



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

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March 2, 2010

Congressional Research Service

7-5700

www.crs.gov

R40126

Summary

Following a violent coup against democratically elected Marxist President Salvador Allende in 1973, Chile experienced 17 years of military rule under General Augusto Pinochet before reestablishing democratic rule in 1990. A center-left coalition of parties known as the Concertación has governed Chile over the two decades since the end of the dictatorship. In addition to addressing human rights violations from the Pinochet era, the coalition has enacted a number of constitutional changes designed to strengthen civilian democracy. Chile has made significant economic progress under the Concertación's free market economic policies and moderate social programs, which have produced notable economic growth and considerable reductions in poverty.

Current President Michelle Bachelet enjoys widespread popular support despite having faced a number of challenges since taking office in 2006. Throughout her term, Bachelet has been confronted by student demonstrations against the education system, increased militancy by indigenous groups, and opposition in the legislature. The global financial crisis is President Bachelet's latest challenge, though the government's timely decision to save recent fiscal surpluses has allowed Chile to pursue counter-cyclical policies and minimize the effects of the economic downturn.

On January 17, 2010, Sebastián Piñera of the center-right Alianza coalition was elected president in a second-round runoff vote, defeating former President Eduardo Frei (1994-2000) of the Concertación. Piñera's election was the first for the Chilean right since 1958, and will bring an end to 20 years of Concertación governance. Throughout his campaign, Piñera pledged to largely maintain Chile's social safety net while implementing policies designed to boost the country's economic growth. He will need to work with the Concertación to enact his policy agenda, however, as his coalition will not enjoy absolute majorities in either house of Congress. Piñera is scheduled to take office on March 11, 2010.

Chile has enjoyed close relations with the United States since its transition back to democracy. Both countries have emphasized similar priorities in the region, designed to strengthen democracy, improve human rights, and advance free trade. Chile and the United States have also maintained strong commercial ties, which have become more extensive since a bilateral free trade agreement between them entered into force in 2004. Additionally, U.S. officials have expressed appreciation for Chile's leadership and moderating influence in a region increasingly characterized by political unrest and anti-American populism.

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

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February 27, 2010, Earthquake

Current Conditions

At 3:34 AM local time on February 27, 2010, an earthquake of magnitude 8.8 struck off the coast of central Chile. Centered 70 miles northeast of Chile's second-largest city, Concepción, at a depth of 22 miles, the earthquake was the second-largest ever recorded in Chile and the fifth-largest recorded worldwide since 1900.¹ Over 100 aftershocks of magnitude 5.0 or greater were recorded following the initial earthquake.²

The earthquake and subsequent tsunami, which struck Chile's coast roughly 20 minutes after the earthquake and moved 2,000 feet onto shore in some places, have devastated portions of the country.³ Preliminary reports indicate that 2 million people have been affected, with some 1.5 million homes badly damaged or destroyed and 795 people confirmed dead. The Chilean government has declared six regions catastrophe zones: Valparaiso, Metropolitana, Libertador O'Higgins, Araucania, Biobío, and Maule (see **Figure A-1** for a map of Chile). The Maule region was by far the hardest hit, however, accounting for over 500 of the dead. Moreover, the humanitarian situation is most desperate in Maule, where the majority of the population has lost access to potable water and electricity and hospitals are severely damaged.⁴

Infrastructure across the country has been affected with roads destroyed, bridges and power lines down, and some ports forced to close. Some very early estimates suggest the economic damage could be between \$15 and \$30 billion dollars, the equivalent of 10%-20% of Chile's gross domestic product (GDP). The infrastructure damage could also slow Chile's economy in the near term, jeopardizing the country's nascent recovery from the global financial crisis. Many believe the economic and human toll would have been much worse if not for Chile's stringent building codes and past experience with earthquakes.⁵

Chilean Government Response

Since the earthquake, the Chilean government has rushed to provide relief to the victims. In addition to dispatching search and rescue teams and undertaking preliminary needs assessments, the government has worked to reestablish basic services and has distributed food, blankets, and medical equipment to the affected regions. The Chilean National Emergency Office (ONEMI) is coordinating the relief effort. After conducting its initial assessments, the Chilean government has

¹ 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.

² For more information on earthquakes see, CRS Report RL33861, *Earthquakes: Risk, Detection, Warning, and Research*, by Peter Folger. U.S. Agency for International Development, "Chile – Earthquake," March 1, 2010.

³ "Chile earthquake death toll tops 700," *Latin News Daily*, March 1, 2010. "Maps of the Chile Earthquake," *New York Times*, March 1, 2010.

⁴ United Nations Office for the Coordination of Humanitarian Affairs, "Chile Earthquake: Situation Report #2," March 1, 2010; Gobierno de Chile, "Situación terremoto zona centro sur (Actualiza reporte)," March 1, 2010; "Chile quake toll rises to 795: Bachelet," *Agence France Presse*, March 2, 2010.

⁵ "Chile: Earthquake could boost medium-term growth," *Oxford Analytica*, March 1, 2010.

appealed to the international community for aid. Among other items, the Chilean government has requested field hospitals, electric generators, satellite communications equipment, water purification systems, and mobile bridges. Chilean officials have met with U.N. agencies to establish a clear plan for international assistance, and the United States and other nations have begun to provide Chile with the aid it has requested.⁶ Many aid agencies remain on standby, pending further instructions from the government.

President Michelle Bachelet, who has called the aftermath of the earthquake “an emergency without parallel,” issued a State of Catastrophe declaration for the regions of Maule and Biobío on February 28, 2010. The declaration, which was issued following increasing reports of riots and looting, restricts civil rights and liberties and places the regions under military control in order to maintain order and avoid social conflict. This is the first time that a State of Catastrophe measure has been employed since the return to democracy in 1990. President Bachelet has deployed some 14,000 military troops to the two regions to restore order. The military commanders of the regions, in consultation with the Minister of the Interior and the Minister of Defense, declared a curfew for the city of Concepción. The curfew was extended to three cities in the Maule region—Talca, Cauquenes, and Constitución—on March 1. Confrontations between security forces and the public reportedly have led to at least 160 arrests and one death.⁷

The Chilean government’s response to the earthquake is complicated by the fact that President Bachelet will be leaving office on March 11, 2010. Incoming President Sebastián Piñera is a member of the opposition coalition, and was expected to replace all of Bachelet’s cabinet ministers and political appointees, including many of those now overseeing relief operations. Recognizing the need for continuity, Piñera reportedly has indicated that he will retain the head of ONEMI and has asked the governors of the six regions declared catastrophe zones to stay on temporarily.⁸ Additionally, President Bachelet has held meetings with President-elect Piñera in order to ease the transition.

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 Democratic Party (PDC) in 1964. Frei’s government took majority ownership of the copper

⁶ United Nations Office for the Coordination of Humanitarian Affairs, “Chile Earthquake: Situation Report #2,” March 1, 2010; Gobierno de Chile, “Situación terremoto zona centro sur (Actualiza reporte),” March 1, 2010; Hillary Rodham Clinton, “Remarks With Chilean President Michelle Bachelet,” *U.S. Department of State*, March 2, 2010.

⁷ “Bachelet decreta primer Estado de Catástrofe desde terremoto de 1985,” *El Mercurio* (Chile), March 1, 2010; “Amplían toque de queda en zonas más afectadas por terremoto en Chile,” *Agence France Presse*, March 1, 2010; “160 detained, one killed during curfew in quake-struck Chile,” *Agence France Presse*, March 1, 2010; “Troops in Chile quake areas to number 14,000: Bachelet,” *Agence France Presse*, March 2, 2010.

⁸ In Chile, regional governors are appointed by the president. “Chile: Earthquake could boost medium-term growth,” *Oxford Analytica*, March 1, 2010.

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.⁹

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 27,000.¹⁰ 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 widespread protests.¹¹ 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 1989.¹²

⁹ *Chile: A Country Study*, ed. Rex A. Hudson, (Washington, D.C.: Library of Congress, 1994).

¹⁰ Report of the National Commission for Truth and Reconciliation, February 1991; Report of the National Commission on Political Imprisonment and Torture, November 2004.

¹¹ 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.

¹² 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.

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,” or 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 Radical Party (PR), Social Democratic Party (PSD) and Party for Democracy (PPD)—which was created by Socialists in 1987 to circumvent the Pinochet regime’s ban on Marxist parties. The center-right “Democracy and Progress” coalition included the center-right National Renovation (RN) and the rightist Independent Democratic Union (UDI). A third coalition, the “Broad Party of the Socialist Left,” was composed of leftist parties unwilling to participate in the Concertación, including the Communist Party (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.¹³

The major political coalitions have changed little since 1989. The Concertación is now composed of the PDC, the PPD, the Socialist Party (PS), which officially began contesting elections as a part of the Concertación in 1993, and the Radical Social Democratic Party (PRSD), which was created through a 1994 merger of the PR and PSD. Although the center-right coalition continues to be composed of RN and UDI, it has undergone a number of name changes, most recently becoming the “Alliance for Chile,” or Alianza. The leftist coalition that includes the PC is now called “Together We Can Do More” (JPM).

The Concertación has governed Chile continuously since the transition to democracy. In addition to Alwyn’s election, Eduardo Frei Ruiz-Tagle of the PDC was elected president in 1993, followed by Ricardo Lagos of the PPD in 1999, and Michelle Bachelet of the PS in 2006. Concertación governments have pushed through a number of constitutional reforms that strengthened civilian control over the military, eliminated the institution of unelected senators, and reduced presidential terms from six years to four. They have been 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.¹⁴

All of the Concertación administrations have generally maintained the open economic policies of the Pinochet regime. They have promoted export-led development through their pursuit of free trade agreements and encouragement of new export sectors such as forestry products, salmon, fresh fruit, wine, and methanol. Chile has over 50 bilateral or regional trade agreements, more than any other country, and has established a diverse economy much less reliant on its traditional copper exports.¹⁵ Chile’s economy has grown by an average of 5.1% per year during the two decades of Concertación rule, and the World Bank now classifies Chile as an upper middle income developing country based on its 2008 per capita income of \$9,400.¹⁶ On January 11,

¹³ 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.

¹⁴ Peter M. Siavelis, “Electoral System, Coalitional Disintegration, and the Future of Chile’s Concertación,” *Latin American Research Review*, Volume 40 (1), 2005.

¹⁵ Central Intelligence Agency, “World Factbook,” September 2008.

¹⁶ World Bank, “World Development Report,” 2010.

2010, Chile became the first South American nation to join the Organization for Economic Cooperation and Development (OECD).¹⁷

Concertación administrations have also implemented some redistribution policies designed to spread the benefits of Chile's economic growth. Although income distribution remains virtually unchanged since the dictatorship, economic growth and the social programs of the Concertación have been successful in reducing poverty. The percentage of Chileans living in poverty fell from 38.8% in 1989 to 13.7% in 2009.¹⁸ Chile is also 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.¹⁹

Recent Political and Economic Developments

Bachelet Administration

Michelle Bachelet, a Socialist member of the Concertación, became the first female president of Chile following her January 2006 election. Bachelet defeated the Alianza's Sebastián Piñera 53.5% to 46.5% in a second-round runoff after failing to secure an absolute majority in the December 2005 first-round election. In concurrent legislative elections, the Concertación won majorities in both legislative houses, securing 65 of the 120 seats in the Chamber of Deputies and 20 of the 38 seats in the Senate.²⁰ As a result of the 2005 constitutional reform that eliminated the institution of unelected senators, the Concertación established true majorities in both legislative houses for the first time.

Despite her historic victory and the initial strong legislative position of the Concertación, Bachelet has struggled during much of her term. Education protests and militant indigenous groups have challenged the Bachelet Administration since its inception. Likewise, a series of corruption scandals, party infighting, and defections from the Concertación allowed the opposition Alianza to gain control of both houses of Congress in March 2009. While the global financial crisis has provided President Bachelet with her latest challenge, her administration's timely decision to save recent fiscal surpluses has allowed Chile to pursue counter-cyclical policies and minimize the effects of the economic downturn. Bachelet's popularity has soared as a result of her handling of the financial crisis, with her approval rating rising from 46% in late 2008 to a record high of 83% in January 2010.²¹ Since presidents are ineligible to serve consecutive terms in Chile, President Bachelet was not a candidate in the most recent presidential election. She is scheduled to leave office on March 11, 2010, following the inauguration of Sebastián Piñera (see "2009 Presidential and Legislative Elections").

¹⁷ Daniela Estrada, "Development: Chile Pins Its Hopes On The OECD," *Inter Press Service*, January 12, 2010.

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

¹⁹ "Chile: Leading the Millennium Objectives League," *Latin American Brazil & Southern Cone Report*, September 2008.

²⁰ "Chile: Country Report," *Economist Intelligence Unit*, January 2006; February 2006.

²¹ "Chilean President's Rating Rises Despite Vote," *Reuters*, February 1, 2010.

Education Demonstrations

Since the transition to democracy, many Chileans have called on the government to address inequality in the education system. Activists contend that Pinochet-era privatization policies—which allow private schools to access state subsidies while selectively accepting students—have created a system of elitism and segregation that discriminates against low-income Chileans.²² Despite successive Concertación governments' lack of action, students had high hopes following Bachelet's election since she had based her campaign around themes of social justice. When President Bachelet neglected to even mention education during a state of the nation speech in May 2006, Chilean students organized the largest social demonstrations in the country since the return to democracy.

With nearly 75% 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.²³ The resulting street violence and near complete shutdown of Chile's education system forced President Bachelet to shuffle her cabinet, replacing the education, economy, and interior ministers. President Bachelet also increased education spending and created a commission to consider education reform. In August 2009, the Bachelet Administration put forward a new law regulating the education system known as the General Education Law (LGE). Among other provisions, the LGE would end selection for students up to the ninth grade. Student groups and teachers unions have protested the new law, maintaining that it does not do enough to address education inequality.²⁴

Mapuche Activism

Confrontation with the Mapuche population has been a persistent challenge for the Bachelet Administration. The Mapuche are Chile's largest indigenous group and comprise approximately 4% of Chile's 16.6 million citizens.²⁵ They are mainly located in the central and southern regions of Biobío, Araucanía, Los Ríos, and Los Lagos (see **Appendix A** for a map of Chile). The Mapuche—who experience significantly higher poverty levels, lower education levels, and poorer living standards than the general Chilean population—have long sought official recognition as a people, protection of indigenous rights, and restoration of full ownership of their ancestral lands. Mapuche groups have pursued these ends through a variety of means. Some pushed for the ratification of convention 169 of the International Labour Organization (ILO) on indigenous rights, which President Bachelet promulgated in September 2008.²⁶ 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.²⁷

²² Andrea Arango, "The Failings of Chile's Education System: Institutionalized Inequality and a Preference for the Affluent," *Council on Hemispheric Affairs*, July 30, 2008; "Chile: Pinochet-era education law finally replaced," *Latin News Weekly Report*, August 20, 2009.

²³ Monte Reel, "Chile's Student Activists: A Course in Democracy," *Washington Post*, November 25, 2006.

²⁴ "Chile: Pinochet-era Education Law Finally Replaced," *Latin News Weekly Report*, August 20, 2009.

²⁵ Central Intelligence Agency, "World Factbook," November 2009.

²⁶ "Bachelet Makes Gesture to Chile's Indigenous Groups," *Latin News Weekly Report*, September 25, 2008.

²⁷ "Chile: Bachelet Reacts to Challenge by Radical Activists," *Latin News Security & Strategic Review*, January 2008.

Successive Concertación governments have pledged to rectify Chile's relationship with its indigenous population, transferring some 650,000 hectares²⁸ of land to Mapuche communities since 1994.²⁹ Nonetheless, Mapuche communities maintain that land transfers have been slow and represent only a fraction of their ancestral territory.³⁰ As a result of its dissatisfaction with the Bachelet Administration's efforts on indigenous issues, CAM has steadily increased its militant actions in recent years, going so far as to declare war on Chile in October 2009.³¹ The Chilean government has responded by capturing and imprisoning many of CAM's leaders, including Llaitul Carillanca, CAM's alleged military commander.³²

The Bachelet Administration has been criticized by a number of observers across the political spectrum for its actions. Conservative politicians and media sources have accused the government of insufficient action, and have alleged connections between CAM and foreign terrorist organizations like the Revolutionary Armed Forces of Colombia (FARC) and Basque Homeland and Freedom (ETA). The Bachelet Administration insists that there is no credible evidence of operational links between these groups, and CAM denies having any foreign ties.³³ Mapuche groups and human rights organizations have also criticized the Bachelet Administration, accusing Chile's *carabineros* (police force) of arbitrary arrests, torture, and beatings of Mapuche people. They also condemn the government's decision to prosecute Mapuche activists under a Pinochet-era anti-terrorism law that allows prosecutors to withhold evidence from the defense, 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.³⁴ The Bachelet Administration maintains that while the government does not consider Mapuche organizations to be terrorist groups, the terrorism law is appropriate for certain actions.³⁵

Loss of Legislative Control

President Bachelet's ability to govern has been hampered by Concertación struggles in the legislature since the 2005 election. A number of corruption scandals involving missing public funds and falsified election campaign financial reports hit the coalition in late 2006. These scandals led to the Concertación losing two deputies to corruption charges, one from the PPD and one from the PS. Soon after, the PPD expelled one of the party's founders, Deputy Jorge Schaulsohn, for accusing the Concertación of having a culture of corruption. This expulsion led to two other high-profile members of the party—Deputy Javier Etcheberry and Senator Fernando Flores—leaving the party and the Concertación. Senator Flores and Deputy Schaulsohn have since created a new party, Chile Primero.³⁶

²⁸ A hectare is equal to about 2.5 acres or 0.004 square miles.

²⁹ Daniela Estrada, "Chile: Mapuche Detainees Say They Were Framed," *Inter Press Service*, November 20, 2009.

³⁰ Raúl Zibechi, "Toward Reconstruction of the Mapuche Nation," *Center for International Policy*, November 13, 2009.

³¹ "Conflicto Mapuche Preocupa Pero No Hay Una 'Guerra Civil', Según Gobierno," *EFE News Service*, October 21, 2009.

³² "Chile Arrests Mapuche Militant," *Latin News Daily*, July 17, 2009.

³³ "Chile: Bachelet Reacts to Challenge by Radical Activists," *Latin News Security & Strategic Review*, January 2008.

³⁴ 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.

³⁵ Daniela Estrada, "Chile: Mapuche Detainees Say They Were Framed," *Inter Press Service*, November 20, 2009.

³⁶ "Chile: Concertación Faces Schism," *Latin News Weekly Report*, May 10, 2007.

In November 2007, President Bachelet requested a new public subsidy for the failing Transantiago transportation system. Senator Adolfo Zaldívar of the PDC joined with Senator Flores, and the senators of the Alianza to defeat the proposal. The PDC expelled Senator Zaldívar from the party for his lack of party discipline on an issue of importance to the ruling coalition, leading five deputies from Zaldívar's faction of the PDC to leave the party and the Concertación.³⁷

After all of the corruption charges, expulsions, and resignations, the Concertación was left with only 56 of the 120 seats in the Chamber of Deputies and 18 of the 38 seats in the Senate.³⁸ The Alianza reached an agreement with the unaffiliated members of the Senate to make Senator Zaldívar the Senate President in 2008 in exchange for making a member of the Alianza the Senate President in 2009. The Chamber of Deputies decided to allow the Concertación to remain in control of the Presidency in 2008 but hand control to the Alianza in 2009.³⁹ In March 2009, Jovino Novoa—a member of the UDI and a controversial figure who served as general sub-secretary in the Pinochet government from 1979 to 1982—was elected president of the Senate, and Rodrigo Alvarez, also of the UDI, was elected president of the Chamber of Deputies. The Alianza now controls both houses of Congress for the first time since the transition to democracy.

Global Financial Crisis

President Bachelet's most recent challenge has been the global financial crisis, which has taken a considerable toll on Chile's economy. The Santiago Stock Exchange (IPSA) suffered a 22% decline in 2008.⁴⁰ Likewise, the price of copper—which provides 40% of the government's revenues—fell below \$2 per pound for the first time in three years in October 2008, leading to a 23% drop in government copper revenues.⁴¹ Moreover, real gross domestic product (GDP) growth slowed from 5.1% in 2007 to just 3.2% in 2008.⁴²

The Chilean government has taken a number of steps to counter the effects of the economic downturn. In January 2009, President Bachelet announced a \$4 billion (2.8% of GDP) economic stimulus package. Among other provisions, the plan 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.⁴³ The Bachelet Administration has financed its counter-cyclical spending by drawing on two sovereign wealth funds in which the Chilean government had invested \$20.3 billion (12% of GDP) from fiscal surpluses generated by high copper prices prior to the financial crisis. The independent Chilean Central Bank has also cut the benchmark interest rate by 7.75 points since early 2009 to a record low of 0.5%.⁴⁴

³⁷ "Chile: DC Crisis Sets Scene for 2009 Contest," *Latin American Brazil & Southern Cone Report*, December 2007.

³⁸ "Defections Leave Chile's Ruling Coalition in Precarious Situation," *Latin American Brazil & Southern Cone Report*, January 2008.

³⁹ "Chile: Zaldívar Assumes Presidency of Senate," *Latin News Weekly Report*, March 19, 2008.

⁴⁰ James Attwood, "Chile's Ipsa Stock Index Climbs to Record as Copper Advances," *Bloomberg*, December 21, 2009.

⁴¹ "Ministro Chileno: Presupuesto Fiscal Sólido Pese a Baja Cobre," *Dow Jones Newswires*, October 22, 2008; "Country Report: Chile," *Economist Intelligence Unit*, March 2009.

⁴² "Chile: Country Report," *Economist Intelligence Unit*, May 2009.

⁴³ Ibid; "Chile's Economy: Stimulating," *The Economist*, February 19, 2009.

⁴⁴ "Chile: New Benchmark Rate Cut Leaves No Room for More," *Oxford Analytica*, July 10, 2009.

The Bachelet Administration's actions appear to have been somewhat successful. Chile emerged from recession in the third quarter of 2009, with quarter-on-quarter GDP growth of 1.1% after four consecutive quarters of economic contraction.⁴⁵ By the end of 2009, the IPSA index had rallied 48% and unemployment had returned to single digits. Although independent economists believe the Chilean economy suffered a 1% contraction in 2009, they now expect the country to grow by 4.2% in 2010.⁴⁶

2009 Presidential and Legislative Elections

Results

On January 17, 2010, businessman Sebastián Piñera of the center-right Alianza coalition was elected president of Chile in a second-round runoff. Piñera defeated former President Eduardo Frei (1994-2000) of the center-left Concertación, 51.8 to 48.1.⁴⁷ 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.⁴⁸ Although Arrate immediately called on his supporters to back Frei, Enríquez-Ominami did not endorse Frei until shortly before the second-round vote. Piñera's electoral victory is the first for the Chilean right since 1958, and will bring an end to 20 years of Concertación governance.

Despite the Alianza victory, most analysts do not view the vote as a rejection of the moderate social democratic policies of the Concertación. They note that Bachelet enjoyed an 83% approval rating at the time of the election.⁴⁹ They also note that Piñera projected a moderate image throughout the campaign. In addition to emphasizing his 1988 vote against the continuation of the Pinochet regime and running under the banner of the "Coalition for Change"—which was supported by some Concertación dissidents in addition to the parties of the Alianza (RN and UDI)—Piñera pledged to generally continue the policies of the Concertación and even extend Chile's social protection network to the middle class.⁵⁰ These analysts contend that the election result instead reflected a desire for new leadership after two decades of governance by a coalition that had undergone little internal renovation.⁵¹

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. As a result of the elections, the Alianza will hold 16 of the 38 seats in the Senate and 58 of the 120 seats in the Chamber of Deputies. The Concertación and the leftist JPM coalition signed an electoral pact prior to the

⁴⁵ "Chile Economy: Quick View—Out of Recession," *Economist Intelligence Unit*, November 20, 2009.

⁴⁶ James Attwood, "Chile's Ipsi Stock Index Climbs to Record as Copper Advances," *Bloomberg*, December 21, 2009; "Chile: Country Report," *Economist Intelligence Unit*, January 2010.

⁴⁷ "Chile: Piñera Wins the Second Round," *Latin American Brazil & Southern Cone Report*, February 2010.

⁴⁸ "Frei Earns Right to Face Rampant Piñera in January Run-off in Chile," *Latin American Weekly Report*, December 17, 2009.

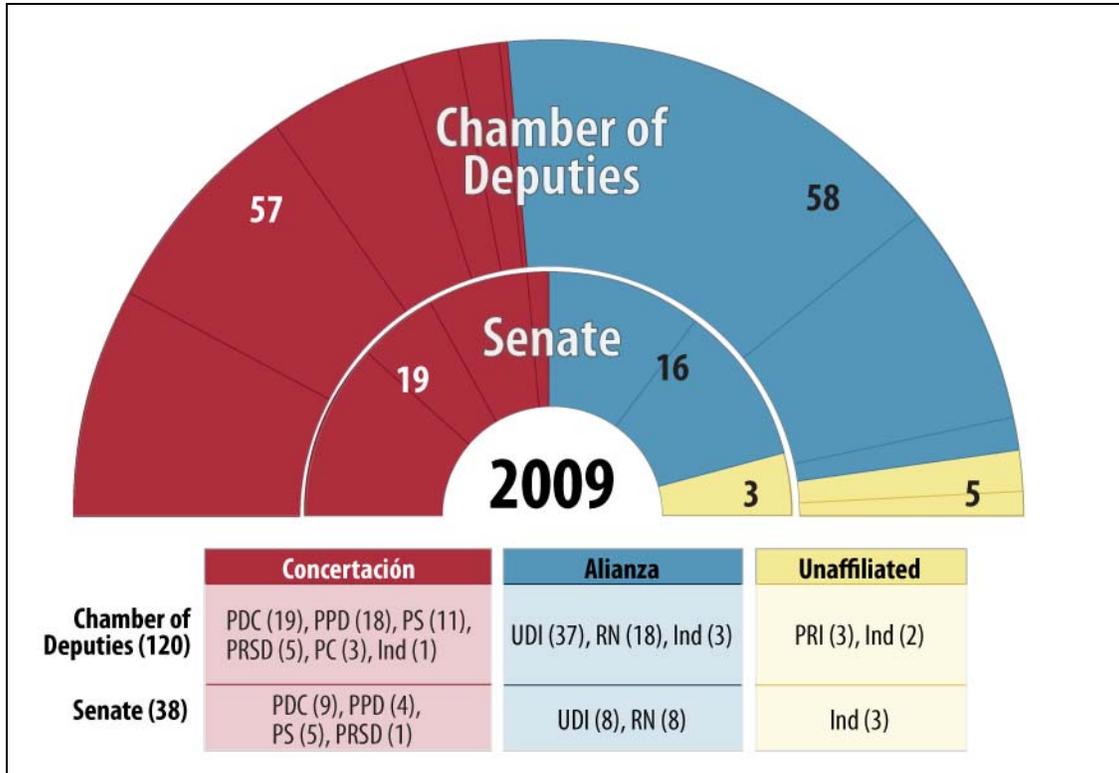
⁴⁹ "Chilean President's Rating Rises Despite Vote," *Reuters*, February 1, 2010.

⁵⁰ "The Strange Chill in Chile," *The Economist*, September 17, 2009; "Chile: Piñera's Plan," *Latin News Weekly Report*, December 3, 2009.

⁵¹ "Tendencias Que Muestra La Reciente Elección," *El Mercurio* (Chile), January 19, 2010;

elections; together, they will hold 19 seats in the Senate and 57 seats in the Chamber of Deputies.⁵² The Communists will be 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 will be held by the PC. The remaining three Senate seats and five Chamber of Deputies seats will be held by independents and members of the Regionalist Party of Independents (PRI), who are unaffiliated with either of the major coalitions.

Figure I. Coalition and Party Affiliation in Chile’s Senate and Chamber of Deputies
Seat Distribution Following the 2009 Elections



Source: Created by CRS, based on information from “Chile: Country Report,” *Economist Intelligence Unit*, January 2010.

Notes: There are 38 seats in the Senate and 120 seats in the Chamber of Deputies. See **Table B-1** for political party acronyms.

Prospects for the Piñera Administration

In addition to maintaining the popular social welfare policies of the Bachelet Administration, Piñera has pledged to boost Chile’s annual economic growth to 6% and create 1 million new jobs during his four-year term. He intends to do so by attracting increased investment and running government more efficiently.⁵³ Policy-wise, Piñera has suggested offering tax incentives to reinvest profits and creating a National Office of Innovation and Entrepreneurship. He has also

⁵² “Chile: Country Report,” *Economist Intelligence Unit*, January 2010.

⁵³ Sebastian Boyd & James Attwood, “Chile’s Piñera ‘Buries’ Pinochet in Presidential Win,” *Bloomberg*, January 18, 2010.

suggested privatizing a portion of Codelco—the state-owned copper company—and amending the labor law to reduce the cost of firing workers.⁵⁴

Some analysts believe that Chile's tradition of political cooperation should enable Piñera to implement his policy agenda; however, he could face several challenges.⁵⁵ Piñera's coalition lacks a majority in both houses of Congress and will need to win the support of unaffiliated or Concertación Members of Congress in order to pass legislation (see **Figure 1**). Although some members of the Concertación—especially within the centrist PDC—have indicated their willingness to work with Piñera,⁵⁶ the leadership of the coalition has pledged to present a “critical opposition” and “defend the work of the Concertación and the labor and social victories that have been achieved.”⁵⁷ Piñera may also struggle to keep his own coalition together. Although he hails from the more moderate sector of the Alianza—the RN—and pledged considerable continuity with Concertación policies, the conservative UDI wields considerable legislative power and may push for radical changes. The Chilean right has already criticized Piñera for naming a cabinet that includes 14 independents and just four members of the UDI.⁵⁸ Moreover, some observers believe that Piñera's independent-dominated cabinet, which is composed primarily of individuals with private-sector backgrounds, may lack the political experience necessary to implement the new administration's agenda.⁵⁹

Human Rights

In the immediate aftermath of the transition to civilian democratic rule, little was done to address Pinochet-era human rights violations. Recognizing the still delicate status of democracy, the first Concertación administration allowed a 1978 amnesty law to remain in place, but established 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.

Significant discussions and prosecutions of human rights abuses did not occur until 1998, when Pinochet stepped down as the head of the Armed Forces and was subsequently detained in the United Kingdom on an extradition request from Spain.⁶⁰ In 2003, the Lagos Administration established a National Commission on Political Imprisonment and Torture (Valech Commission), which awarded reparations to those who were tortured under the Pinochet regime. Although the Chilean judiciary stripped Pinochet of immunity so that he could stand trial for human rights violations committed under his government, some charges were dropped as a result of his failing health, and he died of complications from a heart attack in 2006 while still under indictment.⁶¹

⁵⁴ Matt Moffett, “Chile's New Leader Faces Economic Hurdles,” *Wall Street Journal*, January 18, 2010.

⁵⁵ “Chile Elections: Conservative Takes Helm,” *Economist Intelligence Unit*, January 18, 2010.

⁵⁶ Alejandro Trujillo & Patricio Yévenes, “DC Inicia Tratativas para que Concertación Pacte Con Alianza la Presidencia del Senado,” *El Mercurio* (Chile), January 26, 2010.

⁵⁷ M. Herrera, J. González & Constanza Caldera, “Concertación Anuncia ‘Oposición Crítica’ a Piñera y Defensa de Legado de la Coalición,” *El Mercurio* (Chile), January 24, 2010.

⁵⁸ “Chile Right Fidgets About Piñera's Cabinet,” *Latin News Daily*, February 16, 2010.

⁵⁹ “Chile: Homogenous Cabinet Lacks Political Experience,” *Oxford Analytica*, February 15, 2010.

⁶⁰ Priscilla B. Hayner, *Unspeakable Truths: Facing the Challenge of Truth Commissions* (New York: Routledge, 2002).

⁶¹ Jack Epstein, “Augusto Pinochet: 1915-2006/Chilean Leader's Regime Left Thousands of ‘Disappeared’,” *San* (continued...)

Prosecutions for dictatorship-era human rights violations have accelerated in recent years. Former intelligence chief, retired General Manuel Contreras, was sentenced to two life prison terms in July 2008 for organizing the 1974 double assassination of General Carlos Prats and his wife in Buenos Aires, Argentina. Contreras was already imprisoned as a result of convictions stemming from other dictatorship-era crimes, including the 1976 assassination of former Ambassador to the United States Orlando Letelier and his American associate, Ronni Moffitt, in Washington, DC.⁶² Sergio Arellano Stark, the commander of the so-called “Caravan of Death” that executed 80 political prisoners of the dictatorship shortly after the coup in 1973, was sentenced to 6 years in prison in October 2008.⁶³ In the country’s largest roundup of alleged human rights violators, arrest warrants for 129 former military personnel were issued in September 2009.⁶⁴ In December 2009, six Chileans were arrested for the alleged 1982 assassination of former President Eduardo Frei Montalva (1964-1970). Frei’s death was initially blamed on complications from routine stomach surgery, but Chilean authorities now believe he was poisoned for his prominent opposition to the Pinochet regime.⁶⁵ In February 2010, the Bachelet Administration announced that it would reopen the Rettig and Valech Commissions for six months in order to investigate cases of human rights abuses that were not considered during the commissions’ initial mandates.⁶⁶ While family members of the disappeared and other human rights advocates have celebrated the increasing number of prosecutions, they continue to push for greater transparency concerning the actions of the dictatorship and for those responsible to be brought to justice.⁶⁷

Energy Challenges

As a result of limited domestic energy resources and increasing demand due to its strong economic growth, Chile has become heavily dependent upon foreign energy imports. Over the past decade, Chilean demand for electricity grew at an average rate of 6% per year.⁶⁸ 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.⁶⁹ While Chile has tried to secure sufficient energy resources through its open economic policies, its supply has been threatened by regional developments. In 2004, Argentina cut its natural gas exports to Chile as a result of a domestic energy crisis. Since then, Argentine

(...continued)

Francisco Chronicle, December 11, 2006.

⁶² Helen Hughes & Jack Chang, “Ex-Chilean Intelligence Chief Gets 2 Life Sentences,” *Miami Herald*, July 1, 2008.

⁶³ “Condenan a General Chileno por Crímenes de ‘Caravana de la Muerte,’” *Agencia Mexicana de Noticias*, October 15, 2008.

⁶⁴ “Chile Arrests 25 Ex-Military On Rights Abuse Charges,” *Agence France Presse*, September 2, 2009.

⁶⁵ Juan Forero, “In Chile, Case Resurrects Ghosts of Bloody Pinochet Dictatorship,” *Washington Post*, December 9, 2009.

⁶⁶ “Chile Restarts Human Rights Investigations,” *Latin News Daily*, February 9, 2010.

⁶⁷ “Familiars de Víctimas de Pinochet Mantienen Viva Demanda de Justicia,” *Agencia Mexicana de Noticias*, September 5, 2008.

⁶⁸ “Chile: Medium-Term Electricity Supply Looks Secure,” *Oxford Analytica*, April 23, 2009.

⁶⁹ 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).

natural gas exports to Chile have fluctuated considerably, nearly leading to electricity rationing in early 2008.⁷⁰

Argentine export cutbacks have adversely impacted Chilean economic activity and have forced Chile to reconsider its energy options. Chile is now focusing on diversifying both its energy suppliers and supplies. The Chilean government and private firms began developing liquefied natural gas (LNG) terminals in 2006. The first LNG terminal began operating in 2009 and another is expected to come online in 2010.⁷¹ Given the feasibility of establishing power plants close to ports and the diversity of countries that export coal, Chile has 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 also receiving increased attention. Chile has begun construction on a number of new hydroelectric plants, is studying geothermal and tidal energy potential, and is installing wind farms. A 2008 law requires energy providers to generate 5% of their electricity from renewable sources by 2010 and 10% by 2024.⁷²

Chile-U.S. Relations

The United States and Chile have enjoyed close 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. Both countries have demonstrated these commitments by supporting the Inter-American Democratic Charter, signing a bilateral free trade agreement, and supporting the proposed Free Trade Area of the Americas (FTAA).⁷³ Relations have grown even closer during the Obama Administration. Vice President Biden visited Chile in March 2009 during his first trip to Latin America, and President Bachelet met with President Obama in Washington, DC, in June 2009. Bachelet and Obama reportedly discussed cooperation on climate change, renewable energy, and economic development, and signed an agreement to increase U.S. support of renewable energy programs in Chile. Bachelet has described her Administration's close relations with the Obama Administration as "one of the most important events in U.S.-Chile relations in recent times."⁷⁴

U.S. Assistance

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 1963.⁷⁵ Assistance declined following the election of Allende and has generally remained low since then, increasing briefly during the early

⁷⁰ "Chile: Medium-Term Electricity Supply Looks Secure," *Oxford Analytica*, April 23, 2009.

⁷¹ Nicole Spencer & Siobahn Sheils, "Chile Update: Energy Policy," *Americas Society/Council of the Americas*, September 9, 2009.

⁷² "Chile: Medium-Term Electricity Supply Looks Secure," *Oxford Analytica*, April 23, 2009.

⁷³ For more information on the FTAA, see: CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J. F. Hornbeck.

⁷⁴ "Washington Watch," *Latin News Daily*, June 25, 2009.

⁷⁵ This is the equivalent of \$1.6 billion in constant 2006 dollars; U.S. Overseas Loans and Grants (Greenbook) 2006.

years of the Pinochet dictatorship and again following the transition to democracy. Chile received \$1.4 million in U.S. assistance in FY2008, an estimated \$1.2 million in FY2009, and will receive \$2.3 million in FY2010 under the Obama Administration's request.⁷⁶ The majority of U.S. assistance to Chile is focused on modernizing the Chilean military by improving its capacity to act as a peacekeeping force and its ability to conduct joint operations with the U.S. military. U.S. assistance also goes to programs that deter weapons of mass destruction, improve civilian control over the military, and upgrade military equipment.

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.⁷⁷ 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 2008, the United States was Chile's top source of imports and the second-largest destination for Chile's exports, and in 2009, Chile was the 24th-largest export market for U.S. goods.⁷⁸

Regional Leadership

Chile has been an active participant in multilateral engagement in the hemisphere, often serving as a moderating influence in the region. Since 2004, Chile has worked with the United States as part of the multinational peacekeeping force in Haiti, first as a part of the Multinational Interim Force-Haiti (MIFH) and subsequently as a part of the U.N. Stabilization Mission in Haiti (MINUSTAH). Chile has committed more human and material resources to MINUSTAH than it has to any previous peacekeeping mission, and the country's early presence in the MIFH encouraged a number of other countries in the region to play a role in MINUSTAH.⁷⁹ Chile has also worked with the United States or other regional partners in recent years to resolve domestic political crises in Venezuela, Bolivia, and Honduras.⁸⁰

⁷⁶ U.S. Department of State "FY2010 Congressional Budget Justification for Foreign Operations," May 29, 2009.

⁷⁷ 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.

⁷⁸ U.S. Department of Commerce and Servicio Nacional de Aduana (Chile) statistics, as presented by *Global Trade Atlas*, February 2010.

⁷⁹ 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).

⁸⁰ 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.

Narcotics and Human Trafficking

Although Chile is not a drug-producing country, it is increasingly used as a transshipment point for Andean cocaine destined for Europe and, to a lesser extent, the United States. It is also a source for precursor chemicals used in the processing of cocaine. The United States provides support to the Chilean government for anti-narcotics programs focused on police intelligence capabilities, interagency cooperation, anti-money laundering efforts, and maritime security. Through September 2008, Chilean officials had seized 1,421 kilograms of cocaine; 3,200 kilograms of cocaine paste; and 7,087 kilograms of marijuana. Chile provided regional leadership in counternarcotics as the President of the Inter-American Drug Abuse Control (CICAD) for 2009.⁸¹

Chile is also 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—maintaining law enforcement, protection, and prevention programs—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 anti-trafficking legislation and continue strengthening victim protection efforts.⁸²

⁸¹ U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, “2009 International Narcotics Control Strategy Report (INCSR),” February 27, 2009.

⁸² U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, “Trafficking in Persons Report,” June 2009.

Appendix A. Map of Chile

Figure A-1. Map of Chile



Source: Map Resources. Adapted by CRS Graphics.

Appendix B. Chilean Political Acronyms

Table B-I. 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 Democratic Party	Centrist member party of the Concertación ^b
PPD	Party for Democracy	Center-left member party of the Concertación
PR	Radical Party	Center-left member party of the Concertación at return to democracy
PRI	Regionalist Party of Independents	Centrist party formed in a merger of regional parties, now controlled by PDC dissidents.
PRSD	Radical Social Democratic Party	Center-left member party of the Concertación, merger of PR and PSD
PS	Socialist Party	Center-left member party of the Concertación
PSD	Social Democratic Party	Center-left member party of the Concertación at return to democracy
RN	National Renovation	Center-right member party of the Alianza ^c
UDI	Independent Democratic Union	Rightist member party of the Alianza

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 Alianza is a center-right coalition of parties.

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