

The Political Dynamics of Agricultural Liberalisation in the US-Chile Free Trade Agreement*

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Abstract. The 2003 US-Chile free trade agreement, regarded by many as consistent with Chile's long-held trade liberalisation strategy, nonetheless engendered a surprisingly vigorous debate focused on the proposed elimination of the *bandas de precio* protecting traditional agricultural crops. Opposition to the agreement, mounted by the conservative *Alianza por Chile*, offers an intriguing political case study that suggests that populist posturing surrounding free trade agreements may persist long after a trade liberalisation strategy has become well-established. This article argues that agricultural liberalisation will be a significant challenge for Chile's governing coalition if it wishes to pursue trade negotiations while seeking to avoid costly political battles at home over the economic costs of abandoning price supports and the challenges of 'reconverting' to an export-oriented sector. Even given the strong elite consensus around trade liberalisation in Chile, the interconnections between sectoral interest groups, domestic politics and trade negotiations remain relevant, and deserving of analytical attention.

Keywords: US-Chile Free Trade Agreement, price bands, agricultural reconversion

Introduction

The free trade agreement (FTA) between Chile and the United States that went into effect on 1 January 2004, more than a decade after negotiations began, represented the crown jewel of the trade liberalisation strategy pursued by Chile's post-1990 democratic governments. As the first trade agreement concluded between the United States and a Latin American nation since the North American Free Trade Agreement, it was a notable milestone for trade relations in the hemisphere. Given the consistency between the agreement and the export-oriented economic model which is

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now the subject of a broad consensus within the Chilean polity, it is hardly surprising that the FTA was ratified overwhelmingly in both the Chamber of Deputies and the Senate, where it was hailed by the Minister of Foreign Relations, Soledad Alvear, as a treaty that would vault Chile into the vanguard of the international economy.¹

A closer look at the political dynamics surrounding the ratification of the agreement, however, reveals a vigorous controversy centred on its perceived implications for the country's traditional agricultural sector. In particular, concerns stemmed from provisions in the agreement in which the centre-left *Concertación* government of Socialist president Ricardo Lagos (2000–2006) committed to the abolition by 2014 of the price bands (*bandas de precio*) that had protected domestic production of traditional agricultural crops, most notably wheat, since 1983. The abolition of the price bands engendered noisy opposition from the conservative *Alianza por Chile* coalition (encompassing the parties *Unión Demócrata Independiente*, or UDI, and *Renovación Nacional*, RN), and though the number of legislators who ultimately voted against ratification was small, prominent Alianza leaders launched an energetic campaign denouncing the Concertación for abandoning traditional agriculture to the vagaries of the international market. The blatant protectionism, verging on outright populism, from the historically neoliberal right, was a rarity in post-1990 Chilean politics. It was, moreover, particularly incongruous given that the Alianza had in the past repeatedly embraced Chile's status, reaffirmed in the achievement of securing the free trade agreement, as the leading standard-bearer of the free-market 'Washington Consensus' in Latin America.

I will contend that the ratification of the US-Chile FTA offers an intriguing case study in the evolution of Chilean trade policy that provides a new lens through which to view the relationship between domestic politics and trade negotiations. The article highlights how the supposedly free-market oriented Pinochet government in fact established a number of mechanisms to create and distribute rents to placate key constituencies, including the agricultural price bands, which are only now being dismantled. More importantly, the complex political manoeuvres surrounding the abolition of the bands indicate that attempts to deflect political responsibility for unpalatable features of trade agreements, such as the elimination of the bands, remain prevalent. The political status of free trade agreements is far from resolved and may remain a persistent feature even in polities, like Chile, where a general economic orientation toward free trade is well-established.

Thus, despite the apparently broad elite consensus around Chile's enthusiastic participation in the continued advance of trade negotiations at the

¹ La Nación Digital, 'Congreso aprueba TLC con 8 votos en contra', 8 October 2004.

multilateral, regional and bilateral levels, this paper suggests that the vocal protest of politically powerful agricultural interest groups continues to pose a challenge to the governing coalition as it seeks to reconcile its liberalising aspirations with the desire to retain the political advantage of a reputation as supporter of the poor and disadvantaged. Here, I will make the case that the ratification of the FTA indicates that agricultural liberalisation – and the associated political costs – is one of the most significant, if not the most significant, tests for Concertación's trade strategy. This, in turn, suggests that further research on the relationship between agricultural interests, domestic politics and international trade negotiations, both in Chile and in other polities in the region, actively engaged in trade liberalisation, is urgently needed.

The article opens with an overview of the economic and political history of agricultural price bands in Chile. The following sections chronicle the unfolding of the political debate surrounding the impact of the US-Chile FTA on agriculture, and examine how that debate redirected attention to questions of the incompleteness of agricultural reconversion and perceived flaws in the government's agricultural policy, before making a number of concluding observations in the final section.

History of the Price Bands

The system of agricultural price supports that came so prominently into play in the 2003 FTA debate dates back to the debt crisis and acute recession that devastated the Chilean economy in 1982–3. This represented a bitter culmination to the radical neoliberal restructuring undertaken by the military government of General Augusto Pinochet after it unseated Socialist president Salvador Allende on 11 September 1973.² This crash, a milestone in Chile's economic evolution, was fundamentally rooted in the emergence, after 1977, of a dangerous triplet of real exchange rate overvaluation, unsustainable balance-of-payments deficits, and the excessive growth of foreign debt.³ Contracted principally by the private sector to fuel an import boom made possible by the overvaluation of the peso – pegged to the dollar in 1979 in an attempt to lower persistent inflation – the economy's foreign debt quadrupled between 1979 and 1981. This created a burden that became unsustainable after 1982, when a sharp increase in interest rates coincided with

² Alejandro Foxley, *Latin American Experiments in Neoconservative Economics* (Berkeley, 1983), pp. 40–84.

³ Sebastián Edwards, 'Stabilization with liberalization: an evaluation of ten years of Chile's experiment with free-market policies, 1973–84', *Economic Development and Cultural Change*, vol. 34, no. 3 (1985), pp. 537–59.

a decline in copper prices.⁴ The Chilean economy subsequently plunged into one of the worst recessions of the twentieth century, with gross domestic product shrinking 14 per cent in 1982 alone.⁵

The crisis proved to be particularly devastating for the agricultural sector. This had already suffered sharp decreases in profitability and production in the preceding years due to the rapid increases in food imports made possible by the peso's overvaluation, the contraction of the domestic market following the 1975 recession, the sharp decrease in consumption of basic alimentary products by the poor, and the depression of world prices for cereals, sugar and milk. While fruit exports did experience stronger growth rates, more traditional annual crops, particularly wheat, underwent a dramatic decline, and the military government's assertions that export growth could substitute for these supposedly outmoded subsectors proved to be over-optimistic.⁶ For the sector as a whole, average annual growth rates have been estimated to be no higher than 1.9 per cent for the period 1975–80 – markedly lower than the 6.1 per cent annual growth cited by the government in its attempt to portray agriculture as a sector that had overcome its historic stagnation and adapted successfully to the newly liberalised economy.⁷ Beginning in 1981, however, agriculture slid from slow growth into acute decline. Agricultural prices fell 12 per cent between 1980 and 1982, production fell three per cent annually between 1981 and 1983, and levels of debt in the sector increased to 90 per cent of value added in 1982.⁸

As this downward economic spiral intensified, the military government found itself besieged by ever-more vocal demands for relief from powerful organisations representing agricultural producers and businessmen, and increasingly feared an alliance between the disgruntled middle class and a popular protest movement then emerging in Santiago and other major cities.⁹ Accordingly, Pinochet's 'Chicago Boys' were forced in 1982 to abandon their much-heralded commitment to 'automatic adjustment' and intervene to reactivate the ailing economy, devaluing the peso, recapitalising the private financial system, and negotiating an International Monetary Fund loan in

⁴ Ricardo Ffrench-Davis, 'Adjustment and conditionality in Chile, 1982–88', in Ennio Rodriguez and Stephany Griffiths-Jones (eds.), *Cross-Conditionality, Banking Regulation and Third-World Debt* (Basingstoke, 1992), pp. 87–119.

⁵ Patricio Meller, *The Unidad Popular and the Pinochet Dictatorship* (New York, 2002), pp. 88–90.

⁶ Jorge Echenique, 'Las dos caras de la agricultura y las políticas posibles', *Proposiciones*, vol. 18 (Jan. 1990), pp. 145–58.

⁷ Lowell Jarvis, *Chilean Agriculture Under Military Rule* (Berkeley, 1985), pp. 52–3.

⁸ Maximiliano Cox, Alberto Niño de Zepeda, and Alvaro Rojas, *Política Agraria en Chile: del Crecimiento Excluyente al Desarrollo Equitativo* (Santiago, 1990), p. 127.

⁹ Patricio Silva, 'Landowners and the state: from confrontation to cooperation?', in Cristóbal Kay and Patricio Silva (eds.), *Development and Social Change in the Chilean Countryside* (Amsterdam 1993), pp. 275–88.

order to ease the foreign exchange shortage.¹⁰ This newly interventionist stance was likewise manifest in the agrarian arena. The government committed to the restructuring of agricultural debt, created more generous state-supported credit lines and increased funding for technological transfer programmes. It also offered new subsidies to forestry and irrigation projects and, perhaps most importantly, state intervention to stabilise agricultural prices.¹¹

The price-stabilisation mechanisms implemented during this period were by no means unprecedented, representing a return to a long history of intervention in commodity markets by the Chilean government which had sought to maintain low agricultural prices to benefit politically important urban constituencies. In fact, price bands had been in operation for wheat, sugar beets and oilseeds until 1979, when a temporary rise in commodity prices dampened agricultural opposition to their lifting and enabled the Chicago Boys to eliminate what they regarded as an unwarranted market distortion.¹² Forced to reverse the policy only four years later, the military government implemented a range of price policies as part of a concerted attempt to buy back the loyalty of agricultural producers at a time of acute political turbulence. The most blatantly protectionist measures imposed were so-called minimum custom prices, established for imported goods when it was judged that international prices were temporarily below the goods' 'normal' price and importation could 'seriously' damage equivalent domestic production. Applied in 1983–4, minimum custom prices were revived in 1986 and then dropped again in 1991. In addition, in response to widespread calls for protection against artificially subsidised imports, tariff surcharges were established in 1983 as part of an antidumping system, but applied with decreasing frequency over time, with 21 items subjected to surcharges in 1985 and only two in 1990.¹³

Price bands for wheat were announced in April 1983 and corresponding mechanisms for sugar and oil seeds in 1984. These proved to be much longer-lived than other protectionist measures. The *bandas* operate via the annual determination of a ceiling and a floor price corresponding to the central range of the international prices of the good over the previous five years; the floor and ceiling are then used to set a schedule of tariff increases or rebates that adjust the final price of imports to fall within the band.¹⁴ The

¹⁰ Ffrench Davis, 'Adjustment and conditionality in Chile', pp. 88–93.

¹¹ Cox et al., *Política Agraria en Chile*, pp. 128–30.

¹² Hernán Hurtado, Alberto Valdés and Eugenia Muchnik, *Trade, Exchange Rate and Agricultural Pricing Policies in Chile* (Washington, 1990), pp. 50–1.

¹³ Dominique Hachette and Maria de Pilar Rozas, 'The liberalization of Chilean agriculture: 1971–1990', unpublished working paper (1993), Pontificia Universidad Católica de Chile.

¹⁴ *Ibid.*

prevalence of falling wheat and sugar prices for the majority of the period since their implementation rendered the bands strongly protectionist, generating between 1985 and 1994 an average tariff of 14 per cent for wheat, 20.1 per cent for sugar and 30.9 per cent for vegetable oils, in comparison to the general tariff of 11 per cent then prevailing.¹⁵ The phenomenon of *de facto* tariff increases subsequently accelerated during the second half of the 1990s as the international prices of wheat and particularly sugar continued to fall,¹⁶ though this trend was reversed at least partially when the international wheat price began to move above the band's floor in 2002–3.¹⁷

Despite this recent evolution, however, the price bands remained a protectionist measure used by every Chilean government since Pinochet to shield traditional producers from the rigors of the international market. The Pinochet regime unceasingly asserted that it was immune from all political and interest group pressures, and had ushered in a technocracy whose exclusive responsibility was 'utilizing logical procedures to solve problems and offer alternative solutions'.¹⁸ Yet the price bands belied such claims, serving as testimony to the military government's unwillingness to risk a head-on confrontation with powerful agricultural producers in a moment of economic crisis and seeming political peril.¹⁹ Given their clearly protectionist cast, the bands would inevitably conflict with the agenda of aggressive trade liberalisation pursued post-1990.

The Price Bands Under Threat

From the inauguration of President Patricio Aylwin in 1990 to the present, the four Concertación administrations that have governed Chile have repeatedly sought to emphasise their commitment to the free market economic model implemented by the military regime in an attempt to demonstrate their economic credentials to both the domestic business elite and international investors,²⁰ a commitment that has included the energetic pursuit of further unilateral, bilateral and regional trade

¹⁵ Eugenia Muchnik, 'Subsidios y ayudas al sector agroalimentario chileno: integración con competitividad', working paper (1997), CEPAL Unidad de Desarrollo Agrícola, División de Desarrollo Productivo y Empresarial.

¹⁶ Rodrigo Pizarro and Rodrigo Carreño, 'El tratado de libre comercio entre Chile y Estados Unidos: mitos y realidades', unpublished *Análisis de Políticas Públicas*, Fundación Terram, 2002. ¹⁷ *El Diario Austral*, 'El futuro se ve auspicioso', 15 November 2003.

¹⁸ Patricio Silva, 'Technocrats and politics in Chile: from the Chicago Boys to the CIEPLAN boys', *Journal of Latin American Studies* vol. 23, no. 3 (May 1991), p. 393.

¹⁹ Silva, 'Landowners and the state'.

²⁰ Raul Laban and Felipe Larraín, 'Continuity, change and the political economy of transition in Chile', in Rudiger Dornbusch and Sebastian Edwards (eds.), *Reform, Recovery and Growth: Latin America and the Middle East* (Chicago, 1995), pp. 115–51.

liberalisation.²¹ Yet despite protests by orthodox economists and policy experts that the *bandas de precio* represented an unjustifiable and inefficient market distortion that hurt Chile's poorest consumers, the Concertación resisted calls for their abolition for more than a decade, a somewhat incongruous position that reflects two important political constraints.²² On the one hand, the elimination of the bands threatened to worsen the economic woes of small producers,²³ already reeling from nearly 20 years without any form of state assistance under the military regime, and so jeopardise the fulfilment of the much-heralded promise of *crecimiento con igualdad* (growth with equality).²⁴ On the other hand, such a move could jeopardise the centre-left coalition's attempts to build political bridges with traditionally conservative southern landowners, largely producers of traditional crops protected by the bands.²⁵

Thus, even as Chile's commitments to free trade agreements continued to widen, the administrations of presidents Aylwin (1990–4) and Eduardo Frei (1994–2000) refused to make concessions in the agricultural arena.²⁶ The trend appeared to be persisting in the early years of the administration of President Lagos. He promised to defend the price bands in the *Mesa Agrícola* convened following his inauguration in 2000²⁷ and renewed this commitment upon entering the final months of negotiations for the US-Chile FTA in 2002.²⁸ Yet, as Washington continued to push aggressively for the abolition of the bands in the last round of talks, the Lagos government – which regarded this FTA as potentially one of its most notable foreign policy achievements and was willing to make virtually any sacrifice to secure the agreement that had eluded both its predecessors – ultimately agreed to a

²¹ José Ignacio Porras, 'La estrategia chilena de acuerdos comerciales: un análisis político', *CEPAL Serie Comercial Internacional*, no. 36 (2003).

²² Libertad y Desarrollo, 'Una agricultura mirando al futuro', unpublished *Temas Públicos*, 2002.

²³ Definitions of what constitutes a small producer varies and agricultural organisations are generally not able to offer specific information about their members. The government *Oficina de Estudios y Políticas Agrarias* defines small agricultural producers as those possessing fewer than 12 basic irrigated hectares and *minifundistas* those with fewer than 5 basic irrigated hectares. Jorge Quiroz, 'Desarrollo Rural y Compromisos Económicos Internacionales: Reflexiones sobre el Caso Chileno', in *El Chile Rural en la Globalización* (Santiago, 2002), pp. 39–59.

²⁴ Cristóbal Kay, 'The agrarian policy of the Aylwin government: continuity or change?', in David Hojman (ed.), *Change in the Chilean Countryside* (Basingstoke, 1993), pp. 29–39.

²⁵ Silva, 'Landowners and the state', pp. 275–6.

²⁶ Sebastián Edwards and Daniel Lederman, 'The political economy of unilateral trade liberalization: the case of Chile', National Bureau of Economic Research working papers (1998), no. 6510.

²⁷ *Diario El Sur*, 'Lagos valora acuerdo tras diálogo agrícola', 14 September 2000.

²⁸ Gonzalo Baeza, 'US-Chile trade pact dilemmas', *United Press International*, 26 September 2002.

provision under which the price bands would be phased out via a gradual lowering of the price floor beginning in 2008, and eliminated entirely in 2014.²⁹

In defending the provision, administration officials highlighted the waning economic importance of the bands in a context of rising agricultural prices, arguing that '*Hoy día [las bandas de precio] significan cada vez menos; son un tema políticamente importante, no económicamente important ... Ahora la banda casi no existe porque los precios de productos son altos, pero políticamente sigue existiendo.*'³⁰ Yet, no doubt equally important in the government's calculations was the wave of international legal challenges that had been presented by Chile's trading partners questioning the legality of the price bands and their consistency with the nation's existing international obligations. In 2001, Argentina brought a case against Chile at the World Trade Organisation, claiming annual losses of 120 million dollars on account of the moving tariffs generated by the price bands, a violation of the WTO Agreement on Agriculture;³¹ 13 nations joined the initial claim, including the regional giant, Brazil. In the same year, challenges also arose from Colombia regarding the price bands on sugar – though the request for consultation never led to the formation of a review panel³² – and from Bolivia on oilseeds, during which La Paz successfully argued that the Chilean measures in this sector were a violation of the bilateral agreement in force between the two nations.³³ Yet the most emblematic case remained that brought by Argentina, and it resulted in a decisive defeat for Chile: after the board issued a judgment in Argentina's favour, a subsequent appeal by Chile was denied and Santiago was granted until December 2003 to bring the price band system into compliance.³⁴

Thus, by late 2002, the price bands were under attack on a number of fronts, and it became clear that Chile's lingering protections for traditional agriculture would have to be abolished. At this juncture, the convergence of the FTA negotiations with Washington and the latest round of controversy in the WTO proved to be an unexpected boon for the Lagos government. Making a virtue out of a necessity, the administration resolved to concede on the elimination of the bands to secure the long-desired FTA and

²⁹ Hugo Fazio, economist, author interview, Santiago, 16 July 2004; Rodrigo Pizarro, director, Fundación Terram, author interview, Santiago, 12 July 2004.

³⁰ Alicia Frohmann, head of the FTAA and North American department, Dirección General de Relaciones Económicas Internacionales (DIRECON), Ministro de Relaciones Exteriores, author interview, Santiago, 5 August 2004.

³¹ *El Diario Austral*, 'Discordinación histórica', 2 April 2001.

³² World Trade Organization, 'Trade policy review: Chile' (2003).

³³ Sebastián Saéz, 'Implementing trade policy in Latin America: the case of Chile and Mexico', unpublished working paper (2005), CEPAL.

³⁴ Gonzalo Baeza, 'Analysis: Chile's price band dilemma', *United Press International*, 22 July 2003.

reap the political credit as the authors of the much-praised agreement. At the same time, it was able to employ the treaty as a vehicle to cement a domestic commitment to *el levantamiento de las bandas* that, with the agreement and Chile's international prestige on the line, raised the political costs for opposing abolition. As Putnam asserted in his classic analysis of two-level gains, 'international negotiations sometimes enable government leaders to do what they privately wish to do, but are powerless to do domestically'.³⁵ In this case, the negotiations with the United States allowed the Lagos government to strengthen its hand in the struggle for price band reform, precisely by linking that reform to an agreement that was far more costly to oppose.

This coupling of the abolition of the price bands with the passage of the new free trade agreement ultimately proved to be successful. Two months after the FTA's signing in June 2003, legislation proposed by the government that provided for the modification and eventual elimination of the price bands was passed by the Chilean Congress. In October of the same year, the US-Chile trade agreement was likewise ratified by a one-sided vote; only eight members voted against the agreement and eight abstained in the 120-member Chamber of Deputies, with five votes against and five abstentions in the 48-member Senate. Yet the agreement's implications for the traditional agricultural sector sparked an unexpectedly vigorous debate in both the Congress and the press, fuelled above all by the Alianza's attacks on the Concertación's supposed abandonment of traditional agricultural producers. The abolition of the price bands was consistently cited as a principal reason for opposition by all those legislators who failed to endorse the FTA.

Moreover, although the number of legislators ultimately rejecting the agreement was limited, opposition to the dismantling of the price bands was much broader, and even before the dispatching of the legislation proposing their elimination, the government found itself facing congressional protests. In May 2003, 76 legislators – including 33 senators, nearly three-quarters of the upper chamber's membership – signed a letter to Minister of Finance Nicolás Eyzaguirre criticising the schedule for the abolition of the bands. They argued that,

'No creemos ni útil ni conveniente propiciar una normativa que calendarice el futuro de la bandas de precios; sólo corresponde efectuar los cambios necesarios de acuerdo a la situación actual [a reference to the WTO judgements] y, bajo ningún concepto, ligarlo a un elemento externo al problema, como es el TLC [FTA] con Estados Unidos'.³⁶

³⁵ Robert Putnam, 'Diplomacy and domestic politics: the logic of two-level games', *International Organizations*, vol. 42 (1988), pp. 427–60.

³⁶ *El Diario Austral*, 'Piden que SNA cambie su nombre', 7 May 2003.

The government responded by reformulating the timetable for the price band elimination to postpone any reduction in the price floor for sugar until 2008 and provide for only gradual reductions thereafter. It also made a notable rhetorical concession: namely, language definitively establishing the termination of the price bands in 2014 was replaced with a vague provision that the president would re-evaluate the conditions for the application of the price bands in that year.³⁷ With these modifications, the legislation was passed in August, allowing Eyzaguirre, one of the most ardent opponents of the bands, to declare victory in having achieved their elimination.³⁸

The Unión Demócrata Independiente Waves the Populist Banner

This triumph did not prove to be sufficient to quieten the protests of traditional agriculture's defenders. On the contrary, the Alianza and particularly the more conservative *Unión Demócrata Independiente* (UDI) mounted an initiative to accuse the Concertación of abandoning the country's most vulnerable rural producers to the turbulences of the international market, competing with each other to make fervent declarations of support for protectionist measures for the imperilled sector. Meanwhile, in a role reversal, renovated Socialists vigorously defended signing the FTA with the erstwhile 'empire'. The charge against the free trade agreement was led by then-Senate president Hernán Larraín, a prominent UDI leader who had formerly served as an administrator of the *Universidad Católica*, the principal training ground for the neoliberal Chicago Boys of the Pinochet regime. Despite this pedigree, Larraín deserted the liberalising principles of his alma mater in order to defend the interests of his southern region (VII) and other traditional producers, undertaking a vigorous campaign of attack on both the price band reforms and the free trade agreement itself.

The first volley in this skirmish had in fact been fired in December 2002 when Washington began to increase pressure on the Lagos government to reach a final agreement. At this point, Larraín in conjunction with three UDI colleagues publicly protested the exhortations of the US ambassador. They urged the conclusion of negotiations, emphasising that the party reserved the right to reject an agreement not in the interests of traditional agriculture and pugnaciously asserted that '*somos un país pequeño, pero digno*'. According to the assembled senators, Chile would not submit to Washington's desires to obtain a bilateral trade agreement as a model for the expansion of free trade

³⁷ *El Diario Austral*, 'San Isidro tiene la palabra', 28 August 2003.

³⁸ *Agencia La Plaza Digital*, 'Eyzaguirre: no podemos seguir pagando sobreprecio de azúcar', 5 August 2003.

across Latin America.³⁹ These declarations seemed more reminiscent of Salvador Allende in a previous era than consistent with the neoliberal principles the party had long defended – and the populist rhetoric only intensified following the publication of the agreement’s text in April 2003.⁴⁰ At that juncture, Larraín and three UDI colleagues publicly committed themselves to the defence of the price bands, declaring that ‘*Abí se fija la posición real en defensa de la agricultura. Lo demás es secundario.*’⁴¹ Subsequently, when the official debate on the price band legislation began, the UDI agricultural block en masse challenged the government to declare whether its representatives would be remembered ‘*como los que salvaron la agricultura o como los que la enterraron.*’⁴² At the same time, the normally sedate Larraín trespassed on the rhetoric of the far left, deeming the Concertación a prisoner of corporate interests that had callously abandoned the working people and privileged the private sector’s desire for profit over small farmers’ need for subsistence.⁴³

In this context, it is particularly revealing to examine the emphasis that UDI leaders and especially Larraín placed on the consequences that the elimination of the bands would have on small agricultural producers. They accused Concertación of initiating an ‘agricultural counter reform’ by dealing a death blow to the small producers that emerged out of the 1964–73 agrarian reform.⁴⁴ This statement seemed particularly incongruous given the proliferation of analyses detailing the manner in which the Pinochet regime, the Alianza’s ideological patron, implemented precisely such a counter reform after 1973.⁴⁵ Not only did the military government dissolve the cooperatives formed under the Allende government and kill or expel their leaders in an attempt to de-radicalise the countryside and create a new class of smallholding *parveleros* immune to communist blandishments, it subsequently cut off virtually all forms of government assistance to small farmers, a move reflecting the Chicago Boys’ seemingly limitless affinity for

³⁹ UDI, ‘Urge postergar la firma de TLC con Estados Unidos’, Declaración Pública, 3 December 2002.

⁴⁰ *El Diario Austral*, ‘Senador molesto con Santa Cruz’, 12 May 2003.

⁴¹ UDI, ‘Parlamentarios UDI señalaron que llegó la hora de definirse en defensa o en contra de la agricultura’, *Declaración Pública*, 12 May 2003.

⁴² UDI, ‘Senador Larraín señaló que “Los perdedores con el acuerdo de bandas de precio son los pequeños agricultores”’, *Declaración Pública*, 7 August 2003.

⁴³ UDI, ‘Senador Larraín, ante indefinición en caso de bandas de precios, afirma el gobierno está jugando con fuego al no resolver’, *Declaración Pública*, 1 August 2003.

⁴⁴ UDI, ‘Parlamentarios UDI señalaron ...’

⁴⁵ See for example Guy Durand, ‘Agricultural policies, technological gap, and peasant farming: from Pinochet to Aylwin’, in David Hojman (ed.), *Change in the Chilean Countryside* (Basingstoke, 1993), pp. 149–59; Robert Gwynne and Cristóbal Kay, ‘Agrarian change and the democratic transition in Chile: an introduction’, *Bulletin of Latin American Research*, vol. 16, no. 1 (1993), pp. 3–10.

free markets. The approach triggered a process of technological decline, lower yields and increasing indebtedness among small producers that rendered their accession to the export market largely impossible and drove many *parceleros* into bankruptcy.⁴⁶ Given this record, the UDI's accusations that the Concertación 'dealt a death blow' to small producers are a striking indication of the extent to which the controversy surrounding the abolition of the price bands allowed the heirs of Pinochet to disconnect themselves from the policies with which they had identified in the past and assume a new posture as champions of the besieged agricultural producer.

This political masquerade on the part of the Alianza was, moreover, facilitated by its ability to take advantage of sharp divisions within the agricultural sector itself, where producers of traditional crops protected by the price bands were united in the *Consortio Agrícola del Sur* (CAS). Founded in 1944, the Consortio encompasses mostly small and medium-sized producers devoted to the production of import-substituting crops, particularly wheat. This subsector has been the focal point of a festering conflict within the agricultural sector that dates back to the onset of economic liberalisation in the mid-1970s. At this point, the *Sociedad Nacional de Agricultura* (SNA), the oldest and most prestigious agricultural organisation in Chile, began to define itself increasingly as the representative of externally-oriented producers from the agro export-dominated central region who had adapted to and profited from the imposition of the neoliberal model.⁴⁷ Now, the CAS members found themselves in a position of near-total isolation vis-à-vis other agricultural producers and the private sector as a whole.

Tensions persisted well into the following decade until the two organisations were finally united in an uneasy alliance in 1996. Ironically, the impetus for the reunification was another fight over trade liberalisation, in this case the lowering of tariffs spurred by Chile's accession as an associate member of the *Mercado Común del Sur* (Mercosur). The threat of increased agricultural imports from the agro export sectors in Argentina and Brazil proved to be serious enough to force the quibbling agriculturists to join

⁴⁶ Cristóbal Kay, 'The monetarist experiment in the Chilean countryside', *Third World Quarterly*, vol. 7, no. 2 (1985), pp. 301–24.

⁴⁷ The SNA's reorientation was the culmination of a gradual process of transformation beginning in the 1940s in which the SNA, contrary to its representation as a bastion of backward and anti-capitalist landowners, began to emphasise an agenda of agricultural modernisation similar to that which the Pinochet regime would promote after 1973. Jean Carrière, *Landowners and Politics in Chile: A Study of the Sociedad Nacional de Agricultura, 1932–70* (Amsterdam, 1981); Sergio Gómez, 'Novedades en la agricultura chilena. Nuevos actores sociales y escenarios: negociaciones y confrontaciones', in Norma Giarraca and Silvia Cloquell (eds.), *Las Agriculturas del MERCOSUR: El Papel de Los Actores Sociales* (Buenos Aires, 1998), pp. 85–146.

forces, which they did to great success.⁴⁸ The newly enlarged SNA forced the Frei administration to submit the agreement to Congress for ratification, a step the government had originally declared its intention to avoid. The SNA also won the support of a number of southern deputies and senators who, by threatening to vote against the agreement, won compensation payments valued at 500 million dollars for those producers damaged by the decrease in tariffs.⁴⁹

Yet even this success proved insufficient to cement the union between the rival agricultural factions, which ended only six years later when the CAS again withdrew from the SNA in outrage over statements made by Sociedad president Andrés Santa Cruz that reforms to the price bands might be necessary.⁵⁰ This position represented a sharp break from an earlier declaration of Santa Cruz that the bands were indispensable and that the SNA would be the first to oppose a treaty calling for their elimination.⁵¹ While his subsequent expression of scepticism was hardly surprising given the SNA's strong commitment to a strategy of trade liberalisation consonant with the interests of its dominant agro export faction, it rendered untenable the incompatibility between this stance and the isolationism espoused by southern traditional producers.⁵² The angry response from the CAS was also fuelled by disillusionment regarding the impact of the Mercosur accession agreement. Southern agricultural leaders contended that they had never seen the compensation originally promised, arguing that the increased funding had instead been funnelled primarily into rural social programmes that had no impact on the economic viability of agricultural producers. They also placed implicit blame, for these perceived betrayals, on the SNA as the leader in the negotiations that obtained the compensation package as the price for the agreement's ratification.⁵³ The bitterness was such that the Consorcio's pugnacious president, Manuel Riesco, openly blamed the Sociedad for the bands' elimination. He suggested that Santa Cruz's statement, that they were an obsolete instrument, had emboldened the government to move towards the dismantlement of what had previously been a sacrosanct protection.⁵⁴

Purged of its more openly protectionist members, the SNA not surprisingly fell in line with the broad pro-FTA business consensus led by the

⁴⁸ María Elena Larraín, 'Agricultura: campo dividido', *Qué Pasa*, 7 September 1998.

⁴⁹ Porras, 'La estrategia chilena de acuerdos comerciales'.

⁵⁰ *El Diario Austral*, 'Temuco sería testigo de quiebre en agricultura', 8 Nov. 2002.

⁵¹ Soledad Pinto, 'Andrés Santa Cruz, presidente de SNA: "Un TLC con Estados Unidos está muy lejos"', *Qué Pasa*, 19 April 2002.

⁵² Juan Pablo Rioseco, 'Las razones de una ruptura', *Qué Pasa*, 15 Nov. 2002.

⁵³ Larraín, 'Agricultura: campo dividido'.

⁵⁴ *El Diario Austral*, 'No sacó nada con llorar', 13 October 2002.

Confederación de Producción y Comercio (CPC), the principal private sector organisation.⁵⁵ The Consorcio, on the other hand, found itself isolated by the more powerful *gremiales* and thus turned to the Alianza por Chile for a new ally in its fight against the agreement and the threat it posed to the price band system. The degree of cooperation between the CAS and key Alianza leaders is perhaps most clearly evidenced by the latter's demonstrated willingness to throw their political weight into the still-unresolved CAS-SNA dispute. Thus what would in other circumstances, no doubt, have been ignored as a petty power struggle between agricultural barons defending their fiefdoms was suddenly transformed into a prominent skirmish in the wider price band debate.

The Alianza's newfound affection for the CAS, and its hostility to the venerable Sociedad, first surfaced publicly in the congressional letter to Eyzaguirre which protested changes in the price bands, and, in a slight deviation from its central point, took the opportunity to declare that the SNA president's support for the reforms '*dejan en evidencia la falta de comprensión de este dirigente gremial respecto de la agricultura de la zona central y del sur del país*'.⁵⁶ When the SNA responded with a withering criticism of the 'populist' gesture made by the letter's signatories,⁵⁷ UDI legislators led by Larráin renewed their offensive in public, sharply attacking the Sociedad for its failure to take up the battle in defence of the bands and declaring it unacceptable that '*quien lidera una organización gremial agrícola, entidad que en otros tiempos defendía la causa del mundo rural, no sólo ha abandonado a los agricultores a su propia suerte sino que intenta denigrar a quienes mantienen su postura de defensa*'.⁵⁸ Such open sniping between the *Pinochetista* UDI and the SNA is particularly notable given the latter's record as a faithful supporter of the military regime, and demonstrates the lengths to which the Alianza was prepared to go to cement its new alliance of convenience with southern agricultural producers.

For its part, the CAS reinforced the Alianza's accusations against the Concertación by mounting a campaign that emphasised the economic importance of traditional agriculture, encompassing 54 per cent of the country's agricultural production and 211,000 producers, and the disastrous consequences that the abolition of the bands would bring for the sector and the

⁵⁵ Bárbara Castelleti, Asesora Económica, Confederación de Producción y Comercio, author interview, Santiago, 22 July 2004; *El Mercurio*, 'Juan Claro destacó aprobación de TLC con Estados Unidos', 1 April 2003.

⁵⁶ *El Diario Austral*, 'Consecuencias de un exabrupto', 11 May 2003.

⁵⁷ *El Diario Austral*, 'Piden que SNA cambie su nombre'.

⁵⁸ UDI, 'Parlamentarios UDI señalaron que llegó la hora de definirse'.

southern region.⁵⁹ Predicting the disappearance of important crops, CAS head, Riesco, underscored the limited possibilities for economic reconversion and argued that excessive dependence on livestock or forestry – the two sectors most often mentioned as potential alternative economic bases – would provoke the abandonment of rural areas and increased urban poverty.⁶⁰ The CAS and allied agricultural organisations also echoed the Alianza’s dramatic rhetoric of ‘agricultural counter reform’ by highlighting the impact of the lifting of the bands on small producers. In this context, Enrique Mellado, president of the *Confederación Nacional El Triunfo Campesino*, emphasised that the fixing of a price floor provided badly needed security for small agriculturists,⁶¹ while prominent, agrarian development non-governmental organisations noted that the price bands were virtually the only significant government support for small producers and their elimination could be expected to result in large numbers abandoning the sector entirely.⁶²

Equally powerful arguments were made from a nationalist standpoint that underscored the persistence of US subsidies on a scale that dwarfed the Chilean price bands. The CAS deprecated Chile’s stance of obedience to ‘*el imperio más grande del mundo*’,⁶³ asserting that while Chile had sacrificed the price bands, the country had received nothing in return.⁶⁴ Even blunter were the criticisms of North American subsidies pointedly expressed by president Manuel Peñailillo of the *Confederación Nacional de Cooperativas Campesinas de Chile* (Campocoop), who asked, ‘*¿De qué libre comercio estamos hablando? Competimos con el Tesoro de los EEUU, no sus productores.*’ Most important to the Alianza, traditional agricultural leaders proved more than willing to attack the Lagos government head-on, branding the president a traitor and the ‘*el peor presidente para los pequeños productores*’, and protesting that they had been let down after the majority of their members had supported the Concertación in the 1999 election.⁶⁵ The CAS likewise accused the government of pursuing the FTA simply to prove the free market credentials of a Socialist president.⁶⁶ Perhaps the statement that most provocatively summed up the government’s dilemma, and the political strategy of the agreement’s critics, was Riesco’s rejoinder to the prediction that the free trade agreement

⁵⁹ *El Mercurio*, ‘Libre comercio: agro busca frenar el TLC con EEUU’, 23 April 2003.

⁶⁰ *Agencia La Plaza Digital*, ‘Agricultores satisfechos por trámite de bandas de precio’, 9 October 2003.

⁶¹ Enrique Mellado, Confederación Nacional El Triunfo Campesino, author interview, Santiago, 14 July 2004.

⁶² Miguel Baramondes, Grupo de Investigaciones Agrarias, author interview, Santiago, 23 July 2004.

⁶³ *El Diario Austral*, ‘No sacó nada con llorar’.

⁶⁴ Marcelo Opplinger, ‘Cauteloso poptimismo’, *Qué Pasa*, 27 March 2002.

⁶⁵ Mario Farillas, Confederación Sindical Campesina El Surco, author interview, Santiago, 19 July 2004.

⁶⁶ *El Diario Austral*, ‘Firmar tratados sólo crea cesantía’, 10 May 2001.

would make evident the shortcomings of the traditional agricultural sector. ‘*Son puros eslóganes y estupideces de los economistas ... ¿qué presidente va a sacrificar un tercio de la población por no tener educación, a decirles que salgan a competir porque la economía y el mercado lo exigen? Se los comen en media hora.*’⁶⁷ Alianza leaders listened with glee, hoping the question would reverberate: what president, indeed, and at what political price?

Debating Ratification

As a result of the accusations emanating from the Alianza and its allies in the traditional agricultural sector, the Lagos government found itself again on the defensive when the Congress moved to take up the ratification of the FTA, despite its earlier victory on the price band reforms. Only a month after the passage of the latter legislation, a group of 90 legislators submitted a comprehensive proposal for policies of adjustment and reconversion needed to supplement the FTA to Foreign Minister Soledad Alvear.⁶⁸ This highlighted the elimination of the price bands as the first in a detailed enumeration of the risks entailed by the agreement.⁶⁹ In response, Alvear and Minister of Finance Nicolás Eyzaguirre publicly appealed for support from the ‘agriculture block’ of deputies and senators while simultaneously mounting a vigorous campaign to defend the FTA and highlight the benefits it would provide for the sector. On the one hand, the Lagos government argued that the tariff concessions that Chile had won in the FTA opened up opportunities that would enable the import-substituting sector, currently at the margin of the agro export process, to enter the international market.⁷⁰ On the other, it contended that the length of the adjustment period before the final elimination of the bands, and the expected increases in productivity, would avert any disastrous effects.⁷¹

Yet these energetic promotional efforts were not successful in winning back the agricultural vote. On the contrary, Alianza leaders continued to highlight the negative repercussions of the agreement for traditional

⁶⁷ Oppliger, ‘Cauteloso optimismo’.

⁶⁸ UDI, ‘Senador Larrain insistió en la necesidad de una política de desarrollo regional que haga equitativo el impacto positivo que tiene el TLC en Chile’, *Declaración Pública*, 12 September 2003.

⁶⁹ ‘Aprobar el TLC con EEUU obliga a adoptar un conjunto de políticas públicas: una propuesta de senadores y diputados’, September 2003.

⁷⁰ *El Mercurio*, ‘Gobierno buscará convencer a bancada agrícola para que apruebe TLC’, 21 October 2003.

⁷¹ *El Mercurio*, ‘Destacan Beneficios de TLC con EEUU para el Sector Agrícola’, 2 September 2003; Alberto Niño de Zepeda, Asesor de la Subsecretaría de Agricultura, Ministerio de Agricultura, author interview, Santiago, 7 July 2004.

agriculture,⁷² and the criticisms levelled by the Alianza coalition's second party, the more centrist *Renovación Nacional* (RN), became more prominent. In the upper chamber, Senator Sergio Romero, a former subsecretary of agriculture during the Pinochet regime, called for the creation of a public corporation to promote economic reconversion in the southern regions. Meanwhile, Alberto Espina, the only RN senator to abstain in the final vote, denounced the persistence of US subsidies and highlighted the need for mechanisms to protect Chilean agriculture against disloyal competition.⁷³ Most vocal among the RN opponents to the agreement was Deputy José Antonio Galilea, who denounced Concertación's failure to implement policies that would enable marginalised regions to accede to the FTA's benefits. He repeatedly referred to Mexico's experience under the North American Free Trade Agreement as an example of the pernicious economic impact of trade liberalisation on agriculture.⁷⁴ He also vehemently rejected the charge that his anti-FTA stance represented protectionism, responding that he was fighting against the protectionism of developed countries.⁷⁵ In Galilea's words, '*Me parece increíble que un país como Chile, tan abierto, sin protecciones de ninguna índole, sin subsidios de ninguna índole, haya estado dispuesto en negociaciones con los Estados Unidos a ponerle fin a las bandas de precios ... a cambio de nada frente a los subsidios que aplican en los Estados Unidos*'.⁷⁶

As the debate unfolded, Galilea and other Alianza members found themselves in an odd alliance of convenience with Concertación legislators who also took up the banner of the defence of southern agriculture. Perhaps most notable were the reservations of Christian Democratic Senator Gabriel Valdés, former foreign minister from 1964–70 and president of the Senate from 1990–6, who declined to preside over the Senate commission pertaining to the agreement. He cited the total absence of information regarding its contents and particularly its provisions regarding agriculture, and claimed that as a senator from an agricultural region he was obliged to defend its interests, '*que han sido reclamados reiteradamente, sin respuestas reales*'.⁷⁷ Though Valdés ultimately voted in favour, three Christian Democratic legislators declined to do so. Among them was Senator Rafael Moreno, from the southern VI region, who argued that the FTA would result in the further impoverishment of small farmers and thus worsen Chile's already lopsided

⁷² *El Mercurio*, 'TLC con EEUU fue aprobado por amplia mayoría en el Senado', 2 October 2003. ⁷³ *El Diario Austral*, 'Comenzó lucha del CAS contra TLC', 23 April 2003.

⁷⁴ *El Observatorio*, 'Aguiló, Ávila, Lavandero y Ruiz De Giorgio: los disidentes solitarios de la Concertación' (2003).

⁷⁵ *El Mercurio*, 'El agro exige compensaciones frente al TLC', 27 August 2003.

⁷⁶ Diputado José Antonio Galilea, author interview, Valparaíso, 4 August 2004.

⁷⁷ *El Diario Austral*, 'Decline presidir comisión de TLC', 12 June 2003.

distribution of income.⁷⁸ At the same time, he caustically suggested to his Christian Democratic colleague Senator Alejandro Foxley, former minister of finance in the Aylwin government and staunch supporter of the bands' elimination, that before forming a judgment on the agreement he should travel the regions to see '*cómo funciona el país real, no el país de escritorios*'.⁷⁹

On the left, only two parliamentarians emerged in opposition, which constituted striking evidence of the extent to which the Chilean left as a pillar of the Concertación had embraced the strategy of liberalisation inaugurated by a regime it had long deplored. In the chamber of deputies, Sergio Aguiló was the only Socialist to vote against the agreement. He bucked the discipline imposed by a party determined to prove its free-market credentials and unite behind the first nominally Socialist president since Allende, while citing traditional agriculture as one of the sectors most jeopardised by the agreement.⁸⁰ In the upper chamber, famously leftist Senator Nelson Ávila – then independent and now of the *Partido Radical Social Demócrata* (PRSD) – attacked the agreement as less an agreement, than a capitulation. In his words, '*El TLC es el último clavo puesto en el cajón de la agricultura tradicional chilena. Enfrenta la eventual eliminación de las bandas de precios. Paralelamente, Estados Unidos mantiene subsidios que sólo este año significaron más de 180 mil millones de dólares. Violenta la falta de coraje y dignidad para oponerse a esta aberración.*'⁸¹

In the final tally, maverick Ávila and equally well-known liberal Jorge Lavandero registered their votes in opposition alongside UDI standard-bearer Larraín and two of his colleagues from the right, a rare if not unique spectacle that serves to crystallise the puzzle posed by the right's stance in the FTA debate. The Alianza por Chile had long embraced the free market model in which trade liberalisation played an integral part; it was, moreover, the political bastion of a business elite that was largely export-oriented and embraced the US free trade agreement as the crowning glory of Chile's export success.⁸² It was located at the opposite pole, politically and ideologically, from the non-governmental organisations, intellectuals and legislators that opposed the agreement as part of a broader critique of

⁷⁸ *Diario Financiero*, 'TLC con EEUU enfrenta hoy último obstáculo en congreso chileno', 22 October 2003.

⁷⁹ *El Mercurio*, 'Conflicto por bandas de precios: fuerte pugna DC entre liberales y proteccionistas', 5 August 2003.

⁸⁰ Diputado Sergio Aguiló, 'Intervención de Diputado Sergio Aguiló Sobre el TLC con EEUU', 7 October 2003.

⁸¹ Senador Nelson Ávila, 'Las razones de Ávila para rechazar el TLC', Senate address, 20 October 2003.

⁸² Luis Fromin, 'Juan Claro frente al TLC: "Con este acuerdo, nadie retrocede"', *Qué Pasa*, 13 December 2002.

the neoliberal model.⁸³ Yet they were united in opposition to the supposedly nefarious agreement.

The surprising turnaround suggested that even in loyally neoliberal and generally politically moderate Chile, accepting responsibility for unpopular trade concessions remains costly politically and is to be avoided whenever possible, irrespective of ideological sympathies and histories. The Chicago Boys' legacy notwithstanding, support for free trade agreements is only skin-deep when important domestic political alliances come into play. Moreover, as elsewhere in the world, agriculture remains a touchstone for controversy over trade liberalization, seemingly the last bastion of protectionism and the focus of agricultural protests, widespread sympathy and political posturing in relatively unexpected circumstances – such as the ratification of this prestigious and long-sought trade agreement.

Confronting Reconversion

Apart from the at-times incendiary political rhetoric, the debate over the FTA also threw a spotlight on a more substantive question that is likely to continue to receive attention in Chile in the years to come: the future of those sectors formerly affected by the price bands, and particularly the possibility for agricultural 'reconversion'. The latter is a much-contested term that is frequently deployed by different actors with distinctly different meanings. To frame the discussion here, I will employ a definition provided by Cristóbal Kay: 'In a broad sense reconversion measures aim at enabling and improving peasant agriculture's ability to adapt to Chile's increasing exposure to global competition and to enter into the more dynamic world market. This is to be achieved by enhancing efficiency and shifting traditional production and land use patterns to new and more profitable products, thereby increasing the peasants' competitiveness.'⁸⁴ With this definition in mind, it is instructive to follow the various strands of the debate around the FTA that focused specifically on the government's potential role in softening the economic impact of price band removal on producers of traditional crops. The initial round in this controversy was fought over the possibility of direct monetary compensations for wheat producers, with a number of legislators expressing their support for a new system of compensatory

⁸³ See for example Gladys Marín, unpublished 'Carta sobre el Tratado de Libre Comercio', 22 January 2002; Rodrigo Pizarro, 'TLC con Estados Unidos: Neoliberalism Sin Retorno', unpublished Análisis de Políticas Públicas, Fundación Terram, March 2003.

⁸⁴ Cristóbal Kay, 'Globalization, peasant agriculture and reconversion', *Bulletin of Latin American Research*, vol. 16, no. 1 (1997), pp. 10–24.

subsidies.⁸⁵ This petition was, however, rejected by the government with the declaration that no payments analogous to the Mercosur compensations would be forthcoming, especially because the latest FTA's impact would be minor.⁸⁶

Agriculturists and their congressional supporters responded by taking up the banners of agricultural reconversion, with Christian Democratic senator Rafael Moreno calling for the definition of a clear policy of reconversion oriented towards traditional agriculture⁸⁷ and other legislators likewise emphasising the importance of an initiative to facilitate the conversion of those producers reliant on the bands.⁸⁸ The Lagos administration, not to be outdone, appointed an inter-ministerial commission to examine how to strengthen agricultural competitiveness in the face of the free trade agreements.⁸⁹ This expression of support was coupled with assurances that '*si el gobierno y los productores hacen bien su tarea de reconvertirse, no debería tener consecuencias serias*'.⁹⁰ But despite this outward diligence on the part of the government, agricultural organisations were openly contemptuous of its promises, citing as evidence the failure of the array of agricultural development and reconversion policies implemented by past Concertación administrations. Oscar Torres of the Grupo de Estudios Agroregionales, a prominent development non-governmental organisation and think-tank, noted that the government had attempted for 14 years to implement a dual agricultural policy seeking on the one hand to alleviate rural poverty and pay the 'social debt' of the military regime and on the other to modernise small producers and enable them to accede to national and international markets. However, the intensifying emphasis on modernisation and commercialisation evident under the Frei government resulted only in widespread bankruptcies and high levels of indebtedness.⁹¹ Such criticisms about the ineffectiveness of Concertación agricultural policy were widely echoed, with Rolando Michea of the *Instituto de Promoción Agraria*, a Christian Democrat-affiliated rural development organisation, noting that the government agricultural development agency, the *Instituto de Desarrollo Agropecuario*, had provided assistance to some agricultural producers for 40 years without

⁸⁵ *El Mercurio*, 'Libre comercio: agro busca frenar el TLC con EEUU'.

⁸⁶ *El Mercurio*, 'El agro exige compensaciones'. ⁸⁷ *Ibid.*

⁸⁸ Dittborn, 'Diputados Dittborn y Moreira anunciaron votación favorable', and Galilea, author interview.

⁸⁹ *El Mercurio*, 'Continúa labor de Comisión para Desarrollo de la Agricultura con los TLC', 27 November 2003. ⁹⁰ Frohmann, author interview.

⁹¹ Oscar Torres, director, Grupo de Estudios Agroregionales, author interview, Santiago, 8 July 2004. See also Kay, 'The Agrarian Policy of the Aylwin Government', and Warwick Murray, 'Competitive global fruit export markets: marketing intermediaries and impacts on small-scale growers in Chile', *Bulletin of Latin American Research*, vol. 16, no. 1 (1997), pp. 43–55.

noticeable results.⁹² Other agricultural non-governmental organisations contended that the government's failures were due to attempts to promote the production of crops for which no real market existed and an excessive focus on technology transfer to the exclusion of badly needed improvements in management capacity, leading to the pumping of resources into the sector while its profitability declined and levels of debt increased.⁹³

Organisations of small agricultural producers, concentrated in traditional or subsistence production, were even sharper in denouncing the failures of the Concertación's agricultural policies. Alejandro Toledo of the confederation *La Voz del Campo* suggested that the government had a general policy of support to the agricultural sector but suffered from the lack of a 'specific and focused' policy for small producers.⁹⁴ Yet the majority of agricultural leaders were far less charitable. Manuel Peñailillo of the Confederación de Cooperativas Agriculturas (Confederation of Rural Cooperatives) attacked the programmes implemented by the government to incorporate small producers into the export market as incomplete, uncoordinated and inconsistent, arguing that they had changed five times in ten years.⁹⁵ The absence of credit for small agricultural producers and the persistence of high levels of indebtedness in the sector were also oft-cited grievances, with one agricultural leader declaring bluntly that, '*Si no hay una solución al endeudamiento de los pequeños productores, no tenemos ninguna perspectiva más. Si no hay capital, estamos afuera*'.⁹⁶ Most caustic of all was the president of the *Confederación Nacional Campesina*, who asserted that the government's policies were in fact designed with the intention of destroying small agricultural production and forcing its producers into the salaried workforce,⁹⁷ where the rural and semi-urban poor, particularly women, already constitute the bulk of the often temporary workers employed by major fruit production and export companies.⁹⁸

This bleak panorama is to some degree consistent with the evidence regarding the evolution of the Chilean agrarian sector since the restructuring of the Pinochet-era, which was a period characterised by the explosive growth of export-oriented agriculture, largely in fruit, but only limited adaptation of export crops by smallholders. It suggests that thus far, neither

⁹² Rolando Michea, subdirector, Instituto de Promoción Agraria, author interview, Santiago, 26 July 2004.

⁹³ Hugo Fuentes, director, Corporación de Investigación en Agricultura Alternativa, author interview, Santiago 12 July 2004.

⁹⁴ Alejandro Toledo, Confederación Nacional La Voz del Campo, author interview, Santiago, 12 July 2004. ⁹⁵ Peñailillo, author interview.

⁹⁶ Mellado, Peñailillo and Torres, author interviews.

⁹⁷ Eugenio León, Confederación Nacional Campesina, author interview, Santiago, 2 August 2004.

⁹⁸ Stephanie Barrientos, 'The hidden ingredient: female labor in Chilean fruit exports', *Bulletin of Latin American Research*, vol. 16, no. 1 (1997), pp. 71–81.

the market nor those government interventions have been sufficient to stimulate reconversion among traditional producers.⁹⁹ This is largely due to the requirement in fruit cultivation of capital investments with low returns during a gestation period, as well as the need for standardised production and packaging that require working capital and access to loans. At the same time, small producers lacked technical expertise and connections with banks and export firms, a handicap exacerbated by an absence of marketing cooperatives.¹⁰⁰ Accordingly, a majority of the *parceleros* that had emerged from the agrarian reform with holdings of five to 20 hectares remained trapped in traditional subsectors, and as these crops became less profitable and the boom in fruit exports intensified the demand for land, they were increasingly forced to sell out.¹⁰¹ Those small producers that have survived have been largely excluded from Chile's 'Green Revolution' and have suffered a widening gap in technology and productivity vis-à-vis larger-scale farming, generating what Kay has deemed a process of *campesinización pauperizante*.¹⁰²

Despite this rather disheartening evidence, portrayals of the Chilean agrarian sector as polarised between backward subsistence small producers trapped in their profitless ways and large capitalised enterprises producing for export are misleading. Medium-sized producers (with between 10 and 50 hectares) have played a major role in export fruit production. In the early 1990s, these medium-sized producers accounted for nearly 50 per cent of the total area of fruit cultivation, with producers between 10 and 100 hectares accounting for nearly 70 per cent.¹⁰³ This reflects the fact that the need for quality control in fruit production, and the delicacy of the product, generates potential dis-economies of scale favouring medium-sized producers, who typically produce through a contract relationship with larger export companies which enables them to enjoy advantages in packing, shipping and marketing processes that requires large fixed investments and international contacts.¹⁰⁴ Though the position of such producers has weakened over time – largely due to an economic squeeze created by heightened indebtedness with the export

⁹⁹ Echenique, 'Las dos caras de la agricultura'.

¹⁰⁰ Gwynne, Robert and Jorge Ortiz, 'Export growth and development in poor rural regions: a meso-scale analysis of the upper Limari', *Bulletin of Latin American Research*, vol. 16, no. 1 (1997), pp. 25–41.

¹⁰¹ Michael Carter, Bradford Barham and Dina Mesbah, 'Agricultural export booms and the rural poor in Chile, Guatemala and Paraguay', *Latin American Research Review*, vol. 31, no. 3 (1996), pp. 33–65.

¹⁰² Kay, 'Monetarist experiment', and Durand, 'Agricultural policies'.

¹⁰³ Tanya Korovkin, 'Peasants, grapes and corporations: the growth of contract farming in a Chilean community', *Journal of Peasant Studies*, vol. 19, no. 2 (1992), pp. 228–54.

¹⁰⁴ Sergio Gómez, *Algunas Características del Modelo de Exportación de Fruta en Chile: Orígenes y Situación Actual* (Santiago, 1994).

companies, monopoly control over inputs by the same companies and severe information asymmetries – analysts have coincided in emphasising that these emerging weaknesses can be addressed via public sector intervention aimed at ameliorating the highly unequal balance of power embodied in the contract system, including technological transfer and credit assistance, correction of information balances and more incentives for producers to organise into cooperatives.¹⁰⁵

Given this evidence, it seems reasonable to conclude that medium-sized producers of traditional crops rendered unviable by the price bands' elimination could, with government assistance, successfully reconvert and make the transition to production for export. Small producers, on the other hand, pose a more complex problem. A 1999 analysis by the *Corporación de Fomento de la Producción* estimated that 120–140,000 producers, from a total of 200–240,000 small producers, are *minifundistas* who lack minimum productive potential for viable agricultural production and should therefore enter the labour market. For this population, improvements in rural education and the provision of adequate training to prepare for insertion into the labour market may be the most appropriate strategy.¹⁰⁶ The other approximately 40 per cent of small producers do not face such a bleak panorama and could potentially be integrated into the ranks of contract producers participating in the export market, if the government succeeds in focusing its interventions on correcting imperfections in factor and risk markets that have been identified as fundamental causes of the 'small farm competitiveness gap'.¹⁰⁷

Yet the launching of a more ambitious reconversion programme would require a major new injection of resources, as well as investments in skilled personnel, the modernisation of management in public sector agencies and more careful attention to stimulating participation by the initiative's intended beneficiaries, all of which proved to be an Achilles heel of Concertación's past agricultural policy initiatives.¹⁰⁸ In addition, there would need to be considerable sophistication in tailoring programmes effectively to the quite different populations of traditional producers affected by the abolition of the price bands: medium-to-large sized producers, viable small producers, and *minifundistas*. Successive governments have demonstrated reluctance to undertake such a bold initiative, and current president Michelle Bachelet, despite having emphasised during her electoral campaign that the policies

¹⁰⁵ Gómez, *Algunas Características* and Murray, 'Competitive global fruit export markets'.

¹⁰⁶ Quiroz, 'Desarrollo Rural y Compromisos Económicos Internacionales'; see also Kay, Cristobal, 'Chile's Neoliberal Agrarian Transformation and the Peasantry', *Journal of Agrarian Change* vol. 2, no. 4 (2002), pp. 464–501, for similar estimates on p. 485.

¹⁰⁷ Michael Carter and Dina Mesbah, 'Can land-market reform mitigate the exclusionary aspects of rapid agro-export growth?', *World Development*, vol. 21 (1993), pp. 1085–100.

¹⁰⁸ Kay, 'Chile's Neoliberal Agrarian Transformation and the Peasantry'.

implemented in support of small agriculture by previous governments had not been sufficient to convert it into ‘a modern and dynamic sector’, appears – as more urgent political crises have appeared – to have largely forgotten the promise that the challenge would be taken up by her government.¹⁰⁹

Conclusion

Viewed from a distance, the signing and ratification of the FTA in 2003 would seem to be an event neither surprising nor particularly significant for Chile, clearly no newcomer to trade liberalisation. Yet the controversy surrounding the abolition of the price bands protecting traditional agriculture generated an intriguing political phenomenon in the form of unexpected opposition from the right-wing *Alianza por Chile*. This case study in the politics of trade policy demonstrates once again that the predilection for using trade policy to distribute rents to politically important constituencies, and to staunchly defend such rents once established, cuts across political and ideological lines even in countries with a long-established history of trade liberalisation. Moreover, the debate urged a renewed focus on agricultural conversion and drew attention to the failures of past *Concertación* agricultural policies and the challenges faced by small-scale traditional agriculture in Chile. Considered in the context of the substantial literature on the economic marginalisation that Chile’s peasants have experienced since the Pinochet regime and the limited impact that the policies of post-1990 governments have had on ameliorating this marginalisation – exemplified by the work of Cristóbal Kay, Robert Gwynne, Stephanie Barrientos, Michael Carter and Dina Mesbah, among others – the analysis offered in this article appends a more recent chapter to the history of Chilean agricultural policy.

The present Chilean government continues to emphasise the expansion of trade relations as a central element of its broader economic strategy. However, given the continued failures of reconversion, further controversy over the fate of traditional agriculture is likely to accompany the phasing-out of the bands and the implementation of any further changes in the current trade regimen. This controversy could carry significant political costs. Opposition to agricultural liberalisation could pose a political challenge to the governing *Concertación*, particularly if the relationship between agricultural interests and the opposition *Alianza* grows stronger, and further political skirmishes around the issue of trade liberalisation seem virtually inevitable. Accordingly, the moment seems ripe for further examination of the relationship between domestic politics and the interest groups that face

¹⁰⁹ Michelle Bachelet, ‘Estoy contigo: programa de gobierno’ (2005), pp. 57–8.

sharp short-term costs as trade liberalisation proceeds in Chile. Similarly, comparative research that examines similar controversies over the opening of domestic agricultural sectors across Latin America is necessary to place the Chilean case in context in a region where the political dynamics of trade policy are in rapid flux and a deeper understanding of the interactions between international negotiations and domestic politics is of growing importance.