

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The text is overlaid on the graphic.

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*Chile: Political and Economic Situation and U.S. Relations*

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Updated August 5, 2003

**Abstract.** This report analyzes political and economic conditions in Chile as well as major issues in U.S.-Chilean relations. Chile returned to civilian democratic rule in 1990 after 17 years of military government. Amidst the transition to democracy, civil-military relations have been tense at times. U.S. relations with Chile are close, characterized by strong commercial ties and extensive consultation between the two governments in bilateral and other issues of mutual concern.

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

**Updated August 5, 2003**

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

## Summary

A South American nation with a population of about 15 million, Chile returned to democratic rule in 1990 after 17 years of military government. The current administration of President Ricardo Lagos, inaugurated in March 2000 to a six-year term, is Chile's third elected government since the return to civilian rule. Chile has weathered the transition to democracy well, although civil-military relations have been tense at times. The October 1998 arrest of former military ruler General Augusto Pinochet in London on human rights violations exacerbated political schisms in Chile, but in the end, Chilean democracy appears to have emerged stronger with the civilian government more firmly in charge of the military.

Chile is generally recognized as a model for the successful implementation of market-oriented economic reform measures, and there has been political consensus in the country on maintaining a liberal market economy and prudent fiscal and monetary policies. The Lagos government has continued the country's export-oriented economic strategy. The economy registered positive growth rates from the mid-1980s through 1998 but contracted in 1999 because of the Asian economic crisis. In 2000, the economy rebounded, but economic growth slowed in 2001 and in 2002 because of the global and regional economic slowdown. Economic growth is forecast to increase by 3.5% in 2003 and 4.5% in 2004, fueled by improvement in consumer and investor confidence and Chile's trade liberalization efforts.

U.S. relations with Chile, which improved considerably with the nation's return to democracy in 1990, are close, characterized by strong commercial ties and extensive consultation between the two governments on bilateral and other issues of mutual concern. Since 1994, U.S.-Chilean relations have centered on a potential free trade agreement (FTA). Negotiations for such an agreement began in December 2000 and concluded in December 2002, with the agreement signed on June 6, 2003. The U.S. Congress considered implementing legislation, H.R. 2738, under so-called fast-track procedures, with the House passing the measure July 24 by a vote of 270-156 and the Senate approving it July 31 by a vote of 66-31. The Chilean Congress is expected to vote on the agreement by late October or early November. Another issue in bilateral relations has been the sale of advanced combat fighter aircraft to Chile. A preliminary agreement was reached between the Chilean military and Lockheed Martin for the purchase of 10 F-16 fighter jets in November 2001, but the contract for the planes was not finalized until May 2003; delivery is expected in early 2006.

For more information, see: CRS Report RL31144, *A U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*; CRS Report RS21560, *Free Trade Agreements with Singapore and Chile: Labor Issues*; and CRS Report 95-839, *Social Security: The Chilean Example*.

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

## Political Situation

A South American nation with a population of about 15 million, Chile returned to democratic rule in 1990 after 17 years of military government under General Augusto Pinochet. Since then, Chile's democratic transition, civil-military relations have been tense at times. The arrest of Pinochet in London by British authorities in 1998 underscored political divisions in Chile that have endured since the general stepped down as President in 1990. Nevertheless, Chilean democracy appears to have emerged stronger, with the civilian government more firmly in charge of the military.

The current administration of President Ricardo Lagos, inaugurated in March 2000 to a six-year term after a close run-off election, is Chile's third elected government since the return to civilian rule. President Lagos, a Socialist, was the candidate of the ruling center-left Coalition of Parties for Democracy, or Concertacion, that has ruled since the country's return to democracy. In a tight race, he defeated Joaquin Lavin of the rightist Alliance for Chile, or Alianza, by a margin of 51.3 % to 48.7%. Lagos succeeded Christian Democrat Eduardo Frei who had been elected President in December 1993. Prior to that, in March 1990, Christian Democrat Patricio Aylwin became the first democratically elected President inaugurated since the military violently overthrew the government of President Allende, a Socialist, in September 1973.

At the time of the 1973 coup, Chile was deeply divided. President Allende had initiated a program of nationalizing banks and private industries (including U.S.-owned copper mining companies) which ultimately led to severe economic deterioration marked by runaway inflation, food shortages, and increasing political violence by both government opponents and supporters.

In the aftermath of the coup, the military regime was responsible for widespread human rights violations, including the execution or "disappearance" of thousands of Chileans. An official Truth and Reconciliation Commission in Chile reported in 1996 that there had been 3,197 cases of murders and disappearances committed during Pinochet's rule.<sup>1</sup> This does not account for the thousands of cases of torture that allegedly took place under military rule. According to the Department of State's human rights report covering 2002, the Chilean government, especially the judiciary,

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<sup>1</sup> "Pinochet Era Toll. *Latin American Weekly Report*, September 5, 1996. p. 408; Chile Panel Issues Final Pinochet Regime Death Toll, *Charlotte Observer*, August 23, 1996, p. 20A.

has taken significant steps to allow for the investigation of human rights abuses committed under military rule. The report noted, however, that “military authorities were unwilling or unable to provide a full accounting for the fate of many of the over 3,000 persons who disappeared or were killed.” Since 1992, survivors of the victims have received over \$96 million in assistance (such as pensions and educational benefits) from the Chilean government, according to the human rights report.

Chile is governed under a 1980 Constitution — written by the former military government and approved by referendum — that includes provisions to protect the interests of the military. Although technically subordinate to the President, the military acts with considerable autonomy. As noted above, although Chile has weathered the transition to democracy, civil-military relations have been tense at times. In 1995, civil-military relations were strained over the imprisonment of two high-ranking military officers for the 1976 assassination in Washington, D.C., of Chilean opposition leader Orlando Letelier and his U.S. aide, Ronni Moffitt.

**Pinochet’s 1998 Arrest and Its Effect on Chilean Politics.** The October 1998 arrest of Pinochet in London on human rights violations initially prompted sometimes violent street demonstrations by thousands of Chileans on both sides of the issue, exacerbating political schisms in Chile that had not been evident to such a degree since the country’s return to democracy. Pinochet, who ruled Chile from 1973 until 1990, had resigned as military commander in March 1998, but was immediately sworn in as a lifelong senator under the Constitution. After his arrest in London, a British court eventually ruled that Pinochet, as a former head of state, was not immune from prosecution and could be extradited to Spain to face charges for human rights atrocities committed in Chile, but Pinochet was allowed to return home to Chile in March 2000 because of his deteriorated health.<sup>2</sup>

Within days of returning to Chile, however, Pinochet faced numerous charges against him in Chilean courts for human rights violations during his rule. In August 2000, Chile’s Supreme Court stripped Pinochet of his immunity as a lifelong senator for prosecution in a 1973 case known as the Caravan of Death in which 19 persons disappeared.<sup>3</sup> Many observers viewed the action as victory for Chilean democracy. President Lagos stated that the indictment should be interpreted as “an expression of what is happening in the country - the strengthening of the democratic system.”<sup>4</sup> While a Chilean court ultimately ruled in July 2001 that Pinochet was mentally unfit to stand trial, the stripping of his immunity was an important precedent for the country’s political system. Pinochet ultimately resigned his position as senator-for-life in July 2002.

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<sup>2</sup> For background on legal proceedings in Great Britain, see CRS Report RL30117, *Pinochet Extradition Case: Selected Legal Issues*, by David M. Ackerman.

<sup>3</sup> U.S. Department of State. Country Reports on Human Rights Practices -2000, Chile. February 2001; Also see Patricia Verdugo, *Chile, Pinochet, and the Caravan of Death*, North-South Center Press, University of Miami, 2001.

<sup>4</sup> Anthony Faiola and Pascale Bonnefoy, “Pinochet Indicted for Chilean Atrocities; Ex-Dictator Put Under House Arrest for Killings, Kidnappings.” *Washington Post*, December 2, 2000, p. A1.

Pinochet's absence during the country's presidential elections in December 1999 and January 2000 in a sense freed Chilean politics from the long shadow that the general had usually cast on elections since the return to democracy. The candidate of the rightist Alianza coalition, Joaquin Lavin, broke with hard-core Pinochet supporters in an attempt to appeal to centrist voters, and even went so far as to agree with his opponent that Pinochet and other military officers involved in human rights abuses should be prosecuted by Chilean courts.<sup>5</sup> Lavin's re-invention of the Chilean right contributed in part to his strong showing in the election and made him potentially a strong contender in the next presidential election in 2005.

**Chilean Congress.** Chileans went to the polls on December 16, 2001, to elect all 120 members of the Chamber of Deputies, the lower house of Chile's National Congress, and 18 of the 38 elected members of Chile's Senate. While the ruling Concertacion coalition maintained its control of the Chamber of Deputies, its representation declined from 70 to 63 seats. The big loser in Concertacion was the centrist Christian Democratic Party (PDC), whose representation fell from 38 seats to 24 seats. The opposition rightist Alianza coalition won 57 seats in the lower house. The big winner in Alianza was the Independent Democratic Union (UDI), the party of Joaquin Lavin (currently the mayor of Santiago), whose representation grew from 22 seats to 35 seats, making it the party with the largest number of seats in the Chamber of Deputies.

In 2002, a corruption scandal led to six deputies having their voting rights suspended, 5 from Concertacion and 1 from Alianza, but this did not jeopardize the ruling coalition's control of the lower chamber by a 58-56 margin. In the current Congress, the Concertacion coalition has deputies from the centrist PDC and three leftist parties: the Party for Democracy (PPD), the Socialist Party (PS) of President Lagos, and the Social Democratic Radical Party (PRSD). The rightist Alianza coalition has deputies from the UDI and the National Renovation Party (RN).

In the Senate, as a result of the elections, there is now a relative balance of power between Concertacion and the Alianza coalitions, with each having 24 seats. The now 48-member Senate consists of 38 elected seats (20 of these were chosen in the December 1997 elections, and 18 were chosen in the December 2001 elections), 9 seats that are appointed for 8-year terms, and one lifelong seat for former President Frei. As noted above, former President Pinochet had a lifelong seat but resigned this in July 2002.

**Corruption Scandals.** In late 2002 and early 2003, a series of corruption scandals shook the Lagos government and political parties across the spectrum. The scandals involved the theft of some \$110 million from Chile's business development bank, influence peddling by Chilean legislators, and kickbacks to senior management of government agencies on government contracts.<sup>6</sup> As noted above, the scandals resulted in the suspension of six deputies in Congress. More significantly, the

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<sup>5</sup> Sebastian Rotella, "Chile Elects First Socialist Leader Since '73 Coup," *Los Angeles Times*, January 17, 2000.

<sup>6</sup> Jon Jeter, "Spate of Scandals Sullies Chile Squeaky-Clean Reputation," *Washington Post*, April 22, 2003.

scandal had the effect of uniting political parties to the need for political and regulatory reform. All the parties in Congress joined in a national accord with the aim of modernizing Chile's institutions and increasing transparency in government. The goal is for Congress to approve a package of 49 bills by the end of the year involving a host of state modernization, political transparency, and pro-economic growth measures.<sup>7</sup>

## Economic Conditions

Chile is generally recognized as Latin America's best-performing market economy, and is viewed by many as a model for the successful implementation of market-oriented economic reform measures. The government of President Ricardo Lagos has continued the country's export-oriented economic strategy. The economy registered positive growth rates from the mid-1980s through 1998, averaging a real growth rate of 8% annually, but contracted in 1999 by 1.1%. This was due in large part to the Asian economic crisis that reduced demand for Chile's exports in key export markets and because of the crisis' role in lowering the world price of copper, Chile's main export commodity, which accounts for about 40% of export earnings. In 2000, the economy rebounded with a growth rate of 5.4%, but economic growth slowed to 3.1% in 2001 and 2.1% in 2002 because of the global and regional economic slowdown. Economic growth is forecast to increase by 3.5% in 2003 and 4.5% in 2004, fueled by improvement in consumer and investor confidence and Chile's trade liberalization efforts.<sup>8</sup>

Despite recent banking and government contract scandals, Chile's economic fundamentals remain sound, and there is a political consensus in the country to maintain a liberal market economy and prudent fiscal and monetary policies. The country's relatively high domestic savings rate, nearly 21% in 2002 (fostered in part by mandatory retirement contributions administered by private pension fund management firms<sup>9</sup>) is the highest in the Western Hemisphere, which reduces Chile's dependence on short-term foreign capital compared to countries with lower savings rates.

Under both military and civilian rule, Chile has pursued an export-led growth strategy. Although copper is still the dominant export, Chile has diversified its export sector, and major exports now include fish, forestry products, fruit, and wine. The economy remains somewhat vulnerable, however, because of its reliance on the export of primary products. The country ran trade deficits from 1996-1998, yet has

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<sup>7</sup> "Chile Outlook for 2003-04: Domestic Politics," Economist Intelligence Unit, Chile Country Report, May 2003.

<sup>8</sup> "Chile: Outlook for 2003-04: Economic Growth," Economist Intelligence Unit, Chile Country Report, May 2003.

<sup>9</sup> Chile made considerable changes to its pension system beginning in 1981, when it began phasing out a traditional pay-as-you-go pension system in favor of mandatory individual private accounts. For more information, see CRS Report 95-839, *Social Security: The Chilean Example*, by Geoffrey Kollmann.



run trade surpluses since 1999. In 2002, Chile's exports amounted to \$18.3 billion while its imports amounted to \$15.8 billion.<sup>10</sup> The government has demonstrated its commitment to an open economy by reducing its uniform import tariff over several years from 11% to a current level of 6% beginning in January 2003. Chile's foreign trade is diversified among many partners including Asia, the European Union, and Latin America in addition to the United States, which was the market for about 20% of Chile's exports and the origin of almost 15% of its imports.<sup>11</sup>

As part of its export growth strategy, Chile has pursued free trade negotiations with several countries in addition to that concluded with the United States in December 2002 and is an active participant in negotiations for a Free Trade Area of the Americas (FTAA). In 1996, Chile signed bilateral free trade agreements with both Canada and Mexico, and in 2002, it concluded negotiations for free trade agreements with South Korea and the European Union. In 1996, Chile signed an association agreement with the four-nation Common Market of the South (Mercosur). In 1994, Chile became a full member of the Asia Pacific Economic Cooperation group (APEC) and is working to expand trade in the Pacific Rim region.

Critics of the Pinochet regime (1973-1990) argued that the gap between rich and poor had widened under military rule because the state dismantled many public services. Since the return to civilian rule, the government has increased social spending and introduced numerous programs targeted at reducing poverty. According to the Department of State, the poverty rate decreased from 45% in 1987 to 20.6% in 2001.<sup>12</sup>

## U.S.-Chilean Relations

U.S.-Chilean relations, which improved considerably with the nation's return to democracy in 1990, are close and are characterized by strong commercial ties and extensive consultation between the two governments on bilateral and other issues of mutual concern. Bilateral negotiations for a bilateral free trade agreement (FTA) began in December 2000 and were completed in December 2002. The agreement was ultimately signed on June 6, 2003, paving the way for U.S. congressional consideration of implementing legislation under so-called fast track procedures. The House approved H.R. 2738, the United States-Chile Free Trade Implementation Act, on July 24, 2003, by a vote of 270-156, and the Senate approved the measure on July 31 by a vote of 66-31. The Chilean Congress is expected to vote on the measure by late October or early November 2003.

Over the past several years there have been several presidential visits, including a 1997 visit to Washington by then President Frei who addressed a joint session of

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<sup>10</sup> Economist Intelligence Unit, Chile Country Report, May 2003

<sup>11</sup> CRS Report RL31144, *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J.F. Hornbeck, p. 8.

<sup>12</sup> U.S. Department of State. Country Reports on Human Rights Practices -2002, Chile. March 31, 2003.

Congress, and an April 1998 visit to Chile by President Clinton before the commencement of the second Summit of the Americas hosted in Santiago. President Lagos met with President Bush in Washington in April 2001 prior to the third Summit of the Americas held in Quebec. The two leaders discussed the status of bilateral negotiations for a free trade agreement, the issue of advanced combat fighter sales to Chile, and Chile's privately administered pension system, which President Bush suggested might provide some lessons for the modernization of the U.S. Social Security system.<sup>13</sup>

In the aftermath of 9/11, Chile joined other Latin American nations in strongly condemning the terrorist attacks on New York and Washington.<sup>14</sup> At a special session on September 19, 2001, OAS members invoked the 1947 Inter-American Treaty of Reciprocal Assistance, also known as the Rio Treaty, which obligates signatories of the treaty to come to one another's defense in case of outside attack. When the United States commenced military action in Afghanistan, President Lagos firmly backed the action and reiterated "Chile's solidarity and support for the United States."<sup>15</sup>

During the crisis with Iraq, Chile's seat on the U.N. Security Council heightened the country's international prominence. Chile's opposition to a second U.N. Security Council resolution sponsored by the United States, the United Kingdom, and Spain authorizing the use of force to disarm Iraq brought criticism from U.S. officials. Chile had announced its decision to oppose the second resolution, which reflected the opinion of many Latin American nations, but ultimately the resolution was withdrawn before being voted upon. In other recent activities in international fora, Chile has been on the same side as the United States. For example, it backed attempts to produce a strong resolution against the recent Cuban human rights crackdown in the U.N. Commission on Human Rights (UNCHR) and the Organization of American States (OAS). Chile has also been one of the six "Friends of Venezuela," which also includes the United States, that have been supporting the efforts of the OAS Secretary General in facilitating a resolution to the political crisis in Venezuela.

There had been concern in Chile about the negative effect of Chile's Iraq position on relations with the United States, especially over the delay in the signing the bilateral free trade agreement, which originally was to be signed in April 2003. But in the aftermath of the signing of free trade agreement in June, President Lagos described U.S.-Chilean relations as "splendid" and U.S. Secretary of State Colin

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<sup>13</sup> For background on Chile's pension system, see CRS Report 95-839, *Social Security: The Chilean Example*, by Geoffrey Kollmann.

<sup>14</sup> For background, see CRS Report RS21049, *Latin America: Terrorism Issues and Implications for U.S. Policy*, by Mark P. Sullivan.

<sup>15</sup> "Latin American Leaders Back U.S.-Led Military Strikes," *Agence France Presse*, October 8, 2001.

Powell indicated that he did not see any lasting consequences of the disagreement over Iraq.<sup>16</sup>

## Free Trade Agreement<sup>17</sup>

Since 1994, U.S.-Chilean relations have centered on a potential free trade agreement. For Chile, such an agreement is viewed as an important means to continue the country's export-oriented growth strategy. For the United States, although free trade with Chile is of relatively minor economic importance, the agreement could be a further step on the road to hemispheric free trade.

In 2002, U.S. exports to Chile amounted to \$2.6 billion, making Chile the 34<sup>th</sup> largest U.S. export market; major exports included computer and office equipment; construction equipment; telecommunications equipment, and transportation equipment. U.S. imports from Chile in 2002 amounted to almost \$3.8 billion, making Chile the 36<sup>th</sup> largest source of U.S. imports; major imports included copper, seafood (especially salmon), wood and wood products, fruit (especially grapes), and wine. From 1989 until 2000, the United States ran a trade surplus with Chile, with the largest surplus of \$2 billion registered in 1997, but in 2001 and 2002, the United States ran a trade deficit with Chile, with the 2002 deficit approaching \$1.2 billion.<sup>18</sup> While the United States is an important trade partner for Chile, accounting for about 20% of Chile's exports and 15% of Chile's imports, the country has other significant partners in Europe, Asia, and Latin America.<sup>19</sup>

Initially, Chile was invited to become part of the North American Free Trade Agreement (NAFTA) in 1994, but the Clinton Administration was unable to secure congressional approval for fast track negotiating authority. Chile indicated that it would not start negotiations without such authority. Later, in November 2000, the Clinton Administration announced that the two countries would pursue a bilateral free trade agreement, and Chile withdrew its insistence that the Administration secure fast track authority before the beginning of negotiations.

Negotiations began in December 2000, and while there was some expectation that negotiations would be completed within a year, a number of issues stretched out the negotiation process. Topics at issue in the negotiations included market access, Chile's price band system on some agricultural commodities, labor and environmental provisions and enforcement, intellectual property rights, and investor-state disputes.

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<sup>16</sup> "Chile Sees Relations with U.S. Restored," *Reuters*, June 9, 2003.

<sup>17</sup> For more detailed information from CRS on the FTA, see: CRS Report RL31144, *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J.F. Hornbeck; and CRS Report RS21560, *Free Trade Agreements with Singapore and Chile: Labor Issues*, by Mary Jane Bolle.

<sup>18</sup> Department of Commerce Statistics, as presented in World Trade Atlas.

<sup>19</sup> CRS Report RL31144, *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J.F. Hornbeck, p. 8

After 14 rounds of negotiations, the United States and Chile ultimately concluded negotiations for a bilateral free trade agreement in December 2002. The agreement was signed on June 6, 2003 in Miami by United States Trade Representative Robert Zoellick and Chilean Foreign Minister Maria Soledad Alvear Valenzuela, paving the way for the Congresses of both countries to consider the agreement. If approved, the FTA would enter into force on January 1, 2004.

At the signing of the agreement, United States Trade Representative Robert Zoellick asserted that the U.S.-Chile FTA is “an historic agreement that sets a high bench-mark for future FTAs.” He maintained that the agreement “slashes tariffs and quotas, reduces barriers for services, protects leading-edge intellectual property, keeps pace with new technologies and new ways of doing business, ensures regulatory transparency, and promotes labor and environmental protections.”<sup>20</sup> Under the agreement, more than 85% of trade in consumer and industrial products would be tariff-free immediately with most remaining tariffs lifted within 4 years. In the agriculture sector, about 75% of farm goods would be tariff-free within 4 years, with all tariffs and quotas phased out in 12 years.<sup>21</sup>

The International Trade Commission issued a report on the FTA in June 2003 and concluded that the “economywide effects on U.S. trade, production, and economic welfare” of the FTA’s tariff reductions “are likely to be negligible to very small.” In looking at specific economic sectors, the ITC report concluded that increased import competition from Chile would include dairy products; textiles, apparel, and leather products; and agricultural products such as avocados, prepared and preserved fruit, and methanol. Increased U.S. exports to Chile would include transportation equipment and machinery exports; textiles, apparel, and leather products; and coal, oil, and gas; motor vehicles’ and telecommunications equipment.<sup>22</sup>

**U.S. Congressional Action.** In the United States, Congress considered implementing legislation for the agreement under so-called fast-track procedures. The House approved H.R. 2738, the United States-Chile Free Trade Implementation Act, on July 24, 2003, by a vote of 270-156, and the Senate approved the measure on July 31 by a vote of 66-31.

Supporters of the U.S.-Chile FTA in the United States made several policy arguments advocating the agreement. They maintained that the agreement would have a significant impact on U.S. relations with Latin America and would demonstrate that the United States is committed to the region, countering critics who have complained that the United States is neglecting the region. They also argued that the Chile FTA could increase momentum for completing negotiations for the region-wide Free Trade Area of the Americas. Supporters of the agreement also

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<sup>20</sup> “United States and Chile Sign Historic Agreement,” U.S. Department of State, International Information Programs, Washington File, June 6, 2003.

<sup>21</sup> Ibid.

<sup>22</sup> U.S. International Trade Commission, “U.S.-Chile Free Trade Agreement: Potential Economywide and Selected Sectoral Effects,” USITC Publication 3605, June 2003.

argued that the agreement would be significant for U.S. business because of the elimination of tariff barriers to the Chilean market, as well as the elimination of Chile's price band system on agricultural commodities such as wheat and flour. They maintained that the agreement would eliminate the disadvantage that U.S. companies in Chile have compared to the companies of other countries that have free trade agreements with Chile, such as Canada and the European Union. Some supporters also lauded a recent agreement by Chile to accept U.S. meat processing standards for beef, pork, and lamb; although the agreement was not part of the FTA, it was prompted by some Members of Congress who said that failure to reach such an agreement could have threatened support of the FTA in the U.S. Congress.<sup>23</sup> Finally, another argument made by some supporters is that the agreement would help spur more reform in Chile in such areas as transparent rules for contracting services, the protection of intellectual property rights, and enforcement of labor and environmental standards.

Critics of the free trade agreement with Chile also set forth several policy arguments. Some Members, while believing that the labor and environmental enforcement provisions of the Chile agreement were acceptable because Chile has acceptable domestic standards, feared that such provisions could become models for free trade agreements with other countries that do not have adequate labor or environmental standards. Specifically, some opposed the use of the Chile FTA's environmental and labor provisions as a model for the U.S.-Central America Free Trade Agreement (CAFTA) currently being negotiated.<sup>24</sup> (Some Members who ended up voting for the U.S.-Chile FTA warned that they would not support it as a model for FTAs with other nations that do not have high labor and environmental standards.) U.S. labor organizations such as the AFL-CIO called on Congress to reject the Chile agreement because they viewed it as a step backward from the labor provisions set forth in the U.S.-Jordan Free Trade Agreement and the Generalized System of Preferences.<sup>25</sup> They criticized the Chile FTA for only having enforceable labor provisions related to a country's enforcement of its own labor laws, not sanctions for failing to enforce labor or environmental laws in order to gain a competitive advantage or sanctions to deny trade benefits if countries are not taking steps to afford internationally recognized worker rights. Some critics of the Chile FTA also argued that the United States Trade Representative overstepped its negotiating authority by including immigration provisions in the agreement. They opposed the agreements because of provisions allowing more foreign professional workers into the United States.

**Chilean Action on the FTA.** The Chilean Congress, which delayed its consideration of the agreement until the U.S. Congress took action, is expected to vote on the measure by late October or early November 2003. The procedure in the Chilean Congress is for the agreement to be referred to a joint special committee and

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<sup>23</sup> "U.S.-Chile Meat Inspection Could Lead to Modest Export Gains," *Inside U.S. Trade*, June 13, 2003.

<sup>24</sup> See CRS Report RL31870, *The U.S.-Central America Free Trade Agreement (CAFTA): Challenges for Sub-Regional Integration*, by J.F. Hornbeck

<sup>25</sup> "Labor Trade Advisory Committee Criticizes FTAs with Chile, Singapore," *Labor Relations Week*, March 6, 2003.

then for both houses, the Chamber of Deputies and the Senate, to vote on the measure.

There appears to be broad support for the FTA in Chile. The Chilean business community has been especially supportive of the bilateral agreement and leaders in the two major political coalitions — Concertacion and Alianza — support the accord. Nevertheless, there has been some criticism from Chilean farmers, environmental groups, and some politicians. Some 30 representatives in Chile's bicameral Congress (both from the right and the left) reportedly have warned that unless some protection is afforded to traditional Chilean farmers who produce for the internal market, that they will likely vote against the agreement.<sup>26</sup> For some 200,000 small farmers in southern Chile who produce such products as wheat, dairy products, beef, and beets for the internal market, the trade agreement will reportedly be disastrous. Chile's Southern Agriculture Consortium (CAS), which represents farmers in southern Chile, maintains that because of the climate, the farmers do not have the option of growing alternative crops if their markets disappear.<sup>27</sup> Some Chilean environmental groups, such as Sustainable Chile and the Terram Foundation, criticize the free trade agreement because they believe it will result in downward pressure on Chilean environmental standards instead of providing a mechanism to elevate standards.<sup>28</sup>

**Environmental and Labor Conditions in Chile.** Although Chile faces significant environmental problems because of past insufficient attention in the country's rush toward development, the Chilean government has been working since 1994 to establish regulations and enforcement mechanisms.<sup>29</sup> The government's National Environmental Commission (Conama), established in 1990, coordinates other agencies with regard to the environment and promotes environmental policies in the country. Conama is responsible for implementation of a 1994 Environmental Framework Law, which includes setting regulations and standards and monitoring enforcement. Its priorities include air pollution and the regulation of liquid and toxic waste. Under the Environmental Framework Law, environmental impact studies are required for major projects in mining, manufacturing, forestry, and some infrastructure projects, while smaller projects require an environmental-impact declaration or statement to Conama.<sup>30</sup> The main environmental agenda for the

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<sup>26</sup> "Grassley Vows Quick Action on Chile FTA; In Chile, Pact Faces Critics on Right and Left," *International Trade Reporter*, June 12, 2003.

<sup>27</sup> James Langman, "Free Trade a Dilemma for Chile; Success for Some Means Loss for Others," *Washington Times*, June 17, 2003.

<sup>28</sup> "Chilean Groups Say Free Trade Pact Will Exacerbate Environmental Woes," *International Environment Reporter*, June 4, 2003.

<sup>29</sup> Michael Smith, "Chile Putting Muscle Into Its Environmental Laws," *Miami Herald*, February 28, 1998; For an excellent review of Chilean environmental laws and regulations, see U.S. Trade Representative, "Draft Environmental Review of the Proposed U.S.-Chile Free Trade Agreement," November 7, 2001.

<sup>30</sup> "Chile Regulations: Environmental Regulations," *EIU Viewswire*, October 15, 2001.

government in 2003 is the beginning of a new urban transportation scheme for Santiago in order to reduce air pollution.<sup>31</sup>

Numerous environmental nongovernmental organizations are active in Chile, and some have succeeded in blocking several industrial and infrastructure projects in the country. For example, a U.S. company, Savia International, in August 2000 withdrew its proposal for a \$200 million project to tap 103,000 hectares of natural forests, while in February 2001, another U.S. company, Boise Cascade, pulled out of a \$160 million project to build a board manufacturing plant and deep-water port.<sup>32</sup>

In other cases, environmental groups have been active in supporting conservation projects, including the high-profile nature reserve project of U.S. businessman Douglas Tompkins. In July 2001, the Chilean government and Tompkins resolved a dispute and agreed to create the continent's largest nature sanctuary in southern Chile. For over a decade, Tompkins spent millions buying parcels of land to piece together the 700,000 acre Pumalin Park, but the project met strong opposition from some Chilean business interests and others who feared such extensive involvement in Chile by Americans. Some observers maintain that one reason the Chilean government went ahead with the project was because of its desire to reach a free trade agreement with the United States; approval of the project would demonstrate that the government is environmentally responsible.<sup>33</sup>

With regard to worker rights, for the most part Chile has enjoyed calm labor relations since the country's return to democracy, and the climate for collective bargaining has improved over the past decade. The government is a signatory to all International Labor Organization (ILO) core conventions on worker rights.<sup>34</sup> About 10% of the country's work force is unionized. Until 2001, labor code provisions made it difficult for trade unions to organize in many sectors, but the Chilean Congress approved a major labor reform bill that went into force in December 2001 that loosened restrictions on participating in unions and collective bargaining. Chile's Unified Workers Central (CUT), which represents the country's five major labor confederations, strongly supported the legislation. The Lagos government deemed the labor reform crucial for its negotiation of a free trade agreement with the United States.

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<sup>31</sup> "Chile: Government's Environmental Agenda Includes Santiago Transport, Emission Trading Plans," *International Environment Reporter*, January 29, 2003.

<sup>32</sup> "Chile Company: Environmental Concerns Hold up Trillium Project," *EIU Viewswire*, April 4, 2001; and "Chile: Greens Move to Foil Aluminum Project," *EIU Business Latin America*, November 12, 2001.

<sup>33</sup> Kevin G. Hall, "Chileans Clear Way for Vast Nature Preserve," *Miami Herald*, July 3 2001.

<sup>34</sup> U.S. Department of State, Chile Country Commercial Guide, FY2002, "Investment Climate Statement."

## Sale of Combat Fighter Aircraft

For several years, a significant issue in bilateral relations has been the potential sale of advanced combat fighter aircraft to Chile. In August 1997, after a review of U.S. security policy in Latin America, the Clinton Administration announced that the President had decided to establish a process for case-by-case consideration of requests for advanced arms transfers to Latin American nations.<sup>35</sup> An earlier sign of this policy change had occurred in March 1997, when the Clinton Administration allowed U.S. aircraft companies Lockheed Martin and McDonnell Douglas (now Boeing) to provide technical data to Chile on its combat planes. The Chilean Air Force wanted to buy the fighter aircraft as part of a program to replace its current fleet of 20-30 year old planes. Because of budget cutbacks, however, Chile postponed a decision on such sales until late December 2000, when it announced that it would purchase 10-12 F-16s from Lockheed Martin in order to modernize its military aircraft.

In the next step of the process, in accordance with the terms of the Arms Export Control Act, the Administration submitted a justification of the sale to Congress in June 2001, which gave Congress the opportunity to disapprove the sale by enactment of a joint resolution. According to press reports, the Bush Administration had reached an agreement with Senate Democrats that allowed the sale to go forward as long it did not include advanced medium-range air-to-air missiles (AMRAAM), which some Senators feared would spark an arms race in the region.<sup>36</sup>

A preliminary agreement was reached between the Chilean military and Lockheed Martin in November 2001 for the purchase of 10 F-16 fighter jets, and in late January 2002 President Lagos decided to go ahead with the purchase, reportedly worth \$660 million, with delivery of the planes in 2006.<sup>37</sup> Before the President made his decision, he ordered a new review of the sale to be conducted by the newly appointed defense minister, Michelle Bachelet (the first female defense minister), who concluded that the planes were needed to modernize the armed forces. In light of economic difficulties facing Chile and the region, some in Chile called for a postponement of the sale. The rightist UDI asked the government to postpone the sale for 3 years.<sup>38</sup> In addition, some concern was raised by other South American countries, such as Peru, who reportedly fear a military buildup in the region. Chile's Defense Ministry responded that the purchase was not the beginning of an arms buildup in the region but a means of replacing obsolete military equipment. The purchase does not include the advanced medium-range air-to-air missiles (AMRAAM) in which Chile had expressed interest.

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<sup>35</sup> For background information, see CRS Report 97-512, *Conventional Arms Transfers to Latin America: U.S. Policy*, by Richard F. Grimmett.

<sup>36</sup> Christopher Marquis, "Deal Reached on Sale of Jets to Chileans," *New York Times*, May 23, 2001, p. A6.

<sup>37</sup> Pascale Bonnefoy, "Defying Critics, Chile to Buy F-16s," *Washington Post*, January 31, 2002, p. A21.

<sup>38</sup> "Chilean Rightists Urge Government to Postpone Purchase of U.S. F-16s," *EFE News Service*, January 12, 2002.



The contract for the planes was not finalized until May 20, 2003, when Lockheed Martin received a payment of \$280 million to begin building the planes in August 2003, with delivery expected in early 2006. Lockheed had received \$40 million in March 2002 for preliminary work, but the larger payment of \$280 million was tied up in negotiations for an offset or compensation package for Chile in which Lockheed would make investments in the country.<sup>39</sup> The \$320 million package for the planes does not include future items and services to be purchased such as training, ground maintenance, initial weapons supply, and spare parts.<sup>40</sup>

## Declassification of Classified Documents

Two months after the arrest of General Pinochet in London in October 1998, the Clinton Administration announced that it would begin a review of classified documents that could shed light on human rights abuses during the Pinochet era. After the review, the Administration stated it would declassify the documents and make public as much information as possible, consistent with U.S. laws and U.S. national security and law enforcement interests.<sup>41</sup>

Between June 1999 and November 2000, there were three releases of almost 23,000 documents covering the period of 1968-1991. The declassified documents are from a number of organizations, including the Department of State, the Department of Defense, the Federal Bureau of Investigation, and the Central Intelligence Agency. The CIA initially had resisted releasing the documents because of concerns that they would reveal too much about CIA sources and methods, but ultimately the agency agreed to release the documents after pressure from the White House.<sup>42</sup>

According to a press statement from the State Department at the time of the final release of documents: “One goal of the project is to put original documents before the public so that it may judge for itself the extent to which U.S. actions undercut the cause of democracy and human rights in Chile. Actions approved by the U.S. government during this period aggravated political polarization and affected Chile’s long tradition of democratic elections and respect for the constitutional order and the rule of law.”<sup>43</sup> The release of the documents has provided information that has been

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<sup>39</sup> “Lockheed Martin Signs Final Contract for 10 F-16s to Chile,” *Pressi.com*, May 23, 2003.

<sup>40</sup> “Lockheed Wins \$279.9 Million Deal for Chile F-16s,” *Reuters*, May 20, 2003.

<sup>41</sup> U.S. Department of State. Daily Press Briefing. December 1, 1998.

<sup>42</sup> Vernon Loeb, “CIA to Release Chile Documents,” *Washington Post*, October 24, 2000, p. A25.

<sup>43</sup> U.S. Department of State. “Chile Declassification Project: Final Release,” November 13, 2000; The documents are available from the State Department on the Internet at <http://www.foia.state.gov/search2.asp>.

utilized in a number of lawsuits in Chile regarding human rights cases, including the killing of a U.S. citizen, Charles Horman, after Chile's 1973 coup.<sup>44</sup>

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<sup>44</sup> Larry Rohter, "As Door Opens for Legal Actions in Chilean Coup, Kissinger Is Numbered Among the Hunted," *New York Times*, March 28, 2002, p. A13.