

# BTI 2012 | Chile Country Report

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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	17.1	HDI	0.805	GDP p.c.	\$	15732
Pop. growth <sup>1</sup>	% p.a.	0.9	HDI rank of 187	44	Gini Index		52.0
Life expectancy	years	79	UN Education Index	0.797	Poverty <sup>3</sup>	%	2.4
Urban population	%	89.0	Gender inequality <sup>2</sup>	0.374	Aid per capita	\$	4.7

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the period under review, Chile continued the rather successful path of political and economic transformation started in the late 1980s, despite the pressure of adverse circumstances such as the economic crisis and the disastrous earthquake of 27 February 2010. The most important change resulted from the 2009 – 2010 electoral cycle. The center-left Coalition of Parties for Democracy (Concertación de Partidos por la Democracia, popularly known as Concertación), formed in the anti-Pinochet struggles of the late 1980s, was removed from government after 20 years in office by the right-wing Alliance for Chile, bringing Sebastián Piñera of the moderate rightist National Renewal (RN) party to the presidency. The Piñera government has mostly continued the policies of the Concertación governments – which had generally been business-friendly – though looking for its own style of increased efficiency in order to strengthen its legitimacy. The governing coalition was thus unable to capitalize on President Michelle Bachelet's impressive management of the global economic and financial crisis, a fact that spoke to a deep-rooted crisis within the Concertación parties themselves.

In large part due to the prudent economic policies of the Bachelet government, which themselves are grounded in a well-institutionalized economic order, the financial crisis had only minor effects on Chile's economic development. While GDP shrank by 1.5 % in 2009, in 2010 it recovered with growth of 5.3%, despite the effects of the earthquake. Interestingly, President Bachelet's popularity, as well as public approval of her government, rose persistently from pre-crisis times to the end of her term in office. While criticized for her countercyclical measures before 2009, during the crisis she was praised for precisely the same policies, as she was able to react by utilizing the savings of previous years to mitigate the effects of the crisis. Consequently, Bachelet's approval rating reached an unprecedented 78%, the highest ever measured in Chile.

Despite the overall successful transformation, important weaknesses remain concerning the country's growth model and the welfare system (productivity, human capital, inequality,

education and the health care system). In addition, the conflict with the Mapuche indigenous people remains unresolved, revealing some shortcomings in the rule of law. Last but not least, the role of business and non-transparent financing in politics has increased.

## History and Characteristics of Transformation

After the deep economic crisis of the early 1930s, Chile adopted an import substitution industrialization model, with strong economic and social roles for the state. This process was conducted within the context of a stable democracy, established by the 1925 constitution. Political development was marked by pluralism, a relatively strong party system and increasing social participation. However, this integration excluded the peasantry and urban shantytown dwellers, who were not incorporated into the political system until the reformist governments of the 1960s and early 1970s. This socioeconomic and political model was transformed during the government of Salvador Allende and his leftist Unidad Popular, whose “Chilean road to socialism” program aimed to transform the capitalist economy through institutional and democratic means. The subsequent political polarization allowed the military, led by General Augusto Pinochet and supported by the United States, to overthrow Allende in 1973. The dictatorship was characterized by systematic and massive violations of human rights. Under the socioeconomic model imposed by a financial-capital-linked group of technocrats known as the “Chicago boys,” the state withdrew from its social role in education, health, social security and labor relations. The rate of poverty went up to 40%, and the real income of the workers fell back to its 1973 level. In 1980, Pinochet imposed a constitution that provided the framework under which the democratic opposition organized, ultimately winning a 1988 referendum designed to keep Pinochet in power. After this plebiscite, presidential and parliamentary elections were held in 1989, and the center-left Concertación coalition won with its candidate, Christian Democrat Patricio Aylwin.

From 1989 to December 2009, the Concertación won all national elections, including the four presidential ballots since 1990. The Aylwin government (1990 – 1994) successfully avoided any relapse into authoritarianism, achieved economic stability and combated poverty by means of increased social expenditures. The most important advances regarding human rights violations under the dictatorship were the Commission and the Report on Truth and Reconciliation, the first attempt by Chilean authorities to estimate both the number of victims murdered and the number of the “disappeared” under the military regime. Both the military and the political right opposed the report. The government of Christian Democrat Eduardo Frei Ruiz-Tagle (1994 – 2000) deepened the market economy by extending international trade and implementing a new round of privatization. Under this government, Chile’s market economy was consolidated and the country reached the highest rates of economic growth in its history, close to 7% annually. Though poverty was significantly reduced, by 1998 Chile had climbed to second place in Latin America in terms of the inequality of income distribution.

The third Concertación government, led by President Ricardo Lagos (2000 – 2006), a socialist and founder of the Party for Democracy (Partido por la Democracia, PPD), managed to restore the economy after the effects of the Asian crisis. It also promoted and implemented significant reforms aimed at combating extreme poverty and modernizing education, health, culture, labor relations, public financing of electoral campaigns, laws on probity in state management, and constitutional reforms. In the area of human rights, prominent trials of some high-ranking officers of the Pinochet regime (and of Pinochet himself), along with the Valech Report on Torture and Political Imprisonment, marked historic steps toward justice and reparation. The fourth Concertación government (2006 – 2010), led by socialist Michelle Bachelet, initiated major reforms to the state system of social protection, especially the social security and pension systems. Her administration created advisory councils for policy development and launched projects with the goal of promoting social protection and equity.

Despite Bachelet's successful management of the economic crisis and high approval rates, the Concertación showed signs of exhaustion. The national elections of December 2009 and the presidential run-off ballot of January 2010 saw the right-wing Alliance for Chile (Alianza por Chile) – composed of the moderate National Renovation party (Renovación Nacional, RN) and the more radical Independent Democratic Union (Unión Demócrata Independiente, UDI) – as the winner of national elections for the first time since redemocratization. It is also the first time since 1958 that the conservatives had won a national electoral competition. The Alliance presidential candidate, Sebastián Piñera, won the day against the Concertación candidate, former President Eduardo Frei, by 51.6% to 48.4% of the votes.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

There is no competition with the state's monopoly on the use of force throughout the entire territory. The political system in Chile is highly institutionalized. The state possesses a monopoly on the use of force and its authority to enforce the laws is uncontested. Some minor problems exist with criminal gangs at the peripheries of Santiago.

The definition of citizenship and of who qualifies as a citizen are not politically relevant issues. All citizens have the same civic rights, and all individuals and groups enjoy the right to acquire citizenship without discrimination. All groups in society, including the indigenous population, accept the nation-state as legitimate. The institutions of the state have widespread legitimacy, even if there is some criticism of the constitution (as the "Pinochet constitution," dating from 1981, is still in place).

The state does not explicitly recognize the country's various ethnic groups in its constitution. Immigrants' rights have been addressed in only a partial way. Faced with a continuing increase in the inbound flow of migrants, some limited legislation has been passed that will allow immigrants access, in time, to some of these rights. An attempt was made in 2008 to pass a more comprehensive immigration reform. The community of Peruvian immigrants, 65% of whom are women, is the most vulnerable part of the population.

Chile is a secular state. Its legitimacy and legal order are defined without noteworthy reference to religious dogmas. Since 1925, the Catholic Church has been separate from the state. In recent years, laws have been enacted that give more opportunities and rights to religious organizations beyond the Catholic Church. The Catholic Church presents itself as an actor that seeks consensus on specific issues (e.g., discussion of minimum wages).

Question  
Score

Monopoly on the  
use of force  
10

State identity  
10

No interference of  
religious dogmas  
9

This said, the Catholic Church successfully acts as a pressure group, and has exerted great pressure on various aspects of social life relating to the consideration of ethical values. This has included attempts to influence the formulation and promulgation of laws. The country's divorce law, for example, took nearly a decade to be enacted. The Catholic Church has in the past also tried to force the government and Congress to change rules related to sexuality and reproduction (e.g., with regard to rules requiring pharmacies to carry the morning-after pill), as well as to health and education.

The Chilean state has a differentiated and well-developed administrative structure throughout the country. In most cases, this goes beyond merely basic functions, and successfully serves the country's development needs. Chile's civil service is assessed by the Inter-American Development Bank (IADB) to be one of the region's most professional, just behind the (federal) administration of Brazil. Its operation has been further improved by laws on probity (2003) and transparency (2009), which demand strict scrutiny of virtually all state activities such as personnel recruitment and expenditure.

Basic  
administration  
10

In contrast to its neighbors and to most of the region, Chile neither is a federal state nor has implemented any serious system of decentralization. This marked centralism leads to strengths as well as weaknesses, the latter deriving particularly from the delivery of services that exceed basic administrative functions. Public policy is defined in a centralist way, and thus the specific needs of the country's political-administrative divisions and the particular characteristics of the population are not always reflected. As there is no real regional autonomy, regional governments and administrative structures depend heavily on centralized decision-making. To some extent, the administration exhibits shortcomings that arise from the concentration of resources within areas close to the cities, which are home primarily to people of a middle-high socioeconomic stratum. Nevertheless, data from the Latin American Public Opinion Project's (LAPOP) Americas Barometer suggest that Chileans are comparatively satisfied with their local elites.

## 2 | Political Participation

All elections are held according to international standards, the constitution and the law. In general, election results are not contested. Political parties and citizens may be present when votes are counted. LAPOP data suggest that vote buying – found frequently across much of the region – and political clientelism play only a minor role.

Free and fair  
elections  
10

The binominal electoral system introduced under the authoritarian regime, which de facto excludes a third force, is still in place. This leaves the two dominant alliances – the center-left Concertación and the rightist Alliance for Chile – to share all the

electoral posts, and narrows social representation. According to the Americas Barometer, Chilean voter turnout is the highest in the region (with 94.2% of registered voters actually casting ballots). However, only 67.9% of the voting-age population is actually enrolled in the electoral registry, the lowest such figure in Latin America. That means that more than a third of the population (skewing especially toward young people) does not participate in elections. In 2009, a constitutional reform was passed that introduces automatic voter registration and makes voter participation voluntary. This will probably become effective in time for the 2012 local elections.

The effective power to govern has been guaranteed since the 2006 constitutional reforms. There are no longer veto powers as such, notwithstanding the strength of some actors that serve as pressure groups. Since 1990, the military has seen its veto powers and political enclaves increasingly eroded, especially after 1998, the year Pinochet was arrested in London. In 2006, the institution of appointed senators was abolished, and the president regained the right to remove the commander-in-chief of the armed forces, thus further strengthening democratically elected rulers' power to govern.

Effective power to govern

9

The freedoms of association and assembly are unrestricted within the democratic order. Independent political and civil society organizations are generally allowed to form freely. Political activity on the part of unions is not restricted, but unions' collective bargaining rights are still subject to some provisions that do not meet international labor law conventions. In addition, the right to organize is often obstructed and undermined by subcontracting and other such informal practices, and lacks appropriate supervision by the Directorate of Labor.

Association / assembly rights

9

The freedoms of opinion and of the press are constitutionally guaranteed. The media landscape is sufficiently differentiated; media organizations cover sensitive issues as well as fulfilling a watchdog role vis-à-vis the government and other political authorities. The censorship that blocked coverage of some issues has been removed in recent years. In 2005, laws that impeded reporting on the military and the government were eliminated from the penal code. The constitutional reforms of 2005 eliminated defamation as an offense against public persons.

Freedom of expression

10

However, there are huge differences between the print and electronic media. Pluralism of the press is limited by the concentration of media ownership in two groups, El Mercurio and Copesa, throughout the country. The influence of these newspapers is mostly on the political elites rather than the broader public. The few alternative print publications are often forced to close due to a lack of private advertising and public support.

On the other hand, the country has an independent television landscape of private and public stations, as well as a vibrant radio scene with over 800 stations and an

increasingly important online media presence. The TV landscape, with seven nationwide terrestrial television channels, is more diversified today than in the 1990s, when there were only three channels. In addition, there are 13 national cable/satellite channels. A broad range of radio stations of national and partially transnational ownership are seen as credible, and provide political news as well as other programming. In addition, online media such as El Mostrador are becoming more popular, especially among the elites.

### 3 | Rule of Law

The constitution guarantees the separation of powers, and the relevant actors comply with the constitutional provisions. The various branches of government work independently and serve as a check on each other. The constitution is formally designed around a strong presidentialism, and allows the president to act as a co-legislator. However, a succession of constitutional reforms, as well as the political culture of arrangements, has constrained the president's power. The parliament's capacity to check the executive branch was enhanced through constitutional reforms in 2005. For example, parliament was granted the power to summon ministers. The judiciary has also been strengthened during the last 12 years. The Constitutional Tribunal and the Senate have thus become important veto players in the legislative process. Chile's state powers are strictly bound to the rule of law.

Separation of  
powers  
10

Chile's judiciary is independent and performs its oversight functions appropriately. It is mostly free both from unconstitutional intervention by other institutions and from corruption. It is institutionally differentiated, and there are mechanisms for judicial review of legislative and executive acts. Several constitutional reforms have improved its performance since the return to democracy in 1990. In 1997, the election procedure for Supreme Court judges was reformed, curbing the influence of judges nominated by Pinochet. Equally important was the reform of the penal code initiated under President Frei, which introduced oral procedures, a public prosecutor's office and district attorneys. The 2005 reforms enhanced the Constitutional Tribunal's autonomy and jurisdiction concerning the constitutionality of laws and administrative acts. Today, some observers even see it as one of the most powerful such tribunals in the world, able to block governmental decrees (as in the case of the day-after pill) and protect citizens' rights against powerful private entities. However, despite notable successes in important issues such as human rights violations during the Pinochet regime and the enhancement of overall judicial efficiency, the judiciary is accorded low levels of trust and confidence by the average Chilean, as Centro de Estudios de la Realidad Contemporánea (CERC) surveys since 1988 have repeatedly shown. According to the Americas Barometer survey on trust in political institutions, 47.4% of Chilean citizens have confidence

Independent  
judiciary  
9



in the justice system, with confidence in political parties (37.6%) the only category with lower ratings. However, confidence in the judiciary has in fact risen in recent years (from 40.8% in 2006).

In general, authorities involved in corruption and/or misappropriation of public funds have been subjected to audits by the Comptroller General's Office or the judiciary, and have been severely punished. Particularly heinous individual instances are denounced by the public and prosecuted by the judiciary. Officeholders accept the judicial system's procedures, as was evident in a case of corruption involving members of the Lagos government. A suspicious press and several NGOs also monitor the state's behavior, ensuring that it abides by the rules. In addition, a new public body (the Comisión para la Transparencia) was created in 2009, whose main goal is to provide information on the work of all state institutions. Chilean citizens now have the right to access information about the activities of state institutions, though use of these rights has to date been relatively infrequent.

Prosecution of  
office abuse  
9

Civil rights are guaranteed by the constitution and mostly respected by all state institutions. Infringements represent an extreme exception. Citizens are effectively protected by mechanisms and institutions established to prosecute, punish and redress violations of their rights. Chile has contributed significantly to the development of a solid international framework for human rights, as well as to the institutions that monitor their fulfillment. Significant progress has been made in relation to the political and judicial treatment of human rights violations. The Bachelet government also worked to approve the ratification of Chile's access to the International Criminal Court, which had long been delayed due to the resistance of the country's political right and the Constitutional Tribunal's demand for necessary constitutional reforms (ratification took place in June 2009).

Civil rights  
9

However, the rights of indigenous peoples, sexual minorities, the disabled and women are not always fully guaranteed. Institutional reforms such as 1993's Ley Indígena have been designed to recognize the rights of the country's approximately 700,000 indigenous people. Chile also ratified International Labor Organization (ILO) Convention 169 on Indigenous and Tribal Peoples, but its implementation remains insufficient. Indigenous peoples do not enjoy constitutional recognition as such, and remain disproportionately affected by poverty. Claims to ancestral land and the impact of extractive industry and forestry projects have led to tensions that often result in violence, leading the Code of Military Justice and the state's anti-terrorism law to be applied to Mapuche individuals. Access to the judicial system has been improved for the lower social strata through a specific judicial reform program, although this remains insufficient in a Chilean society marked by great disparities.

#### 4 | Stability of Democratic Institutions

Democratic institutions are stable to a high degree. They operate in accordance with their functional purposes and are effective and largely efficient. Institutional stability has been underpinned by widespread support for the rules of the game, in place even before the democratic transition. The current constitution is the result of nearly 50 reforms designed to eliminate authoritarian enclaves, but this has taken place in such a gradual manner that the shadow of the constitution's authoritarian legacy remains. To date, stability has been favored over the implementation of changes that would improve performance and deepen democracy. The change in government from center-left Concertación to right-leaning Alliance for Chile went smoothly, showing the widespread acceptance of the basic rules of the democratic game.

Performance of  
democratic  
institutions  
10

All relevant political and social actors, including the military, accept Chile's democratic institutions as legitimate. A genuine debate over social, economic and political issues that could lead to the establishment of a new constitution has yet to occur, but deep agreement exists on the need to adhere to the existing institutional structure in the course of all reforms. There is thus strong instrumental consensus on basic procedures, but this consensus does not extend to shared values

Commitment to  
democratic  
institutions  
10

#### 5 | Political and Social Integration

Despite some signs of debilitation, Chile still has a somewhat stable, moderate party system with low fragmentation, low polarization and low voter volatility. It is comparatively highly institutionalized and strong in terms of policy formulation. However, citizens appear to be becoming disaffected with the Chilean party system. Though parties are still sufficiently anchored in society, popular consent levels and linkages with civil society have weakened in recent years. Data from Americas Barometer shows that Chilean political parties are among the most stable in the region, but also show the lowest levels of adhesion, participation and membership. In other words, parties are strong at the elite level, but show notable problems in terms of representation.

Party system  
8

The party system still reflects the political power constellation of the late-1980s democratic transition, when the two party blocs were formed. Though in principle Chile has a multiparty system, the electoral system induces it to operate as a two-party system, as parties are forced to form alliances in order to gain representation in Congress. One of the alliances is formed by center-left parties – the Christian Democratic Party (Partido Demócrata Cristiano, PDC), the Party for Democracy (Partido por la Democracia, PPD), the Radical Social Democratic Party (Partido Radical Social Demócrata, PRSD) and the Socialist Party (Partido Socialista, PS) –

and is called the Coalition of Parties for Democracy (Concertación de Partidos por la Democracia). The Concertación served as the ruling coalition from the reinstatement of democracy in 1990 until March 2010. The other party bloc, the Alliance for Chile (Alianza por Chile), consists in large part of the Independent Democratic Union (Unión Demócrata Independiente, UDI), the hard right wing party that was closely allied to Pinochet, and to a lesser extent the more democratic National Renovation (Renovación Nacional, RN) party of President Piñera. The structuring of the electoral system has largely de facto excluded the Communist Party (PC), the Humanist Party and other groups of the left from representation in Congress. In the 2009 parliamentary elections, the PC for the first time formed part of the Concertación and was able to obtain three seats in the lower chamber.

What was a guarantee of political stability during most of the last 20 years has for an important part of the electorate today taken on the character of a political oligopoly that holds little programmatic or organizational attraction. The surprising electoral results achieved by independent presidential candidate Marco Enríquez-Ominami, as well as the general tendency to orient voting decisions toward individuals rather than political programs and ideologies, may be interpreted in this way.

In sum, the party system is organizationally stable and sufficiently anchored in society, with stable but weakening connections to civil society. It is well rooted in classic socioeconomic, ideological and political cleavages, but has some difficulties in expressing new social and cultural cleavages. The degree of voter volatility is rather low when measured in terms of the two politically relevant blocs. The degree of polarization is overall moderate when the parties not represented in parliament are included, although comparatively high on some specific issues, such as reconciliation concerning human rights violations. On political issues, there is no alternative to parties. However, parties are severely criticized and have fallen to a point of very low of public trust.

Chile has an average range of interest groups reflecting a wide array of social interests, but a few strong interests clearly dominate. Associations representing capital and the Catholic Church play a particularly powerful role. The trade unions, which were weakened greatly under the dictatorship, have been able to regain some organizational stability under the subsequent democratic governments. By international standards, however, their bargaining power (manifested through strikes and collective bargaining) and affiliation rate have remained low. In addition, unions are confronted by strong business associations which have been able to maintain their powerful position, since the economic model has been left largely unchanged since 1990. Only 12% of the labor force is organized within a union, and only 9% participates in collective bargaining procedures. Employers' associations wield great influence on the executive in shaping the political agenda,

Interest groups  
8

above all in the area of economic policies. There is still no law that regulates the links between lobby groups and the public sector, thus establishing a grey zone of informal power and corruption.

According to data from Latinobarómetro and Americas Barometer, support for democracy is medium to high in comparison to other countries, with the two organizations respectively finding support levels of 63% and 76%. Support for a military coup is comparatively low. Concerning support for democracy, Latinobarómetro places Chile in the upper middle ranks, while Americas Barometer – surveying the entire continent – sees Chile in sixth place just behind the United States (approval rate of 77.5%; leaders are Uruguay with 86% and Costa Rica with 80%). With respect to support for a military coup in order to resolve major societal problems such as corruption or organized crime, Chile ranks seventh with 27% of the population in favor, situated at a level similar to that of the United States and Canada (25%) - the leader is Argentina, with only 19% that would approve a coup; the other end of the spectrum is occupied by Belize and Mexico, respectively with 48% and 47%.

Approval of  
democracy

7

The pronounced elitism and narrowness of the political system in Chile have contributed to political disaffection that serves as a potential wellspring for non-democratic solutions. Interestingly, the military and the police are the most accepted political institutions in a country which emerged from dictatorship just 20 years ago.

There is a fairly high level of trust among the population, and a substantial number of autonomous, self-organized groups, associations and organizations exists. Civil society's organizational landscape has become increasingly differentiated since redemocratization. Alongside numerous religious organizations, there is a dense network of civil society organizations engaged in issues such as human and civil rights, poverty, inequality, rural development, and the environment. However, there are great disparities in the durability and the organizational strength of associations, mostly due to social inequalities. Levels of citizen association and participation in civil society organizations are moderate. Interest in politics is very low compared to other countries in the region.

Social capital

7

With respect to trust levels, data available show a somewhat inconsistent picture. While Latinobarómetro and the World Values Survey consider interpersonal trust to be rather low, data from Americas Barometer suggest that interpersonal trust among Chileans is at a medium to high level. In the latter survey, 66% of persons interviewed said they have some or much confidence in their neighbors, while 10% responded that they do not trust them at all. This situates Chile among the region's countries with comparatively high levels of interpersonal trust.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers

7

Despite relatively stable macroeconomic indicators, exclusion and inequality persist. Poverty and social exclusion in Chile are historically determined, with structural causes. According to the Survey of Socioeconomic Characterization (CASEN), the poverty rate declined from nearly 40% at the beginning of 1990 to 13.7% in 2006. Due to the effects of the economic crisis, it rose somewhat in 2009 to 15.1%, with 3.7% living in extreme poverty (in 1990, this figure was 13.0%; in 2006, 3.2%). Extreme poverty has decreased since 2002 due to the implementation of a program called Chile Solidario, which has attempted to reach each of the 250,000 families in this segment of society directly with financial, employment, education, health, psychological and housing services.

Poverty affects some regions more than others (27.1% in the Araucanía region in the south, as compared to just 8.0% in Antofagasta in the north), and affects ethnic minorities (19.9%), children (24.6% of those between 0 and 3 years of age, and 21.5% of those aged from 4 to 17) and women particularly hard. The number of indigent households headed by women has more than doubled, from 22% in 1990 to 48% in 2009. Unemployment especially affects the less educated and the young. In 2009, the unemployment rate within the indigent population was 51% as compared to 7.9% among the non-poor, showing a dramatic rise related to the global financial and economic crisis (2006: 40% as compared to 5.9%).

Despite impressive national economic growth rates during the last 20 years, social inequality has remained high, though the Gini coefficient dropped slightly from 0.57 in 2002 to 0.53 in 2009. Among the 85 countries with high or very high human development in the UNDP's Human Development Report 2010, only five countries show more income inequality, all of them Latin American countries (Brazil, Panama, Ecuador, Colombia and Belize). The considerable socioeconomic barriers hamper social mobility and the validity of meritocratic principles.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	164315.2	170741.0	160859.3	<b>212740.8</b>
GDP growth	%	4.6	3.7	-1.7	<b>5.2</b>
Inflation (CPI)	%	-	-	-	<b>1.4</b>
Unemployment	%	7.1	7.8	9.7	-
Foreign direct investment	% of GDP	7.6	8.9	8.0	<b>7.1</b>
Export growth	%	7.6	3.1	-5.6	<b>-0.3</b>
Import growth	%	14.5	12.2	-14.3	<b>26.3</b>
Current account balance	\$ mn.	7458.2	-3307.2	2570.1	<b>3801.7</b>
Public debt	% of GDP	4.1	5.2	6.2	<b>8.8</b>
External debt	\$ mn.	56190.5	65419.0	73145.5	<b>86349.2</b>
Total debt service	\$ mn.	11898.8	16215.0	17417.3	<b>13392.5</b>
Cash surplus or deficit	% of GDP	8.8	4.7	-4.5	-
Tax revenue	% of GDP	21.4	19.7	15.6	-
Government consumption	% of GDP	10.9	11.9	13.8	<b>12.5</b>
Public expnd. on edu.	% of GDP	3.4	4.0	-	-
Public expnd. on health	% of GDP	6.9	7.5	8.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.4	3.5	3.5	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Market competition is consistently defined and implemented on both the macroeconomic and microeconomic level. Administered pricing plays little role, the currency is convertible, markets are contestable, there are no significant entry and exit barriers in product and factor markets, there is substantial freedom to launch and withdraw investments, and there is no market discrimination based on company ownership or size. Chile possesses a strong institutional foundation that supports market competition and the public economic order. Governmental policy is limited

Market-based  
competition  
10

to general assurance and maintenance of the rules of the game. It provides for a neutral organization of regulations consistent with competition, including control over monopolies and the expansion of required intermediary institutions. Insurance companies, banks and financial institutions are autonomous, and the state's oversight role with respect to these institutions is comparatively light, which has favored concentration within these sectors over time. The informal sector exists but plays a minor role.

With its small domestic market, Chile is inevitably confronted with market concentration in some sectors, especially in the banking, private pension and health insurance industries. In addition, the liberalized economy faces strong international competition. This adds healthy competition in what is otherwise a relatively small national market, but also requires firms to be a certain size in order to be effective in the global market, thus inducing concentration. Since the late 1990s, Chile's anti-monopoly legislation has become increasingly mature and effective. The formation of monopolies and oligopolies is regulated by independent agencies. The Tribunal for the Defense of Free Competition (TDLC) is responsible for preventing, correcting and sanctioning anticompetitive conduct. Cases can be presented to the TDLC either by the National Economic Prosecution Service (FNE), an investigative body, or by companies with a complaint. Together they are responsible for the investigation and resolution of cases of abuse of dominant market position, restriction of competition by cartels and/or ententes, disloyal competition, and market concentration (monopolies, mergers, and cartels). However, these institutions suffer from a lack of resources and institutional capacity, preventing them from eliminating market concentration completely. Nonetheless, leading Chilean economists, along with the IMF, argue that there is less need for further regulations than for facilitating market entry, though they do see some room for regulatory improvement.

Anti-monopoly  
policy  
9

Foreign trade is widely liberalized, with uniform, low tariffs and few non-tariff barriers in place. Liberalization has been expanded and consolidated under the post-1990 democratic governments. The state does not intervene in free trade, but rather supports a national export orientation by means of a network of institutions linked to the economy. Free trade has been encouraged by international and bilateral agreements with the United States, the European Union, and Latin American and Asia-Pacific countries. Tariffs are unique and low at 6%, and are being successively eliminated for countries with free trade arrangements. The average tariff is estimated to be just 1.2%. Chile's economy is highly dependent on international trade, with exports accounting for about 45% of GDP.

Liberalization of  
foreign trade  
10

Institutional foundations are in place for a solid banking system. The banking system is oriented toward international standards, with functional banking supervision and minimum capital equity requirements. The finance sector is subject to its own supervisory agency, the Superintendency of Banks and Financial

Banking system  
10

Institutions (Superintendencia de Bancos e Instituciones Financieras, SBIF), which monitors and applies the provisions of the banking act, and classifies financial institution risk. Chile follows the norms of the Basel Committee on Banking Supervision. Capital markets are open to domestic and foreign capital, although they are vulnerable to speculative investment. Mature regulation has led to a diversified financial system and capital markets that provide the economy with a wide variety of financing sources. However, there are only 16 operating banks, and the lack of competition as well as flaws in supervision have contributed to certain deficiencies, such as high costs and oppressive clauses in contracts with consumers.

## 8 | Currency and Price Stability

Inflation and foreign exchange policies are pursued in concert with other economic policy goals, and are institutionalized in the largely independent Central Bank of Chile (BCCh). The maintenance of low, stable and sustainable inflation is one of the pillars of Chile's economic model, and is the primary objective of the BCCh's monetary policy. To this end, the bank has oriented its monetary policy toward an inflation rate of 3% per year, as measured over a two-year horizon. However, the rate of inflation, which was 3% in 2005 and 3.4% in 2006, jumped to 7.8% in 2007 and 8.9% in 2008 due to rising food and energy prices. Since December 2008, however, the consumer price index has registered significant declines, resulting in an inflation rate of -1.4% in 2009 and 2.5% in 2010. In September 1999, in the course of the crisis ongoing at that time, the central bank adopted a freely floating exchange rate, replacing a policy in which rates were allowed to float within a set range based on a currency basket.

Anti-inflation /  
forex policy  
10

The government's fiscal and debt policies promote macroeconomic stability, supported in part by institutional (self-)constraints. Overall, economic policy since the 1990s has been marked by the highly disciplined maintenance of macroeconomic stability, with the central bank and the government working together quite effectively. The government's fiscal and debt policy is narrowly targeted at stability. In 2000, President Ricardo Lagos' government introduced a fiscal rule predicated on a structural surplus of 1% of GDP, reaffirming and intensifying Chile's commitment to fiscal responsibility. While the government achieved primary surpluses of 8.4% of GDP in 2006, 9.0% in 2007 and 5.3% in 2008, resulting in an impressive overall balance, countercyclical policies aimed at confronting the economic crisis induced a deficit of -3.9% in 2009 and -0.4% in 2010. Nonetheless, the central government's overall public debt remained very low, showing a slight increase from 5.2% of GDP in 2008 to 6.1% in 2009 and 7.0% in 2010 (the regional average being around 30% of GDP).

Macrostability  
10

According to the BCCh's September 2008 Monetary Policy Report (IPOM), decisions on monetary policy are taken in a coordinated manner, in required



adherence to international standards. These measures aimed to strengthen the provision of liquidity through a wide range of tools addressing the economic crisis. With these well-institutionalized measures, Chile was able to implement true countercyclical fiscal policy. In the eyes of BCCCh and IMF analysts, a cornerstone of this success was that the most important underlying estimates were made by expert panels insulated from the political process. This allowed the Bachelet government to resist pressure to use the funds derived from high copper prices until 2008, and later to increase spending sharply and moderate the downturn when the economic crisis hit Chile in 2009.

## 9 | Private Property

Protection of and respect for private property have been definitively consolidated, and are enshrined in the constitution as a leading societal principle. Property rights and the regulation of the acquisition of property are designed to allow for a dynamic market economy.

Property rights  
10

Private companies are viewed as the primary engines of economic production, and are given appropriate legal safeguards. The main privatization process took place under the Pinochet regime. This process was not transparent and helped to consolidate the historic concentration of ownership. The participation of private enterprises in state infrastructure (public-private partnerships) has generated controversy, as public goods and resources are managed according to market logic. In particular, the participation of private enterprises in road infrastructure and correctional facilities has had negative externalities, for which the enterprises cannot be held accountable. A few state companies remain – among them CODELCO, the world's biggest copper producer – but these are subject to professional management.

Private enterprise  
10

## 10 | Welfare Regime

Social safety nets are relatively well developed, but do not cover all risks for all strata of the population. A significant part of the population is still at risk of poverty. One major problem is that Chile's mixed private and public welfare system is biased toward social stratification. The new Piñera government has announced its intention to introduce reforms with a particular focus on education, the health system and the fight against poverty.

Social safety nets  
8

While the post-1990 Concertación governments introduced a series of reforms and significantly increased social spending, much of the institutional structure inherited from the military regime persists. Thus, a significant portion of the health and social welfare sector is governed by the market, as is the case with pension fund

administrators (AFPs) and the Provisional Institutions of Health (ISAPRE). These institutions are unable to secure decent pensions and quality health care for all. For their health care, workers and low-income families must use the public system, which possesses fewer resources than does the private sector, thus creating a clear segmentation in terms of access. The poor and elderly populations typically end up as part of the public system. The Lagos government implemented the so-called Regime of Explicit Health Guarantees (also known as Plan AUGE), aimed at improving the quality and availability of public sector health care services, particularly for lower income groups. After a series of reforms, the AUGE Plan now mandates that both ISAPRE and the National Health Fund (FONASA) provide medical care to any person who meets certain age requirements and who suffers from one of the diseases covered under this scheme. Furthermore, a fund to offset the cost of health care for women and the elderly population was created.

In the early 1980s, the pension system was transformed into a system of individual pensions and defined contributions managed by private sector AFPs. In view of the shortcomings of the system, its reform was a priority for Bachelet's government, which sought to increase minimum pensions, give pensions to all women, extend social security to young people, introduce a system monitoring AFPs and create a solidarity fund. A law on this issue was enacted in January 2008, reintroducing a state-financed pillar to the pension system, and aiming to improve the private system in terms of coverage, benefits and transparency.

Housing policy aimed at ameliorating the lack of adequate housing stock, particularly for the population's poorer households, has led to the eradication of most shantytowns. During Bachelet's term, the number of government-provided housing units rose to an annual level of 170,000, while special programs targeted the quality of neighborhoods. Out of 223,000 families considered to be indigent, 190,000 benefited from the housing program. After the earthquake, the government introduced a special program for reconstruction, from which 124,000 Chileans had benefited by January 2011. An advance of questionable benefit has been the unemployment insurance program, which was introduced in 2001 and reformed in 2009. Insured workers are covered by an individual severance account, which is supplemented by a solidarity component paid from the Solidarity Severance Fund. However, few workers use this program. In addition, there are a number of programs aimed at alleviating poverty, or which provide subsidies in situations of special need. The Piñera government has maintained most of these programs, and is even introducing new ones to extend the social safety net. Immediately after taking office, the government introduced a subsidy for low-income families in the amount of CLP 40,000 (about \$80), and at the time of writing, was preparing to introduce the "ingreso ético familiar," essentially a kind of negative income tax.

Equality of opportunity remains constrained by persistent social inequalities. While women have near-equal access to education, public office and employment, members of indigenous groups face more difficulties. A number of legal provisions address discrimination, but their implementation is at times insufficient. Apart from the more complex situation experienced by indigenous peoples, problems of equal opportunity in Chile are primarily linked to social stratification. A number of institutions are designed to compensate for gross social differences, but are not sufficient to guarantee true equality of opportunity. Social inequality has remained almost unchanged at a high level since redemocratization. Several specific programs have helped to reduce extreme poverty substantially since 1990, but poverty still disproportionately affects some specific regions, ethnic minorities, children and women.

Equal opportunity  
7

Equal opportunity for women shows a mixed record. Equality in secondary education has almost been achieved (67.3% of women with at least a secondary education as compared to 69.8% of men), but labor force participation shows a huge gap (48.1% for women vs. 78.9% for men). The Gender Inequality Index included in the UNDP's Human Development Report 2010 ranks Chile 53rd out of 138 countries, with a score of 0.505 (a similar level to Uruguay and Costa Rica; the best performer was the Netherlands with a score of 0.174, the worst Yemen, scoring 0.853). Political participation by women has become more common, and in general there are few objections to women holding high public offices (as in ministries or even the presidency itself). Nevertheless, women's overall presence in politics remains rather muted. In 2011, just 13.3% of parliamentary members were women. There is no gender-based quota for public offices. Gender equity policies are designed and implemented by the National Women's Service (SERNAM), a government body with near-ministerial competencies. There is a wide array of programs directed at creating equal labor conditions for female heads of households, fighting violence in families, and promoting the rights and the social participation of women.

Chile's indigenous peoples in particular suffer from a historically deep-rooted inequality that approximates discrimination. There are nine legally recognized indigenous groups, encompassing about 5% of the population. Since the 1990s, the government has initiated an array of programs to alleviate the situation of the indigenous peoples. There is a special office within the Ministry of Planning and Cooperation – the National Council for Indigenous Development (CONADI) – tasked with working for the development of indigenous individuals and communities and promoting their participation in national life. Among other tasks, CONADI offers financing for development and community projects, as well as advisory services in political, legal or cultural matters. However, compared to other

members of the population, indigenous peoples have significantly lower opportunities to receive higher education, get a job in the formal economy or escape poverty.

## 11 | Economic Performance

The Chilean economy shows indicators of strength at the macro level, and has recuperated from the downturn that started in the fourth quarter of 2008 and ended in the fourth quarter of 2009. The GDP growth rate dropped to 3.7% in 2008 and to -1.5% in 2009, but rose again to 5.3% in 2010. Between 2001 and 2006, inflation averaged 2.5%, rising to 8.9% in 2008 and returning to a solid 2.5% in 2010. The main problems continue to be unemployment and high inequalities in the distribution of income. Due to the crisis, the unemployment rate rose to 9.7% in 2009. Successive governments' close attention to structural balance led them to avoid public deficits until the onset of economic crisis. The deficits of 2009 (-3.9%) and 2010 (-0.4%) are expected to be eliminated in 2011. Tax revenues are comparatively solid at 20% of GDP; the central government's public debt remains very low, showing a slight increase from 5.2% of GDP in 2008 to 6.1% in 2009 and 7.0% in 2010 (the regional average being around 30%). The trade balance has been healthy, with high copper prices leading to a surplus of around \$13 billion in 2009 and 2010. Foreign direct investment reached \$9.96 billion in 2007, but declined to \$7.19 billion in 2009 and \$4.72 billion in 2010.

Output strength  
9

## 12 | Sustainability

Environmental concerns are thoroughly taken into account, but are occasionally subordinated to growth efforts as a result of the country's development constraints (geography, size of country and market, energy supply). Environmental regulation and incentives, as far as they are in place, are effectively enforced. Chile's political leadership since 1990 has been aware of the ecological demands of consumers in export-destination countries, as well of the need to protect natural resources from over-exploitation. The 2010 Environmental Performance Index (EPI) ranks Chile 16th out of 163 countries, and 6th among the countries included in the BTI.

Environmental  
policy  
7

Chile's recent inclusion in the OECD has required that the country review, among other topics, its standards and policies on environmental issues. In January 2010, the old system created by the 1994 Environmental Act was replaced by amendments to this law, leading to three major changes: (1) the creation of a Ministry of Environment in charge of environmental policies, the generation of environmental regulation, and the protection of nature and natural resources; (2) the creation of an Agency for Environmental Impact Assessment; and (3) the creation of an Environmental Enforcement Superintendent, which will be in charge of the

supervision and oversight of environmental issues. The law also introduced substantial changes concerning environment-related information, enhancement of the community's role, linking supervision with more efficient sanctions, and the creation of an integrated system of conservation and protected areas.

Though environmental institutions have been weak in the ensemble of Chile's institutions, new economic projects are today required to incorporate an environmental impact report. Chile has signed international standards attached to free trade agreements on the subject, and authorities publicly attach great importance to sustainability. However, conflicts still persist related to new megaprojects in mining and electricity, as well as others that affect the soil. Chile's dependence on reliable energy sources has led to a 22% share of renewable resources, mostly hydroelectric energy. However, rising demands and conflicts with neighboring countries over energy supplies have led to plans for even more such projects, including the construction of hydroelectric plants in the south of Chile that threaten to damage the region's fragile ecosystem.

Education and R&D are still weak pillars in Chile's development model. Chilean governments have undertaken several reforms in education by extending the coverage of pre-primary education, establishing a universal 12 years of schooling in the constitution, and replacing the entry test qualifying students for higher education. However, the main deficiencies in education quality and equality have not been addressed, resulting in a rather dysfunctional education system with a huge quality gap between private and public institutions. If they can afford it, parents send their children to private schools. The performance of public universities has deteriorated, despite a substantial increase in enrollment. Inconsistent policy and a high economic deficit have led to a proliferation of private universities that with a few notable exceptions are also of low quality, and mostly do not engage in research.

According to the UNDP's 2010 Human Development Report, the adult literacy rate is high at 98.6%. While the net enrollment rates for primary and secondary education are rather high (respectively at 94.4% and 85.3%), the tertiary-level enrollment rate is only 52%. In the Human Development Report 2009, Chile's education index score was 0.919 (a level similar to Croatia or Singapore). According to the most recent OECD statistics, Chile spends 6.4% of its GDP on education, which is above the OECD average of 5.7%. Although Chile remains below the OECD average for public expenditure at the primary, secondary and post-secondary non-tertiary level (spending 3.4% of GDP, as compared to the OECD average of 3.7%), this is not the case at the tertiary level, where Chile's expenditure is 1.8% of GDP, compared to an OECD average of 1.4%. Public expenditure has risen again since 2008, and is now approaching 4.5% of GDP. Private sources of funding provide an above-average share of educational spending in Chile, accounting for 47% of expenditure across all levels of education combined (2008).

Education policy /  
R&D

6

This is well above the OECD average of 15%, and represents the highest proportion of private expenditure among OECD countries and partners. At all levels of education combined, 96% of this private-source funding originates from households.

R&D expenditure increased during the last decade, reaching 0.6% of GDP in 2005 and 0.8% of GDP at the end of the decade. This is around the global average, but well below the OECD average. Specifically, the Chilean government's contribution to R&D is lagging – enterprises' contributions recently surpassed public spending in this field. That said, public spending on science and technology has increased in recent years, with a particular focus on human capital formation through the National Innovation Fund for Competitiveness; overall, R&D spending has increased about 90% since 2000, but is still insufficient to establish sustainable growth.

# Transformation Management

## I. Level of Difficulty

Structural constraints to transformation management are medium to low. They are partly associated with the country's location and geography, and include the small domestic market and exposure to natural disasters such as the disastrous February 2010 earthquake, which produced heavy material losses. In part, however, constraints are self-created but difficult to eliminate, as in the case of the country's deep inequalities. While poverty and inequality in Chile have historically had strong structural roots, this was exacerbated under military rule. The governments of the Concertación have managed to cut the poverty level by half, but inequality levels remain very high.

Structural  
constraints  
3

Chile depends on energy from abroad. Due to longstanding diplomatic issues with Bolivia, gas is not imported directly but is instead bought from Argentina, which sells Bolivian gas at higher prices. Chile has therefore sought alternative sources of energy that are not always environmentally sustainable. In recent years, most infrastructure problems have been improved by means of concessions to private companies, although there are problems related to the state's low regulatory capacities. The country's geography has kept some communities relatively isolated, primarily in the far north and south, and island communities well into the sea (e.g., Easter Island and the Juan Fernández Archipelago).

Traditions of civil society are fairly strong, but though civil society organizations are numerous, they are active only sporadically. During the 20th century, political elites in Chile often sought to control political participation taking place outside party channels, especially in times of high popular mobilization during the governments of Eduardo Frei Montalva (1964 – 1970) and Salvador Allende (1970 – 1973). After parties were weakened during the Pinochet dictatorship, however, a vital civil society with considerable autonomy surfaced, showing particular activity during the transition to democracy. After the return to democracy, parties regained their strength and the influence of civil society diminished considerably, leading to a marked return of elitism in political life.

Civil society  
traditions  
3

Thus, there is little tradition of autonomous active participation by civil society in politics. This means that today there is a kind of divide between politics and civil

society, which makes politics less democratic and civil society less relevant to decision-making. In its 2010 country study on Chile, LAPOP pointed to the paradox that a stable and institutionalized party system able to mobilize voters during elections is confronted with citizens who are alienated from the parties and are without pronounced sympathy for any party. Mobilizations to pursue groups or citizens' own interests, or to protest against perceived disadvantages, are comparatively infrequent. However, occasional demonstrations do occur, such as the students' protests in 2006, or more recently, the 2010 – 2011 protests against the rise in energy tariffs in Chile's extreme south.

Civil society's organizational landscape has become increasingly differentiated. Alongside numerous religious organizations, there is a dense network of civil society organizations. Concerning the level of trust, data available show a somewhat inconsistent picture. While Latinobarómetro and World Values Survey consider interpersonal trust levels to be rather low, data from Americas Barometer suggest that interpersonal trust among Chileans is at a medium to high level.

Conflict intensity is rather low in Chile, apart from the conflict between some Mapuche organizations and the state which has surfaced repeatedly since 1990. In recent years, these conflicts, though localized, have become more significant in the south, generally over environmental and land property issues. Ethnic conflict has thus become a permanent concern for internal security, though the issue has been distorted by media manipulation. However, the main cleavages in Chilean society are ethical (concerning human rights violations under the dictatorship) and socioeconomic (concerning social inequalities). There is no religious conflict in the country, although the disproportionately strong influence of the Catholic Church in public and political affairs tends to tie the hands of secular governments. However, these cleavages and conflicts, though real, do not escalate into violence (with a few exceptions in the case of ethnic conflicts).

Conflict intensity  
2

## II. Management Performance

### 14 | Steering Capability

The political leadership – the Concertación as well as the Piñera administration – is committed to constitutional democracy and a socially responsible market economy. Policies on both sides of the political spectrum have given these goals priority over short-term expediency. The government has been able to propose and implement long-term policies, favoring state interest and not only the concerns of individual governments. Examples of this include the adherence to the concept of a structural

Question  
Score

Prioritization  
9



balanced budget, and reforms to justice and health. The right-wing government in office since March 2010 has continued along the basic lines of Chile's past transformation path, and has sought to deepen it with seven proposed reforms in the areas of economic growth, poverty reduction, education, health, security, the electoral system and the labor market. However, prioritization has increasingly suffered from blockades in the political system, leading to disregard of more complex but necessary reforms (e.g., education and party finance).

The Concertación governments were committed to democratic and market-economic principles, and were able to implement agreed-upon reforms effectively. The Bachelet government reacted successfully to the economic crisis, and was able to implement policies relating to this issue as well as other reforms until the end of her mandate. At the time of writing, the Piñera government, though undoubtedly committed to the same principles, was still looking for a way to introduce reforms in the abovementioned seven areas (see Prioritization). As the government does not command a simple majority in parliament, it will have to look for a consensus with legislators from the Concertación in order to pass the desired reforms.

Even in times of the Concertación governments, however, agreements on and implementation of reforms were conditioned by several strong forces, including pressure from public opinion polls, business organizations and the press. Thus, the aim of building a socially responsible market economy could not always be implemented effectively. The Concertación's agenda was strongly marked by the influence of economic and political elites, sometimes even in opposition to views of coalition members themselves. Examples include the failures to passing new mining company regulations, delays in implementing a health policy, and the adoption of projects that are environmentally unsustainable. Even Bachelet's government, which was in general less responsive to pressures exerted by big interest groups, proposed education and social-security reforms that showed the stamp of these groups' interests.

This scenario has of course changed with the election of the first right-leaning government since the return to democracy. While Piñera will have to seek support outside his coalition due to his lack of a legislative majority, he will also have to demonstrate that he is not – or at least not only – a president representing the right-wing elites or strong economic powers. Thus, Piñera intends to show results in the areas of poverty, inequality and education as a part of his government program. Some of these programs, such as the creation of reconstruction funds after the earthquake or the subsidy provided to low-income families, have been implemented effectively.

Chile's Concertación governments had the capacity to propose policies based on strategic and long-term priorities, the flexibility to learn from failures, and the ability to introduce new policies. Political majorities and memory of a painful past

Implementation  
8

Policy learning  
8

led Chilean political elites to seek compromise. This means that learning processes have profited at least in part from an accumulation of knowledge and institutional memory. The former opposition, which often fiercely rejected the policy proposals of the Concertación governments, was thereby forced – but was also able – to develop viable political alternatives. In general, governments have learned increasingly well from past experiences (through effective monitoring and evaluation), relying thereby on knowledge exchange (good practices, international cooperation) as well as on consultancy (academic experts and practitioners). Indeed, there is a somewhat exaggerated faith in technocratic leadership in Chile. The Piñera government is no exception from this rule, and initially appointing a cabinet of technocrats rather than politicians from the ruling coalition. In January 2011, Piñera replaced several ministers, exchanging his government’s “technocratic” image for a more “political” one. Due to his preference for technocrats over politicians, he is also committed to improvements in monitoring, following the principles of efficient management.

The Concertación governments’ learning ability, however, varied widely across ministries, and was also constrained by a tendency to emphasize short-term considerations and the fear of losing face. As a result, leaders in Chile sometimes succumbed to political pressures and public image concerns rather than demonstrate genuine leadership and institutional learning. Piñera, who seems quite protective of his public image, may be no exception to this.

## 15 | Resource Efficiency

The government makes efficient use of most available human, financial and organizational resources. Resource use is subject to the oversight of an autonomous public agency and other public bodies: the Auditor General’s Office (CGR) essentially determines the legality of the state administration’s actions. Efficiency in the use of economic resources can be demonstrated by the balanced budget, the absence of public deficit and the low public debt, as well as the corresponding availability of funds in times of crisis, as the Bachelet government demonstrated effectively during the economic crisis of 2008 – 2009.

Important positions are now filled through public competition, which makes such jobs more professional and meritocratic. The incidence of politically motivated dismissals or new appointments in the civil service is low. The reform process in public management (implemented by the Frei government) includes a set of partial measures and plans designed to deepen the reform of the state and address the public administration’s shortcomings. Until 2003, about 3,500 public administration posts were appointed directly by the president. After several corruption scandals, this number was reduced to 750 and the Senior Management Service System (Alta Dirección Pública) was created. President Bachelet established a technical

Efficient use of  
assets

8

secretariat for the transparency and probity of the public administration (institutionally seated within the General Secretariat of the Presidency). However, the process of state reform and modernization is still underway. Deficiencies remain, particularly, in regional and local administrations.

In most cases, the government coordinates its policies effectively and acts in a coherent manner, but there are also cases of lesser success. There are several agencies and other bodies tasked with evaluating policy proposals or coordinating public policies, including the president's advisory ministry (the Ministerio Secretaría General de la Presidencia, or Segpres), the government office (the Ministerio Secretaría General de Gobierno, or Segegob), interministerial committees, advisors and other mechanisms. As usual in a presidential system, the president has the final say. Along with the president, the Ministry of Finance is nearly always involved in the preparation of policy proposals. However, coordination also depends on the standing of the current ministers, as was the case during Bachelet's term when Finance Minister Velasco was able to attain a dominant position, and informally acted as kind of cabinet chief. To provide for greater coherence of the coalition sustaining the government, Bachelet installed a political committee including representatives from Segpres, Segegob and several ministries.

Policy  
coordination  
8

The main focus of the Bachelet government was on strengthening the social protection net, and drawing on the country's solid macroeconomic performance and abundant fiscal reserves to counter the effects of the economic crisis. This allowed Chile to meet complex challenges such as coordinating policies and actors, and regaining economic growth. To improve the coordination of social policies, the government created an interministerial committee (the "sistema intersectorial de protección social") in September 2009, supported by an executive secretariat. Its mission is to coordinate and complement the work of government agencies in seeking to achieve comprehensive and progressive benefits. The committee is coordinated by the Ministry of Planning and includes representatives from other ministries (Culture, Education, Health, Women, Labor and Housing). Its responsibility includes the formulation and coordination of public services, and the promotion of better-quality care for the at-risk population.

Chile is widely considered to be one of the least corrupt countries outside the so-called first world. However, there were cases of corruption under the Concertación governments that severely affected citizens' trust in political elites.

Anti-corruption  
policy  
9

Small-scale corruption occurs particularly at the municipal and lower levels of central government, and is often a function of influence-peddling. The Instituto Libertad detected over 250 cases of corruption within the public administration or public companies (mostly examples of individual practice) between 1990 and 2009, 167 of them during Michelle Bachelet's term. Though this data was used as part of

a political campaign against the Concertación, a significant number of these cases were verifiable and had not surfaced publicly before.

In reaction to recurring scandals, a series of measures aimed at improving public administration has been passed. These measures emerged from the formation of consensus with opposition representatives. One example was a 2003 agreement on 38 reforms to state administrative rules. In 2006, following new allegations of corruption and misuse of public funds for political campaigns, President Bachelet launched a new drive for transparency and probity in public administration, leading to the Law on Transparency passed in April 2009. The government has taken strong legal action and has developed new bills aimed at preventing further problems with corruption, which have been fostered by weaknesses in public institutions and low salaries earned by public officers. Since the passage of the Law on Transparency, citizens and media have gained improved access to information. In addition, a Commission for Transparency was created in 2009, tasked with promoting the principle of transparency and providing the public with information about the work of all state institutions. Though use of these rights has to date been relatively infrequent, journalists report an improvement in access to information from state agencies. Auditing of state spending is guaranteed through the Comptroller General of the Republic, who performs oversight functions that also help to guarantee the absence of large-scale corruption.

The close relationship between political and economic power represents a continuing problem. The regulation of party financing is still insufficient, allowing nontransparent donations to be made. Ex-ministers and high public officials frequently take jobs in firms operating in sectors they had previously overseen (e.g., Jaime Estévez joined the directorate of the Banco de Chile, which had been purchased by the Luksic group with credits granted by the Banco Estado when he was its president). The public procurement system is largely transparent, though it remains – as in nearly every country – a potential source of corruption.

## 16 | Consensus-Building

All major political actors agree on the consolidation of democracy and the market economy as strategic, long-term goals of transformation. However, some doubts remain as to whether this consensus is deeply rooted in all actors' beliefs, or whether it is a merely instrumental or strategic consensus given the current power constellation. The Concertación governments maintained most aspects of the economic model inherited from the dictatorship, and even deepened some elements. There are no agreements resulting from processes of institutionalized debate on key issues such as the constitution, the electoral system, human rights violations perpetrated under the dictatorship (despite the significant progress made on this issue), regionalization and decentralization, or the higher education system. There

Consensus on goals

9

has been no discussion of the fundamental validity of the economic model or the reigning market-economic principles. Even if the issue of unequal income distribution is not contentious, there is no agreement on redistribution mechanisms or the respective roles of business and state in this scenario. This is largely due to the influence of a business sector and political right wing that maintain their strong opposition to new taxes in a country where companies still pay very low contributions. These forces oppose increases in public spending, and defend a regressive approach to labor, pushing instead for greater flexibility. In the same vein, President Bachelet's drive for a system of social protection was not derived from consensus with the private sector and business communities. Society and the economy indeed function, but more by accommodation and subordination than through substantive consensus. This gives the system an apparent stability but in fact weakens representation, freezes the system and widens the gap between citizens and politicians. One crucial test of this problem might be – during Piñera's term – the treatment of human rights violations under Pinochet and the issue of reconciliation.

Anti-democratic actors are no longer a serious problem in Chile. Since 1999, Chile's military institutions have grown increasingly acquiescent to the civilian government, and renewal within the military hierarchy brought a new generation of officers into office that is committed to the democratic constitution. Since the constitutional reform of 2005, the executive has the power to remove military commanders. The effective power to govern in the face of classical veto powers is thus fully guaranteed. Some pressure groups are nonetheless very strong. For example, interest groups linked to business sectors with strong media influence were able to block important Concertación social reforms. However, they do not seek to stall or undermine democracy itself.

The main cleavages in Chilean society are ethical (concerning human rights violations under the dictatorship) and socioeconomic (concerning social inequalities), with ethnic divides playing a much lesser role. The Concertación governments have since 1990 been able to prevent the escalation of conflict, or have tried to keep conflict surrounding issues at a very low level, preferring to negotiate them with the opposition in the political arena. The main cleavages are reflected in the party system. To date, conflict management has essentially been an elite game, alienating citizens and civil society. Indeed, latent social conflicts rarely surface beyond the political arena, with a few exceptions such as the student protests of 2006. While these elite games have allowed for strategic consensus, they were not accompanied by far-reaching consensus inside Chilean society. President Piñera has seemingly continued the established patterns of conflict management.

The management of conflict with the Mapuche has been less successful. The repeated application of the anti-terrorist law – as of the time of writing, the last time in 2010, under the Piñera government – even shows a tendency to make

Anti-democratic  
actors

9

Cleavage /  
conflict  
management

8

demonstrations of the state's strength instead of looking for consensus. On the other hand, the Mapuche have become more self-confident, and some of their organizations have grown more radical during the last 20 years. It remains doubtful whether the Piñera government's strategy (the "Plan Araucanía") will contribute to de-escalation of this conflict.

The political leadership takes the interests of civil society actors into account, but shows a tendency to engage in top-down agenda setting and policy formulation. Economic and professional interest associations are rather influential, as is the Catholic Church. While able to affect public opinion, emerging social organizations are not significant or powerful enough to influence agenda setting, policy formulation, or political decisions, and hence the development and design of public policies. However, on issues related to gender and ethnic minorities, pressure groups have had some influence on legislation that, due to the silence of the media on these subjects, remains inadequate to the scale of the outstanding problems. President Bachelet's style of politics emphasized the importance of participation and citizen consultation; this was expressed, among other ways, in the creation of advisory boards for different subjects. However, these boards' agreements were frequently not followed in Congress. Important projects such as the Plan Transantiago, a metropolitan transport system designed by the Lagos government, have been conducted without public participation.

Civil society  
participation  
7

With respect to the treatment of human rights violations under the Pinochet regime, there has been important progress after a period of stagnation between 1991 and 1998. The report of the Truth and Reconciliation Commission revealed more than 3,000 cases of human rights violations or acts of political violence that had resulted in deaths or disappearance. However, until 1998, only a few judges sought to launch prosecution related to these crimes. Processes of justice began accelerating in 1998 after the arrest of Pinochet in London. Under the Lagos government, the topic of human rights was for the first time assumed to be a concern of state policy, and in March 2003, the Human Rights Program was established. This included a number of measures designed to improve and extend victim reparation, solidify the role of the courts, and create monitoring and education institutions aimed at preventing the reoccurrence of serious rights violations. In November 2003, the National Commission on Political Imprisonment and Torture (known as the Valech Commission) was established to gather information on human rights violations between 1973 and 1990. Since that time, the process of delivering pensions and other compensatory benefits to those classified as victims of torture and political imprisonment has been implemented and remains ongoing. There has also been legal attention to the families of "disappeared" victims. During Bachelet's government, a special commission and a special presidential advisory for human rights were created. In December 2009, the museum of memory and human rights was inaugurated.

Reconciliation  
8

However, the unwillingness of parts of the judiciary, the media and the political right (especially the UDI) to recognize their role in the dictatorship's human rights violations still hampers true reconciliation. According to court statistics revealed by the Universidad Diego Portales' annual human rights reports, out of a total of nearly 400 pending cases, only a few have been elevated to higher courts, others were still at the process of sentencing at the lowest court level, and the rest remained in the research or summary stage. At present there are only 64 persons imprisoned for their crimes during dictatorship. After the 2009 – 2010 elections, human rights groups voiced fears that reconciliation might stall due to pressures on President Piñera from elements within coalition partner UDI that never distanced themselves from the Pinochet dictatorship. Piñera has repeatedly avowed his strict adherence to established standards of human rights and the rule of law, and that there will be no initiative to provide impunity for those convicted of human rights violations. However, the process of reconciliation remains unfinished. The 1978 amnesty law is still in force, under which military human rights violations between September 1973 and March 1978 cannot be the grounds for prosecution.

## 17 | International Cooperation

The share of official development assistance (ODA) in Chilean GDP amounted to less than 1% in 2008, and there are few remaining active donors. The shift from being a recipient to a donor country implies new cooperation strategies, with a focus on the promotion of Chile's activities in triangular and south-south cooperative relationships. Chilean governments since 1990 have all made well-focused use of international aid for the needs of transformation, effectively utilizing international assistance for their domestic reform agenda. Development aid projects are concentrated on a few sectors, in particular the environment, renewable energy, social development and state modernization – such as the very successful criminal law reform between 2000 and 2005 – in which donors complement strategic government policies in Chile. A 2010 European Commission evaluation views Chile as a reliable partner in development cooperation. All cooperation programs evaluated had been executed as planned and national counterpart funds delivered. The results of the programs implemented were assessed as “very positive.”

Chile prepares and implements its national development strategies and sector policies. The national public institution in charge of international cooperation within the Ministry of Foreign Affairs, the Chilean International Cooperation Agency (Agencia de Cooperación Internacional de Chile, AGCI), is tasked with coordinating and implementing external development aid. With regard to alignment, donors base their overall support policies on Chile's national and sector strategies, and work through the AGCI.

Effective use of  
support

10

The Chilean government is considered very credible and reliable by the international community, and the country has an excellent reputation all over the world. The level of international confidence in Chile is reflected in its solid and reliable position both in trade and politics, and in its numerous bilateral and multilateral agreements with other countries. Chile has signed free trade agreements with the United States, South Korea, the European Union, Japan, China and Latin American countries including Mexico. In July 2009, a free trade agreement with Turkey was signed, which was ratified in the Chilean parliament in November 2010, making Chile the first Latin American country to sign an FTA with Turkey. Donors and investors also have a great confidence in Chile's well-institutionalized political and economic framework.

Credibility  
10

During the last 20 years, Chile has considerably improved its relations with the Latin American community. Nevertheless, the OECD Territorial Review of Chile recommends that the country adopt a stronger regional approach to economic development, in order to better exploit opportunities and improve the country's overall performance. President Bachelet has successfully sought to improve relations with Peru and Bolivia, and has defended democratic continuity there. Bachelet served as president of the Union of South American Nations (UNASUR), demonstrating the prevailing confidence in Chile's leadership capabilities. However, relations remain somewhat ambivalent, as a result of Chile's pursuit of its own development model. While economic integration on the international level has been achieved, Chile has distanced itself from regional integration schemes prevalent today in Latin America. While maintaining a relatively stable economic relationship with Brazil, the country's relationship with Mercosur remains ambiguous, particularly since Venezuela's accession to this organization. Longstanding diplomatic tensions with direct neighbors remain. Bolivia still demands its own access to the Pacific Ocean, which has been blocked by the Chilean government, referring to international treaties. Peru has sought correction of its maritime boundary with Chile in front of the International Court of Justice. After taking office in March 2010, President Piñera seemed to follow the pragmatic course pursued by Bachelet, seeking to improve relations with Peru and Bolivia and find solutions for the border conflicts.

Regional  
cooperation  
10



## Strategic Outlook

Chile has maintained a relatively high level of political and economic transformation, and its center-left governments since 1990 have ably demonstrated an ability to engage in good governance and manage the processes of transformation. All relevant indicators today characterize Chile as a politically and economically stable country, which furthermore handled the effects of global economic crisis well. President Piñera's new right-leaning government has mostly continued the policies of the Concertación governments, while seeking ways to improve efficiency in order to strengthen its own legitimacy.

Nevertheless, severe hurdles remain if Chile is to become a fully developed country, as has been the goal of both old and new governments. While Chile has become a member of the OECD, it continues to face significant challenges in areas such as human rights (treatment of indigenous people), equality (gender, income) and democracy (weak participation by civil society, electoral system). Thus, fostering pro-growth and social protection policies alike will be of particular relevance in the coming years. With regard to environmental issues, there is still much to be done in areas such as the promotion of renewable energies.

The country's primary development challenges are in the area of social policy. Despite a substantial increase in public education spending, inequalities persist in terms of results, cementing the high level of social inequity. Chile's human capital may be judged as inadequate to meeting the ambitious goals of their political leaders. In health matters, focus needs to be shifted to the accessibility of medical services (in terms of territorial proximity, sufficient capacities and social equality). The system of private health insurance requires a thorough review to prevent permanent problems. Indigenous peoples have achieved some of their goals in the areas of work, education, land and cultural integration. However, there is as yet no widespread acceptance of multiculturalism nor a guarantee of effective respect for indigenous peoples. In addition, the climate of conflict which has led to violent confrontation must be overcome.

Concerning political transformation, Chile is a liberal democracy marked by a pronounced elitism that is rooted in history. Policies such as the fight against corruption – created as a compromise between the two major political blocs – have also been motivated by the desire to preserve political legitimacy as a political class. On the other hand, there is a culture of acquiescence and subordination among Chilean citizens which combines with post-materialist attitudes to create alienation from the political system. The often-analyzed consensus democracy (*democracia de los acuerdos*) has led to high political, economic and societal stability and the successful institutionalization of good governance, but the gap between citizens and the political

system has widened during the last decade. To bridge this gap, the politics of transparency should be deepened and incentives for participation should be provided, through policies such as the reform of the electoral system, legislation on the financing of politics and parties, and a strengthening of regional and local governments.