



## CHILE'S PRESIDENTIAL RACE

OCTOBER 23, 2017

### SUMMARY

- On November 19, Chile will hold presidential (first round), congressional, and regional elections. Former center-right President **Sebastian Piñera** leads the polls by more than 20 points in a race against seven other candidates. Although he will likely fall short of the majority required to win the presidency in the first round, polls suggest Piñera would win the December 17 runoff.
- Piñera's significant lead reflects the public's discontent with the outgoing administration of President Michelle Bachelet, which has been hurt by a weak economy, corruption scandals, and haphazard policy implementation. He also benefits from a highly fractured left, which failed to unify behind one candidate. Over the coming weeks and particularly after the first round, leftist parties may try to coalesce behind the leading center-left contender, likely **Alejandro Guillier**, an independent freshman Senator and former journalist.
- A Piñera administration would pursue business-friendly policies—including reversing Bachelet's corporate tax increases and interventionist economic policies. He is expected to prioritize a more conservative and fiscally responsible pension reform and an ambitious US\$ 20 billion portfolio of public-private infrastructure projects.
- The presidential election in Chile is one of several major elections in Latin America over the coming year. Yesterday's midterm elections gave Argentine President Mauricio Macri a confidence boost (ASG Analysis coming later this week) and Colombia, Mexico, and Brazil will choose new leaders in 2018. ASG will closely follow and monitor the implications of these elections.

### ELECTION OVERVIEW

#### *A political environment that favors the right*

Chile's upcoming election is largely seen as a referendum on current center-left President Michelle Bachelet, whose disapproval ratings quadrupled from a low of 19 percent at the beginning of her term to a high of 75 percent in early 2017. Her last few months in office also represent a significant departure from those of her first term when support hovered in the high 70s and disapproval numbers were under

### ABOUT ASG

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15 percent. The drop in Bachelet's popularity is largely due to corruption scandals involving family members, major setbacks to her reformist agenda, and meager economic growth.

Former President **Sebastian Piñera**, who comfortably captured the nomination of center-right coalition *Chile Vamos*, is capitalizing on Bachelet's unpopularity by contrasting the economic slowdown with the robust economic performance during his presidency and blaming recent tax and labor reforms for deterring foreign investments.

THE ELECTORAL APPEAL OF BACHELET'S COALITION MESSAGE OF REDISTRIBUTION OF WEALTH HAS BEEN SEVERELY LIMITED, WHILE PIÑERA'S PRO-GROWTH MESSAGE HAS RESONATED.

Piñera also benefits from a highly fragmented left. Internal disagreements about how to revive the ailing economy have created an identity crisis among leading parties. The ruling center-left *Nueva Mayoría* coalition failed to unite behind a single candidate, leaving the left's vote divided among three candidates. **Alejandro Guillier** trails Piñera with 21 percent, according to [the latest poll](#). He is an independent freshman senator and former journalist supported by three coalition parties (including Bachelet's Socialist Party) and, as such, is seen as the candidate for continuity with Bachelet's agenda. Guillier has an edge in the polls over **Beatriz Sánchez**, a political newcomer and former journalist who leads the newly-formed leftist coalition *Frente Amplio* with a platform that has criticized Bachelet from the left.

In the weeks since the July primaries, public support has remained stable for most candidates. Recent polls (as of October 23) show Piñera has continued to solidify his lead with about 42 percent support, while Guillier cemented his number two spot over Sanchez after oscillation between the two for months. Given Bachelet's unpopularity, Guillier is seeking to strike a balance between distinguishing himself from her, while supporting most of the reforms her coalition has advanced in the past four years. Should he make the second round, the internal divisions that emerged over the past four years may make it difficult for him to garner widespread support of the left.

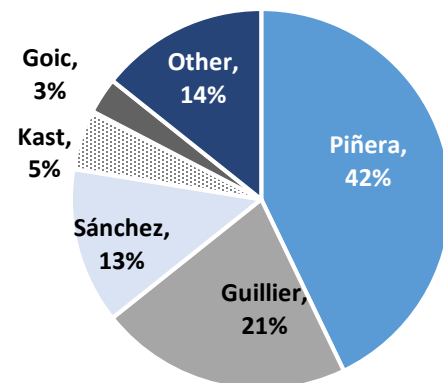


Figure 1 Presidential Candidate Poll Released Oct. 23

Piñera's strong poll numbers signal that, despite general dissatisfaction with the political class, the promise and plan to revive the stagnant economy may once again put him in La Moneda.

## OUTLOOK FOR A PIÑERA ADMINISTRATION

If elected, Piñera would prioritize legislation aimed at spurring growth. He would take a free market approach and has proposed business-friendly policies, including:

- **Tax reform:** unlikely to enjoy the broad political support necessary to enact a sweeping tax reform, Piñera is likely to take an incremental approach. He has proposed rolling back some of Bachelet's corporate tax increases and may push to strengthen tax incentives for reinvestment.

- **Pension reform:** Piñera's approach to reform is more conservative and fiscally responsible than other candidates have presented. He proposed a lower employer contribution and a modest increase to the government contribution.
- **Infrastructure:** He also recently proposed an ambitious US\$ 20 billion portfolio of public-private infrastructure projects, including new highways and airports and the continued extension of Santiago's metro system.

### *A divided Congress will pose a challenge*

Although Piñera holds a strong lead, he will likely fall just short of the majority required to win the presidency in the first round, and his coalition is unlikely to secure a majority in Congress. Despite locking in the nomination of Chile Vamos two months ago, his messaging has not shifted toward the centrist, pragmatic positions that defined his first administration. Instead Piñera has courted the more right-wing elements of his coalition, particularly around social issues. This strategy could backfire by alienating some of the centrist parties he may need to be able to effectively govern.

Piñera will have to decide between solidly unifying all right-wing parties (his base) or incorporating some of the center-right factions. The former approach would be in line with his recent rhetoric but would further alienate centrist parties, which are increasingly less tolerant of his new brand of social conservatism. While the latter option is a more pragmatic avenue, his government could fall victim to the same fate as the Nueva Mayoría, which failed to unify a similarly broad coalition.

Building bridges across this political divide while maintaining the support of Chile's business community will require a delicate balancing act. Piñera is a seasoned politician with a record of pragmatism. Investors should continue to monitor how he manages the dynamics within his coalition, and whether, after months of catering to a far-right base, he makes effective overtures to centrist parties after the first-round elections. If he is able to do so, his prospects for implementing his agenda will be greatly improved should he win the December 17 runoff.

### **Argentina Midterm Elections: President Macri's coalition performed strongly**

Argentina held mid-term elections on Sunday, October 22. The election will have a significant impact President Mauricio Macri's ability to push through his ambitious economic reform agenda. While no coalition won an outright majority in the House or the Senate, Macri's *Cambiamos* coalition picked up seats in both houses. This strong performance gives Macri a broader mandate to pursue more items on his agenda, such as a tax overhaul, labor reforms, and deficit-reduction strategies, while also strengthening his re-election chances for 2019.

*ASG will release a brief analysis during the week of October 23.*

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*ASG's [Latin America Practice](#) has extensive experience helping clients navigate markets across Latin America. For questions or to arrange a follow-up conversation please contact [Victor Esteves](#).*

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