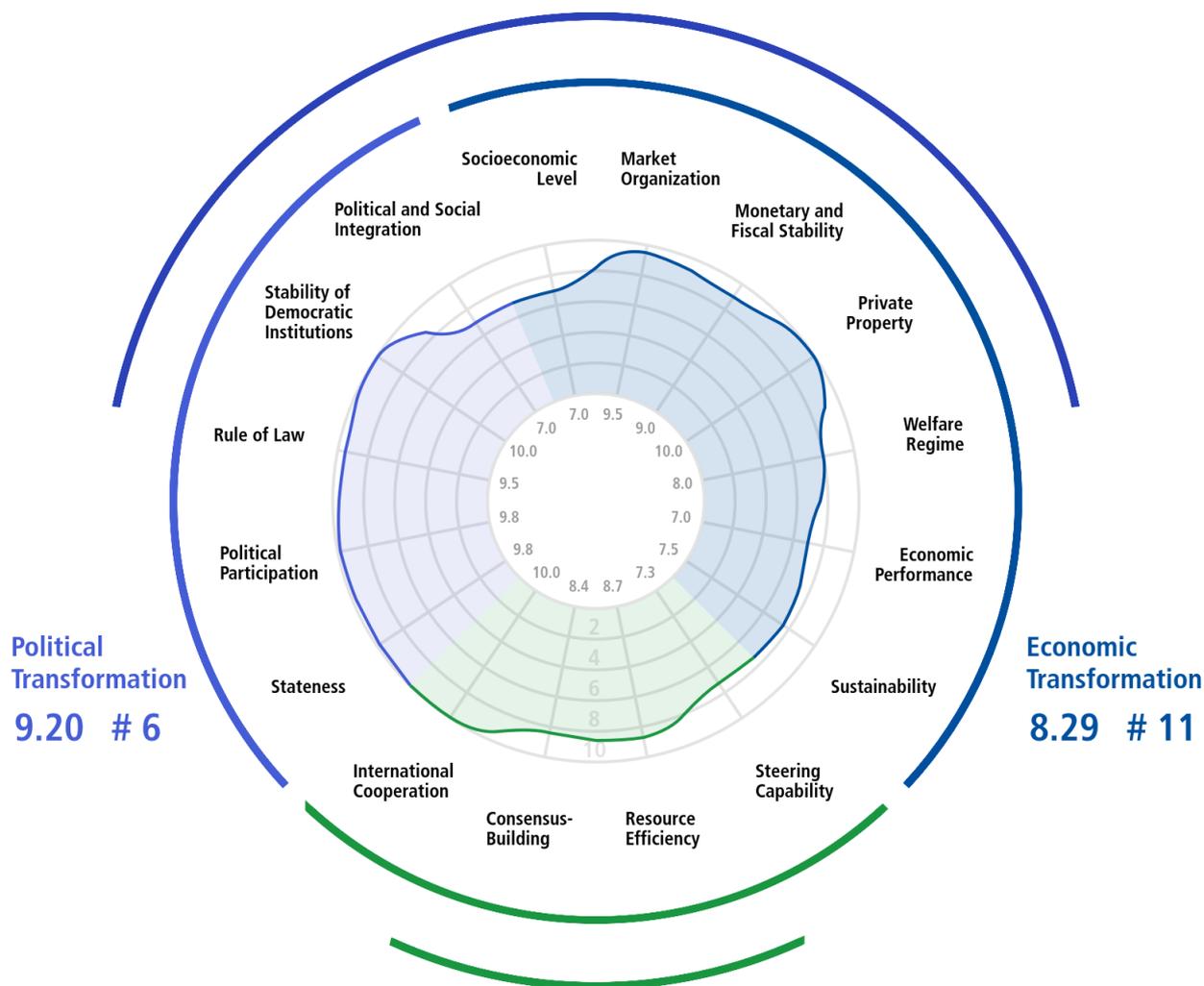


Chile

Status Index

8.74 # 9

on 1-10 scale out of 137



Political Transformation
9.20 # 6

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8.29 # 11

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7.15 # 4

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

| | | | | | | |
|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|--------------|
| Population | M | 19.1 | HDI | 0.851 | GDP p.c., PPP \$ | 25068 |
| Pop. growth ¹ | % p.a. | 0.9 | HDI rank of 189 | 43 | Gini Index | 44.4 |
| Life expectancy | years | 80.2 | UN Education Index | 0.810 | Poverty ³ | % 0.7 |
| Urban population | % | 87.7 | Gender inequality ² | 0.247 | Aid per capita | \$ - |

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

In March 2018, the center-right Sebastián Piñera administration came into power with a mandate based on the resumption of economic growth, which Chileans remembered as the main achievement of his first administration (2010 – 2014). However, after 18 months of disappointing job growth, the public mood had darkened. On October 18, 2019, after a week of protests regarding a 4% hike in the Santiago Metro system fare, violence erupted in metro stations and quickly spilled into the streets. In the following weeks, protests that in some cases included burning and looting were widespread throughout the country. Nonetheless, on October 25, a record-setting million-strong peaceful protest in Santiago signaled unequivocal public support for what was dubbed “the social outburst.” Leaderless and agenda-less, the key theme expressed in the protests was a demand for “dignity.” Chile’s whole economic and political model since the return to democracy, and its entire political class, seemed indicted.

To date, however, it is unclear how deeply Chile’s transformation process has been disrupted. A first view holds that the outbreak primarily expresses a demand by most of the population for better economic and social conditions, implying reforms that merely correct some imbalances. A second view points to a crisis of political representation – that is, a wide gap between the political class and the demands of the population, leaving the space for massive demonstrations that escaped the control of the political system. A third view points still further to a much deeper disruption and cultural change, which means that the outbreak is a rebellion by broad sectors against the entire socioeconomic model, seen as characterized by a logic of inequality that grants many privileges to a small sector while the “people” are mostly excluded.

Amidst a situation that seemed to be spiraling out of control, Congress reached a historic agreement for a referendum on the 1980 constitution. In October 2020, 78% of Chileans voted for a new constitution, with 80% voting that it should be written by a convention convened for that purpose (elections for the convention were held in May 2021). Crucially, the convention will need a two-thirds majority to approve any article of the new constitution, making it hard for any single

political sector to impose its views. Thus, the only certainty in Chilean politics is that the old certainties that have guided Chile since 1990 have vanished, and that the tasks of finding consensus and building legitimacy for common political, economic and social rules must begin anew.

Protests and political effervescence subsided only with the first coronavirus cases in March 2020. Chile was hard-hit by the pandemic during the southern winter; by the end of the year, excess mortality was about 17%, similar to that in the United Kingdom. Schools closed all year, and joblessness soared amidst a system of localized lockdowns. Most Chileans' evaluation of the government's pandemic response was negative, with a similar judgment applied to the government's efforts to protect people's incomes. Though Congress approved a \$12 billion package to deal with the pandemic in June 2020, and most people have received some government help, it did not come with the swiftness or generosity that people demanded. In response, Congress passed a provision allowing citizens to make a one-off withdrawal of 10% of their individual pension-account savings. Almost everyone took advantage of the offer, for a total withdrawal of around \$35 billion, dwarfing the fiscal package and inflicting substantial damage on future pensions. After a 6% drop in GDP in 2020 and a worrying increase in COVID-19 cases in January 2021, the government was confident that its large and diversified portfolio of vaccine contracts would enable it to vaccinate 80% of the adult population by June 2021, putting the country on a fast track to recovery.

History and Characteristics of Transformation

Chile's recent history is deeply marked by the dictatorship of General Augusto Pinochet (1973 – 1990), which was characterized by grave, systematic human rights violations. The socioeconomic model imposed was characterized by radical economic liberalism, with the state withdrawing from its dominant role, not only in markets but also in terms of social policy. In 1980, Pinochet introduced a constitution that provided the institutional basis for his socioeconomic model, but that also provided a framework that allowed a democratic opposition to organize and eventually defeat him in a 1988 plebiscite. Free presidential and parliamentary elections were held in 1989, which the candidate for the center-left Concertación coalition, Christian Democrat Patricio Aylwin, won.

From 1989 to 2005, the Concertación won all elections. The Aylwin government (1990 – 1994) avoided a relapse into authoritarianism, achieved economic stability and reduced poverty. It also established the Commission on Truth and Reconciliation to clarify the number of people murdered or “disappeared” under the military regime. Each of the Concertación governments – successively led by Christian Democrat Eduardo Frei Ruiz-Tagle (1994 – 2000) and socialists Ricardo Lagos (2000 – 2006) and Michelle Bachelet (2006 – 2010) – consistently followed this agenda and sought to combine market-based economic growth, political and economic openness to the world, and social inclusion through higher funding for education, housing, health care and pensions. Between 1990 and 2010, Chile's income per capita grew at a remarkably fast pace, which caused poverty rates to plummet and social indicators to improve dramatically, while transforming the country

from a largely peasant and working-class society into a largely middle-class society. Citizens became more empowered, increasingly viewing themselves as rights-holders, as democracy was consolidated and deepened. A major constitutional reform removed the last authoritarian enclaves in 2005. Nevertheless, citizens also felt increasingly alienated from political parties, and electoral participation rates declined steadily and significantly over time.

In 2009, the political right won the presidency for the first time since 1958 with the triumph of Sebastián Piñera from the Alliance for Chile coalition. The Piñera government largely maintained the economic and social policies of previous governments. Nonetheless, in 2011, Chile witnessed a historic surge in protests organized by university students demanding free higher education and a thorough de-marketization of the education sector. The student mobilizations had the effect of causing a leftward shift in the Concertación, as it sought to distance itself from the right and to identify with the students' demands. The Concertación subsequently became the New Majority (Nueva Mayoría) through the inclusion of the Communist Party. Despite abstention rates exceeding 50%, the Nueva Mayoría's electoral success in 2013 gave the coalition a majority in both houses of Congress and returned Bachelet to power. Her government promised tax reform, educational reform and a new constitution to combat inequality. Though her government delivered on its promises (except on that of a new constitution), and also passed important labor, electoral and anti-corruption legislation, her government quickly became unpopular, as economic growth decelerated following declining copper prices and falling business confidence. In March 2018, Piñera returned to the presidency after decisively winning the presidential runoff vote against the continuity candidate, promising instead renewed economic growth.

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

In principle, 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 claims for land and sometimes political autonomy for the Mapuche indigenous communities in southern Chile. Over the last decade, incidents have increased in frequency and violence as these groups have supplemented a strategy of land occupation with arson attacks on property, the use of roadblocks to ambush travelers and extortion of local producers. More than 300 violent incidents were reported in both 2018 and 2019. Attacks, which now often include gunfire, usually occur in rural and sparsely populated locations, and most go unsolved by the police. Logging trucks are the most common targets of arson attacks; May 2020 was the first time a truck driver was killed. Targets have also included machinery, inhabited and uninhabited houses, community centers, farm buildings and schools as well as religious temples. In some areas, loggers and farmers claim they are being asked to cede part of their harvest in exchange for not having their trees or fields burned (this has happened to more than 60% of farmers in the Malleco province, according to one of this community's leaders). The conflict has spread from the Araucanía into neighboring regions in recent years, particularly Bio-Bio to the north. However, zones of conflict constitute non-connected pockets amidst the generally peaceful territory.

Violent groups cannot usually contest police firepower, as their weaponry and numbers are limited. However, a significant exception occurred in January 2021 when a large anti-drug operation entered the Temucucui indigenous community, which is known for its demands of complete autonomy from the Chilean state. One policeman was shot dead, and 11 were injured. After the incursion, Temucucui leaders announced they would create an internal police force because they did not want the national police entering their community. More generally, the police claim to have been attacked 167 times in the Araucanía region between 2012 and October 2020. Another policeman was shot dead in an attack on a police patrol in August 2020.

Question
Score

Monopoly on the
use of force

9



1

Finally, drug gangs in poorer parts of Santiago have increased their firepower, and during 2020 there was a noticeable increase in violent fights and homicides between rival gangs over territory. Police tend to enter these areas only for specific reasons. During the 2019 social unrest, police stations across the country, but particularly in the poorer parts of Santiago, were regularly attacked by large groups of people (sometimes in the hundreds). A total of 350 such attacks were reported in the first three months after the protests began, and 585 over the full year after it. Some of those attacks included gunfire, and some analysts believe many of these were linked to local drug gangs.

The definition of citizenship and the question of who qualifies as a citizen are not politically relevant issues. Every citizen has the same civic rights, and individuals enjoy the right to acquire citizenship without discrimination. Every group in society, including most indigenous people (about 12% of the population), generally accepts the legitimacy of the nation-state. Nonetheless, a future issue of contention will be whether the state redefines itself as multicultural and plurinational, as some Mapuche leaders and intellectuals claim is necessary for their recognition. This issue will feature prominently in the Constituent Convention's deliberations during 2021, which reserved 17 seats (out of 155) for indigenous leaders – itself an unprecedented measure.

Successive governments have sought to facilitate immigrants' access to state protection systems and bring about non-discrimination in the labor market. In December 2020, Congress approved a much-discussed new immigration bill, which replaces a 1975 law. The bill reaffirms immigrants' rights, including non-discriminatory access to health care and education, but forbids visitors from changing status from tourist to worker without first leaving the country, and makes ex post legalization difficult for irregular immigrants. Foreigners with five years of continuous residence can vote in all elections and apply for Chilean nationality.

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 separated from the state, and since 1999 laws have given 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 care and education. This included attempts to modify or stop the formulation and promulgation of laws. But an accelerated decline in Catholicism among the population at large (from an affiliation rate of 70% in 2006 to 45% in 2019), together with public awareness of many cases of sexual abuse by influential priests, decreased support for the Church and removed much of its effectiveness as a lobbyist. The passage of a civil unions bill in 2015, and of a bill that partially legalizes abortion in

State identity

10



1

No interference of religious dogmas

10



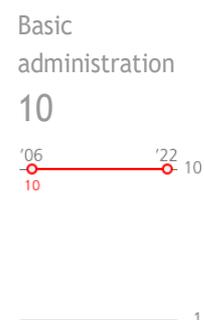
1

2017, confirmed its diminished clout. Thus, the Catholic Church's role is now equivalent to that of any other important pressure group.

While religious dogmas are not usually invoked to defend specific moral positions, evangelical churches, which are dogmatic in this sense, have grown in influence and lobbying power over time, but have so far failed to block reforms. About 18% of Chileans identify as evangelicals.

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. Along with that of Brazil, Chile's civil service is usually considered as one of Latin America's most professionalized. In 2016, an important civil service law was passed that expanded and strengthened the meritocratic hiring of top personnel for civil service positions, and which in 2018 successfully constrained the incoming administration's scope for removing top civil servants hired under the previous administration.

As a highly centralized state, Chile's administration exhibits some inefficiencies that arise from a lack of funds, expertise or decision-making power at lower levels (e.g., fixing potholes requires municipalities to obtain funds and authorization from the relevant regional governments). There are varying levels of management efficiency at the local level, but despite some evidence of clientelism and minor corruption, municipal administrations are relatively sound. Likewise, at least comparatively, public institutions are relatively efficient and honest. Survey evidence shows that Chileans are very rarely asked for bribes by public officials. Citizens have near-universal access to basic services such as water and sanitation. The tax service is modern and highly efficient, street-level policemen are mostly trusted by the public, and the public health care system, though resource-strained, has been highly effective in covering the entire territory and in improving health outcomes even in poor, rural and indigenous areas. This has been borne out during the coronavirus pandemic, in which the health system showed high levels of centralized territorial coordination, personnel commitment and resource efficiency in absorbing vastly increased demand without collapsing.



2 | Political Participation

All elections – including the latest presidential, parliamentary and regional elections in 2017

– are held according to international standards; universal suffrage with secret ballot is ensured. Vote-buying is not an issue. All elections are supervised by the Electoral Service, an autonomous organ of the state. 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 are accepted by all actors. All political parties and independents who meet the stated requirements may stand in elections. 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 2015, important reforms improved the fairness of elections by enhancing the proportionality of the system used to elect Congress, tightening the rules regarding campaign financing, increasing access to public funding for all parties and candidates, and increasing the supervisory powers and constitutional autonomy of the Electoral Service.

In November 2019, all major political parties in Congress agreed on a referendum to ask Chileans whether to keep or abandon the 1980 constitution. The referendum was to take place in April 2020, but five weeks before the event it was postponed until October 2020 because of the pandemic. The decision was approved and legislated in Congress by all major political parties and was supported by the population. The referendum took place as rescheduled in October 2020, and the Electoral Service's efficient organization of the event was widely praised, as sanitary measures were enforced even amidst conditions of relatively high turnout. The result was known just two hours after polling stations had closed and was universally accepted as legitimate.

The effective power to govern by the democratically elected political representatives – a key issue in Chilean democracy, given the powerful role of the military in the aftermath of the Pinochet regime – has been guaranteed since the 2005 constitutional reforms. Moreover, in 2019, a Pinochet-era law that reserved income derived from state-owned copper mines for the armed forces was replaced by a law that brings the allocation of defense funds under the full control of Congress.

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 certainly not veto power, as their influence has weakened substantially in recent years – and even more so after the country's October 2019 social uprising.

A more institutional limitation on the effective power to govern is the constitutional existence of supermajority quorums for the approval not just of constitutional

Free and fair elections

10



1

Effective power to govern

10



1

reforms, but also of substantial amounts of ordinary legislation. This difficulty is compounded by the ex-ante and wide-ranging powers of the Constitutional Tribunal, which sometimes overrides Congress over important pieces of legislation. This issue is certain to come up during the constitutional convention's discussion in 2021.

Freedom of association and freedom of assembly have been constitutionally guaranteed and de facto nearly unrestricted since 1990. Over the last decade, a large array of social movements frequently and increasingly 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 public spaces. As a U.N. Special Rapporteur for Chile reported in 2016, this constitutes a de facto authorization regime for demonstrations, even if governments have not in practice sought to use these rules politically. The main obstacle to free assembly is rather the excessive force with which Chile's national militarized police – the Carabineros – respond to demonstrations when these are unauthorized in the above sense, and particularly when they seek to interrupt traffic or begin to turn violent. The body's forceful methods, coupled with its high degree of autonomy from civil authorities, have for many years placed Carabineros in the spotlight for reform.

These problems were clearly highlighted in the wake of the October 2019 “social outburst,” when massive protests broke out for weeks across the country. According to the Conflict Observatory (COES), the second semester of 2019 saw about 2,700 contentious actions take place, over 40% of which were violent. Though many protests were violent from the start, others became so due to the perceived brutality of the Carabineros themselves, resulting in the injury of about 11,000 people (including about 2,000 police officers) between October 18 and November 20. Many thousands were detained, often irrespectively of whether they had been engaged in acts of violence or not. In spite of numerous abuses, protests continued, and protestors often gained de facto control of key public spaces. In response, the government passed legislation in Congress criminalizing the forcible disruption of traffic and increasing penalties for looting.

Finally, the pandemic brought to a sudden halt the months of intense protest activity across the country. Even parties which had been sympathetic to protestors demanded strict lockdowns, which were adopted. A nightly curfew was also reimposed in April 2020 (one had been controversially put in place for about a week after the protests first began, in an attempt to control widespread looting). The curfew was still in place by January 2021, with the continued support of a majority of the population. Thus, though these sanitary restrictions limited protests, they were mostly not perceived as motivated by that reason. Protests nevertheless resumed before the October 2020 referendum, as lockdowns eased.

Association /
assembly rights

9



1

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 scope of citizen access to information has been continually broadened over the years. In 2009, a transparency law gave citizens extensive rights to information on state institutions and is utilized often by both the press and private citizens. In 2014, the Lobby Law forced any public authority to report business meetings.

Media organizations cover sensitive issues and fulfill a highly useful watchdog role, unearthing scandals affecting politicians and state institutions. In recent years, for instance, they ran agenda-setting stories concerning a former president's son's influence peddling, corruption within the army, corruption within the national police force, and an illegal campaign donations scandal, among others. This role is valued by the public and is protected by courts. During the early months of the coronavirus pandemic, journalists were key in forcing the government to make its reporting of data regarding infections and deaths more transparent, and the press has played a key role in holding the government accountable for its management of the pandemic.

Though there is significant ownership concentration in newspapers by two groups linked to the economic and political right, in TV and radio the situation is much more varied, with important degrees of foreign ownership (and a major public TV channel). Moreover, online media outlets with widely varying political viewpoints have been increasingly influential. Indeed, during the Chilean protests, alternative online media (such as OPAL-Chile) dwarfed traditional media outlets with regard to the quantity of news shared online, as many people felt that traditional media actors were part of the not-to-be-trusted "establishment." Thus, the media landscape is sufficiently differentiated and allows for the airing of a wide range of opinions and viewpoints.

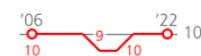
3 | Rule of Law

The constitution guarantees the separation of powers, and all actors comply with constitutional provisions. The various branches of government work independently and serve as a check on each other. The constitution is designed around a strong president that acts as a key co-legislator. However, a succession of constitutional reforms and a tradition of seeking agreements between parties (within and across political coalitions) have strengthened the role of Congress in the system of checks and balances. The current administration lacks a congressional majority and consequently must negotiate all its bills with opposition parties. The independence of the judiciary was strengthened during the first decade of the century. The autonomous Office of the Comptroller General serves as a further check on the actions of the executive. Finally, the Constitutional Tribunal has been another important independent control on legislation.

In mid-March 2020, the president invoked a state of constitutional exception – the "state of catastrophe and public calamity" – that allowed the government to restrict

Freedom of
expression

10



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Separation of
powers

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free movement and some economic freedoms for up to a year. It additionally allowed the government to impose lockdowns and curfews, measures that have been supported by the population. Though Congress could have revoked the measure after 180 days, it did not do so, and as of the time of writing, it appeared likely to vote in favor of renewing the measures in March 2021. Thus, the constitutional measures taken, though drastic, adhered to legality and enjoyed a high degree of consensus.

Chile's judiciary is independent and performs its oversight functions appropriately. It is free from unconstitutional intervention by other institutions and mostly free 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 this regard. However, its nomination procedure has been called into question, as the Tribunal is increasingly seen as politicized; for instance, its current president was a top presidential advisor in the first Piñera administration (2010 – 2014), and three of its 10 members have previously held political office. Judicial performance and transparency increased with the reform of the penal code (2000 – 2005), which introduced oral procedures, the Office of the Public Prosecutor and district attorneys, and strengthened the public defender. There are critics of the procedures for internal evaluations of the judiciary, and the transparency of its internal processes and judicial decisions. For instance, a recent academic study detected serious intertemporal inconsistencies in rulings by the Supreme Court and even by individual judges, some of whom appeared to randomly change their votes and opinions over time.

The judiciary has exhibited significant independence in upholding due process and in resisting public calls to impose harsher penalties on minor criminal offenders, which are popular with voters. The judiciary has also exhibited full independence in investigating and sentencing both citizens and state agents charged with offenses during the 2019 social revolt.

Abuse of office is generally prosecuted. Courts are usually diligent in investigating corruption. An embezzlement scandal within the army led in September 2018 to the sentencing of two former officers to 10 and 12 years in prison. In December 2020, in a new case, prosecutors announced they would charge 800 army officers and ex-officers with fraud amounting to \$4 million.

The most notable recent case has involved the national police (Carabineros). In late 2016, prosecutors uncovered a complex and well-established scheme to divert police funds for the benefit of largely high-ranking officials. The amount stolen is estimated to be about \$40 million, a surprisingly high figure. Prosecutors charged 126 officers. Of these, 95 have already been sentenced in abridged trials in return for collaboration. The remaining 31, mostly higher-ranking officers, began a major and complex trial in September 2020 that is expected to last over a year. Some of the ringleaders may face up to 20 years in prison, and in one case, a possible life sentence.

Independent
judiciary

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Prosecution of
office abuse

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Another major case in 2015 involved illegal campaign donations that involved politicians across the political spectrum, and in which the public and many analysts believe those involved were let off the hook too easily, as prosecutors or else tax authorities decided not to press key charges (though in most cases sentences would have been low regardless).

Nonetheless, in early 2021, two former members of Congress (a deputy and a senator) were found guilty of bribe-taking, and in the latter case, also of repeated fraud against the public purse. Both face up to 21 years in prison. A major fishing company was found guilty of bribing the former legislators. More generally, conflict-of-interest legislation has been progressively strengthened over the last five years, as have campaign financing laws and transparency requirements for officeholders.

Civil rights are guaranteed by the constitution and mostly respected by state institutions. Citizens are protected by mechanisms and institutions established to prosecute, punish and redress violations of their rights. Under normal circumstances, violations of civil rights are rare and mostly limited to specific cases of police abuse and unlawful coercion exercised by officials against persons deprived of liberty.

Nonetheless, in the months following the 2019 outbreak of protests, extensive and sometimes grave violations of civil and human rights took place. By October 2020, public prosecutors had received 8,827 complaints against state agents. Though many cases were still under investigation as of the time of writing, 75 officers had so far been charged with some crime, and of those, 25 were in prison awaiting trial, while one had already been sentenced. For its part, the Institute of Human Rights (INDH) had filed over 2,300 lawsuits against state agents for crimes against more than 2,800 victims, pertaining to over 4,000 separate acts of misconduct. About two-thirds of these acts were grouped into the categories of “beatings” or “shootings,” the latter referring to the police’s indiscriminate use of pellet shotguns against civilians, which led to hundreds of serious eye injuries. The list also included hundreds of other abuses, from death threats to sexual assaults. All specialized observers – such as the INDH, Human Rights Watch, Amnesty International and a U.N. special envoy – have concluded that police actions amounted to grave violations of human rights.

In addition to the protests and their consequences, other areas of concern are the ongoing predicament of abandoned minors in state custody, hundreds of which have died over the last 15 years in a situation a 2018 U.N. report called a “grave and systematic” violation of their human rights; the situation of prisoners, who are housed in (mostly) vastly overcrowded prisons and subject to maltreatment; and the antiterrorism law, which has mostly been used by governments in the Mapuche conflict for cases involving serious violence, and which does not guarantee due process.

Since 2012, a well-evaluated law has sought to avoid discrimination based on gender, sexual orientation, religion, ethnicity, race or any other kind of characteristic. There is also a special law, enacted in 2010, which has secured the rights of disabled people

Civil rights

8



1

and facilitated their increasing social inclusion. Access to the judicial system improved for the lower status social groups after the penal code reforms in 2005, but fully equitable access has yet to be achieved. A November 2016 law criminalized torture, helping to safeguard citizens from abuse by police and prison guards.

4 | Stability of Democratic Institutions

Chile's democratic institutions have been stable and well-functioning since the return to democracy in 1990, and have improved markedly over time as successive constitutional and legal reforms expanded their scope and stability, while eventually removing all remaining authoritarian enclaves. Generally speaking, the system of democratic institutions is well coordinated and operates according to legal procedures. When conflicts do arise, they are legally resolved, as when Congress recently approved a "one-off" constitutional pension reform that allegedly intruded on the president's constitutional powers of exclusive initiative over such matters. The dispute was resolved in the president's favor by the Constitutional Tribunal (TC), though in a maximally divided ruling that increased accusations that the TC was overly politicized. Another latent conflict is whether the Constitutional Tribunal or the Supreme Court has the final say over certain appeals for constitutional protection. Even though Chile is a highly centralized state, some reforms have also managed to deepen democracy at the local (municipal) level, and demands for more decentralization have significantly grown over time. In response, regional governors are due to be directly elected for the first time in 2021. However, their powers and resources will be very limited (and as yet are not entirely well-specified). This may produce friction between these elected governors and the central authorities.

All relevant political and social actors, including the military, accept Chile's democratic institutions and accept democratic means as the best way of solving controversies. This commitment was highlighted in the wake of the October 2019 social uprising, in which members of all relevant political parties – excepting the Communist Party, which has since joined the process – agreed to support a plebiscite on whether to maintain or replace the 1980 constitution (a long-desired goal of the political left). The parties also agreed on the rules of the ensuing constituent process. The constitutional convention's electoral rules were broadly agreed on, as was its carefully specified legal mandate to write a new constitution, but without being granted the power to alter the existing one or change current laws. The new constitution will need a quorum of two-thirds for each of its articles to be approved, thus requiring broad consensus within the convention. A final plebiscite will approve or reject the convention's proposed constitution, with the 1980 constitution remaining in place if it is rejected.

Performance of democratic institutions



1

Commitment to democratic institutions



1

Though the 2019 social revolt was not motivated by the dispute over the constitution, political actors eventually agreed on this process as a means of providing institutional channeling to an extremely broad, diffuse, violent and leaderless movement of discontent. In this sense, the proposed solution highlighted both the right's willingness to give up the 1980 constitution (which they had always defended) rather than resort to yet more repression of protests, and also the left's willingness to support an institutional solution rather than seeking to radicalize street protests or bring down the government.

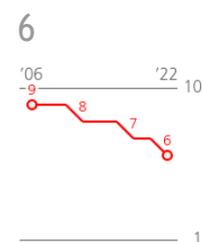
5 | Political and Social Integration

Chilean parties are institutionalized, and a structured policymaking process emerges from their collective interaction. The party system is programmatically oriented along a clear left-right continuum. At the local level, however, parties engage in small-scale clientelist exchange of favors with voters, which allows individual politicians to build electoral bases that are independent of their parties and that give them considerable autonomy.

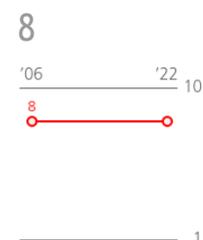
The Chilean party system has been undergoing significant change in recent years as Chileans have increasingly distanced themselves from parties. Party identification has dropped from around 80% of the electorate in 1990 to about 15% currently, as trust in parties and electoral turnout have plummeted. Both on the right and the left, new parties have sought to renew the system and bring back the electorate, but with limited success. Thus, in spite of a very diverse set of parties spanning the entire ideological spectrum, all competing intensely for people's votes, most citizens feel alienated from all of them, as they view parties more as self-serving instruments for politicians themselves than as vehicles representing Chileans' concerns. Moreover, since the October 2019 social uprising, the collective mood has been markedly anti-party. As a result, no political party or coalition clearly benefited from the uprising, leading to a plethora of independent candidates for the 2021 constitutional convention elections. In sum, the current system exhibits weak social roots, moderate but increasing polarization, low-to-moderate volatility and increasing fragmentation.

Chile has a wide variety of interest groups reflecting a broad range of social concerns, including NGOs and social movements, community organizations, trade unions, student and indigenous organizations, and professional associations. According to the Map of Civil Society Organizations, in 2020 there were approximately 214,000 active organizations of all types (including "apolitical" ones), more than half of which had been founded in the last decade. Especially in recent years, social movements organized in response to specific problems have shown new capacity, although some of them do not always show continuity over time. Nonetheless, beginning with the student mobilizations in 2011 and continuing with recent developments around social protests and the new constitution, there has been an increasing consolidation and networking of numerous protest movements, which are also increasingly counterbalancing established interest groups. Among the latter, business interests

Party system



Interest groups



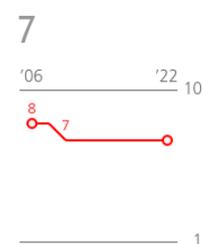
remain strong and well organized through their two main associations, the Confederation for Production and Commerce (CPC) and the Federation of Chilean Industry (SOFOFA). Nevertheless, their power to influence the agenda and public opinion, which was strong in the post-Pinochet period, has diminished significantly over time, and even more so after the 2019 social revolt, which has put this old system under considerable pressure. This also affects patterns of cooperation; while vertical cooperation between civil society/interest groups and the political system previously took place in a mostly non-collaborative, less institutionalized and top-down political process (see also “Civil society participation”), horizontal cooperation between these groups such as the Nuevo Pacto Social has intensified, which eventually also led to “coalitions” running for the constituent assembly.

Chile exhibits fairly high support for democratic norms and procedures, coupled with mixed levels of satisfaction with democratic performance and low trust in many democratic institutions. According to the 2018 Americas Barometer survey, about two-thirds of Chileans agreed democracy was preferable to any other form of government, behind only Uruguay, Argentina and Costa Rica. Chileans were the fourth-least-likely population in Latin America to agree that a coup was justified in case of high levels of corruption, or that it was justified for the executive to dissolve the Supreme Court in difficult times. Only 18% agree that it is acceptable for the president to control the media in difficult times. In the 2020 Latinobarómetro survey, the share of Chileans who agreed that democracy, for all its problems, was preferable to any other form of government, jumped from 65% (in 2018) to 74%.

Chileans are nevertheless dissatisfied democrats. In 2018, 41% declared themselves satisfied with the functioning of democracy, close to the regional mean (Americas Barometer). However, Latinobarómetro showed that satisfaction with democracy plummeted from 42% in 2018 to an all-time-low of 18% in 2020. It also showed that the share of Chileans who think their democracy is either a full democracy or has only “minor problems” dropped from 47% to 21%, and that 86% of Chileans believe the country is governed by a few powerful groups for their own benefit.

Finally, the level of trust in democratic institutions is mostly low, and has deteriorated significantly over the last decade, particularly with regard to trust in parties and Congress, but also regarding the police and armed forces, all kinds of media, the public prosecutor, churches, private companies and public services. Generally speaking, institutions are increasingly perceived as pursuing their own benefit rather than as serving the public interest. According to the Americas Barometer, the level of trust in political parties in 2018 was the fourth-lowest in Latin America, and trust in the national legislature the third-lowest. On the other hand, Chileans showed the region’s second-highest level of trust in elections. Finally, the relatively high turnout in the constitutional referendum and the overwhelmingly favorable vote for a new constitution (78%) written by a newly elected constitutional convention imply there remains a reservoir of trust in democratic representation and in its norms and procedures.

Approval of
democracy



Civil society's organizational landscape has become increasingly differentiated over time, with a significant number of civil society organizations engaged in a broad range of issues. However, there are substantial disparities in the durability and strength of associations. Levels of citizen participation in civil society organizations are moderate and have remained stable over time. According to UNDP surveys, 34% of citizens participated in at least one association while in 1999; that share rose to 41% in 2008 but dropped again to 36% in 2018. The data suggest that fewer people are participating in religious organizations than previously, while more are joining unions and community organizations. At the local level, neighbors' associations (*juntas de vecinos*) have existed throughout the country since the 1960s and are sometimes important, particularly in rural areas. Beyond individual participation, some forms of social solidarity are strong. Earthquakes and other natural disasters usually elicit quick and efficient social cooperation. Moreover, mass participation in specific national solidarity campaigns through the media can reach high levels and constitute a rare point of national pride for Chileans (such as the Telethon, which in its 2020 event raised \$50 million for disabled children). Moreover, some well-established philanthropic organizations operate in a highly professional manner and at a large scale.

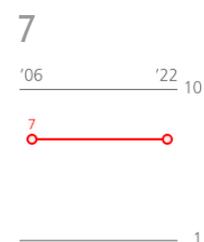
As for interpersonal trust levels, they are generally low, but much depends on how the question is asked. According to *Latinobarómetro*, only 14% of interviewees agree that "one can trust most other people," identical to the regional mean. On the other hand, data from *Americas Barometer 2018* shows that 66% of Chileans believe that people "from around here" are very or somewhat trustworthy, which is actually higher than in most countries in the region. This suggests that localized forms of trust (needed for community organization) may be considerably stronger than more impersonal forms of it (e.g., those needed for business dealings with strangers).

II. Economic Transformation

6 | Level of Socioeconomic Development

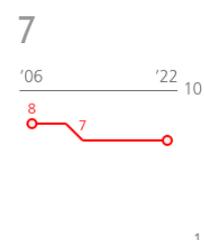
Chile has made significant progress over the last 30 years in combating poverty and exclusion, though income inequality is still high. Chile ranked 43rd in the UNDP's Human Development Index 2019 with a score of 0.851, the highest in Latin America; thus, it was slightly ahead of Argentina (ranked 46th), and similar to Croatia and Bahrain. The absolute poverty rate has declined steadily since 1990. The share of the population suffering from income poverty, as measured by a demanding poverty line introduced in 2006, has fallen from 29.1% in 1990 to 8.6% in 2017. According to the World Bank's poverty measure, the poverty rate in Chile was 0.7% in 2017, with only

Social capital



Question Score

Socioeconomic barriers



Uruguay (0.4%) having a lower share within Latin America. ECLAC estimates that in 2020, poverty increased only slightly (from a rate of 10.7% to 10.9%) in spite of the economic crisis, thanks to the government's relatively generous cash transfer programs. In Chile, income poverty particularly affects indigenous people, children and households headed by women. The degree of income inequality is high, with a Gini coefficient of 0.44 in 2017. Though this was the fifth-lowest such figure in the region, national income surveys indicate that income inequality has not shown a meaningful decline over the last decade. The overall decline in the country's Human Development Index score due to inequality was 16.7% in 2018.

Despite its income inequality, Chile exhibits significant inclusion in terms of housing, health care and education. Chile has a higher life expectancy than the United States, and the lowest infant and maternal mortality rates in the region, with scant territorial variation. The prevalence of slums and precarious housing is low, though a recent surge in immigration has to some extent reversed this. Moreover, according to the UNDP's Gender Inequality Index, Chile has made substantial progress in this area since 2005, and in 2019 was ranked as the least gender-unequal country in Latin America, and 55th globally (score 0.247).

| Economic indicators | | 2017 | 2018 | 2019 | 2020 |
|---------------------------|----------|----------|----------|----------|-----------------|
| GDP | \$ M | 277034.7 | 297571.7 | 279385.5 | 252940.0 |
| GDP growth | % | 1.2 | 3.7 | 0.9 | -5.8 |
| Inflation (CPI) | % | 2.2 | 2.4 | 2.6 | 3.0 |
| Unemployment | % | 7.0 | 7.2 | 7.3 | 11.5 |
| Foreign direct investment | % of GDP | 2.2 | 2.6 | 4.5 | - |
| Export growth | % | -1.5 | 5.3 | -2.6 | -1.0 |
| Import growth | % | 4.6 | 8.1 | -2.4 | -12.7 |
| Current account balance | \$ M | -6444.6 | -11640.4 | -10453.5 | 3369.6 |
| Public debt | % of GDP | 23.6 | 25.6 | 28.2 | 32.5 |
| External debt | \$ M | - | - | - | - |
| Total debt service | \$ M | - | - | - | - |

| Economic indicators | | 2017 | 2018 | 2019 | 2020 |
|---------------------------|----------|------|------|------|-------------|
| Net lending/borrowing | % of GDP | -2.6 | -1.7 | -2.8 | - |
| Tax revenue | % of GDP | 17.5 | 18.3 | 17.8 | - |
| Government consumption | % of GDP | 14.1 | 14.4 | 14.6 | 15.9 |
| Public education spending | % of GDP | 5.4 | 5.4 | - | - |
| Public health spending | % of GDP | 4.6 | 4.6 | - | - |
| R&D expenditure | % of GDP | 0.4 | - | - | - |
| Military expenditure | % of GDP | 1.9 | 1.9 | 1.8 | 1.9 |

Sources (as of December 2021): 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

Chile's economic order has strong institutional foundations. Governmental policy largely focuses on the tasks of general assurance and maintenance of the rules of the game. It provides for a neutral organization of regulations consistent with market competition. This regulatory framework and its enforcement have gradually improved over time. Nevertheless, the state's oversight role has historically been comparatively weak in some areas, allowing for the concentration of market shares and uncompetitive behavior by incumbent firms.

Market competition is facilitated consistently at all levels. Administered pricing plays no role in the country's markets, with the minor exception of some price-cushioning mechanisms (e.g., fuel). The currency is convertible, markets are contestable, there is wide freedom to launch and withdraw investments, and there are no significant formal entry or exit barriers. Both capital and labor are accorded a substantial degree of mobility. The informal economy is relatively small in size, though according to ILO statistics, 29% of jobs in 2019 were informal. This figure was still one of the lowest in the ILO dataset for developing countries.

Companies are relatively easy to start, and red tape is comparatively minimal. According to the World Bank's Doing Business 2020 report, starting a business takes four days and costs 2.7% of GNI per capita. In 2009, the equivalent figures were 40 days and 9.4% of GNI per capita. The country's Ease of Doing Business 2020 ranking was 59th out of 190 countries (the highest, along with Mexico, in Latin America). Nonetheless, the OECD's 2018 Chile Economic Survey highlights some permit, licensing and regulatory restrictions that hinder competition and productivity in some product and service markets. The maritime transport (in which foreign competitors are discriminated against) and digital services sectors are characterized by some

Market
organization

9



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harmful regulations. Aside from tax treatment intended to benefit SMEs, there is no market discrimination based on company size. A 2014 tax reform improved in relative terms the tax treatment of foreign-owned vis-à-vis local companies.

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. Chile is confronted with market concentration in areas as diverse as the air transportation, cable TV and pharmaceutical sectors, among many others.

Nonetheless, over the last two decades, 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 (FNE) is an investigative body that 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.

Successive legislative improvements, such as a 2009 law that established a leniency system giving cartel participants incentives to defect, have considerably improved the FNE's capacity to detect collusion. Over the last decade, this has resulted in several high-profile cases of companies being fined for uncompetitive behavior in a wide array of industries (e.g., poultry, tissue paper and cargo shipping, among many others). In one of the most recent cases, the FNE accused salmon-food producers in December 2019 of colluding to keep prices high between 2003 and 2015; a \$70 million fine is being sought. An additional legislative reform in 2016 increased fines to up to twice the amount gained through misconduct and defined collusion as a criminal offense punishable by up to 10 years in prison. The law also made preventive merger control mandatory for companies above a defined sales threshold, as the OECD had recommended. In early 2020, a further bill proposal was submitted for discussion that would give the FNE yet further intrusive powers to detect uncompetitive behavior.

Policies have also been enacted in specific sectors to increase competition. For instance, in the mobile telecommunications industry, successive policies over the last decade have slowly eroded the incumbents' power. In 2020, Congress approved a law requiring local loop unbundling in rural and underserved localities. The telecommunications regulator has also invested considerable effort in designing a pro-competition regulatory framework for the upcoming 5G bandwidth tendering process.

Competition policy

9



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Chile is one of the world's more open countries with regard to 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 over 70 international and bilateral agreements with NAFTA countries, China, the European Union, Latin American and Asia-Pacific countries. These agreements extend to more than 50 trade partners representing nearly 95% of Chile's overall trade. As a result, Chile's effective average tariff was a mere 0.5% in 2018, and the simple average of most-favored nation (MFN) applied duties was 6% in 2019. Nonetheless, despite having been one of the negotiators of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) agreement under the previous administration, it is unclear whether the treaty will be ratified by the country's Congress, as left-of-center parties have voiced doubts over its content. Chile's economy is highly dependent on international trade, with exports accounting for about a quarter of GDP. However, this figure has declined over the last decade, as export growth has stalled. Chile has been a WTO member since January 1, 1995 and has consistently complied with its rulings and decisions.

Liberalization of foreign trade



Since the banking crisis in the early 1980s, Chilean governments have implemented sound institutional foundations for a solid banking system. This is oriented toward international standards, with functional banking supervision, minimum capital equity requirements and advanced disclosure rules. A major law approved in October 2018 upgraded the governance of the banking sector by merging the banking, insurance and securities regulators into a single agency, the Committee for Financial Markets (CMF). This merger aims to provide integrated supervision of the entire financial system under the remit of a collegiate decision-making body. The new law also incorporates the requirements of Basel III into national law, specifying a gradual, six-year transition period. Chile's major banks are generally well placed to cope with the additional capital requirements of Basel III, though the state-owned Banco Estado will need further capital injections to comply. In response to the pandemic, however, new capital requirements were postponed for a year in order to avoid a contraction in credit. As part of the implementation of Basel III, the CMF has ruled that there are six "systemic" banks (with a combined 88% market share) that will collectively require an additional \$1.25 billion in capital. According to a Fitch report, this is desirable inasmuch as capital ratios in Chilean banks have historically been rather low. Indeed, in 2019, the ratio of bank capital to total assets was only 7.5%. On the other hand, the share of non-performing loans was also relatively low, at 2.1% in 2019. The pandemic has not yet increased such figures, as banks deferred loan payments and government measures mitigated income shocks. Moreover, government guarantees for loans to SMEs has kept credit flowing to such companies. However, central-bank stress tests show that banks, though adequately capitalized for

Banking system



the present crisis, do not have much flexibility should the economic situation in 2021/22 prove considerably worse than expected.

Overall, mature regulation has led to a diversified financial system and capital markets that provide the economy with a wide variety of financing sources. Capital markets are open to domestic and foreign capital. However, insider trading in the stock market is an issue that is perceived to limit competition and size.

8 | Monetary and fiscal stability

The maintenance of low and stable inflation rates is one of the pillars of Chile's economic model and is the primary objective of Chile's central bank's (BCCh) monetary policy. The BCCh is both formally and substantially independent. It 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 and has a right to speak at council meetings, the decisions and main debates of which are published online. The president of the BCCh also regularly meets with and informs the Senate Finance Committee. Inflation and foreign exchange policies are pursued in concert with other economic policy goals, as cooperation between political, financial and monetary authorities is the norm.

The BCCh orients its monetary policy toward achieving an inflation rate between 2% and 4% per year, as measured over a two-year horizon. Decades of stability and policy consistency have earned the BCCh a high level of credibility, and therefore the expectations of economic agents have remained anchored in this range. The end-of-year inflation rate in the period from 2010 to 2020 was between 2% and 4% in eight of 11 years (and between 1% and 5% in all 11), with rates of 3.0% in 2019 and 3.1% in 2020 (ECLAC data).

In 1999, the BCCh 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 BCCh is empowered to intervene in the currency market as an exceptional measure and always with the goal of maintaining domestic price stability. It did so successfully after the outbreak in 2019 of protests, which led to a sharp initial devaluation of the peso. It also opened a 24-month credit line with the IMF at the beginning of the pandemic, to be used in case of need. However, by the end of 2020, the dollar had returned to its typical levels relative to the peso, and in early 2021, the BCCh announced a \$12 billion dollar-buying program to build reserves up to 18% of GDP. The exchange rate has remained remarkably stable in spite of Chile being a small, open economy subject to world price shocks. Taking 2010 as a reference point (index=100), the end-of-year real effective exchange rate from 2010 to 2019 never deviated more than 10% from that value, with index values of 97.1 reached in 2018 and 92.4 in 2019.

Monetary stability

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Fiscal stability has been a hallmark of the Chilean economic model since 1990. In 2001, this was institutionalized through a fiscal rule based on the principle of structural (or cycle-free) budget balance, which was then enshrined in the Fiscal Responsibility Law of 2006. In 2013, the transparency of the rule was improved, and a fiscal council charged with evaluating compliance with it was created. In 2019, the council was strengthened and given independence from the government.

Nonetheless, Chile has never quite returned to structural balance since the 2008 financial crisis, as the rule's parameters and enforcement have been open to small ad hoc changes. The original goal of a structural surplus totaling 1% of GDP was gradually relaxed into a goal of a 1% deficit, which itself was not reached. Governments since 2014 have simply chosen to commit to policies of a gradual convergence to the 1% deficit rule rather than actually reaching it. As a consequence, public debt steadily grew from a record low of 3.9% of GDP in 2007 to about 25% by the end of 2018. Then, in October 2019, the protests triggered a major economic and political shock that forced the government to reverse its commitment to deficit convergence, instead proposing a large increase in spending in the 2020 budget.

The onset of the pandemic was an even bigger economic shock; in June 2020, the government and the opposition agreed in Congress to create a 24-month, \$12 billion flexible fund to be spent on income protection, health care and economic recovery. As a consequence, actual expenditure growth in 2020 was projected to be 12%, with that level to be maintained in 2021, before decreasing slightly in 2022 (to 9% above 2019 spending levels). As a result, Chile had an effective budget deficit of about 8% of GDP in 2020 and a structural deficit of about 3.2% (which will climb to a record 4.7% of GDP in 2021). By June 2020, gross public debt was 32% of GDP, but net debt was only 7.7%, as Chile has substantial savings in sovereign wealth funds. Nonetheless, gross debt is expected to climb to 48% of GDP in 2024. At that point, the agreement reached in Congress establishes that, for the 2025 to 2030 period, budgets must have an average annual surplus (both structural and effective) of 1% of GDP, so that debt stabilizes at 45% of GDP. Given the fiscal and political effort this will involve, the weakness with which the fiscal rule has been enforced to date, and the waning legitimacy of parties and politicians, it is an open question whether that convergence will in fact take place. If it doesn't, official projections suggest public debt could reach 70% of GDP by 2030. A debt ceiling has recently been suggested as an alternative to the fiscal rule.

Fiscal stability



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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. Though protection of intellectual property has improved over time, the United States retained Chile on its 2020 Priority Watchlist, particularly over issues of online piracy and weak enforcement of 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. Others worry it encourages speculative pricing on the part of sellers.

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 scope of economic activities in which for-profit companies operate in Chile is unusually extensive, including health care and pensions, and until 2015, primary and secondary education. This has generated political controversy, as many people regard the profit principle in such areas as inherently suspect. Accordingly, the legitimacy of the AFPs, Chile's for-profit pension companies, has been almost universally questioned by the citizenry, and they may consequently be deeply reformed in the upcoming constitutional revision process or in the pending pension reform. The participation of private companies in the provision of publicly funded infrastructure (public-private partnerships) in areas such as road infrastructure, hospitals and correctional facilities has also sparked controversy, in part due to the lack of transparency in contract renegotiations. In spite of these objections, no government has sought to go back to older, state-run schemes in any of these areas. Rather, discussion revolves mainly around how to improve regulation. A few state companies remain – among them one of the world's biggest copper producers, CODELCO – but these are mostly subject to professional management.

Property rights

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Private enterprise

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10 | Welfare Regime

In principle, social safety nets in Chile protect people from most risks, are well-developed and nearly universal. The original strong tendency toward social stratification, a consequence of the market principles introduced during the Pinochet era, has been mitigated but not eliminated over time by stronger state components. It has performed poorly in some respects, which the pandemic mercilessly exposed and was already the subject of protests in 2019.

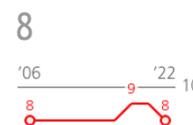
Chile's basically well-coordinated public health system provides adequate care for all citizens, including undocumented immigrants. Although public health spending, at 4.5% of GDP, is comparatively low, health outcomes are among the best among developing countries. A system of explicit guarantees of timely health care for over 80 serious health problems has been particularly effective in improving access. Health insurance is almost universal through the national health insurance FONASA, but the wealthiest 15% of the population have private insurance, which provides better facilities and faster access to specialists. This remains one of the greatest inequalities between rich and poor.

The pension system, which has been covered principally by private pension fund administrators (AFPs) since the 1980s, was complemented by a state component due to its increasingly visible deficiencies. Since 2008, there has been a tax-financed minimum pension scheme for over-65s in the 60% of poorest households; after the protests, the government raised it from \$150 to about \$225 per month. Over 85% of people aged 70 or older receive either a contributory or solidarity pension. Nonetheless, relatively few people obtain pensions with at least a 60% replacement rate, a rather meager outcome in international comparison.

Poverty protections are less universal but have been significantly strengthened over time and recently in response to the 2019 outbreak. The government also tops up the wages of low-income, full-time formal workers, guaranteeing them a disposable monthly income of about \$440. There is unemployment insurance with individual compensation accounts, supplemented by a solidarity component. Some 80 social programs target the socially vulnerable, including temporary conditional cash transfers for families living in extreme poverty. Other subsidies and programs concern education and housing.

Nevertheless, the pandemic, which led to the loss of about 2 million jobs – about one-fifth of the labor force – increased pressure on safety nets. The government made extensive but initially fragmentary efforts to protect people's incomes. These included a furlough scheme (partly financed by workers' unemployment insurance), tax waivers and deferrals, rent subsidies, subsidized loans, a one-time \$700 grant for middle-income families, and a monthly emergency income for informal workers. A large majority of poor and low-income households were thus eligible for at least some

Social safety nets



of these measures. According to ECLAC projections, poverty in 2020 would have increased from 10.7% in 2019 to 14.7% in 2020 without these programs; instead, it increased only to 10.9%. With the situation still dramatic, Congress twice (July and December) authorized withdrawals of up to 10% of AFP pension savings, amounting to 14% of GDP at the end of the review period. While this reduced total pension savings by about 17%, it was equivalent to half of the government's annual budget (another withdrawal was authorized in May 2021). According to an alarming IMF report, nearly 10.5 million people have withdrawn money, and of those, 30% have emptied their accounts. The entire pension system is now in disarray, and pressure for reform is mounting at a time when political uncertainties are shaking the country.

Equality of opportunity has improved over time, though it remains constrained by persistent economic and social inequalities. A number of legal provisions address discrimination – including the successful 2012 Law against Discrimination – but the problems are primarily linked to social stratification and a legacy of hierarchical social relations.

Significant inequalities in education are linked to a school system segregated along socioeconomic lines. Accordingly, the youth of poorer strata have more difficulty accessing higher education and integrating into the labor market, even though secondary-school completion rates are near 100% and are the highest in the region. Educational inequalities are further reinforced by informal barriers in the higher-end part of the labor market linked to classist attitudes. Nonetheless, over the last 30 years, access to higher education has expanded dramatically, greatly enlarging the professional class. Free higher education was introduced by Bachelet's government in 2016 for students whose families belong to the poorest 60% of the population. Slightly over one-third of higher education students are now covered by the scheme, while another one-third receives some financial help (such as soft loans or scholarships). Bachelet's reforms also prohibited student selection and fee-charging in the approximately 90% of schools that receive public funding.

Gender equality is substantial in education, with slightly higher attendance and graduation rates for women. However, despite significant recent improvements, there remains a gender gap in labor-force participation of more than 20 percentage points, which widens still further at low-income levels and for older people. The gender pay gap, according to OECD data, is about 21%, significantly higher than the OECD average of 14%.

Chile's indigenous peoples are probably the most marginalized social group. They have historically faced violence and discrimination, and though currently there is a large number of government programs aimed at promoting their interests and providing opportunities, the poverty rate within these communities is about 50% higher than the overall average. However, their access to health care and education services, at least in terms of coverage, is equal to that of non-indigenous people.

Equal opportunity

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Finally, discrimination based on sexual orientation has considerably diminished over time as cultural norms have shifted. Sexist attitudes have also become much less acceptable, in no small part due to massive women’s marches in the last few years. More generally, the call for “dignity” expressed in the protests can be seen as a rebellion against elite mistreatment and abuses. In this spirit, the constituent convention slated to write Chile’s new constitution during the 2021/22 period has 12% of its seats reserved for indigenous people and about 50% for each gender (and a candidate quota for disabled people). This is seen as a symbolic watershed in terms of the equal political participation of traditionally marginalized groups.

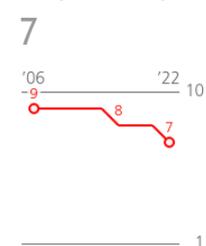
11 | Economic Performance

Chile’s economy has undergone a long-term process of slowdown with regard to economic (and productivity) growth. In the 1990s, economic growth averaged 6.1% per year; in the 2000s, it averaged 4.2%; and in the 2010 to 2019 period, it was 3.3%. This is partly to be expected, as Chile’s income has narrowed the gap with richer countries. However, Chile is no longer closing that gap at a significant rate. In spite of this, in the 2010 to 2019 period, Chile still grew more than most Latin American countries.

Over the last two years, Chile’s economic outlook has deteriorated as it suffered two major shocks: the October 2019 protests, and then the onset of the pandemic. In 2019, the economy grew by only 0.8%, as the economy contracted by more than 2% in the last quarter due to the violent protests. In 2020, GDP is expected to fall by around 6%; for 2021, analysts expect GDP growth to be around 5%. The OECD projects that Chile’s 2020/21 cycle will be among the least negative in the region.

Even before the pandemic, Chile had decided to accept structural deficits of about 2% to 3% of GDP for a number of years in order to finance social demands. With pandemic-related spending added, gross public debt is projected to grow from around 25% of GDP in 2018 to 48% in 2024, as the prospect of budgetary balance has been pushed back until 2025. For its part, the unemployment rate is expected to climb from 7.5% in 2019 to about 11% in 2020, but only because the workforce shrank dramatically during the pandemic. Informal jobs have been substituted for formal ones for many of those still employed. Though the government has introduced a subsidy for hiring, the labor market is expected to recover only from 2022 onward. Finally, prudent economic management has kept inflation rates low and stable (3% in 2020). A current account deficit of almost 4% of GDP in 2019 is expected to shrink or turn into a surplus in 2020 and remain near zero throughout 2021.

Output strength



12 | Sustainability

Environmental concerns are taken increasingly seriously by Chile's political leadership, in line with increased citizen awareness regarding this issue. Since 2010, Chile has an environmental structure that includes a Ministry of Environment, an Agency for Environmental Impact Assessment and an Environmental Enforcement Superintendent charged with oversight of environmental issues. This structure has enabled significant progress in the technical evaluation of environment-sensitive large-scale investment projects, but it has also proven liable to political interference by authorities reacting to popular opposition to many such projects. Courts have also been increasingly willing to rule in opposition to large mining and energy interests and impose sanctions for environmental noncompliance. Politicians can pay a high cost in terms of popularity when faced by an environmental crisis, as happened in 2018 in Quintero, a "red zone" of air pollution.

Chile is among world leaders in terms of its commitments to decarbonization. It has committed to carbon neutrality by 2050 and to peak emissions by 2025. These commitments are undergirded by the swift pace of decarbonization of its energy matrix, thanks to well-designed regulations and consequent investments in highly competitive solar and wind projects. By December 2020, non-conventional renewable energies contributed 27% of generated electricity (a 2013 law had mandated 20% by 2025). Coal-based thermoelectric power plants are to be shut down by 2040 at the latest. The first phase began in 2019, initially envisioning the closure of eight of the 25 plants by 2024, but since 2020, a total of 12 plants have already been slated for closure, which will reduce the country's installed coal-fired capacity by one-third within five years. In 2017 a (modest) carbon tax was implemented and has collected slightly below \$200 million per year. There is also cross-party consensus (and a published national strategy) for making Chile a leading world producer, by 2040, of green hydrogen, a new, clean fuel for which Chile has considerable natural advantages. Chile is also a world leader in having 42% of its economic maritime area under some form of protection., Chile was ranked at 44th out of 180 countries in the 2020 Environmental Performance Index, ahead of the rest of Latin America.

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. In the U.N. Education Index, Chile ranked 16th among all BTI countries with a score of 0.810, second in the region behind Argentina. Literacy is universal (96.4%) except among older cohorts. According to World Development Indicators (WDI) data, Chile spent 5.4% of GDP on education in 2017, a figure that has risen continually over time (in 2008 it was

Environmental
policy

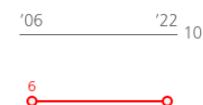
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Education policy /
R&D

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3.8% of GDP). Compared to OECD countries, Chile spends proportionally more on tertiary than on primary or secondary students, which undermines equality.

Overall quality in the school system is relatively low, and results follow a strong socioeconomic gradient. By developed country standards, most of the Chilean workforce has low analytical, communication and problem-solving skills. In the 2018 PISA tests, out of 79 (mostly non-poor) countries, Chile ranked 60th in mathematics, 46th in science and 44th in reading (a level similar to Greece and Serbia in the latter two categories). Nevertheless, it was the best performer in Latin America.

Chile has a vibrant university sector with both private and public providers and some elite institutions that attract students and academics from all over Latin America. Despite the country's size, there are two Chilean universities among Latin America's top five and four among the top 15 according to the QS World University Rankings 2021. The university system has become more research-oriented during the last 15 years or so. Nevertheless, universities have relatively scarce interconnections with the private business sector. There thus tends to be a divorce between scientific and productive knowledge, thus hindering export diversification. Though some export sectors (e.g., copper, wine and cherries) have incorporated advanced technology into their production processes, most companies are unenthusiastic about R&D, despite tax incentives. In 2017, Chile invested barely 0.4% of its GDP in R&D, a rate unchanged since 2008. Moreover, private companies spend less on R&D than the government. Despite the above, in 2019 Chile filed more international patents than all countries in Latin America except Brazil.

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 main world markets, and high exposure to natural disasters. Chile is earthquake-prone, but resilient save in extreme cases (such as the 8.8 earthquake of 2010, which cost tens of billions of dollars in material losses). Climate change has led to the emergence of new risks, as the large wildfires of January 2017 and an ongoing, 10-year drought in central Chile have shown. Moreover, Chile is a small, poorly diversified economy reliant on imported fossil fuels and 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.

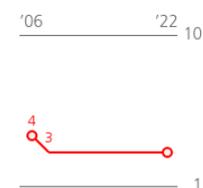
In 2020, Chile was hit relatively hard by the COVID-19 pandemic, with excess mortality in 2020 of about 17% (similar to the U.S. and the U.K.). The main constraint imposed by the pandemic has been economic, as activity shrank by about 6% in 2020 and unemployment soared. However, the country's solid fiscal position has allowed it to navigate the crisis with limited long-term damage to the economy. Education did suffer, as schools closed down all year and not all citizens were able to rely on online learning. This will likely increase long-term educational inequalities within the affected cohorts.

Traditions of community organization are relatively strong in rural regions, but tend to be much weaker in urban areas, especially in larger cities, where participation in civil society organizations is relatively low and social trust between strangers tends to be poor. For example, most people are not 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 that are professionally operated and highly trusted to use donations effectively and efficiently. In some areas (e.g., in schooling), a tradition of civil society participation has deep historical roots.

Over the last decade, an increasing number of NGOs have begun to be active in public affairs. Some of these (e.g., Educación 2020, Observatorio del Gasto Fiscal) have at times been highly effective agenda-setters, promoting and winning approval for legislation in diverse areas such as probity in politics and educational reform.

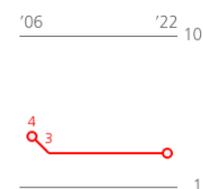
Structural
constraints

3



Civil society
traditions

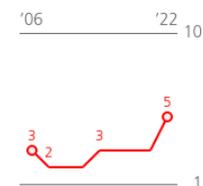
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Conflict intensity was relatively low in Chile in the decades after 1990, though in the last decade it had gradually risen as contentious actions by social movements became more frequent. The 2019 social uprising, however, was accompanied by looting and burning in most major Chilean cities, with accumulated damages estimated at well over \$1 billion to public and private infrastructure. According to police statistics, between October 2019 and March 2020 there were 5,885 instances of “public disorder,” 4,302 protests (peaceful or violent), 1,090 lootings and 441 roadblocks. Though almost all political sectors deplored and verbally “condemned” the violence, some sectors that saw it as functional to ending Pinochet’s constitution sympathized with the social uprising. According to surveys, a significant minority, particularly among the youth, believes some forms of violence are legitimate as a way of effecting social change. Thus, violence itself has gained some legitimacy as a political tactic and is likely to be employed in the future. Indeed, whenever the intensity of the pandemic diminished in 2020, both peaceful and violent protests resumed. The Mapuche conflict in the south has also gained in intensity over time. It is therefore likely that Chile’s new normal, at least for some time, will be a situation of substantially increased conflict. The problem is rooted in political parties’ long-term decline in legitimacy; this has created a growing gap between ordinary citizens and the 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, governments have typically 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 care, 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 supported by expert commissions, as are some regulatory impact assessment and strategic planning units. All governments have relied on the Finance Ministry and particularly the ministry’s Budget Office (DIPRES) to ensure spending remains closely aligned to long-term objectives and provide a whole-of-government approach in dealings with sectoral ministries.

Despite this institutional capacity, the political capacity to set and (especially) maintain strategic priorities has deteriorated over time as the old cross-party policy

Question
Score

Prioritization

7



consensus has weakened, as parties have lost their internal discipline, and as protests and social movements have put increasing pressure on low-popularity presidents. The current center-right Piñera administration (2018 – 2022) won the election with a mandate to resume economic growth but did not campaign on any specific set of major reforms, except to partly reverse the previous administration's tax and educational reforms. Pension reform was also a priority due to popular demand and massive demonstrations in 2016.

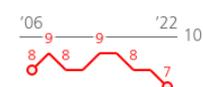
However, during Piñera's first 18 months in office, the government did not make much legislative progress, as Congress was controlled by the opposition. Moreover, the protests of October 2019 forced a radical reorientation of the policy agenda toward the immediate satisfaction of unmet social demands. The government had to abandon its original tax agenda and instead negotiate a tax increase. Congress successfully wrested control of the agenda from the government and inflicted serious defeats on the government. The most significant such step was the approval of a policy that allowed people to make withdrawals from their individual pension-account funds (to cushion the loss of income due to the pandemic). This idea was opposed by all experts but was so popular that the government could not discipline even its own coalition to reject it. This happened as the government was still pushing a major pension reform bill (which, as of early 2021, was still being negotiated). Only the immigration bill has been approved and can be regarded as a government priority successfully pursued until completion.

A long-term orientation was also evident when, in June 2020, the government and opposition negotiated a comprehensive, well-designed, 24-month fiscal package that allowed the government to flexibly face the pandemic without completely abandoning previous fiscal-deficit rules. The government's investment in a diversified portfolio of vaccine contracts was a strategic priority set early in the pandemic, and which is likely to deliver payoffs in 2021. Overall, government weakness, rather than internal incoherence or a desire for short-term gains, has been the main challenge faced by the government in maintaining strategic priorities over time.

The current administration has been the first since 1990 to face a Congress in which the opposition has a clear majority in both legislative houses. Moreover, after the October 2019 protests, the government was in an extremely weak position to advance its agenda in Congress. Perhaps the only significant reform the government has managed to pass is its immigration bill, which comprehensively updates and somewhat toughens immigration rules previously dating from the 1970s. A major pension reform could also yet pass; in both cases, support of the moderate left in Congress was or will be required. On the other hand, the protests almost completely upended the previous political situation, leaving most of the government's original reform program increasingly moot. Thus, the promises of tax reductions and no constitutional reform not only had to be shelved but were in fact reversed into a

Implementation

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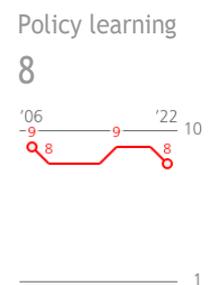
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constitutional referendum and constitutional convention, and into tax hikes and reductions in tax loopholes.

In turn, the government has passed important social measures through Congress as a response to the protests and the pandemic, including the 50% increase in the basic pension, the guaranteed minimum income for formal workers, the emergency grants and income support measures, and others. None of this was included in the party's original campaign promises. From a normative point of view, however, renouncing the original policy agenda was probably the right (and responsive) thing to do, given the depth of the discontent expressed through the protests and the large support it had among Chileans. In this sense, conceding the constitutional process, in spite of its many risks, is likelier to deepen Chile's democracy than the alternative would have been. The same can be argued for higher social spending. As for the pandemic, it may have somewhat delayed the progress of the pension reform in Congress but did not alter the fundamentals of government policy which, as a result of the Chilean protests, had already been reoriented toward social spending.

There is considerable policy learning and flexibility in policymaking. 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 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 recourse to think tanks, academic experts and practitioners (including commissions and standing committees for the study of new policy proposals). The Budget Office (DIPRES), 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.

Governments have also shown flexibility, enabling them to seize windows of policy opportunity to implement reforms. For example, Bachelet's government (2014 – 2018) demonstrated flexibility in reacting to the campaign funding scandals with the introduction of legislation that considerably strengthened the separation between business and politics. The current administration showed flexibility of a more fundamental kind when, in response to the protests – which radically changed the political landscape – it installed a less orthodox finance minister and fundamentally reoriented the policy agenda toward meeting social demands, while also accepting a constitutional process that the government and its parties had previously opposed.



During the pandemic, the government demonstrated learning capabilities in many areas, such as in the testing of and active search for asymptomatic cases, in the quarantining of infected people, and in its lockdown strategy. However, it showed less learning capacity in the crucial area of contact tracing, where policy improvement was limited.

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 Office of the Auditor General, 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. 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. A major study by the Inter-American Development Bank (IADB) in 2018 covering 16 Latin American countries found that public spending in Chile was the least wasteful in the region, by some distance. Combining “leakages in transfers,” “procurement waste” and “wage bill inefficiency,” the study found Chile's overall “technical inefficiency” in spending to be 1.8% of GDP – half of Uruguay's (3.7%), a quarter of Argentina's (7.2%) and less than half the regional average (4.4%). Another IADB study (from 2014) assessed Chile's civil service to be the most developed in the region. The most important reform was the creation of the Senior Public Management System (Sistema de Alta Dirección Pública) in 2003, which ensures that top civil servants are hired on a meritocratic basis, and has since been deepened several times, thus diminishing the degree to which such figures are (mostly inefficiently) rotated.

In spite of these strengths, some shortcomings are still observed in the management of fiscal resources and personnel hiring at the municipal level. Moreover, there is still significant discretion in hiring consultants and advisers at the level of high political office. Public sector wages also typically grow increase than those in the private sector, and for most comparable positions (especially at the lower and middle levels of the pay scale), tend to be significantly higher. Finally, small but persistent budget deficits, in addition to the effects of the 2020 worldwide crisis, have raised gross public debt to about 32% of GDP, though net debt is considerably lower. Debt service is therefore still at moderate and manageable levels.

Efficient use of assets

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In most cases, the government coordinates its policies effectively and acts coherently. There are few gaps, redundancies or frictions between the different parts of government. 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 that 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. Presidents typically rely on a small office of personal advisers outside the formal bureaucratic structure, who are tasked with strategic planning and active supervision of ministries’ policies under a whole-of-government approach. The current top policy advisor, who is highly influential, is a former minister.

In all governments since 1990, finance ministers have been particularly important in setting the overall policy direction and adjudicating between competing policy interests, technically supported by the Budget Office, which has in-depth knowledge of line ministries and their policies. Administrative coordination is provided by the General Secretariat of the Presidency (SEGPRES), a ministry that (among other things) is tasked with coordinating and monitoring the executive – especially in the preparation of decisions affecting more than one ministry – and serves as technical support for the Interministerial Committee. It also coordinates the executive’s legislative agenda. Weekly political coordination is in the hands of the “political committee,” which includes the president and the ministers of finance, interior, SEGPRES, SEGEGOB (press secretary) and social development. Presidents may sometimes name “presidential delegates” with decision-making authority to coordinate efforts on specific matters (such as natural disasters). The system’s main vulnerability is probably its dependence on the top when it comes to coordinating different actors, and thus on the leadership’s managerial abilities. For instance, reconstruction after some natural disasters has been much faster under some presidents than others.

Over the past 20 years, different corruption scandals have led the political elite, with cross-party support, to take action and develop legal mechanisms to combat corruption. A broad range of integrity mechanisms has been established and for the most part works effectively. Though some deficiencies remain, substantial progress has been made.

In 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 upholds full compliance with the transparency law by state agencies. 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). In 2016, the reforms to election

Policy coordination

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Anti-corruption policy

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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) constituted significant advances in separating money and politics. From 2017, thousands of civil servants and elected officials at all levels of government must declare their assets and interests, under the supervision of the Comptroller General. In November 2018, a further law increased sanctions for corruption within the civil service and typified acts of corruption within private firms as a crime. As part of an “anti-abuse” legislative agenda that emerged as response to the protests, a law is being discussed that aims to facilitate whistleblower reports of illegalities or misconduct within the public administration. Another seeks to increase the prescription period for transgressions of campaigning laws from two to five years.

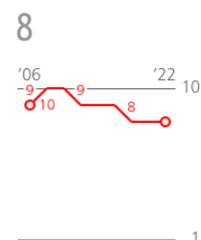
Auditing of state spending is performed by the Comptroller General of the Republic, whose oversight functions also help prevent large-scale corruption. There is some corruption, particularly at the municipal level, often related to public procurement (such as the streetlight bulb case that affected many municipalities in 2020), or else in the form of influence peddling. Although the central government’s public procurement system has improved over time and is largely transparent, it remains a potential source of corruption. For this reason, yet another “anti-abuse” bill is being drafted that would force companies that sell products or services to the government to reveal the identity of their ultimate owners.

16 | Consensus-Building

All major political actors agree on democracy as a strategic long-term goal of transformation. Improving democratic institutions is a goal shared by all actors, even though actors on the left and right may differ in respect to their specific understandings of what a healthy democracy requires (e.g., additional mechanisms of direct democracy). The major disagreement between parties used to be whether to replace Pinochet’s constitution using a constituent assembly or to merely reform it in Congress. The October 2019 protests tipped the balance in favor of the first position (the left’s). Apart from the form of government, the role of the Constitutional Court and the extent of political decentralization are key issues that will likely be at the center of the discussion.

Though no actor proposes the wholesale replacement of the market economy, many social movements and wide sectors of the political left strongly criticize the current economic model. The 2019 protests were interpreted as having been in large part a reaction against its current mode of functioning. The leftist Frente Amplio, which emerged largely from the 2011 student movement, strongly criticizes the Concertación governments (1990 – 2010) for having merely established a toned-down version of “neoliberalism” in permanent submission to business interests. This view is shared by former Concertación parties themselves. Thus, Chile’s long-

Consensus on goals



standing consensus on a socioeconomic “model,” which guided almost all actors since 1990, is in important respects a thing of the past. Areas such as taxation levels, free trade treaties, market provision of “social rights” and the use of market mechanisms in the management of natural resources were not contested in the past but are now. Thus, the substance of the new economic model will be a major issue in the constitutional convention, even if the core principles of a market economy are not disputed.

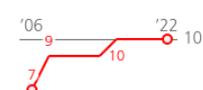
Anti-democratic actors are no longer a serious problem in Chile. With the constitutional reform of 2005, the executive has complete control over the armed forces. The military hierarchy is committed to the democratic constitution. Though some legislators on the right and the left have occasionally declared their support for past or foreign dictatorships (such as those of Pinochet or Maduro), such moves are largely symbolic, and are an easy way to play identity politics with specific portions of the electorate. A partial exception is the Communist Party, which not only has consistently supported and defended Nicolás Maduro’s regime in Venezuela, but has also refused to sign or endorse the political agreement in Congress made after the protests, apparently betting on Piñera’s fall and/or on creating a constituent assembly without the rules that were agreed, which will constrain the convention’s acts (such as the two-thirds majority rule for approving articles in the new constitution or the refusal to give the convention the authority to change existing laws). Nonetheless, the Communist Party campaigned for a new constitution in the October 2020 referendum, and will participate in the upcoming constitutional convention, thus fully joining the process.

The main cleavage in Chilean society is socioeconomic, linked to structural inequalities that have diminished at a much slower pace than the increase in citizens’ normative expectations regarding their diminution. Parties were successful in depolarizing social conflict after the Pinochet dictatorship in the 1990s through consensus-based politics, but this eventually alienated citizens and civil society. Over the course of the last decade, social movements started articulating discontent, and showed that society had largely emancipated itself from political parties’ guidance. However, parties were very slow in reacting to the changing situation, though the Bachelet government (2014 – 2018) marked an attempt to channel this discontent by making a moderate ideological shift to the left. Nonetheless, the mounting failures of past administrations to manage cleavages in society fueled growing public frustration that eventually exploded onto the streets with the October 2019 protests.

The shock of both the violent destruction and the peaceful and massive demonstrations jolted parties into action. The political agreement to allow a constitutional referendum and constituent convention was a desperate attempt to give political form to this inchoate and leaderless discontent, and an opportunity to build a new consensus from scratch. The succession of social measures has also represented attempts to respond to citizens’ demands. The Piñera administration, after initial

Anti-democratic actors

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Cleavage / conflict management

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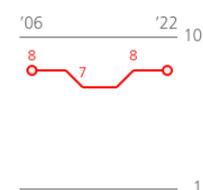
hesitation, accepted the need for greater social spending and a new policy agenda. Thus, the record of the political leadership in depolarizing conflict is mixed. Over the last decade, parties generally failed to channel emerging social conflict and indeed came to be seen as part of the problem. The Piñera administration was particularly clumsy in the weeks and days preceding the protests, with ministers throwing light, half-joking remarks about the increase in the cost of living that angered people and made the government, already perceived as close to business interests, seem unfeeling and completely out of touch. On the other hand, the reaction of most (though by no means all) of the political class to the protests was a sincere attempt to depolarize the situation. After that critical moment, however, party leaders have reverted to more polarizing discourses and strategies.

The political leadership regularly takes the interests of civil society actors into account, whose ability to influence the public agenda has increased over time, while political parties have ceased to be the sole vehicle for influencing legislation. Legislative committees regularly invite relevant civil society groups and experts to share their views on proposed bills. Think tanks regularly express their views, can be very influential, and some of them enjoy an international reputation. The new social movements are now significant actors, as informal veto players, as participants in the legislative discussion process and even as agenda-setters (e.g., education reform was placed on the agenda by student mobilizations and pension reform by massive citizen marches in 2016). Some social policy is implemented through partnerships with NGOs. Economic and professional interest associations are relatively influential, both in the legislative process and sometimes more widely. For instance, the Doctors' Association (Colegio Médico) played a major role during the pandemic in influencing public opinion and in pressuring the government (and sometimes working with it as well).

A frequent and important role for civil society actors occurs through ad hoc commissions that presidents typically summon to help them bring forward change on some major policy where they need cross-party support. Recent examples include the Council of Observers in Bachelet's constitutional consultation process in 2016, and the 2020 Commission on Public Spending. The latter was asked to make suggestions on improving participation, transparency and efficiency in public spending, and both experts and representatives of the major relevant NGOs were invited. Likewise, since the start of the pandemic, the Ministry of Health has relied on the advice of an ad hoc advisory committee of experts (scientists, top bureaucrats, former health authorities) that it recruited for this purpose.

Civil society participation

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Since 1990, Chile has undergone a slow but incremental process of reconciliation after the human rights violations perpetrated by the military dictatorship (1973 – 1990). However, the political saliency of this issue has waned over time, as some measure of justice has been slowly achieved, as consensus has built over the unacceptability of human rights violations, and as those involved in crimes have aged and died.

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, which gathered information and granted benefits to those classified as victims of torture and political imprisonment. In December 2009, the Museum of Memory and Human Rights was inaugurated. More recently, both major right-wing parties removed any support for the “military government” from their declaration of principles (RN in 2014 and the UDI in 2019).

Judicially, after Pinochet was detained in 1998, courts began to prosecute former human rights violations actively. By November 2015, a total of 1,373 officers and civilians had been indicted, prosecuted and/or convicted of human rights violations during the dictatorship. However, a report stated that by mid-2018, sentences had been handed down in only 22% of cases involving disappeared or executed persons (many disappeared have never been found). As of April 2020, 490 people had been convicted by the judicial system, and 201 were serving prison sentences (some of the convicted have died, and of the imprisoned, 80 were at least 75 years old). 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. Political controversy remains regarding the housing of the human rights prisoners – about half are in a purpose-built, relatively high-quality prison – and about the occasional grant of special benefits to those who have been convicted. For instance, in 2020, the right-wing president pardoned two human rights violators on humanitarian grounds of terminal illness. Victims’ associations opposed the pardons.

17 | International Cooperation

Since 1990, Chilean governments have made judicious use of international aid in transformation initiatives, effectively utilizing international assistance to further their strategic economic and human development goals. Development aid projects in the past 20 years have concentrated in a few sectors, in particular climate change, renewable energy and education (scholarships), with donors complementing strategic government policies in Chile. A 2010 European Commission evaluation viewed Chile as a reliable partner in development cooperation. Since 2000, however, net official development assistance has usually been less than 0.1% of GDP. Indeed, by

Reconciliation

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Effective use of support

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the second half of the 2010s, non-concessional funding from international financial institutions (such as the IADB and the World Bank) usually quadrupled or quintupled aid flows. Since early 2018, Chile's own income level has rendered it officially no longer eligible to receive development assistance. However, it has sought continued engagement with traditional donor countries, as it remains interested in technical, rather than financial, assistance. Indeed, since its accession in 2010, Chile has increasingly relied on OECD recommendations and experiences of fellow member countries to learn from international know-how and to adapt external advice to its domestic reality.

The Chilean government has for decades been 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 progress. The level of international confidence in Chile is reflected in its trusted position in both trade and politics, and in its numerous bilateral and multilateral agreements with more than 50 countries. The Chilean state has always complied with international rulings it has lost, such as at the Inter-American Court of Human Rights, at the International Court of Justice in The Hague (which ceded maritime territory under Chilean control to Peru in 2014), or at the International Center for Settlement of Investment Disputes (ICSID).

Somewhat damaging its credibility, the government pulled out of signing the Latin American Escazú environmental protection agreement in 2018, as well as the U.N. Global Compact on Migration. Both changes came hours before the actual signature ceremonies and caught both local and international actors by surprise. Chile had been a leading actor in drafting the Escazú Agreement under the previous administration. On the other hand, the government has tried to get the TPP-11 trade agreement, to which it is a signatory, approved in Congress; however, on economic matters, it is a part of the political left that opposes international ties. Thus, Chile's multilateralist drive has lost force over recent years, but the country has not reneged on established commitments.

Over the last two decades, Chile has sought to improve its relations with the Latin American community, mostly successfully. Economically, Chile 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 economic integration (including trade, the financial sector, labor, physical infrastructure and sharing practices). Chile is also an associate member of Mercosur and has good relationships with Brazil and Argentina. Chile participates in regional integration initiatives. Although, like other countries, Chile has pulled out of UNASUR, in March 2019 it joined with Colombia to spearhead the creation of the new Forum for the Progress and Development of South America (PROSUR), which currently numbers eight South American nations as members. The country has also assumed a

Credibility

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Regional cooperation

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leadership role in tripartite cooperation in Latin America and the Caribbean and provides aid and development projects throughout the region (for example in Haiti, Bolivia and Ecuador).

Relationships with immediate neighbors are mixed. Since the 1990s, the country's relationship with Argentina has improved on all fronts, including significant security cooperation. Concerning Peru, after both sides accepted the International Court of Justice (ICJ) ruling on the correction of the maritime boundary, relations have benefited from the expansion of trade relations between the two countries and their common orientation toward the Pacific and APEC countries. Bolivia continues to demand sovereign access to the Pacific Ocean, which have been refused by the Chilean government with reference to the 1904 bilateral peace treaty. Bolivia took the matter to the ICJ in 2013. However, in October 2018, the ICJ decisively confirmed Chile's position that it is under no obligation to negotiate. Nonetheless, Bolivia's lack of access to the ocean attracts some international sympathy and the issue remains unresolved.

Strategic Outlook

Chile faces a future marked by more social and political uncertainty than at any point since the return to democracy in 1990. Long-term trends toward disaffection with all political parties and the politicization of inequalities came to a head in a series of massive protests beginning in October 2019 that mark a new historical period in Chilean politics. The (already weakened) cross-party, middle-of-the-road elite consensus that guided Chilean politics and its strategy of socioeconomic development for decades is now politically defunct, and existing political and socioeconomic structures have been delegitimized. The May 2021 elections for the constituent assembly saw a surge of independents and new party coalitions participating, leaving only 62 of 155 seats for the two blocs that have dominated the country's politics for 30 years. However, it is unclear whether the constitutional assembly and the new government – to be elected in November 2021 – will mark a major change from the political status quo, or whether a moderate assembly and a continuity president will, despite everything, triumph.

In this context, the key challenge for Chile's future is in achieving consensus on shared rules and common goals, and in establishing legitimacy for political and socioeconomic structures. In the immediate years to come, four challenges seem urgent. First, it is essential that the constituent process be conducted in as fair, transparent and inclusive manner as possible. Whatever the content of the constitution that emerges, process legitimacy is fundamental if this high-stakes democratic exercise is to symbolically renew Chilean democracy. Second, the new constitution must be able to combine some degree of dispersion of political power (through decentralization or more powers for Congress) with an efficacious governance structure. Chile has lacked the former, but has strengths in the latter, and the trade-off will not be easy. A dysfunctional or overburdened constitution is a risk that actors should seek to avoid. Third, all sectors of society must have a serious debate on how to reduce inequalities, guarantee social rights and provide some universal minimums in a fiscally sustainable way. Finally, as a complement to the other discussions, Chile must sooner rather than later think hard about a new economic growth strategy that can be supported across the political spectrum. To date, strategic discussion of these matters between political sectors has been nonexistent. The constitutional process may well be an initial and important start for these latter discussions, but as political actors are currently fragmented, it is likely that the process of reaching a new social and economic consensus will be a much longer-term endeavor.

Against this backdrop of political uncertainty, a more positive scenario emerges from the outlook for managing the pandemic and its consequences. Based on the successful management of vaccination agreements, the government intended to vaccinate 80% of the adult population by the end of June 2021; this figure was accomplished by the end of July 2021, according to official data. By the end of August, Chile along with Uruguay were among the top nations with more than 70% of the total population fully vaccinated. Combined with the manageable levels of public debt and the rise in copper prices, Chile appears to have an economic cushion, at least in the medium term, to allow for the refoundation of the republic.