



SCHOOL OF ECONOMICS

Individual Essay

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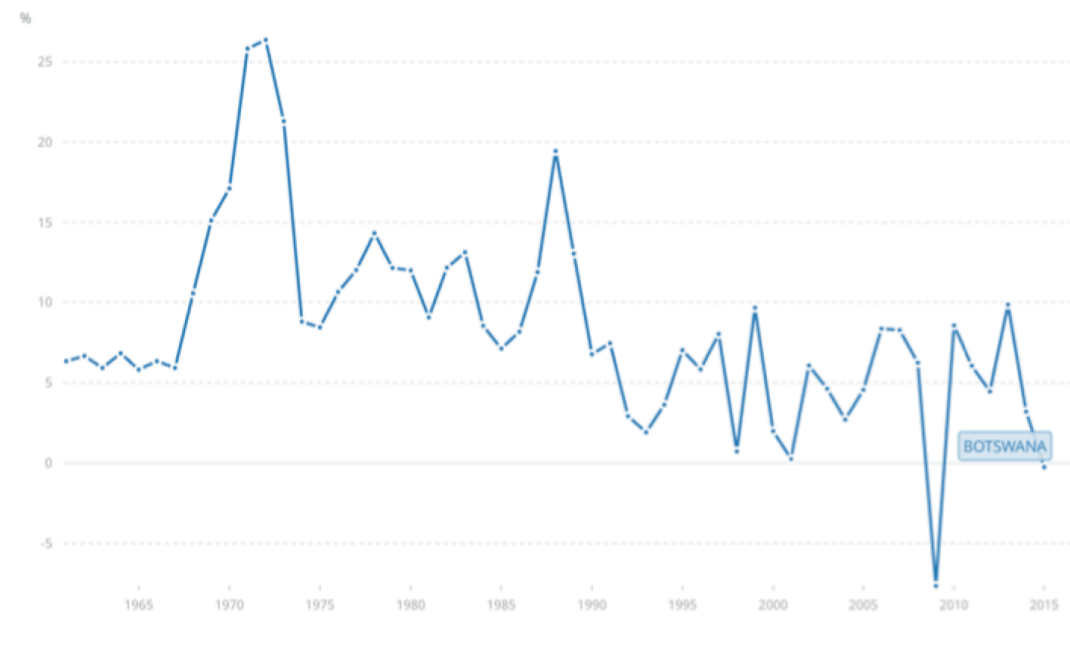
Comparing and Contrasting Chile and Botswana from 1990 to present

Two countries which have made impressive progress in growth and development over the last few decades are Chile and Botswana. These two countries present similar circumstances and statistics of development however are on different continents with underdeveloped neighbours as well as different reasons as to how they became as successful as they are. In this essay, the two countries will be compared and contrasted as to how they achieved their levels of development as well as how they manage potential issues. A brief explanation of the history of Botswana's coming of independence and Chile's transition to democracy are required in order to reflect on their impressive growth. This includes an indepth analysis of Botswana's dependence and wise use of mineral revenue, especially diamonds, and impressive governance and leadership to which its growth and development are largely accredited. Likewise this will be compared to Chile's use of monetary and political reforms after 1990 as well as its use of mineral resources and other sectors in international exchange. These countries will make for an interesting comparison because while they are both developing, they face many of the same issues such as unfair income distribution, poverty, unemployment, education and gender equality, however, they attempt to remedy these issues differently. Therefore, it will be proven that the path to development is not as clear cut and is quite case specific for particular countries.

It is necessary to first analyse the contexts of each country even before the designated time period, starting at 1990, to understand why they came to be the developing countries that they are, starting with Botswana. Botswana gained independence from colonial rule in 1966 (Maipose, 2008:11). The country

transitioned comfortably into democracy however, which was easier than what other colonialised countries experienced, because Botswana was relatively neglected by colonizers (Maipose, 2008:11). Governance was acquired swiftly and the country has since then been led by the same “multi-party system of government” (Maipose, 2008:14). Also, Botswana’s population is rather homogenous in comparison to other African countries with 80% of its people being Setswana speaking (Maipose, 2008:10-11). This as well as lack of conflict involving mineral rights of the country meant the period of new democracy was peaceful with no civil war or disputes (Maipose, 2008: 17-18). The Botswana government is one that abides by ethics which trace to traditional roots such as corruption being condemned and transparency in economic and political operations as well as avid civilian involvement in “town meetings” (or kgotla) (Maipose, 2008:41). This successful leadership is a powerful reason as to how Botswana attained its development. Also, Botswana’s land is arid and susceptible to drought, making the agriculture sector not very viable for economic growth (Lewin, n.d.:81). Agriculture as a percentage of GDP decreased from almost 40% in 1966 to 4% in 1990 (World Bank, n.d.). This reflects the fact that other sectors increased, in this case the mining sector which became the main contributor to GDP (Lewin, n.d.:81). Botswana also allowed international companies such as De Beers to gain revenue from mining which allowed for good international relationships as well as foreign direct investment and aid all of which Botswana was proficient in saving and investing (Maipose, 2008:6). These points have indicated the reasons behind Botswana’s success in growth after independence. However, Botswana faces much lower levels of annual growth in GDP since 1990 than in the years of 1966-1990 (Figure 1)(World Bank, n.d).

Figure 1: Botswana's GDP annual growth (%) from 1961 to 2015



(World Bank, n.d.)

This may be largely due to the fact that diamonds and other minerals which Botswana is so reliant on are depleting and the country is trying to bide its time while searching and developing other sources of income (Maipose, 2008:21). Problems of human development the country faces still need to be addressed. Before this, however, Chile's situation needs to be explained.

Likewise to Botswana, Chile became a democracy, for the second time, in 1990 after the country left the "Allende" military socialist government which infringed on many human rights and ethical economic and political decisions (Schmidt-Hebbel, 2007:9). Most importantly, following this transition to democracy, Chile made important reforms by "adopt[ing]... a free-market and economic [policy]" (Griffen et al., n.d.:72). This transition to foreign trade in a capitalist market has had powerful effects on the country's performance (Griffen et al., n.d.:73). The Chilean government of 1990 and since have been very oriented in encouraging a strong private sector (this comes from an emphasis on freedom of choice for the Chilean people) where Chilean companies can openly engage in the international market (Larroulet, 2013). Botswana does not seem to have this kind of emphasis on the private sector with the government being very much the

“conduit” of most engagements (Maipose, 2008:6). However, Chile is similar to Botswana in that its main export is a mineral, more specifically copper which “account[s] for almost half of the total value of Chilean exports” (Griffen et al., n.d.:73). Its other exports include “molybdenum, iron ore, wood pulp, seafood, fruits, and nuts” which is more agriculture than Botswana can take credit for, being landlocked and arid (Griffen et al., n.d.:73). This, however, still indicates Chile’s economy’s dependence on non-renewable resources, a problem with which Botswana has in common (Maipose, 2008:45). Lastly, it is important to indicate that before 1990, Chile had an annual GDP growth rate that would fluctuate immensely, reaching high points of 9% in 1971 and negative points of -11% in 1975 and high points of 8% in 1980 to negative points of -10% in 1982 (World Bank, n. d.). After 1990 GDP growth rates fluctuated less dramatically (save for the 2008 world recession) and while this relative ‘stability’ may be viewed as a good thing, others have viewed it as an “economic slowdown” (Figure 2)(Larroulet, 2013).

Figure 2: Chile’s GDP annual growth (%) from 1961 to 2015



Thus, the context of Chile has been analysed as well as compared to Botswana in several manners. It is now of interest to investigate the issues which both

countries face in terms of human development which is not reflected in annual GDP growth rates and external shocks to the economies such as the 2008/9 worldwide economic recession, HIV/AIDS pandemic in Botswana and 2010 earthquake that hit Chile (while these are cyclical and not internal issues, they evoked policies and focuses which have had ripple effects in the economies).

It is important to distinguish the difference between growth and development. A country can have significant growth in terms of its annual total output however it can be lacking in development. Development implies that “poverty is alleviated, income levels are considerably improved, and that resources and opportunities are distributed... in order for all segments of society to benefit” (Maipose, 2008:3). In this sense both Botswana and Chile are lacking in ‘development’ with high Gini indices, which indicate levels of income equality, as well as other development indicators (Maipose, 2008:13). The issue of income distribution in both countries will be analysed first. Chile by 1990 had a Gini index of 57.25 which had decreased to 50.45 in 2013 (World Bank, n.d.). Despite the decrease, these indices are too high for a developing country. This has many implications in terms of unemployment, poverty and education. However, Chile is better off in income equality than Botswana who had a Gini index of 60,79 in 1993 and 60.46 in 2009, evidently not much improvement (World Bank, n.d.). Reasons for these differences between the two countries lie in the “concentrated control of assets through unequal access to education and income-earning opportunities [(ie. jobs)]” (Griffen et al., n.d.:79). In terms of income-earning opportunities or employment in each country, a few reasons as to why Chile is better off in income equality than Botswana can be deduced. Firstly, Chile, while being reliant on capital-intensive mineral revenues which rely heavily on international markets for copper, much like Botswana is for diamonds, is open to other sources of income such as fishing and agriculture (Griffen et al., n.d.:73). Therefore Chile can more easily employ as well as distribute income, in a sense, than Botswana, which is landlocked and more reliant on capital-intensive mineral wealth than Chile (Maipose, 2008:13). Secondly, it appears that Chile is more encouraging in strengthening the private sector or private companies and the like who can engage in international trading markets as well as provide additional

employment whereas Botswana is still reliant on macroeconomic-level exports (Larroulet, 2013). These respective Gini indices effectively compare and reflect that the two countries, while both being 'developing countries' are in two very different situations of development.

The Gini indices just mentioned give way to analyse other development indicators such as unemployment and poverty headcounts. Chile's unemployment statistics are in 1991 around 8% of the population were unemployed and this was reduced to 6% by 2013 (Figure 3)(World Bank, n.d.).

Figure 3: Unemployment in Chile as a percentage of total labour force from 1991 to 2014



(World Bank, n.d.)

While this may not seem like much, it is better than Botswana who had 19.9% of the population in unemployment in 1991 and 18.2% by 2013 (Figure 4)(World Bank, n.d.).

Figure 4: Unemployment in Botswana as a percentage of total labour force from 1991 to 2014



(World Bank, n.d.)

Part of the reasons for why Chile fairs so much better than Botswana in this sense is because of reasons mentioned before with Chile having “areas of construction, business, and industry” in which to employ people which Botswana does not (Griffen et al., n.d.:73). Unemployment relates greatly to poverty. Chile and Botswana had relatively equal levels of poverty in the beginning of the 1990s and both have managed to reduce the poverty headcounts to be in the 10-20% range (still a huge range when speaking about the percentage of a population) (World Bank, n.d.). Chile’s method in reducing poverty to this extent is in the same sense of empowering citizens with freedom of choice and ensuring them “autonomy, responsibility, and dignity” (Larroulet, 2013). Chile has avoided becoming “a welfare state” in which it simply provides income to those living in poverty (Larroulet, 2013). Rather it has implemented “promotional policies” to “help people overcome vulnerability and poverty by themselves” by “promoting an entrepreneurial society” (Larroulet, 2013). The “Ethical Family Income” policy was one such policy that would provide “monetary transfers” which would be provided to families living in extreme poverty if they achieved certain goals of

“education, health, and job search” (Larroulet, 2013). Such policies seem to have fared well for Chile thus far, however the earthquake of 2010 worsened poverty for a time. For Botswana on the other hand, policies have been less direct in alleviating poverty. Due to the country’s wise investment and savings management as well as sufficient foreign aid and foreign direct investment, the country has focused on “other categories of social services” related to poverty “such as education, health and water services which are closely associated with human capital development [(which Botswana desperately needs)]” (Maipose, 2008:30). Thus the two countries have been compared in their different but relatively productive methods of poverty and unemployment alleviation. Health is obviously related to poverty with Botswana having much lower life expectancies than Chile however this can be greatly attributed to the HIV/AIDS pandemic in the early 2000s which affected Botswana deeply.

On the topic of education previously mentioned, the explanation for both countries alleviation from poverty and Gini indices may be explained. Chile has an adult literacy rate that has increased from 94.3% in 1992 to 96.6% in 2015 while Botswana has a rate of 68.9% in 1991 to 88.2% in 2015 (World Bank, n.d.). While Chile is still much higher in this rate than Botswana, both increases imply improvement in education and thus decreases in poverty, unemployment and Gini indices. The student protests which broke out in 2011 in Chile also urged focus to be placed on creating cheaper and better quality education (Mander & Rathbone, 2014). Gender parities in primary and secondary education enrollment have also been relatively productive in both Chile and Botswana with Botswana maintaining a parity of 1.08 in 1990 and 1 in 2015 and Chile having a parity of 0.998 in 1990 and 0.992 in 2015 (World Bank, n.d.). These statistics of both countries help explain the reasons behind the relative decreases in poverty and unemployment for Botswana and Chile.

In conclusion, developing countries Chile and Botswana have been effectively compared in their different approaches to growth and development. The countries individual situations and histories were first analysed to give an understanding of their current circumstances. Properties of development were

then defined and issues such as poverty, unequal income distribution, unemployment and education in both countries were analysed as well as the different methods in alleviating these issues each country practices. It may appear that Chile, while everything is not perfect, is in better stead than Botswana, however, it is important to factor in their different contexts and situations when comparing the two countries.

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