



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

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## 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 its elected civilian democracy in 1990. A center-left coalition of parties known as the Concertación has governed Chile for the nearly two decades since the end of the dictatorship. The coalition has enacted a number of constitutional changes to strengthen civilian control of the military and to undertake the prosecution of those alleged to be responsible for human rights violations during the Pinochet-era. 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 Michele Bachelet has faced a number of challenges since her 2006 election. Widespread demonstrations over education, increased militancy by indigenous groups, and opposition control of the legislature have hindered President Bachelet's ability to govern. 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. Bachelet has won considerable support as a result of her handling of the crisis, with her approval rating rising to 74% in July 2009. The Chilean government will likely spend the rest of 2009 continuing to cope with the effects of the financial crisis while political parties prepare for the December presidential and legislative elections.

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 the 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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## Political and Economic Background

### Allende Era

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 of the Christian Democratic Party (PDC) in 1964. Frei's government took majority ownership of the copper mines, redistributed land, and improved access to education. Despite these actions, some Chileans felt more radical policies were needed. In 1970, Salvador Allende, a Socialist and the leader of the Popular Unity coalition, was elected president. Allende accelerated and furthered the changes of the previous administration by fully nationalizing firms, expanding land reform, and generally socializing the economy. While Allende's supporters pushed him to move more quickly, the political center, represented by the PDC, joined with the parties of the right to block Popular Unity initiatives in the legislature. This ideological difference prevented the Chilean government from addressing the faltering economy and served to further radicalize supporters on both ends of Chile's already polarized society. When the situation continued to deteriorate following the indecisive 1973 legislative elections, the military intervened.<sup>1</sup>

### Pinochet Era

On September 11, 1973, the Chilean military, under the control of General Augusto Pinochet, deposed the Allende government in a violent coup and quickly consolidated control of the country. The military junta closed Congress, censored the media, declared political parties in recess, and regarded the organized left as an internal enemy of the state. Within the first few months of military rule, over 1,200 people in Chile were killed or disappeared for political reasons, nearly 20,000 were imprisoned, and many of them were 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 is said to have exceeded 30,000.<sup>2</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. 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 8-year term or reject him in favor of contested elections. Although the Chilean economy enjoyed a period of rapid economic growth between 1976 and 1981, a banking crisis from 1981 to 1984 sparked widespread protests.<sup>3</sup> Following these initial demonstrations,

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

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

<sup>3</sup> 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.

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 8-year term for Pinochet, triggering the election campaign of 1989.<sup>4</sup>

## **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 were 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 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.<sup>5</sup>

The Concertación coalition has governed Chile continuously since the transition to democracy and has undergone few changes. The coalition 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 merger of the PR and PSD in 1994. 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 6 years to 4. They have been unable to eliminate the binomial election system, which has historically inflated conservative representation as a result of two-member districts that require a coalition to win by 2-1 margins in order to secure both seats.<sup>6</sup> Although the center-right coalition has never won the presidency, it gained control of both legislative houses for the first time in 2008. 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), and has never elected a Member of Congress.

All of the Concertación administrations have generally maintained the open economic policies of the Pinochet regime and 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 now 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

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<sup>4</sup> 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.

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

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

copper exports.<sup>7</sup> Concertación administrations have also implemented some redistribution policies to address poverty and inequality in Chile. 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 39% in 1990 to 13.7% in 2006. The World Bank classifies Chile as an upper middle income developing country based on its 2007 per capita income of \$8,350.<sup>8</sup> 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.<sup>9</sup>

## Recent Political and Economic Developments

### 2005 Presidential and Legislative Elections

The most recent presidential and legislative elections were held in December 2005. Michelle Bachelet, the Concertación candidate for president and a member of the PS, won 45.9% of the first round vote. The Alianza split its vote, with the RN's Sebastián Piñera taking 25.2% and Joaquín Lavín of the UDI winning 23.2%. Since no candidate won a majority, a run-off election was held in January of 2006 in which Bachelet defeated Piñera 53.5% to 46.5%. Bachelet is the first female president in Chile's history. The Concertación also won majorities in both legislative houses, with 65 of the 120 seats in the Chamber of Deputies and 20 of the 38 seats in the Senate.<sup>10</sup> 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.

### Loss of Concertación Control over Legislature

The Concertación has struggled 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.<sup>11</sup>

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

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<sup>7</sup> Central Intelligence Agency, "World Factbook," September 2008.

<sup>8</sup> World Bank, "World Development Indicators Database," September 2008.

<sup>9</sup> 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; "Chile: Leading the Millennium Objectives League," *Latin American Brazil & Southern Cone Report*, September 2008.

<sup>10</sup> "Chile: Country Report," *Economist Intelligence Unit*, January 2006; February 2006.

<sup>11</sup> "Chile: Concertación Faces Schism," *Latin News Weekly Report*, May 10, 2007.

from the party for his lack of party discipline on an issue of importance to the ruling coalition, leading 5 deputies from Zaldívar's faction of the PDC to leave the party and the Concertación.<sup>12</sup>

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.<sup>13</sup> 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.<sup>14</sup> 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. This is the first time that the Alianza has had control of both houses since the transition to democracy.

## **2009 Presidential and Legislative Elections**

Presidential and legislative elections will take place on December 13, 2009. Since presidents are ineligible to serve consecutive terms in Chile, President Bachelet will not be running for reelection. Half of the seats in the Senate and the entire Chamber of Deputies will also be up for election. Some analysts believe the results of the 2008 municipal elections, in which the Alianza won a larger share of the national vote than the Concertación for the first time, suggest that the Alianza is in a strong position while the Concertación is weaker than it has been at any point since the return to democracy.<sup>15</sup> With Pinochet gone, democracy consolidated, and human rights violations being prosecuted, a number of observers—both within and outside the Concertación—believe there is no longer a common purpose holding the coalition together.<sup>16</sup> Others contend that the Chilean left may well unite behind the Concertación presidential candidate in the event of a second round runoff and that the coalition's prospects for maintaining power are improving as a result of the public's approval of President Bachelet's handling of the economic crisis.<sup>17</sup>

A number of analysts consider Sebastián Piñera, a wealthy businessman and the 2005 candidate of the center-right RN, to be the front-runner for the election.<sup>18</sup> Piñera has sought to broaden his political support by creating the "Coalition for Change," which includes several smaller parties, such as Chile Primero, the Christian Humanist Movement, and the Force of the North, in addition to the parties of the Alianza (RN and UDI). He has pledged to generally continue the economic policies of the Concertación while improving education and the efficiency of the state. While

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<sup>12</sup> "Chile: DC Crisis Sets Scene for 2009 Contest," *Latin American Brazil & Southern Cone Report*, December 2007.

<sup>13</sup> "Defections Leave Chile's Ruling Coalition in Precarious Situation," *Latin American Brazil & Southern Cone Report*, January 2008.

<sup>14</sup> "Chile: Zaldívar Assumes Presidency of Senate," *Latin News Weekly Report*, March 19, 2008.

<sup>15</sup> Benjamin Witte, "Chile: Municipal Elections Show Governing Concertación Suffering Signs of Wear and Tear," *Latin America Data Base NotiSur*, November 21, 2008; "Conservatives Boost Presidential Hopes," *Latin America Monitor Southern Cone*, December 2008; Romain Le Cour Grandmaison "Chile: A Fading Concertación on the Road to Losing the Presidency," *Council on Hemispheric Affairs*, January 29, 2009.

<sup>16</sup> Jack Chang, "Chile's Ruling Coalition Faces Struggles," *McClatchy News Service*, July 17, 2008.

<sup>17</sup> "Concertación Courts Communists," *Latin American Weekly Report*, February 5, 2009; "Bachelet Rings the Changes," *Latin American Weekly Report*, March 19, 2009.

<sup>18</sup> "Chile: Piñera Front-Runner in December Elections," *Oxford Analytica*, June 2, 2009.

most polls show Piñera in the lead, he continues to face the stigma of the Chilean right's historic association with the Pinochet dictatorship.<sup>19</sup>

President Eduardo Frei (1994-2000), a member of the centrist PDC and the presidential candidate of the ruling Concertación, will likely be Piñera's main opposition. In April 2009, Frei—who had been endorsed by the PDC, PPD, and PS—defeated Senator José Antonio Gómez of the center-left PRSD 64.6% to 35.4% in the first of nine scheduled Concertación primaries. Since he won by more than 20%, Frei was given the Concertación nomination and was able forgo the rest of the primaries.<sup>20</sup> Frei has sought to capitalize on strong public support for President Bachelet's handling of the economic crisis and contrast himself with Piñera by emphasizing his belief that the state should play a major role in addressing the downturn. He also named a youthful campaign team in hopes of deflecting charges that he represents the political establishment, and negotiated an electoral pact with the leftist JPM.

Frei and Piñera will face a number of other presidential candidates, all of whom are dissident members of the Concertación. Senator Adolfo Zaldívar—formerly of the PDC—is the candidate of the centrist Regional Party of Independents (PRI), Senator Jorge Arrate—formerly of the PS—is the candidate of the leftist JPM, Senator Alejandro Navarro—formerly of the PS—will be the candidate of the leftist Progressive Pole of the Left, and Deputy Marco Enríquez-Ominami—formerly of the PS—is running as an independent. As previously noted, Zaldívar was expelled from the PDC for his lack of party unity. Arrate and Navarro have criticized the PS for abandoning its principles and advocating centrist policies. Enríquez-Ominami decided to run after the PS refused to hold a presidential primary.

While Zaldívar, Arrate, and Navarro are all polling in the low single digits, support for Enríquez-Ominami has surged, surprising many observers of Chilean politics. A number of polls have found double digit support for Enríquez-Ominami, and one June 2009 poll put him in second place, behind Piñera but ahead of Frei.<sup>21</sup> Enríquez-Ominami is the 36-year-old son of leftwing guerilla Miguel Enríquez—who founded the Movement of the Revolutionary Left and was killed fighting against the Pinochet regime—and the step-son of Carlos Ominami, a PS senator. He claims to represent a younger generation of Chileans that are tired of traditional politicians.<sup>22</sup> While he is generally seen as a leftist—he opposes the Hidroaysén hydroelectric project on environmental grounds, wants to legalize abortion, and would boost education and health spending—Enríquez-Ominami has suggested cutting the top personal income tax rate and partially privatizing state companies. In order to stand as an independent candidate, Enríquez-Ominami will need to collect some 36,000 signatures from non-affiliated voters by mid-September 2009.<sup>23</sup>

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<sup>19</sup> “Supera oposición chilena estigma del ‘pinochetismo’: Piñera,” *Agencia Mexicana de Noticias*, July 1, 2009.

<sup>20</sup> “Chile: Frei Seals Victory and Squares Up to Piñera,” *Latin American Weekly Report*, April 8, 2009.

<sup>21</sup> “Supera Enríquez-Ominami a Candidato Presidencial Oficialista en Chile,” *Agencia Mexicana de Noticias*, June 2, 2009.

<sup>22</sup> “People Profile: Marco Antonio Enríquez-Ominami, Chile,” *Latin News Daily*, May 12, 2009.

<sup>23</sup> Ben Witte, “Chile Warms to a Political Newcomer: Marco Enríquez Ominami Eyes Presidency,” *Latin America Data Base NotiSur*, June 26, 2009.

A mid-June 2009 poll gave Piñera 34%, placing him ahead of Frei at 30% and Enríquez-Ominami at 14%.<sup>24</sup> If no presidential candidate receives an outright majority, the top two candidates will proceed to a runoff election.

## **Education Demonstrations**

Since the transition to democracy, many Chileans have called on the government to address inequality in the education system that activists contend is a result of Pinochet-era privatization reforms. 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, students filled the streets, took over schools, and organized rallies that drew as many as 800,000 people.<sup>25</sup> The resulting street violence and near complete shut down 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. The Administration eventually put forward the General Education Law (LGE), which was designed to better regulate the current system. Student groups and teachers unions have protested the new law, saying it fails to address the privatization of education, which they contend is the root problem.<sup>26</sup>

## **Mapuche Activism**

Confrontation with the Mapuche population has been a persistent problem for the Bachelet Administration. The Mapuche are Chile's largest indigenous group and comprise approximately 4% of the population or 660,000 of Chile's 16.5 million citizens.<sup>27</sup> They are mainly located in the central and southern regions of Bío-Bío, Araucanía, Los Ríos, and Los Lagos (See Figure 1 for a map of Chile). The Mapuche 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.<sup>28</sup> Others, such as the Arauco-Malleco Coordinating Committee (CAM), have pursued more militant actions, occupying ancestral Mapuche lands and burning vehicles, machinery, and buildings on them, frequently targeting logging companies. Despite promises from successive Concertación governments to rectify Chile's relationship with its indigenous groups, Mapuche groups maintain that action has been slow, both in terms of the transfer of lands to Mapuche communities and land titling.

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<sup>24</sup> The same poll gave Arrate 1%, Zaldívar 1%, and Navarro 1%. "Chile Politics: Frei closes in on Piñera," *Economist Intelligence Unit*, July 6, 2009.

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

<sup>26</sup> Andrea Arango, "The Failings of Chile's Education System: Institutionalized Inequality and a Preference for the Affluent," *Council on Hemispheric Affairs*, July 30, 2008.

<sup>27</sup> Central Intelligence Agency, "World Factbook," September 2008.

<sup>28</sup> "Bachelet Makes Gesture to Chile's Indigenous Groups," *Latin News Weekly Report*, September 25, 2008.

CAM has increased its militant actions in recent years, because of its dissatisfaction with the government's efforts on indigenous issues. As a result, the Bachelet Administration has captured and imprisoned many of CAM's leaders. Nonetheless, conservative politicians and media have accused the government of inaction, and have alleged connections between the Mapuche and foreign terrorist organizations like the Revolutionary Armed Forces of Colombia (FARC) and Basque Homeland and Freedom (ETA). The government insists that there is no credible evidence of operational links between these groups, and CAM denies having any foreign ties. Human rights groups have also criticized the Bachelet Administration, accusing Chile's *carabineros* (police force) of arbitrary arrests, torture, and beatings of Mapuche people and condemning the government's use of Pinochet-era anti-terrorism laws to prosecute Mapuche activists.<sup>29</sup> In April 2009, 130 police officers raided three Mapuche communities, seizing documents and arresting 11 members of CAM in connection to an October 2008 attack on a public prosecutor. While CAM denounced the raid as "extremely violent and abusive," the Chilean government maintained that the operation had been conducted "impeccably."<sup>30</sup> On July 17, 2009, Chilean authorities arrested Llaitul Carillanca, the alleged military commander of CAM, and charged him with terrorism, vandalism, and theft.<sup>31</sup>

## Human Rights

In recent years, Chile has continued to address human rights violations from the Pinochet era. In September 2005, the Chilean Supreme Court upheld a court of appeals ruling that stripped Pinochet of immunity and allowed him to stand trial for his role in the killing of 119 political dissidents who were found dead in Argentina in 1975. In January 2006, an appeals court again stripped Pinochet of his immunity from prosecution for his role in the killing of two of Allende's bodyguards in 1973. Pinochet was stripped of immunity a third time in September 2006 by Chile's Supreme Court so that he could stand trial for the abuses at the Villa Grimaldi detention center, an infamous center for torture whose victims included President Bachelet. In December 2006, after having several charges dropped because of his failing health (but still under indictment in two human rights cases and on tax evasion), Pinochet died of complications from a heart attack.<sup>32</sup> The Chilean government is currently trying to recover \$26 million in public funds that Pinochet allegedly deposited in U.S. banks.<sup>33</sup>

Other dictatorship-era officials have also been prosecuted for human rights violations. 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, D.C.<sup>34</sup> Sergio Arellano Stark, the commander of the so-called "Caravan of Death" that executed 80

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<sup>29</sup> "Chile: Bachelet Reacts to Challenge By Radical Activists," *Latin News Security & Strategic Review*, January 2008; Benjamin Witte, "Chile Dusts Off Pinochet-Era Terror Law," *Latin America Data Base NotiSur*, March 13, 2009.

<sup>30</sup> "Chile Cracks Down on Violent Mapuche Militants," *Latin News Daily*, April 22, 2009.

<sup>31</sup> "Chile Arrests Mapuche Militant," *Latin News Daily*, July 17, 2009.

<sup>32</sup> Jack Epstein, "Augusto Pinochet: 1915-2006/Chilean Leader's Regime Left Thousands of 'Disappeared'," *San Francisco Chronicle*, December 11, 2006.

<sup>33</sup> "Negociaría Estado Chileno Con Bancos Que Ocultaron Dinero de Pinochet," *Agencia Mexicana de Noticias*, March 15, 2009.

<sup>34</sup> Helen Hughes & Jack Chang, "Ex-Chilean Intelligence Chief Gets 2 Life Sentences," *Miami Herald*, July 1, 2008.

political prisoners of the dictatorship shortly after the coup in 1973, was sentenced to 6 years in prison in October 2008.<sup>35</sup> In May 2009, two Chileans were arrested in connection to the 1973 torture and execution of Chilean singer-songwriter Victor Jara.<sup>36</sup> In all, over 100 former members of the Chilean military have been convicted for their dictatorship-era crimes.<sup>37</sup> Family members of the disappeared and other human rights advocates continue to push for greater transparency concerning the actions of the dictatorship and for those responsible to be brought to justice.

## 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.<sup>38</sup> 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.<sup>39</sup> While Chile has tried to secure sufficient energy resources through its open economic policies, its supply has been threatened by a number of regional developments. In 2004, Argentina cut its natural gas exports to Chile as a result of a domestic energy crisis. Since then, Argentine natural gas exports to Chile have fluctuated considerably, nearly leading to electricity rationing in early 2008.<sup>40</sup>

These 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 is expected to start operations in central Chile in July 2009. 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.<sup>41</sup>

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<sup>35</sup> “Condenan a General Chileno por Crímenes de ‘Caravana de la Muerte’,” *Agencia Mexicana de Noticias*, October 15, 2008.

<sup>36</sup> “Chile Arrests 2 in Murder of Singer Victor Jara,” *EFE News Service*, May 26, 2009.

<sup>37</sup> “Familiares de Víctimas de Pinochet Mantienen Viva Demanda de Justicia,” *Agencia Mexicana de Noticias*, September 5, 2008.

<sup>38</sup> “Chile: Medium-Term Electricity Supply Looks Secure,” *Oxford Analytica*, April 23, 2009.

<sup>39</sup> 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).

<sup>40</sup> “Chile: Medium-Term Electricity Supply Looks Secure,” *Oxford Analytica*, April 23, 2009.

<sup>41</sup> *Ibid.*

## Global Financial Crisis

The global financial crisis and economic slowdown have taken a toll on Chile's economy. Real gross domestic product (GDP) growth slowed from 5.1% in 2007 to an estimated 3.2% in 2008.<sup>42</sup> The Santiago Stock Exchange (IPSA), like those in many emerging markets, suffered considerable losses in the second half of 2008. Additionally, 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.<sup>43</sup> While the IPSA index and copper prices have recovered in 2009, the Chilean economy continues to struggle. Unemployment averaged 9.8% between February and April, and the Chilean economy shrank by 4.4% in May, the seventh consecutive month of contraction.<sup>44</sup> The Organization for Economic Cooperation and Development (OECD) now expects the Chilean economy to contract by 1.6% in 2009 before recovering with 3% growth in 2010.<sup>45</sup>

The Chilean government has taken a number of steps to counter the effects of the crisis. Prior to the crisis, the Chilean government invested \$20.3 billion (12% of GDP) from fiscal surpluses generated by high copper prices in two sovereign wealth funds. These funds have allowed the government to pursue counter-cyclical policies and inject liquidity in the financial sector. In January 2009, President Bachelet announced a \$4 billion (2.8% of GDP) economic stimulus package. The plan includes 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. In June 2009, the Chilean Finance Minister announced that the government would more than double its stimulus spending, and that total government spending would increase by more than 14% in 2009.<sup>46</sup> In addition, the independent Chilean Central Bank has cut the benchmark interest rate to a record low of 0.5%.<sup>47</sup>

## 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 implementation of the Inter-American Democratic Charter, signing a bilateral free trade agreement, and supporting the proposed Free Trade Area of the Americas (FTAA).<sup>48</sup> 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

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<sup>42</sup> "Chile: Country Report," *Economist Intelligence Unit*, May 2009.

<sup>43</sup> "Ministro Chileno: Presupuesto Fiscal Sólido Pese a Baja Cobre," *Dow Jones Newswires*, October 22, 2008; "Country Report: Chile," *Economist Intelligence Unit*, March 2009.

<sup>44</sup> "Country Report: Chile," *Economist Intelligence Unit*, July 2009; "Chile Economy: Quick View—A Seventh Month of Contraction," *Economist Intelligence Unit*, July 6, 2009.

<sup>45</sup> "Chile: Pump-priming Stepped Up," *Latin American Economy & Business*, June 2009.

<sup>46</sup> *Ibid.*; "Chile's Economy: Stimulating," *The Economist*, February 19, 2009.

<sup>47</sup> "Chile: New Benchmark rate cut leaves no room for more," *Oxford Analytica*, July 10, 2009.

<sup>48</sup> 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.

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."<sup>49</sup>

## **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.<sup>50</sup> Assistance declined following the election of Allende and has generally remained low since then, increasing briefly during the early years of the Pinochet dictatorship and again following the transition to democracy. Chile received \$1.4 million in U.S. assistance in FY2008, is scheduled to receive \$1.2 million in FY2009, and would receive \$2.3 million in FY2010, if Congress funds the Obama Administration's request.<sup>51</sup> 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.<sup>52</sup> Since the agreement went into force on January 1, 2004, bilateral trade between the United States and Chile has more than tripled, totaling \$20.3 billion in 2008. U.S. imports from Chile grew from \$3.7 billion in 2003 to \$8.1 billion in 2008 while U.S. exports to Chile grew from \$2.7 billion in 2003 to \$12.1 billion in 2008. The United States was Chile's top source of imports and the second largest destination for Chile's exports while Chile was the 25th largest export market for U.S. goods in 2008.<sup>53</sup>

## **Regional Leadership**

Chile has been an active participant and frequent leader in multilateral engagement 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

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<sup>49</sup> "Washington Watch," *Latin News Daily*, June 25, 2009.

<sup>50</sup> This is the equivalent of \$1.6 billion in constant 2006 dollars; U.S. Overseas Loans and Grants (Greenbook) 2006.

<sup>51</sup> U.S. Department of State "FY2010 Congressional Budget Justification for Foreign Operations," May 29, 2009.

<sup>52</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>53</sup> U.S. Department of Commerce statistics, as presented by *Global Trade Atlas*, 2009.

play a role in MINUSTAH.<sup>54</sup> The United States and Chile also worked together as members of the so-called “Group of Friends of Venezuela,” to foster discussion between President Hugo Chávez and the political opposition.<sup>55</sup> Chile has taken on the role of regional leader in fora that do not include the United States as well, such as the Union of South American Nations (UNASUR), where Chile has played a moderating role in the group’s responses to regional political crises.

## **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 is providing regional leadership in counternarcotics as the President of the Inter-American Drug Abuse Control (CICAD) for 2009.<sup>56</sup>

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.<sup>57</sup>

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<sup>54</sup> 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).

<sup>55</sup> Juan Forero, “Friends of Venezuela Are There to Help,” *New York Times*, January 31, 2003.

<sup>56</sup> U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, “2009 International Narcotics Control Strategy Report (INCSR),” February 27, 2009.

<sup>57</sup> U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, “Trafficking in Persons Report,” June 2009.

Figure 1. Map of Chile



Source: Map Resources. Adapted by CRS Graphics.

**Table I. Chilean Political Acronyms**

| Acronym | Political Organization                | Description   |
|---------|---------------------------------------|---|
| CAM     | Arauco-Malleco Coordinating Committee | Militant Mapuche 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 <sup>a</sup>              |
| 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     | Regional Party of Independents        | Centrist party formed in merger of two regional parties,            |
| 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 <sup>b</sup>               |
| UDI     | Independent Democratic Union          | Rightist member party of the Alianza                                |

**Source:** Compiled by CRS

**Notes:**

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

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