

# Exploring the Impact of Economic Cooperation on Political and Security Relations between Argentina and Chile

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One of the most interesting and encouraging resolutions of conflict in the contemporary era is that between Argentina and Chile. As recently as 1978 the two countries had mobilized their forces for war, yet in 1999 not only had they resolved the last of twenty-four territorial disputes peaceably, but they were deeply engaged in a process of officially encouraged economic cooperation.

How did such a dramatic reversal of political-military relations develop? In this paper I demonstrate that the desire for closer integration of the two economies has been present throughout the twentieth century and that some progress was made before 1990. Trade interdependence between Chile and Argentina was actually higher in the early 1970s than in the 1990s. Prior to the 1990s, nevertheless, economic cooperation was consistently undermined by political and military competition. Consequently, the causal link between economic and security relations in this enduring rivalry cannot run from the economic to the security realm.

I argue that the fundamental causal factor in the resolution of bilateral conflict in this enduring rivalry was the acceptance of the regional status quo situation by both parties. Chile adopted this security perspective at the beginning of the twentieth century, but Argentina pursued a competitive security strategy until its defeat by the British in the 1982 Malvinas/Falklands War. Once the fundamental security tension was mitigated, the economic development strategies of both countries could promote increased economic cooperation, which in turn further strengthened a status quo orientation of both citizens and political leaders. In fact, both democratic and authoritarian political leaders found increased economic exchange to be beneficial to their domestic political programs as well. With the recovery of the Argentine economy after 1990 complementarities in the resource endowments (basically, Argentine energy and Chilean capital) of the two countries fueled the integration process to a point that has dramatically increased the costs to each side of rekindling competitive security strategies.

The present state of relations, however, is not entirely one of uncontested cooperation. The Chilean Army (in contrast to the Navy and Air Force, as well as the entire Armed Forces of Argentina) still has not found a mission that de-emphasizes the potential threat from Argentina. Economic integration itself has produced some adjustment costs and new vulnerabilities that have sparked some

controversies. And the economic development strategies have not made significant progress in relieving the poverty of a significant portion of the population (e.g., after twenty years of the Chilean “economic miracle” 30 percent of the population still lives below the poverty line).

This paper has three parts. First, I briefly summarize the historical background so that we may understand how this enduring rivalry developed and why it verged toward war so recently. In addition, past economic relations are sketched out to provide a baseline against which to compare the contemporary situation. The second section examines the current process of economic integration. It has three subsections: an analysis of the factors working in favor of and against the economic relationship; examination of the spill-overs from the economic into the security relationship; and the role of regional factors in this bilateral relationship. In the concluding section, I speculate on the links between economic cooperation and the political and security arenas in the Argentine–Chilean relationship. I also deduce some lessons from this experience that may be applicable in other enduring rivalries.

## **HISTORICAL BACKGROUND**

### **Political-Military Competition**

Argentina and Chile have historically disputed the southern Andes as well as the waterways connecting the Atlantic and Pacific. Their relationship was affected by the possibility that Argentina might join with Peru and Bolivia against Chile (against whom Chile did fight two wars) or that Chile could ally with Brazil against Argentina (against whom Argentina had fought in the nineteenth century). The rivals used diplomatic, economic and military resources in their efforts to influence the strategic balance. After the War of the Pacific (1879–84) Chile became a status quo power, but its reputation as a successful aggressor in the past has bedeviled its credibility even up to the present time. Argentina consistently sought to make limited territorial gains and important power projection advances into countries bordering Chile’s north (Peru and Bolivia). Not until the 1990s did Argentina abandon power projection goals and become a status quo power.

During the War of the Pacific, Chile worried that Argentina would come to the aid of Peru and Bolivia. Instead, Argentina chose to utilize the moment to establish control over the disputed Patagonia, which Chile was willing to concede in return for Argentine neutrality. After the war, however, the two countries found their dispute escalating toward armed confrontation. Argentina provoked an arms race by attempting to equal Chilean naval strength in 1898; war scares continued until 1902. British mediation successfully brokered the most famous arms control treaty in South American history. The *Pactos de Mayo* of 1902 resulted in both countries selling warships they had under construction in

Europe, as well as the disarmament of some ships already in service. Of longer lasting importance, the *Pactos* resolved the power projection rivalry by assigning each its own sphere of influence, Chile in the Pacific, Argentina in the Atlantic.<sup>1</sup>

These diplomatic and military agreements turned out to be confidence-building measures as well. They played a fundamental role in helping the two countries respond to Brazil's naval build-up after 1906 without damaging their own bilateral relationship. They collaborated diplomatically in trying to get Brazil to moderate its naval program. When Brazil refused and Argentina responded with its own Dreadnought purchases and naval buildup, Chile felt that it had to follow suit in order to maintain the southern naval balance.<sup>2</sup> Because of their earlier efforts at confidence-building, the attempt to maintain military parity did not destabilize the relationship.

By the 1920s, Argentina's geographic and demographic advantages (it has almost four times the land and two and one-half times the population of Chile) began to affect the bilateral relationship. Even with a small buildup in that decade Chile could not keep pace with Argentina in the military sphere. Consequently, while Argentina continued to rely heavily upon the military aspects of the balance, Chile chose to rely more upon diplomatic alliances and economic incentives for its security.<sup>3</sup> This new strategy led to some interesting changes in foreign policy. During the Chaco War of the 1930s, Chile attempted to ensure that Bolivia, its longtime foe, would not be defeated by Paraguay, which seemed to be gaining the upper hand because of Argentine support. Chile also sought a trade treaty with Peru, its other long time rival with whom it had settled a major dispute in 1929.<sup>4</sup>

But Argentina would not let Chile undermine its diplomatic and economic influence in Bolivia and Peru. Argentina closed the Andean Railroad to Chile in 1934. In 1937, Argentina sent seven new warships to Peru in a show of force and displeasure. Peru rescinded its trade agreement with Chile and increased wheat imports from Argentina. The Chilean government responded by altering its budget

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<sup>1</sup> The classic history of this period is Robert N. Burr, *By Reason or Force: Chile and the Balance of Power in South America* (Berkeley: University of California Press, 1974).

<sup>2</sup> Files on Chile, Argentina and Brazil, British Government, Foreign Office, Public Record Office, London, 1906–1910.

<sup>3</sup> Emilio Meneses, "Ayuda Economica, Politica Exterior y Politica de Defensa en Chile, 1943–1973," *Estudios Publicos*, (Santiago).

<sup>4</sup> The peace treaty ending the War of the Pacific left the future of status of two cities in what had been Peruvian territory, to be determined at a later date. In 1929 Tacna was returned to Peru and Arica officially incorporated into Chile.

priorities to build a bomber squadron and increase naval strength. In 1944, Argentina created a new division and stationed it in Patagonia along the Andean border between the two countries; this action caused alarm in Chile.<sup>5</sup> In 1945, Argentine Vice President Juan Domingo Peron told the Chilean Ambassador that Argentina would have to get a port on the Pacific from Chile through friendly negotiations or by force”.<sup>6</sup>

After WWII, Latin American nations, with the West European example and prodded by the UN Economic Commission on Latin America, promoted regional economic integration as a means of fueling economic development. Most Latin American countries, including Argentina and Chile, signed multiple bilateral trade agreements.<sup>7</sup> In 1953, the democratic governments of General Carlos Ibanez del Campo (1952–58) and General Juan Domingo Peron (1948–55) signed a Treaty to create an Economic Union, with a gradual elimination of tariffs. The Union was to be open to all countries of South America. It was followed by another agreement on trade and financial cooperation.<sup>8</sup>

Despite these efforts at cooperation, tensions over border disputes began to heat up anew. There were naval incidents in the Beagle Channel in 1954, followed by a controversy over whether Chile would acquire an aircraft carrier.<sup>9</sup> More incidents developed in 1958 and 1964 and major crises developed over the *Laguna del Desierto* in 1965 and the Beagle Channel in 1967.<sup>10</sup> In 1965, both countries began to

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<sup>5</sup> Glen Barclay, *Struggle for a Continent: A Diplomatic History of South America, 1919–45* (New York: New York University Press, 1972), 63, 179, 181.

<sup>6</sup> United States, *Foreign Relations of the United States* (FRUS) 1945, Vol. IX, 746–51, as cited in Emilio Meneses, “Percepciones de Amenazas Militares Y Agenda Para la Política de Defensa,” in VA Rigoberto Cruz Johnson and Augusto Varas Fernández, eds., *Percepciones de Amenaza y Políticas de Defensa en América Latina* (Santiago: FLACSO–Chile, 1993), 389, fn. 28.

<sup>7</sup> Donald W. Baerresen, Martin Carnoy, and Joseph Grunwald, *Latin American Trade Patterns* (Washington, D.C.: Brookings, 1965), 39–55. All of these agreements either produced minor benefits or collapsed by the 1980s.

<sup>8</sup> Oscar Pinochet de la Barra, “Chile y sus vecinos: problemas y oportunidades,” in Heraldo Munoz, ed., *Chile: Política Exterior para la Democracia* (Santiago: pehuen, 1989), 166–67.

<sup>9</sup> Meneses, “Percepciones de Amenazas Militares,” 376.

<sup>10</sup> Data from “Correlates of War Project, 1816–1980,” Inter-University Consortium for Political Information, University of Michigan, as cited in Emilio Meneses, “La Percepcion de Amenazas en Chile” (Santiago: unpublished MS, no date), 8.; see also Meneses, “Percepciones de Amenazas Militares.”

increase their military budgets and personnel. Argentina embarked on its “*Plan Europa*” to build a national defense industry which could modernize its armaments while Chile implemented an air program in 1967, followed by a naval program in 1969. Military budgets continued to climb in the early 1970s. Much of Chile’s increase was probably an attempt by beleaguered Chilean President Salvador Allende to buy time with the military (which would overthrow him in 1973). The arms race picked up in the 1970s, although it appears that the Chileans were accelerating their purchases largely because of a Peruvian buildup.<sup>11</sup>

The period of tension was briefly punctuated by a respite in 1971 when the Argentine military government decided to arbitrate the dispute in the Beagle Channel.<sup>12</sup> General Alejandro A. Lanusse (1971–73) made the decision, although his advisors indicated that the most likely outcome would give the islands to Chile. The General believed that Argentina would gain at least one island and that cooperative economic relations with Chile, rather than territorial competition or military balances, were the road to security and prosperity. Despite the fact that in 1973 Argentina and Chile had different political systems, they were also able to sign an arms control agreement (the Declaration of Ayacucho) along with six other South American countries in 1974.

The Argentine democratic government began to worry about losing the islands and searched for a way to stop the arbitration in 1976. But before the government could act, the military overthrew it for unrelated reasons. The new military government reviewed the arbitration process and decided to proceed with it.<sup>13</sup> They were surprised when the arbitration awarded all the islands to Chile in 1977. Argentina now had to confront the fact that possession of the islands would allow Chile to project itself into the Atlantic, thereby upsetting the bi-oceanic principle embodied in the *Pactos de Mayo* and which had

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<sup>11</sup> Meneses, “Percepciones de Amenazas Militares,”; Jose O. Maldifassi and Pier A. Abetti, *Defense Industries in Latin American Countries: Argentina, Brazil, and Chile* (Westport, CT: Praeger, 1994), 66–68; but Masterson, *Militarism*, sees the leftist military government in Peru responding in part to the 1973 military coup by an ideologically distinct group in Chile, as well as neighboring Bolivia, 265.

<sup>12</sup> Thomas Princen, “Beagle Channel Negotiations,” *Pew Case Studies in International Affairs*, Case 401, Parts A, B, and C (Washington, D.C.: Institute for the Study of Diplomacy, Georgetown University, 1988); James L. Garrett, “The Beagle Channel Dispute: Confrontation and Negotiation in the Southern Cone,” *Journal of Interamerican Studies and World Affairs*.

<sup>13</sup> Juan Archibaldo Lanus, *De Chapultepec al Beagle: Política Exterior Argentina 1945–1980* (Buenos Aires: EMECE, 1984), 517.

underpinned peaceful coexistence between the two.<sup>14</sup> Argentina attempted to negotiate a resolution with Chile that would provide for sovereignty over the islands, but without rights to maritime projection. Chile's military government, however, refused to give up any of the advantages that it had won in arbitration.

Argentina adopted a coercive negotiating strategy in the face of Chilean intransigence. Bilateral talks failed, and Argentina continued its military buildup. In 1978, it purchased twenty-six Israeli Dagger fighter jets and seventeen new Austrian tanks. Chile mobilized as well, and began its own defense industry to supply it with the armaments it could not import.<sup>15</sup> When Argentine military threats failed to gain Chilean concessions in the negotiations, the Argentines sought to implement a limited aims strategy by seizing the islands and presenting Chile with a *fait accompli*.<sup>16</sup>

Chile's long-standing reliance on diplomacy and economic statecraft had now failed to generate a stable relationship with Argentina. Because of the massive violations of human rights by both governments, neither could appeal to the international community for support in a conflict. This situation was more dangerous for Chile than for Argentina because the former had specifically re-oriented its strategic policy to depend more upon the resources of the inter-American community (specifically the United States), while the latter continued its long standing policy of self reliance. With a war scare on its Peruvian border in 1976–78<sup>17</sup> and increasing tensions on the Argentine front, the balance of power had shifted decidedly against Chile, leaving it in an extremely vulnerable position.

The Chileans moved quickly on two fronts to remedy the situation. In the face of Argentine coercive tactics, Chile attempted to defuse the crisis by enlarging the issue to create a win-win situation.

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<sup>14</sup> Latin American maritime policy allows a country to claim exclusive rights 200 miles into the ocean from its land base. If Chile retained these islands it could legitimately project itself into the Atlantic. This situation also had implications for Argentine claims to Antarctica, since unobstructed continental projection southward forms the basis for South American claims. For a discussion of the general issue, see Jack Child, *Antarctica and South American Geopolitics: Frozen Lebensraum* (New York: Praeger, 1988).

<sup>15</sup> Maldifassi and Abetti, *Defense Industries*, 89–92.

<sup>16</sup> Thomas Princen, *Intermediaries in International Conflict* (Princeton: Princeton University Press, 1992), 137.

<sup>17</sup> The hundredth anniversary of the War of the Pacific and Chilean refusal to grant Bolivia sovereign access to the Pacific Ocean through territory seized in that war, produced mobilizations in Peru and Bolivia during 1976–78. Even in 1999 the issue remains alive for Bolivia and it still does not have Ambassadorial relations with Chile.

While Chile would not discuss any sovereignty issues related to the Beagle Channel islands, it offered to discuss a variety of territorial and economic questions in the relationship. Mediation by the Pope was discussed, but Chile insisted that the talks could not deal with what the arbitration had “settled.” Chile also insisted that it was prepared to fight if Argentina persisted in seeking to impose its preferred solution.

The Argentine government did not believe that Chile was actually willing to fight over control of the Beagle Islands. The Junta gave the order to seize the islands and drafted a declaration of war. The weather intervened to give both countries a second chance as a storm prevented Argentine troops from landing. The two adversaries now understood that war was a real possibility, and when Pope John Paul II made a public appeal to both sides, they seized the opportunity. Both countries made concessions in accepting mediation, and progress was slow and arduous. Militarized disputes continued and there was speculation that Argentina planned to seize the Beagle islands after taking the Malvinas/Falklands.<sup>18</sup> But Great Britain intervened, dealing the Argentines a severe military defeat and making territorial wars unpopular in Argentina.

Argentina’s military government fell after losing the Malvinas/Falklands war. The new democratic government of Raul Alfonsin embarked on a strategy to re-orient the country away from the global Cold War focus favored by the military government towards greater political and economic integration with Latin America. As part of that foreign policy strategy, he concluded the long drawn out negotiations with Chile, although he too insisted on retaining the bi-oceanic principle. With Argentina severely weakened and its own economy reeling from a decline of 12 percent of GDP in 1982, Chile’s military government was willing to concede on the issue of projection into the Atlantic. The Treaty of Peace and Friendship between Argentina and Chile was signed in 1984 at the Vatican.

The Treaty contained three Clauses and two Annexes. The first clause addressed the need and desire for peace and friendship, while the second specified the maritime boundaries. A third clause called for increased physical integration and economic cooperation, and established a bi-national commission to promote these goals. The first annex set up conflict resolution procedures to deal with future disputes and a second annex addressed navigational issues.<sup>19</sup> The treaty was overwhelmingly ratified in an Argentine plebiscite although the Peronist Party opposed it, and passed in the Argentine

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<sup>18</sup> Martin Middlebrook, *Task Force: The Falklands War, 1982* (London: Penguin, 1987, revised edition), 36.

<sup>19</sup> The treaty and an analysis of its provisions can be found in Rodrigo Diaz Albonico, ed., *El Tratado de Paz y Amistad entre Chile y Argentina* (Santiago: Editorial Universitaria, 1987).

Senate by one vote. The Chilean military government signed and ratified the treaty with only the Naval Commander in Chief opposing it.<sup>20</sup>

Despite the treaty, Chile could not have had much confidence in Argentina in the 1980s. This had little to do with the fact that Argentina had democratized while Chile had not. Chile's military government was very pragmatic in its foreign relations, and had extremely close relations with democratic Israel.<sup>21</sup> Rather, it was the chaos of Argentine politics, with multiple coup attempts and the military trying to retain its nuclear and missile programs,<sup>22</sup> which worried Chile most.

The 1980s ended with Argentina in a domestic economic and military crisis. Chile, on the other hand, had a booming economy and the 1989 plebiscite had started the country down the path of democratization. Political and military competition had subsided, but it was not clear what the future held.

## **Economic Cooperation.**

Leaders on both sides of the Andes, whether democratic or military, have often seen economic cooperation as a fundamental building block for more secure relations between Chile and Argentina. In the wake of the signing of the *Pactos de Mayo* in 1902, the two countries signed conventions facilitating telegraphic and railroad communications to bring the two peoples and economies closer together.<sup>23</sup> Renewed interest in economic integration in the 1950s and 1960s led the two sides to address their outstanding disputes. Ironically, the near war over the Beagle Channel itself was partly caused by the Argentine military government's decision in 1971 to submit the Beagle dispute to arbitration as a way of resolving outstanding conflicts with Chile in order to facilitate economic cooperation.<sup>24</sup>

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<sup>20</sup> Roberto Russell, "El Proceso de toma de decisiones en la política exterior argentina," in Roberto Russell, ed., *Política Exterior y El Proceso de Toma de Decisiones en América Latina* (Buenos Aires: Grupo Editorial Latinoamericano, 1990), 54–58.

<sup>21</sup> Heraldo Muñoz, *Las Relaciones Exteriores del Gobierno Militar Chileno* (Santiago: PROSPEL–CERC, 1986), 263–66.

<sup>22</sup> Deborah L. Norden, *Military Rebellion in Argentina: Between Coups and Consolidation* (Lincoln: University of Nebraska Press, 1996).

<sup>23</sup> Burr, *By Reason or Force*, 256.

<sup>24</sup> Thomas Princen, *Intermediaries in International Conflict*, (Princeton: Princeton University Press, 1992), 134.

This renewed interest in economic cooperation did bring important initial benefits, both in terms of policy and actual flows of trade. In 1975, with Chile's dictatorship an international pariah and Argentina recently re-democratized, the governments issued the Presidential Declaration of Moron, pledging the support of each country to facilitate access to international markets. The following year, the countries established free trade zones.<sup>25</sup>

Table 1 demonstrates the bilateral economic payoff for the renewed interest in the 1960s (see page 11). We can see from the table that the proportion of total Argentine trade with Chile began to increase in 1965, reaching a high point in 1971–73 in exports while imports demonstrated an upward, though erratic trend. Chilean exports to Argentina as a percentage of total exports rose slowly but consistently from a low point in 1963, peaking in 1975. On the import side, Chile began an important increase in 1967; by 1974, the first year under the Pinochet dictatorship, the figure doubled that of 1966.

Some interesting facts are highlighted in Table 1. Increased trade relations did not depend on the two governments being democratic. In fact, it appears that Argentina's democratic government took advantage of the international repulsion of the Pinochet dictatorship to increase trade with Chile. Another aspect which stands out is the asymmetry in the trading relationship. Argentina accounted for 2–3 times more of Chile's total imports than Chile did for Argentina. On the export side the disparities were not as great, but Chile remained more sensitive to its trading relationship than did Argentina. Perhaps most interesting of all, the overall level of interdependence was low, on the order of 8–10 percent for Argentina and 13–22 percent for Chile.

Economic, along with political and military, relations naturally soured during the Beagle Channel dispute. Table 1 clearly demonstrates that the trading relationship suffered after 1978. By 1979–80, Argentine exports to, and imports from Chile as a percentage of total exports had fallen to less than half their share in 1977. Chile's exports to Argentina as a share of total Chilean exports fell more slowly, but by 1984 they were at half the levels of 1979. Argentina's share of Chilean imports fell quickly and dramatically in the years of conflict.

We do not have bilateral investment figures available for analysis. But there is no reason to believe that investment from one country to another would have been high in the 1960s and in the 1970s. The high profits stimulated by import substitution industrialization policies dominant in the 1960s probably made domestic investment more attractive for national entrepreneurs. Both the Argentine and

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<sup>25</sup> Claudio Fuentes and Gonzalo Mizala, "Chile–Argentina Despues de Marzo de 1990. Hacia la Cooperacion o el Conflicto," *Fuerzas Armadas y Sociedad* VII:3 (July–September 1992) 4.

Chilean economies experienced severe economic shocks for most of the 1970s, making neither an attractive place for investors. With world capital markets awash in funds,<sup>26</sup> both countries received vast amounts of foreign loans, most of which seemed to finance mainly consumption and capital flight by Argentines and Chileans in the late 1970s. Argentina recovered briefly in late 1978 but turned down in 1981 and remained in crisis through the 1980s. Chile's economy also collapsed in 1981–82 although it recovered quickly afterward.

In short, up to 1984, the desire to increase economic cooperation periodically surfaced in both countries. Some progress had been made, but both political–military rivalry and macroeconomic disequilibriums blocked significant progress.

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<sup>26</sup> Benjamin J. Cohen, in collaboration with Fabio Basagni, *Banks and the Balance of Payments* (Montclair, NJ: Allanheld, Osmun for the Atlantic Institute for International Affairs, 1981).

**Table 1**  
**Argentine–Chilean Trade Relationship**  
**(Bilateral as Percent of Total Trade)**  
**1948–1984**

<b>Year</b>	<b>Argentina with Chile</b>		<b>Chile with Argentina</b>	
	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>
1952	4.36	3.85	8.62	?
1953	3.49	5.58	10.92	?
1954	5.18	2.31	9.15	?
1955	3.20	4.18	9.44	?
1956	2.16	2.24	5.63	8.32
1957	2.46	1.64	4.09	3.62
1958	2.10	2.05	6.03	3.69
1959	2.49	2.87	4.85	5.41
1960	3.86	1.54	3.67	6.33
1961	4.46	1.65	4.58	7.75
1962	2.62	1.11	2.81	6.30
1963	3.04	1.75	2.78	7.91
1964	2.89	2.13	3.50	8.47
1965	3.58	2.44	4.16	7.13
1966	3.65	2.81	3.40	7.22
1967	5.09	3.40	4.70	9.43
1968	5.67	4.20	5.59	9.39
1969	5.49	4.54	6.17	8.99
1970	5.16	4.45	6.29	8.77
1971	7.41	3.71	5.97	9.98
1972	8.39	2.92	5.97	13.25
1973	7.13	3.67	6.00	12.92
1974	4.87	4.95	6.83	15.08
1975	4.41	4.11	10.72	7.08
1976	4.56	4.74	6.02	11.74
1977	4.86	3.95	6.57	10.86
1978	3.16	4.60	6.69	6.42
1979	2.04	3.96	7.08	3.35
1980	2.71	2.42	5.96	2.72
1981	2.07	2.01	4.99	1.97
1982	2.15	2.75	4.08	3.81
1983	2.41	2.58	3.12	6.50
1984	1.85	2.58	3.20	4.50

Source: International Monetary Fund, *Direction of Trade*.

## THE PROCESS OF ECONOMIC INTEGRATION

### Driving Factors and Points of Resistance

Resolution of the Beagle conflict allowed the two governments to refocus on the process of economic integration which began in the 1960s. The 1984 Treaty of Peace and Friendship between the two countries contains a section titled “Economic Cooperation and Physical Integration.” Article 12 created a permanent Binational Commission to stimulate and oversee this process of economic integration.<sup>27</sup> Economic cooperation, however, did not progress quickly after the signing of the peace treaty. The obstacles were primarily economic, although political-military factors played a role as well.

Chile continued its neoliberal economic policies after the economic crisis of 1982 and would have been in a position to respond to opportunities in the Argentine market. The military government in Chile would probably have limited the extent of economic cooperation to ensure that “strategic areas” (e.g., key transportation links and sectors of the economy—see below) remained under Chilean control. The Pinochet government did, however, sign a bilateral agreement on nuclear cooperation in 1983 even before the final resolution of the Beagle dispute.<sup>28</sup>

Chile’s capital market expanded, deepened and broadened dramatically in the 1980s as a result of specific government policies and high rates of economic growth. First, the reorganization and privatization of pension funds in 1980 created large institutional investors representing many sectors of Chilean society, including workers. The military government’s revised privatization strategies after 1984 subsequently facilitated the growth of these and other investors. The value of stocks transacted increased, in constant US dollars, from \$41.9 million in 1984 to \$917.6 million in 1989.<sup>29</sup> Consequently, by the end of the 1980s a pool of significant Chilean capital was available for foreign investment. Once the Argentine economy began to recover, Chilean investors would increase their presence in that market.

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<sup>27</sup> Díaz Albonico, ed., *El Tratado de Paz y Amistad*.

<sup>28</sup> Jose Bernal Castro, “Argentine Nuclear Development,” in Paul L. Leventhal and Sharon Tanzer, eds., *Averting a Latin American Nuclear Arms Race* (New York: St. Martin’s Press, 1992), 98.

<sup>29</sup> Dominique Hachette and Rolf Luders, *Privatization in Chile: An Economic Appraisal* (San Francisco: Institute for Contemporary Studies, 1993), 59–61; 99–114.

But the Argentine economy was in a constant state of crisis up to 1990 and the market opportunities for closer economic ties were limited.<sup>30</sup> The Argentine economic situation was so bad that outgoing President Alfonsín resigned early to allow his successor, Carlos Saul Menem (1989–2000), to begin implementing a program for economic recovery. Menem took office with a great burst of energy and desire to move Argentina not only out of the economic crisis but also its sense of political malaise. In the name of national reconciliation, he pardoned the Junta members who had been sentenced for human rights abuses during the military government. In addition, he dramatically changed Argentine foreign policy, turning the country from a diplomatic adversary of the United States into its closest ally in the Western Hemisphere.<sup>31</sup> Menem also sought closer relations with Chile, both because its economy was booming and because it would signal to the international community that Argentina was committed to becoming a credible status quo country.

By 1990, then, Chile had the economic resources and Argentina began to provide the opportunity for investments and increased trade. Not only did the Argentine economy stabilize, but the Menem government embarked on a dramatic privatization program. Chilean investors, including the state-owned enterprise CODELCO, responded (see below).

Political and security incentives complemented the economic incentives after Chile democratized in 1990. The new democratic government of Patricio Aylwin (1990–94) found itself committed to the military government's liberal economic development strategy. Those economic reforms produced sustained high rates of economic growth, and the new democracy's performance would be measured against those standards. In addition, the negotiated transition to democracy made it institutionally difficult to dramatically change policy. The government's own economic development strategy focused on spreading the wealth generated by the liberal development model without redistributing wealth away from the current beneficiaries. Therefore, investments and markets had to grow in order to generate more

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<sup>30</sup> For a discussion, see Javier A. Gonzalez Fraga, "Argentine Privatization in Retrospect," in William Glade, ed., *Privatization of Public Enterprises in Latin America* (San Francisco, Institute for Contemporary Studies, 1991), 75ff.

<sup>31</sup> David Pion-Berlin, "From Confrontation to Cooperation: Democratic Governance and Argentine Foreign Relations," in David R. Mares, ed., *Civil-Military Relations: Building Regional Security and Democracy in Latin America, Southern Asia and Central Europe* (Boulder: Westview, 1998), 79–100. The intellectual justification for this dramatic reorientation of foreign policy can be found in two books by one of Menem's advisors: Carlos Escudé, *Realismo Periférico: Fundamentos para la nueva política exterior argentina* (Buenos Aires: Planeta, 1992), and *Foreign Policy Theory in Menem's Argentina* (Gainesville: University Press of Florida, 1997).

wealth. The *Concertación* governments believed that regional peace would facilitate new investments and expand markets.<sup>32</sup>

The democratic governments of Aylwin and Eduardo Frei (1994–2000) thus embarked on foreign economic policies that would insert the country into multiple promising economic “blocs.” While the military government had simply had a strategy of open doors to whomever was interested, the democratic governments went out and negotiated agreements to accelerate Chile’s integration into a world economy that was rapidly liberalizing, but with preferences for regional trading blocs.<sup>33</sup>

Since 1990, Chile has signed bilateral free trade agreements with Mexico and Canada while recently failing to do so with the United States. Chile has also become an active member of the Asia Pacific Economic Council (APEC), signed economic complementarity agreements with Venezuela, Colombia, Ecuador, Bolivia and Argentina, entered into multilateral agreements with the European Union and Mercosur, and is currently negotiating with the Central American countries.<sup>34</sup> The strategy paid dividends in 1998 when Chilean exports to countries with whom it had trade agreements only fell 1 percent, as compared to an overall decline of 12 percent for all of Chile’s exports.<sup>35</sup>

Governmental efforts to bring the two countries closer together were not limited to the economic sphere. As in the 1960s, there was a sense that political issues had to be resolved in order to proceed with economic cooperation. In early 1991, the Argentine–Chilean Mixed Commission on Borders (*Comision Mixta Chileno–Argentina de Limites*) drew up a list of twenty-four territorial disputes to be negotiated. In August 1991, the two governments developed an agenda covering forty issues in their

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<sup>32</sup> Carlos Figueroa, “Una diplomacia para el desarrollo” paper prepared for the Ministry of Foreign Relations, Government of Chile, 5 April 1994; *Concertación de Partidos por la Democracia, Un gobierno para los nuevos tiempos* (Santiago: 1993, mimeo), as cited in Rojas and Fuentes, “Civil-Military Relations,” 167–168.

<sup>33</sup> Cf., Munoz, *Las Relaciones Exteriores*; Munoz, ed., *Chile: Política Exterior*; and Augusto Varas, ed., *Hacia el Siglo XXI: La proyección estratégica de Chile*, (Santiago: FLACSO–Chile, 1989).

<sup>34</sup> Marcos Robledo, “Sector Privado, Política Exterior y Estrategia de Inserción Económica Internacional,” in Paz Milet, et. al., *Chile-Mercosur*, 184–85; “Chile Pushes for Trade Agreements,” *Chile Information Press (CHIPNews)* Santiago, 2 March 1999.

<sup>35</sup> “Trade Pacts Offset Export Slump,” *CHIPNews*, 16 February 1999.

bilateral relationship. Table 2 demonstrates the flurry of activity that occurred in this first year and a half characterized by democratic governments in both countries.<sup>36</sup>

**Table 2**  
**Argentine–Chilean Economic Agreements, Acts, Protocols and Studies**  
**January 1991–June 1992**

<u>Month/Year</u>	<u>Subject</u>	<u>Government or Private Sector</u>
January 1991	Petroleum/Gas	Government
February 1991	Telecommunications	Government
March 1991	Migration	Government
June 1991	Gas	Government
June 1991	Natural Resources	Government
June 1991	Tariffs	Government
August 1991	Science and Technology	Government
August 1991	Gas, Environment, Investment, Customs	Government
September 1991	Trade	Private
October 1991	Customs	Government
November 1991	Visas	Government
March 1992	Merchant Marine	Government
April 1992	Stock Market	Government
May 1992	Gas	Private
May 1992	Trade	Private
June 1992	Banking	Private

Source: Adapted from Claudio Fuentes and Gonzalo Mizala, “Chile–Argentina Despues de Marzo de 1990: Hacia la Cooperacion o el Conflicto?” *Fuerzas Armadas y Sociedad* Vii:3 (July–September, 1992), 6.

These economic and political incentives have paid off in terms of increased economic cooperation. Table 3 illustrates the impact on trade.

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<sup>36</sup> Isaac Caro, “Políticas de Cooperacion Para la Paz en Chile,” (unpublished MS, FLACSO-Chile, 1992), 17, 28, 29; Fuentes and Mizala, “Chile–Argentina Despues de Marzo de 1990,” 6.

**Table 3**  
**Argentine–Chilean Trade Relationship**  
**(Bilateral as Percent of Total Trade)**  
**1985–1995**

<b>Year</b>	<b>Argentina with Chile</b>		<b>Chile with Argentina</b>	
	<b>Exports</b>	<b>Imports</b>	<b>Exports</b>	<b>Imports</b>
1985	1.32	2.58	2.22	3.45
1986	2.00	2.24	3.83	3.56
1987	2.30	2.62	3.35	3.62
1988	2.84	2.76	2.38	5.26
1989	3.66	2.65	1.36	5.58
1990	3.74	2.75	1.36	6.55
1991	4.07	2.85	2.88	6.84
1992	4.75	4.30	4.55	6.25
1993	4.51	4.18	6.41	5.22
1994	6.38	3.86	5.49	8.07
1995	7.03	2.55	3.65	8.70

Source: International Monetary Fund, *Direction of Trade*.

We can see from Table 3 that, once again, the trade relationship carries more weight for Chile than for Argentina. In addition, Chile has a large trade deficit with Argentina (actually with Brazil, and hence Mercosur, as well). Nevertheless, there are sectoral benefits: manufactured goods account for 34 percent of Chile's exports to Mercosur from 1990–95, while they only represent 12 percent of Chile's total exports.<sup>37</sup> The Chilean government worries about its overall trade balance, not the specifics of a particular bilateral relationship. Since the government is encouraging the import of natural gas from Argentina, it can expect the deficit to further increase.

Unlike the economic rapprochement of the 1960s and 1970s, this time economic cooperation between Argentina and Chile extends to the financial sector. Table 4 indicates that Chile investments were principally in energy (55 percent) and industry (28.7 percent); only 2 percent in insurance & AFJP; 4.8 percent in banks; and 0.9 percent in communications (see page 17).<sup>38</sup> As Table 5 illustrates,

<sup>37</sup> Paz Milet, Claudio Fuentes and Francisco Rojas A., "Introduccion: El Mercosur, nuevo actor internacional," in Paz Milet, Gabriel Gaspar, and Francisco Rojas A., eds., *Chile–Mercosur: Una Alianza Estrategica* (Santiago: Los Andes, 1997), 40.

<sup>38</sup> Government of Chile, Ministry of Foreign Affairs, *Direccion de Promocion de Exportaciones, ProChile 1997*, as cited in Claudio Fuentes and Carlos Martin, *La nueva agenda argentino-chilena* (Santiago: FLACSO–Chile, 1998), 81.

Argentine investment in Chile represents only a tiny fraction of total foreign investment in all sectors of the economy, except in transport (see page 18).

Drawing implications from this relationship is difficult. Once again, this economic relationship is built largely on Chilean actions. But even this description may be misleading. A large proportion of what we identify as “Chilean” investment in Argentina may actually consist of European, United States and Japanese investment. For example, Enersis is a “Chilean” electricity-sector holding company that owns the Argentine power company which supplies Buenos Aires, Edesur. It is also one of the leading companies in the Chilean stock exchange and energy stocks account for a large portion of the activity in that exchange. But the largest stockholder in Enersis is the Spanish company Endesa, with 32 percent of stock. The Spanish company was recently barely thwarted in its attempt to takeover Endesa by controlling 65 percent of the stock. Endesa also has stock in another “Chilean” energy company, Endesa–Chile. A United States company, Duke Energy, is currently attempting to take control of Endesa–Chile.<sup>39</sup>

**Table 4**  
**Chilean Foreign Investments**  
**Principal Destinations**  
**1990–July 1997**

<u>Country</u>	<u>Chilean FI</u> <u>US \$million</u>	<u>Percent Total Chilean FI</u>
Argentina	5,939.8	43.6%
Peru	1,814.8	13.3%
Brazil	1,471.0	10.8%
Colombia	981.5	7.2%
Mexico	499.8	3.7%
Panama	387.5	2.8%

Source: Comité de Inversiones Extranjeras, *El Mercurio*, 8 February, 1998 as cited in Claudio Fuentes and Carlos Martin, 81.

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<sup>39</sup> “Enersis Shareholders reject Endesa Spain Bid,” *CHIPNews*, 25 February 1999. The Spanish proposal received 73.96% of stockholder votes for the takeover, but needed 75 percent. They are asking for a recount.

**Table 5**  
**Argentine Investments in Chile**  
**By Sector and In Comparison with Total Foreign Investment**  
**1996**

<b>Sector</b>	<b>Total FI</b>	<b>Argentine</b>	<b>As % of Total FI</b>
Agriculture	16.8	0.0	0.0%
Construction	27.6	2.3	8.3%
Electricity, Gas & Water	386.5	29.9	7.7%
Industry	813.4	25.5	3.1%
Mining	996.2	0.0	0.0%
Fishing & Aquaculture	41.4	0.0	0.0%
Services	2,333.0	10.0	0.4%
Forestry	19.9	0.0	0.0%
Transport	55.9	35.3	63.1%
<b>TOTAL</b>	<b>4578.4</b>	<b>102.8</b>	

Source: Government of Chile, Ministry of Foreign Affairs, Direccion de Promocion de Exportaciones, ProChile 1997 as cited in Claudio Fuentes and Carlos Martin, *La nueva agenda argentino-chilena* (Santiago: FLACSO-Chile, 1998), 81.

Finally, there is the issue of physical infrastructure. The need to develop gas pipelines to bring the Argentine product (controlled by Chilean firms) to northern Chile and Santiago plays a fundamental role in this arena.<sup>40</sup> The infrastructure linking Chile with Argentina is also part of a broader vision of Chile as a “port country” (see section on regional factors below). Plans for the Mejillones port in northern Chile will make it the largest commercial port on South America’s pacific coast. Exporters from both Asia and South America are expected to use the port for exports of Chilean copper, its container facilities, and planned rail links into Argentina as well as the other Mercosur countries.<sup>41</sup>

Domestic resistance to increased cooperation between Argentina and Chile has been surprisingly low. The fact that the increased bilateral cooperation is part of a broad political and economic development strategy for both countries helps explain the weakness of nationalist resistance. Neither is becoming more directly dependent on the other; together they are creating new opportunities for

<sup>40</sup> The energy sector is discussed in Fuentes and Martin, *La nueva agenda*, 37–44 and 58–61.

<sup>41</sup> “COREMA Approves Mejillones Port Plans,” *CHIPNews*, 15 February 1999.

economic growth in both countries. The democrats in both countries also believe that minimizing foreign threats facilitates civilian control over the military. And the brutal subjugation of the Argentine population in the internal Dirty War, as well as the humiliating defeat in the Malvinas War, have further dampened nationalist feelings in Argentina.

The legacy of rivalry disappears slowly, economic integration can create new points of disagreement, and fears about potential flashpoints can arise. Enersis has had problems with blackouts in both its Chilean and Argentine (Edesur) facilities. Discontent in Argentina in 1999 led to calls for terminating the company's ninety-nine-year contract. Because the company was based in Chile, President Frei's chief advisor felt compelled to express a hope that the controversy would not deteriorate into a nationalist feud.<sup>42</sup>

There have been some overt points of resistance, chiefly from the armies and Chile's most liberal entrepreneurs. The Army is tasked with defending land and thus worries about "penetration" of the national territory in ways that the Air Force and Navy do not. In Chile, the Navy has become attracted to the idea of developing a "blue water" fleet and defending sea lines of communication to "Chile Port" fits in well with their mission. The Chilean Air Force has become interested in space and satellites, and still has Peru's Air Force as a competitor, which can justify its budget and training. Thus, the Army seems to "whistle in the wind" when it raises concerns over new mountain passes and gas pipelines connecting Chile with Argentina.

The Argentine military is less of a factor because it has been decimated and dramatically subordinated to civilian control. In addition, it is factionalized between nationalists and liberals. The latter are more favorable to economic cooperation, while the former are more likely to protest adjustments in traditional Argentine positions with respect to Chile.<sup>43</sup> Hence, the military complained that the Foreign Ministry had submitted the *Laguna del Desierto* dispute to arbitration without consulting it.<sup>44</sup> Ironically, the Chilean military felt that the arbiter's decision went against it and pressured the Frei government to request a review. Yet in both countries, civilians remained in control of the bilateral

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<sup>42</sup> "Edesur Faces Possible Fines and Contract Loss," *CHIPNews*, 22 February 1999; "Edesur Racks Up Fines of US\$71 Million" 23 February 1999; and "Reaction to Power Situation Shows Chile Character," 25 February 1999.

<sup>43</sup> Norden, *Military Rebellion*.

<sup>44</sup> Pion-Berlin, "Democratic Governance and Argentine Foreign Relations," 90.

agenda and no important modifications were made in response to pressure from the nationalists in the militaries.

Another source of resistance comes from the fact that Chile's economy not only liberalized before Argentina's, it is more open to international trade. Were Chile to join Mercosur as a full member, integration with Argentina would most likely proceed faster and deeper because the common external tariff used by full members would make it more advantageous for Chile to buy and sell within Mercosur. Yet this state-managed integration would cost the Chilean economy because prices of affected goods and services would be raised by the common external tariff. In addition, the architects and defenders of Chile's open economy fear the loss of international competitiveness that could very well result from close integration into a less open Mercosur. Affected sectors have so far successfully opposed full membership in Mercosur. Hence the Chilean Confederation of Production and Commerce is concerned about the impact of Mercosur's common external tariff on their firms' ability to compete.<sup>45</sup>

There do not seem to be any important points of resistance on the part of Argentine entrepreneurs and consumers. Argentine entrepreneurs are heavily invested in the Mercosur market, where they gain some measure of protection by the common external tariff. Some Argentine investors have discovered opportunities in the Chilean construction sector, but few others have been willing to follow.

### **Spill-Overs into the Security Arena?**

Efforts to mitigate political and military enmities were begun before the most recent efforts at Argentine–Chilean economic cooperation made any progress. The navies and air forces of the two countries had been engaged in meetings and joint rescue operations since 1986. Democratization certainly contributed to better relations and Argentina's decimation of its military establishment made the Chileans feel more secure. In 1990, right after redemocratization in Chile, the two countries signed an agreement pledging cooperation in the pacific use of nuclear power. Along with Brazil, they also negotiated a tripartite security pact that same year. The following year, the three countries signed the Mendoza Compromise, in which they pledged to prohibit the development, production, storage or

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<sup>45</sup> Domingo Arteaga, "Los Empresarios y el Mercosur," in Paz Milet, et. al., *Chile-Mercosur*, 169–71.

transfer of chemical or biological arms.<sup>46</sup> The Defense Ministers of the two countries also established annual meetings for the joint chiefs to discuss coordination and cooperation on defense matters.<sup>47</sup>

Still, the progressive deepening of the economic relationship may have had an important reinforcing effect, especially in light of the democratic character of the two governments. One of the interesting results in the security arena of the closer relationship is Menem's decision to support Chilean government demands that General Pinochet cannot be tried outside of Chile for human rights violations.<sup>48</sup> Menem has championed international law as a means of defending both peace and democracy, yet he apparently felt that the relationship with Chile was important enough that he had to accept Chilean arguments concerning the inviolability of sovereignty.

There have been two points of friction between the countries in the 1990s. Both concerned territorial issues that were submitted to arbitration after bilateral negotiations failed to resolve them. (Twenty-two others were resolved bilaterally after 1991.) In the *Laguna del Desierto* arbitration, the decision was seen as unfavorable to Chile. The nationalist right and military were displeased, and a meeting of the National Security Council was called to discuss a Chilean response. Given the private nature of the discussions, it is not clear how much the bilateral economic relationship was an explicit part of the Frei government's decision to merely ask for the arbiters to review their decision for possible errors. One can reasonably expect that the civilian government both sought to limit the military's influence and to retain the support of a domestic constituency which saw the economic ties with Argentina as beneficial. Once the review was completed, Chile accepted the validity of the decision and General Pinochet limited himself to commenting that he cried for Chile.<sup>49</sup>

A more troublesome case was the recently resolved dispute concerning the *Campos de Hielo* area in Patagonia. The arbiters' decision concerning these ice fields favored the Chilean position and this time the Argentines balked. President Menem kept from sending it to the Argentine Congress because he

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<sup>46</sup> Isaac Caro, "Medidas de Confianza Mutua en America Latina," (FLACSO-Chile, typescript, 16 November 1992), 5, 7, and 11.

<sup>47</sup> Caro, "Políticas de Cooperación," 11.

<sup>48</sup> "Chile and Argentina Heads Ink Accord on Defense," *CHIPNews*, 17 February 1999.

<sup>49</sup> Gabriel Escobar, "RESOLVED: Border Dispute In Patagonia; Argentines Bask in Ruling Viewed as Model for Others," *Washington Post*, 18 February 1995, A23.

did not have the votes for ratification. The Frei administration carefully bided its time, yet insisted that Argentina must abide by the terms of their arbitration agreement. Finally, in late 1998, the resolution was ratified.<sup>50</sup>

## **Role of Region-Wide Factors**

These factors affected the Argentine–Chilean bilateral relationship indirectly, primarily through their impact on Argentine policy, and were at best supportive rather than causal factors. Chief among these region-wide factors were the “Washington Consensus,” the revitalization of the OAS, and the rapprochement between Argentina and Brazil, which culminated in the creation of Mercosur. The “Washington Consensus” refers to the hemispheric agreement that liberalized economies and reduced state apparatuses represent the optimal future for Latin America. While Chile had long before opted for a liberalized economy, Argentina had not.

The legitimacy of the OAS as a regional forum for addressing security issues had been in serious difficulty since the United States invasion of the Dominican Republic in 1965. Its nadir was the decision of the United States to support the military effort of Great Britain, an extra-continental state, against Argentina, a Latin American country.<sup>51</sup> In the 1990s, however, Latin American countries worked to revitalize the OAS’ efforts in the security area. In the 1991 General Assembly meeting, a Working Group on Hemispheric Security was created. In the following year, the Working Group was turned into a Special Commission, and in 1995, it was made a permanent Commission of the organization. In addition, the OAS sponsored the first ever hemispheric meeting on confidence-building measures in 1994.<sup>52</sup> Also in 1994, the first “Defense Ministerial” (a meeting of the hemisphere’s Defense Ministers) was held, with subsequent ones in 1996 and 1998.

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<sup>50</sup> Latin America Data Base, “Chile & Argentina Resolve Last Border Dispute,” *Noti-Sur* ISSN 1060–4189, Volume 9: Number 1 (8 January 1999).

<sup>51</sup> Heraldo Munoz, “Beyond the Malvinas Crisis: Perspectives on Inter-American Relations,” *Latin American Research Review*, XIX:1 (1984) 158–172.

<sup>52</sup> Ricardo Mario Rodriguez, “El impacto de la revitalización del sistema interamericano en la seguridad regional,” in Francisco Rojas Aravena, ed., *Balance Estratégico y Medidas de Confianza Mutua*, (Santiago: FLACSO–Chile, 1996), 91–93.

The creation of Mercosur should be understood in the context of dramatically improving security relations between Argentina and Brazil.<sup>53</sup> It built on the Washington consensus and United States President George Bush's call for a Free Trade Area of the Americas. Mercosur was more important for Argentina than for Chile. Mercosur was in many ways a first step in Argentina's new hemispheric policy. It not only helped settle a long and dangerous rivalry with Brazil, but also brought Uruguay and Paraguay into the agreement.

Argentina did not get everything it wanted in a new regional policy. Its efforts to create an inter-American peacekeeping force found few allies in Latin America. Its dramatic subordination of the military to civilian control, and significant cuts in the military budget have not been emulated by any of its neighbors. And its dollarization of its economy has not been imitated by any of its major trading partners, nor has it insulated the Argentine economy from troubles.

Although not as important for understanding Chile's participation in growing economic ties with Argentina, regional factors do contribute. Chile has adopted a national development strategy in which being a "*pais puerto*" (port country) plays a major role. Under this scenario, Chile serves as an outlet for countries to the east of the Andes to access the Asian markets. At least up until the recent Asian crisis, the old division of "Chile in the Pacific, Argentina in the Atlantic" is beginning to pay off for Chile.

## CONCLUSIONS

The Argentine–Chilean case is of major importance for understanding how politically and militarily competitive states might peacefully resolve their differences and build a positive new relationship. These two countries had multiple long-standing disputes and had mobilized their forces for a war only twenty years ago. Yet today their governments maintain good relations, their militaries are actively pursuing confidence-building measures, and their societies are beginning to walk down the path towards believing that war between them is unthinkable.

The economic relationship between Chile and Argentina, particularly in the financial sphere, is reflective of this new relationship. Chile's penetration of the Argentine economy has progressed rapidly. Argentina has been happy to sell products and receive Chilean investments. Economic cooperation between the two countries has thus increased. While economic cooperation did not begin the process of

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<sup>53</sup> For a discussion, see Rut Diamint, "Argentina y los procesos de verificación de las medidas de fomento de la confianza," in Francisco Rojas Aravena, ed., *Medidas de Confianza Mutua: Verificación*, (Santiago: FLACSO–Chile, 1996), 201–09.

rapprochement, it has certainly contributed to the development of more enduring friendship this time around.

Given the issues at stake on the border, except for projection into the Atlantic, it is easy to argue that the benefits of economic and military cooperation outweighed the benefits of continued rivalry. Even the military governments of the past agreed with this diagnosis. Yet neither side wanted to modify its position first, so they continually found cooperative efforts derailed by territorial and power projection considerations.

Significant progress on economic cooperation could only be made after both countries adopted the view that national security depended upon maintaining the status quo. Once a state attains this perception, it uses its diplomacy and economic statecraft to both strengthen the status quo relationship and promote economic growth. Leaders in both southern cone countries could see the benefits of economic cooperation, but the countries did not value these benefits over those of national security.

Chile attained a status quo position at the beginning of the twentieth century because it had been so successful in expanding in the nineteenth and the regional distribution of power had changed so dramatically in the early twentieth. Chile thus had much to lose and the objective imbalance was very clear to leader and citizen alike. Argentina, on the other hand, was a rising power in the first half of the twentieth century. Yet it attained virtually nothing but suspicion from its neighbors and the US. As a frustrated rising power, leaders and citizens alike wanted to use diplomacy and economic statecraft to achieve what their military buildup had failed.

Only by going through the nightmare of the 1980s were Argentines shaken into becoming a status quo power. One cannot overestimate the impact on Argentines of the discovery of the details of the Dirty War, in which up to 30,000 fellow citizens were killed by the military, many of them tortured in horrendous fashion. Add to this the defeat by the British in the Malvinas, including the knowledge that the Navy did not fight and the Army sent raw recruits rather than their trained soldiers to the front. As a direct result, the military has been discredited to a heretofore unimaginable degree, and consequently the country does not see the benefit of depending upon a security policy in which they play a major role. In addition, the combination of debt crisis and hyperinflation in the 1980s made it abundantly clear that Argentina's economic strategy had to change. Consequently, the labor-oriented Peronist party led the way in adopting neo-liberal economic reforms.

This new diplomatic and security environment between Argentina and Chile in the 1990s allowed the false starts of the past to blossom. Economic cooperation was further stimulated by the

adoption of neo-liberal economic development strategies by the two countries. Previous efforts at integration proceeded along import-substitution lines, which were based on protecting the national economy and thereby severely limited the scope of possible integration with a neighbor. Chile and Argentina both opened their economies in the late 1970s. Although Argentina abandoned this strategy after the Malvinas war, the debt crisis and hyperinflation brought the country back onto this path in 1990. With open economies, the complementarities between the Argentine and Chilean economies provided incentives for new investment, thereby creating a dynamic in support of even more integration.

Regional factors seem to have been complementary to bilateral efforts. The “Washington Consensus” had nothing to do with Chile’s continuation of a neo-liberal development strategy because the country had successfully liberalized earlier and the military government structured political institutions in a manner that would make it difficult for a democratic government to alter economic policy significantly. In the Argentine case, the “Consensus” might have generated some additional support for the policy after it had been adopted. The creation of Mercosur strengthened the Argentine policy of seeking economic integration with neighboring states, but may actually constrain Argentine and Chilean integration because Chile refuses to become a full member of Mercosur (the customs union is more protectionist than the Chilean economy). In any case, the bilateral integration process was well under way by the time Mercosur was established.

Regional security efforts are also complementary, though perhaps with even less impact than regional economic integration efforts. These multilateral security efforts have been tentative and have little teeth behind them. They were not sufficient to prevent Chile’s neighbor on the north, Peru, from going to war with Ecuador in 1995, nor from preventing Argentina from violating the arms embargo on the belligerents. Bilateral efforts have clearly been more important than regional policies in the security realm.

Economic cooperation between Argentina and Chile has not created the type of interdependent relationship between two countries which security analysts have usually looked to for consolidating peace. Because of Argentina’s success in Mercosur and Chile’s broad international integration, the bilateral economic relationship constitutes a small portion of each country’s overall economic activity. And an important portion of what we see as “Chilean” investment in Argentina may also quickly become “foreign investment” for both Chile and Argentina.

The security payoff, therefore, does not come from bilateral economic interdependence. In such a scheme, Chile might be vulnerable: its energy imports, its manufactured exports and its capital invested in Argentina could all be held captive. In terms of interdependence, Argentina looks less vulnerable to

Chile. Security for Chile and Argentina, consequently, comes from the fact that both countries have become status quo powers and need each other to do well in a globalized economy.