This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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### Status Index

<table>
<thead>
<tr>
<th>Domain</th>
<th>Scale</th>
<th>Score</th>
<th>Rank</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Transformation</td>
<td>1-10</td>
<td>9.10</td>
<td># 9 of 129</td>
<td>➤</td>
</tr>
<tr>
<td>Economic Transformation</td>
<td>1-10</td>
<td>8.54</td>
<td># 10 of 129</td>
<td>➤</td>
</tr>
<tr>
<td>Management Index</td>
<td>1-10</td>
<td>7.26</td>
<td># 4 of 129</td>
<td></td>
</tr>
</tbody>
</table>
**Executive Summary**

At first glance, Chile appears to have continued along the relatively successful path of political and economic transformation which began in the late 1980s. The government of President Sebastián Piñera has largely maintained the (generally business-friendly) policies of the Concertación governments which ruled between 1990 and 2010, while at the same time applying its own style of increased efficiency in order to strengthen its legitimacy. There has been an impressive return to growth following the recession which resulted from the global financial crisis, social indicators are favorable, and democracy was further strengthened by enhanced transparency of state institutions.

Piñera’s term began in the wake of the 2010 earthquake (whose effects the government generally managed successfully). But the second and third year of the administration was marked by a societal earthquake – in the form of a surge in protests by students, indigenous organizations and citizens who feel their demands are not being met – whose consequences for Chile’s transformation path are yet to be determined. While no-one is seriously questioning the country’s democracy and market economy, what is at stake is a new relationship between citizens and the elite and a new consensus about the socio-economic model. And so what appears to be a return to turmoil may be better interpreted as a “renewal” of democracy in Chile.

Given this background, Piñera’s transformation management has been somewhat ambiguous; while it has been relatively successful in terms of the “old” paradigm, he has not yet managed to cope with new challenges, and it is doubtful that a Concertación government would have fared any better. Notwithstanding, Piñera has shown considerable ability to learn and has begun a new program of consensus building, but this is a difficult task given citizens’ deep-rooted distrust of the political elite.
History and Characteristics of Transformation

Chile’s recent history is marked deeply by the 17-year dictatorship of General Augusto Pinochet (1973 – 1990). The putsch against Allende in 1973 put an end to four decades of stable democracy. The dictatorship was characterized by grave, systematic violations of human rights. Under the socioeconomic model imposed by a financial capital-linked group of technocrats known as the “Chicago Boys,” the state withdrew from its social role in education, health, social security and labor relations. The rate of poverty increased to 40%, and workers’ income fell back to 1973 levels in real terms. In 1980, Pinochet introduced a constitution that provided the framework which allowed a democratic opposition to organize, ultimately winning a 1988 referendum designed to keep Pinochet in power. After this plebiscite, presidential and parliamentary elections were held in 1989, and the candidate for the center-left Concertación coalition, Christian Democrat Patricio Aylwin, was victorious.

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

The third Concertación government, led by President Ricardo Lagos (2000 – 2006), a socialist and founder of the Party for Democracy (Partido por la Democracia, PPD), managed to restore the economy after the effects of the Asian crisis. It also promoted and implemented significant reforms aimed at combating extreme poverty and modernizing education, health, culture, labor relations, public financing of electoral campaigns, laws on probity in state management, and constitutional reforms. In the area of human rights, prominent trials of some high-ranking officers of the Pinochet regime (and of Pinochet himself), along with the Valech Report on Torture and Political Imprisonment, marked historic steps toward justice and reparation. The fourth Concertación government (2006 – 2010), led by socialist Michelle Bachelet, initiated major reforms to the state system of social protection, especially the social security and pension systems. Her administration created advisory councils for policy development and launched projects with the goal of promoting social protection and equity.
Despite Bachelet’s successful management of the economic crisis and high approval rates, the Concertación showed signs of exhaustion. The national elections of December 2009 and the presidential run-off ballot of January 2010 saw the right-wing Alliance for Chile (Alianza por Chile) – composed of the moderate National Renovation party (Renovación Nacional, RN) and the more radical Independent Democratic Union (Unión Demócrata Independiente, UDI) – as the winner of national elections for the first time since redemocratization. It is also the first time since 1958 that the conservatives had won a national electoral competition. The Alliance presidential candidate, Sebastián Piñera, won the day against the Concertación candidate, former President Eduardo Frei, by 51.6% to 48.4% of the votes.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

There is no real threat to the state’s monopoly on the use of force anywhere in its territory. The state’s authority to enforce laws is uncontested, and it has enlarged its activities to control organized crime, such as drug trafficking. There are some minor problems with criminal gangs on the outskirts of Santiago.

However there has been a series of violent incidents arising from conflicts with indigenous organizations in recent years, particularly in the central-southern regions of La Araucanía, Bio Bio and Los Lagos. According to official statistics, in 2012 alone there have been 287 cases of intimidation, arson, occupation and bomb attacks in these regions, including two deaths (one policeman and one landowner). Despite the severity of these problems, the state’s monopoly on the use of force remains intact.

The definition of citizenship and the question of who qualifies as a citizen are not politically relevant issues in principle. Every citizen has the same civic rights, and individuals enjoy the right to acquire citizenship without discrimination, no matter what their background. Every group in society, including indigenous peoples, generally accepts the legitimacy of the nation-state, though the ongoing conflict mentioned in “monopoly on the use of force” may further damage their acceptance of the state’s legitimacy if not addressed in earnest. The institutions of the state enjoy broad legitimacy, although there is some criticism of the constitution (with the “Pinochet Constitution,” dating from 1981, still in place).

While citizenship is not denied to individual members of indigenous groups, unresolved conflict around collective indigenous rights remains, accompanied by low-level hostility from a few radical groups against the Chilean state, and against the Mapuche people on behalf of certain entrenched interests. The state has never explicitly recognized the country’s various ethnic groups in its constitution.
The Bachelet government (2006 – 2010) was the first to give serious consideration to immigrants’ rights, with the Piñera government facilitating immigrants’ access to state protection systems and ensuring equal opportunity in the labor market (according to globalpost.com, 28 January 2011).

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

This said, the Catholic Church successfully acts as a pressure group, and has exerted great pressure on various aspects of social life relating to the consideration of ethical values. This has included attempts to influence the formulation and promulgation of laws. The country’s divorce law, for example, took nearly a decade to be enacted. The Catholic Church has in the past also tried to force the government and Chile’s legislative body, the National Congress, to change rules related to sexuality and reproduction (e.g., with regard to rules requiring pharmacies to carry the morning-after pill), as well as to health and education. In some cases this influence is strong enough to prevent discussion on these issues before an initiative is presented to parliament, as is currently the case with the issue of abortion.

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

In contrast to its neighbors and to most of the region, Chile neither is a federal state nor has implemented any serious system of decentralization. The marked centralism leads to strengths as well as weaknesses. Public policy is defined in a centralist way, and thus the specific needs of the country’s political-administrative divisions and the particular characteristics of the population are not always reflected. As there is no real regional autonomy, regional governments and administrative structures depend heavily on centralized decision-making. To some extent, the administration exhibits shortcomings that arise from the concentration of resources within areas close to the cities, which are home primarily to people of a middle-high socioeconomic stratum. Despite some evidence of clientelism, local administrations generally seem to be more or less sound.
2 | Political Participation

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

However, during the 2012 municipal elections, for the first time since the return to democracy there were problems in the transparent and timely delivery of results from the interior ministry. In fact for several weeks the final table-by-table results remained unavailable and reporting of almost a million votes was delayed. Problems with the new system emerged, such as the inclusion of deceased citizens on the electoral register. These problems were made public by academics and political commentators, and picked up by the media.

The binomial electoral system, which was introduced under the authoritarian regime and effectively excludes a third force, is still in place. This leaves the two dominant alliances – the center-left Concertación and the rightist Alliance for Chile – sharing all electoral posts in the National Congress between them, which reduces social representation. In addition, there is no guarantee of fair and equal media access for all candidates and parties.

According to the Americas Barometer, Chilean voter turnout in nationwide elections is the highest in the region (with 94.2% of registered voters actually casting ballots). However, only 67.9% of the voting-age population is actually enrolled in the electoral registry, the lowest such figure in Latin America. That means that more than a third of the population does not participate in elections, with particularly low rates among young people. In 2009, a constitutional reform introduced automatic voter registration and declared voter participation voluntary. The 2012 local elections, the first voluntary elections for Chileans since the end of the Pinochet dictatorship, resulted in a disappointing drop to a rate of just 43% (a virtual drop from 58% when compared with 2008 municipal elections).

The effective power to govern – a key issue in Chilean democracy, especially with respect to the role of the military as a legacy of the Pinochet regime – has been guaranteed since the 2006 constitutional reforms: the institution of appointed senators was abolished, and the president regained the right to remove the commander-in-chief of the armed forces, thus further strengthening democratically elected rulers’ power to govern. In 2012, parliament repealed the 1958 Ley Reservada del Cobre (Copper Law) which tied the military budget to copper revenues, thus enhancing civil control over the military.
There are no veto powers any more as such, notwithstanding the strength of some pressure groups. Some conglomerates in the economy (the so-called “grupos económicos”) enjoy a considerable concentration of economic power, enabling them to effectively block any policy which works against their interests. However, this is something of a gray area given the concentration of Chilean elites and their overall ideological coherence, and has given rise to conflicts of interest which have been a hallmark of the Piñera administration.

Freedom of association and freedom of assembly are unrestricted within the democratic order. Independent political and civil society organizations are generally allowed to form freely. However until the recent student protests, Chileans remained somewhat reluctant to exercise their political rights outside the framework of political parties (with the exception of Mapuche organizations, who have expressed their concerns in more organized fashion since 1990). To put it another way: Chile’s “new” democracy still isn’t completely comfortable with the participative consequences of the political rights which the Constitution guarantees, but has made significant progress. Freedom of assembly is generally respected although police have been known to use excessive force against demonstrators.

Another restriction results from the uncontested economic policy model. Though the right of association, and the right to strike and bargain are generally respected, and political activity on the part of unions is not restricted, unions’ collective bargaining rights are still subject to some provisions that do not meet international labor law conventions. In addition, the right to organize is often obstructed and undermined by subcontracting and other informal practices, and lacks appropriate supervision by the Directorate of Labor.

Freedom of opinion and freedom of the press are constitutionally guaranteed. In the 2013 Press Freedom Index issued by Reporters without Borders, Chile was in 60th place, an improvement of 20 positions in relation to the previous report, coming in sixth among Latin American and the Caribbean countries.

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

In 2009, the Law on Access to Public Information (Ley Transparencia) came into force, giving citizens extensive rights to information on state institutions, a move accompanied by the creation of an autonomous body (Consejo para la Transparencia) to monitor its application. Statistics show that the law has increasingly been accepted by Chilean citizens, resulting in about 40,000 requests for information in 2011 alone.
However, there is a trend toward increasing levels of ownership concentration in the media, especially newspapers (effectively controlled by a duopoly), pay television, telecommunications, cinema distribution and, in recent years, radio.

Pluralism of the press is limited by the concentration of media ownership throughout the country by two groups, El Mercurio and Copesa, which also control the distribution chain. These newspapers generally influence the political elite rather than the broader public. The few alternative print publications are often forced to close due to a lack of private advertising and public support.

The country’s television landscape, on the other hand, is largely independent, with seven nationwide terrestrial commercial television channels. While the sole public station, TVN, is politically independent, it receives no public subsidies, forcing it to orient its programming along commercial lines. In 2010, the Catholic University sold its station, Channel 13, which is now a fully market-oriented station. This and other two private stations together attract more than 90% of ratings.

A broad range of over 800 radio stations of national and in some cases transnational ownership are regarded as credible, providing independent political news as well as other programming. But in recent years this industry has begun consolidating into a handful of groups, one of which belongs to Copesa, thus representing the beginning of horizontal concentration of the Chilean media. This is taking place alongside a long-standing tendency toward centralization in the capital Santiago, with satellite networks often forcing out regional radio stations.

There are no restrictions on the use of the Internet or new communication technologies (which were a significant factor in the student protests). In addition, online media outlets such as El Mostrador are becoming more popular, especially among the elite.

3 | Rule of Law

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

Chile’s judiciary is independent and performs its oversight functions appropriately. It is mostly free both from unconstitutional intervention by other institutions and from corruption. It is institutionally differentiated, and there are mechanisms for judicial review of legislative and executive acts. Several constitutional reforms have improved its performance since the return to democracy in 1990. In 1997, the election procedure for Supreme Court judges was reformed, curbing the influence of judges nominated by Pinochet. Equally important was the reform of the penal code initiated under President Frei, which introduced oral procedures, a public prosecutor’s office and district attorneys. The 2005 reforms enhanced the Constitutional Tribunal’s autonomy and jurisdiction concerning the constitutionality of laws and administrative acts. Today, some observers even see it as one of the most powerful such tribunals in the world, able to block governmental decrees (as in the case of the day-after pill) and protect citizens’ rights against powerful private entities.

Despite its notable successes in addressing important issues (e.g., human rights violations during the Pinochet regime) and enhancing overall efficiency, the judiciary is accorded low levels of trust and confidence by the average Chilean, as Centro de Estudios de la Realidad Contemporánea (CERC) surveys since 1988 have repeatedly shown. While having obtained an approval rate of 44% in the year of transition, this rate has declined significantly since 2000, reaching a dismal level of 19% in 2011. These data are largely confirmed by the Americas Barometer survey on trust in the justice system (2010: 47.4% expressing trust) and Latinobarómetro data (2010: 38% showing confidence), though one must take into account different methodologies and comparisons with the regional average. Nonetheless, confidence in the judiciary seems to have grown slightly in recent years.

In general, authorities involved in corruption and/or misappropriation of public funds have been subjected to audits by the Comptroller General’s Office or the judiciary, and have been severely punished. Particularly heinous cases are denounced by the public and prosecuted by the judiciary. Despite more critical views expressed in recent years concerning the “true” history and nature of corruption in Chile, it has not reached the systemic level seen in other Latin American countries. It is more apparent at the local level where some (isolated) cases of clientelism have been reported. Data from right-wing think tank ILD suggest that the perception of corruption among functional elites has declined in recent years, after peaking around 2005.

A watchful press and several NGOs also monitor state activities, ensuring that it abides by the rules. In addition, the “Transparency Law” and accompanying Comisión para la Transparencia (“Transparency Commission”), created in 2009 to
provide information on the work of all state institutions, has introduced new incentives for monitoring the probity of politicians and institutions.

Nonetheless the Chilean judiciary sometimes faces difficulties in convicting culprits with high hurdles imposed by legal and procedural provisions.

Civil rights are guaranteed by the constitution and widely respected by all state institutions, not least as a result of the country’s recent history. Infringements are extremely rare. Citizens are effectively protected by mechanisms and institutions which were established to prosecute, punish and redress violations of their rights. Chile has contributed significantly to the development of a solid international framework for human rights, as well as to institutions that monitor their fulfillment. On the domestic level, an autonomous body (Instituto Nacional de Derechos Humanos, INDH) monitors the state of human rights in Chile and issues annual and one-off reports on relevant topics.

Significant progress has been made in the political and judicial treatment of human rights violations. The Bachelet government also worked to approve the ratification of Chile’s access to the International Criminal Court, which had long been delayed due to resistance from the country’s right wing and the Constitutional Tribunal’s demand for necessary constitutional reforms. Ratification took place in June 2009.

However, the rights of indigenous peoples, sexual minorities, the disabled and women are not guaranteed in full. Institutional reforms such as 1993’s Ley Indigena were designed to recognize the rights of the country’s approximately 700,000 indigenous people. Chile also ratified the International Labor Organization (ILO) Convention 169 on Indigenous and Tribal Peoples, but its implementation remains deficient. Indigenous peoples do not enjoy constitutional recognition as such, and remain disproportionately affected by poverty. Claims to ancestral land and the impact of extractive industry and forestry projects have led to tensions which have often resulted in violence, prompting the application of the Code of Military Justice and the state’s anti-terrorism law which do not fully guarantee the rights of the accused.

Access to the judicial system has been improved for the lower social strata through a specific judicial reform program, although this still remains insufficient in a society marked by great disparity.

The case of a young homosexual who was tortured and murdered in April 2012 finally led to the rapid and almost unanimous approval of anti-discrimination legislation, which had already been introduced by the Lagos government in 2005 but was delayed in the National Congress. Defendants of the law see it as a starting point for concerted action against discrimination of any kind.
4 | Stability of Democratic Institutions

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

All relevant political and social actors, including the military, accept Chile’s democratic institutions as legitimate. A genuine debate over social, economic and political issues that could lead to the establishment of a new constitution has yet to occur, but there is profound agreement on the need to adhere to the existing constitutional procedures when approaching such a major reform. Notwithstanding, the ongoing and sometimes violent conflict with the Mapuche and the student movement may point to a certain de-legitimization of the political system among some sectors of Chilean society, especially young people. Despite recent reforms in electoral registration, the majority of young people still do not participate in elections. Against this backdrop, the calls for a constituent assembly have grown among such sectors as the Communist Party, trade unions and more radicalized students.

5 | Political and Social Integration

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

The party system still reflects the political power constellation of the late-1980s democratic transition, when the two party blocs were formed. Though in principle Chile has a multiparty system, the electoral system induces it to operate as a two-party system, as parties are forced to form alliances in order to gain representation in
the National Congress. One of the alliances is formed by center-left parties – the Christian Democratic Party (Partido Demócrata Cristiano, PDC), the Party for Democracy (Partido por la Democracia, PPD), the Radical Social Democratic Party (Partido Radical Social Demócrata, PRSD) and the Socialist Party (Partido Socialista, PS) – and is called the Coalition of Parties for Democracy (Concertación de Partidos por la Democracia). The Concertación served as the ruling coalition from the reinstatement of democracy in 1990 until March 2010. The other party bloc, the Alliance for Chile (Alianza por Chile), consists in large part of the Independent Democratic Union (Unión Demócrata Independiente, UDI), the hard right wing party that was closely allied to the Pinochet regime, and to a lesser extent the more moderate National Renovation (Renovación Nacional, RN) party of President Piñera. The structuring of the electoral system has de facto excluded the Communist Party (PC), the Humanist Party and other groups of the left from representation in the National Congress. In the 2009 parliamentary elections, the PC for the first time formed part of the Concertación and was able to obtain three seats in the lower chamber.

What was a guarantee of political stability during most of the last 20 years has for an important part of the electorate today taken on the character of a political oligopoly that holds little programmatic or organizational attraction. The surprising electoral results in 2009 achieved by independent presidential candidate Marco Enríquez-Ominami, as well as the general tendency to orient voting decisions toward individuals rather than political programs and ideologies, may be interpreted in this way.

The introduction of voluntary voting, first implemented during the 2012 local elections, raised hopes which gave way to disappointment soon after the elections: Voter turnout had declined significantly, leading to concern about citizens’ disaffection with politics in general, a concern expressed by President Piñera himself. Seemingly, Chile’s entrenched elites have become more aware of the gap between themselves and ordinary citizens.

Overall, the party system is organizationally stable, but its connections to Chilean society are weakening. The system features classic socioeconomic, ideological and political cleavages, but has some difficulty giving voice to new social and cultural developments. The degree of voter volatility is relatively low when measured in terms of the two politically relevant blocs. The degree of polarization is moderate overall even when considering parties not represented in parliament.

Chile has a range of interest groups reflecting a wide array of social concerns, including social movements (environmental or human rights issues), community organizations, unions, students’ and indigenous organizations and professional associations (in the fields of education and health, for instance).
However, a few powerful interest groups continue to dominate. Associations representing business and the Catholic Church play a particularly powerful role. The trade unions, which were significantly weakened under the dictatorship, have managed to regain organizational stability under subsequent democratic governments. By international standards, however, their bargaining power (manifested in strikes and collective bargaining) and membership rates have remained low.

In addition, unions are confronted by powerful business associations which have managed to maintain their position, with the economic model left largely unchanged since 1990. Employers’ associations such as the National Chamber of Commerce, the National Agricultural Association and the Association of Banks and Financial Institutions exert significant influence on the executive in shaping the political agenda, above all in the area of economic policies. As a consequence, it is not just unions but also other interest groups which face difficulties in mobilizing against business organizations. This explains why students took to the streets to assert their rights against the economic interests behind private education.

Neither the Lagos nor the Bachelet government managed to introduce legislative regulation of the links between lobby groups and the public sector, and a gray zone of informal power and corruption has arisen. In May 2012, the Piñera government presented a new, watered-down bill to the National Congress, prompting Daniel Kaufmann, former director of the World Bank Institute, to comment that it was worse than no lobby legislation at all.

According to data from Latinobarómetro and Americas Barometer, support for democracy is medium to high in comparison with other countries, with the two organizations finding support levels of 81% and 76%, respectively. Latinobarómetro 2011 places Chile in the upper middle ranks in terms of support for democracy, while Americas Barometer 2010 – in a survey of both North and South America – sees Chile in sixth place just behind the United States (approval rating of 77.5% with Uruguay in the lead at 86%, followed by Costa Rica at 80%).

But as far as satisfaction with democracy is concerned, CERC surveys show that in the last two years a majority of around 55% felt little or no satisfaction.

With respect to conceptual support for a military coup to resolve major societal problems such as corruption and organized crime, Chile ranks seventh with 27% of the population in favor, a level similar to that of the United States and Canada (25%). In Argentina only 19% would approve a coup; Belize and Mexico represent the other end of the spectrum, with 48% and 47% respectively. Interestingly, the military and the police are the most respected political institutions in a country which emerged from dictatorship just 20 years ago.
The pronounced elitism and narrowness of the political system in Chile have contributed to political disaffection that serves as a potential wellspring for non-democratic solutions. Notwithstanding, according to Latinobarómetro 2011, only 14% of interviewees regard an authoritarian regime as preferable to a democratic one.

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

The available data shows a somewhat inconsistent picture of trust levels. On the one hand, Latinobarómetro and the World Values Survey consider interpersonal trust in Chile to be relatively low. According to Latinobarómetro 2011, only 17% of interviewees agree that “one can trust most other people,” with only Nicaragua and Brazil offering lower values. On the other hand, data from Americas Barometer 2010 suggests that interpersonal trust among Chileans is at a medium to high level. In the latter survey, 66% of interviewees said they had either medium or high confidence in their neighbors, while 10% responded that they did not trust them at all. This puts Chile among the region’s countries with comparatively high levels of interpersonal trust.

II. Economic Transformation

6 | Level of Socioeconomic Development

Despite progress in development and relatively stable macroeconomic indicators over the past 20 years, exclusion and inequality persist. Together Chile ranks equal 13th (with Latvia) among the 128 BTI sample countries in UNDP’s Human Development Index 2011 with a score of 0.805, qualifying it as a country with “very high human development,” the most advanced in Latin America.

However, poverty and social exclusion in Chile are historically determined, with structural causes. According to the Survey of Socioeconomic Characterization (CASEN), the poverty rate declined from nearly 40% at the beginning of 1990 to 13.7% in 2006. Due to the effects of the economic crisis, it rose slightly in 2009 to
15.1%, with 3.7% living in extreme poverty (in 1990, this figure was 13.0%; in 2006, 3.2%).

The 2011 CASEN data again shows a slight reduction to 14.4% (and 2.8% living in extreme poverty). Poverty affects some regions more than others (22.9% in the Araucanía region in the mid-south, compared to just 7.5% in Antofagasta in the north and 5.8% in Magallanes in the far south), and particularly affects ethnic minorities (19.2%), children (23.9% of those between 0 and 5 years of age, and 22.9% of those aged from 6 to 17) and women. According to CASEN 2009, the percentage of indigent households headed by women more than doubled, from 22% in 1990 to 48% in 2009. Unemployment especially affects women, the less educated and the young. In 2011, the unemployment rate was higher for the indigenous population (10.6%) than for the non-indigenous (7.5%), and higher for women (9.6%) than for men (6.4).

Despite impressive national economic growth rates over the last 20 years and a corresponding rise in levels of well-being, social inequality has remained high, though the Gini coefficient dropped slightly from 0.57 in 2002 to 0.53 in 2009 according to World Development Indicators 2012; or from 0.552 in 2003 to 0.516 in 2011 according to CEPAL data. Among the 85 countries with high or very high human development in the UNDP’s Human Development Report 2010, only five countries show more income inequality, all of them Latin American countries (Brazil, Panama, Ecuador, Colombia and Belize). Consequently, the country loses 11 places in the inequality-adjusted HDI 2011, and drops from rank 44 to 68 in the Gender Inequality Index (even with some countries not ranked, such as Liechtenstein and Andorra).

The considerable socioeconomic barriers hamper social mobility and the validity of meritocratic principles. Thus it doesn’t come as a surprise that Chileans consider social injustice to be the most important deficiency of their democracy.

In sum: Though inequality is still pronounced and partly structurally ingrained, poverty is limited and barely structurally ingrained, and the overall development level relatively high.

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<td>5.8</td>
<td><strong>5.6</strong></td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
<td>-</td>
<td>1.4</td>
<td>3.3</td>
<td><strong>3.0</strong></td>
</tr>
<tr>
<td>Unemployment %</td>
<td>9.7</td>
<td>8.1</td>
<td>7.1</td>
<td>-</td>
</tr>
</tbody>
</table>
## Economic Indicators 2009 2010 2011 2012

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign direct investment</td>
<td>% of GDP</td>
<td>7.5</td>
<td>7.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Export growth</td>
<td>%</td>
<td>-4.6</td>
<td>2.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Import growth</td>
<td>%</td>
<td>-16.2</td>
<td>25.8</td>
<td>14.6</td>
</tr>
<tr>
<td>Current account balance</td>
<td>$ M</td>
<td>3517.8</td>
<td>3223.5</td>
<td>-3283.1</td>
</tr>
<tr>
<td>Public debt</td>
<td>% of GDP</td>
<td>5.8</td>
<td>8.6</td>
<td>11.1</td>
</tr>
<tr>
<td>External debt</td>
<td>$ M</td>
<td>69884.1</td>
<td>81434.9</td>
<td>96244.9</td>
</tr>
<tr>
<td>Total debt service</td>
<td>$ M</td>
<td>18142.1</td>
<td>14510.8</td>
<td>15445.6</td>
</tr>
<tr>
<td>Cash surplus or deficit</td>
<td>% of GDP</td>
<td>-4.2</td>
<td>-0.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
<td>14.6</td>
<td>17.5</td>
<td>19.0</td>
</tr>
<tr>
<td>Government consumption</td>
<td>% of GDP</td>
<td>12.7</td>
<td>12.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Public expnd. on edu.</td>
<td>% of GDP</td>
<td>4.2</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Public expnd. on health</td>
<td>% of GDP</td>
<td>3.7</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>


7 | Organization of the Market and Competition

Market competition is consistently defined and implemented on both the macroeconomic and microeconomic level. Administered pricing plays no role, though there is some scope cushioning the price mechanism with subsidies (e.g., energy supply).

The currency is convertible, markets are contestable, there are no significant entry and exit barriers in product and factor markets, there is substantial freedom to launch and withdraw investments, and there is no market discrimination based on company ownership or size. Chile possesses a strong institutional foundation that supports market competition and the public economic order. Governmental policy is limited 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. Insurance companies, banks and financial institutions are autonomous, and the state’s oversight role with respect to these institutions is comparatively discreet, which has favored...
concentration within these sectors over time. The informal sector exists but plays a minor role, except for the labor market, where informal jobs may represent between 20 and 25%.

With its small domestic market, Chile is inevitably confronted with market concentration in some sectors, especially in the banking, private pension, air transportation, communications, pharmaceutical, and health insurance industries. In addition, the liberalized economy faces strong international competition. This adds healthy competition in what is otherwise a relatively small national market, but also requires that firms be of a certain size in order to compete in the global market, thus encouraging concentration.

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

However, these institutions suffer from a lack of resources and institutional capacity, preventing them from eliminating market concentration completely. Nonetheless, leading Chilean economists, along with the IMF, argue that there is less need for further regulations than for facilitating market entry, though they do see some room for regulatory improvement.

Foreign trade is widely liberalized, with uniform, low tariffs and few non-tariff barriers in place. Liberalization has been expanded and consolidated under the post-1990 democratic governments. The state does not intervene in free trade, but rather supports national exports by means of a network of institutions linked to the economy. Free trade has been encouraged by international and bilateral agreements with the United States, the European Union, and Latin American and Asia-Pacific countries, extending to more than 50 trade partners. Tariffs are uniform and low at 6%, and are being successively eliminated for countries with free trade arrangements. The average tariff is estimated to be just 4%. Chile’s economy is highly dependent on international trade, with exports accounting for more than one-third of GDP. The degree of trade openness – measured as the ratio of the sum of exports and imports to GDP – is relatively high at about 75%. Chile has been a WTO member since 1 January 1995.

Since the banking crisis in the early 1980s, Chilean governments have implemented sound institutional foundations for a solid banking system. The banking system is
oriented toward international standards, with functional banking supervision, minimum capital equity requirements and advanced disclosure rules. The finance sector is subject to its own supervisory agency, the Superintendency of Banks and Financial Institutions (Superintendencia de Bancos e Instituciones Financieras, SBIF), which monitors and applies the provisions of the banking law, and classifies financial institution risk. According to the World Development Indicators 2012, the share of non-performing loans is relatively low, with 2.7% in 2010 and 2.5% in 2011, though it has increased slightly over the last decade.

Given the growing importance and dynamics of diversified and international financial markets, Chilean officials have started to implement mechanisms of communication and coordination between the different supervising agencies. In 2001, they created the Committee of Superintendents of the Financial Sector, consisting of the SBIF, the Superintendency of Securities and Insurance and the Superintendency of Pensions, with the central bank as an observer since 2006. Launched by presidential decree, the Committee for Financial Stability was created in 2011, consisting of the Minister of Finance and the directors of the superintendencies as members, and the central bank’s president as a “permanently invited”. Its main goal is to provide for macroprudential policies in order to provide for greater systemic stability of the entire financial sector.

Chile follows the norms of the Basel Committee on Banking Supervision and has largely implemented Basel I and Basel II. Capital markets are open to domestic and foreign capital, although they are vulnerable to speculative investment. Mature regulation has led to a diversified financial system and capital markets that provide the economy with a wide variety of financing sources. However, there are only 16 operating banks, and the lack of competition as well as some flaws in supervision have contributed to certain deficiencies, such as high costs and oppressive clauses in contracts with consumers. Banks have also argued that the rules are stricter on them than other financial institutions, such as those in the retail sector (especially department stores) as the scandal of retailer La Polar (2011 – 2012) laid bare. New rules have been introduced to avoid unreasonable conditions in loan renegotiations and the lack of transparency in financial products.

8 | Currency and Price Stability

Inflation and foreign exchange policies are pursued in concert with other economic policy goals, and are institutionalized in the largely independent Central Bank of Chile (BCCh). The maintenance of low, stable and sustainable inflation is one of the pillars of Chile’s economic model, and is the primary objective of the BCCh’s monetary policy. To this end, the bank has oriented its monetary policy toward an inflation rate of 3% per year, as measured over a two-year horizon. The rate of inflation, which was 3.4% in 2006, jumped to 7.8% in 2007 and 7.1% in 2008 due to rising food and energy prices. Since December 2008, however, the consumer price...
index registered significant declines, resulting in an inflation rate of -1.4% in 2009 and returning to the range between 2% and 4% thereafter (3.0% in 2010, 4.4% in 2011 and 2.9% in 2012). In September 1999, over the course of the then crisis, the central bank adopted a freely floating exchange rate, replacing a policy in which rates were allowed to float within a set range based on a currency basket. This policy has managed to resist the pressures of the powerful export sector, as the dollar has been weak against the Chilean peso.

The government’s fiscal and debt policies promote macroeconomic stability, supported in part by institutional (self-)constraints. Overall, economic policy since the 1990s has been marked by the highly disciplined maintenance of macroeconomic stability, with the central bank and the government working together quite effectively. The government’s fiscal and debt policy is narrowly targeted at stability. In 2000, President Ricardo Lagos’ government introduced a fiscal rule predicated on a structural surplus of 1% of GDP, reaffirming and intensifying Chile’s commitment to fiscal responsibility. While the government achieved primary surpluses of 8.4% of GDP in 2006, 9.0% in 2007 and 5.3% in 2008, resulting in an impressive overall balance, countercyclical policies aimed at confronting the economic crisis induced a deficit of -3.7% in 2009 and a surplus of only 0.1% in 2010. With economic recovery, the surplus rose again to 1.9% in 2011, but only 0.4% in 2012. In addition, the central government’s overall public debt remained relatively low, though showing an increase from 6.1% of GDP in 2009 to 11.1% in 2010, 12.8% in 2011 and 11.3% in 2012, although these are still the lowest figures in the region, with the average being around 30% of GDP. More recently, in the second half of 2012, the president of the central bank repeatedly voiced his concern about an impending current account deficit of approximately 4% of GDP which could lead to unmanageable imbalances in the near future. While this view is shared by most experts as well as officials in the sector, there has been no consensus on adequate measures as yet.

9 | Private Property

Protection of and respect for private property have been definitively consolidated, and are enshrined in the constitution as a leading societal principle. Property rights and the regulation of the acquisition of property are designed to allow for a dynamic market economy. 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 problems remain with the protection of patents and copyrights. A new source of conflict has arisen with the claims of Chile’s indigenous peoples to ancestral land, backed by the ILO convention 169 which Chile ratified in 2008, demanding – among other things – the consent of indigenous peoples to projects on their traditional lands. This has become a contentious issue leading to
violent clashes and deaths in extreme cases, while the Chilean judiciary is apparently still trying to come to terms with the new legal situation.

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

10 | Welfare Regime

Social safety nets are relatively well developed, but do not cover all risks for all strata of the population. A significant segment of the population – about one fifth – is still at risk of poverty. One major problem is that Chile’s mixed private and public welfare system is biased toward social stratification. The Piñera government has confirmed its intention to introduce reforms with a particular focus on education, the health system and the fight against poverty. It maintained the social policies of the Concertación governments (albeit rescheduled) and – somewhat surprisingly for a Chilean right-wing government – even raised corporate tax and a few indirect taxes in order to finance increased social expenditure.

While the post-1990 Concertación governments introduced a series of reforms and significantly increased social spending, much of the institutional structure inherited from the military regime persists. Thus, a significant portion of the health and social welfare sector is governed by the market, as is the case with pension fund administrators (AFPs) and the private health insurers (ISAPREs). These institutions are unable to secure decent pensions and quality health care for all. In the area of health care, protection is provided by a public system (National Health Fund, FONASA) and by ISAPREs. Workers and pensioners pay a minimum of 7% of income for health insurance and can choose between the two systems. According to the 2012 report on social policy by the Ministry of Social Development, in 2011 about 82% of the population were affiliated with FONASA and only about 13% with ISAPREs (the remaining 5% being covered by special regimes, such as the military, or uninsured). While the ISAPREs cover their expenditure with contributions from their members, the public system is financed to around 50% with fiscal subsidies (58% in 2012). Beneficiaries may use either public or private health facilities, with special payment regulations in place for certain income groups and sectors covered by the public system. As the public system has fewer resources than the private sector,
this creates a clear segmentation in terms of access and provision of quality health care. The Lagos government implemented the so-called Regime of Explicit Health Guarantees (also known as Plan AUGE), aimed at improving the quality and availability of public sector health care services, particularly for lower income groups. The AUGE Plan mandates that both ISAPRE and the National Health Fund (FONASA) provide priority medical care to any person who meets certain age requirements and who suffers from one of the diseases covered under the scheme. Furthermore, a fund to offset the cost of health care for women and the elderly was created.

In the early 1980s, the pension system was transformed into a system of individual pensions and defined contributions managed by private sector AFPs. In view of the shortcomings of the system (particularly lack of coverage and unstable contributions), the Bachelet government enacted a reform in 2008 in order to increase minimum pensions, give pensions to all women, extend social security to young people and the self-employed, introduce a system for monitoring AFPs and create a solidarity fund. The reform reintroduced a state-financed pillar to the pension system and aimed to improve the private system in terms of coverage, benefits and transparency. While providing for higher pension levels, the reform may in the long run cause fiscal problems for the Chilean state.

As far as unemployment is concerned, one area of progress has been the unemployment insurance program (Seguro de Cesantía), which was introduced in 2002 and reformed in 2009. Insured workers are covered by an individual severance account, which is supplemented by a solidarity component paid from the Solidarity Severance Fund. When an insured worker is out of work, he or she receives three months’ benefits amounting to between 45% and 50% of their last salary. According to the Superintendency of Pensions, in September 2012 more than 7.4 million workers were affiliated with the Seguro de Cesantía.

In addition, there are a number of programs aimed at alleviating poverty, or which provide subsidies in cases of special need. The Piñera government has not only maintained previous programs, but even introduced new ones to extend the social safety net with the goal of eliminating extreme poverty by 2014 and all poverty by 2018. Among the measures are the conditional cash transfer program (“ingreso ético familiar”) initiated in 2012, which covers about 170,000 families living in extreme poverty, and a large range of focused programs aimed at helping at-risk groups escape poverty. The Piñera government has also maintained specific housing policies aimed at ameliorating the lack of adequate housing stock, particularly for the population’s poorer households, and improving the quality of neighborhoods.

Equality of opportunity remains constrained by persistent social inequalities. While women have near-equal access to education, public office and employment, members of indigenous groups face greater difficulties. A number of legal provisions address
discrimination – including the 2011 Law against Discrimination – but their implementation is at times inadequate. Apart from the more complex situation experienced by indigenous peoples, problems of equal opportunity in Chile are primarily linked to social stratification. A number of institutions are designed to compensate for extreme social differences, but are not sufficient to guarantee true equality of opportunity. And so, for example, the highest standard of education is enjoyed by those who can afford it. Several specific programs have helped to reduce extreme poverty substantially since 1990, but poverty still disproportionately affects specific regions, ethnic minorities, children and women.

There is a mixed record on equal opportunity for women. Equality in secondary education has almost been achieved (67.3% female enrollment rate compared to 69.8% for men), and the proportion of women in higher education is 52%. However, there is a huge gap in labor force participation (43.5% for women vs. 70.1% for men in 2011, according to the Ministry of Social Development), with at least some improvement over time (1990: 32.5% female labor force participation). The Gender Inequality Index included in the UNDP’s Human Development Report 2010 ranks Chile 68th out of 146 countries, with a score of 0.374 (a similar level to Argentina and Costa Rica; the best performer was Sweden with a score of 0.049, the worst Yemen, scoring 0.769). Compared to the HDI, which covers 187 countries, Chile loses 24 places. Political participation by women has become more common, and in general there are few objections to women in high public offices (such as ministries or even the presidency). Nevertheless, women’s overall presence in politics remains rather low. In 2011, just 13.3% of parliamentary members were women. There is no gender-based quota for public offices. Gender equity policies are developed and implemented by the National Women’s Service (SERNAM), a government body with near-ministerial competencies. There is a wide array of programs directed at creating equal labor conditions for female heads of households, fighting domestic violence, alleviating poverty and promoting the rights and social participation of women.

Chile’s indigenous peoples in particular suffer from deep-rooted inequality tantamount to discrimination. There are nine legally recognized indigenous groups, encompassing about 5% of the population. Since the 1990s, the government has initiated an array of programs to improve conditions for indigenous peoples. There is a special office within the Ministry of Planning and Cooperation – the National Council for Indigenous Development (CONADI) – tasked with working for the development of indigenous individuals and communities and promoting their participation in national life. Among other tasks, CONADI offers financing for development and community projects, as well as advisory services in political, legal or cultural matters. However, compared to other members of the population, indigenous peoples find it significantly harder to receive higher education, get jobs in the formal economy or escape poverty.
11 | Economic Performance

The Chilean economy continued to exhibit strength at the macro level, and has recuperated from the downturn that started in the fourth quarter of 2008 and ended in the fourth quarter of 2009. The GDP growth rate had dropped to 3.7% in 2008 and to -1.0% in 2009, but rose again to 6.1% in 2010, 6.0% in 2011 and 5.5% in 2012. Between 2001 and 2006, inflation averaged 2.5%, rising to 8.9% in 2008 but returning to the central bank’s target range of between 2% and 4% thereafter (3.0% in 2010, 4.4% in 2011 and 2.9% in 2012).

The main problem continues to be major inequality in the distribution of income, with unemployment also an issue. As a result of the global financial crisis, the unemployment rate rose to 9.7% in 2009, then decreased slightly, 7.15 in 2011 and 6.45 in 2012, a figure which represents something close to full employment (though masking a significant proportion of informal jobs). Successive governments’ close attention to structural balance helped them avoid public deficits until the onset of the financial crisis, which led to deficits in 2009 (-3.9%) and 2010 (-0.4%). With economic recovery, surpluses returned but did not reach pre-crisis levels (1.9% in 2011, and just 0.4% in 2012). Tax revenues are relatively solid at 19% of GDP in 2012; the central government’s public debt remains very low, though showing an increase from 6.1% of GDP in 2009 to 11.1% in 2010, 12.8% in 2011 and 11.3% in 2012. While the trade balance has been healthy with a surplus of around $8.4 billion in 2011 and $4.8 billion in 2012, there is increasing concern about the current account balance which went negative in 2011 ($3.2 billion) and 2012 ($6.1 billion). Moreover, the positive trade balance is largely due to the high price of copper and is thus dependent on international markets. Foreign direct investment reached $7.7 billion in 2007 but subsequently declined, reaching $5.5 billion in 2011 and $4.9 billion in 2012.

12 | Sustainability

Environmental concerns are taken seriously, but are occasionally subordinated to growth efforts as a result of the country’s development constraints (geography, size of country and market, energy supply). Where environmental regulations and incentives exist, they are successfully enforced. Since 1990 Chile’s political leadership has been aware of the ecological demands of consumers in export-destination countries, as well of the need to protect natural resources from over-exploitation. More recently, environmental groups – sometimes in cooperation with Mapuche organizations – have begun to engage more actively in protests against large-scale energy projects and forestry plantations, particularly in the south, indicating a rise in environmental consciousness. While the 2010 Environmental Performance Index (EPI) ranked Chile 16th out of 163 countries, and 6th among the
countries included in the BTI, the country dropped to 58th place in 2011 (33rd among BTI countries).

As a new member of OECD, Chile has had to adapt to OECD standards and policies on environmental issues. In January 2010, amendments to the 1994 Environmental Act introduced three major changes: (1) the creation of a Ministry of Environment to implement environmental policies, establish environmental regulation, and protect nature and natural resources; (2) the creation of an Agency for Environmental Impact Assessment; and (3) the creation of an Environmental Enforcement Superintendent charged with oversight of environmental issues. Though environmental institutions are still weak among the ensemble of Chile’s institutions, new economic projects are now required to incorporate an environmental impact report. Chile has been a signatory to international environmental standards attached to free trade agreements, and authorities publicly attach great importance to sustainability. However, conflicts still persist around new large-scale projects in mining and electricity, as well as others affecting the soil.

Education and R&D are still weak pillars in Chile’s development model, leading to recurring student protests as well as greater awareness of the need for reforms among the wider population. Chilean governments have undertaken several reforms in education, such as extending pre-primary education, embedding mandatory 12-year schooling in the constitution, and changing entry tests for higher education.

In response to student protests in 2011 and 2012, President Piñera presented a new reform proposal in April 2012 which covered all levels of education and incorporated an ambitious plan to finance the proposals. The corresponding tax reform was promulgated in September 2012 and will increase fiscal revenues by $1 billion which will be earmarked exclusively for education.

Notwithstanding, the main deficiencies in education quality and equality have still not been addressed, resulting in a somewhat dysfunctional education system with a huge quality gap between private and public institutions. Parents who can afford to do so generally send their children to private schools.

The reforms introduced under the military government allowed the establishment of private universities. In the long run this policy enabled a substantial increase in enrollment and coverage, but lacked an adequate quality control system. This led some to prioritize profits over quality, which is formally prohibited by law. At the same time, the lack of a policy to promote public universities has resulted in a deterioration in their performance, while fees have increased from year to year.

According to the World Development Indicators 2012, the adult literacy rate, at 98.6%, is high. While the net enrollment rates for primary and secondary education are relatively high (at 102.6% and 89.4%, respectively), the tertiary-level enrollment rate is only 66%, falling well behind South Korea (103%) and Cuba (80%). Public
expenditure on education over the last decade remains well below the OECD average and reached a level of around 3% to 4%. Calculations on budget data show that during the Piñera government expenditure rose from 4.06% in 2010 to 4.23% in 2011 and 4.24% in 2012. The reforms introduced in 2012 would result in an increase to 4.3% in 2013. In addition, however, Chile’s education system is marked by a high level of private expenditure (one reason for recent protests). According to the most recent OECD statistics, Chile spent about 7% of its GDP on education in 2009, which is above the OECD average of 5.7%.

Private sources of funding provide an above-average share of educational spending in Chile, accounting for 47% of expenditure across all levels of education (2008). This is well above the OECD average of 15%, and represents the highest proportion of private expenditure among OECD countries and partners. Across all levels of education, 96% of this private-source funding originates from households.

According to World Development Indicators 2012, Chilean R&D expenditure has been fluctuating over the last decade, reaching a level of about 0.4% of GDP in 2009 – far below the OECD average. According to the OECD Science, Technology and Industry Outlook 2012, public R&D expenditure reached 0.42% of GDP in 2010 and private R&D expenditure 0.16%. The Piñera government has set a mid-term goal of 0.8% of GDP for public expenditure alone. Overall, public spending on science and technology has increased in recent years, with a particular focus on human capital formation through the National Innovation Fund for Competitiveness. The government has also sought to enhance private sector investments with new instruments such as the R&D Law Tax Incentive, introduced in September 2012.
Transformation Management

I. Level of Difficulty

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

Chile has no reserves of gas and oil, so it depends on energy supplies from abroad. Longstanding diplomatic issues with Bolivia mean Chile has had to source gas at higher rates from neighboring countries. Chile has consequently begun exploring alternative sources of energy. However, these are not always environmentally sustainable, partly because of the sheer physical distance between production locations and sources of demand. In recent years, many infrastructure deficiencies have been eliminated through concessions to private companies, although there are problems related to the state’s low regulatory capacities. The country’s geography has kept some communities relatively isolated, primarily in the far north and south, and remote island communities (such as Easter Island and the Juan Fernández Archipelago).

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

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

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

Conflict intensity is relatively low in Chile, apart from the conflict between some Mapuche organizations and the state which has flared intermittently since 1990. These conflicts, though localized in the south, have increased in recent years, often in response to environmental and land property issues, and have occasionally turned violent. Ethnic conflict has thus become a permanent concern for internal security. However, the main rifts in Chilean society are still predominantly ethical in nature (concerning human rights violations under the dictatorship) or socioeconomic (concerning social inequalities, as seen in the 2011–2012 student protests). There is no religious conflict in the country, although the disproportionately strong influence of the Catholic Church in public and political affairs tends to tie the hands of secular governments. These rifts and conflicts, though real, do not however escalate into violence (with the exception of occasional ethnic conflicts).

But it must be noted that perceptions and a “culture of conflict” also play important roles, not only for an analytic assessment, but also for the actors involved. While Chileans and observers may perceive a major increase in conflict, what has really happened is a kind of passage from a political culture of passive citizens (or “subject culture” in the concept of Gabriel Almond and Sidney Verba) to a true “civic culture.” Thus, rather than a rise in conflict, it’s essentially a normalization toward democratic politics.
II. Management Performance

14 | Steering Capability

The political leadership – that is, the Concertación and the Piñera administration (since 2010) – is committed to constitutional democracy and a market economy anchored in principles of social justice. Policies on both sides of the political spectrum have given these goals priority over short-term expediency. Governments have been able to propose and implement long-term policies, favoring state interest and not just the concerns of individual governments. Examples of this include adherence to the principle of structural budget balance, poverty reduction, transparency, and reforms in justice, health and education, the latter still on-going. The right-wing government in office since March 2010 has continued along the basic lines of Chile’s past transformation path, and added its own reforms. To that end, the government announced seven major priorities: economic growth, the labor market, crime and security, health, education, eradication of poverty, and improving the quality of democracy and the state. Here the government relies heavily on external expertise – most reform projects are accompanied by expert commissions – as well as evidence-based policymaking, regulatory impact assessments, and strategic planning units. Though the Piñera government has maintained its priorities up to now, these are occasionally constrained by powerful economic interests and lobby groups (who succeeded, perhaps unsurprisingly, in blocking reform of lobbying laws). Early on in its term, the present government also postponed some strategic priorities to appease public opinion (e.g., when president intervened to suspend construction on the thermoelectric plant of Barrancones).

Like the preceding Concertación governments, the Piñera government is committed to democratic principles and the market economy and able to implement agreed-upon reforms effectively. As the government does not command a simple majority in parliament, it has had to seek consensus with legislators from the Concertación in order to pass the desired reforms and in general has done so effectively. Significant progress has been made in the fight against poverty by re-organizing the relevant institutions, introducing new mechanisms and technologies, and improving focus. Although the government initially struggled to apply business management principles to the public system, leading to some inconsistency and inflexibility in policy implementation, this problem has disappeared.

However, there have also been somewhat mixed results and occasionally failures, especially regarding education and the integration of indigenous peoples. The seven priorities of the government also contradict each other sometimes, as in the use of the
military in the conflict with the Mapuche (“security” vs. “strengthening of democracy and the state”).

Like the preceding Concertación governments, the Piñera government has demonstrated the capacity to propose policies based on strategic and long-term priorities, the flexibility to learn from failures, and the ability to introduce new policies. The need to form political majorities and memories of a painful past have led the Chilean political elite to seek compromise. This means that learning processes have profited at least in part from an accumulation of knowledge and institutional memory. Governments have generally learned from past experiences (through effective monitoring and evaluation), relying on knowledge exchange (best practices, international cooperation) as well as consultancy (academic experts and practitioners). Indeed, there is a somewhat exaggerated faith in technocratic leadership in Chile. The Piñera government was no exception to this rule, and the president initially appointed a cabinet of technocrats rather than politicians from the ruling coalition. In January 2011, Piñera replaced several ministers, swapping his government’s “technocratic” reputation for a more “political” image. But his preference for technocrats over politicians also means he is committed to improvements in monitoring and evaluation, following the principles of efficient management. Learning ability, however, has been constrained by a tendency to emphasize short-term considerations and a fear of losing face. Leaders in Chile have sometimes succumbed to political pressures and concern for their public image instead of demonstrating genuine leadership and institutional learning. Piñera, careful about his public image, is no exception. While he enjoyed high approval ratings after the rescue of the 33 miners in 2010, some of his responses to political problems have been erratic.

15 | Resource Efficiency

The government makes efficient use of most available human, financial and organizational resources. Resource use is subject to the oversight of an autonomous public agency and other public bodies. Most important is the Auditor General’s Office which essentially determines the legality of the state administration’s actions. Efficiency in the use of economic resources can be demonstrated by the balanced budget and low public debt, as well as the availability of necessary funds in times of crisis.

Higher positions in the administration are filled through open applications, leading to a more professional and meritocratic bureaucracy. The incidence of politically motivated dismissals and appointments in the civil service is low. The reform process in public management (implemented by the Frei government) includes a set of partial measures and plans designed to deepen the reform of the state and address the public administration’s shortcomings. Before 2003, about 3,500 public administration posts
were appointed directly by the president. After several corruption scandals, this number was reduced to 750 and the Senior Management Service System (Alta Dirección Pública) was created. However the process of state reform and modernization is still on-going.

In most cases, the government coordinates its policies effectively and acts in a coherent manner, but there are isolated examples where this is not the case. There are several agencies and other bodies tasked with evaluating policy proposals and coordinating public policies, including the president’s advisory ministry (the Ministerio Secretaría General de la Presidencia, or Segpres), the government office (the Ministerio Secretaría General de Gobierno, or Sesegob), inter-ministerial committees, advisors and other mechanisms. As is the norm in a presidential system, the president has the final say. The Ministry of Finance is also involved in the preparation of most policy proposals. However, coordination also depends on the standing of the relevant ministers at the time. President Piñera has created a special government unit (Unidad Presidencial de Gestión del Cumplimiento) which is part of the Division of Inter-ministerial Coordination within the president’s advisory ministry. Its main objective is to secure fulfillment of the government’s main goals and to guide public policies towards the pre-determined targets. However, there has also been some criticism concerning cases where the president and his ministers have not presented a united front, such as during the student protests and the Aysén protests.

Chile is widely considered to be one of the least corrupt countries outside of the so-called first world, partly a result of certain historical legacies. Notwithstanding, there is some small-scale corruption particularly at the municipal and lower levels of central government, often in the form of influence-peddling. A number of extreme cases of corruption under the Concertación governments affected the population’s trust in the political elite and led to several reform initiatives during the Lagos and Bachelet administrations aimed at enhancing transparency, controlling corruption and improving public administration. These measures emerged from the formation of consensus with opposition representatives (such as the 2003 agreement on reforms to state administrative rules and the 2006 agreements leading to the 2009 Transparency Law). Since the Transparency Law was passed, citizens and media have gained improved access to information. In addition, a Transparency Commission was created in 2009, tasked with promoting the principle of transparency and providing the public with information about the work of all state institutions. Journalists have reported an improvement in access to information from state agencies. Auditing of state spending is guaranteed through the Comptroller General of the Republic, who performs oversight functions that also help prevent large-scale corruption.

The Piñera government has continued with the transparency policies of its predecessors, actively promoting transparency in public institutions. In March 2012,
the Chamber of Deputies approved the Public Probity Law (Ley de Probidad Pública; now before the Senate) aimed at strengthening regulation of asset and interest declarations, asset management and obligations to divest assets. The government is also seeking agreement with the 40 poorest municipalities of the country to provide better resources and technology in order to improve transparency. According to the Minister Secretary General of the Presidency, the government has attached a high priority to all these projects.

However, occasional corruption scandals have raised doubts among observers about the governments’ commitment to tackling corruption. Moreover, the close relationship between political and economic power represents an on-going problem. The regulation of party and campaign financing remains inadequate, leading to non-transparent donations. Ex-ministers and high public officials frequently take jobs in firms operating in sectors they had previously overseen. Neither the Lagos nor the Bachelet governments managed to introduce legislation regulating links between lobby groups and the public sector, thus establishing a gray zone of informal power and corruption. In May 2012, the Piñera government presented a new bill to the National Congress. Commenting on the bill, former World Bank Institute director Daniel Kaufmann suggested that the absence of lobby legislation is probably preferable to approving the bill. In Kaufmann’s view, the law fails to meet international standards in several ways and thus effectively legitimates unfair lobbying practices. Although the public procurement system is largely transparent, it remains a potential source of corruption.

16 | Consensus-Building

All major political actors agree on the consolidation of democracy and the market economy as strategic, long-term goals of transformation. This is especially true of the consolidation of democratic institutions and the vision of catching up to developed countries by the end of the decade. However, the dominance of the two political coalitions over the last 20 years has also led to a kind of “party oligopoly” that has left some essential problems beyond these overall goals untouched. Among them are key issues such as the constitution, the electoral system (which originated in the Pinochet era and helps sustain the “oligopoly”), human rights violations perpetrated under the dictatorship (although significant progress has been made on this issue), labor law reform, regionalization and decentralization and the higher education system (with some progress as a response to student protests). There has also been no discussion of the fundamental validity of the economic model or the prevailing market economy principles. Even if the fact of unequal income distribution is not contested, there is no agreement on redistribution mechanisms or the respective roles of business and the state in this issue.
The growth in protests and expressed demands in recent years suggest the presence of a more robust Chilean democracy. At the same time, these trends point to a loss of trust in parties and the erosion of the “democracia de los acuerdos” led by the political elites. This is most visible among indigenous organizations that question the established model more fundamentally, but extends as well to those groups (e.g., the Communist Party and to some extent the socialists) who now dare to openly criticize the socioeconomic model. Ironically, this is taking place just as right-wing parties have come into government for the first time since the transition to democracy. Initially, the Piñera government seemed to be taken by surprise by these developments – as was the Concertación opposition. The Piñera government has since tried to build a new consensus, but has achieved little in this regard.

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

The main cleavages in Chilean society are politico-ethical (largely concerning human rights violations under the dictatorship) and socioeconomic (concerning social inequalities). These divides are reflected in the party system, unlike the increasing ethnic divide and conflict between generations. Until recently, conflict management has essentially been exclusive among elites, alienating citizens and civil society. Indeed, latent social conflicts have rarely surfaced beyond the political arena, with a few exceptions such as the student protests of 2006. While these elite games allowed for strategic consensus, they were not accompanied by far-reaching consensus within Chilean society.

President Piñera has evidently attempted to persevere with these established patterns of conflict management, but society has obviously emancipated itself faster than the elites imagined. Though he has responded to this new scenario, his conflict management has appeared somewhat erratic. While not really leading to serious polarization, his comparatively low approval ratings indicate certain distrust in his ability to arrange a new consensus across the dividing lines.

The management of conflict with the Mapuche was unsatisfactory even before the Piñera era. Repeated recourse to the anti-terrorist law –modified in 2011 – appeared to represent demonstrations of state strength rather than a quest for consensus. On the other hand, the Mapuche have become more self-confident, and some of their
organizations have become radicalized over the last 20 years. It remains doubtful whether the Piñera government’s strategy (the “Plan Araucanía”) will contribute to de-escalation of this conflict. In October 2012 Piñera made a renewed effort with the proposal of a “new deal” for Chile’s indigenous peoples by aiming for constitutional recognition of ethnic and cultural diversity and the fostering of development and integration based on mutual respect. Reactions indicate that entrenched elites will present numerous obstacles to this “new deal”.

Moreover, the student conflict is not just a demand for high-quality, free education, but also represents a growing division between the current elite and the generation born after the transition. These groups have begun organizing politically in highly diverse groupings, from right-wing to anti-authoritarian anarchist groups, and some of them have announced their participation in the upcoming parliamentary elections. Chile has obviously arrived at a decisive point of democratic consolidation.

The political leadership takes the interests of civil society actors into account, but shows a tendency to engage in top-down agenda setting and policy formulation. Economic and professional interest associations are relatively influential, as is the Catholic Church. While able to affect public opinion, emerging social organizations are not significant or powerful enough to influence agenda setting, policy formulation, or political decisions—hence the development and design of public policies. This was again demonstrated by the Mapuche and student protests. While the government reacted to their demands, it failed to meaningfully involve these groups in planning of reform policies. In the case of the students, negotiations took place in the wake of widespread public support, but ended without substantial agreement on the road to be taken.

After a period of stagnation between 1991 and 1998, there has been major progress in addressing human rights violations under the Pinochet regime. The 1991 report of the Truth and Reconciliation Commission revealed more than 3,000 cases of human rights violations or acts of political violence that had resulted in death or disappearance. Until 1998, when Pinochet was arrested in London, only a handful of judges had attempted to bring these cases to trial. Under the Lagos government, human rights were assumed to be a matter of state policy for the first time, and in March 2003, the Human Rights Program was established. This included a number of measures designed to improve and extend victim reparation, solidify the role of the courts, and create monitoring and education institutions aimed at preventing recurrence of serious rights violations. In November 2003, the National Commission on Political Imprisonment and Torture (known as the Valech Commission) was established to gather information on human rights violations between 1973 and 1990. Since then, the process of granting pensions and other compensatory benefits to those classified as victims of torture and political imprisonment has been implemented and remains ongoing. The state also provided for legal assistance to the families of “disappeared” victims. Under Bachelet’s government, a special commission and
presidential advisory for human rights were created. In December 2009, the Museum of Memory and Human Rights was inaugurated.

After the 2009/2010 elections, human rights groups voiced fears that reconciliation might stall due to pressure on President Piñera from elements within coalition partner UDI which had never distanced themselves from the Pinochet dictatorship. Piñera, however, repeatedly reaffirmed his strict adherence to established standards of human rights and the rule of law, and promised there would be no impunity for those convicted of human rights violations. While the reluctance of some sectors of the judiciary, the media and the political right (especially the UDI) to recognize their role in the dictatorship’s human rights violations have long hampered reconciliation efforts, this too has started to change. According to court statistics of the Human Rights Program of the Ministry of the Interior, published in the Universidad Diego Portales’ human rights report 2011, in June 2010 there were 452 pending cases in Chilean courts, representing 37% of the then officially confirmed 3,186 victims of political execution or forced disappearance. While the trials concluded to that time represented 6% of the victims, there was at least some judicial activity concerning the remaining 57%. In the following 12 months, however, these figures dramatically increased. By May 31, 2011, there were 1,446 pending cases (representing 68.5% of the victims) and concluded trials represented another 8.5%. The authors of the report interpreted this as the Chilean judiciary finally assuming its responsibility. While most of the trials were initiated by civil society, some of the accusations came from the judiciary itself or even the Human Rights Program of the Ministry of the Interior. By June 2011, 245 persons had come before the court and been sentenced for crimes committed during the dictatorship, but only 72 received prison sentences. Moreover, one of the most controversial remnants of the past, the 1978 amnesty law, remains in force. This law states that human rights violations on the part of the military which occurred between September 1973 and March 1978 cannot be prosecuted.

17 | International Cooperation

Chilean governments since 1990 have had clear political and economic development aims, essentially shared by the two political coalitions with some minor differences in opinion. Chile prepares and implements its national development strategies and sector policies, using external support particularly in the development of human capital and other specific programs. Given its status as an upper middle income country it is no longer considered an official development assistance (ODA) recipient by traditional donors. The proportion of the Chilean GDP represented by ODA amounted to about 0.1% in 2008, and there are few remaining active donors. The shift from recipient to donor country implies new cooperation strategies, with a focus on the promotion of Chile’s activities in regional, triangular and south-south cooperative relationships. Consequently, the Chilean International Cooperation
Agency was moved in 2005 from the Ministry of Planning and Cooperation to the Ministry of Foreign Relations. For OECD’s “traditional donors” Chile has assumed a leadership role in triangular cooperation in Latin America and the Caribbean.

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 are concentrated in a few sectors, in particular the environment, renewable energy, social and regional development and state modernization (such as the highly successful criminal law reform between 2000 and 2005), with donors complementing strategic government policies in Chile. A 2010 European Commission evaluation viewed Chile as a reliable partner in development cooperation. All of the cooperation programs evaluated had been executed as planned and national counterpart funds delivered. The results of the programs implemented were assessed as “very positive.”

The Chilean government is considered highly credible and reliable by the international community, and the country has an excellent reputation all over the world, especially for its democratic advances and economic solidity. The level of international confidence in Chile is reflected in its solid, trusted position in both trade and politics, and in its numerous bilateral and multilateral agreements with more than 50 countries. Chile has signed free trade agreements with the United States, South Korea, the European Union, Japan, China and Latin American countries, including Mexico. A free trade agreement with Turkey came into force in 2011, making Chile the first Latin American country to enter an FTA with Turkey. The most recent FTA – with Malaysia – came into force in 2012. Donors and investors also have great confidence in Chile’s well-institutionalized political and economic framework. Arguably the only country with some distrust of Chile is Bolivia.

Over the last two decades, Chile has sought to improve its relations with the Latin American community, mostly successfully. Nevertheless, the OECD Territorial Review of Chile recommended in 2009 that the country adopt a stronger regional approach to economic development, in order to better exploit opportunities and improve the country’s overall performance. However, given the occasionally volatile policies of its neighbors, economic relations can be strained. While economic integration at the international level has been achieved, Chile has distanced itself from regional integration schemes prevalent today in Latin America and has instead sought bilateral free trade agreements, such as those with Mexico, Peru and Colombia. While Chile maintains a relatively stable economic relationship with Brazil, the country’s relationship with Mercosur remains ambivalent, particularly since Venezuela’s accession to this organization. On the other hand, Chile has assumed a leadership role in triangular cooperation in Latin America and the Caribbean and provides aid and development projects throughout the region.
Longstanding diplomatic tensions with immediate neighbors persist. Bolivia continues to demand access to the Pacific Ocean, which has been blocked by the Chilean government with reference to international treaties. Peru has sought correction of its maritime boundary with Chile in the International Court of Justice (ICJ). Both disputes date back to the Pacific War (1896–1874). Since taking office in March 2010, President Piñera has followed the pragmatic course pursued by Bachelet, seeking to improve relations with Peru and Bolivia and find solutions for border conflicts, albeit with ambivalent results. Both Piñera and his Peruvian counterpart Ollanta Humala publicly declared that they would abide by the ICJ ruling. Public hearings concluded on December 14, 2012 with a decision expected in 2013. In the case of Bolivia, however, dialogue has stalled and positions have hardened. In April 2013 Bolivia also took the case to the ICJ.
Strategic Outlook

During the period under review, Chile has maintained a relatively high level of political and economic transformation, and the right-wing government in power since 2010 has demonstrated good governance and successful transformation management. Every relevant indicator today characterizes Chile as an economically stable and essentially democratic country, which has moreover successfully dealt with the effects of the global economic crisis and the 2010 earthquake. President Piñera has largely adhered to the policies set by the Concertación governments, while seeking ways to improve efficiency in order to strengthen his own legitimacy. Despite steadily decreasing approval rates after the rescue of the 33 miners in 2010, when about two-thirds of Chileans approved his and the government’s efforts, Piñera at least managed to keep the country on a solid economic course. He was also able to place new stimuli when confronted with new challenges such as the students’ or indigenous protests.

Nevertheless, major hurdles remain if Chile is to become a fully developed country, as has been the goal of both old and new governments. While Chile has become a member of the OECD, it continues to face significant challenges in areas such as human rights (treatment of indigenous people), equality (gender, income distribution), environmental issues and energy supply. In addition to these structural problems, the specific functioning of Chilean democracy since 1990 has shown some signs of erosion. Largely based on high-level agreements between the two dominant political coalitions, this “political oligopoly” has induced citizen apathy and distrust. The figures are non-ambiguous: Since the students’ protests in 2011, the combined approval rate of governing Alianza and the Concertación opposition averages around 23%; about two-thirds disapprove of the Senate’s performance, while about 70% disapprove of the Chamber of Deputies’ performance. Chilean citizens, considered as politically somewhat apathetic during the last 20 years, have grown increasingly vocal in their criticism of this oligopoly – the most prominent cases being the indigenous’ and the students’ protests.

Nevertheless, the December 2013 presidential elections will most probably bring either ex-president Michelle Bachelet or Evelyn Matthei from the governing Alianza into the presidency. At the time of writing, it remains unclear if a third political force such as Partido Progresista and its candidate Marco Enríquez-Ominami will be able to break the two established coalitions’ dominance. For each candidate, however, the task ahead is clear: Along with maintaining pro-growth and social protection policies, the construction of a new fundamental societal consensus will be of particular importance in the coming years, including the welfare regime, the reform of the binominal electoral system or even the Constitution dating from the Pinochet era. This undoubtedly opens a window of opportunity for Chilean elites, civil society and citizens alike to overcome deep-rooted divides in society.

The country’s primary development challenges as far as economic transformation are concerned are still in the area of social policy, or social integration more generally. Despite a substantial
increase in public education spending, inequalities persist in terms of results, cementing the high level of social inequality. Chile’s human capital may be unequal to the ambitious goals of its political leaders. Despite considerable progress in the area of health, the system of private health insurance requires a thorough review to forestall permanent problems. Though changes in the treatment of indigenous people are in progress, there is as yet no widespread acceptance of multiculturalism nor a guarantee of respect for indigenous peoples. Moreover, the climate of conflict which has repeatedly led to violent confrontation must be overcome, a painful lesson which all “established” democracies have undergone by accepting conflict as a modus vivendi instead of neglecting it.