



# Chile: Political and Economic Conditions and U.S. Relations

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## Summary

Since its transition back to democracy in 1990, Chile has consistently maintained friendly relations with the United States. Serving as a reliable but independent ally, Chile has worked with the United States to advance democracy, human rights, and trade in the Western Hemisphere. Chile and the United States also maintain strong bilateral commercial ties. Total trade has grown 290% to \$24.9 billion since the implementation of a free trade agreement in 2004, and the countries signed an income tax treaty designed to boost private sector investment in February 2010. Additional areas of cooperation between the United States and Chile include promoting clean energy development, supporting regional security and stability, and investigating dictatorship-era human rights abuses.

Sebastián Piñera of the center-right “Coalition for Change” was inaugurated to a four-year presidential term in March 2010. Piñera’s electoral victory was the first for the Chilean right since 1958, and brought an end to 20 years of governance by a center-left coalition of parties known as the Concertación. Since taking office, Piñera has largely maintained the open economic policies and moderate social welfare policies of his Concertación predecessors while proposing reforms designed to boost economic growth and reduce poverty. Although his political coalition lacks majorities in both houses of the Chilean Congress, Piñera has been able to implement portions of his policy agenda. He has struggled, however, in dealing with a series of large-scale protests over issues ranging from energy policy to the education system. The Chilean populace has resorted to such tactics to demonstrate its increasing dissatisfaction with the country’s political system, which it views as unresponsive to citizen demands. As the generalized sense of discontent has spread, Piñera’s approval rating has steadily declined. Halfway through his term, 29% of Chileans approve of Piñera and 64% disapprove. The political opposition has not benefitted from Piñera’s unpopularity; just 21% of the public approves of the Concertación.

With a gross national income of \$173.2 billion and a per capita income of \$10,120, Chile is classified by the World Bank as an upper-middle-income developing country. Successive governments have pursued market-oriented economic policies that have contributed to the development of what many analysts consider the most competitive and fundamentally sound economy in Latin America. This solid economic framework has helped the country weather recent shocks, such as the global financial crisis and a massive February 2010 earthquake. After a 1.7% contraction in 2009, the Chilean economy grew by 5.2% in 2010 and 6.2% in 2011. Strong economic growth—paired with targeted social assistance programs—has also contributed to a significant decline in the poverty rate, which fell from 38.8% in 1989 to 15.1% in 2009.

Congress has expressed interest in a number of issues in U.S.-Chilean relations in recent years. During the 111<sup>th</sup> Congress, both houses passed resolutions (S.Res. 431 and H.Res. 1144) expressing sympathy for the victims of the Chilean earthquake, and the House passed a resolution (H.Res. 1662) commending the country’s rescue of 33 trapped miners. The 112<sup>th</sup> Congress could take up issues such as the U.S.-Chile bilateral income tax treaty that was signed in 2010 and is awaiting submission to the U.S. Senate for ratification.

This report provides a brief historical background of Chile, examines recent political and economic developments, and considers current issues in U.S.-Chilean relations.

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Figure 1. Map of Chile



Source: Map Resources. Adapted by CRS Graphics.

## Political and Economic Background

Located in the Southern Cone of South America, Chile is a politically stable, upper-middle-income, developing nation of 17 million people. The country declared independence from Spain in 1810 but did not achieve full independence until 1818. By 1932, Chile had established a mass electoral democracy, which endured until 1973. During much of this period, Chile was governed by presidents who pursued state-led development and the social and political incorporation of the working classes. These policies were expanded following the election of Eduardo Frei Montalva of the Christian Democratic Party (*Partido Demócrata Cristiana*, PDC) in 1964. Frei's reformist government took majority ownership of the copper mines, redistributed land, and improved access to education. Despite these actions, some Chileans felt more radical policies were needed.

### Chile in Brief

Approximate Size: Twice the size of California  
Population (2010): 17 Million  
Ethnic Groups: Spanish-Indigenous (*Mestizo*), European, Indigenous  
Religion: 70% Roman Catholic; 15.1% Evangelical  
Language: Spanish  
Life Expectancy (2009): 79 years  
Infant Mortality (2010): 8 per 100,000 live births  
Adult Literacy Rate (2008): 99%  
Poverty Rate (2009): 15.1%  
GNI (2010, Atlas Method): \$173.2 Billion  
GNI per Capita (2010, Atlas Method): \$10,120  
**Sources:** U.S. State Department, World Bank, Chilean Ministry of Planning

In 1970, Salvador Allende, a Socialist and the leader of the leftist "Popular Unity" (*Unidad Popular*) coalition, was elected president in a three-way race with just over 36% of the vote. Allende accelerated and furthered the changes of the previous administration by fully nationalizing firms, expanding land reform, and generally socializing the economy. While Allende's supporters pushed him to move more quickly, the political center, represented by the PDC, joined with the parties of the right to block Popular Unity initiatives in the legislature. This ideological divergence prevented the Chilean government from addressing the faltering economy and served to further radicalize supporters on both ends of Chile's already polarized society. When the situation continued to deteriorate following the indecisive 1973 legislative elections, the military intervened.<sup>1</sup>

## Pinochet Era

On September 11, 1973, the Chilean military, under the control of General Augusto Pinochet, deposed the Allende government in a violent coup and quickly consolidated control of the country. The military junta closed Congress, censored the media, declared political parties in recess, and regarded the organized left as an internal enemy of the state. Within the first few months of military rule, over 1,800 people in Chile were killed or "disappeared" for political reasons, and some 23,000 were imprisoned or tortured. By the end of the dictatorship in 1990, the number of killed or disappeared had risen to at least 3,213 and the number of imprisoned and tortured exceeded 38,000.<sup>2</sup> General Pinochet emerged as the figurehead of the junta soon after the

<sup>1</sup> *Chile: A Country Study*, ed. Rex A. Hudson (Washington, DC: Library of Congress, 1994).

<sup>2</sup> *Informe de la Comisión Nacional de Verdad y Reconciliación*, February 1991; Corporación Nacional de Reparación y Reconciliación, *Informe Sobre Calificación de Víctimas de Violaciones de Derechos Humanos y la Violencia Política*, (continued...)

coup and won a tightly controlled referendum to institutionalize his regime in 1978. Pinochet reversed decades of statist economic policies by rapidly implementing a series of changes that liberalized trade and investment, privatized firms, and dismantled the welfare state.

Pinochet won another tightly controlled referendum in 1980, which approved the constitution that continues to govern Chile today. The new constitution called for a plebiscite to take place in 1988 in which Chileans would have the opportunity to reelect Pinochet to another eight-year term or reject him in favor of contested elections. Although the Chilean economy enjoyed a period of rapid economic growth between 1976 and 1981, a banking crisis from 1981 to 1984 sparked widespread protests.<sup>3</sup> Following these initial demonstrations, Chilean civil society groups became more active in criticizing the policies of the Pinochet regime. At the same time, political parties began to reemerge to challenge the government. In 1988, several civil society groups and political parties formed a coalition in opposition to Pinochet's reelection. In the plebiscite, 55% of the Chilean people voted against another eight-year term for Pinochet, triggering the election campaign of 1989.<sup>4</sup>

## Return to Democracy and Concertación Governance

Two major coalitions of parties contested the elections of 1989. The center-left "Coalition of Parties for Democracy," (*Concertación de Partidos por la Democracia*, Concertación) united 17 groups that were opposed to the Pinochet dictatorship, including the centrist PDC and the center-left Party for Democracy (*Partido por la Democracia*, PPD). The center-right "Democracy and Progress" (*Democracia y Progreso*) coalition included the center-right National Renewal (*Renovación Nacional*, RN) and the rightist Independent Democratic Union (*Unión Demócrata Independiente*, UDI). Patricio Alwyn, a Christian Democrat and the candidate of the Concertación, won the presidency with 55% of the vote and the Concertación won majorities in the Chamber of Deputies and among the elected members of the Senate.<sup>5</sup>

Presidents from the Concertación governed Chile for 20 consecutive years following the return of democracy to the country. In addition to the PDC and the PS, the Concertación currently includes the Socialist Party (*Partido Socialista*, PS), and the Social Democratic Radical Party (*Partido Radical Social Demócrata*, PRSD). President Alwyn (1990-1994) was followed by Eduardo Frei Ruiz-Tagle of the PDC (1994-2000), Ricardo Lagos of the PPD (2000-2006), and Michelle Bachelet of the PS (2006-2010). Each of the Concertación governments pushed for reforms to the Pinochet-era constitution, successfully strengthening civilian control over the military, eliminating the institution of unelected senators, and reducing presidential terms from six years to four.<sup>6</sup>

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September 1996; *Informe de la Comisión Nacional Sobre Prisión Política y Tortura*, November 2004; *Informe de la Comisión Asesora para la Calificación de Detenidos Desaparecidos, Ejecutados Políticos y Víctimas de Prisión Política y Tortura*, August 2011.

<sup>3</sup> For more information on the Chilean financial crisis, see CRS Report RS22961, *The U.S. Financial Crisis: Lessons From Chile*, by J. F. Hornbeck.

<sup>4</sup> Alan Angell and Benny Pollack, "The Chilean Elections of 1989 and the Politics of the Transition to Democracy," *Bulletin of Latin American Research*, Volume 9 (1), 1990.

<sup>5</sup> *Ibid.* Prior to a 2005 constitutional reform, former presidents served as "senators-for-life" and nine senators were designated by the armed forces and other governmental bodies.

<sup>6</sup> Peter M. Siavelis, "Electoral System, Coalitional Disintegration, and the Future of Chile's Concertación," *Latin* (continued...)

Under the Concertación, Chile maintained the market-oriented economic policies of the Pinochet regime while implementing targeted social welfare policies. The Concertación administrations promoted export-led development and economic diversification through the pursuit of trade agreements and the encouragement of new export sectors. In an attempt to ensure that the benefits of Chile's economic growth benefitted a broad cross-section of society, President Lagos established *Chile Solidario*, a social protection system that provides support, cash subsidies, and skills training to families in extreme poverty.<sup>7</sup> Likewise, President Bachelet introduced a universal minimum state pension and extended free health care coverage for a number of serious conditions.<sup>8</sup> Chile's economy grew by an average of 5.1% annually during the two decades of Concertación rule, and per capita income increased from \$1,770 in 1989 to \$9,470 in 2009.<sup>9</sup> Although income distribution remained virtually unchanged, the percentage of Chileans living in poverty fell from 38.8% in 1989 to 13.7% in 2006.<sup>10</sup> The poverty rate has increased since then, reaching 15.1% in 2009 in the aftermath of the global financial crisis.<sup>11</sup>

## Political Situation

Sebastián Piñera of the center-right "Coalition for Change," or Coalición, was inaugurated to a four-year presidential term in March 2010. Piñera's electoral victory was the first for the Chilean right since 1958, and brought an end to 20 years of governance by a center-left coalition of parties known as the Concertación. There has been a considerable degree of policy continuity since Piñera's inauguration, as his administration has largely maintained the open economic policies and moderate social welfare policies of the Concertación while proposing modest reforms designed to boost economic growth and reduce poverty. Although his coalition lacks majorities in both houses of the Chilean Congress, Piñera has been able to implement portions of his legislative agenda. He has struggled, however, in dealing with a series of large-scale protests over issues ranging from energy policy to the education system. The Chilean populace has resorted to such tactics to demonstrate its increasing dissatisfaction with the country's political system, which it views as unresponsive to citizen demands. This generalized sense of discontent has taken a toll on Piñera's approval rating, which stands at 29% mid-way through his term. The political opposition has not benefitted from Piñera's unpopularity, as just 21% of Chileans approve of the Concertación.<sup>12</sup>

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*American Research Review*, Volume 40 (1), 2005.

<sup>7</sup> Julieta Palma and Raúl Urzúa, *Anti-Poverty Policies and Citizenry: The "Chile Solidario" Experience*, United Nations Educational, Scientific and Cultural Organization (UNESCO), Policy Papers/12, Paris, 2005, <http://unesdoc.unesco.org/images/0014/001402/140240e.pdf>.

<sup>8</sup> "The Bachelet Model," *Economist*, September 17, 2009.

<sup>9</sup> "El País que Entrega la Concertación Dos Décadas Después de Asumir el Mando," *El Mercurio*, January 18, 2010; World Bank, *World Development Report*, 1991 & 2011.

<sup>10</sup> "El País que Entrega la Concertación Dos Décadas Después de Asumir el Mando," *El Mercurio*, January 18, 2010.

<sup>11</sup> Gobierno de Chile, Ministerio de Planificación, "CASEN 2009: Situación de Pobreza a Nivel de Personas, Según Región," <http://www.ministeriodesarrollosocial.gob.cl/casen/Estadisticas/pobreza.html>.

<sup>12</sup> "Encuesta: Evaluación Gestión del Gobierno: Informe Mensual" *Adimark GfK*, March 2012.

## 2009 Presidential and Legislative Elections

On January 17, 2010, billionaire businessman Sebastián Piñera, a member of the National Renewal party (RN) and the candidate of the center-right “Coalition for Change” (*Coalición por el Cambio*, Coalición), was elected president in a second round runoff election. He defeated former President Eduardo Frei (1994-2000), a member of the Christian Democratic Party (PDC) and the candidate of the center-left Concertación, 52% to 48%.<sup>13</sup> Piñera was forced to contest a runoff after he failed to win an absolute majority of the vote in a first-round election held on December 13, 2009. Piñera was the leading vote-getter in the first-round, winning the support of 44% of the electorate. He was followed by Frei at 30% and two Concertación dissidents, Marco Enríquez-Ominami and Jorge Arrate, at 20% and 6%, respectively.<sup>14</sup>

A number of analysts contend that the election was not a rejection of the moderate social democratic policies of the Concertación, but reflected a desire for new leadership after two decades of governance by a coalition that had undergone little internal renovation.<sup>15</sup> They note that outgoing Concertación President Michelle Bachelet remained extremely popular in the final months of her term, enjoying an 83% approval rating at the time of the election.<sup>16</sup> Likewise, Piñera projected a moderate image throughout the campaign, emphasizing his 1988 vote against the continuation of the Pinochet regime, pledging to generally continue the policies of the Concertación, and proposing to extend Chile’s social protection network to the middle class.<sup>17</sup>

Legislative elections for half of the seats in the Senate and the entire Chamber of Deputies were held concurrently with the first round of the presidential election. For the first time, the center-right coalition of parties (currently known as the “Coalition for Change” or Coalición) surpassed the center-left Concertación as the largest bloc in the lower house. The Coalición holds 58 of the 120 seats in the Chamber of Deputies and 16 of the 38 seats in the Senate. The Concertación and the leftist “Together We Can Do More” (*Juntos Podemos Más*, JPM) coalition signed an electoral pact prior to the elections; together, they hold 57 seats in the Chamber of Deputies and 19 seats in the Senate.<sup>18</sup> The Communist Party (*Partido Comunista*, PC) is represented in the Chilean Congress for the first time since the 1973 overthrow of Salvador Allende, holding three of the Concertación-JPM seats. The remaining three Senate seats and five Chamber of Deputies seats are held by independents and members of the Regionalist Party of Independents (*Partido Regionalista de los Independientes*, PRI), who are unaffiliated with either of the major coalitions (see **Figure 2**).

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<sup>13</sup> “Chile: Piñera Wins the Second Round,” *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

<sup>14</sup> “Frei Earns Right to Face Rampant Piñera in January Run-off in Chile,” *Latin American Weekly Report*, December 17, 2009.

<sup>15</sup> “Tendencias que Muestra la Reciente Elección,” *El Mercurio*, January 19, 2010; Genaro Arriagada, “A Conversation on the Chilean Elections,” Remarks at the Inter-American Dialogue, Washington, DC, January 20, 2010; Patricio Navia, “Elections and Political Trends,” Remarks at XIV Annual CAF Conference on the Americas, Washington, DC, September 8, 2010.

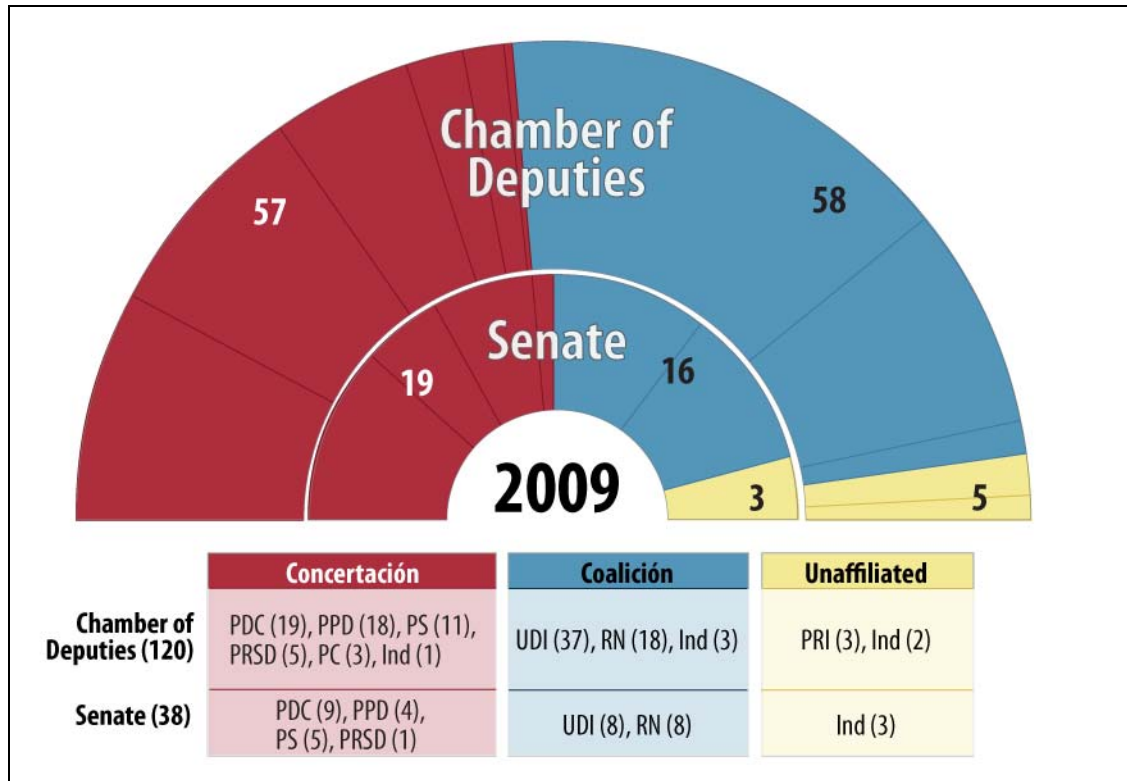
<sup>16</sup> “Chilean President’s Rating Rises Despite Vote,” *Reuters*, February 1, 2010.

<sup>17</sup> “The Strange Chill in Chile,” *Economist*, September 17, 2009; “Chile: Piñera’s Plan,” *Latin American Weekly Report*, December 3, 2009.

<sup>18</sup> “Chile: Country Report,” *Economist Intelligence Unit*, January 2010.



**Figure 2. Coalition and Party Affiliation in Chile's Senate and Chamber of Deputies**  
Legislative Seat Distribution Resulting from the 2009 Elections



**Source:** Created by CRS Graphics.

**Notes:** There are 38 seats in the Senate and 120 seats in the Chamber of Deputies. Although the PC is not a member party of the Concertación, it won its seats in the Chamber of Deputies as a result of an electoral pact with that coalition. See **Table A-1** for political party acronyms.

## Piñera Administration

Although Piñera's electoral victory was the first for the Chilean right since 1958, there has been a considerable degree of policy continuity since his March 2010 inauguration. The Piñera Administration has largely maintained the open economic policies and moderate social welfare policies of the Concertación while proposing modest reforms designed to boost economic growth and reduce poverty. Piñera must secure the support of unaffiliated or Concertación legislators in order to pass legislation since his political coalition lacks majorities in both houses of the Chilean Congress (see **Figure 2**). He has won legislative approval for several initiatives with cross-coalition appeal, including an earthquake reconstruction plan, a reduction in health fees for low-income senior citizens, an extension from three months to six months of state-subsidized maternity leave, and an electoral reform to make voting voluntary and registration automatic.<sup>19</sup>

<sup>19</sup> Eduardo Sepúlveda, "Muchos Políticos Han Caído en la Tentación del Populismo y la Irresponsabilidad," *El Mercurio*, August 21, 2011; Gobierno de Chile, "President Piñera Enacts the Law to Extend Postnatal Maternity Leave to 6 Months," Press Release, October 7, 2011; "Automatic Registration in Chile Incorporates 4.5 Million New, Mostly Young Voters," *MercoPress*, January 25, 2012.

Piñera's legislative agenda for 2012 includes tax and political reforms and the creation of an "ethical family income" (*ingreso ético familiar*) conditional cash transfer program.<sup>20</sup>

Many of Piñera's legislative initiatives have sparked intra-coalition divisions among the major political parties. Within Piñera's Coalición, the UDI and other conservative sectors have questioned many of the administration's policy decisions, such as temporarily raising taxes to fund earthquake reconstruction, proposing to make those tax increases permanent to increase education funding, and placing considerable emphasis on social welfare policies to reduce poverty.<sup>21</sup> Likewise, the opposition Concertación has been divided between centrist sectors that are more inclined to work with Piñera, such as the PDC, and more left-leaning sectors that have preferred to obstruct the administration's agenda.<sup>22</sup> Thus, while Piñera occasionally has been able to obtain some opposition support for his initiatives, his attempts to do so have often alienated his own political base while failing to secure broad support from the Concertación.

In addition to his coalition difficulties, Piñera has struggled to address a series of protests, strikes, and citizen demonstrations. These have included high-profile hunger strikes by Mapuche<sup>23</sup> prisoners; an uprising in the southernmost Chilean region of Magallanes over a plan to increase gas prices; protests by victims of the 2010 earthquake and tsunami over the pace of reconstruction; protests by environmentalists opposed to a proposed hydroelectric project; massive student demonstrations seeking changes in the educational system; and, most recently, protests by a group of fishermen, unions, and social movements advocating for a range of demands in the southern region of Aysén. Many of these demonstrations have received considerable popular support. In March 2012, for example, 82% of Chileans agreed with the demands of the protesters in Aysén.<sup>24</sup>

Many analysts believe Chileans have resorted to street protests as a result of their increasing dissatisfaction with the country's political class, which they view as unresponsive to citizen demands and unwilling to address the country's high level of inequality.<sup>25</sup> On one hand, Chile's democracy is more consolidated and inclusive than ever before. Elections and respect for individual rights have become normalized, many of the undemocratic provisions of the 1980 constitution have been eliminated, and poverty has fallen considerably.<sup>26</sup> On the other hand, Chileans—who are more aware of their rights and more vocal in their demands as a result of these advances—are increasingly disillusioned by the country's lack of social mobility. Even as

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<sup>20</sup> "Congreso: Gobierno Prioriza Iniciativas de Regionalización," *La Nación* (Chile), March 6, 2012.

<sup>21</sup> "Piñera's Honeymoon Comes to an Abrupt End in Chile," *Latin American Weekly Report*, April 29, 2010; "Tax Reform a Priority," *Latin American Regional Report: Brazil & Southern Cone*, December 2011.

<sup>22</sup> Hernán López y David Muñoz, "DC Crítica a la Concertación por No Aprobar un 'Proyecto Histórico de Bachelet,'" *El Mercurio*, April 21, 2011; David Muñoz, "Concertación Evalúa Rechazo a Proyectos Sociales y la Moneda Acusa de 'Obstruccionismo,'" *El Mercurio*, May 5, 2011.

<sup>23</sup> The Mapuche are Chile's largest indigenous group. They account for 4% of the population.

<sup>24</sup> "Encuesta: Evaluación Gestión del Gobierno: Informe Mensual" *Adimark GfK*, March 2012.

<sup>25</sup> See, for example, Thalif Deen, "Chile: Disillusion with Pinochet-Era Political System Grows," *Inter Press Service*, January 31, 2012; Marta Lagos, *Chile Al Desnudo*, Latinobarómetro, October 28, 2011; Sergio Bitar, "¿Que Pasa en Chile?: (2) Chile y Sus Movilizaciones: ¿Por Qué?," *Infolatam*, September 14, 2011; Patricio Navia, "¿Discontento o Ansiedad?," *La Tercera* (Chile), August 24, 2011; "Chile: Something is Rotten in the State of Chile," *Latin American Weekly Report*, August 18, 2011; "Sistema Institucional Chileno: Cambiar para No Lamentar," *La Nación* (Chile), August 2, 2011; and "Genaro Arriagada: 'Creo que Piñera Ha Dañado Fuertemente la Imagen Presidencial,'" *Diario Financiero* (Chile), July 16, 2011.

<sup>26</sup> Patricio Navia, "Democracy to the Extent Possible in Chile," *Latin American Research Review*, Special Issue (2010).

Chile experienced strong economic growth between 2010 and 2011, Chileans' satisfaction with democracy declined by 24 points to 32%. Similarly, the percentage of Chileans that believe the state governs for the good of all citizens fell from 34% to 22%.<sup>27</sup> Elections are extremely limited in their ability to channel citizen discontent, however, since the country's binomial electoral system effectively ensures a relatively equal distribution of power between the two major political coalitions regardless of voters' preferences.<sup>28</sup> Likewise, candidates are chosen through negotiations among political party leaders rather than through primary elections, and political power is heavily concentrated in the central government in Santiago. Given these constraints on electoral democracy, demonstrations may serve as an alternative mechanism for holding political leaders accountable and forcing them to respond to citizen demands.

While most analysts maintain that the protests and citizen dissatisfaction are unlikely to seriously threaten Chile's political stability in the near term, many argue that political, fiscal, and education reforms could help ease tensions moving forward.<sup>29</sup> As noted above, the Chilean government recently enacted an electoral reform to make voting voluntary and registration automatic. The reform could potentially increase the electorate by over 50% by incorporating 4.5 million previously unregistered voters, many of whom are under the age of 30.<sup>30</sup> President Piñera has introduced additional legislative initiatives that would partially decentralize governance and make primary elections mandatory for political parties.<sup>31</sup> His coalition is extremely divided about enacting more radical changes to the political system. While the RN has joined with some in the Concertación to push for the end of the binomial election system, the UDI (which is the main beneficiary of the current system) is adamantly opposed.<sup>32</sup> In addition to political reforms, Piñera is currently considering an overhaul of the tax code that could potentially increase the progressivity of the system and raise revenue to address citizen demands for increased investments in education and social programs.

These initiatives have not yet translated into increased support for Chile's political leadership. Piñera remains relatively unpopular, with 29% of Chileans approving of his performance and 64% disapproving halfway through his presidency. Although the Concertación has offered support to several of the public demonstrations and has sought to fan the flames of discontent with the Piñera Administration, it has not benefitted politically. Just 21% of Chileans approved of the Concertación in March 2012 while 68% disapproved.<sup>33</sup>

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<sup>27</sup> Lagos, October 2011, op.cit.

<sup>28</sup> The binomial election system, a legacy of the Pinochet-era, is composed of two-member districts, which require a coalition to win by two-to-one margins in order to secure both seats. Thus, a swing from one coalition to the other—from 60%-40% to 40%-60%, for example—will produce the exact same result. Consequently, the two major coalitions split seats in more than 95% of electoral districts. Navia, 2010, op.cit.

<sup>29</sup> See, for example, Patricio Navia, "Fin Del Binominal" *La Tercera* (Chile), October 11, 2011; Bitar, September 2011, op.cit.; and "The Dam Breaks: Pent-Up Frustration at the Flaws of a Successful Democracy," *Economist*, August 27, 2011.

<sup>30</sup> Prior to the electoral reform, registration was voluntary but voting was mandatory for registered voters. "Chile's Unrepresentative System Faces Reform Obstacles," *Oxford Analytica*, February 1, 2012.

<sup>31</sup> "Congreso: Gobierno Prioriza Iniciativas de Regionalización," *La Nación* (Chile), March 6, 2012.

<sup>32</sup> "Chile: Ruling Coalition Tottering," *Latin American Weekly Report*, January 26, 2012.

<sup>33</sup> "Encuesta: Evaluación Gestión del Gobierno: Informe Mensual" *Adimark GfK*, March 2012.

## Economic Conditions

With a gross national income of \$173.2 billion and a per capita income of \$10,120 (2010), Chile is classified by the World Bank as an upper-middle-income developing country.<sup>34</sup> Over the past several decades, the country has pursued market-oriented economic policies designed to foster export-led development and economic diversification. Chile has implemented trade agreements with nearly 60 countries<sup>35</sup>—including a free trade agreement with the United States—and has encouraged the development of new export sectors such as forestry products, salmon, fresh fruit, and wine. The country also has attracted significant amounts of foreign direct investment, which totaled \$15.1 billion in 2010.<sup>36</sup> As a result of these policies, the Chilean economy is now less reliant on its traditional copper exports<sup>37</sup> and is considered by many analysts to be the most competitive and fundamentally sound in Latin America.<sup>38</sup> In May 2010, Chile became the first South American nation to join the Organization for Economic Cooperation and Development (OECD).<sup>39</sup>

## External Shocks and Recovery

Chile's solid economic framework has enabled the country to weather recent shocks to the economy. The country's economic growth slowed in late 2008 and gross domestic product (GDP) contracted by 1.7% in 2009 as the global financial crisis took a considerable toll on the economy.<sup>40</sup> The Chilean government was able to lessen the impact of the downturn, however, by implementing a \$4 billion (2.4% of GDP) economic stimulus package that included temporary tax cuts for small businesses, increased transfer payments for poor Chileans, \$700 million for infrastructure projects, and \$1 billion for the state-owned copper company, Codelco (*Corporación Nacional del Cobre*). This counter-cyclical spending was financed by drawing on the country's Economic and Social Stabilization Fund, one of two sovereign wealth funds in which the Chilean government invests windfall surpluses from copper revenues.<sup>41</sup> As a result of the stimulus and other efforts, the country began to experience quarter-on-quarter economic growth by the end of 2009.<sup>42</sup>

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<sup>34</sup> World Bank, "Chile: Data," <http://data.worldbank.org/country/chile>.

<sup>35</sup> Gobierno de Chile, Ministerio de Relaciones Exteriores, "Tratados de Libre Comercio: Acuerdos Comerciales Vigentes," <http://www.direcon.gob.cl/acuerdo/list>.

<sup>36</sup> U.N. Economic Commission for Latin America and the Caribbean, *Foreign Direct Investment in Latin America and the Caribbean, 2010*, May 2011, <http://www.eclac.cl/publicaciones/xml/0/43290/2011-323-LIEI-WEB.pdf>.

<sup>37</sup> Despite economic diversification, copper and copper ore still account for over 56% of Chilean exports. Chilean Customs Service data, as presented by *Global Trade Atlas*, April 2012.

<sup>38</sup> See, for example, *Global Competitiveness Report 2011-2012*, ed. Klaus Schwab (Geneva: World Economic Forum, 2011), [http://www3.weforum.org/docs/WEF\\_GCR\\_Report\\_2011-12.pdf](http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf); and "Chile: Country Report," *Economist Intelligence Unit*, March 2012.

<sup>39</sup> Organization for Economic Cooperation and Development, "Chile's Accession to the OECD," Press Release, May 7, 2010.

<sup>40</sup> "Chile: Country Report," *Economist Intelligence Unit*, May 2011.

<sup>41</sup> "Chile's Economy: Stimulating," *Economist*, February 19, 2009.

<sup>42</sup> "Chile Economy: Quick View—Out of Recession," *Economist Intelligence Unit*, November 20, 2009.

Just as the Chilean economy was beginning to recover from the global financial crisis, the country was hit by an earthquake of magnitude 8.8 on February 27, 2010.<sup>43</sup> Centered 70 miles northeast of Chile's second-largest city, Concepción, the earthquake was the second-largest ever recorded in Chile and the fifth-largest recorded worldwide since 1900.<sup>44</sup> The earthquake and subsequent tsunami devastated a substantial portion of the country. An estimated 1.8 million people were affected, with over 500 people confirmed dead, and some 220,000 homes destroyed or severely damaged.<sup>45</sup> In addition to physical damages estimated at \$29.7 billion (15% of GDP), the affected areas—which are home to portions of the wine, wood pulp, and fruit industries—are responsible for generating approximately one-sixth of Chile's total GDP.<sup>46</sup>

The Chilean government is implementing an \$8.4 billion reconstruction plan, which is being combined with insurance payments and private sector support, to repair and rebuild what was damaged and destroyed by the earthquake and tsunami. The government is financing the reconstruction plan with a mix of temporary tax increases, sovereign debt issuance, and funds from the country's Economic and Social Stabilization Fund. The reconstruction effort is scheduled to conclude in March 2014; however, it was reportedly over 68% complete as of February 2012.<sup>47</sup>

Although Chile's economy suffered in the first quarter of 2010 as a result of the earthquake, it has since recovered. Reconstruction helped fuel economic growth of 5.2% in 2010 and an estimated 6.2% in 2011. With nearly 580,000 jobs created in the past two years, unemployment has fallen to 6.6%—one of the lowest figures on record—and wages have begun to rise. The Chilean government ended 2011 with a fiscal surplus equivalent to 1.6% of GDP. This was the first surplus in two years, as economic shocks and government recovery efforts led to deficits of 4.5% of GDP in 2009 and 0.3% of GDP in 2010. Chile's economic growth is expected to slow to 4.3% in 2012 as a result of weakness in the global economy and the country's dependence on external demand.<sup>48</sup> With nearly \$15 billion (6% of GDP) in its Economic and Social Stabilization Fund,<sup>49</sup> Chile has considerable room to pursue counter-cyclical policies should the economic situation worsen.

## Social Indicators

Strong economic growth and targeted social programs have produced considerable improvements in social and development indicators in Chile over the past two decades. As noted above, the

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<sup>43</sup> For more information on the Chile earthquake, see CRS Report R41112, *Chile Earthquake: U.S. and International Response*, by June S. Beittel and Rhoda Margesson.

<sup>44</sup> In 1960, southern Chile was struck by a magnitude 9.5 earthquake. Jose Luis Saavedra, "Massive Earthquake Hits Chile, 214 Dead," *Reuters*, February 27, 2010.

<sup>45</sup> Roser Toll, "Damnificados del Sismo en Chile: 'Vivimos en un Campo de Concentración'," *Agence France Presse*, February 23, 2011.

<sup>46</sup> "Chile: Country Report," *Economist Intelligence Unit*, September 2010.

<sup>47</sup> "Chile: Reconstrucción por el Terremoto Concluirá en 2014 (Gobierno)," *Agence France Presse*, February 8, 2011; Rienzi Franco, "Piñera Cifra en 68% el Avance en la Reconstrucción al Rendir Cuenta," *El Mercurio*, February 25, 2012.

<sup>48</sup> "Chile: Country Report," *Economist Intelligence Unit*, March 2012.

<sup>49</sup> Government of Chile, Ministry of Finance, "Economic and Social Stabilization Fund: Monthly Executive Report," February 2012.

percentage of Chileans living in poverty fell from 38.8% in 1989 to 13.7% in 2006<sup>50</sup> before increasing slightly to 15.1% in 2009 in the aftermath of the global financial crisis.<sup>51</sup> Chile is also on pace to meet all eight of the U.N. Millennium Development Goals by 2015.<sup>52</sup> Primary education is now almost universal and secondary and tertiary attainment rates have increased rapidly.<sup>53</sup> Whereas only 16.6% of Chileans aged 55-64 have completed a tertiary degree, 34.9% of those aged 25-34 have done so.<sup>54</sup> Health indicators have also improved. Child malnutrition (as measured by the percentage of children under five who are underweight) is now just 0.5%, and life expectancy is 79 years.<sup>55</sup>

Despite these advances, several challenges remain. High levels of inequality have persisted over the past 20 years. The Gini coefficient,<sup>56</sup> which is used to measure income concentration, barely moved between the mid-1990s and 2009, declining from 0.54 to 0.53. Although the Gini coefficient falls to 0.49 when taxes and government transfers are taken into account, it remains well above the OECD average of 0.31.<sup>57</sup> Moreover, inter-generational social mobility is low, as the education system tends to replicate existing class disparities.<sup>58</sup> The OECD maintains that Chile's fiscal policies do little to redistribute income compared to those of other OECD members. It recommends that Chile combine efforts to enhance economic growth with measures to increase the employment and living standards of the poor, such as increasing the progressivity of the tax system, providing support for more equal access to high-quality education, and targeting its social support programs somewhat less narrowly.<sup>59</sup> According to OECD calculations, Chile could lift all households above the current poverty line by investing an additional 1% of GDP in transfer programs.

The Piñera Administration is currently considering several initiatives that could reduce inequality and improve social mobility. The President is expected to introduce a wide-reaching tax reform in the coming months. It likely would make permanent a previously adopted temporary tax increase on large companies in order to reduce taxes on individuals and small and mid-sized companies and raise funds for education.<sup>60</sup> Piñera has also proposed dedicating an additional 0.07% of GDP to an "ethical family income" conditional cash transfer program. The new program would provide

<sup>50</sup> "El País que Entrega la Concertación Dos Décadas Después de Asumir el Mando," *El Mercurio*, January 18, 2010.

<sup>51</sup> Gobierno de Chile, Ministerio de Planificación, "CASEN 2009: Situación de Pobreza a Nivel de Personas, Según Región," <http://www.ministeriodesarrollosocial.gob.cl/casen/Estadisticas/pobreza.html>.

<sup>52</sup> The goals include eradicating extreme poverty, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating disease, and ensuring environmental stability, and developing a global partnership for development. "Chile: Leading the Millennium Objectives League," *Latin American Regional Report: Brazil & Southern Cone*, September 2008; United Nations and the Government of Chile, *Objetivos de Desarrollo del Milenio: Tercer Informe del Gobierno de Chile*, February 8, 2011.

<sup>53</sup> Nicola Brandt, *Chile: Climbing on Giants' Shoulders: Better Schools for All Chilean Children*, Organization for Economic Co-operation and Development (OECD), OECD Economics Department Working Papers No. 784, 2010.

<sup>54</sup> "Country Statistical Profiles: Chile," *OECD.Stat*, <http://stats.oecd.org/>.

<sup>55</sup> World Bank, "Chile: Data," <http://data.worldbank.org/country/chile>.

<sup>56</sup> The Gini coefficient is the most commonly used measure of inequality. A value of 0 represents absolute equality and a value of 1 represents absolute inequality.

<sup>57</sup> "Income Distribution—Inequality," *OECD.Stat*, <http://stats.oecd.org/>.

<sup>58</sup> OECD, *OECD Economic Surveys: Chile*, January 2012; "UNESCO: Sistema Educativo Chileno Fomenta la Disigualdad," *La Nación* (Chile), December 5, 2011.

<sup>59</sup> OECD, 2012, op.cit.

<sup>60</sup> "Chile to Raise Around \$700 Mln via Tax Reform – FinMin," *Reuters*, March 18, 2012.

direct income subsidies to poor families in exchange for ensuring that the adults enroll in employment programs and the children attend school and receive proper medical care.<sup>61</sup>

## **U.S.-Chile Relations**

The United States and Chile have enjoyed friendly relations since Chile transitioned back to democratic governance. Serving as a reliable but independent ally, Chile has worked with the United States to advance democracy, human rights, and trade in the Western Hemisphere. The countries maintain close bilateral commercial ties, having signed a free trade agreement in 2003 and an income tax treaty in 2010. Other areas of U.S.-Chilean cooperation that have been of interest to Congress include the development of clean energy resources, efforts to support security and stability in the hemisphere, and investigations into Pinochet-era human rights violations.

Since taking office, the Obama Administration has sought to maintain close ties with Chile and encourage its leadership in the region. Vice President Biden visited Chile in March 2009 during his first trip to Latin America, and then-President Bachelet met with President Obama in Washington, DC, in June 2009. Bachelet described her Administration's close relations with the Obama Administration as "one of the most important events in U.S.-Chile relations in recent times."<sup>62</sup> High level contacts have continued since President Piñera took office. President Obama met with Piñera during the April 2010 Global Nuclear Security Summit in Washington, DC, and again in March 2011 during his first visit to South America. During his visit to the country, President Obama commended Chile as "one of [the United States'] closest and strongest partners" and "one of the greatest success stories in the region."<sup>63</sup>

## **U.S. Assistance**

Although Chile was once a major recipient of U.S. foreign aid, it currently receives only minor assistance as a result of its relatively high level of development. In an attempt to promote economic development and prevent the election of a communist government, the United States provided Chile with extensive assistance during the 1950s and 1960s. President Kennedy made Chile the centerpiece of his "Alliance for Progress," providing the country with over \$1.7 billion (constant 2010 dollars) in economic assistance between 1961 and 1963.<sup>64</sup> Assistance declined following the 1970 election of Socialist President Salvador Allende and has generally remained low since then, increasing briefly during the early years of the Pinochet dictatorship and again following the transition to democracy. Chile received about \$1.95 million in U.S. assistance in FY2010, \$1.3 million in FY2011, and is scheduled to receive an estimated \$1.16 million in FY2012. The Obama Administration has requested about \$1.1 million for Chile in FY2013. The majority of U.S. assistance to Chile is focused on modernizing the Chilean military, increasing its

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<sup>61</sup> OECD, 2012, op.cit.

<sup>62</sup> "Washington Watch," *Latin News Daily*, June 25, 2009.

<sup>63</sup> White House, Office of the Press Secretary, "Remarks by President Obama and President Sebastian Piñera of Chile at Joint Press Conference," March 21, 2011.

<sup>64</sup> U.S. Agency for International Development (USAID), *U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945-September 30, 2010*, <http://gbk.eads.usaidallnet.gov/>.

interoperability with U.S. forces, and building its capacity to participate in regional security and peacekeeping operations.<sup>65</sup>

In addition to annual bilateral assistance, the United States has provided emergency assistance to Chile in recent years. Following Chile's massive February 2010 earthquake, the U.S. government provided the country with some \$9.8 million in humanitarian aid. This assistance included the deployment of a U.S. Agency for International Development (USAID) team to identify humanitarian needs; relief supplies such as satellite phones, emergency shelters, electric generators, and mobile water treatment units; and the deployment of two C-130 aircraft to transport emergency relief supplies to disaster-affected areas.<sup>66</sup> Likewise, the Obama Administration dispatched a team of National Aeronautics and Space Administration (NASA) experts to Chile in August 2010 to assist the recovery of 33 trapped miners. The team of two medical doctors, a psychologist, and an engineer provided technical advice concerning human physiology and behavioral responses to emergencies.<sup>67</sup>

## **Commercial Ties**

### **Trade Agreements**

The United States and Chile signed a bilateral free trade agreement (FTA) on June 6, 2003. Following the House and Senate passage of the U.S.-Chile Free Trade Implementation Act, President Bush signed the bill into law on September 3, 2003 (P.L. 108-77). The FTA established immediate duty-free treatment for 85% of bilateral trade in consumer and industrial products, increasing market access for both countries.<sup>68</sup> Since the agreement went into force on January 1, 2004, bilateral trade between the United States and Chile has grown 290%, totaling \$24.9 billion in 2011. U.S. imports from Chile grew from \$3.7 billion in 2003 to \$9.1 billion in 2011, while U.S. exports to Chile grew from \$2.7 billion in 2003 to \$15.9 billion in 2011. Chile's top exports to the United States are copper, edible fruit, seafood, and wood. The top U.S. exports to Chile are oil, heavy machinery, motor vehicles, and electrical machinery. In 2011, the United States was Chile's top source of imports and the third-largest market for Chile's exports, while Chile was the 39<sup>th</sup>-largest source of U.S. imports and 20<sup>th</sup>-largest export market for U.S. goods.<sup>69</sup> In addition to the bilateral FTA, Chile and the United States are both participating in negotiations concerning the potential expansion of the Trans-Pacific Partnership Agreement, an Asia-Pacific regional trade agreement.<sup>70</sup>

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<sup>65</sup> U.S. Department of State, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2012*, April 8, 2011; *Congressional Budget Justification for Foreign Operations, Fiscal Year 2013*, March 9, 2012.

<sup>66</sup> USAID, Bureau for Democracy, Conflict, and Humanitarian Assistance, Office of U.S. Foreign Disaster Assistance, "Chile—Earthquake: Fact Sheet #18, Fiscal Year (FY) 2010," April 22, 2010.

<sup>67</sup> National Aeronautics and Space Administration (NASA), "NASA Provides Assistance to Trapped Chilean Miners," Press Release, September 7, 2010.

<sup>68</sup> For more information on the U.S.-Chile Free Trade Agreement, see: CRS Report RL31144, *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J. F. Hornbeck.

<sup>69</sup> U.S. Department of Commerce and Chilean Customs Service data, as presented by *Global Trade Atlas*, April 2012.

<sup>70</sup> For more information on the Trans-Pacific Partnership Agreement, see CRS Report R40502, *The Trans-Pacific Partnership Agreement*, by Ian F. Fergusson and Bruce Vaughn and CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis*, by Brock R. Williams.



## Intellectual Property Rights Protection

The U.S. Trade Representative (USTR), U.S. business groups, and some Members of Congress have expressed concerns about Chile's protection of intellectual property rights. Chile has been on USTR's Priority Watch List since 2007 as a result of what USTR considers the country's insufficient protection efforts. According to USTR, Chile improved its intellectual property rights protection efforts in 2010 by implementing new copyright legislation, ratifying several international conventions, and launching a ministerial-level interagency committee on intellectual property rights. Nonetheless, USTR asserts that Chile must take additional actions to address a number of outstanding intellectual property rights issues under the U.S.-Chile Free Trade Agreement.<sup>71</sup> U.S. business groups have called for increased protection for pharmaceutical patent holders and strengthened procedures for removing internet content that infringes on copyrights, among other actions.<sup>72</sup> The Chilean government maintains that it complies with all of its intellectual property rights obligations. It also maintains that Chile is open to perfecting its legal framework for intellectual property protection, as demonstrated by the Piñera Administration's decision to submit new legislation to the Chilean Congress that would provide greater protections for pharmaceutical patents.<sup>73</sup> Nevertheless, some Members of Congress have called on USTR to initiate formal dispute settlement proceedings against Chile.<sup>74</sup>

## Income Tax Treaty<sup>75</sup>

On February 4, 2010, U.S. Treasury Secretary Timothy Geithner and then Chilean Finance Minister Andrés Velasco signed the "Convention Between the Government of the United States of America and the Government of the Republic of Chile for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital." The treaty is designed to encourage private sector growth in both countries by providing certainty on the tax treatment of investors and reducing tax-related barriers to investment. Among other provisions, the treaty would reduce source-country withholding taxes on certain cross-border payments of dividends, interest, and royalties; establish rules to determine when an enterprise or individual of one country is subject to tax on business activities in the other; enhance the mobility of labor by coordinating the tax aspects of the U.S. and Chilean pension systems; foster collaboration to resolve tax disputes and relieve double taxation; and ensure the full exchange between the U.S. and Chilean tax authorities of information for tax purposes. The treaty, which has yet to be submitted to the U.S. Senate for ratification, would be the first bilateral income tax treaty between the United States and Chile and only the second U.S. tax treaty with a South American country.<sup>76</sup>

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<sup>71</sup> Office of the United States Trade Representative, *2011 Special 301 Report*, April 2011, <http://www.ustr.gov/about-us/press-office/reports-and-publications/2011/2011-special-301-report>.

<sup>72</sup> "IPR Groups Blast Chile for FTA Violations; Hatch Calls for Dispute Settlement," *Inside U.S. Trade*, February 24, 2012.

<sup>73</sup> "Patentes: Chile Responde Ante Acusación de Senador de EEUU," *La Nación* (Chile), February 28, 2012.

<sup>74</sup> See, for example, Letter from Orrin G. Hatch, Ranking Member of the Senate Committee on Finance, to Ambassador Ron Kirk, United States Trade Representative, February 16, 2012, <http://infojustice.org/wp-content/uploads/2012/03/hatch02162012.pdf>.

<sup>75</sup> The full text of the treaty, as presented for signature, is available at <http://www.treasury.gov/resource-center/tax-policy/treaties/Documents/ChileTreaty2010.pdf>.

<sup>76</sup> U.S. Department of the Treasury, "U.S., Chile Sign Income Tax Treaty," Press Release, February 4, 2010.

## Energy Cooperation

As a result of Chile's fast-growing economy and limited domestic energy resources, energy shortages have become one of the most critical long-term structural bottleneck's to the country's continued growth. Chile's economy is expected to grow by more than 5% annually in the coming years, and the government estimates that energy demand will double over the next decade and triple by 2032.<sup>77</sup> At the same time, Chile's traditional energy sources have come under pressure. Domestic demands have led Argentina to reduce its gas exports to Chile, and low rainfall has occasionally depleted Chilean reservoirs used to generate hydroelectricity. The resulting energy shortages have forced blackouts and contributed to rising energy costs.<sup>78</sup>

Chile's efforts to address the shortfalls by encouraging reduced consumption and diversifying its energy supply have produced mixed results. A January 2011 proposal to increase gas prices in the Magallanes region of southern Chile sparked sizeable, and sometimes violent, demonstrations that forced the government to back away from the idea.<sup>79</sup> The large *HydroAysén* hydroelectric project has also generated strong domestic opposition as a result of its potential environmental impact in the pristine Patagonia region.<sup>80</sup> The Chilean government adopted a law in 2008 that requires 10% of the country's energy to be generated from nonconventional renewable energy sources by 2024. Only 4% of Chile's power generation currently comes from such sources, however, as a result of the financial and technical barriers to taking advantage of the country's vast wind, solar, tidal, and geothermal energy potential.<sup>81</sup> To offset its lack of domestic production, Chile now imports over two-thirds of its energy.<sup>82</sup> While new investments in liquefied natural gas terminals and coal-fired thermoelectric plants are diversifying the sources of Chile's energy supply, the coal-fired plants will contribute to increased carbon emissions, which could put Chile's exports at a disadvantage if it were to enter into a global carbon market in the future.<sup>83</sup>

In recent years, Chile and the United States have sought to cooperate on energy issues. At the Fifth Summit of the Americas<sup>84</sup> in April 2009, President Obama introduced an "Energy and Climate Partnership for the Americas" (ECPA) designed to foster regional cooperation on issues such as energy efficiency, renewable energy investment, and reductions in greenhouse gas emissions.<sup>85</sup> Under the umbrella of ECPA, the United States and Chile signed a Memorandum of Understanding (MOU) on cooperation in clean energy technologies in June 2009. Through the MOU, the U.S. Department of Energy is providing technical support to Chile's Renewable

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<sup>77</sup> "Chile Industry: Energy Security Still Elusive," *Economist Intelligence Unit*, April 21, 2011.

<sup>78</sup> "Chile: Power Rationing Risk Shows Investment Need," *Oxford Analytica*, February 24, 2011.

<sup>79</sup> "8,000 Chileans Protest Hike in Natural Gas Prices," *EFE News Service*, January 10, 2011; Miguel Sánchez, "Chile: Crisis del Gas Propina Derrota Política a Piñera (Analistas)," *Agence France Presse*, January 19, 2011.

<sup>80</sup> Steven Bodzin, "Chileans Protest Government Approval of Five Patagonia Dams," *Christian Science Monitor*, May 10, 2011.

<sup>81</sup> Americas Society and Council of the Americas, *Toward Energy Security in Chile*, Working Paper of the Americas Society/Council of the Americas Energy Action Group, Washington, DC, February 2012, p.10, <http://www.as-coa.org/files/TowardEnergySecurityInChile.pdf>.

<sup>82</sup> "Chile Industry: Energy Security Still Elusive," *Economist Intelligence Unit*, April 21, 2011.

<sup>83</sup> "Chile: Coal Generation Raises Emissions Concerns," *Oxford Analytica*, August 19, 2009.

<sup>84</sup> For more information on the Fifth Summit of the Americas, see CRS Report R40074, *Fifth Summit of the Americas, Port of Spain, Trinidad and Tobago, April 2009: Background, Expectations, and Results*.

<sup>85</sup> White House, Office of the Press Secretary, "The United States and the 2009 Summit of the Americas: Securing Our Citizens' Future," Press Release, April 19, 2009.

Energy Center and two solar plant pilot projects in the Atacama Desert. Future collaboration is likely to involve biofuels, biomass, wind, and geothermal energy projects.<sup>86</sup> Chile and the United States signed another MOU during President Obama's March 2011 trip to the country, agreeing to cooperate on the peaceful uses of nuclear energy. Through the MOU, the two governments will work together on issues such as fuel design, nuclear safety and security, and human resource and infrastructure development.<sup>87</sup>

## **Regional Stability and Security**

Since the return to democracy, Chile's foreign policy has been based on respect for international law, peaceful dispute resolution, and non-interference in the internal affairs of other countries.<sup>88</sup> Although the country's initiatives in the international arena have often focused on forging trade and investment linkages, Chile also has been an active participant in multilateral efforts to advance peace and stability in the hemisphere. In recent years, Chile has contributed forces to the U.N. Stabilization Mission in Haiti (MINUSTAH), collaborated on regional counternarcotics efforts, and engaged in diplomatic efforts to resolve political crises in Bolivia and Honduras.<sup>89</sup> Moreover, the United States and Chile are currently working together under a "Trilateral Development Initiative" designed to improve stability and prosperity in the hemisphere by strengthening agriculture, health, and social protection efforts in countries such as El Salvador, Guatemala, and Paraguay.<sup>90</sup>

## **Haiti Peacekeeping**

Chile has worked with the United States as part of the multinational peacekeeping force in Haiti since 2004. Chile agreed to send peacekeeping forces to Haiti immediately after receiving the U.N. Security Council's initial March 2004 request for assistance in stabilizing the deteriorating situation in the country. As part of the Multinational Interim Force-Haiti (MIFH), Chilean soldiers provided Haiti with urgently needed assistance while giving the United Nations time to prepare a broader mission. Chile's early presence in the MIFH also encouraged a number of other Latin American countries to contribute to the broader U.N. Stabilization Mission in Haiti (MINUSTAH), establishing an opportunity for regional political and military cooperation and integration. Chile has committed more human and material resources to MINUSTAH than it has to any previous peacekeeping mission.<sup>91</sup> It currently has slightly over 500 soldiers and police on

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<sup>86</sup> White House, Office of the Press Secretary, "The United States and Chile: Environment, Energy, and Climate Change," Fact Sheet, March 21, 2011.

<sup>87</sup> U.S. Department of State, Bureau of Western Hemisphere Affairs, "The United States and Chile: Cooperation on the Peaceful Uses of Nuclear Energy," Fact Sheet, March 21, 2011.

<sup>88</sup> Carlos Portales, "A Word from a Foreign Policy Maker," Remarks at the Embassy of Chile's "Chilean Bicentennial: A Vision From Embassy Row," Washington, DC, September 15, 2010.

<sup>89</sup> Patrick J. McDonnell, "Regional Summit Calls on Bolivians to Avoid Strife," *Los Angeles Times*, September 16, 2008; "Bachelet No Acepta Legitimar los Golpes de Estado," *La Nación* (Chile), December 1, 2009.

<sup>90</sup> U.S. Department of State, Bureau of Western Hemisphere Affairs, "The United States and Chile: Trilateral Development Cooperation," Fact Sheet, March 20, 2011; P. Adriana Hayes, "In Development, Three Heads are Better than One," *USAID Frontlines*, March/April 2012.

<sup>91</sup> Enzo Di Nocera García and Ricardo Benavente Cresta, "Chile: Responding to a Regional Crisis," in *Capacity Building for Peacekeeping: The Case of Haiti*, eds. John T. Fishel and Andrés Sáenz, pp.66-90 (Dulles, VA: Potomac Books, 2007).

the ground.<sup>92</sup> After eight years in Haiti, the Chilean government has indicated that it intends to begin gradually withdrawing its peacekeepers.<sup>93</sup>

## Narcotics Trafficking

As a result of its long, difficult-to-monitor borders, Chile is a transshipment point for Andean cocaine destined for Europe and has recently become a source of precursor chemicals for methamphetamine processing in Mexico and cocaine processing in Bolivia and Peru. Chile is also the second largest per capita consumer of marijuana and cocaine in South America. In recognition of these challenges, Chile has dedicated substantial personnel and financial resources to suppressing the production, trafficking, and use of illicit narcotics. In May 2011, Chile launched a three-year national strategy to reduce marijuana and cocaine use among students. Likewise, in October 2011, Chile launched a three-year, \$70 million plan to combat narcotics trafficking in the country's northern border and coastal regions. Through June 2011, Chilean officials reported seizures of 1,467 kg of cocaine; 3,776 kg of cocaine paste; and 6,127 kg of marijuana—a 12% increase in cocaine seizures and a 48% increase in marijuana seizures compared to the same period of 2010.<sup>94</sup>

The United States recognizes the government of Chile as a strong counternarcotics partner with which it works closely to reduce drug trafficking in Chile and elsewhere in the region. Bilateral U.S.-Chilean counternarcotics cooperation is focused on increasing interagency collaboration among Chilean law enforcement agencies and improving Chile's ability to conduct international drug investigations. Chile and the United States also collaborate on counternarcotics efforts in third countries. Both countries are part of the Group of Friends of Central America, and, among other initiatives in the region, are supporting police reform in Honduras.<sup>95</sup>

## Human Rights

Progress in addressing Pinochet-era human rights abuses was rather limited in the initial years following the return of democratic governance in Chile. Recognizing the still delicate status of democracy, the Alwyn Administration allowed a 1978 amnesty law to remain in place while establishing a National Commission for Truth and Reconciliation (the Rettig Commission) to investigate political disappearances and killings during the authoritarian period. The Rettig Commission's recommendations led to the Chilean government awarding reparations to family members of those killed or disappeared. Nonetheless, it was only in 1998, when Pinochet finally stepped down as the head of the armed forces and was subsequently detained in the United Kingdom on an extradition request from Spain, that the Chilean government was able to place more emphasis on the discussion and prosecution of human rights abuses.<sup>96</sup>

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<sup>92</sup> United Nations, "UN Mission's Contributions by Country," February 29, 2012.

<sup>93</sup> "Retiro de Tropas de Paz en Haití," *El Mercurio*, March 20, 2012.

<sup>94</sup> U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2012 International Narcotics Control Strategy Report*, March 7, 2012, <http://www.state.gov/j/inl/rls/nrcrpt/2012/vol1/184098.htm#Chile>.

<sup>95</sup> Noé Leiva, "EEUU, Chile y Colombia Asesoran a Honduras en Lucha Contra el Crimen," *Agence France Presse*, January 19, 2012.

<sup>96</sup> Priscilla B. Hayner, *Unspeakable Truths: Facing the Challenge of Truth Commissions* (New York: Routledge, 2002).

After slow progress during the first two Concertación administrations, attention to human rights issues accelerated during the Lagos and Bachelet Administrations. In 2003, Lagos established a National Commission on Political Imprisonment and Torture (the Valech Commission), which awarded reparations to those who were tortured during the dictatorship. During the administration of President Bachelet—who was tortured by the Pinochet regime—Chile created an Institute of Human Rights, ratified the International Convention for the Protection of all Persons from Enforced Disappearance, and established a Museum of Memory dedicated to the victims of the dictatorship and those who struggled to promote and defend human rights.<sup>97</sup> Nearly 250 dictatorship-era officials and members of the military have been convicted for human rights abuses and many others remain on trial.<sup>98</sup> Although Pinochet died in 2006 before standing trial, those convicted include top officials such as former intelligence chief Manuel Contreras, who is serving multiple life sentences for his roles in myriad of dictatorship-era crimes, including the 1976 assassination of former Chilean Ambassador to the United States Orlando Letelier and his American associate, Ronni Moffitt, in Washington, DC.<sup>99</sup>

President Piñera has been very cautious in dealing with dictatorship-era human rights issues, seeking to overcome the Chilean right's historic association with Pinochet without alienating the portion of his political base that remains sympathetic to the former leader. Although Piñera largely selected politicians and private sector officials without major ties to the Pinochet regime when forming his government, his administration has been subject to fierce criticism on a few occasions. In June 2010, Piñera quickly replaced his ambassador to Argentina after the ambassador claimed that the majority of Chileans “were not affected” and “were relieved” by the country's 1973 military coup.<sup>100</sup> More recently, in January 2012, the Piñera Administration was forced to quickly backtrack on a decision by the national education council to refer to the Pinochet government as a “military regime” rather than a “dictatorship” in school textbooks.<sup>101</sup> At the same time, Piñera has proposed legislation to create an under-secretariat for human rights to handle international human rights complaints and collaborate with public and private human rights organizations. The Chilean judiciary continues to investigate dictatorship-era human rights abuses, and has reopened several high profile cases.<sup>102</sup>

Chile and the United States have cooperated on investigations of unresolved human rights cases from the Pinochet era. During his March 2011 visit to Chile, President Obama said he would consider Chilean requests for classified information relating to human rights violations. Although

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<sup>97</sup> “Chile Ratifica Convención de la ONU Sobre Desaparición Forzada de Personas,” *EFE News Service*, September 2, 2009; “Chile: Human Rights Institute Established,” *Latin American Weekly Report*, November 26, 2009; “Un Monumento en Honor a los Asesinados por la Dictadura Pinochetista; Bachelet Inauguró el Museo de la Memoria a Días del Balotaje,” *Clarín* (Argentina), January 12, 2010.

<sup>98</sup> Human Rights Watch, *World Report 2012: Chile*, 2012, <http://www.hrw.org/world-report-2012/chile>.

<sup>99</sup> Jack Epstein, “Augusto Pinochet: 1915-2006/Chilean Leader's Regime Left Thousands of ‘Disappeared’,” *San Francisco Chronicle*, December 11, 2006; Helen Hughes and Jack Chang, “Ex-Chilean Intelligence Chief Gets 2 Life Sentences,” *Miami Herald*, July 1, 2008.

<sup>100</sup> Hinde Pomeraniec, “La Mayor Parte de Chile No Sintió la Dictadura de Pinochet,” *Clarín* (Argentina), June 6, 2010; “Chile: An Embarrassment in Argentina,” *Latin American Regional Report: Brazil & Southern Cone*, July 2010.

<sup>101</sup> “Chile Backs Off Removing ‘Dictatorship’ from Texts,” *Associated Press*, January 6, 2012.

<sup>102</sup> In July 2011, a judicial investigation concluded that President Allende's death during the 1973 coup was a suicide. The Chilean judiciary continues to investigate other high profile cases, including the 1974 death of Chilean Air Force Brigadier General Alberto Bachelet, the father of former President Michelle Bachelet (2006-2010); the 1974 death of José Tohá González, a member of the Allende Administration and the father of current head of the PPD, Carolina Tohá; and the 1982 death of former President Eduardo Frei Montalva (1964-1970), father of former President Eduardo Frei Ruiz-Tagle (1994-2000).

tens of thousands of U.S. documents relating to Chile's authoritarian period have already been declassified, many were heavily redacted and others have never been released. Some analysts believe that further declassification of U.S. documents could assist in the investigations into dictatorship-era crimes.<sup>103</sup>

Among the many unresolved human rights cases that Chile continues to investigate are those of three American citizens. According to the 1991 Rettig Commission report, Charles Horman and Frank Teruggi were executed by Chilean security forces shortly after the 1973 coup.<sup>104</sup> In November 2011, the Chilean judge investigating the homicides indicted a former Chilean army colonel that is already serving multiple sentences for human rights violations and former U.S. naval officer Ray E. Davis, who was commander of the U.S. Military Group in Chile at the time of the coup. Drawing upon declassified U.S. government documents, the Chilean judge asserts that Davis provided Chilean military agents with intelligence about Horman and Teruggi and did nothing to prevent the murders of the two men although he was in a position to do so. The judge has asked the Chilean Supreme Court to authorize an extradition request to try Davis in Chile.<sup>105</sup> Another U.S. citizen, Boris Weisfeiler, disappeared in Chile in 1985. Although some declassified U.S. documents<sup>106</sup> suggest that Weisfeiler may have been killed by the Pinochet regime, he has never been included in the Rettig and Valech Commissions' victims lists. According to the U.S. Embassy in Santiago, the United States continues to support Chile's investigation of the case.<sup>107</sup>

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<sup>103</sup> Michael Warren and Eva Vergara, "Investigators: Secret Files Could Help Chile," *Associated Press*, February 26, 2011; "AP Interview: Chile's Leader to Formally Ask for CIA Files to Help Pinochet Dictatorship Probe," *Associated Press*, March 22, 2011.

<sup>104</sup> For an English language translation of the Rettig Commission report, see *Report of the Chilean National Commission on Truth and Reconciliation*, vol. I (Notre Dame, Indiana: University of Notre Dame Press, 1993), pp. 224-225, available at [http://www.usip.org/files/resources/collections/truth\\_commissions/Chile90-Report/Chile90-Report\\_PartI.pdf](http://www.usip.org/files/resources/collections/truth_commissions/Chile90-Report/Chile90-Report_PartI.pdf).

<sup>105</sup> Pascale Bonnefoy, "Chile Indicts Ex-U.S. Officer in 1973 Killings," *New York Times*, November 29, 2011; Eva Vergara, "Chile Seeks Former Naval Officer's Extradition," *Associated Press*, November 29, 2011.

<sup>106</sup> See, for example, U.S. Department of State, *Welfare-Whereabouts: Case of Boris Weisfeiler*, October 17, 1985, <http://foia.state.gov/documents/StateChile3/000068EC.pdf>.

<sup>107</sup> "Chile Doesn't Include US Prof as Pinochet Victim," *Associated Press*, August 26, 2011.

## Appendix. Chilean Political Acronyms

**Table A-1. Chilean Political Acronyms**

Acronym	Political Organization	Description
JPM	Together We Can Do More	Leftist coalition of parties
PC	Communist Party	Leftist member party of JPM
PDC	Christian Democratic Party	Centrist member party of the Concertación <sup>a</sup>
PPD	Party for Democracy	Center-left member party of the Concertación
PRI	Regionalist Party of Independents	Centrist party formed in a merger of regional parties.
PRSD	Social Democratic Radical Party	Center-left member party of the Concertación.
PS	Socialist Party	Center-left member party of the Concertación.
RN	National Renewal	Center-right member party of the Coalición. <sup>b</sup>
UDI	Independent Democratic Union	Rightist member party of the Coalición.

**Source:** Compiled by CRS.

**Notes:**

- a. The Concertación is a center-left coalition of parties.
- b. The Coalición is a center-right coalition of parties.

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