

The Chilean Way

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The curtains were closed and Chile went into three days of official mourning; no, this was not because of the financial meltdown which most global economies have experienced (Chile got off lightly) over the past two years. The three days of official mourning actually occurred in 1957 when the country's foremost female poet, Gabriela Mistral, died. She was South America's first female Nobel Prize-winner and now, 53 years later, the country has scored another first as it becomes South America's only member of the Organisation for Economic Co-operation and Development. The accession agreement was signed in Santiago in January with the OECD's Secretary-General, Angel Gurría. Chile's president (at that time) Michelle Bachelet considered the event a personal triumph. Elated, President Bachelet, whose term of office ends with an approval rating of over 70%, has said that OECD membership is positive proof that Chile is one of the strongest democracies in the world. The signing ceremony took place less than a week before presidential elections which were eventually won by Sebastián Piñera who takes office this month (more later).

OECD membership is not her only triumph because she is also Chile's first female president. Despite not being a poet, her departure from office (the constitution bans her from running for election for a second term) will certainly be mourned by a large portion of the electorate. The country will become the OECD's 31st member (Mexico is already one and Brazil is certainly heading the same way) since the organisation was established in 1961 for the purpose of bringing together governments "committed to democracy and the market economy" as well as promoting economic growth and development. Although the OECD is frequently referred to as a club of rich nations, its influence extends far beyond its members and its impact on international affairs has been considerable.

As part of Chile's efforts to achieve OECD membership, it reformed bank secrecy laws and strengthened both competition laws and consumer protection. The judicial system has been overhauled and the constitution has been revised. The economy has been growing at over 5% a year for the last 20 years (the OECD's Angel Gurría has praised "the Chilean way") and the country's pension reforms in the 1980s have become an outstanding model for countries in and beyond the region to study. This year Chile is one of the countries in South America that will celebrate (September) two hundred years of independence from Spanish colonial rule so this is something else to celebrate along with OECD membership. Independence came in stages across the region and the last Spanish army on the mainland, in fact, was only defeated in 1825.

In December last year (Uncertainty and Expectation – Issue 202) I also wrote about this year's upcoming presidential elections in Brazil and one wonders if the outcome there will turn out to be as significant as it was in Chile where the presidency was decided following a run-off between the two leading candidates. The choice was between the centre-left candidate, former president Eduardo Frei, and his younger rival, the 60-year old right-wing billionaire Sebastián Piñera. Mr. Piñera's government will be the first right-wing one since General Pinochet's dictatorship between 1973 and 1990. Michelle Bachelet had been the fourth consecutive president from the Concertación coalition, so this swing to the right, despite the close win, is a significant shift.

Mr Piñera, however, is the most moderate candidate that Chile's right has ever produced and although it will be difficult for some Chileans to accept him without suspicion, because of the country's recent past, it would be unfair to draw comparisons

with General Pinochet. The terror, nonetheless, that the military government created and the country endured will continue for now to be a shadow across Chile's political history (Michelle Bachelet was one of those who fled the country in 1975 and her father, who had been a general in the air force, died in prison because of his opposition to the Pinochet regime).

In my June column last year (Latin Lessons – Issue 197) I said that Chile's rude financial health, despite a global economic crisis, was due to a blend of right-wing economic policies and left-wing social values. Considering its shining democratic credentials today, is it not something of an irony that the foundations upon which Chile's present economic fortunes rest were laid during the Pinochet years? But if it is true that dictatorships, by their very nature, can arbitrarily push through economic reforms more swiftly than democracies normally can, it is also true that market economies can only flourish in democracies because they offer long-term guarantees of property rights as well as all the other benefits (such as rule of law) which naturally flow from them. Chile was able to successfully make the transition from dictatorship back to democracy (a parallel with Panama) and achieve, what Robert Dahl, a leading democratic theorist says, are some of the key political elements within a modern democracy: elected officials; free, fair and frequent elections; freedom of expression; and access to alternative sources of information.

But prejudice runs deep so when the Chilean president met Britain's prime minister in the middle of last year and boasted about the country's fiscal prudence (by putting away windfall revenues in the boom years) George Osborne, the shadow chancellor of the exchequer, quipped: "Gordon Brown is getting lessons from the Latin Americans about sound public finances. You couldn't make it up". Tarring every South American country with the same brush is folly, although the actions of some regional leaders (think Argentina, Ecuador and Venezuela) most certainly invite cynicism.

The fact remains, however, that much of South America stayed in the wings as the rest of the world took centre stage during the global financial crisis. If Chile is one of the world's best-managed economies by most gauges, I would say that Brazil, Colombia, Peru and Uruguay are also in the running. Those five governments, however, will have to maintain a tight control on

their budgets if they want to keep their hard-won reputations. Growth must now come from within the region so productivity will have to be raised; the days are gone when a combination of cheap money and very high commodity prices can be relied upon for growth. Chile, a country of contrasts, whose geography includes the world's driest desert (the Atacama) in the north and an Alpine climate of glaciers and fjords in the south, is still, for example, over-dependent on copper. More copper is produced by Chile than any other country, making it the main export; but long-term financial security calls for diversification.

As with copper so with oil. Benjamin Disraeli's remark about William Gladstone, that he is "inebriated with the exuberance of his own verbosity", brings to mind Hugo Chávez, Venezuela's president, whose antics contrast so radically with the style of governance in Chile. I should not be surprised if, as other regional states celebrate their 200 years of independence this year, he does not wax lyrical about his own country's rebellion against the Spanish occupiers which first began in 1810 when a local junta overthrew the Spanish governor in Caracas. Even although the great Venezuelan-born Liberator, Simón Bolívar, has very little in common with Hugo Chávez, doubtless his spirit will be invoked by a populist president confronting a rash of economic problems. As long as oil prices stay high Hugo Chávez can hope to gain new allies, otherwise the parlous state of his country's economy is likely to see him losing power (there are legislative elections in December) unless, in desperation, he makes deeper inroads into the country's diminishing democracy. Venezuela's politics, which can be as slippery as its oil, will be the president's real challenge this year.

The new president in Chile, who was beaten by Michelle Bachelet when he first ran for office in 2006, is used to challenges and is described as being flamboyant, pragmatic and hard working. Besides owning a television station and a football club, he is a large shareholder in Chile's flag-carrier airline, Lan Chile, and he has promised to place all these assets in a blind trust to avoid any conflicts of interest during his tenure. He made his first fortune introducing credit cards in Chile back in the 1980s and let's hope Sebastián Piñera's political fortunes during the next four years will bring credit to him.

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ISSN 0954-0628 US PS 002-273.

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