



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

Peter J. Meyer

Analyst in Latin American Affairs

September 22, 2010

Congressional Research Service

7-5700

www.crs.gov

R40126

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 22 SEP 2010		2. REPORT TYPE		3. DATES COVERED 00-00-2010 to 00-00-2010	
4. TITLE AND SUBTITLE Chile: Political and Economic Conditions and U.S. Relations				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service,The Library of Congress,101 Independence Avenue SE,Washington,DC,20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 24	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Summary

In the two decades since the country emerged from dictatorship, Chile has consistently maintained friendly relations with the United States. Serving as a reliable—if not always very public—ally, Chile has worked with the United States to advance democracy, human rights, and free trade in the Western Hemisphere. Chile and the United States also maintain strong commercial ties. Trade has more than doubled to over \$15 billion since the implementation of a bilateral free trade agreement in 2004, and an income tax treaty designed to boost private sector investment was signed in February 2010 and is awaiting submission to the U.S. Senate for ratification. Additional areas of cooperation between the United States and Chile include renewable energy and regional security issues.

President Sebastián Piñera of the center-right “Coalition for Change” took office in Chile in March 2010, bringing an end to 20 years of governance by a center-left coalition of parties known as the Concertación. During its time in power, the Concertación enacted constitutional changes to strengthen civilian democracy, took steps to address human rights violations that had occurred during 17 years of military rule under General Augusto Pinochet, and supplemented free market economic policies—which had been implemented during the dictatorship—with moderate social welfare programs. Most analysts credit these policies for fostering the strong economic growth and considerable reductions in poverty that have put Chile on the verge of becoming a “developed country.”

Piñera’s first six months in office have been marked more by continuity than change, as he has largely maintained the Concertación’s economic and social welfare policies while shifting the emphasis from redistribution to economic growth. His primary focus has been dealing with the fallout from the massive earthquake that struck Chile just two weeks before his inauguration. In addition to coordinating humanitarian assistance, Piñera won legislative approval for a \$8.4 billion reconstruction plan. Chile weathered the global financial crisis reasonably well as a result of a counter-cyclical stimulus program enacted by the Bachelet Administration; however, the country did suffer a slight economic contraction and increase in the poverty rate. Piñera has pledged to boost economic growth to 6% annually, eliminate extreme poverty, and create one million jobs by the end of his four-year term by attracting increased investment and running government more efficiently. Other issues requiring Piñera’s attention include militant activism by indigenous groups, Pinochet-era human rights abuses, and weaknesses in the education system. According to a September 2010 poll, 56% of Chileans approve of Piñera’s performance.

The 111th Congress has expressed interest in several issues in U.S.-Chile relations. In March 2010, the U.S. Senate and House of Representatives passed resolutions (S.Res. 431 and H.Res. 1144) expressing sympathy for the victims of the country’s February 27 earthquake and solidarity with the people of Chile. The House also passed legislation (H.R. 4783, Levin) to accelerate income tax benefits for charitable cash contributions for earthquake relief in Chile. Other resolutions have been introduced to express support for the Energy and Climate Partnership of the Americas, including clean energy cooperation with Chile (H.Res. 1526), and to honor the bicentennial of the call for independence in Chile and several other Latin American nations (H.Res. 1619). This report provides a brief historical background of Chile, examines recent political and economic developments, and addresses issues in U.S.-Chilean relations.

Contents

Political and Economic Background.....	2
Independence through Allende	2
Pinochet Era.....	2
Return to Democracy	3
Concertación Governance	3
2009 Presidential and Legislative Elections	5
Piñera Administration.....	6
Earthquake Reconstruction.....	7
Economic Recovery	8
Indigenous Activism	10
Mapuche.....	10
Easter Island	11
Human Rights.....	12
Education Policy.....	13
Chile-U.S. Relations	14
U.S. Assistance	15
Commercial Ties.....	16
Free Trade Agreement.....	16
Intellectual Property Rights Protection	16
Income Tax Treaty	16
Energy Cooperation	17
Regional Security.....	18
Haiti Peacekeeping.....	18
Narcotics Trafficking	19
Trafficking in Persons	19

Figures

Figure 1. Map of Chile	1
Figure 2. Coalition and Party Affiliation in Chile’s Senate and Chamber of Deputies	6

Tables

Table A-1. Chilean Political Acronyms.....	20
--	----

Appendixes

Appendix. Chilean Political Acronyms	20
--	----

Contacts

Author Contact Information	20
----------------------------------	----

Figure 1. Map of Chile



Source: Map Resources. Adapted by CRS Graphics.

Political and Economic Background

Independence through Allende

Chile 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 import-substitution industrialization (ISI), the expansion of the welfare state, and other statist economic policies. These policies were expanded following the election of Eduardo Frei Montalva of the Christian Democrat Party (*Partido Demócrata Cristiana*, PDC) in 1964. Frei's 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 Popular Unity coalition, was elected president. 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 difference 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.¹

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 1,200 people in Chile were killed or "disappeared" for political reasons, and some 18,000 were imprisoned and tortured. By the end of the dictatorship in 1990, the number of killed or disappeared had risen to at least 2,279 and the number of imprisoned and tortured reportedly exceeded 27,000.² 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.

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

¹ *Chile: A Country Study*, ed. Rex A. Hudson, (Washington, D.C.: Library of Congress, 1994).

² Report of the National Commission for Truth and Reconciliation, February 1991; Report of the National Commission on Political Imprisonment and Torture, November 2004.

widespread protests.³ 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

The 1989 elections created the political dynamics that prevail in Chile today. Two major coalitions of parties were formed to contest the elections. 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. The major parties in the coalition included the centrist PDC and the center-left Party for Democracy (*Partido por la Democracia*, PPD)—which was created by Socialists in 1987 to circumvent the Pinochet regime's ban on Marxist parties. 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). A third coalition, the "Broad Party of the Socialist Left," (*Partido Amplio de la Izquierda Socialista*) was composed of leftist parties unwilling to participate in the Concertación, including the Communist Party (*Partido Comunista*, PC). 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.⁵

The major political coalitions have changed little since 1989. The Concertación is now composed of the PDC, the PPD, the Socialist Party (*Partido Socialista*, PS)—which officially began contesting elections as a part of the Concertación in 1993, and the Social Democratic Radical Party (*Partido Radical Social Demócrata*, PRSD). Although RN and UDI remain the primary member parties of the center-right coalition, it has undergone a number of name changes, most recently becoming the "Coalition for Change" (*Coalición por el Cambio*, Coalición). The leftist coalition that includes the PC is now called "Together We Can Do More" (*Juntos PODEMOS Más*, JPM).

Concertación Governance

Presidents from the Concertación governed Chile for 20 consecutive years after the return of democracy to the country. Patricio Alwyn was followed by Eduardo Frei Ruiz-Tagle of the PDC (1994-2000), Ricardo Lagos of the PPD (2000-2006), and most recently, 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. They

³ For more information on the Chilean financial crisis and its comparisons to the U.S. financial crisis, see CRS Report RS22961, *The U.S. Financial Crisis: Lessons From Chile*, by J. F. Hornbeck.

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

⁵ *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 bodies.

were unable to eliminate the binomial election system, however, which has historically inflated conservative representation as a result of two-member districts that require a coalition to win by two-to-one margins in order to secure both seats.⁶

Despite their left-of-center ideological backgrounds, each of the Concertación administrations generally maintained the open economic policies of the Pinochet regime. In addition to maintaining orthodox fiscal and monetary policies, they promoted export-led development through their pursuit of free trade agreements and encouragement of new export sectors such as forestry products, salmon, fresh fruit, and wine. Chile now has nearly 60 bilateral or regional trade agreements—more than any other country—and has established a diverse economy that is much less reliant on its traditional copper exports.⁷ Chile's economy grew by an average of 5.1% annually during the two decades of Concertación rule, raising per capita income from \$1,770 in 1989 to \$9,400 in 2008. The World Bank now classifies Chile as an upper middle income developing country, and in May 2010, Chile became the first South American nation to join the Organization for Economic Cooperation and Development (OECD).⁸

Concertación administrations also introduced targeted social welfare policies designed to spread the benefits of Chile's economic growth. For example, President Lagos established *Chile Solidario*, a social protection system that provides family support, cash subsidies, and skills training families in extreme poverty.⁹ Likewise, President Bachelet introduced a minimum state pension, extended free health care coverage, and increased access to better quality housing.¹⁰ Although income distribution remained virtually unchanged, strong economic growth combined with the Concertación administrations' social programs reduced the percentage of Chileans living in poverty from 38.8% in 1989 to 13.7% in 2006.¹¹ This downward trend was reversed for the first time in 2009 as poverty increased slightly to 15.1%—likely as a result of the global financial crisis.¹² In addition to reducing poverty, Concertación policies positioned Chile as the only country in Latin America and the Caribbean on pace to meet all eight of the United Nations (UN) Millennium Development Objectives by 2015; the objectives work toward the goals of eradicating extreme hunger and poverty, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating disease, ensuring environmental stability, and developing a global partnership for development.¹³

⁶ Peter M. Siavelis, "Electoral System, Coalitional Disintegration, and the Future of Chile's Concertación," *Latin American Research Review*, Volume 40 (1), 2005.

⁷ Central Intelligence Agency, "World Factbook," September 2008.

⁸ "El país que entrega la Concertación dos décadas después de asumir el mando," *El Mercurio*, January 18, 2010; World Bank, *World Development Report*, 1991 & 2010; Organization for Economic Cooperation and Development, "Chile's accession to the OECD," press release, May 7, 2010.

⁹ 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, France, 2005.

¹⁰ "The Bachelet model," *Economist*, September 17, 2009.

¹¹ "El País Que Entrega la Concertación Dos Décadas Después de Asumir el Mando," *El Mercurio*, January 18, 2010.

¹² "Chile: Poverty rises after 20 years in decline," *Oxford Analytica*, July 16, 2010.

¹³ "Chile: Leading the Millennium Objectives League," *Latin American Regional Report: Brazil & Southern Cone*, September 2008.

2009 Presidential and Legislative Elections

Billionaire businessman Sebastián Piñera of the center-right “Coalition for Change” (*Coalición por el Cambio*, Coalición) defeated former President Eduardo Frei (1994-2000) of the center-left Concertación, 51.8 to 48.1 in a second-round runoff on January 17, 2010.¹⁴ He 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 29.6% and two Concertación dissidents, Marco Enríquez-Ominami and Jorge Arrate, at 20.3% and 6.2%, respectively.¹⁵

Most 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.¹⁶ They note that outgoing President Michelle Bachelet remained extremely popular in the final months of her term, enjoying an 83% approval rating at the time of the election.¹⁷ 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 even suggesting he would extend Chile’s social protection network to the middle class.¹⁸

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 Coalición surpassed the 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 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.¹⁹ The Communists are represented in Congress for the first time since the 1973 overthrow of Salvador Allende, as three of the Concertación-JPM seats in the Chamber of Deputies are held by the PC. 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.

¹⁴ “Chile: Piñera Wins the Second Round,” *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

¹⁵ “Frei Earns Right to Face Rampant Piñera in January Run-off in Chile,” *Latin American Weekly Report*, December 17, 2009.

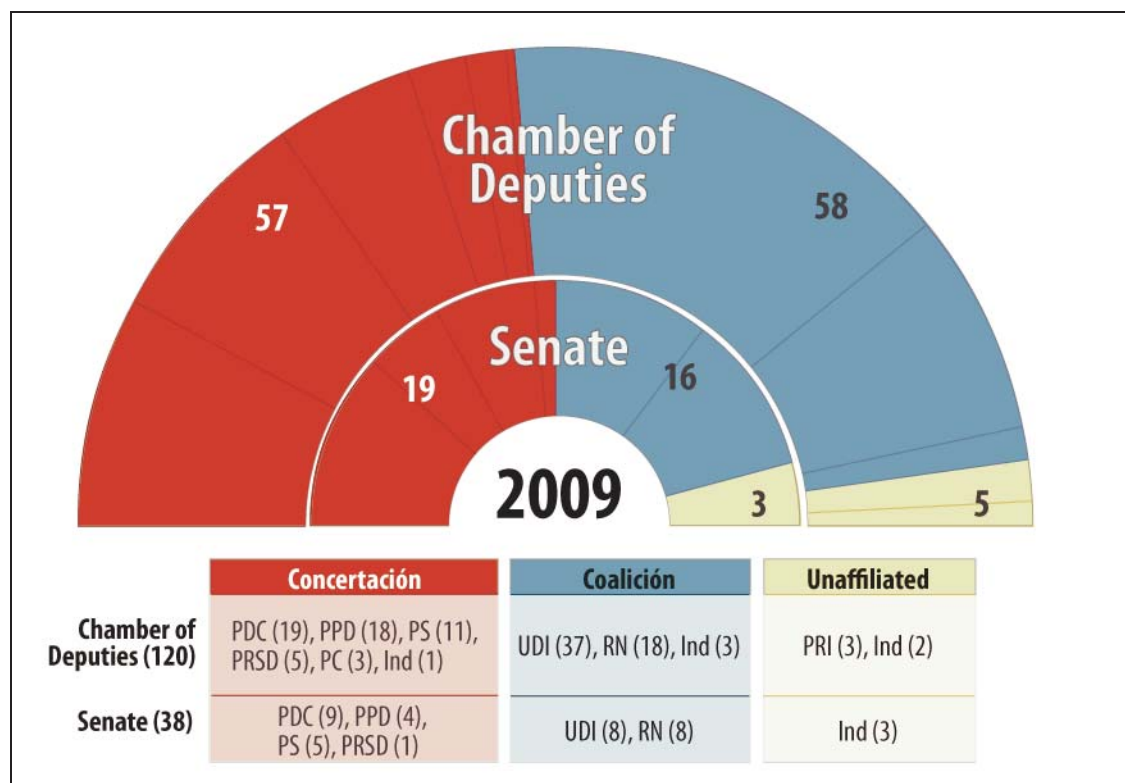
¹⁶ “Tendencias Que Muestra La Reciente Elección,” *El Mercurio*, January 19, 2010; Genaro Arriagada, “A Conversation on the Chilean Elections,” Remarks at the Inter-American Dialogue, Washington, DC, January 20, 2010; Patricio Navia, “Elections and Political Trends,” Remarks at XIV Annual CAF Conference on the Americas, Washington, DC, September 8, 2010.

¹⁷ “Chilean President’s Rating Rises Despite Vote,” *Reuters*, February 1, 2010.

¹⁸ “The Strange Chill in Chile,” *Economist*, September 17, 2009; “Chile: Piñera’s Plan,” *Latin American Weekly Report*, December 3, 2009.

¹⁹ “Chile: Country Report,” *Economist Intelligence Unit*, January 2010.

Figure 2. Coalition and Party Affiliation in Chile's Senate and Chamber of Deputies
 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. See **Table A-1** for political party acronyms.

Piñera Administration

Although Piñera's electoral victory was the first for the Chilean right since 1958, his first six months in office have been marked more by continuity than change. Piñera has largely maintained the Concertación's economic and social welfare policies while shifting emphasis from redistribution to economic growth.²⁰ In addition to dealing with the fallout from the country's massive February 2010 earthquake and the lingering effects of the global financial crisis, Piñera has had to contend with a number of long-standing issues such as militant activism by indigenous groups, Pinochet-era human rights abuses, and weaknesses in the country's education system. Public opinion concerning Piñera has been mixed. According to a September 2010 poll, 56% of Chileans approve of Piñera's performance; this is a 10 point jump since July 2010, which analysts attribute to his Administration's high profile role in locating 33 miners trapped by an August 2010 cave-in.²¹

²⁰ "Chile: Piñera agenda shows more continuity than change," *Oxford Analytica*, May 26, 2010.

²¹ "Chile's Piñera boosted by mining crisis," *Latin News Daily*, September 3, 2010.

Despite substantial policy consensus in Chile, the Piñera Administration has faced opposition to portions of its agenda in Congress.²² The Coalición lacks majorities in both houses and must secure the support of unaffiliated or Concertación legislators in order to pass legislation (see **Figure 2**). While the Concertación has closely collaborated with Piñera on some proposals, it has stood in unified opposition to others. For example, the Concertación helped approve the President's earthquake reconstruction plan but rejected one of the plan's financing components (see "Earthquake Reconstruction" below).²³ Piñera has also occasionally struggled to maintain unity in his own coalition. The conservative UDI—which wields significant legislative power as the largest party in the Chamber of Deputies—has criticized Piñera for raising taxes to fund the earthquake reconstruction plan and supporting a bill to grant legal recognition to civil unions between same-sex couples. Although disagreements between the Piñera Administration and Congress will likely continue, analysts believe the Chilean political system's tendency toward accommodation should allow Piñera to reach agreements on his policy proposals.²⁴

Earthquake Reconstruction²⁵

On February 27, 2010, less than two weeks before Piñera assumed office, an earthquake of magnitude 8.8 struck off the coast of central Chile. 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 1900.²⁶ The earthquake and subsequent tsunami devastated a substantial portion of the country, leading the Chilean government to declare six regions catastrophe zones: Valparaíso, Metropolitana, Libertador O'Higgins, Araucanía, Biobío, and Maule (see **Figure 1** for a map of Chile).²⁷ An estimated 1.8 million people were affected, with 521 people confirmed dead (56 remain missing), and some 200,000 homes, 4,000 schools, and 79 hospitals destroyed or severely damaged.²⁸ In addition to physical damages estimated at \$29.7 billion (17% of GDP), the affected areas—which are home to portions of the wine, wood pulp, and agriculture industries—are responsible for generating approximately one-sixth of Chile's total GDP.²⁹

Relief and reconstruction have been the Piñera Administration's top priorities since taking office. Although then-President Bachelet rushed to provide relief to the earthquake victims, dispatched search and rescue teams, and deployed troops to the affected regions to restore order, Chile was only in the early stages of recovery when she left office.³⁰ Over its first 90 days in office, the

²² "Chile Elections: Conservative Takes Helm," *Economist Intelligence Unit*, January 18, 2010.

²³ "Chile: Piñera suffers defeat after 100 days in office" *Latin American Weekly Report*; June 24, 2010.

²⁴ "Chile: Country Report," *Economist Intelligence Unit*, September 2010.

²⁵ For more information on the earthquake, see CRS Report R41112, *Chile Earthquake: U.S. and International Response*, by June S. Beittel and Rhoda Margesson.

²⁶ 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.

²⁷ "Chile earthquake death toll tops 700," *Latin News Daily*, March 1, 2010. "Maps of the Chile Earthquake," *New York Times*, March 1, 2010.

²⁸ U.S. Agency for International Development, Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), Office of U.S. Foreign Disaster Assistance (OFDA), "Chile—Earthquake: Fact Sheet #18, Fiscal Year (FY) 2010," April 22, 2010; "Cifra muertos identificados por sismo en Chile sube a 521," *Reuters*, May 15, 2010; "Piñera habla de los temas más candentes," *El Mercurio*, July 18, 2010.

²⁹ "Chile: Country Report," *Economist Intelligence Unit*, September 2010.

³⁰ Gobierno de Chile, "Situación terremoto zona centro sur (Actualiza reporte)," March 1, 2010; "Bachelet decreta (continued...)"

Piñera Administration reopened schools for 1.25 million students in time for the new academic year, built more than 60,000 emergency housing units prior to the onset of winter, and restored access to health-care in the affected regions, where 135 hospitals and clinics had been damaged or destroyed.³¹

Piñera also introduced an \$8.4 billion reconstruction plan, which will be combined with insurance payments and private sector support to repair and rebuild what was damaged and destroyed by the earthquake and tsunami. Among other provisions, the reconstruction plan provides subsidies to some 200,000 families to repair or rebuild their homes, with the state completely covering the costs for the poorest among them. The government intends to raise the necessary public funds through a temporary three point corporate tax increase on companies with annual sales over \$2 million, a 0.25% property tax on the country's top 5% highest-valued properties, a seven point increase in the tax on tobacco, and a temporary increase in royalties paid by mining companies. Additional state financing for reconstruction would be borrowed from local and international capital markets or drawn from the government's Economic and Social Stabilization Fund, a sovereign wealth fund holding \$11.2 billion generated by high copper prices since 2007.³² Although the Chilean Congress has passed the majority of the reconstruction plan, Concertación Senators rejected the mining royalty provision for constraining the flexibility of future governments by guaranteeing a freeze on royalty increases through 2025. The Piñera Administration is now working with the legislative opposition to craft a compromise.³³

In March 2010, the U.S. Senate and House of Representatives passed resolutions (S.Res. 431 and H.Res. 1144) expressing sympathy for the victims of the February 27 earthquake and solidarity with the people of Chile. The House also passed legislation (H.R. 4783, Levin) to accelerate income tax benefits for charitable cash contributions for earthquake relief in Chile. The Senate has yet to consider the bill, which has been referred it to the Committee on Finance.

Economic Recovery

The global financial crisis took a considerable toll on Chile's economy. The Santiago Stock Exchange suffered a significant drop in value, as did global copper prices. As government revenues declined, public debt increased from 4.1% of gross domestic product (GDP) in 2007 to an estimated 6.1% of GDP in 2009. Economic growth slowed in late 2008, and GDP actually contracted by 1.5% in 2009.³⁴

The Chilean government took a number of steps to counter the effects of the economic downturn. The Bachelet Administration implemented a \$4 billion (2.8% of GDP) economic stimulus

(...continued)

primer Estado de Catástrofe desde terremoto de 1985," *El Mercurio*, March 1, 2010.

³¹ President Sebastian Piñera, "Del Chile del bicentenario al país de las oportunidades," Gobierno de Chile, May 21, 2010, available at <http://www.gobiernodechile.cl/discursos/2010/05/21/mensaje-presidencial-del-21-de-mayo.htm>; "Piñera habla de los temas más candentes," *El Mercurio*, July 18, 2010.

³² "Chile launches reconstruction plan," *Latin American Economy & Business*, April 2010; Government of Chile, Ministry of Finance, "The Economic and Social Stabilization Fund: Financial Situation," July 2010, available at http://www.hacienda.gov.cl/english/fondos_soberanos/fondo_de_estabilizacion_info_valor.php.

³³ "Chile: Piñera suffers defeat after 100 days in office," *Latin American Weekly Report*, June 24, 2010; "Chile's Piñera boosted by mining crisis," *Latin News Daily*, September 3, 2010.

³⁴ "Chile: Country Report," *Economist Intelligence Unit*, September 2010.

package that included temporary tax cuts for small businesses, increased benefits for poor Chileans, \$700 million for infrastructure projects, and \$1 billion for Codelco, the state-owned copper company.³⁵ This counter-cyclical spending was financed by drawing on its Economic and Social Stabilization Fund, a sovereign wealth fund in which the Chilean government had invested \$18.1 billion generated by high copper prices prior to the financial crisis.³⁶ Additionally, the independent Chilean Central Bank cut the benchmark interest rate to a record low.³⁷ Although the economy contracted, the Chilean government's actions appear to have been somewhat successful. By the end of 2009, Chile had begun to experience quarter-on-quarter economic growth, the Santiago Stock Exchange's IPSA index had rallied 47%, and unemployment had returned to single digits.³⁸

The Piñera Administration has had to contend with the lingering effects of the global financial crisis despite the economy having emerged from recession in late 2009. The Chilean economy grew by just 1.5% in the first quarter of 2010 as the early stages of economic recovery were weakened by the effects of the February 27 earthquake. The Piñera Administration's reconstruction efforts have stimulated public and private investment in construction and infrastructure, contributing to real GDP growth of 6.5% in the second quarter of 2010. Analysts believe earthquake-related reconstruction will continue to drive investment and domestic demand going forward, boosting economic growth to 4.8% in 2010 and 5.7% in 2011.³⁹

Poverty and indigence rates rose for the first time in 20 years as a result of the global financial crisis. Some 355,000 Chileans fell below the poverty line, increasing the poverty rate from 13.7% to 15.1%, while some 118,500 fell below the extreme poverty line, increasing the indigence rate from 3% to 3.7%.⁴⁰ President Piñera has responded to the increases by pledging to eliminate extreme poverty by the end of his term and lay the groundwork to end poverty in Chile by the end of the decade. To meet these goals, the Piñera Administration has proposed creating a Social Development Ministry to coordinate the government's various social welfare programs. The Ministry would consolidate several of the programs into a single "ethical family income" subsidy, which would supplement the wages of poor and vulnerable middle class Chileans who meet conditions such as making sure their children receive basic health exams and attend school regularly. Piñera has also proposed raising and expanding eligibility for the minimum state pension introduced by then-President Bachelet.⁴¹ Nonetheless, the Piñera Administration has emphasized that "social security networks are important but not sufficient" and that "growth and job creation are the only ways to overcome poverty permanently."⁴² During the electoral

³⁵ Ibid; "Chile's Economy: Stimulating," *Economist*, February 19, 2009.

³⁶ Government of Chile, Ministry of Finance, *2009 Annual Report on Sovereign Wealth Funds*, Santiago, Chile, March 2010.

³⁷ "Chile: New Benchmark Rate Cut Leaves No Room for More," *Oxford Analytica*, July 10, 2009.

³⁸ "Chile Economy: Quick View—Out of Recession," *Economist Intelligence Unit*, November 20, 2009; James Attwood, "Chile's Ipsa Stock Index Climbs to Record as Copper Advances," *Bloomberg*, December 21, 2009; "Chile: Country Report," *Economist Intelligence Unit*, January 2010.

³⁹ "Chile: Surging," *Latin American Economy & Business*, August 2010; "Chile economy: Quick View – Domestic economy drives recovery," *Economist Intelligence Unit*, August 20, 2010.

⁴⁰ "Chile: Poverty rises after 20 years in decline," *Oxford Analytica*, July 16, 2010; "Chile: Piñera promises to expunge poverty," *Latin American Weekly Report*, July 22, 2010.

⁴¹ President Sebastian Piñera, "Del Chile del bicentenario al país de las oportunidades," Gobierno de Chile, May 21, 2010, available at <http://www.gobiernodechile.cl/discursos/2010/05/21/mensaje-presidencial-del-21-de-mayo.htm>; "Piñera habla de los temas más candentes," *El Mercurio*, July 18, 2010.

⁴² "Chile: Piñera promises to expunge poverty," *Latin American Weekly Report*, July 22, 2010.

campaign, Piñera promised to boost Chile's annual economic growth to 6% and create 1 million new jobs by attracting increased investment and running government more efficiently.⁴³ Policy-wise, Piñera has suggested offering tax incentives for businesses to reinvest profits, privatizing some state-owned enterprises, and amending the labor law to increase flexibility.⁴⁴

Indigenous Activism

In recent years, Chile's indigenous peoples have become more aggressive in advocating for their rights and concerns, leading to occasional confrontations with the Chilean government. Members of the Mapuche community, Chile's largest indigenous group, have been the most militant; however, ethnic Polynesian natives of the Chilean territory of Easter Island have also engaged in increased activism. Although the Piñera Administration has offered some concessions to indigenous groups, activists have deemed them insufficient.

Mapuche

The Mapuche have long sought official recognition as a people, protection of indigenous rights, and restoration of full ownership of their ancestral lands. Primarily located in the central and southern regions of Biobío, Araucanía, Los Ríos, and Los Lagos (see **Figure 1** for a map of Chile), the Mapuche comprise approximately 4% of Chile's 16.6 million citizens and experience significantly higher poverty levels, lower education levels, and poorer living standards than the general Chilean population.⁴⁵ Mapuche groups have pursued their goals through a variety of means. Some pushed for the ratification of convention 169 of the International Labour Organization (ILO) on indigenous rights, which then-President Bachelet promulgated in September 2008.⁴⁶ Others, such as the Arauco-Malleco Coordinating Committee (CAM), have employed more militant actions, occupying ancestral Mapuche lands and burning vehicles, machinery, and buildings on them—frequently targeting logging companies.⁴⁷

Successive Concertación governments were unable to improve relations with the Mapuche despite engaging in land transfers and other measures designed to reduce tensions. Concertación governments transferred some 650,000 hectares⁴⁸ of land to Mapuche communities between 1994 and 2009; however, many Mapuches considered the transfers insufficient as the lands represented only a fraction of their ancestral territory.⁴⁹ As CAM steadily increased its militant activities during the Bachelet Administration, the government responded more forcefully, raiding the homes of suspected CAM militants and prosecuting Mapuche activists under a Pinochet-era anti-

⁴³ Sebastian Boyd & James Attwood, "Chile's Pinera 'Buries' Pinochet in Presidential Win," *Bloomberg*, January 18, 2010.

⁴⁴ Matt Moffett, "Chile's New Leader Faces Economic Hurdles," *Wall Street Journal*, January 18, 2010.

⁴⁵ Central Intelligence Agency, "World Factbook," July 2010; Raúl Zibechi, "Toward Reconstruction of the Mapuche Nation," *Center for International Policy, Americas Program*, November 13, 2009.

⁴⁶ "Bachelet makes gesture to Chile's indigenous groups," *Latin American Weekly Report*, September 25, 2008.

⁴⁷ "Chile: Bachelet reacts to challenge by radical activists," *Latin American Security & Strategic Review*, January 2008.

⁴⁸ A hectare is equal to about 2.5 acres or 0.004 square miles.

⁴⁹ According to CAM, the original land size of the independent Mapuche territory was 10 million hectares. "Chile: Bachelet reacts to challenge by radical activists," *Latin American Security & Strategic Review*, January 2008; Raúl Zibechi, "Toward Reconstruction of the Mapuche Nation," *Center for International Policy*, November 13, 2009; Daniela Estrada, "Chile: Mapuche Detainees Say They Were Framed," *Inter Press Service*, November 20, 2009.

terrorism law that has been condemned by human rights organizations. The anti-terrorism law allows suspects to be held for two years without being charged, enables prosecutors to withhold evidence from the defense and try suspects in both military and civil courts, permits the testimony of anonymous witnesses, and mandates punishments that are three times the normal criminal sentences for activities such as arson and illegal land occupation.⁵⁰ The use of the anti-terrorism law—which Bachelet pledged not to employ against Mapuche activists during her 2005 electoral campaign—exacerbated the situation, leading CAM activists to renounce their Chilean citizenship, declare war on Chile, and pledge to set up an independent Mapuche nation.⁵¹

Relations between the Chilean government and the Mapuche have not improved under the Piñera Administration. In addition to disputes over Piñera's claim that CAM members have received training from the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*, FARC)—a U.S.-designated foreign terrorist organization, conflicts concerning the use of the anti-terrorism law have continued. Some Mapuche activists being held in prison under the anti-terrorism law have been engaged in a hunger strike for over 70 days. The hunger strikers have demanded the dismissal of proceedings against them in military courts, the demilitarization of Mapuche territory, and an end to the use of the anti-terrorism law against Mapuches for actions they consider to be political activism. To date, 8 of the 34 hunger strikers have had to be moved from prisons to hospitals as a result of declining health. Fearing that an activist death could lead to increased conflict, Piñera has accepted the mediation of the Catholic Archbishop of Concepción and promised direct talks with moderate Mapuche leaders about a possible \$4 billion investment to promote development in ancestral Mapuche territory. He has also proposed amendments to the anti-terrorism law and military justice system, which would move 4,000 existing prosecution cases against Mapuches from military to civil courts, reduce charges against most Mapuches in prison, and allow for the cross-examination of witnesses. As of late September 2010, the hunger strikers, as well as more moderate Mapuche activists, had deemed these actions insufficient.⁵²

Easter Island

Ethnic Polynesians whose ancestors first inhabited the Chilean territory of Easter Island (Rapa Nui to the islanders) have recently engaged in land occupations to call attention to their opposition to Chilean government policies. Accounting for roughly 61% of Easter Island's 4,000 residents, the Rapa Nui people are the only Chilean indigenous group that still constitutes a majority of the population in its traditional homeland.⁵³ Tensions between the Rapa Nui and the rest of the population have risen in recent years as an increasing number of continental Chileans have visited and moved to the island, which is located nearly 2,200 miles west of the Chilean coast. Some islanders argue that the influx in population is weakening their standards of living by

⁵⁰ Benjamin Witte-Lebhar, "Chile: No End in Sight for Worsening Mapuche Conflict," *Latin America Data Base NotiSur*, November 13, 2009; "Mapuches declare 'war' on Chile," *Latin News Daily*, October 22, 2009; "Chile Congress tries for Mapuche deal," *Latin News Daily*, September 13, 2010.

⁵¹ "Conflicto Mapuche Preocupa Pero No Hay Una 'Guerra Civil', Según Gobierno," *EFE News Service*, October 21, 2009.

⁵² "Mapuche play 'Cuban card,'" *Latin News Daily*, July 28, 2010; "Chile: Piñera's other problems," *Latin American Weekly Report*, September 9, 2010; "Chile congress tries for Mapuche deal," *Latin News Daily*, September 13, 2010; "Chile's Piñera courts Mapuches," *Latin News Daily*, September 14, 2010; "Chile concedes talks with Mapuches," *Latin News Daily*, September 20, 2010; "Chile: Hunger strike prompts Mapuche dialogue," *Oxford Analytica*, September 21, 2010; "Chile's problems with Mapuches worsen," *Latin News Daily*, September 22, 2010.

⁵³ "Chile: Indigenous issues remain key policy challenge," *Oxford Analytica*, February 4, 2010.

reducing employment opportunities, straining government services, and damaging the ecosystem. In August 2009, a group calling itself the Rapa Nui Parliament blocked the airport for two days to demand greater immigration controls.⁵⁴ Conflict erupted again in March 2010, when locals learned that the individual President Piñera appointed as governor of the territory had received his position as a result of his ties to a business group with intentions to acquire land the Rapa Nui had ceded to the government for public purposes. Since then, groups of Rapa Nui have occupied lands and taken over buildings, demanding a new governor, stricter immigration controls, and a stronger role in governance. Although the governor has resigned and the Chilean government has engaged in dialogue on the issues of concern, bills to strengthen immigration controls and self-government have yet to be passed by the Chilean Congress.⁵⁵

Human Rights

Progress in addressing Pinochet-era human rights abuses was rather limited during the first two Concertación administrations. Recognizing the still delicate status of democracy, the first Concertación administration allowed a 1978 amnesty law to remain in place while establishing a National Commission for Truth and Reconciliation (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 government was able to place more emphasis on the discussion and prosecution of human rights abuses.⁵⁶

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 (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.⁵⁷ Since 2000, over 200 dictatorship-era officials and military members have been convicted of human rights abuses, with an additional 325 individuals still under investigation.⁵⁸ 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 a myriad of dictatorship-era

⁵⁴ "Easter Island," *Latin American Weekly Report*, August 20, 2009; "Valor de Isla de Pascua," *El Mercurio*, August 5, 2010.

⁵⁵ Governor of Chile's Easter Island resigns under fire," *EFE News Service*, August 10, 2010; Ximena Pérez, "Pascuenses y Gobierno instalan mesas de trabajo," *El Mercurio*, August 25, 2010.

⁵⁶ Priscilla B. Hayner, *Unspeakable Truths: Facing the Challenge of Truth Commissions* (New York: Routledge, 2002).

⁵⁷ "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.

⁵⁸ Alexander W. Wilde, "Piñera Won. Will he uphold Chile's post-Pinochet moral legacy?" *Christian Science Monitor*, January 18, 2010.

crimes, including the 1976 assassination of former Ambassador to the United States Orlando Letelier and his American associate, Ronni Moffitt, in Washington, DC.⁵⁹

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. Piñera largely selected politicians and private sector officials without major ties to the Pinochet regime when forming his government, and 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.⁶⁰ Likewise, Piñera has ruled out issuing a general pardon to retired members of the military convicted for violating human rights. Nonetheless, Piñera has signaled that he may pardon some military personnel along with civilians in response to an initiative from the Catholic Church calling for a "jubilee pardon" in connection with the country's 2010 Bicentennial. According to Piñera, any pardon decisions would consider the gravity of crime, the extent to which the sentence has been served, the behavior of the convict in prison, and the danger the convict poses to society.⁶¹

Education Policy

Since the transition to democracy, many Chileans have called on the government to address inequality in the education system. Some contend that Pinochet-era education policies, which decentralized education funding and instituted vouchers, have exacerbated divides between wealthier and poorer municipalities and produced an increasingly stratified education system. They assert that a tiered system has emerged in which high income students attend fee-paying private schools, middle income students attend state-subsidized private schools with selective admission policies, and lower income students remain in underfunded municipal public schools. A 2006 study found that 80.9% of the students in public primary schools and 72.1% of the students in public secondary schools were from families with incomes in the bottom 50%. The tiered system is reflected in student achievement, as fee-paying private school students perform the best on national assessments and university admissions while municipal public school students perform the worst.⁶²

Frustrated by the government's unwillingness to address these issues, Chilean students organized the largest social demonstrations since the return to democracy in May 2006. With the overwhelming majority of the public backing them at the height of the protests, students filled the streets, took over schools, and organized rallies that drew as many as 800,000 people. The resulting street violence and near complete shutdown of Chile's education system forced then-

⁵⁹ Jack Epstein, "Augusto Pinochet: 1915-2006/Chilean Leader's Regime Left Thousands of 'Disappeared'," *San Francisco Chronicle*, December 11, 2006; Helen Hughes & Jack Chang, "Ex-Chilean Intelligence Chief Gets 2 Life Sentences," *Miami Herald*, July 1, 2008.

⁶⁰ "Chile: Piñera's cabinet more rightwing than it appears," *Latin American Regional Report: Brazil & Southern Cone*, March 2010; "Chile: An embarrassment in Argentina," *Latin American Regional Report: Brazil & Southern Cone*, July 2010.

⁶¹ Daniela Estrada, "Building the Bicentennial Society?" *Inter Press Service*, September 7, 2009; "Piñera habla de los temas más candentes," *El Mercurio*, July 18, 2010; "Piñera rules out military pardons," *Latin American Regional Report: Brazil & Southern Cone*, August 2010.

⁶² Andrea Arango, "The Failings of Chile's Education System: Institutionalized Inequality and a Preference for the Affluent," *Council On Hemispheric Affairs*, July 30, 2008.

President Bachelet to take action.⁶³ After increasing education spending and creating a commission to study education policy options, the Bachelet Administration eventually put forward a new law regulating the education system known as the General Education Law (*Ley General de Educación*, LGE). Among other provisions, the LGE would redistribute government funds toward public schools and end selective admissions for students up to the ninth grade.⁶⁴ The Chilean Congress has yet to pass key parts of the LGE, and student groups and teachers have protested against it, arguing that it would retain the major pillars of the current system such as the subsidization of private education.

President Piñera has announced that he will seek legislative approval for the educational framework introduced by the Bachelet Administration while also strengthening Chile's competitiveness by focusing on improved educational standards and results. Piñera and others have noted that there have been few gains in student attainment despite significant increases in public spending on education since the return to democracy. According to Chile's latest national educational assessment, few students are capable of demonstrating the skills expected at their age level. Just 13% of eighth-grade students performed at the expected level for math and 26% performed at the expected level for reading. Even fee-paying private school students, who vastly outperform their public school peers, do relatively poorly in international comparisons. The World Economic Forum, which named Chile the 30th most competitive economy in the world in 2010, ranked Chile's primary education system 101st and noted that improving the education system is increasingly important as the country approaches the most advanced innovation-driven stage of development.⁶⁵ Piñera has suggested a number of potential policy changes to address these issues. These include doubling funding for vouchers, with the majority going to students from low income families and schools producing positive results on student assessments; creating 50 "state schools of excellence" to provide opportunities for gifted students throughout the country; and distributing leaflets to parents comparing the student assessment results of the schools in their communities so they can make informed decisions.⁶⁶

Chile-U.S. Relations

The United States and Chile have enjoyed friendly relations since Chile's transition back to democracy. The countries maintain strong commercial ties and share common commitments to democracy, human rights, and free trade. Relations have been particularly close during the Obama Administration. 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, signing a Memorandum of Understanding on clean energy cooperation. Bachelet described

⁶³ Jonathan Franklin, "Protests paralyse Chile's education system," *Guardian*, June 7, 2006; Monte Reel, "Chile's Student Activists: A Course in Democracy," *Washington Post*, November 25, 2006.

⁶⁴ "Chile's Bachelet jacks up spending," *Latin News Daily*, May 22, 2007; "Chile: Pinochet-era education law finally replaced," *Latin American Weekly Report*, August 20, 2009.

⁶⁵ Klaus Schwab, editor, *Global Competitiveness Report 2010-2011*, World Economic Forum, Geneva, Switzerland, 2010.

⁶⁶ President Sebastian Piñera, "Del Chile del bicentenario al país de las oportunidades," Gobierno de Chile, May 21, 2010, available at <http://www.gobiernodechile.cl/discursos/2010/05/21/mensaje-presidencial-del-21-de-mayo.htm>; "Chile: Education remains obstacle to development," *Oxford Analytica*, June 17, 2010.

her Administration's close relations with the Obama Administration as "one of the most important events in U.S.-Chile relations in recent times."⁶⁷

Warm relations have continued since the inauguration of President Piñera. President Obama met with Piñera during the April 2010 Global Nuclear Security Summit, where he thanked Chile for promoting nuclear non-proliferation and facilitating the removal of all highly enriched uranium from the country.⁶⁸ The Obama Administration has provided humanitarian assistance to Chile to aid those affected by the country's massive February 2010 earthquake, and the Administration recently dispatched a team of National Aeronautics and Space Administration (NASA) experts to Chile to assist in the recovery of 33 trapped miners.⁶⁹ Areas of ongoing bilateral cooperation include trade and investment, energy, and regional security.

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 order 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 \$293 million in economic assistance between 1961 and 1963.⁷⁰ Assistance declined following the election of 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 \$1.2 million in U.S. assistance in FY2009, an estimated \$1.75 million in FY2010, and would receive \$2.2 million in FY2011 under the Obama Administration's request. The majority of U.S. assistance to Chile is focused on modernizing the Chilean military by improving its interoperability with U.S. forces and its capacity to participate in regional security and peacekeeping operations.⁷¹

Following Chile's massive February 2010 earthquake, the U.S. government provided the country with some \$9.8 million in humanitarian assistance. 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, mobile water treatment units, and electric generators; and the deployment of two Department of Defense C-130s to transport emergency relief supplies to disaster-affected areas.⁷²

⁶⁷ "Washington Watch," *Latin News Daily*, June 25, 2009.

⁶⁸ White House, Office of the Press Secretary, "Read-out of President Obama's discussion with President Sebastian Piñera of Chile," press release, April 12, 2010.

⁶⁹ Embassy of the United States, Santiago, Chile, "Assessing progress on constructing emergency shelters in earthquake area," press release, June 23, 2010; National Aeronautics and Space Administration (NASA), "NASA Provides Assistance to Trapped Chilean Miners," press release, September 7, 2010.

⁷⁰ This is the equivalent of \$1.6 billion in constant 2006 dollars; U.S. Overseas Loans and Grants (Greenbook) 2006.

⁷¹ U.S. Department of State, *FY2011 Congressional Budget Justification for Foreign Operations*, March 10, 2010.

⁷² U.S. Agency for International Development, Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), Office of U.S. Foreign Disaster Assistance (OFDA), "Chile—Earthquake: Fact Sheet #18, Fiscal Year (FY) 2010," April 22, 2010

Commercial Ties

Free Trade Agreement

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.⁷³ Since the agreement went into force on January 1, 2004, bilateral trade between the United States and Chile has more than doubled, totaling \$15.3 billion in 2009. U.S. imports from Chile grew from \$3.7 billion in 2003 to \$5.9 billion in 2009, while U.S. exports to Chile grew from \$2.7 billion in 2003 to \$9.4 billion in 2009. Chile's top exports to the United States were fruit, copper, seafood, wood, and precious stones. The United States top exports to Chile were heavy machinery, oil, aircraft, electrical machinery, and motor vehicles. In 2009, the United States was Chile's top source of imports and the second-largest destination for Chile's exports, while Chile was the 36th-largest source of U.S. imports and 24th-largest export market for U.S. goods.⁷⁴

Intellectual Property Rights Protection

Chile has been on the U.S. Trade Representative's (USTR) Priority Watch List since 2007 as a result of insufficient efforts to protect intellectual property rights (IPR). Chile is only the second U.S. FTA partner to be placed on the Priority Watch List. According to USTR, Chile improved its IPR protection efforts in 2009 and early 2010, creating a National Institute for Industrial Property to oversee industrial property registration and protection, increasing law enforcement actions targeting the sale of counterfeit and pirated products, and enacting amendments to its intellectual property law to implement a number of commitments under the FTA. Nonetheless, USTR remains concerned about Chile's relatively low rate of prosecutions, the tendency to apply minimum sentences for counterfeiting and piracy, and a legal framework that falls short of Chile's multilateral and bilateral commitments.⁷⁵

Income Tax Treaty⁷⁶

On February 4, 2010, U.S. Treasury Secretary Timothy Geithner and 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

⁷³ 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.

⁷⁴ U.S. Department of Commerce and Servicio Nacional de Aduana (Chile) statistics, as presented by *Global Trade Atlas*, September 2010.

⁷⁵ U.S. Department of State, Bureau of Western Hemisphere Affairs, *Background Note: Chile*, April 12, 2010; Office of the United States Trade Representative, *2010 Special 301 Report*, April 30, 2010.

⁷⁶ The full text of the treaty is available at: <http://www.ustras.gov/press/releases/reports/chiletreaty2010.pdf>.

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.⁷⁷

Energy Cooperation

Chile has become heavily dependent upon foreign energy imports as a result of increasing demand and limited domestic resources. Spurred by strong economic growth, Chilean demand for electricity has grown at an average of 6% annually over the past decade.⁷⁸ In order to satisfy this demand, primary energy imports increased from 45% to 67% of the total supply between 1990 and 2006. Chile now imports about 99% of its crude oil, 72% of its natural gas, and 92% of its coal.⁷⁹ Although Chile has tried to secure sufficient energy resources through its open economic policies, its supply has been occasionally threatened by Argentine energy policies.⁸⁰

In order to lessen its reliance on Argentina, Chile has sought to diversify its energy supply. The Chilean government and private firms began developing liquefied natural gas (LNG) terminals in 2006, and the first terminal began operating in 2009.⁸¹ Given the feasibility of establishing power plants close to ports and the diversity of countries that export coal, Chile has also begun to increase its reliance on coal-fired power plants. These plants are expected to produce a quarter of all Chilean electricity by 2020, up from 15% at present. Domestic renewable sources of energy are receiving increased attention as well. A number of wind farms have begun operations and the country is studying its geothermal, solar, and tidal energy potential. Although just 2.7% of Chile's electricity generating capacity used alternative renewable sources as of 2008, Chilean law now requires energy providers to generate at least 5% of their electricity from renewable sources. The legal requirement gradually increases to 10% by 2024.⁸²

At the Fifth Summit of the Americas⁸³ in April 2009, President Obama introduced an "Energy and Climate Partnership for the Americas" (ECPA). The initiative is designed to foster regional cooperation on issues such as energy efficiency, renewable energy investment, and reductions in greenhouse gas emissions.⁸⁴ Under the umbrella of ECPA, the United States and Chile signed a

⁷⁷ U.S. Department of the Treasury, "U.S., Chile Sign Income Tax Treaty," press release, February 4, 2010.

⁷⁸ "Chile: Medium-Term Electricity Supply Looks Secure," *Oxford Analytica*, April 23, 2009.

⁷⁹ Oscar Landerretche, "Chile's Choices: Maintaining Growth and Securing Supply," in *Energy and Development in South America: Conflict and Cooperation*, eds. Cynthia J. Arnson et al., 27-34, (Washington, D.C.: Woodrow Wilson International Center for Scholars, 2008).

⁸⁰ "Chile: Medium-Term Electricity Supply Looks Secure," *Oxford Analytica*, April 23, 2009.

⁸¹ Nicole Spencer & Siobahn Sheils, "Chile Update: Energy Policy," *Americas Society/Council of the Americas*, September 9, 2009.

⁸² "Chile: Medium-Term Electricity Supply Looks Secure," *Oxford Analytica*, April 23, 2009; "Chile: Renewable energy projects on the increase," *Oxford Analytica*, May 4, 2010.

⁸³ 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*.

⁸⁴ White House, Office of the Press Secretary, "The United States and the 2009 Summit of the Americas: Securing Our Citizens' Future," April 19, 2009.

Memorandum of Understanding (MOU) on cooperation in clean energy technologies in June 2009. Among other forms of collaboration, the MOU calls for assessments of renewable resource potential; identification of projects suitable for joint research and development; the exchange of scientific and technical information; and the exchange of scientists, engineers, and other energy specialists.⁸⁵ A resolution expressing support for the Energy and Climate Partnership of the Americas (H.Res. 1526, Engel), including collaboration on clean energy technology with Chile, was introduced in the House in July 2010.

Regional Security

Chile's foreign policy traditionally has been based on respect for international law, peaceful dispute resolution, and non-interference in the internal affairs of other countries.⁸⁶ Although much of Chile's foreign policy since the return to democracy has 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. mission in Haiti, collaborated on regional counternarcotics efforts, and engaged in diplomatic efforts to resolve political crises in Venezuela, Bolivia, and Honduras.⁸⁷ These efforts have often had a moderating influence in the region and advanced policy goals similar to those of the United States.

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 U.N. 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. It currently has some 500 military and police forces on the ground.⁸⁸

⁸⁵ *Memorandum of Understanding Between the Department of Energy of the United States of America and the National Energy Commission of the Republic of Chile on Cooperation in Clean Energy Technologies*, June 2009.

⁸⁶ "Chile's Foreign Policy," *Embassy of Chile*, available at <http://www.chile-usa.org/forpolicy.htm>; 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.

⁸⁷ Juan Forero, "Friends of Venezuela Are There to Help," *New York Times*, January 31, 2003; 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.

⁸⁸ Enzo Di Nocera García & Ricardo Benavente Cresta, "Chile: Responding to a Regional Crisis," in *Capacity Building for Peacekeeping: The Case of Haiti*, eds. John T. Fishel & Andrés Sáenz, 66-90 (Dulles, VA: Potomac Books, 2007); "Pese a drama personal, general chileno asume misión de la ONU en Haití," *La Nación* (Chile), January 14, 2010.

Narcotics Trafficking

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. 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 Peru and Bolivia. Chile's highly professional and competent law enforcement officials have dedicated more resources to the problem in recent years, uncovering several advanced drug trafficking techniques. Through June of 2009, Chilean officials reported seizures of approximately 1,659 kilograms of cocaine; 2,537 kilograms of cocaine paste; 6,402 kilograms of marijuana; and 32,284 units of illegal pharmaceutical drugs. The United States provides counternarcotics support to the Chilean government focused on interagency cooperation, international drug investigations, anti-money laundering efforts, and maritime security. The United States and Chile are also cooperating on counternarcotics issues through the Organization of American States Inter-American Drug Abuse Control Commission, which Chile headed in 2009, and a trilateral development partnership, through which both countries are offering training and assistance to other Latin American countries.⁸⁹

Trafficking in Persons

Chile is a source, transit, and destination country for trafficking in persons for commercial sexual and labor exploitation. While Chile has made efforts to fully comply with the minimum standards for the elimination of trafficking—increasing law enforcement efforts against trafficking offenders and forging partnerships with foreign governments—authorities have reported difficulties in prosecuting some crimes as a result of gaps in the country's anti-trafficking statutory framework. As a result, the U.S. Department of State designates Chile a "Tier 2" country, and recommends that it enact stricter legislation, strengthen victim protection efforts, and increase public awareness of trafficking.⁹⁰

⁸⁹ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2010 International Narcotics Control Strategy Report*, March 1, 2010.

⁹⁰ U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2010*, June 14, 2010.

Appendix. Chilean Political Acronyms

Table A-1. Chilean Political Acronyms

Acronym	Political Organization	Description
CAM	Arauco-Malleco Coordinating Committee	Militant Mapuche ^a organization
JPM	Together We Can Do More	Leftist coalition of parties
PC	Communist Party	Leftist member party of JPM
PDC	Christian Democrat Party	Centrist member party of the Concertación ^b
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, now controlled by PDC dissidents.
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. ^c
UDI	Independent Democratic Union	Rightist member party of the Coalición.

Source: Compiled by CRS.

Notes:

- a. The Mapuche are Chile's largest indigenous group.
- b. The Concertación is a center-left coalition of parties.
- c. The Coalición is a center-right coalition of parties.

Author Contact Information

Peter J. Meyer
Analyst in Latin American Affairs
pmeyer@crs.loc.gov, 7-5474