



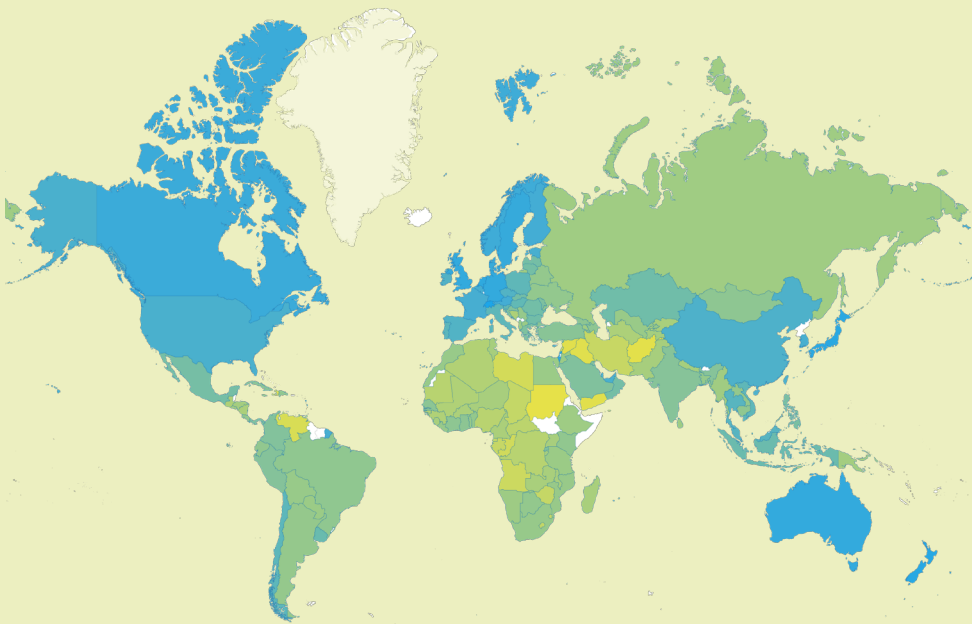
**ELITE QUALITY
INDEX**
EQx2023

This PDF includes a contribution from the following book:

ELITE QUALITY REPORT 2023

Chile: Steady improvements, but rising threats to its long-term productivity and progress

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Chile: Steady improvements, but rising threats to its long-term productivity and progress

There have been significant developments in the South American country since the last EQx report in 2022. The recent election of a left-wing president, the drafting of a new constitution (which was eventually rejected), an agenda that initially opposed free trade agreements, and a poor tax reform proposal (that was also rejected) have all presented major challenges for Chile's future ability to create value. Furthermore, skyrocketing inflation, driven by poor public policies and political pressures, as well as the escalation of violence, have further compounded these challenges. Despite these difficulties, we can now analyze this year's performance through the lens of the EQx2023, allowing us to identify the areas in which Chile has progressed, and also to effectively explore those in which it has deteriorated.

In 2023, Chile has climbed ten positions in the overall ranking to secure the # 31 spot out of 151 countries included, a significant improvement from its 2022 ranking of # 41. This jump can be attributed to noteworthy advancements in the Economic Power (rising from rank # 48 to # 18) and Political Value (rising from rank # 42 to # 28) index areas. Among the pillar of Economic Power, Creative Destruction has experienced the most significant progress, soaring from rank # 50 to # 17. Of particular note the *Billionaire's creative destruction* (BCD, ii.6, rank # 15) Indicator rose sharply from rank # 58 in 2022, most likely due to the impact of the pandemic impact and the looming threat of a proposed wealth tax that was ultimately rejected by parliament. The Internal Revenue Service (SII) in Chile revealed that 125 high net-worth individuals initiated the process to change their tax domicile in 2022. Other relevant Indicators in an area where Chile fares particularly well include *Family business revenue as percentage of GDP* (FAM, ii.5, rank # 4), *SMEs per 1,000 people* (SME, ii.5, rank # 9), and *Entrepreneurship* (ENT, ii.6, rank # 16).

Continuing with the Political Value area, there is evidence of a virtuous trend over the years, with Chile rising from rank # 64 in 2021, to # 42 in 2022, and now to # 28 in 2023. This last improvement can be partially attributed to the 2022 'budget law', which reduced public expenditure by over 20% compared to 2021, resulting in a world leading result for *General government expenditure as % of GDP* (GEX, iii.7, rank # 1). The correction above puts the structural

balance fiscal rule onto the right track. For almost 11 years Chile has had a negative fiscal balance due to deviations from the structural balance rule. Although the correction previously mentioned is fundamental, it might also present challenges for the current government in order to provide public goods, putting additional pressure on increasing sovereign debt. Nonetheless, the Ministry of Finance has already announced a deficit of 2.4% of GDP for this year, putting future fiscal sustainability at risk. Other critical indicators that bolster this area include the *Gender education gap* (GEG, iii.8, rank # 3) and *COVID-19 vaccination rate* (VAX, iii.7, rank # 14). Despite Chile's top-performing Indicators, it also faces challenges in other notable areas. For instance, due to some of the world's most severe lock-down measures during the pandemic, Chile has experienced a significant number of *COVID-19 lost school days* (CLS, iii.7, rank # 134). This has had a direct impact not only on children's general wellbeing but also on future productivity, growth, inequality and wages. Additionally, a new problem that has emerged in Chile, common in the region but unfamiliar to this Latin American country, is the establishment of drug cartels and a surge in the related violence that they bring, making it a consistent key concern cited in opinion polls. The alarming rise of a narco elite is reflected in the *Homicide rate* (HOM, iii.8, rank # 110), which has significantly threatened the current president's popularity and legitimacy.

Chile faces several major concerns that threaten its long-term productivity and progress. One of the most significant issues is *Inflation* (DOI, iv.11, rank # 101). This problem is largely due to the country's pension system withdrawals, which alone contributed to an increase of over 5% of inflation during its peak, as reported by the Central Bank of Chile. Additionally, Chile's *Labor productivity growth* (LPG, iv.12, rank # 117) and *Unemployment rate* (UEM, iv.12, rank # 108) are also areas of concern. Chile is doing well overall in the EQx but to maintain its status as a leading country in the region and to become a candidate to escape the middle-income trap, it must take urgent action to reform areas where the EQx Indicators point to Value Extraction.

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Chile

EQx2023 Country Scorecard

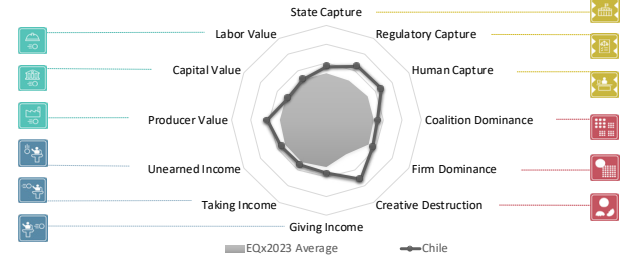
Population **19.5 million**
 GDP (nominal) **317 billion USD**
 GDP per capita **16'265 USD**



Level 1 – Index	EQx Rank / 151 31	EQx Score 56.7	NextGen VCB Rank Rank 38	Quality Elites
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Level 2 – Sub-Indices & Index Areas	EQx Sub-Indices				EQx Index Areas							
	Power		Value		Political Power (i)		Economic Power (ii)		Political Value (iii)		Economic Value (iv)	
	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score
	22	63.3	42	53.4	30	61.0	18	64.5	28	55.1	49	52.5

Level 3 – Pillars		Rank / 151	Score	
Political Power (i)	State Capture	43	56.5	
	Regulatory Capture	35	65.6	
	Human Capture	20	66.8	
	Economic Power (ii)	Coalition Dominance	56	54.1
		Firm Dominance	56	56.5
	Political Value (iii)	Creative Destruction	17	71.6
		Giving Income	36	55.9
	Economic Value (iv)	Taking Income	49	54.5
		Unearned Income	46	54.8
		Producer Value	19	62.4
	Capital Value	91	47.0	
	Labor Value	85	49.9	



Level 4 – EQx Indicators		Rank / 151	Score
State Capture (i.1)	COR Political corruption	20	85.4
	COC Control of corruption	22	78.7
	OPG Open government	22	77.9
	RTC Government's responsiveness to change	43	59.7
	EPR E-Participation Index	40	70.3
	PFD Press freedom	64	54.2
	NJK Nr. of journalists killed per 1 million people (2yrs avg.)	55	55.2
	PDE Political decentralization	69	50.1
	ADE Administrative decentralization	31	74.8
	PGL Political globalization	35	71.5
Regulatory Capture (i.2)	WPI Women's Power Index	42	63.3
	MOB Social mobility (upward) (dev. fm optimum)	115	16.1
	INE Top 10% share of pre-tax national income	141	10.4
	GWL Gini coefficient on net national wealth dist. - level	139	0.0
	GWC Gini coefficient on net national wealth dist. - 3-year growth	25	54.7
	GIL Gini coefficient on income dist. - level	114	26.4
	GIC Gini coefficient on income dist. - 1-year growth rate		
	ECR Ease of challenging regulations	42	59.8
	CGP Constraints on government power	24	75.5
	REQ Regulatory quality	28	75.6
Human Capture (i.3)	REN Regulatory enforcement	31	65.6
	PRI Property rights	40	69.2
	CRO Crony capitalism	50	44.3
	INO Informal output as a % of GDP	26	77.2
	GSI Global Slavery Index	5	72.5
	FDP Forcibly displaced population as % of population	75	56.3
	HRI Human Rights Index	41	66.6
	AFI Academic Freedom Index	1	79.9
	GRI Religion - Government Restriction Index	22	76.2
	LIN LGBT+ inclusiveness	29	75.5
Coalition Dominance (ii.4)	WSB Women self made billionaires	19	38.2
	WBL Women, business and the law	80	53.8
	WMA Proportion of women in senior and middle mgmt positions (13	80.2
	IEE Top 3 industries exports as % of exports	114	24.9
	IEO Top 1 industry exports as % of exports	74	55.4
	IVA Top 3 industries as % of VA	30	65.1
	HHI Domestic market diversification	104	46.5
	ECI Economic Complexity Index	69	46.5
	PUE Public employees as a % of total employment	57	56.8
	MIL Military expenses as % of GDP (dev. fm optimum)	10	70.7
Firm Dominance (ii.5)	UNI Unionization rate (dev. fm optimum)	60	58.7
	BSN Barriers in service & network sectors	13	63.8
	CRA Criminal actors	47	62.9
	SME SMEs per 1,000 people	9	71.5
	FAM Family business revenues as percentage of GDP	4	99.0
	BIW Billionaires' wealth as % of GDP	134	31.8
	FKG Top 10 firms market cap as % of GDP	43	55.6
	FRG Top 3 firms revenues as % of GDP	58	29.3
	FRR Top 30 firms revenues as % of GDP	43	26.1
	ENT Entrepreneurship	16	82.9
Creative Destruction (ii.6)	GSE Governmental support to entrepreneurship	26	67.8
	VCK Venture capital finance	34	52.6
	VCA Venture capital availability	26	69.7
	RND R&D as a % of GDP	74	45.8
	EXR Firm exit ratio		
	BCD Billionaire's creative destruction	15	91.5
	IWE Index of Women Entrepreneurs	18	67.1
	LEW Life expectancy women	28	73.7
	LEM Life expectancy men	30	75.9
	VAX COVID-19 vaccination rate	14	78.8
Giving Income (iii.7)	COM COVID-19 mortality rate, age-adjusted	143	1.6
	COF COVID-19 fatality rate, age-adjusted	50	59.1
	COV COVID-19 excess deaths, age-adjusted	79	12.1
	CLS COVID-19 lost schooldays	134	16.4
	SCI UHC Service coverage index	22	73.8
	PTR Pupil-teacher ratio	61	62.3

Giving Income (iii.7)	EDU School life expectancy	19	76.3
	PIS PISA mean scores	42	41.3
	UNV Top universities	33	36.0
	GEE Government education expenditure	33	67.2
	OSI Online Service Index	27	74.5
	NRI Network Readiness Index	39	61.1
	INT Internet access	35	70.1
	FSQ Global Food Security Index - availability, quality & safety	24	73.3
	GPS Expenditure on general public services as % of GDP (dev. fm		
	GEX General government expenditure as % of GDP (dev. fm optim	1	78.1
Taking Income (iii.8)	SNT Subsidies and transfers as % of expenses	85	39.2
	REG Regional redistribution as % of government budget	63	61.2
	SUB Death rates from substance use per 100,000 people	104	46.6
	BRD Battle-related deaths per 100,000 people	1	54.2
	HOM Homicide rate	110	51.9
	SUI Suicide rate per 100,000 people	93	50.9
	DTR Tax revenue as % of GDP (dev. fm optimum)	69	53.0
	DCT Corporate tax rate (dev. fm optimum)	41	66.1
	DPS Delta public vs private sector salaries		
	FDE Fiscal decentralization	39	39.8
Unearned Income (iii.9)	GCI Global Cybersecurity Index	80	45.6
	GEG Gender education gap (dev. fm optimum)	3	81.7
	CRM Criminal markets	49	64.3
	DBT Government debt as % of GDP	26	69.6
	NRR Natural resources rents as % of GDP	85	42.0
	GPA Green patents	33	66.2
	EPI Environmental Performance Index	51	58.7
	DER Deforestation Rate	92	53.4
	FUS Fertilizer usage kg per hectare	129	31.8
	TLP Terrestrial land protected	56	57.2
Producer Value (iv.10)	CDO CO2 emissions (metric tons per capita)	104	47.2
	AIR Air quality index	62	51.8
	HAZ Hazardous Waste per capita		
	WPC Waste collected per capita	63	52.5
	MWR Municipal Waste Recycling Rate		
	FIS Fishing consumption as % of population	75	57.1
	MET Red meat consumption kilograms per capita	118	24.9
	PAT Nr. of patent applications per 100,000 people	51	45.6
	FBH Financial burden of healthcare	93	48.8
	HEI Health Efficiency Index	29	46.5
Capital Value (iv.11)	DMS Density of medical staff	1	100.0
	FSA Global Food Security Index - affordability	42	67.1
	FDS Inward FDI as a % of GDP, Stock	39	49.3
	BTF Barriers to FDI	33	60.9
	OFB Open for business	41	49.5
	EGL Economic globalization	43	64.9
	TRF Trade freedom	47	67.8
	IPM Share of imports targeted by protectionist measures (flow)	18	79.1
	IPS Share of imports targeted by protectionist measures (stock)	29	72.3
	DGI Share of discriminatory government interventions as % of tota	13	68.1
Labor Value (iv.12)	DGS Share of discriminatory government interventions as % of tota	47	58.3
	DOI Inflation (dev. fm optimum)	101	53.7
	DEF GDP deflator index growth rate (dev. fm optimum)	50	56.6
	DNI Neutral interest rate (dev. fm optimum)	25	0.0
	FMI Financial Markets Index	40	63.7
	GFC Gross capital formation	55	53.4
	DMA M&A as % of investment - 3 yrs rolling avg. (dev. fm optimum)	18	59.2
	GOL Gold demand as % of GDP		
	UNC Unicorns per 1 million people		
	BSG Billionaires self-made nr. per 1 million people	34	40.1
BSM Billionaires self-made as % of total billionaires	36	47.5	
Labor Value (iv.12)	LPG Labor productivity growth	117	30.4
	WLP Delta real wage vs labor productivity increases	4	73.0
	LFP Labor force participation rate	97	44.6
	LFR Labor force participation ratio - male vs female	103	44.5
	UEM Unemployment rate	108	45.0
	YUN Youth unemployment rate	103	42.8
	BRN Human flight and brain drain	30	72.3

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