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Executive Summary

In November 2017, after four years of low popularity and weak economic growth under President Michelle Bachelet (Socialist Party of Chile), Chileans voted for center-right presidential candidate Sebastián Piñera. Piñera had campaigned on a platform of renewed economic growth and was highly critical of Bachelet’s major tax, education and labor reforms. At the same time, however, a coalition of far-left parties (who criticized Bachelet’s major reforms for being too timid) secured 13% of seats in Congress and marginally missed the presidential runoff vote. The appearance of this third bloc has meant the end of Chile’s traditional “duopoly” of two moderate coalitions dominating Congress. Coupled with the emergence of a far-right leader who, polls suggest, could be highly competitive in the 2021 presidential election, it appears that party fragmentation and policy polarization in Chilean politics are here to stay.

The new government’s main mandate was to deliver economic growth. Indeed, economic growth and investment, which had seen an unprecedented four consecutive years of contraction, recovered strongly in 2018. But the labor market remained weak, fueling citizen disappointment and damaging the government’s popularity. The weakness of the labor market may have been caused in part by a sudden and significant increase in immigration. Between 2015 and 2017, it is estimated that 700,000 immigrants (from Haiti, Venezuela and Colombia, among other countries) arrived in the country, providing a significant shock to the labor market and culturally homogeneous society.

Chile’s longer-term challenges will require substantial economic and social policy reform. However, the direction and content of the much-needed reforms are hotly contested, and increased fragmentation has made achieving consensus harder. Indeed, Piñera’s first year in power has highlighted the increasingly fluid nature of Chilean politics. His right-wing coalition did not secure a majority in Congress, limiting its capacity to modify previous or propose new reforms. Chile’s political rules of engagement are being rewritten as “the opposition” now, on most matters, comprises two or three positions rather than one. This has afforded space for the government to negotiate pragmatically with more centrist parties. Nevertheless, most major legislative battles...
have to be fought. For example, the government means to modify Bachelet’s taxation and education reforms, and much-needed pension reform. Winning approval for legislative proposals will be anything but easy. Stalemate and paralysis are real risks.

Institutionally, a major corruption scandal involving the top tiers of the national police shook the public’s typically high confidence in that institution. Conflicts within the leadership of the Office of the Comptroller General, between the Office of the Comptroller General and the Constitutional Tribunal, and between parts of Congress and the Supreme Court have highlighted the fact that conflict avoidance is no longer a trait of Chilean politics. More ominously, the frequently violent Mapuche conflict in the south continues unabated. Public protests can also flare up at any moment, as they did in 2018 over pollution levels and police abuse scandals. Thus, conflict is increasingly normal in Chilean politics, as power has dispersed, and political and economic elites no longer command widespread support or possess unquestioned authority. Governing this more complex society is becoming ever harder.

This situation exacerbates the country’s existing challenges. Achieving a new relationship between citizens, and political and business elites, and building a new socioeconomic policy consensus, which pursues both greater equity and greater productivity, are goals that remain very much open – even if democracy and the market economy are not questioned.

History and Characteristics of Transformation

Chile’s recent history is deeply marked by the 17-year dictatorship of General Augusto Pinochet (1973–1990). The dictatorship 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 (e.g., education, health care, social security and labor relations). 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 win a 1988 plebiscite designed to keep Pinochet in power. 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 – which were 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, social indicators to improve dramatically, and transformed 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. The presidential candidate of the right-wing Alliance for Chile (Alianza por Chile), Sebastián Piñera, triumphed. 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 students and other groups who felt their demands were not being met. The student mobilizations had the side effect of causing a leftward shift in the ideological balance of power within the Concertación, as it sought to distance itself from the right and to identify with the student movement’s demands. The Concertación subsequently became the New Majority (Nueva Mayoría) through the inclusion of the Communist Party and other leftist groups. Despite abstention rates exceeding 50%, the Nueva Mayoría’s electoral success in 2013 gave the coalition a historical majority in both houses of Congress and returned Bachelet to power. Her government promised three major structural reforms to combat inequality: tax reform, educational reform and a new constitution. Though her government delivered on most of its promises (though not on a new constitution), and also passed important labor, electoral and anti-corruption legislation, her government and most of her reforms quickly became unpopular, as economic growth decelerated following declining copper prices and business confidence. In December 2017, Piñera returned to the presidency after decisively winning the presidential runoff vote (55% to 45%).
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

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

Nonetheless, one relevant challenge to this authority comes from small groups linked to claims for land and occasionally 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. Over a hundred such attacks have been reported each year since 2015. In 2017, 87 logging trucks were destroyed, but targets have also included occupied buses, inhabited and uninhabited houses, community centers, farm buildings, and even schools and religious temples, 11 of which were burned down in 2017. Attacks have been concentrated almost exclusively in rural and sparsely populated locations, and most go unsolved by the police. Their geographical scope has widened in recent years, spreading out from the Araucanía into neighboring regions. However, zones of conflict constitute non-connected pockets amidst large swathes of peaceful territory. These violent groups have occasionally shot at police patrols, but overall, they cannot contest the state police or armed forces, as their weaponry and numbers appear to be limited. Only a single police death, in 2012, can be attributed to such attacks. Conversely, only four Mapuche have been killed by police since 2002 – and none of these in a situation where an actual exchange of fire could be certified. The last of these, in November 2018 (and the first since 2009), highlighted the potential for police abuse and sparked outrage across the country. Despite the lack of deaths and injuries, the government claimed in November 2018 that police had faced over 500 attacks in the region since 2013.

Finally, though political autonomy is not yet a majoritarian demand, one of the more radicalized indigenous communities (Temicuicui) refused entry to census takers in 2017. Some reports claim that Temicuicui has become a no-go area for people that do not belong to the community, although the police do enter as they did in November 2018.
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, no matter what their background. Every group in society, including most indigenous people (about 12% of the population), generally accepts the legitimacy of the nation-state. According to a 2016 survey, only a third of Mapuche do not feel Chilean (41% in rural areas), though this figure was lower than in 2006. However, 82% of Mapuche feel “fully integrated” into Chile, while 75% would prefer “more integration” with Chile rather than “more autonomy” (21%) from it, suggesting the legitimacy of the nation-state is not at stake. Nonetheless, a likely future issue of contention will be whether the state redefines itself as multicultural and plurinational, as some intellectuals and Mapuche leaders claim is necessary for their recognition. For now, the Piñera government is likely to grant the constitutional recognition of native peoples, an issue discussed since the early 1990s, along with an indigenous electoral quota.

With regard to immigrants’ rights, all recent governments have sought to facilitate immigrants’ access to state protection systems and non-discrimination in the labor market. Immigration has greatly increased in political salience over the last couple of years after an unprecedented influx of immigrants created a degree of popular backlash. As a consequence, the current administration tightened tourist entry requirements for some nationalities (particularly Haiti), but offered irregular immigrants a path to legality. Over 150,000 registered. In January 2019, the lower house approved a new immigration bill, which modernized a 1975 law. The bill reaffirms immigrants’ rights, including full access to health care and education, though it forbids visitors from changing status from tourist to worker without first leaving the country. (The bill still requires Senate approval). 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 separate from the state. In past years, laws have been enacted that give equal opportunities and rights to churches and religious organizations other than the Catholic Church.

Until some years ago, the Catholic Church successfully exerted great influence on various aspects of social life relating to sexuality and reproduction, divorce, health care and education. This included attempts to modify or stop the formulation and promulgation of laws. But the public awareness of many cases of sexual abuse by important priests decreased support for the Church, taking away much of its effectiveness as a lobbyist. For instance, the bill on Civil Unions for Gay or Heterosexual Couples in 2014 to 2015 had support even among some conservative, Church-friendly political sectors. The passage, in 2017, of a bill that partially legalized abortion 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.

The Chilean state has a differentiated and well-developed administrative structure throughout the entire country. In most cases, this goes beyond merely basic functions, and successfully serves the country’s development needs. Chile’s civil service was assessed in 2014 by the Inter-American Development Bank (IADB) to be the region’s most developed. In 2016, an important civil service law was passed that expands and strengthens the meritocratic hiring of top personnel for civil service positions, a system originally implemented in the mid-2000s. The new rules successfully constrained, in 2018, the incoming administration’s scope for removing top civil servants hired under the previous administration.

At least comparatively speaking, public institutions are efficient and honest. Survey evidence shows Chileans are very rarely asked for bribes by public officials. The tax service is modern and highly efficient, street-level policemen are 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. Access to basic services such as water and sanitation are near-universal.

Chile operates as a centralized state, which leads to strengths as well as weaknesses. To some extent, the administration exhibits shortcomings that arise from the concentration of resources and expertise close to bigger cities. There are varying levels of management efficiency at the local level. But despite some evidence of clientelism and minor corruption, local administrations are relatively sound.

2 | Political Participation

All elections 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 recent years, two major legislative reforms have improved the fairness of elections. In January 2015, the binomial electoral system used to elect Congress was replaced by a moderate proportional representation system. This addressed a long-standing complaint that the binominal system excessively protected the position of the two
major political blocs. The same law introduced a gender quota for party lists and provided extra campaign funding for women. The second reform tightened the rules regarding campaign-financing and increased the supervisory powers and capacities of the Electoral Service, which was also granted constitutional autonomy from the government. Among other measures, spending ceilings were halved, public funding was increased, companies were forbidden to donate, visual propaganda on the streets was regulated, and sanctions for noncompliance significantly increased for candidates and campaign managers alike.

The results of the 2017 presidential and parliamentary elections suggest the reforms worked in the expected direction. Due to the lower barriers to entry, a new coalition of many small left-wing parties obtained significant representation in Congress, ending the criticized two-bloc “duopoly” (and thereby increasing party fragmentation). For its part, the presence of women increased from about 15% to a record 23%. Both the electoral process and its results went unquestioned by all sides.

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. Nonetheless, a minor but still-standing issue is the Ley Reservada del Cobre (Copper Law), which grants the armed forces a direct proportion of the income derived from state-owned copper mines, thus limiting full civil control over the military. It is likely, however, to be repealed in 2019.

There are no veto powers any more as such, notwithstanding the strength of some key pressure groups. Some conglomerates in the economy enjoy a considerable concentration of economic power, but not de facto veto power. Nonetheless, their influence has weakened over the last years, as the passage of major tax and labor reforms under Bachelet’s (2014–2018) administration, which were strongly opposed by business leaders, showed.

A more structural limitation on the effective power to govern is the widespread existence of super-majority quorums. For example, the 4/7 majority required for so-called constitutional organic laws (LOC), and 3/5 or sometimes even a 2/3 majority required in both houses of Congress for constitutional amendments. These LOCs were passed during the country’s period of dictatorship and sought to prevent incoming democratic governments from changing key aspects of the dictatorship’s economic and social model. While special quorums are present in many democracies, their frequency in the Chilean case is highly unusual, affecting issues that are usually thought of as pertaining to ordinary legislation (e.g., the organization of the educational system). This problem is compounded by the ex-ante and wide-ranging powers of the Constitutional Tribunal, a further veto player, that during the Bachelet administration brought down key aspects of her labor and abortion reforms.
Freedom of association and freedom of assembly are constitutionally guaranteed and de facto nearly unrestricted. All governments since 1990 have respected these rights. There has been an increasing array of social movements, most notoriously the student movement, but also LGBT, environmentalist, Mapuche, feminist, pro-pension and regional and local movements that have frequently exercised their rights.

Though in theory demonstrations do not need previous authorization, a 1983 decree requires demonstrators to notify the authorities two days in advance of their plans, which may be denied or rerouted by authorities if the demonstration intends to occupy high-traffic public spaces. As a U.N. Special Rapporteur for Chile reported in 2016, this constitutes a de facto authorization regime for demonstrations. Although permission is almost always granted, the decision depends on government authorities themselves. Spontaneous or unannounced marches are blocked or dispersed by police, particularly if they interrupt traffic.

The main limitation on protests is the frequency with which (usually) minority elements attack the police with stones or Molotov cocktails, or else install barricades. Such moves trigger violent police response whereby the entire protest may be dispersed using water cannons and tear gas, and excessive violence may be used against even peaceful demonstrators. For instance, in a student demonstration in 2015, a student sustained serious brain damage after police used a water cannon at close range against him. However, this is more a problem of the police’s modus operandi than a political attempt by governments to stifle protest.

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. In 2014, the Lobby Law forced any public authority to report business meetings. The 2018 Press Freedom Index issued by Reporters Without Borders ranked Chile 38th worldwide, ahead of countries such as the United Kingdom, Italy and the United States.

Media organizations cover sensitive issues and are fulfilling a highly useful watchdog role, unearthing scandals affecting politicians and state institutions. In recent years, for instance, they ran stories concerning a former president’s close family (Caval case, by Qué Pasa magazine), corruption within the army (the Clinic magazine) and within the national police force (CIPER). All media extensively covered the illegal campaign donations scandal of 2015 to 2016, and in many cases helped further those investigations. This role is valued by the public and is protected by courts. For example, when former president Bachelet, to everyone’s surprise, sued Qué Pasa magazine for libel in 2016, she was soon forced to desist and a judge made her pay for the defendants’ litigation expenses.
Though there is significant ownership concentration in newspapers by two groups, El Mercurio and Copesa (both linked to the economic and political right), in other media the situation is much more varied. Neither group, for instance, owns a TV channel, while two major channels are foreign-owned and another is publicly owned and has a mandate of political pluralism. In radio, the largest conglomerate is Spanish. Moreover, online media outlets with widely varying political viewpoints have been influential and are becoming more popular, especially among the elite. Overall, the media landscape is 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. This was demonstrated during the 2014 to 2018 Bachelet government, which – despite having the necessary majorities in both houses – had to compromise on changes to all its main legal reforms. 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, though its anti-majoritarian powers have been criticized as overly extensive.

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. 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. The judiciary has exhibited significant independence in upholding due process and in resisting public calls to impose harsher penalties on minor criminal offenders. 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 Office of the Public Prosecutor operates with independence from other powers, but its role in the campaign funding scandal of 2015 to 2016 was controversial. After
a change in leadership, the new head of the office was seen by the public and the press as trying to wind down the cases (preferring to reach agreements and dropping some charges). The initial prosecutors of these cases, who were subsequently sidelined by the new head, quit the institution in protest in January 2018. Suspicions of undue political influence led the far-left coalition of parties in Congress to officially ask the Supreme Court to remove the national prosecutor for serious negligence. This was considered by others as an attack on judicial independence. In October 2018, the Supreme Court unanimously rejected the request. Prosecutors denied in the hearings having been pressured by the head prosecutor regarding the conduct of their investigations.

In general, officials and authorities involved in corruption and/or misappropriation of public funds are subjected to investigation and punishment by the courts or the Office of the Comptroller General. Tolerance for the private appropriation of public funds is extremely low. Conflicts of interest are heavily scrutinized by the media and even comparatively minor faults in politicians’ conduct attract negative publicity.

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. 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. The number of officers accused stands at about 130, including the head of the institution from 2008 to 2011. Many officials and former officials are certain to face significant jail time. The most senior generals were removed from command by the government in March 2018 and citizen trust in Carabineros fell dramatically.

A less clear-cut outcome resulted from the investigation of the campaign-funding scandal, which erupted in 2015 and implicated many politicians. Though initially investigated with zeal, the most active prosecutors were eventually sidelined. Crucially, the new head of the tax authority declined to press charges for what constituted, in most cases, rather minor tax frauds, thus weakening the prosecution’s hand. (The former tax authority, removed by the Bachelet government, had begun pressing charges). Eventually the prosecution reached judicial agreements with most of those involved or else decided not to press key charges (e.g., for bribery in the Penta case). Though some important politicians and businessmen were sentenced, the public perception was that most politicians managed to escape proper punishment. Nonetheless, even maximum sanctions in most cases would have been low, so the prosecution’s strategy was not necessarily contentious.

In any case, the scandal propelled Congress to approve a major reform of campaign finance, corruption and conflict-of-interest legislation in 2016 to 2017, and introduce harsher sanctions for misconduct. This is part of a longer-term trend of tightening anti-corruption legislation.
Civil rights are guaranteed by the constitution and respected by state institutions. Citizens are effectively protected by mechanisms and institutions established to prosecute, punish and redress violations of their rights. Violations of civil rights are rare and mostly limited to cases of police abuse and unlawful coercion exercised by officials against persons deprived of liberty.

Nonetheless, a significant exception is the situation of children under the care of the state National Service for Minors (SENAMH). Currently, courts are investigating the deaths of 878 minors in SENAME-associated homes between 2005 and 2016. It is already clear that in many cases, the children’s deaths were due to neglect and abuse, and that physical violence, sometimes amounting to torture, has been regularly used against minors. A 2018 U.N. report called the situation a “grave and systematic” violation of the minors’ human rights. The current Piñera administration has declared improving conditions of minors a government priority.

Apart from this issue, police beatings and excessive use of force, particularly against protesters and indigenous people, are a concern. According to the 2018 report by the U.N. Commission against Torture, between 2010 and mid-2015 there were 732 cases of alleged excessive use of force by police. However, the National Institute of Human Rights (INDH), an autonomous body established in 2010, has helped make such abuses visible and actively pursue legal action against those that occur. The police murder of an unarmed Mapuche in November 2018 was also a serious instance of abuse. Many officers have been dismissed from the force and now face judicial charges.

The overcrowding of prisons and the maltreatment of prisoners are also a concern. Another issue is the reform of the antiterrorism law, mostly used by governments in the Mapuche conflict for cases involving serious violence, since its definitions and mechanisms do not guarantee due process. On the other hand, courts frequently acquit Mapuche charged with violent actions and are generally protective of their due process guarantees.

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 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 improved markedly since 1990, as successive constitutional and legal reforms have expanded their scope and stability. Especially since the mid-2000s, they are also free from all kinds of authoritarian enclaves. Democratic institutions operate in accordance with their functional purposes and are effective. Even though Chile is a highly centralized state, some reforms have also managed to deepen democracy at the local (municipal) level. Regional governors are due to be directly elected for the first time in 2020, significantly deepening decentralization. However, this reform may raise problems of democratic performance, as the new power structure will run counter to Chile’s deeply ingrained centralist traditions and procedures. Moreover, the specific functions and resources of governors, and relationship between governors and the national government under the new regime are yet to be specified.

Institutional stability has been underpinned by widespread support for the rules of the game. But this same form of evolution and stability generated mistrust among large sections of society, as the entire process was framed by the rules of the 1980 constitution passed by the authoritarian regime. Moreover, surveys consistently show that trust in the main democratic institutions is exhibiting historically low levels of approval and credibility. In the future, this may affect the performance of democratic institutions.

All relevant political and social actors, including the military, accept Chile’s democratic institutions as legitimate. Nonetheless, a significant portion of political actors, particularly center and left-wing actors, aim to replace the current constitution, which they view – despite all the reforms it has undergone – as reflecting a political and economic view originally imposed by the dictatorship. Thus, there is some disagreement concerning the specific current institutional arrangement, its distribution of constitutional rights and its general legitimacy. However, this controversy does not question either side’s commitment to democracy. It is also framed by a growing indifference among the population toward politics and by a distrust in institutions, such as parliament, political parties and the judiciary.
5 | Political and Social Integration

Chilean parties are institutionalized and a structured policy-making process emerges from their collective interaction. The party system is programmatically oriented along a clear left-right continuum. Low-level clientelism plays a limited, stabilizing role in helping connect elected politicians to their constituencies, particularly among the lower class.

The Chilean party system has become increasingly fragmented and polarized in recent years (although from low baseline levels) and is in a period of transition in which new actors are vying with powerful incumbents against a background of low public trust in political parties. Traditional political parties, grouped into two major blocs (center-left and center-right) until 2017, which reflected divisions in Chile since the 1973 to 1990 dictatorship, have also progressively lost support. Between 1990 and 2015, the proportion of the electorate that identify with any political party dropped from about 80% to 20%, while political parties’ societal roots weakened.

In recent years, new parties have tried to fill this void. Of these, a far-left bloc (Frente Amplio), which mainly arose from the 2011 student movement, has been the most successful. In the 2017 election, Frente Amplio gained 13% of seats in the lower house and their presidential candidate (Beatriz Sánchez) almost beat the traditional center-left candidate in the runoff round. These results secured Frente Amplio’s place among Chile’s prominent political actors and demonstrated Frente Amplio’s ability to compete with the traditional social democratic center-left. The traditional parties of the center-right are in a stronger position, although the emergence of a new movement to their political right threatens their dominance. The new movement is led by José Antonio Kast, a conservative hardline populist who came in fourth in the last presidential elections, winning 7.9% of the vote, and who has since gained notoriety and popularity. The continued dominance of the two traditional coalitions is therefore in question, even if their demise is by no means a foregone conclusion.

The current system exhibits weak social roots, low-to-moderate volatility, and moderate but increasing fragmentation. Though the executive and over 80% of seats in Congress are still in the hands of traditional parties, the new equilibrium in the party system will likely be more fragmented and more polarized than the one that has existed until now.
Chile has a range of interest groups reflecting a wide array of social concerns, including NGOs and social movements, community organizations, unions, students’ and indigenous organizations and professional associations. Especially in recent years, social movements organized in response to specific problems have shown new capacities, but by their very nature do not always show continuity over time. Corporate business interests remain strong and well organized through their two main associations, CPC and the Federation of Chilean Industry (SOFOFA). Nonetheless, the widespread resistance to the passage of tax and labor reforms under the previous administration showed how their power has declined. This has been reaffirmed under the new administration, as the political space for pro-business reforms remains limited. On the other hand, a few interest groups with the operative capacity to protest in a disruptive way have considerably greater clout than most. Students, who march and occupy universities for weeks on end, and truck owners, who block highways, are two examples of interest groups that manage to secure disproportionately high levels of public funding. Interest groups are typically concerned only with their own interests in a mostly non-collaborative policy process.

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

According to the 2018 Latinobarómetro survey, 58% of Chileans agreed democracy was preferable to all other forms of government, 10 percentage points above the regional mean. Support for specific democratic norms is higher. For instance, according to the 2016 version of the survey, Chileans were the least likely in the region to agree that they wouldn’t mind a non-democratic government if it could solve economic problems (29% agreed, as opposed to a regional mean of 47%). They were also the least likely to agree that a president should be allowed to control the media in times of difficulty.

Chileans are somewhat dissatisfied democrats, though comparatively less so than most populations in the region. In 2018, 42% declared themselves satisfied with the functioning of democracy, only behind Costa Rica (45%) and Uruguay (47%), and considerably above the regional mean (24%). Other surveys show Chileans believe the country is more democratic now than it was in the past. Finally, trust in democratic institutions is low, like in most countries in the region. Only 14% trust political parties and 17% trust Congress, though trust in the police is almost 50% and in government it is 38% (the second highest in the region). Overall, these figures represent a slight improvement from the 2015 to 2016 period in which campaign-financing scandals undermined public perceptions regarding the functioning of democracy.
Civil society’s organizational landscape has become increasingly differentiated since re-democratization. Alongside numerous religious and sports organizations, there is a dense network of civil society organizations engaged in a very broad range of issues. However, there are substantial disparities in the durability and strength of associations. Levels of citizen participation in civil society organizations are moderate, with about 17% of citizens declaring they participate in at least one association. However, some forms of social solidarity are strong. For instance, mass participation in specific national solidarity campaigns through the media can reach very high levels and constitute a rare point of national pride for Chileans. Moreover, some well-known and well-established civil society organizations – such as Un Techo para Chile (which has since established itself in other Latin America, countries), the Hogar de Cristo, Levantemos Chile and the Fundación Teletón – operate in a highly professional manner, are trusted to deliver on their promises and engage in long-term commitments with their targeted beneficiaries.

On the other hand, available data show a mixed picture concerning trust levels. According to Latinobarómetro 2018, 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 2014 shows 77% of Chileans believe people “from around here” are very or somewhat trustworthy, which is higher than in most countries in the region and close to the U.S. value (80%). This suggests that localized forms of trust (needed for community organization) may be considerably stronger than more impersonal forms of it (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 44 in the UNDP’s Human Development Index 2017 with a score of 0.843, the highest in Latin America, slightly ahead of Argentina (ranked 47) and similar to Hungary, Croatia and Bahrain. The absolute poverty rate has continually and sharply declined since 1990. Income poverty, as measured by a more demanding poverty line introduced in 2006, has fallen from 29.1% in 1990 to 8.6% in 2017. Extreme poverty fell from 12.6% to 2.3% over the same period. According to the World Bank’s poverty measure, poverty in Chile was 3.1% in 2015, higher than in Argentina (2.4%) and Uruguay (0.5%).

Income poverty particularly affects indigenous people, children and households headed by women. Income inequality is high, though near the country median within Latin America. The Gini coefficient for Chile was 0.49 in 2017, and though lower than 15 years ago (0.55 in 2003), has not shown a significant decline over this decade.

Unemployment especially affects less educated and young people, whose unemployment rate is two to three times the national average. Women’s participation in the labor market, though rising, still trails more than 20 percentage points behind the participation of men. To some degree, classism and ethnic prejudice against indigenous people affects equality of opportunity in the labor market.

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 very little territorial variation. It also has the highest completion rates of secondary education, and one of the highest tertiary education coverage rates in Latin America, which has fueled absolute (if not relative) upward social mobility in recent decades. Preschooling coverage rates are also very high. Access to water and sanitation are near-universal, and the prevalence of slums and precarious housing are very low. In all these respects, progress since 1990 has been substantial.
### Economic Indicators

<table>
<thead>
<tr>
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<th>2015</th>
<th>2016</th>
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<th>2018</th>
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<tr>
<td><strong>GDP</strong></td>
<td>$M</td>
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<tr>
<td>GDP growth</td>
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<td>1.7</td>
<td>1.3</td>
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<tr>
<td>Inflation (CPI)</td>
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<td>Unemployment</td>
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<tr>
<td>Foreign direct investment</td>
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<td>2.1</td>
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<tr>
<td>Export growth</td>
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<td>Import growth</td>
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<tr>
<td>Current account balance</td>
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<tr>
<td>Public debt</td>
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<td>23.5</td>
</tr>
<tr>
<td>External debt</td>
<td>$ M</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Total debt service</td>
<td>$ M</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net lending/borrowing</td>
<td>% of GDP</td>
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<td>-2.5</td>
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<td>Tax revenue</td>
<td>% of GDP</td>
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<tr>
<td>Government consumption</td>
<td>% of GDP</td>
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<td>Public education spending</td>
<td>% of GDP</td>
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<td>5.4</td>
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<tr>
<td>Public health spending</td>
<td>% of GDP</td>
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<td>5</td>
<td>-</td>
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<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
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<td>0.4</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
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Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.
7 | Organization of the Market and Competition

Market competition is consistently defined and implemented at all levels. Administered pricing plays no role, with the minor exception of some price-cushioning mechanisms (e.g., fuel). The currency is convertible, markets are contestable, there is substantial freedom to launch and withdraw investments, and there are no significant formal entry or exit barriers. Companies are relatively easy to start and red tape is low. According to Doing Business 2018, starting a business takes 5.5 days and seven procedures, and costs 3.0% of GNI per capita. For starting a business, Chile scored 89.08 out of 100 and ranked 72 out of 190 countries.

Nonetheless, the OECD’s 2018 Chile Economic Survey highlights some permit, licensing and regulatory restrictions that hinder competition across both product and service markets. The maritime transport (in which foreign competitors are discriminated against) and digital services sectors are characterized by some harmful regulations. Aside from tax treatment intended to benefit SMEs (which increased following the recent tax reform), there is no market discrimination based on company size. The recently approved tax reform improved in relative terms the tax treatment of foreign-owned vis-à-vis local companies. Insurance companies, banks and financial institutions are autonomous. The informal economy is small and contributed 13% toward GDP in 2015, according to a 2018 working paper from the IMF, similar to the informal economy in countries like Norway and Finland. A partial exception is the labor market, where 30% of jobs (mainly in services) are informal, according to OECD estimates. Though this figure is one of the lowest in Latin America.

In 2014, a new bankruptcy law came into effect, which has made the process considerably easier for companies and natural persons alike. Chile’s economic order has a strong institutional foundation. Governmental policy is limited to general assurance and maintenance of the rules of the game. It provides for a neutral organization of regulations consistent with competition, including control over monopolies and the expansion of necessary intermediary institutions. Nevertheless, the state’s oversight role has historically been comparatively discrete in some areas, allowing for the concentration of market shares and uncompetitive behavior by incumbent firms.
Chile’s relatively small national market means market concentration is often an issue, even if the economy is open and thus exposed to international competition. Chile is confronted with market concentration in areas as diverse as air transportation, cable TV, mobile phone, pharmaceutical, and health insurance sectors, among many others. In specific markets, policy could do more to improve competition. For instance, access to public telecommunication networks is not yet mandated and although there has been an increase in transparency requirements imposed on current operators, local loop unbundling is still not the norm.

Nevertheless, overall competition policy has improved significantly. Since the late 1990s, Chile’s anti-monopoly legislation has become increasingly mature and effective. The Tribunal for the Defense of Free Competition (TDLC), created in 2003, is responsible for preventing, correcting and penalizing anti-competitive conduct. The National Economic Prosecution (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.

Successful legislative improvements over the last 10 years (e.g., intrusive search and confiscation powers, and a leniency system whereby participants in a cartel have incentives to defect) have considerably improved the FNE’s capacity to detect collusion. These have proved useful in many recent cases. Several imposed fines were significant (e.g., $60 million for the poultry cartel), but were nevertheless small compared to the potential benefits of collusion. Therefore, a 2016 reform 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. Criminal trials can only once the TDLC has found the accused to be guilty and fines have been established. The law also made preventive merger control mandatory for companies above a defined sales threshold, as the OECD had recommended. Other suggested improvements include granting the FNE more resources and the legal powers to force companies to disclose sensitive information in order to conduct market studies.

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 25 international and bilateral agreements with NAFTA countries, China, the European Union, Latin American and Asia-Pacific countries, and the 2018 TPP-11 agreement (the successor to the Trans-Pacific Partnership Agreement). 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 is estimated to be less than 2% and the simple average of most-favored nation (MFN) applied duties was 6% in 2017. Chile’s economy is highly dependent on international
trade, with exports accounting for more than one-third of GDP. Chile has been a WTO member since January 1, 1995 and has consistently complied with its rulings and decisions.

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 new, major banking law approved in October 2018 upgrades the governance of the banking sector. The SBIF, the autonomous bank regulatory agency, will be integrated from mid-2019 into the Committee for Financial Markets (CMF), the insurance and securities regulator. This merger aims to provide integrated supervision of the entire financial sector under the remit of a collegiate (as opposed to individual) 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 well placed to cope with the additional capital requirements of Basel III. However, the state-owned Banco Estado may need up to $2 billion of fresh capital to comply. Currently, the share of non-performing loans is relatively low, at 1.9% in 2017, while the ratio of bank capital to total assets was 8.4% (World Development Indicators). Mature regulation has led to a diversified financial system and capital markets that provide the economy with a wide variety of financing sources. There are currently 21 banks under the supervision of the SBIF, which provides for sufficient sectoral competition, although the four largest represent 77% of total bank sector assets.

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. A major trading scandal involving SQM, the world’s leading lithium producer, was energetically investigated and sanctioned by financial authorities, leading to a $70 million fine for Julio Ponce (the former chairman of the firm). However, the Constitutional Tribunal lowered his fine to a mere $3 million. This may limit the power of sanctions set by the financial regulator to function as a credible deterrent.

8 | Monetary and fiscal stability

Inflation and foreign exchange policies are pursued in concert with other economic policy goals. Moreover, Chile’s distinctive fiscal framework implemented in 2001 is naturally aligned with monetary policy. This is determined by an independent central bank (BCCCh), which is managed by a council composed of five members appointed by the president together with the Senate for a period of 10 years. The minister of finance may attend and has a right to speak at council meetings. The president of the central bank also regularly meets with and informs the Senate Finance Committee. The council’s monetary policy decisions and the main arguments considered in their meetings are published online.

The maintenance of low, stable and sustainable inflation is one of the pillars of Chile’s economic model and is the primary objective of the BCCCh’s monetary policy.
To this end, the bank orients its monetary policy toward achieving an inflation rate between 2% and 4% per year, as measured over a two-year horizon. Though rates slightly above or below that range are frequent – Chile is an open economy largely reliant on imported oil, and thus exposed to fluctuations in world prices – the expectations of economic agents have remained anchored in the desired range. Since 2010, end-of-year inflation has fluctuated between a low of 1.4% and a high of 4.4% and was 2.2% in 2017.

In 1999, the central bank adopted a freely floating exchange rate. This policy has managed to resist the pressures of the powerful export sector when the dollar has been weak against the Chilean peso. The central bank is empowered to intervene in the currency market as an exceptional measure and always with the goal of maintaining domestic price stability. The U.S. dollar, the main reference currency in Chile, has remained remarkably stable overall, with predictable cyclical variations due to the price of copper, the country’s main export, and to events in international markets. The real effective exchange rate index showed only minor oscillations since 2010 (between 103.6 in 2012 and 94.1 in 2014).

Overall, economic policy since the 1990s has been marked by the highly disciplined maintenance of macroeconomic stability, with the central bank and the government working together effectively. The government’s fiscal and debt policy is narrowly targeted at stability. In 2001, the government introduced a fiscal rule predicated on a structural (or cycle-free) surplus of 1% of GDP, intensifying Chile’s commitment to fiscal responsibility. Its principles were enshrined in the Fiscal Responsibility Law of 2006. In 2013, the transparency of the rule was improved and a fiscal council charged with ensuring compliance with the rule was created. Fiscal commitment to balanced budgets has generally proven to be immune to political cycles, with low budget growth even in election years.

In spite of these strengths, some weaknesses remain. For example, the rule, its parameters and its enforcement have all been open to short-term readjustment. The original goal of a 1% of GDP structural surplus was gradually relaxed into a goal of a 1% deficit, while the two last governments have simply chosen to commit to a given yearly rate of reduction of the deficit rather than a final goal. As a consequence of these trends, public debt has steadily grown from a record low of 3.9% of GDP in 2007 to 17.4% in 2015 to about 25% by the end of 2018. Though Chile holds considerable wealth in sovereign funds, its position as net creditor reversed during 2017. The current Piñera administration is committed to strengthening public finances and the structural deficit was around 1.7% of GDP in 2018, an improvement from 2% in 2017. The World Bank reported a net borrowing of 2.7% of GDP for 2016. In January 2019, a new law was passed that significantly strengthens the autonomy of the fiscal council charged with overseeing compliance with the fiscal rule. Overall, Chile’s fiscal position and policies remain one of the strongest in the developing world.
9 | Private Property

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

Private companies are viewed as the primary engines of economic production and are given all appropriate legal safeguards. Price controls and distortions are almost nonexistent. The main privatization process took place under the Pinochet regime and was not transparent. The scope of economic activities in which for-profit companies operate in Chile is unusually extensive, particularly as regards education, health care and pensions. This has generated political controversy, as many people regard the profit principle in such areas as inherently suspect. In fact, for-profit schools were prohibited in 2015 in the private, voucher-funded sector (which covers about 55% of enrollment). Likewise, the legitimacy of the AFPs, Chile’s private and for-profit pension companies, has been widely questioned by significant proportions of the public and all left-leaning parties. 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 some 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.
Social safety nets are relatively comprehensive, though deficiencies remain. Perhaps the strongest area is health care, where the national network of health care services provides universal access of significant quality throughout the entire territory. Although public health care spending is relatively low, health outcomes (e.g., infant and maternal mortality and life expectancy) are among the best in Latin America and among developing countries more generally. Access to the public health care system is universal (including for undocumented immigrants) and provided through the public insurance system, FONASA, although waiting times can be long, particularly for accessing medical specialists. About 15% are privately insured and constitute a separate risk pool of wealthier and healthier people, with significantly better access to specialists and private facilities. The public system was considerably strengthened in 2005 through the GES/AUGE, a system of explicit and actionable universal guarantees of timely access to health care for a few dozen medical conditions, which has since grown to cover 80 high-impact diseases and is continually upgraded.

Significant steps toward a universal pension system were undertaken by the first Bachelet administration, which guaranteed a basic pension income to all retired people who do not otherwise receive a pension. This basic pension currently stands at about $160 per month, which is still a modest sum (equivalent to the extreme poverty line). Over 85% of people aged 70 or older receive either a contributory or solidarity pension, though coverage among the richest is slightly lower. There are, however, large inequalities in pension income, as the main pillar of the system is contributory and based on individual accounts administered by private companies (AFPs). Thus, only people with higher wages and higher density of contributions over their lifetime tend to reach replacement rates of 60% or above.

The system also includes unemployment insurance through an individual severance account, which is supplemented by a solidarity component. Finally, there are currently about 80 programs and/or benefits in the social protection system aimed at poor or vulnerable individuals. This network was strengthened in 2012 with the guarantee of an “ethical family income” to about 170,000 families living in extreme poverty or vulnerability. The effectiveness of targeting in these programs is reflected in the fact that for the poorest decile of the population direct subsidies represented 45% of household income in 2017, while in the next decile this proportion was 15%. In addition, there are programs of subsidies and social support through other ministries, such as education and housing.
Equality of opportunity has gradually improved over time, though it remains constrained by persistent economic and social inequalities. A number of legal provisions address discrimination – including the 2012 Law against Discrimination – but the problems are primarily linked to social stratification.

Significant inequalities in education are linked to a school system segregated along socioeconomic lines, with better-funded schools for better-off children. PISA tests show that inequalities in performance between Chilean children can be explained to a higher-than-average degree by children’s socioeconomic origins. University admission tests also show a strong socioeconomic gradient. Accordingly, the youth of poorer strata have more difficulty accessing higher education and integrating into the labor market. Bachelet’s government passed reforms, which aimed to lower the socioeconomic segregation of schools and improve educational quality, although their long-term impact remains uncertain. Educational inequalities are further reinforced by informal barriers in the labor market linked to classist attitudes. This is a factor particularly when accessing high-end professional jobs, as several studies have shown. They have also shown that intergenerational mobility within the elite is low, and that levels of assortative marriages along educational lines are high. Nonetheless, over the last 30 years access to higher education has expanded dramatically, opening opportunities for (at least) upward absolute mobility. This is helped by near-universal secondary education completion rates. In 2017, the national household survey, CASEN, showed that gross coverage in higher education reached 40% among the lowest-income decile of the population (and over 90% in the richest decile). Most university students in Chile are first generation. Free higher education was introduced by Bachelet’s government in 2016 for students whose families belong to the poorest 60% of the population, lowering economic barriers to access and improving retention rates.

There is a mixed record on equal opportunity for women. Equality at all levels of education has been achieved. However, and despite significant recent improvements, there is a gap in labor force participation (48.5% for women versus 71% for men), which accentuates at lower levels of income and for older people. The gender pay gap, according to OECD data, is about 21%, significantly higher than the OECD average of 14%. Participation in politics by women has become more common but remains low, as evidenced in Congress where, despite a mildly effective recent quota law, only 23% of representatives in the lower house are women.

Chile’s indigenous peoples suffer from deep-rooted inequality tantamount to discrimination. There are a significant number of programs within specific government agencies tasked with promoting their interests and providing opportunities. In spite of this, indigenous peoples find it hard to escape from poverty. According to the CASEN survey, in 2017 income poverty was 8% for non-indigenous
people and 14.5% for indigenous people; for multidimensional poverty, the respective figures were 20% and 30%. Indigenous people’s access to health care and education services, however, at least in terms of coverage, is equal to that of non-indigenous people.

11 | Economic Performance

The macroeconomy is strong and recovering after weak investment and output results in the 2014 to 2017 period. The main reason for low economic growth rates was the depressed price of copper, Chile’s main export product, amidst a global downturn in the commodity cycle. This dragged down investment in mining and energy. Moreover, some of the previous government’s reforms (e.g., the tax and labor reforms approved in 2014 and 2016, respectively) depressed investor and consumer confidence. However, economic activity in 2018 recovered significantly, as copper prices partially recovered and a new, business-friendly government came to power. While economic growth averaged 1.7% in the 2014 to 2017 period, it jumped to 4% in 2018 and the IMF expects it to remain above 3% over the coming years. GDP per capita growth averaged about 1% between 2014 and 2017, according to World Bank, and 0.7% in 2017. Investment grew around 5.5% in 2018, recovering from an unprecedented four consecutive years of negative growth. Moreover, productivity grew 1.3%, the first year of growth for six years. Since 2010, end-of-year inflation has fluctuated between a low of 1.4% and a high of 4.4%, with 2.2% in 2017.

Though unemployment was contained during the years of low economic growth, it has remained higher than expected as the economy recovers, while growth in real wages remains low. The likeliest explanation for this is the significant immigration shock to the economy. It is estimated that between 2015 and 2017, Chile received 700,000 immigrants. The labor market has, overall, coped well with this shock. Formal salaried employment is replacing informal work as the economy recovers. The current account deficit has been low and is expected to remain below 3% of GDP over the coming years. Inflation has been low and stable, with annual rates well below 5% since 2009. Nevertheless, low economic growth and higher government spending has had an impact on public finances. Deficits were nearly 3% of GDP in 2016 and 2017, though in 2018 the figure dropped to around 1.5%. Public debt, after years of rapid economic growth (from very low baseline levels), reached an estimated 24.8% of GDP at the end of 2018.
12 | Sustainability

Environmental concerns are taken seriously by Chile’s political leadership, in line with increased citizen awareness regarding this issue. Chile has been a signatory to international environmental standards attached to free trade agreements. Chile’s environmental governance structure, established in 2010, 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 most such projects, making the approval of projects highly uncertain and independent of technical considerations. Courts have also been increasingly willing to rule in opposition to large mining and energy interests and impose sanctions for environmental noncompliance. Thus, companies have been forced to internalize the uncertainties associated with winning approval for environmentally sensitive projects.

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 in which large-scale protests broke out as health issues mounted among the local population. The episode highlighted the problems faced by the country in the face of previously lax environmental standards for authorizing projects.

According to the 2018 Environmental Performance Index, the country’s most significant shortcomings include air pollution, black carbon and carbon dioxide emissions. Though carbon dioxide emissions have been rising steadily, they are still well below the per capita average for countries in the OECD. A tax on carbon emissions (and other pollutants) came into effect in 2017 for all fixed, fossil-fueled sources generating 50MW of power or more. The tax collected almost $200 million during its first year in operation. In 2013, a law committed the country to generate 20% of its energy matrix from non-conventional renewable energies by 2025. However, around 17% of energy came from renewable energy sources in 2018. The target is likely to be reached years in advance, as Chile’s solar industry has achieved success in Chile’s northern desert. Marine protection areas have also grown very significantly. Local attitudes to recycling, however, are still underdeveloped, though they are improving.
Education in Chile is fairly sound, but R&D is still a weak pillar of Chile’s development model. Chile has one of the highest enrollment rates in Latin America at all levels of education for both men and women. Indeed, gross tertiary enrollment was one of the highest in the world at 90% in 2016 (up from 37% in 1999), according to UNESCO data. According to OECD data, Chile spends about 6.1% of GDP on education (2016), with public funds contributing about 65% toward that amount. In the U.N. Education Index, Chile ranked 17 out of 133 BTI countries considered and scored 0.800, second in the region behind Argentina (0.816).

However, quality is relatively low and the school system is segmented along socioeconomic lines. A number of major educational reforms were enacted under the Bachelet government (2014–2018), affecting all levels of education and increasing the overall public education budget by a third over just four years. Some of the reforms (e.g., a significantly improved wage and career path for school teachers, and the creation of a national system of school and pre-school quality assurance) are likely to improve educational quality, while other reforms (e.g., free university tuition for poorer students) are expensive and may have limited impact on the overall access to (which is already high) or the quality of education. Compared to OECD countries, Chile spends proportionally more on tertiary students, and less on primary and secondary education, which undermines equality. Despite deficiencies, Chile showed one of the OECD’s largest improvements in the PISA test from 2000 to 2015, including socioeconomically disadvantaged groups. The country ranks at the top in performance among Latin American countries both in PISA and in other regional tests. Still, compared to most OECD countries, overall performance is poor. By developed country standards most of the Chilean workforce has low analytical, communication and problem-solving skills.

Chile has a vibrant university sector, with both private and public providers and some elite institutions that attract students and academics from all over Latin America. A series of government-funded competitive grant schemes for academic research projects are available, which are crucial for universities’ overall research output. However, university research budgets are relatively low. Chilean universities have relatively low interconnections with business, meaning scientific and productive knowledge tend to be divorced from each other. Chile ranked 34th in the world in patents per capita according to the World Creativity Index 2015, similar to Argentina (36th) and Brazil (31st). Though some export sectors (e.g., wine and cherries) have incorporated advanced technology into their production processes, most companies are remarkably unenthusiastic about R&D, despite the introduction of a tax incentive law in September 2012. In 2016, Chile invested barely 0.4% of its GDP on R&D and private companies spend less than the government (32% versus 42% in 2015).
Governance

I. Level of Difficulty

Structural constraints are partly associated with the country’s location and geography, including its small domestic market, its great distance from the poles of global development and main world markets, and exposure to natural disasters. Chile was struck by major earthquakes in February 2010 and April 2014, which caused substantial material losses. Climate change has led to the emergence of new risks, as the large wildfires of January 2017 demonstrated. Moreover, Chile is a small, poorly diversified economy reliant on imported fossil fuels. As such, the economy is very exposed to shifts in world commodity prices, particularly oil and copper prices. Other constraints are historical but still difficult to eliminate, as is the case of the country’s deep social and economic inequalities. In recent decades, other constraints such as extreme poverty, a poorly educated workforce and infrastructure deficits have been overcome to significant degrees.

Traditions of 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. Furthermore, civil society’s organizational landscape has become increasingly differentiated. In some areas (e.g., in schooling), a tradition of civil society participation has deep historical roots.

Although civil society organizations are numerous, few are active in political life, as political parties used to hegemonize participation in public affairs. However, that situation has begun to change over the last decade. Some NGOs have at times been highly effective agenda-setters, promoting (and winning approval for) legislation for greater transparency and probity in politics in general, or in, for example, educational reform in particular.
Conflict intensity is relatively low in Chile, apart from the Mapuche conflict in the south, which in this decade has increased in frequency and violence – though still without leading to major clashes or many deaths. The conflict concerning human rights violations under the dictatorship has lost much intensity over time, as the main culprits are in jail and the state succeeded in developing broad remedial measures. However, the main rifts in Chilean society are still predominantly socioeconomic, concerning social inequalities. These conflicts have recently gained much public attention, though they rarely escalate to violence. That said, student protests frequently turn violent on the fringes, with small groups destroying private and public property and throwing Molotov cocktails at police, who sometimes respond with excessive use of force. Workers’ strikes in some activities (e.g., miners, fishers or dockworkers) can also turn violent.

Overall, part of the reason for increased conflict is simply a normalization of democratic politics, as different social actors now conceive of themselves as bearers of rights, in a kind of passage from a political culture of passive citizenship (or “subject culture” in the concept of Gabriel Almond and Sidney Verba) to a true “civic culture.” Nonetheless, a widespread citizen culture of dialog and deliberation among democratic equals is yet to develop. In this context, the unraveling of existing political parties’ legitimacy has created a growing gap between ordinary citizens and the traditional political class, which in turn has lowered the political system’s capacity to absorb and process social conflict. Moreover, the broad socioeconomic developmental consensus, which existed among the country’s political elite during the first 20 years of democracy, has largely disappeared, leading to greater uncertainties and to somewhat increased polarization.

II. Governance Performance

14 | Steering Capability

Since 1990, all governments have been able to propose and implement long-term policies, even as they have had to search for broad consensus to enact policy reforms expected to endure. Criminal justice, health care, civil service and tax reform, among many others, were taken forward in this way. There is a relatively efficient public system and a network of technical agencies that increase the strategic capacity of governments to prioritize and organize their policy measures. Governments also rely heavily on external expertise – most reform projects are accompanied by expert commissions – as well as evidence-based policy-making, regulatory impact assessments, 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. The special authority of finance ministers has been key in generating business confidence in government and providing stability, as finance ministers usually remain in office for the full term of the president (unlike other ministerial positions, which tend to rotate more frequently). The special authority has also helped to underwrite the importance of the fiscal balance rule, which has been in place for over 15 years and whose demands take precedence over any short-term interests (including electoral pressures).

This overall architecture notwithstanding, during the Bachelet administration (2014–2018), strategic consistency declined somewhat. Bachelet’s administration was the first government to have three finance ministers during a four-year term. The two previous governments, including Bachelet’s first government (2006–2010), had just one finance minister. This reflected tensions within her coalition between a more aggressively reformist and a more prudently reformist camp, which generated constant uncertainty about the scope and content of the government’s reform agenda, as well as producing sometimes-improvised proposals (e.g., the 2014 tax reform).

The new center-right government, on the other hand, is supported by a less divided coalition of parties in which the president retains considerable authority. Strategic priorities (e.g., tax, fiscal deficit, pensions and immigration priorities) have been laid out. Though the government will need to constantly negotiate with the opposition in order to achieve its goals, as it does not have a majority, its performance during its first year in office suggests considerable consistency and unity of purpose. Nevertheless, the government can occasionally act opportunistically (or at least improvise). For example, in December 2018, the government announced, just a few days before the event, that it would not sign the U.N. Global Compact on Migration – probably when it realized the popularity of such a decision among its supporters. Overall, the government’s agenda is likely to be derailed less by opposition parties than by social movements (e.g., students) and large-scale citizen protests.

Until 2014, consensus was the traditional lynchpin of all government legislative strategies to win approval for and ensure the implementation of policy initiatives. Consensus was inherently valued but was also a political necessity, as administrations traditionally did not have a clear, stable and commanding majority in both houses. However, the 2014 to 2018 Bachelet administration did command both majorities, which meant it was less necessary for the Bachelet administration to persuade right-wing parties. This allowed the Bachelet administration to pass major legislation, concerning matters as diverse as taxation, education, labor law, electoral system and campaign funding. Nonetheless, issues of poor design plagued many of the major reforms. The new administration, on the other hand, does not command a majority in Congress and has signaled its commitment to engage with willing opposition parties. In practice, all the new administration needs, is to secure a few votes from the more centrist parties (the radicals and the Christian Democrats) to get its bills through. During its first year in office, this strategy worked for the government on some issues,
such as winning approval in the lower house for its immigration bill in a form close to the government’s ideal, against the left-wing opposition. Though the bill must still be approved by the Senate. Nonetheless, it remains to be seen whether such successes can be replicated in areas where the ideological distance between the government and centrist parties is greater, such as in tax reform, over which the opposition is united at present.

The government has signaled its willingness to compromise. When the opposition unites, it can defeat the government. For example, in 2018, the opposition united in respect to the minimum wage, which highlighted the government’s precarious legislative position and the uphill battle the government will face over most major reforms. When centrist parties align with the left, the government usually reverts to a more hardline stance in which pressure on Congress is applied through public opinion. On the other hand, coalition and cabinet unity have been strong on almost all issues, as the right-wing parties are less ideologically divided than the opposition, and the president has considerable authority and control over his cabinet.

There is considerable policy learning and flexibility in policy-making. Learning is mostly institutionalized in a state-bureaucratic apparatus with significant continuity over time and between administrations, both in core personnel and in the implementation of programs, which (mostly) build on previous efforts rather than start anew. Agencies monitor and evaluate the implementation of each public policy (a requirement in the rules of procedure of the public administration), though internal controls are more procedural than goal-oriented. Additionally, each government establishes its own monitoring mechanisms regarding the implementation of its strategic policies. The system also relies on knowledge exchange, including through international cooperation (virtually all public bodies participate in the appropriate regional and international forums and follow international technical standards in their procedures), and also through the consulting of academic experts and practitioners (including commissions and standing committees for the study of new policy proposals). The Budget Office (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. Even poorly implemented policies, like the capital’s transport system (Transantiago) in its beginnings in 2007, have gradually improved over time as the Transport Ministry learned from experience and slowly modified contracts and bus routes to improve performance.

Governments have also shown flexibility, 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. Nevertheless, in some instances, Bachelet’s government deviated from this general approach and ignored warnings from government-friendly economists when crafting new legislation, such as the tax and labor reforms. The new
(center-right) government’s proposed tax and pension reforms, on the other hand, will face considerable scrutiny in Congress and will require cross-party support to be passed. As in the past, this will likely involve highly technical negotiations with considerable expert input. Nonetheless, some have accused the government of rushing to (partially) revert the previous government’s reforms in areas such as tax and education, with the new government proposing significant changes before Bachelet’s reforms have been fully implemented, thus limiting opportunities for policy learning. This reflects the fact that the Bachelet reforms were not the product of consensus in the first place – and, more generally, the moderate increase in ideological polarization in Chilean politics.

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, for instance, more closely scrutinizing the use of resources by the armed forces. An extensive modernization process in public management was initiated in the mid-1990s and progressively deepened since then. A key agency is the Budget Office (DIPRES) attached to the Ministry of Finance, which approves expenditures according to the budget law and regularly monitors its efficient management. 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, even above Brazil’s. The most important reform was the creation of the Senior Public Management System (Alta Dirección Pública) in 2003, which ensures meritocratic hiring of top civil servants and has since been deepened several times. The last of these upgrades was in 2016, which closed the loophole on sacking employees, and extended the system’s scope and depth within the central administration. 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.
In most cases, the government coordinates its policies effectively and acts coherently. As a highly centralized country with a strong presidential system, hierarchy and top-down commands are the main coordination mechanism – with the strengths and weaknesses such a system entails. On almost all matters, the president has the final say, though individual presidents have varied substantially in how much decision-making power they delegate to ministers. The current president, Sebastián Piñera, is known for his tight control and one-to-one supervision of ministers.

There are several agencies and bodies tasked with evaluating policy proposals and coordinating public policies, including the president’s advisory ministry (SEGPRES) and the government office ministry (SEGEGOB). The Ministry of Finance is also involved in the preparation of most policy proposals. Week-to-week political coordination is in the hands of the “political committee,” which includes the president, and the ministers of finance, interior, SEGPRES, SEGEGOB and social development. A specific division within SEGPRES is specifically charged with the coordination and programmatic monitoring of the executive – especially in the preparation of decisions affecting more than one ministry – and serves as technical support for the Interministerial Committee. Presidents may sometimes name “presidential delegates” with decision-making authority to coordinate efforts on specific matters (such as natural disasters or shanty-town eradication).

The system’s main vulnerability is 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 the major 2010 earthquake was internationally regarded as fast and effective. However, reconstruction after far smaller disasters (e.g., mudslides in Atacama in 2015) was much slower. The preparation and implementation of Transantiago in 2007, the capital’s public transport system, was also an example of a complex policy where coordination was highly deficient.

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

The 2003 reforms for campaign funding and state administrative rules were first steps, as was the 2009 Transparency Law, through which citizens and media have gained significantly improved access to information. In addition, a Transparency Council was created in 2009, which promotes the principle of transparency and upholds full compliance of the transparency law by state agencies. Auditing of state spending is guaranteed through the Comptroller General of the Republic, who performs oversight functions that also help prevent large-scale corruption. However, as the Carabineros embezzlement case showed in 2017, the Comptroller General’s functions can occasionally be subverted. There is some small-scale corruption, particularly at the municipal and lower levels of central government, often in the form...
of influence peddling. Although the public procurement system is largely transparent, it remains a potential source of corruption. A further advance in 2014 were laws that strengthen transparency and probity in municipalities as well as a lobby law, which requires authorities and public officials to publicize their agendas and establishes the creation of a register of lobbyists (though it does not regulate their activity).

In 2016, after a major wave of political financing scandals, legislation was again upgraded. Among them, the reforms to election campaigns, to political parties and their funding, and a new probity law (which strengthens regulation of asset and interest declarations, asset management and obligations to divest assets) constitute significant advances in separating money and politics. 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. However, prosecuting violations of the campaign funding law has proven difficult because of the two-year statute of limitations placed on such crimes.

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., the degree to which representative institutions should be complemented by mechanisms of direct democracy). The most significant current disagreement concerns whether the current constitution, written in 1980 by Pinochet’s government but substantially modified thereafter, should be entirely replaced by a constitution drafted by a Constituent Assembly (the left’s position) or merely reformed in Congress (the right’s position).

Bachelet’s government made substantial efforts to move toward a new constitution, but lacked the required legislative quorums to push the matter forward. The current government has ignored the issue, as it did during the recent election campaign, and the electorate does not appear to consider the matter a priority. Movement in this regard, therefore, seems unlikely during this administration, but is likely to revive if a left-leaning coalition returns to power.

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 new leftist bloc Frente Amplio, which largely emerged from the 2011 student movement, is deeply critical of the Concertación governments (1990–2010), which Frente Amplio accuse of having been merely a softened version of “neoliberalism” in permanent submission to business interests. This view is shared by many of the former Concertación parties themselves, such as the Socialist Party of Chile. The focus, at least for now, is on pushing market mechanisms out of sectors that are “social rights,” such as education and pensions, but their critique is easily extendable to any form of public provision that relies on market profits (e.g.,
infrastructure concessions). The wider point, however, is that Chile’s long-standing consensus on a socioeconomic “model,” which guided almost all actors between 1990 and 2011, is now, at least in some important respects, a thing of the past. Areas such as taxation levels, market provision of “social rights” and the use of market mechanisms in the management of natural resources (e.g., tradable water rights) were not contested in the past, but are now. Thus, although the core principles of a market economy are not disputed, some uncertainty arises regarding the substance of a new socioeconomic consensus.

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. In recent years, young legislators on the right and the left have sometimes resorted to supporting past or foreign dictatorships. For instance, a deputy from the right-wing National Renovation party declared herself “Pinochetist” in a speech. Meanwhile, within the Frente Amplio on the left, some legislators have shown support for the Cuban revolution or Maduro in Venezuela. However, such moves are largely symbolical and are an easy way to play identity politics with specific portions of the electorate. As such, the moves do not affect internal politics or policy positions in any significant way.

The main cleavage in Chilean society is linked to social and economic inequalities. Other cleavages, such as cleavages concerning support for dictatorship or human rights, or around religious values (Catholic morals versus secularism), have weakened substantially. These divides are reflected in the party system, unlike the ethnic divide (the Mapuche conflict). Regionalist interests sometimes cohere into a cross-party bloc in Congress, but this is unstable and highly variable.

Until recently, conflict management was relegated exclusively to the elites, which since 1990 had sought to depolarize conflict through a “culture of agreements” or consensus-based politics. Though highly effective initially, it eventually alienated citizens and civil society. This has changed since 2011; society has emancipated itself faster than the elites imagined. Bachelet’s ambitious program of reforms was a deliberate attempt to take distance from this cozy consensus with the right and to thus depolarize conflict by politically channeling social movements’ demands. Such an attempt was partially successful, despite her government’s low popularity for most of its term. A more enduring cause of conflict may concern the appearance of a new leftist party bloc, Frente Amplio, which largely emerged out of the 2011 student movement. Frente Amplio is already a significant force in Congress and is likely to remain an important and competitive actor in the future. As a result, the party system has now begun to reflect and may eventually provide institutional channels for social conflict, though distrust of parties remains high and electoral participation low. Finally, in the last 25 years the Mapuche conflict has become more radicalized and political leaders have had problems in depolarizing it. A broad consensus capable of integrating all conflicting groups is still lacking.
The political leadership regularly takes the interests of civil society actors into account, whose ability to influence the public agenda has increased over time, even as political parties have ceased to be the sole vehicle for influencing legislation. Legislative committees regularly invite and permit the relevant civil society groups and experts to share their views on proposed bills. Economic and professional interest associations are relatively influential, though NGOs are increasingly active as well. The new social movements are now significant actors, as informal veto players (e.g., in various energy projects), 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.

A sporadic but major role for civil society actors occurs through ad hoc commissions that presidents typically summon to help them bring forward change on some major policy where they need cross-party support. A typical example was the Engel Commission in 2015, formed by 15 academic experts and civil society leaders (e.g., the president of the Chilean Bar Association and major NGO leaders) representing diverse interests and political leanings. The Engel Commission’s proposals were largely passed into law. Likewise, Bachelet formed the Citizens’ Council of Observers for the constituent process, which designed and conducted, with significant autonomy, a major consultation process as a first step toward writing and approving a new constitution. Under the current administration, Piñera invited an ad hoc working group of legislators, government officials and NGO leaders to propose policies focusing on enhanced child protection and development.

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

Judicially, after Pinochet was detained in 1998, courts began to actively prosecute former human rights violations. By November 2015, a total of 1,373 officers and civilians had been indicted, prosecuted, accused and/or convicted of human rights violations during the dictatorship. Of those, 344 had been definitively convicted. In August 2018, there were 174 people serving prison sentences for human rights violations. The highly controversial 1978 amnesty law – which states that human rights violations perpetrated between September 1973 and March 1978 cannot be prosecuted – is almost never applied by the courts even though it remains in force.

Politically, the first major landmark was the 1991 report of the Truth and Reconciliation Commission, which established the existence and identity of disappeared or murdered victims. In 2003, this was followed by the Valech Commission, which gathered information and granted pensions and other compensatory benefits to those classified as victims of torture and political imprisonment. Human rights promotion became a state policy with the establishment of the Human Rights Program in 2003. In December 2009, the Museum of Memory
and Human Rights was inaugurated. During the first Piñera administration, he ordered the closure of a special prison reserved for former military officers, thus signaling a willingness within at least parts of the right-wing coalition to abandon its historical support for the dictatorship. Nonetheless, another such special prison remains, which is a reason for regular complaints from the families of the victims. In 2018, the Supreme Court granted parole to six people found guilty of human rights violations, generating outrage among victims’ associations. Left-wing parties presented a constitutional indictment against the judges, which was narrowly defeated. However, in November 2018, Congress passed a law (against opposition from most right-wing legislators) that substantially increases the requirements for granting benefits to people found guilty of human rights violations, aligning them with the Rome Statute.

Finally, at a cultural and social level, hardly any actors remain that do not condemn Pinochet’s human rights violations. Both major right-wing parties, for instance, have removed any support for the “military government” from their declaration of principles (National Renewal, RN in 2014 and the Independent Democratic Union, UDI in 2019). Likewise, the reluctance of some sectors of the judiciary, the media and the political right to recognize their roles in that period has slowly changed.

17 | International Cooperation

Since 1990, Chilean governments have made judicious use of international aid in transformation initiatives, effectively utilizing international assistance for their domestic reform agenda. Development aid projects have concentrated in a few sectors, in particular the environment, renewable energy, social and regional development and state modernization, with donors complementing strategic government policies in Chile. A 2010 European Commission evaluation viewed Chile as a reliable partner in development cooperation. All of the cooperation programs evaluated had been executed as planned and national counterpart funds delivered. In November 2013, the OECD also made a positive evaluation of the actions taken by Chile’s International Cooperation Agency. 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. OECD recommendations are regularly considered in (informed) public circles and debated in the media. As of October 2017, Chile officially can no longer receive OECD aid funding, because its income per capita levels are above the eligibility threshold. Nonetheless, in 2015, Chile received only $67 million in international aid (loans and donations), mostly related to energy and climate change initiatives, while providing $20 million in aid to other countries.
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, and at the International Court of Justice in The Hague (which ceded maritime territory under Chilean control to Peru in 2014). Despite the above, in 2018, the new administration declined to sign international agreements to which it had announced its support. In September 2018, Chile pulled out of a Latin American environmental protection agreement (the Escazú Agreement) in creation and design of which Chile had played a leading role until the very end. Then, in December 2018, the government announced it would not join 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. On both occasions, the government said it wanted to prevent any actors from suing Chile in international courts, something to which parts of the citizenry (and right-wing politicians) have become strongly averse after successive lawsuits filed against Chile at The Hague by Peru and Bolivia over the last decade. The long-term damage to Chile’s international credibility remains to be seen and will probably depend on whether the current government’s suspicious attitude to international commitments reverses or becomes established policy.

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. Though, in 2018, it decided to cease participation in UNASUR, it will now participate in the newly created Forum for the Progress and Development of South America (PROSUR) initiative. The country has also assumed a leadership role in triangular cooperation in Latin America and the Caribbean and provides aid and development projects throughout the region. Nonetheless, in 2018, Chile did not sign a newly created regional environmental pact, the Escazú Agreement.

Relationships with immediate neighbors are mixed. During the 1990s, the last territorial disputes with Argentina were resolved and the relationship improved on all fronts, including significant security cooperation. Relationships with Peru have been more fraught, but after the International Court of Justice (ICJ) partially accepted Peru’s claim to a correction in the maritime boundary between the two nations, practically all territorial disputes have been resolved (a tiny area on the beach is still
disputed). Relationships have been helped by the deeper commercial ties between the two countries and their shared orientation toward the Pacific and APEC countries. On the other hand, Bolivia continues to demand talks to discuss gaining sovereign access to the Pacific Ocean, 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

Every relevant indicator today characterizes Chile as an economically stable, market-friendly and democratic country. Moreover, significant recent progress has been made in transparency and probity in politics, energy, education, banking law and immigration. Despite this, important challenges remain, which in part arise from the success of previous decades. The challenges are mainly political.

First, long-term economic growth has led to the emergence of a middle-class society, whose identity is more closely tied to individualistic values of self-help and hard work in the market than to collective solidarity. Demands for greater economic security from some of these groups fueled the massive pension demonstrations of recent years, amidst a general public feeling that the state only helps the poor. Traditional parties on the left and right have been slow to realize this. If political parties are to regain public trust and the identification of citizens, a major challenge for political parties, both old and new, will be to connect with and politically elaborate the demands and expectations of these groups.

Second, an ideological fault line between universal approaches to social policy and a continued faith in targeted spending has emerged and gained relevance. However, as important as this discussion may be, a path toward consensus should start from shared goals (e.g., reducing inequality of opportunity) rather than focusing on specific instruments or on disputes of state versus market, which are typically a dead end for such discussions. More broadly, recent political discussion has not given sufficient attention to economic problems, such as falling productivity (the good news of 2018 notwithstanding) and the high dependence of the economy on copper prices. Issues such as industrial policy remain off the agenda. A further major challenge will involve securing much-needed state reform to deepen meritocratic selection processes and modernize procedures in order to increase efficiency and effectiveness when implementing increasingly complex governance tasks.

Third, increasing political fragmentation, coupled with the loss of support for and authority of economic and political elites, means that power has never been more dispersed. This is difficult to handle for a society that has historically been used to centralized and vertical decision-making. Developing a mass democratic culture of respectful dialog among equals will not happen overnight, but the political leadership will play a crucial role in fostering or inhibiting its growth. For instance, the current administration has been the first administration to try to address the Mapuche conflict politically, but it remains to be seen whether such an approach will survive the demands of many hardline government supporters. More broadly, building a new social consensus will be of particular importance in the coming years and may be the hardest challenge of all. But the challenge will open a window of opportunity for Chilean elites, civil society and citizens alike to overcome deep-rooted divisions in society.