position. This goes from participation in the world peace keeping processes to important changes in military socialization processes, especially at the level of curriculum in the academies for officers.

It is well known at diplomatic as well as military levels that conflicts with neighbors may not be managed at the military level only and that it is necessary to negotiate. Argentina and Chile are therefore in the process of doing so. Brazil and Argentina are reluctantly cooperating.

The problem is that in order to survive they must accept supranational missions too, which are not part of the constitutional and legal system, such as the participation in peace forces or even the formation of regional forces.

There is a general tendency to view the integrating processes as the end of the Armed Forces in the service of the national state. Due to the reality of the region this is not clear. What is clear is that the traditional military organization must become flexible in order to face the different challenges presented by integration processes promoted by the different countries and as has been described above, create dissension on the one side and new threats on the other.

As regards the so called supra national missions, the Chilean State has clearly defined its participation in UN missions in order to contribute to world peace by delivering humanitarian aid and technical support of non-fighting military troops.

The possibility of creating a collective force as an alternative for the Armed Forces survival is still far away. The Defense Ministry discusses Defense topics at the bilateral level and for the time being does not consider their treatment at a multilateral level, as in the Mercosur block. The position today is clear: The Chilean Defense does not commit to multilateral agreements.³⁰

This idea was confirmed by Chile in the II Defense Ministry Conference where the Navy Subsecretary, Pablo Cabrera, stated that the present economic integration processes projects the idea that the possibilities of conflicts are fading, which is clearly not so, while the military perceive that strategic dangers for the nations have not disappeared.

When the topic is the creation of hemispheric defense systems, the individual reality of each country is left aside. Each nation has specific and historical defense problems, which must be solved bilaterally with mutual trust measures. It seems clear that the most adequate way to face integration from the point of view of the Armed Forces is to increase the bilateral capacity in order to promote Mutual Trust Measures, particularly amongst the countries which still have pending disputes and which are current sources of conflict.

It is clear that the role of the Armed Forces should not really vary, as Chile becomes part of this new market. It is possible though that the antagonistic situations that arise may become a crisis and these require a short time for their management. The authorities would thus loose a certain degree of liberty to solve them due to the increase of the new commercial agreement, which could be used as an excuse to achieve political objectives. In this new scenario, the crises achieve a main role from the point of view of conflict and it would be in this context that the Armed Forces must have a more active role in

management than the political power allows. The Armed Forces role is based mainly on the dissuasive action that force may have along with the actions carried out by the political strategic field.

CONCLUSIONS

Taking into account the meaning of the Free Commerce Treaties, especially concerning their content, it is possible to conclude that they are an efficient and positive answer to the challenges imposed by the free world economy where commerce is a key element which moves the internationalization of the economy. The treaties have therefore allowed the countries or blocks of countries to face the challenges imposed by internationalization, since within the GATT barriers are reduced and the competing conditions improved as wider economic spaces are created aimed at economic and social development.

Looking at historical records, it is possible to notice that Latin America now has a favorable atmosphere for the development of integration due to international changes and the existence of opening policies in the countries where productive transformation for insertion in the world market is highly encouraged.

The international tendency is towards the formation of regional blocks, as well as bilateral and intrablocks free commerce agreements, as a way to face, at a higher level, the world economy phenomena based on the capitalist system hegemony.

The intra-block commercial flow shows that the tendency is towards an open regionalism characterized by a low protection level against the world due to the domain of free commerce zones and the opening to other countries and other integration schemes.

Chile has defined a clear economic policy, which has characterized it within the international world for more than 20 years. Outstanding is the development model based on free and competitive markets where the starting role belongs to exporting development based on external openings and non-discrimination.

In this context the system, which the country has adopted, has encouraged the widening of markets through unilateral openings and recently through the signing of multilateral agreements and negotiated factors, all of which improve the possibilities of entering into the international commerce flux.

The strong prestige Chile has achieved internationally means that it has a clear tendency towards integration and cooperation, which dominate world commerce today.

Regarding integration and the free Commerce Treaties, the present government policies are aimed at diversifying the system thus having access to Commercial Treaties and the permanent reduction of external tariffs.

Once the principal elements on which Mercosur is based have been identified, the alternative chosen by Chile, that is the integration as an associate to the conglomerate and not as a member of Mercosur, is the most appropriate and in consonance both with exterior policy and the economic policy the country has been implementing for the last decades. In the economic field it allows Chile to keep the advantages of the macroeconomic positive indexes, to keep the commerce flowing with the rest of the

world and to keep open the possibility of associating with other interesting blocks such as APEC, the European Union and NAFTA.

In the political field it allows Chile to be part of the formation of a regional block which is geographically linked to our territory and therefore it is only natural to belong to it because of the advantages, keeping in mind that there is freedom of action to be in other fronts that may benefit the country just as much or even more so than Mercosur.

From the legal point of view, an Association Treaty has been signed under OMC norms and therefore the country commits to an international compromise. But it does so not only as a country but also as a member of a block. This may have its drawbacks when its interests may be affected due to some action or measure that Chile takes which although being within the rules may affect the interests of other members, thus producing block reactions pressuring Chile.

Since the way to solve controversies is not defined yet it is likely that neighboring or regional problems may arise due to the interchangeable terms and the instability and protectionism characteristic of Mercosur members, especially Argentina and Brazil. The latter countries display a negative history on this point. This may describe the Treaty as a source of conflict due to differences in the liberalization processes amongst the associated economies, which implies facing a new setting in neighboring and foreign relationships as the country traditionally knew them. The agreement and its two attachments, i.e., The "Democratic Clause" and the "Physical Integration Protocol", introduce new challenges to the country, these must be faced in the near future.

The physical integration may be regarded as the greatest achievement of the Agreement, since Chile's geographical position in relation to the Asian-Pacific area would be exploited; such a zone is known as the future market. This situation may build up an axis between Asia and Mercosur and vice versa. This advantage will nevertheless require a great effort, especially in providing facilities and systems which may ensure animal and sanitary control as well as other measures devoted to the more efficient control of vehicles and people in the national territory. In this new setting new complex situations must be foreseen since they may trigger conflicts of unpredictable scale due to high economic interests from different countries.

There seems to be a tendency in the western world to have this type of business insurance but the one signed by Chile seems inadequate since our constitutional system has the necessary measures for the protection of democracy. To sign such wide compromises written in such vague and broad terms which lack principles and concepts essential to International Law can therefore imply serious complications in Chile relationship with other countries of the block.

The diversification of the national interest and their stratification due to processes like Mercosur has created a series of threats. The civilized contemporary way to face this reality has been International Law and the agreements and conventions around specific topics. Therefore the defense of our patrimony and national sovereignty requires a greater integration of military and exterior political mechanisms; they must have a higher coherence and stronger presence than in the past.

The Agreement is a dynamic process that generates situations that may affect national interests in different degrees. It is thus necessary that decision-makers at the national level keep a permanent interest in the process in order to provide prompt and efficient solutions to stop the evolution of a conflict and therefore the perception of a threat.

The challenges imposed by the Chilean association to Mercosur forces Defense to create conditions to avoid situation, like the ones in the past, where the preparation of war instruments in the service of politics was done at a secondary planning level. This generated an inevitable lack of coordination, which was negative for the specification of the security requirements of the nation. There is then the need for an agreed policy from all the forces that cooperate for National Power.

The Economic Cooperation Agreement in itself does not alter the traditional Political Strategic view that Chile has kept for its neighboring relationships. There is a political will to reduce conflictive relationships with the aim of improving mutual trust within various sectors in different countries.

The Chilean geographical position as regards the Asian-Pacific Markets is a key element for Mercosur's development perspectives, especially for those countries in the Atlantic basin; this has given Chile a new strategic value on the continent.

The interest shown by Argentina in the Chilean association in Mercosur is related to the favorable position Chile has in future markets and the possibility that the country would then have access to port facilities in the Pacific which would allow it to obtain the political objective access to two oceans.

From the Political Strategic point of view, the possible troubles that may arise as the Physical Integration Protocol becomes active must be a concern, since Argentina would receive the major benefits and would therefore expect its previously agreed upon benefits.

The valuable geographical position of Chile in Mercosur and the evaluation of regional impacts show that the Northernmost Region may acquire a new strategic value which would require initial measures at the political strategic planning level as the scenario receives a new geostrategic evaluation.

In the short term, the Armed Forces may not have an active role in the achievement of integration amongst the forces that serve Mercosur interests. This could be the case in Europe, where the existence of a common enemy enabled a collective military structure and afterwards advances were made in economic, political and commercial fields. The regional process, on the other hand, has had advances in the economic field as a way to respond to the needs and demands for a better of quality life for each country. In the short term this allows only a search for mutual trust in a bilateral context as a way to achieve agreement in conflict situations.

International reality must be taken into account today and it does not seem appropriate for Chile's political strategic reality to reduce action of the Armed Forces to narrow and dangerous roads which would block the flexibility needed to provide a dissuasive reaction to any threat and to become not just good intentions but an effective support for foreign policy.

Given the analysis and the conclusions made in this paper, the research hypothesis has been validated in its core. It has been demonstrated that the Treaty Chile has signed with Mercosur has and

will have a strong impact on national life, especially in the areas of economic development and foreign affairs.

WORD COUNT = 11,408

ENDNOTES

¹ Raul Grien, "La integracion economica como alternativa inedita para America Latina" (Fondo de Cultura Economica, Mexico, 1994), pp. 21 - 30

² Balassa, Bela (1964), "Teoria de la Integracion". (Ed. UTEHA. Mexico.) Appointed by Gabriel Loza Telleria, Integracion y Apertura Externa. (La Paz, Bolivia, 1992), pp. 27 - 28.

³ Martinez Peinado y Vidal Villa, pp. 441 - 442

⁴ Chile had to retire from the Andean Agreement (Pacto Andino) because the members did not find common positions about development strategies.

⁵ Philippe Delmas, "El Brillante Porvenir de la Guerra". (Edit. Andres Bello, Santiago, Chile, 1996) Pag. 97

⁶ Ibid. Pag. 98

⁷ Op. Cit., maritinez peinado y Vidal Villa, pp. 229 - 300

⁸ Ibid. Pag 229

⁹ Drucker Peter. F., "La sociedad Post Capitalista". (Edit. Norma, Bogota, Colombia, 1994) Original Title in English: "Post Capitalist Society". (Edit. Butterworth Heinemann Ltd.)

¹⁰ When cost saving with accrues increasing of volume.

¹¹ Dominique Hachette De la Fr., Profesor Pontificia Universidad Catolica de Chile, "Mercosur Implicaciones Nacionales y regionales" (Serie de Documentos de Trabajo del Centro de Estudios Publicos, Santiago, Chile, 1996) pp. 1 -3

¹² Presidente Eduardo Frei Ruiz - Tagle, "Extracto del Mensaje Presidencial del 21 de Mayo de 1995"

¹³ Eduardo Aninat Ureta former Chilean Ministry of Finance " Chile in the Global Economy: Consequences of Economy Integration in our National Security". Lecture, Chilean National War College, March 1996, cited with permission of Mr. Aninat.

¹⁴ Op. Cit. Hachette Dominique, pag. 3

¹⁵ The ideas in this paragraph are based on remarks made by a speaker participating in the "Mercosur" Seminar sponsor by Price Waterhouse and Quilmes Bank of Argentina. Chile, Santiago 03 July 1996.

¹⁶ Figueroa, Carlos former Foreign Chilean Ministry. "Chilean Current Foreign Policy: Integrations Issues." Congress Commitment. Legislative Year 1994. Tuesday 05 April 1994, pp. 17 - 18

¹⁷ Editorial de la Revista Mercosur, La Revista Europea del Mercado Comun del Sur, No.6, junio de 1996.

¹⁸ Sergio Onofre Jarpa, "Democratic Clause Critique," **El Mercurio de Santiago de Chile**, Santiago, 22 de agosto 1996.

¹⁹ Ibid

²⁰ Presidente Eduardo Frei Ruiz - Tagle, "200 Millions People Waiting for Us," **El Mercurio de Santiago de Chile**. Especial edition, Santiago, 01 de octubre 1996

²¹ The Chilean – Mercosur Economic Complementation Agreement Title XII. "Physical Integration". San Luis, Argentina, 25 July 1996.

²² National Defense Joint Staff, report of VII Simposium Strategic Studies. "The International Security Mechanism and National Interests". Santiago de Chile, June 1995.

The report appointed almost all the countries members of so called Occidental Christian Society recognize National Interests as a State Policy.

²³ Manuel Concha M BGL. (R) "Vision Politico Estrategica del Mercosur," lecture, National War College, Santiago de Chile, 28 de mayo 1996, cited with permission of Gen.(R) Concha.

²⁴ Field of Actions is defined in Art. 3 of DNL. 102 Chilean National Security Regulation Law 181 1960. This concept can be translated in US. Doctrine as an Element of Power.

²⁵ Juan Emilio Cheyre Espinosa. Tcl. "La Interpenetracion Politico – Estrategica" (Derechos Reservados del autor, 1986) pag. 39.

²⁶ Op. Cit Aninat Eduardo, "Chile in the Global Economy: Consequences of Economy Integration in our National Security". Lecture, Chilean National War College, pag. 16

²⁷ Chilean Ambassador Pedro Daza, interview by author (telephone), September 1999

²⁸ There are all situations, which are producing for consequences of the last Pacific War against Peru and Bolivia, and for some lack borders delimitation with Argentina.

²⁹ Consejo Argentino para las relaciones Internacionales y Fundacion Konrad Adenauer. "El Rol de las Fuerzas Armadas en el Mercosur." Trabajo de Investigacion, informe: Diciembre 1992. (Edit Fraterna S.A) pag. 9

³⁰ Defense Ministries Conference: "Chile claims to create strong Mutual Confidence Measures in Americas," **El Mercurio de Santiago de Chile**, 10 de octubre 1996. Part C. pag 4

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