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LATIN AMERICAN COMPETITION FORUM

Session I: Competition and Poverty Reduction

Contribution from Chile (TDLC)

18-19 September 2012, Santo Domingo, Dominican Republic

The attached document from Chile (TDLC) is circulated to the Latin American Competition Forum FOR DISCUSSION under Session I of its forthcoming meeting to be held on 18-19 September 2012 in Santo Domingo, Dominican Republic.

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LATIN AMERICAN COMPETITION FORUM

-- 18-19 September 2012, Santo Domingo (Dominican Republic) --

Session I: Competition and Poverty Reduction

-- CONTRIBUTION FROM CHILE (COMPETITION TRIBUNAL) --

EXECUTIVE SUMMARY

1. Over the last 40 years, Chile has placed its faith in an economic model that makes economic growth the pillar of its development. To that end, the country opened up its economy to the rest of the world and liberalised and deregulated many of its markets. Governments in the last two decades have continued to prioritise growth, while also introducing social policies to reduce poverty and inequality.

Market liberalisation and competition

2. There is clearly a relation between the liberalisation of international trade and the competition faced by domestic firms, because lowering barriers to trade between countries means foreign firms can exert greater competitive pressure on domestic enterprises. As a result, certain anticompetitive practices are harder to sustain, because international competitors can enter once entry barriers have been removed.

3. In terms of the relation between these two issues and the country's development, a recent paper by Giordano and Li,¹ dealing specifically with the case of Latin America, provides evidence that more open trade practices can lead to faster growth and poverty reduction, although the findings are not entirely conclusive. On the other hand, it also shows that this type of policy has only a minor impact on extreme poverty, and that cases of countries where participation in international trade has not necessarily benefited the poor can be explained by other factors such as labour-market rigidity and protectionism favouring certain labour-intensive sectors, whose workers are displaced as a result of international competition. Openness to international trade can improve a country's poverty and inequality situation, but its success, or even the occurrence of precisely the opposite effect, depend on the existence of policies to complement free trade that succeed in channelling the advantages of international competition to this sphere, without harming workers with low levels of human capital, who represent a high percentage of a country's poor.

¹ An Updated Assessment of the Trade and Poverty Nexus in Latin America.

Chile's economic growth

4. Over the last 30 years, Chile's real gross domestic product (GDP) has grown at an average rate of 6.7% per year, maintaining positive rates of expansion almost constantly, but with slowdowns in periods such as the 1982 banking crisis and the Asian crisis in the late 1990s. Its per capita GDP has also grown continuously, by an average annual of 5.3% over the last 30 years in real terms. In the most recent decade per capita GDP growth has been even faster, averaging 8.3% per year in real terms.

5. Chile has also made significant progress in controlling inflation and unemployment over the last 20 years. According to data from the University of Chile's unemployment survey, the jobless rate has not exceeded 15% since 1984 (the period of the banking crisis that affected the country) and was even kept in check during the Asian crisis. In the 1990s, the country brought inflation down to single-digit annual rates, which have been maintained until today.

Poverty in Chile

6. The poverty situation in Chile has also improved substantially over the last 40 years. In 1970, the first extreme poverty map showed that 21% of the population were living in extreme poverty or indigence, whereas the equivalent figure today is just 2.8%.

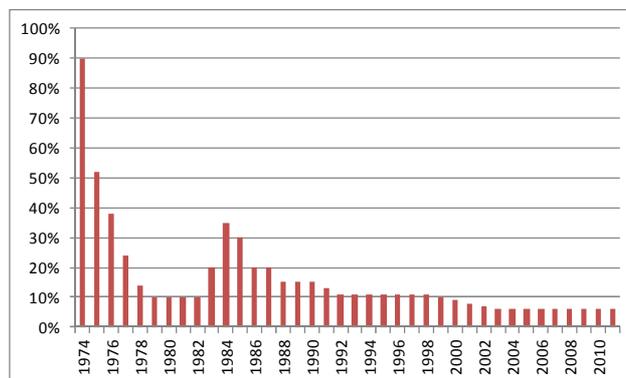
7. How did our country enable 18% of its population to move out of a situation of indigence or extreme poverty? Firstly, the extreme poverty map provided a diagnostic of the problem and identified the geographical location of people living in that condition. This made it possible to identify social policies that were not reaching their target public; social spending needed to be more closely targeted on sectors living in extreme poverty. A second conclusion was that Chile needed to start growing again; its low level of development, based on a closed economy, failed to exploit its competitive or comparative advantages in relation to the rest of the world.

Liberalisation of international trade

8. In the early twentieth century, Chile had based its growth model on exporting food products and raw materials, while importing manufactured goods. Following the Great Depression of 1929, there was a steep fall in the price of raw materials, on which the country's imports depended; and this, together with the adoption of protectionist policies by industrialised countries, caused Chile to redefine its economic strategy in favour of import substitution. Measures adopted to encourage domestic manufacturing included high import duties, import prohibitions, quotas and prior deposit requirements for importing certain goods. In addition, the exchange rate was kept undervalued, to reduce the cost of imports of capital goods and raw materials, and to keep the domestic prices of basic goods artificially low.

9. The imposition of import tariffs was not the only way in which foreign trade was restricted under the import-substitution strategy. Specific duties were also payable on imports of certain products. There was a list of permitted imports; and goods that were not on the list could not be imported. The importation of certain products required special authorization, while other products were subject to quotas. Lastly, a prior deposit of 10,000% of the import value was required to be able to import specific items.

10. In 1973, the import-substitution model was replaced by free-market policies and a gradual adjustment of the tariff structure, as shown in figure 1. By 2011, Chile's effective average tariff was 1.02%, and it now has trade agreements in force with 59 countries.

Figure 1. General import tariff, 1974 - 2011

Source: National Customs Service.

Chilean statistics: essential goods and services

11. In Chile, as in the rest of the world, goods and services that can be classified as essential vary according to income levels. Lower-income groups spend more of their income on goods considered essential, such as food and beverages; housing, water, fuel, electricity; and transport and communications. The institutional framework governing free competition has dealt with cases involving some of these sectors, as described below.

Contribution of the competition institutions to overcoming poverty

12. Chile's competition system consists of two institutions: the National Economic Prosecutor's Office (*Fiscalía Nacional Económica – FNE*), which investigates and brings the corresponding charges, and the Competition Tribunal (*Tribunal de Defensa de la Libre Competencia – TDLC*) which rules on competition cases. The TDLC also has a number of pseudo-regulatory powers, such as issuing general instructions and making proposals to the President of the Republic for the amendment or repeal of legislative and regulatory provisions that it considers harmful to free competition

13. Accordingly, in sectors where the regulations have remained broadly stable for a long time, such as telecoms, the TDLC has proposed major changes to increase competition in the corresponding markets. In sectors such as urban and inter-urban public passenger transport, in which the operators have only a weak knowledge of competition issues, the tribunal's rulings have helped create awareness and educate on this subject.

14. The main contributions made by the TDLC in the supermarket, inter-urban passenger transport and telecommunications markets are described below.

Supermarkets

15. Given the heavy concentration prevailing in this market, the TDLC has had to investigate a number of mergers that have occurred in it, which has enabled it to gather empirical evidence on the potential effects of greater or lesser concentration on the prices faced by final consumers, particularly in the affected local markets. The TDLC has reached the following conclusions:

- Other things equal, a reduction in the number of competitors in the sphere of local competition would tend to raise prices to the final consumer.

- The entry of a hypermarket in a given city can reduce prices in that city, if there are sufficient incentives to pass on the efficiency gain to consumers.
- When two supermarket chains merge, if both are already operating in a given city, prices tend to rise once the merger has been completed; but they tend to fall if just one of the chains was present in the area.

16. Drawing on this empirical evidence, the TDLC has had to rule on a several merger operations between supermarkets, always seeking to promote conditions consistent with the conclusions described above. For this purpose it has ordered the divestment of assets in geographic markets in which the level of concentration puts free competition at risk.

Collusion in rural inter-urban transport

17. Various cases have shown that economic agents participating in this market have little awareness of the importance of free competition. Thus far, the TDLC has ruled against four different groups of public transport firms, both rural and urban, for collusion on prices and departure frequencies aimed at dividing up the market or blocking new entrants.

Telecommunications sector

18. As is the case in many countries, telecommunications is one of the fastest growing and technologically advanced sectors of the Chilean economy. At the same time, quality and price improvements have been publicly recognised, which have allowed for innovation based on new information technologies. Nonetheless, the government still has a key role to play to make sure these services are supplied under the best conditions, which would certainly help reduce poverty, especially considering that the poorest sectors in Chile spend a large proportion of their income on these goods.

19. TDLC intervention in this industry has been very important in correcting attempts by incumbents to obstruct the entry of new participants and technologies and to collaborate with the sector regulators in designing the rules of tenders to allocate radio-electric spectrum or provide subsidies. Lastly, the TDLC plays an essential role in the process of deregulating currently regulated services that can be gradually liberalised as new technologies are incorporated.

THE IMPORTANCE OF COMPETITION IN THE SUPPLY OF ESSENTIAL GOODS AND SERVICES FOR OVERCOMING POVERTY: THE CASE OF CHILE

1. Introduction

1. Before describing or explaining how competition policy in Chile has, to some extent, helped overcome poverty, we believe it is necessary to outline the major guidelines and actions that have been developed to tackle poverty in the country over the last 30 years. This general presentation will make it easier to understand how competition policy forms part of Chile's economic and social development.

2. Ever since the period of the military government (1973-1989) Chile has put its faith in an economic model makes economic growth the key pillar of its development. To that end, the country was a pioneer in the region in opening up its economy to the rest of the world and in liberalising and deregulating many of its markets. The foundations of this economic system were laid in several provisions contained in the 1980 Political Constitution. This liberal model was maintained, with minor variations, by the subsequent democratic governments, which have continued to prioritise growth while introducing specific social policies to reduce poverty and inequality.

3. The following chapters will explain the relation that exists between economic growth and poverty, before going on to describe Chile's specific situation in greater detail, and the intervention of free competition institutions in markets for certain goods and services that are essential for the population.

1.1 *Evolution of economic theories on economic growth*

4. One of the major questions that economists have sought to answer throughout history is why there are major differences in income across the world. Over the years, various theories have been put forward in an attempt to answer this question, through different explanations of the economic growth phenomenon.

5. The first neoclassical growth models (Solow (1956), Cass (1965) and Koopmans (1965), were inspired in the famous stylised "*Kaldor Facts*" on economic growth. These models explained income differences across countries as a consequence of the saving decisions and investment preferences of their inhabitants, factors that determine their rates of capital accumulation, and also differences in factor productivity rates. The underlying idea is that countries that save more accumulate more capital, which enables them to grow until they reach a situation of steady state, after which there is no further per capita growth. Although these models were the first formal approach to the problem, they were quickly recognized as incomplete because they see growth as determined exclusively by exogenous parameters, without providing a thorough explanation of its basic causes.

6. A second generation of models, considerably more modern (Romer, 1986; Lucas, 1988), was also based on capital accumulation, but this time including the accumulation of human capital as well as physical capital. These new models also took account of externalities in the accumulation of these factors, which made it possible to develop models that lead to sustained growth, producing results considerably more aligned with what is seen in practice. Nonetheless, these models continue to be based on a series of exogenous growth-determining parameters, without considering its fundamental determinants. Later models attempted to explain growth by endogenising technical progress or focusing on preferences in

channelling resources into innovation (Romer,1990; Grossman and Helpman,1991; Aghion and Howitt, 1992). Since 1990, these models have developed strongly, by incorporating aspects of industrial organisation and being based on market structures.

7. The most recent studies (Acemoglu, Johnson and Robinson, 2005), have gone a step further, by positing that, although the explanatory variables considered in modern theories are important (human capital, economies of scale, market development, innovation, education and capital accumulation), the fundamental cause of differences in growth — and hence the origin of the differences observed in the aforementioned factors — are differences in countries’ institutions, understood as “the rules of the game in a society, or more formally, the humanly devised constraints that shape human interaction” (North, 1990, p. 3).

8. Thus, in the economic domain, it has been shown that both the structures of property rights and the presence and perfection of markets are key factors determining the economic outcomes obtained by different countries.

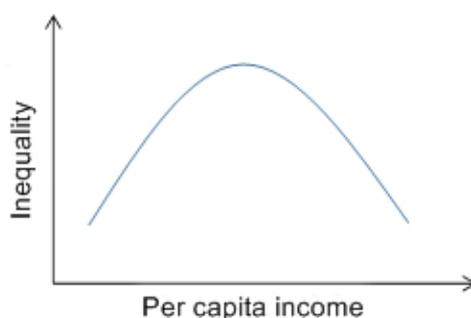
9. Countries with clear rules of the game for everyone, and an appropriate and well-known legal and regulatory framework, as well as independent regulators and transparent regulations, among other things, achieve better growth outcomes than those that lack this solid, certain and stable base for private agents to operate on.

1.2 *Economic growth and poverty*

10. Economic growth does not necessarily mean poverty reduction. Although, as a first approximation, one might suppose that a country’s sustained economic growth will benefit all of its citizens, albeit perhaps not equally, and thus reduce poverty naturally through income growth, this effect is neither immediate nor sufficient; in other words, economic growth not the only variable that makes it possible to escape poverty.

11. A strong argument along these lines was developed by Simon Kuznets (1955), who argued that as income increases, in the first stages of development its distribution will worsen, thereby increasing inequality. Consequently, poverty may increase, despite higher average income. After a while, Kuznets argued, the conditions of the economy must adjust to make it possible to reduce inequality, as a larger group of individuals benefits from growth, thereby moving above the poverty line. This theory gave rise to the Kuznets curve.

Figure 1. Kuznets Curve



12. An example of stronger growth that generates more inequality is provided by countries that have rapid GDP growth because the owners of capital can create wealth by exploiting highly profitable investment opportunities. Nonetheless, if wages remain low in those countries, possibly even falling in real terms if there is no indexation, the benefits of growth may not reach workers, because they do not own capital.

13. The validity of the Kuznets curve has been widely researched in economics, and the evidence found for it is mixed (Williamson (1985), Lindert (1986), Feinstein (1988) Schultz (1998), Morrison (1999))., Williamson (1985), for example, finds that the Gini coefficient, used to measure income inequality, in England rose from 0.4 to 0.627 between 1823 and 1871, while real GDP grew by around 200%; the coefficient then fell to 0.443 by 1901, during which time real GDP increased by 60%. This pattern is repeated in other countries, such as France, Sweden and Germany. Nonetheless, evidence for Norway and Holland shows that in these countries inequality has decreased monotonically through time, while growth rates have risen.

14. The fact that there is evidence in favour of the Kuznets curve raises doubts about the status of growth as the only factor making it possible to overcome poverty. Nonetheless, although it may not be sufficient in itself for overcoming poverty, it is necessary. In fact, growth is crucial for industries to modernise and adopt better technology; for firms to hire increasing amounts of labour; and to increase the economy's competitiveness. Growth also provides governments with extra resources, financed through taxes, to fund targeted social policies.

15. Although all of a country's inhabitants are likely to benefit from higher growth in the long run, overcoming poverty also requires public policies to lift the poorest and indigent people out of extreme poverty, and also encourage mobility to ensure growth benefits all of the country's inhabitants, and those who were previously below the poverty line can lift themselves above it. It should be noted that the poverty line also changes with economic growth, so it is unclear that those who were below the line perceive the benefits of growth and overcome it. This mobility is achieved with public policies which, among other things, promote education among the population, which allows and facilitates entrepreneurship and innovation, supported by labour market policies that make it possible for the benefits also to reach workers, together with free competition policies that discourage anti-competitive conduct and encourage market entry and greater wealth creation.

16. These and other public policies, plus economic growth, are the most effective tools for combating poverty. In this context, the level of competitiveness of markets and their structures, including the competition institutions, are decisive for a country's growth.

1.3 Market liberalisation and competition

17. Over the last few decades, there has been a clear liberalising trend in international markets, either through the World Trade Organisation (WTO) and free trade agreements, or through unilateral decisions to remove legal barriers to imports and exports.

18. Nonetheless, the mere liberalisation of international markets by eliminating or lowering tariff and nontariff barriers is insufficient. The case of the European Community showed that it is also essential to eliminate artificial barriers that firms can erect through practices that impair free competition. For this reason, it is essential that, alongside this liberalisation process, each country has a framework of free competition institutions.

19. There is clearly a relation between the liberalisation of international trade and the competition faced by domestic firms, since lowering barriers to trade between countries means foreign firms can exert greater competitive pressure on domestic enterprises. As a result, certain anticompetitive practices are harder to sustain, because international competitors can enter the domestic market once entry barriers have been removed.

20. In terms of the relation between these two issues and the country's development, a recent paper by Giordano and Li,² dealing specifically with the case of Latin America, provides evidence that more open trade practices can lead to faster growth and poverty reduction, although the findings are not entirely conclusive. On the other hand, it also shows that this type of policy has only a minor impact on extreme poverty, and that cases of countries where participation in international trade has not necessarily benefited the poor can be explained by other factors such as labour-market rigidity and protectionism favouring certain labour-intensive sectors, whose workers are displaced as a result of international competition.

21. Nonetheless, this study shows that it is extremely difficult to find evidence that protectionism benefits the poor. Although there is some evidence of an increase in inequality following the liberalisation of international trade in the cases of Argentina, Chile, Colombia and Mexico, this effect is apparently small and indirect. In contrast, Brazil, where trade liberalisation seems to have helped reduce wage inequality, is an example of how this type of reform can have progressive distributive effects.

22. In conclusion, openness to international trade can improve a country's poverty and inequality situation; but its success, or even the occurrence of precisely the opposite effect, depend on the existence of policies to complement free trade which channel the advantages of international competition to this sphere, without harming workers with low levels of human capital, who represent a high percentage of a country's poor.

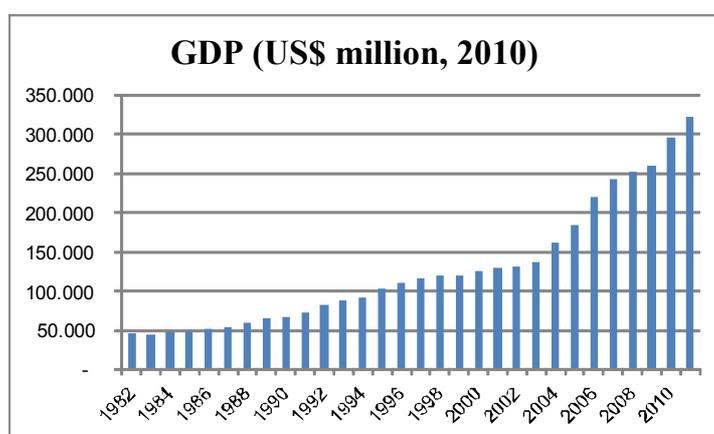
23. This document analyses the trend of economic growth in Chile over the last few decades, along with the international trade liberalisation process and the evolution of poverty indices. It also provides data on goods that can be considered essential for the population, since expenditure on them represents a large percentage of the family budget; and it analyses the public policies implemented in these sectors over the last 30 years. Lastly, this information is complemented with a summary of the rulings issued by the Competition Tribunal in relation to sectors or domains that can be considered relevant or essential for the population, measured in terms of their expenditure shares.

2. Economic growth, poverty and international trade liberalisation in Chile

2.1 Economic growth in Chile

24. Over the last 30 years, Chile's real gross domestic product (GDP) has grown at an average rate of 6.7% per year. As shown in figure 2, our country has maintained positive rates of expansion almost constantly, but with slowdowns in periods such as the 1982 banking crisis and the Asian crisis in the late 1990s.

Figure 2. Chile: Trend of GDP

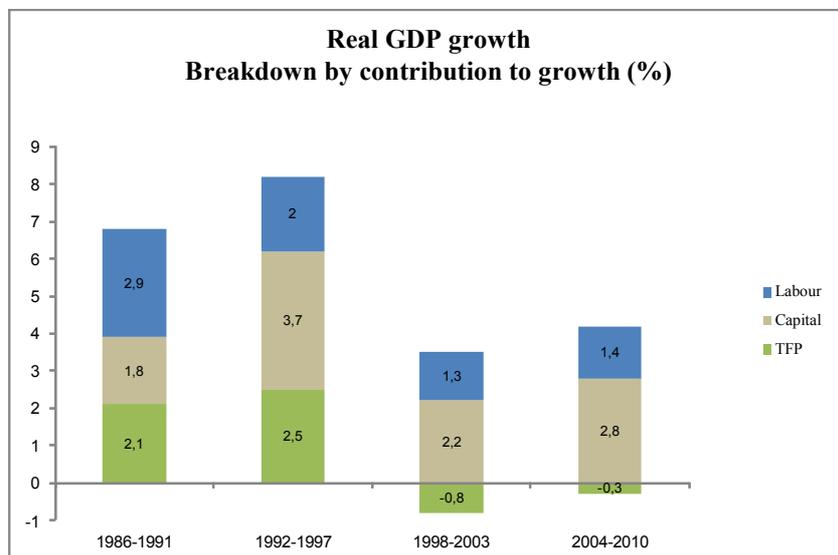


Source: TDLC, on the basis of data available at www.bcentral.cl

² An Updated Assessment of the Trade and Poverty Nexus in Latin America.

25. Figure 3 provides a breakdown of the factors that have contributed to the country’s economic growth between 1986 and today.

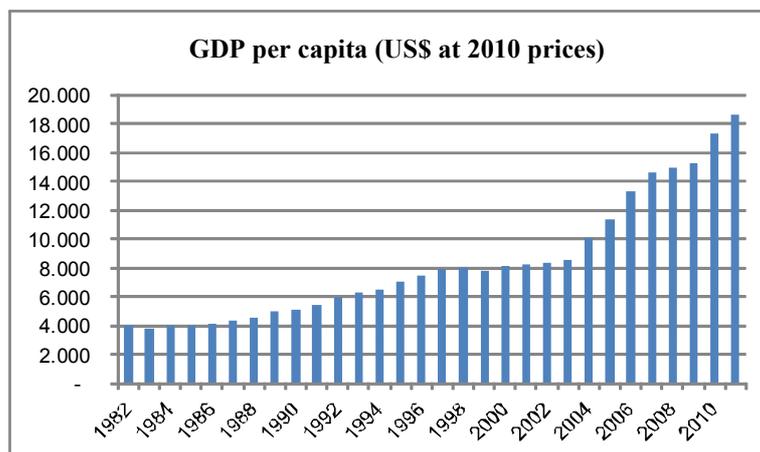
Figure 3. Chile: Contribution of the factors of production to real GDP growth (Percentages)



Source: Ministry of Finance, on the basis of information from the Central Bank of Chile, University of Chile and the National Institute of Statistics (INE).

Note: TFP = Total factor productivity, defined as the difference in the rate of growth of output and the weighted rate of increase of factors of production.

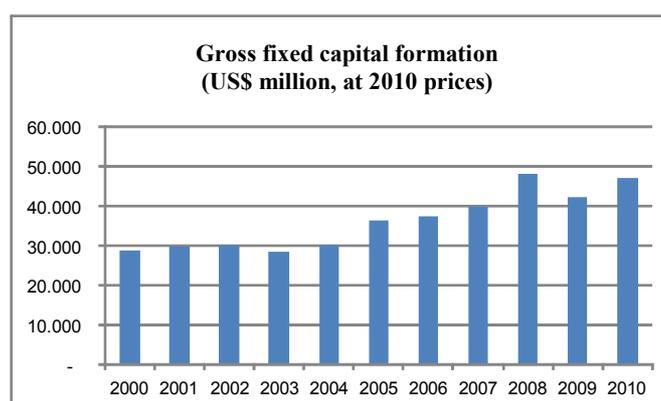
Figure 4. Chile: Trend of per capita GDP



Source: TDLC, on the basis of data available at www.bcentral.cl and www.ine.cl

26. Chile’s per capita GDP has also grown continuously, by an annual average of 5.3% over the last 30 years in real terms. In the most recent decade, per capita GDP growth has been even faster, averaging 8.3% per year in real terms.

Figure 5. Chile: Gross fixed capital formation

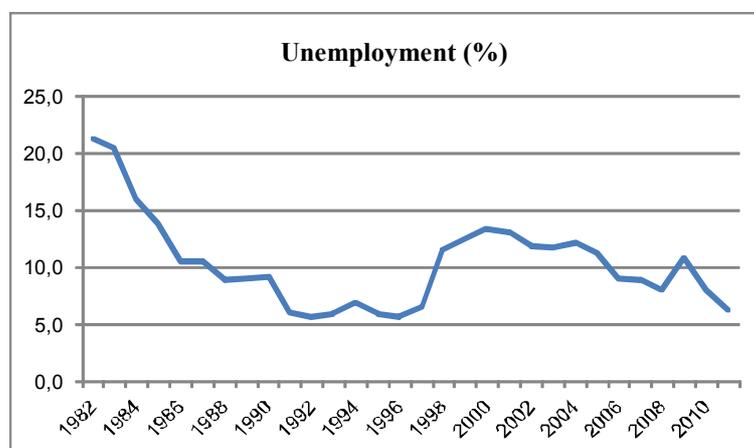


Source: TDLC, on the basis of data available at www.bcentral.cl

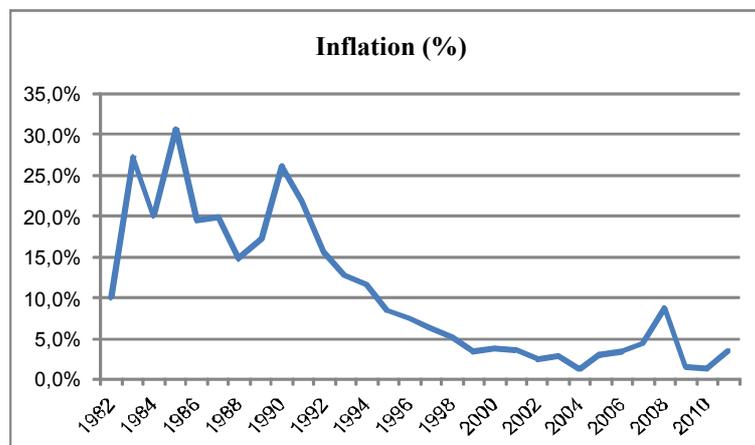
27. In terms of investment in Chile, gross fixed capital formation averaged 19.1% of GDP between 2000 and 2010.

28. Lastly, Chile has also made significant progress in controlling inflation and unemployment over the last 20 years. According to data from the University of Chile's unemployment survey, the jobless rate has not exceeded 15% since 1984 (the period of the banking crisis that affected the country) and was even kept in check during the Asian crisis. In the 1990s, the country brought inflation down to single-digit annual rates, which have been maintained until today

Figure 6. Chile: Unemployment rate



Source: TDLC, on the basis of data available at www.microdatos.cl

Figure 7. Chile: Inflation rate

Source: TDLC, on the basis of data available at www.bcentral.cl

29. Lastly, in terms of competitiveness, Chile has made major progress in recent years, as reflected by the index published in *Doing Business 2012*, published by the World Bank and the International Finance Corporation. This index analyses the ease of starting and closing a business in 183 economies. It analyses the regulations adopted by countries, which makes it possible to evaluate different phases of business life, such as the ease starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency, among other variables. In general terms, this index reflects how easy or difficult it is to do business in a given economy compared to others, and which variables affect this.

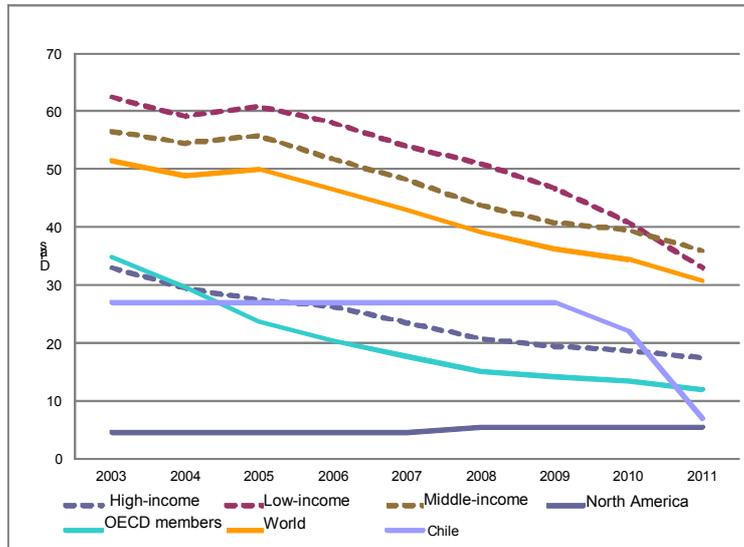
30. Economic activity requires good regulations and the elimination of obstacles and bureaucracy that make it difficult to undertake new activities. This index is therefore important, because it reflects what our country is doing in this area, all of which will lead to stronger future growth.

31. Compared to 2011, in the 2012 ranking Chile rose 2 places to 39th. Following several years in which the starting a business index remained unchanged, in 2010 it improved after the government cut the number of days needed to start a business from 27 days to just seven, and from nine procedures to seven. This meant that the cost of starting a new business was reduced from 7% of per capita income to 5.1%.³

32. This represents significant progress in terms of competitiveness for our country, which ranks us above the average of high-income countries (see Figure 8).

³ Chile has a population of 17 million, and a per capita income of US\$9,940.

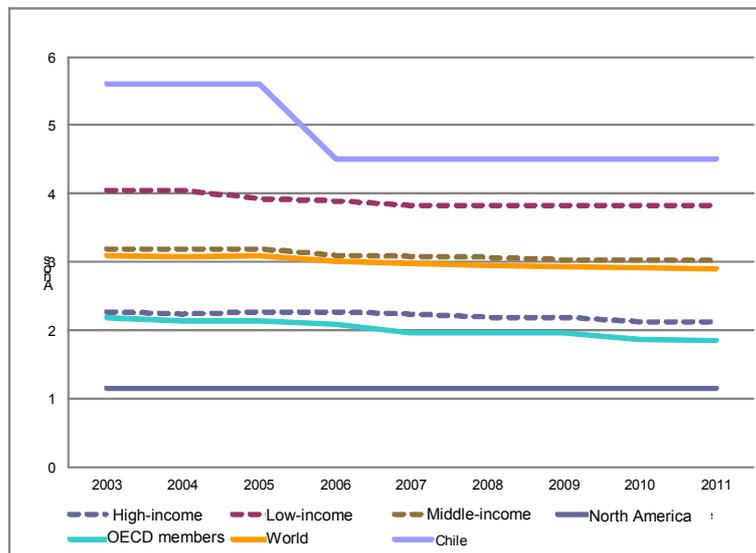
Figure 8. Time taken to start business (days)



Source: Doing Business.

33. The average time taken to close an insolvent business in Chile is 4.5 years and costs 15% of debtor’ estate, with a recovery rate of 25.5 cents on the dollar. In 2012, in the rest of the world, the average time taken to close a firm is three years, with the cost of 16.3% of the estate, and a recovery rate of 34.5%.

Figure 9. Time needed to close an insolvent business (years)



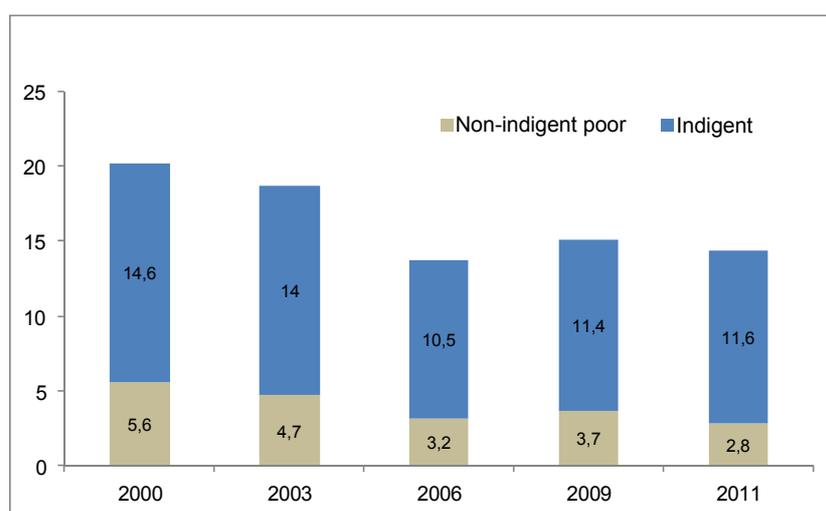
Source: Doing Business.

2.2 Poverty in Chile

34. The poverty situation in Chile has improved substantially over the last 40 years. In 1970, the first extreme poverty map showed that 21% of the population (1.9 million inhabitants) were living in extreme poverty or indigence. Today, Chile has 17,248,450 inhabitants,⁴ of whom 2.8% are considered indigent or extremely poor.

35. Figure 10 shows the trend of poverty indices in Chile since 2000. At the present time, 14.4%⁵ of the population is living in poverty, of whom 2.8% are classified as extremely poor or indigent. The indigence line in 2009 was between 25,000 and 32,000 pesos per month⁶ depending on whether the person in question lived the rural or urban area. The poverty line in 2009 was between 43000 and 64,000 pesos per month,⁷ in the rural and urban areas respectively.

Figure 10. Trend of poverty in Chile (2000-2011)



Source: CASEN survey, various editions.

36. How did our country enable 18% of its population to move out of a situation of indigence or extreme poverty? Firstly, the extreme poverty map provided a diagnostic of the problem and identified the geographical location of people living in that condition. This made it possible to identify social policies that were not reaching their target public. Social spending needed to be more closely targeted on sectors living in extreme poverty. A second conclusion was that Chile needed to start growing again; its low level of development, based on a closed economy, failed to exploit its competitive or comparative advantages in relation to the rest of the world.

37. Housing policy provides an example of badly targeted social policies. In 1970, over 40% of government expenditure benefited the highest-income groups, while the lowest-income group received about 20%. This situation was subsequently reversed, and in 1986 the lowest-income sectors received more than 45% of housing expenditure, while the highest-income sector received less than 20%.

⁴ Source: INE.

⁵ Data from the 2011 CASEN survey.

⁶ Equivalent to between US\$48 and US\$62.

⁷ Equivalent to between US\$84 and US\$124.

38. The same happened in education, where, in 1974, the highest income sector received 45% of expenditure on education, and the poorest population group benefited from just 28%.

39. Table 1 shows Chile's main health indicators in 1970 and their trend up to the present day. As can be seen, life expectancy has increased considerably, from 62 to 78 years; and the infant mortality rate has been cut drastically from 79 children per 1,000 live births to less than eight. Lastly, the malnutrition rate has fallen from 15.5% to 0.4% in 2007.

Table 1. Health statistics in Chile: 1970 to present-day

	1970	1980	1990	1995	2000	Latest measurement
Life expectancy (years)	62	67	72	73	75	78*
Infant mortality rate (per 1000 live births)	79	32	6	12	8.9	7.9**
Malnutrition rate (% of children under six years of age attending health checkups)	15.5	11.5	7.4	-	-	0.4***

* 2005-2010 period.

** 2009

*** Change in methodology. The last WHO figure refers to 2007, after which the series was discontinued.

Source: Ministry of Health, Chile

40. The improvement in health indicators reflects the public policies implemented as from the 1980s, such as mother-child health care and food supplement programmes. The latter was reformulated, making the provision of food, such as milk, dependent on periodic health checkups for the child. This programme was decentralized to primary health care clinics. Other reforms made in that period included creation of the "ISAPRE" private health insurance system, which provides coverage for medical expenses in return for a monthly contribution by the beneficiary. This means that the publicly financed health system is targeted on the lower-income sectors.

41. Reforms have also led to significant progress in the education sector. In 1970, the average Chilean child received 4.5 years of schooling; 43% of children in extreme poverty did not attend school, and the illiteracy rate was 11.8% of the population. Table 2 shows these indicators and their trend through time.

Table 2. Education indicators: Chile 1970 to present-day

	1970	1990	2000	2009
Average years of schooling of total population	4.5	9.0	9.8	10.4
Average years of schooling of the poorest 20% of the population	n/a	7.4	7.8	8.4
Poor children without basic education	43%	5%	4%	2%
Illiteracy	11.8%	5.4%	4.2%	n/a

* Most recent figure available, obtained from the 2002 Census.

Source: Various CASEN surveys, 2002 Census.

42. As the table shows, while the population's average schooling is 10 years, the poorest children study for an average of 8.4 years in school; just 2% of the poorest children do not have basic education and the illiteracy rate is around 4% of the total population. This is the result of public policies applied during these years, such as: the spread and increase in non-fee-paying private education; the introduction of a demand subsidy for basic education; and incentives for competition in education, through the application of the SIMCE attainment tests to measure education quality and encourage its improvement, among other things. At the university level, the market was opened up to private universities, which has made it possible to greatly expand the supply of places and improve access to higher education.

43. The public policies mentioned, supported by faster economic growth, were fundamental in overcoming poverty.

2.3 Liberalisation of international trade

44. In the early twentieth century, Chile had based its growth model on exporting food products and raw materials, while importing manufactured goods. Following the Great Depression of 1929, there was a steep fall in the price of raw materials, on which the country's imports depended; and this, together with the adoption of protectionist policies by industrialised countries, caused Chile to redefine its economic strategy in favour of import substitution. This scheme was based on the domestic production of manufactured products, in the belief that this would succeed in developing a national manufacturing industry, while also saving on foreign exchange.

45. Measures adopted to encourage domestic manufacturing included high import duties, import prohibitions, quotas and prior deposit requirements for importing certain goods. In addition, the exchange rate was kept undervalued to reduce the cost of imported capital goods and raw materials, and to keep the domestic prices of basic goods artificially low.

46. The import-substitution policy spawned the development of an inefficient industrial sector that was unable to achieve economies of scale, given the small size of Chile's economy, in addition to indirectly harming the export sector mainly through the resultant undervalued exchange rate.

47. Import tariffs were used as tools to discourage the consumption of luxury products and for tax revenue purposes; import quotas aimed to avoid external crises, and there were multiple exchange rates in the country to control relative prices.

Table 3. Economic conditions in Chile before the reforms: a heavily intervened and closed economy

1960-1973

Low growth	3.4%
High inflation	48.0%
Fiscal deficit	6% PIB
Tariffs	105% (1973)

Source: Libertad y Desarrollo.

48. The imposition of import tariffs was not the only way in which foreign trade was restricted under the import-substitution strategy. Specific duties were also payable on imports of certain products. There was a list of permitted imports; and goods that were not on the list could not be imported. The importation of certain products required special authorization, while other products were subject to quotas. Lastly, a prior deposit of 10,000% of the import value was required to be able to import specific items.

49. In 1973, the economic policy based on import substitution was replaced by free-market policies. Nonetheless, given the level of distortions prevailing when the new economic regime was set up, the tariff structure had to be adjusted gradually.

50. In September 1973 (when the change in economic regime took place), the *ad valorem* duties levied on imports varied between 0% and 750%, with an average tariff weighted by the number of tariff positions of 105%.

51. Between September 1973 and December 1974, the highest tariffs were lowered, so as to reduce distortions in relative prices, cutting the maximum nominal tariff from 750% to 140%, and the average tariff weighted by the number of tariff positions from 105% to 65%. Other non-tariff barriers were also eliminated.

52. Further successive adjustments were made, and in 1977 a “basic tariff” was defined with rates of 10%, 15%, 20%, 25%, 30% and 35% for the different products, affording increasing protection to the domestic production of higher value-added goods by charging higher tariffs on products involving more stages of production. With these amendments, the average tariff weighted by the number of tariff positions dropped to 19.7%. The next step was to gradually lower the higher tariffs, to reach a single tariff of 10% in June 1979.

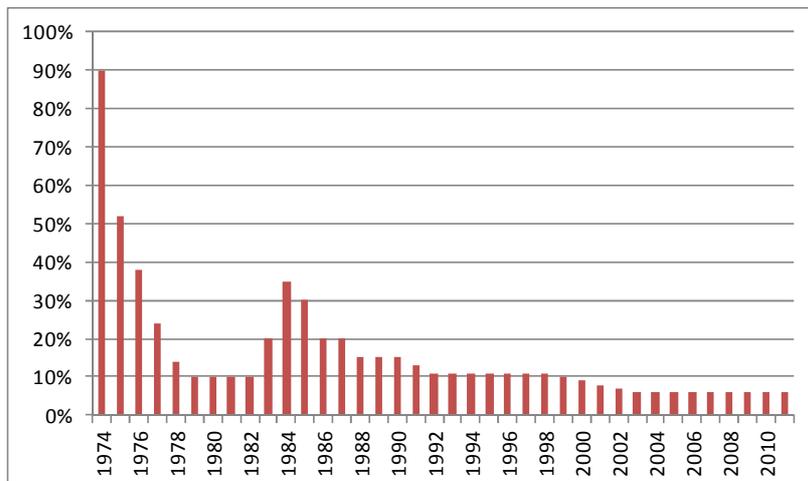
53. In the period 1973-1979, a number of non-tariff barriers were also eliminated, including the prior deposit requirement of 10,000% of the import value, a prohibition on importing certain types of merchandise, and authorisation requirements as a condition for the central bank to issue import records, as well as facilitating the processing of imports and exports.

54. The adjustment measures associated with the policy of economic and trade openness in Chile elicited a major expansion in the country’s economy between 1976 and 1981, fuelling significant growth in real GDP, exports, and real wages, together with a sharp drop in inflation.

55. In 1982, an economic crisis broke out, caused, among other things, by the rise in international interest rates. This crisis set the trade openness process back, and the government of the day raised the single tariff to 20% in 1983, and again to 35% in 1984. Subsequently, as the economy restabilised, the rate was lowered sporadically, without warning, until it reached a level of 15% in 1988. Then in June 1991, tariffs were lowered again this time to a single rate of 11%.

56. Figure 11 shows the trend of the general import tariff from 1974 to 2011.

Figure 11. General import tariff, 1974 - 2011

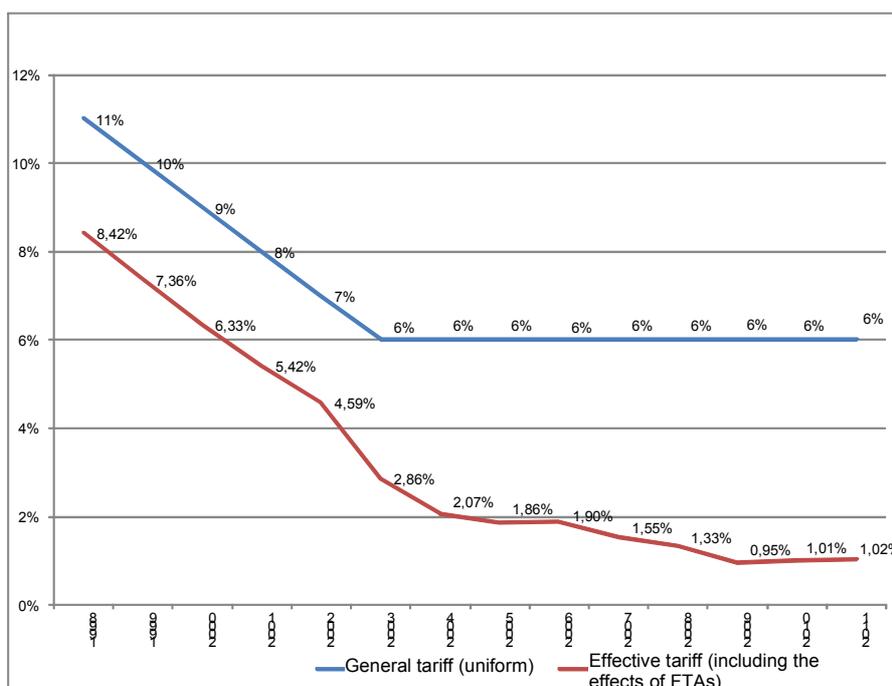


Source: National Customs Service.

57. In the post-1990 period, Chile embarked upon a series of negotiations with a view to signing free trade agreements with other countries. These started to bear fruit when the first economic complementation agreements with Bolivia and Venezuela entered into force in 1993.

58. The trade liberalisation process continued with the signing of new free trade agreements, together with tariff cuts of one percentage point per year, to reach a uniform tariff level of 6% in 2003. In fact, when the free trade agreements mean are taken into account, the “effective tariff rate” — the ratio between fiscal revenue obtained from tariffs and the total value of imports— is considerably below this figure, at around just 1% of the value of imports over the last few years (see Figure 12).

Figure 12. General and effective import tariff, 1998 - 2011



Source: National Customs Service.

59. Chile currently has free trade agreements in force with 59 countries, as shown in Table 4:

Table 4. Chile's trade agreements (by year of entry into force)

1993	Venezuela, Bolivia
1996	Mercosur (Argentina, Brazil, Paraguay, Uruguay)
1997	Canada
1999	Mexico
2002	Costa Rica, El Salvador
2003	European Union (Austria, Belgium, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Estonia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, United Kingdom, Romania, Sweden)
2004	United States, Korea, EFTA (Iceland, Liechtenstein, Norway, Switzerland)
2006	China P-4 (Brunei, New Zealand, Singapore)
2007	India, Japan
2008	Cuba, Panama, Honduras
2009	Australia, Colombia, Peru
2010	Ecuador, Guatemala
2011	Turkey
2012	Malaysia

Free trade agreements in force with 59 countries

Source: Directorate General of International Economic Relations (Direcon), Ministry of Foreign Relations.

60. In addition, there are two trade agreements for which negotiations have been completed but they have not yet come into force: with Nicaragua, signed on 22 February 2011, and with Vietnam signed on 12 November 2011.

61. Trade agreements are currently under negotiation with Thailand; with the Trans Pacific Partnership (a multilateral agreement between: Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, United States and Vietnam); with China (the "Investments" chapter of the free trade agreement) and with India (consisting of a deepening of the current partial scope agreement).

3. Chilean statistics: essential goods and services

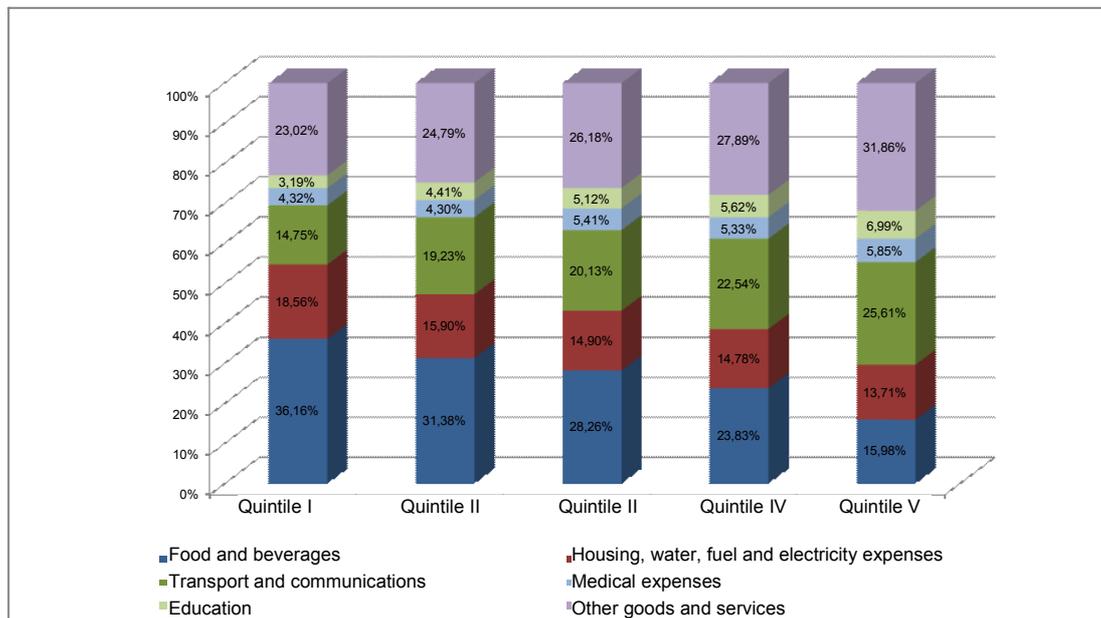
62. Figure 13 shows the distribution of expenditure, by income quintile, of an average family in Chile. The data are obtained from the family budget survey, which selects 10,625 households, stratified by geographic area and socioeconomic classification in all of the country's regional capitals.

63. The survey asks each individual of 15 years of age and older in the selected households to record their daily expenditure for a fortnight. The survey field work began in November 2006 and ended in October 2007, aiming to capture seasonal variations in the structure of household expenditure. The main variables consulted in the survey are: household consumption expenditure, current income of all household members; family relationship to the head of the household; sex, age and education; and occupational category, in the case of all employed household members.

64. The most recent data are for 2006-2007. As can be seen, the goods and services that can be considered essential vary according to the population's income level. Thus, the lowest-income population (quintiles I and II) spend a larger proportion of their income on goods considered essential, such as food and beverages, housing expenses, water, fuel, electricity and transport and communications

65. In contrast, the higher-income population (quintiles IV and V) spend more of their total income on the consumption of goods classified as other, and a smaller share on goods considered essential.

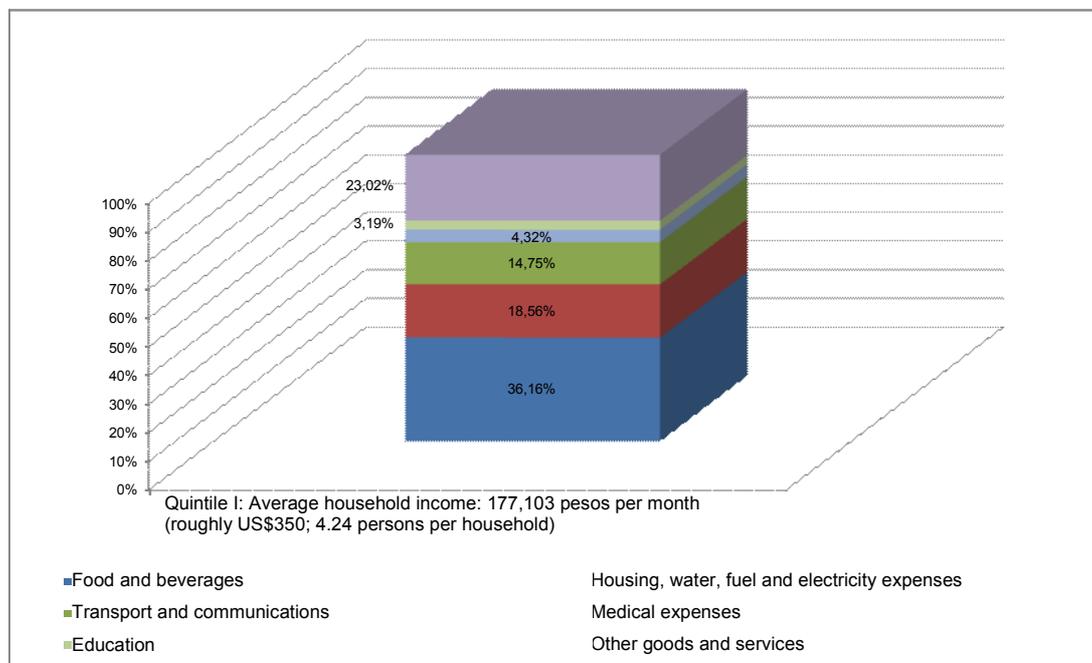
Figure 13. Expenditure by type of goods, by household income quintile, capital cities, 2007



Source: Family Budget Survey, 2006-2007, National Institute of Statistics.

66. The first quintile spends 36% of its income on food and beverages, 18.56% on housing, water, fuel, electricity expenses; 14.75% on transport and communications; 4.32% on medical services; 3.19% on education, and 23% on other goods, as shown in Figure14.

Figure 14. Expenditure by type of goods, household income quintile I, capital cities, 2007



Source: Family Budget Survey, 2006-2007, National Institute of Statistics.

67. Comparatively speaking, it can be said that the highest income quintile spends twice as much on education as the poorest quintile; almost twice as much on transport and communications; nearly 10% more on other goods; slightly more on medical services; and less on food, beverages and housing, water, fuel and electricity expenses.

4. Role of the institutional regulatory framework

68. Crucial reforms have been introduced in Chile since the 1980s to lower market entry barriers, liberalise markets and reduce poverty. The following paragraphs explain some of these measures, as implemented in sectors that are important or considered essential, given the percentage of the family budget spent on them. The trend of public policies implemented through time is analysed, along with the results obtained.

4.1 Transport sector

69. The public transport sector has undergone far-reaching regulatory changes. Until 1978 it was heavily regulated; and a single public enterprise, Empresa de Transporte Colectivo (ETC), provided public passenger transport services in the cities of Santiago, Valparaíso, Concepción and Antofagasta.

70. This firm generated an annual deficit of between US\$10 million and US\$15 million at the prices of that time (equivalent to roughly US\$280 million to US\$420 million today); it owned about 35% of all Chilean buses, it provided the service on a set of exclusive routes, and also owned its own repair factory. In total, it employed over 5.000 workers.

71. The firm was extremely inefficient. It had a vehicle fleet of 1,500, of which 60 were trolley buses and the remainder buses. Of this total, about 35% of vehicles were out of service, because their state of mechanical and structural deterioration was too expensive to repair; moreover, the time taken to repair vehicles could last from six months to one year.

72. The budget laws of that time show that payroll expenses in this company were high. For example, in 1979, payroll expenses amounted to 180 million pesos (5,390 million pesos at today's prices), including and 250,000 hours of paid overtime.

73. Closing down ETC not only meant a general cost reduction for the government, but also the disappearance of a real threat to unfair competition with the private sector (Wisecarver, 1986).

74. There were also regulations that made the service more expensive and restricted competition. For example, routes were fixed and allocated indefinitely to certain firms, of which the main beneficiary was ETC. Routes could not be transferred between operators; the authorities set the number of buses and route frequencies.

75. The process of deregulating the public passenger transport service began in 1979. Operators were given complete freedom to determine route frequencies; and, little by little, freedom was given for each one to alter and decide their route. Then, the restriction on the number of operators and buses per route was lifted. Subsequently, in 1980, public transport fares started to be deregulated. This was done gradually, controlling for the concomitant inflationary impact. Special fares were maintained only for students. In addition to eliminating fare setting, imports of vehicles, spares and parts, both new and used, was permitted and facilitated

76. The inter-urban and rural public transport service was also subject to heavy restrictions until 1977. From that year on, restrictions were eliminated in terms of access to routes; fare-setting on routes

served by two or more firms was replaced by a liberalised fare mechanism in which it was only necessary to notify fares. In 1978, all inter-urban fares were fully liberalised.

77. This led to major progress; for example, before deregulation, the route between Santiago and Valparaíso was operated by two firms, and service quality was poor. By late 1982, there were 12 firms covering the same route.

78. The liberalisation process experienced in the transport sector at that time produced a number of benefits, allowing for an improvement in the service in terms of quality, coverage, and route frequency. Nonetheless, it also brought problems, such as greater congestion and pollution, particularly in the city of Santiago.

79. Nonetheless, the development of cartels in the sector, compounded by congestion and pollution problems, made it necessary to regulate the sector once again. This gave rise to the route tendering system, implemented in 1994. Under this system, there is full freedom to provide a paid urban transport service, provided regulations on emissions and technical standards are complied with. In addition, the Ministry of Public Works is authorised to allocate routes through competitive tender in situations involving road congestion, environmental deterioration, and unsafe conditions for persons or vehicles. The tender documents give details of the minimum conditions to be fulfilled by service operators, specifying the routes to be tendered, the maximum frequency for peak hours, the minimum size of the initial vehicle fleet on each route, and restrictions on the age of the vehicle fleet.

80. Lastly, in 2007, as a response to problems of collusion by operators in the tendering system compounded by problems of vehicle congestion and environmental pollution caused by the large number of buses in circulation, the government of the day decided to radically change public transport in Santiago, implementing an even more regulated and centralised system known as Transantiago, serving the Metropolitan Region, Concepción and Valparaíso-Viña del Mar.

4.2 *Water and sewerage sector*

81. In 1988, the government of the day embarked on a reform of the Chile's water and sewerage sector which was continued by the subsequent governments over a total of 20 years. This reform involved creating an appropriate regulatory and institutional framework, modernisation of the management of each firm and subsequent participation of private capital in their equity, to be able to finance the investments needed to increase the coverage of drinking water and sewerage services in urban areas, and to be able to treat wastewater.

82. In the late 1980s, the sector was reorganised, by creating 13 public sanitation firms to provide the drinking water and wastewater collection services. Prior to this, there were only two water companies, both public, one serving the metropolitan region and the other serving Chile's second largest city, Valparaíso. The other regions were supplied directly by the public sector through National Water Works Services (*Servicios Nacionales de Obras Sanitarias – SENDOS*), which were attached to the Ministry of Public Works. In the late 1980s, the SENDOS were consolidated and turned into regional public enterprises, all of them subsidiaries of the public enterprise system of the Productive Development Corporation (CORFO).

83. The legal framework under which water companies operate in Chile dates from 1988. In that year, regulations started to be issued that affected the development of the water sector, providing it with a new and modern legal, pricing and institutional framework. In general terms, the legal framework establishes:

- a) An efficient marginal-cost pricing system, which includes differentiated rates for drinking water demand in peak and off-peak periods and a fixed monthly charge, to cover initial capacity investments. These regulations prevent the exploitation of monopoly power.
- b) A drinking water subsidy for extremely poor sectors, covering the first 20m³ of consumption. This subsidy has been fine-tuned over the last few years, to improve its targeting.
- c) A Water Services Superintendency, which acts as inspection body.

84. Prior to the introduction of private capital in those firms in 1993, water services were supplied to 97.6% of the urban population and to 81.3% of the concentrated rural population⁸ (roughly 12 million inhabitants), by the 13 state-owned water companies, subsidiaries of CORFO and by four private water companies operating in the metropolitan region. There were also two municipal water companies.

85. At the present time, there are 24 main firms providing drinking water distribution and wastewater collection services in the urban zones of Chile. Between them, they serve 99.4% of all customers in the country's urban zones. Of these firms, the 12 firms that were previously State-owned⁹ now have private-sector participation, either as a result of a privatisation process or else through a concession contract to the private sector lasting 30 years. The remainder of the sanitation firms are either private¹⁰ or municipal.¹¹

86. The main problem faced by the sector before the process of introducing private capital began in 1998 was a shortage of investment. At that time, it was estimated that roughly US\$2.4 billion were needed (US\$3.2 billion in today's prices) for the period between 1995 and 2000. Of this amount, 63% would be targeted on wastewater treatment and disposal, and the rest to cover the drinking water and sewerage deficit.

87. It was impossible for public enterprises to finance these investments out of their own resources. In 1993 and 1994 the State water and sewerage companies invested about US\$150 million per year (US\$315 million at today's prices). Consequently, the shortfall at that time was about US\$250 million per year (US\$520 million at the present time).

88. It is also necessary to increase the coverage of the drinking water, sewage and wastewater treatment services. CORFO subsidiary water companies achieved drinking water coverage of less than 100%. Moreover, only 85.9% of the urban population had sewerage services, and just 13% of urban wastewater was treated (see Table 5)

Table 5. Coverage of the Chilean water and sewerage sector 1993 before privatisation

	Urban	Rural
Drinking water	97.6%	81.3%
Sewerage	85.9%	n/a
Waste water treatment	13%	n/a

Source: Superintendency of Sanitation Services.

⁸ Concentrated rural settlements means those with more than 15 homes per km of the network.

⁹ Until 1997 there were 13 State-owned firms, although two of these subsequently merged (Essbio and Essel), so the current number is 12.

¹⁰ Aguas Cordillera, Aguas Décima, Servicomunal SA, Aguas Manquehue, Aguas Los Domínicos and Coopagua.

¹¹ SMAPA, Servicio Municipal de Agua Potable y Alcantarillado de Maipú.

89. Other indicators showed some of inefficiencies of these firms, which was also a sign of the urgent need to improve their management. The operational inefficiencies in terms of negative profitabilities, high loss rates, and inefficiencies in the management of the public enterprises.¹²

90. Thanks to the incorporation of private capital, coverage indices have now improved. The indices of national coverage of drinking water and sewerage services in urban zones, at 31 December 2011, were 99.8% and 96.1% respectively.¹³ This means about 15.4 million people have drinking water in urban zones and 14.8 million inhabitants have access to public sewage networks. The coverage of drinking water in rural zones is estimated at about 99% at the present time.¹⁴

91. The greatest impact occurred in wastewater treatment, where coverage expanded from 13% in 1993 to 94.2% in 2011 (see Table 6).

Table 6. Coverage of the Chilean water and sewerage sector, 2010, after privatisation

	1998	2011
Drinking water	99.3%	99.8%
Sewerage	91.6%	96.1%
Wastewater treatment	16.7%	94.2%

Source: Superintendency of Sanitation Services.

5. Contribution made by the competition institutions to overcoming poverty

92. Without prejudice to different opinions and interpretations in relation to the objectives of competition policy, there is consensus at the present time that they aim to promote free competition in markets, which has effects on economic efficiency and consumer welfare; in other words, economic agents produce more and better goods at lower prices. Consequently, effective action by the competition authorities should help improve citizens' living standards and hence also help overcome poverty. Nonetheless, lack of information and hard data evaluating the actions of the competition agencies in the different markets in which they intervene makes it difficult to measure their contribution, and Chile is no exception.

93. Chile's competition system consists of two institutions: the National Economic Prosecutor's Office (*Fiscalía Nacional Económica* – FNE), which investigates and brings the corresponding charges, and the Competition Tribunal (*Tribunal de Defensa de la Libre Competencia* – TDLC) which rules on competition cases. The TDLC also has a number of pseudo-regulatory powers, such as issuing general instructions and making proposals to the President of the Republic for the amendment or repeal of legislative and regulatory provisions that it considers harmful to free competition.

94. Accordingly, in sectors where the regulations have remained broadly stable for a long time, such as telecoms, the TDLC has proposed major changes to increase competition in the corresponding markets, and its workers been fundamental in promoting the development of new technologies and services. Moreover, in sectors such as urban and inter-urban public passenger transport, in which the operators have

¹² See, M.L. Domper, "Privatización del Agua y de las Empresas Sanitarias en Chile" [Privatisation of water and sewerage firms in Chile], *Informe Económico series* N° 173 Libertad y Desarrollo, September 2006.

¹³ Source: "Informe de Gestión del Sector Sanitario 2005" [Water and sewerage sector management report 2005], Superintendency of Sanitation Services, May 2006.

¹⁴ Considering populations supplied by rural drinking water systems.

only a weak knowledge of competition issues, the tribunal's rulings have helped create awareness and educate on these subjects.

95. The main contributions made by the TDLC in the following essential goods and services markets — supermarkets, inter-urban passenger transport and telecommunication subsidies — are described below:

5.1 Supermarkets

96. In line with global trends in the retail sector, the supermarket industry in Chile has experienced far-reaching changes over the last 20 years. Economies of scale, scope and intensity in logistics, warehousing and distribution have spawned “large commercial areas”, thus generating heavy concentration in this market, which in 2006 only had two major players.

97. As a result, the TDLC has had to investigate a number of mergers that have occurred in this market; which has enabled it to gather empirical evidence on the potential effects of greater or lesser concentration on the prices faced by final consumers, particularly in the affected local markets.

98. Thus, for example, based on econometric studies presented by the parties¹⁵ the TDLC has reached the following conclusions:

- Other things equal, a reduction in the number of competitors in the sphere of local competition would tend to produce a statistically significant increase in prices to the final consumer.
- The entry of a hypermarket in a given city can reduce prices in that city, if there are sufficient incentives to pass on the efficiency gain to consumers.
- When two supermarket chains merge, if both are already operating in a given city (*inmerge*), prices tend to rise once the merger has been completed; but they tend to fall if just one of the chains was already present in the area (*outmerge*).

99. Drawing on this empirical evidence, the TDLC has had to rule on several merger operations between supermarkets, always seeking to promote conditions consistent with the conclusions described above. For this purpose it has ordered the divestment of assets in geographic markets in which the level of concentration puts free competition at risk.

100. Despite this, and as noted above, no evaluations or studies have been made on prices following TDLC rulings.

¹⁵ Basically, the following studies were considered, accompanying case “Rol C N° 101-06”, which resulted in Ruling 65/2008:

“La relación entre los precios de los alimentos y la concentración de los supermercados en Chile: evidencia de un modelo dinámico de panel y análisis de los impactos de las fusiones propuestas en la industria” [The relation between food prices and supermarket concentration in Chile: evidence from a dynamic panel model and analysis of the impacts of mergers proposed in the industry], Andrés Gomez Lobo and Aldo González.

“Economías de Escala, Concentración y Precios en la Industria de Supermercados” [Economies of scale, concentration and prices in the supermarket industry], Loreto Lira, Magdalena Ugarte and Rodrigo Vergara”

“Un análisis económico sobre competencia y supermercados en Chile” [An economic analysis of competition and supermarkets in Chile], Alexander Galetovic and Ricardo Sanhueza.

“La relación concentración-precio cuando una industria cambia: supermercados en Chile 1998-2006” [The concentration-price relation when an industry changes: supermarkets in Chile 1998-2006], Fernando Díaz, Alexander Galetovic and Ricardo Sanhueza.

5.2 *Rulings in cases involving collusion in rural inter-urban transport:*

101. Another market involving the provision of essential goods or services, in which the TDLC has had significant intervention, is inter-urban passenger transport.

102. Some of these cases are outlined below, together with the information compiled in the respective pricing case studies:

Ruling 116/11: The TDLC found against rural transport firms operating in the locality of Los Muermos (Lakes Region), for colluding on prices and departure frequencies in the public passenger transport service between localities of Los Muermos and Puerto Montt. As a result of this collusion, the price of bus fares on this route had risen from 1,000 pesos (roughly US\$2) to at least 1,200 pesos (about US\$ 2.40) in January 2010.

Ruling 102/10: The TDLC found against a number of rural transport firms in the Maule Region (connections between Talca and surrounding rural areas), for collusion to expel a market entrant through a predatory pricing strategy. The TDLC ruled that suppliers on these routes had coordinated, and that in effect there was an agreement to drive out a new market competitor. The ruling did not refer to the prices prevailing during the period of collusion.

Ruling 94/10: The TDLC found against the largest public passenger transport enterprises in Osorno, for collusion on fares and the number of buses and taxis. In this case, the relevant market was for urban public passenger transport services provided by small buses and collective taxis in the city of Osorno. It was found that at the start of the agreement prices were broadly in line at a higher level than previously prevailed (on average, because previously there was price dispersion) as was also the case of collective taxis. Once the FNE had lodged the accusation, prices diverged upwards, justified by a rise in the price of oil.

Ruling 82/09: The TDLC found against a number of rural transport firms in the Maule Region (connections between Talca and surrounding rural areas), for collusion to expel a market entrant from a specific route, through a predatory pricing strategy, lowering the fare on the segment in question from 1,900 pesos to 500 pesos until the new competitor was driven out.

5.3 *Telecommunications sector*

103. As is the case in many countries, telecommunications is one of the fastest growing and technologically advanced sectors of the Chilean economy. At the same time, quality and price improvements have been publicly recognised, which have allowed for innovation based on new information technologies. Nonetheless, the government still has a key role to play to make sure these services are supplied under the best conditions, which would certainly help reduce poverty, especially considering that the poorest sectors (quintiles I and II) in Chile spend a large proportion of their income on these goods.

104. TDLC intervention in this industry has been very important in correcting attempts by incumbents to obstruct the entry of new participants and technologies and to collaborate with the sector regulators in designing the rules of tenders to allocate radio-electric spectrum or provide subsidies. Lastly, the TDLC plays an essential role in the process of deregulating currently regulated services that can be gradually liberalised as new technologies are incorporated.

105. The following cases resolved by the TDLC can be cited as significant in making a major contribution for competitive development of the sector and, indirectly, a contribution to overcoming poverty:

- a) IP telephony: In Ruling No. 45, TDLC upheld the complaint filed by Voissnet (an IP telephony company) against Compañía de Telecomunicaciones de Chile (CTC) one of the country's leading

land-line telephony companies and Internet providers, ruling that the latter had engaged in an anti-competitive practice by restricting the use of the broadband services provided, blocking the possibility of providing IP telephony services (which competed directly with the service supplied by CTC).

- b) OMV: in Resolution No. 2, the TDLC gave conditional authorisation for the merger between Telefónica Móviles and Bellsouth, two of the four cellular phone companies operating in Chile at that time. One of the factors considered by the tribunal in authorising the merger consisted of the success seen in other countries of the Virtual Operators Business (VOB) model, which had not then been implemented in Chile. For this purpose, while approving the merger under review, the tribunal recommended the office of the Under-Secretary for Telecommunications to require all mobile telephony operators to offer facilities for plans to be resold through phone companies without their own networks.
- c) Subsidies: In Ruling No. 105, the tribunal rejected a complaint filed by Netland Chile (an Internet service provider) against the Ministry of Transport and Telecommunications, relating to the granting of a government supply subsidy to provide Internet access services in rural areas. This service overlapped in certain zones with the (unsubsidised) services provided by Netland Chile. In this case, the tribunal ruled that the subsidy generated barriers to the entry of potential competitors, and risked damaging operators previously providing Internet access in the areas covered by the subsidy, all of which constituted arbitrary discrimination with anti-competitive effects. Nonetheless, the design of the subsidy had been established in the General Telecommunications Law, so no sanctions were imposed on the Ministry in question. Subsequently, the tribunal sent recommendations to the respective authority with a view to designing the subsidy more consistently with free competition, and proposing the existing supply subsidy be turned into a demand subsidy.
- d) Liberalisation of fixed telephony: In Report No. 2, the TDLC liberalised fixed telephony rates charged by the dominant firms (which were regulated with a ceiling price) given the price contestability that mobile telephony enjoys with respect to fixed telephony. Despite this, price setting was maintained for some ancillary services.
- e) 3G: In Resolution No. 27, the TDLC resolved a query made by the Office of the Under-Secretary for Telecommunications, as to whether it was lawful to exclude mobile phone concession-holders from the advanced digital mobile telephony tender that was being held at the time (tender for previously unavailable spectrum). The tribunal considered that existing concession-holders could not be excluded from the tender, because they could have participated in the tender provided they fulfilled the requirements. Nonetheless, this decision was overturned in the Supreme Court.

6. Conclusions

106. Over the last 40 years, Chile has pursued a poverty-reduction strategy based mainly on economic growth, accompanied by a number of more targeted social policies aimed at reducing inequality.

107. In this process, it became a pioneer both regionally and worldwide in opening up its economy and in deregulating and liberalising its markets. At the present time, its average tariff is 1%, and it has free trade agreements in place with over 50 countries.

108. The country has a solid and stable institutional framework to support free competition, which has existed for more than 50 years and has made major contributions in different sectors, particularly infrastructure.

109. It is hard to more precisely evaluate the specific way the institutional framework for free competition has helped reduce poverty. Nonetheless, as the FNE and TDLC have intervened in markets providing essential goods and services, presumably their actions have had a positive effect for the country's poorest sectors, at least indirectly.

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