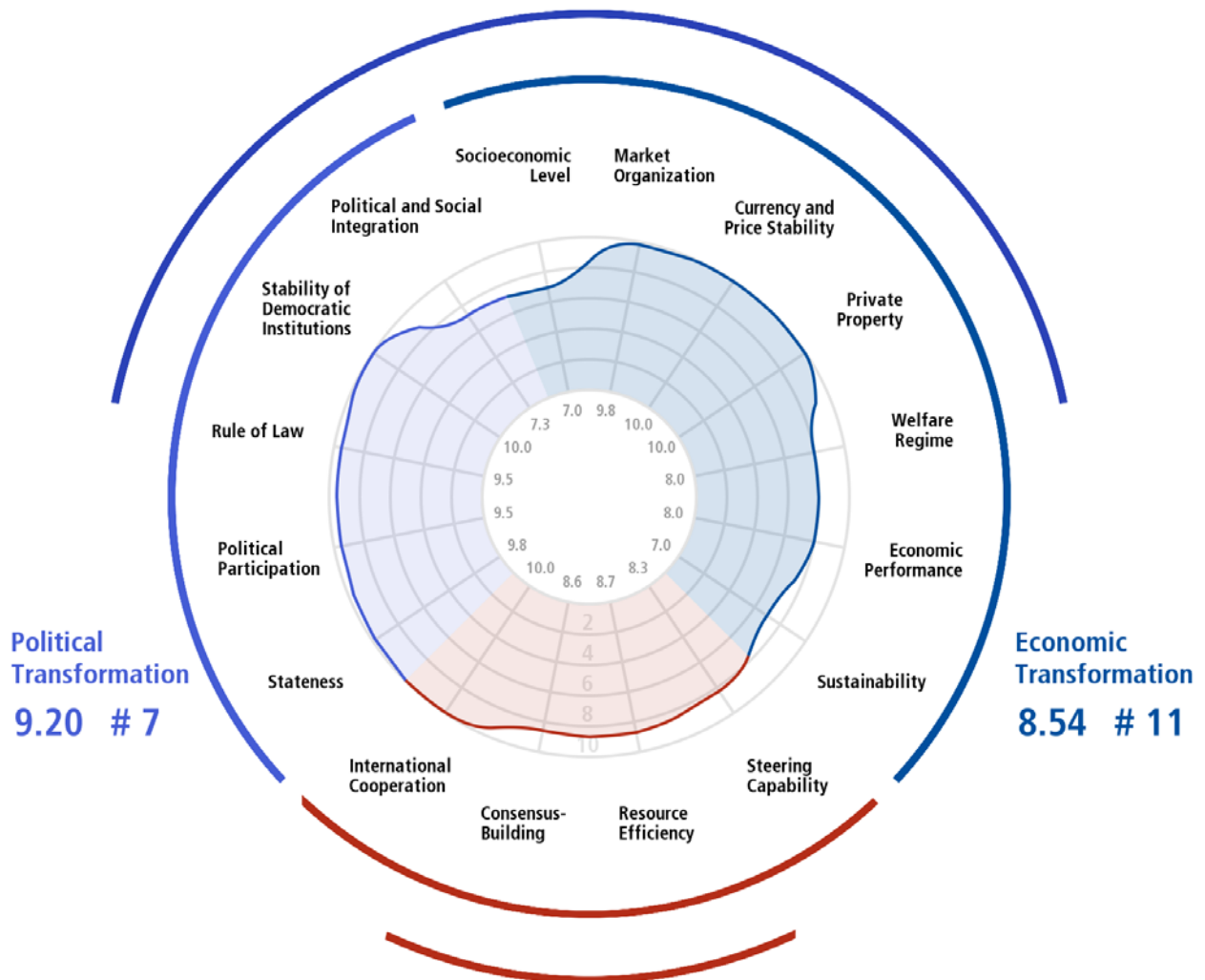


# Chile

## Status Index

**8.87 # 7**

on 1-10 scale out of 129



**Political Transformation**  
**9.20 # 7**

**Economic Transformation**  
**8.54 # 11**

## Governance Index

**7.33 # 3**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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### Key Indicators

Population	M	17.9	HDI	0.847	GDP p.c., PPP \$	23960
Pop. growth <sup>1</sup>	% p.a.	0.8	HDI rank of 188	38	Gini Index	47.7
Life expectancy	years	79.2	UN Education Index	0.819	Poverty <sup>3</sup>	% 3.1
Urban population	%	89.7	Gender inequality <sup>2</sup>	0.322	Aid per capita \$	2.8

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The center-left New Majority coalition, headed by socialist President Michelle Bachelet, swept to power in the 2013 elections with large majorities in both houses of Congress. Her main promise was to introduce major or “structural” reforms to combat inequality and renew trust in political institutions. The three major reforms were a tax reform to increase state revenues by 3% of GDP, a series of educational reforms including free tuition in universities for the poor and part of the middle class, and to initiate the process toward a new constitution that would replace the (much-reformed) 1980 constitution put in place by the military dictatorship. This platform sought to distance the New Majority from the right and marked a partial break from the “politics of consensus” which had characterized Chilean politics since 1990, but which had alienated citizens who perceived the two major blocs as a duopoly that had ceased representing people’s demands.

Though Bachelet began immediately pursuing her reforms, significant economic slowdown and a financial scandal that engulfed her close family in early 2015 made a significant dent in her and her government’s popularity. As a series of campaign funding and political bribery scandals came slowly to light beginning in late 2014, the whole political class began to see its already-low public trust fall to single digits. As a reaction, a high-profile commission of experts recommended a comprehensive package of reforms to improve transparency in politics and improve probity. Legislative progress in that agenda has been considerable.

Thus, the result has been highly paradoxical: though according to surveys both the government and its reforms remain highly unpopular, the period’s legislative output has been in many respects significant. The questioned electoral system for congress was, after over two decades of failed attempts, replaced by a more proportional representation system in 2015. The transparency agenda made significant progress in regulating elections, parties and their internal processes, conflicts of interest and more clearly separating businesses from the funding of politics. Though not devoid of significant criticism, tax reform, a labor reform and large parts of the educational agenda have also passed. On the other hand, reform toward a new constitution was still uncertain, as the right, whose

votes are needed, opposes it and may in fact win the next presidential election. Bachelet's reform agenda – and the critical diagnosis of the “Chilean neoliberal model” that underlined it – have somewhat polarized Chilean politics. The right-wing bloc has criticized the reforms relentlessly, while the left has either supported them or accused them of not going far enough.

What citizens think of these differences is uncertain. All signs point to a close contest in November 2017 between a pro-reform continuity candidate from the Nueva Mayoría and an anti-reform candidate from the center-right. Nonetheless, things are not business as usual for either bloc. The rift between citizens and traditional parties and politicians, far from healing, has become ever deeper. Both electoral participation and party identification rates are among the lowest in the continent and still falling, while emerging new parties are not yet in a position to challenge the major blocs amidst widespread indifference and a growing representational vacuum at the heart of Chilean politics.

This situation heightens the country's challenges. How to achieve a new relationship between citizens and the elite and how to build a new consensus on the socioeconomic model are questions that remain very much open – even if democracy or the market economy as such are not in question.

## History and Characteristics of Transformation

Chile's recent history is marked deeply by the 17-year dictatorship of General Augusto Pinochet (1973-1990). The dictatorship was characterized by grave, systematic violations of human rights. The socioeconomic model imposed was characterized by extreme economic liberalism, with the state withdrawing from its dominant role, not only in markets but also in social policies like education, health, social security and labor relations. In 1980, Pinochet introduced a constitution that provided the framework which allowed a democratic opposition to organize, ultimately winning a 1988 plebiscite designed to keep Pinochet in power. Free presidential and parliamentary elections were held in 1989, and the candidate for the center-left Concertación coalition, Christian Democrat Patricio Aylwin, was victorious.

From 1989 to 2005, the Concertación won all national elections. The Aylwin government (1990-1994) successfully avoided any relapse into authoritarianism, achieved economic stability and combated poverty. It also established the Commission on Truth and Reconciliation, to clarify the number of murdered and “disappeared” under the military regime. The government of Christian Democrat Eduardo Frei Ruiz-Tagle (1994-2000) deepened the market economy by extending international trade and implementing new privatizations. Chile reached the highest rates of economic growth in its history, close to 7% annually. Though poverty was significantly reduced, the inequality of income distribution remained.

The third Concertación government, led by the socialist Ricardo Lagos (2000-2006) implemented significant reforms on education, health, culture, labor relations, public financing of electoral

campaigns, laws on probity in state management, and significant 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 with the goal of promoting social equity, and introduced a reform to the social security and pension systems.

The national election of 2009 was a historical landmark: the political right won the presidency in an electoral process for the first time since 1958. The right-wing Alliance for Chile (Alianza por Chile) – comprised of the moderate National Renovation party (RN) and the more rightist Independent Democratic Union (UDI) – triumphed with its candidate Sebastián Piñera.

The Piñera government largely maintained the (generally business-friendly) policies of the Concertación, and also continued social policies promoted by Bachelet. Despite the 2010 earthquake (the overall effects of which the government managed successfully), the economy recovered quickly. Nonetheless, in 2011 Chile witnessed a historic surge in protests organized by students and other groups who felt their demands were not being met. The student mobilizations had the side effect of causing a leftward shift in the ideological balance of power within the Concertación, as it sought to distance itself from the right and to identify with the student movement's demands. The Concertación thus became the New Majority (Nueva Mayoría) through the inclusion of the Communist Party and other leftist groups.

Despite abstention rates exceeding 50%, the Nueva Mayoría's electoral success in 2013 gave the coalition a historical majority in both houses of Congress and the return of Bachelet to government. Her government promised three major structural reforms to combat inequality: tax reform, educational reforms and a new constitution. In spite of significant legislative success in getting some major reforms approved in these and other areas, her government has been marked by record levels of low popularity.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The Chilean state has the unquestioned monopoly of the use of force throughout the entire territory. The state's authority to enforce laws is uncontested.

Nonetheless, one relevant challenge to this authority comes from small groups linked to land claims and occasionally political autonomy for the Mapuche indigenous communities in the southern regions of Araucanía, Bío-Bío and Los Ríos. The attacks these groups have perpetrated have increased substantially in frequency and violence over the last decade. Studies based on official statistics show that between 100 and 300 attacks have taken place each year since 2009, though deaths are rare in the evaluated period. Perhaps one fatality may be attributed to the conflict. Attacks have been concentrated almost exclusively in rural and sparsely populated locations and are mostly aimed at destroying property (such as farms or logging trucks) through arson. However, targets have also included occupied buses, inhabited houses, community centers, farm machinery and over a dozen religious temples in 2016. These groups have occasionally shot at and injured isolated policemen, but overall they do not and cannot contest the state's police or armed forces, as their weaponry and numbers appear to be minimal. The social legitimacy of these attacks, moreover, seems to be low, even if not trivial. A well-respected think tank, CEP, conducted a national survey in May 2016 regarding the Mapuche, both urban and rural. It found that 58% of Mapuche (and 64% of rural Mapuche) thought the use of force to reclaim land was “not justified” – significantly higher than the 37% reported in the same survey in 2006. Those that thought the use of force was “always justified” were only 8%, as opposed to 20% ten years previously (the remainder thought that force was justified “in some circumstances”). Trust in the national police was just as high among the Mapuche as with the non-Mapuche, despite the prominent role of the police in protecting current landowners from takeovers.

Question  
Score

Monopoly on the  
use of force

9



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Overall, although the state's monopoly on the use of force remains intact, the severity of this problem requires ongoing attention and may come to represent a more serious threat in the future.

Some violent activity of anarchist groups that had been verified in previous years has practically disappeared, confirming that these groups did not have any fire power or operative capacity.

The definition of citizenship and the question of who qualifies as a citizen are not politically relevant issues in principle. Every citizen has the same civic rights, and individuals enjoy the right to acquire citizenship without discrimination, no matter what their background. Every group in society, including indigenous peoples (about 5% of the population), generally accepts the legitimacy of the nation-state. According to a 2016 survey of Mapuche people, 34% of Mapuche define themselves as exclusively Mapuche, while the remaining 66% feel either Chilean or both Chilean and Mapuche at the same time (up from 62% in 2006). However, this latter figure was only 41% for rural Mapuche (up from 36% in 2006). More broadly, however, 82% of rural Mapuche feel "fully integrated" into Chile, while 75% would prefer "more integration" with Chile rather than "more autonomy" (21%) from it, suggesting the legitimacy of the nation-state is not a significant issue.

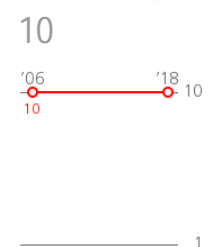
While individual citizenship is not an issue, unresolved conflict around collective indigenous rights remains. A long-standing demand is the constitutional recognition of native peoples, an issue discussed since the early 1990s and gaining in support and notoriety in public opinion in recent years. However, these proposals have opponents not only in the political class (especially right-wing parties), but also among some representatives of indigenous peoples who consider it insufficient, so progress on these proposals has stalled.

With regard to immigrants' rights, all recent governments have been concerned with facilitating immigrants' access to state protection systems and ensuring non-discrimination in the labor market. Political elites remain mostly committed to immigration-friendly policies, as evidenced by the content of both the June 2013 immigration bill that sought to replace the current law from 1975, and a new, more comprehensive bill the current administration aims to introduce in early 2017.

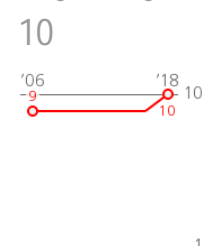
Chile is a secular state. Its legitimacy and legal order are defined without noteworthy reference to religious dogmas. Since 1925, the Catholic Church has been separate from the state. In past years, laws have been enacted that give equal opportunities and rights to churches and religious organizations other than the Catholic Church.

Until some years ago, the Catholic Church successfully exerted great influence on various aspects of social life relating to sexuality and reproduction, divorce, health and education. This included attempts to modify or stop the formulation and promulgation of laws. But the public awareness of a number of cases of sexual abuse

#### State identity



#### No interference of religious dogmas



by important priests decreased support for the Catholic Church, taking away much of its effectiveness as a lobbyist. For instance, the bill on Civil Unions for Gay or Heterosexual Couples in 2014-2015 had support even among some conservative, Church-friendly political sectors. Moreover, regarding a key abortion bill being currently discussed in Congress, the role of the Catholic Church in opposing it has been marginal and the likelihood of approval by Congress during 2017 is high.

Thus, the Catholic Church's role should be considered as significant as that of any other key pressure group, but as no longer having a special or privileged position for influencing legislation. The same can be said for religious dogmas more generally. For instance, though conservatives still oppose any kind of legalization of abortion, they tend to frame their reasons in terms of humanist values rather than on religious texts or dogmas as such.

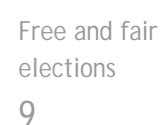
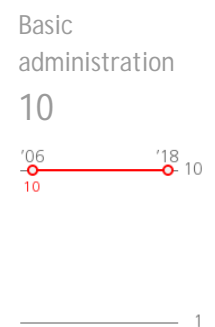
The Chilean state has a differentiated and well-developed administrative structure throughout the entire country. In most cases, this goes beyond merely basic functions, and successfully serves the country's development needs. Chile's civil service was assessed in 2014 by the Inter-American Development Bank (IADB) to be the region's most developed. In 2016, an important civil service law was passed which expands and strengthens the meritocratic hiring of top personnel for civil service positions, a system originally implemented in the mid-2000s.

At least comparatively speaking, public institutions are efficient and honest. Survey evidence shows Chileans bribery by officials is extremely rarely. Public confidence in the police is high, the tax service is modern and highly efficient, and the public health system, though resource-strained, has been highly effective in covering the entire territory and in vastly improving health outcomes over the decades. Access to basic services such as water and sanitation are near universal.

Chile operates as a centralized state, which leads to strengths as well as weaknesses. Public policy is defined in a centralist way, and thus the specific needs of the country's political-administrative divisions are not always reflected. To some extent, the administration exhibits shortcomings that arise from the concentration of resources and expertise close to bigger cities. There are varying levels of management efficiency at the local level. But despite some evidence of clientelism and minor corruption, local administrations are more or less sound.

## 2 | Political Participation

All elections are held according to international standards; universal suffrage with secret ballot is ensured. LAPOP data suggest that vote buying – found frequently across much of the region – and political clientelism play only minor roles. All elections are supervised by the Electoral Service, an autonomous organ of the state, which has been receiving more resources, powers and independence in recent years.





In addition, there is a functioning system of electoral courts. The polling procedures, including vote counting, result verification and complaint resolution, are conducted in a transparent and impartial manner, and accepted by all actors. All political parties who meet the minimum requirements may nominate candidates for all kinds of elections; this is also true for independent groups that collect a certain number of support signatures. All of them have access to proportionally free advertising space on terrestrial television as well as public funding for part of their campaign expenses.

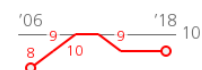
In recent years, two major legislative reforms have improved the fairness of elections. In January 2015, the binomial electoral system used to elect Congress was replaced by a moderate proportional representation system. This addresses a long-standing complaint against the binomial system in that it excessively protected the position of the major parties, thus consolidating a duopoly by the two major coalitions which have ruled Chile since 1990. For more transparency, the traditional parties were forced to reregister, and thus to clarify the real number of their membership. Additionally, all lists must field at least 40% of candidates from each sex, and public reimbursement per vote obtained will be 25% higher for women candidates.

The second reform, approved in early 2016, considerably tightens the rules regarding campaign financing and increases the supervisory powers and capacities of the Electoral Service, which was also granted full constitutional autonomy from the government. Among other measures, spending ceilings were halved, public funding was increased, companies were forbidden to donate, visual propaganda on the streets was severely regulated, and sanctions for noncompliance significantly increased for candidates and campaign managers alike. Taken together, these measures should weaken the link between access to funds and votes obtained, thus increasing fairness (though they may also weaken the ability of challengers to defeat well-known incumbents). These new funding laws made their debut in the municipal elections of October 2016. Though they seem to have been complied with, it is too early to make a definite judgment about their real impact on more equal campaign funding.

The effective power to govern by the democratically elected political representatives – a key issue in Chilean democracy, especially with respect to the role of the military as a legacy of the Pinochet regime – has been guaranteed since the 2005 constitutional reforms.

There are no veto powers any more as such, notwithstanding the strength of some key pressure groups. Some conglomerates in the economy enjoy a considerable concentration of economic power, but not de facto veto power. The power of these groups is reinforced by a close-knit Chilean elite, which gives rise to a gray area where economic influences and political interests are intertwined.

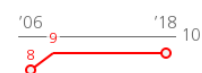
Another fact limiting the effective power to govern is the existence of super-majority quorums, i.e. some critical laws require a 3/5 or sometimes even a 2/3 majority for modification. These so-called “organic constitutional” laws were passed during the



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Effective power to govern

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military government, so that their amendment under later democratic governments could be prevented by the opposing minority of right-wing parties. While high quorums are present in many democracies, the frequency of such quorums in the Chilean case is highly unusual, affecting issues that are usually thought of as pertaining to ordinary legislation (e.g., the organization of the educational system). In this category one could also count the so-called Ley Reservada del Cobre (Copper Law) approved in 1958 and modified substantially during the military regime. Despite several attempts, Congress has not managed to repeal or change it, which gives the armed forces a direct part of the income derived from state-owned copper mines, thus limiting full civil control over the military. During 2016, parliament passed legislation that makes it public, but does not modify it.

Freedom of association and freedom of assembly are constitutionally guaranteed and de facto nearly unrestricted. All governments in the post-Pinochet era have respected these rights. There have been an increasing series of social movements, most notoriously the student movement, but also LGBT, environmentalist, feminist, pro-pension and regional and local movements that have openly and frequently exercised their rights.

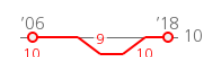
Though in theory demonstrations do not need previous authorization, a 1983 decree requires demonstrators to notify the authorities two days in advance of their plans, which may be denied or rerouted by authorities if the demonstration intends to occupy high-traffic or high-density public spaces. As a Special Rapporteur of the U.N. for Chile in 2016 reported, this constitutes a de facto authorization regime for demonstrations. Although permission is almost always granted, the decision depends on authorities that serve under the pleasure of the incumbent government. For instance, in December 2016 the government denied permission to a demonstration organized by the youth of opposition political parties to protest in front of the government palace and offered instead a less visible venue. Nevertheless, the (small) demonstration took place unmolested at the original site, highlighting the damage in public opinion the government risks if it tries to suppress demonstrators.

There have been frequent and sometimes well-documented reports of excessive and indiscriminate use of force by the (militarized) police against demonstrators, particularly when demonstrations begin to turn violent. For instance, in a student demonstration in 2015, a student sustained serious brain damage after police used a water cannon at close range against him. The police admitted excessive use of force only after independent footage of the scene emerged.

Freedom of opinion and freedom of the press are constitutionally guaranteed and have been respected by all governments. There are no groups that threaten journalists. The legal provisions that previously hindered coverage of some issues were removed in 2005. In 2009, the Law on Access to Public Information (Ley de Transparencia) came into force, giving citizens extensive rights to information on state institutions. In January 2014, a Lobby Law forcing any public authority to report private meetings

Association /  
assembly rights

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Freedom of  
expression

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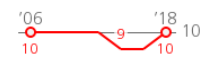
was enacted, thus increasing the scope of public scrutiny. The 2016 Press Freedom Index issued by Reporters Without Borders ranked Chile 31st worldwide, ahead of countries such as the United Kingdom, France and the USA.

Media organizations cover sensitive issues and are fulfilling a useful watchdog role vis-à-vis the government and other political authorities. For instance, *Qué Pasa* magazine uncovered a loan and land speculation scandal in early 2015 involving the son and daughter-in-law of President Michelle Bachelet, which substantially affected her popularity. That same year, *The Clinic* magazine revealed a major embezzlement ring within the armed forces. All media have extensively covered the recent illegal campaign donations scandal involving prominent private companies and major politicians across the board. After a further story from *Qué Pasa*, President Bachelet, to everyone's surprise, sued the magazine for libel in 2016. Bachelet desisted after some months from going forward, but courts nevertheless made her pay for the defendants' litigation expenses.

Though there is significant ownership concentration in newspapers by two groups, *El Mercurio* and *Copesa* (both linked to the economic and political right), in other media the situation is much more varied. Neither group, for instance, owns a TV channel, while two major channels are foreign-owned and another is publicly owned and has a mandate of political pluralism. In radio, the largest conglomerate is Spanish. Moreover, online media outlets with widely varying political viewpoints have been influential and are becoming more popular, especially among the elite. Overall, the media landscape is satisfactorily differentiated and allows for the airing of a wide range of opinions and viewpoints.

### 3 | Rule of Law

The constitution guarantees the separation of powers, and all the relevant actors comply with 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 president, and allows him or her to act as a key co-legislator. However, a succession of constitutional reforms, as well as the political culture of agreements (“*democracia de los acuerdos*”) and the role played by the different parties in the ruling coalition, have strengthened the role of congress in the system of checks and balances. This has been amply demonstrated during the current Bachelet government, which, despite having the necessary majorities in both houses, had to bargain changes driven by legislators to three of its main legal reforms (tax, education and labor), while others are stalled due to lack of social and political consensus (e.g., higher education reform). The independence of the judiciary was strengthened during the first decade of the century. The Constitutional Tribunal has been another important independent control on legislation, though its anti-majoritarian powers have been criticized as overly extensive.



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Separation of powers

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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. The Constitutional Tribunal is one of the most powerful such tribunals in the world in its autonomy and powers to review the constitutionality of laws and administrative acts. Judicial performance and transparency increased with the reform of the penal code (2000-2005), which introduced oral procedures, a public prosecutor's office and district attorneys, as well as strengthening the public defender. The judiciary has exhibited significant independence in resisting public opinion, calls by most press and even occasionally by government authorities to apply harsher penalties for criminal offenders and even against suspects (such as increased use of preventative prison). This has made the judiciary unpopular with the public.

There are critics of the procedures for internal evaluation of the judiciary and the transparency of its internal processes and decisions. Moreover, both the Piñera (2010-2014) and current Bachelet administrations have nominated former public prosecutors to government positions, which may change the incentives faced by prosecutors near the end of their terms to investigate political wrongdoings.

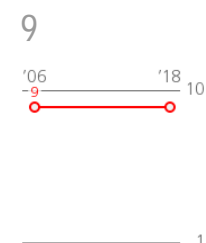
Nevertheless, in the recent series of political campaign funding scandals, public prosecutors have been very active in pressing charges against politicians and high-profile businessmen. This suggests a considerable degree of independence.

In general, officials and 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 punished (e.g. the 2012 case involving the National Commission on Accreditation of Higher Education). Some major politicians involved in the ongoing tax fraud and political campaign scandals have already received sentences. Most of these recent cases are still being investigated with much diligence by public prosecutors.

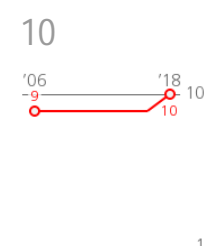
All these scandals have sparked public outcry, as tolerance of corruption by the population and media is very low. Involved politicians have lost popularity dramatically (e.g., the presidential candidate Marco Enríquez-Ominami). The case that involves the daughter-in-law of the president is a good example of these new dynamics. However, individuals and parties not implicated have also suffered, by association or contagion, a loss of credibility.

In the past, the judiciary sometimes faced difficulties in convicting culprits due to high hurdles imposed by a positivist tradition of the judiciary in Chile, which requires that the offenses be specifically codified before the fact and that the intention to break the law can be proven. As a result, ethical lapses often went unpunished or the legal penalties were often low. But there has been a consistent trend to learn from these experiences and to codify new offenses, increase penalties and improve laws. Thus,

Independent  
judiciary



Prosecution of  
office abuse



the recent scandals led to a significant upgrade of laws regarding electoral campaign funding and conflicts of interest, among others, with greater oversight powers for bodies such as the Electoral Service and the Comptroller General, and greater sanctions for misconduct.

Civil rights are guaranteed by the constitution and widely respected by all state institutions. Citizens are effectively protected by mechanisms and institutions established to prosecute, punish and redress violations of their rights. Violations of human rights are rare and limited to isolated cases of abuse and unlawful coercion exercised by officials against persons deprived of liberty. For instance, in January 2017 the National Institute of Human Rights (INDH), an autonomous body established in 2010, filed three lawsuits against police officers and prison guards for torture under the newly promulgated November 2016 law that typifies torture in the Chilean penal code. The overcrowding of prisons is also a concern. Another issue is the reform of the antiterrorism law, since its definitions and mechanisms do not guarantee due process. For this reason, the current government has been cautious in using it, particularly with regard to the Mapuche conflict.

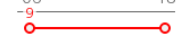
Since 2012, a well-evaluated law has sought to avoid discrimination based on gender, sexual orientation, religion, ethnicity, race and any other kind of discrimination. As for the disabled, there is a special law, enacted in 2010, which has secured the rights of the disabled and facilitated their increasing social inclusion. Access to the judicial system has been improved for the lower social strata through penal code reforms (2005), but still remains insufficient in a society marked by great social disparity.

Moreover, the situation of native peoples remains problematic. Institutional reforms such as the 1993 Ley Indígena were designed to recognize the rights of the country's approximately 700,000 indigenous persons. Chile also ratified the International Labor Organization Convention 169 on Indigenous and Tribal Peoples (ILO), but its implementation remains deficient. The Mapuche claims to ancestral land have led to tensions and violence; accusations of hostility by officials and police brutality against its communities are frequent and sometimes well verified. In any case, indigenous people can and do use all national and international protection mechanisms that the country provides. Tribunals frequently acquit Mapuche charged with violent actions. Also, the Inter-American Court of Human Rights has accepted some of their claims, as in 2014 when it declared void sentences against a group of Mapuche activists based on the antiterrorism law.

Civil rights

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'06 '18 10



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#### 4 | Stability of Democratic Institutions

Chile's democratic institutions have improved markedly since 1990, as successive constitutional and legal reforms have expanded their scope, importance and stability. Especially since the mid-2000s, they are also free from all kinds of authoritarian enclaves. Democratic institutions operate in accordance with their functional purposes and are effective. Despite the fact that Chile is a highly centralized state, some reforms have also managed to deepen local democracy at the municipal level. The direct election of regional governors is currently under discussion and is likely to be approved and implemented in 2017.

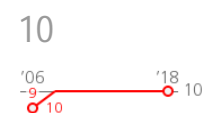
Institutional stability has been underpinned by widespread support for the rules of the game. But this same form of evolution and stability has generated suspicion and mistrust in some sectors, especially on the left and between student leaders, as the entire process was framed by the rules of the 1980 constitution passed by the authoritarian regime. Moreover, recent surveys show that trust in the main democratic institutions is exhibiting historically low levels of approval and credibility. In the future, this may affect the performance of democratic institutions.

All relevant political and social actors, including the military, accept Chile's democratic institutions as legitimate. The ongoing debate over whether to reform or replace the existing constitution, especially regarding the mechanism for doing so (constituent assembly or through existing mechanisms of the current constitution) shows that there is some disagreement concerning the specific current institutional arrangement, its distribution of constitutional rights and its general legitimacy. However, there is no doubt about the democratic commitment of most relevant sectors that aim to replace the existing constitution, as their demands concern the deepening of democracy. This controversy is also framed by a growing indifference among the population toward politics and by a distrust in institutions such as parliament, political parties and the judiciary. In addition, in the context of the Mapuche conflict and the student movement, radicalized sectors have occasionally questioned the current democratic system as a mere facade (or a "formal democracy"), but these are isolated minority positions.

#### 5 | Political and Social Integration

The Chilean party system presents an unusual and potentially unstable situation which combines low volatility, low rootedness and increasing fragmentation. Since 1990, Chile has had seven major parties grouped (the Communists until 2013) into two major blocs. These blocs reflected the political cleavage introduced by the 1973 to 1990 dictatorship, and were defined by opposition (center-left) or support (center-right) for Pinochet's government in the 1988 plebiscite that ousted him.

Performance of democratic institutions



1

Commitment to democratic institutions



1

Party system

7

Both coalitions seem set to continue into the future and are likely to closely contest the 2017 presidential election, as in all previous elections since 1989. In the 2013 parliamentary election, the two coalitions obtained 111 of the 120 seats in the House of Deputies. Support for these parties was again reaffirmed in the 2016 municipal election, where they obtained the lion's share of votes and seats.

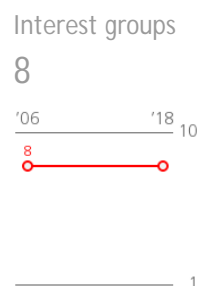
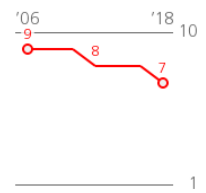
However, other data suggests less stability. First, major parties have lost social roots among civil society organizations, including university students' federations and workers' associations, where (with the partial exception of the Communists) they have become largely irrelevant or downright nonexistent.

Second, parties have suffered a massive loss of support among the public at large. In 1990, over 80% of Chileans sympathized with a political party. The figure was down to about 40% in 2010, and to only 19% by December 2016. Comparative data shows Chileans now have one of the lowest rates of party identification in Latin America.

Third, a large number of new parties have formed in recent years. While some (such as Evopoli in the center-right) have joined existing blocs, most aim at competing against them. This is the case of the parties of major leaders of the 2012 student demonstrations, forming a far-left bloc, and of a new centrist bloc.

Finally, low volatility in spite of all this is largely the product of fast-diminishing electoral turnout. In the 2016 municipal elections, barely 35% of the electorate cast a vote; about 41% did so in the runoff in which Bachelet defeated the center-right candidate Matthei in late 2013. This suggests a shrinking number of party loyalists continue to vote while a growing majority of disaffected voters simply stays at home.

Chile has a range of interest groups reflecting a wide array of social concerns, including NGOs and social movements (environmental, LGBT and human rights issues), community organizations, unions, students' and indigenous organizations and professional associations. Especially in recent years, social movements organized in response to specific problems have shown new capacities, but by their very nature do not always show continuity over time. Corporate business interests remain strong and well organized through their two main associations, CPC and SOFOFA. Nonetheless, the 2014 tax reform and the 2016 labor reform suggest that businesses' actual influence may have declined. Moreover, their social legitimacy to influence legislation has also declined, in large part due to the discovery of several high-profile market collusion cases over the last several years. However, the power and clout of some economic groups remains strong and is reinforced by their informal links to legislators and the public sector, as evidenced by the gray zone of power and corruption (e.g. Penta and Soquimich) which has been uncovered in recent years. Recent reforms excluding businesses from campaign donations and closer scrutiny by tax authorities will likely close spaces for such opaque attempts at influence in the near future.



Chile exhibits fairly high support for democratic norms and procedures, coupled with mixed levels of satisfaction with democratic performance and trust in democratic institutions.

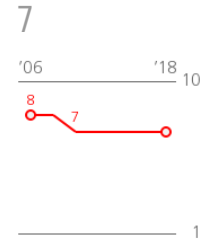
According to the 2015 Latinobarómetro survey, 65% of Chileans agreed democracy was preferable to all other forms of government, ranking fifth in Latin America in terms of democratic support. Though this dropped sharply in 2016 to 54%, this is likely to be a temporary setback due to recent political scandals rather than a deep shift in values. This is also suggested by other questions in the Latinobarómetro. For instance, Chileans were the least likely in the region to agree that they wouldn't mind a non-democratic government if it could solve economic problems (29% agreed, as opposed to a regional mean of 47%). They were also the least likely to agree that a president should be allowed to control the media in times of difficulty (17%, against a regional mean of 30%).

On the other hand, Chileans are dissatisfied democrats, particularly as support for parties and for the government has deteriorated amidst the aforementioned scandals. Satisfaction with the functioning of democracy fell from 43% in 2015 (above the regional mean) to 30% in 2016 (slightly below it). Nonetheless, dissatisfaction may also be a part of rising expectations of democratic performance, as other surveys show Chileans believe the country is more democratic now than it was in the far or near past. Finally, there has been a consistent trend toward lower trust in most institutions in Chile. According to CEP (a well-known national survey), political parties are trusted by barely 4% of Chileans, as is congress; only 7% trust the courts, and 19% trust TV channels and newspapers. On the other hand, 54% trust the police. LAPOP data shows trust in the police in Chile is by far one of the highest in the region, while Latinobarómetro data shows something similar for the Electoral Service, a key democratic institution.

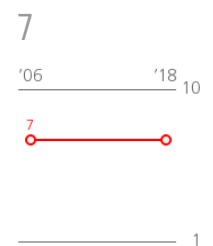
There is a substantial number of autonomous, self-organized groups, associations and organizations, while data referring to the level of trust among the population is rather ambiguous.

Civil society's organizational landscape has become increasingly differentiated since re-democratization. Alongside numerous religious and sports organizations, there is a dense network of civil society organizations engaged in a very broad range of issues. However, there are great disparities in the durability and the organizational strength of associations. Levels of citizen association and participation in civil society organizations are moderate, though some forms of social solidarity are strong. For instance, mass participation in specific national solidarity campaigns through the media can reach very high levels and constitute a rare point of national pride for Chileans. Moreover, some well-known and long-lived civil society organizations – such as Un Techo para Chile, the Hogar de Cristo, Levantemos Chile and the

#### Approval of democracy



#### Social capital





Fundación Teletón – are highly professional in their operations, are trusted to deliver as promised and engage in long-term commitments with their targeted beneficiaries.

Available data show a mixed picture of trust levels. On the one hand, according to Latinobarómetro 2015, only 15% of interviewees agree that “one can trust most other people,” slightly below the regional mean of 17% (and which is itself low compared to other world regions). On the other hand, data from Americas Barometer 2014 shows 77% of Chileans believe people “from around here” are very or somewhat trustworthy, which is higher than in most countries in the region and close to the U.S. value (80%). This suggests that localized forms of trust (needed for community organization) may be considerably stronger than more impersonal forms of it (such as those needed for business dealings with strangers).

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

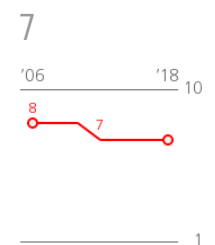
Despite progress in development and stable macroeconomic indicators over the past 25 years, exclusion and inequality persist.

Chile ranks 9 out of 129 BTI countries in UNDP’s Human Development Index 2015 with a score of 0.847, the most advanced in Latin America ahead of Argentina (#15). According to the Survey of Socioeconomic Characterization (CASEN), the absolute poverty rate has declined continually and sharply since 1990. Income poverty, as measured by a new and more demanding standard, was 11.7% in 2015 (versus 14.4% in 2013), while a new multidimensional poverty measure (covering also health, education and other areas) was 20.9%. Income poverty particularly affects indigenous people, children, and households headed by women (though the latter are not poorer under the multidimensional measure). Unemployment especially affects the less educated and young people, whose unemployment rate is two to three times the national average.

To some degree, classism and ethnic prejudice against indigenous people affect fair equality of opportunity in the labor market. Women’s inclusion in the labor market, though it has risen sharply since 2006, still trails more than 20 percentage points behind men’s. As for income inequality, the Gini index has fallen from a high of 0.55 in 2003 to 0.48 in 2015. This still leaves Chile as a highly unequal country, but now it is closer to the Latin American mean rather than an extreme outlier.

Question  
Score

Socioeconomic  
barriers



Economic indicators		2013	2014	2015	2016
GDP	\$ M	278384.3	260990.3	242517.9	<b>247027.9</b>
GDP growth	%	4.0	1.9	2.3	<b>1.6</b>
Inflation (CPI)	%	1.8	4.4	4.3	<b>3.8</b>
Unemployment	%	5.9	6.4	6.2	<b>6.6</b>
Foreign direct investment	% of GDP	7.6	9.2	8.4	<b>4.9</b>
Export growth	%	3.3	0.3	-1.8	<b>-0.1</b>
Import growth	%	2.0	-6.6	-2.7	<b>-1.6</b>
Current account balance	\$ M	-11524.5	-4500.9	-4669.8	<b>-3574.4</b>
Public debt	% of GDP	12.7	14.9	17.4	<b>21.3</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-0.6	-1.6	-2.1	-
Tax revenue	% of GDP	17.4	16.9	17.5	-
Government consumption	% of GDP	12.3	12.8	13.2	<b>13.5</b>
Public education spending	% of GDP	4.6	4.8	4.9	-
Public health spending	% of GDP	3.6	3.9	-	-
R&D expenditure	% of GDP	0.4	0.4	0.4	-
Military expenditure	% of GDP	2.0	2.0	1.9	<b>1.9</b>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market competition is consistently defined and implemented on both the macroeconomic and microeconomic level. Administered pricing plays no role, though there is some scope cushioning the price mechanism with subsidies (e.g., energy supply, fuel). The currency is convertible, markets are contestable, there are no significant formal entry or exit barriers in product and factor markets, and there is substantial freedom to launch and withdraw investments. Aside from tax treatment intended to benefit SMEs (which was increased in the recent tax reform), there is no market discrimination based on company size. The recently approved tax reform improved in relative terms the tax treatment of foreign-owned companies vis-à-vis

Market-based  
competition

10



local ones. Insurance companies, banks and financial institutions are autonomous. The informal sector exists but plays a minor role (it is similar in size to the OECD average), except for the labor market, where informal jobs may constitute between 20% and 25% of all jobs, yet this figure is one of the lowest in Latin America.

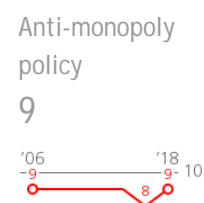
Chile's economic order has a strong institutional foundation. Governmental policy is limited to general assurance and maintenance of the rules of the game. It provides for a neutral organization of regulations consistent with competition, including control over monopolies and the expansion of necessary intermediary institutions. Nevertheless, the state's oversight role has historically been comparatively discrete in some areas, thus allowing concentration of market shares and conditions for uncompetitive behavior by incumbent firms.

Chile's relatively small national market means market concentration is often an issue, even if the economy is open and thus exposed to international competition. Indeed, Chile is confronted with market concentration in areas such as air transportation, cable TV, mobile phone, pharmaceutical, and private health insurance/provision sectors, among many others.

Since the late 1990s, Chile's anti-monopoly legislation has become increasingly mature and effective. The Tribunal for the Defense of Free Competition (TDLC), created in 2003, is responsible for preventing, correcting and penalizing anti-competitive conduct. The National Economic Prosecution Service is an investigative body which can present cases to the TDLC. Together they are responsible for the investigation and resolution of cases involving abuse of dominant market positions, restriction of competition by cartels and/or entities, disloyal competition and market concentration.

Significant legislative improvements took place in 2009, including more financial resources and more attributions for the National Economic Prosecutor (FNE). These attributions included the right to confiscate computers at the office of a suspected company and a key mechanism encouraging participants of a cartel to confess and collaborate in return for a significant reduction in fine. These have proved their usefulness in cases of collusion such as among pharmacies, tissue paper companies and poultry companies. Though the maximum legal fines are still small relative to the full gains a cartel may have enjoyed, consequences have not been trivial. The poultry cartel was fined \$60 million in total. In the case of paper tissue, one company (CMPC) recently agreed to pay \$150 million in consumer compensation to recover public trust. Experts believe the dramatically increased rates of detection of cartels in recent years is due to the 2009 law rather than to any increase in anti-competitive behavior by firms.

Nonetheless, there is ample space for improvement. FNE's budget of approximately \$10 million is not enough to ensure adequate staff numbers and increase institutional capacity to keep up with the requirements on an increasingly complex economy. A



recent OECD report recommended the enactment of a merger control law to enhance transparency, legal certainty and predictability in such procedures. The OECD also noted the FNE lacks legal powers to force companies to disclose sensitive information in order to conduct market studies. Finally, heavier fines and perhaps prison sentences are needed to further discourage cartels.

Chile is one of the world's more open countries in terms of trade. 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 national exports by means of a network of institutions linked to the economy. Free trade has been encouraged by international and bilateral agreements with NAFTA countries, the European Union, and Latin American and Asia-Pacific countries, extending to more than 50 trade partners representing nearly 95% of Chile's overall trade. As a result, Chile's effective average tariff is estimated to be less than 1%. Chile's economy is highly dependent on international trade, with exports accounting for more than one-third of GDP. The degree of trade openness – measured as the ratio of the sum of exports and imports to GDP – is relatively high at about 65%. Chile has been a WTO member since 1 January 1995.

Since the banking crisis in the early 1980s, Chilean governments have implemented sound institutional foundations for a solid banking system. The banking system is oriented toward international standards, with functional banking supervision, minimum capital equity requirements and advanced disclosure rules. The finance sector is subject to its own supervisory, autonomous agency, the Superintendence of Banks and Financial Institutions (SBIF), which monitors and applies the provisions of the banking law, and classifies financial institution risk. Moreover, 2001 saw the creation of the Committee of Superintendents of the Financial Sector, consisting of the SBIF, the Superintendence of Securities and Insurance and the Superintendence of Pensions, with the central bank as an observer since 2006.

Chile follows the norms of the Basel Committee on Banking Supervision and has largely implemented Basel I and Basel II. In 2014, a law was approved establishing the Council for Financial Stability, consisting of the Minister of Finance and the directors of the superintendencies as members, and the central bank's president as a "permanent adviser." Its main goal is to facilitate technical coordination and information exchange to prevent and manage risk in the financial system, but its recommendations are not binding. This law also increases the power of the superintendencies to request background information on the financial status of all persons or entities belonging to the same business group as well as on relations of ownership and operations between them. The government is currently working on new bills that seek to strengthen the independence and autonomy of the SBIF, improve their monitoring ability, regulate financial conglomerates and comply with Basel III.

#### Liberalization of foreign trade



1

#### Banking system



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The share of non-performing loans is relatively low, at 1.9% in 2016, while the ratio of bank capital to total assets was 7.8%. 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. There are currently 21 banks under the supervision of the SBIF, which provides for sufficient sectoral competition.

## 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 (BCCCh), which is managed by a council composed of five members appointed by the president together with the Senate for a period of 10 years. The minister of finance may attend to council meetings with a right to speak. To coordinate with the government's economic policies, meetings are foreseen with the Senate Finance Committee. In addition, Chile's distinctive fiscal framework implemented in 2001 is naturally aligned with monetary policy.

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 BCCCh's monetary policy. To this end, the bank orients its monetary policy toward achieving an inflation rate between 2% and 4% per year, as measured over a two-year horizon. Though rates slightly above or below that range are frequent – Chile is an open economy largely reliant on imported oil, and thus exposed to fluctuations in world prices – the expectations of economic agents have remained anchored in the desired range. Since 2010, the lowest end-of-year inflation rate has been 1.5% (in 2012), while the highest was 4.6% (in 2014).

In 1999, the central bank adopted a freely floating exchange rate. This policy has managed to resist the pressures of the powerful export sector when the dollar has been weak against the Chilean peso. The central bank is empowered to intervene in the currency market as an exceptional measure and always with the goal of maintaining domestic price stability. The U.S. dollar, the main reference currency in Chile, has remained stable overall, with predictable cyclical variations due to the price of copper, the country's main export, and to events in international markets.

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 effectively. The government's fiscal and debt policy is narrowly targeted at stability. In 2001, the government introduced a fiscal rule predicated on a structural surplus of 1% of GDP, intensifying Chile's commitment to fiscal responsibility. Its principles were enshrined in the Fiscal Responsibility Law of 2006. Following the recommendations of the Corbo Commission, the Piñera administration (2010-2014) improved the transparency of the rule and created a fiscal council in

Anti-inflation /  
forex policy

10



1

Macrostability

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1

charge of verifying its application. Because spending cannot be financed by debt issuance, but rather through structural revenues, the current Bachelet administration introduced a tax reform – which aimed at collecting an additional 3% of GDP in revenues – to finance her education reforms. Fiscal commitment to balanced budgets has shown resilience to political cycles, as shown by the very low growth of the budget for 2017, in spite of the government’s low popularity and the upcoming presidential elections.

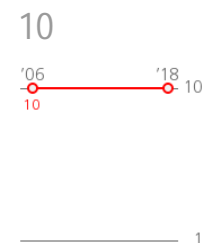
In spite of these strengths, some weaknesses remain. The original goal of a 1% of GDP structural surplus has been gradually relaxed into a 1% deficit; and even this goal has been missed for several years in a row. The structural deficit for 2016 was 1.7% of GDP, and the effective deficit was 3.1%. As a consequence, public debt has steadily grown from a record low of 3.9% of GDP in 2007 to 17.5% in 2015, and is expected to reach 25% of GDP by the end of 2018. Though Chile holds considerable wealth in sovereign funds, its position as net creditor is likely to reverse into net debtor during 2017. In spite of this, Chile’s fiscal position and policies remain one of the strongest in the developing world.

## 9 | Private Property

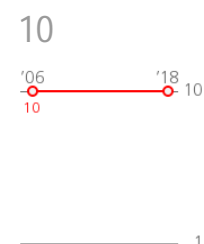
Protection of private property is enshrined in the constitution as a core principle. Respect for private property is a widely shared social and cultural norm. Property rights and the regulation of the acquisition of property are designed to allow for a dynamic market economy; expropriation is only allowed for public interest reasons and requires fair compensation to owners. A strong judiciary guarantees rights and contracts. The government has also improved legislation on intellectual property rights (e.g., by ratifying the Trademark Law Treaty), but some problems remain with the protection of patents and copyrights. To deal with Mapuche claims to recover their ancestral lands, governments since the 1990s have primarily applied a strategy of buying land from private owners at market value and giving those lands to indigenous communities. Thus, property rights have been respected, though some believe this policy fuels violence against owners who do not wish to sell.

Private companies are viewed as the primary engines of economic production, and are given all appropriate legal safeguards. Price controls and distortions are almost nonexistent. The main privatization process took place under the Pinochet regime and was not transparent. The scope of economic activities in which for-profit companies operate in Chile is unusually extensive, particularly as regards education, health and pensions. This has generated controversy, as many people regard the profit principle in such areas as inherently suspect. In fact, for-profit schools were prohibited in 2015 in the private, voucher-funded sector (which covers about 55% of enrollment). The participation of private companies in the provision of publicly funded infrastructure (public-private partnerships) in areas such as road infrastructure, hospitals and

### Property rights



### Private enterprise



correctional facilities has also sparked some controversy, in part due to the lack of transparency in contract renegotiations. A few state companies remain – among them the world’s biggest copper producer CODELCO – but these are mostly subject to professional management. Companies are relatively easy to start and red tape is low, though bankruptcies are legally costly and lengthy.

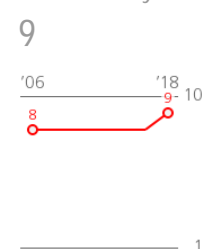
## 10 | Welfare Regime

Social safety nets are relatively comprehensive, though deficiencies remain. Perhaps the strongest area is health care, where the well-organized National System of Health Services (SNSS) provides universal access of significant quality throughout the entire territory. Although public health care spending is only 3.9% of GDP, health outcomes are remarkable. Infant and maternal mortality rates are among the very lowest in Latin America. Life expectancy is 81.5 years, the highest in the region and only behind South Korea and Singapore among all countries covered by the BTI. Access to the public health system is universal through the public insurance system (FONASA), though formal workers must contribute 7% of their wages to the system, which receives about half of its total income from public funds. About 15% of people are privately insured and constitute a separate risk pool of wealthier and healthier people, given their significantly better access to medical specialists and private facilities. The public system was considerably strengthened in 2005 through the AUGE, a system of explicit and actionable universal guarantees of timely access to health care for a few dozen medical conditions, which has since grown to cover 80 high-impact diseases.

Significant steps toward a universal pension system were undertaken by the first Bachelet administration, which guaranteed a basic pension income to all elders who did not otherwise receive a pension. This basic pension currently stands at about \$160 per month, which is still a modest sum (equivalent to the extreme poverty line). There are large inequalities in pension income, as the main pillar of the system is contributory and based on individual accounts administered by private companies (AFPs). Thus, only people with higher wages and higher density of contributions over their lifetime tend to reach replacement rates of 60% or above. Since median wages are low, most pensions tend to be low as well, especially considering the contribution rate is only 10% of wages and about 40% of workers do not contribute.

Since 2002, there has also been an unemployment insurance program (Seguro de Cesantía), which was reformed in 2009. It includes an individual severance account, which is supplemented by a solidarity component paid from the Solidarity Severance Fund. Finally, there are currently about 80 programs and/or benefits in the social protection system aimed at poor or vulnerable individuals. This network was strengthened in 2012 with the guarantee of an “ethical family income” to about 170,000 families living in extreme poverty or vulnerability. The effectiveness of

Social safety nets



targeting in these programs is reflected in the fact that in the poorest decile of the population, direct subsidies represent more than 40% of household income, while in the next decile this proportion falls to about 10%. In addition, there are programs of subsidies and social support through other ministries, such as education and housing.

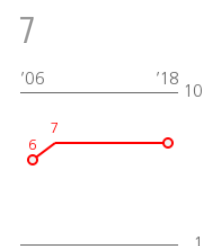
Equality of opportunity remains constrained by persistent economic and social inequalities. A number of legal provisions address discrimination – including the 2012 Law against Discrimination – but the problems are primarily linked to social stratification.

Significant inequalities in education are linked to a school system segregated along socioeconomic lines, with better-funded schools for better-off children. PISA tests also show that inequalities in performance between Chilean children can be explained to a higher-than-average degree by children's socioeconomic origins. Accordingly, the youth of poorer strata have more difficulty accessing higher education and integrating into the labor market. Bachelet's government has undertaken reforms aimed at a less segregated education system and at improving quality, but it is too early to know their effect. Educational inequalities are further reinforced by informal barriers in the labor market linked to classist attitudes. This is a factor particularly when accessing high-end professional jobs, as several studies have shown. They have also shown that intergenerational mobility within the elite is low, and that levels of assortative marriages along educational lines are high.

There is a mixed record on equal opportunity for women. Equality at all levels of education has been achieved. However, and in spite of significant recent improvements, there is a gap in labor force participation (45% for women vs. 67% for men), which accentuates at lower levels of income and for older people. Additionally, women tend to have jobs that are more precarious. Political participation by women has become more common but remains low, as evidenced in Congress where less than 20% of representatives are women. This may change after the 2017 elections, where for the first time all parties must present at least 40% of women candidates.

Chile's indigenous peoples in particular suffer from deep-rooted inequality tantamount to discrimination. There are a significant number of programs within specific government agencies tasked with promoting their interests and providing opportunities. In spite of this, indigenous peoples find it hard to escape from poverty: according to the CASEN survey, in 2015 income poverty was 11% for non-indigenous people and 18% for indigenous people; for multidimensional poverty, the respective figures were 20% and 31%.

Equal opportunity





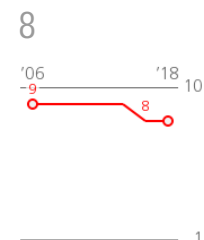
## 11 | Economic Performance

The Chilean economy exhibits strength at the macro level, in spite of continued low levels of growth in investment and output. The main reason for low growth is the depressed price of copper – Chile’s main export product – amidst a global downturn in the commodity cycle. This drags down investment in mining and energy. However, part of the reason may be depressed investor and consumer confidence due to some of the current government’s policies, such as the tax and labor reforms approved in 2014 and 2016, respectively.

Since 2014, growth rates have been in the vicinity of 2%. In 2016 it is estimated to have been a mere 1.7%. The OECD expects growth rates of around 2.5% for 2017 and 2018, which if realized would complete five years in a row with figures below the “potential” (or cycle-neutral) growth rate of the economy, currently estimated at 3%. These are historically low figures, only comparable in recent decades to the 1999 to 2003 period during the Asian Crisis and its aftermath. Gross capital formation is estimated to have grown about 1.1% in 2016, after a very significant drop in 2014 and a small further drop in 2015, as investment fell in reaction to lower copper prices.

In spite of these numbers, the economy has showed resilience. Unemployment in October 2016 stood at only 6.4%, and has stayed unexpectedly low throughout the downturn - even if the quality of jobs has deteriorated, as many formal jobs have been replaced by more precarious self-employment and informal work. The current account deficit for all years between 2014 and 2016 has been between 1% and 2% of GDP. Inflation has been relatively low and stable, with annual rates below 5% in all years since 2009. Nonetheless, low growth and low copper prices have impacted public finances. The deficit in 2016 was 3.1% of GDP and is expected to grow to 3.3% in 2017. Though these are manageable levels, public debt may reach 25% of GDP by 2018. This is still a very strong fiscal position, but future fast growth in public spending will certainly be constrained if Chile’s fiscal rule and convergence to a structural deficit of 1% of GDP are to be observed. The administration’s 2014 tax reform has increased structural revenues, though it remains to be seen whether it will manage to collect an extra 3% of GDP, as intended, once it is in full operation by 2018.

Output strength



## 12 | Sustainability

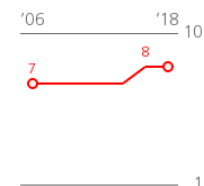
Environmental concerns are taken increasingly seriously by Chile's political leadership, in line with increased citizen awareness regarding this issue. Chile has been a signatory to international environmental standards attached to free trade agreements. As member of the OECD, Chile has had to adapt to OECD standards. In 2010, amendments to the 1994 Environmental Act introduced three major changes: (1) the creation of a Ministry of Environment; (2) the creation of an Agency for Environmental Impact Assessment; and (3) the creation of an Environmental Enforcement Superintendent charged with oversight of environmental issues. This new environmental governance has enabled significant progress, though critics suggest that the bodies responsible for approving new projects with environmental impact are still too subordinate to the political authorities. A notable example is the vast hydropower project HidroAysén in the far south of Chile, which invested heavy sums and complied with all environment regulations stated in the law, but nevertheless was rejected by political authorities in 2014 amidst mounting public opposition. Courts have also been increasingly willing to rule in opposition to large mining and energy projects' interests and impose sanctions for environmental noncompliance.

The 2016 Environmental Performance Index (EPI) ranked Chile 52 out of 166 countries. According to this index, the country's greatest shortcomings are in its inefficient use of fertilizers in agriculture and in fisheries management. According to the OECD, CO<sub>2</sub> emissions have been rising steadily, but are still well below the per capita average for countries in the organization. A tax on carbon emissions (and other pollutants) goes into effect in 2017, for all fixed, fossil-fueled sources generating 50MW of power or more. The previous administration launched a 2020 energy strategy committed to generate 20% of the energy matrix by non-conventional renewable energies. Significant progress toward this goal was achieved in 2016, when a bidding process to assign one-third of all residential consumers' energy consumption from 2021 onwards took place. At least 52% of the bid was awarded to solar and wind sources. Solar prices were a world-record low and far more competitive than coal and gas.

Education in Chile is fairly sound, but R&D is still a weak pillar of Chile's development model. Chile has one of the highest enrollment rates in Latin America at all levels of education for both men and women. Indeed, gross tertiary enrollment was one of the highest in the world at 89% in 2015 (up from 37% in 1999), according to UNESCO data. However, quality is relatively low, the school system is segmented along socioeconomic lines and the university system requires large out-of-pocket payments. As a response to massive student demonstrations in 2006 and 2011, a number of reforms have been enacted affecting all levels of education. Some of them, such as a much-improved wage and career path for school teachers and the creation

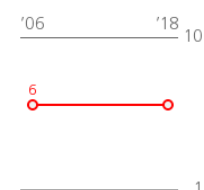
Environmental  
policy

8



Education policy /  
R&D

6



of a national system of school and pre-school quality assurance, are likely to improve quality; others, such as free university tuition for poorer students, are valuable but are likely to have scarce impact on access (which is already high) or quality. Public spending on education increased from 3.2% of GDP in 2005 to 4.6% in 2014, and will rise further after these reforms kick in. Despite deficiencies, Chile showed one of the OECD's largest improvements in the PISA test from 2000 to 2015, including socioeconomically disadvantaged groups. The country ranks at the top in performance among Latin American countries both in PISA and in other regional tests. Still, compared to most OECD countries, overall performance is poor. By developed country standards most of the Chilean workforce has low analytical, communication and problem-solving skills.

Chile has a vibrant university sector, with both private and public providers and some elite institutions which attract students and academics from all over Latin America. In the 2017 Times Higher Education rankings, Chile punches above its regional weight: of only four Latin American universities ranked in the top 500, two were Chilean, and of the 51 ranked in the top 1000, 10 were Chilean – the second largest contingent after Brazil. Nonetheless, Chilean universities have relatively low interconnections with business, meaning scientific and productive knowledge tend to be divorced from each other. Chile ranks 34th in the world in patents per capita according to the World Creativity Index 2015, similar to Argentina (36th) and Brazil (31st). Though some export sectors (such as wine) have incorporated some advanced technology into their production processes, most companies are remarkably unenthusiastic about R&D – despite a tax incentive law introduced in September 2012 to this effect. In 2016, Chile invested barely 0.39% of its GDP in R&D, and private companies spend less than the government (32% vs 42% in 2015). Partly as a result, Chilean exports are poorly diversified and are mostly based on natural resources.

## Governance

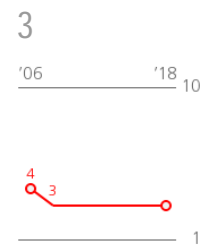
### I. Level of Difficulty

Structural constraints are partly associated with the country's location and geography, including its small domestic market, its great distance from the poles of global development and main destinations of their exports, and exposure to natural disasters such as the tremendous earthquakes that struck the central regions in February 2010 or the north in April 2014, and which produced heavy material losses. Climate change opens up new risks, as the enormous wildfires of January 2017 showed. Chile is moreover a small, poorly diversified economy reliant on imported fossil fuels, which leaves it very exposed to shifts in world commodity prices, particularly oil and copper. Other constraints are historical but still difficult to eliminate, as is the case of the country's deep social and economic inequalities. In recent decades, other constraints such as extreme poverty, a poorly educated workforce and infrastructure deficits have been overcome to significant degrees.

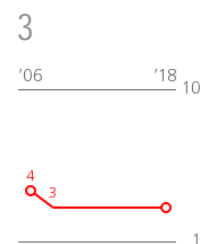
Traditions of civil society and community organization are relatively strong in rural regions, but tend to be much weaker in urban areas, especially in larger cities, where social trust tends to be poor in relations with strangers. For example, most people are not even willing to donate organs of their dead relatives, in spite of public campaigns and nudge laws to the contrary. On the other hand, public and media campaigns of solidarity such as those organized after major natural disasters tend to be highly successful. There are some well-known and long-lived NGOs which are professionally operated and highly trusted to use donations effectively and efficiently. Furthermore, civil society's organizational landscape has become increasingly differentiated.

Although civil society organizations are numerous, they are only sporadically active in political life. Political elites in Chile often sought to control political participation outside party channels. Thus, there is little tradition of autonomous active participation by civil society in politics, even as citizens have become alienated from the parties. Electoral participation has fallen from well over 80% of adults in the presidential election of 1989 to around 40% in the second round of the presidential election of 2013.

Structural  
constraints



Civil society  
traditions



On the other hand, mobilization to pursue groups or citizens' own interests, or to protest against perceived disadvantages, have started to become more frequent and vocal. In the last years, social movements with environmental, feminist, LGBT, educational and pension reform agendas, among others, have all staged massive widely covered protests.

Conflict intensity is relatively low in Chile, apart from the Mapuche conflict in the south, which in this decade has increased in frequency and violence – though still without leading to major clashes or many deaths. The conflict concerning human rights violations under the dictatorship has lost much intensity over time, as the main culprits are in jail and the state succeeded in developing broad remedial measures. However, the main rifts in Chilean society are still predominantly socioeconomic, concerning social inequalities. These conflicts have recently gained much public attention, though they rarely escalate to violence. That said, student protests frequently turn violent on the fringes, with small groups destroying private and public property and throwing Molotov cocktails at police, who sometimes respond with excessive use of force. Workers' strikes in some activities (e.g., miners, dock workers) can also turn violent.

Overall, part of the reason for increased conflict is simply a normalization of democratic politics, as different social actors now conceive of themselves as bearers of rights, in a kind of passage from a political culture of passive citizenship (or “subject culture” in the concept of Gabriel Almond and Sidney Verba) to a true “civic culture.” Nonetheless, a widespread citizen culture of dialog and deliberation among democratic equals is yet to develop. In this context, the unraveling of existing political parties' legitimacy has created a growing gap between ordinary citizens and the traditional political class, which in turn has lowered the political system's capacity to absorb and process social conflict.

Conflict intensity

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## II. Governance Performance

### 14 | Steering Capability

Since 1990, all governments have been able to propose and implement long-term policies, even as they have had to search for broad consensus to enact policy reforms expected to endure. Criminal justice, health, civil service and tax reform, among many others, were taken forward in the past in this way. There is a relatively efficient public system and a network of technical agencies that increase the strategic capacity of governments to prioritize and organize their policy measures. Governments also rely heavily on external expertise – most reform projects are accompanied by expert

Question

Score

Prioritization

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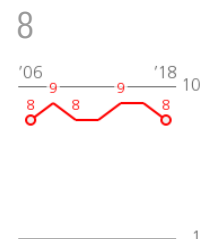
commissions – as well as evidence-based policy-making, regulatory impact assessments, and strategic planning units.

Short-term interests are usually sacrificed if they interfere with strategic priorities. For instance, the 2017 Budget Law proposed by the government and approved by congress entailed a very modest 3% increase in the overall budget, despite the government’s record-low popularity and despite 2017 being a presidential and congressional electoral year. This austerity was needed to maintain the credibility of the structural deficit policy, in place now for almost 15 years.

Nonetheless, during the current administration there has been some erosion in many of these aspects. Though the broad strategic aims of the government have been clear and stable (i.e., educational, labor, tax and constitutional reform), the specific content of each reform has not been. In almost all areas, reforms have been so improvised that even issues of basic design have been contested, reversed and modified with regularity. Such improvisation was notorious in the tax reform passed in 2014. This was the most significant since 1990 and involved fundamental changes to the system and its procedures, but nevertheless was presented and rushed through congress in less than five months without any pre-legislative debate. No simulations or detailed tax data were presented to allow independent experts to technically assess the reform. Though legislative consensus with the opposition was eventually obtained, it was improvised and piecemeal to such a degree that a “reform to fix the reform” had to be later implemented. In education, another sector the Bachelet government promised to prioritize, some areas such as higher education reform have been stalled for lack of even basic technical (and political) agreement on how to proceed and incapacity to confront the powerful lobby of the “traditional” universities. This has led to the promised free university tuition for poorer students to be implemented for two years in a row through a simple line in the budget law rather than through an actual higher education law, thus creating future uncertainty for this major campaign promise. Public bickering between ministers on essentials of reform design have also become frequent, such as in labor and pension reform.

Consensus has been the traditional lynchpin of all previous governments’ legislative strategies to get their policy initiatives approved and implemented. Consensus was inherently valued but was also a political necessity, as the current administration is the first since 1990 to have a clear, stable and commanding majority in both houses. This has allowed it to rely less on persuading the right-wing parties. Overall, and thanks to its (initially) well-disciplined majorities, the government has been unusually productive in terms of passing legislation included in its ambitious presidential platform. Examples include the tax reform, two major laws of Bachelet’s education reform plan, labor reform and reform of the electoral system. Moreover, a raft of legislation to significantly strengthen transparency in politics have also been approved (laws dealing with campaign funding, political parties, probity, etc.).

Implementation



However, it should not be assumed that the underlying policy goals animating the legislation will necessarily be achieved, as issues of poor design have plagued many of the major reforms. A case in point is the complex tax reform, which was poorly designed and therefore has left much space for interpretation, and may in fact not collect 3% of GDP as expected. The labor law was also partially blocked by the constitutional tribunal, meaning the final law is a watered-down, and for the government unsatisfactory, version of the one approved by congress.

Over time, the position of the president and her cabinet has gradually weakened amidst low popularity, internal difficulties and lack of coordination. This has made it increasingly difficult for the government, after its major initial successes, to muster political will and persuade its lawmakers to approve the outstanding legislative agenda, which includes issues such as abortion, constitutional, higher education and pension reforms – all of which present significant divisions within the ruling coalition.

There is considerable policy learning and flexibility in policy-making. Learning is mostly institutionalized in a state-bureaucratic apparatus with significant continuity over time and between administrations, both in core personnel and in the implementation of programs, which (mostly) build on previous efforts rather than start anew. Agencies monitor and evaluate the implementation of each public policy (a requirement in the rules of procedure of the public administration), though internal controls are more procedural than goal-oriented. Additionally, each government establishes its own monitoring mechanisms regarding the implementation of its strategic policies. The system also relies on knowledge exchange, including through international cooperation (virtually all public bodies participate in the appropriate regional and international forums and follow international technical standards in their procedures), and also through the consulting of academic experts and practitioners (including commissions and standing committees for the study of new policy proposals). The Budget Office, which has informal but substantial authority over line ministries, sometimes conducts in-depth impact evaluation of programs and may recommend modifications or (less frequently) suppression of ineffective programs. Even poorly implemented policies, like the capital's transport system (Transantiago) in its beginnings in 2006, have gradually improved over time as the Transport Ministry learned from experience and slowly modified contracts and bus routes to improve performance. Governments have also shown flexibility to seize windows of policy opportunity, as Bachelet's government did in 2015 when it called for a commission to improve legislation regulating transparency in politics after the political scandals uncovered since 2014. The results of that expert (and widely respected) commission have been consistently, if not always fully, turned into legislation that significantly strengthens the separation of business and politics.

However, the Bachelet administration has deviated in some instances from this general approach based on past experiences and learning when crafting new

Policy learning

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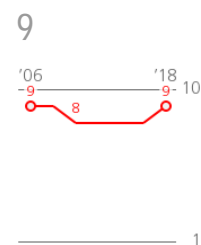
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legislation. Thus, for instance, the major 2014 tax reform broke in decisive ways with the basic design of the previous tax system, but was nevertheless rushed through with scant preparation and with no real space for independent experts to evaluate it or to suggest meaningful changes (which was likely a reason why the reform had to be subsequently modified). The labor reform was also conducted with scant attention to expert opinion, in spite of warnings from government-friendly economists. In other areas, however, such as some parts of the education reform, extensive discussion, expert involvement and evidence-based policy-making have certainly been present.

## 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, the Auditor General's Office, which essentially determines the legality of the state administration's actions. It is a widely respected agency; its powers are extensive and its scope has broadened in recent years, for instance, more closely scrutinizing the use of resources by the armed forces. An extensive modernization process in public management was initiated in the mid-1990s and progressively deepened since then. A key agency is the Budget Office (DIPRES) attached to the Ministry of Finance, which approves expenditures according to the budget law and regularly monitors its efficient management. Despite Chile being a highly centralized country, central government personnel accounted in 2012 for only 2% of the country's workforce, while their wages represented 4% of GDP and about 22% of central government spending – all among the lowest figures in Latin America, according to a study by the Inter-American Development Bank (IADB). Given the scope and effectiveness of the Chilean state, this suggests efficiency. That same IADB study assessed Chile's civil service to be the most developed in the region, even above Brazil. The most important reform was the creation of the Senior Public Management System (Alta Dirección Pública) in 2003. Under this system, higher positions in the administration are filled through open applications, and these officials, once appointed, establish performance agreements with their superiors, leading to a more professional and meritocratic bureaucracy. This system showed weaknesses in its effectiveness at the critical moment when a new administration takes office, when a significant number of appointed officials are removed and replaced (64% in 2014). However, a 2016 law was passed with broad consensus which will close this loophole, significantly strengthen the system and extend further its scope and depth within the central administration. The system is overseen by the National Directorate of the Civil Service, which will also have increased oversight and steering capacity. In spite of these strengths, some shortcomings are observed in the management of fiscal resources and personnel hiring at the municipal level. Moreover, there is still some discretion in hiring consultants and advisers at the level of high political office.

Efficient use of assets





In most cases, the government coordinates its policies effectively and acts coherently. As a highly centralized country with a strong presidential system, hierarchy and top-down commands are the main coordination mechanism – with the strengths and weaknesses such a system entails. On almost all matters the president has the final say, though individual presidents have varied substantially in how much decision-making power they delegate to ministers.

There are several agencies and other bodies tasked with evaluating policy proposals and coordinating public policies, including the president’s advisory ministry (SEGPRES), the government office (SEGEOB), interministerial committees, advisers and other mechanisms. The Ministry of Finance is also involved in the preparation of most policy proposals. However, coordination also depends on the standing of the relevant ministers at the time. The Division of Interministerial Coordination within the president’s advisory ministry is the special unit for coordination and programmatic monitoring of the executive – especially in the preparation of decisions in matters affecting more than one ministry – and serves as technical support for the Interministerial Committee. Within this division, Piñera’s administration (2010-2014) introduced a “delivery unit” inspired by the U.K. model to increase coordination, but it was discontinued by the present administration. Presidents sometimes name “presidential delegates” with decision-making authority to coordinate efforts on specific matters (such as natural disasters or shanty-town eradication).

The system’s main vulnerability is likely its dependence on the top when it comes to coordinating different actors, and thus on the leadership’s managerial abilities. For instance, reconstruction after the major 2010 earthquake – which required coordinating environmental evaluations, land expropriations, housing efforts, urbanization plans, public-private partnerships and so forth – was internationally regarded as fast and effective. However, reconstruction after far smaller earthquakes (such as Tocopilla in 2007) was poorly coordinated. The preparation and implementation of Transantiago, the capital’s public transport system, in 2006 was also an example of a complex policy where coordination was highly deficient.

A broad range of integrity mechanisms is established and for the most part works effectively, though some deficiencies remain. Over the past 15 years, specific but successive corruption scandals have led the political elite, with cross-party support, to take action and develop further legal mechanisms to combat corruption.

The 2003 reforms for campaign funding and state administrative rules were first steps, as was the 2009 Transparency Law, through which citizens and media have gained significantly improved access to information. In addition, a Transparency Council was created in 2009, which promotes the principle of transparency and upholds full compliance of the transparency law by state agencies. Auditing of state spending is guaranteed through the Comptroller General of the Republic, who performs oversight functions that also help prevent large-scale corruption. However,

#### Policy coordination

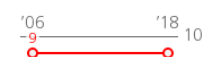
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#### Anti-corruption policy

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these mechanisms, which are very efficient at controlling corruption in the state apparatus, are not always enough to prevent corruption entirely. There is also some small-scale corruption, particularly at the municipal and lower levels of central government, often in the form of influence peddling. Although the public procurement system is largely transparent, it remains a potential source of corruption. A further advance in 2014 were laws that strengthen transparency and probity in municipalities as well as a lobby law, which requires authorities and public officials to publicize their agendas and establishes the creation of a register of lobbyists (though it does not regulate their activity).

Nonetheless, events since 2014 showed that the relationship between political and economic power was much closer than imagined, as made clear by a series of campaign funding and bribery scandals. Public outrage led President Bachelet to form a widely respected commission which suggested a broad series of legal reforms, many of which have already been enacted. Among them, the reforms to election campaigns, to political parties and their funding, and a new probity law (which strengthens regulation of asset and interest declarations, asset management and obligations to divest assets) constitute significant advances in separating money and politics. A widely respected think tank, Anti-Corruption Observatory, which tracks the legislative advance of the commission's proposals, evaluated the overall advance of this agenda at 61% by the end of 2016, with the highest area of achievement "funding of politics" at 83% and "prevention of corruption" as the lowest (45%). Given the comprehensiveness and ambition of the proposals, such progress in just 20 months is significant.

## 16 | Consensus-Building

All major political actors agree on democracy as a strategic long-term goal of transformation.

However, a degree of ideological polarization has occurred among major political actors that makes it clear that the old consensus no longer holds. In fact, many commentators argue that Chile is in search of a new political and economic consensus to replace the consensus of the transition. As argued previously, the party system itself has polarized to a degree.

The constitution is one such issue, since it was approved under the authoritarian regime and in large part reflects the military's right-wing worldview. Despite successive and deeper reforms of the constitution – the most significant of which happened in 2005 which removed its last authoritarian remnants – significant sectors of the center-left and left demand a new constitution created through a constitutional assembly. The current administration carried out a consultative process through which about 200,000 people gave their opinion on what the main contents of such a new constitution should be. Nevertheless, though the opposition is willing to reform

Consensus on goals

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the current constitution in congress, it rejects a constitutional assembly. In 2017, congress must vote on a constitutional reform that would open the door for an assembly (and for other possible mechanisms of reform), but it needs two-thirds of votes in each house to pass – which requires the consent of at least one major opposition party. Thus, success is doubtful, but if the project is voted down, constitutional change would remain at an impasse.

A similar situation is observed regarding the market economy. Particularly since the 2011 student mobilization, many social movements and wide sectors of the political left criticize the current economic model and are critical of the Concertación's (1990-2010) governments, which they accuse of having been merely a softened version of "neoliberalism." For instance, the Socialists (Bachelet's party) now regularly criticize the socioeconomic model. Much of the debate on constitutional reform suggests that a new constitution should balance more clearly the market with the social rights of the population, especially the most disadvantaged groups. In any event, most important actors remain committed to the market economy. Although democracy and a market economy as strategic long-term goals of transformation are not seriously in dispute, a point of uncertainty arises regarding the form and substance of the new consensus that must be achieved in the coming years.

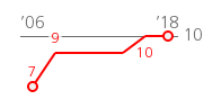
Anti-democratic actors are no longer a serious problem in Chile. With the constitutional reform of 2005, the executive has complete control over the armed forces. The renewed military hierarchy is committed to the democratic constitution. Despite the great influence of some pressure groups in the policy-making processes, such as some business groups, they do not seek to undermine democracy itself. Moreover, they have lost some power in recent years. Minor leftist groups that question democracy are for now insignificant and have no veto power.

The main cleavage of Chilean society is socioeconomic, linked to social inequalities. Other cleavages have weakened significantly in recent years, such as the politico-ethical (related to human rights violations under the dictatorship) and the religious (between Catholic moral and secularism). These divides are reflected in the party system, unlike the increasing ethnic divide (the Mapuche conflict). A former division between center and periphery has gained some renewed strength, as reflected in the "regionalist bloc" acting transversely between the parties as well as among independent deputies and senators in the new parliament.

Until recently, conflict management was relegated exclusively to the elites, which since 1990 had sought to depolarize conflict through a "culture of agreements" or consensus-based politics. Though highly effective initially, it eventually alienated citizens and civil society. This has changed since 2011; society has emancipated itself faster than the elites imagined. Bachelet's ambitious program of reforms was a deliberate attempt to take distance from this cozy consensus with the right and to thus depolarize conflict by politically channeling social movements' demands. However,

Anti-democratic actors

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Cleavage / conflict management

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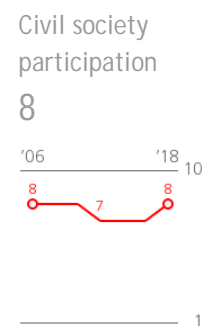


her government and her reforms are unpopular, though not necessarily for programmatic reasons. Thus, political parties and elites have lost the capacity to aggregate and channel demands, meaning conflicts are expressed more locally by different social movements at different times. The new conflict line reflected by the student movement represents a growing division between the current elite and the generation born after the transition. They are now organized politically in highly diverse groupings, many of which have managed to consolidate into budding political parties, whose strength will be tested in the late 2017 elections. As a result, the party system has now begun to reflect and may eventually provide institutional channels for social conflict, though distrust of parties remains high and electoral participation low.

Finally, in the last 25 years the Mapuche conflict has become more radicalized and political leaders have had problems in depolarizing it. A broad consensus capable of integrating all conflicting groups is still lacking.

The political leadership regularly takes the interests of civil society actors into account, whose ability to influence the public agenda has increased over time, even as political parties have ceased to be the sole vehicle for influencing legislation. Legislative committees regularly invite and permit the relevant civil society groups and experts to share their views on proposed bills. Economic and professional interest associations are relatively influential, as is the Catholic Church, though NGOs are increasingly active as well. The new social movements are now significant actors, both as informal veto players (as in various energy projects), as participants in the legislative discussion process, and as agenda-setters, as Bachelet's educational reforms have made clear. Some social policy is implemented through partnerships with NGOs.

A sporadic but major role for civil society actors occurs through ad-hoc commissions that presidents typically summon to help them bring forward change on some major policy and where they need cross-party support or greater political and social legitimacy. A typical example was the Engel Commission in 2015, formed by 15 academic experts and civil society leaders (such as the president of the Chilean Bar Association, major NGO leaders, etc.) representing diverse interests and political leanings. A very significant part of its proposals to more thoroughly separate business interests from politics have since been turned into law by congress. Likewise, Bachelet also formed the Citizens Council of Observers for the constituent process, which designed and conducted a major citizen consultation process as a first step toward writing and approving a new constitution. Over 200,000 people participated in the consultation, and the council was granted significant degrees of autonomy in its design and operation.



Since 1990, Chile has undergone a slow but incremental process of reconciliation after the human rights violations perpetrated by the military dictatorship (1973-1990). This has involved several fronts.

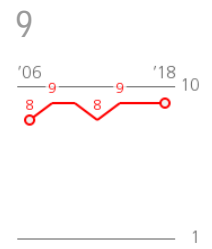
Judicially, resistance to prosecute human rights violators was high until 1998, when Pinochet was arrested in London. After that date, the judiciary increasingly assumed its responsibility to investigate human rights violations. By November 2015, a total of 1,373 officers and civilians had been indicted, prosecuted, accused and/or convicted of human rights violations during the dictatorship. 344 were definitively convicted, and of those, 163 did not receive any benefits in serving their sentence. Moreover, the highly controversial 1978 amnesty law – which states that human rights violations perpetrated between September 1973 and March 1978 cannot be prosecuted – is almost never applied by the courts even though it remains in force.

Politically, the first major landmark was the 1991 report of the Truth and Reconciliation Commission, which established the existence and identity of disappeared or murdered victims. In 2003 this was followed by the Valech Commission, established to gather information on human rights violations regarding torture and other crimes, and granted pensions and other compensatory benefits to those classified as victims of torture and political imprisonment. Human rights promotion became a state policy with the establishment of the Human Rights Program in 2003. In December 2009, the Museum of Memory and Human Rights was inaugurated.

When the center-right coalition took office in 2010 this trend toward the recognition and promotion of human rights was not reversed, despite the fact that the coalition partner UDI had never distanced itself from the Pinochet dictatorship. Thus, in September 2013, the 40th anniversary of the coup, President Piñera unexpectedly closed a special prison reserved for former military officers condemned for human rights violations, and transferred all prisoners to a regular prison. Nonetheless, another such special prison remains, which is a reason for regular complaints from the families of the victims. On the other side, the families of these prisoners have become more active and vocal in requesting leniency for those that are terminally ill, which generates immediate resistance from the relatives of the victims, who demand to first know the “whole truth” of the murders and disappearances.

Finally, at a cultural and social level, hardly any actors remain which do not condemn Pinochet’s human rights violations. For example, in 2014, Renovación Nacional, Piñera’s former political party, decided to remove from its statement of principles any reference to the “military government.” Likewise, the reluctance of some sectors of the judiciary, the media and the political right to recognize their roles in that period has slowly changed.

## Reconciliation



## 17 | International Cooperation

Since 1990, Chilean governments have made judicious use of international aid in transformation initiatives, effectively utilizing international assistance for their domestic reform agenda. Development aid projects have concentrated in a few sectors, in particular the environment, renewable energy, social and regional development and state modernization (such as the successful criminal law reform between 2000 and 2005), with donors complementing strategic government policies in Chile. A 2010 European Commission evaluation viewed Chile as a reliable partner in development cooperation. All of the cooperation programs evaluated had been executed as planned and national counterpart funds delivered. In November 2013, the OECD also made a positive evaluation of the actions taken by the International Cooperation Agency and of Chile's transformation from recipient to donor country. Indeed, the OECD exerts a significant and growing influence in the Chilean long-term policy-making process. Since its accession to the OECD in 2010, Chile has increasingly relied on OECD recommendations and experiences of fellow OECD member countries to learn from international know-how and to adapt external advice to its domestic reality.

The Chilean government is considered highly credible and reliable by the international community, and the country has an excellent reputation all over the world, especially for its democratic advances and economic solidity. The level of international confidence in Chile is reflected in its solid, trusted position in both trade and politics, and in its numerous bilateral and multilateral agreements with more than 50 countries. Donors and investors also have great confidence in Chile's well-institutionalized political and economic framework. For instance, as of late September 2016, Chile had no pending issues with investors at the International Centre for Settlement of Investment Disputes (ICSID). The Chilean state has complied with international rulings it has lost, such as at the Inter-American Court of Human Rights, and at the International Court of Justice in The Hague (which ceded maritime territory under Chilean control to Peru in 2014).

Over the last two decades, Chile has sought to improve its relations with the Latin American community, mostly successfully. Economically, while Chile maintains a relatively stable economic relationship with Brazil, the country's relationship with Mercosur remains ambivalent, given the occasionally volatile policies of its members and particularly since Venezuela's accession to this organization. Instead, it has privileged the deepening of relationships with like-minded countries in terms of openness to the international economy. To this end, in 2011, Chile, Mexico, Peru and Colombia created the Pacific Alliance, whose goal is to contribute to further integration (including trade, the financial sector, labor, physical infrastructure and sharing practices). Chile participates in regional integration initiatives such as UNASUR, while it has also assumed a leadership role in triangular cooperation in

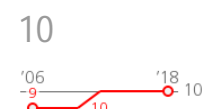
Effective use of support



Credibility



Regional cooperation



Latin America and the Caribbean and provides aid and development projects throughout the region.

Relationships with immediate neighbors are mixed. During the 1990s, the last territorial disputes with Argentina were resolved and the relationship improved on all fronts, including significant security cooperation. Relationships with Peru have been more fraught, but after the International Court of Justice (ICJ) partially accepted Peru's claim to a correction in the maritime boundary between the two nations, practically all territorial disputes have been resolved (a tiny area on the beach is still disputed). Beyond this process, both countries have tried to maintain their relationship at a good level, which has been helped by the deeper commercial ties between the two countries and their shared orientation toward the Pacific and APEC countries. On the other hand, Bolivia continues to demand talks to discuss gaining sovereign access to the Pacific Ocean, and which have been refused by the Chilean government with reference to the 1904 bilateral peace treaty. The relationship has been muddied further since Bolivia also took its case to the ICJ in April 2013. Bolivia has had some success in gaining public sympathy for its position internationally, for instance, among others, Pope Francis has expressed support for the idea of such talks.

## Strategic Outlook

Every relevant indicator today characterizes Chile as an economically stable, market-friendly and essentially democratic country. Moreover, significant recent progress has been made in areas such as transparency and probity in politics, energy, education, electoral reform and increased revenues from taxation. Despite this, important challenges remain.

Particularly with the 2011 student mobilization and its political aftermath, it has become clear that Chile's combination of incremental reforms supported by cross-party agreements, within an overall socioeconomic model predicated on the free market and targeted social policies, no longer commands consensus. The shape of what is to come instead, however, remains fluid. A fault line between a more universalistic approach to social policy versus a continued faith in focalized spending has appeared and gained relevance. For instance, in education, and despite a substantial increase in public education spending in the last twenty years, inequalities persist in terms of results, cementing the high level of social inequality. The government's reform process to address this problem is still ongoing. However, a particularly salient issue has been free university tuition for middle class students in a country where the quality of basic education is mediocre and early pre-school education coverage is still low among the poor. In this sense, the question is not so much about whether the goal of diminishing inequality is valuable (agreed upon implicitly or explicitly), but rather about how that goal may best be served.

More broadly, recent political discussion has not given enough attention to economic problems such as falling productivity and the high dependence of the economy on copper prices. Issues such as industrial policy remain off the agenda. A further major challenge ahead is a much-needed state reform to deepen meritocratic selection processes and to modernize procedures, in order to increase efficiency and effectiveness when implementing increasingly complex governance tasks.

In the mid-term, the socioeconomic transformation will also depend on changes in the Chilean political process. It is still unclear which changes in the party system will occur due to the new, more proportional electoral system, which will first be applied in the 2017 general elections, but regaining citizen trust in the political process remains a major challenge. Progress has been substantial regarding political activity financing (parties and campaigns), thus reducing one potential source of corruption. Another major and difficult challenge is to address the Mapuche conflict at a sufficient political level. More broadly, building a new and fundamental societal consensus will be of particular importance in the coming years. The climate of conflict, which has led to violent confrontation, must be overcome, a painful lesson all "established" democracies have learned by accepting conflict as a *modus vivendi* rather than neglecting it. This undoubtedly opens a window of opportunity for Chilean elites, civil society and citizens alike to overcome deep-rooted divides in society.