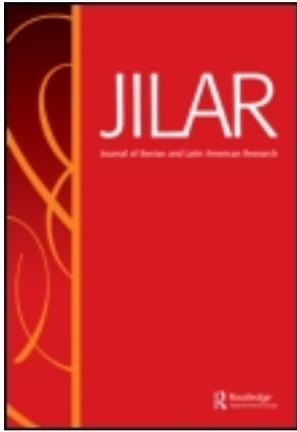


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### When Trade Policy is Not Enough: Opportunities and Challenges for Chile's International Insertion

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## When Trade Policy is Not Enough: Opportunities and Challenges for Chile's International Insertion

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In the last decades Chile's relationship with the world has been driven by matters related to its economic policy. This article argues that Chile privileges trade relations over politics and neglects deeper relationships with neighbouring countries. While the erosion of the United States' influence has provided some opportunities for participation in regional political projects; a close examination of the country's foreign policy will show that there has been a consistent hegemony of economic over neighbourly interests enacted. This situation is strengthened by the strong presence of an economic elite who is influential in shaping national foreign policy. For the most part, the election of right-wing president Sebastián Piñera, has signified continuity with the previous policies of the centre-left governments. At the same time; this stability is nuanced—in particular in regards to the relationships with neighbouring states where some deterioration is evidenced.

**Keywords:** Chile; Foreign Policy; regionalism; International Economic Relations

Chile is seen by its peers as the most diligent student in the class. The quality of its institutions, the solidity of its macroeconomic framework and the measures the country has taken in order to liberalize trade and investment have all garnered positive results. For example, during the first half of 2011, Chilean exports totalled more than US\$41.200 billion, representing a 26% annual rate of expansion.<sup>1</sup> In the same way, the Central Bank of Chile projected a 5.5% growth in gross domestic product (GDP) for 2013, while unemployment rate hovers at slightly over 6%, which is below that of other more developed economies.<sup>2</sup> This solid performance allowed for Chile's integration into the Organization for Economic Cooperation and Development (OECD) in 2010 – an entity which includes only the most developed economies in the world. Chile is the first South American member country. Paradoxically, though, OECD reports have positioned Chile as the organization's most unequal member in terms of income disparity, with a Gini coefficient of 0.5 while the OECD average is 0.31. In addition, such reports reveal that 18.9 per cent of the Chilean population lives in poverty. Among OECD countries, only Mexico and Israel have higher poverty rates.<sup>3</sup>

Such asymmetries are also perceived by the Chilean public at large, which demonstrates its discontent by questioning a model that does not transfer economic gains to the majority of the population and by calling for social justice, higher degrees of transparency, and more meaningful levels of participation in decision making. This tension is manifested, for example, in the massive student citizen protests against the educational model in 2011 and 2012,<sup>4</sup> in the *Aysén* protests at the beginning of 2012, where demands for bettering quality of life in the southern part of the country were made,<sup>5</sup> and in the resurgence of the conflict with Indigenous *Mapuche* populations.<sup>6</sup> In all of these

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cases, the mobilized sectors demanded a larger participation in decision-making on issues that were directly relevant to them.

With regards to Chile's foreign policy, this takes place in the context of a presidentialist regime, which signifies that in practice, the majority of decisions are made by the executive. The context is also shaped by the strong presence of economic elites who are organized into powerful interest groups and lobby for influence in the formulation of foreign policies—particularly those related to their commercial interests.<sup>7</sup> As a result, a reduced number of large companies receive the plentiful earnings that the international economic insertion of the country generates—mostly through the sale of natural resources. At the same time, small and medium enterprises are for the most part excluded from reaping these benefits. Iván Vuskovic, the ex-president of the National Confederation of the Small and Medium Businesses (CONAPYME – *Confederación Nacional de la Pequeña y Mediana Empresa*) explains that for those companies of a smaller size who trade in products with a larger value-added element, Latin America is the favoured destination and thus they would therefore benefit from a foreign policy that promotes regional integration. The similar levels of development and technologies create conditions that would permit them to access these markets in conditions favourable to market competition.<sup>8</sup>

Taking into account these background conditions, this article proposes that in spite of the fact that Chilean Foreign policy had not been substantially modified by the end of the 20-year administration of the left-centre *Concertación*,<sup>9</sup> and the arrival to power of centre-right president Sebastián Piñera, there are some nuanced differences. For example, the current administration applies a management type of logic in which economics replaces politics. More recently, this Chilean strategy has caused internal troubles in the face of a new regional and global international order.

One of the most emblematic examples of this is seen in the relationship between Chile and Peru. Piñera's foreign policy has adopted a two-track approach. In a political dimension, he appealed to the International Court of La Haya for resolution of a maritime demand filed by Peru in 2008. It is expected that a resolution to this case will be handed down during the second semester of 2013. At the same time, in regards to economic matters, trade and investment is facilitated because Peru is one of the most important Chilean foreign direct investment destinations.<sup>10</sup> With Bolivia, a complex relationship framed in the logic of the nineteenth century and the context of the War of the Pacific (1879-1883) persists. During this conflict Bolivia lost its access to the ocean and became landlocked. After not making progress on the thirteen-point joint agenda agreed upon by his predecessor, these tensions under the Piñera government are again escalating.<sup>11</sup> One novel aspect of the current government is that while maintaining a policy open to regionalism, they have prioritized the incorporation of the country as a full member of the Pacific Alliance consisting of Chile, Colombia, Mexico and Peru. This sub-regional organization promotes the liberalization of markets and investments and emphasizes relations with the Asia Pacific region.

In order to develop these arguments, it is necessary to be familiar with the debates over foreign policy. In Europe these were connected to the emergence of the modern state in the seventeenth century, considering it a sphere completely separate to public policy. In the United States (U.S.) tradition, foreign policy was situated within the domain of public policy. However, this occurred after World War I and as explained by Carlsnaes, occurs at a time where many statesmen, in particular Woodrow Wilson, demand the end of secrecy in diplomacy and in the formulation of foreign policy. Implicitly, this signified a demand for the democratization of this arena, opening debate on how to incorporate public interests and values in the formulation and execution of foreign policy:

Foreign policies consist of those actions which, expressed in the form of explicitly stated goals, commitments and/or directives, and pursued by governmental representatives acting on behalf of their sovereign communities, are directed toward objectives, conditions and actors—both governmental and non-governmental—which they want to affect and which lie beyond their territorial legitimacy.<sup>12</sup>

In the case of post-authoritarian Chilean foreign policy, Fleming and Whener have highlighted the search for autonomy, and the signing of Free Trade Agreements (FTA) with different countries and commercial blocks. This strategy can be understood as a soft-balancing tool that reduced both its asymmetrical economic dependence and the potential political influence that world and regional powers could exert over it through the diffusing effect that multiple commercial ties produce.<sup>13</sup>

The following text is divided into four sections. In the first, I briefly lay out the main international characteristics that condition Chile, including processes of globalization, the role of the United States, and regionalism. In the second part, the article focuses on an examination of the major features of foreign policy under democratic Chilean governments. This contributes to an understanding of the continuities and changes in the country's overall objectives, the divergent views regarding Chile's place in the world and the position it should aspire to within the international community. The third deals with Chilean trade policy and its overall importance. In the analysis, I highlight the relations with the Asia-Pacific region. In particular, given that Chile's approach to Australia is framed in the context of a strategy for strengthening ties with countries of the Asia-Pacific Economic Cooperation (APEC), and promoting both trade and investment liberalization in that region, I focus on the Australia-Chile Free Trade Agreement. In addition, both countries are members of the Forum for East Asia-Latin America Cooperation (FEALAC). Finally, in the fourth section, those elements of change and continuity between the centre-left (1990-2010) and centre-right (2010-present) are listed and analysed. Recent changes in foreign policy are punctuated by the management type approach, strengthening and promoting alliances with the Pacific, the interests of small and medium businesses, and the separation of the foreign policy with Peru into two distinct tracks. Significant continuity can be observed in the maintenance of pragmatism, the influence of economic elites, the emphasis on international commerce, and the search for a balance of power via economic and political multilateralism.

### **Global and Regional Determining Factors in Chile's International Insertion Strategy**

Globalization processes are a key determining factor in the formulation of Chilean foreign policy, particularly due to the country's outward economic focus. A second determining factor is related to the relationship between Latin American countries and the U.S. Here a reinterpretation of international, regional and domestic relations can be observed during the last decade. While during the Cold War Latin America occupied a strategic position in the U.S. security agenda, in the post-bipolar system the region has become less relevant. The terrorist attacks of 11 September 2001 generated newfound strategic preferences for Washington, oriented towards issues related to security, terrorism and drug trafficking. This tendency deepened with the 2003 beginning of the invasion in Iraq.<sup>14</sup>

Based on this restructuring, the perceptions of Latin American countries towards their neighbours and other parts of the world have also been modified; and many areas are now valued as attractive potential trade partners. This does not imply that they ignore the United States as a major power and an important actor in the region, nor is it a position that all countries in Latin America have assumed to the same degree. For example, Mexico, Central

America and the Caribbean nations maintain intense ties to Washington. However, this is not true for South America and Chile, which has developed greater room for maneuver and is no longer as constricted by U.S. influence as in the past.<sup>15</sup> This situation has provoked, on the one hand, significant debates about which insertion strategies to pursue and, on the other, discussions about what is the best way to resolve conflicts. As some countries continue to prioritize bilateral relations, others prefer multilateral, hemispheric and/or sub-regional mechanisms. This tension is reflected in Chilean foreign policy thinking as well.

In South America and Chile, sectors of the political, intellectual and economic elite have revalidated regionalism as an option for insertion into the international system. Many countries understand that this strategy increases their negotiating power in multilateral forums, expands national markets and intensifies competition, thereby opening up possibilities for carrying out activities that are difficult to develop in isolation. It is in this context that the Union of South American Nations (UNASUR) has emerged, reflecting a new form of regional order led by Brazil and that seeks a higher degree of autonomy from the United States. Brazil has been able to strengthen its regional ties in order to carry out its development strategy and international insertion. Through the use of the Southern Common Market (MERCOSUR), UNASUR and several other multilateral forums as platforms, Brazil has managed to position itself as South American leader.

Brazil's leadership is based not only on its size, population, natural resources (such as oil and water) and the development of its agricultural and industrial sectors, but also stems from its implementation of an economic trade policy that has led to an invitation to join the G-20 financial bloc and to take leadership roles for issues such as agriculture within the World Trade Organization (WTO) developing country G20 negotiating bloc. It has also taken advantage of the fact that Mexico is losing influence as it has been concentrating its efforts on maintaining relations with other North American countries through its incorporation into the North American Free Trade Agreement (NAFTA) in 1994.<sup>16</sup> Chile has had to adapt to this power reconfiguration, and for this purpose has opted for participating in the sub-regional schemes that those countries with greater regional relative power have promoted.

In the trade multilateral sphere, despite the creation of the WTO in 1994 and its launch in 1995, trade conflicts between developing and developed countries persist. Such conflicts are mainly related to subsidies for agricultural products and intellectual property rights, a situation manifested in the stagnation of the Doha Round. Alternatives for international economic insertion in Latin America are flourishing as a complement to the U.S. market. In turn the United States is attempting to strengthen its economic relations with Latin America through the negotiation of FTAs to compete with economic rivals such as China and the European Union (EU).

Another option is to seek out external partners, one of the most attractive of which is the European Union. The EU absorbs 20% of Latin American exports and represents the second largest source of foreign direct investment and the main source of official development assistance.<sup>17</sup> Europe also ranks as Chile's second most important trade partner. Asia is another attractive potential trading zone, absorbing 13% of all exports from South and Central America. The most substantial connections with Asia have emerged in the context of APEC, in which Chile, Mexico and Peru are active participants. More recently the creation in 2010 of the Pacific Alliance emphasizes economic integration over promoting cohesive political coalitions as UNASUR or the Community of Latin American and Caribbean States (CELAC).

On the other hand regional integration is an alternative through which a greater degree of independence and negotiating power via joint action has been sought. In South America

the factors that have stimulated the process of integration are related to a common cultural heritage linked to colonial history and the struggles for independence. It is also determined by the joint strengthening produced by integration as South America has a population of over 382 million people and a landmass of over 17 million square kilometres. It also possesses 27% of the world's fresh water, hydrocarbons for the next 100 years, 8 million square kilometres of forest and two oceans. It is the region that produces and exports most of the foodstuffs in the world.<sup>18</sup> However, significant structural asymmetries can be observed. In Brazil, for example, there are over 190 million people, representing 50% of the entire population of South America, while Suriname has only 500,000 inhabitants, representing just 0.5% of the region's population.

### **Chilean Foreign Policy in Post-Dictatorship Governments**

It has been asserted that although Chile's foreign policy has been modified over time, it is possible to identify certain traits that are influential in its formation.<sup>19</sup> Some of the most important include institutional stability, which is provided by the presence of organized political forces, the relative homogeneity of the population and a narrow geography, all of which have allowed for high levels of control over the national territory.<sup>20</sup> In addition, the existence of a presidentialist regime signifies the existence of nearly absolute executive control over foreign policy formation. This feature is also observed in various Latin American countries. For example, in their separate analyses of MERCOSUR—an integration organization that has mechanisms for controversy resolution—Malamud and Danese detect that when confronted with the need to resolve issues deemed sensitive and strategic, presidents utilized the so-called 'summit diplomacy', which is to say a form of direct negotiation amongst themselves.<sup>21</sup>

In Chile the country's democratic political processes, civil-pragmatic diplomacy and a long legalist tradition of staying true to international law and abiding by international agreements are also significant determinants of its approach.<sup>22</sup> In the same way, and according to the Minister of Foreign Relations, multilateralism is key to Chile's foreign policy because the country is a medium-range one in terms of development and relative power. Given this, the creation of norms that facilitate the participation of a diverse set of actors in the international arena is a useful and effective strategy for the advancement of the national interest. In this spirit, Chile's government has collaborated with the maintenance of the peace and security within a United Nations (UN) framework in Haiti, and has also promoted the establishment of norms and transparency rules in international organizations, including the WTO and Bretton Wood institutions.<sup>23</sup>

It should be noted that the decision to promote and deepen the economic insertion of Chile by encouraging openness to the world was not a democratic outcome, but was initiated decades ago during the military dictatorship. Alongside the reestablishment of democracy in Chile in the 1990s, an intense process of international reinsertion was initiated. In addition to maintaining the liberal model, Chile sought to attain reciprocity with trade partners. To this end a strategy of trade diplomacy was utilized in order to negotiate within a framework of multilateralism and selective trade agreements.

In the 1990s, Latin America was characterized by political and economic processes generating a redefinition of the relationships between the state, market and society. There was a shift towards political and economic neoliberalism that both recognized democracy as the best option, and questioned a protectionist and inward-focused model for development. A new economic paradigm based on the postulated of the so-called Washington Consensus was adopted and a series of reforms promoted by the international

economic and financial organizations (World Bank and International Monetary Fund) and aimed at promoting growth in the region are implemented.<sup>24</sup>

From the return of democratic rule in Chile in 1990 until March 2010, the centre-left coalition *Concertación de Partidos por la Democracia* or *Concertación* governed for four consecutive presidential terms. During this time the *Concertación* developed a strategy for insertion in the post-Cold War world with a view towards re-establishing damaged bilateral, regional and global relations, especially in subjects such as strengthening democracy and human rights. For example, in 1991 Chile signed the Declaration of Santiago on Democracy and Public Trust (the Santiago Declaration) at the General Assembly of the Organization of American States (OAS). This declaration helped to strengthen member states' commitment to the promotion of good governance in the Americas, and Chile had a very active role in it. Similarly, Chile strongly supported the creation of the UN Human Rights Council that replaced the Human Rights Commission in 2006.

The *Concertación* also added the selective signing of preferential trade agreements to the unilateral strategy initiated during the military dictatorship of Augusto Pinochet (1973-1990) in the context of a new emergent regionalism. From then on the objective of Chilean trade policy has been to increase the access of national products to a wide range of foreign markets, resulting in Chile becoming one of the countries that has signed the greatest number of free trade agreements—22 with 60 nations. During the first *Concertación* government, led by Patricio Aylwin (1990-1994), multilateralism once again became a strategic mechanism of foreign policy. Some border issues with Argentina and Peru were approached in order to normalize neighboring relations and show Chile as willing to occupy peaceful dispute resolution mechanisms. However, the problems which stem from the War of the Pacific, in which Chile fought against Peru and Bolivia, persist to this day. This is mainly reflected in territorial and maritime boundary claims by the latter two countries. In the area of trade economics, the economic-productive model adopted by the military regime was maintained, but bilateral negotiations were initiated and FTAs were signed with Canada and Mexico, beginning a process of expansion of ties with Asia, in particular with Malaysia.

Throughout the second *Concertación* government, led by Eduardo Frei (1994-2000), Chile became known for following what is known as 'trade diplomacy'. During this time period the president promoted trade and an important number of business leaders travelled with the presidential delegation in order to win business. President Frei participated in the first APEC Summit that launched the 'Bogor Goals' in which the member commitments to liberalization were established. In the political scope, in turn, the most relevant moment was the 1998 detention of ex-dictator General Pinochet in London. At the time, as dictated by his 1980 constitution, he was a life-term senator, and the government had to mobilize all of its available resources to repatriate him under the argument that the human rights violations had been perpetrated on Chilean soil and should therefore be tried under national jurisdiction.<sup>25</sup>

During the third *Concertación* government, led by Ricardo Lagos (2000-2006), some public policies were strengthened, partially recovering the role of the state as a guarantor of equal opportunities. In the 1970s during the authoritarian period, the state was reduced to its most minimum expression and, not long after this, Washington Consensus measures were implemented. In this respect the administration forged the basis for a reform of public health services in order to make them more equitable and grant them higher levels of public funding. At the same time, a major judicial reform was undertaken, with the aim of modernizing judicial proceedings and the administration of the judicial branch.

The Lagos administration also attempted to revitalize regional connections. It pushed for full incorporation into MERCOSUR, but was unable to reach the necessary domestic consensus. The opportunity for Chile to maintain its autonomy in terms of trade policy until it reached a convergence with the other members of MERCOSUR was proposed and accepted. However, this did not convince local Chilean actors. On the one hand, interest groups linked to agricultural production such as the National Agricultural Association and parliamentary representatives from rural districts expressed their reluctance toward the agreement. Conversely, the position from the government, parliamentarians and businessmen was that the status of associated membership was a good option, ensuring that the country was not excluded while it maintained autonomy with respect to its commercial policy. The idea of being at the mercy of a MERCOSUR, with weak institutional mechanisms and under the hegemony of Brazil, was an unpalatable outcome.<sup>26</sup> No agreement on membership in MERCOSUR was reached despite the fact that it was touted as a strategic priority, mainly due to possible benefits in the areas of physical integration, mining, economic and trade relations, and the implementation of joint strategies regarding social and cultural matters. In addition, the Southern Cone countries share similar values, such as the defence of democracy and an interest in promoting political stability in South America.<sup>27</sup>

Also, during the Lagos administration, Chile became a non-permanent member of the UN Security Council. During its membership Chile took a defiant position regarding the invasion of Iraq, demonstrating the coexistence of pragmatism and ideological elements within Chilean foreign policy. In March 2003, the U.S. tried to persuade all fifteen Security Council members to invade Baghdad and cause a regime change arguing that diplomacy failed to achieve such a goal. Even though at that time Chile was poised to sign a FTA with Washington after more than ten years of negotiations, President Lagos voted against the United States proposition.<sup>28</sup>

The fourth *Concertación* government enjoyed the distinction of being led by Chile's first female president, the Socialist Michelle Bachelet (2006-2010). During her administration, social protection networks were further strengthened, while in the international sphere the administration worked to consolidate Chile's image as a representative-democratic nation, a goal which was consistent with republican ideals and an economy based on the promotion of free trade. Coinciding with previous administrations, Bachelet's government upheld the objectives of strengthening multilateralism, the peaceful resolution of conflicts, the upholding of international humanitarian law and the recognition of the binding nature of agreements. In addition to economic and trade issues, the political dimension of regionalism was also emphasized.

Chile actively participated in the creation of UNASUR, which is made up of the twelve independent states within South America (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela). Its constitutional agreement, the Treaty of Brasilia, was signed on May 23, 2008, and is based on the following principles: unrestricted respect for the sovereignty, integrity and territorial inviolability of all member states; self-determination; respect for human rights; reduction of asymmetries; and harmony with nature, aimed at sustainable development. In the founding treaty of UNASUR there is no mention of the implementation of trade benefits, tariff reductions or the creation of a customs union among member states.<sup>29</sup> For Chile, within the framework of the quest for autonomy and active participation in the promotion of multilateralism, entrance into UNASUR as a full member allows it to influence the organization's guidelines, while maintaining freedom of action in the commercial scope.

Chile held the *pro tempore* presidency in 2008-2009 of UNASUR, during which it collaborated with the Bolivian government in order to overcome that country's internal crisis, which posed a real risk of destabilization and democratic breakdown. However, the Bachelet administration faced serious difficulties in one of Chile's most sensitive foreign policy areas, namely border relations, as Chile maintains only consular relations with Bolivia. Peru, in turn, does not recognize the maritime borders with Chile established decades earlier, and filed a suit against Chile in the International Court of Justice, which is expected to rule on the case in 2013. These efforts demonstrated the need to widen the scope of action of Chilean foreign policy and to finally give relevance to the ties with Latin America, most fundamentally with neighbouring countries.

In the two decades of rule by the center-left *Concertación*, Chile made some progress in softening the effects of the neoliberal model, which had downsized the state in the name of effectiveness and efficiency. In regards to international economic policy this indiscriminate opening meant, for example, the capture of investments in mining and energy sectors. However, many of these did not imply a transfer of technology and did include harmful environmental effects. In spite of the fact that environmental quality standards are increasingly raised and an active citizenship monitoring these processes, there is still a need for the state to increase their control over these issues. In particular, the government promoted the idea of 'growth with equity' and attempted to widen the middle class. However, the values of market citizenship still remain, which focus on individual choice, control over one's fate and self-government, as Schild reminds us democratization in Chile:

Has not therefore, meant a return to the principles of universality guiding social provisioning, and more broadly, the needs-based projects of social and political integration under the older *Estado de Beneficiencia* (Welfare State). Instead, the redefined social aims of government, and the rights and obligations of clients, are today themselves defined in market terms.<sup>30</sup>

In March 2010, after twenty years of *Concertación* governments, the businessman and member of *Renovación Nacional Party*, Sebastian Piñera, assumed the presidency (2010-2014), representing the centre-right coalition known as the *Alianza por Chile*.<sup>31</sup> The administration held that in international relations, there would be continuity regarding the principles of respect for international law, the binding nature of agreements, the peaceful resolution of conflicts, and the defence and promotion of human rights.<sup>32</sup> However, certain differences have emerged regarding relations with other Latin American countries, particularly neighboring countries.

At the 2010 Unity Summit Mexico regional leaders expressed their intention of creating CELAC, a regional organization that includes all thirty-three countries in the hemisphere except, notably, for Canada and the United States.<sup>33</sup> Piñera highlighted the importance of strengthening the existing OAS, organization that has been questioned, on the grounds of being perceived as a hegemonic tool of the U.S. instead of a truly and useful institution aimed to the common good of the region.<sup>34</sup> Nevertheless, Piñera also mentioned at the same time Chile's interest in continuing to fortify regional ties. In this case, the government applied pragmatism and given it was looking to balance power in order to promote its interest, especially in reference to commercial openings and investments, it did not exclude itself from the regional mechanisms.

In this way, for example, during the first CELAC-EU Summit in Santiago 2013, the government of President Piñera promoted trade, investment, and the avoidance of Protectionism. In the same way, he highlighted legal security and clear rules of the game, aspects emphasized particularly with the support of the European and Pacific Alliance

countries. Other nations, such as Argentina, Bolivia, Cuba, Ecuador and Venezuela, put an accent on the sovereign right of the state to demand sustainable investments beneficial for all citizens.

Also in 2010, Chile confirmed its membership in UNASUR because it considers this organization to be a platform from which to work forward on regional infrastructure improvements, political and economic cooperation, and regional governance. Regionalism as an option for insertion is based on the recognition that increasing interdependence acts as an incentive for adopting a cooperative vision in order to achieve a form of regional governance. The establishment of deeper links with the members of UNASUR would help to modify negative perceptions and mistrust.

This is particularly relevant if one considers that problems Chile has with both of its Andean neighbours, Peru and Bolivia, have worsened. In 2006, a thirteen-point agenda was agreed upon with the Bolivian government. This included the issue of maritime access and was accompanied by a private dialogue that consisted of political consultations, which ended in 2010. Bolivia expects that Chile will provide an official statement in order to re-establish dialogue over its access to the Pacific Ocean. However, the current administration in Chile has provided no space for such a solution. This has led Bolivia to threaten to take the case to the International Court of Justice in order to review the Treaty of 1904, in which the borders between the two states were defined. With Peru, meanwhile, the idea has been to establish relations based on two separate agendas, the 'past and the future', and in two policy areas, economic and political. This was decided after Peru imposed a lawsuit against Chile in The Hague.

Another important aspect of the current administration is its interest in strengthening Chile's profile as a global trader. The appointment of current Minister of Foreign Affairs is a good example of the aforementioned trend. He is an industrial engineer with an MBA from the University of Chicago, who before becoming minister worked as President of Chilean Institute for Rational Business Administration (ICARE – *Instituto Chileno de la Administración Racional de la Empresa*), a non-profit organization that supports the private sector as the most important agent for development. This vision signified, for example, that in the controversy with Peru, Chile take on the above-mentioned two track strategy.<sup>35</sup>

Piñera's government has also given priority to the country's international economic relations, deepening and in some cases, developing an active policy towards the integration of small and medium-sized companies into international trade. As such, there is still an emphasis on connections with China and the Asia-Pacific region, and on seeking a privileged relationship with the United States. Chile has also sought to develop a special relationship with Brazil, which is seen as a strategic partner due to the size of its economy, its influence in the region, and its growing role in the international community. During his first official tour as president, Piñera visited Argentina, the United States and Brazil. In the latter, he reiterated Chile's support for Brazil's intention to attain a permanent seat on the United Nations Security Council. In other areas, Piñera has highlighted the importance of curbing revolutionary populism. The president and the foreign minister continue supporting the idea of pragmatism in order to establish workable relations within a diversified ideological reality.

In this vein, in 2012 Chile hosted the IV Summit of the Pacific Alliance. One of the central elements of this project is the international economic insertion of Chile, Colombia, Mexico and Peru, characterized by adopting open economies and the application of an open regionalism with multiple FTAs. It is important to stress that all four countries have signed FTAs with the U.S. demonstrating a pragmatic approach in a context of economic

crisis in which full membership to this organization can be explained as a reflection of the change in economic hegemony in the region, where the role of China becomes in reality essential. In the case of Chile, the Chinese market occupies the first place as a destiny for its exports.

In January 2013, Santiago again acted as a host, this time to the first CELAC-EU summit, which gathered heads of state and government and the representatives of the 22 countries of the EU and 33 of the CELAC.<sup>36</sup> Here the idea of promoting sustainable development, trade, investment and avoiding protectionism protrudes as does legal security and clear rules for bilateral/multilateral relations.

### **Current Economic Scenarios and Chile's International Trade Policy**

Recent years have been marked by the global economic and financial crisis of 2008, with the bankruptcy of Lehman Brothers and the weakening of a large portion of European and American economies causing uncertainty about the possibility of a swift recovery. However, on this occasion Latin America found itself in a much better position to face the crisis. This positive scenario can be explained by the importance of the ties between the region and the Chinese economy, which, together with the rest of the emerging Asian economies, is the engine of current global economic growth.

The percentage of Latin American exports to the Asia-Pacific region have tripled in the past five years, going from 9 per cent to 22 per cent, and Asian imports to Latin America have nearly doubled in the same time period (going from 9 per cent to 15 per cent). However, Latin American exports to Asia continue to be dominated by raw materials and products with low levels of value added, while exports within the region itself and to the U.S. tend to consist of a higher percentage of manufactured goods. Nevertheless, the complexity of the current situation concerning developed countries, especially the United States and Europe, is beginning to affect emerging nations and could translate into lower export growth rates to those markets.<sup>37</sup>

The different post-authoritarian governments have been strengthening Chile's relations with Asia for years. Chile is the Latin American country with the highest density of trade connections with 45 per cent of exports destined for Asian markets. It is also the only Latin American country that has active trade agreements with the three primary Asian economies: South Korea, Japan and China.<sup>38</sup> In 1994, Chile was incorporated into APEC. Although APEC lacks a formal, binding constitution, it unites 21 economies, which together represent 52 per cent of global GDP and 44 per cent of all planetary trade. Chile has developed the idea of becoming a bridge between the Asia-Pacific region and Latin America, signing its first FTA in the region with South Korea in 2003. In 2005, it signed an FTA with China, which represented the first agreement that the Chinese government had ever signed with a country that did not belong to the Association of Southeast Asian Nations (ASEAN). Following this, an FTA with Japan was reached in 2007.

Currently China is the number one recipient of Chilean exports, purchasing in 2011 up to US\$8.127 billion of Chilean products. This figure represents a 4.4% increase compared to the same period from the previous year, and 19.7% of total exports. Other principal export markets for Chilean products include, in descending order, the European Union, the United States and Japan, which, together with the Chinese market, make up 60% of all exports. Latin America is also an important market for Chilean exports, as MERCOSUR countries purchase over 8% of all exported goods, and countries belonging to the Andean Community (CAN) purchase up to 5.5% of all Chilean exported products.<sup>39</sup>

However, the decision to promote and deepen the economic insertion of Chile by encouraging openness to the world was initiated during military dictatorship. Changes implied opening the Chilean economy to the world, liberalizing trade and investment flows, and reducing the role of the state in economic affairs considerably. Pragmatism was made a priority, establishing commercial ties with other nations, as the authoritarian regime was isolated politically. Beginning with the reestablishment of democracy in the 1990s, an intense process of international reinsertion was initiated. Since then, the international insertion of Chile has been carried out mainly through trade policy, which is reflected in the fact that foreign commercial exchange increased by over \$12 billion in 1990 and over \$120 billion in 2010. This has allowed the country to widen its export base, especially towards the agricultural foodstuffs and forestry sectors.<sup>40</sup> This tendency has been continued during the current Piñera administration.

According to the Global Competitiveness Report 2011-2012 of the World Economic Forum, Chile is listed as the most attractive market in Latin America.<sup>41</sup> Consistent with this idea, the mandate of the *División de Promoción de Exportaciones/Export Promotion Division* (ProChile) is to contribute to economic development through the promotion of the country abroad and the sustainable internationalization of its companies.<sup>42</sup> It incorporates distinctive elements into national exports and takes advantage of market niches, such as those involving ethnically differentiated products like Kosher or Halal. It develops and implements strategies that allow for the improvement of Chile's global position and the diversification of foreign markets.

Chile currently has 22 trade agreements with 60 countries.<sup>43</sup> Together, this represents a market that includes 62% of the global population, or 4.300 billion potential clients, and 85.7% of global GDP. In this way, 93% of Chile's commercial exchange with the rest of the world is carried out with those countries with which it has some trade preferences.<sup>44</sup> However, this process of negotiation has been arduous and intense, and the solidification of some agreements has taken more than one presidential term.

The Chile-EU Economic Association Agreement signed in 2002 marked the end of a long process of negotiation, since Chile had subscribed to an initial framework Agreement for Cooperation with the then-European Economic Community (EEC) in 1990. Afterwards, this cooperative agreement was widened until the first round of trade negotiations was initiated in 2000. This eventually led to the current FTA, composed of three main pillars: the political sphere, cooperation and trade.<sup>45</sup>

Another important FTA, due to both its commercial and political impact, was the one signed with the United States in 2003. This is one of the most wide-ranging and comprehensive trade agreements ever negotiated by Chile, as it includes 19 different areas, ranging from the trade of goods and services, trade defence, technical norms, investments, intellectual property, public purchases, electronics trade, and labour and environmental issues, among others.<sup>46</sup> The negotiations between Chile and MERCOSUR were to some extent different. Since 1991, the bloc's four founding members (Argentina, Brazil, Paraguay and Uruguay) have continuously invited the Chilean government to join as a full member. Chile entered in 1996, but only as an associate member, because its economy was much more open.<sup>47</sup>

### **Chile—Australia Free Trade Agreement**

Chile's approach to Australia is framed in the context of the strategy for strengthening ties with countries in the Asia-Pacific region. Several common interests have been recognized between the two countries. For instance, both countries participate in international forums

such as APEC, and both promote trade and investment liberalization in the Asia-Pacific region. Also, they are members of the Forum for East Asia-Latin America Cooperation, an organization with 34 States members that connects East Asia and Latin America, providing opportunities between the two continents through an official and regular dialogue channel between the two regions.<sup>48</sup>

Likewise, and rooted in the importance of agriculture for both economies, the two countries' positions have coincided in the Cairns Group, where both promoted issues related to agricultural trade reform in the Doha Round of WTO.<sup>49</sup> In addition, Australia, along with the United States, Malaysia, Peru and Vietnam, belongs to a group of countries interested in expanding the P4 FTA, which currently includes Chile, Brunei Darussalam, New Zealand and Singapore. This process began in March 2011 in the city of Melbourne, and has been named the Trans-Pacific Strategic Economic Partnership Agreement (TPP), which is currently the most ambitious process of economic and trade integration in the Asia-Pacific. It is also the only trade negotiation in which the Barack Obama administration has actively participated.

The FTA between both Chile and Australia has been in effect since 2009, but the negotiation process dates back to 2006, when the two nations initiated talks on the subject. It is a comprehensive agreement, dealing with areas related to the trade of goods and services and investments, and includes chapters on intellectual property and public bids, among other issues. It also includes specific norms regarding authentication, consumer rights, protection of personal information and paperless trade. The agreement not only provides for tariff reduction benefits, but also facilitates the solidification of reciprocal economic and investment alliances. It simplifies regulations, standardizes quarantining and customs procedures, and does not include any list of exceptions from either country. In addition, it is the third FTA that Chile has signed that contains a specific chapter on e-commerce.<sup>50</sup>

In signing this FTA, Chile obtained tariff reductions for 91 per cent of the agreed-upon products immediately, which meant that 99 per cent of all Chilean exports to Australia would be tariff-free. The agreed-upon timeline for the tariff reductions was a period of six years from the signing of the agreement, which means that trade between Chile and Australia will be entirely tariff-free beginning 1 January 2015.<sup>51</sup> Following the signing of the FTA, commercial exchange has increased, growing 26 per cent in 2011. Chilean exports to Australia represent 0.4% of total Australian imports, making Chile the 34<sup>th</sup> largest Australian provider.<sup>52</sup>

Table 1. Chile–Australia Trade (2012).

Chile's participation in imports from Australia	0,4%
Ranking of Chile in Australia imports	33
Chile's participation in Australia's exports	0,2%
Ranking of Chile in the exports from Australia	35
Chile's exports to Australia (U.S. \$ millions)	879
Chile's exports to Australia (average annual change, 2003-2011)	34,1%
Australia's participation in Chile's exports	1,1%
Ranking of Australia in exports from Chile	14
Australia's participation in imports from Chile	0,7%
Ranking of Australia in imports from Chile	13
Chile's imports from Australia (U.S. \$ millions)	523
Chile's imports from Australia (average annual change, 2003-2011)	23,3%

Source: Author's elaboration based on DIRECON' data (2012)

In the same way, copper shipments to Australia grew by an average of 93.7 per cent in 2010. The main companies that participated in this trade were XSTRATA Copper Chile S.A. and the National Board of Copper (CODELCO – *Corporación Nacional del Cobre*), which together concentrated 79 per cent of all exports to Australia, with total sales of US\$621 million. The other exporting companies are mainly associated with the forestry, fishery and agricultural sectors. In exchange, Chilean imports from Australia are more diversified and present an increasing level of dynamism. Among industrial goods exported to Australia in 2010, it is worth highlighting the export of US\$9.5 million in frozen raspberries in the foodstuffs sector, which represents a 14.5 per cent increase from 2009. In turn, the sale of timber products, through the export of chemical Eucalyptus wood pulp, remained steady in the past two years at US\$14.6 million.<sup>53</sup>

As can be seen, the Chilean strategy in recent decades has been to convert the Chilean export sector into the country's main engine of growth—the national market is quite small (with a population of only 17 million). However, Chile has not only sought to open its economy, but also to consolidate its presence in a variety of foreign markets. In this way, trade and financial liberalization will help to transform Chile into an appealing platform for foreign capital inversion in the region, generating positive national effects through strategic alliances between regional companies and technological innovation:

This is the frame of reference for the so-called open regionalism, which overcomes the dilemma of deciding which countries or economies Chilean foreign policy should favour. It is in fact a new style of outward-oriented development, involving a variety of export products, without limiting the trade policies of any country.<sup>54</sup>

Without a doubt, the impact of the process of economic liberalization and the expansion and diversification of the exchange of goods and services in Chile's foreign trade has been significant. Foreign trade has increased eightfold in the past twenty years, consolidating new productive areas such as fruit, fresh and processed vegetables, wine, chicken, pork and dairy products, as well as the aquaculture and forestry sectors. At the same time, with the initiation of the negotiation process for trade agreements during the 1990s, the country's trade policy has become more sophisticated, including demanding commitments regarding services, sanitary norms, intellectual property, the environment and other areas. This has produced positive externalities within the regulatory framework and the institutional functioning of the country's public and private day-to-day activities.<sup>55</sup>

Within the economic-trade dimension, the Chilean strategy for economic insertion into the world has been quite successful. This has increased the Chilean economy's export figures considerably. However, in making this analysis, it is important to consider the high level of economic concentration in the country. One of the great challenges for Chile is to incorporate medium and small companies into world markets. Currently, their participation is mainly limited to the internal market, since few of them have the capacity to penetrate highly competitive markets such as the United States or the EU. In 2010, there were 58 companies that exported over US\$100 million in products, comprising approximately 80 per cent of all exports. This situation is explained by the influence of the mining industry, which represents over 40 per cent of the total value.<sup>56</sup> As the director of ProChile, Felix De Vicente, has pointed out, 'Our challenge is to take advantage of the benefits of globalization, increasing the export base and the overall participation of PYMES in international trade'.<sup>57</sup>

Another test for the international insertion of Chile is related to the diversification of its export basket. Although the Chinese market has replaced the U.S. as the largest destination for exports, it is important to consider that 80 per cent of exports to China are limited to

copper, unlike exports to the United States, which are more diversified and include products with higher value added. Similarly, although the variety of export products has increased to include wines, wood, new spices and varieties of fruit, salmon and other products, the majority of these are very closely related to natural resources.<sup>58</sup> Latin American markets could represent a space to position products with higher value added. However, there is no clearly perceived development strategy in this area, and mere economic liberalization is not enough. It is necessary to reach a consensus among the main socioeconomic actors in Chile (large national and foreign companies, small and medium-sized companies, workers, and government) about the type of country they hope to develop.

### Final Reflections

Critics argue that the current administration of Sebastián Piñera applies a management type of logic in which economics replaces politics. Nevertheless, Chilean governments had shown pragmatism and an emphasis on economics in international relations long before his presidency. The difference nowadays is that Chilean strategy is causing internal troubles in the face of a new regional and global international order. One of the most emblematic examples of this can be seen in the relationship between Chile and Peru. Here there has been a lack of concern for politics, in the strategic sense as understood by neighbouring countries and the region in general. In addition, one of the novel aspects of his administration highlights the strengthening and promotion of the Pacific Alliance and small and medium businesses. The features of continuity are pragmatism, the influence of economic elites, an emphasis on international trade and the quest for balance of power via economic and political multilateralism.

An important task still pending is to change the public perception and bias against Latin American regionalism and regional integration. Rather than conceived as a tool for improving Chile's position in the world, both are negatively perceived. Hence, this perception is working against the idea of mutual trust, or positive-sum relations, and also against the idea of an order based on norms and principles of international law rather than force. Along these lines, the gap between the discourse and reality of the country's image is also criticized. On one hand, there is an appeal to the need for working together in the region and transforming Chile into a bridge country. On the other hand, there is scepticism, mistrust and an absence of political will to work in this way.<sup>59</sup>

Clearly, foreign policy includes many more dimensions than trade policy, and the prestige that Chile has acquired has also had to do with the country's views on social, humanitarian and political issues. In recent years social movements have returned as main actors in the political arena. Students, indigenous people and regional uprising constitute the largest collective awakening in Chile since the return of democracy. The fight for democracy of the past has been replaced for a struggle for change and better economic conditions. This struggle for a fairer society has put into question some of the most celebrated features of the Chilean political system: stability and quality in their processes of formulation and implementation of public policies.

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  49. In 1986 a diverse group of developed and developing countries, which shared the common characteristic of being agricultural producers and exporters, met in Australia with the goal of liberalizing international agricultural trade. Currently, the group is made up of 19 countries, [www.cairnsgroup.org](http://www.cairnsgroup.org), accessed 21 October 2011.
  50. The other agreements that include e-commerce are those with Colombia and the United States. DIRECON, 'Evaluación de las relaciones económicas y comerciales entre Chile y Australia a dos años de la entrada en vigencia del Tratado de Libre Comercio', Santiago, Ministerio de Relaciones Exteriores, 2011a. Carlos Furche, 'Balance de la política comercial: impacto y lineamientos para una nueva agenda', Documento de Trabajo, Taller de Política Exterior de la UDP, Santiago, Chile, 2011, pp. 1-48.
  51. Sugar, wheat and wheat flour remained in special categories: the *ad valorem* tariff for sugar (equivalent to 6 percent) would drop 0 percent by 2012, while wheat and wheat flour would have their tariffs reduced in seven stages, starting with the signing of the Free Trade Agreement and continuing until 2015. There are exceptions for some cheeses, dairy products, rice and chemically pure fructose, among others, which remained in the longest time period category of six years. Furche, 'Balance', 2011.
  52. DIRECON, 'Evaluación de las relaciones económicas y comerciales entre Chile y Australia a tres años de la entrada en vigencia del Tratado de Libre Comercio', Santiago, Ministerio de Relaciones Exteriores, 2012, p. 7.
  53. DIRECON, 2011a.
  54. Author's translation. Durán and Oyarzún, 'Libre comercio', 2010, p. 223
  55. Furche, 'Balance', 2011.
  56. Guardia, 'Comercial de Chile', 2011.
  57. *Diario Pyme* (Santiago), <http://www.diariopyme.com/2011/05/prochile-estamos-trabajando-para-fortalecer-la-capacidad-exportadora/>, accessed 30 August 2011.
  58. Guardia, 'Comercial de Chile', 2011. Also Helio Jaguaribe, 'El proyecto sudamericano', *Foreign Affairs en Español*, 5:2, 2005, pp. 80-83.
  59. Cristián Fuentes, 'Una política exterior progresista para Chile', In Jaime Ensignia; Cristián Fuentes and María Fernández (eds), *La política exterior del nuevo gobierno: entre el discurso y un necesario pragmatismo*, Santiago, Fundación Chile 21 – Friedrich Ebert Stiftung, 2011, pp. 99-111.