

EYES ONLY



THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

May 24, 1976

THE PRESIDENT HAS SEEN. *YAC*

MEMORANDUM FOR THE PRESIDENT

Subject: Trip to Chile, Brazil and Mexico

The purpose of my trip was to explore ways in which we could develop closer economic ties with the countries of Latin America. Economic cooperation in Latin America can bring not only economic benefits to the United States but also can assist us in our foreign policy goals in that part of the world. We have been able to develop such a parallel economic and political approach in the Middle East, and based on my experiences in these three countries, I believe we can also do it in Latin America.

Each of the countries I visited poses a different set of problems, but I completed this trip very optimistic about the economic potential in Latin America. I met with President Pinochet in Chile, President Geisel in Brazil, and President Echeverria in Mexico, as well as having extensive discussions with their economic leaders. In each of the countries, I made it clear that I was not bringing additional aid commitments, but rather that I wanted to find ways we could help the countries to help themselves.

Chile

The government in Chile is taking firm economic steps to restore stability and economic growth to the country. Its Finance Minister, Jorge Cauas, inherited an economy that was characterized by (a) high inflation, (b) the inability to service its foreign debt obligations, (c) declining output, and (d) labor crises in many sectors. Most of these problems were the direct result of excessive domination and intervention of the previous Allende administration. Minister Cauas and the current economic

EYES ONLY

DECLASSIFIED

E.O. 12356, Sec. 3.4.

MR 93-58 #6 Treasury Hr. 8/9/93

By Ut NARA, Date 10/29/93

EYES ONLY

- 2 -

team have taken firm economic steps and have demonstrated a clear desire to bring greater economic freedom to the country. They have removed most of the price, foreign trade, and other economic controls that existed previously. As a result of these policies and despite extensive obstacles, Chile has made considerable economic progress. The country has been able to double its non-copper exports, increase its agricultural production, and resume full payment of its foreign debt. Economic problems certainly remain. Chile still faces high inflation and high levels of unemployment, but based on my discussions, I feel that both of these problems should be improving this year.

Without offering any foreign aid, I was able to support these efforts toward greater economic freedom and I made it clear that the United States is interested in Chile's well-being. At the same time, however, I was very direct in telling the Chilean Government that we will not be able to help, and that they would continue to lose the support of others, unless they demonstrated that they are committed to ensuring human rights. We had had extensive discussions in Washington on this subject before I accepted their invitation to go. Here in Washington, and again in Chile, they emphasized that they were committed to ensuring human rights, and during my visit, I think we were able to agree on some significant concrete steps toward that end:

(1) They announced the release of 49 prisoners and, more important, stated that the momentum of the "parole program", under which prisoners are released, would be increased. In fulfillment of that commitment, they announced the release of another 50 prisoners just last week after my visit. I believe more will be coming.

(2) They announced that they would meet with the working group on the U.N. Commission on Human Rights to work out procedures for a group to visit Chile.

(3) They announced publicly for the first time that they had tried and sentenced officials who had abused prisoners.

EYES ONLY

EYES ONLY

- 3 -

This is certainly not the end of what is needed on the human rights issue in Chile. A state of seige still exists there under which they still may imprison people without charge. However, I do think that we got an important message across -- namely, that they must do more or they will continue to lose the support of the United States and others. President Pinochet agreed with this, and I feel that the things they did while I was there and afterward are solid steps in the right direction. I believe it is a mistake to focus on the number of prisoners released, whether it is 50 or 30 or 100, but rather to focus on the process under which human rights will be respected. In this regard, I think we have made good progress, and it would be a grave mistake to impose sanctions now. In this regard, we must resist current Congressional efforts to cut back our economic support to Chile, especially when they seem to be moving forward.

Brazil

Brazil offers great economic potential and certainly is playing a central role in Latin America. Henry Kissinger visited there in February and established a consultative mechanism to provide political impetus to our relationship. During my visit, we were able to reach agreement on important bilateral issues which should help us to expand trade and investment between the United States and Brazil.

In the trade area, we agreed on the following:

(1) That Brazil would phase-out its subsidy program which has resulted in an unfair trade advantage for Brazilian products.

(2) That as a result of this action, we would act to further liberalize trade by agreeing not to reevaluate present countervailing duties on footwear until the last quarter of 1977; and by waiving countervailing duties on leather handbags, effective July 1, 1976. In addition, with respect to soybean oil, we resolved the threatened action by the U.S. industry. Based on the Brazilian government's action, the U.S. industry announced they would not file a complaint.

EYES ONLY

EYES ONLY

- 4 -

In the investment area, we agreed to work together to facilitate U.S. private sector investment in Brazil. They gave me a list of key Brazilian projects in areas such as iron ore, oil, hydroelectric power, copper and agriculture, and I am distributing these to the private sector here in the United States. We also arranged for a negotiation of a double tax treaty which will be an important step towards increasing investment. A team from Brazil will visit Washington in June to negotiate this treaty.

I believe these agreements will mark a new level of cooperation between the United States and Brazil. In order to ensure that the relationship grows, Finance Minister Mario Simonsen, and I established a formal mechanism, under the framework of the memorandum which Henry Kissinger signed last February. It involves the establishment of a consultative group on trade, investment and financial issues which will meet regularly. In this way, I believe that we have properly institutionalized the important economic relationship between Brazil and the United States.

Mexico

I had extensive discussions with Finance Minister Mario Betetta and other economic officials about the economic situation in Mexico. Recently, there has been a great deal of speculation about the Mexican economy and the peso, with the press reporting that the peso was about to be devalued. I thought it was important that the focus of attention be shifted away from the value of the peso and towards the underlying economic policy that Mexico is adopting. The Mexican officials explained to me the measures they are taking to bring public sector spending under better control. This, along with limiting wage increases, is the key to Mexico's current economic program. They indicated that the increase in public sector expenditures had slowed, revenues had risen and the budget deficit had been reduced in the first four months of 1976. Further, the current account deficit in the first quarter of 1976 had improved, with exports increasing by 20% over the first quarter of 1975, while imports were falling by 2% over the same period.

EYES ONLY

EYES ONLY

- 5 -

I believe the Mexican government knows what needs to be done economically, and I think the prospects are good for a significant reduction in the level of inflation and in the current account deficit. I am particularly encouraged about the benefits that can flow to the Mexican economy from increased oil production. They have the potential for exporting over one million barrels a day by 1980 which at \$10 a barrel would provide annual revenues of about \$4 billion. There have been recent press stories that Mexico had decided to join OPEC and we discussed this matter. They told me that they had not decided to join. They are very well aware of the drawbacks of their joining; the principal one of which is that they would lose their ability to set their internal oil policy. I believe that Mexico offers one sound, alternative source to OPEC in the future and we should be encouraging Mexico to develop their oil potential.

Overall, I was delighted with the results of this trip. I view it as another step in strengthening the understanding of U.S. economic policy abroad. These countries have welcomed your trade decisions which clearly demonstrate that we are not turning protectionist. In the months ahead, we should be encouraging policies like that throughout the world.



William E. Simon

EYES ONLY