The South African Institute
of International Affairs

Global Best Practice

El Gran Exito: The Chilean Success Story

Lyal White

This series is funded by the Konrad Adenauer Foundation.

THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

ISBN: 1-919969-35-7

Global Best Practice, Report No. 3

Editor's Note

A country with a tortured history of military dictatorship, which ended only in 1989, Chile has managed to become a model of economic and political stability in Latin America. A functioning democracy, Chile's macro-economic reforms that it had begun adopting during military rule, were continued after the political transition in a way that focused on social development initiatives.

Chile's phenomenal transformation was realised in the decade of the 1990s – the economy averaged 7% GDP growth and now ranks in human development among countries such as Spain, Singapore and Korea.

As an emerging market, and one that had experienced a violent and authoritarian political system, Chile makes an interesting case study for identifying best practice.

The objective of SAIIA's 'Global Best Practice' project, funded by the Konrad Adenauer Foundation, was to assemble global success stories, and to assess their applicability in the context of African countries' attempts to improve economic growth rates and address poverty. Such research is crucial for Africa if the Nepad initiative is to be successful. Each of the case studies commissioned attempts to draw out lessons for Africa where relevant.

This report focuses on the Chilean success story since the end of military rule in 1989. The findings of this research were presented at a workshop of academics and practitioners, and refined further following the inputs of the participants. As the study on the ensuing pages will show, two of the overriding success factors for Chile were first, the pragmatism of the leadership's approach to policy prioritisation, formulation and implementation; and second, the very interactive partnership between civil society, business and government in this regard, so as to foster a climate that was conducive for both foreign and domestic investors.

In addressing the challenge of economic inequality, Chile identified trade and investment as significant ingredients, and set about reforming its economy, and developing its human resources and the infrastructure necessary to create an environment conducive to the private sector.

Chile also embarked on a process of negotiating free trade agreements on the basis of providing opportunities for product and market diversification, driven by commercial realities rather than political imperatives. Free trade agreements have been concluded with numerous countries (including the US and the EU).

A successful increase in tax revenues in Chile allowed the state to plough more into social benefits for the population, while its regulatory reforms and predictable economic and political environment have seen a steady stream of foreign investors.

While Africa began structural adjustment programmes more than two decades ago, in many instances these have being characterised by the 'partial reform syndrome', which ironically, has reinforced existing clientelist relationships and structural deficiencies. These have entrenched the benefits flowing to elites, while doing very little to eradicate poverty and attract investment to contribute to the process.[1]

Furthermore, attempts at macro-economic stabilisation in African countries in the 1980s and 1990s were made in some cases at the expense of investment in long-term capital expenditure, especially in the area of infrastructure, which is vital for realising higher rates of economic growth and development. For example, the World Bank estimated in 1995 that some $1.5 billion a year was required for a decade to restore the existing road network to an appropriate level.[2]

In the case of Chile, by contrast, more than $5 billion of foreign investment since 1995 was used to improve transport infrastructure.

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1 For a very good discussion of this see N van de Walle, 'Economic Reforms: Patterns and constraints', in E Gyimah-Boadi (ed.), *Democratic Reform in Africa: The quality of progress*. Boulder and London: Lynne Rienner Publishers, 2004.

2 *Ibid.*, p. 34.

Factors such as transport costs and proper, functioning infrastructure are critical in determining investment decisions, not only for foreign entities wanting to invest in a country, but also for domestic companies. In the South African case, for example, major private sector entities have been calling for the implementation of the government's infrastructure commitments. The South African government's current spending on fixed investment is about 16% of GDP; this needs to increase to about 23% to be in line with developing nations spending requirements.[3] The focus of the second Mbeki administration has now shifted indeed to ramping up the country's infrastructure, with Transnet, the state's transport parastatal being the main engine of this process. Transnet intends to spend some R14 billion to upgrade ageing infrastructure and rolling stock to increase its freight-handling capacity by 30% within five years.[4]

The process of reform is one that is ongoing and requires a constant re-assessment of progress and consideration of new global developments and trends. The global economy in the 21st century will require international actors, and states in particular, to be far more agile in responding and anticipating change and how to make looming threats, attractive opportunities. The lessons from Chile are that seeking to completely isolate/insulate a society from globalisation are not long-term sustainable options. At the same time, open economies, without skilled management of policies and their implementation, do not ensure prosperity for all citizens. Rather, these need to be coupled with political leadership that anticipates the threats and opportunities and a capable state, that intervenes effectively in areas where markets are not the best vehicle for delivery, such as in addressing the problems of extreme poverty.

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3 'Infrastructure spending must grow – Aveng', *Business Day*, 14 September 2004.

4 'Transnet at the heart of state's makeover plans', *Business Day*, 1 June 2004.

In conclusion, I would like to thank the Konrad Adenauer Foundation for supporting this project, and in particular, Dr Thomas Knirsch and Ms Andrea Ostheimer for their genuine interest in it. Also, acknowledgements are due to the former national director of SAIIA, Dr Greg Mills, and Mr Tim Hughes, a research fellow at SAIIA, for conceiving the initial idea. I am also grateful to my other colleagues at SAIIA, in particular Mr Sipho Seakamela and Ms Nandile Ngubentombi, who both worked on the studies; and to Mrs Anne Katz, our typesetter; Ms Leanne Smith, the publications manager; and Ms Pippa Lange, our external editor.

Elizabeth Sidiropoulos
Series editor

El Gran Exito: The Chilean Success Story

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Introduction

Chile's economic success has earned it the reputation of being the anchor of stability in Latin America. While the rest of the region seems vulnerable to financial and economic crises, and experienced its worst downturn in two decades during 2001–02, Chile, with its sound macro-economic policies and increasing integration with the world economy, stands as a beacon of hope to its neighbours.[5]

Liberal economic programmes are not the only reason for the continued stability in Chile. Progressive political and social policies have been pivotal in creating an environment in which economic growth is paired with political and social equality. This has been the essence of Chile's success since the rebirth of its democracy in 1989.

Chile presents a fascinating example of a country that has managed to adapt effectively to the continual alterations in its external environment, not to mention the revolutionary changes that have taken place domestically. It has satisfied both the local population and the international community of investors and multilateral organisations by progressing through the various reform phases more successfully than any other Latin American country.[6] This has helped it earn a respectable place in Latin America and the global political economy at large — despite the relatively small size of its economy and population.

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[5] Foreign Investment Committee, *Chile: Investment Review*, April 2003.

[6] Chile still has a great deal of work to do in terms of its economic reform process. It has achieved much success in market reforms, but in terms of massive discrepancies between the incomes of the rich and the poor, inequality is still an area of concern, and one that requires ongoing attention. This is discussed in detail in Kuczynski G & J Williamson, *After the Washington Consensus: Restarting Growth and Reform in Latin America*. Washington: The Institute of International Economics (IIE), 2003.

Chile has a long history of foreign involvement in its economy. Inevitably, this spilt over into the political realm. A notable example is the US-supported coup in 1973. For the 16 years that followed, Chile was under the military rule of General Augusto Pinochet. Despite the repressive nature of his regime, Pinochet pioneered economic reform in Latin America by introducing and implementing liberal economic policies. However, these proved unsustainable in a society suppressed by, and moulded around, one individual. The social backlash brought about political change in the country, and since 1989 Chile has enjoyed a democratic government that is accountable to the citizenry.

The transition that took place in Chile ensured that successive democratic governments would focus on macro-economic stability in harmony with social development, the latter having been largely neglected by the military regime. By mixing the economic priorities inherited from the military government with the renewed socio-political focus of the elected democratic government, Chile developed a unique system that ensured progress.

This paper will look at how, by way of this transition from a dictatorship to a democracy, Chile was able to adapt and implement policies to ensure sustainable growth and development. Instruments used to achieve certain desirable and political goals such as increased trade and investments, efforts at integration, progressive political leadership and interactive partnerships between civil society, business and government are at the heart of the Chilean success story and will be discussed. This process of economic reforms, coupled with social deliverables, provides lessons for South Africa.

Transition: From dictatorship to democracy

The military dictatorship that ruled Chile from 1973–89 was different from any of the other repressive governments in Latin America. Taking power following a period during which widespread state intervention in the economy and populist policies had brought about hyper-inflation, high debt and little international support, the military government chose to reduce the role of the state in the economy and to institute market-friendly policies.[7] The US also played a major role, especially when the generals brought in a group of civilian technocrats from international organisations and other governments to introduce free-market ideals into the Chilean economy. This group of economists, known as 'the Chicago boys' because most of them were trained at the University of Chicago, reduced tariff protection, government subsidies and the size of the public sector.

Some of the major economic reforms the military government implemented from 1973–89 were the following.[8]

1973 to 1981

- All non-tariff barriers were removed between 1973–75, and tariffs were radically reduced to a flat rate of 10% by 1979.
- Foreign direct investment (FDI) was liberalised in 1974, as were other capital flows in the late 1970s.
- Taxation was reformed in 1976. This included the introduction of a value added tax of 20%.
- Agriculture, banking and industrial assets were privatised in the 1970s.[9]
- New labour legislation was introduced in the late 1970s to create one of the world's most flexible markets.
- Reforms of the financial markets included liberalising interest rates and privatising banks.

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[7] This was most apparent during the early 1980s, particularly following the crisis in 1981.

[8] Economic Analytical Unit, Australian Department of Foreign Affairs and Trade, *Investing in Latin American Growth*, 2001.

[9] Some of these assets were renationalised during the debt crisis and later privatised again in 1984–85.

1983 to 1989

- Traditional public sector utilities, including electricity and telecommunications were privatised between 1985–89.
- Functional and operational autonomy was granted to the central bank in 1989. The bank's overriding responsibility was inflation control.
- An efficient regulatory structure for privatised utilities was developed, which included strong regulatory bodies.

Public expenditure on education in South America				
	As percentage of GNP		***As percentage of government expenditure***	
	1990	***1999***	***1990***	***1996***
Argentina	3.4	4.7	n/a	12.6
Bolivia	n/a	5.8	n/a	11.1
Brazil	4.5	5.2	n/a	n/a
Chile	2.7	4.3	10.0	15.5 (1997)
Colombia	2.5	4.4	16.0	19.0
Ecuador	3.1	2.5	17.2	13.0
Guyana	4.8	4.6	n/a	10.0
Paraguay	1.1	4.8	9.1	19.8 (1997)
Peru	2.3	3.5	n/a	19.2
Suriname	8.3	6.7	n/a	n/a
Uruguay	3.1	2.8	15.9	15.5
Venezuela	3.1	5.2 (1995)	12.0	22.4
Simple average	3.5	4.54	13.37	15.8

n/a: Not available
Source: Cited in *After the Washington Consensus: Restarting growth and reform in Latin America*, drawn from UNESCO Statistical Yearbook 2002.

The result of these reforms was erratic growth throughout the 1970s. However, toward the end of the 1980s a positive trend developed as the profound structural changes and overall modernisation of the economy began to take effect.[10] On the other hand, throughout this

[10] The devastating economic crisis in 1981 delivered a crippling blow to Chile, causing the economy to contract by more than 10%. This forced the military government to

period social development was minimal. Unemployment and poverty levels were extremely high,[11] which made adherence to the previous regime's economic policies difficult to sustain for the incoming democratically elected government. Being accountable to the people, unlike the previous regime, the new government needed to justify its policies to the citizenry.

Nevertheless, the strong economic growth experienced toward the end of the military regime helped the decision-makers to agree to keep the economy open to trade and capital flows. This helped reassure both the local public and foreign investors that Chile's economic policy would remain consistent, and also instilled confidence in the democratic government.[12]

In addition to maintaining market-orientated economic policies, the Chilean government undertook a number of social development initiatives. Economic policies were geared towards the upliftment of society through education, training and providing necessary infrastructure. Human resources in particular were identified as the backbone of the country's economic growth strategy, and therefore the areas of health care, employment creation and social protection were targeted. However, some critics argue that much still needs to be done in developing Chile's human resources — especially in the realm of education. Improving and broadening education from the primary to tertiary level and providing skills development programmes on all levels have become priorities in Chile.[13]

To improve economic equality and achieve a broad number of social objectives over the long term, trade and investment were essential. But, as in any developing country, Chile required immediate results. Therefore, apart from promising transparency and freedom from

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further privatise certain key industries to re-establish investor confidence and stimulate moderate growth.

[11] In 1987, 45% of the population were living below the poverty line compared with only 15% in 1973.

[12] *Investing in Latin American Growth*, *op. cit.*

[13] Foreign Investment Committee, *Chile, your best bet*, 2002.

corruption to the people (and justifying the need to continue with free market policies), the Chilean government needed to identify ways in which the economy could contribute to socio-economic development.

Research and development expenditures in selected Latin American countries							
Country	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***
Bolivia	0.39	0.39	0.37	0.33	0.32	0.29	0.29
Brazil	0.48	0.69	0.76	0.76	n/a	n/a	n/a
Chile	0.65	0.66	0.65	0.66	0.65	0.62	0.63
Colombia	n/a	0.37	0.39	0.41	0.41	n/a	n/a
Costa Rica	1.42	1.23	1.25	1.13	n/a	n/a	n/a
Cuba	0.93	0.82	0.77	0.61	0.70	0.87	0.83
Ecuador	n/a	n/a	0.08	0.09	0.08	0.08	n/a
Mexico	0.22	0.29	0.31	0.31	0.34	n/a	n/a
Panama	0.36	0.37	0.38	0.38	0.37	0.33	n/a

n/a: Not available

Source: Red Iberoamericana de Indicadores de Cincia y Tecnologia, *Indicadores de Ciencia y Tecnologia,* Buenos Aires, 2000, *www.ricyt.edu.ar*, in *After the Washington Consensus: Restarting Growth and Reform in Latin America*.

Inflation targeting became the main objective of the new government. It managed to bring down the inflation rate from 27% in 1990 to just 2.3% in 1999, which had direct benefits for the masses. More tax revenues were required so that the government could increase its social spending. During the 1990s the introduction of various tax reforms raised revenue from tax from 14.5% in 1990 to 22% in 2000. These involved a slight increase in both value added tax (VAT) — which had been lowered substantially toward the end of the military regime — and corporate taxes, to counter the decrease in personal income tax. The growth in tax revenue during the 1990s enabled the government to raise spending on real education by 142%, increase wages and introduce welfare insurance that provided protection from income loss during periods of unemployment. Benefits provided by the unemployment insurance scheme most often take the form of training programmes that aim to instil a self-help value system in society. The scheme also includes incentives for re-insertion into the job market. Increased government revenue has also been used to improve health care and alleviate poverty. In 1990, 39% of the population lived below the poverty line: by 2000 this figure had dropped to 21%. Poverty alleviation has been identified as one of Chile's greatest achievements.

Impact of political changes on 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

* This was during President Lagos' first term in office. During his second term, despite a downturn in surrounding economies, Chile achieved an average economic growth of greater than 5%, further growth in exports, lower inflation and a substantial increase in investments. Even real wages increased.

Source: Mills G, 'Chile and South Africa: Lessons and opportunities arising from political and economic transition', *SAIIA Report Number 21*. Johannesburg: The South African Institute of International Affairs, 2002.

Strategies for long-term sustainability

Smaller economies like Chile, located far away from the large international centres, must integrate into and compete on the international market if they are to develop. And that means increasing the

> *competitiveness of our country, of its government, its business sector and the rest of society.*
>
> Ricardo Lagos, President of Chile[14]

Chile has recognised the need to formulate and implement a sound long-term trade and investment strategy that is favourable to both international investors and local producers. This involves an effective trade policy that includes both bilateral and multilateral trade agreements and an investment climate, which will lure FDI and other inflows of capital. To perform this task the Chilean government has created a number of departments and agencies such as the Foreign Investment Committee and Pro Chile (Chile's trade and investment promotional arm), which interact with business and the public sector in designing these strategies. These bodies are highly visible and active within both government and the public realm. Their working together with both local and international interests provides an effective public-private partnership (PPP) that gathers information relevant to trade and investment initiatives.

Bilateral trade agreements and Chile's involvement in the multilateral trading system not only provide easy access to alternative markets for its producers — thus increasing production and employment — but also additional security for investors. Trade agreements have also helped to increase the size of the Chilean market substantially.

Chile is second only to Mexico in terms of the number of free trade agreements (FTAs) it has signed. It is an associate member of Mercosur,[15] which gives it direct access to a market of more than 210 million people. In 2002 Chile signed FTAs with the EU and the US (the latter after protracted negotiations), making it the only developing country to achieve bilateral agreements with the two powerhouses of the world's economy.

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[14] *Ibid.*

[15] Mercosur, the South American Customs Union, includes Brazil, Argentina, Uruguay and Paraguay. Chile and Bolivia have associate member status.

One of the aims behind the broad range of FTAs Chile has pursued or concluded is product and market diversification. With 50% of total output in Chile destined for foreign trade, and exports accounting for 30% of total GDP, the Chilean economy is clearly reliant on trade. It is therefore important to diversify its interests (in other words, not rely exclusively on one product and one market) to avoid becoming a casualty of a partner country's economic misfortune.

Export markets by geographical area (% of Chile's total exports, 2001)	
US and Canada	20.1
Latin America	22.7
Europe	28.2
Asia	26.5
Others	2.5
Source: Central Bank of Chile, *www.bcentral.cl.*	

While it is clear from the table above that Chile has been relatively successful in diversifying its markets it is interesting to note that six products, five markets, and 21 companies still account for 95% of Chile's export earnings and half of its export volume. However, it is also clear that Chile has taken constructive steps to move away from its former reliance on production and trade in copper.

In addition to bilateral and multilateral agreements, Chile has introduced a progressive tariff policy of annual unilateral reductions on products from countries with which it does not have FTAs. The programme started in 1998 when the flat rate was 11%, and tariffs have been reduced every year since then. The last reduction was implemented on 1 January 2003, bringing the tariff down to just 6%.[16]

Chile has achieved impressive investment figures in recent times. Between 1995–99 the percentage of FDI to GDP in Chile was 7.7%, compared with 2.6% in Brazil and 4% in Malaysia. FDI has played a vital role in the Chilean economy, contributing to the modernisation

[16] This information is based on a publication released by the Chilean Investment Committee, titled, *Chile: A springboard into new markets*. 2003.

process, assisting sustainable economic growth, and improving social conditions through job creation and industrial decentralisation.

Between 1974–2001, materialised investment in Chile reached $54.3 billion, 90% of which entered the country after democracy had been restored in 1989. While most FDI is in natural resources such as mining, forestry and fishing, Chile's regulatory reforms in public services and the financial sector have offered new opportunities. These in turn have opened avenues for FDI in areas of telecommunications and other high-tech industries. This is again indicative of the country's commitment to industrial diversification.

The Chilean government has secured and increased investment through a number of policies and agreements. Chile is widely recognised for its stable and clear legal framework for foreign investment. The rules and regulations are transparent, non-discriminatory and non-discretionary. According to the Decree Law (DL) 600 (1974), investors enter with the Chilean state into a legally binding contract, which cannot be modified unilaterally by the Chilean government or by the enactment of any legal instruments after it has been signed.

Other aspects of the Chilean trade regime that are reassuring to foreign investors concern investment treaties and the tax regime applicable to investment. Chile has negotiated over 50 bilateral investment treaties (BITs), of which 36 are already in operation. Its tax regime is also clear and straightforward. Foreign investors are given the choice of two different tax systems, to accommodate their needs and to minimise risk.

Chile's trade and investment strategies clearly prioritise global integration. However, it has done this by targeting markets and activities that are directly beneficial to domestic economic growth and social development initiatives. These strategies appear to be driven by pragmatic considerations rather than political ambitions, unlike similar strategies pursued by other developing countries around the world. Even PPP initiatives in Chile — using finance raised from foreign investors — are used to benefit private business interests and improve socio-economic conditions in the country. Since 1995 more than $5 billion of foreign investment has been used to improve city highways, airports, public transport and other services.[17] This approach has attracted FDI and stimulated economic growth, and could be emulated by other developing countries.

Chile's success: Reaping the rewards of pragmatic policies

While Chile has received widespread recognition for its successful trade and investment strategies, it is interesting to note how and where these policies have been beneficial to the economy and the nation at large.

Chile is a small country, with a population of just 15.5 million people and a GDP of approximately $70 billion. (South Africa has 43 million people and a GDP of $130 billion.) By virtue of its broad range of bilateral agreements and multilateral activities, not to mention the political and socio-economic progress it has achieved since 1989, Chile, as a middle power, carries significant weight in the global political economy.

Throughout the 1990s Chile averaged 7% GDP growth annually. This created an environment in which various problems associated with human development and society in general could be addressed. According to the Human Development Report released by the United Nations Development Programme (UNDP) in 2002, Chile was ranked 38th out of 173 countries surveyed.[18] It therefore falls into the category of nations with a high level of human development, together with Spain, Singapore and Korea. When Chile is compared with countries such as Brazil, South Africa and Malaysia, which are all considered to be on the same level of development, the former's socio-economic indicators tend to be better than those of other emerging markets.

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[17] *Ibid.*

[18] This can be accessed at *www.undp.org*.

Socio-economic data profile (2003)				
Indicator	***Chile***	***South Africa***	***Brazil***	***Malaysia***
Population (million)	15.8	45.8	176.6	24.8
Life expectancy	76.4	45.7	68.7	73
Infant mortality (per 1000 births)	8	53	33.0	7.0
HIV (female, %)	0.3	15.6	0.7	0.4
Illiteracy (%) (2002)	4.2	14.0	13.5	14.0
Net secondary school enrolment (%) (2002)	78.6	65.5	66.6	70.2
GDP (current US$) (billion)	72.4	159.9	492.3	103.7
GDP growth (annual %)	3.3	1.9	-0.2	5.3
FDI (current $) (billion)	3	0.819	10.1	2.5
Present value of debt (current $) (billion)	44.2	28.6	254.1	50.3
Aid per capita (current $)	4.8	13.6	1.7	4.4
Source: World Bank Country Profile, *www.worldbank.org*.				

Chile has made great progress in overcoming a number of socio-economic difficulties. It is clearly one of the most advanced among the less developed nations, owing to the development policies implemented by the democratically elected government and the free market principles introduced by the previous regime, as already discussed.

The progressive policies adopted by the Chilean government are part of a far larger strategic plan. This involves a process of market integration and reforms and the simultaneous empowerment of society through the creation of opportunities and provision of resources that were previously unavailable. It is an ongoing process that is constantly adapting to the ever-changing external environment. Many have insisted that Chile's growth pattern is unsustainable, and that its small market and limited local opportunities cannot compete with the scale of other emerging markets. However, the Chilean government seems to have recognised this risk and has incorporated new and improved initiatives to meet the challenge.

Chile is constantly improving its investment climate and promoting itself as a corruption-free, business-friendly springboard into Latin America, which represents a broader market with massive potential. While low foreign debt, controlled inflation and tight fiscal policies are important, Chile is allocating additional resources to creating a business environment that is both transparent and highly competitive by world standards. According to Transparency International's *Corruption Perception Index,* Chile is placed in 17th position among 102 nations on a scale of 1 being least, and 102 being most corrupt. It is rated the least corrupt country in Latin America, and ranks alongside the United States (16th) and Germany (18th).[19] Chile is also recognised as a highly competitive economy, with impressive levels of business and government efficiency, according to the *World Competitive Yearbook* for 2002. In the 2002–03 *Global Competitive Report* published by the World Economic Forum Chile outstripped countries like Spain, Ireland, France and Italy — and was again the best performer in Latin America.[20]

Chile's efforts to minimise corruption and provide a competitive and reliable operating environment, are part of its campaign to promote itself as the destination with the best combination of high standard of living and business opportunities. Not only does Chile offer the lowest business costs in Latin America, but economic freedom and political stability prevail, and strong democratic principles are evident within society. Crime levels are low — in Santiago they are a fifth of those in New York — and Chileans have a firm understanding of globalisation

[19] For more information consult *www.transparency.org*.

[20] *Chile: A springboard into new markets, op. cit*.

and the benefits integration can bring to a small country like theirs, if the process is managed carefully. All of these factors make Chile attractive to FDI. Chile is also aiming to provide the ideal location where large multinational corporations (MNCs) will be able to base their regional or even international headquarters in the future.

Chile has prioritised its service industry. With services representing more than half of GDP and providing the largest proportion of employment, Chile has equipped itself to become a service-orientated economy, with a particular focus on infrastructure and technology. Chile's telecommunications sector is possibly the most advanced in the region. It has more fixed lines and mobile telephones per 100 inhabitants than any other country in Latin America. Chile also has the highest percentage of personal computers (PCs) and internet users in relation to its population. E-commerce has been embraced by the public, and the Chilean government is leading the way by utilising the internet to communicate with, and provide services to, its citizens. When Chile's technology and infrastructure are compared with those of other countries at similar levels of development, once again Chile emerges ahead of most others.

Technology and infrastructure (2002)				
Indicator	***Chile***	***South Africa***	***Brazil***	***Malaysia***
Fixed lines and mobiles (per 1000 people)	732.4	410.5	486.5	623
Average cost of local telephone call ($ per three minutes)	0.1	0.1	0.0	0.0
PCs (per 1000 people)	119.3 (2002)	72.6	74.8 (2002)	166.9
Internet users (per 1000 people)	272.0	68.2	82.2 (2002)	344.1
Paved roads (% of total)	18.9	20.9	486.8	75.3 (1999)
Source: World Bank Country Profile, *www.worldbank.org*.				

The policies Chile has implemented to adapt to, and benefit from, globalisation and the turbulent international environment provide lessons for all developing countries struggling to meet the direct socio-economic needs of their people while attempting to gain access to international markets. Chile's pragmatic approach has been a remarkable success. The government's strategy, which is clear and well publicised, has created an environment that encourages interaction and support from the private sector. All sectors are striving for a common goal, which is to advance the interests of Chile. By realising the importance of using human capital and social upliftment to achieve its objectives, the government seems to have formulated a very effective strategic plan.

Concluding remarks: Applying the Chilean strategy to African countries

Most countries in Africa share a number of characteristics with Chile, such as similar historical backgrounds, transitional experiences and their current position in the global political economy. Chile is also categorised as a developing country, and faces many of the same challenges and hardships developing countries in Africa and elsewhere have to endure. For these reasons, the solutions Chile has developed for a large number of these challenges could be applicable to many African countries too.

After 1989, the new regime introduced a strategy that was accepted by all facets of society and government. It then implemented its plan in a structured and organised fashion, using all its own human resources (government departments and agencies), and consulting representatives of the private sector. This helped to establish a stable political and social infrastructure, which was supported by PPPs. That the government's strategy was adopted and implemented with the help of society has been the essence of Chile's success.

The government bodies that were established to carry out the new policies and which worked closely with non-government organisations and private institutions, played a vital role in implementing Chile's broader strategy. African countries should consider creating government agencies that would be responsible for promoting investment opportunities and establishing interactive PPPs in a manner similar to Chile's.

Obviously leadership and expertise have played a significant role in bringing about the transition in Chile. Somebody had to bring the various interest groups together. Policies needed to be planned and formulated, and difficult decisions made, and these had to be communicated to the Chilean citizens in a logical and understandable manner. This responsible style of leadership provides a good starting-point for African countries attempting to enter the global arena, but which have yet to establish a stable domestic consensus.

Many African countries have been adversely affected by globalisation and the transition to market liberalisation, both of which are strongly advocated by multilateral institutions and the nations of the west. This has caused a backlash of protest against globalisation and western-style economics from the citizens of developing nations. However, for countries to develop, some way must be found for economies to enter the global market. Leaders of countries whose population is hostile to globalisation need to address this problem, and approach it in a more visionary and strategic manner. The Chilean experience can offer some pointers. It is clear that reforms need to be implemented and, more importantly, that they need to be completed. Half-measures are unacceptable – a reality that even Chile needs to be reminded of continually.

While trade and investment initiatives will help to ensure long-term, sustainable economic growth, most African countries require immediate results. Policies need to be implemented that will not detract from the longer-term objectives of attracting FDI and stimulating exports while addressing the needs of the people with immediate effect. Chile managed to do just that, through new and improved policies that increased taxes and allocated the additional revenue to the provision of basic social services. The Chilean government also placed greater emphasis on certain aspects of monetary and fiscal policies, like inflation targeting, in such a way that the broad macro-economic policy was not altered. At the same time ordinary citizens were aware that the changes being made were to their benefit.

A central lesson that can be learnt from the Chilean experience is that the government never lost sight of its longer-term objectives, or took a shortcut by adopting unsustainable populist policies to capture political support. This pragmatism applied to the managing of Chile's external economic environment too. Many African countries insist on pursuing bilateral agreements or FTAs with long-standing political partners with whom they have traditionally shared a common ideological position. This should change. FTAs should be pursued for economic reasons, as in the case of Chile. Obviously political acceptability does play a part, but it should not be the incentive driving economic and trade agreements.

Creating a more favourable business environment is also important. While factors such as economic freedom and political stability are important requirements that must to be met, African countries also need to address the problems of corruption and risk. The costs of doing business must also be competitive by international standards, and the combination of an attractive environment in which to live and do business should be striven for. This is essential in persuading MNCs to enter more committed investment relationships.

Other areas that should be addressed include the development of high-tech industries and a re-orientation toward services. This may be more difficult in African countries, where the level of development in infrastructure and technological advancement is much lower than in Chile. Nevertheless, this should be recognised as the way of the future, because of the large percentage of GDP and the employment it will generate. Another area of concern is the privatisation process, which has lagged in African countries. A notable example is the telecommunications sector, which, if privatised, would undoubtedly attract vast amounts of FDI, as it has done in Chile and other Latin American countries.

Chile's success story is applicable to African countries. Its strategic plan has ensured sustainable economic growth and greatly improved socio-economic conditions. The secret of the country's success has been pragmatic thinking, which has been carried through to policy formulation and implementation. Such an approach is critical if African governments are to realise socio-economic development.

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Author

LYAL WHITE is the senior researcher for Asia and Latin America at the South African Institute of International Affairs (SAIIA). He has travelled extensively in Latin America and has published a broad number of his research findings on themes ranging from South-South co-operation to business practice in Latin America.

He is actively involved in a number of working groups with various business chambers in South Africa, Latin America and Asia, and liases regularly with government departments, embassies and academic institutions. He has more recently completed work on the India-Brazil-South Africa (IBSA) Forum, South African Business in Latin America, comparing regional integration in Southern Africa and South America and more practically-orientated work assessing the viability of a SACU-Mercosur FTA.

White is currently researching examples of emerging democracies and the current economic orthodoxy in Asia, Africa and Latin America. He has a keen interest in alternative options for economic reform and the creation of a competitive investment climate in less developed countries. Regional integration in the developing South is a core area of his research, in which he has more recently focused on the role of so-called 'regional leaders' (such as South Africa, Brazil, India and China) in this process.

He holds an MA in International Relations (cum laude) from the University of Stellenbosch and is a PhD candidate at the University of Cape Town.