

BTI 2016 | Chile Country Report

Status Index	1-10	8.77	# 8 of 129	
Political Transformation	1-10	9.15	# 9 of 129	➔
Economic Transformation	1-10	8.39	# 12 of 129	➔
Management Index	1-10	7.51	# 2 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	17.8	HDI	0.822	GDP p.c., PPP \$	22346.0
Pop. growth ¹	% p.a.	1.1	HDI rank of 187	41	Gini Index	50.5
Life expectancy	years	79.8	UN Education Index	0.746	Poverty ³	% 2.1
Urban population	%	89.4	Gender inequality ²	0.355	Aid per capita	\$ 4.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Chile is at a crossroads. The growing delegitimization of the established “politics of consensus” among the two political blocs, which served democratic consolidation and Chile’s model of development for more than 20 years, eventually led to the perception of a “political duopoly” increasingly irresponsive to the demands of society. This has produced developments in opposite directions. On one hand is the large detachment from political life of broad sectors of the population, which has resulted in apathy and electoral abstention. On the other hand, new and varied social sectors, direct results of the country’s modernization, no longer identified with the established party system and began to take direct action on the streets as social movements. The country is generally developing toward a more diverse and pluralistic society than that which gave rise to the current system of governance, which thus begs to be made more current.

The case of university students is paradigmatic in this regard. The deep modernization of the Chilean economy increasingly requires professionals and technicians with high levels of training. The increasing income of the country has allowed the expansion of tertiary education, but this has made education more expensive. Young people and their families from the middle and lower social strata face the dilemma of an expensive higher education, yet one that often lacks the required quality. As they do not form part of the traditional cleavages that shaped the current party system, which showed its inability to integrate them, they have given rise to a new line of conflict. In the last general elections, the party system has managed to give some signals toward the integration of new groups, but the reform of the electoral system opens the door to an uncertain future.

The contradiction between a political system that follows its own logic and a civil society that follows another crystallized in the demand for a new constitution, which was assumed in the government program of the current president, Michelle Bachelet. During her first year in office, Bachelet has initiated several fundamental reforms, such as tax reform, the end of the electoral system inherited from Pinochet’s dictatorship and the end of the profit motive in primary and secondary education; new bills have been announced concerning labor reform and abortion. But

the pending discussion on the mechanisms to establish a new constitution opens questions about the form that will take this new “compact,” and if a new model of economic and social development will emerge in which new players feel part of the political system. Consequently, these discussions may also extend to the country’s economic and welfare regimes, which are institutionally sound and helped the relatively successful development path, but also present certain deficiencies concerning productivity and equity. In sum, Chile is in a process of transformation, the depth of which can not yet be determined.

History and Characteristics of Transformation

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

From 1989 to December 2009, the Concertación won all national elections. The Aylwin government (1990-1994) successfully avoided any relapse into authoritarianism, achieved economic stability and combated poverty. It also established the Commission on Truth and Reconciliation, to clarify the number of murdered and “disappeared” under the military regime, and to find some form of compensation for their families. The government of Christian Democrat Eduardo Frei Ruiz-Tagle (1994-2000) deepened the market economy by extending international trade and implementing new privatizations. Chile reached the highest rates of economic growth in its history, close to 7% annually. Though poverty was significantly reduced, the inequality of income distribution remained.

The third Concertación government, led by the socialist Ricardo Lagos (2000-2006) implemented significant reforms at education, health, culture, labor relations, public financing of electoral campaigns, laws on probity in state management, and above all constitutional reforms. In the area of human rights, prominent trials of some high-ranking officers of the Pinochet regime (and of Pinochet himself), along with the Valech Report on Torture and Political Imprisonment, marked historic steps toward justice and reparation. The fourth Concertación government (2006-2010), led by socialist Michelle Bachelet, initiated major reforms to the state system of social protection with the goal of promoting social equity, and introduced a reform to the social security and pension systems. Despite Bachelet’s successful management of an economic crisis and high approval ratings, she failed to transfer her immense popularity to the continuity candidate Eduardo Frei as the Concertación began to weaken.

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

The Piñera government largely maintained the (generally business-friendly) policies of the Concertación, and also continued social policies promoted by Bachelet. Despite the 2010 earthquake (the overall effects of which the government managed successfully), the economy recovered quickly. Nonetheless, in 2011 Chile witnessed a surge in protests organized by students, indigenous organizations and citizens who feel their demands are not being met. The impact of these social movements on Chile's transformation path has yet to be determined.

In the context of the growing street protest on the one hand, and considerable political apathy on the other (expressed in an abstention rate exceeding 50%), the Concertación became the New Majority (Nueva Mayoría), with the inclusion of the Communist Party and other leftist groups. Its electoral success in the 2013 elections guaranteed the Concertación a majority in both houses of parliament and the return of Bachelet to government. Her government has promised a new constitution, the details of which have not been identified.

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

Question
Score

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, despite the existence of three types of threats against this monopoly: organized crime, such as drug trafficking; anarchist groups responsible for bombings in Santiago; and some indigenous organizations in the southern regions of Bío Bío, La Araucanía and Los Ríos, some of which regularly carry out violent attacks.

Monopoly on the
use of force
10

The first two threats pose a minimal risk to the state monopoly. Police statistics show that the phenomenon of drug trafficking, while troubling, is fully under the control of the institutions concerned. In the case of anarchist groups, although this happened to evolve into a higher level of violence in 2014, including some explosions in the public transport system, the registered number of episodes has been quite low (although there was one casualty, a vagabond, who picked up a package containing a bomb). Moreover, their firepower is close to zero.

The Mapuche conflict requires more attention, as it has several dimensions and the number of acts of violence is growing. One of the dimensions is the claim of some communities to have an ancestral right to lands now in private hands. In the evaluated period, there have been at least four deaths from the conflict, many serious injuries and numerous arson attacks. Still, the violent groups in this conflict also have minimal firepower, and they are only one group of actors among many others that better represent the Mapuche case. Although the state's monopoly on the use of force remains intact, the severity of this problem requires further attention and may come to represent a challenge.

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 Mapuche conflict mentioned above may further damage their acceptance of the state's legitimacy if not addressed in earnest.

State identity
10

While citizenship is not denied to individual members of indigenous groups, unresolved conflict around collective indigenous rights remains. At this point, the greatest demand is the constitutional recognition of native peoples, an issue that has been discussed since the beginning of the transition to democracy. In fact, the first project of constitutional reform was presented to parliament by the Aylwin government in 1991. The latest under discussion was presented by Bachelet's first government in 2007 and reactivated in 2009. However, these proposals have opponents not only in the political class, especially right-wing parties, but also among some representatives of indigenous peoples, who consider it insufficient, so the progress of these proposals has halted. But this claim does not essentially question the dominant concept of the nation state, the proposal concerns enlarging or complementing this definition.

With regard to immigrants' rights, both Bachelet's first government (2006-2010) and the Piñera government (2010-2014) have been concerned with facilitating immigrants' access to state protection systems and ensuring equal opportunity in the labor market. Since June 2013, parliament has been discussing a new immigration bill that would replace the current law from 1975.

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

No interference of
religious dogmas
9

Until a few years ago, the Catholic Church successfully exerted great pressure on various aspects of social life relating to ethical values, sexuality and reproduction, as well as to divorce, health and education. This included attempts to influence, stop and force the formulation and promulgation of laws.

But the public awareness of a number of cases of sexual abuse by important priests of the diocese of Santiago, the country's largest, has decreased support for the Catholic Church, which has taken away much of its ability as a lobbyist. But this does not mean that their influence is completely gone, its role should be considered as significant as that of any other key pressure group. For example, although in the recent discussion on reforming primary and secondary education, the Catholic Church was more important than any other lobby in finally passing the law; yet other

issues, such as the recent approval of the bill on Civil Unions for Gay or Heterosexual Couples with broad support that included some conservative political sectors, illustrate that the secular influence of the Catholic Church in congress has declined.

The Chilean state has a differentiated and well-developed administrative structure throughout the entire country. In most cases, this goes beyond merely basic functions, and successfully serves the country's development needs. Chile's civil service 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. Similarly, the LAPOP survey (AmericasBarometer) places Chile among the highest countries of the region in terms of infrastructure and coercive state capacity.

Basic
administration
10

Chile operates as a centralized state, which leads to strengths as well as weaknesses. Public policy is defined in a centralist way, and thus the specific needs of the country's political-administrative divisions are not always reflected. To some extent, the administration exhibits shortcomings that arise from the concentration of resources close to bigger cities. Reforms to give greater autonomy to local governments (municipalities), in particular concerning the management of subsidies for the low-income population, have not always been successful, given the varying levels of management efficiency at the local level. But despite some evidence of clientelism, local administrations seem to be more or less sound.

2 | Political Participation

All elections are held according to international standards; universal suffrage with secret ballot is ensured. LAPOP data suggest that vote buying – found frequently across much of the region – and political clientelism play only minor roles. All elections are supervised by the Electoral Service, an autonomous organ of the state, which has been receiving more resources, powers and independence in recent years. The polling procedures, including vote counting, result verification and complaint resolution, are conducted in a transparent and impartial manner, and accepted by all actors. All political parties who meet the minimum requirements may nominate candidates for all kinds of elections; this is also true for independent groups that collect a certain number of support signatures. All of them have access to proportionally free advertising space on terrestrial television as well as public funding for part of their campaign expenses (Act 19,884 of 2003), although access to mass media is still places smaller groups at a disadvantage.

Free and fair
elections
9

However, the system faces some challenges. One is related to the binomial electoral system used for parliamentary elections, which was introduced under the authoritarian regime and was in force until January 2015. While not affecting free and fair elections as such, in practice it had become a problem of legitimacy for the whole political system, as it allowed the two dominant alliances – the center-left

Concertación (now Nueva Mayoría) and the center-right Alliance for Chile – to share most electoral posts in the National Congress, effectively excluding all other parties and reducing political competition. This led to apathy in the younger generation, among which about 33% of those qualified to vote did not register to do so. In 2009, a constitutional reform introduced automatic voter registration and declared voter participation voluntary. The 2012 local elections resulted in a disappointing participation rate of just 43% (down from 58% in the 2008 municipal elections). Participation partially improved for the general election of 2013, reaching 49% (59% in 2009). At this time, nine candidates competed for the presidency – a record since the return to democracy.

Another shortcoming is that the powers of the Electoral Service to oversee the fulfillment of campaign rules are still limited. This was demonstrated in the case of fraudulent signatures supporting the registration of two independent presidential candidates (which was discovered by the press thanks the transparency law) and in the recent scandals involving the illegal financing of parliamentary campaigns. The framework for campaign financing, which was established in 2003, allowed private contributions up to certain limits, and intended to ensure that candidates did not know who donated money, thus avoiding rent seeking. Nevertheless, since the second half of 2014, cases of “black money” have been detected. Typically, a candidate (or his/her collaborators) provides a taxable invoice to a company that, in turn, pays for a service it never receives, thus providing illegal additional funds to a candidate. The most prominent current examples are the Penta case, which involves the right-wing party Unión Demócrata Independiente (UDI), and the Soquimich case, which involves several parliamentarians from the government coalition.

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. Moreover, in 2012, parliament repealed the Ley Reservada del Cobre (Copper Law), which gave the armed forces a direct part of the income derived from state-owned copper, thus enhancing civil control over the military.

There are no veto powers any more as such, notwithstanding the strength of some key pressure groups. Some conglomerates in the economy enjoy a considerable concentration of economic power, although not de facto veto power. The power of these groups is reinforced by a close-knit Chilean elite, which gives rise to a gray area where economic influences and political interests are intertwined. The high cost of election campaigns is also an opportunity for some entrepreneurs to fund candidacies disingenuously, as mentioned in the previous section.

Another fact limiting the effective power to govern is the existence of super-majority quorums, i.e. some critical laws require a 2/3 majority for modification. These quorums have been present since the return of democracy. These laws, which are

Effective power to govern

9

called “constitutional” laws, were passed during the military government, so that their amendment under later democratic governments could be prevented by the opposing minority of right-wing parties.

Freedom of association and freedom of assembly are unrestricted, and all governments in the post-Pinochet era have strictly respected these rights. However, until 2006, Chileans remained somewhat reluctant to exercise their political rights outside the framework of political parties (with the exception of Mapuche organizations, which have been more active since 1990). Since then there have been a series of social movements, most notoriously the student movement, but also pro-homosexual, environmentalist, regional and local movements that have openly exercised their civil rights; in the last two years, however, there has been a decrease in intensity. Even more radical groups, such as Okupas and anarchists, have openly exercised these rights. Nevertheless, there have been reports of excessive use of force by the police against demonstrators.

One specific restriction results from the uncontested economic policy model: although the rights to strike and bargain are generally respected, and political activity of unions is not restricted, unions’ collective bargaining rights are still subject to some provisions that restrict union activities, and the right to organize unions in specific enterprises is sometimes obstructed by employers’ informal practices and lacks appropriate supervision by the Directorate of Labor. The new government of Bachelet seeks to remedy this by a new amendment to the labor law. In some cases, workers, e.g. dockworkers, have managed to organize themselves as a social movement and have achieved their claims.

Freedom of opinion and freedom of the press are constitutionally guaranteed and have been respected by the different governments. There are no groups that threaten journalists. The legal provisions that previously hindered coverage of some issues were removed in 2005. In 2009, the Law on Access to Public Information (Ley de Transparencia) came into force, giving citizens extensive rights to information on state institutions. However, according to the National Press Association, only 24% of journalists surveyed consider this law to be a very good or excellent tool to access public information. In January 2014, a Lobby Law forcing any public authority to report private meetings was enacted, thus increasing the scope of public scrutiny.

However, there is a trend toward further ownership concentration in the media throughout the country – especially newspapers, pay television, telecommunications, cinema distribution, and recently radio – by two groups, El Mercurio and Copesa (both linked to the economic and political right), which also control the distribution chain. Though there are alternative print publications, they often struggle to survive economically. The 2014 Press Freedom Index issued by Reporters without Borders ranked Chile 58th worldwide (8th in Latin America and the Caribbean), and classified

Association /
assembly rights
10

Freedom of
expression
9

Chile as a country with “noticeable problems” (in the region, only Uruguay and Jamaica were classified as “satisfactory”).

The country’s television landscape is largely independent, with seven nationwide terrestrial commercial television channels, though three private stations linked to large economic groups together attract about 70% of the audience share. While the sole public station, TVN, is obliged by law to be politically pluralist, it receives no public subsidies, forcing it to orient its programming along commercial lines. Pay TV is another alternative, with two Chilean 24/7 news channels. 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. In recent years, this industry has consolidated into a handful of groups. The biggest one, Iberoamericana Radio, belongs to Spain’s PRISA media conglomerate, while the Copesa and Luksic groups have also acquired many stations, thus showing a growing trend of cross-media, horizontal concentration in the Chilean media.

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, CiperChile, The Clinic and El Libero, are becoming more popular, especially among the elite.

Despite the possible risks of ownership concentration, the media landscape is satisfactorily differentiated; media organizations cover sensitive issues and are fulfilling a watchdog role vis-à-vis the government and other political authorities.

3 | Rule of Law

The constitution guarantees the separation of powers, and all 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 president, and allows him or her to act as a key co-legislator. However, a succession of constitutional reforms, as well as the political culture of arrangements (“democracia de los acuerdos”) and the role played by the different parties in the ruling coalition, have strengthened the role of parliament in the system of checks and balances. This has been amply demonstrated during the first year of the Bachelet government, which, despite having the necessary majorities in both houses, had to bargain changes driven by legislators to two of its main legal reforms (tax and education). The independence of the judiciary has been strengthened during the first decade of the century, with the Constitutional Tribunal assuming an increasingly important role as another independent control.

Separation of
powers
10

Chile's judiciary is independent and performs its oversight functions appropriately. It is mostly free both from unconstitutional intervention by other institutions and from corruption. It is institutionally differentiated, and there are mechanisms for judicial review of legislative and executive acts. Several constitutional reforms have improved its performance since the return to democracy in 1990. The 2005 reforms enhanced the Constitutional Tribunal's autonomy and jurisdiction concerning the constitutionality of laws and administrative acts. Today, it has become one of the most powerful such tribunals in the world, able to block governmental decrees and protect citizens' rights against powerful private entities. Equally important was the reform of the penal code (2000-2005), which introduced oral procedures, a public prosecutor's office and district attorneys, as well as strengthened the public defender.

Independent
judiciary
9

However, there are critics to the procedures for internal evaluation of the judiciary, and also to the transparency of its internal processes and decisions. Despite its notable successes in addressing important issues (e.g., human rights) and enhancing overall efficiency, the judiciary receives low levels of confidence by the average Chilean. In July 2014, 75% of people did not approve of the way the judiciary branch performs its duties, according to the Centro de Estudios Públicos (CEP) survey. In part, this may be due to the criminal procedure reform, which has established procedures that facilitate the release of the accused, and created the feeling that rich and powerful people and institutions are likely to achieve favorable judgments against the common people.

In general, officials and authorities involved in corruption and/or misappropriation of public funds have been subjected to audits by the Comptroller General's Office or the judiciary, and have been punished (e.g. the 2012 case involving the National Commission on Accreditation of Higher Education and the ongoing tax fraud cases involving Penta and Soquimich).

Prosecution of
office abuse
9

Despite more critical views expressed in recent years concerning corruption, it has not reached the systemic level seen in other Latin American countries. Currently, the population has a high perception of corruption, as a direct result of public denouncements by the media; the public does not tolerate these goings-on. However, the Americas Barometer 2014 survey shows that Chile has one of the lowest rates of corruption victimization, ranking second behind Canada and ahead of Uruguay and the United States.

Nonetheless, the judiciary sometimes faces difficulties in convicting culprits due to high hurdles imposed by a positivist tradition of the judiciary in Chile, which requires that the offenses be specifically codified before the fact and that the intention to break the law can be proven. As a result, ethical lapses often go unpunished. But there has been a consistent trend to learn from these experiences and to codify new offenses and thus improve the law, as in the current scandals.

Civil rights are guaranteed by the constitution and widely respected by all state institutions. Citizens are effectively protected by mechanisms and institutions established to prosecute, punish and redress violations of their rights. An important role is played by the National Institute of Human Rights (INDH), an autonomous body established in 2010 that monitors the human rights situation. Violations of human rights are extremely rare and limited to isolated cases of abuse and unlawful coercion exercised by officials against persons deprived of liberty. Since the establishment of the INDH, there have been 41 relevant lawsuits as of October 2014. The overcrowding of prisons is also a growing concern.

Civil rights
9

Chile has ratified various international mechanisms to provide greater safeguards, such as the International Criminal Court (2009) and the Protocol to the Convention against Torture and Other Inhuman Treatment (2009). However, the National Preventive Mechanism as an effective way to inhibit such abuses has yet to be implemented. Another issue is the reform of the antiterrorism law, since its definitions and mechanisms do not guarantee due process. For this reason, the current government has been cautious in using it, particularly with regard to the Mapuche conflict.

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

Moreover, the situation of native peoples remains problematic. Institutional reforms such as the 1993 Ley Indígena were designed to recognize the rights of the country's approximately 700,000 indigenous persons. Chile also ratified the International Labor Organization Convention 169 on Indigenous and Tribal Peoples (ILO), but its implementation remains deficient. The Mapuche claims to ancestral land have led to tensions and violence; accusations of hostility by officials and police brutality against its communities have been made public. In any case, indigenous people can use all legal protection mechanisms that the country provides. For example, the Inter-American Court of Human Rights has accepted some of their claims, as in 2014 when it ordered void judgments against some Mapuche activists based on the antiterrorism law.

4 | Stability of Democratic Institutions

The working of Chile's democratic institutions has improved subsequently since 1990. Successive constitutional and major legal reforms have expanded their scope, importance and stability.

Especially since the early 2000s, they are also free from all kinds of authoritarian enclaves. Democratic institutions operate in accordance with their functional purposes and are effective. Despite the fact that Chile is a highly centralized state, some reforms have also managed to deepen local democracy at the municipal level, and the direct election of regional authorities (Intendentes) is currently under discussion. Institutional stability has been underpinned by widespread support for the rules of the game. But this same form of evolution and stability has generated suspicion and mistrust in some sectors, especially on the left and between student leaders, as the entire process was framed by the rules of the 1980 constitution passed by the authoritarian regime. Moreover, recent surveys show that trust in the main democratic institutions is exhibiting historically low levels of approval and credibility. In the future, this may affect also the performance of democratic institutions.

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

5 | Political and Social Integration

The current party system is in a rather ambivalent situation. On the one hand, considering the results of the last parliamentary elections it is still a somewhat stable, moderate party system with low fragmentation, low polarization and voter volatility. It is comparatively highly institutionalized. In the 2013 elections, the seven established parties, grouped in the two traditional coalitions, retained their predominance and obtained 111 of the 120 seats in the House of Deputies. Thereby,

Performance of
democratic
institutions
10

Commitment to
democratic
institutions
10

Party system
8

the party system still reflects the political power constellation of the late-1980s democratic transition when these blocs were formed. Though in principle Chile has a multiparty system, the binomial electoral system has induced it to operate as a two-bloc system, as parties were forced to form alliances in order to gain representation in the National Congress.

One of the alliances was formed by center-left parties – the Christian Democratic Party (PDC), the Party for Democracy (PPD), the Radical Social Democratic Party (PRSD) and the Socialist Party (PS) – and was 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. In the last parliamentary election and in view of the agreements to support the candidacy of Michelle Bachelet, it also included the Communist Party (PC) and was renamed New Majority (Nueva Mayoría). The other bloc, the Alliance for Chile (Alianza por Chile), consists of the Independent Democratic Union (UDI), the hard right wing party that was closely allied to the Pinochet regime, and the more moderate National Renovation (RN). In this way, the party system has proved to be highly efficient in providing parliamentary support to governments and is probably among the most stable in the region.

On the other hand, this system has increasingly lost capacity for social representation. In fact, all national surveys and regional comparisons show that Chilean parties have only a low level of support. The system features classic socioeconomic, ideological and political cleavages, but has some difficulty giving voice to new social and cultural developments. What was a guarantee of political stability during most of the last 25 years has for an important part of the electorate taken on the character of a political oligopoly that holds little programmatic or organizational attraction. The introduction of voluntary voting and the consequent rise in electoral abstention revealed the gap between Chile's entrenched elites and ordinary citizens.

New social movements, tendencies and factions of traditional parties across the entire political spectrum are currently competing for a space in the party system and for social support. 12 deputies are no longer tied to the traditional parties. New trends are emerging on the political right (e.g. Evópoli), where RN is fractionated (e.g. the formation of Amplitud). Fuerza Pública, led by former Minister Andrés Velasco, seeks to follow the path of Marco Enríquez-Ominami and his Progressive Party (PRO). On the left, two former leaders of the student movement, which managed to reach the parliament, are creating space for new political movements. The recent approval of the electoral reforms, which replace the binomial with a more proportional system, might result in a new configuration of the party system. Nevertheless, the electoral mobilization of the traditional parties and their parliamentarians' links to numerous local social organizations remain significant, as demonstrated in the elections of the Municipal Councils, where a proportional system has been used since 2004.

Chile has a range of interest groups reflecting a wide array of social concerns, including NGOs and social movements (environmental or human rights issues), community organizations, unions, students' and indigenous organizations and professional associations. Especially in recent years, social movements organized in response to specific problems have shown new capacities, but by their very nature do not always show continuity over time. Corporate business interests remain strong, although the recent tax reform and the forthcoming labor reform suggest that its actual influence may have declined. However, the power of some economic groups remains strong and is reinforced by their informal links to the public sector, where a gray zone of power and corruption has arisen (e.g. Penta and Soquimich).

Interest groups
8

According to data from Latinobarómetro and Americas Barometer, support for democracy as the best form of government is medium to high in comparison with the region. Latinobarómetro 2013 places Chile in sixth place among 18 countries (82% supported democracy), while Americas Barometer 2012 – in a survey covering both North and South America – ranks Chile 10th (among 25 countries) with an approval rating of 74.0% (sample average: 71.6%). According to Latinobarómetro, agreement with the idea of democracy as the most preferred political system in Chile increased by 11 points between 1995 and 2013, reaching 63%, placing it in tie with Ecuador for the fourth highest percentage. Considering the average of the 17-year study, Chile is one of the countries with the highest indifference toward the system; although indifference has decreased, it is still about 20%. As far as the satisfaction with the working of democracy is concerned, Chile falls to eighth place in the Latinobarómetro survey, with a figure of 38%, leaving it even below the 39% average.

Approval of
democracy
7

Trust in democratic institutions is relatively low in Chile. According to the January 2014 Centro de Estudios de la Realidad Contemporánea (CERC) Barometer, people rely more on the police (56%) and the military (49%). Ranking much lower are the judiciary and the Senate at 20%, and the Chamber of Deputies at 17% (according to Americas Barometers 2014, confidence in the justice system is one of the lowest in the region). Political parties receive the lowest trust, 10%. This configuration has remained relatively constant over the past 10 years. Moreover, the intention to vote for a political party has consistently dropped since 2006; since 2011, it has been below 50%.

There is a substantial number of autonomous, differentiated and self-organized groups, associations and organizations. Alongside numerous religious organizations, there is a dense network of civil society organizations. According to the same survey, 21% of the population participates in sports, entertainment or cultural groups, 10% are in a union or professional association and 11% are in some other type of voluntary association (engaged with human and civil rights, poverty, inequality, rural development or the environment). The emergence of social movements since 2011 has reinforced this trend. These include not only students, but also various sectoral

Social capital
7

and local interests, such as environmental actions against electricity plants, the inhabitants of Freirina against a pig slaughtering plant, the Social Movement for Aysen in 2012 and even movements against the educational reform of the current government. However, there are great disparities in the durability and organizational strength of these movements.

Available data shows a somewhat inconsistent picture of trust levels. According to Latinobarómetro 2011, only 17% of interviewees agree that “one can trust most other people,” with only Nicaragua and Brazil showing lower figures, the CERC-Mori Barometer 2014 shows similar values over the last three years (14%). However, data from Americas Barometer Chile Country Report 2012 suggests that interpersonal trust among Chileans is at a medium level: 63.1% of interviewees said they had either medium or high confidence in their neighbors, placing Chile 10th out of 26 countries.

II. Economic Transformation

6 | Level of Socioeconomic Development

Despite progress in development and relatively stable macroeconomic indicators over the past 25 years, exclusion and inequality persist. Chile ranks 12th among the 128 BTI sample countries in UNDP’s Human Development Index 2013 with a score of 0.822, qualifying 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 continually since 1990 from 38.6% to 7.8% in 2013, with 2.5% living in extreme poverty. According to newer standards, however, the poverty rate is at 14.4% and extreme poverty at 4.5%. Considering the concept of “multidimensional poverty,” recognizing that poverty is due to deficiencies that go beyond the mere lack of income, 20.4% of Chileans are considered as poor.

Poverty particularly affects ethnic minorities (23.4%), children (23.2% of those between 0 and 3 years old, and 21.6% of those aged 6 to 17) and women. According to CASEN 2013, the percentage of poor households headed by women increased from 32.3% in 2006 to 45.7% in 2013. Unemployment especially affects the less educated and young people. In October 2014, unemployment was 20.4% among young people aged 15 to 19, and 14.8% among those aged 20 to 24 (national average: 6.4%). One considerable socioeconomic barrier is the low education quality among the poorest Chileans, which hampers social mobility.

Question
Score

Socioeconomic
barriers

7

Despite impressive economic growth rates over the last 25 years and a corresponding rise in levels of well-being, social inequality has remained high. According to World Development Indicators 2012, the Gini coefficient dropped only slightly from 0.52 in 2006 to 0.51 in 2011. The CASEN survey confirms this figure: the Gini index remained constant between 2011 and 2013, at 0.50. According to the UNDP's Human Development Report 2013, seven countries from Latin American and the Caribbean show more income inequality than Chile (Haiti, Honduras, Guatemala, Colombia, Brazil, Suriname and Bolivia).

Economic indicators		2005	2010	2013	2014
GDP	\$ M	124404.2	217538.3	276673.7	258061.5
GDP growth	%	5.6	5.8	4.2	1.9
Inflation (CPI)	%	-	1.4	1.8	4.4
Unemployment	%	8.0	8.1	6.0	-
Foreign direct investment	% of GDP	5.6	7.2	7.0	8.5
Export growth	%	4.3	2.3	3.4	0.7
Import growth	%	17.2	25.5	1.7	-7.0
Current account balance	\$ M	1448.8	3581.2	-10125.0	-2995.5
Public debt	% of GDP	7.0	8.6	12.8	15.1
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	4.3	-0.4	-	-
Tax revenue	% of GDP	17.8	17.4	-	-
Government consumption	% of GDP	10.5	12.3	12.5	12.9
Public expnd. on education	% of GDP	3.2	4.2	-	-
Public expnd. on health	% of GDP	2.5	3.3	3.7	-
R&D expenditure	% of GDP	-	0.42	-	-
Military expenditure	% of GDP	2.4	2.2	1.9	2.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

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, and there is substantial freedom to launch and withdraw investments. Aside from tax treatment intended to benefit SMEs (which was increased in the recent tax reform), there is no market discrimination based on company size. The recently approved tax reform improved in relative terms the tax treatment of foreign-owned companies vis-à-vis local ones. Insurance companies, banks and financial institutions are autonomous. The informal sector exists but plays a minor role (it is similar in size to the OECD average), except for the labor market, where informal jobs may constitute between 20% and 25% of all jobs, yet this figure is one of the lowest in Latin America.

Market-based
competition

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Chile's economic order has a strong institutional foundation. Governmental policy is limited to general assurance and maintenance of the rules of the game. It provides for a neutral organization of regulations consistent with competition, including control over monopolies and the expansion of necessary intermediary institutions. Nevertheless, the state's oversight role is comparatively discrete in some areas, which has favored concentration within different sectors over time. This, in turn, has limited effective free competition in the recent years. As in the case with pharmacies and the poultry market, a small number of large companies can effectively limit the entry of new competitors, while it is easy for them to collude in fixing prices or market shares.

With its small domestic market, Chile is inevitably confronted with market concentration especially in the banking, private pension, air transportation, communications, pharmaceutical, and health insurance sectors. 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.

Anti-monopoly
policy

8

The formation of monopolies and oligopolies is regulated by independent agencies on the basis of the Law on Protection of Economic Competition, enacted in 1959 and amended in 1973. Since the late 1990s, it has undergone several modifications in order to reinforce anti-trust legislation. The Tribunal for the Defense of Free Competition (TDLC), which was created in 2003 and is subject to the supervision of the Supreme Court, is responsible for preventing, correcting and penalizing anti-competitive conduct. The National Economic Prosecution Service is an investigative body which can present cases to the TDLC. Together they are responsible for the

investigation and resolution of cases involving abuse of dominant market positions, restriction of competition by cartels, disloyal competition, and market concentration.

However, these institutions suffer from a lack of resources and institutional capacity; they have most likely failed to evolve enough over time to keep up with the current demands. Moreover, a recent OECD report notes the lack of a specific law for preventive control of economic concentration, and concludes that the current system lacks transparency, legal certainty and predictability; it therefore recommends its rapid reform. Some improvements took place since 2009, including more financial resources and more attributions for the National Economic Prosecutor (FNE), such as the right to confiscate computers at the office of a suspected company and the *Delación Compensada*, a mechanism encouraging participants of a cartel to confess (and receive a fine reduction). These proved their usefulness in the cases of collusion among pharmacies and among poultry companies. While resources and attributions need to continue increasing, one of the perceived drawbacks is also related to inadequate sanctions, such as low fines and limited penal sanctions.

Chile is one of the world's more open countries in terms of trade. Foreign trade is widely liberalized, with uniform, low tariffs and few non-tariff barriers in place. Liberalization has been expanded and consolidated under the post-1990 democratic governments. The state does not intervene in free trade, but rather supports national exports by means of a network of institutions linked to the economy. Free trade has been encouraged by international and bilateral agreements with the United States, the European Union, and Latin American and Asia-Pacific countries, extending to more than 50 trade partners representing nearly 95% of Chile's overall trade. As a result, Chile's effective average tariff is estimated to be less than 1%. Chile's economy is highly dependent on international trade, with exports accounting for more than one-third of GDP. The degree of trade openness – measured as the ratio of the sum of exports and imports to GDP – is relatively high at about 75%. Chile has been a WTO member since 1 January 1995.

Liberalization of
foreign trade

10

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

Banking system

10

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

According to the World Development Indicators 2014, the share of non-performing loans is relatively low, at 2.2% in 2014. The ratio of bank capital to total assets was 8.1% in 2013. Capital markets are open to domestic and foreign capital, although they are vulnerable to speculative investment. Mature regulation has led to a diversified financial system and capital markets that provide the economy with a wide variety of financing sources. There are currently 21 banks under the supervision of the SBIF, which provides for sufficient sectoral competition.

8 | Currency and Price Stability

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

The maintenance of low, stable and sustainable inflation is one of the pillars of Chile's economic model, and is the primary objective of the BCCCh's monetary policy. To this end, the bank has oriented its monetary policy toward an inflation rate of 3% per year, as measured over a two-year horizon. The rate of inflation reached an average of 3% between 2010 and 2012, where it remained in 2013 before climbing to 4.6% in 2014. This was partly due to the rising prices of alcohol and tobacco, which were affected by a new tax, and to increases in prices of food and non-alcoholic beverages.

Anti-inflation /
forex policy
10

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

Overall, economic policy since the 1990s has been marked by the highly disciplined maintenance of macroeconomic stability, with the central bank and the government working together quite effectively. The government's fiscal and debt policy is narrowly targeted at stability. In 2001, 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 7.8% of GDP in 2007 and 3.9% in 2008, resulting in an impressive overall balance, countercyclical policies aimed at confronting the economic crisis induced a deficit of -4.4% in 2009 and -0.5% in 2010. With economic recovery, the surplus rose again to 1.3% in 2011, but only 0.6% in 2012. The lower state revenues from copper caused a new deficit of -0.6% in 2013. The central government's overall public debt remained relatively low, though showed a steady increase from 3.9% in 2007 to 11.1% in 2011, 12% in 2012, 12.8% in 2013 and 13.7% in September 2014. Yet, these are still among the lowest figures in the World Economic Outlook Database 2014 of the International Monetary Fund (IMF), with the average being around 45% of GDP.

Chile's fiscal framework has been improved several times since its introduction in 2001. Its principles have been enacted in the Fiscal Responsibility Law of 2006. Following the recommendations of the Corbo Commission, the previous administration improved the transparency of the rule and created a fiscal council in charge of verifying its application. Chile has a net creditor position, meaning that it has more financial assets than debt. Most of its assets (\$24 billion) are held in two sovereign wealth funds (SWF). These are largely the result of following Chile's fiscal rule: savings in boom years go mainly to the SWF. More important, it can be argued that the observed low level of public debt is a structural feature of the Chilean public sector, as public spending cannot be financed by debt issuance, but rather through structural revenues.

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. Another 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. The current discussion on reform and the establishment of a new constitution does not aim to restrict the private property rights, but to increase the quality of democracy and to expand and constitutionally recognize other economic rights, and especially social and cultural rights.

Property rights
10

Private companies are viewed as the primary engines of economic production, and are given appropriate legal safeguards. Price controls and distortions are almost non-existent. 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 areas like private health insurance (Isapres) and Pension funds (AFP) had recently generated some controversy, as public goods and resources are managed according to market logic. To some extent, this has also been the case in state infrastructure (public-private partnerships) through the participation of private enterprises in road infrastructure, hospitals and correctional facilities, where renegotiation contracts that lack full transparency emerged as an issue. A few state companies remain – among them CODELCO, the world's biggest copper producer – but these are subject to professional management.

Private enterprise
10

10 | Welfare Regime

Social safety nets are relatively well developed, though deficiencies remain. The Ministry for Social Development is responsible for the design and implementation of social policies and for eradicating poverty, but the social protection system either does not cover all risks for all strata of the population or its quality is defective. Still, according to the new methodology introduced in 2013, about one-fifth of the population is at risk of poverty. The Concertación governments significantly increased social spending, which was continued by the Piñera government (2010 - 2014). Somewhat surprisingly for a Chilean right-wing government, it even raised corporate tax and a few indirect taxes in order to finance increased social expenditure, such as the conditional cash transfer program (“ingreso ético familiar”) initiated in

Social safety nets
8

2012, which covers about 170,000 families living in extreme poverty. There are currently about 80 programs and/or social benefits in the social protection system. In addition, there are programs of subsidies and social support through other ministries, such as education and housing. The effectiveness of targeting this network is reflected in the fact that in the poorest decile of the population, direct subsidies represent more than 40% of household income, while in the next decile this proportion falls to about 10%.

One major problem is that Chile's mixed private and public welfare system is biased toward social stratification, as a significant portion of it is governed by the market. In the case of the pension system, it has been covered almost completely by the private pension fund administrators system (AFPs) since the early 1980s. These funds are able to produce good replacement rates only for people with a high density of contributions (i.e. those who save regularly during their working lives), but about 40% of the working population do not contribute to the system, while those who do contribute for less than 60% of their working lives.

In view of these shortcomings, the first Bachelet government (2006-2010) enacted a reform in 2008 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, lower costs, and more benefits and transparency. However, system reforms are still estimated to be insufficient and the current second Bachelet government has taken initiatives to explore new modifications, including the creation of a state-owned AFP. Since 2002, there has also been an unemployment insurance program (Seguro de Cesantía), which was reformed in 2009. It includes an individual severance account, which is supplemented by a solidarity component paid from the Solidarity Severance Fund.

As for healthcare, workers and pensioners pay a minimum of 7% of their income for health insurance and can choose between the two systems. The private health insurers, ISAPRES, insure about 18% of the population, normally from the higher income strata. The public system (National Health Fund, FONASA) takes about 50% of the middle and lower income groups, plus about 25% of those without a formal income, or "indigents." The remaining 5% are covered by special regimes, such as the military. The public system is financed to around 50% with fiscal subsidies. 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.

Equality of opportunity remains constrained by persistent economic and social inequalities. A number of legal provisions address discrimination – including the 2012 Law against Discrimination – but the problems are primarily linked to social stratification, which, in turn, is deeply related to inequalities in education. As many studies have shown, including PISA, Chile has a very segregated school system. The highest standard of education is enjoyed by those who can afford it. Therefore, the youth of the poorest strata obviously have more difficulty integrating into the labor market and usually get more precarious jobs. Moreover, these barriers are reproduced in time and are expressed in the low level of intergenerational mobility. Bachelet's government has undertaken a series of reforms to produce a less segregated education system, with more quality and accessible to everyone, but it is too early to know their final effect.

There is a mixed record on equal opportunity for women. Equality in primary, secondary and tertiary education has already been achieved. However, there is a gap in labor force participation (near to 50% for women vs. over 70% for men), in spite of the improvement over time (34.8% female labor force in 2004). Additionally, women tend to have jobs that are more precarious. This situation is correlated with poverty, insofar as at lower income deciles women reach lower participation in the labor market. The Gender Inequality Index included in the Human Development Report 2014 ranks Chile 68th out of 152 countries. Political participation by women has become more common, including ministries and even the presidency. Nevertheless, women's overall presence in politics remains rather low. 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. There is a special office within the Ministry for Social Development – the National Council for Indigenous Development (CONADI) – tasked with working for the development of indigenous individuals and communities. 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 escape from poverty.

Equal opportunity

7

11 | Economic Performance

The Chilean economy continued to exhibit strength at the macro level, despite the slowdown that began in 2013. By the end of 2014, the signs of overcoming this slowdown were still ambiguous. The GDP growth rate of 5.8% in 2011 and 5.4% in 2012 dropped to 4.1% in 2013 (2.7% in the latest quarter). Growth in 2014 was expected to close at 1.8%, one of the lowest figures in recent years, but the monthly indicator of economic activity showed some recovery in the last months of 2014. According to the central bank, GDP growth is expected to be between 2.5% and 3.5% in 2015. In addition, according to the central bank, gross capital formation is expected to fall by 6.4% in 2014, the largest fall in 15 years.

The rate of inflation reached an average of 3% between 2010 and 2012, where it remained in 2013, but climbed up to 4.6% in 2014, although this estimate is still within normal parameters. According to an OECD report, Chile is among the four member countries that reduced unemployment from 2008 to 2013. In the first quartile of each year, the unemployment rate dropped steadily from 10.6% in 2009 to 6.2% in 2013. It was slightly higher in early 2014 (6.5%) but fell to 6.1% between September and November, which was below expectations of analysts.

Successive governments' close attention to structural balance helped avoid public deficits. In 2012, the surplus rose to 0.6% of GDP. The lower state revenues from copper brought about a fiscal deficit of -0.6% in 2013. Tax revenues were relatively solid at 17.6% of GDP in 2012 and 16.7% in 2013. The central government's overall public debt is low but has shown a tendency to increase since 2007, reaching 12.8% in 2013 and 13.7% in September 2014.

While the trade balance has been healthy, with a surplus of around \$2.5 billion in 2012 and \$2.1 billion in 2013, these figures are significantly lower than the \$11 billion surplus in 2011.

The concern about the current account balance, which went negative in 2011 (-\$3.1 billion), 2012 (-\$9.1 billion) and 2013 (-\$9.5 billion), has decreased, as it is estimated that the deficit will reach \$4.2 billion in 2014 (which would represent 1.6% of GDP) and will continue to decline in 2015 thanks to a steady increase in the trade surplus. The latter was estimated to reach \$7.6 billion in 2014 as consequence of a sharp adjustment in domestic spending and the stabilization of the exchange rate. Net income from direct investment in Chile totaled \$17.3 billion in 2011, increasing to \$30.3 billion in 2012 but falling by 29% to \$ 20.3 billion in 2013. However, Chile was the still third largest recipient of foreign investment in Latin America that year.

Output strength

8

12 | Sustainability

Environmental concerns are taken seriously by Chile's political leadership, but are occasionally subordinated to growth efforts as a result of the country's development constraints. Environmental groups have begun to engage more actively in protests against large-scale mining and energy projects and forestry plantations, indicating a rise in environmental consciousness.

Environmental
policy
8

Chile has been a signatory to international environmental standards attached to free trade agreements. As member of the OECD, Chile has had to adapt to OECD standards. In 2010, amendments to the 1994 Environmental Act introduced three major changes: (1) the creation of a Ministry of Environment; (2) the creation of an Agency for Environmental Impact Assessment; and (3) the creation of an Environmental Enforcement Superintendent charged with oversight of environmental issues. However, according to the OECD, CO₂ emissions have been rising steadily, but when calculated per capita are still well below the average for countries in the organization. The 2014 Environmental Performance Index (EPI) ranked Chile 29th out of 178 countries (33rd in 2004). According to this index, the country's greatest shortcomings are in fisheries as well as biodiversity and habitat.

The previous administration launched a 2020 energy strategy committed to generate 20% of the energy matrix by non-conventional renewable energies. In addition, in 2013 it launched a long-term Green Growth Strategy that was presented at the OECD.

While the new environmental governance has enabled great progress and is constantly being revised, critics suggest that the bodies responsible for approving new projects with environmental impact are still too subordinate to the political authorities of the capital, which not always consider technical criteria for the final approval of projects. In this context, the delay of significant hydropower projects in recent years, including HidroAysén in the far south of Chile – which has accomplished all the environment regulations stated in the law, although their implementation was rejected by political authorities in 2014 – has resulted in an increase of thermoelectricity; thermoelectric plants account for more than 60% of the electricity matrix. The governments have not yet been able to set a clear framework for new private investment in renewable energies.

Education and R&D are still weak pillars in Chile's development model, though Chilean governments have undertaken important reforms in recent years. The main deficiencies in education quality and equality have deep historical and structural roots, including the reforms inherited from the military government, which sought to enhance private provision of education. The result is a somewhat dysfunctional education system. Parents who can afford it generally send their children to fully private schools (7% of enrollment) while parents able to supplement the state voucher

Education policy /
R&D
6

(co-payment system) tend to enroll their children in state-subsidized private schools (54%) instead of municipal schools (39%). This produces a socioeconomically segregated system.

In response to student protests in 2011, President Piñera undertook an ambitious plan to increase state funding covering all levels of education. The corresponding 2012 tax reform increased fiscal revenues by \$1 billion. In addition, the law creating the national system of quality assurance in preschool, primary and secondary education entered into force. During the first year of the second Bachelet administration, two new projects were approved concerning the quality system of preschool education and the gratuity of education (suspending the co-payment system until 2018). It is expected that the new tax reform, which has already been approved, will provide an extra \$8.2 billion annually by 2018 to finance the reforms.

The establishment of private universities under the military government enabled a substantial increase in enrollment and coverage, but lacked an adequate quality control system. The lack of a policy to promote public universities has resulted in a deterioration of some of them, while creating a steady increase in fees that must be financed mostly by the students themselves. Some important changes have been recently implemented. Since 2012, there have been grants (gratuity) targeting the poorest 60% of the students, while there are subsidized credits contingent on future income (2% annual interest rates) that benefit students from deciles 6 to 9.

Despite deficiencies and the poor public image of the Chilean education system, it boasts some good results. According to the 2013 World Development Indicators, the adult literacy rate of 98.6% is rather high. While the net enrollment rates for primary and secondary education are also high (102.6% and 90%, respectively), the tertiary-level enrollment rate is only 71%, though well above the average for Latin America and the Caribbean (44%) and continuing upward trend. In addition, Chile showed one of the OECD's largest improvements in the PISA test from 2000 to 2012 (including large improvements among socioeconomically disadvantaged groups), and ranks at the top of Latin American countries that participated in this test. Nevertheless, the 2012 PISA test still ranks Chile among the lowest countries concerning the relationship between average performance and average equity in education outcomes.

Though public expenditure on education rose from 4.1% of GDP in 2010 to 4.3% in 2013, it remains below the OECD average (5.3%). Chile's education system is marked by a high level of private expenditure, which accounts for 35% of expenditure on education across all levels (OECD average: 16% in 2011), the highest among OECD countries and partners.

According to the OECD Science, Technology and Industry Outlook 2014, gross domestic expenditure on R&D reached 0.35% of GDP in 2012, far below the OECD average of 2.4%. The public R&D expenditure reached 0.16% of GDP in 2011

(0.77% OECD average), with an annual growth rate of 8.4% over four years. Public spending has increased, 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 are partly associated with the country's location and geography, including its small domestic market, its great distance from the poles of global development and main destinations of their exports, and exposure to natural disasters such as the tremendous earthquakes that struck the central regions in February 2010 or the north in April 2014, 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.

Structural
constraints
3

Chile does not have large reserves of fossil fuels; as a consequence, they are imported from distant markets. It also currently faces a growing deficit of energy while its solutions 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.

Traditions of civil society are relatively strong in rural regions, but tend to be much weaker in urban areas, especially in larger cities, where social trust tends to be poor in relations with strangers, to the extent that most people are not willing to donate organs of their dead relative.

Civil society
traditions
3

Although civil society organizations are numerous, they are only sporadically active in social and political life. Political elites in Chile often sought to control political participation outside party channels. Thus, there is little tradition of autonomous active participation by civil society in politics. Moreover, today there is a kind of divide between politics and civil society. The LAPOP 2010 Chile study illustrated this paradox: a stable and institutionalized party system able to mobilize voters during elections is confronted with citizens who are alienated from the parties.

But mobilizations to pursue groups or citizens' own interests, or to protest against perceived disadvantages, have started to become more and more frequent, with social media playing some role. Furthermore, civil society's organizational landscape has become increasingly differentiated. In this sense, the end of the Concertación

governments and the presence of a right-wing government between 2010 and 2014 reopened the door to a certain independence of the most active social groups, which allowed them to distance themselves from the mechanism of cooption used by leftist political parties when they are in government.

Conflict intensity is relatively low in Chile, apart from the Mapuche conflict. Localized to a few regions in the south, it has increased in recent years and became more violent, though this conflict has not led to massive clashes.

Conflict intensity
3

The conflict concerning human rights violations under the dictatorship has lost much intensity over time, as the main culprits are in jail and the state succeeded in developing broad remedial measures. However, the main rifts in Chilean society are still predominantly socioeconomic, concerning social inequalities. These conflicts have recently gained much public presence.

These rifts and conflicts, although real, rarely escalate to violence (with the exception of the aforementioned ethnic conflicts). 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 is essentially a normalization toward democratic politics. It should be noted that a large proportion of the population is still disinterested in politics and social issues.

II. Management Performance

14 | Steering Capability

Generally, all governments have been able to propose and implement long-term policies, favoring state interest and not just the concerns of individual governments. While the fact that governments are supported by coalitions or not always enjoy the majority in parliament forces them to bargain with different political actors, they usually manage to maintain their agenda and priorities within the framework of a policy characterized by the search for broad consensus in the solution to the country’s main problems. Examples of this include adherence to the principle of a structural budget balance, economic growth and stability, poverty reduction, fighting crime, transparency, as well as justice, health and education reforms, the latter still ongoing. Politicians on both sides of the political spectrum have given these goals priority over short-term expediency.

Question
Score

Prioritization
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Nevertheless, all governments have occasionally been constrained by powerful economic groups or by the growing influence of the media on setting the agenda of public debate. However, the presence of a relatively efficient public system and a network of technical agencies that enjoy some autonomy guarantee the strategic capacity of the governments to prioritize and organize its policy measures. In this regard, all governments rely heavily on external expertise – most reform projects are accompanied by expert commissions – as well as evidence-based policy-making, regulatory impact assessments, and strategic planning units.

The search for consensus has been the tool that all governments tend to use to establish frameworks to implement their long-term policies. And so it was with the government of Piñera, which had a minority in both houses of parliament. Although this government initially struggled to apply business management principles to the public system, leading to some inconsistency and inflexibility in policy implementation, this problem was overcome.

After a somewhat uncertain beginning in this regard, Bachelet's government, in office since March 2014 and enjoying a large majority in both houses, has shown great ability to pursue and realize its strategic objectives. Examples include the approval of the tax reform, the first law of Bachelet's education reform plan and the reform of the electoral system, which she had established in her government program during the election campaign of 2013.

Policy learning and flexibility benefited widely from the great stability and political continuity that allowed the Concertación to govern for four successive periods. While each new president appointed his new cabinet, there was some continuity in the staff of second-rank political officials. The continuity of the ruling coalition also favored the effort of the incoming government to show publicly that it would innovate concerning matters that had been criticized in the previous governments, seeking greater efficiency in the policies looked upon poorly by public opinion (as in the cases of fighting crime or the public transport system). The tradition that every outgoing minister gives a full report to his successor was also established. This was maintained when the right-wing government came to power in March 2010, and also with the change of the ruling coalition in March 2014. The great continuity of both coalitions, as well as the aforementioned culture of seeking agreements, also favors this process of historical memory.

Another factor favoring learning and flexibility is the tradition established in the state apparatus to resort institutionally to effective monitoring and an evaluation of the implementation of each public policy (a requirement in the rules of procedure of the public administration). Additionally, each government establishes its own monitoring mechanisms regarding the implementation of its strategic policies. The system also relies on knowledge exchange, including that through international cooperation (virtually all public bodies are involved in the related regional and

Implementation
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Policy learning
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international forums and organizations, and therefore follow international technical standards in their procedures) and through the consulting of academic experts and practitioners (ministries have implemented commissions and standing committees and established new ones for the study of new policy proposals). Neither the Piñera government nor the current Bachelet government has been an exception. This means that learning processes have profited at least in part from an accumulation of knowledge and institutional memory, and governments have been able to be flexible when required by changing circumstances.

Nevertheless, there is a somewhat exaggerated faith in technocratic leadership in Chile. The Piñera government was a prime example in this regard. His preference for technocrats carried with it a commitment to improvements in monitoring and evaluation, following the logic of business management, but this was not always in sync with the culture of the public system. Flexibility, on the other hand, has been somewhat exaggerated by a tendency to emphasize short-term considerations – highlighted by polls and media – and the leaders’ consequent fear of losing face, in lieu of demonstrating genuine leadership.

15 | Resource Efficiency

The government makes efficient use of most available human, financial and organizational resources. As noted previously, 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. An extensive modernization process in public management was initiated by the Frei government (1994-2000) and deepened by the Lagos administration (2000-2006). In this context, the Budget Directorate (DIPRES) attached to the Ministry of Finance, which approves expenditures according to the budget law and regularly monitors its efficient management, has become increasingly important. This efficiency can be demonstrated by the balanced budget and low public debt, as well as the availability of necessary funds in times of crisis.

The most important reform was the creation of the Senior Management Service System (Alta Dirección Pública) in 2003. Under this system, higher positions in the administration are filled through open applications, and these officials, once appointed, should establish performance agreements with their superiors, leading to a more professional and meritocratic bureaucracy. In 10 years of operation, about 90% of positions have been filled by public tenders.

However, the process of state reform and modernization is still ongoing. In addition, significant shortcomings are observed in the management of fiscal resources at the municipal level. Moreover, there is still some discretion in hiring consultants at the level of high political office. Even the Senior Management Service System has

Efficient use of
assets

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weaknesses in its effectiveness at the critical moment when a new administration takes office and a significant number of the appointed officials are removed and replaced. According to the newspaper *La Tercera*, of the first level officials considered “high confidence officials,” 63% were replaced in 2010 and 64% in 2014.

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 *Segegob*), interministerial 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. The Division of Inter-ministerial Coordination within the president’s advisory ministry is the special unit for coordination and programmatic monitoring of the executive – especially in the preparation of decisions in matters affecting more than one ministry – and serves as technical support for the Interministerial Committee. During the Piñera administration, a “Delivery Unit” – an approximation of a similar structure in the UK – was introduced in order to monitor the progress of several reforms and ensure their coordination and consistency. However, there has also been some criticism concerning cases where the president and his ministers have not presented a united front. The growing tendency to give more transparency to government actions and to apply strategic management tools, aspects of which Piñera’s government took special interest in, has increased the capacity for coordination within the government.

Policy
coordination
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A broad range of integrity mechanisms is established and for the most part works effectively, though some deficiencies remain. Over the past 15 years, recurring corruption scandals led the political elite to take action and develop further legal mechanisms to combat corruption. 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 Council (“*Comisión para la Transparencia*”) was created in 2009, tasked with promoting the principle of transparency and providing the public with information about the work of all state institutions. Auditing of state spending is guaranteed through the Comptroller General of the Republic, who performs oversight functions that also help prevent large-scale corruption. However, these mechanisms, which are very efficient at controlling corruption in the state apparatus, are not always enough to prevent

Anti-corruption
policy
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corruption entirely. There is also some small-scale corruption, particularly at the municipal and lower levels of central government, often in the form of influence peddling. Although the public procurement system is largely transparent, it remains a potential source of corruption.

The Piñera government continued with the transparency policies of its predecessors. In March 2012 the Chamber of Deputies approved the Public Probity Law (Ley de Probidad Pública) aimed at strengthening regulation of asset and interest declarations, asset management and obligations to divest assets. Also approved was the law that strengthens transparency and probity in municipalities (March 2014) as well as a lobby law (January 2014), which requires authorities and public officials publicize their agendas and establishes the creation of a register of lobbyists, but does not regulate its activity.

Nonetheless, the close relationship between political and economic power represents an ongoing problem. The shortcomings of the lobby law have proved the difficulty in achieving transparency in this gray zone of informal power and corruption. In this regard, the biggest problems remain the need to improve and secure the financing of political activity and electoral campaigns in a transparent manner and to provide effective powers and resources to the Electoral Service to effectively control this aspect, as the Penta and Soquimich cases show. Bachelet's government recently sent a relevant bill to parliament, reaffirming the continuing concern of the country's highest authorities to control potential sources of corruption.

16 | Consensus-Building

All major political actors agree on democracy as strategic long-term goal of transformation. However, the dominance of the two political coalitions over the last 25 years has also led to a kind of "party oligopoly" that has left some essential problems. Among them are key issues such as the constitution, which was approved under the authoritarian regime. Despite successive and deeper reforms, during the electoral campaign of 2013 a movement was organized to demand the formation of a Constituent Assembly. The issue was partially included in the agenda of the current president. However, there is still no clarity about the mechanisms that will be used to carry the process forward, nor the scope that the proposals will have.

This controversial topic also affects the consensus established to date with regard to the shape of the current economic model. The problem arises because this model has generated a very unequal distribution of resources and opportunities among the population, which is clearly reflected in the current discussion about the quality of education. The various social movements that have sprung up in recent years give indication of this discontent, which has started to spread to political classes, such as the Socialists who now dare to openly criticize the socioeconomic model. Much of

Consensus on goals
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the debate on constitutional reform suggests that a new constitution should balance more clearly the market with the social rights of the population, especially the most disadvantaged groups. In any event, most important actors remain committed to the market economy. Although democracy and a market economy as strategic long-term goals of transformation are not seriously in dispute, a point of uncertainty arises regarding the form and substance of the new consensus that must be achieved in the coming years.

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

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

Cleavage /
conflict
management
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Until recently, conflict management was essentially relegated exclusively to the elites, which alienated citizens and civil society. This has changed radically since 2011. Society has emancipated itself faster than the elites imagined. But the last parliamentary election and the current processes of negotiation between the parliament and the government show that political leaders are still able to prevent cleavage-based conflicts from escalating.

The new conflict line reflected by the student movement represents a growing division between the current elite and the generation born after the transition. They are now organized politically in highly diverse groupings, from right-wing to anti-authoritarian anarchist groups, while some of them have managed to enter parliament in the last election (the so-called Bancada Estudiantil, or student bloc); as a result, the party system has now begun to reflect and eventually provide institutional channels for this new conflict.

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

The political leadership takes most interests of civil society actors into account, whose ability to influence the public agenda has increased over time, though less concerning policy formulation or implementation. Economic and professional interest associations are relatively influential, as is the Catholic Church. The new emerging social movements are now significant and powerful enough to influence the agenda. Bachelet's new government has considered many of their demands in its program, and during her first year in office took some of them up into bills sent to parliament.

Civil society participation
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Addressing the human rights violations under the Pinochet regime started in 1991 with the report of the Truth and Reconciliation Commission. But 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 more information on human rights violations between 1973 and 1990. Under Bachelet's first government, a special commission and presidential advisory for human rights were created. In December 2009, the Museum of Memory and Human Rights was inaugurated. Nevertheless, 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, though courts have increasingly tended not to apply it.

Reconciliation
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The right-wing coalition that took office in 2010 did not alter these trends, despite the fact that the coalition partner UDI had never distanced itself from the Pinochet dictatorship. Piñera, however, repeatedly reaffirmed his strict adherence to established standards of human rights. For example, in September 2013, the 40th anniversary of the coup, Piñera unexpectedly closed a special prison, where ex-military figures condemned for major violations of human rights were imprisoned, and transferred them to a regular prison. The president justified the decision by citing a need to ensure "equality before the law." Moreover, the reluctance of some sectors of the judiciary, the media and the political right to recognize their roles in the dictatorship's human rights violations has started to change. For example, in June 2012 the then Minister Secretary General of Government of Piñera, UDI militant Andrés Chadwick, reaffirmed his "regret" for not having condemned these crimes to time. Recently, Renovación Nacional, Piñera's former political party, decided to remove from its statement of principles any reference to the "military government."

Even more important, the judiciary increasingly assumed its responsibility to investigate human rights violations case by case. According to statistics of the Human

Rights Program of the Ministry of the Interior, by August 2012 there were 1,321 pending cases (representing 64.6% of the now 3,216 acknowledged victims), while the percentage of concluded trials was 9.8%. There were still no judicial proceedings still in 825 cases (25.7%). The records of this program suggest that between 1998 and mid-2014, about 900 officers were indicted, prosecuted, accused and/or convicted. There are currently 65 persons serving sentences and about 22 agents have been released after serving their terms or under certain conditions, or died while serving their sentences.

The Mapuche case represents another field of reconciliation, which has been surfacing slowly but steadily since 1990. In recent years, Chileans have become more aware that the nation state committed an historic injustice in allowing the dispossession of Mapuche lands in the early 20th century, which had been recognized as theirs in the late nineteenth century, and concerning the disrespect of Mapuche traditions and culture. Despite the 1993 enactment of Law 19.253, which established rules on the protection, promotion and development of indigenous people, the creation of the National Council for Indigenous Development (CONADI), the public policies on the restitution of lands and natural resources (by 2013, a total 187,173 hectares had been transferred, benefiting 16,141 families; 2012 was a record year with the delivery of about 19,000 hectares) and the ratification of the International Labor Organization (ILO) Convention 169 on Indigenous and Tribal Peoples, the country's political leadership has not been able to address this conflict-laden past effectively.

17 | International Cooperation

Chilean governments since 1990 have had clear political and economic development aims, essentially shared by the two political coalitions. 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 Aid (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, in 2005 the Chilean International Cooperation Agency was moved from the Ministry of Planning and Cooperation to the Ministry of Foreign Relations. According to "Latin American South-South Cooperation" a report by the Iberoamerican General Secretariat (SEGIB) in 2011, Chile leads the Latin American and Caribbean region in terms of projects for triangular cooperation.

Effective use of
support
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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 successful criminal law reform between 2000 and 2005), with donors complementing strategic government policies in Chile. A 2010 European Commission evaluation viewed Chile as a reliable partner in development cooperation. All of the cooperation programs evaluated had been executed as planned and national counterpart funds delivered. In November 2013, the OECD also made a positive evaluation of the actions taken by the International Cooperation Agency.

The OECD exerts a significant and growing influence in the Chilean long-term policy-making process. Since its accession to the OECD in 2010, Chile has increasingly relied on OECD recommendations, and experiences of fellow OECD member countries to learn from international know-how and to adapt external advice to its domestic reality.

The Chilean government is considered highly credible and reliable by the international community, and the country has an excellent reputation all over the world, especially for its democratic advances and economic solidity. The level of international confidence in Chile is reflected in its solid, trusted position in both trade and politics, and in its numerous bilateral and multilateral agreements with more than 50 countries. Two new free trade agreements with Vietnam and Hong Kong came into force in 2014. Donors and investors also have great confidence in Chile's well-institutionalized political and economic framework. For historical reasons, perhaps the only country with some distrust of Chile is neighboring Bolivia.

Credibility
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Over the last two decades, Chile has sought to improve its relations with the Latin American community, mostly successfully. 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. More important, in 2011, Chile, Mexico, Peru and Colombia created the Pacific Alliance, whose goal is to contribute to further integration (including trade, the financial sector, labor, physical infrastructure and sharing sound practices). While Chile maintains a relatively stable economic relationship with Brazil, the country's relationship with Mercosur remains ambivalent, given the occasionally volatile policies of its members and particularly since Venezuela's accession to this organization. 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.

Regional
cooperation
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Longstanding diplomatic tensions with immediate neighbors Peru and Bolivia persist. Bolivia continues to demand access to the Pacific Ocean, which has been

blocked by the Chilean government with reference to international treaties. Peru sought correction of its maritime boundary with Chile in the International Court of Justice (ICJ). Both disputes date back to the Pacific War (1869-1874). The ICJ passed sentence in January 2014, a decision that was accepted by both countries. Although Chile lost part of the maritime territory in dispute, the decision upheld part of the border declared by Chile. Beyond this process, both countries have tried to maintain their relationship at a good level. This has not been the case with Bolivia, a relationship that has been muddied further since Bolivia also took its case to the ICJ in April 2013.

Strategic Outlook

During the period under review, Chile has maintained a relatively high level of political and economic transformation, as demonstrated by the smooth change from the center-right to the center-left government, and by the fact that the government program of the triumphant coalition has assumed major social demands expressed in broad sectors of civil society. By starting to implement major reforms, the transformation of the former Concertación, which ruled from 1990 to 2010, into the New Majority (Nueva Mayoría) supporting the Bachelet government seems to signify a greater responsiveness to a series of demands that were postponed by these same politicians for 20 years in order to ensure economic growth and democratic stability. Generally, the system is beginning to seek a better balance between economic freedom, which is largely guaranteed, and social protection, which is still perceived by the population as weak.

This process naturally gives rise to uncertainties. Just as it did in the last years of President Piñera, the popularity of the current president is showing a downward trend, and the economy has entered a deceleration phase. The main issue to be resolved in the coming years is perhaps the promise of a new constitution. While the government program outlined the main points of its contents, the mechanisms for discussion and for ensuring broad social participation to safeguard its legitimacy remain unresolved.

Further challenges ahead include human rights (treatment of indigenous peoples), equality (gender, income distribution and poverty eradication), environmental issues and energy supply. As far as economic transformation is concerned, the country's primary development challenges are still in the area of social policy, or social integration more generally. Despite a substantial increase in public education spending in the last twenty years, inequalities persist in terms of results, cementing the high level of social inequality. The government's reform process to address this problem is still ongoing. The current government also hopes to introduce reforms to the labor legislation, to the pension system and to private health insurance, along with improving the quality of healthcare for the lowest social sectors of the population.

In the mid-term, the socioeconomic transformation will also depend on changes in the Chilean political process. It is still unclear which changes in the party system will occur due to the new, more proportional electoral system, which will first be applied in the 2017 general elections. Along with that, the political system must solve the urgent issue of financing political activity (parties and campaigns), thus reducing one potential source of corruption.

Building a new and fundamental societal consensus will be of particular importance in the coming years. The climate of conflict, which has led to violent confrontation, must be overcome, a painful lesson all "established" democracies have learned by accepting conflict as a *modus vivendi* rather than neglecting it. This undoubtedly opens a window of opportunity for Chilean elites, civil society and citizens alike to overcome deep-rooted divides in society.