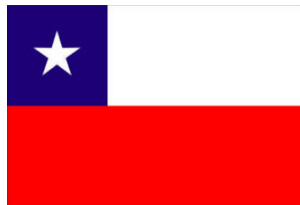




DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION
POLICY DEPARTMENT

Chile



COUNTRY BRIEFING 2011

Abstract

Sebastián Piñera took office on 11 March 2010 as the first President from the centre-right Coalition for Change (*Coalición por el Cambio*), ending 20 of years of government by the centre-left *Concertación*. His government enjoyed considerable popularity during its first months in office, but has since been met by large scale protests, particularly against its education policies, and approval ratings for the President have declined significantly. The protests point to an underlying frustration with fundamental aspects of the political system and the model of society which has characterised Chile since the transition to democracy. The coming months are likely to be decisive for the Government's chances of overcoming the current challenges and re-gain the political initiative.

The economy has registered more than 25 years of almost uninterrupted, high growth rates and is expected to grow above the regional average also in 2011. While Chile has become a model for economic and social development, the country still faces challenges in reaching developed country status. Following a strategy of "open regionalism", Chile has developed an extensive network of free trade and other economic agreements with partners in Latin America, North America, Asia and Europe. Under the Association Agreement signed in 2002, Chile's relations with the EU have strengthened on many fronts in recent years. Chile will host next year's EU-Latin America and the Caribbean Summit.

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AUTHOR:

Jesper TVEVAD
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 51
rue Wiertz 60
B-1047 Brussels

Feedback to jesper.tvevad@europarl.europa.eu is welcome

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ABOUT THE EDITOR

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basic data

Country	CHILE		Source
Population	17,248,450 (2011, estimate) 18,549,095 (2020, forecast)		Instituto Nacional de Estadísticas
Land area	2,006, 096 km ²		Instituto Nacional de Estadísticas
Capital and main cities (metropolitan areas) (census 2002)	Santiago de Chile (capital): 5,631,839 Concepción: 848,023 Valparaíso: 824,006 La Serena: 296,255 Antofagasta: 285,255		Instituto Nacional de Estadísticas
Government	President: Sebastián Piñera Echenique Minister Foreign Relations: Alfredo Moreno Charme Minister Finance: Felipe Larraín Bascuñan Minister Education: Felipe Bulnes Serrano Minister Interior and Public Security: Rodrigo Hinzpeter Kirberg Minister Defence: Andrés Allamand		
Next (and most recent) presidential election	Next: December 2013 Last: 17 January 2010 (1st round: 13 December 2009)		
Next (and most recent) parliamentary elections	Next: December 2013 Last: 13 December 2009		
Currency	Peso		
GDP (US\$ billions)	2010 203,299	2011 (forecast) 243,049	IMF, World Economic Outlook Database, September 2011
Growth	5.2.%	6.5%	
GDP per capita (US\$)	11,827	13,970	IMF, World Economic Outlook Database, September 2011
Inflation (%)	3.0%	3.6%	IMF, World Economic Outlook Database, September 2011
Human Development Index ranking	45 of 169 countries (world) 1 of 19 Latin American countries		UNDP - Human Development Report 2011
Poverty	11.5% of population in poverty (2009) 3.6% of population in indigence (2009)		ECLAC, Social Panorama of Latin America 2010
Unemployment	7.4% (June-August 2011)		Instituto Nacional de Estadísticas
Corruption perception rank	21 of 178 countries (world) 1 of 20 Latin American countries		Transparency International - Corruption Perceptions Index 2010
Competitiveness	31 of 142 countries (world) 1 of 18 Latin American countries		World Economic Forum: The Global Competitiveness Report 2011-2012
'Ease of doing business'	43 of 183 countries (world) 4 of 18 Latin American countries		International Finance Corporation / World Bank - Doing Business Index
Press freedom ranking	33 of 178 countries (world)		Reporters without Borders - Press Freedom Index 2010

2 of 20 Latin American countries

1 THE POLITICAL SCENE

President Sebastián Piñera took office on 11 March 2010 as Chile's first President from the centre-right Coalition for Change (*Coalición por el Cambio*). His victory in the second round of the 2009-2010 elections ended 20 years of government by the Concert of Parties for Democracy (*Concertación de Partidos por la Democracia*). While Piñera's government enjoyed considerable popularity during its first months in office - culminating with the rescue of the miners in October 2010 - it has since been met by large scale protests, particularly against its education policies, and the approval ratings for the President and the Government have fallen significantly.

1.1 The 2009 -2010 elections and the quest for renewal

Sebastián Piñera was elected in the second round of the **2009-2010 elections**, where he received 51.6% of the votes, against 48.4% for Eduardo Frei from the Christian Democrat Party (*Partido Demócrata Cristiano*, PDC) and the candidate of the *Concertación*. In the first round, Piñera achieved 44.1% of the ballot.

Table 1: Presidential Elections

2nd round (17 January 2010)	
Sebastián Piñera Echenique (Coalition for Change, <i>Coalición por el Cambio</i>)	51.6% (3,591,182)
Eduardo Frei Ruiz-Tagle (Concert of Parties for Democracy, <i>Concertación de Partidos por la Democracia</i>)	48.4% (3,367,790)
Invalid/Blank Votes	243,399
Total	7,203,371
1st round (13 December 2009)	
Sebastián Piñera Echenique (Coalition for Change, <i>Coalición por el Cambio</i>)	44.1% (3,074,164)
Eduardo Frei Ruiz-Tagle (Concert of Parties for Democracy, <i>Concertación de Partidos por la Democracia</i>)	29.6% (2,065,061)
Marco Enriquez-Ominami Gumucio (New Majority for Chile, <i>Nueva Mayoría para Chile</i>)	20.1% (1,405,124)
Jorge Arrate Mac-Niven (Coalition Together We Can Do More, <i>Coalición Juntos Podemos Más</i>)	6.2% (433,195)
Invalid/Blank Votes	286,592
Total	7,264,136

The 2009-2010 **presidential elections** were contested by four coalitions:

- The centre-right **Coalition for Change** comprises the Independent Democrat Union (*Unión Demócrata Independiente*, UDI) and the National Renewal (*Renovación Nacional*, RN), together with the smaller party Chile First (*Chile Primero*) and a minor group called the Humanist Christian Movement (*Movimiento Humanista Cristiano*, MHC). The UDI and the RN have formed a coalition in all elections (1989, 1993, 1999 and 2005) since the restoration of democracy, from 2000 to 2009 under the name of Alliance for Chile (*Alianza*

por Chile). The coalition's best result before the 2009-2010 elections was the 48.7% obtained in the second round of the 1999 elections by Joaquín Lavín, from the UDI.

Sebastián Piñera, from the RN, stood as presidential candidate for a second time. In two earlier occasions, in 1993 and 1999, he had given up plans to present his candidature. In the 2005-2006 elections, RN and the UDI could not agree on a common candidate. Piñera, as candidate for RN, obtained 25.4% of the votes in the first round, ahead of Joaquín Lavín, from the UDI, with 23.2%, in the third place. In the second round of the elections, on 15 January 2006, Piñera obtained 46.5% of the vote against Michelle Bachelet, who was elected president with 53.5%. Sebastián Piñera was designated as candidate for both parties of the *Coalición* after several polls had indicated that he appeared to stand the best chance of winning the elections.

- The centre-left *Concertación* is formed by four parties: the PDC, the Party for Democracy (*Partido Por la Democracia*, PPD), the Socialist Party (*Partido Socialista*, PS) and the Social Democrat Radical Party (*Partido Radical Social Demócrata*, PRSD). The *Concertación* had been in government since the first democratic elections in 1989 after the military dictatorship. The coalition had won the four previous elections, twice with a Christian Democrat as candidate (Patricio Aylwin in 1989, Eduardo Frei for a first time in 1993), twice with a Socialist candidate (Ricardo Lagos in 1999, Michelle Bachelet in 2005).

Eduardo Frei Ruiz-Tagle became candidate for the *Concertación* after he had been by proclaimed candidate by PDC and the PS and had won over two less known candidates in internal primary elections in the PPD and the PRSD. Two other potential candidates, former Minister and current Secretary-General of the Organisation of American States (OAS), José Miguel Insulza, from the PS, and former President Ricardo Lagos (1990-1996), also PS, had announced they would not participate in the elections, thus facilitating the appointment of Eduardo Frei. Frei was Chile's President from 1993 to 2000; since then, he has been member of the Senate, from 2001 to 2006 as Senator for life (as former President) and from 2006 as elected Senator.

- The **New Majority for Chile** (*Nueva Mayoría para Chile*) was formed by two smaller political parties, Chile's Ecologist Party (*Partido Ecologista de Chile*, PEC) and the Humanist Party (*Partido Humanista*, PH), together with a large number of other political movements and non-recognised parties. The coalition stood for a renewal of the society and political system, emphasising concepts such as humanism, ecology, and progressive and social liberalism.

The coalition's candidate, **Marco Enriquez-Ominami**, was elected to the Chamber of Deputies for the PS in 2006, but left the party in June 2009 to present himself as independent candidate when the leadership of the PS refused to support his claim to organise primary elections between him and Eduardo Frei for the presidential candidature of the *Concertación*. He was also supported by the small Broad Social Movement (*Movimiento Amplio Social*, MAS) - member of a fifth coalition named "Clean Chile - Vote Happy" (*Chile Limpio- Vote Feliz*), which did not present its own presidential candidate.

- The left-wing coalition **Together We Can Do More** (*Juntos Podemos Más*) encompasses a large number of political parties and movements to the left of the PS, with the Communist Party of Chile (*Partido Comunista de Chile*, PCCh) and the Christian Left (*Izquierda Cristiana*, IC) as the most important ones. The coalition's candidate, **Jorge Arrate**, is a historic member of the PS, and was party president and Minister from 1992 to 1998. Together with a sector on the left of the PS, the so-called *Allendistas* (after President Salvador Allende (1970-1973)), he left the PS in early 2009.

The same four coalitions participated in the **elections to Congress** on 13 December 2009, together with the "Clean Chile - Vote Happy"-coalition. The polls resulted in relatively few votes separating the two main blocs. The *Concertación* and the Together We Can Do More-coalition, which presented joint candidatures under the name *Concertación* and *Juntos Podemos* for More Democracy (*Concertación y Juntos Podemos por más democracia*) came in first place with 44.4% of the ballot. The Coalition for Change obtained some 60,000 votes less, or 43.5% of the total vote.¹ Together with Chile's unique "bi-nominal" electoral system², this meant that the two coalitions obtained almost the same number of seats in the Chamber - with the pro-government Coalition for Change winning one seat more than the opposition despite receiving fewer votes. However, the 54 seats gained by the four parties of the *Concertación* showed a clear decline compared to the 2005 elections, where it took 65 seats, and in share of the votes the four parties' losses were quite important: together they passed from 51.8% of the vote in 2005 to 41.6%. On their side, the UDI and RN combined won four seats in the Chamber.

Thanks to the alliance between the *Concertación* and *Juntos Podemos*, the PCCh, once one of Chile's main parties and among the most influential Communist parties in the Western world, gained three seats in the Chamber. This is the first time the party is represented in the Congress after the return of democracy. The lists of the New Majority for Chile coalition were far from repeating the success of their candidate Marco Enriquez-Ominami in the presidential elections. Their overall share of the vote reached 4.6% (of which most were for independent candidates) and the coalition did not obtain representation. A relatively new party, the Independent Regionalist Party (*Partido Regionalista Independiente*, PRI), had a quite successful election and achieved 4% of the vote and three seats in the Chamber of Deputies (one Deputy has later left the party). The PRI, which presents itself as an alternative to the dominating political blocs and supports decentralisation and greater powers for Chile's regions, was represented in the previous legislature by five deputies who left the PDC in 2007.

Since the new Congress was inaugurated on 11 March 2010, the representation of the political parties in the Chamber has suffered minor modifications due to the parliamentarians changing parties. They do however not affect the relative strength of two main blocs. The Chamber of Deputies is presided by Patricio Melero Abaroa, from the UDI, and the Senate by Guido Girardi Lavín, from the PPD.

Overall, **President Piñera lacks a stable majority in the Chamber of Deputies** and is obliged to negotiate and find support for the Government's proposals among either independents and PRI members, or the *Concertación*. Moreover, with half of the members of the Senate belonging to the *Concertación*, the previous governing coalition remains in control of the second chamber. However, in the light of the pragmatism and broad consensus on basic issues which characterises Chilean politics, this situation has not led to sharp confrontations or threats to the stability of the Government, nor is it likely to do so during the rest of President Piñera's mandate. In fact, the *Concertación* governed without a majority in the Senate until

¹ Figures from the elections to the Senate are not comparable, as only a part of the Senate was renewed and the number of voters therefore less than a third than those who voted to the Chamber of Deputies.

² The country is divided in 60 constituencies which each elects two deputies. The most voted list take the first mandate, but only gains the second one if it outpolls the second-most voted list by a margin of more than 2-to-1. This means that more than 66.6% of the vote is required to gain both seats in a constituency. This system naturally favours the establishment of two big electoral coalitions and reduces the possibility of significant changes in the distribution of seats. The system was introduced by the 1981 Constitution, adopted under the military government, and is largely perceived as a part of the Pinochet regime's legacy.

2005, and in December 2007 it lost the majority in the Chamber because of the defections of various deputies.

Table 2: Congress

Party	Number of Seats	
	Chamber of Deputies	Senate
(Coalition for Change, <i>Coalición por el Cambio</i>)	58	16
- Independent Democrat Union (<i>Unión Demócrata Independiente</i> , UDI)	(39)	(8)
- National Renewal (<i>Renovación Nacional</i> , RN)	(17)	(8)
- Independents	(2)	
Concert of Parties for Democracy, <i>Concertación de Partidos por la Democracia</i>)	54	19
- Christian Democrat Party (<i>Partido Demócrata Cristiano</i> , PDC)	(19)	(9)
- Party for Democracy (<i>Partido Por la Democracia</i> , PPD)	(18)	(4)
- Socialist Party (<i>Partido Socialista</i> , PS)	(11)	(5)
- Social Democrat Radical Party (<i>Partido Radical Social Demócrata</i> , PRSD)	(5)	(1)
- Independents	(1)	
- Communist Party of Chile (<i>Partido Comunista de Chile</i> , PC)	3	-
Independent Regionalist Party (<i>Partido Regionalista Independiente</i> , PRI)	3	-
Broad Social Movement (<i>Movimiento Social Amplio</i> , MAS)		1
Independents outside electoral pacts	2	2
TOTAL	120	38

The **2009-2010 elections marked a significant shift in Chile's modern political history**: not only did they close 21 years of government by the *Concertación*, borne out of the opposition to the military regime, but it also brought conservative-liberal forces to power for the first time since 1958. Overall, the outcome of the elections can be seen as the expression of the gradual corrosion of the otherwise remarkably stable political system which was established during the transition to democracy in the late 1980s and the early 1990s. The previous years had given clear signals of the wearing down of the *Concertación*, notably the internal splits in all its three major parties (the PDC, the PS and the PPD) which led to the departure of a number of Deputies and Senators who joined the opposition or signed up to new political options. The municipal elections on 26 October 2008 gave rise to hitherto unknown divisions among the parties of the *Concertación*, who the first time presented separate lists (one by PPD/PRSD, the other by PDC/PS). These elections also gave the *Concertación* its first electoral defeat against the UDI-RN coalition on a national scale, and it lost the most important mayoralities, including the capital Santiago.

Similarly, **the *Concertación* government under President Michelle Bachelet was weakened** by a number of scandals concerning irregularities and corruption in the public sector and increasing social discontent, among other things provoked by a misguided reform of the public

transport in Santiago. Her government also had to confront protests from various sectors in society, notably in the field of education - with important unrest among students' organisations -, in the economically vital copper sector and among the *Mapuche* indigenous people. Adding to the demands from trade unions for salary improvements and better working conditions, the pro-business policy of the *Concertación* governments came under growing criticism from some sectors within the coalition, particularly the PS, who demanded more priority given to social policies and efforts to reduce social and economic inequalities. Increasing social discontent was spurred by the impact of the international economic and financial crisis, which led to a drop in the economic activity in 2009 (with a fall in GDP of 1.7%), the first since 1999 - and only the second since 1983 - and rising unemployment.

Internal divisions in the *Concertación*, particularly the PS, had a direct impact on the outcome of the elections through the departure of Marco Enriquez-Ominami, who benefited from a desire for change and renewal of political life and the traditional parties. In this respect, it is remarkable that two former Socialists, Enriquez-Ominami and Jorge Arrate, together reached 26.3% of the votes in the first round of the presidential elections, while the *Concertación* candidate, Eduardo Frei, achieved 29.6%. Particularly Enriquez-Ominami's surprising result indicates that he attracted many disappointed *Concertación* electors. On his side, ex-President Eduardo Frei, 67 years old at the time of the elections and elected as President for the first time in 1993, stood for continuity more than the desire for change and renewal many voters seemed to identify with. Frei did also not receive strong backing from the other *Concertación* parties and their leaders and was unable to profit from President Michelle Bachelet's strong personal popularity. His electoral campaign was generally seen as lacklustre. It may also have been weakened by the alliance with the *Juntos Podemos* and the PCCh in parliamentary elections

Against the backdrop of the gradual deterioration of the internal cohesion of the *Concertación* and the economic setback in 2009, Sebastián Piñera's electoral victory came as no surprise. His campaign was backed up by an effective organisation and benefitted from substantial financial resources - Piñera has a long career as businessman and has been one of the most wealthy persons in Chile (some sources suggest that his personal fortune could have mounted to \$2.4 billion; however, after being elected he has sold or transferred his interests in major corporations like LAN Chile and the television company *Chilevisión*.) In addition to his long-time political experience, Piñera's election was probably facilitated by the fact that he is not seen as having had links with the pro-Pinochet sectors of the right and, on the contrary, is known for having opposed the continuation of the military government in 1989. His democratic credentials have thus generally not been put in doubt, and his candidature (and that in the 2005 elections) contributed to end remaining identification of the liberal-conservative opposition with the legacy of the Pinochet regime. This is likely to have made it easier for Piñera to appeal to voters who would normally not support the centre-right parties, but who were discontented with the *Concertación*.

1.2 Piñera's government

The start of President Piñera's four-year mandate was marked by the new government's visions of an ambitious reform strategy to further develop the Chilean economy and society, maintaining continuity with the general line of the *Concertación* governments. Continuing prudent and business-friendly economic policies, the new Government presented plans to stimulate growth and the creation of one million new jobs through more incentives to the private sector and to renew and improve the management of the main public enterprises (in first place the state-owned mining company National Copper Corporation of Chile (*Corporación Nacional del Cobre de Chile*, CODELCO). In the social area, the Coalition for Change proposed measures such as extending post natal maternity leave from 12 to 24 weeks. In a departure from the traditional line of the centre-right in the generally socially conservative Chilean society (divorce was only made legal in 2004), Piñera called for giving more rights to same-sex couples. The improvement of citizens'

security and a tougher line against crime was another key issue in his campaign, with the promise to hire 10,000 new police officers. Similarly, the new President emphasised the commitment to consensus and dialogue with other political forces and sectors of society, stating that his government would promote a "democracy of agreements".

The **Cabinet of Ministers appointed by Piñera reflected his business background** and a preference for technical experience over proved political skills, distancing himself and his government from party politics. Only eight of the 22 Cabinet members were members of the RN or the UDI. Many ministers had a private sector background and few any significant political experience. The main exception to this picture was the UDI leader Joaquín Lavín (presidential candidate in 1999 and 2005) who was appointed Minister for Education, reflecting the importance attached by the new President to reforms in this area. The Minister of Defence in Michelle Bachelet's government, Christian Democrat Jaime Ravinet, kept his portfolio (but left the PDC). The appointment of many ministers with corporate careers and important private business interests provoked concerns at possible conflicts of interest and contributed to create a certain perception of a government dominated by the most privileged sectors of society.

The objectives established by the incoming government were altered already before its inauguration by **unforeseen events** which set new priorities. In first place, the reconstruction efforts after the **earthquake** and the tsunami which hit southern and central Chile on 27 February 2010 and killed around 500 persons, made some 200,000 homeless and caused massive damage to infrastructure, rose to the top of the agenda. In addition to a long range of emergency measures, the Government raised the expenditure foreseen in the state budget for 2010 and proposed measures to increase fiscal revenues to be spent in reconstruction. Later, the accident in the San José mine in August 2010 and the successful rescue of the 33 trapped miners in October gave the President and the Government much positive exposure for their handling of the rescue operation, boosting the popularity rates of Piñera and various Ministers. However, these events also removed focus from the Government's policy proposals.

During 2011, Piñera's Government has been facing difficulties and protests on many fronts:

- The **demands from Chile's principal indigenous minority**, the *Mapuche*, for land and better social conditions have been a long-time feature of Chilean politics and have sporadically given rise to unrest. The killing of a *Mapuche* in August 2009 in a confrontation with the *Carabineros* police force prompted new protests, which the plans of Michelle Bachelet's government for putting the *Mapuche* communities' demand for the return of land on a more solid legal basis and establishing a Ministry for Indigenous Affairs did not assuage. In response to a more than two months hunger strike by imprisoned *Mapuche* activists in July-September 2010, the Piñera government agreed to negotiate with the strikers and met two of their main demands, modifying some controversial aspects of Chile's anti-terrorism legislation and the law that gives military courts jurisdiction over civilians, both which had been applied to the imprisoned *Mapuches*. Similarly, the Government has confirmed its commitment to the indigenous communities and its recognition of a "historical debt" with Chile's indigenous people. It has also launched the so-called "*Plan Araucanía*" (the region from which the *Mapuche* come) for social and economic development. However, it is uncertain whether these initiatives present long-term solutions to the *Mapuches'* grievances.

Another indigenous group, the *Rapa Nui*, who live on the **Easter Island** more than 3,500 kilometres from the mainland, have also carried out protests in demand for the devolution of ancestral land and more self-determination to protect the island's environment and cultural heritage. During 2010, the situation on the island started to deteriorate as *Rapa Nui* activists occupied buildings and what they consider their ancestral lands. Police action to evict them often led to violent confrontations, during which several *Rapa Nui* were injured.

On 3 December 2010, some 25 activists were injured when the police tried to evict them from buildings they had occupied. In February 2011, the Inter-American Commission on Human Rights asked the Chilean government to immediately stop the use of armed violence against members of the *Rapa Nui* people, including evictions from public spaces or public or private property, as well as to guarantee that it would not jeopardize their life or physical integrity. Since then, tensions have abated and conversations on the *Rapa Nui* demands are ongoing. The Government has pledged increased resources to the island and for better public services and made proposals that would go in the direction of recognising *Rapa Nui* demands, such as imposing restrictions on residency rights and free circulation on the Easter Island.

The UN Special Rapporteur on the rights of indigenous people, James Anaya, most recently in a report published on 20 September 2011, has expressed concern at the application of anti-terrorism laws and the situation of imprisoned *Mapuche* activists, as well as the at the police actions against *Rapa Nui* activists.

- In January 2011, the announced **increase of natural gas prices** by 17%, due to a reduction in subsidies, sparked protests in the southern region of Magallanes. Demonstrators stopped traffic from the neighbouring Argentina and blocked thousands of tourists in the *Torres del Paine* National Park, one of Chile's top tourist attractions. The conflict ended when the Government agreed to reduce the cut in subsidies (limiting the price increase to some 3%) and increase subsidies to poor families.
- The construction of a hydro-electrical plant known as the **HidroAysén project**, in the southern region of Patagonia, the largest energy project in Chile's history, has also provoked strong protests. The plant will have a capacity of 2,750 megawatt - 20% of Chile's current electricity generation capacity - and require the construction of five dams on two rivers and of a transmission line of more than 2,000 kilometres to the capital Santiago. From an economic point of view, the projected plant would significantly contribute to reducing high electricity prices and meet increasing energy demands in a country without hydrocarbon reserves. However, critics of the project allege that it would have a huge and unacceptable environmental impact (around 6,000 acres of land would be put under water). The approval of the project by a regional authority on 9 May 2011 was followed by several protests across Chile and opinion polls have shown that it is rejected by a majority of citizens. Since then, various organisations have presented legal recourses against the project at various court instances. Nonetheless, the project is defended by the Government and enjoys broad political support, also in the ranks of the opposition. A second environmental impact study concerning the HidroAysén project, on the transmission line - which will have a huge impact because of its length - , is expected for March 2012.
- The **protests against the Government's education policy** is the broadest and most serious protest movement the Piñera administration has had to face so far; some have branded it the most important social movement since the military regime. The **collapse of almost one month of dialogue between the Government and the protesting students on 5 October 2011 seems to have removed the prospect of an early solution to the conflict**. While the Government has stated its willingness to continue negotiating with students and teachers, it has also accused the students' movement of having been taken over by extremists and proposed a law which would establish the occupation of educational institutions as a crime which could be punished by prison sentences. On their side, the students have blamed the Government for not being willing to negotiate in earnest and accept the demands which they claim are shared by a majority of the Chilean population. An increase of 7.2% in public spending on education included in the Government's proposed budget for 2012 has not been sufficient to appease the protests.

Educational reform has been a priority since the return to democracy in 1990. Despite increased spending on education - compensating the fall during the years of military government - and various reforms carried out under the *Concertación* governments, there is broad consensus that an improvement of the quality of education remains a pending task and that it is indispensable in order to harness sustainable economic growth model and reduce social inequalities. However, reform plans have often been met with protests among the primary affected, school pupils and university students. The previous government under Michelle Bachelet was confronted with student protests already during its early days (including a three week students' strike in May-June 2006) in favour of demands for free transport and the removal of entrance fees, as well as for a comprehensive reform of the whole education system, including increased spending. The protests and demonstrations, which flared up again in mid-2008 directed against a new reform bill, contributed to seriously weaken its authority and approval rates.

President Piñera has maintained main elements of the Bachelet government's policies - notably continuing providing more funding for public schools, especially in poor areas, and the creation of a system to supervise the quality of the education -, but has also proposed measures which have provoked resistance from teachers and students. Among these are additional funding tied to performance, the creation of special "schools of excellence" and the introduction of economic incentives for best performing teachers. These and other measures were included in the reform bill, named the "quality and equity law", which was passed by the Senate on 18 January 2011 (with 25 votes in favour and only four against).

Discontent among students with the educational system flared up in May 2011, with the start of a series of **mass demonstrations and protests** which have continued across Chile since then. The protests have focused on demands for free education for all, increased funding for education and grants to students, better training for teachers, the transfer of public schools from the regions to the central government and, in general, a rejection of profit making in the education sector. The protesters have demanded a tax reform as a way to fund free public education.

With up to around 150,000 participants in the marches held in the capital Santiago and several thousands more in other main cities, these have been the biggest demonstrations since the late 1980s. Some of the demonstrations have taken place despite not being authorised and have led to mass arrests - such as the arrest of around 550 people on 4 August 2011 and 1,400 at protests on 24-25 August - and many demonstrators and policemen have been injured. On 25 August 2011, the clashes between demonstrators and police caused a fatal victim when a police officer shot a 16-year old boy. After that, the Government ordered the responsible police general to resign and the responsible policeman is under arrest as suspect of homicide.

The protests show no signs of ending soon. A demonstration in Santiago on 22 September 2011 had between 60,000 and 180,000 participants (estimates vary widely) and was relatively peaceful, but another demonstration, on 6 October ended in violent confrontations between protesting students and the police. The student leadership has called on students not to return to their universities and schools after the (Chilean) summer holidays.

- Protests by students have merged with other protesting groups and movements by striking workers. This was the case of the "national protest" marches on 30 June 2011, where students were joined by teachers and university lecturers, as well as other public sector employees and striking CODELCO workers. Similarly, the main trade union, the Unitary Central of Workers (*Central Unitaria de Trabajadores*, CUT) called a 48-hour general strike on 24-25 August 2011 in support of demands for changes to the labour legislation and the pension system, as well as increased spending on education and health. The strike was

supported by the protesting students' organisations, as well as the opposition political parties, but only had limited following. A new general strike has been called for to take place on 18-19 October 2011.

The protests against various aspects of the Piñera government have been accompanied by a **sharp decline in approval rates** for both the President and the Government during this year. In October 2010, immediately after the rescue of the San José miners, Piñera's popularity peaked with an approval rates close to 65% (and even higher ratings for some Ministers), but the Government has not been able to convert its popularity during its first months in office into enduring public support. Since the end of 2010, approval rates for both Piñera and the Government have fallen continuously. In September 2011, the rating (based on surveys made in late August, during the student demonstrations) reached 22% for the President, while 66% of the interviewed disapproved of Piñera's performance, according to one poll. These are the lowest rates for any President since the return to democracy. The ratings for the Government as such show a similar picture. Survey figures also show considerable scepticism among the public opinion on the Government's education policy; around 75% agree with the student demands and disapprove of the Government's handling of the protests.

In response to these challenges, **the President has given his Cabinet increased political weight:**

- In a first reshuffle of the Government on 14 January 2011, two long-time leading figures from the RN and the UDI were appointed as Ministers: RN Senator Andrés Allamand replaced Jaime Ravinet as Minister of Defence and Evelyn Matthew from the UDI became Minister of Labour. At the same time, the Minister for Energy, largely seen as responsible for the plan to increase gas prices which provoked the Magallanes protests, was replaced.
- A second major reshuffle took place on 18 July 2011, when eight Ministers were replaced. Among them was the Minister of Education and the Secretary General of the Government (who among other things act as the Executive's spokesman), both from the UDI. However, although the overall balance between the two parties of the governing coalition was not affected, two more leading UDI figures were brought into the Cabinet (Andrés Chadwick as Secretary General of the Government and Pablo Longueira as Minister of Economy).

With these changes, about half of the Ministries have changed incumbent one or more times since the Government took over in March 2010. However, the changes have not affected key ministries as Interior, Foreign Affairs, Finance and the Secretary General of the Presidency. The overall balance between the RN and the UDI also remains basically unaltered, although the number of independents in the Cabinet has been reduced from 14 to eleven.

The changes in the Government have not until now managed to reverse its falling popularity or injected new momentum in its performance. Overall, President's Piñera's government is widely perceived, despite its initial popularity, as having failed to impose its priorities and setting the political agenda. In addition to obstacles as the lack of a majority in the Senate, which may have prevented it from delivering more quickly on its election promises, analysts have pointed to other factors which have contributed to a certain perception of disappointment, such as Piñera's personal leadership style and shortcomings in communicating the Government's achievements.

However, the Piñera government's apparent lack of popularity and perceptions of a lack of political initiative rather point to a more general **underlying political and social dissatisfaction** which runs deeper than the mere rejection of the current Government's initiatives. The mobilisation of social protests may reflect broader frustrations with fundamental aspects of the political system and model of society which has characterised Chile since the start of the transition to democracy, notably persistent social and income inequalities and political structures which many see as being rooted in the past, rigid and unresponsive to demands from citizens.

In this respect, the previous *Concertación* government faced many of the same kind of protests and criticism as Piñera's government today, despite President Bachelet's personal popularity. Similarly, **the *Concertación* opposition does not seem to have profited significantly from the Government's unpopularity.** The coalition has increased support in some opinion polls, but its performance is not particularly well evaluated. This is probably partly due to the difficulties in adapting to a new role as opposition, despite the renovation of the leadership of its four parties in the *Concertación*. Moreover, while the coalition has been highly critical with the Government on some issues, it supported its most contested initiative, the controversial educational reform (except the PRSD, which opposed the reform and at some point seemed ready to leave the *Concertación*). The opposition's support for some of the protests against Piñera's government, for instance the general strike on 24-25 August, has therefore been seen by some as less credible.

The fate of various new proposals President Piñera's government has presented or is expected to submit to Congress in the coming months is likely to be decisive for the chances that it will overcome the current challenges and re-gain the political initiative. Some reforms attempt to respond to the quests for a more representative and participative political system, for instance through the introduction of obligatory primary elections in the political parties and coalitions to elect candidates at all levels. Another proposed bill intends making registry to vote automatic (now it is voluntary) and thus stimulate participation in the elections, especially by young people. Currently, only around 8 out of 11.5 million Chileans over 18 years are registered as voters. Of those between 18 and 29 years, it is only about 700,000 out of 3 millions.

However, it is doubtful whether the Government is ready to discuss a reform of the probably most controversial part of Chile's electoral system, the binominal vote - which weakens the link between the voting and the composition of the Chamber of Deputies and makes it very difficult for forces outside the two main coalitions to achieve representation. Both the governing coalition and the *Concertación* benefit from the present system, and particularly the biggest party of the governing coalition, the UDI, is attached to the binominal system.

The coming months will also be important for the parties in the *Concertación* which need to re-define the coalition's purpose and *raison d'être* now it is in opposition. Currently, a debate is on-going within the *Concertación* and its parties on how it could be revitalised and renewed, and perhaps be re-founded on a new basis adapted to new political and social realities, now almost 25 years since it was established in 1988 in opposition to the Pinochet regime. The debate covers issues such as whether the *Concertación* should be broadened out to include other parties and movements and whether it may take a new name, among others.

The municipal elections in October 2012 will be an important test for both the Government and the opposition. They are likely to give a first indication as to whether Sebastián Piñera's government had been able to overcome the difficulties that have characterised his mandate up to now and as to whether the *Concertación* will be able to present a renewed centre-left alternative. These elections may also give an important sign of whether the discontent and desire for change which has come to expression during the recent months' protests movements may herald more fundamental changes to the Chilean political system. Finally, the 2012 municipal elections will signal the start of a new electoral cycle: once they have been held, the preparations - possible primary elections etc. - for the next presidential elections in December 2013 will begin.

2 THE ECONOMIC AND SOCIAL SITUATION

The **Chilean economy has registered more than 25 years of almost uninterrupted, high growth**. Since 1984, with the only exception of 1999 and 2009, GDP has expanded each year, most of them between 5% and 10%. **In 2010, the growth rate reached 8.5%** (figures from the International Monetary fund (IMF)), marking a robust recovery from the previous year when the economy contracted by 1.7% due to the impact of the international financial and economic crisis. **In 2011, growth is expected to reach around 6.5%**, above the average in the region. The expansion of the economy is being stimulated by growing investments, the domestic and external demand and also the increased activity created by the reconstruction after the earthquake in February 2010.

In the coming years, growth is expected to slow down. According to estimates by Chile's Central Bank, it will reach between 4.25% and 5.25% in 2012. The Government's proposal for the 2012 budget is based on a 5% growth in GDP. This figure is based on the expectation of a continued increase in domestic demand which should help to compensate for a fall in the international prices for copper, Chile's primary export commodity. However, the risk of slower global growth, and in consequence lower than foreseen international copper prices, could alter this forecast.

Despite GDP growth of around 6.5% this year, **inflation rates remain relatively low**: in September 2011, the accumulated inflation rate stood at 3.0% and at 3.3% for the last twelve months. This is only slightly above the goal of the Central Bank.

Chile being a relatively small country with a limited domestic market, a main driver behind the expansion of the economy in the last decades has been a very open economy with increasing exports and a high level of foreign trade. The total value of Chile's external trade represented some 58% of the country's GDP, indicating the grade of openness of the Chilean economy. After a drop in exports of goods and services by approximately 19% in 2009 as consequence of the international crisis, **export earnings recovered strongly in 2010 and increased by around 31%**, reaching almost \$82 billion, more than in 2008, previous to the crisis. The value of imports, which had dropped nearly 30% from 2009 to 2010, increased by 38%. However, due to the strong growth in exports, the trade surplus remained close to \$15 billion. The trend towards increasing exports and imports has continued in 2011: in the first six months of the year, exports of goods and services increased by 24% and imports by 28%, compared to the first half of 2010. The growth in exports has taken place despite that the competitiveness of exporters is under pressure from the appreciation of the Chilean peso due to the sizeable revenues coming from copper exports and inflows of foreign capital. In this regard, increasing international copper prices are therefore not necessarily only to the benefit of the Chilean economy.

Exports are strongly dominated by primary commodities, particularly mining products - above all copper-, agriculture and fishing products, particularly fruit, salmon and wine. Manufactured products are to a large extent also based on agriculture and forestry, such as cellulose and paper. In 2010, copper sales represented 56.7% of all exports of goods, followed by fruit (5%), cellulose and paper (4.4%), salmon (3.2%) and wood products (2.6%).

Economic growth has also been accompanied by and fuelled by strong capital inflows. Chile has developed into the third destination for **foreign direct investment (FDI)** in Latin America, only after Brazil and Mexico. In 2010, 14% of all FDI flows to Latin America went to Chile (compared to 45% to Brazil and 16% to Mexico). Considering the size of the Chilean economy, the relative importance of FDI inflows is much greater: they correspond to some 8% of GDP, compared to around 2% in the cases of Mexico and Brazil. Investment flows to Chile has followed an upward trend during the last decade: while in 2000-2005 the annual average inflow was around \$5 billion, since 2007 they have stood at between \$12 and 15 billion.

In 2010, FDI inflows reached a record \$15.1 billion, 17% more than in 2009 and slightly higher than in 2008. In 2009, FDI flows to Chile had dropped to \$12.9 billion, or by 15%, from 2008 as consequence of the international financial and economic crisis. In the first half of 2011, the inflow of foreign capitals diminished somewhat compared to the same period in 2010: at \$6.9 billion, they were 14% lower than in January-June 2010. **Most FDI go to the mining sector** (in 2010, some 53% of all inflows) and services (41%). Among the main investor countries are the US, Canada and Spain. In 2010, the UK and Spain together represented 20% of FDI flows to Chile, while 19% originated in the US and 11% in Canada.

The openness of the Chilean economy and the internationalisation of the Chilean business are reflected in Chile's increasingly important role of outward FDI flows. In 2010, Chile's outward FDI reached around \$8.7 billion, more than half of the inflows to the country. As is the case for inward FDI, FDI flows originating in Chile are only below those registered in Brazil and Mexico in absolute figures. Compared to the size of the country's economy, Chile is leading in the region as regards outward investment: in 2010, they corresponded to 4.6% of the GDP, compared to 1.2% in the case of Mexico and 0.6% in the case of Brazil.

The surplus on Chile's external accounts is paralleled by **solid public finances**. This allowed the Government to launch a package to stimulate the economic activity in the wake of the 2009 international crisis and to meet the need for more spending on reconstruction after the earthquake in February 2010. In 2009, fiscal spending grew by around 18% and around 8% in 2010. This year, public spending is expected to increase by some 5% and a similar increase is budgeted by the Government in 2012. Nevertheless, for 2011 is expected a fiscal surplus corresponding to perhaps 1.3% of the GDP, after two years of deficits. This is in line with Chile's long-term policy of maintaining a structural fiscal equilibrium and also indicates that the country would be in a position to inject further stimulus into the economy in case a further international slowdown should make it necessary.

Chile's public finances are further cushioned by two sovereign funds, the Economic and Social Stabilization Fund (*Fondo de Estabilización Económica y Social*, FEES) and the Pension Reserve Fund (*Fondo de Reserva de Pensiones*, FRP). Public finances have also been additionally strengthened by an increase of the royalties paid by the mining companies investing in Chile. The new mining royalty was adopted by Congress in October 2010 with the objective of raising some additional \$1 billion a year over three years to the reconstruction after the earthquake. On the other hand, strong public finances and increasing copper prices have also contributed to pressures on the Government - the current one and its predecessor - to increase particularly social expenditure.

2.1 Towards developed country status?

Decades of sustained economic growth and macroeconomic stability, based on prudent and coherent economic policies and structural reforms in a framework of broad political consensus and strong democratic institutions have given Chile the status of a **model for economic and social development**, in Latin America and for developing and emerging countries in general. Chile's per capita income has been the highest in Latin America sine 2007. In 2010, it was higher than that of four EU Member States, more than the double of that of Serbia and more than three times higher than the GDP per capita of Ukraine (according to IMF figures). Similarly, the World Bank classifies Chile as an upper-middle income economy. Chile's accession to the Organisation of Economic Co-operation and Development (OECD), which was formalised in March 2010, somehow marked the recognition of the economic and social change that has taken place in the country. OECD membership in itself works as an impulse for further reforms and modernisation of the Chilean economy.

Economic growth has been accompanied by **broader social development and an improvement in living standards**. Data from Chile's Planning Ministry (*Ministerio de Planificación*) indicate that the share of the population living in poverty was reduced from 38.6% in 1990 to 15.1% in 2009. In the same period, the indigence rate fell from 13.0% to 3.7%³. However, poverty rates have increased somewhat between 2006 and 2009 (the poverty rate from 13.7% and the indigence rate from 3.2%). This trend may have continued in the last couple of years due to the contraction of the economy in 2009 and the ensuing growth in unemployment. Similarly, in the Human Development Index for 2010, elaborated by the UN Development Programme (UNDP), Chile ranks as the first Latin American country and number 45 in the world, above countries like Latvia, Romania, Croatia and Bulgaria. Chile integrates the HDI category "high human development" and is only three positions from the category "very high human development". Chile is also the country in the region which has made most progress towards meeting the UN Millennium Development Goals.

The Piñera government has set **ambitious goals for the further reduction of poverty rates and Chile's transformation into a fully developed country**, suggesting that extreme poverty should be eradicated before 2014 (when the President's mandate ends) and poverty before 2018. The Government's goal is that Chile should reach development status in that year, surpassing the per capita income of countries such as Portugal and the Czech Republic. As the means to achieve this objective, the Government has set a goal of annual economic growth of 6%, to be reached through, *inter alia*, an increase in investments from the current 22% to 28% of GDP and a doubling of investment in science and technology. The elimination of poverty would be facilitated by the creation of one million new jobs between 2010 and 2014 and an increase in pensions and social programmes, among other things aiming at ensuring an "ethical family income" (*Ingreso Ético Familiar*) of 250,000 pesos (the equivalent of around €360) per month for a family of five persons. The improvement of the quality of education is another fundamental element in the Government's growth strategy.

However, in the quest for developed country status, Chile continues facing challenges:

- **Income inequalities** remain much more important than in the OECD countries and many other emerging and developing countries. Despite almost three decades of economic growth and poverty reduction, there has been no significant redistribution of wealth and social mobility is low. Inequalities in the distribution of income remain at practically the same level as 20 years ago, and some indicators have even deteriorated. While the 20% of the population with the highest incomes in 1990 earned 14 times more than the 20% with the lowest incomes, in 2009 the corresponding figure was 15.6 times. Looking at the figures for the 10% with the highest and lowest incomes, respectively, the difference is even bigger: incomes were 46.2 times higher in 2009, compared to 34.4 times in 2000 and 30.5 times in 1990. Also, while social spending per capita and as percentage of GDP is close to the regional average, it is lower than in countries such as Argentina, Brazil and Uruguay.
- The functioning of the Chilean **labour market** has been pointed to as an impediment to a better growth performance. In order to augment the low participation of women and young people, social improvements such as better access to childcare and maternity leave have been proposed. The size of the informal sector is another problem. Relations between workers and employers are bad and little institutionalised. This means that the labour market is highly unregulated and offers little flexibility for employers and little protection for workers.

³ Figures from the UN Economic Commission for Latin America and the Caribbean (ECLAC), using a different methodology, indicate that the poverty rate was reduced from 20.2% in 2002 to 11.5% in 2009 (the lowest figure in Latin America after Uruguay and Argentina), while the indigence rate fell from 5.6% to 3.6% in the same period.

- The persistent income inequalities are related to inequalities in other areas, not at least as regards access to education. **Poor educational standards** among people with the lowest income levels - a problem which has not been significantly reduced despite strong economic growth - is seen as a fundamental obstacle to further productivity gains and greater international competitiveness. Currently, Chile's productivity levels are the lowest in the OECD, including behind Mexico.
- During many years Chile has profited from strong external demand and high prices - in recent years particularly driven by high economic growth in China - for its main export products, particularly copper. However, the **dependence on exports of a few primary commodities** or manufactures based on elaborated natural resources (wine, fishing products) makes Chile vulnerable *vis-à-vis* potentially volatile international prices and/or adverse weather conditions. The diversification of export markets may reduce such vulnerabilities, but to achieve a fully developed economy new products and sectors with a higher degree of added value, including in services, will need to be developed. The economy therefore requires high levels of investments and more efforts in research and development to ensure its growth potential in the future. Remaining impediments to a more effective production, such as high energy costs, are also a challenge in this respect.

There is broad agreement on the diagnosis of the areas where Chile needs to improve its economic performance in order to take the final steps towards status as a fully developed country, for instance as they have been pointed out in various OECD analyses. However, "deeper" structural reforms may be more difficult to accomplish than the measures to liberalise and open up the Chilean economy taken in the last decades, particularly if the political environment becomes more conflictive in the future as the restraints on political and social demands related to the transition to democracy and its consolidation gradually fade away. The current protests against the Government in areas as the energy policy (the HidroAysén project) and especially against its education policy illustrate the challenges in this regard.

3 EXTERNAL RELATIONS: OPEN REGIONALISM

Since the restoration of democracy, which put an end to more than 15 years of international isolation, the main objective of Chile's foreign policy has been based to underpin the country's model for economic growth and social transformation through establishing trade and investment relations with other countries and regions, following a strategy of "open regionalism". In line with this, successive governments have pursued the internationalisation of the economy through creating an extensive network of free trade and other economic agreements with countries, regional and subregional groups in Latin America, North America, Asia and Europe.

As a small state with a very open economy, Chile seeks to maintain good relations with all other states and is committed to the promotion of multilateralism and international cooperation through the active participation in international organisations. In this respect, the economic and social development achieved over the last twenty years and the stability of the country's democratic system have contributed to giving Chile a certain status as "model country" and considerable international prestige.

Expression of this has been the country's membership of the UN Security Council (UNSC) in two occasions since the restoration of democracy, in 1996-1997 and 2003-2004. Chile has announced its candidature for a seat as non-permanent member of the UNSC again for the period 2014-2015. The appointment in September 2010 of former President Michelle Bachelet as UN Under Secretary General and Executive Director of the "UN Women" (UN Entity for Gender Equality and the Empowerment of Women) can be seen as another expression of Chile's international standing.

Other element of Chile's multilateral engagement is the **participation in UN peacekeeping operations**. Chilean observers participated for the first time in a UN mission already in 1949 (the UN Observer Group in India and Pakistan), but it is only after the return to democracy in 1990 that Chile's presence in peacekeeping operations has become more frequent. By 31 September 2011, 515 Chilean troops (and 18 police and military experts) were deployed to UN peacekeeping missions. The largest Chilean contingent (500 troops and 14 police officers) is deployed to the UN Stabilization Mission in Haiti (MINUSTAH). On 16 May 2011, Chilean diplomat and former Foreign Minister (2009-2010) Mariano Fernández Amunátegui took over as Head of the MINUSTAH.

3.1 Latin America

Chile is participating in the various initiatives to strengthen regional integration and cooperation, although the country, in line with the principles of "open regionalism" is not member of any subregional integration scheme.

Trade and economic **relations with the rest of the region** play an important role for Chile and are well diversified: 17 countries in the region are among Chile's first 50 trading partners, and together they represented 21.3% of Chile's total foreign trade in 2010. This makes the region as a whole Chile's main trading partner, above China and the EU. However, as export market the Latin American region only represented 16.3% of Chile's sales to other countries (below the share of China and the EU in total exports), while the region provided 26.7% of all Chile's imports - considerably more than the other main import partners, the US and China. Latin America has also become an important destination for the growing Chilean foreign investments: in 2010, 58% of the Chilean companies' investments abroad went to other Latin American countries, in first place to Brazil (20% of all), Peru (13%) and Argentina (11%). Chilean investments in the region are concentrated in financial services and the retail sector.

Both from an economic and political point of view, Chile has particularly close relations to **Mercosur**, but decided in the early 1990s to remain outside the bloc in order to maintain full competences over the country's trade policy. In stead, Chile has been associated member of Mercosur since 1996 and signed a free trade agreement (FTA) with the bloc the same year. It also participates in Mercosur's political bodies and cooperation mechanisms. In 2010, 12.5% of Chile's foreign trade was with the four Mercosur countries, Brazil being the most important trading partner. Mercosur is particularly important as a source of imports for Chile: in 2010, the bloc (Argentina and Brazil) provided 17.4% of all Chile's imports, at pair with the United States who was Chile's most important import partner. In contrast, only 8.1% of the country's exports went to the four Mercosur member states, most of them to Brazil.

Similarly, in 2006 Chile became associate member of the Andean Community (*Comunidad Andina*). Chile was one of the founding members of the Andean Group in 1969, but withdrew from the group in 1976. Chile has concluded FTAs with Peru and Colombia and has more limited trade preferential agreements with Bolivia and Ecuador. A similar preferential agreement with Venezuela was concluded in 1993. Outside South America, Chile has also established a network of FTAs. A first trade agreement with Mexico was signed in 1991 and a more advanced FTA was signed in 1998. In 2006, this accord was complemented by a "Strategic Association Agreement" (*Acuerdo de Asociación Estratégica*), which has formalised political dialogue and cooperation in various areas between the two countries. Similarly, in 1999 Chile signed a framework FTA with five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). It was supplemented by a FTA with Panama in 2006.

Chile's relations with the neighbouring countries, particularly Bolivia and Peru, have historically been difficult and marked by unresolved territorial disputes. However, the *Concertación* governments since 1990 have been keen to develop bilateral relations despite these outstanding

issues. **Bolivia** and Chile opened up for a broad process bilateral dialogue and cooperation in 2006, including on the unresolved issue of Bolivia's claim to get access to the Pacific (which it lost in the War of the Pacific against Chile from 1879 to 1883) which had soured their relations for decades and prevented the two countries from having normal diplomatic relations. This policy of seeking good neighbouring relations and diffusing tensions with Bolivia has continued in the following years and is likely to be upheld under Sebastián Piñera's government, despite the more obvious political and ideological differences with the Bolivian government and his somehow more nationalistic outlook. Piñera has declared to favour a "constructive" approach to the Bolivian claims and has met with President Evo Morales in various occasions. On 17 December 2010, they agreed to establish a working group to develop bilateral cooperation, including addressing the issue of Bolivian access to the sea. However, in a speech to the UN General Assembly on 21 September 2011, President Piñera emphasised that all territorial issue between the two countries have been solved in the Treaty they concluded in 1904.

Also relations with **Peru** have been marked by unresolved territorial disputes following the War of the Pacific and have on occasions been very tense. In 2005, Peru unilaterally modified the maritime frontier with Chile and in 2008 the country formally submitted the issue to the International Court of Justice (which is not expected to emit its verdict any time soon). However, the governments of both countries have followed a policy of de-linking the territorial disputes from the development of their relations in other areas. Importantly, in order to reduce the risk of tensions, they have implemented various kinds of confidence building measures in the military realm. While bilateral relations appeared to improve with the election of Sebastián Piñera, there have been some concerns about the possible impact on the bilateral relationship of the election of Ollanta Humala as President of Peru, due to his distinctively nationalistic positions in the past. However, both governments have declared their determination to continue strengthening their relations and solve any outstanding problem between them.

Since President Piñera took office, relations with Colombia and Mexico have been particular close, reflecting a certain political affinity and the three countries' conditions as part of the Pacific Rim. A summit in Lima between the Presidents of Chile, Colombia, Mexico and Peru decided on 28 April 2011 to launch the so-called Agreement of the Pacific (*Acuerdo del Pacífico*). In the declaration issued from the meeting, the four countries stated their commitment to work towards the liberalisation of the trade flows and the creation of a common market, as well as to design a joint strategy to access Asian markets. The accord, which is open to other countries (notably Ecuador and Panama), illustrates the importance these four countries attach to economic relations across the Pacific. In this regard, it may also be seen as counterbalancing the dynamic of regional integration emanating from Mercosur and Brazil.

In political-ideological terms, Sebastián Piñera's presidency has marked somehow clearer distances with some Latin American governments. This has led to more outspoken criticism of countries like Venezuela and Cuba. However, despite ideological differences with these and other countries, **Chile's policy in the region remains pragmatic and aiming at pursuing common interests**. Other expression of this are the close cooperation with Argentina in many areas - a bilateral relationship which is sometimes characterised as an emerging strategic alliance - and Chile's support for Brazil's demand for a permanent seat in the UNSC.

3.2 The United States

Chile's relations to the US are close and politically and economically important. The FTA signed by the two countries on 6 June 2003 was the second FTA the US concluded with a Latin American country after establishing the North American Free Trade Area (NAFTA) with Mexico in 1994. The agreement confirmed the US' recognition of Chile as an important economic and political partner (although plans for Chile joining the NAFTA never materialised). Since the FTA

entered into force on 1 January 2004, the value of bilateral trade has more than doubled. In 2010, the US was Chile's overall third most important trading partner (representing 13.9% of the total value of Chile's foreign trade); the US was only the fourth most important export destination (with 10.5% of all foreign sales, after China, the EU and Japan), but the most important source of imports, with 17.5% of Chile's imports originating in the US.

The close political relations between Chile and the US have been underlined by the visit of President Michelle Bachelet to Washington in March 2009 and in particular President Barack Obama's visit to Chile on 21-22 March 2011, on his first visit to Latin America outside Mexico. The joint statement issued after the meeting between Piñera and Obama emphasised, *inter alia*, the growing cooperation between the two countries as members of the UN Human Rights Council and especially the decision to co-sponsor a resolution creating a new special rapporteur on the human rights situation in Iran. The two Presidents also highlighted the role of the Organization of American States as "the main hemispheric forum" and the importance of strengthening the Inter-American Democratic Charter.

3.3 Asia and the Pacific

While Chile's export-based economic model was initially primarily oriented towards the US and Europe, the country's geographical position means that the reinforcement of **trade and investment relations with other states in the Asia and the Pacific area has become increasingly important**. The FTAs Chile has signed with Korea (2003), China (2005), Japan (2007) and Australia (2008) reflect the strategic importance for Chile of trade and investment links with Asia and the Pacific region. Taken as whole, exports to 14 countries in the Asian and Pacific region represented 46.9% of Chile's total exports in 2010. Chile's presence and interest in the Asia-Pacific region is also reflected in the country's membership of the Asia-Pacific Economic Cooperation (APEC) forum. Chile joined the APEC in 1994 as the second Latin American country, one year after Mexico, and also hosted the APEC Summit in November that year. Chile is also signatory to the multi-party Trans-Pacific Strategic Economic Partnership Agreement, concluded in 2005, together with Brunei, New Zealand and Singapore. This agreement aims at promoting trade liberalisation in the Asia-Pacific region. Various countries (Australia, Malaysia, Peru, the US and Vietnam) are currently negotiating the adherence to the Agreement, and there have been speculations that it could serve as a framework for a more comprehensive liberalisation of trade in the region.

Trade relations with **Japan** date back already to the last years of the 19th century, but grew in importance after the Second World War and particularly in the 1990s, following the restoration of democracy in Chile. From the early 1990s and until trade with China started to pick up, Japan was Chile's most important trading partner in Asia and the second most single export market after the US, as well as an important investor in Chile, particularly on the mining and fisheries sectors. In 2010, Japan remained Chile's overall fourth trading partner (with 8% of Chile's total foreign trade), and was the third market for Chile's exports (absorbing 10.7% of Chile's exports, after China and the EU).

In recent years, trade with China has increased rapidly and in 2009 China became Chile's first trading partner. In the five years since the entry into force of Chile's FTA with China, on 1 October 2006, Chilean exports to that country has grown by an annual average of 29%. In 2010, 19.7% of all Chile's foreign trade was with China: **25% of Chile's exports went to China** (compared with 17.8% to the EU, 10.7% to Japan and 10.5% to the US), while 14% of Chile's purchases abroad came from this country (after the US with 17.5% and at par with the EU with 13.9%). Despite the rapid growth in exports to China, these continue to be concentrated in rather few products: in 2010, sales of copper represented 82% of Chile's exports to China. However, contrary to what is

the case of some other countries in the region, China is not important for Chile as a source of foreign investment.

Korea is another important Asian trading partner for Chile, being the destination of 5.7% of the country's exports in 2010 and the sixth most important export market overall, above countries such as Mexico and Canada. Chile's trade with **India** is still on a relatively low level (in 2010, India was Chile's 12th trading partner and ninth most important export market, absorbing 2.1% of Chilean exports). However, the exchanges between the two countries have expanded significantly in recent years, facilitated by the tariff reductions established in their trade agreement from 2006, the first such agreement signed by a Latin American country with India. In view of India's growth prospects, Chile sees great potential in the economic relationship with India.

4 RELATIONS WITH THE EU

Institutionalised relations between the EU and Chile go back to 1967, when the first European Commission Delegation in Latin America opened in Santiago de Chile. Shortly after the restoration of democracy in Chile, on 20 December **1990**, the European Economic Community (EEC) and Chile signed a **first Framework Cooperation Agreement**. As other similar agreements signed in this period, it sets out various areas for cooperation, such as economic and trade cooperation and as regards investment and industry, science and technology, social development and regional integration, among other areas. It was complemented by the signature, on 18 December **1995**, of a **Joint Declaration which established a regular political dialogue** between the two parties, including on the highest political level, with the aim of, among other things, ensuring the coordination of positions in multilateral fora. The Declaration also emphasised that both signatories agreed that it marked the beginning of a closer and deeper relation between them.

In line with this, a **new and more comprehensive Framework Cooperation Agreement** was signed on 21 June **1996**. It introduced new fields of cooperation (in the fields of trade, economic and business cooperation, as well as energy, the environment, social development, the fight against drugs and drugs trafficking, among others. Notably, the Agreement explicitly set out the objective of preparing a political and economic Association, including through the liberalisation of trade.

Negotiations on an **Association Agreement** opened in 1999 and culminated with the signing of the agreement on 18 November 2002. The **Agreement entered into force on 1 March 2005**. It comprises three strands:

- a chapter on **political dialogue**, including the participation of civil society and the European and Chilean Parliaments (since 2005, four EU-Chile Summits have been taken place);
- a **cooperation** chapter setting out a variety of areas for EU-Chile cooperation responding to the overall goal of fostering sustainable economic, social and environmental development; and
- the creation of a **free-trade area** in goods and services.

The trade agreement will almost completely open the markets of both parties, with some 97% of Chilean exports to have free access to the EU by January 2012. The accord has been qualified as the **most ambitious and innovative agreement** ever concluded by the EU with a country which is not an applicant for accession.

The EU's relations with Chile have been further stepped up with the **launch of the "Association for Development and Innovation" (ADI) in October 2009**. The ADI was proposed by President Michelle Bachelet in May 2008 as a tool for promoting a new agenda of policy dialogue and

cooperation with a strong regional element. It focuses on two priority areas: education, and energy, environment and climate change, with innovation as a cross-cutting theme.

Complementary to these instruments, the EU and Chile have also signed agreements on cooperation in more specific areas: an Agreement for Scientific **and Technological Cooperation** was signed on 23 September 2002, and on 6 October 2005 the two parties signed an agreement on air transport.

Notably, cooperation with Chile has also taken place in the framework of the Common Security and Defence Policy (CSDP): on 25 July 2007 Chile and the EU signed an **agreement on Chilean participation in the EU military operation in Bosnia and Herzegovina (ALTHEA)**. Chile is the only Latin American country currently participating in the operation. At the most recent EU-Chile Association Council, held on 7 October 2011, it was decided to launch negotiations on an agreement to set out a framework for Chile's participation in EU crisis management operations.

The EU also maintains a regular dialogue with Chile on **human rights**. The most recent meeting in the framework of this dialogue took place in January 2011.

Finally, Chile will host the **next Summit** between the EU, Latin America and the Caribbean. It is scheduled to take place in Santiago on **7-8 June 2012**.

4.1 Cooperation

In the framework of the various agreements, the European Commission's cooperation with Chile has developed in several areas, among them:

- economic cooperation and technological innovation;
- the environment and natural resources;
- the reform of the State;
- human rights;
- gender quality.

The general objective of the European Commission's cooperation with Chile in the period 2007-2013 is to deepen the Association Agreement through cooperation and policy dialogue in two areas which are key for the future development of the country:

- **The promotion of innovation and competitiveness**, aiming at integrating innovation in the production process, among other measures through encouraging interactions between the scientific world and the private sector. In this regard, the ambition is to establish permanent links between the science and technology communities in the EU and Chile.
- **Cooperation in the social field, promoting social cohesion** as a requirement for Chile's overall development, *inter alia* by sharing experiences in the field of social and employment policies.

Originally, assisting in improving the quality and performance in **education**, particularly in the higher education system through academic exchanges and scholarships, had been identified as a third priority area. However, in the light of Chile's own initiatives in this area, it was decided to drop this kind of assistance in the framework of the 2010 review of the cooperation programme. Initiatives in other fields of education could be funded in the context of the two other priority areas.

In quantitative terms, cooperation with Chile is relatively limited, reflecting Chile's status as a middle-income country which has experienced significant economic growth. Some €34.4 million were allocated to the bilateral cooperation in the period 2002-2006. The indicative amount allocated for the 2007-2013 period is of € 41 million. Of these, 40% each was allocated to the two

first priority areas, and 20% to education. Chile also benefits from a variety of regional cooperation programmes.

In addition, Chile is eligible for **loans from the European Investment Bank (EIB)** to support private sector investment, as established in the Association Agreement. The first loan to Chile was signed already in December 1994, involving €75 million to the Chilean telecommunications company *Compañía de Teléfonos de Chile* to the modernisation and expansion of its network. Following the signature on 9 March 2010 of a new framework agreement with Chile, in May 2011 the EIB granted a loan of around €55 million for financing the construction of the Laja Hydro Power Plant Project

4.2 Economic relations

Trade between the EU and Chile has expanded since the entering into force in 2003 of the free trade area established in the Association Agreement. In 2010, the total value of trade between the EU and Chile reached €15.4 billion, representing an increase of 28% compared to the year before. EU exports to Chile grew by 32% and imports by 25%. This evolution marked a **recovery in bilateral trade** after the drop recorded in 2009 as a consequence of the international economic crisis, although the total value of trade with Chile remained under the levels recorded before the crisis.

Looking at a longer period, the overall value of EU-Chile trade increased by 28% between 2005 and 2010. In that period, **EU exports to Chile increased by 53%**, while imports from the country grew by only 15%. The trade balance has been in Chile's favour since the early 2000s, but **the EU's trade deficit has diminished since 2006**, when EU imports from Chile reached their maximum value. However, fluctuations in export and import values from one year to another make it difficult to establish a long-term trend of sustained growth in bilateral trade. The total value of the exchanges is very much influenced by the evolution of the international prices on copper, which represents a substantial part of the EU's imports from Chile.

EU-CHILE TRADE

Value (millions of €)	2005	2006	2007	2008	2009	2010	2011 1Q
EU EXPORTS	3,919	4,281	4,767	5,086	4,530	5,999	1,930
EU IMPORTS	8,155	12,480	12,570	11,305	7,518	9,408	2,760
TRADE BALANCE	-4,236	-8,199	-7,802	-6,219	-2,988	-3,409	-830
Total value	12,074	16,761	17,337	16,391	12,048	15,407	4,690

Source: Eurostat

Chile is the EU's fourth trading partner in Latin America (after Brazil, Mexico and Argentina). Trade with Chile represents less than 1% of the EU's overall external trade (0.4% of exports, 0.6% of imports). However, **for Chile the EU as a group is the second most important trade partner after China**, representing 15.9% of the total value of the country's foreign trade in 2010. Until 2009, the EU was Chile's main trading partner. While 17.8% of Chile's exports went to the EU in 2010 (compared to 25% to China, 10.7% to Japan and 10.5% to the US), 13.9% of the country's imports originated in the EU (compared to 17.5% in the US and 14% in China).

Figures on trade during the first half of **2011** (from Chile's Central Bank) show **substantial growth in trade with the EU**: exports increased by almost 39% (compared to 26% for total

exports) and imports from the EU grew by some 27%. In that period, 19.6% of Chile's exports went to the EU, at the same level as sales to China.

The composition of Chile's trade with the EU is different from that of other Latin American countries, for instance the Mercosur countries, as agricultural products represent a less significant part of EU imports. In 2010, they represented some 31% of all EU imports from Chile, but the most important product group was fuels and mining products, with 59% of the EU's imports from the countries. This reflects the **importance of Chile's exports of copper**. Trends in recent years point to a relative increase in European imports of agricultural products (in 2006, they represented 21% of all imports from Chile) and a corresponding relative decline in the importance of mining products (from 70% of all imports in 2006). The EU's sales to Chile are dominated by manufactures (representing about 86% of all exports to Chile), particularly machinery and transport equipment and chemicals.

As regards trade in commercial services, the EU in 2010 registered a surplus of around €1 billion. Chile represents some 0.5% of total EU exports of commercial services. The EU is also a main source of foreign investment in Chile, with investment flows in recent years being relatively stable. In 2010, the UK and Spain were among the most important investor countries in Chile, representing some 20% of all FDI flows to Chile. European investment in Chile has gone to, among others, the service sector (telecommunications, banking) and infrastructure.

4.3 Role of the European Parliament

The European Parliament has maintained a strong interest in relations with Chile, condemning the repression and the violation of human rights during the military regime in the 1970s and 1980s, supporting the transition to democracy in the late 1980s and early 1990s and in recent years focusing on strengthening of cooperation with the country in the framework of the 2002 Association Agreement. In 1988, Parliament set up a special budget line in the Community budget to support the Chilean NGOs working for a return to democracy.

Shortly after the restoration of civil rule and the first democratic elections held on 14 December 1989, in a Resolution dated 16 May 1990, **Parliament called on the EU Member States to support all measures to strengthen relations with Chile** and specifically on the European Commission to launch negotiations on an advanced cooperation agreement. Further, in a Resolution adopted on 5 February 1996, the EP endorsed the Commission's proposed strategy to achieve a political and economic association between the EU and Chile through negotiating a new agreement including a reinforcement of the political dialogue, the strengthening of cooperation on trade to pave the way for a reciprocal liberalization of trade in goods and services, as well as closer cooperation in the fields covered by the existing agreement and the extension of cooperation to new areas.

Similarly, after the opening of negotiations of an association agreement in 1999, in its Resolution on the legal proceedings against General Pinochet and the consolidation of democracy in Chile, adopted on 14 December 2000, Parliament stated that the best means by which the EU could support the consolidation of democracy in Chile was the conclusion of a far-reaching agreement for political cooperation and economic association and cooperation, with the human rights clause to the fore.

Subsequently, on 1 March 2001, in its Recommendation to the Council on the negotiating mandate for an association agreement with Chile, Parliament stated that the new negotiating guidelines should include mechanisms to ensure that the provisions of the future agreement would be fully adjusted to the mandate of the (then new) Union Treaty that the encouragement of international cooperation and the development and consolidation of democracy and the rule of law and respect for human rights were objectives of the CFSP, on the basis of the principle of

economic and social cohesion and the reduction of inequalities between sectors of society and within regions;

Following the signature of the 1996 Cooperation Agreement, interparliamentary relations between the EU and Chile took a significant step forward with the signing in Santiago de Chile, in 1998, of the "Declaration on the institutionalisation of interparliamentary dialogue between the European Parliament and the Chilean Congress" (*Declaración de Institucionalización del Diálogo Interparlamentario entre el Parlamento Europeo y el Congreso Nacional de Chile*) by the Chairmen of the Foreign Relations' Committees of the Chilean Senate and Chamber of Deputies, respectively, and the Chairman of the European Parliament's Delegation for Relations with the countries of South America and Mercosur. In the declaration, which recognises the EP's support to the process of transition to democracy in Chile, the two parties agreed to institutionalise the Interparliamentary Dialogue and to hold regularly meetings, in principle every year.

The links between the EP and the Congress of Chile were further strengthened with the 2002 Association Agreement which established an **EU-Chile Joint Parliamentary Committee** (JPC). The JPC, in charge of monitoring the implementation of the Agreement and making proposals to improve its operation, held its first meeting on 27-28 October 2003 in Valparaiso, Chile. The Committee, has since then met twice a year, alternately in the EU and in Chile, and addressed the political and economic situation in the EU and Chile, various aspects of the bilateral relationship and issues of mutual interest, as well as agreeing on recommendations to the other bodies set up in the Association Agreement, the Association Council, the Association Committee and the EU-Chile Summits. The JPC meeting in Chile on 2 November 2011 will be the fifteenth meeting of the Committee since 2003. Similarly, following the establishment of the JPC, the EP created a special delegation for relations with Chile at the start of the 6th Legislature in 2004.

ANNEX I: MAP OF CHILE

