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Chile: Background and U.S. Relations

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Summary

Chile, located along the Pacific coast of South America, is a politically stable, upper-middle-income nation of 18 million people. In 2013, Michelle Bachelet and her center-left “New Majority” coalition won the presidency and sizeable majorities in both houses of the Chilean Congress after campaigning on a platform of ambitious reforms designed to reduce inequality and improve social mobility. Since her inauguration to a four-year term in March 2014, President Bachelet has signed into law significant changes to the tax, education, and electoral systems. She has also proposed a number of other economic and social policy reforms, as well as a process for adopting a new constitution. Although a significant majority of the public initially supported the reforms, Chileans have grown more divided over time, with some groups pushing for more far-reaching policy changes and others calling for Bachelet to scale back her agenda. Disapproval of the reforms, a corruption scandal that implicated her son, and Chile’s slowing economy have taken a toll on President Bachelet’s approval rating, which has declined to 29%.

Chile’s economic growth has slowed considerably in recent years, falling to 1.9% in 2014. Analysts have largely attributed the slowdown to the end of the global commodity boom and the coinciding drop in copper prices, which have a significant impact on the Chilean economy. There are also indications that the Bachelet Administration’s policy reforms may have reduced business confidence and dampened growth. In order to stimulate the economy, the Chilean government has implemented expansive fiscal and monetary policies over the past year. Growth is forecast to accelerate slightly to 2.3% in 2015 and gradually increase in the following years.

President Obama and President Bachelet have sought to build upon the long-standing partnership between the United States and Chile. Commercial ties are particularly strong. Total trade in goods and services reached \$31 billion in 2014, more than quadrupling since the implementation of a free trade agreement in 2004. Trade and investment flows could increase if the Trans-Pacific Partnership (TPP) trade agreement, which includes the United States, Chile, and 10 other nations in the Asia-Pacific region, is approved. The United States and Chile also work together to address regional and global security challenges, such as instability in Haiti. The United States provided Chile with an estimated \$1 million in foreign aid in FY2015 to strengthen the capabilities of Chilean security forces and foster closer security ties. The countries’ mature partnership includes additional collaboration on issues such as energy development and scientific research.

The 114th Congress is currently considering several measures related to U.S.-Chilean relations. Congress may consider implementing legislation for the TPP agreement under the rules and procedures set forth in the Bipartisan Comprehensive Trade Priorities Act (P.L. 114-26, “trade promotion authority”), which both houses passed and the President signed into law in June 2015. The Senate also may consider a bilateral income tax treaty with Chile (Treaty Doc. 112-8), which was signed in 2010, submitted to the U.S. Senate for its advice and consent in 2012, and reported favorably by the Senate Foreign Relations Committee on November 10, 2015. An extradition treaty with Chile (Treaty Doc. 113-6), which was signed in 2013 and submitted to the Senate in September 2014, also awaits the Senate’s advice and consent.

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Domestic Situation

Located along the Pacific coast of South America, Chile is a politically stable, upper-middle-income nation of 18 million people. The country declared independence from Spain in 1810 but did not achieve full independence until 1818. Chile enjoyed mass electoral democracy from 1932 until 1973, when the Chilean military, under the control of General Augusto Pinochet, deposed the democratically elected Marxist government of President Salvador Allende (1970-1973).¹ More than 3,200 people were killed or “disappeared” and some 38,000 people were imprisoned and/or tortured during Pinochet’s 17-year dictatorship.² Chile ultimately restored democratic governance in 1990.

A center-left coalition of parties, known as the “Coalition of Parties for Democracy” (*Concertación*), governed Chile for two decades after the return to democratic rule. While the *Concertación* governments were significantly constrained by authoritarian provisions in the Pinochet-era constitution, they were able to enact incremental political, economic, and social reforms. They largely maintained the market-oriented economic framework they inherited from Pinochet and built upon it by negotiating a broad network of trade agreements designed to foster export-led development. Chile has implemented trade agreements with some 60 countries and now has open and reciprocal access to major consumer markets, such as China, Japan, the European Union, and the United States. The *Concertación* also institutionalized countercyclical fiscal policies and gradually strengthened Chile’s social safety net. Sebastian Piñera of the center-right “Alliance for Chile” (*Alianza*) coalition broke the *Concertación*’s hold on power, serving as president from 2010-2014, but his administration largely maintained the same policy mix.

Analysts credit Chile’s policy framework for the significant economic and social gains that the country has made over the past 25 years. Real annual economic growth has averaged over 5% since 1990, lifting Chile’s gross domestic product (GDP) to \$258 billion and per capita GDP to \$14,480 in 2014.³ The percentage of Chileans living below the national poverty line fell from

Chile in Brief

Leadership: President Michele Bachelet (New Majority/PS), Senate President Patricio Walker (New Majority/PDC), Chamber of Deputies President Marco Antonio Nuñez (New Majority/PPD)

Land Area: 289,000 square miles (nearly twice as large as Montana)

Population: 18 million (2015)

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

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

GDP: \$258 billion (2014)

GDP per Capita: \$14,480 (2014)

Top Exports: Copper, fish and other seafood, edible fruit and nuts, and wood and wood pulp.

Life Expectancy: 82 years (2015)

Adult Literacy Rate: 96.3% (2013)

Poverty Rate: 7.8% (2013)

Extreme Poverty Rate: 2.5% (2013)

Sources: Chilean Ministry of Social Development, Chilean National Statistics Institute, International Monetary Fund, Chilean Customs Service, U.N. Economic Commission for Latin America and the Caribbean.

¹ For more information on Chilean history, see Rex A. Hudson, ed. *Chile: A Country Study* (Washington, DC: Library of Congress, 1994), <http://countrystudies.us/chile/>.

² Gobierno de Chile, *Informe de la Comisión Asesora para la Calificación de Detenidos Desaparecidos, Ejecutados Políticos y Víctimas de Prisión Política y Tortura*, August 2011.

³ International Monetary Fund (IMF), *World Economic Outlook Database, October 2015*, October 6, 2015.

39% in 1990 to 8% in 2013, and the percentage of Chileans living in extreme poverty fell from 13% to 2.5% during the same time period.⁴

Nevertheless, many Chileans have expressed discontent with the socioeconomic situation in their country. They are dissatisfied with the country's high level of inequality and believe that the country's economic gains have not translated into better living conditions and public services for most Chileans. The Gini coefficient,⁵ which is used to measure income concentration, has barely changed over the past decade, remaining near 0.53. Although it falls to 0.50 when taxes and government transfers are taken into account, it is well above the Organisation for Economic Cooperation and Development (OECD) average of 0.31.⁶ Moreover, intergenerational social mobility is low since the education system tends to replicate existing class disparities.

Chileans have also become increasingly dissatisfied with their political leaders and institutions, which have proven unable or unwilling to address these socioeconomic concerns. The country's unique binomial electoral system, a legacy of the Pinochet dictatorship, significantly limits the responsiveness of the Chilean government. Under the binomial system, deputies and senators are elected from two-member electoral districts that require a coalition to win by two-to-one margins in order to secure both seats. Since it effectively ensures a relatively equal distribution of power between the two major political coalitions regardless of voters' preferences, elections are extremely limited in their ability to produce change.⁷ Moreover, municipal and regional governments have little authority and few resources to address local concerns since political power is heavily concentrated in the central government. Given these constraints on electoral democracy, many Chileans have taken to the streets in recent years to voice their demands and hold their leaders accountable. Students calling for the government to guarantee free, high-quality education have organized the largest and most persistent of the protests.

President Bachelet's Reform Agenda

Seeking to capitalize on popular discontent and return to power, the four parties of the Concertación joined with various social movement leaders, the Communist Party, and other left-leaning groups to form the "New Majority" (*Nueva Mayoría*) coalition for Chile's 2013 general elections. The coalition selected former President Michele Bachelet (2006-2010) as its presidential candidate⁸ and pledged to implement a series of ambitious policy changes designed to reduce inequality and improve social mobility. The three pillars of Bachelet's platform were a major fiscal reform, an overhaul of the education system, and a new constitution. Bachelet easily defeated the Alianza's Evelyn Matthei, 62%-38%, in a second round runoff election.⁹ In legislative elections held concurrently with the first-round presidential vote, Bachelet's coalition

⁴ Gobierno de Chile, Ministerio de Desarrollo Social, *Casen 2013: Situación de la Pobreza en Chile*, January 24, 2014.

⁵ The Gini coefficient is a commonly used measure of inequality. A value of 0.0 represents absolute equality and a value of 1.0 represents absolute inequality.

⁶ Organisation for Economic Cooperation and Development (OECD), "Income Distribution," *OECD Social and Welfare Statistics*, 2013.

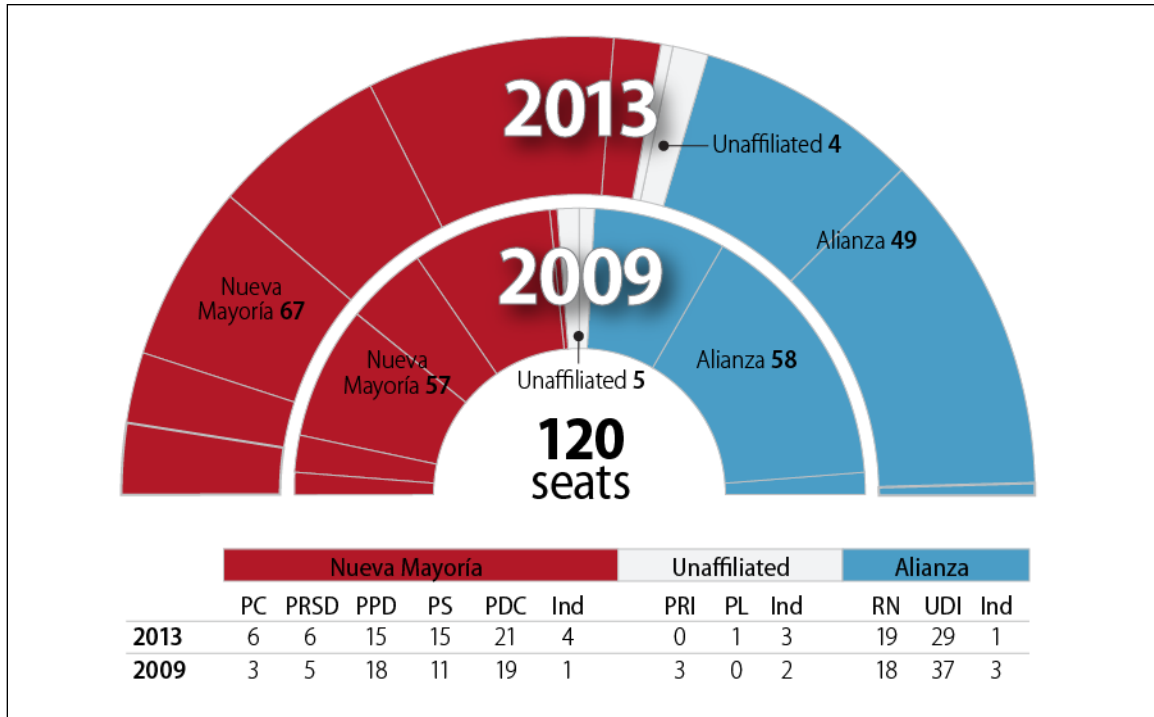
⁷ A major swing in voters from one coalition to the other—from 60%-40% to 40%-60%, for example—will produce the exact same result. Consequently, the two major coalitions historically have split seats in more than 95% of electoral districts. Patricio Navia, "Democracy to the Extent Possible in Chile," *Latin American Research Review*, Special Issue (2010).

⁸ The Chilean constitution only allows non-consecutive presidential terms.

⁹ Servicio Electoral de Chile, *Ultimo Boletín Informativo de Resultados Preliminares*, December 15, 2013.

secured one of the largest congressional majorities since Chile’s return to democracy, with 67 of 120 seats in the Chamber of Deputies and 21 of 38 seats in the Chilean Senate (see **Figure 1**).¹⁰

Figure 1. Coalition and Party Affiliation in the Chilean Chamber of Deputies
Seat distributions resulting from the 2009 and 2013 elections



Source: Prepared by (name redacted), CRS Graphics Specialist.

Notes: There have been some changes in party and coalition affiliation since the election, including two deputies who left the RN to establish a more centrist party known as *Amplitud*, which is not affiliated with either of the major coalitions. See **Table B-1** for political party acronyms.

President Bachelet has quickly moved forward with her policy agenda since assuming office for a four-year term in March 2014. Her first major initiative was a fiscal reform, which she signed into law in September 2014. It will be phased in over four years and is designed to increase revenues by 3% of GDP (\$8.2 billion) by 2018. The majority of the new revenues will come from increasing the corporate tax rate from 20% to at least 25%. The reform also abolishes a business tax credit, taxes stationary sources of pollution such as fossil fuel power plants, increases taxes on tobacco and alcohol, reduces the top individual tax rate from 40% to 35%, and offers new incentives to small- and medium-size enterprises for savings and investment.¹¹ Bachelet intends to use the additional revenue resulting from the fiscal reform to finance changes to Chile’s education system, ensure the government budget is structurally balanced, and strengthen public health, pension, and social protection programs.

Since the enactment of the fiscal reform, much of the political debate in Chile has focused on overhauling the education system. President Bachelet signed into law several initial education

¹⁰ Servicio Electoral de Chile, *Elecciones de Diputados 1989 al 2013 por Circunscripción Electoral*, and *Elecciones de Senadores 1989 al 2013 por Circunscripción Electoral*.

¹¹ “Chile Economy: Tax Reform Set to Become Law,” Economist Intelligence Unit, September 16, 2014.

reforms in May 2015. Those changes, which are scheduled to take effect in March 2016, will cut off government funding to for-profit educational institutions and forbid primary and secondary schools that receive government funding from selectively admitting students. The Chilean Congress is still debating additional education reforms, including measures to strengthen teacher training, transfer school supervision from municipalities to the central government, and guarantee free post-secondary education for most students. The Bachelet Administration's 2016 budget proposal would enable 200,000 students whose families are in the bottom half of the income distribution to attend accredited nonprofit higher education institutions without paying tuition.¹²

In October 2015, President Bachelet announced a process for fulfilling her third major electoral pledge, the adoption of a new constitution. Over the course of the next year, the Bachelet Administration intends to educate citizens about the issues involved, hold a national dialogue to hear what Chileans would like to include in the constitution, and send a measure to the Chilean Congress that would authorize the next Congress—scheduled to take office in 2018—to select a mechanism for considering a new constitution. The new constitution would need to be approved by congressional supermajorities and a national referendum.¹³ The current constitution was adopted in 1980 under the Pinochet dictatorship. While many provisions have been amended since the reestablishment of democracy, some sectors of Chilean society still view it as illegitimate. Bachelet highlighted a number of potential constitutional changes in her electoral platform, including the recognition of various citizen rights and decentralization of power to regional governments.¹⁴

As a result of an overhaul of the electoral system that President Bachelet signed into law in April 2015, the next Chilean Congress will be elected through proportional representation. Under the new system, each of Chile's 15 regions will elect between two and five senators, and Chileans will be divided into 28 multi-member electoral districts that will elect between three and eight deputies, depending on their population. The electoral reform will increase the number of seats in the Chamber of Deputies from 120 to 155 and the number of seats in the Senate from 38 to 50. It will also require political parties to ensure that no more than 60% of their candidates are the same gender.¹⁵ While advocates of the previous binomial electoral system maintain that it fostered political stability and consensus-based politics, detractors note that it significantly limited the ability of Chilean citizens to enact policy changes and hold their leaders accountable.

In addition to these large-scale reforms of Chile's tax, education, and political systems, Bachelet and her New Majority coalition are pushing ahead with a number of other notable policy initiatives. These include a union-empowering labor reform, the creation of a state-run pension fund to compete with private retirement plans, decriminalization of abortion in certain circumstances, and repeal of the amnesty law that shields members of the Pinochet regime and security forces who committed human rights abuses between 1973 and 1978. They have already enacted a law establishing civil unions for same-sex couples. Many of these policy changes only require simple majorities in Congress and are likely to be enacted in some form.

¹² Gobierno de Chile, "Ley de Inclusión: Los Principales Cambios que Trae la Nueva Norma," press release, May 29, 2015; "Students Threaten More Problems for Chile's Bachelet," *Latin News Daily*, October 2, 2015.

¹³ "Chile Politics: Quick View – Government Delivers Roadmap to New Constitution," Economist Intelligence Unit, October 19, 2015.

¹⁴ *Chile de Todos: Programa de Gobierno de Michelle Bachelet: 2014-2018*, October 2013.

¹⁵ John Carey, "Chile's Electoral Reform," *Latin America Goes Global*, May 27, 2015; Robert Kozak, "Chile Overhauls Voting System; Proportional Representation Will Replace Pinochet-Era System," *Wall Street Journal*, April 27, 2015.

In the aftermath of a series of scandals that have tarnished much of the Chilean political establishment over the past year, the Bachelet Administration has focused on advancing anti-corruption policies. Chilean authorities have brought charges against several business executives and politicians from the right-wing Independent Democratic Union party—part of the opposition Alianza coalition—who allegedly were involved in a scheme to illegally finance the party and evade taxation. Other corruption scandals have implicated members of the governing New Majority Coalition. One case involves Bachelet’s son, who is accused of using his influence during the presidential campaign to secure a \$10 million real estate loan from one of Chile’s most prominent businessmen. These corruption scandals have reinforced public perceptions in Chile that wealth and power are too concentrated in the hands of a small number of business and political elites who use their connections to exert influence and advance their economic interests. In an attempt to regain the initiative, Bachelet has introduced a series of anti-corruption bills, including measures to make campaign financing more transparent and impose tougher sanctions for corruption.¹⁶

A little over a year and a half into her term, the Chilean public remains divided over President Bachelet’s reform agenda. While students, unions, and other groups have continued to hold demonstrations and have called on Bachelet and the Chilean Congress to enact more far-reaching policy changes more quickly, some economic and political analysts maintain that Chilean policymakers should slow down in order to reassure the business community and establish broader consensus on significant policy changes.¹⁷ Similar divisions have emerged within Bachelet’s ideologically diverse New Majority coalition, which ranges from the Communist Party on the far left to the Christian Democratic Party in the center. Opinion polls have shown that nearly all of Bachelet’s reforms have had broad public support upon their introduction, but they have become less popular over time as they have been subject to protracted debates in the Chilean Congress.¹⁸

President Bachelet’s approval rating has declined significantly since she took office, with divisions regarding her reform agenda, recent corruption scandals, and the weakening economy (see “Economic Challenges” below) taking a toll on her popularity. In October 2015, 29% of Chileans approved of Bachelet’s performance in office while 67% disapproved. Bachelet’s approval rating has slightly improved from a low of 24% in August 2015, but is still far below the 54% approval rating she had upon taking office in March 2014. Chileans appear to be dissatisfied with the entire political class as the approval ratings for the governing New Majority coalition (22%), the opposition Alianza coalition (15%), the Senate (14%), and the Chamber of Deputies (10%) are even lower.¹⁹

Economic Challenges

President Bachelet is also attempting to address Chile’s slowing economy. According to many analysts, Chile has the most competitive and fundamentally sound economy in Latin America,²⁰

¹⁶ Simon Romero, “Chile Joins Other Latin American Nations Shaken by Scandal,” *New York Times*, April 9, 2015; “Bold Moves by Bachelet to Regain Political Initiative in Chile,” *Latin News Daily*, April 29, 2015.

¹⁷ See, for example, M. Soledad Vial, “No Era Necesario Plantear Todas las Reformas al Mismo Tiempo y en Cien Dias,” *El Mercurio*, June 29, 2014; and Silvana Celedón Porzio, “Nadie en su Sano Juicio Puede Pensar en Cuatro Años se Pueden Hacer Bien Todas las Reformas que se han Planteado,” *El Mercurio*, December 28, 2014.

¹⁸ Adimark GfK, *Encuesta: Evaluación Gestión de Gobierno, Octubre 2015*, November 4, 2015.

¹⁹ *Ibid.*

²⁰ See, for example, Klaus Schwab, ed., *Global Competitiveness Report 2015-2016* (Geneva: World Economic Forum, 2015).

but it remains heavily dependent on the copper industry, which accounted for over half of Chile's exports and 11% of the country's GDP in 2014.²¹ While the global commodity boom contributed to an extended period of economic growth and job creation last decade, copper prices have steadily declined since 2011, taking a toll on the economy. Chile's economic growth slowed to 1.9% in 2014. Economic analysts attribute the deceleration to a sharp decline in private investment stemming from the drop in copper prices and other external factors, as well as a fall in business confidence that appears to be related to the Bachelet Administration's reforms.²²

The Chilean government has sought to stimulate economic growth over the past year. The Bachelet Administration's 2015 budget increased public expenditure by nearly 10%, boosting spending on infrastructure and allocating additional resources for education, healthcare, and social welfare programs.²³ Chile is in a relatively strong position to pursue countercyclical fiscal policies since gross public debt remains low (15.1% of GDP at the end of 2014)²⁴ and it can draw from its Economic and Social Stabilization Fund,²⁵ which holds \$14.1 billion (equivalent to about 5.5% of GDP).²⁶ The Chilean Central Bank has complemented the Bachelet Administration's fiscal stimulus with an expansionary monetary policy.²⁷

Buoyed by these measures, Chile's annual economic growth is forecast to accelerate slightly to 2.3% in 2015.²⁸ Growth is expected to remain well below the 2005-2014 average of 4.3% for several years, however, as the slowdown in China's economy, lower global commodity prices, and other global developments weigh down the country's open economy.²⁹ Analysts maintain that while the Bachelet Administration's reforms are also likely to have a negative impact on short-term economic activity, they have the potential to boost productivity and long-term growth.³⁰

Security Concerns

Chile is one of the safest countries in Latin America, with a homicide rate of 3.1 per 100,000 residents; however, small militant groups have carried out sporadic acts of violence.³¹ Over the past decade, more than 200 explosive devices have been planted outside banks, government buildings, and religious institutions in Santiago in generally low-level attacks that Chilean authorities have attributed to anarchist groups. Although most of the attacks have taken place in the middle of the night and have caused few casualties, an explosion near a subway station in

²¹ Chilean Customs Service data, made available by *Global Trade Atlas*, accessed in November 2015; and "Chile Economy: Copper Reigns Supreme, But Challenges Lie Ahead," Economist Intelligence Unit, February 25, 2015.

²² IMF, *Chile: Staff Report for the 2015 Article IV Consultation*, July 21, 2015.

²³ "Chile Economy: Chile – Key Issues in 2015," Economist Intelligence Unit, December 30, 2014.

²⁴ IMF, *World Economic Outlook Database, October 2015*, October 6, 2015.

²⁵ Under Chile's fiscal responsibility law, an independent expert panel estimates cyclically adjusted government revenues based on factors such as potential GDP growth and the medium-term price of copper. The government then sets its budget to achieve a fiscal surplus of 0.5% of GDP over the medium term. When revenues exceed the fiscal target, savings are invested in sovereign wealth funds that can be drawn upon during economic downturns.

²⁶ Government of Chile, Ministry of Finance, *Monthly Report of the Economic and Social Stabilization Fund*, September 2015.

²⁷ Philip Sanders, "Chile Keeps Most Expansive Monetary Policy in the Americas," *Bloomberg Business*, August 13, 2015; IMF, July 2015, op. cit.

²⁸ IMF, *World Economic Outlook Database, October 2015*, October 6, 2015.

²⁹ Ibid; "Chile: Country Report," Economist Intelligence Unit, September 17, 2015.

³⁰ IMF, July 2015, op. cit.; OECD, *Chile: Policy Priorities for Stronger and More Equitable Growth*, September 2015.

³¹ "Chile: Executive Summary," *Jane's Sentinel Security Assessment – South America*, August 8, 2015.

Santiago injured 14 people in September 2014, and another explosion a few weeks later killed a man.³²

Some members of the Mapuche (indigenous) community have also engaged in acts of violence. The Mapuche account for about 9% of the Chilean population and are primarily located in Santiago and the central and southern regions of Biobío, Araucanía, Los Ríos, and Los Lagos (see **Figure A-1** for a map of Chile). They experience higher poverty levels, lower education levels, and poorer living standards than the general Chilean population,³³ and have long sought official recognition of their rights and restoration of their territories. Some Mapuche groups have employed militant means to achieve those objectives, occupying ancestral lands and destroying vehicles, machinery, and buildings located upon them. While most of the attacks have resulted in damaged property, a Mapuche activist was convicted of killing an elderly couple by setting fire to their remote ranch in 2013.³⁴

The September 2014 anarchist bombings in Santiago and ongoing attacks by Mapuche activists in southern Chile have led to a renewed focus on Chile's antiterrorism law. The law dates to the Pinochet regime but has been amended several times since the return to democracy. It sets harsher penalties for crimes deemed to be terrorist acts and allows the government to detain those accused of such acts and hold them without bail before trial, among other provisions. Local and international human rights groups have criticized the Chilean government numerous times over the years for invoking the law to prosecute Mapuche activists. In July 2014, for example, the Inter-American Court of Human Rights ordered the Chilean government to overturn the convictions of eight Mapuche activists who had been charged under the anti-terrorism law. While some legislators from the New Majority coalition have called for the anti-terrorism law to be repealed, the recent attacks have led others to call for a stronger anti-terrorism legal framework.

The Bachelet Administration has proposed several amendments to the anti-terrorism law, which are currently pending in Congress. They include changes to allow the infiltration of terrorist organizations by covert police officers and to extend the law to cover so-called "lone-wolf" terrorists. Bachelet has also announced special preventative measures to protect truckers after a series of arson attacks in southern Chile. Some members of the opposition Alianza coalition have criticized Bachelet's proposals and actions as insufficient and have called for the government to apply the anti-terrorism law to arsons and other attacks carried out by Mapuche activists.³⁵

U.S.-Chile Relations

The United States and Chile have traditionally enjoyed friendly relations. Over the past seven years, the Obama Administration has sought to maintain close ties with Chile while encouraging its leadership in Latin America and on the international stage. President Obama hosted President Bachelet at the White House in June 2014, calling her return to office "an opportunity to strengthen further the outstanding relationship between the United States and Chile."³⁶ Congress

³² "Chile Undertakes Reform to Fight Anarchism," *STATFOR*, September 26, 2014.

³³ Instituto Nacional de Estadísticas, *Censo 2012: Resultados XVIII Censo de Población*, 2012.

³⁴ "Mapuche Indian Guilty in Chile Arson That Killed Elderly Couple, Terrorism Charges Rejected," Associated Press, February 20, 2014.

³⁵ "Chile's Antiterrorist Law," *Latin American Special Report*, 2015; "Chile: Calls for Tougher Response as Attacks Multiply in the South," *Latin News Daily*, November 18, 2015.

³⁶ "President Barack Obama Holds a Media Availability with President Michelle Bachelet of Chile – Media Availability," *CQ Transcriptions*, June 30, 2014.

has expressed particular interest in U.S.-Chilean trade and investment relations, security ties, and energy cooperation. The countries also collaborate on various areas of scientific research, such as astronomy and glacier monitoring, and engage in so-called trilateral cooperation to support security, governance, and socioeconomic development in other Latin American and Caribbean countries.³⁷

Commercial Ties

U.S.-Chilean trade relations have grown considerably since the U.S.-Chile Free Trade Agreement entered into force on January 1, 2004. The agreement immediately eliminated tariffs on 87% of bilateral trade; 100% of U.S. exports enter Chile duty free as of this year (2015).³⁸ In the absence of the agreement, each nation's exports would be subject to the other's most-favored nation tariff rates. In 2014, Chile's average applied most-favored nation tariff was 6%, while that of the United States was 3.5%.³⁹ The agreement thus provides each country with preferential access to the other's market. Total bilateral trade has quadrupled since the agreement was signed, growing from \$7.9 billion in 2003 to \$31 billion in 2014 (see **Figure 2**).

U.S.-Chile merchandise trade was valued at \$26 billion in 2014. Between 2003 and 2014, U.S. exports to Chile increased over 500% and U.S. imports from Chile increased over 150%. As a result of U.S. exports increasing more quickly than imports, the United States has run a trade surplus in merchandise with Chile since 2008. In 2014, the surplus was valued at \$7 billion. U.S. merchandise exports to Chile amounted to \$16.5 billion, with refined oil products, heavy machinery, and civilian aircraft and parts accounting for a majority. U.S. merchandise imports from Chile amounted to \$9.5 billion, with copper, edible fruit, and seafood accounting for a majority. In 2014, the United States was Chile's second-largest trading partner, behind China, while Chile was the United States' 29th-largest trading partner.⁴⁰

U.S.-Chile services trade has also grown under the free trade agreement, amounting to \$5 billion in 2014. U.S. services exports to Chile totaled \$3.8 billion and U.S. services imports from Chile totaled \$1.2 billion. Travel, transport, and intellectual property charges were the top categories for U.S. services exports to Chile while transport and travel were the top categories for U.S. services imports from Chile.⁴¹ Travel between Chile and the United States is likely to increase in the coming years since the U.S. Department of Homeland Security approved Chile for entry into the Visa Waiver Program in 2014, allowing Chilean citizens who meet certain requirements to travel to the United States for up to 90 days without a visa. Chile has extended the same policy to U.S. citizens.⁴²

³⁷ U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S. Relations with Chile," fact sheet, July 27, 2015; U.S. Agency for International Development (USAID), "U.S. – Chile Trilateral Cooperation Fact Sheet," press release, June 4, 2013.

³⁸ For background 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 (name redacted)

³⁹ World Trade Organization (WTO), "Trade and Tariff Indicators," accessed October 2015.

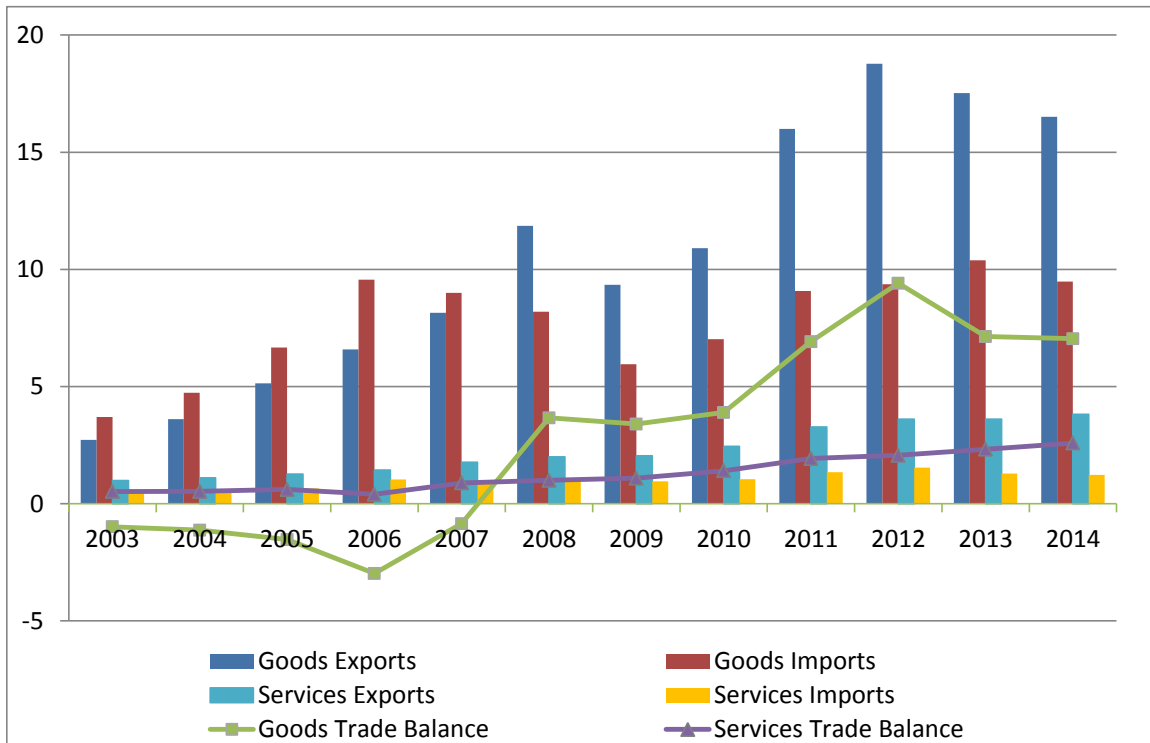
⁴⁰ U.S. Department of Commerce and Servicio Nacional de Aduanas data, made available by Global Trade Atlas, accessed in November 2015.

⁴¹ U.S. Department of Commerce data, made available by the Bureau of Economic Analysis, accessed in October 2015.

⁴² For more information on the Visa Waiver Program, see CRS Report RL32221, *Visa Waiver Program*, by (name redacted)

Figure 2. U.S. Trade with Chile: 2003-2014

In billions of U.S. dollars



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

Trans-Pacific Partnership

Chile and the United States have both participated in negotiations concerning the Trans-Pacific Partnership (TPP), a proposed 12-member Asia-Pacific regional trade agreement that includes Australia, Brunei, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. While TPP trade ministers announced that they had concluded the agreement on October 5, 2015,⁴³ it still needs to be ratified in each of the participating nations.⁴⁴ The 114th Congress may consider the TPP under the rules and procedures set forth in the Bipartisan Comprehensive Trade Priorities Act (P.L. 114-26), commonly known as trade promotion authority (TPA), which the House and Senate approved, and President Obama signed into law, in June 2015.⁴⁵

During TPP negotiations, many Chilean analysts and policymakers expressed concerns about the potential agreement. They argued that since Chile already has trade agreements with each of the other participating nations, it should only sign onto the TPP if it provides more favorable conditions. Some expressed concerns that the agreement could serve as an indirect renegotiation

⁴³ The text of the TPP is available at <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>.

⁴⁴ For more information on the TPP, see CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP) Agreement*, by (name redacted) and (name redacted); and CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by (name redacted).

⁴⁵ For more information on the procedures required for consideration of TPP under TPA, see CRS In Focus IF10297, *The Trans-Pacific Partnership (TPP)-Trade Promotion Authority (TPA) Timeline*, by (name redacted).

of Chile's existing trade agreement with the United States, and that it could lead to concessions on issues like pharmaceutical patents that would restrict the country's autonomy to determine public policies that benefit the Chilean public.⁴⁶

Although President Bachelet expressed similar concerns about the TPP during her election campaign, she has defended the agreement since taking office. She maintains that the agreement would open up new opportunities for Chilean exporters since the TPP "has developed new high-standard rules for international trade" that go beyond the provisions included in Chile's existing trade agreements with other TPP members. She also maintains that the final agreement would not impose stricter pharmaceutical patents protections than those already in place as a result of the U.S.-Chile Free Trade Agreement.⁴⁷ Analysts expect that Bachelet will be able to secure ratification from the Chilean Congress within about five months.⁴⁸

Intellectual Property Rights Protection

The U.S. Trade Representative (USTR), U.S. business groups, and some Members of Congress assert that Chile has not adhered to its intellectual property rights commitments. USTR placed Chile on its Priority Watch List in 2015, as it has every year since 2007, as a result of "serious concerns regarding long-standing intellectual property rights issues under the U.S.-Chile Free Trade Agreement."⁴⁹ In its annual *Special 301 Report* on intellectual property rights, USTR urged Chile to provide greater protection for pharmaceutical patents and plant varieties and to amend its Internet Service Provider liability regime to permit more effective action against piracy over the Internet. Given the long-standing nature of these complaints, some Members of Congress have called on USTR to initiate formal dispute settlement proceedings against Chile.⁵⁰

The Chilean government asserts that it has developed a solid institutional framework to protect intellectual property rights over the past decade, and that it continues to improve its system while trying to maintain a balance between fostering innovation and ensuring Chileans have access to knowledge and medications. It argues that USTR's *Special 301 Report* fails to acknowledge the advances that Chile has made, lacks clear criteria for categorizing countries, and reflects the desire of U.S. companies "to selectively apply their intellectual property standards to other countries." Furthermore, the Chilean government asserts that the *Special 301 Report* "does not contribute" to the improvement of bilateral relations.⁵¹

⁴⁶ See, for example, Sergio Bitar and Jorge Heine, "Chile y el Acuerdo Trans-Pacífico," *El Mercurio*, November 26, 2013; A. Chávez and P. Ojeda, "Los Desafíos de la Administración Bachelet en Materia de Relaciones Internacionales," *Diario Financiero* (Chile), December 26, 2013.

⁴⁷ "Bachelet Defiende el TPP: 'No Irá Más Allá de la Norma Vigente que tiene el País,'" *El Mercurio*, October 9, 2015.

⁴⁸ "Ratifying the Trans-Pacific Partnership will take Time," Economist Intelligence Unit, October 27, 2015.

⁴⁹ U.S. Trade Representative (USTR), *2015 Special 301 Report*, April 2015, <https://ustr.gov/sites/default/files/2015-Special-301-Report-FINAL.pdf>.

⁵⁰ See, for example, letter from Orrin G. Hatch, Ranking Member of the Senate Committee on Finance, to Ambassador Ron Kirk, United States Trade Representative, February 16, 2012.

⁵¹ Gobierno de Chile, Ministerio de Relaciones Exteriores, Dirección de Relaciones Económicas Internacionales, "Declaración Oficial – Con Respecto a la Publicación del Reporte Especial 301 de EEUU, Señalamos lo Siguiente," press release, April 30, 2015.

Foreign Direct Investment and Bilateral Income Tax Treaty

According to the U.S. State Department, Chile is viewed as an attractive destination for investment as a result of its open economy, well-developed institutions, and strong rule of law.⁵² As of 2014, the accumulated stock of U.S. foreign direct investment in Chile was \$27.6 billion, including more than \$12.5 million invested in the mining industry. In comparison, the accumulated stock of Chilean foreign direct investment in the United States was \$730 million.⁵³

In February 2010, the United States and Chile signed an income tax treaty designed to encourage investment in both countries by providing certainty on the tax treatment of investors and reducing tax-related barriers to investment. Among other provisions, the treaty would reduce source-country withholding taxes on certain cross-border payments of dividends, interest, and royalties; establish rules to determine when an enterprise or individual of one country is subject to tax on business activities in the other; enhance the mobility of labor by coordinating the tax aspects of the U.S. and Chilean pension systems; foster collaboration to resolve tax disputes and relieve double taxation; and ensure the full exchange between the U.S. and Chilean tax authorities of information for tax purposes.⁵⁴

President Obama submitted the agreement to the U.S. Senate for its advice and consent in May 2012 (Treaty Doc. 112-8).⁵⁵ The Senate Foreign Relations Committee held a hearing to consider the treaty, along with seven other pending agreements, on October 29, 2015,⁵⁶ and reported the treaty favorably on November 10, 2015. The committee had previously reported the treaty favorably in April 2014, but the full Senate never acted on it before the end of the 113th Congress.

Security Cooperation

General John F. Kelly, Commander of the U.S. Southern Command, has characterized Chile as a strong, capable partner; a regional leader; and an outstanding contributor to hemispheric and international security.⁵⁷ Chile has supported peacekeeping efforts in Haiti since 2004, when it quickly responded to the U.N. Security Council's request for peacekeepers, and paved the way for a number of other Latin American countries to contribute troops to 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 mission⁵⁸ and currently has 331 troops and 3 police officers on the ground.⁵⁹ Chile has also provided training to Central American police and

⁵² U.S. Department of State, Bureau of Economic and Business Affairs, *2015 Investment Climate Statement: Chile*, May 2015, <http://www.state.gov/e/eb/rls/othr/ics/2015/241516.htm>.

⁵³ U.S. Department of Commerce, Bureau of Economic Analysis, "Balance of Payments and Direct Investment Position Data," accessed October 2015.

⁵⁴ U.S. Department of the Treasury, "U.S., Chile Sign Income Tax Treaty," press release, February 4, 2010.

⁵⁵ The official title of the agreement is the "Convention Between the Government of the United States of America and the Government of the Republic of Chile for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital."

⁵⁶ U.S. Congress, Senate Committee on Foreign Relations, *Treaties*, 114th Cong., 1st sess., October 29, 2015, <http://www.foreign.senate.gov/hearings/treaties-102915p>.

⁵⁷ U.S. Southern Command, *Posture Statement of General John F. Kelly, United States Marine Corps, Commander, United States Southern Command, Before the 114th Congress, Senate Armed Services Committee*, March 12, 2015, pp. 3-4, http://www.southcom.mil/newsroom/Documents/SOUTHCOM_POSTURE_STATEMENT_FINAL_2015.pdf.

⁵⁸ Enzo Di Nocera García and Ricardo Benavente Cresta, "Chile: Responding to a Regional Crisis," in *Capacity Building for Peacekeeping: The Case of Haiti*, eds. John T. Fishel and Andrés Sáenz, pp.66-90 (Dulles, VA: Potomac Books, 2007).

⁵⁹ United Nations, *U.N. Mission's Summary Detailed by Country*, September 30, 2015.

militaries and participated in Operation *Martillo*—a multinational and interagency drug interdiction effort designed to cut off illicit trafficking routes along the coasts of Central America.⁶⁰ Chile is also one of four countries directly supporting peace talks between the Colombian government and the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*, FARC).⁶¹

In order to foster closer security ties, the United States provides some foreign aid to Chile. U.S. security aid to Chile amounted to slightly less than \$1.1 million in FY2014 and FY2015 (see **Table 1**). It is currently unclear how much security aid will be provided in FY2016 since Congress has yet to adopt a full year appropriations bill. Programs are currently being funded through a continuing resolution (P.L. 114-53) that funds most aid programs and activities at the FY2015 level, minus an across-the-board reduction of 0.2108%, until December 11, 2015. The Obama Administration requested \$700,000 in security assistance for Chile in FY2016. \$500,000 would fund training for the Chilean military designed to promote professional development and technical capabilities, strengthen civil-military relationships, and increase interoperability with U.S. forces. The other \$200,000 would support the Chilean government’s efforts to develop a nonproliferation-driven strategic trade control system that meets international standards.⁶²

Table 1. U.S. Assistance to Chile: FY2014-FY2016

In current U.S. dollars

Foreign Assistance Account	FY2014 (Actual)	FY2015 (Estimate)	FY2016 (Request)
International Military Education and Training	792,000	760,000	500,000
Nonproliferation, Antiterrorism, Demining and Related Programs	290,000	290,000	200,000
Total	1,082,000	1,050,000	700,000

Source: U.S. Department of State, September 2015.

In June 2013, the United States and Chile signed an extradition treaty. It would replace the treaty that is currently in place, which dates to 1900, in order to modernize the list of extraditable offenses, allow for the extradition of individuals regardless of their nationalities, and incorporate procedural changes designed to accelerate the extradition process. President Obama submitted the agreement, known as the “Extradition Treaty Between the Government of the United States of America and the Republic of Chile,” to the U.S. Senate for its advice and consent in September 2014 (Treaty Doc. 113-6). The Senate has yet to act on the treaty.

Energy Collaboration

The U.S. and Chilean governments have both expressed interest in developing clean energy resources to meet domestic needs and mitigate global climate change. In recent years, however, Chile has become more reliant on carbon-emitting power sources (such as coal-fired

⁶⁰ White House, Office of the Press Secretary, “Fact Sheet: The United States and Chile – A Strategic Partnership,” press release, June 30, 2014.

⁶¹ For more information on the Colombian peace negotiations, see CRS Insight IN10372, *Colombian Peace Talks Breakthrough: A Possible End-Game?*; and CRS Report R42982, *Peace Talks in Colombia*, by (name redacted)

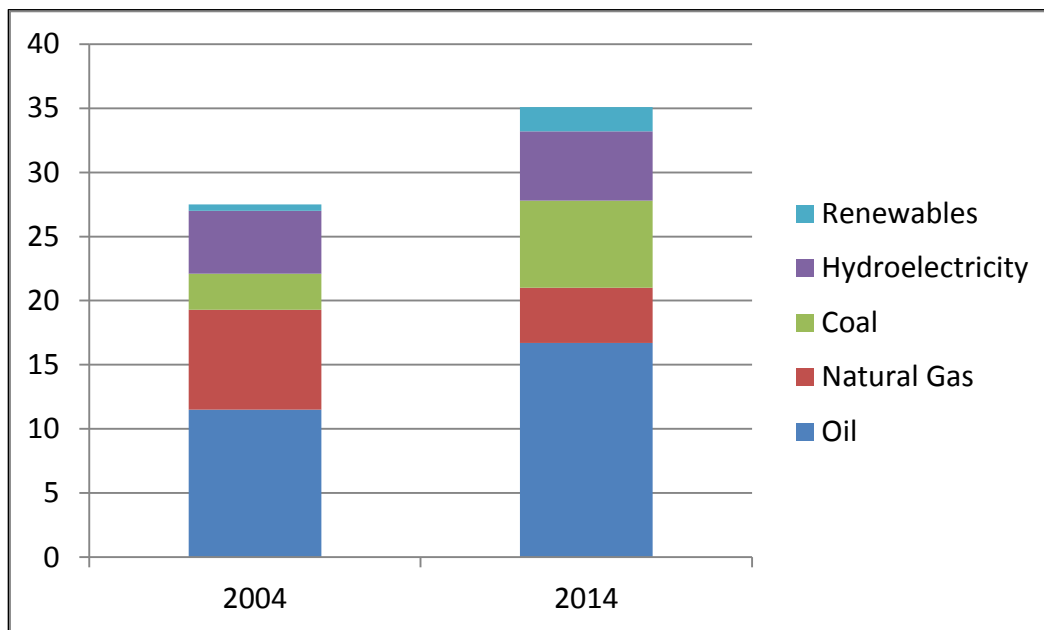
⁶² U.S. Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 3, Fiscal Year 2016*, February 27, 2015, <http://www.state.gov/documents/organization/238222.pdf>.

thermoelectric plants) as the country has struggled to satisfy its fast-growing demand for energy. Between 2004 and 2014, Chile's total primary energy consumption increased by 27%. During the same time period, Chile's coal consumption increased by 142%, and the percentage of total primary energy consumption accounted for by coal nearly doubled from 10% to 19%.⁶³ Since Chile is a minor producer of fossil fuels, it is heavily dependent on energy imports.⁶⁴

In order to diversify its energy supply, lower fossil fuel emissions, and reduce its reliance on expensive energy imports, Chile adopted a law in 2013 that requires 20% of the national energy mix to be generated from nonconventional renewable energy sources by 2025. President Bachelet's energy strategy reiterates Chile's commitment to that goal and stipulates that 45% of electricity capacity installed between 2014 and 2025 should come from renewable energy sources. Bachelet's energy strategy also aims to make liquefied natural gas (LNG) a larger component of Chile's energy mix.⁶⁵ Renewables currently account for about 5.4% of Chile's primary energy consumption while natural gas accounts for 12% (see **Figure 3**).⁶⁶

Figure 3. Primary Energy Consumption in Chile: 2004 and 2014

In millions of tons of oil equivalent



Source: CRS presentation of data from BP, *Statistical Review of World Energy*, June 2015.

The United States is working with Chile to overcome the financial and technical barriers that have prevented the country from taking advantage of its vast wind, solar, tidal, and geothermal energy potential. In June 2009, under the umbrella of President Obama's "Energy and Climate Partnership for the Americas," the United States and Chile signed a memorandum of understanding on cooperation in clean energy technologies. As a result of the agreement, the U.S.

⁶³ BP, *Statistical Review of World Energy*, June 2015, <http://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf>.

⁶⁴ U.S. Energy Information Administration (EIA), "Chile," August 2015, <http://www.eia.gov/beta/international/analysis.cfm?iso=CHL>.

⁶⁵ "A Three-Pronged Energy Strategy," Economist Intelligence Unit, May 20, 2014.

⁶⁶ BP, 2015, op. cit.

Department of Energy provided support to Chile's Renewable Energy Center and two solar plant pilot projects in the Atacama Desert.⁶⁷ Additionally, the Overseas Private Investment Corporation (OPIC), an independent U.S. government agency, has approved nearly \$700 million of loan guarantees for five solar energy projects in Chile since 2013.⁶⁸

In 2014, the United States and Chile signed a joint statement on expanding bilateral energy cooperation. While continuing to work together on renewable energy, the countries also agreed to collaborate on energy efficiency, electricity grid policy, and oil and natural gas development.⁶⁹ Chile's National Petroleum Company (*Empresa Nacional del Petróleo*, ENAP) is scheduled to begin importing U.S. LNG by 2016.⁷⁰

Outlook

Chile is in the midst of a political and economic transition. Following the return to democracy in 1990, Chilean leaders and institutions prioritized political stability and economic growth, eschewing ambitious structural reforms in favor of consensus-based politics, orthodox economic policies, and incremental social change. Those preferences allowed Chile to consolidate democratic governance and produce significant improvements in the living standards of its citizens, but they inhibited the political system's ability to address Chile's high level of inequality. Discontent with the limits of the post-Pinochet policy consensus propelled President Bachelet and her New Majority coalition to sizeable electoral victories. While their ambitious fiscal, educational, and constitutional reforms have produced uncertainty and could be damaging to the country's economy and stability if mishandled, they have the potential to foster inclusive growth and revitalize Chile's democratic institutions.

U.S.-Chilean relations are likely to remain friendly in the coming years as a result of shared values and common interests. The countries currently cooperate on a range of issues, including trade, security, energy, and scientific research. Congressional approval of the Trans-Pacific Partnership trade agreement and a bilateral income tax treaty could lead to higher levels of trade and investment, while approval of a pending extradition treaty could lead to enhanced security cooperation. The United States and Chile may also discover new areas for collaboration as Chile's ongoing transition to a higher level of economic development enables it to take on additional regional and global responsibilities.

⁶⁷ White House, Office of the Press Secretary, "The United States and Chile: Environment, Energy, and Climate Change," fact sheet, March 21, 2011.

⁶⁸ Overseas Private Investment Corporation, "Active OPIC Projects," <https://www.opic.gov/opic-action/active-opic-projects>.

⁶⁹ White House, Office of the Press Secretary, "Fact Sheet: The United States and Chile – A Strategic Partnership," press release, June 30, 2014.

⁷⁰ EIA, 2015, op. cit.

Appendix A. Map of Chile

Figure A-1. Map of Chile



Source: Map Resources, adapted by CRS Graphics.

Appendix B. Chilean Political Party Acronyms

Table B-I. Chilean Political Acronyms

Acronym	Political Party	Description
PC	Communist Party	Left-wing member party of Nueva Mayoría. ^a
PDC	Christian Democratic Party	Centrist member party of Nueva Mayoría.
PL	Liberal Party	Centrist party created by PPD dissidents. It was formerly known as <i>Chile Primero</i> , or “Chile First.”
PPD	Party for Democracy	Center-left member party of Nueva Mayoría.
PRI	Regionalist Party of Independents	Centrist party formed in a merger of regional parties.
PRSD	Social Democratic Radical Party	Center-left member party of Nueva Mayoría.
PS	Socialist Party	Center-left member party of Nueva Mayoría.
RN	National Renewal	Center-right member party of the Alianza. ^b
UDI	Independent Democratic Union	Right-wing member party of the Alianza.

Source: CRS.

Notes:

- a. *Nueva Mayoría*, or “New Majority,” is a center-left coalition of parties. It replaced the political coalition known as the *Concertación*.
- b. The *Alianza*, or “Alliance for Chile,” is a center-right coalition of parties. The RN and the UDI recently joined with the PRI and a new center-right party known as “Political Evolution” (*Evópoli*) to rebrand the center-right coalition as *Chile Vamos*.

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