



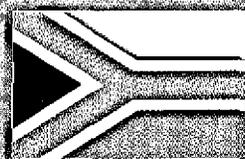
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## Chile and South Africa

Lessons and Opportunities  
Arising from  
Political and Economic Transition



**Greg Mills**

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Reports

# **Chile and South Africa Lessons and Opportunities Arising from Political and Economic Transition**

A report of a conference jointly organised by the  
South African Institute of International Affairs  
and  
the Embassy of Chile, Pretoria  
held at the Chilean Diplomatic Academy, Santiago  
20–21 November 2001,  
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# Chile and South Africa

## Lessons and Opportunities Arising from Political and Economic Transition

Greg Mills<sup>1</sup>

### Introduction

On the surface, Chile and South Africa share a similar past, and each can offer the other applicable lessons as to how to address future challenges.

Both countries are so-called 'middle powers', geographically located in the 'deep South'. Both have had to make the political transition from autocracy to democracy. The history of apartheid in South Africa and of the military regime of General Augusto Pinochet Ugarte in Chile is

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well documented. Yet both countries still face challenges relating to a shared history of human rights abuses, and also to their location as developing states within the global economy.

In reality, however, there are at least as many as differences in terms of their political history as there are similarities; though future challenges suggest the possibility of policy co-ordination and symmetry between them.

These parallels of economic and political change and the related development of forward-looking strategies to deal with them were the subject of a conference co-hosted by the South African Institute of International Affairs (SAIIA) and the Embassy of Chile in Pretoria from 20–21 November 2001 in Santiago, attended by representatives of government, the media and civil society. This report is based on that event.

## **The regional backdrop**

The 1980s and 1990s in both regions were characterised by the transition from military or undemocratic regimes to democracy; and from the travails of import substitution, burgeoning debt, economic uncertainty and sometimes crisis to market economics. These changes were to a great extent linked to international and regional political developments. The end of the Cold War, the emergence of a new consensus on economic orthodoxy, and the spread of democratic systems and values were in part influenced and reinforced by the pace and depth of globalisation.

This period also became, in much of Latin America and Africa, the era of so-called 'neo-liberal' reforms, of a type in which Pinochet's Chile had led the way. These reforms were characterised by privatisation, currency exchangeability, fiscal austerity and strict monetarist measures, inflation control, the encouragement of foreign direct

investment (FDI), and an increase in regional co-operation and integration. In Latin America, the latter took the form of the Mercosur (Southern Cone Market) trade agreement between Argentina, Brazil, Paraguay and Uruguay with Chile and Bolivia as associate members; the North American Free Trade Area (NAFTA); the Andean Community; and discussions to establish a continent-wide Free Trade Area of the Americas (FTAA). In Africa regional integration has occurred through initiatives such as the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). Much of this has been underpinned by strategic business-government co-operation and at least a reduction in state control, widening the role of the private sector in economic affairs.

Today both regions face the challenge of consolidation of reforms rather than transition. The introduction of the template of liberal market reforms—known in Latin America as the ‘Washington consensus’ and in Africa as ‘structural adjustment’—has had its successes. *But it has also had its costs and some failures, notably in terms of the emergence of serious social problems (including poverty and crime) and ‘jobless growth’.* While around 45% of Africa’s 800 million people live on less than \$1 per day, around 200 million of Latin America’s 500 million people are similarly indigent.

Although many countries have been able to set in place the first two of the three stages of such economic reform—inflation stabilisation and the imposition of a functioning market economy—they have been less successful in terms of the third stage, notably that of export-led growth. This may be because no one country (even Chile, which arguably comes the closest) in either Latin America or Africa has implemented the full neo-liberal market orthodoxy; though it may be because the overall political environment has made this impossible.

And in some Latin American countries, the democratisation process has been less than perfect, with the emergence of so-called *democraduras* ('democratorships') dependent on presidential powers and exhibiting high levels of corruption. Unhappiness with this state of affairs has led to higher, more visible demonstrations of popular discontent and civil society mobilisation. This would appear to be an increasing, not a decreasing, aspect of political life in many Latin American and, indeed, in many African countries. Examples are Argentina and Zimbabwe. This has also been expressed in terms of concerns around what should be on the agenda in 'second generation' structural or micro-economic reforms, such as areas of labour policy.

This has led to a debate in both regions relating to the role of the state and its institutions and their relationships with other sectors, including those regionally and further afield. The state remains at the eye of the developmental storm, arguably even more so today after the events of 11 September 2001 than before, in an apparent move from notions of 'human' (people-centred) security to 'state-centric' security. Another shift in today's debate has been from 'trickle-down' and 'spill-over' theories of economic growth to increasing interest in issues of public spending and social cost.

In many of these areas of transition and debate, Latin America has been ahead of Africa, and has proven to be a test-case from which Africa, and specifically South Africa, has learnt many lessons. But it is also true to observe that in some areas South Africa has led the way, partly because it has been able to learn from these experiences, notably in terms of the country's truth and reconciliation process.

What are the areas of future mutual concern? A number of issues in the three broad areas of politics, security and the economy can be identified.

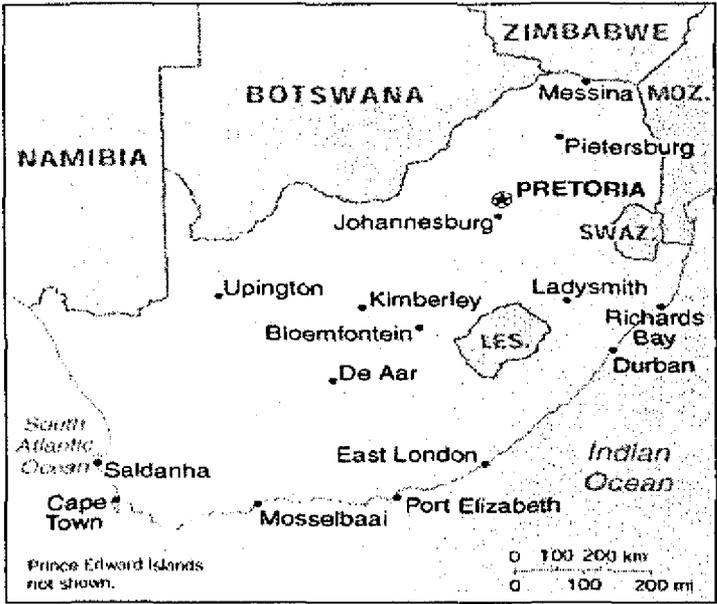
- **Politics and diplomacy:** Developing countries arguably need the global 'rules' for development more than any other countries. But what should these rules now be, if they are to provide the necessary

developmental environment critical to the success of projects such as the New Partnership for Africa's Development? What should be the role for the United Nations (UN), the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the World Bank—and of the so-called middle-ranking powers, such as Chile and South Africa, in enabling this environment? Domestically and transnationally, what should be the role of civil society in consolidating democracy—both within and between states? Finally, how do states deal with the negative aspects of regional integration—such as the impact of the 1995 Tequila and 1998 Brazilian crises, and in Southern Africa the impact of wars and strife in Angola, the Democratic Republic of Congo (DRC) and Zimbabwe?

- **Economics:** How can the neo-liberal/structural adjustment programme free-market reforms of the 1990s be 'adjusted' to deliver social rather than just economic benefits? What are the limitations on the expansion of small and medium enterprises (SMEs) in developing economies, seen by many as the pistons in the engine of growth providing employment? What can be done to expand the activities of bigger business, the flywheel of prosperity? Also, how can an increased focus on issues of human rights, accountability and transparency, judicial reform and corruption be accommodated?
- **Security:** In both regions there remains the challenge of modernising both societies and their institutions. An example is the military, in which there has been a fundamental reappraisal of the 'zero-sum' notion of the balance between military autonomy and civilian control. The move from the putative concept of a developmental role for the Latin American and African militaries to exposing vested institutional and personal interests has occurred in an environment of declining budgetary allocations and unclear threats. There is a need to identify and learn lessons from both the micro- and macro-managerial arenas in this regard.

Both Latin America and Africa, and Chile and South Africa, are today faced with an agenda characterised both by new issues and new

players.<sup>2</sup> This has changed and is changing the political and economic landscape in both regions, as well as altering the nature of interaction necessary in the global context.



What is the global context that both states find themselves in?

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<sup>2</sup> For a good summary of the wider regional developments, see Buxton J & N Phillips (eds), *Developments in Latin American Political Economy*. Manchester: Manchester University Press, 1999.

## Globalisation and global governance: A world in transition?

Globalisation is not a new phenomenon.<sup>3</sup> Global trading routes and people movements are as old as maps themselves. What has changed today is the pressure on states to conform and to compete on a wider international stage; that is, the depth and speed of global integration. Production has become globalised across national borders, while information technologies have emphasised the role of knowledge in these processes. Cultural, even national, boundaries and communities are becoming altered, too, by the deluge of electronically transmitted information.

In the decade immediately following the collapse of the Soviet Union, a number of different theories regarding the future of international relations were advanced. Generally, it was suggested that the state would no longer be the centre of attention in the global system, and that the form of engagement would shift—at least in part—towards business as the centrepiece of economic activity, and towards civil society. In this environment, many anticipated that there would be both a ‘peace dividend’ as armies became increasingly redundant, and a ‘democracy dividend’ as a more stable and prosperous Western, liberal model of democratic capitalism took root.

Yet looking back on the post-Cold War decade, a number of trends are discernible:

- First, the *promotion* of democracy has not necessarily brought stability—indeed, in some cases it has not brought democracy at all. The ‘democratic peace’ thesis, which was linked to the notion that

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<sup>3</sup> For a detailed examination of the impact of globalisation, see Mills G, *The Wired Model: South Africa, Foreign Policy and Globalisation*. Cape Town: Tafelberg, 2000; also Fukuyama F, *The Great Disruption: Human Nature and the Reconstitution of Social Order*. London: Profile, 2000.

the end of the Cold War symbolised the 'end of history' and a vindication of the Western democratic-capitalist model, rested on the ability of countries to promote and consolidate democracy successfully. In reality, however, external actors—and the United States (US) in particular—have been reluctant to commit resources to this task, especially where their interests are minimal (as is the case in much of Africa). In their defence, it has not always been clear how external actors could create the conditions necessary for democracy to take root. Moreover, the sustainability of democracy as a model for all states was (and remains) a contested notion, not least in Asia and parts of Africa.

- Second, related to the above, it has nonetheless been shown that there is no substitute for transparent, accessible and responsive government in ensuring economic prosperity and stability. This was the principal lesson, for example, to be learnt from the collapse of Asia's economies in the late 1990s.
- Third, in spite of the arguments put forward by those who foresaw the 'end of history', and in spite of the centrality of governance to economic advancement, global capitalism is still not an unchallenged model for uniform global economic prosperity. Events over the past two years in Seattle, Prague and, more recently, in Gothenburg and Genoa have illustrated the contested nature of the economic debate. Furthermore, the relationship between business and government—the practical counterpart of this globalisation thesis—at times remains characterised by tension and disputes, especially in Africa, where the relationship is generally either too close or too contested.
- Fourth, and related to the above, it is unclear how developing states can make the sorts of economic advancements necessary for political and social stability in this environment. Put differently, it is critical to reconcile good governance and global best practice (including the application of so-called neo-liberal macro-economic fundamentals) with the delivery of welfare to citizens and the reduction of poverty within fledgling democracies.

- Fifth, and finally, whatever its challenges (and challengers), the nation-state is still very much part of the scene. Indeed, rather than the prediction coming true that the nation-state would relinquish its role at the centre of international relations and be supplanted in its principal problem-solving function by civil society, the reality is somewhat different. The state may today not be the only problem-solving unit in global politics, and may in some areas of the world be the problem *to* be solved, especially in areas of Africa, Asia and Latin America, where the state is ill-formed, weak or even dysfunctional. A strong state is necessary for social and economic delivery. As a result, the debate has shifted in part to how civil society can work with the state in invigorating and strengthening, rather than supplanting, its capacity.

What has been the impact on the world of the terrorist attacks on the US on 11 September 2001?

## **Middle powers and the world after 11 September 2001**

It is often said that the nature of the global order has changed irrevocably since the terrorist attacks on the US on 11 September 2001, and the subsequent US-led response. This is true, of course, though many of the 'new' threats are not new at all.<sup>4</sup> States have been called upon to provide a clear indication of where they stand in the fight against terrorism. Such a consideration is now apparently pre-eminent in the minds of Western leaders when they engage with other states. The clearest example of this is, of course, Pakistan, once seen as a virtual pariah state given its military government and the testing of a

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<sup>4</sup> For a discussion of the nature of modern security threats, see Sohr R, *Las Guerra Que Nos Esperan*. Chile: Ediciones B, 2000.

nuclear weapon, and now a close (if sometimes reluctant) ally of the US.

The role of middle powers in this new global arrangement is potentially of great importance. Precisely because they hold some influence in various regions of the world, the US and its allies see it as important for them to state their allegiance clearly in the ongoing war on terror. South Africa and Chile are of course no different in this regard, and have both made their position on terrorism clear—both have condemned it and deplored the loss of innocent life.

But equally, middle-level powers have a right, and indeed a responsibility, to articulate the world's concerns about the ongoing actions against terrorism and the possibility that they may inflame a wider series of global conflicts and divisions. The role of middle powers who have no quarrel with the US is one of fundamental importance in the context of the global war being waged against terror. While countries such as South Africa and Chile will be called upon to assist, far from weakening their position, *that provides important points of entry and leverage* in an era when the US is concerned to build a unified and broad coalition against terrorism.

This supposition is based on the assumption that the war against terror does not take any unpredictable turns. Another terror attack perhaps, the slow progress of the war in central Asia, or a widening of the conflict to other target countries who have been shown to support terrorist activity might once more change the rules of the game fundamentally, shifting global allegiances.

It is difficult to predict such events. But these are dangerous times, and so the role middle-level powers act out in the current environment may help or hinder their stance in future and potentially unpredictable scenarios. For if much has changed since 11 September, it is worth restating the old cliché *that much has also remained the same*. Indeed, the key challenge here is that while many of the concerns of middle-level

powers have not changed, the concerns of powerful states have shifted, thus making it much more difficult to bring any influence to bear. Of key concern to the WTO, for example, has been ensuring that all nations party to the process participate fully, and that issues are debated as widely as possible. In the past, agreements in the context of the WTO have largely been the purview of only the most wealthy countries of the world: this has provided poorer countries with little opportunity to impact upon their shape and therefore their consequences. In the search for global consensus and coalition-building, and given the urgent need to remove the root causes of alienation, underdevelopment and terrorism, the world needs fewer Seattles and Genoas and more of the type of outcome that characterised the Doha WTO meeting. The latter would avoid the perpetuation of high tariff barriers around the world's richest markets, with little opportunity for entry allowed to the countries of the South. Middle income powers, which generally have some economic or even moral leverage (South Africa and Chile both fit these two criteria), have an important role to play in achieving fairer trade terms for a globalised world.

Building on such successes as Doha, a key policy goal of middle powers should be to keep issues of concern to the world's poorest people on the agenda. The events of 11 September have threatened to remove these from the agenda of items of immediate concern, as more pressing issues of terrorism assume greater importance. But poverty breeds the conditions that may cause future international instability. This is a problem that must be considered now.

In confronting it, however, middle powers may have much more influence in a new world order than they recognise. In seeking increasingly to act in a multilateral rather than a unilateral manner on the world stage, the US must make concessions to a wide set of interests to keep the coalition together. Middle-level powers have an important part to play in presenting and articulating any such trade-offs, including for example the challenges faced by countries such as

Chile and South Africa in operating as middle powers in the diplomatic arena. At the conference, South Africa's deputy minister of finance, Mandisi Mpahlwa, stressed the requirement for both countries to cooperate in improving access to developed markets and the need for 'democratising the institutions of global governance' such as the IMF. The Chilean deputy foreign minister, Heraldo Munoz, highlighted the role that South Africa and Chile, both 'like minded countries', had played in achieving the consensus for a new trade round at the Doha WTO meeting. Both should, he said, 'act together, consult regularly and be sensitive to each other's policies'. Both countries not only share *similar approaches to global challenges, but are partners in several initiatives such as the 'community of democracies', the 'forum for human security', and the group of so-called 'progressive presidents'.*

Other considerations relating to democratic governance and respect for the rule of law and human rights cannot be allowed to be subverted under the more immediate requirements of confronting particular threats, no matter how real. Middle powers, particularly those such as South Africa and Chile which have shaken off the shackles of authoritarian rule, have a particular responsibility to continue to represent these ideals. While it may be necessary in times of conflict and great threat to place such considerations second, there can be little doubt that in the long term they hold the key to peace and stability, and should not be allowed to fall off the international agenda.

## **Political transitions and human rights**

As is intimated above, there are surface parallels and lessons between the two countries in the security and political realm. However, these apply more in terms of symbolism and the timing of change than to the conditions that gave rise to them.

In terms of the similarities, both Chile and South Africa transformed from unrepresentative regimes to fully-fledged democracies at the end

of the Cold War. In both cases the shift was both largely peaceful and embraced by the outgoing regime.

The political systems	
<i>Chile</i>	<i>South Africa</i>
<i>Legislative branch</i> <sup>5</sup>	
The bicameral National Congress or <i>Congreso Nacional</i> consists of the Senate or <i>Senado</i> and the Chamber of Deputies or <i>Camara de Diputados</i> . The Senate comprises 48 seats, 38 elected by popular vote and 10 appointed (all former presidents who served six years are senators for life). Members serve eight-year terms with one-half elected every four years. The Chamber of Deputies comprises 120 seats, with members elected by popular vote to serve four-year terms.	The bicameral Parliament consists of the National Assembly and National Council of Provinces. The National Assembly comprises 400 seats with members elected by popular vote under a system of proportional representation to serve five-year terms. The National Council of Provinces comprises 90 seats plus 10 members elected by each of the nine provincial legislatures for five-year terms. The National Council of Provinces replaced the former Senate following the implementation of the new Constitution on 3 February 1997.

While the 'end' of Marxism and the end of the Cold War had an impact on the timing of both transitions, there are fundamental differences. In South Africa, change (and its timing) was the result of a number of factors, which include the following:

- The ruling National Party (NP) lost the support of a majority of white South Africans in the 1989 election. This was related to a deterioration in the white standard of living, which, in turn, was related to the compounding effects of sanctions, the cost of fighting a war in Angola, and growing internal insurrection.

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<sup>5</sup> See <http://www.cia.gov>.

- The military and financial support provided by the Eastern bloc for the African National Congress (ANC) was lost.
- It was considered imperative to conclude a negotiated transition while Nelson Mandela was still healthy.
- Credible leadership existed in both of the principal negotiating political parties, both of which were essentially given 'blank cheques' of support from their parties.
- Skilled negotiators participated.
- There were no irreconcilable conflicts.

In Chile, the transition from military to civilian rule came about under vastly different circumstances. Arguably these reflected the reasons behind the 1973 intervention in the first instance. As one Chilean delegate noted, 'the military did it to the left in 1973 before the left could do it to them'. Critically, however, the transition from military to civilian authority was not only carried out by the military, but it was managed in such a way as to retain crucial elements of political and economic stability and consensus.

In both cases, civil society played an important role in the transition, assisting in creating a middle ground, building a set of shared, normative values, and shaping the compromises necessary. Critically, in the case of South Africa, civil society was able to play a role in assisting to help address the destructive nature of the socio-economic legacy of apartheid.

Related to the above, it is clear that the global leverage possessed by South Africa and Chile is linked both to the success of their own democratic transitions and to their actions on issues of democratisation and human rights (such as those arising in Zimbabwe). But whereas South Africa has sought to capitalise on its emergence from its apartheid history in terms of its standing in the international community, the nature of Chile's transition and the (at times) uneasy relationship between the military and civilian authorities made such a

clean break problematic in itself. Moreover, it has also proven difficult to project a new global identity on the basis of this change. Indeed, the approach of Chile's military is often viewed as more paternalistic than is the case in South Africa, though the relationship between the military and civilian authorities would appear to be changing, partly as a result of the influx of a new generation of military officers, and partly as a consequence of the Pinochet detention episode.

This relates to the unease Chile displays in getting to grips with its recent past. Although Chile's own Truth Commission attempted to get to the bottom of the excesses of 16 years of military rule, in the perceptions of some it did not dig as deeply as South Africa's Truth and Reconciliation Commission (TRC). But both offer lessons. Echoing Antjie Krog's assertion at the conference that the TRC was a 'unique hallmark of South Africa's ability to find new answers to old questions', Chilean Professor José Zalaquett said that the Chilean and South African experiences could provide 'part of an overall policy to deal with the past', in which the process addressed the need to 'face the past, sustain the present and aim at the future'.

There are also parallels in terms of the transitional role played by the respective militaries, and the manner in which they have attempted to deal with their past histories, present realities and the demands of force modernisation and restructuring. Neither force was vanquished in the struggle for democracy, but the costs of continuing that struggle were increasingly unacceptable in terms both of the human and financial cost (in South Africa) and the perception of the role of the military in society (in both countries). But whereas the military in South Africa played a key part in propping up the apartheid regime, in Chile the *junta* was that regime.

What of the economic parallels?

## Economic reform and bilateral co-operation

In the economic domain, South Africa is the third largest foreign investor in Chile after the US and Canada. This is mainly due to Anglo American's investments in the copper mines in that country. This, Munoz has noted, 'gives concrete support to a relationship that otherwise would be merely political'. Trade, however, remains relatively low, with a total bilateral trade value of R343 million (R213 million exports; R130 million South African imports) in 1999 down 20% on the previous year.

<b>Chile and South Africa: A comparative statistical snapshot</b>		
	<i>Chile</i>	<i>South Africa</i>
Population (m) (1999)	15	42.8
UN human development index ranking/174 states	39	94
GNP (\$bn)	67.5	131.1
GNP per capita annual growth (%) (1990-99)	5.6	-0.2
Exports (% of GDP) (1999) (Imports % of GDP)	29 (27)	25 (23)
FDI (% of GDP) (1999)	13.7	1
Net private capital investment flows (\$m) (1999)	11851	4533
External debt (\$m) (1999)	37762	24158

Both countries are thus commodity-rich (and dependent) economies. Gavin Keeton highlighted for the conference the contribution of mining to South Africa's GDP (6.1% in 1999) and employment (4.6% of the work force in 1999). The mining sector contributes 7.8% of Chile's GDP, providing employment for 1.5% of the national work force.

There are also interesting and instructive lessons to be learnt about dealing with economic challenges.

## The Chilean story

Ricardo Ffrench-Davis provided the conference with a useful time-series to examine the impact of changes in the Chilean economy. First, the rule of Salvador Allende (1971–73); second, the first stage of the military *junta* under Augusto Pinochet (1973–82); third, the second half of Pinochet's government (1982–89); and finally, the civilian governments of Patricio Aylwin (1990–93), Eduardo Frei (1994–99) and Ricardo Lagos (2000–).

Impact of changes in Chile's economy					
Variable	Allende	Pinochet	Aylwin	Frei	Lagos
GDP growth	1.2	2.9	7.7	5.6	5.4
Growth of exports	-4.2	10.6	9.6	9.4	7.5
Inflation	293.8	79.9	17.7	6.1	4.5
Unemployment	4.7	18.1	7.3	7.4	10
Real wages (1970=100)	89.7	81.9	99.8	123.4	134.4
Investment as a % of GDP (1977 pesos)	15.9	15.6	19.9	24.1	22.3
Government surplus (% of GDP)	-11.5	0.3	1.7	1.2	0.1

Whatever the vagaries of performance, Chile's economic growth over the past decade has been nothing short of remarkable. During the 1990s, it averaged an annual rate of GDP growth of over 7%. Income per person doubled, while annual inflation was brought down from 30% to under 5%.

This success was built on two pillars.

The first pillar involved the institution of free-market economic reforms in the mid-1980s by Pinochet's team of young economists—the so-called 'Chicago boys'. These included the promotion of a high domestic savings rate; government policies guaranteeing the remittance of profits and capital; privatisation; free choice in the percentage of

foreign ownership and non-discrimination between foreign and local investors; and tariff liberalisation. Early on, the government recognised the importance of foreign investment in driving economic growth, hence the 1974 Foreign Investment Statute (Decree Law 600) guaranteeing non-discrimination between foreign and local investors.

But this success was not, contrary to some impressions, based purely on market-driven state policies and behaviour. In 1973, the *junta* dealt with its socialist inheritance from Allende, which had included widespread nationalisation, by implementing radical market-driven liberalisation which included the privatisation of banks, the freeing of interest rates, and tariff reductions. This resulted, by 1982, in very high interest rates (touching 40%), high unemployment (over 30%), and a 15% economic *contraction* in 1982. The second period of Pinochet's rule (1982–89) was instead characterised, *inter alia*, by the introduction of price controls and subsidies on exports, and the strict regulation of interest rates.

The second pillar of Chile's economic growth was a cyclical upswing in commodity prices (especially those of copper and wood pulp), on which the economy is heavily reliant. Copper accounts for two-fifths of export revenue. Investment in this area was, in turn, facilitated by low income tax, non-discrimination between foreign and local companies under Chilean tax laws, the establishment of free trade zones, progressive foreign investment incentives, and transparent regulations. Critically, Chile kept corruption down to a minimum, and not just by Latin American standards. Its police force, while accused of human rights abuses, is still regarded as the best in Latin America. Notably, Chile is the third-ranking developing economy (behind Singapore and Hong Kong) in Transparency International's *Corruption Perception Index*, ahead of countries such as Ireland, Spain, France and Japan.

However, Chile's reliance on mining largely explains economic problems resulting from the fall in the global copper price in 1998 to the lowest levels since the 1930s. This followed the collapse in the demand

from Asia, usually the market for 80% of Chile's exports, and was compounded by one of the worst droughts of the 20<sup>th</sup> century as a result of *La Nina*. Some argue that government dithering worsened these problems, while higher government expenditures in 1998 had the effect of forcing up real interest rates, prompting a credit squeeze. In 1998, GDP growth slipped to 3.7%. In 1999, it recorded a 1.1% contraction, with a recovery to 5.45% recorded in 2000. Unemployment leapt from 4.5% in 1997 to 9% by 1999, increasing disparities in income distribution patterns. However, the effects were to some extent contained through a low inflation rate of around 4% in 2000.

But Chile's overdependence on copper as its main export item and the mini-recession experienced at the start of the 21<sup>st</sup> century resulted in a number of calls for reform from economists. Ffrench-Davis, for example, argued for a number of strategies that could enable Chile to repeat the 7% growth achieved in the 1990s. These included:<sup>6</sup>

- the maintenance of a competitive exchange rate and the stabilisation of interest rates;
- the matching of demand with productive capacity;
- the development of export incentives to add value to natural resources;
- more intense efforts at regional integration, given the importance of market access to export diversification;
- the encouragement of additional long-term savings, and their channelling to local small and medium enterprises (SMEs);
- greater investment in human capital, improving productivity;
- addressing unequal income distribution, stepping up efforts at social expenditure, and fighting tax evasion and closing of tax loopholes; and

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<sup>6</sup> See Ffrench-Davis R, *Economic Reforms in Chile: From Dictatorship to Democracy*. Ann Arbor: University of Michigan Press, 2001. See also his *Reforming the Reforms in Latin America*. London: Macmillan, 2000.

- improvement in the delivery of state services and public administration.

It is important to note, too, that although Chile still relies heavily on copper exports, the development of other areas such as wine, fruits, seafood products and processed wood goods has halved the extent of this dependency from 80% to 40% of total exports today.

Whatever his critics may say, Pinochet's contributions to Chile's development were to put in place both a functioning market-driven economy, control over which he was prepared to cede to professionals, and a comparatively corruption-free military, in stark contrast to other Latin American experience.

### South Africa's path and progress

South Africa has achieved much since 1994. Its remarkable democratic transition, when it snatched stability from the jaws of chaos, is well documented. The extraordinary role played by Nelson Mandela in promoting reconciliation arguably serves as an example to states around the world. South Africa has also, contrary to initial expectations, followed a set of conservative economic prescriptions. It has not implemented a radical socialist or, as some feared, a communist policy agenda, but rather one committed to making South Africa a more globally competitive actor. It aims to meet the challenges posed by the global environment through integration, not isolation.

In the economic domain, South Africa had to meet three challenges.

- The first of these was the need to address an unsustainable macro-economic environment inherited from the apartheid government. This it has been able to do successfully, bringing down the fiscal deficit from 7.3% in 1993 to 5.1% in 1996, and just 2% in 2001. Inflation, so often a tax on the poor, declined from 9.7% in 1993 to 5.7% in 2001.

- Second, it had to address high levels of inefficiency and low levels of productivity. In part this has been met by the implementation of lower tariff levels. The government's success can be expressed in terms of the increase in manufacturing exports as a ratio of production from 15.13% in 1994 to 27.87% in 2000. Exports of manufactured goods have risen, particularly in chemicals and motor vehicles.
- The third area—that of jobs and high levels of inequality—remains problematic. Unemployment has risen, and the number of jobs in the formal sector has declined. Unemployment now stands at between 26% and 37%, depending on the definition of unemployment used.

In meeting the third area of reform challenges, South Africa faces a number of specific conditions that remain to be met if foreign direct investment is to flow (and employment increase). These include questions about:

- labour stability;
- the cost of laws and labour productivity;
- the cost and spread of HIV/Aids, affecting around 20% of adults in South Africa by 2001;
- the stability of the tripartite alliance of the ruling ANC, South African Communist Party and the Congress of South African Trade Unions (COSATU);
- crime, especially violent crime;
- the possibility of regional contagion from Zimbabwe, Angola and the DRC, and the ensuing questions that arise about Pretoria's commitment to the rule of law in the face of inaction on Harare's policies which flout this principle;
- skills shortages and emigration/immigration imbalances;
- the continuation of exchange rate regulations and the repatriation of profits;

- a fluid, declining rand–dollar exchange rate, reducing the value of initial investment; and
- slow rates of state-owned enterprise privatisation in comparison with other emerging markets.

A more fundamental issue is, however, an awareness of the conditions necessary for economic growth and development. Macro-economic stability is understood today as a necessary but not sufficient condition for prosperity to take root. At a minimum, the right fundamentals have to be accompanied by a deep engagement with global markets, by political stability, compromise and strong leadership at home, and by a sustained process of skills creation and education. In providing these conditions the role of the state is critical. Lacking them, South Africa faces a process of economic Darwinism which would benefit neither long-term economic growth nor social stability.

*In both South Africa and Chile there remains a debate as to how to expand economic output to deal, particularly, with issues of employment and poverty. The high levels of inequality in both societies are exacerbated, as Raul Sohr pointed out, by the sometimes uneven impact of globalisation. South Africa's Gini co-efficient measures 0.59 (where a score of 0 is perfect), Chile's 0.56 and Brazil's, by comparison, 0.60.*

A socio-economic snapshot		
	Chile	South Africa
Population:		
1975	10.3	25.8
1999	15	42.8
2015	17.9	44.6
Urban population (%)		
1975	78.4	48.0
1999	85.4	50.1
2015	88.7	56.3
Population under 15 years of age (%)		
1999	28.7	34.3
2015	23.6	30.5
Life expectancy at birth (1999)	75.2	53.9
Infant mortality rate (per 1,000 live births)		
1970	77	80
1999	11	54
Adult literacy (%) (1999)	95.6	84.9
Population living on \$1 per day (PPP*, 1993–99, %)	<2.0	11.5
HIV/Aids infection (%) (15–49 years) (1999)	0.19	19.94
Population using adequate sanitation facilities (% , 1999)	97	86
Population with access to essential drugs (% , 1999)	88	80
Source: Human Development Report 2001, <i>op cit.</i>		
# Purchasing power parity		

The following table summarises the policy reform processes described above.

<b>Neo-liberalism and structural adjustment</b>		
<i>Case study</i>	<i>Successes</i>	<i>Failures</i>
Chile	<ul style="list-style-type: none"> <li>• Political stability and transition</li> <li>• Necessary balance between free market, economic reform, political stability and investor confidence</li> <li>• Fiscal and monetary control</li> <li>• Internal conditionalities</li> <li>• Privatisation</li> <li>• Low, flat taxation</li> <li>• Low tariffs</li> <li>• Limited government regulatory intervention</li> <li>• Strict prudential control post-1982</li> <li>• Avoidance of recessionary cycles</li> <li>• High FDI flows, and high domestic investor confidence</li> </ul>	<ul style="list-style-type: none"> <li>• Initially (1973–82) high interest rates, unemployment and inflation resulting from lack of prudential controls and quick-fix liberalisation</li> <li>• Reliance on one product (copper)</li> <li>• Slow development of services and manufacturing sectors</li> <li>• Income distribution inequity</li> </ul>
South Africa	<ul style="list-style-type: none"> <li>• Political stability</li> <li>• Tariff liberalisation</li> <li>• Improve efficiency and productivity</li> <li>• Fiscal and monetary control</li> <li>• Limited state restructuring</li> <li>• Rise in manufactured exports</li> </ul>	<ul style="list-style-type: none"> <li>• Limited growth</li> <li>• Increasing unemployment</li> <li>• Slow rate of privatisation</li> <li>• Decreasing labour flexibility and high levels of labour unrest</li> <li>• High, now increasingly multiracial inequality</li> <li>• Low FDI inflows</li> </ul>

## Conclusions

Chile and South Africa have both travelled long, sometimes difficult roads of political and economic transition on which there is still some way to go. And both countries are located in difficult, challenging and sometimes unstable regions.

There are also important differences to be acknowledged, which have sometimes been lost in the mythology of their respective political transitions. As one delegate to the conference noted, 'the first world aspect of South African society and its economy is more first world than that of Chile; and South Africa's third world is more third world'. Business in South Africa has largely operated according to a doctrine of enlightened self-interest, whereas this sector of Chilean society is highly politicised, mainly towards the right of the political spectrum. There are differences, too, in the role played by their respective militaries. The comparatively privileged position of the Chilean armed forces relates to their special constitutional positioning. Also, the role of the church in Chilean politics is quite different from the South African reality.

Whatever these distinctions, the perceptions of a shared history have been valuable as a launching pad for tackling issues of mutual concern. Closer bilateral co-operation can assist in this regard, both within South Africa's and Chile's own national boundaries and in the process of transforming the international system.

The pursuit of three strategies might bring South Africa and Chile closer together in the economic domain.

- First, a free trade agreement should be established between Chile and South Africa. Given the comparative absence of overlap in exports between the two countries (in comparison with other Mercosur countries), such a free trade agreement might prove more easy to conclude than the mooted SADC–Mercosur agreement, and could improve trade in South African manufactured goods. An

increase in trade volume should also bring down the cost and duration of sea-freight transport to Chile, currently more than four times the cost and time taken to ship containers to Argentina, for example. This fits in with the trade policy pattern adopted by both South Africa (in terms of its free trade, development and co-operation agreement with the European Union (EU), and the SADC free trade protocol) and Chile (which is committed to lowering its flat tariff rate from 7.4% to 6% by 2003, and which has signed a multitude of bilateral<sup>7</sup> and multilateral<sup>8</sup> trade agreements).

- Second, the number of joint ventures in both Chile and South Africa should be increased, particularly in mining, which might reduce the costs and risks involved in large-scale direct investments.
- Third, the South African and Chilean diasporas and bilateral chambers of commerce should be made better use of to facilitate trade and investment opportunities.

Former President Eduardo Frei said in 1999, at the time of the Pinochet detention episode, that Chile wanted to be seen as a 'serious and dynamic country...which has regained its tradition of democracy'. The Pinochet saga and Chile's need for ongoing economic reforms serve to highlight the challenge to consolidate the gains made in the last decade, and to remind us that, as in South Africa, democratic and socio-economic transformation is not a single event, but an ongoing and sometimes difficult process.

Finally, it is clear that middle powers have two key roles to play in the new emerging world order.

- First, they should provide leadership on a range of issues, particularly those relating to current global inequalities, articulating

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<sup>7</sup> Chile has signed bilateral agreements with Mexico, Colombia, Ecuador, Venezuela, Argentina, Bolivia, Peru and Canada.

<sup>8</sup> Chile has signed multilateral agreements, notably with Mercosur and the EU.

the voice of the world's poorest peoples and nations, and keeping their needs and concerns on the global agenda, despite the immediate concerns of the war on terrorism. It should not be forgotten that a superpower that engages more fully with the world to meet its own security concerns is also more likely to seek to placate the concerns of others. Important trade-offs, which may be of mutual benefit, may be the result.

- Second, and of great importance, middle powers such as South Africa and Chile, who propagate democratic principles, and who themselves have shaken off authoritarian rule, must continue to hold a set of democratic values as an example to others, especially in their own regions. This is a more difficult issue than perhaps we assume. It includes the need to ensure respect for the rule of law and basic democratic principles. It also includes a responsibility to ensure the staging of free and fair elections. The very real hardships through which the people of both Chile and South Africa lived in the past should not be forgotten; nor should they assent to the undercutting of democratic values in favour of short-term stability. Not all countries can articulate these values clearly. But some—appropriately South Africa and Chile—have a critical role to play. While both face new challenges and unpredictable threats, they forget their mutual histories at their peril.

# Appendix: Conference Programme

## Chile and South Africa

### Lessons and Opportunities from Political and Economic Transition

A conference jointly organised by the  
South African Institute of International Affairs (SAIIA)  
and the

Embassy of Chile, Pretoria

held at the Chilean Diplomatic Academy, Santiago

20–21 November 2001

with the assistance of

*Academica Diplomática 'Andrés Bello', Anglo American Corporation,  
BHP Billiton, Ministerio de Defensa Nacional, Ministerio de Relaciones  
Exteriores, South African Embassy in Santiago, and  
Universidad Santo Tomás*

### Day One: 20 September 2001

- 16h15    Opening remarks  
          Boris Yopo Herrera, Chile  
          Timothy K. Maseko, South Africa  
          Greg Mills, SAIIA

#### Session One: Political Transition and Human Rights

Chair: Professor Roberto Duran

- 16h30:    'Lessons from Conflict Resolution and Political Transition'  
          Robert Schrire, University of Cape Town  
          Ricardo Israel, University of Chile
- 'Defence Co-operation and Modernisation'  
          Chubby Howell, South African Navy (rtd)  
          Angel Flisfisch, Deputy Minister of Defence, Chile
- 18h30:    'Lessons from Truth and Reconciliation Experiences'  
          Antjie Krog, South Africa  
          José Zalaquett, Chile

## Day Two: 21 November 2001

### Session Two: Economic Reform and Bilateral Co-operation

Chair: Joe Mollo, Billiton

- 09h30: 'Economic Reform and Developing Economies'  
Alistair Ruiters, Director-General: South African Department of Trade and Industry  
Ricardo Ffrench-Davis, CEPAL, Chile

'Mining Investment, Shared Interests and Co-operation'  
Gavin Keeton, Economics Division: Anglo American Corporation  
Mario Espinoza D., CODELCO, Chile

### Session Three: Cultural and Social Change

Chair: Roberto Espindola, Bradford University

- 11h00: 'The Impact of Political Transition and Economic Reform on Civil Society'  
Xolela Mangcu, Steve Biko Foundation  
Antonio Cortéz Terzi, Centro Avance, Chile

'Globalisation and the Challenge of Nationalism'  
John Battersby, Editor: *The Sunday Independent*, South Africa  
Raul Sohr, Chile

### Session Four: Diplomacy in a Global Environment

Chair: Jorge Heine, University of Chile

- 15h30: 'Meeting the Challenge of Global Governance'  
Greg Mills, National Director: SAIIA  
Carlos Portales, Director: Policy Planning, Chilean Foreign Ministry

'The Role of Middle Powers in a Globalising World'  
Mandisi Mpalhwa, Deputy Minister of Finance, South Africa  
Heraldo Munoz, Deputy Minister of Foreign Affairs, Chile



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