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**Natural resources, neopatrimonialism and norms
The case of the Chilean copper industry**

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Abstract

The Washington Consensus (WC) is a transnational norm that has especially been present in Latin America since the 1970s. Following this norm, many state industries in Chile were privatized during the neoliberal economic policy of the Pinochet dictatorship. The one exception was the copper industry. In the 1990s, a period of liberalization and private expansion started, and consequently stabilized in the 21st century. However, privatization of the state copper company was always avoided. To explain this striking liberalization policy, this thesis focuses on the localization of a transnational norm in a domestic context, where the contestation between transnational norm entrepreneurs and neopatrimonial veto players created a regulatory framework for the copper industry. The results show that the outcome of localization process is dependent on the relative power of these two contesting sides, but that the agency of the state must not be underestimated.

List of abbreviations

BHP - Broken Hill Proprietary
CEP - Centro de Estudios Públicos
CTC - Confederación de Trabajadores del Cobre
CIEPLAN - Corporación de Estudios para Latinoamérica
CODELCO - Corporación Nacional del Cobre de Chile
COCHILCO - Comisión Chilena del Cobre
COSENA - Consejo de Seguridad Nacional de Chile
CUT - Central Unitaria de Trabajadores
ENAMI - Empresa Nacional de Minería
FDI - Foreign direct investment
FTC - Federación de los Trabajadores del Cobre
IDB - Inter-American Development Bank
IMF - International Monetary Fund
ISI - Import Substitution Industrialization
IR - International Relations
LyD - Libertad y Desarrollo
SONAMI - Sociedad Nacional de Minería
SMT - Specific Mining Tax
MNC - Multinational corporation
WC - Washington Consensus
WB - World Bank

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1. Introduction

Starting in the 1980s, there was a global paradigm shift towards market liberalization. In 1989 the term “Washington Consensus” was explicitly declared as to be the new template for the restructuring of state-market relationships (Williamson, 1989). Most notably, Latin American countries took up the ideas of the Washington Consensus - and Chile did not remain unaffected. The (not universal) consensus holds that the benefits of liberalization, and an open international trade and investment system outweigh the disadvantages (Williamson, 1993). Privatization of state enterprises is one of the cornerstones of the Washington Consensus. It was believed that free markets and private corporations would be most welfare-efficient and would ultimately lead to a free society too. Chile has been described as “the star performer of the Washington Consensus,” because of the government’s willingness to permit FDI and trade liberalization in comparison to other Latin American nations (Albala-Bertrand, 1999, p. 162). Yet, we see a strange exception to this star performance: the essential copper industry was never fully privatized and to this day the world’s largest copper producer remains the Chilean state-owned *Corporación Nacional del Cobre de Chile: CODELCO* (COCHILCO, 2020).

Instead, when we track the development of the copper industry, we do not see full-fledged liberalization of the industry, but a cumbersome and protracted, yet ongoing process of privatization, starting in the 1970s (figure 1, p. 56). Although the number of private companies increased, CODELCO remained the largest copper producer in the world. Also after the end of the dictatorship, the company increased its production, albeit not at the same rate as the private copper companies. During the so-called post-dictatorship *Concertación* governments, there was no massive short-term overhaul, but rather a piecemeal privatization process of the copper industry. The number of private companies increased, and CODELCO was allowed to form joint ventures with other multinational mining companies (Fermendois et al., 2009). To this day, the state still remains a very active and influential actor in the Chilean copper industry, where it regulates and sells concessions. The 1990s shaped the following two decades, when the production of copper more or less stabilized after 2001. It is surprising that the copper industry’s liberalization only started materializing after the return to democracy in the 1990s, because Pinochet’s regime did permit private investments in the copper industry from the beginning of the 1980s. This then leads to the research question: *What explains the piecemeal liberalization of the copper industry in Chile?*

Because the Washington Consensus started to gain momentum in 1970s, this research will focus on a time period starting with the Pinochet dictatorship - a time of large reforms to the Chilean economy and copper industry. This research will specifically cover the development of the copper industry from 1973 to 2019. To answer the research question, this

thesis connects insights from the literature on norm localization and neopatrimonialism. Clearly, the transnational policy norm of Washington Consensus did not ascend fully and unmitigated in Chile. Following the literature on norm localization (Acharya, 2004), we know that international norms are adapted to national context conditions during the course of their implementation. This literature, however, does not tell us that much about the factors leading to a particular path of localization, apart from the fact that domestic veto players play a role. To identify these veto players and why they localize a norm, I draw on the neopatrimonial literature.

The norm localization literature does not explain the sources or the motives of these mitigating veto powers, so theory on neopatrimonialism will be applied to answer the essential why-question. Remmer (1989) classified the (then still existing) Pinochet regime as a typical example of neopatrimonialism, but there has not been any scholarship that applies this view to the post-dictatorship era. It is expected that during the post-authoritarian phase, the influence of the neopatrimonial veto players did not disappear overnight. While making use of the literature on neopatrimonialism, this research can track the veto power of the actors in the copper industry, also during the post-dictatorship era. Since the copper industry is a basic resource sector, we can expect that the rent-seeking patrimonial actors remained very active in the mixture of governance regarding the copper industry. These veto powers propagated a path of norm localization that is expected to be aligned with their interests. The expectation is that the veto players tried to "block" the norm from entering the domestic sphere, which in turn can influence the localization process away from the transnational norm. The literature on norm diffusion shines a light on the emulation of norms promoted by transnational norm entrepreneurs. If the cosmopolitan transnational actors gain more influence in the localization process, a more congruent policy with the norm is more likely. This thesis will focus on the constellations of interest that were formed during different phases in the history of the Chilean copper industry after 1973. In sum, this thesis will argue that for some contexts, the norm localization is dependent on the conditions of the neopatrimonial actors on the domestic level, while at other times, it is dependent on the conditions of the transnational norm entrepreneurs. This creates a system of norm localization, where a norm is diffused in an adapted manner.

In the context of broader IR/IPE theories, this research adds to the constructivist debates. Constructivism rejects the simplicity of realist and liberal theories, and focuses on the role of ideas, norms and discourse in determining an outcome (Balaam & Dillman, 2014, p. 124). In the context of Chile, there has not been research that tied norm localization to the Chilean copper industry. While the economic history is well-documented, the academic focus is mostly on the Pinochet-era (1973-1990, Sigmund, 1993, Biglaiser, 2002). This research provides a more thorough understanding of the Chilean economic history post-Pinochet. It will add to the norm

localization literature that describes how an international norm is successfully adapted and localized. While general norm localization theory stresses the importance of cultural practices and believes in the construction of localized norms, and acknowledges the influence of transnational norm entrepreneurs (Acharya, 2004, p. 244), I will argue within this theory is a significant role for the neopatrimonial actors too. The literature on norm localization is generally ambiguous about the veto players, and focuses on structural conditions (Zimmerman, 2016), so this research will have a focus on the crucial role of these neopatrimonial actors in the localization of norms. With the help of the literature on neopatrimonialism, the role of the veto players can be identified and added to the norm localization theory. Moreover, this thesis tries to connect two traditions of research that were previously separated: it will argue that the theories of norm localization and neopatrimonialism can complement each other and create a framework for further research in contexts similar to the development of Chile's copper industry.

As for the societal relevance of this thesis, the copper industry is known as "*el sueldo de Chile*" ("the salary of Chile"). Copper accounts for about 50% of the total export revenues (OEC, 2017). Although a matter of political debate, the dependency on copper might be a major obstacle for inclusive and egalitarian growth, pointing towards a "resource curse." The democratic authorities of the last 20 years have been unable to reduce inequality significantly, causing social unrest. Some economists point to the structural constraints of the copper industry as one of the main sources of this inequality, where Chile's reliance on a less complex product produces relatively less inclusive institutions that distribute wealth less equally (Hartmann et al., 2017). Moreover, low corporate taxes have generally favored the elites, and disincentivizes investments in human capital (López & Miller, 2008). The question of ownership of the copper industry has always been a political battle in Chile, where neoliberal parties argue that the admittance of private copper companies made the whole industry more efficient, while the left says that public ownership of the whole industry is essential for the equal distribution of wealth (Lagos, 2018). Chile remains the most unequal country inside the OECD, and the recent protests concerning a price increase in the public transportation fare displayed these sharp discrepancies in society. Moreover, these protests were not only about the price increase, but about the historical legacy of the Pinochet dictatorship that is still deep-rooted in Chile's society (Borselli, 2019). Because of this extending influence, the vital copper industry and its connection to the Chilean economic policy can also be seen as an extension of the archaic (neopatrimonial) institutions that were formed under the Pinochet dictatorship, and the questions about the governance of this sector remain highly relevant today. This research can add to the societal question how natural resources are best handled by governmental policy, in Chile and in other countries similar governance models.

This argument will be structured as follows: the theories on norm diffusion, norm entrepreneurship, (neo)patrimonialism and norm localization will be discussed and how the domestic constellation of neopatrimonial actors and transnational norm entrepreneurs may explain the localization of norms. Then, the methodology will be presented. Next, with the help of the theories discussed, this thesis will lay out the empirics that illuminate the role of the actors who opposed, supported or influenced the localization process and how this played out. This evidence will be from a wide range of scholarly articles, books and newspaper articles. The conclusion will summarize the main points and will provide an answer to the research question, as well as possible limitations and some recommendations for further research.

2. Theoretical Framework

How norms, ideas, and policies spread globally is one of the main debates within the disciplines of IPE and IR. Many domestic norms, ideas and policies come from the same source and have a similar blueprint. The main puzzle is how these transnational ideas and norms translate into domestic policy. While there is academic consensus that diffusion is a consequence of international interdependence, there is less agreement how and under which conditions a norm, idea or policy spreads. The efforts to describe this has been a fairly recent endeavor in academia (Gilardi, 2012). In this section, the diffusion of norms will be linked to the concepts of norm localization and neopatrimonialism, and explained why these concepts can complement each other.

2.1. Norms & policy paradigms

Constructivist scholars Finnemore & Sikkink (1998) define norms as “a standard of appropriate behavior for actors with a given identity” (p. 891). This is a broad definition, but does define a unique behavior across contexts. Similarly, but in a different tradition, Hall (1993) described the concept of a policy paradigm as “a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing” (p. 279). In Hall’s view, ideas are quite resistant to disconfirmation, and in a Kuhnian way, there needs to be a “paradigm shift” before a new idea is adopted. It is often assumed that coherent policy models spread easily and countries often adopt this without any major changes (Gilardi, 2012). Babb (2012) describes the Washington Consensus as a policy paradigm. Because academics are free from external pressure and are insulated from disconfirmation in their own social learning environment, they (sometimes inadvertently) propagate a certain transnational policy paradigm that affects the domestic policy choices to a large extent. As will be argued, the two concepts of policy paradigms and norms are very similar, and this thesis will categorize the Washington Consensus as a transnational norm.

Hall (1993) emphasized that policy paradigms are often “*leitmotiv*” (p. 292). This means that policymaking is based on a set of ideas and reinforced by institutions. Hall sees a central role for ideas in policy paradigms, where a certain language and discourse is adopted, by which the behavior of key actors and consequently policy is constructed. Similarly, but on an international level, norms can act as a structuralist form of stability, where the distribution of ideas defines the international structure - norms act as a “regulator” for behavior (Finnemore & Sikkink, 1998). This often happens on a tacit level, as policy paradigms often get promoted in a similar inexplicit manner. Additionally, Hall’s rejection of the central role of the state is key, and

he questions the traditional dichotomy between state and society. Likewise, according to Checkel (1998) even (neo)liberal theories see norms as a superstructure built on a material base, while constructivist norm literature sees agents - like states - constantly interacting with the superstructure, and therefore mutually constituted. There is no natural dichotomy between the states and norms (Checkel, 1998). Moreover, Finnemore & Sikkink (1998) wrote that policies reflect “the normative biases of the professions that staff decision-making agencies” (p. 905), including state officials. Hall (1993) argues the ideas of state officials are important too, although there is often a spillover effect to the general political discourse. Therefore, in the context of this thesis, the principles of norms and policy paradigms are very similar. Both concepts are implicitly responsible for the “proper” behavior, through socialization of the key actors.

2.2. Diffusion and norm entrepreneurs

The norm diffusion literature lays out the types of diffusion mechanisms that lead to adoption or rejection of the transnational norm, promoted by the norm entrepreneurs. Strang (1991) defines diffusion when “prior adoption of a trait or practice in a population alters the probability of adoption for remaining non-adopters” (p. 325). From this, rather than the outcome of the diffusion, the process of diffusion itself is under scrutiny (Strang, 1991). Gilardi’s (2012) overview of the literature on diffusion shows that in the literature coercion, competition, learning, and emulation are four mechanisms of norm diffusion. These forms take place within and across different political contexts, but with a certain level of interdependence between the different actors. These ideal types do not exclude each other, and they permit the transportation of a norm from the international context to the domestic context, whereas the domestic actors permit or reject the norm. Coercion often is attached to strong states as norm promoters, where other states adapt norms even if they do not want it, which makes long-term internalization unlikely. Competition is mostly attached to economic reasoning, such as tax policy norms, and a “race to the bottom.” Learning happens when countries look at their population or other governments to find a policy solution for a pressing problem. Emulation arises in cases of high uncertainty, where actors look to an already established model and choose where it fits. However, the latter does not guarantee the best model, but rather the one that is already established (Elkins & Simmons, 2005). In the area of emulation, the sheer number of norm entrepreneurs can create a tipping point where the norm is emulated by other actors, on the basis of socialization (Gilardi, 2012).

In this emulation process, by Finnemore & Sikkink’s (1998) account, norms are successfully internalized when “norm entrepreneurs” push for the norm and states conform when there is a lack of domestic pressure. Through socialization, the norm gets internalized. At

one stage, there is a “tipping point”: the previously orthodox actors become the heterodox, and the burden of proof shifts. The norm entrepreneurs play a critical role here, as some norms do not get to amass this critical “weight” (Finnemore & Sikkink, 1998). Sunstein (1996) defines norm entrepreneurs as “people interested in changing social norms” (p. 909). However, they can also be a group of people, or an entity. They are the actors who pioneer the norm, but also amplify existing norms into the mainstream (Sjöström, 2010). These norm entrepreneur actors (collective entities or individuals) actively seek out other actors to try to persuade them to follow a certain policy. For example, corporations (Flohr et al., 2010), shareholders (Sjöström, 2010) or lawmakers (Carbonara et al., 2008) may be norm entrepreneurs.

Most notably, academia and business advocates may play an important role in diffusing a norm. For example, Hall’s (1993) description of policy paradigm change in the case of the rise and fall of British Keynesian economic policy post-World War II (p. 286) makes the case that academia were essential to materialize a switch, and through the socialization of state actors a paradigmatic policy shift happened. This is similar to Haas’ (1992) description of transnational advocacy networks, formed around epistemic communities. The epistemic communities have the expertise, network, and authority to convincingly advocate their norm or policy. While these entities are different in size and power, their shared goal is to advocate and eventually make sure different contexts internalize the norm. Often, norm entrepreneurs attempt to persuade policymakers by sheer moral appeals, and in the case of epistemic communities, a shared notion of normative beliefs and convincing knowledge and expertise (Björkdahl, 2002). Sometimes, this separates norm entrepreneurship from rational-choice explanations of norm diffusion (Stoeckl, 2016). For example, nationalism may be a convincing force to highlight shared norms. Still, this does not mean that rational-choice explanations of norm entrepreneurship are not valid: the methods are means, and not ends. Indeed, “it makes little sense to rule out one or the other approach on a priori grounds” (Fearon & Wendt, 2002). For example, business networks can act as norm entrepreneurs. They can focus on the otherwise hidden material gains for domestic actors and, through this, advertise or strategically frame the desired norm. The economic gains of a new norm can be an important reason to adopt a new norm voluntarily, not because it is coerced, but because the policy makers are convinced by the material effectiveness of the norm independently (Payne, 2001).

Hence, the diffusion of norms depends on the engagement of transnational norm entrepreneurs. If the domestic actors agree, emulation can occur. In the final phase of Finnemore & Sikkink’s (1997) norm life cycle - internalization - there is an important role for professions, as they are agents by which their members internalize norms. Also here, policy is inherently connected to norms, and an internalized norm is the product of a long process that is promoted throughout by transnational norm entrepreneurs. These norm entrepreneurs explain

the process in which a norm is formed and diffused. While norm entrepreneurs may be domestic actors, the theory does see a norm as a uniform reality with a similar meaning for all contexts. However, domestic actors may give a different explanation to the norm, and it is expected that not all norms are simply accepted at face-value (Eimer et al., 2016). The domestic structure is essential here. To explain this interpretation, the next section will turn to the literature on norm localization.

2.3. Norm localization

The question then arises whether all norms are “trickled down” in the same way, and if this is true for all the different contexts where it spreads. The aforementioned norm diffusion categories remain constructed on a dichotomy between “compliance vs. non-compliance” or “cooperation vs. defection” (Eimer et al., 2016, p. 451). Most constructivist writers in the early literature on norm diffusion were primarily concerned with “constitutive compliance [or] outright rejection” (Acharya, 2004, p. 242). For example, Finnemore & Sikkink (1998) described women’s suffrage as a norm, and measured this on the basis of rejection or adoption. Instead, Acharya’s (2004) theory on norm localization gives more credit to the local norm takers, and their ability to interpret and twist an international norm. Local actors adopt a localized form of the transnational norm, and they act as credible agents. The norm hierarchy and the domestic institutions remain in this case unaltered, but new institutions may be added to the mix that make up the domestic constellation. In many cases, institutions are strengthened rather than removed. In Acharya’s view, the domestic constellation is essential to the ultimate form of the norm, and local views are part of the norm order (Sjöström, 2010). An important second observation is that localization happens through “active construction” in accordance with normative beliefs. This implies a more nuanced approach than outright adaptation or rejection through coercion, competition, learning or emulation, but rather a significant and decisive role for the local actors in the adaptation and redefinition of the transnational norm. Moreover, the interpretation of the norm by the actors might differ. In this way, the meaning of a norm is very flexible and it can be reinterpreted many times over. Essentially, a norm is a dynamic product that in many cases will adopt a different meaning over time (van Kersbergen & Verbeek, 2007).

In sum, while the transnational norm influences the actor’s behavior, the actors that permit the localization of the norm in turn may also have an influence on the policy norm itself, and may redefine it to a large extent. Hall (1993) and Finnemore & Sikkink (1998) essentially consider a policy norm to be exogenous (Gilardi, 2012). While they add to the norm diffusion literature that describes the mechanisms through which transnational norms may be diffused, the motives of the norm diffusion are not described extensively. In the same vein, Acharya’s account offers an overview of the “general forces” why norms may be localized (2004, p. 246).

These catalysts for changes are exogenous shocks: a major crisis and pressure from outside. Acharya (2004) lays out four conditions by which a norm is likely to be localized. Firstly, a new norm could enhance and legitimize the authority of the norm-takers institutions. Secondly, the strength of the prior norms matter, based on local beliefs and practices. Thirdly, there must be an availability of credible actors that outperform the transnational norm entrepreneurs. Finally, the sense of identity of the norm-takers matters, where the norm might be adjusted to fit a cultural sense of identity (Acharya, 2004, p. 248-249).

Although these conditions may be valid, the “general forces” remain vague: the dynamics on the ground are not sufficiently explained. Norm localization focuses mostly on the culture that constitutes traits and practices. In Acharya’s (2004) account, the veto power of a norm localizer is ignored. Although norm localization emphasizes the importance of the local authority and legitimacy of key norm-takers, the description of the veto power of these norm-takers is rather ambiguous. The domestic constellation consists of private and public actors with their own interests. In the localization of transnational norms, the level of congruence depends on the interests of these private and public actors. A one-to-one copy is rather improbable, but the key in this localization effort is the interest of some important domestic actors that decide about the fate of the norm. It may be possible that previously opposed actors decide to change course and support the international norm. In this case, it is likely that this is a consequence of close interaction with transnational actors (Eimer et al., 2016). So, although domestic actors may have a level of interaction with the transnational actors, the real driving forces behind this are the transnational norm entrepreneurs. To distinguish between the transnational norm entrepreneurs on the one hand, and the domestic actors on the other hand, it is necessary to closely examine the interests of the actors (Eimer et al., 2016). In this consistent game between transnational norm entrepreneurs and domestic actors, the continuum is contained within the framework of localization - because outright rejection or adoption is improbable. While the literature on norm localization explains that the domestic actors modify a transnational norm, the internal forces of some veto powers are not outlined. To dive more into the motives for the “gatekeeping” function of these domestic endogenous actors, this thesis will add neopatrimonial power as an important factor to describe how norms are localized.

2.4. Neopatrimonial actors

Neopatrimonial rule is often, but not exclusively, applied to African nations. Some typical features of neopatrimonial rule originate from Max Weber’s earlier classification of patrimonial rule. In this system, the right to rule is entirely vested in one person. It is part of the category of traditional rule, against two other ideal forms of political leadership: charismatic and legal authority (Weber, 2015). Traditional institutions are the foundation of Weber’s understanding

of patrimonialism, held together by loyalty and oath. Eisenstadt (1973) first defined the term neopatrimonialism. This was essentially an application of Weber's concept to modern nations integrated in the world economy, where development has made legal-rational institutions an integral part of society. Neopatrimonial rule is often reinforced by rent-seeking actors. As Weber (2015) already described, the (neo)patrimonial power blurs the distinction between public and private property. Eisenstadt (1973) wrote that neopatrimonial regimes often try to monopolize political activities and resources, and try to prevent competing rival factions from access to these resources. In order to avoid that other actors gain resources, an informal structure is created, "controlled by a personal clique of *hombres de confianza* (trustworthy men) responsible for the functioning of certain key administrative and military units" (Oszlak, 1986, p. 24). These state resources are often natural resources, and rent-seeking actors can reinforce neopatrimonial rule. High resource income from basic minerals and hydrocarbons from a small enclave within a country can be responsible for the endurance of neopatrimonialism (Acemoglu et al., 2004). In a self-fulfilling prophecy, these same neopatrimonial actors devise low taxes and low levels of political accountability to secure their income. In turn, this reduces state revenue from a natural resource. This happened for example in Zambia, where the neopatrimonial interference in the copper industry secured a beneficial tax policy for the rent-seeking actors (von der Soest, 2007). This supports the so-called "resource curse" hypothesis, where resource dependence hinders sustainable development (Acemoglu et al., 2004, Altenburg, 2013)¹. Eventually, this means that the rents get concentrated within a small group of actors.

Within neopatrimonialism, the power remains personalized, although the traditional underpinnings based on local beliefs and practices of a culture are less pronounced. Rather, the power system has an inherent transactional nature (Sigman & Lindberg, 2017). The definition was expanded further when it was applied to African nations. Bratton & van de Walle (1997) argued that the main difference between neopatrimonialism on the African continent and in Latin America was that the latter had a longer tradition with corporatist regimes. Moreover, presidentialism plays an important role in general for the establishment and conservation of the neopatrimonial structure, where it provides one man that has the power, and personal rule is confined by legal rule (Bratton & van der Walle, 1997). This definition placed neopatrimonialism opposite to democratic or hybrid regimes, and much closer to the classical definition of Weber. While democracy and neopatrimonial rule might appear to be two opposite forms of governance, research suggests neopatrimonial rule may improve civil and political rights, constitutional rule and wider distribution of goods and services (Sigman & Lindberg, 2017).

¹ Still, not every aspect of the resource curse hypothesis is uncontested. The theories on the mechanisms and applicability across all regions are not universal. See van der Ploeg (2011) for an overview of the literature.

Therefore, a democratic rule does not secure immunity to the influence of neopatrimonial actors, especially if there is tradition of strictly neopatrimonial rule. Neopatrimonial rule is not necessarily a separate regime category, but can manifest itself in democratic, hybrid and authoritarian rule (Erdmann & Engel, 2006).

An important aspect of neopatrimonialism is the existence of a vast patrimonial legal-bureaucratic system. In this system, private and public actors thrive on clientelism. Neopatrimonialism is not exclusively a form of formally defined rule, but rather also relies on informal connections, such as favoritism in the allocation of state resources. (Erdmann & Engel, 2006). Snyder (1992) defined neopatrimonialism as “an extensive network of personal patronage, rather than through ideology or impersonal law” (p. 379). The literature on neopatrimonialism argues that rule is based on two types of domination: bureaucratic legal-rational and patrimonial power. The traditional part of neopatrimonialism is the historical colonial structure, where it is exclusively found in the Global South. These two forms coexist and influence each other, so that “the patrimonial penetrates the legal-rational system and twists its logic, functions, and effects [...] informal politics invade formal institutions” (Erdmann & Engel, 2006, p. 18). That also means that actors have a degree of choice whether to implement one of the two logics, but the power relations matter. As mentioned before, neopatrimonialism is a system in which the distinction between public and private ownership blurs (Eisenstadt, 1973). The public and private actors can make use of their intimate connections with the government to act as veto players. The system of bureaucratic legal-rational rule and patrimonial rule functions makes sure that these veto players can sustain their neopatrimonial power for the future.

In turn, one of the main causes of the insensitivity concerning democratic processes is often the reliance on natural resources. In a system of neopatrimonialism, when a small group of actors are in charge of a vast quantity of natural resources, and a country’s economy is reliant on that same resource, the interests of a small number of actors, by definition, have to be taken into account as well. Thus, it is expected that these private and semi-private actors have informal veto powers which are sometimes more important than the official democratic procedures (Gazibo, 2013). The public actors, on the other hand, are restricted in their capacity to make autonomous decisions. They have limited resources to their disposal and therefore need to make a convincing argument for their desired policy (Altenburg, 2013). We can therefore expect that the system of neopatrimonialism may uniquely be present in a resource extractive industry, although the country’s official form of governance is democratic.

2.5. Neopatrimonialism and localization

As previously shown, the norm localization literature focuses on the cultural “traits and practices” from which a set of conditions are established that consequently localize the norm (Acharya, 2004). Key to neopatrimonialism is the transactional notion of power, in combination with the existence of legal-rational bureaucratic rule that defines the influence of some actors associated with a natural resource industry. Only the actors with connections within the bureaucratic system have real power, not necessarily those who hold higher positions in the formal hierarchy. One can argue that two systems exist parallel to each other: one is the official hierarchy, but acts like an empty shell, and the other is the neopatrimonial hierarchy, where the power and resources are divided over a small group of people (Ferguson, 2006, p. 39). Regarding norm localization, we know that institutions are not necessarily replaced, but are more likely to be adapted to the localized norm. In this thesis, the institution is the regulation of the copper industry. The institutions are not easily replaced, and when a norm, promoted by transnational norm entrepreneurs, will be adopted in a localized context, the framework of neopatrimonial rule (e.g. personalized rule, patronage, and rational-legal bureaucracy) can be used to localize the norm to their liking and design. The actors with close connections to the resource industry enjoy a higher level on the patronage scale, and therefore more power. Still, this does not mean there is no competition from alternative interpretation of a norm. The expectation is that transnational norm entrepreneurs promote the alternative form of the norm, as it is known these actors can ally with domestic actors as well (Gilardi, 2012).

But it remains cumbersome, exactly because of this strategic maneuvering of the neopatrimonial actors and the transnational norm entrepreneurs that shapes the system of localization. The transnational norm entrepreneurs try to integrate a transnational norm into society without much adaptation and a high level of congruence through their connection with domestic actors, while the neopatrimonial actors focus on a adapted form of the norm or a full rejection. Both sides have their strengths: while the norm entrepreneurs are particularly benefited by globalization, the neopatrimonial actors thrive by their (historical) veto power. The most likely result is a compromise, and a transnational norm is localized by domestic actors. Therefore, localization is the outcome of the antagonism between domestic veto players and transnational norm entrepreneurs.

2.6. Overview theoretical framework

This theoretical framework laid out the similarities between a policy paradigm and transnational norms. These transnational norms are diffused in a domestic context in different ways. Through emulation, transnational norm entrepreneurs play an important role to socialize the domestic actors to adopt a norm. Transnational norm entrepreneurs have many forms, but most notably

these are in the form of business actors and epistemic communities. To explain the mismatch between the propagated norm and the eventual domestic outcome, theory on norm localization is added. The domestic dynamics and the veto power of some gate-keeping actors that for a part explain the level of norm localization is explained by theory on neopatrimonialism. A country with a large natural resource industry is especially susceptible to neopatrimonialism, and the presence of formal democratic institutions does not necessarily hinder its existence. Countries with a historical presence of neopatrimonialism and an integration in the world economy can therefore expect to have a norm localization structure made up of transnational norm entrepreneurs and neopatrimonial veto players.

3. Methodology

3.1. Ontological and epistemological presuppositions

Within the methodology to explain real-world phenomena, two grand philosophies of science can be distinguished: positivism and interpretivism. A positivist philosophy emphasizes the importance of a deductive approach: start with the theory and apply this to a phenomenon (Halperin & Heath, 2020). Positivist approaches are generally used for large-N studies, where multiple variables and cases are presented to come to a data-driven solution, guided by the laws of a certain theory. This foundationalist or positivist perspective is informed by a belief that the world is “knowable” - through critical rational theory-testing methods, falsification may come close to reality. By using empirics (empiricism) and observation, knowledge is derived. Facts and values are clearly separated, and objective reasoning becomes much easier (Halperin & Heath, 2020, p. 10). The general aim for positivism is to eventually describe the observable world into laws and truths. However, the disadvantage of a positivist approach is that it tends to downplay the causal mechanisms at work (Gerring, 2007, p.5). While this approach emphasizes the importance of a theory and its accurate prediction of outcomes, a full description of reality and the causal mechanisms might be beside the point.

On the other side of the spectrum is the interpretivist philosophy: this is based on an anti-foundationalist perspective that stresses the importance of a constructed reality where true objectivity is impossible. Although the existence of a natural world is not necessarily denied, the social world would not exist without our interpretation of it (Halperin & Heath, 2020, p. 10). Theories are simply too simplistic to generalize across different contexts, and in this view, positivists overestimate their capacity to truly interpret objective facts. The ontology and the epistemology of interpretivism and positivism is therefore different.

In the context of explaining phenomena in political science, scholars often turn to history. The facts that are gathered are never truly objective, it is always “theory-laden” (Thies, 2002, p. 353). Although there are some undisputed facts, the interpretation can be theory-driven, but not necessarily theory-determined. As for this study, the epistemological framework would probably place it in an interpretivist corner. Still, although the framework is not a mathematical certainty and follows a certain path that may only be applicable to one case, this case study has a positivist character as it does try to make a prediction based on theories that are mentioned in the hypotheses. Essentially, this research is based on “pragmatic positivism” (Odell, 2001, p. 162). As a pragmatic positivist approach, this thesis describes both manifest and latent events that explain a broader phenomena. For manifest events, the significance and weight of these historical facts are interpreted and added to the case made. This also means that the theories and evidence described are not merely imported from another source, but considered

skeptically. A comprehension of the facts requires some interpretation, but this does not mean all observations are anti-foundationalist. So, in this sense, this research is positivist, but with a skeptical interpretation of the “facts” (Thies, 2002).

3.2. Case study

This research will explain a single case in a qualitative manner. A case is a “single instance of an event or phenomenon” (Odell, 2001, p. 162). However, a case involves multiple observations, and qualitative analysis can provide an analytical study of these observations (Thies, 2002, p. 353). The question is: how far can these conclusions then reach? According to Popper, social science is also, in the end, about both conjectures and refutations (1963, p. vii). This means that there is often a “lightbulb moment” and a “skeptical moment” in science (Gerring, 2007, p. 39). Social science tends to focus on the latter, but conjectures in single-case studies matter to. Single case studies are very useful when a phenomenon is encountered for the first time or being viewed in an entirely new light (Gerring, 2007, p. 40). Accordingly, this thesis looks at the theories of neopatrimonialism and localization, applies these theories to the developments in the Chilean copper industry. This research explains a single case, searches for a pattern in the outcome based on empirical findings, and uses this to create a heuristic framework for further research. The focus of this research is on the outcome, and “explaining-outcome studies often have theoretical ambitions that reach beyond the single case” (Beach & Pedersen, 2013, p. 19). So, although this research stays explorative, it does permit the usage of these abstract conclusions on other cases.

The causal strength for a single case study is often stronger than a cross-case study, because the emphasis is on the understanding of the mechanism (Gerring, 2007). There is, however, a trade-off between external and internal validity, as the conclusions of a case study are harder to transfer to other cases as well (Gerring, 2007, p. 43). Instead, the power of a case study is its in-depth analysis of a narrow selection of phenomena, while quantitative studies may be notoriously shallow. Still, Gerring (2007) notes that the case study “is best defined as an intensive study of a single case (or a small number of cases) with an aim to generalize across a larger set of cases of the same general type” (p. 65). Accordingly, while this case study explains the single case with high internal validity, the external validity is not always valid. This does not mean, however, a transferable heuristic framework cannot be constructed. This heuristic framework conspicuously explains the causal mechanisms at work within one case, that would be hard to find while investigating multiple cases. In the end, the goal of this case study is to explain the outcome of a case that may be applicable to other contexts and events as well.

While case studies are used for hypotheses-building purposes too, this thesis will be constructing a theory based on established, but hitherto separated theories. Based on the

outlined theoretical framework, some expectations are formulated that concretely estimate an outcome. This theory is not necessarily restricted to this single case. The hypotheses serve as guidelines for the research and provide scope and direction. This is an y-centered, explaining outcome case study and has two hypotheses based on the expectations of the theoretical framework.

In the context of this case, the regulation of the copper industry in Chile, this framework can be used to research other cases that have a similar structure of the economy and a similar domestic interest constellation. As explained in the introduction, Chile's regulation of the copper industry represents a deviant trajectory: although the Washington Consensus was in full swing during the 1980s and 1990s and especially targeted state-owned enterprises, and the Chilean government had a sharp neoliberal policy paradigm, the outcome deviated from common sense (Bennett & Elman, 2007). Although the Washington Consensus was not ignored in Chile, it was not (fully) applied to the regulation of the copper industry. The general model of norm diffusion therefore does not fully explain the case itself, and other variables must be added to explain the outcome (Gerring, 2007, p. 106).

The single case is the Chilean copper industry, and the time period is 1973-2019, divided into three separate phases. These three phases are distinct in their social, economic and political dynamics. This gives the opportunity to closely examine the differences between these phases and to examine under which circumstances the hypotheses can be confirmed or disconfirmed. This will help tie the theories together to form a more comprehensive theory. This thesis tries to explain the different interests of actors that construct a system of localization that shapes the transmission of an international norm. Although the thesis has some deductive elements and borrows from previously published theoretical work and observations, this thesis will generally use an inductive approach, as the goal is to identify patterns and regularities from the observations and measurements. From this, some tentative hypotheses can be derived (Halperin & Heath, 2020, p. 32). These hypotheses set out conditions under which the approximation of the international norm becomes more likely. In this process, the aim is also to shed light on a newly developed theory, and to put "concrete flesh on the bare bones of an abstract idea" (Odell, 2001, p. 163). This case study therefore is an illustrative case study, that explains a deviant trajectory.

3.3. Hypotheses and operationalization

The dependent variable is the regulation of the copper industry. As is deduced from the theoretical framework, the expected outcome of the influence of the Washington Consensus is full privatization of the copper industry. Instead, a hybrid form of regulation appeared in the 1980s, materialized in the 1990s and continued throughout the 2000s. Therefore, we can use

government policy regarding the regulation of the copper industry as a proxy for the level of privatization of the copper industry. Finnemore & Sikkink (1998) define a (international) norm as “a standard of appropriate behavior for actors with a given identity” (p. 891). As discussed in the theoretical framework, a norm may be diffused through norm localization, as described by Acharya (2004) and Eimer et al. (2016). The domestic constellations matter in this system of norm localization. Privatization of the copper industry, in this instance, is viewed as an approximation of the international norm. In opposition to this, state ownership of the copper industry is perceived to be a deviation from the international norm. For the broader industry, higher production and a larger relative presence of private companies as an outcome means an approximation of the international norm, while higher relative presence of the public enterprises means a derogation to the international norm.

In this system of norm localization, two domestic interest constellations were highlighted in the theoretical framework: the transnational norm entrepreneurs and the neopatrimonial veto players. The interplay of these two sides shapes the dynamics of norm localization in Chile, and can be perceived as the independent variable. The independent variables (X) consequently influence the dependent variable (Y): the norm localization process. Therefore, the first hypothesis will be:

H1: The outcome of norm localization processes will be closer to the international norm, if transnational actors play a more dominant role in the domestic localization process.

The hypothesis will be confirmed if the transnational actors have more prevalence in the domestic political dynamics and the decision-making procedures. A good indicator for this would be if the transnational actors play a more dominant role in the domestic localization process. These transnational actors are often in the form of norm entrepreneurs. The actors can be identified, and their motivations, interests and power can explain their influence in the norm localization process. For example, if multinational corporations (MNCs) play a more dominant role in the domestic decision-making processes, it is likely that a more relaxed approach to the international norm will be applied. In this case, this means that a far greater liberalization of the copper industry is expected. This outcome would be in the form of more production for private mining companies. A strong piece of evidence for this would be sources citing the influence of these companies on the decision-making procedures and the outcome. To refute this hypothesis, the governance mix of the copper industry should be unchanged, although there is a clear dominance of the transnational actors in the interplay of actors.

In the same system of localization, the second hypothesis will be:

H2: The outcome of norm localization processes will deviate more strongly from the international norm, if neopatrimonial veto players play a more dominant role in the domestic localization process.

The hypothesis will be confirmed if the neopatrimonial veto players have a clear dominance over the decision-making and localization processes. The outcome should be a deviation of the international norm, where liberalization is clearly rejected. An important piece of evidence is the presence of neopatrimonial actors, for example the military, in formal decision-making procedures. They would propagate a policy of nationalization and against liberalization of the copper industry. And because of their formal power, policy might be adopted that reflects their preferences. As argued before, the decisions do not have to be made necessarily within the official (democratic) procedures, as far as this can be observed by desk research.

It is important to note that these hypotheses serve as guidelines. These can also be combined to form a balance where neither sides have a more dominant position, but rather the status quo is maintained through an antagonism of two sides - as mentioned in the theoretical framework.

3.4. Method of inquiry

The technique that will be used is process-tracing. Process tracing is mostly inherent to case studies, and any case study within IPE involves some kind of writing based on process-tracing (Odell, 2001, p. 167). This technique tries to unravel the causal mechanisms that are at play. Although, also in a positivist tradition, it is often impossible to find the real causal mechanism for theoretical and empirical reasons, we can still try to get as close as possible. It is about systematically assessing the workings of a causal process, rather than tracing back a series of events. In this thesis, the political dynamics of the Chilean copper industry are not merely described, but explained and linked to outcomes. Three forms of process tracing are distinguished by Beach & Pedersen (2013): theory testing, theory building (both theory centric) and explaining outcome process tracing (case centric). This research will be building a theory based on existing theories, and tries to detect a relatively simple causal mechanism “across a bounded context of cases” (Beach & Pedersen, 2013, p. 60).

In order to research and explain the mechanisms at play, this thesis will draw from a variety of nonrandom sources. Primary sources include production data, laws, official statements and government documents. Chile has a reasonably transparent governmental archival system, although many are not digitally accessible. Wherever possible, a variety of

primary sources is used to uncover the views of different participants of the event, which can forge a more accurate description of history (Thies, 2002, p. 357). This thesis will also use secondary sources. These include scholarly articles, books, and newspaper articles. This research used international media publications, such as *the Economist*, *Reuters* or *the Financial Times*. Especially scholarly articles are shaped by the author's interpretation, but also present an analytical and often critical perception on the events. The collection of a wide variety sources provide an insight in the political dynamics in Chile from the start of the Pinochet dictatorship. The sources will be critically assessed in the light of other sources and will contribute to an overarching narrative and a connection to the theories outlined.

3.5. Strength and weaknesses

As mentioned before, absolute external validity of a case study is hard to reach. Still, this is complemented with a strong operationalization that would confirm or disconfirm the hypothesis (Odell, 2001, p. 171). This study shows the force field of norm localization and how two antagonized interests constellations contribute to the outcome of policy based on an international norm.

The case study is set up to collect a wide variety of resources. Still, this means that it is not randomly selected, and selection bias is possible. To remedy this, a selection of historiographic resources from different authors and corresponding viewpoints is used (Beach & Pedersen, 2013, p. 124). Although there is not a lack of sources and material, this thesis would be more insightful if interviews would have been held with key actors and experts directly related to the field or direct archival research. However, due to practical constraints (e.g. impossibility to travel to Santiago), this thesis will only draw on primary and secondary sources already published. A direct view into the motivations and incentives of the key actors involved would have been helpful. Though archival research can add primary sources that fill the gaps of secondary sources, "a dogmatic insistence on redoing primary research for every investigation would be disastrous" (Skopcol, 1982, p. 382). Nevertheless, the academic and non-academic body of work - in Spanish and English - on the copper industry is sizable. Although a different interpretation is always possible in the future, these works are reliable and provide a good understanding of the norm and the actors' motivations and interests.

4. Empirical findings

This chapter will be divided into three parts, since there are three distinct phases regarding the governance of the copper industry in Chile (see figure 1, p. 56). As explained in the methodology chapter, these three time periods are distinct in their social, economical and political dynamics. The first phase is marked by the dictatorship of Pinochet (1973-1990). During the 17 years of authoritarian rule, the presence of private mining was very marginal, and CODELCO was equivocally the dominant player. A considerable amount of regulatory foundation was created for the future. The second period, 1990-2000, is generally referred to as the first *Concertación*²-period: democratic political parties, ranging from the socialists to the christian-democrats, joined forces in opposition to the poor-authoritarian conservatives. The coalition won several presidential elections, but still had to cooperate with right-wing members of the National Congress. At the same time, the copper industry saw a growth in the number of private companies. Still, CODELCO remained the largest producer, increased production as well and built three new mines (Lagos, 2018, p. 136). Finally, there was a consolidation period in the copper regulation blend that started at the turn of the century. Although private production still increased, the copper industry's mixture of private and public companies relatively stabilized. This chapter will explain why these developments took place.

4.1. 1970s - 1980s: Pinochet

In 1976, the administration under the dictatorship of General Augusto Pinochet formally founded CODELCO. However, socialist president Salvador Allende (1970-1973) laid down the foundations of CODELCO when he decided to nationalize the copper industry in 1971. After the 1973 coup d'état that concluded with the death of Allende and the ascension of Pinochet as president of a new *junta*-led Chile, the General sought to reform the economic system drastically.

4.1.1. Norm:(pre-)Washington Consensus

To materialize this economic reform, Pinochet eventually turned to neoliberal economic theory. The ideological origins of neoliberalism lay in the monetarist/structuralist debate of the 1950s and 1960s that was especially dominant in Latin America. Structuralists economists promoted

² In English: "coalition."

the Import Substitution Industrialization (ISI)³ strategy, where the state plays a very active role in protecting the domestic market from imports and foreign dependency, while stimulating (nationalized) industrialization. Monetarist economists, on the other hand, saw ISI as a problem on the long-term because it critically increased government debt and decreased private incentive and innovation (Silva, 1991, p. 389). This neoliberal norm was the *de facto* precursor to the Washington Consensus: supply-side economic reform with rapid privatization and liberalization. This was a radical change in economic thinking at the time, and for many neoliberal economists, a solution for the perceived destruction of statist economic policies. The economic policy prescribed a monetarist *laissez-faire* system: privatize state-owned industries, reduce government spending, reduce taxes, promote free trade and deregulate the economy (Brender, 2010). As Teichman (2019) argues, Chile already engaged in “classic” WC policies except “for the fact that privatization excluded the state-owned copper company” (p. 8). In Latin America, this was a profound turn in economic policy vis-à-vis the previously more common ISI strategy, but later became more widespread in the global epistemic community.

4.1.2. Transnational norm entrepreneurs

In this context, a select group of Chilean students were offered economics courses and degrees under the supervision of professor Milton Friedman at the University of Chicago during the 1950s and 1960s. Around 26 students were awarded with a PhD from the University of Chicago, and 74 students received an MA (Brender, 2010, p. 113). Not all economists were trained at the University of Chicago, but a network of ideologically motivated economists educated at American universities travelled back to Chile with the opportunity to implement their Chicago-school theory into practice (Silva, 1991). These economists became known as the “Chicago Boys.” Meanwhile, the MNCs who used to have a dominant position in the Chilean copper industry did not plan to return to Chile very soon as the Allende administration expelled four major copper companies without compensation in 1971 - for reasons of “excess profit” (Fortin, 1975).

4.1.3. Neopatrimonial actors

Like other Latin American nations of the time, Chile had a long military tradition based on strong Prussian principles. The military was highly professionalized, developed a strong allegiance to the constitution and the officer corps was notoriously out of touch with civil society. This strong belief in constitutionalism was especially relevant to the planning of the

³ Some Latin American countries, mostly notably Argentina under the supervision of economist Raul Prebisch, adopted this economic policy extensively (Prebisch, 1963). To a lesser extent it was also applied to Chile in the 1950s and 1960s.

1973 coup d'état. Anti-Marxist sentiments made the large majority of the officer corps especially opposed to socialist president Allende, who they thought of as a violator of the Constitution - also when he decided to nationalize the copper industry in 1971 (Remmer, 1989, p. 153). After the seizure of power, the staffing of the Pinochet administration was inherently linked to the military: minister positions were distributed among Pinochet loyalists, which were often high-ranked officers. The military system during this period was "highly personalized, but nonetheless institutionalized" (Remmer, 1989, p. 156).

At least at the beginning of the Pinochet dictatorship, there was no natural antagonism between the labor unions and the military actors. Pinochet tried to get union leaders on his side, and in 1975 even travelled to the copper mines to address the workers. There was a certain internal division between christian-democratic and rightist union members. One (unofficial) labor union representative met frequently with Pinochet and his ministers during his reign, although especially the christian-democratic union faction did not approve of this (Klubock, 2004, p. 216). The eventual appointments in the mining industry were based on patronage and connections with the military regime. At the same time, the *junta* respected the mines and their work for patriotic reasons, as copper was still Chile's most important source of income (Klubock, 2004).

4.1.4. Localization

The ruling military actors briefly experimented with corporatists and nationalist economic policies at the start of the dictatorship (Klubock, 2004). After a year of high inflation and unemployment rates, the government changed course. Admiral Merino, head of the economic ministry and commander-in-chief, asked the Chicago Boys to collaborate with the *junta*. In the early years of the Pinochet administration, some technocratic economists were appointed in the cabinet using family connections close to Pinochet (Remmer, 1989, p. 154). Over the course of the 1980s, the military participation in the Chilean cabinet began to decline in favor of civilian rule. In part, this was a survival mechanism for Pinochet: when both military and civilian actors kept their power, and a fine balance was sought, he would be uninterrupted in his presidency (Biglaiser, 2003, p. 600, Remmer, 1989). Both sides were united in a conviction to keep Chile protected from a looming "marxist dictatorship," and a shared belief in tradition, conservative cultural values and nationalism (Allende, 1988, p. 66). The military concentrated their power in some key administrative positions, but divided the posts with the technocratic economists. This meant that Pinochet's personal rule became relatively stable. The personal power of Pinochet was crucial, and a system of patronage was built around him. Teichman (2001) describes this as a "tight personalistic relationship among technocratic and nontechnocratic members of the policy core" (p. 94). The policy changes were created outside of the state and entered the state

through these patronage relationships (Teichman, 2001). The alliance between the technocratic and military elite changed Chile's society "from above," and because they achieved purely economic aggregate successes, the regime was legitimized by a large part of the middle class population (Silva, 1991, p. 409, Rabkin, 1993, p.8). In a way, this was a compromise between the two camps, based on a strong faith in conservative values, that forged a relatively stable and durable dictatorship⁴.

This did not mean, however, there was everlasting peace within the ruling elite. During the military rule, cleavages between the (pro-Chicago) cosmopolitan technocrats and the nationalist military elite started to arise (Allende, 1988, p. 68). Especially the copper industry was a source of friction, because the norm of economic free-market orthodoxy prescribed full privatization of state industries. As mentioned before, the military actors were initially not necessarily ideologically inclined with neoliberal orthodoxy (Brender, 2010). However, they permitted this because it maintained their position through international connections and foreign capital - key to Chile's eventual economic "miracle" (Remmer, 1989, p. 162)⁵.

The answer to the question why the Chilean copper industry was never nationalized lies in a different tradition: while the technocrats saw the copper industry as a cumbersome and outdated institution that needed some foreign investment and privatization, the military actors saw this as a potential violation of their sovereignty. Since copper was still the most important source of revenue for the military regime, and a certain nationalistic pride contributed to the protection of this highly valued commodity, keeping the entire industry in government's possession was the preferred policy (Allende, 1988). The Constitutional Tribunal affirmed this opinion, arguing that the copper reserves are "strategic zones"⁶ for the state (Fernandois, 2009, p. 153). Moreover, the military actors argued that CODELCO's outdated technology would not have made it possible to compete with the modern technological advances foreign mine companies had made, so that competition with international companies would be futile (Fernandois et al., 2009, p. 149). Still, the technocratic elite favored privatization, but it never happened: the parity created stability. Former prominent mine minister (1980-1981) and "Chicago Boy" José Piñera⁷ wrote that privatization would have initiated a "holy war" between the two sides (2004, p. 296).

⁴ Of all the modern Latin American dictatorships, the longevity Pinochet's rule is only second to that of Paraguayan dictator Alfredo Stroessner (1954-1989).

⁵ Milton Friedman coined the phrase "Chilean Miracle." It refers to the sharp economic growth during the Pinochet years, but debate exists whether strict neoliberal economic policy can be credited for this growth (Kurtz, 2001).

⁶ "*Zonas estratégicas.*"

⁷ Elder brother of current president Sebastián Piñera.

At the same time, the labor unions of the copper industry demanded civil freedoms. The right to strike was restricted severely, and a “climate of terror and fear” emerged (Klubock, 2004, p. 216). The copper mines were afraid that the wide-scale neoliberal economic reforms would eventually lead to the privatization of the copper industry too (Vergara, 2010, p. 187). The principal labor union, CTC, successfully organized a national strike in April 1983 that agitated against the system of economic and social repression (Vergara, 2010). CTC’s strike had political consequences, as it showed the fractured unions were able to oppose the military authority (Garréton, 2003, p. 132). Still, one of the main motivations for the copper miners, and their opposition to the government, was to keep CODELCO in government’s hands, even if it was run by a General. The workers saw other previously state-owned enterprises privatized, and feared the same would happen to the copper industry. Especially after the implementation of the later mentioned 1982 and 1983 laws on concessions, there was a pushback against privatization from the unions (Klubock, 2004).

As a result of this tug-of-war between the nationalistic military authorities and the cosmopolitan Chicago-trained economists, and the reduced power of the MNCs and the labor unions, a framework of regulation was established during the Pinochet years. Although Pinochet was the principal ruler, it is important to note that a comprehensive legal-bureaucratic rule existed. In 1974, one year after the coup d’état, the government implemented the executive *Decreto 600* (DL600)⁸. This provided foreign investors with protection from tax invariance - it made the rules for foreign investors similar to those of domestic investors. “A level playing field” - as the technocracy put it (Fernandois et al., 2009, p. 133-134). This was a general rule, and did not specifically apply to the copper industry - and nationalization was upheld. Figure 1 shows how this law materialized: a relatively small spike in CODELCO’s production can be seen.

As previously mentioned, Chile’s historical legacy and the army’s disapproval of foreign ownership mattered for the continued nationalization of the copper industry. But not only historical legacy was a relevant aspect of the military’s strong support for a nationalized copper industry. A secret law passed in 1958, and critically modified in favor of the military in 1973 and 1975, guaranteed 10% of the revenue went to the military, with a minimum amount of US\$180 million annually (Ruiz-Dana, 2007, p. 12-13)⁹. *Ley 13196* or the *Ley Reservada del Cobre*¹⁰ was only declassified in 2016 and it was finally repealed in 2019, although all the copper revenues

⁸ DL600 was repealed in 2016, but immediately replaced with a very similar law (*Ley 20848*) that includes an updated legal framework.

⁹ The amendments in 1973 and 1975 significantly increased the contribution, as it was no longer a tax of 15%, but a direct contribution with a minimum amount.

¹⁰ “Restricted Law on Copper.”

directed to the Ministry of Defense are only to be fully eliminated in 2029. Specifically, “10 percent of *gross revenues* of CODELCO’ were to be directed to finance military purchases by the Chilean armed forces *without* the standard overseeing (formal accountability by parliament and the general comptroller of the country” (Solimano & Guajardo, 2018, p. 206)¹¹. *Ley 13196* was outside the formal procedures of democratic processes, and survived even long after the end of the Pinochet dictatorship (Radseck, 2007).

Another result of the compromise between the technocrats and the military actors were the *Ley Orgánica Constitucional sobre Concesiones Mineras*¹² and the general Mining Code. The 1980 Constitution¹³ unambiguously stated that the “state has the absolute, exclusive, inalienable and indefeasible authority over all the mines”¹⁴ (Bulnes, 1999). However, the 1982 organic law makes clear that CODELCO remains nationalized, but concessions to private companies are from then on permitted. Concessions were granted by a court. The main motive behind this law was clearly to gain more foreign currency to pay for foreign debt the government had accumulated. The law made sure that private companies were even permitted in the game of copper investments (Lagos, 1997). In 1983, the Mining Code was added to the mix, and further established an institutional and regulatory framework for the mining industry based on concessions given by the state. The state would charge a very minimal amount for a mining concession. Moreover, if the Chilean government were to nationalize the existing private mines today, the state would have to compensate the private companies (Solimano & Guajardo, 2018). These pieces of legislation are still highly relevant today, and set the tone for the framework of regulations and a mix between private and public ownership in the coming decades (Lagos, 1997, Solimano & Guajardo, 201).

In 1971, the Allende administration expelled the major (American) copper companies without compensation. In 1974, after the coup d’état, the copper companies were represented by the US government (with support from the Bretton Woods institutions IMF and World Bank) in New York, and a deal was struck with the Chilean *junta* to compensate the American copper companies Anaconda, Kennecott and Cerro Corporation for US\$414 million (US\$2.1 billion in 2000), 28 percent more than the original value (Allende, 1988, p. 70, Lagos, 2018, p. 144). The

¹¹ This commodity-to-military transfer union is not unique, and is applicable to other countries too. For example, in Venezuela, another Latin American country with a strong military tradition, oil revenues directly finance the military (Harborne, Dorotinsky & Bisca, 2017).

¹² “Organic Law on Mineral Concessions.”

¹³ Adopted by a controversial plebiscite at the time, the same 1980 Constitution is still in place today. A plebiscite on a new Constitution is scheduled on 25 October 2020.

¹⁴ Original text: “*El Estado tiene el dominio absoluto, exclusivo, inalienable e imprescriptible de todas las minas.*”

technocratic elite then desired that MNCs were granted full access to the copper market. This was partly granted through the concession laws of 1982 and 1983, though multinational corporations did not start to invest heavily in the copper sector until the end of the 1980s. This was mostly due to the fluctuation in the copper prices, which made risky investments in new mines unattractive (Moguillansky, 1998, p. 19). During the second half of the 1980s, the copper price stabilized, and MNCs began to increase their investment. The first major investment by a MNC followed in 1988 by the Australian copper firm BHP (Haslam, 2007, p. 1174).

Even within some oppositional political forces, there was a deep wish to keep the copper industry free from privatization. For example, the exiled prominent christian-democratic politician Radomiro Tomic was a fierce opponent of Pinochet, but asked the “president”¹⁵ to modify the Mining Code of 1982 for “patriotic” reasons¹⁶. He wrote that mining policy should not be constructed by a select group of “foreign economists” (Fermandois et al., 2009, p. 150). Taking into account the economic crisis of 1983, the opposition to the Mining Code is a reflection of the deepening doubts within the population about the effectiveness of neoliberal economic reform.

4.1.5. Analysis

As mentioned in the methodology chapter, the hypotheses predict that the norm localization process will be closer to the international norm if transnational actors are more dominant, while it will be deviate more from the international norm if the neopatrimonial veto players play a more dominant role in the domestic policy processes. The military (patrimonial) elite had almost absolute authority, but had to give some leeway to the technocratic elite as well - the transnational norm entrepreneurs - and debate emerged about privatization and nationalization. They constructed a regulatory framework to attract foreign investment in the copper industry, but this remained partly a facade, at least concerning the copper industry. With regards to the hypothesis, the international norm was partially adopted through regulation, but not fully because of the pushback from neopatrimonial veto players. As seen in figure 1, as a result of the sharp antagonism between the transnational norm entrepreneurs and the neopatrimonial actors, a fine balance was created that resulted in little growth for the copper industry. The hypotheses are therefore confirmed, as the dominance of both actors created a localization system that both permitted and rejected the international norm.

¹⁵ Coming from an exiled oppositional heavyweight, calling Pinochet “president” was seen as a surrender to his authority.

¹⁶ CODELCO named a mine in Radmiro’s honor in 1997.

4.2. 1990s: Concertación I

The Pinochet dictatorship formally ended in 1988 with a plebiscite¹⁷. Although Pinochet remained confident to the end the Chilean people would vote to extend his term until 1998, 56 percent voted “no” and he decided to step down in 1990. Democratic elections elected a new president in 1989 and a new National Congress in 1990. The new christian-democratic president Patricio Aylwin was put forward by the united opposition of *Concertación*, a selection of pro-democratic parties, many of which still exist today and have had considerable influence on post-Pinochet politics. Christian-democratic president Eduardo Frei Ruiz-Tagle succeeded Aylwin in 1994 and remained in office until 2000 (Huneus, 2001)¹⁸.

4.2.1. Norm: Washington Consensus

The Washington Consensus (WC) grew out of the neoliberal “paradigm shift” that was a reaction to Keynesian economic policy in the 1970s. Its rise coincided with the end of the Cold War, and the start of “Third Way” political and economical thinking. The term “Washington Consensus” was first coined by John Williamson, an economist employed at the Washington D.C.-based think tank *Institute of International Economics*. Still, the term did not emerge out of thin air: the international economic epistemic community was still very much focused on the neoliberal reform of the 1980s. Williamson claimed he was actually referring to a list of reforms that some Latin American governments already implemented in the 1970s and 1980s, including Chile. As was shown, the influence of the “Chicago Boys” was crucial for the implementation of this model in Chile, and the consequential global propagation of this norm. The proponents of the WC assumed that monetarist and neoliberal would automatically lead to stabilized and egalitarian growth on the long term (Krugman, 2008, p. 31). The original WC included ten policy points: disciplined fiscal policy, redirection of public spending, tax reform, moderate interest rates, competitive exchange rates, trade liberalization, deregulation, protection of property rights, liberalization of FDI and privatization of state enterprises (Williamson, 1989). Essentially, according to Joseph Stiglitz (2008) and others, this is not simply an objective economic reform, but rather a political agenda based on “market fundamentalism — the belief that markets by themselves lead to economic efficiency, that economic policies should focus on efficiency” (p. 46). As Washington, D.C. is the location of the World Bank and the IMF, the Consensus quickly gained traction. But rather than a new policy paradigm or transnational norm, the WC was a redefinition and recapture of the previously called “neoliberal policies” (Naim, 2000, p. 511).

¹⁷ A “top-down referendum” - a popular vote initiated by the government instead of the electorate.

¹⁸ Eduardo Frei Ruiz-Tagle is the son of former president Eduardo Frei Montalva (1964-1970)

4.2.2. Transnational norm entrepreneurs

As mentioned in the previous period, the investments in the private mining sector started to increase in the late 1980s, but materialized in the 1990s, when MNCs inaugurated new mines in northern Chile. Also, because the renewed political stability made investments far less risky, foreign investments increased. Combined with the (tax) heritage of the Pinochet-era that favored foreign capital, multinational mining companies saw Chile as a new source of income, as the mines could provide copper for the growing global economy. The MNCs managed to have higher productivity of their mines relative to those of CODELCO, especially because these foreign private firms had more experience with mining and enjoyed more advanced technologies (Valenzuela, 2004, p. 130). As a consequence, the influence of large MNCs on domestic politics also increased. These corporations were, in turn, domestically represented by SONAMI, an association that represents different mine producers since 1883. Later, in 1998, *Consejo Minero*¹⁹ was founded - this trade association mostly represents the largest MNCs active in Chile, such as Anglo American, BHP, Rio Tinto and Glencore (Schneider, 2004, p. 48). With the arrival of democracy, the previously influential technocratic elite of the Pinochet administration disappeared. Many of the economists of the Pinochet administration regrouped in the think tanks *Centro de Estudios Públicos* (CEP) and *Libertad y Desarrollo*²⁰ (LyD) (Aninat, 2010).

4.2.3. Neopatrimonial actors

In Chile, although the transition to democracy was relatively peaceful, the military still held some key positions in the new democratic society, with considerable influence. Garréton (2003) argues that Chile never really became a democracy in the 1990s. Essentially, “this was an incomplete transition that gave rise to a limited, low-quality democracy riddled with authoritarian enclaves” (p. 146). After the no-vote in the 1988 plebiscite, the opposition and the Pinochet government negotiated about new amendments to the 1980 Constitution. The period that followed resembled more the “transition from one administration to the next that occurs in well-established democracies than a transition to democracy” (Heiss & Navia, 2007, p. 163-164). By the use of threat of sheer physical force, the military actually kept a great deal of their veto power. The army flexed their muscles in 1990 and 1993 with a show of force on the streets of Santiago (Hunter, 1998, p. 310-311). Because of this intimidation, presidents Aylwin (1990-1994) and Frei (1994-2000) receded their plans to hold the military actors accountable for their behavior during the dictatorship (Hunter, 1998, p. 309). Pinochet stayed commander-

¹⁹ “Mining Council”

²⁰ For example, one of the founders of LyD was the prominent neoliberal economist Hernan Büchi, former minister of Finance (1985-1989) and presidential candidate in support of Pinochet in 1989.

in-chief of the armed forces until 1998, and senator until 2002²¹. Moreover, the senate remained dominated by right-wing members who were largely allies of the military, so any law was to be constructed with a compromise to these actors (Albertus, 2019)²². Because of Chile's constitutional design, the *Concertación* parties never received a senatorial majority (Fernandez & Vera, 2012, p. 12). The senate was composed of elected members, but four members are appointed by the National Security Council (COSENA), representing each branch of the military (Llanos & Sánchez, 2006, p. 138). The neopatrimonial framework built under the command of Pinochet was therefore difficult to dismantle entirely, even if there was political will (Galleguillos, 2001). At the same time, the military actors faced competition in public support. During the 1988 plebiscite, 44% of the electorate still supported Pinochet, but because the *Concertación* government was clearly better at improving social indicators, popular support for the military declined (Hunter, 1998). In the copper industry, some formal ties with the military were quickly erased when the *Concertación* government decided in 1991 to remove military actors from the board of CODELCO. However, the informal structures stayed in place, and the previously mentioned law that transferred 10% of CODELCO's revenues to the armed forces was not abandoned.

As mentioned before, Pinochet's government severely restricted the freedom of labor unions and their right to organize properly, or only under conditionality of the *junta*. Soon after, the new democratically elected government did permit strikes and collective bargaining. The position of CODELCO's unions inside the decision-making procedures therefore partly improved (Klubock, 2004, p. 252). At the same time, the arrival of private investments and flexibilization of the entire industry meant that there was more pressure on CODELCO to increase its efficiency. Wages in the mining sector were on average two times higher than in manufacturing and agricultural, so there was no lack of labor supply (Ebert & La Menza, 2015, p. 110). During the 1990s, CODELCO hired more contracted workers than before, and union membership declined (Valenzuela, 2004, p. 130). This increased their efficiency, but also meant that the power of the unions declined. However, relative to private companies, the state copper company hired less contract workers. In 1995 "21.9 percent of the labor force employed in CODELCO's mines were contract workers, compared with more than 52 percent in private companies" (Vergara, 2010, p. 192). According to Frank (2002) CODELCO also enjoyed a stronger historical legacy ties to the government with a symbolic value, where private copper management can convince unions in more "technical" and productivist terms than the state is

²¹ In 1998, a Spanish magistrate arrested Pinochet on charges of human rights violations in London under universal jurisdiction (because of Chile's amnesty laws). He was released shortly afterwards, and died in 2006 before a court case could take place (Huneus, 2001).

²² The Armed Forces too were kept out of civilian control for most of the 1990s (Weeks, 2001).

able to (p. 43). In the end, this meant that the unions at the private firms had less bargaining power than their CODELCO counterparts, where old structures were maintained or expanded (Vergara, 2010). For example, the union FTC²³ had (and still has) veto power over management reforms and holds a seat in the board of CODELCO (Nem Singh, 2014, p. 340).

4.2.4. Localization

During the Pinochet government, some key neoliberal “Chicago Boys” economists changed the Chilean government into a technocratic state. In the 1980s, an intellectual alternative to this orthodoxy began to arise. The think tank CIEPLAN was founded as a policy-centered counterweight to the neoliberal orthodoxy: it provided economical analysis and policy based on christian-democratic principles, and monitored the activity of the Pinochet government. The members of this group were often educated at universities in the US (Silva, 1991, p. 407). As Silva (1991) argues, these CIEPLAN economists stepped in the technocratic void left by the Chicago Boys: many of the CIEPLAN members served as ministers or high administration officials during the *Concertación* governments. One of the most prominent former CIEPLAN experts was finance minister Alejandro Foxley (1990-1994) (Orihuela, 2013, p. 141). Although they promoted a more left-wing position regarding the entire economy, the copper industry was seen as an extension of the developmentalist agenda of Chile, and in concurrence with “Third Way” politics. The economists of *Concertación* and CIEPLAN believed it was time to find a consensus between the monetarist and structuralists debates that were dominating the “policy debate pre-Pinochet” (Orihuela, 2003, p. 142).

The political dynamics of the times could be described as compromising, as congressional coalitions were important institutional actors at the time. As for the first eight years after the return to democracy, bargaining and negotiating behind closed doors were the main tools for compromise in the Chilean Congress (Carey, 2004, p. 22). This significantly shifted the median political orientation of the *Concertación* government to the right, as senators loyal to Pinochet and the military still had a majority in the senate (Carey, 2004). An illustration of this is the passing of an important law related to the copper industry in 1992. Because of the declining copper price, calls for privatization of CODELCO and the smaller state-owned copper company ENAMI intensified at the start of the 1990s. In 1992, a compromise was formed in the Senate, where CODELCO was allowed to form joint ventures with other MNCs. This law, *Ley 19137* was pushed by the right-wing senators because it made CODELCO future-proof: it increased CODELCO’s chance of survival because of mounting pressure to privatize (Moguillansky, 1998, Haslam, 2007).

²³ CTC was renamed FTC in 1992.

But this law did not create peace. Combined with a declining worldwide copper price, calls for privatization of CODELCO intensified. Although a larger part of the population preferred nationalization, neoliberal pressure groups like SONAMI pushed for privatization. In 1993, a CODELCO trader mistakenly bet on futures and burdened the company with a loss of US\$200 million (Webb, 1994). This scandal provided welcoming fuel for neoliberal arguments about the inability and inefficiency of public enterprise (Haslam, 2007, p. 1157). SONAMI published in its weekly *Boletín Minero* arguments for reduction of public spending in mining, and a defense of Pinochet “social market economy” (Haslam, 2007, p. 1157). As a consequence, from left to right, there was a conviction that there was at least a drastic need to restructure CODELCO in order to make it as efficient as possible. The fierce competition with private firms made it necessary to invest in new technologies and market-led efficiency, and the copper company made considerable progress in its productivity. Also, to avoid conflicts with the pro-nationalization labor unions of CODELCO, the *Alianza Estratégica* was formed in 1994: an agreement between managers and labor unions to address the problems of CODELCO’s competitiveness. This was a notable success: it improved relations between the management and workers, and there were no major strikes the following years, in contrast to the private mining industry (Nem Singh, 2014, p. 340, Vergara, 2010). Decentralization of the administration, modernization of management, long-term investment plans and associations with the private sector were all elements of the strategy to compete with the private industries (Haslam, 2007).

In the meantime, private investments grew and new mines were launched. The peak of private investment was reached in 1997. There is no doubt that the business friendly regulation under Pinochet’s Mining Code and DL600 resulted in the private investments in the copper industry in the 1990s, and “has made Chile one of the world’s most attractive mining destinations for foreign investors and investment” (Henstridge & Roe, 2018, p. 177). In 1993, DL600 was adapted with minor changes, signaling Congress’ willingness to facilitate private investments for years to come (Meller & Simpasa, 2011). The Mining Code ruled that foreign investors had the same property rights as Chileans, while DL600 gave the opportunity for MNCs to deduct taxes to “adjust for the depreciation of imports deemed investments in the mining sector” (Nem Singh, 2010, p. 1421). This deduction has been used by the private companies with the sole exception of Australian firm BHP²⁴. In the 1990s, MNCs earned billions of dollars without paying any taxes (Riesco, 2005). There was, from the *Concertación* government, an inability to address the large-scale tax avoidance of the private copper companies. For example,

²⁴ The large MNCs declared themselves *Sociedades Contractuales Mineras*, a category intended for medium-sized mines where a special tax scheme gave them tax deductions. This was based on accelerated depreciation of their mines (Riesco, 2005).

in 1998, at the height of private investment in the copper industry, MNCs paid the lowest share of fiscal revenue to the state in Chilean history: 2.9% (Meller & Simpasa, 2011, p. 20). According to many academics, MNCs simply paid too little taxes - and this would be a major source of debate in the 2000s (Fermendois et al., 2009, p. 164). But discussions about this did not prominently enter the public stage in the 1990s - a decade focused on growth and post-dictatorship economic expansion.

4.2.5. Analysis

The hypotheses state that the norm localization process will be closer to the international norm if transnational actors are more dominant, while it is expected to deviate more from the international norm if the neopatrimonial veto players play a more dominant role in the domestic policy processes. Because Pinochet did no longer have formal power, and the common threat of communism faded away after the Cold War, the previous reciprocal partnership between the neopatrimonial and transnational norm entrepreneurs disappeared. In the senate, there was a right-wing block that had considerable veto power. Because of the still-existing, but flexible power of the neopatrimonial forces (the still influential labor unions and military actors), nationalization of CODELCO was avoided. The norm entrepreneurs (MNCs and neoliberal epistemic communities) considerably saw their influence grow after the fall of Pinochet. “Big business” was clearly able to influence politics in the 1990s through think tanks and mining associations. In sum, the localization of the WC during this time period did not contain the full privatization of the copper industry. But, MNCs were given more policy space than ever, and the copper industry liberalized considerably, as is shown in Figure 1. Most notably too, the first *Concertación* government benefited from the state mining productivity too, as it was able to finance social spending goals and partly compensate for the tolerant tax regime enjoyed by MNCs (Haslam, 2011, p. 1155).

4.3. 2000s: Concertación II

From 2001 onwards, we can see a small rise in the production of private copper production, but a less steep climb than during the 1990s (see figure 1). Until 2010, the political landscape was marked by two more *Concertación* governments. This time, however, the elected presidents were not from the christian-democratic, but the social-democratic party: Ricardo Lagos (2000-2006) and Michelle Bachelet (2006-2010) (Aninat, 2010). Since 2010, Chileans have elected the right-wing president Sebastián Piñera twice (2010-2014, 2018-currently) and re-elected Bachelet once (2014-2018).

4.3.1. Norm: (post-) Washington Consensus

In the 2000s, the Washington Consensus was still very much propagated by the Bretton Woods institutions and a belief in “market fundamentalism”. Especially because of the fall of communism, the policies of the WC were widely implemented - on a worldwide scale. During the 1990s, some countries saw a credit crunch and countries like Bolivia experienced a “lost decade,” which made some economists doubt about the effectiveness of the WC. According to Stiglitz (2008), chief economist for the WB from 1997 to 2000, the 21st century also marked the emergence of a post-Washington Consensus. This meant there was less consensus about a “one-size-fits-all” approach of liberalization, privatization, and stabilization, but also a more nuanced approach, albeit still with a conviction of the neoliberal growth model. In this sense, the neoliberal model was not abandoned, but rather countries recognized “that globalization has to be politically legitimized, democratized and socialized if the gains of the economic liberalization process are not to be lost to its major beneficiaries” (Higgott, 2000, p. 123).

4.3.2. Transnational norm entrepreneurs

Private mining investment peaked in 1997. Since 2001, no new private mines have been inaugurated. Similar to the 1990s, the interests of the mining industry were domestically represented by the *Consejo Minero* and SONAMI. Neoliberal think tanks like LyD and CEP continued to press for greater liberalization of the economy, along with the still prominent technocratic elite of the Pinochet era.

4.3.3. Neopatrimonial actors

In 2005, a major constitutional reform was approved. According to President Lagos, it was the final step in getting rid of the “authoritarian enclaves” in Chilean politics (“Democratic at last,” 2005). The amendments significantly reduced the influence of these neopatrimonial actors because the “designated” or “institutional” seats in the senate were removed, which included military actors. In 2006, 20 new senators were elected, making the senate fully democratically

elected. Still, until 2013, the lower house was elected by a binomial system, which meant an overrepresentation of right-wing parties²⁵. The amendment also restored the president's ability to dismiss commanders in chief of the armed forces (Siavelis, 2016)²⁶. However, these amendments failed to get rid of one of the most striking formal institutional aspects of Chile's political-military dynamics: the law that transferred 10% of CODELCO's revenues directly to the armed forces. In the 1980s, the total revenue from the copper industry averaged around \$180 million and in the 1990s around \$250 million yearly. In the 2000s, this was even more, because of the rising copper prices, which amounted to an average revenue of \$650 million every year (Radseck, 2007, p. 209-210). Furthermore, Siavelis (2016) argues that the "informal institutions," based on patronage and clientelism, still existed after the constitutional adjustments - two distinct aspects of neopatrimonialism. These informal institutions consisted of bargaining power of smaller parties, which still lead to a disproportionate senatorial representation of right-wing parties. From this, "fundamentally challenging the market economic model were strictly off-limit and could provide a potential rationale for renewed military intervention" (Siavelis, 2016, p. 72). So, although the formal institutional "loopholes" were removed, an informal and a formal system still co-existed.

With the arrival of two social-democratic presidencies during ten years, the labor unions gained considerable political influence, despite the general low membership numbers. According to Aninat et al. (2010) the general union CUT "enjoys workers' support even when it defends the interests of well-paid CODELCO [. . .] workers, adversely affecting the interest of the general working class" (p. 4). As also noted during the 1990s, there is a difference between the labor unions in the private mines and CODELCO's mines. Because the share of subcontracted workers is much higher in the private mines, the labor unions in the state mines have considerably more influence. Moreover, a strike in one of CODELCO's mines generates massive media attention (Nem Singh, 2010).

²⁵ Binomial voting was unique for the Chilean electoral system: it "established two-member districts with open lists, as voters indicated a preference for one or another candidate on their preferred list. Though voting was candidate-centered, in determining the winner, the total votes for both candidates on any list were first pooled before distributing seats to lists. Seats were then awarded to individual candidates based on their rank on their list" (Polga-Hecimovich & Siavelis, 2015, p. 269).

²⁶ In 2002, future president Michelle Bachelet was appointed Minister of Defense. Her father was a Navy Admiral loyal to Allende, before Pinochet allies tortured and executed him in 1974. Bachelet's appointment therefore had a strong symbolic meaning too, as it represented the civilian's "recapture" of the armed forces (Angell & Reig, 2006, p. 487).

4.3.4. Localization

Combined with the global commodity boom in the first half of the 2000s, the importance of copper for the total economy rose, so it became the center of political attention. In 2005, peak contribution was reached: 23% of the Chilean GDP was attributed to the export of copper. Because of the very low amount of taxes the MNCs paid in the 1990s, there was a sharp public debate in the 2000s about a possible royalty tax for the usage of Chilean natural resources. Between 1993 and 2002, MNCs paid US\$1.7 billion in taxes to the Chilean state, while the companies accumulated US\$2.6 billion in tax credit, which means the state owned the MNCs US\$900 million. In 2004, CODELCO paid taxes equivalent to US\$515 per metric ton of copper produced, while the private sector paid on average only US\$138 (Valenzuela, 2004, p. 130).

In 2002, the American multinational Exxon agreed to sell a copper mine in the Chilean Andes to Anglo American, another large multinational copper producer. The deal attracted major public and consequently political attention because Exxon ran the mine at a loss for the last 23 years, while receiving major tax credits from the government. The smaller state mining company ENAMI intervened, and Exxon agreed to pay more taxes. But the public debate had been settled: the senate formed a mining committee, and in 2004, a law implementing royalty tax was conceived (Riesco, 2005). In the same year, Congress debated a royalty tax. The main arguments against this proposal were that a tax would scare off any investors in the future and would create a populist incentive to tax other sectors that depended on FDI as well. These points were repeated by neoliberal think tank LyD (Fermandois et al., p. 174). *Consejo Minero* and SONAMI applied pressure and were involved with negotiations with lawmakers to reject the royalty bill, but this was ultimately unsuccessful (Aninat et al., 2010). The public exposure became so intense that even the anti-tax legislators in Congress were forced to give way. The royalty was based on the principle that Chileans have to be compensated for the exploitation of the deposits or rents. Smaller mine companies were excluded. When the royalty law was implemented in 2005, it was hailed by the social-democratic president Lagos as a major accomplishment by his *Concertación* government (Fermandois et al., 2009)²⁷. However, the rise in the revenues from the copper royalties were mainly due to the rising worldwide price of copper (Ebert & La Menza, 2015). Also, profits were taxed, not production, which meant that between 2006 and 2015, this royalty tax eventually contributed to 1 percent of total fiscal revenues and 5 percent of total mining taxes (Solimano & Guajardo, 2018, p. 208). Still, the “Royalty II” or Special Mining Tax (SMT) was a clear victory according to left-leaning

²⁷ Lagos' language during the passing of the royalty law in 2005 was remarkably similar to Allende's discourse around the copper nationalization in 1971. During a speech at the large CODELCO mine Chuquicamata he said: “*Chile recibirá lo que en justicia le corresponde por sus riquezas*” - “Chile will receive which justifiably belongs to it due to its riches” (Fermandois et al., 2009, p. 184).

politicians. It was based on a sentiment that the state was taking back control of some natural resources that always “belonged” to the Chilean people, and a “*precio justo*”²⁸ needed to be paid (Fermandois et al, 2009, p. 179).

In 2005, a prudent long-term policy of Chilean *Fondo de compensación del Cobre*²⁹ was created for anti-cyclical purposes to protect against a fall in copper prices. The Chilean government will invest in the Fund when the copper price is high, and takes it out if there is a sudden drop in the copper price, foregoing any unexpected fiscal gaps (Teichman, 2019). This Fund came out of the existence of a general copper fund in the 1960s and it ensures a more stable stream of copper revenues to finance social programs. Although transparency sometimes lacks how exactly the Funds are used to finance different government entities and programs, the SWF is generally praised as a healthy macroeconomic policy, and it is estimated that the assets of the SWF make up 10% of Chile’s GDP (Solimano & Guajardo, 2018). This too, as it is financed with money from the SMT, does not show unregulated WC-style management of the copper industry, but rather a greater role of the state in redistributive policies using commodity revenues.

The military involvement in the copper industry ended officially in 2019, with the repeal of the *Ley Reservada del Cobre*. During the 21st century, the neopatrimonial veto players have lost considerable power, but the historical legacies have successfully institutionalized CODELCO in Chilean society and politics. This, combined with the public anger about the large-scale profits of the MNCs, the wide public support for nationalization of the copper mines and a certain nationalistic pride, CODELCO is stronger than ever and the possible privatization of the state mines is undeniably a non-issue. The support for the labor unions strengthens this. Lagos (2018)³⁰ writes that opinion polls show “state ownership continues to be a key political demand by a majority of the country. The success of Codelco throughout its 41-year history is so extraordinary that it has lead [sic] people to ask more of it” (p. 136). CODELCO’s place in society was cemented³¹. At the same time, the transnational norm entrepreneurs, mostly in the form of MNCs and associated domestic pressure groups, saw their influence decline too with the passage of the royalty and SMT acts. Essentially, “for the first time since the negotiated transition to

²⁸ “Fair price”

²⁹ “Economic and Social Stabilization Fund”

³⁰ Not related to former president Lagos.

³¹ What also supposedly contributed to this entrenchment was a mining accident in 2010 at one of CODELCO’s mines (Copiapó) that trapped 33 miners and were rescued after 69 days. This incident received intense global media coverage with a heroic frame and eventually helped shape CODELCO as a competent and modern state company (Morgner & Molina, 2019).

civilian rule in 1990, Chile's business elites felt their hegemony openly questioned" (Leiva, 2019, p. 136).

4.3.5. Analysis

In the 21st century, there was a move away from the transnational norm of liberalization of the industries, but without real expansion of the state industry. In contrast to the previous two time periods, there is no clear path towards liberalization or nationalization of the copper industry. Still, this does not mean the hypotheses are disconfirmed, as the outcome of the norm localization process is again the outcome of different actors, two of which still are the transnational and neopatrimonial actors. Rather, the development of the Chilean copper industry in the 2000s makes the case for an argument *outside* of the hypotheses described in this thesis. Because of the declining influence of both the neopatrimonial and the transnational actors, the "power vacuum" was utilized by the state apparatus who passed acts that significantly reduced the influence of the two camps described in the hypotheses. Instead of a localization direction that was ultimately preferred by either the neopatrimonial actors or the transnational norm entrepreneurs, history took another turn. The conclusion will provide more on this, and which theories could help explain this jump.

5. Conclusion

The Chilean copper industry is a rather deviant case, where neither privatization nor liberalization fully succeeded, contrary to other state industries - domestically and internationally. The historical development of this case illustrates the diffusion of an international norm and how it is adapted locally to serve domestic and international interests. So, how can the liberalization of the Chilean copper industry be explained? With the help of theories on norm localization, transnational norm entrepreneurs and neopatrimonialism, this thesis derived two hypotheses, and applied these to three distinct time periods. This research laid out the norm localization process in Chile, where the substance of this localization is assumed to be determined by the constellation of transnational norm entrepreneurs and neopatrimonial veto players. The norm described is the Washington Consensus, and the outcome is the approximation of the international norm.

As shown in section 4.1., there is a clear indication that the WC (or known then simply as the “neoliberal model”) was localized in the Pinochet economic system that existed by the grace of the strong antagonism between both the transnational norm entrepreneurs and the neopatrimonial actors. The neopatrimonial and neoliberal actors shared formal and informal power - and single-handedly created a regulation structure that would have a major influence on the future of the copper industry. Still, the pendulum does not swing into either direction more prominently, as the outcome was a copper industry that was still heavily dominated by the neopatrimonial actors, while the international norm was partly adopted. The outcome, or the compromise, was a more liberalized economic system, but the privatization of the “essential” copper industry was avoided. As seen in section 4.2, the 1990s, the domestic localization process was clearly dominated by the transnational actors, and as a consequence, the localization process approximated the international norm. After an uncertain period the result was the conservation of CODELCO as a state enterprise, but the introduction of multiple new MNCs in the Chilean copper industry. In the 21st century, as seen in section 4.3., the localization system became more complex. During this period, there was no major contestation of two previously antagonistic sides. Rather, the period is marked by the fading influence of both sides described in the hypotheses. Instead, the state stepped in, and because of public pressure, a royalty law was passed, and the SWF was expanded that secured a stronger position for the state. Therefore, the answer to the research question can be described as follows: the liberalization of the Chilean copper industry is to a large extent explained by a dynamic localization process constructed by the transnational norm entrepreneurs and domestic neopatrimonial veto players. The outcome was that over time, neither full privatization or nationalization was accomplished. But, it is important not to lose sight of the role of the (democratic) state, an actor that especially made its

presence known in the 2000s. In this period, the regulation of the copper industry was determined by neither a strictly neopatrimonial or a strictly neoliberal regulatory state.

This fits into some wider observations about the region. After the commodity boom of the 2000s, many Latin American states moved towards electing left-wing governments: the so-called “Pink Tide” commenced. The sentiment of renationalization and recapturing the “crown jewels” was deemed fair and essential for further development of the nation. Moreover, the “historical nationalizations of minerals were widely perceived and (later on) represented as a highlight of independent national development, sovereignty, anti-imperialism and patriotism” (Hogenboom, 2012, p. 137). Many citizens thought of the “return of the state” in mineral extraction as beneficial to the people, and not to the foreign corporations.

If these observations are connected to the importance of the copper resource industry for the national economy, we can add more theoretical insights that may be used for further research. Evans (1995) distinguishes in NIC between “predatory” and “developmental” states. The latter is a variant of an organized Weberian bureaucracy, based on meritocracy and with a certain “corporate coherence.” In the same sense, economists Mehlum et al. (2006) argue that the resource curse is avoided when there is a distinction between “grabber friendly” and “producer friendly” institutions. The dominant existence of the latter is likely to turn a resource endowment into a blessing. I would argue Chile is a case of a developmental state with producer friendly institutions, but with some neopatrimonial (grabber friendly) features of the state that have drastically seen their influence reduced during the last 30 years. It is uncontested that Chile’s copper industry has been an essential feature in its economic development, and that, on a global scale, the governance of the industry has been relatively successful. Problems remain, but the evidence for this is the previously explained long-term SWF that was created for anti-cyclical purposes to protect against a fall in copper prices. Returning to Evans (1995), the developmental state often possesses “embedded autonomy,” where a structural basis is laid by the state in industrial transformation essential for broader development. Chile’s possesses this embedded autonomy. And although not perfect in Evan’s ideal sense of a state with close connections to civil society and problems remain³², Chile’s state intervention in the copper industry is not to be classified as a predatory disaster. This thesis adds to Evans’ argument: the state is never far removed.

This research has provided an opportunity to present a “thick description” of the case of the Chilean copper industry. However, the argument could have been strengthened when there was some kind of “smoking gun” evidence included that, for example, unambiguously

³² Most notably, Aizen et al. (2018) argue Chile’s copper industry still resembles an “enclave economy:” profits are highly concentrated and in the capital and revenues from the industry are not invested in the mining regions themselves.

established the informal connections between the neopatrimonial actors and a certain policy. Field research, interviews with experts or access to a local archive could have increased this internal validity. These “hidden sources” could have revealed a connection or role previously not known. Due to practical constraints, this was not possible. This is remedied by a large body of scholarly work on the Chilean copper industry, as well as domestic authors and primary sources I mainly digitally accessed. This thesis has systematically provided an overview of the political economy and the history of the Chilean copper industry, and provides a framework for further studies.

In this research, the agency of the state was underestimated. The findings show that both the influence of neopatrimonial and transnational actors have been overstated for the 2000s. The contribution to the localization theory is that it is important to also look at the agency of the state actors in the norm localization processes. The constellations described in the hypotheses did not have the influence over policy relative to previous two periods. Essentially, this research found more agency for the (democratic) state that adopts the norm than previously thought. The theory involving neopatrimonialism and norm entrepreneurship has been confirmed, but in this localization process, it is expected that the agency of state will return at some point. While norm localization literature rightly shifts the focus from the norm entrepreneurs to the domestic norm takers, the agency role of the state is generally omitted. Further research may include the literature on the developmental state in the norm localization debate. As a norm was localized, the theory of developmental state can add to existing debates about norm diffusion. For example, a QCA analysis could substantiate the claims made in this thesis, as this is often combined with a research that has built a theory (Beach & Pedersen, 2013, p. 61).

Most likely, copper will be a commodity (contrary to oil) for which the global demand in the future will only rise because of decarbonization, so the political economy of the copper sector is likely to gain even more prominence (Schippers et al., 2018). While Chile has made progress eliminating the neopatrimonial actors from the industry, questions about redistribution of state resources remain at the centre of Chilean political debate. Chile still has the highest inequality levels of any OECD country, and there has not been much improvement post-Pinochet relative to other Latin American countries (Flores et al., 2019). Within this larger political debate, questions about the ownership and governance model of resource extraction industry are never far removed. This thesis adds to the debate about ownership of a natural resource industry, and how this is managed. A view insight the power dynamics of resource extractive industry serves the public interest. This is not only relevant for Chile, but also for other countries with a similar constellations of actors and a significant resource extractive industry.

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Annex: Figure 1

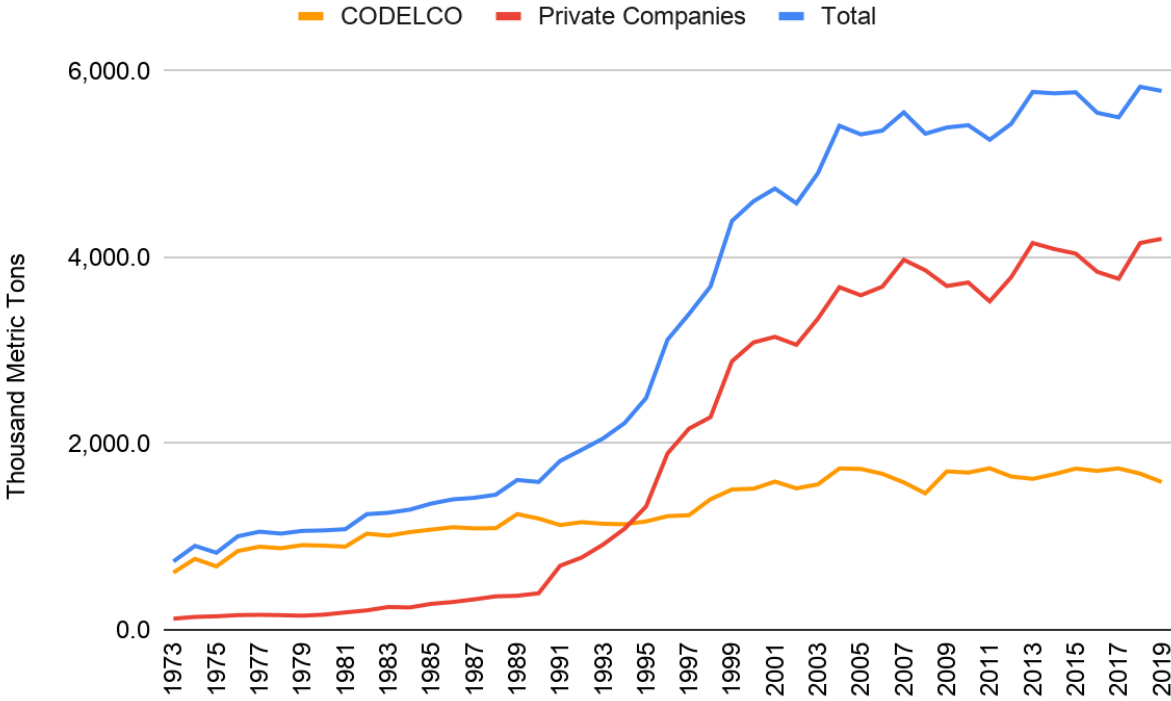


Figure 1: production of copper in Chile 1973-2019. Source: Comisión Chilena del Cobre (2020)