



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

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Summary

Chile has maintained friendly relations with the United States since its transition back to civilian democratic rule in 1990. The Obama Administration has sought to build on these traditionally close ties and encourage Chile's leadership in the Western Hemisphere. Bilateral commercial relations are particularly strong; total trade in goods and services has nearly tripled since the implementation of a free trade agreement in 2004. Additional areas of cooperation include supporting regional stability and promoting clean energy development.

Political Situation

Sebastián Piñera of the center-right "Alliance for Chile," or *Alianza*, 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*. Piñera's coalition lacks majorities in both houses of the Chilean Congress, however, and he must secure the support of opposition or unaffiliated legislators to advance his agenda. This need for cross-coalition appeal has contributed to considerable policy continuity.

While Piñera has won legislative support for a variety of incremental policy reforms, he has struggled to deal with a series of popular protests over issues ranging from energy policy to the education system. Analysts maintain that the Chilean populace has resorted to such tactics to demonstrate its increasing dissatisfaction with the country's political class, which it views as unresponsive to citizen demands and unwilling to address high levels of inequality. As the generalized sense of discontent has spread, Piñera's approval rating has steadily declined. In April 2013, 34% of Chileans approved of Piñera's performance in office while 56% disapproved.

Since Piñera has less than a year left in his term and is constitutionally ineligible to seek immediate reelection, the Chilean political scene is focusing much of its attention on the presidential election scheduled for November 17, 2013. Early polling suggests that former President Michelle Bachelet (2006-2010) is likely to lead the *Concertación* back to power. National primary elections to select each coalition's candidate are scheduled to be held on June 30, 2013.

Economic Conditions

According to many analysts, Chile has the most competitive and fundamentally sound economy in Latin America. In 2012, the country had a gross domestic product (GDP) of \$268 billion and an estimated per capita GDP of \$15,410. Chile's economic success stems from policies implemented over several decades that have opened the country to investment, secured access to foreign markets, and mitigated the effects of external shocks. In recent years, this solid policy framework has helped the Chilean economy weather the global financial crisis and a massive February 2010 earthquake. After a 0.9% contraction in 2009, the Chilean economy grew by 6.1% in 2010, 5.9% in 2011, and 5.5% in 2012.

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 14.4% in 2011. High levels of inequality have persisted, however, contributing to some popular discontent with Chile's generally strong economic performance.

Congressional Action

Congress has expressed interest in a variety of issues in U.S.-Chilean relations over the years. The 113th Congress could take up matters such as the U.S.-Chile bilateral income tax treaty, which was signed in 2010 and was submitted to the U.S. Senate for ratification on May 17, 2012 (Treaty Doc. 112-8). Ongoing negotiations over the proposed Trans-Pacific Partnership (TPP) trade agreement, which includes Chile, the United States, and at least nine other nations in the Asia-Pacific region, may also attract congressional attention.

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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Political and Economic Background

Located in the Southern Cone of South America, Chile is a politically stable, upper-middle-income, developing nation of 16.6 million people.¹ 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.

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 slightly 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 intransigence 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.²

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

Chile in Brief

Land Area: 287,000 square miles (approximately twice as large as Montana)

Population (2012): 16.6 million

Ethnic Groups (2012): 89.7% White or Mestizo (White-Indigenous); 10.3% Indigenous

Religion (2012): 67.4% Roman Catholic; 16.6% Evangelical; 11.6% none.

Official Language: Spanish

Life Expectancy (2011): 79 years

Infant Mortality Rate (2011): 8 per 100,000 live births

Adult Literacy Rate (2012): 97.8%

Poverty Rate (2011): 14.4%

GDP (2012): \$268 billion

GDP per Capita (2012): \$15,410

Sources: Chilean Ministry of Social Development, Chilean National Statistics Institute, International Monetary Fund, World Bank

¹ Gobierno de Chile, Instituto Nacional de Estadísticas, *Censo de Población y Vivienda 2012: Resultados Preliminares*, 2012.

² *Chile: A Country Study*, ed. Rex A. Hudson (Washington, DC: Library of Congress, 1994).

number of killed or disappeared had risen to at least 3,213 and the number of imprisoned and tortured exceeded 38,000.³

General Pinochet emerged as the figurehead of the junta soon after the 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. He 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. 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 1989.⁴

Return to Democracy and the *Concertación* Era

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 parties 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 Aylwin, 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.

Presidents from the Concertación governed Chile for 20 consecutive years following the return of democracy to the country. President Aylwin (1990-1994) was followed by Eduardo Frei Ruiz-Tagle of the PDC (1994-2000), Ricardo Lagos of both the Socialist Party (*Partido Socialista*, PS) and the PPD (2000-2006), and Michelle Bachelet of the PS (2006-2010). All four of the Concertación administrations faced significant constraints in governance, however, as a result of undemocratic provisions in the Pinochet-era constitution. The country's binomial electoral system, composed of two-member districts that require a coalition to win by two-to-one margins in order to secure both seats, led to the significant overrepresentation of the Chilean right in both houses of Congress. Likewise, prior to 2005, nine unelected senators were designated by the military and other government bodies, effectively creating a right-leaning majority in the Senate despite Concertación victories in legislative elections. Moreover, the Chilean military maintained a powerful, independent role following the democratic transition, and Pinochet remained the head

³ *Informe de la Comisión Nacional de Verdad y Reconciliación*, February 1991; *Informe Sobre Calificación de Víctimas de Violaciones de Derechos Humanos y la Violencia Política*, 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.

⁴ 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.

of the army until 1998 and then served as a lifetime senator until 2002. These authoritarian institutional features forced the Concertación to govern through pacts with the Chilean right, greatly inhibiting the pace of policy changes.⁵

Despite these challenges, the Concertación was able to implement gradual economic, social, and political reforms while in power. Although the Concertación administrations largely maintained the market-oriented economic framework they inherited, they also made a number of changes. Whereas Pinochet unilaterally reduced tariffs, the Concertación governments negotiated a broad network of free trade agreements to obtain reciprocal access to important consumer markets and fuel export-led development. The Concertación also institutionalized countercyclical fiscal policies to ensure stable government funding during economic downturns, and built a modest social safety net.⁶ During two decades of Concertación rule, Chile's economy grew by an average of 5.1% annually, and the percentage of Chileans living in poverty fell from 38.8% to 15.1%.⁷ Major political reforms were delayed until 2005, when the Concertación won approval for a package of 58 constitutional amendments. The changes included the elimination of unelected and lifetime senators and the establishment of firm civilian control over the military.⁸ The Chilean right successfully protected the binomial electoral system, however, which remains in place today.

Efforts to address dictatorship-era human rights abuses were similarly delayed. Although President Aylwin created a National Commission for Truth and Reconciliation (the Rettig Commission) to investigate political disappearances and killings during the authoritarian period, other human rights initiatives advanced slowly. In 2003, President Lagos established a National Commission on Political Imprisonment and Torture (the Valech Commission), which awarded reparations. 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. Over time, the Chilean judiciary gradually shifted its jurisprudence on dictatorship-era human rights abuses, ruling the country's 1978 amnesty law inapplicable in many cases.⁹ At least 76 military and police officers have been convicted for human rights abuses and some 700 others are still under investigation.¹⁰

⁵ Patricio Navia and Ricardo Godoy, "From Pinochet to Piñera: The Alianza's Quest to Democratically Win Power in Chile," paper delivered at the 2012 Latin American Studies Association Conference in San Francisco, CA, May 23-26, 2012.

⁶ Oscar Landerretch, "Chile and the Ideology of Stability," paper delivered at the 2012 Latin American Studies Association Conference, San Francisco, CA, May 23-26, 2012.

⁷ "El País que Entrega la Concertación Dos Décadas Después de Asumir el Mando," *El Mercurio*, January 18, 2010; Gobierno de Chile, Ministerio de Planificación, "CASEN 2009: Situación de Pobreza a Nivel de Personas, Según Región," 2010.

⁸ Biblioteca del Congreso Nacional de Chile, *Las Reformas a la Constitución de 1980*, August 9, 2005.

⁹ Marny A. Requa, "A Human Rights Triumph? Dictatorship-era Crimes and the Chilean Supreme Court," *Human Rights Law Review*, vol. 12, no. 1 (2012), pp. 79-106.

¹⁰ "Chile: Agentes de la Dictadura Condenados por Violaciones a DDHH Suman 76," *Agence France Presse*, June 9, 2012.

Figure 1. Map of Chile



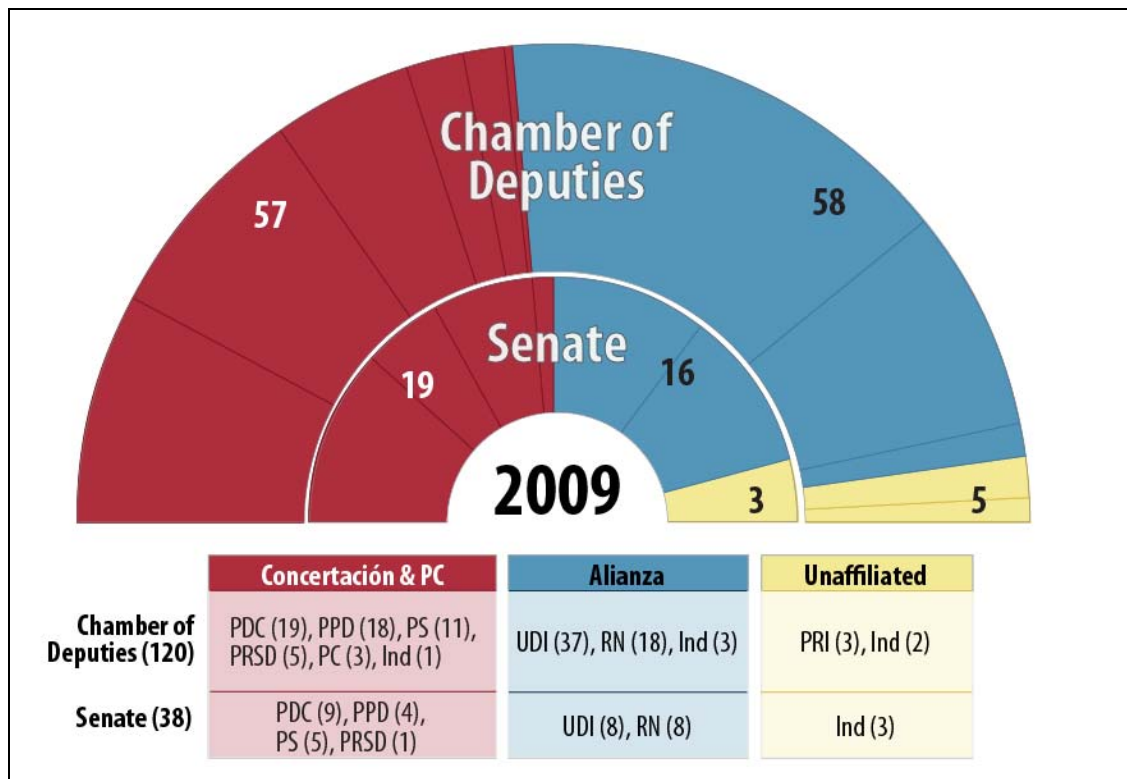
Source: Map Resources, adapted by CRS Graphics.

Political Situation

Piñera Administration

Sebastián Piñera of the center-right “Alliance for Chile,” (*Alianza por Chile*, *Alianza*)¹¹ coalition was inaugurated to a four-year presidential term in March 2010. He defeated former President Eduardo Frei (1994-2000) of the center-left *Concertación* coalition, 52% to 48% in a second round runoff election.¹² Piñera’s electoral victory was the first for the Chilean right since 1958, and brought an end to 20 years of governance by the *Concertación*. Piñera’s coalition was unable to win majorities in either house of the Chilean Congress, however, so he must secure the support of unaffiliated and opposition legislators in order to advance his agenda (see **Figure 2** below).

Figure 2. Coalition and Party Affiliation in Chile’s Senate and Chamber of Deputies
(Legislative distribution following the 2009 Elections)



Source: Created by CRS Graphics.

Notes: 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-I** for political party acronyms.

¹¹ Although the center-right coalition ran under the banner of the “Coalition for Change” in 2009, Chileans generally continue to refer to it by its historic name, the “Alliance for Chile” or *Alianza*.

¹² 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. “Chile: Piñera Wins the Second Round,” *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

Piñera has won opposition support for a number of legislative initiatives since taking office; however, many of the policy changes have sparked intra-coalition divisions. Conservative sectors of Piñera's coalition have questioned the administration's tax policies and emphasis on social welfare programs. For example, Piñera enacted a temporary tax increase on corporations to help fund reconstruction after a massive February 2010 earthquake, and recently made the tax increase permanent as part of a fiscal reform designed to increase funding for education. Piñera has also reduced health fees for low-income senior citizens, expanded state-subsidized maternity leave from three months to six months, and enacted a new "Ethical Family Income" (*Ingreso Ético Familiar*) program, which increases cash subsidies and job training for the poor and expands benefits to low-income Chileans above the poverty line. Although initiatives such as these have consolidated and built upon programs implemented by the Concertación, the opposition has been divided between centrist sectors willing to work with Piñera and more left-leaning sectors intent on opposing his agenda.

In addition to negotiating legislation with the Chilean Congress, Piñera has spent much of his time in office responding to a series of strikes, protests, and other citizen demonstrations. These have included high-profile hunger strikes by imprisoned indigenous activists, an uprising in the southernmost region of Chile over a plan to increase gas prices, protests by environmentalists opposed to a hydroelectric project, strikes by port workers seeking better working conditions, and massive student demonstrations calling for the government to guarantee free, high quality education. The demands of the demonstrators have generally received considerable popular support even as Chileans have sometimes disagreed with their methods. An April 2013 poll, for example, found that 86% of Chileans support the demands of the student protestors.¹³

Some 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.¹⁴ This is somewhat counterintuitive since 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 constitution have been eliminated, and poverty has fallen considerably.¹⁵ Chileans are also more aware of their rights as a result of these advances, however, and young Chileans—who have no memory of the dictatorship—are much more willing to vocalize their demands.¹⁶ Many are disillusioned with the country's lack of social mobility. According to one recent poll, 82% of Chileans think workers do not benefit from the country's economic growth.¹⁷

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,¹⁸ elections are

¹³ "Chile: 86% Apoya Gratuidad y Fin al Lucro en Educación," *Agence France Presse*, April 16, 2013.

¹⁴ 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; and Sergio Bitar, "¿Que Pasa en Chile?: (2) Chile y Sus Movilizaciones: ¿Por Qué?," *Infolatam*, September 14, 2011.

¹⁵ Patricio Navia, "Democracy to the Extent Possible in Chile," *Latin American Research Review*, Special Issue (2010).

¹⁶ Ernesto Muñoz-Lamartine, "Student Leaders Reinvent the Protest," *Berkeley Review of Latin American Studies*, Fall 2011-Winter 2012, p. 27.

¹⁷ "Mayoría de los Chilenos Piensa que en Chile No Se Respetan los Derechos de los Trabajadores," *El Mostrador*, April 30, 2013.

¹⁸ Since a coalition must win by a two-to-one margin in order to secure both seats in an electoral district, a major swing in voters 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.

extremely limited in their ability to channel citizen discontent. Likewise, candidates have traditionally been chosen through negotiations among political party leaders rather than through primary elections, and political power is heavily concentrated in the central government. 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 many analysts maintain that the protests and citizen dissatisfaction are unlikely to seriously threaten Chile's political stability in the near term, some argue that socio-economic and political reforms could help ease tensions moving forward.¹⁹ Piñera and the Chilean Congress appear to agree as they have reacted to the protests by adopting legislation designed to address some of the demonstrators' demands. As noted above, the Chilean government recently adopted a fiscal reform that will allow it to dedicate increased funding to education. Although the changes do not fully address the students' demands, they will likely make education more affordable for low- and middle-income Chileans. The Chilean government has also adopted electoral reforms to institutionalize primary elections and make it easier to vote.²⁰ Some Chilean legislators are considering more far-reaching political reforms, including an end to the binomial electoral system; however, such changes appear unlikely in the near term.

These initiatives have not yet translated into increased support for Chile's political leadership. With the exceptions of a short honeymoon period after taking office and a bounce in the aftermath of the October 2010 rescue of 33 trapped miners, Piñera has never enjoyed the approval of a majority of Chileans. His approval rating has been mired in the low thirties for most of the past year, and in April 2013, 34% of Chileans approved of his performance in office while 56% disapproved. The major political coalitions fare even worse; the same poll found that 26% of Chileans approved of the *Concertación* and 24% approved of the *Alianza*.²¹

November 2013 General Elections

Given that Piñera has less than a year left in his term, the Chilean political scene has begun to focus on the presidential and congressional elections scheduled for November 17, 2013. Piñera is ineligible to run for reelection as the Chilean constitution only allows for non-consecutive presidential terms. National primary elections to select the presidential candidates of both major political coalitions are scheduled for June 30, 2013. Most congressional candidates will be selected through negotiations among political party leaders.²²

Early polling suggests that former President Michele Bachelet (2006-2010), who left office with an 83% approval rating,²³ is the favorite to win the nomination of the center-left *Concertación* coalition as well as the general election. She is being backed in the primary by her center-left Socialist Party (PS), the center-left Party for Democracy (PPD), and the left-wing Communist

¹⁹ See, for example, "The Dam Breaks: Pent-Up Frustration at the Flaws of a Successful Democracy," *The Economist*, August 27, 2011; and Kailie Middleton, "Summary: 2013 Presidential Elections and Economic Outlook – What's Next for Chile?," *Americas Society/Council of the Americas*, May 9, 2013.

²⁰ Prior to the electoral reform, registration was voluntary but voting was mandatory for registered voters. Now, registration is automatic and voting is voluntary.

²¹ "Evaluación de Gobierno Abril 2013," *Adimark GfK*, May 7, 2013.

²² Although an October 2012 electoral reform established binding, government-administered primary elections, political parties and coalitions are allowed to opt out of the process.

²³ "Chilean President's Rating Rises Despite Vote," *Reuters*, February 1, 2010.

Party (*Partido Comunista*, PC).²⁴ Her opponents for the Concertación nomination include her former Finance Minister Andrés Velasco, who is running as an independent, Senator José Antonio Gómez of the center-left Social Democratic Radical Party (*Partido Radical Socialdemócrata*, PRSD), and Claudio Orrego of the Christian Democratic Party (PDC). Marco Enríquez-Ominami, who split from the Concertación and won 20% of the first-round presidential vote in 2009, intends to run once again as the candidate of his Progressive Party (PRO) and will not participate in the Concertación primary.

The candidates for the nomination of the center-right *Alianza* coalition are former Defense Minister Andrés Allamand of the center-right National Renewal (RN) party and former Economy Minister Pablo Longueira of the right-wing Independent Democratic Union (UDI) party. Both candidates served in Piñera's cabinet prior to resigning in order to campaign. Some analysts thought that Laurence Golborne, who rose to national prominence as the Minister of Mining during the October 2010 rescue of 33 trapped miners, would be the *Alianza*'s strongest candidate. Golborne dropped out of the race in April 2013, however, as a result of two scandals relating to his private business interests.

Economic Conditions

According to many analysts, Chile has the most competitive and fundamentally sound economy in Latin America.²⁵ In 2012, Chile had a gross domestic product (GDP) of \$268 billion and an estimated per capita GDP of \$15,410—the highest in the region.²⁶ Chile's current success is partially the result of the market-oriented economic policies the country has pursued over the past several decades, which have attracted foreign investment and fostered export-led development. Chile has implemented trade agreements with 60 countries,²⁷ and now has open and reciprocal access to major consumer markets such as China, the European Union, and the United States. In 2012, Chile attracted \$30.3 billion in foreign direct investment,²⁸ and enjoyed a trade surplus of \$6.2 billion.²⁹

The Chilean economy has also benefitted from institutionalized countercyclical fiscal policies that have helped mitigate the effects of external shocks. Recognizing that its economy and tax receipts are highly dependent on copper prices, Chile enacted a fiscal responsibility law that requires the government to set its budget based on an expert panel's calculation of the medium-term equilibrium price of copper. When the price is above the equilibrium, savings are invested in sovereign wealth funds that can then be drawn upon during economic downturns.

²⁴ Although it is not formally a part of the Concertación, the PC (and a few other small leftist parties) signed an electoral pact to participate in the coalition's primary.

²⁵ See, for example, *Global Competitiveness Report 2012-2013*, ed. Klaus Schwab (Geneva: World Economic Forum, 2012); and "Chile: Country Report," *Economist Intelligence Unit*, May 2013.

²⁶ International Monetary Fund (IMF), "World Economic Outlook Database," April 2013.

²⁷ Gobierno de Chile, Ministerio de Relaciones Exteriores, "Tratados de Libre Comercio: Acuerdos Comerciales Vigentes," <http://www.direcon.gob.cl/acuerdo/list>.

²⁸ U.N. Economic Commission for Latin America and the Caribbean, *Foreign Direct Investment in Latin America and the Caribbean, 2012*, May 2013, <http://www.eclac.cl/publicaciones/xml/4/49844/ForeignDirectInvestmentBriefPaper2012.pdf>.

²⁹ Chile Customs data, as made available by *Global Trade Atlas*, May 2013.

Crises and Recovery

As a result of its solid policy framework and several years of high copper prices, Chile had significant savings on hand when its economy began to slow as a result of the global financial crisis in late 2008. In early 2009, the government used funds from one of its sovereign wealth funds, the “Economic and Social Stabilization Fund,” to finance a \$4 billion (2.3% of GDP) economic stimulus package. The stimulus, which included temporary tax cuts for small businesses, larger transfer payments for poor Chileans, \$700 million for infrastructure projects, and \$1 billion for the state-owned copper company, Codelco (*Corporación Nacional del Cobre*),³⁰ helped Chile return to quarter-on-quarter economic growth by the end of 2009 and limit the annual economic contraction to 0.9%.³¹

Just as the Chilean economy was beginning to recover from the global financial crisis, the country was hit by a massive earthquake of magnitude 8.8 in February 2010.³² The earthquake and subsequent tsunami killed 551 people and caused nearly \$30 billion (15% of GDP) in damages.³³ In the aftermath of the earthquake, the Chilean government was able to once again draw on the Economic and Social Stabilization Fund in order to partially finance an \$8.4 billion reconstruction plan.³⁴ While the reconstruction effort is scheduled to conclude in March 2014, President Piñera asserted that it was more than 90% complete in May 2013.³⁵

Although Chile’s economy suffered in the first quarter of 2010 as a result of the earthquake, it quickly recovered. Reconstruction, combined with increased investment and private consumption, helped fuel economic growth of 6.1% in 2010, 5.9% in 2011, and 5.5% in 2012. The economy has slowed somewhat in 2013, but Chile is still projected to grow by 4.9%.³⁶ Given the country’s open economy and heavy reliance on copper exports, which accounted for 55% of all Chilean goods exports in 2012,³⁷ Chile remains vulnerable to economic troubles abroad. Nevertheless, the Chilean government has considerable room to pursue countercyclical policies should global conditions deteriorate; general government gross debt remains relatively low (11.2% of GDP)³⁸ and the country’s Economic and Social Stabilization Fund holds \$14.8 billion (5.5% of GDP).³⁹

³⁰ “Chile’s Economy: Stimulating,” *The Economist*, February 19, 2009.

³¹ “Chile Economy: Quick View—Out of Recession,” *Economist Intelligence Unit*, November 20, 2009; IMF, April 2013, op. cit.

³² 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.

³³ President Sebastián Piñera, “Chile Cumple y Avanza Hacia el Desarrollo,” Tercera Cuenta Pública a la Nación, May 21, 2012; “Chile: Country Report,” *Economist Intelligence Unit*, September 2010.

³⁴ Simon Gardner, “Post-Quake Rebuild Fuels Chile Recovery a Year On,” *Reuters*, February 25, 2011.

³⁵ President Sebastián Piñera, “Chile Avanza con Todos al Desarrollo,” Cuarta Cuenta Pública a la Nación, May 21, 2013.

³⁶ IMF, *2012 Article IV Consultation*, September 2012; and *World Economic Outlook: Hopes, Realities, Risks*, April 2013.

³⁷ Chile Customs data, as made available by *Global Trade Atlas*, May 2013.

³⁸ IMF, “World Economic Outlook Database,” April 2013.

³⁹ Government of Chile, Ministry of Finance, “Economic and Social Stabilization Fund: Monthly Executive Report,” March 2013.

Social Conditions

Strong economic growth and targeted social programs have produced considerable improvements in development indicators in Chile over the past two decades. The percentage of Chileans living in poverty has fallen from 38.8% in 1989 to 14.4% in 2011.⁴⁰ Primary education is now almost universal and secondary and tertiary attainment rates have increased rapidly.⁴¹ Whereas about 19% of Chileans aged 55-64 have completed a tertiary degree, nearly 39% of those aged 25-34 have done so.⁴² Health indicators have also improved. The child malnutrition rate (as measured by the percentage of children under five who are underweight) is now 1%, and life expectancy is 79 years.⁴³

Despite these advances, several challenges remain. High levels of inequality have persisted over the past 20 years. The Gini coefficient,⁴⁴ which is used to measure income concentration, has barely moved since the mid-1990s, 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 Organisation for Economic Cooperation and Development (OECD) average of 0.31.⁴⁵ Moreover, inter-generational social mobility is low by OECD standards, as the education system tends to replicate existing class disparities.⁴⁶ 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. According to OECD calculations, Chile could lift all households above the current poverty line by investing an additional 1% of GDP in transfer programs.⁴⁷

Several Piñera Administration initiatives noted above appear to be in line with the OECD's recommendations and could help improve social mobility and reduce inequality. Piñera's fiscal reform, for example, is designed to slightly increase the progressivity of the tax system while raising additional funds for education.⁴⁸ Likewise, Piñera's "Ethical Family Income" program increases direct income subsidies to poor families while providing employment training to adults and providing incentives for children to attend school and receive proper medical care.⁴⁹

⁴⁰ "El País que Entrega la Concertación Dos Décadas Después de Asumir el Mando," *El Mercurio*, January 18, 2010; Randall Woods, "Chilean Poverty Rate Resumes Downward Path as Economy Expands," *Businessweek*, July 20, 2012.

⁴¹ Nicola Brandt, *Chile: Climbing on Giants' Shoulders: Better Schools for All Chilean Children*, Organization for Economic Cooperation and Development (OECD), OECD Economics Department Working Papers No. 784, 2010.

⁴² "Country Statistical Profiles: Chile," *OECD.Stat*, <http://stats.oecd.org/>.

⁴³ World Bank, "Chile: Data," <http://data.worldbank.org/country/chile>.

⁴⁴ The Gini coefficient is the most commonly used measure of inequality. A value of 0.0 represents absolute equality and a value of 1.0 represents absolute inequality.

⁴⁵ "Income Distribution—Inequality," *OECD.Stat*, <http://stats.oecd.org/>.

⁴⁶ OECD, *OECD Economic Surveys: Chile*, January 2012, <http://www.oecd.org/eco/49398281.pdf>; "UNESCO: Sistema Educativo Chileno Fomenta la Disigualdad," *La Nación* (Chile), December 5, 2011.

⁴⁷ OECD, January 2012, op.cit., p.20.

⁴⁸ "Chile Economy: Quick View – Tax Reform Bill is Enacted," *Economist Intelligence Unit*, September 27, 2012.

⁴⁹ Simone Cecchini, Claudia Robles, and Luis Hernán Vargas, *The Expansion of Cash Transfers in Chile and Its Challenges: Ethical Family Income*, United Nations Development Programme (UNDP), International Policy Centre for Inclusive Growth, August 2012.

U.S.-Chile Relations

The United States and Chile have enjoyed friendly relations since Chile reestablished democratic governance in 1990. Commercial relations are particularly strong; the United States and Chile signed a free trade agreement in 2003 and an income tax treaty in 2010, and both countries are currently participating in negotiations over the potential Trans-Pacific Partnership regional trade agreement. Other areas of U.S.-Chilean cooperation include efforts to support stability in the Western Hemisphere and the development of clean energy resources.

Over the past five years, 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. High level contacts have continued during the Piñera Administration; 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. President Obama is expected to host Piñera at the White House on June 4, 2013. While visiting Chile in 2011, President Obama commended the country as “one of [the United States’] closest and strongest partners” and “one of the greatest success stories in the region.”⁵⁰

U.S. Assistance

Although Chile was once a major recipient of U.S. foreign aid, it currently receives only minor security assistance as a result of its relatively advanced 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 2011 dollars) in economic assistance between 1961 and 1963.⁵¹ 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 \$1.9 million in U.S. assistance in FY2010, \$1.3 million in FY2011, and \$1.2 million in FY2012.

While U.S. assistance for Chile in FY2013 is currently unclear as a result of the delayed approval of a full year appropriations bill and the budget sequestration process,⁵² the Obama Administration has requested \$1.1 million for Chile in FY2014. The majority of U.S. assistance for Chile (\$810,000) would focus on modernizing the Chilean military, increasing its

⁵⁰ White House, Office of the Press Secretary, “Remarks by President Obama and President Sebastian Piñera of Chile at Joint Press Conference,” March 21, 2011.

⁵¹ U.S. Agency for International Development (USAID), *U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945-September 30, 2011*, <http://gbk.eads.usaidallnet.gov/index.html>.

⁵² In September 2012, Congress enacted a six-month continuing resolution (P.L. 112-175) that included funding for foreign aid programs during the first half of FY2013. Prior to the expiration of that stopgap measure, Congress approved new legislation on March 21, signed by the President on March 26, 2013 (P.L. 113-6), that included funding for foreign aid programs through the end of the fiscal year. Under P.L. 113-6, most State-Foreign Operations accounts are funded at the same level as in FY2012. These accounts are subject to the budget sequestration process that is currently in effect, however, which may significantly reduce the actual funding levels that are made available to agencies. Given uncertainty regarding how sequestration will be applied to particular programs, it is currently unclear how much assistance will be provided to Chile in FY2013.

interoperability with U.S. forces, and building its capacity to participate in regional security and peacekeeping operations. The rest of the aid (\$290,000) would be used to support Chilean efforts to develop and implement a comprehensive export control system.⁵³

Commercial Ties

The United States and Chile signed a bilateral trade agreement in June 2003, and President Bush signed the U.S.-Chile Free Trade Implementation Act (P.L. 108-77) into law in September of the same year.⁵⁴ Under the agreement, the United States and Chile immediately eliminated tariffs on 87% of bilateral trade. All trade in consumer and industrial goods is duty free as of this year (2013), and most remaining agricultural tariffs will be eliminated by 2015.⁵⁵ In the absence of the trade agreement, each nation's exports would be subject to the other's most-favored nation tariff rates. In 2011, Chile's average applied most-favored nation tariff was 6%, while that of the United States was 3.5%.⁵⁶ The agreement thus provides each country with preferential access to the other's market.

Total bilateral trade nearly tripled to \$29.2 billion between 2004, when the U.S.-Chile Free Trade Agreement entered into force, and 2011 (see **Figure 3** below). The United States now enjoys a large trade surplus in both goods and services with Chile. U.S. goods exports to Chile were valued at \$18.9 billion in 2012, with refined oil products, heavy machinery, and motor vehicles accounting for a majority. U.S. goods imports from Chile have not increased as quickly as exports as they fell between 2007 and 2009 during the global financial crisis and U.S. recession and have yet to fully recover. In 2012, U.S. goods imports from Chile were valued at \$9.4 billion, with top products including copper, edible fruit, and seafood.⁵⁷ In 2011 (the most recent year for which data are available), U.S. services exports to Chile totaled \$3 billion and U.S. services imports from Chile totaled \$1.2 billion. Travel and transportation and business, professional, and technical services were the top categories for both exports and imports in U.S.-Chile services trade.⁵⁸

In addition to the bilateral trade agreement, Chile and the United States are both participating in negotiations concerning the potential Trans-Pacific Partnership (TPP) agreement. TPP is a proposed Asia-Pacific regional trade agreement that would include Australia, Brunei, Canada, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam as well as Chile and the United States.⁵⁹

⁵³ 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; and *Congressional Budget Justification for Foreign Operations, Fiscal Year 2014*, May 17, 2013.

⁵⁴ 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.

⁵⁵ U.S. Trade Representative (USTR), *2012 National Trade Estimate Report on Foreign Trade Barriers*, March 2012.

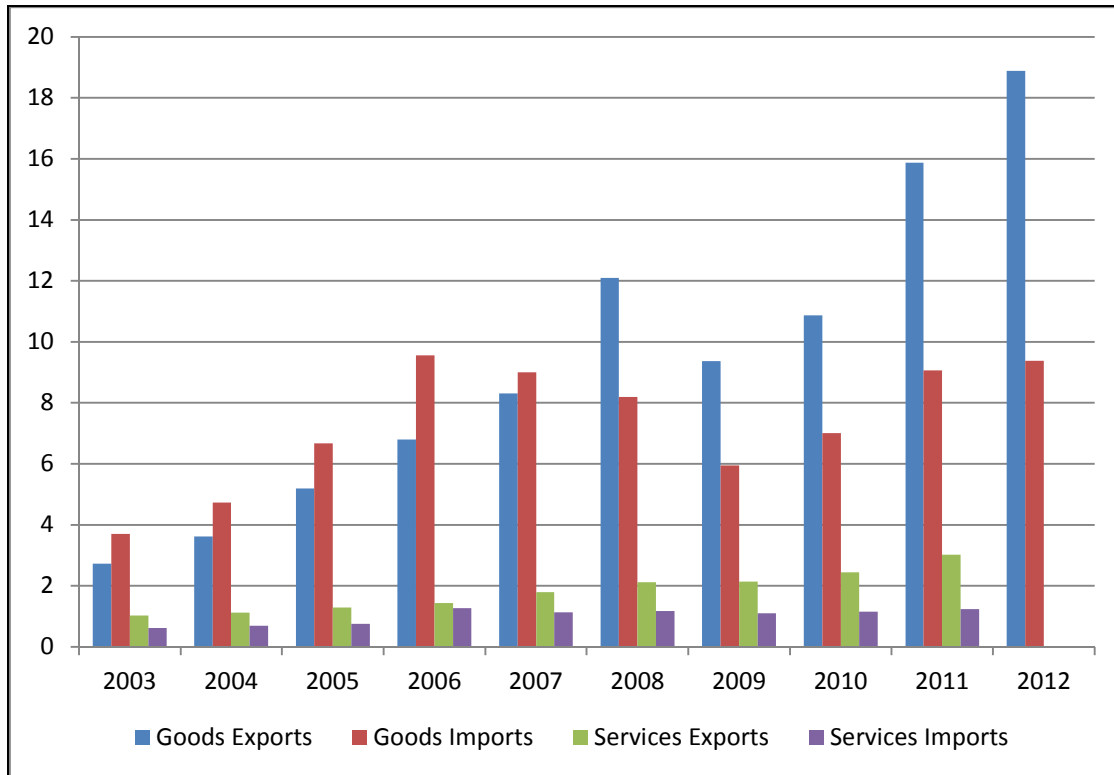
⁵⁶ World Trade Organization (WTO), "Trade and Tariff Indicators," http://www.wto.org/english/res_e/statis_e/statis_maps_e.htm.

⁵⁷ U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, May 2013.

⁵⁸ U.S. Department of Commerce data, as made available by the Bureau of Economic Analysis, May 2013.

⁵⁹ For more information on the Trans-Pacific Partnership agreement, see CRS Report R42694, *The Trans-Pacific Partnership Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson and CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis*, by Brock R. Williams.

Figure 3. U.S. Trade with Chile: 2003-2012
(In billions of U.S. dollars)



Source: CRS presentation of U.S. Department of Commerce data.

Note: Data on trade in services for 2012 are not yet available

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. Chile reportedly took some legislative steps to improve intellectual property rights protection in 2012 but USTR "continues to have serious concerns regarding outstanding IPR issues" under the U.S.-Chile Free Trade Agreement.⁶⁰ U.S. business groups, for example, have called for increased protection for pharmaceutical patent holders and strengthened procedures for removing internet content that infringes on copyrights.⁶¹ Likewise, some Members of Congress have called on USTR to initiate formal dispute settlement proceedings against Chile.⁶² The Chilean government maintains that it complies with all of its intellectual property

⁶⁰ USTR, *2013 Special 301 Report*, May 2013, <http://www.ustr.gov/sites/default/files/05012013%202013%20Special%20301%20Report.pdf>.

⁶¹ "IPR Groups Blast Chile for FTA Violations; Hatch Calls for Dispute Settlement," *Inside U.S. Trade*, February 24, 2012.

⁶² 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.

rights obligations but has stated that it is open to perfecting its legal framework.⁶³ USTR intends to continue working with Chile, including through TPP negotiations, to resolve outstanding issues.⁶⁴

Foreign Direct Investment and Bilateral Income Tax Treaty

Foreign direct investment between Chile and the United States currently flows mostly in one direction, towards Chile. As of 2011, the accumulated stock of U.S. foreign direct investment in Chile was \$34.2 billion. In comparison, the accumulated stock of Chilean foreign direct investment in the United States was \$362 million.⁶⁵

On February 4, 2010, the United States and Chile signed an income tax treaty designed to encourage investment 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 agreement, known as 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,” was submitted to the U.S. Senate for its advice and consent on May 17, 2012 (Treaty Doc. 112-8).⁶⁶ If ratified, it 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.⁶⁷

Regional Stability

Since its return to democracy, Chile’s foreign policy has been based on respect for international law, equality among states, peaceful dispute resolution, and non-interference in the internal affairs of other countries.⁶⁸ 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 Western Hemisphere. For example, the Chilean government has engaged in diplomatic efforts to resolve a number of political crises in the region in recent years, and is currently one of four countries assisting with peace talks between the Colombian government and the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*, FARC)—a leftist guerilla group.⁶⁹

⁶³ “Patentes: Chile Responde Ante Acusación de Senador de EEUU,” *La Nación* (Chile), February 28, 2012.

⁶⁴ USTR, May 2013, op.cit.

⁶⁵ U.S. Bureau of Economic Analysis, “Balance of Payments and Direct Investment Position Data,” May 2013.

⁶⁶ The full text of the treaty, as presented to the Senate for ratification, is available at <http://www.gpo.gov/fdsys/pkg/CDOC-112tdoc8/pdf/CDOC-112tdoc8.pdf>.

⁶⁷ U.S. Department of the Treasury, “U.S., Chile Sign Income Tax Treaty,” Press Release, February 4, 2010.

⁶⁸ “Reforma de la Cancillería,” *El Mercurio*, June 1, 2012.

⁶⁹ For more information on the Colombian peace negotiations, see CRS Report R42982, *Peace Talks in Colombia*, by June S. Beittel.

Chile has also promoted regional cooperation on peacekeeping and humanitarian relief efforts. The country quickly responded to the U.N. Security Council's March 2004 request for peacekeepers in Haiti following the collapse of Jean-Bertrand Aristide's government. This early commitment encouraged a number of other Latin American countries to contribute troops to the 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,⁷⁰ and still has 464 soldiers and 12 police on the ground as Haiti continues to recover from the massive earthquake that struck the country in January 2010.⁷¹ In October 2012, Chile sponsored a disaster response initiative at the 10th Conference of the Defense Ministers of the Americas. The initiative, which was backed by the United States and adopted at the conference, creates a coordination mechanism to improve the region's collective response to humanitarian emergencies.⁷²

Additionally, Chile is working with the United States on antidrug and citizen security efforts in Central America—a region struggling with drug trafficking and high levels of crime and violence.⁷³ Both countries are part of the Group of Friends of Central America, which has worked with Central American governments to design and implement a regional security strategy. Among other initiatives in the region, Chile has taken on a leading role in supporting police reform in Honduras.⁷⁴ Chile is also participating in Operation *Martillo*, a multinational and interagency drug interdiction effort designed to cut off illicit trafficking routes along the Atlantic and Pacific coasts of Central America.⁷⁵

Clean Energy Development

The U.S. and Chilean governments have both expressed interest in developing clean energy resources to meet domestic needs and mitigate global climate change. Chile has become more reliant on carbon-emitting power sources (such as coal-fired thermoelectric plants) in recent years, however, as the country has struggled to satisfy its fast-growing demand for energy, which is expected to double over the next decade and triple by 2032.⁷⁶ Although Chile 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.⁷⁷

⁷⁰ 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).

⁷¹ United Nations, "U.N. Mission's Contributions by Country," April 30, 2013.

⁷² Cheryl Pellerin, "Panetta Reaffirms Partnership, Friendship with Chile," *Armed Forces Press Service*, April 26, 2012; Leon Panetta, "Hemisphere Improves Disaster Response Operation," *Miami Herald*, November 6, 2012.

⁷³ For more information on security issues in Central America, see CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by Peter J. Meyer and Clare Ribando Seelke.

⁷⁴ Noé Leiva, "EEUU, Chile y Colombia Asesoran a Honduras en Lucha Contra el Crimen," *Agence France Presse*, January 19, 2012.

⁷⁵ Cheryl Pellerin, April 2012, op.cit.

⁷⁶ "Chile Industry: Energy Security Still Elusive," *Economist Intelligence Unit*, April 21, 2011.

⁷⁷ 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>.

The United States is currently working with Chile to overcome the financial and technical barriers that have prevented the country from taking advantage of its vast wind, solar, tidal, and geothermal energy potential. In June 2009, under the umbrella of President Obama's "Energy and Climate Partnership for the Americas," the United States and Chile signed a memorandum of understanding on cooperation in clean energy technologies. As a result of the agreement, the U.S. Department of Energy is providing support to Chile's Renewable Energy Center and two solar plant pilot projects in the Atacama Desert. Future bilateral collaboration is likely to involve biofuels, biomass, wind, and geothermal energy projects.⁷⁸ In addition to supporting energy development in Chile, these technical cooperation initiatives provide those involved with information and best practices that can be applied in the United States.

⁷⁸ White House, Office of the Press Secretary, "The United States and Chile: Environment, Energy, and Climate Change," Fact Sheet, March 21, 2011.

Appendix. Chilean Political Acronyms

Table A-1. Chilean Political Acronyms

Acronym	Political Organization	Description
PC	Communist Party	Left-wing party
PDC	Christian Democratic Party	Centrist member party of the Concertación ^a
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.
PRO	Progressive Party	Center-left party that splintered from the Concertación.
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 Alianza. ^b
UDI	Independent Democratic Union	Right-wing member party of the Alianza.

Source: Compiled by CRS.

Notes:

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

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