



# Chile and the Asia Pacific: Toward a New Foreign Policy Cycle<sup>1</sup>

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**Abstract.**

*Chile and its relationship with the Asia Pacific are experiencing a challenging moment of transformation. After almost a quarter century of political democratization and even more time of economic liberalization, the country has entered a new phase. If during the previous one it reached unprecedented levels of economic and human development, since 2011 there is a growing societal and political debate about the high levels of inequality of its development, and its inability to cope with the middle income trap. Foreign policy was a basic pillar of its development since 1990. A critical dimension of the latter was its economic international policy, which was able to open the world markets for a 16 million people economy. In this dynamic, the trade policy toward the Asia Pacific was an early, crucial component of the Chilean success. However, the Chilean international insertion faces important challenges. One the internal side, the Chilean foreign policy will have to be part of a more complex set of policies aimed at addressing the problems of inequality in the Chilean development strategy. On the other, the Chilean international insertion must take in consideration the evolution of the international system and economics. In this context, the Chilean policy towards the Pacific will confront three challenges. The first is to continue the access to new markets. The second is to develop a policy to take advantage of the all the possibilities of the available markets within the already signed FTAs. If Chile will try to diminish its high level of inequality and to address its productivity problems, its economic policies should aim at reaching a higher level of integration of the Chilean economy, especially of its SMEs, to the Global, Asia Pacific and Latin American value chains. The third is to situate the Chilean foreign –and Asia Pacific Policy- policy in a broader perspective, because it is about the Chilean insertion in a transformational moment of the international system. There are political implications of the Chilean participation at the TPP regarding the new US policy implications toward China, the WTO, and the emerging countries, including Brazil. There are also implications for the relationship between South America and the Asia Pacific. Between 1990 and 2010, the Chilean policy toward the Pacific was mostly a trade issue. Now, it has entered a new, more political phase.*

## **1. The politics of the Chilean foreign policy. Global, regional and Chilean evolving identities, 1990-2010.**

- a) Democratic identity, not trade, as a new foreign policy variable in post 1990 Chilean foreign policy.

The Chilean approach to the Asia Pacific has been the outcome of a protracted process of policy making. It has included both domestic and external dimensions, which are closely intertwined. The Chilean domestic policies have been featured by the complex accommodation that was necessary for the Chilean process of democratic transition and consolidation. The democratic government assumed after the military regime imposed a cluster of political and economic institutions enshrined in the Political Constitution of 1980. It included a high level of military prerogatives, but also neoliberal rules aiming at consolidating the neoliberal policies and institutions regarding the economic and social policies that had been implemented during the 80's by the Pinochet regime (Garreton 2012, Robledo 2008).

Confronted with the imperatives of avoiding an authoritarian regression, and with the need of reaching a basic level of democratic governance after the deep breakdown of 1973, the legacy of a prolonged authoritarian regimen, as well as with the failure of the Import Substitution Industrialization (ISI) model, the democratic governments decided to maintain some policies of economic liberalization and fiscal responsiveness, but to apply a growing set of social policies to address the very high social cost after several years of IMF's structural adjustment policies (Ffrench Davis 2003, Garreton 2012).

One of the features of the Chilean democratic experience has been the centrality of its foreign policy and international economic insertion for its economic performance. After 1990 Chile decided to maintain the process of economic liberalization and internationalization that has been initiated by the military government because of its importance for the growth for a small scale economy.

The main rationale behind new Chilean foreign policy after 1990 was the need of articulating politics and public policies to sustain and consolidate the new democratic regime, both politically and economically (Robledo 2011). These efforts became favored because this transformed national Chilean identity became convergent with the evolution of the global and regional identities. Post 1990 Chilean foreign policy was, therefore, wider in its scope and not only economic. Foreign policy became part of a changing national identity during a global moment of international system structural change from bipolarity to a phase of US primacy. In this transformational moment, the country's process of democratization was understood by the Chilean democratic political elite as part of a global trend toward political democratization and economic globalization and liberalization, as well as a component of a regional trend of democratization, economic integration and cooperative security cooperation, after a long phase of authoritarian isolation and growing inter-state rivalry (Van Klaveren 1996, 1998, Robledo 2011).

The scope of the Chilean foreign policy became featured by the traditional state agenda (Van Klaveren 1998), but mainly by a democratic ethos, both globally and regionally. Chile became an active player in all the spectrum of multilateral negotiations, promoting more democratic, cooperative multilateral institutions, but did this *from* Latin America. The region was experiencing a similar process of democratization and economic liberalization since the mid 80's, which became crucial for the Chilean democratic consolidation. This is why, in this context of regional like-mindedness, Chilean foreign policy opted early for a Latin American priority. Democratic consolidation was the top priority, and the region was beginning to develop its first regional institutions of democratic solidarity and defense, like the Rio Group and, later, the Santiago Declaration of the OAS, adopted in 1991. As part of a new regional democratic community, the Chilean Latin American policy supported and proposed a comprehensive set of policy initiatives aiming at regional democratic consolidation, human rights protection and promotion, economic integration, and cooperative security.

During this period Chile became also an active international player. This was, in part, because as most of the Latin American countries, Chile was part on an international community of developing countries for which the main international policy goals were the quest for

international autonomy through the strengthening of traditional principles of International Law, the amelioration of power politics and the development of multilateral institutions (Tickner 2003a, 2003b).

From this tradition, the end of the Cold War was evaluated as a moment of opportunities to forge a more equitable and multilateral international system. The convergent democratic and liberal *zeitgeist* between Latin America and the Western powers became, in this sense, functional. Also, convergence with the US and Europe became possible because of the support of these countries to the regional and Chilean democratic process.

In this sense, the Chilean foreign policy became not only regional, but also global, leading to an intense period of global *cooperative autonomy*, a process of international cooperation at the multilateral level with the USA and Europe, despite the persistence or emergence of political disagreements in some important arenas. In relation with the US, the limits had historical backgrounds because of past US interventions in the region, including Chile (Burr 1967, Pike 1963, Harmer, 2011). Like other Latin American countries, Chile has traditionally stressed the importance of the principles and practice of International Law in international politics, as well of multilateralism. This tradition was rescued by the post 1990 democratic regime, thus restricting the level of agreements between Chile and the US at the global multilateral level. The limits became clear in 2004, when Chile did not support the US-sponsored UN resolution allowing the invasion of Iraq, but were not restricted to this conjuncture. Differences in relation of multilateral institutions have also arisen around several multilateral regimes<sup>3</sup>. In the end, both countries have chosen a pragmatic approach, stressing their areas of agreement, which have been real and significant, and assuming they have also different approaches in several issues. Despite the important degrees of cooperation, in the end, in some defining multilateral moments Chile has been more in the Latin American tradition for a more democratic international system, in a region that has historically placed international autonomy as a vital foreign policy goal (Tickner 2003a).

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<sup>3</sup> Some areas of Chilean-US multilateral disagreements have been the UN Security Council reform, the Un and the G-20, the Bretton Woods institutions, Disarmament and Non Proliferation, trade, global warming, as well as around Inter-American and regional institutions. Disagreements between Chile and the EU at the multilateral level have been lower.

b) Economic liberalization, a critical policy area for post 1990 Chilean democracy and foreign policy.

As in every case, the Chilean like-mindedness with Latin America was also a complex process, leading to a more sophisticated, nuanced picture and identity-making because of the decision of the country to develop a policy of global economic insertion and Open Regionalism. The basic fact was the decision of the Chilean democratic government to maintain some dimensions of the economic policies, but shifted from the unilateral opening that has been chosen by the previous regime, toward a “negotiated” one (DIRECON 2009, Furche 2011). Chile became an open advocate of the development of a regional free trade area, but also of the global process of economic liberalization, which had important political effects.

The Chilean international political economy decisions had important political consequences. On the one side, it opened a process of intense political cooperation with the US, Europe and the Asia Pacific, but led to a more complex a diverse relationship with its Latin American entourage.

Other important political consequence of the Chilean Open Regionalism was the limits this option imposed regarding its relationship with Brazil and MERCOSUR. Despite its natural regional priorities, the Chilean Administration assessed that the country was not in conditions to return to higher tariffs, so it could not enter MERCOSUR as full member. Chile understood that Brazil and other countries of the Southern American block had legitimate interest in protecting their industries. Ex previously explained, Chile was interested in participating in the -by then- “new regionalism” because of political, strategic and even economic considerations. However, political will would be not enough, and finally Chile entered MERCOSUR as an associated state, signing a Treaty of Association in 1996, which included a bilateral FTA.

The negotiated economic opening was a gradual process. The first two governments prioritized the agreements with Latin American countries, without renouncing to unilateral decisions. Tariffs were reduced from 16% to 11% during President Patricio Aylwin tenure (1990-1994), and to 6% during the Presidency of Eduardo Frei Ruiz-Tagle (1995-2000). During the 1990’s Chile signed trade agreements with all the Southern American nations and later with Mexico, Canada and Central America.

Importantly, during this stage, it was confirmed that in contrast with the developed markets, Latin America would become the best market for Chilean manufactures and, in general, for Chilean SMEs.

After this initial phase, the Chilean negotiations were focused on the FTAs with the US, the European Union and the EFTA. The FTA with the US was an important issue in Latin American politics, and was part of a wider convergence between Chile and the US toward the Free Trade Area of the Americas (FTAA). It was launched by President George Bush and continued by President William Clinton at the First Summit of the Americas in 1994, with the open support of Chile. The FTAA was highly contested by Brazil and MERCOSUR and, later, from the ALBA countries, and the signature of the bilateral US-Chilean FTA in 2004 was openly criticized by Brazil. Since then, political relations among Chile, Brazil and MERCOSUR were diminished, and were restored only in 2008 when President Michelle Bachelet supported the creation of the Union of Southern American Nations (UNASUR in its Spanish acronym) and performed as a very active chair of the new block. For Chile and the US, the FTA marked an historical bilateral peak<sup>4</sup>. Since then the US-Chilean bilateral relationship has been positive and stable, even in spite of the above mentioned 2004 bilateral crisis at the UN. Despite Chilean Foreign Policy maintained its autonomy from the US, the bilateral convergence around the promotion of democracy and free trade, as well as the military cooperation, led to a close and informal partnership.

A third phase became Asia Pacific, which will be analyzed in the next section. At the multilateral level, and beyond the Latin American region, the Chilean activity was intense and focused in the WTO, APEC and the OECD. Chile became the second Latin American member of the OECD in 2010.

What is original in the Chilean international economic policy is its decision to practice a pragmatic strategy, combining unilateral, bilateral, subregional, regional, bilateral-country-region and multilateral trade agreements. To date, Chile has signed 22 free trade agreements with 60

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<sup>4</sup> During this period Chile asked the US to support its process of military modernization, which led to the Chilean acquisition of sophisticated US weapons system. It transformed Chile in the main regional buyer of US military equipment. Colombia has been the main strategic partner, but it has been financed by the US financed Plan Colombia.

countries, with free of preferential market access to 62% of the world population and 85.7% of the world GDP (DIRECON 2013).

The long term outcome of this process of policy making for global market access was important and had structural consequences for the country. The Chilean economy became highly globalized. About 60% of the country's GDP is currently related to the external sector. Foreign trade was multiplied by eleven, from about US\$ 12 billions in 1990 to US\$ 147 billions in 2012, 90% of which goes to markets with trade agreements.

c) Asia Pacific, a critical role in the Chilean Open Regionalist strategy.

As Heine has written, “if the FTAs became the strategic focal point to open international markets, Asia Pacific became the Geographic focus, introducing a significant change” (2013: 6). There has been a debate about the reasons of this Chilean shift from its traditional western-centered diplomacy, to the new gravity center of its economic insertion into the Asia Pacific. The initial part of this change begun during the military regime, which found in the by-then authoritarian East Asian regimes an International political space that was being neglected by the international community (Wilhelmy 2010). However, the definitive and departing point came after democratization in 1990.

As Heine puts, it was the political decision of the Government of President Patricio Aylwin that begun to institutionalize the Chilean policy to the Asia Pacific, which also followed different stages. The first was the incorporation of Chile to the APEC (1994), one year after Mexico, and it was followed by an extraordinarily active presidential and state diplomacy and Chilean presence in Asia, initially in East Asia, but later especially in China and Japan, South Korea and Taiwan. The policy has been increased along five Governments. In 2003 Chile signed the first FTA between an Asian (Korea) and Latin American country; in 2005 signed with China, the first between China and a single country<sup>5</sup>; in 2006 signed a Partial Trade Agreement with India<sup>6</sup> and a FTA with Japan, followed by negotiations with Vietnam and Malaysia. In 2007, four out of the

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<sup>5</sup> Chile was the first Southern American nation that recognized the Peoples Republic of China in 1971. Since then both countries have nurtured their links without interruption, even during the Chilean military regime.

<sup>6</sup> Heine (2013: 8) quotes the Chilean newspaper *La Tercera*, announcing that “Chile e India negociarán tratado de libre comercio a fines de 2012”, August 14, 2012.



ten first markets for Chile were in Asia: China (2nd), Japan (3rd), South Korea del Sur (6th) e India (10th). In 2012, the number has risen to five: China was the first trade partner of Chile (US\$ 30 billions), followed by the US (US\$ billions 24). Next were Japan, Brazil, South Korea, Argentine, Mexico, Germany, Peru and India.

The entrance to APEC has been considered a defining moment for the Chilean insertion in the Asia Pacific. One basic reason is the economic importance of the block and its liberalization agenda. Because of its previous process of economic opening, but also as a signal of political compromise with the Asia Pacific process of trade liberalization, Chile assumed ambitious compromises regarding the Bogor goals. It set 2010 as the year for complete liberalization for developed economies and 2020 for developing economies. Despite being a developing economy, Chile assumed the compromise of 2010. As Furche has stressed (2011), it created the space to display concrete Chilean political will and initiatives<sup>7</sup> regarding economic integration in the most economically dynamic region of the world. It has allowed Chilean Presidents and high level authorities to have regular political dialogues with the leaders of the main Asian economies, as with the United States, Canada, México and Peru.

After its initial phase, and in a global context of the stalemate in the Doha Round of the WTO, the APEC process of liberalization experienced a similar trajectory. In this context, and aiming to develop a strategy of Asia Pacific Free Trade Area (APFTA) through a strategy of *building blocks*, in 2006 Chile created the Trans-Pacific Strategic Economic Partnership or P-4 Agreement with New Zealand, Singapore, and Brunei. It was a very symmetrical treaty of association that included labor and environmental standards, and cooperation in science, technology; patents and services related to the digital economy. Because of its open regionalist *building blocks* approach, the P-4 was explicitly aimed at become an instrument for increasing economic integration in the Asia Pacific basin. In 2010 led to the launch of negotiations to create the Trans Pacific Partnership (TPP).

In short, Chile was able to foresee the growing importance of the Asia Pacific economy at the end of the 20<sup>th</sup> Century, and realized that there was an opportunity to obtain a timely access to

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<sup>7</sup> Among others initiatives, Chile organized the 2004 APEC Summit in Santiago.

those markets. Since then, the Chilean economy has been favored by its tight coupling with the evolution of the Asian economies and the *super cycle* of the commodities, which has sustained the growth of the country (and of South America) since the 2008 international crisis.

From a Chilean foreign policy perspective, the Asia Pacific policy has been one of the most significant contributions to the Chilean process of economic development. APEC has become the main geographical area of destiny for Chilean exports, representing 63% of the Chilean exports in 2011. That year, eight APEC economies were among the first 15 main destinations of the Chilean exports. In 2012, about 40% of the Chilean trade was with Asian markets, and Chile was the Latin American country with the strongest engagement with the Asia Pacific. As seen in **Table 1** It was the only one that has FTAs with its three main economies (China, Japan and Korea, but also with Singapore, Malaysia and Brunei), while had signed with Vietnam and Hong-Kong and was negotiating with Thailand (DIRECON 2013).

**Table 1**

<b>Chile trade agreements with Asian and Pacific economies</b>		
<b>(Source: DIRECON 2013)</b>		
<b>Economy</b>	<b>Year of effect</b>	<b>Type of agreement</b>
Canada	1997	FTA
Mexico	1999	FTA
United States	2004	FTA
Korea	2004	FTA
China	2006	FTA
P-4 (New Zealand, Brunei and Singapore)	2006	FTA
India	2007	Partial TA
Japan	2007	FTA
Peru	2009	FTA
Australia	2009	FTA
Malaysia	2012	FTA
<b>Negotiated not in effect</b>		
<b>Signed</b>		
Vietnam		FTA
China		Supplementary agreement on investments
Hong-Kong, China		FTA
<b>Not signed</b>		
Thailand		
<b>Under negotiation</b>		
TPP		FTA
India		Deepening PTA
Pacific Alliance		FTA

d) Preliminary assessment. What worked, what did not work well.

Twenty three years after, the balance of the Chilean experience of economic globalization y positive, despite a complete assessment should be more nuanced and mixed.

The positive side of the process has been the undeniable impact of the internationalization of the economy on the sustained economic growth of the country. Chile has multiplied its per capita income from US\$ 2,500 to more than US\$ 16,000 dollars, and the IMF expects it will be of US\$ 22,000 by 2018, the levels of Spain in 2003 or Portugal in 2007 (IMF 2013). Poverty has been reduced from almost 40 percent to 13 percent, and the country exhibits a constant regional leadership in most of the relevant international indicators.

The Chilean economy became also more regionally diversified, thus also less dependant to changes in the international economy, and more resilient. Politically, it means a higher degree of political autonomy. While in 1990 52% for the exports were sent to Europe, 21% to Asia, 15% to the NAFTA, 10% to Latin America, the 2% to the rest of the World, in 2009 45% of the exports were led to Asia, 20% to the EU, 18% to Latin America, 16% to the NAFTA, and 1% to other countries. Trade agreements also regulate non-tariffs areas, like services, investments, intellectual property, competitiveness, environment and labor standards for the private and public sectors, increasing the institutional dimension of its economic competitiveness. This had a positive impact for Foreign Direct Investment (FDI), which became 62% of the GDP in 2012, when Chile received a record of US\$ 26 billions of FDI, the second in the region after Brazil (Heine 2013).

The process on internationalization has also consolidated new export-oriented productive sectors (fruits, fresh and processed vegetables, wines, pork and poultry, dairy products, fish, seafood and timber) (Furche 2011). Despite there is no agreement regarding causality between the FTAs and growth and productive diversification, trade agreements have been a powerful strategy to reach increased scale in new highly profitable markets. FTAs have also created incentives for the improvement of domestic norms and institutions in the public and private sectors, improving the competitiveness of the country in areas like services, FDI, intellectual property, competence policies, environment y and labor standards. FTAs have also strengthened long term state of law,

which has been basic for a sustained development policy as well as for the development of inter state and private associations. FTAs have also considered management and dispute settlement institutions. However, and probably most importantly, they have crafted a complex network of public and private relations of trust, globalizing the traditionally parochial Chilean culture.

Those positive outcomes are also part of a wider process, and the overall balance is more nuanced. The absolute and relative advantages that Chile obtained as a consequence of the FTAs are short-lived. Other actors have begun to develop similar policies (Peru, Colombia and Central American have concluded trade negotiations with the EU, the US and Asia Pacific. Therefore, they are accessing those markets in increasingly similar conditions than Chile.

Nevertheless, there is a growing debate in Chile about the shortcomings of the type of economic internationalization that the country has developed to date, one that is simultaneously related to the social and political economy dimensions of the development strategy, to the evolution and requirements of international competitiveness, and to the evolution of international politics.

Despite the macroeconomic figures that reveal a significant level of success, the Chilean experience also exhibit important shortcomings. The most important is that the country has one of the world's highest levels of inequality. Chilean GINI Indicator has kept stable over time -it was 0.526 in 2011 (OECD 2013)<sup>8</sup>. Recent research reveals that 1% of the Chilean population gets more than 30% of the total of the income of the country between, the highest in the world (Lopez, Figueroa and Gutierrez, 2013). The decision of developing a strategy that has been based almost completely in the export of commodities has increased its dependence from the cooper, its main commodity, while productivity remains stagnated, in transition from an efficiency-driven to an innovation-driven stage, together with other 21 economies (WEF 2013). As a consequence, 20 years after a sustained process of 5% average economic growth, the social shortcoming of the Chilean political and social development sparked in 2011 a new phase of increasing political and social mobilization, and even a new degree of polarization that was unseen since 1990. Despite the macroeconomic success, the Chilean social contract is today

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<sup>8</sup> The figures indicate Gini before taxes and transfers. The Gini at disposable income, post taxes and transfers is reduced to 0.501.

weaker than before, introducing new policy demands for new more just and innovative policies, including the role of the foreign policy. The Chilean identity, and so the definition of its interests, is experiencing a new moment of transformation.

The recent political evolution in Chile is an important context to assess the international economic insertion of the country because despite the contribution of the FTAs to the economic growth, the available evidence indicates that the public policies have not been able to successfully contribute to diminish the Chilean inequality and competitiveness deficits.

There is an elevated concentration of exports in commodities (and low intensity products), while the R&D remains without significant variation; the number of exported products is stagnated; the exported value is concentrated in too few enterprises; there is a low participation of SMEs in the exports. In 2012, 45 companies (0.6%) did 70% of the exports 2012. In 2010 SMEs are the majority among export companies (58%) but they explained few (7%) of the exported value. Only 0.06% of the SMEs do export and actually only 0.8% of the Chilean companies do export, while the ratio is diminishing since 2008 due to the subprime crisis and its effects at the EU. Also, 42% of the export companies do export one product to only one market (Rosales, 2013: 5). Additionally, the Chilean exports to the Asia Pacific exhibit also a weak productive linkage between the exports and the rest of the economy, which means that the job creation and redistributive impact of the export-led policies becomes limited.

Despite the mainstream trends in global trade toward value chains (Baldwin 2012), the presence of the Chilean companies in international value chains is limited, and there is a very modest effort of export promotion and maximization of the potential benefits of the network of FTAs the country has built (Rosales, 2013: 3-14). Because of this, Chile has been unable to take advantage of all the opportunities that have been opened by the FTAs and its geographical proximity with the Asia Pacific (Frohmann, 2010).

The reason why the Chilean international economic insertion exhibits these features has been the persistence of a neoliberal approach regarding industrial policy despite the available evidence of the importance of the active state policies to promote innovation, competitiveness, productive development and infrastructure. In this sense, international trade can reduce inequality if it is developed along with policies supporting productive promotion, SMEs, innovation and

competitiveness (Rosales, 2013). In this case, international trade and economic globalization would strengthen the access of vulnerable groups to the benefits of trade, and would enhance their defense regarding the cost of trade. In short, the Chilean network of FTAs does not replace policies of development. Would this network operate in a framework of an international insertion strategy supported by productive development policies, it could be a decisive contribution for equitable development.

Another shortcoming of the Chilean approach to the Asia Pacific policies that has received little attention is its weak insertion into the regional political dynamic. Most of the Chilean activity has been developed as an exclusive trade agenda. There has been a relative –but not complete– disconnection between the international political debates, and the outcome has been positive for Chile since there has not been trade offs, despite this may be apparent and short-lived.

Trade offs, have been few. The most important has been the Chilean behavior regarding human rights in China. Chile has kept the human rights issue open at the bilateral level during some episodes of its bilateral relation (Vargas 2012). Chile has also been sensitive to the political evolution of the region. The Governments have been vocal condemning North Korean proliferation policies, and some democratic regressions, like in Thailand. Also, Chile has been an active participant in some important UN peace operations deployed in the region during the 1990's, like in Cambodia and East Timor.

However, beyond the bilateral or multilateral political issues, Chile has political blind spots in its Asia Pacific foreign policy.

One of this has been its relationship with India and Russia. The former has entered a new phase since the 2000's. While the goal has been to reach a bilateral FTA, in 2006 Chile succeeded in reaching a Partial Trade Agreement with New Delhi. Since then two Chilean presidents have visited the Asian country and both countries are negotiating an agreement to deepen their current TPA. Chile must also continue its efforts to reach a trade agreement with Russia. Bilateral trade is just 0.2% of the total Chilean trade, en Russia the only important international economy with

which Chile does not have a FTA, and after the Russian accession to the WTO talks are aimed at an FTA between Chile and the Euroasiatic Commission (DIRECON 2013).

A third task for Chile in Asia Pacific has been its absence in some important regional political fora, especially in the regimes that have been developed around the Association of Southeast Asian Nations (ASEAN). The regional organization has become a crucial actor in the East Asian regionalism, and most of the institutional evolution of this part of Asia is being developed from ASEAN initiatives, especially the ASEAN+3 (China, Korea and Japan) and the ASEAN+6 (the 3 plus India, Australia and New Zealand), which are aimed at the integration of that part of the East Asia.

As Frohman has written, *“las expectativas respecto del APEC entre los países miembros difieren: mientras que para América del Norte y América del Sur, el APEC es un Puente hacia las economías de más rápido crecimiento, para las economías del Asia es un referente estratégico, comercial y político interesante, aunque su objetivo principal es la integración con los propios vecinos”* (2010: 117), a trend that has been strengthened in 2010 with the ASEAN launch of the Regional Comprehensive Economic Partnership (RCEP)<sup>9</sup>. A closer and stronger Chilean link with ASEAN would be important for the future development both of the Chilean insertion in the Asia Pacific, but also for the role of Chile as pivot between the East and West and south-south Asia Pacific dialogue and economic cooperation. However, the 1990-2010 period of Chilean insertion in the Asia Pacific has been a cycle that probably will not endure with the same conditions and features. As it will be analyzed below, in the next years the Chilean policy towards the Asia Pacific will be not just trade, but much more politics.

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<sup>9</sup> The Regional Comprehensive Economic Partnership (RCEP) is a FTA negotiation that has been developed among 16 countries: the 10 members of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) and the six countries with which ASEAN has existing Free Trade Agreements (FTAs) – Australia, China, India, Japan, Korea, and New Zealand. In relation to RCEP these six non-ASEAN countries are known as the ASEAN Free Trade Partners (AFPs).



## **2. Post 2008 and 2010 dynamics. International and global polarization and politicization. ¿What options for Chile and LA and the AP?**

As it has been argued, it is possible to identify two very different phases in the development of the Chilean international –political and economic- insertion. The first was 1990-2010. The second has begun with the simultaneous rise of the social mobilization against the most neoliberal features of the Chilean model (Garreton 2012, Mayol 2012), and the international crisis of 2008, which accelerated a structural change in the international system.

The crisis of 2008 accelerated the change of the structure of the international system from unipolar to a different one. It is the outcome of the gradual erosion of the post Cold War international governance led by the United States at the G-7 (Layne 2012), and “the rise of the rest” (Zakaria 2008)<sup>10</sup>. The crisis of the former governance became evident with the creation of the G-20 in 2009, which was successful in halting the worst moment of the crisis and launching a coordinated Keynesian world stimulus package. However, since then, the G-20 has entered a prolonged phase of stalemate between the G-7 and the BRICS (Bremmer and Roubini 2011). No significant additional global or multilateral agreement has been reached since 2009, nor at the G-20, neither the UN or in any multilateral organization, including the WTO.

There is also a debate about the type of structure that could be emerging. While common sense is suggesting a multipolar one, more nuanced analyses have suggested different options (Haas 2008). I argue that it may be because its contours are still on the making, making very uncertain if the new structure will be multipolar in the traditional neorealist sense, or just multicentric, given the very basic and important fact that many of the new emerging actors do not have nuclear weapons, or have explicitly renounced to it (Paul 2000). While other scholars have suggested that there is also a new type of soft-balance (Paul 2005), the G-7/BRICS divide may be a type of soft balancing, or a pluri-centric structure.

However, what has been missing in the debate, is that as in 1990, the international system has entered a process of structural change, from which it may transition toward a more or less

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<sup>10</sup> There is an extensive literature about the rise of the emergent countries since they were popularized by the Goldman Sachs 1996 report about the BRIC.

amicable or anarchical “structure of identities” (Wendt 1992, 1999). There is an historical conjuncture featured by a redistribution of the capacities (the gradual inclusion of a growing number of actors), with completely different ideational backgrounds, identities and interests. As others as posed, there are perhaps new forms of governance in the making (Teivainen 2012). The new international moment is, therefore, a re-foundational one. It is not surprising, therefore, that the previous institutional settings are surpassed by the events. What should be worth noting are the decisions that will concur to the gradual or sudden creation of the new global or global plus regional regimes (Buzan and Waever 2003).

In this context, and after three years of G-20 stalemate, the US has begun to make policy options that are changing the status quo and are shaping a new type of global identity after the post 2009 G-7-BRICS symmetrical moment. The most important decision has been the US policy shift from the Atlantic to the Pacific (Clinton 2012, Donilon 2013), which has been built explicitly, albeit ambiguous concept of balance<sup>11</sup>. Despite its importance, the *pivot* policy has been more a new narrative rather than a concrete move.

Concrete global policy changes have been made around international trade policy, with the consecutive decisions of launching two new-generation regional trade agreements (RTAs). After years of stagnation at the WTO, in 2009 the US joined the P-4, initiating a process of transformation into the current Trans-Pacific Partnership (TPP). In February 2013, the US also announced the negotiations on a Transatlantic Trade and Investment Partnership (TTIP) with the European Union. What the TPP and the TTIP have in common is a new international trade strategy featured by the establishment of like-minded groups of critical political and economic importance, and its decision to become as in the case of the TPP “high- standard, 21<sup>st</sup> century trade pact that would contrast sharply with the more limited commitments delivered by most trade pacts” (Schott, Kotschwar, and Muir, 2013: 5). These new RTAs, like the TPP are not formally closed to new members, thus they can not be pointed as protectionist in the traditional sense. As high-level US officials have explained, “(...) the TPP is intended to be an open platform for additional countries to join – provided they are willing and able to meet the TPP’s

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<sup>11</sup> The concept of balance is defined as a shift of the gravity center of the US foreign policy rather than in the traditional balance of power. However, at a public opinion and non specialized communities, the term has been widely understood as a policy aimed at balancing China.

high standards” (Donilon 2013: 15). Regarding the WTO, the TPP will deepen reforms in traditional areas covered by WTO provisions, “undertake new obligations in WTO-plus areas not yet subject to WTO disciplines, and address cross-cutting issues such as regulatory coherence and supply chain management” (Schott, Kotschwar, and Muir, 2013: 11).

From non-US perspective, the outcome is a new phase in the international trade negotiations, a process of “*fragmentation of the international trading system resulting from the trend towards the proliferation of mega-interregional preferential trade agreements*”, as well as “*symptoms of some of the serious problems being faced by the WTO*” (Peña 2013). Recent new-generation RTAs had become deeper and more comprehensive, affecting developing countries’ economies more significantly. The expansion of regional supply chains had made freer movement of goods and services on a regional basis particularly important, but it has also weakened the centrality of the multilateral trading system (UNCTAD 2012: 3). Given that the TPP represents 40% the World GDP ( Schott, Kotschwar and Muir, 2013: 2), and the TTIP has a similar scale, the new US policies will undermine the negotiating posture of developing and emerging countries at the WTO. By accepting the TPP standards would mean for these nations to renounce to the issues at stake in the Doha Round. Since then, Beijing has reacted assuming the TPP as a United States “step forward in encircling China”<sup>12</sup>, and accelerating its own regional trade strategy, which includes the trilateral China-Japan-South Korea FTA talks, and the negotiations on the Regional Comprehensive Economic Partnership (RCEP) (George, 2013). In this context, Brazil has also reacted, and has successfully campaigned to lead the WTO.

a) Political and geo economic faultlines in Latin American regionalism.

The China-US (and Brazil) debate regarding the WTO and the TPP has been followed closely from Latin America. Since the last decade the region is experiencing a structural change in its international political, economic and trade relationships and insertion, which are leading to a complex, changing regional architecture.

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As China, Brazil has become a global emergent actor, and despite the shortcomings its institutional capacities may experience while addressing this challenge, is becoming one of the most articulated emergent. Also, while Brazil has not the economic size of China, its relative weight has consolidated a clear subregional leadership in South America. Its current GDP is 2.5 trillions and post 2008 projections estimate that its GDP will exceed US\$ 10 trillions and will be the fourth in the World after China, the US and India (Goldman Sachs 2009: 22).

During the last decade Latin American regionalism entered a new phase. It was caused by the crisis of the 1990's processes of liberalization. It deepened Latin American inequality to levels that led the regional turn to the different varieties of political left, originating the ALBA block<sup>13</sup>, as well as a wave of center left governments, especially in South America. Post liberal regionalism differs from its previous version because rather than being a liberal integration process, it became a bottom-up construction, a gradual regimen of regional governance (especially crisis management) for a more diversified and polarized region (Sanahuja 2012, Robledo 2011). In this process there has been a growing political convergence between the MERCOSUR and the ALBA countries<sup>14</sup>.

As a consequence, and given the new centrality of Brazil, the outcome has been the emergence of a new (albeit disputed) Latin American hegemony. With the creation of the Union of the Southern American Nations (UNASUR in its Spanish acronym) in 2008, and the Latin American and Caribbean Community (LACC), in 2010, post liberal regionalism has become a process of recreation of a new Latin American identity<sup>15</sup>, contributing to the new configuration<sup>16</sup> of post G-7 global governance<sup>16</sup>.

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<sup>13</sup> The “Alianza Bolivariana para los Pueblos de Nuestra América” (ALBA) includes Cuba, Venezuela, Ecuador, Bolivia, Nicaragua, and three Caribbean states: Dominique, Saint Vincent and the Grenadines, and Antigua and Barbuda.

<sup>14</sup> Venezuela entered MERCOSUR in 2012, while Bolivia would enter soon. Ecuador is also considering to become a full or an associated member.

<sup>15</sup> Cuba assumed the presidency of the LACC in January 2012, alter the first term led by Chile, which has obvious symbolic meanings and political implications. The LACC did its first LACC-EU Summit in January 2013, in Santiago, Chile. The LACC troika also met with the Chinese and the Indian governments Turing this year.

<sup>16</sup> It is important to stress that Brazil, Argentina and Mexico have not developed yet a formal or informal mechanism of coordination within the G-20, and that there is not coordination among the Latin American and Caribbean countries with the regional members of the G-20. However, the symbolic effects of the LAAC should not be minimized.

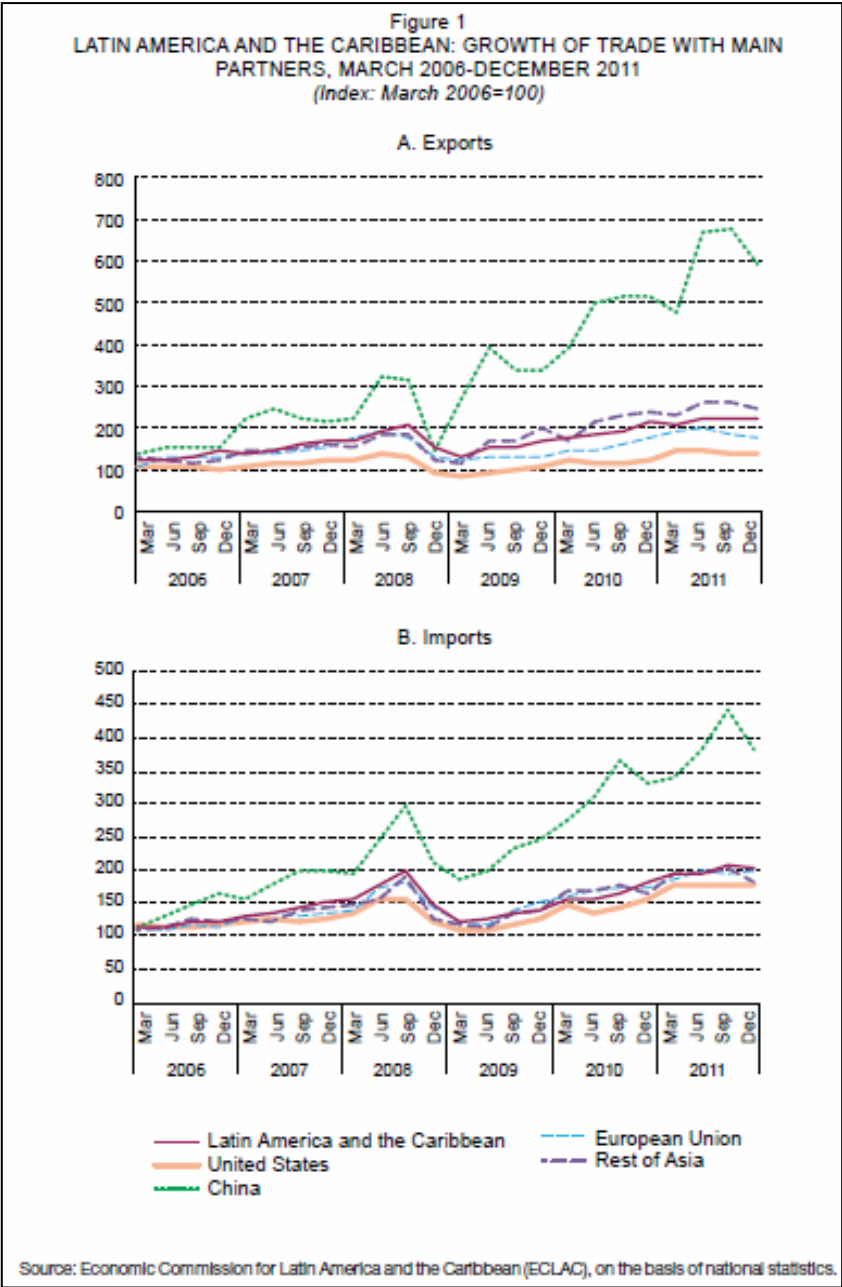
The emergence of the new post liberal Latin American institutions has also weakened the legitimacy and efficacy of the Organization of American States, the Inter-American regimes, and even the idea of an Inter-America identity. In turn, it has reinforced the regional perception of a relative decline of the US presence, at least in the Southern American zone.

Post liberal regionalism has also been accompanied by the emergence of a double geo-economic faultline, between North and South America, and between Atlantic and Pacific South America. The main rationale of the north-south geo-economic divide has been consolidation of the integration of Mexico and the Central American and Caribbean economies to the NAFTA zone. On the other, it has been the reorientation of the international economic insertion of South America toward the Chinese economy. As shown in **Figure 1** taken from King *et al*, “between 2000 and 2005, China overtook Japan as the region’s leading Asia-Pacific trading partner”, and “is likely to overtake the European Union as the region’s second trading partner around 2014-2015”.

There are significant variations in the distribution of the Asia-LAC trade, which has important economic and political consequences. “While on average Asia accounted for slightly over 16.5% of the region’s exports on average between 2007 and 2010, it receives almost 40% of Chilean and Peruvian exports and over 24% of Brazilian exports. At the other extreme, Asia receives 10% or less of total exports from Mexico, Central America (except for Costa Rica) and most Caribbean countries” (King *et al* 2013: 15-16), which is shown in **Table 2** and **Table 3**.

As a consequence, during the last decade China has increased dramatically its economic leverage, but also its political influence in South America, something that is being taken in consideration in wider policy designs. Asia is expected to account for nearly 60% of world economic growth between 2012 and 2022, and from the Asia-Pacific viewpoint, Latin America and the Caribbean has yet to become a major trading partner (ECLAC 2013). Given that in the foreseeable future South-South trade and cooperation will grow more than North-South economic relationships, it is being an increase in the current shift of Latin American (and especially Southern American) foreign policies toward a less US and Euro centric and a more balanced policy mix.

The current and expected increase in the Asia-Pacific-Southern American economic and political cooperation has strategic, positive consequences for Chile. It has been seen since the 1990's as the wider framework where Chile aims at consolidating as a southern bridge between the two shores of the Pacific Ocean.



(Source: King *et al*, 2003).

**Table 2**

LATIN AMERICA: SHARE OF MAIN TRADING PARTNERS IN EXPORTS, 2007-2010 (Percentages of total)				
Region / country	United States	European Union	Asia	Latin America and the Caribbean
Latin America	40.1	14.0	16.5	19.3
<b>MERCOSUR<sup>a</sup></b>				
Argentina	7.7	17.6	17.5	40.8
Brazil	12.9	22.7	24.1	22.4
Paraguay	2.6	7.2	17.1	61.1
Uruguay	5.7	15.9	10.7	45.4
<b>CAN<sup>b</sup></b>				
Bolivia (Plurinational State of)	9.1	8.4	17.1	61.0
Colombia	36.0	13.5	7.9	25.4
Ecuador	35.3	11.9	8.4	40.2
Peru	25.3	22.0	37.8	33.9
<b>MCCA<sup>c</sup></b>				
Costa Rica	33.1	13.6	15.8	27.1
El Salvador	44.3	5.4	5.0	42.9
Guatemala	39.2	6.0	6.1	40.0
Honduras	39.4	15.8	6.2	35.0
Nicaragua	26.6	11.0	8.6	43.5
Chile	12.8	19.4	39.3	21.6
Mexico	72.7	7.0	10.3	6.1
Venezuela (Bolivarian Republic of)	47.4	10.1	11.9	18.6
	>30		>10<30	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) data.

<sup>a</sup> Southern Common Market.

<sup>b</sup> Andean Community.

<sup>c</sup> Central American Common Market.

(Source: King *et al*, 2003).

**Table 3**

LATIN AMERICA AND THE CARIBBEAN: CHINA'S RANKING AMONG IMPORT AND EXPORT PARTNERS, 2000 AND 2010						
	Exports			Imports		
	2000	2010	2011	2000	2010	2011
Argentina	6	2	2	4	2	2
Bolivia (Plurinational State of)	18	10	8	7	4	3
Brazil	12	1	1	11	2	2
Chile	5	1	1	4	2	2
Colombia	36	2	4	9	2	2
Costa Rica	30	10	13	15	2	2
Ecuador	18	12	17	10	3	2
El Salvador	49	34	38	23	4	4
Guatemala	43	27	28	19	3	3
Honduras	54	10	12	21	7	5
Mexico	19	3	3	7	2	2
Nicaragua	35	24	19	20	3	3
Panama	31	30	32	25	1	1
Paraguay	15	25	23	3	1	1
Peru	4	2	1	9	2	2
Uruguay	4	3	2	7	3	3
Venezuela (Bolivarian Republic of)	35	3	1	18	2	2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures provided by the central banks and national statistical institutes of the respective countries.

(Source: King *et al*, 2003).

The Atlantic-Pacific divide is related to the emergence of the Pacific Alliance (PA) as a deep, liberal integration process, aimed at becoming a joint platform for an politically articulated projection to the Asia-Pacific. The Pacific Alliance was founded in 2011 as an integration institution. It was preceded by the Arc of the Pacific<sup>17</sup>, and it was proposed by Peruvian President Alan Garcia. Its members are Chile, Colombia, Mexico and Peru. Its goals are a deep integration to advance toward free movement of goods, services, capital and people; to foster growth, development and competitiveness of the economies of the parties aiming at better welfare, the overcoming of socioeconomic inequality and the social inclusion of its population; and to become a platform of political articulation, economic and trade integration, and projection to the world, with special emphasis in the Asia Pacific. Sixteen countries have been accepted as

<sup>17</sup> The Arc of the Pacific was a wider scheme launched in 2006 to as an space of political coordination aiming at deepening economic and technical cooperation and strengthening at regional level and developing a coordinated projection toward the Asia-Pacific region. It was integrated by Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panama and Peru. See ECLAC 2008.



observers, including Uruguay, Paraguay, Ecuador, panama, Costa Rica, El Salvador, Dominican Republic, Honduras and Guatemala, Canada, Japan, Australia and New Zealand<sup>18</sup>.

The PA has been received with growing concern by the MERCOSUR countries, especially Brazil. Several dynamics of the PA are featuring the “Atlantic” perception. One is the relatively ideological discourse the PA has assumed regarding the rest of the leftist or state capitalist-oriented countries. The PA was presented by some of its founders as in opposition both to the post liberal regionalism as well as to the MERCOSUR protectionism. Despite this may change in the future, the PA is behaving in the same ideological way than the ALBA. It is being perceived by Brazil and Argentina as an open challenge to MERCOSUR and UNASUR.

In contrast to previous waves of Latin American integration that have stressed long-term objectives of convergence, the PA and MERCOSUR have not established any institutional dialogue yet. As one qualified observer put, “(..) It should be noted that the relations of countries of the Alliance of the Pacific with MERCOSUR countries and especially with Argentina and Brazil are very close and transcend trade” (Peña 2013b). However, there are not plans to begun any kind of sub-regional economic integration and convergence<sup>19</sup>.

The presence of Mexico in the PA, and the very favorable position that the PA countries are –at least publicly- exhibiting in the TPP negotiations, are being perceived as a *de facto* political alignment of the PA with the US global and regional posture regarding the G-20 and multilateral trade negotiations, but also regarding regional trade politics. After the failure of the FTAA in 2005, the Pacific Alliance constitutes the strongest free trade initiative in South America.

b) Chile and the TPP. The complexity of the new scenario<sup>20</sup>.

Except for ASEAN, Chile is member state of all the multilateral (WTO), regional (APEC; LACC) and subregional (MERCOSUR, PA) institutions involved in the current global, Asia Pacific and Latin American debate. As it has been seen, Chile has exhibited and developed a long standing commitment with free trade both in the Americas, and pioneering Asia Pacific

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18 See <http://alianzapacifico.net/>.

19 The literature about the PA-MERCOSUR and Brazil relationships is inexistent yet. This section is based in personal interviews of the author with Brazilian official and scholar sources.

20 This section draws on Furche 2013.

vocation. It was the first Southern American country that recognized the PRC and the first one to enter APEC in 1994, and it has operational FTAs with 12 of the 22 economies of the forum, as seen in **Table 1**.

Chile is also a founding member of the P-4, and since its creation. Despite the formal beginning of the TPP negotiations in March 2010, preliminary talks were previous because P-4 members conceived it as an open agreement to Asia Pacific economies. The outlook was the AFTA, according to the APEC Bogor Goals. Trying to increase the P-4 critical mass and to articulate a common approach to the Asia Pacific, Chile devoted significant efforts to bring Peru and Colombia into the group. In this context, which initially seemed stagnated there emerged an agreement to negotiate an investments chapter, which was pending since the initial P-4 agreement. In this moment, the US requested its participation. In 2009 the P-4 was expanded and negotiations for the TPP begun with Australia, the US, Peru and Vietnam. Malaysia entered in 2010, Canada and Mexico in 2012 (the TPP11). In 2013 Japan announced its decision to participate in the negotiations.

The TPP has become, however, a completely different trade institution than the P-4. First, the entrance of the US was a qualitative change regarding the original Group, because of the asymmetry and the political contents the US has brought in the context of the paralysis of the WTO; the need of the US economy to find new markets to expand its economy, and the shift to the Pacific. Second, there is a clear predominance of the developed economies in the new group. The P-4 was absorbed by the main new TPP partners, among which the US has set the standards. For Chile, this means that the expansion should be assessed on its own merit and regarding its trade interests, in the context of its global, regional (Latin American), bi regional (the Chilean role in Latin American relations with the Asia Pacific) long term political and economic goals. A preliminary assessment raises three sets of issues for Chile at the TPP.

i) *The Chilean trade negotiating position at the TPP. A higher standard after the 2004 US-Chilean FTA?*

During its 17 rounds from March 2010 and May 2013 and its 29 chapters, the TPP is negotiating the most ambitious trade standards to date, and in contrast with WTO and APEC, there is a clear asymmetry between the member states while the departing point is the standard set by the US. The TPP is being negotiated under the “*single undertaking*” rule. Advances have been significant advances and the most complex issues have been identified and isolated. Its resolution will depend of the final ratification of the advances in other areas.

As shown in **Table 4**, Chile is the only country that has FTAs with every other TPP member state. It puts its negotiating posture in a different perspective than the rest of the participants and will be increasingly salient.

Because of this, Chile can obtain only marginal benefits and does not has, or should not have, incentives to yield in sensitive areas such as Intellectual property , digital rights, capital movements, where other countries should have powerful incentives to negotiate. While some countries forward their own agenda, other are open to yield because may obtain advantages in market access to goods and services with countries with which they do not have agreements yet. For example, New Zealand does not have agreements with the US, Mexico, Canada and Peru. With different degrees, all the other TPP countries are in similar situations. In other cases, countries have just signed FTAs with the US, so they already incorporated the standards the Washington is trying to forward at the TPP.

This puts Chile in a situation in which most of the parties will force the negotiation beyond the level Santiago should be willing to accept, whether because it exceeds the limits it was able to defend in previous FTAs, or the new standards introduce potential limits to public policy options in critical areas like health, innovation, culture, State Owned Enterprises (SOE) or capital movements, in a context in which there is no possibility to obtain some type of balance in other areas that may justify the cost of new compromises.

In contrast with WTO multilateral tradition and APEC “ASEAN Way”, until now there are not signals within the TPP regarding the need to address the heterogeneity and to consider the necessary flexibility given the high level of asymmetry.

In the case of Chile, it should not lose the already acquired in past negotiations, especially in the bilateral US-Chile FTA. The coverage of the TPP negotiation is the same than the scope of the treaty that entered into force in 2004. The FTAs agreed with Australia and the P4 do not have environmental and labor chapters. The Canada-Chile FTA did not included chapters about intellectual property.

**Table 4**

<b>Chilean bilateral FTAs with TPP, China, Korea and Japan and coverage.</b>							
(Source: Furche 2013: 8)							
	TRADE		Investments	Intellectual Property	Environment	Labor	State-Owned Enterprises
	Goods	Services					
Australia	YES	YES	YES	YES	NO	NO	YES
Brunei	YES	YES	NO	YES	NO	MOU	YES
Canada	YES	YES	YES	NO	YES	YES	YES
<b>United States</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>
Malaysia	YES	NO	NO	NO	NO	NO	NO
Mexico	YES	YES	YES	YES	NO	NO	YES
New Zealand	YES	YES	NO	YES	NO	MOU	YES
Peru	YES	YES	YES	Paragraph	NO	NO	NO
Singapore	YES	YES	NO	YES	NO	MOU	YES
Vietnam	YES	NO	NO	NO	NO	NO	NO
China	YES	YES	YES	NO	NO	NO	NO
Korea	YES	YES	YES	YES	NO	NO	NO
Japan	YES	YES	YES	YES	Side Letter	Side Letter	NO

In addition, beyond the coverage, the TPP introduces new disciplines and standards in several chapters and the most sensitive areas of negotiation for developing countries, such intellectual property rights, regulatory coherence, digital rights, capital flows, labor and environment, which reflect the priorities of the dominates developed members in the negotiation, particularly the US.

In this case, Washington aims at reopen the already negotiated chapters in past bilateral FTAs and to obtain additional concessions.

For Chile, the main issue is not the coverage of the negotiation, but its scope, because the new standards actually do modify the bases of the agreed in other bilateral FTAs, especially with the United States, which represented to date the highest level of concessions yield by Chile to another commercial partner<sup>21</sup>.

During the negotiations the main pressures from the US have been focused on increased Chilean concessions regarding the already bilaterally negotiated areas of intellectual property rights, capital movements and environment. Pressures have been also made on the new disciplines and standards of especial sensitivity, like digitals rights, regulatory coherence, and SOEs, without compensations in any area of the agreement. Despite there is no evidence that the new standards and regulations will favor Chilean development, it is clear that the eventual new compromises would limit Chilean short and long term room for more balanced, sustainable and inclusive public policies.

Also, the eventual potential benefits that may emerge from the new disciplines and standards seem insufficient for a favorable balance from a Chilean perspective, given the magnitude and sensitivity of the eventual concessions Chile should make.

Chile may be benefited by the TPP if economies other than the US grant access in areas and disciplines that had been previous neglected to Santiago. This may be the case of Japan. For Chile, the most important innovation in the TPP negotiation could be the entrance of Tokyo, depending on the Japanese posture in relation with the areas that remained pendant in the bilateral FTA with Chile, which would benefit the Chilean food agribusiness. While Japan may be the most important case, but not the only, as seen in **Table 4**.

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<sup>21</sup> El TLC con Estados Unidos es el único firmado por Chile que establece algunos límites a las facultades de las autoridades correspondientes para limitar el movimiento de capitales, e igualmente es el único que admite un capítulo de Medio Ambiente con sanciones económicas. Es conocido además que este tratado es el que establece disposiciones sobre propiedad intelectual que no fueron replicadas en los TLC s firmados posteriormente.

ii) *Does Chile have to choose between China and the US?*

Beyond the economic and trade legitimate calculations, Chile should assess the negotiations at the TPP balancing its global, inter-regional and regional consequences, with its foreign policy goals and agenda.

The TPP has been transformed into the most important vehicle in the implementation of the new US global policy regarding China, but also emerging and developing countries at the WTO. In this rationale, the participation in the TPP, being active or passive, is becoming functional to a global US strategy of balancing the Chinese influence at the global level and the Asia Pacific region.

This new policy is being executed in one of the most sensitive international issues, like trade, and through the imposition of trade standards that the US has not been able to impose at the multilateral institution, the WTO. Its effects may go beyond because of the linkages among trade and many other policy areas. In this sense, and despite the politics of trade may not be similar with other global issues currently under negotiation, a similar pattern could be applied while the multilateral and G-20 paralysis persist. After a more cosmopolitan, *deliberative* style of global governance inaugurated by the G-20 in 2009, the TPP may be heralding a new, *agonistic*, polarized phase in international politics.

This emerging political picture constitutes a complex foreign policy scenario for the region, since the US and China are the two main trading partners with Chile (and Latin America). On the one hand, the consequences for the entire Asia Pacific regional politics are still to be seen, and the Chilean dilemma is beginning to be felt by many several countries.

Korea announced its decision no to enter the TPP because of entire political (and legitimate) calculations.

The entrance of Japan to the TPP will be a significant moment. Despite initial short-term analysis may consider this move a mechanic alignment with the US, and given its multilateral stance in global affairs, deep economic interdependence and strategic and geographic proximity with

China, Japan may also play an influential, moderating role within the TPP. In the meantime, Japan negotiates its trilateral FTA with China and South Korea, and participates in the East Asian negotiations with China, India and the ASEAN countries.

The TPP must be also put in the context of the emerging inter-regional Asia Pacific-Latin American relationship, which has exhibited some significant recent events. Among others, in 2012, the Chinese Prime Minister visited South America and proposed the negotiation of a FTA with MERCOSUR as part of a wider vision about this south-south development. As some has put, if East Asian countries consolidate its perception of the TPP as an US initiative, it will diminish its interest as a strategy toward the Asia Pacific for Latin American countries. From the other side, if Chile and Peru continue their participation in the TPP, it will decrease the interest of the East Asian and Chinese side on the Pacific Alliance.

Additionally, an eventual alignment of Chile, Peru and Mexico with the US policy will have a significant impact in the Latin American and Southern American regionalism and integration, as well as in the relationship with Brazil, which coordinates its global and multilateral policies with China at the UN and at the BRICS, MERCOSUR and ALBA. In turn, this could regionally isolate and weaken the Pacific Alliance and limit its important potential for regional integration and access to the Asia Pacific.

Despite the high standards Peru had to pay for its FTA with the US<sup>22</sup>, the way the US treats its negotiation with Vietnam and Chile will be also followed with special attention in each region. In the case of Vietnam, how the TPP11 accommodates the country will set a precedent for future developing countries (Schott, Kotschwar and Muir 2013: 8). In the case of the Chilean negotiation, its relevance is related to the symbolic importance Washington has attributed to Chile as a democratic, free market “model” for Latin American countries.

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22 The United States and Peru signed the United States-Peru Trade Promotion Agreement (PTPA) on April 12, 2006 and entered into force on February 1, 2009. As the USTR stresses, the PTPA “is the first agreement in force that incorporates groundbreaking provisions concerning the protection of the environment and labor rights that were included as part of the Bipartisan Agreement on Trade Policy developed by Congressional leaders on May 10, 2007”.



### **3. Preliminary conclusions. A new phase and evolving challenges for the Chilean foreign and Asia Pacific policies.**

The future of the Chilean presence in the Asia Pacific region will continue to be a top priority for the foreign policy of the country in the coming decades. Most (albeit not all) of the Chilean and Latin American growth in the current century will be based in the economic integration with the Asian Economies (Meller and Moser 2013: 32).

The Chilean (and Latin American) insertion in the Asia Pacific is becoming not just a matter of trade anymore, but an increasingly politicized foreign policy area, as a consequences of a more polarized global environment after the 2009-2012 stalemate at the most important global multilateral (UN, WTO, UNFCCC, D&NP) or plurilateral (G-20) negotiations.

The Chilean policy toward the region has completed a cycle of market access, and has entered a new phase, featured by new challenges for its economic international insertion in the world and the AP, which are two-sided, domestic and international.

On the domestic side, Chilean mass mobilizations are demanding a redefinition of its strategy of development, addressing simultaneously its interrelated, shameful levels of inequality and stagnated levels of productivity. Until now the Chilean policy of FTAs has done little for that because of its high levels of concentration in products and companies, and low level of job creation. However, this can be corrected through an economic insertion policy that is explicitly aimed at reducing Chilean inequality and increasing its competitiveness. The most direct way (although not the only<sup>23</sup>) to link foreign policy with the efforts to reduce inequality is developing a carefully calibrated strategy that combines a massive domestic support for SMEs, detailed plans for identifying its insertion in Asia Pacific (and global) value chains, and a special effort to deepen integration with Latin American countries because of the higher competitiveness of the Chilean manufactures. Intra-regional trade is still low in comparative terms, but is more

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<sup>23</sup> Among other critical areas, foreign policy has developed new-generation cooperation policies aimed at strengthening cooperation with developed countries in advanced human capital education and clean energy (MINREL 2010A, 2010b).

diversified, more intensive in manufactures and more friendly with SMEs, especially with export-oriented SMEs (Rosales 2013: 34).

In turn, the international side has also several dimensions. To address its competitiveness weaknesses in the international economy, the Chilean economy must continue to open new markets, but this will be a secondary task. In the coming years the focus of the Chilean international economic policy must advance from the market access-oriented rationale, toward a value chain-oriented one, in which FTAs should be the platforms and the instruments to establish strategic alliances with the main partners in investment and technology. In turn, these alliances should be a central part of a national strategy for innovation. FTAs should improve the presence of Chilean companies in international networks of innovation. The goal should be developing joint operations in technology, distribution, marketing, patents and intellectual property rights with American, European, Asian and even Latin American companies for third markets (Rosales 2013: 21).

In this effort, maintaining an active presence in the Pacific Basin is a consensual understanding in Chile. In this perspective, increasing its participation in multilateral institutions like APEC and FEALAC will have critical importance, as well as in the ASEAN and the Pacific Alliance, which should be understood as an open, non-ideological and non-politically aligned institution. Chile should avoid the current trend of deepening the regional divides in the Asia Pacific and in Latin America. On the contrary, while on the trade areas Santiago should maintain its pragmatic policy, at a more political level it should promote a strong policy of convergence between the Latin American subregional integration processes, because of political and economic reasons, as well as an increasing South-South and North-South dialogue and cooperation, as part of its principled, historical policy of strengthening multilateral institutions and a more democratic global governance.

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