



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

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## Summary

Chile has consistently maintained friendly relations with the United States since its transition back to civilian democratic rule in 1990. Serving as a reliable but independent ally, Chile has worked with the United States to advance democracy, human rights, and trade in the Western Hemisphere. Chile and the United States also maintain strong bilateral commercial ties. Total bilateral trade in goods and services has nearly tripled to \$29.2 billion since the implementation of a free trade agreement in 2004. Additional areas of cooperation between the United States and Chile include supporting regional stability and promoting clean energy development.

### Political Situation

Sebastián Piñera of the center-right “Coalition for Change” was inaugurated to a four-year presidential term in March 2010. Piñera’s electoral victory was the first for the Chilean right since 1958, and brought an end to 20 years of governance by a center-left coalition of parties known as the Concertación. 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 policy reforms, he has struggled in dealing with a series of popular protests over issues ranging from energy policy to the education system. The Chilean populace has resorted to such tactics to demonstrate its increasing dissatisfaction with the country’s political system, which it views as unresponsive to citizen demands. As the generalized sense of discontent has spread, Piñera’s approval rating has steadily declined. In September 2012, 32% of Chileans approved of Piñera’s performance in office while 57% disapproved. Although the majority of the public also disapproves of the opposition Concertación, it outperformed Piñera’s coalition in municipal elections held in October 2012.

### Economic Conditions

According to many analysts, Chile has the most competitive and fundamentally sound economy in Latin America. In 2011, the country had a gross domestic product (GDP) of \$248 billion and a per capita GDP of \$14,403—the highest in the region. 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 is projected to grow by 5.0% 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 2012. High levels of inequality have persisted, however, leading to some popular discontent with Chile’s otherwise strong economic performance.

### Congressional Action

Congress has expressed interest in a variety of issues in U.S.-Chilean relations over the years. The 113<sup>th</sup> 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 in May 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.<sup>1</sup> 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.<sup>2</sup>

### Pinochet Era

On September 11, 1973, the Chilean military, under the control of General Augusto Pinochet, deposed the Allende government in a violent coup and quickly consolidated control of the country. The military junta closed Congress, censored the media, declared political parties in recess, and regarded the organized left as an internal enemy of the state. Within the first few months of military rule, over 1,800 people in Chile were killed or "disappeared" for political reasons, and some 23,000 were imprisoned or tortured. By the end of the dictatorship in 1990, the

#### Chile in Brief

Geographic Size: Approximately twice as large as California

Population (2012): 16.6 Million

Ethnic Groups (2002): 95.4% White or White-Indigenous; 4.6% Indigenous

Religion (2002): 70% Roman Catholic; 15.1% Evangelical

Official Language: Spanish

Life Expectancy (2011): 79 years

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

Adult Literacy Rate (2008): 99%

Poverty Rate (2011): 14.4%

GDP (2011): \$248 Billion

GDP per Capita (2011): \$14,403

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

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

<sup>2</sup> *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.<sup>3</sup>

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.<sup>4</sup>

## **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 the undemocratic provisions of 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

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<sup>3</sup> *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.

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

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.<sup>5</sup>

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.<sup>6</sup> 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%.<sup>7</sup> 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.<sup>8</sup> 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. The Chilean judiciary gradually shifted its jurisprudence on dictatorship-era human rights abuses over time, ruling the country's 1978 amnesty law inapplicable in many cases.<sup>9</sup> At least 76 military and police officers have been convicted for human rights abuses and some 700 others are still under investigation.<sup>10</sup>

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<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> "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.

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

<sup>9</sup> 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.

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

Figure 1. Map of Chile



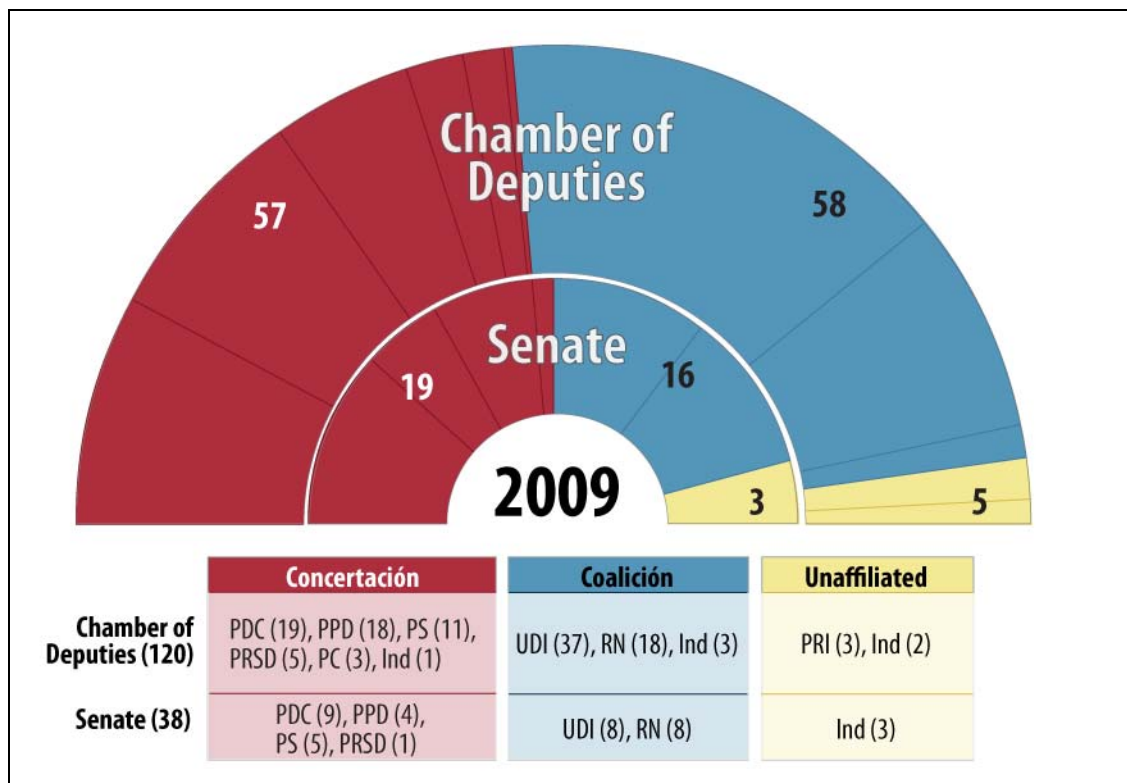
Source: Map Resources, adapted by CRS Graphics.



## Political Situation

Sebastián Piñera of the center-right “Coalition for Change,” (*Coalición por el Cambio*, *Coalición*) was inaugurated to a four-year presidential term in March 2010. He defeated former President Eduardo Frei (1994-2000), a member of the Christian Democratic Party (PDC) and the candidate of the center-left Concertación coalition, 52% to 48% in a second round runoff election.<sup>11</sup> 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 Seat Distribution Resulting from 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.

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

<sup>11</sup> 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.

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 has recently made the tax increase permanent as part of a tax 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 obstructing 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, and massive student demonstrations seeking changes in the education system. The demands of the demonstrators have generally received considerable popular support even as Chileans have sometimes disagreed with their methods. A September 2012 poll, for example, found that 70% of Chileans supported the demands of the student protesters, which included free college education and an end to for-profit education institutions.<sup>12</sup>

Many analysts believe Chileans have resorted to street protests as a result of their increasing dissatisfaction with the country's political class, which they view as unresponsive to citizen demands and unwilling to address the country's high level of inequality.<sup>13</sup> 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.<sup>14</sup> 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.<sup>15</sup> Many are disillusioned with the country's lack of social mobility. Indeed, even as Chile experienced strong economic growth between 2010 and 2011, the percentage of Chileans satisfied with democracy declined by 24 points to 32%. Similarly, the percentage of Chileans that believe the state governs for the good of all citizens fell from 34% to 22%.<sup>16</sup> Since the country's binomial electoral system effectively ensures a relatively equal distribution of power between the two major political coalitions regardless of voters' preferences,<sup>17</sup> elections are 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

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

<sup>13</sup> See, for example, Thalif Deen, "Chile: Disillusion with Pinochet-Era Political System Grows," *Inter Press Service*, January 31, 2012; Marta Lagos, *Chile Al Desnudo*, Latinobarómetro, October 28, 2011; and Sergio Bitar, "¿Que Pasa en Chile?: (2) Chile y Sus Movilizaciones: ¿Por Qué?," *Infolatam*, September 14, 2011.

<sup>14</sup> Patricio Navia, "Democracy to the Extent Possible in Chile," *Latin American Research Review*, Special Issue (2010).

<sup>15</sup> Ernesto Muñoz-Lamartine, "Student Leaders Reinvent the Protest," *Berkeley Review of Latin American Studies*, Fall 2011-Winter 2012, p. 27.

<sup>16</sup> Lagos, October 2011, op.cit.

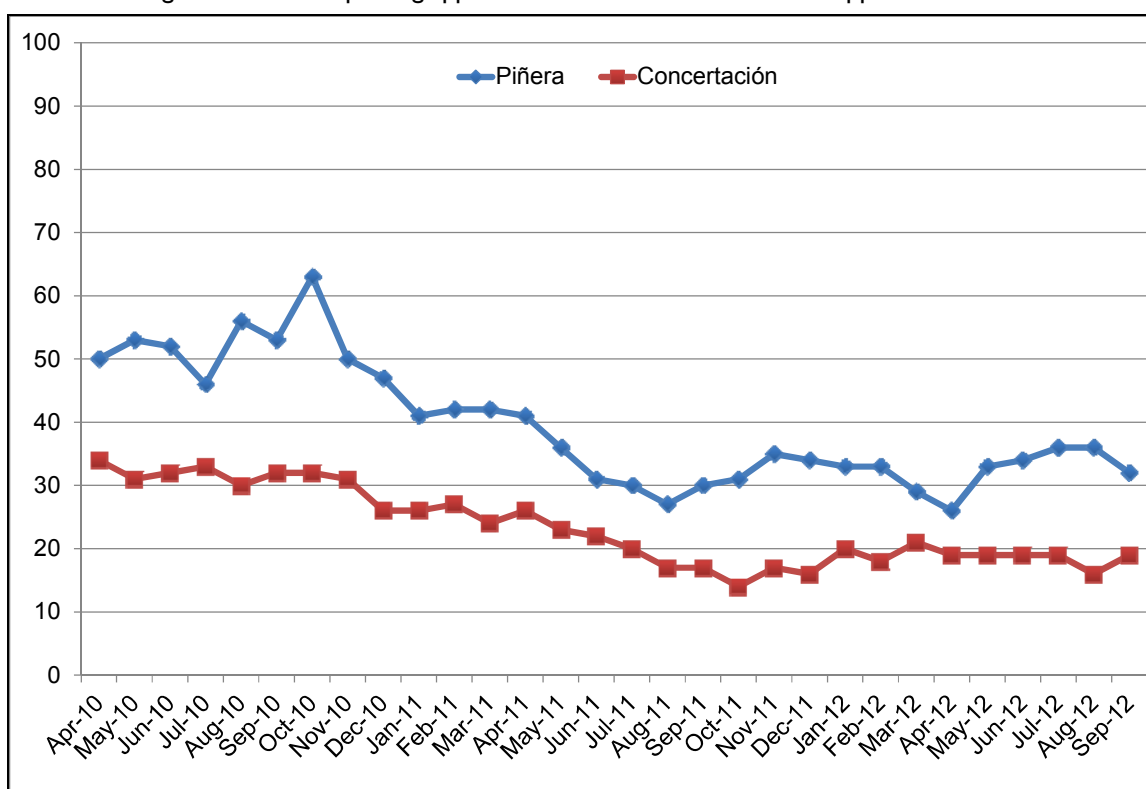
<sup>17</sup> Since a coalition must win by a two-to-one margin in order to secure both seats in an electoral district, a major swing in voters from one coalition to the other—from 60%-40% to 40%-60%, for example—will produce the exact same result. Consequently, the two major coalitions split seats in more than 95% of electoral districts. Navia, 2010, op.cit.

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 most 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.<sup>18</sup> Piñera and the Chilean Congress appear to agree, as they have reacted to the protests by adopting legislation designed to address many of the issues raised. As noted above, the Chilean government recently adopted a tax reform that will allow it to dedicate increased funding to education. Although the changes do not fully address the students' demands, they will make education more affordable for low- and middle-income Chileans. The Chilean government has also adopted electoral reforms to institutionalize primary elections and make voting voluntary and registration automatic.<sup>19</sup> 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.

**Figure 3. Public Approval of Chile's Political Leadership: April 2010-September 2012**

Percentage of Chileans reporting approval of President Piñera and the opposition Concertación



**Source:** CRS presentation of data from the Chilean polling firm Adimark-GfK

**Notes:** Adimark GfK temporarily suspended monthly polling after September 2012 in order to address methodological issues arising from a drop off in respondents.

<sup>18</sup> See, for example, "The Dam Breaks: Pent-Up Frustration at the Flaws of a Successful Democracy," *The Economist*, August 27, 2011.

<sup>19</sup> Prior to the electoral reform, registration was voluntary but voting was mandatory for registered voters.

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 September 2012, 32% of Chileans approved of his performance in office while 57% disapproved (see **Figure 3** above). Piñera's low approval rating appears to have acted as a drag on his coalition in the October 2012 municipal elections. The *Coalición* won 37% of mayoral votes and 33% of council votes cast nationwide, down from 41% and 36%, respectively, in the 2008 municipal elections. The *Concertación*—in alliance with the Communist Party (*Partido Comunista*, PC)—benefitted from the drop in *Coalición* support, winning 43% of mayoral votes and 49% of council votes cast nationwide. The election may have been more of a rejection of the governing coalition than an embrace of the opposition, however, as 68% of Chileans disapproved of the *Concertación* in September 2012.<sup>20</sup> Indeed, many Chileans may have signaled their rejection of both political coalitions by sitting the elections out. Although the electoral changes noted above incorporated over 5 million previously unregistered voters, nearly 60% of Chileans abstained from the elections and the absolute number of voters actually decreased by 1.5 million compared to 2008.<sup>21</sup>

## Economic Conditions

According to many analysts, Chile has the most competitive and fundamentally sound economy in Latin America.<sup>22</sup> In 2011, Chile had a gross domestic product (GDP) of \$248 billion and a per capita GDP of \$14,403—the highest in the region.<sup>23</sup> 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 nearly 60 countries,<sup>24</sup> and now has open and reciprocal access to major consumer markets such as China, Japan, the European Union, and the United States. In 2011, Chile attracted \$17.3 billion in foreign direct investment,<sup>25</sup> and enjoyed a trade surplus of \$9.1 billion (3.7% of GDP).<sup>26</sup> 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.

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<sup>20</sup> "Encuesta: Evaluación Gestión del Gobierno: Informe Mensual" *Adimark GfK*, September 2012.

<sup>21</sup> "Chile Politics: Opposition Makes Gains at the Municipal Elections," *Economist Intelligence Unit*, November 2, 2012.

<sup>22</sup> See, for example, *Global Competitiveness Report 2012-2013*, ed. Klaus Schwab (Geneva: World Economic Forum, 2012); and "Chile: Country Report," *Economist Intelligence Unit*, December 2012.

<sup>23</sup> International Monetary Fund (IMF), *2012 Article IV Consultation*, September 2012.

<sup>24</sup> Gobierno de Chile, Ministerio de Relaciones Exteriores, "Tratados de Libre Comercio: Acuerdos Comerciales Vigentes," <http://www.direcon.gob.cl/acuerdo/list>.

<sup>25</sup> U.N. Economic Commission for Latin America and the Caribbean, *La Inversión Extranjera Directa en América Latina y el Caribe, 2011*, May 2012.

<sup>26</sup> Chilean Customs Service data, as presented by *Global Trade Atlas*, October 2012.

## 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*),<sup>27</sup> helped Chile return to quarter-on-quarter economic growth by the end of 2009 and limit the annual economic contraction to 0.9%.<sup>28</sup>

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.<sup>29</sup> The earthquake and subsequent tsunami killed 551 people and caused nearly \$30 billion (15% of GDP) in damages.<sup>30</sup> 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.<sup>31</sup> While the reconstruction effort is scheduled to conclude in March 2014, it was already more than 75% complete as of May 2012.<sup>32</sup>

Although Chile's economy suffered in the first quarter of 2010 as a result of the earthquake, it quickly recovered. Reconstruction helped fuel economic growth of 6.1% in 2010 and 5.9% in 2011. The economy has slowed somewhat in 2012, but Chile is still projected to grow by 5.0%.<sup>33</sup> Given the country's open economy and heavy reliance on copper exports, Chile remains vulnerable to economic troubles abroad. Nevertheless, the Chilean government has considerable room to pursue countercyclical policies should global conditions deteriorate; gross public debt remains relatively low (10.1% of GDP),<sup>34</sup> and the country's Economic and Social Stabilization Fund holds \$15 billion (6% of GDP).<sup>35</sup>

## Social Conditions

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

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<sup>27</sup> "Chile's Economy: Stimulating," *The Economist*, February 19, 2009.

<sup>28</sup> "Chile Economy: Quick View—Out of Recession," *Economist Intelligence Unit*, November 20, 2009; IMF, September 2012, op.cit.

<sup>29</sup> For more information on the Chile earthquake, see CRS Report R41112, *Chile Earthquake: U.S. and International Response*, by June S. Beittel and Rhoda Margesson.

<sup>30</sup> 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.

<sup>31</sup> Simon Gardner, "Post-Quake Rebuild Fuels Chile Recovery a Year On," *Reuters*, February 25, 2011.

<sup>32</sup> Piñera, May 2012, op.cit.

<sup>33</sup> IMF, September 2012, op.cit.; IMF, *World Economic Outlook: Coping with High Debt and Sluggish Growth*, October 2012.

<sup>34</sup> "Chile: Country Report," *Economist Intelligence Unit*, December 2012.

<sup>35</sup> Government of Chile, Ministry of Finance, "Economic and Social Stabilization Fund: Monthly Executive Report," October 2012.

Chileans living in poverty has fallen from 38.8% in 1989 to 14.4% in 2011.<sup>36</sup> Primary education is now almost universal and secondary and tertiary attainment rates have increased rapidly.<sup>37</sup> Whereas only 16.6% of Chileans aged 55-64 have completed a tertiary degree, 34.9% of those aged 25-34 have done so.<sup>38</sup> 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.<sup>39</sup>

Despite these advances, several challenges remain. High levels of inequality have persisted over the past 20 years. The Gini coefficient,<sup>40</sup> which is used to measure income concentration, barely moved between the mid-1990s and 2009, declining from 0.54 to 0.53. Although the Gini coefficient falls to 0.49 when taxes and government transfers are taken into account, it remains well above the Organisation for Economic Cooperation and Development (OECD) average of 0.31.<sup>41</sup> Moreover, inter-generational social mobility is low by OECD standards, as the education system tends to replicate existing class disparities.<sup>42</sup> The OECD maintains that Chile's fiscal policies do little to redistribute income compared to those of other OECD members. It recommends that Chile combine efforts to enhance economic growth with measures to increase the employment and living standards of the poor, such as increasing the progressivity of the tax system, providing support for more equal access to high-quality education, and targeting its social support programs somewhat less narrowly. According to OECD calculations, Chile could lift all households above the current poverty line by investing an additional 1% of GDP in transfer programs.<sup>43</sup>

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 tax reform, for example, is designed to slightly increase the progressivity of the tax system while raising additional funds for education.<sup>44</sup> 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.<sup>45</sup>

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<sup>36</sup> "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.

<sup>37</sup> 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.

<sup>38</sup> "Country Statistical Profiles: Chile," *OECD.Stat*, <http://stats.oecd.org/>.

<sup>39</sup> World Bank, "Chile: Data," <http://data.worldbank.org/country/chile>.

<sup>40</sup> 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.

<sup>41</sup> "Income Distribution—Inequality," *OECD.Stat*, <http://stats.oecd.org/>.

<sup>42</sup> OECD, *OECD Economic Surveys: Chile*, January 2012; "UNESCO: Sistema Educativo Chileno Fomenta la Disigualdad," *La Nación* (Chile), December 5, 2011.

<sup>43</sup> OECD, 2012, op.cit.

<sup>44</sup> "Chile Economy: Quick View – Tax Reform Bill in Enacted," *Economist Intelligence Unit*, September 27, 2012.

<sup>45</sup> 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. Serving as a reliable but independent ally, Chile has worked with the United States to advance democracy, human rights, and trade in Latin America. The countries maintain close bilateral commercial ties, having signed a trade agreement in 2003 and an income tax treaty in 2010. Other areas of U.S.-Chilean cooperation include efforts to support stability in the Western Hemisphere and the development of clean energy resources.

Since taking office, the Obama Administration has sought to maintain close ties with Chile and encourage its leadership in the region. Vice President Biden visited Chile in March 2009 during his first trip to Latin America, and then-President Bachelet met with President Obama in Washington, DC, in June 2009. High level contacts have continued since President Piñera's inauguration; 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. While in Chile, 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."<sup>46</sup>

## **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 2010 dollars) in economic assistance between 1961 and 1963.<sup>47</sup> Assistance declined following the 1970 election of Socialist President Salvador Allende and has generally remained low since then, increasing briefly during the early years of the Pinochet dictatorship and again following the transition to democracy. Chile received about \$1.9 million in U.S. assistance in FY2010, \$1.3 million in FY2011, and an estimated \$1.2 million in FY2012. The Obama Administration has requested \$1.1 million for Chile in FY2013, the majority of which would focus on modernizing the Chilean military, increasing its interoperability with U.S. forces, and building its capacity to participate in regional security and peacekeeping operations.<sup>48</sup>

On September 28, 2012, President Obama signed into law the Continuing Appropriations Resolution, FY2013 (P.L. 112-175). The resolution funds regular foreign aid accounts through March 27, 2013, at the same level as in FY2012 plus 0.612%. The aid allocations for particular countries, such as Chile, are left to the discretion of the responsible agencies. Until a full year appropriation is approved, however, the State Department plans only to fund programs that are running out of resources or meet some urgent foreign policy priority.

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<sup>46</sup> White House, Office of the Press Secretary, "Remarks by President Obama and President Sebastian Piñera of Chile at Joint Press Conference," March 21, 2011.

<sup>47</sup> U.S. Agency for International Development (USAID), *U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945-September 30, 2010*, <http://gbk.eads.usaidallnet.gov/>.

<sup>48</sup> U.S. Department of State, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2012*, April 8, 2011; *Congressional Budget Justification for Foreign Operations, Fiscal Year 2013*, March 9, 2012.

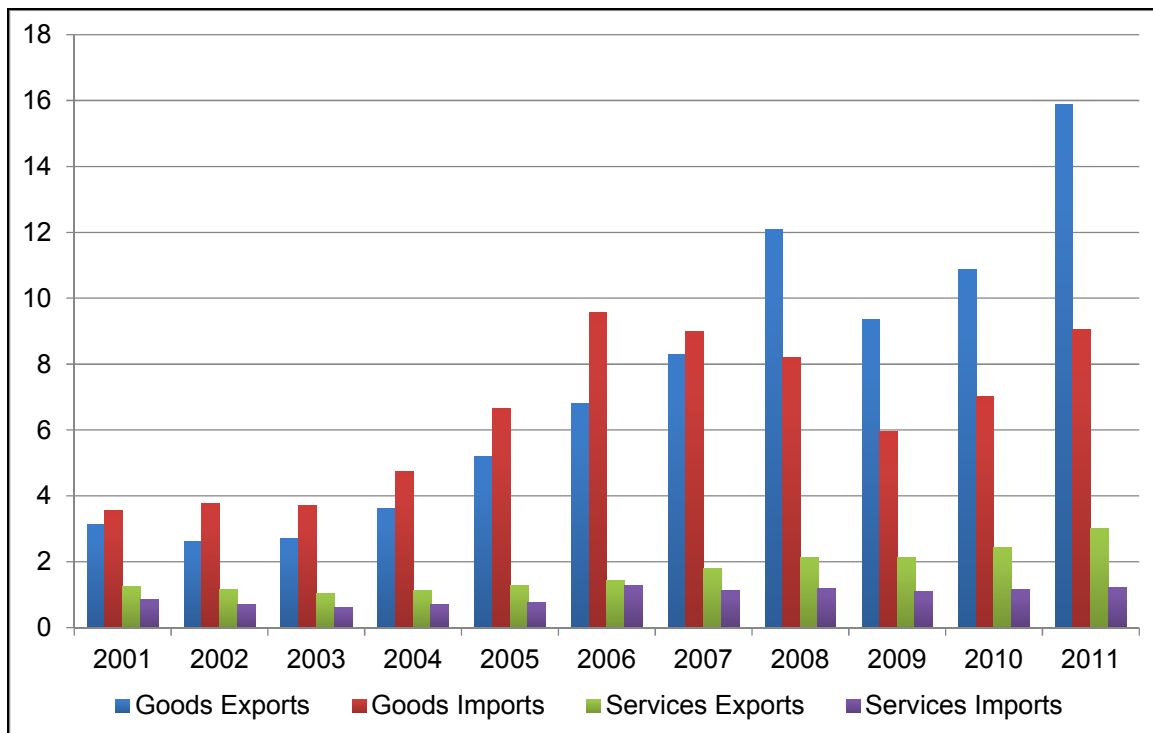
## Commercial Ties

### Trade Relations<sup>49</sup>

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.<sup>50</sup> Under the agreement, the United States and Chile immediately eliminated tariffs on 87% of bilateral trade, and agreed to remove any remaining industrial and agricultural tariffs by 2013 and 2016, respectively. 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%. The agreement thus provides each country with preferential access to the other's market.<sup>51</sup>

**Figure 4. U.S. Trade with Chile: 2001-2011**

(In billions of U.S. dollars)



**Source:** CRS presentation of International Trade Commission and Bureau of Economic Analysis data.

Total bilateral trade has nearly tripled to \$29.2 billion since the agreement entered into force in 2004, and the United States now enjoys a large trade surplus in both goods and services with Chile. Between 2004 and 2011, U.S. goods exports to Chile grew from \$3.6 billion to \$15.9 billion and U.S. services exports grew from \$1.1 billion to just over \$3 billion. U.S. imports from

<sup>49</sup> Brock R. Williams, CRS Analyst in International Trade and Finance, contributed to this section.

<sup>50</sup> For more information on the U.S.-Chile Free Trade Agreement, see: CRS Report RL31144, *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J. F. Hornbeck.

<sup>51</sup> U.S. Trade Representative (USTR), *2012 National Trade Estimate Report on Foreign Trade Barriers*, March 2012.



Chile have not increased to the same extent, as they fell between 2007 and 2009 during the U.S. recession and have yet to fully recover. Between 2004 and 2011, U.S. goods imports from Chile increased from \$4.7 billion to \$9.1 billion and services imports increased from \$688 million to \$1.2 billion (see **Figure 4** above). In 2011, the top U.S. goods exports to Chile were refined oil products, heavy machinery, motor vehicles, and electrical machinery while the top U.S. goods imports from Chile were copper, edible fruit, seafood, and wood. Travel and transportation and business, professional, and technical services were the top categories for both exports and imports in U.S.-Chile services trade.<sup>52</sup>

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.<sup>53</sup>

### Intellectual Property Rights Protection

The U.S. Trade Representative (USTR), U.S. business groups, and some Members of Congress have expressed concerns about Chile's protection of intellectual property rights. Chile has been on USTR's Priority Watch List since 2007 as a result of what USTR considers the country's insufficient protection efforts. According to USTR, Chile improved its intellectual property rights protection efforts in 2011 by ratifying several international conventions. Despite these actions, USTR asserts that Chile must still address a number of outstanding issues.<sup>54</sup> For example, U.S. business groups have called for increased protection for pharmaceutical patent holders and strengthened procedures for removing internet content that infringes on copyrights.<sup>55</sup> The Chilean government maintains that it complies with all of its intellectual property rights obligations. It also maintains that Chile is open to perfecting its legal framework for intellectual property protection, as demonstrated by the Piñera Administration's decision to submit new legislation to the Chilean Congress that would provide greater protections for pharmaceutical patents.<sup>56</sup> Nevertheless, some Members of Congress have called on USTR to initiate formal dispute settlement proceedings against Chile.<sup>57</sup> USTR intends to continue working with Chile to resolve outstanding issues, including through TPP negotiations.<sup>58</sup>

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<sup>52</sup> Goods trade data from U.S. International Trade Commission and services trade data from the U.S. Bureau of Economic Analysis.

<sup>53</sup> 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.

<sup>54</sup> USTR, *2012 Special 301 Report*, April 2012, [http://www.ustr.gov/sites/default/files/2012%20Special%20301%20Report\\_0.pdf](http://www.ustr.gov/sites/default/files/2012%20Special%20301%20Report_0.pdf).

<sup>55</sup> "IPR Groups Blast Chile for FTA Violations; Hatch Calls for Dispute Settlement," *Inside U.S. Trade*, February 24, 2012.

<sup>56</sup> "Patentes: Chile Responde Ante Acusación de Senador de EEUU," *La Nación* (Chile), February 28, 2012.

<sup>57</sup> See, for example, Letter from Orrin G. Hatch, Ranking Member of the Senate Committee on Finance, to Ambassador Ron Kirk, United States Trade Representative, February 16, 2012.

<sup>58</sup> USTR, April 2012, op.cit.

## Income Tax Treaty<sup>59</sup>

On February 4, 2010, U.S. Treasury Secretary Timothy Geithner and then Chilean Finance Minister Andrés Velasco signed the “Convention Between the Government of the United States of America and the Government of the Republic of Chile for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital.” The treaty is designed to encourage private sector growth in both countries by providing certainty on the tax treatment of investors and reducing tax-related barriers to investment. Among other provisions, the treaty would reduce source-country withholding taxes on certain cross-border payments of dividends, interest, and royalties; establish rules to determine when an enterprise or individual of one country is subject to tax on business activities in the other; enhance the mobility of labor by coordinating the tax aspects of the U.S. and Chilean pension systems; foster collaboration to resolve tax disputes and relieve double taxation; and ensure the full exchange between the U.S. and Chilean tax authorities of information for tax purposes. The treaty, which was submitted to the U.S. Senate for its advice and consent in May 2012 (Treaty Doc. 112-8), would be the first bilateral income tax treaty between the United States and Chile and only the second U.S. tax treaty with a South American country.<sup>60</sup>

## 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.<sup>61</sup> Although the country’s initiatives in the international arena have often focused on forging trade and investment linkages, Chile also has been an active participant in multilateral efforts to advance peace and stability in the 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.

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. 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,<sup>62</sup> and still has slightly over 500 soldiers and police on the ground as Haiti struggles to recover from the massive January 2010 earthquake.<sup>63</sup> In October 2012, Chile sponsored a disaster response initiative at the 10<sup>th</sup> Conference of the Defense Ministers of the Americas. The initiative, which was backed by the United States and adopted at the conference,

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<sup>59</sup> 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>.

<sup>60</sup> U.S. Department of the Treasury, “U.S., Chile Sign Income Tax Treaty,” Press Release, February 4, 2010.

<sup>61</sup> “Reforma de la Cancillería,” *El Mercurio*, June 1, 2012.

<sup>62</sup> Enzo Di Nocera García and Ricardo Benavente Cresta, “Chile: Responding to a Regional Crisis,” in *Capacity Building for Peacekeeping: The Case of Haiti*, eds. John T. Fishel and Andrés Sáenz, pp.66-90 (Dulles, VA: Potomac Books, 2007).

<sup>63</sup> United Nations, “UN Mission’s Summary Detailed by Country,” October 31, 2012.

creates a coordination mechanism to improve the region's collective response to humanitarian emergencies.<sup>64</sup>

Moreover, 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. 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.<sup>65</sup> 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.<sup>66</sup>

## 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.<sup>67</sup> 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.<sup>68</sup>

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.<sup>69</sup> 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.

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<sup>64</sup> 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.

<sup>65</sup> Noé Leiva, "EEUU, Chile y Colombia Asesoran a Honduras en Lucha Contra el Crimen," *Agence France Presse*, January 19, 2012.

<sup>66</sup> Cheryl Pellerin, April 2012, op.cit.

<sup>67</sup> "Chile Industry: Energy Security Still Elusive," *Economist Intelligence Unit*, April 21, 2011.

<sup>68</sup> Americas Society and Council of the Americas, *Toward Energy Security in Chile*, Working Paper of the Americas Society/Council of the Americas Energy Action Group, Washington, DC, February 2012, p.10, <http://www.as-coa.org/files/TowardEnergySecurityInChile.pdf>.

<sup>69</sup> 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**

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

**Source:** Compiled by CRS.

**Notes:**

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

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