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Chilean President's Pinochet Ties Revive Friedman-Style Economy

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By Michael Smith and Sebastian Boyd

Jan. 18 (Bloomberg) -- On June 18, Chilean billionaire Sebastian Pinera became convinced he'd win the presidency of the South American country.

The Santiago-based polling firm Centro de Estudios Publicos found that support for the center-left governing coalition had split between two presidential candidates, robbing it of the votes needed to beat Pinera.

The new leader, who was elected yesterday, amassed his fortune by setting up Chile's first credit card network and turning around a struggling airline. He decided to invest more in his own election in June, says Jose Miguel Izquierdo, Pinera's political operations director, as reported in the March issue of Bloomberg Markets magazine.

"That's when we said, 'We can win this,'" Izquierdo says, banging his fist on his desk at campaign headquarters in a Santiago mansion. "It's money on the table. When he feels like he's going to lose, he stops investing."

By yesterday's runoff election, Pinera had spent at least \$13.6 million on the campaign and the bet paid off.

Pinera, 60, won the contest against one-time President Eduardo Frei, a Christian Democrat, unseating the center-left coalition that had governed Chile since dictator Augusto Pinochet was forced from power in 1990.

The victory marks a political shift in Chile, a nation of 17 million people that straddles 4,100 kilometers (2,547 miles) of the Andes Mountains from its northern border with Peru to the Cape Horn.

28,000 People Tortured

Candidates of the governing coalition, known as the Concertacion, had won all four presidential elections since 1989 on pledges of erasing memories of Pinochet. His regime murdered more than 3,000 people, tortured 28,000 and forced thousands into exile, according to government estimates.

In the 2010 election, Chileans chose a president with ties to the dictator who led the 1973 coup that left Socialist President Salvador Allende dead. Pinera managed a 1989 presidential campaign for Hernan Buchi, Pinochet's former finance minister.

Pinera won with the support of two parties founded by former Pinochet collaborators -- the National Renovation party and the Independent Democratic Union. Two of Pinera's top campaign advisers held posts in the dictatorship and a third is a former Pinochet minister.

The billionaire, who pilots a helicopter and hikes a park he owns in southern Chile, won the election even though a December poll found that 73 percent of Chileans remain disdainful of Pinochet's violent regime.

'Chile has Changed'

"The fact that the candidate who represents the parties that supported Pinochet has won shows how much Chile has changed," says Patricio Navia, a Chilean political scientist at New York University in Manhattan.

"Pinera himself opposed the dictatorship, but some of his close allies defended Pinochet," says Navia, who was born in Peru.

Pinera, a Harvard University-trained economist and former Citigroup Inc. executive, said during his campaign that he embraces Pinochet's economic policies of cutting corporate taxes and encouraging investing in the country, and abhors the rule of terror.

"I have condemned human rights violations all my life, with no hesitation," Pinera says. "Human rights are sacred. Our government will be a government of the future."

The billionaire won on pledges to expand the Concertacion's health-care and jobs programs for the middle class and poor. He also vowed to help small businesses and boost investment in state-owned Codelco, the world's largest copper producer.

'Big Potential'

Investors like Pinera. Chile's benchmark Ipsa stock index has risen to a record high of 3,803 points today, having gained 10.7 percent since the first round of

voting on Dec. 13. Citigroup upgraded the rating on Chilean stocks to "overweight" from "underweight" on Nov. 20, citing Pinera's likely victory. Citigroup strategist Geoffrey Dennis reiterated the recommendation on Jan. 8.

"The big potential impact in markets will be if you really see delivery on the promises," says Eric Conrads, a Mexico City-based hedge fund manager at ING Investment Management Ltd.

For two decades, Chile's political leaders have been defined by where they stand on Pinochet's legacy of killing and torturing opponents and putting the country on the road to economic growth.

Chicago Boys

Pinochet, who died in 2006 at the age of 91, laid the foundation for today's economy in Chile. He staffed ministries with so-called Chicago Boys, or disciples of Nobel laureate and University of Chicago economist Milton Friedman.

Friedman, who died in 2006 at 94, promoted balanced budgets, low state spending and private pension systems.

Pinera inherits one of the healthiest economies in Latin America. Chile's gross domestic product grew every year in the past two decades except when global recessions spread to the country in 1999 and 2009. The poverty rate has plunged to 14 percent in 2006 from 39 percent in 1990.

Barclays Capital ranks Chile as the second most advanced emerging market in the world, behind Singapore and ahead of Brazil, China and India.

Pinera says he'll continue Pinochet's economic policies. He may select officials for his administration from Pinochet's regime, if they weren't involved in human rights abuses.

"Having worked honestly in any government is neither a crime nor a sin," the new president says of those who worked for Pinochet.

First Female President

He had been vying for the presidency since 1993. Four years ago, he lost the election to Michelle Bachelet, a pediatrician who had been tortured under the Pinochet regime. She was Chile's first female president and became the most popular leader ever in the country, currently with an 81 percent approval rating.

Bachelet couldn't run for re-election because Chilean presidents can't serve consecutive terms.

Over the past decade, voters tired of the coalition as government officials were caught in corruption scandals. By December, the public thought the government was weak on health care, education, job creation and crime fighting, with disapproval ratings ranging from 56 percent to 84 percent, according to polls by Santiago-based research company Adimark GfK.

"There has undoubtedly been wear and tear and mistakes," Frei says of the coalition's two decades in power. Frei served as president from 1994 to 2000; Chile changed the term of a president to four years from six starting in 2006.

'They Are Angry'

"People recognize the progress, but they are angry because politics hasn't modernized as the country has," Frei says.

Pinera pledges to run his government like a business, choosing people for their talents not political ties. He speaks from experience. In 1981, he joined Citigroup to run its Chilean investment-banking unit, and he surrounded himself with graduates of top business schools.

They included Jaime de la Barra, who runs the Chilean unit of fund manager Compass Group LLC, and Patricio Jottar, chief executive officer of Cia. Cervecerias Unidas SA, Chile's biggest beer and beverage maker.

"He picked 20 or so people who went on to run the best Chilean companies," says Jorge Carey, senior partner at Carey & Cia. Ltda., the largest law firm in Chile. "Sebastian will surround himself with the best," says Carey, 67, who's known Pinera since the early 1970s. "This will be a government of meritocracy."

'No Price Tag'

The candidate's wealth hounded him throughout the campaign. Former President Frei and Socialist candidate Marco Enriquez-Ominami criticized him for spending millions on the election.

One Frei campaign ad flashed images of the tailored suits, gold cuff links and silk ties Pinera likes to wear, with estimated prices.

"The presidential sash has no price tag," the ad said.

Pinera has worked hard to overhaul an image as a cold, calculating businessman with little patience, his aide Izquierdo says.

"In Chile, there's a prejudice against people with money because we're such an unequal society," he says. The billionaire, one of six children of a foreign ministry bureaucrat, changed his style from speaking on his own at campaign rallies.

This time, he frequently appeared with his wife, Cecilia Morel, and four children. And, he chose to wear a bright-red ToyWatch, following Michelle Obama's lead.

'He Smiles More'

"He's made himself friendlier; he's made himself nicer," Izquierdo says. "He smiles more."

In the 1980s, he started Chile's first MasterCard and Visa credit card network. Pinera says he and his partners peddled Visa and MasterCard to shops, one by one.

They were competing with Chile's biggest banks, which chose to work with Diners Club Inc.

By 1993, he had sold his credit card businesses to Spain's Banco Santander SA and Transbank SA, a Chilean transaction- processing company, for \$74 million, according to the biography "Sebastian Pinera" by Manuel Salazar (Momentum, 2009). In June 1995, he bought control of laggard former state-owned airline, Ladeco SA.

Weeks later, regulators approved a takeover of the company by Chile's biggest airline, another former state-controlled carrier now called Lan Airlines SA. He started purchasing shares of the company when it acquired new jets and took over airlines and routes across the region.

Stock Soared

In the past decade, Lan became Latin America's biggest airline, and its stock soared eight-fold, to 8,539 pesos (\$17.50) a share on Jan. 14 from 1,000 pesos 10 years ago. Pinera's 26 percent is now worth about \$1.5 billion.

His investments also include stakes in Chile's national champion soccer team, Colo-Colo, and the upscale Santiago hospital, Clinica Las Condes.

As president, he promises to sell his Lan Airlines stock. He's resigned from company boards and put his holdings into blind trusts managed by Chilean investment banks.

After 20 years, Chileans may have shaken their aversion to electing a leader with ties to Pinochet's ruthless dictatorship. Pinera won over a majority of Chile's 8.3 million voters on pledges to replace a government fatigued by two decades in power.

If he manages to revitalize the economy and avoid the taint of scandal, he may finally put the ghost of Pinochet to rest.

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