

Chile and the Asia Pacific

Toward a new foreign policy cycle

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Paper delivered at the seminar

“Reaching across the Pacific: Latin America and Asia in the New Century”

WWC for International Center for Scholars

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I. The politics of the Chilean foreign policy.

Chilean evolving identity, 1990-2010

- Democratic consolidation, not trade, was the main rationale for Chilean post 1990 Chilean foreign policy
 - Part of a global structural change and identity transformation toward liberal, democratic identity
 - Part of a LAC regional identity changed from
 - Authoritarian/protectionist/competitive to
 - Liberal, politically, economically, cooperative

Economic internationalization, a critical policy area for post 1990 Chilean democracy and foreign policy

- Pragmatic unilateral, bilateral, sub regional, regional, Hemispheric, and multilateral trade policy approach
- 1990-2013:
 - 20 FTAs with 60 states, wider network in the world
 - 16 million people country reached 62% of world population and 85.7% of world GDP
 - More than 60% of Chilean GDP from international insertion

Asia Pacific, a critical role in the Chilean economic internationalization strategy

- Regional pioneer regarding the Asia Pacific
 - Recognized PRC in 1971 (first in SA)
 - Moved quickly after 1990
- Entered APEC 1994. A vocal supporter of the FTAAP
 - Despite being a developing country, reached Bogor goals in 2010
 - Aimed at a building-block strategy for FTAAP
 - APEC, 63% of 2011 Chilean exports
- Founder of
 - P4 (2006), with New Zealand, Singapore and Brunei
 - Pacific Alliance (2011)
- Agreed FTAs with most of the Asia Pacific economies

Chile trade agreements with Asian and Pacific economies (Source: Author upon DIRECON 2013)		
Canada	FTA 1997	FTA
Mexico	FTA 1999	FTA
US	FTA 2004	FTA
Korea	FTA 2004	FTA
China	FTA 2006	FTA
P-4 (NZ, BR, SI)	FTA 2006	FTA
India	FTA 2007	Partial Trade Agreement
Japan	FTA 2007	FTA
Peru	FTA 2009	FTA
Australia	FTA 2009	FTA
Malaysia	FTA 2012	FTA
Vietnam	Signed	FTA
China	Signed	Suppl. agreement on investments
Hong-Kong, China	Signed	FTA
Thailand	Not signed	FTA
TPP	Under negotiation	FTA
India	Under negotiation	Deepening Partial Trade Agreement
Pacific Alliance	Under negotiation	FTA

Preliminary assessment 1990-2013

What worked

- Per capita income raised from US\$ 2,500 (1990) to US\$ 16,000 (2013)
 - IMF projects US\$ 22,000 in 2018 (Spain 2003, Portugal 2007)
- Poverty fell from almost 40% to 13% (and will continue to fall)
- Diversified economic insertion (more political autonomy)
- More diversified the Chilean economy (new export-led sectors)

Preliminary assessment 1990-2013, what did not work well

- Inequality: 2011 still 0.526 Gini coefficient
 - Super rich: 1% gets more than 30% of country-s GDP
 - Most important social unrest since 1990, questioning the (political and distributive features of) the Chilean model
- Trapped into the (Middle Income) Trap
 - Productivity remains low
 - R&D remains without significant variation

Shortcomings: concentration

- Elevated concentration of exports in commodities (and low intensity products): mining (60% of exports) plus agribusiness are 68% of exports
- Exported value concentrated in too few enterprises: 0.6% of companies (45 companies) did 70% of the exports in 2012
- Low participation of SMEs in exports: 2010 SMEs were 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
 - 42% of the export companies do export one product to only one market

Shortcomings: weak linkage to value chains

- Despite global trends toward value chains, the presence of the Chilean companies in international value chains is limited
- 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
- There has been a very modest effort of export promotion and maximization of the potential benefits of the network of FTAs the country has built

Linking international trade and equality

- Chile has not taken advantage of FTAs and its geographical proximity with the Asia Pacific (Frohmann, 2010) because of lack of industrial policy despite importance of the active state policies to promote innovation, competitiveness, productive development and infrastructure
- International trade could reduce inequality if developed along with policies supporting productive promotion, SMEs, innovation and competitiveness (Rosales, 2013). In this case, international trade and economic globalization could strengthen the access of vulnerable groups to the benefits of trade, and would enhance their defense regarding the cost of trade
- 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

II. Post 2008 dynamics: Global polarization and politicization

- A re foundational international moment
 - System, identities
 - Post 2008: multilateral (UN, WTO), plurilateral (G20) paralysis
 - US response: Pivot, TPP, TTIP
- Political and geo economic faultlines in Latin American regionalism (liberal / posliberal regionalisms)
 - North (to US) – South (to China)
 - Atlantic (MERCOSUR) – Pacific (Pacific Alliance)

Asia Pacific: from trade to politics

- Chile aims at APEC building block strategy
- TPP changed the symmetrical, building block feature of P4, becoming a negotiation among like-minded for
 - US new disciplines and standards higher than WTO
 - Open to others (China) while adhering to the new US standards
- Together with the Transatlantic Trade and Investment Partnership (TTIP), TPP is seen as part of a US global policy after WTO paralysis and effort for rebalancing its global posture toward the Asia Pacific
 - Widely seen as not friendly with China, raised concern in East Asian countries, accelerating Regional Comprehensive Economic Partnership (RCEP) and trilateral China, Japan, Korea FTA

CHILE: LOW ECONOMIC INCENTIVES AT TPP

- Chile is the only TPP country that has FTAs with every member state, including the US
 - It has less incentives to negotiate (will pay twice without foreseeable benefit)
 - Most of other countries have more incentives than Chile to negotiate
 - Bilateral US-Chile FTA (2004) included all the disciplines currently under negotiation at the TPP

	Chile	NZ	Singapore	Brunei	US	Australia	Vietnam	Peru	Malaysia	Mexico	Canada	Japan
Chile		FTA	FTA	FTA	FTA	FTA	FTA Signed	FTA	FTA	FTA	FTA	FTA
NZ	FTA		FTA ASEAN	FTA ASEAN		FTA ASEAN	FTA ASEAN		FTA ASEAN			
Singapore	FTA	FTA ASAN		FTA ASEAN	FTA	FTA	FTA ASEAN	FTA	FTA ASEAN	FTA-UN	FTA-UN	FTA
Brunei	FTA	FTA ASEAN	FTA			FTA ASEAN	FTA ASEAN		FTA ASEAN			FTA
US	FTA		FTA			FTA		FTA		FTA	FTA	
Australia	FTA	FTA ASEAN	FTA	FTA ASEAN	FTA		FTA		FTA ASEAN			FTA-UN
Vietnam	FTA Signed	FTA ASEAN	FTA ASEAN	FTA ASEAN		FTA ASEAN			FTA			FTA
Peru	FTA		FTA		FTA					FTA	FTA	FTA
Malaysia	FTA	FTA	FTA ASEAN	FTA ASEAN		FTA ASEAN	FTA					FTA
Mexico	FTA		FTA-UN		FTA			FTA			FTA	FTA
Canada	FTA		FTA-UN		FTA			FTA		FTA		FTA-UN
Japan	FTA			FTA ASEAN		FTA-UN	FTA	FTA	FTA	FTA	FTA-UN	

(Source: author upon Schott et al 2012, Contreras 2013)

TPP: NUMBER OF FTAs BY COUNTRY			
(Source: author upon Schott et al 2013, Contreras 2013)			
COUNTRY	FTAs	WITH THE US	WITH JAPAN
Chile	11	Yes (2004)	Yes
Singapore	9	Yes	Yes
Australia	7	Yes	No (UN)
Brunei	7	NO	Yes
Vietnam	7	NO	Yes
Japan	6	NO	
Malaysia	6	NO	Yes
New Zealand	6	NO	NO
Peru	6	Yes (2009)	Yes
US	6		NO
Mexico	5	Yes	Yes
Canada	4	Yes	

Chilean bilateral FTAs with TPP, China, Korea and Japan and coverage.
(Source: Furche 2013: 8)

TPP COUNTRIES	TRADE		Investments	Intellectual property rights	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
United States	YES	YES	YES	YES	YES	YES	YES
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

LOW ECONOMIC GAINS/HIGH COSTS

- Chile: difficult to gain something new or important
- Instead, must accept new US disciplines and standards
 - 2004 bilateral US Chile FTA was considered balanced by Chile
 - New concessions by Chile could break this balance in favor of the US
- Most sensitive TPP disciplines that go beyond US-Chile bilateral FTA:
 - Investments
 - Intellectual property rights: very high restriction in digital economy
 - Environment
 - Labor
 - Patents: very sensitive for low cost access to medicines
 - SOEs
- Interesting for Chile
 - New: Access to Japanese food market

INTERNATIONAL POLITICAL COSTS

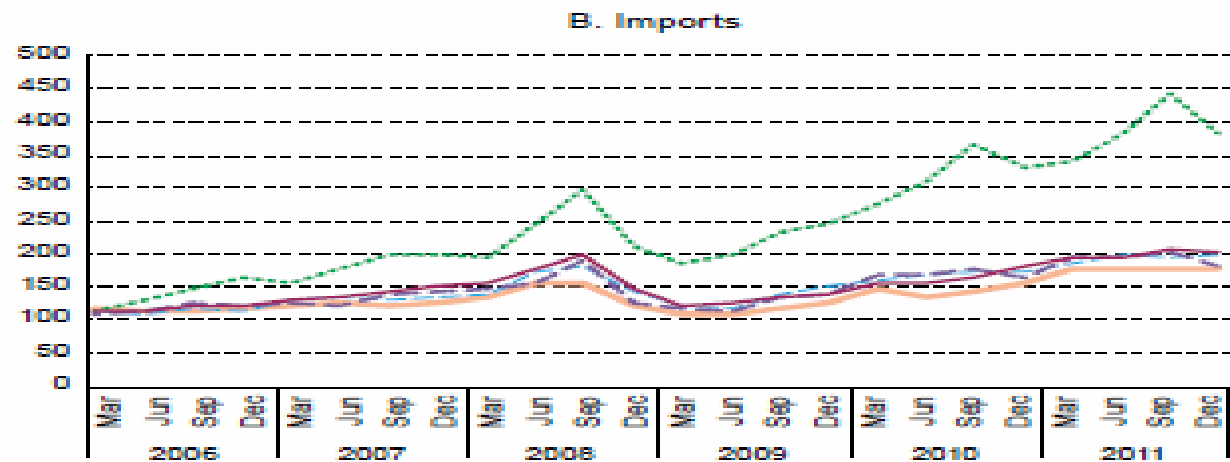
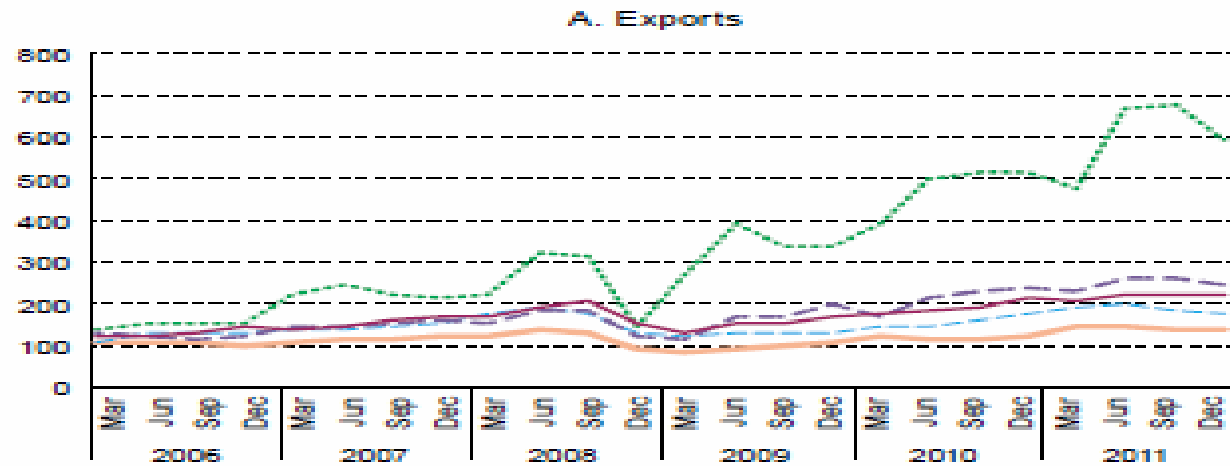
- Future South-South Asia Pacific-Latin American economic relationship will be increasingly important
 - China, currently first trade partner of Chile, but also of South America
 - US, second trade partner for Chile (first of Mexico and CA)
 - Expected increase PA-MERCOSUR plans to coordinate economic AP-SA cooperation
- Despite China has not officially reacted to TPP, it is widely perceived as hostile to Beijing
 - TPP may weaken the Pacific Alliance (Chile, Peru, Colombia, Mexico) , which is intended to strengthen insertion into Asia Pacific
- TPP also deepens already existent divide between MERCOSUR / Pacific Alliance in LA
 - TPP perceived as political alignment with the US in MERCOSUR / ALBA countries

CHOSSING BETWEEN MAIN PARTNERS?

Chile: First 10 trade 2012 partners (Source: author upon IMF 2013)	
Country	(US\$ M)
China	30.243
U.S.A.	24.632
Japan	10.534
Brazil	9.566
Korea	7.092
Argentina	6.494
Mexico	3.820
Germany	3.815
Peru	3.632
India	3.296

Figure 1
LATIN AMERICA AND THE CARIBBEAN: GROWTH OF TRADE WITH MAIN PARTNERS, MARCH 2006-DECEMBER 2011
(Index: March 2006=100)

Source: ECLAC 2013



— Latin America and the Caribbean — European Union
 — United States - - - Rest of Asia
 - - - China

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national statistics.

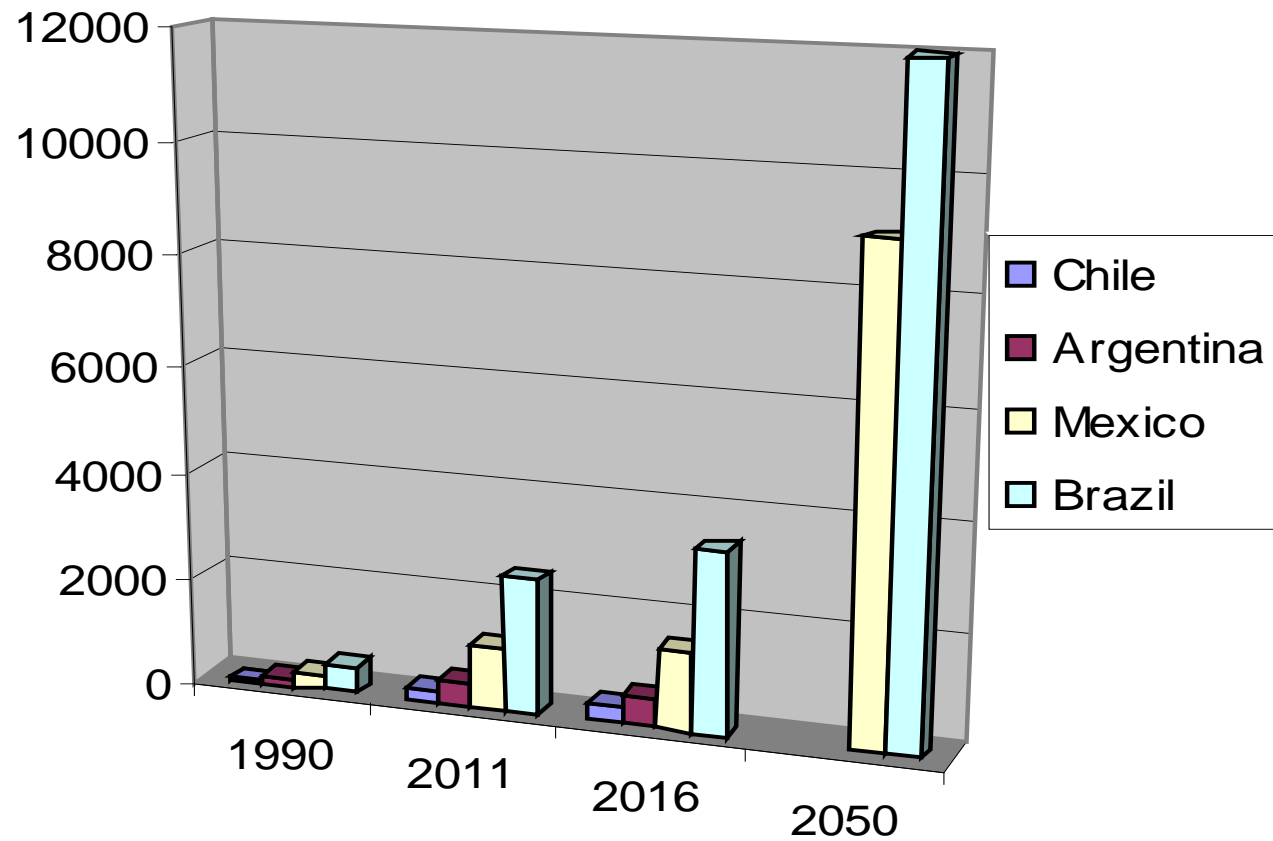
LATIN AMERICA AND THE CARIBBEAN: CHINA'S RANKING AMONG IMPORT
AND EXPORT PARTNERS, 2000 AND 2010

	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.

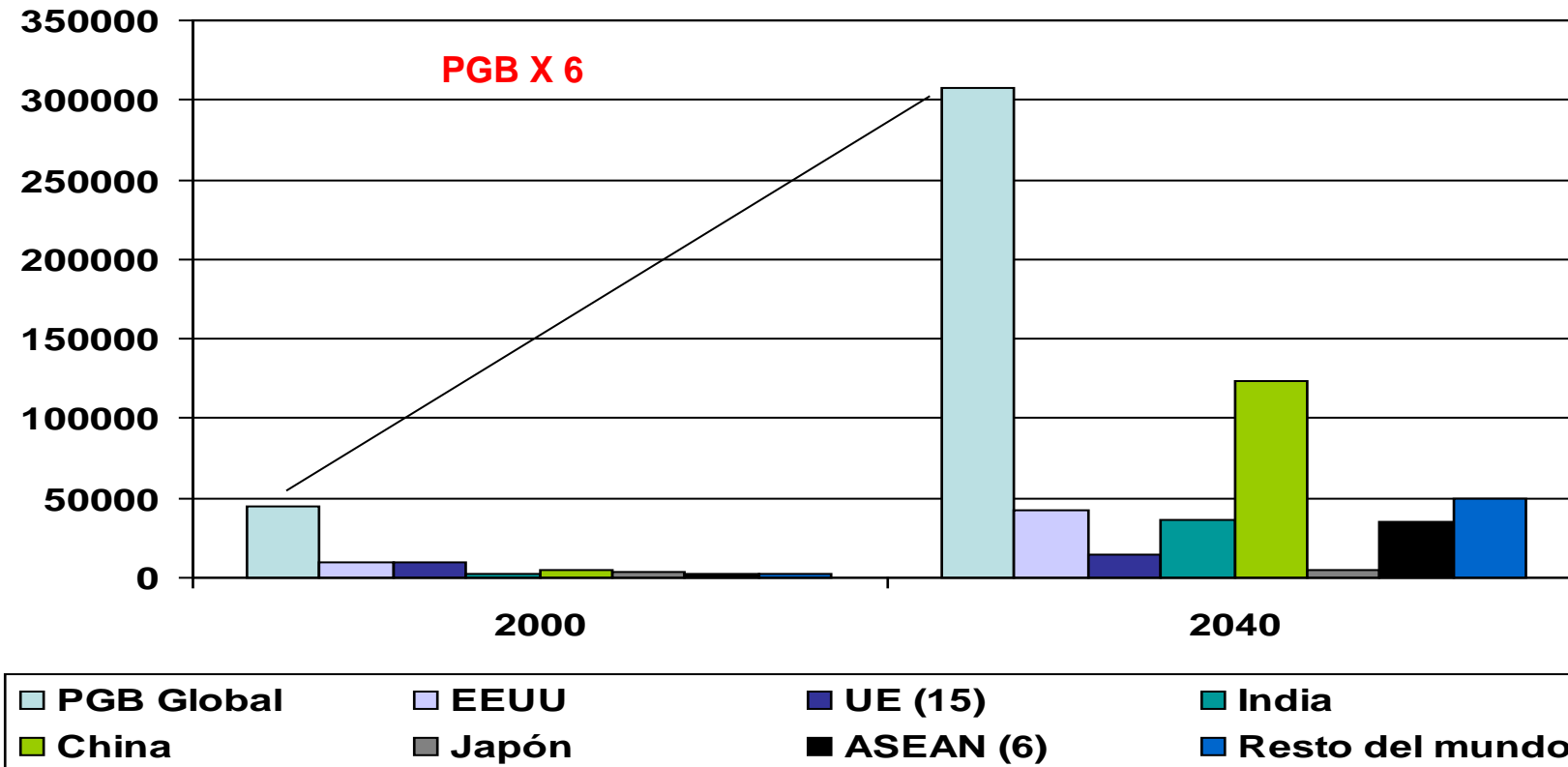
Source: ECLAC 2013

PGB precios corrientes
(Fuente: Elaboración propia sobre la base de FMI 2011 y Goldman Sachs 2007)



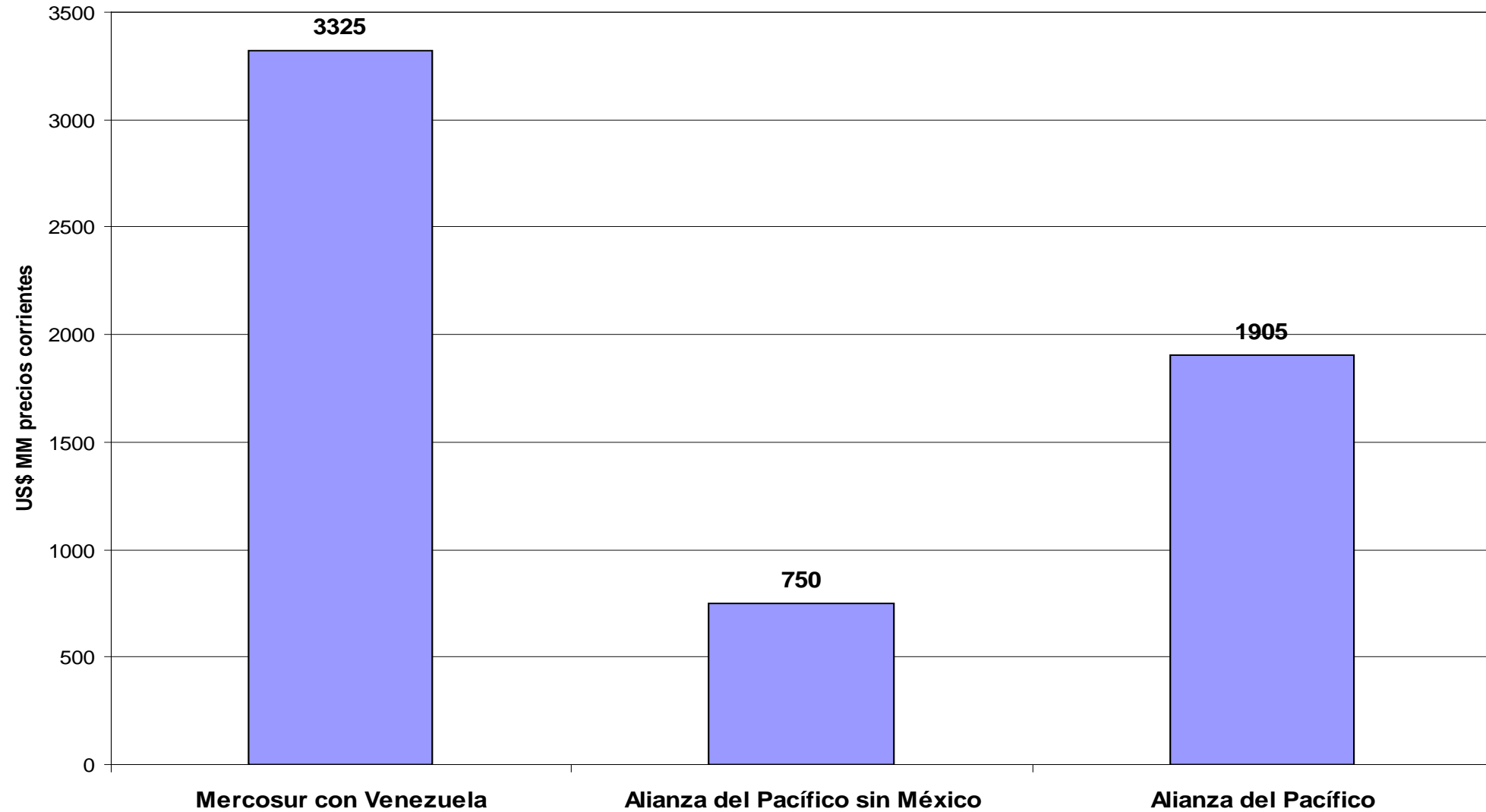
PIB (ppp) Global 2000-2040

(Fogel 2007, crecimiento 5% anual promedio estimado)



PIB 2011 MERCOSUR y Alianza del Pacífico

Fuente: Elaboración propia sobre estimaciones del World Economic Outlook Database en línea, FMI.



A TRADE OFF?

- TPP, US complex global signal on
 - Trade policy
 - US-China relationships
- TPP: low economic incentives, high economic costs for Chile
- TPP: potential high political costs for Chile/China or Chile/US
 - Other countries in similar political position than Chile (Korea, East Asian, Latin American, even Japan)
 - Very significant for AP/Chinese relations with Latin America (South America)
 - Does TPP countries must trade off between China and the US?

Summary: three challenges

- To continue accessing markets
- To link international economic policy with national strategy to reduce inequality and increase productivity through
 - Fully exploit existing FTAs
 - Incorporating SMEs
 - To global, Asian, American, **Latin American** value chains
- Asia Pacific: from a trade issue to a political issue
 - Trade offs among China/US/Latin-South America?
 - Trade offs among regional integration (LA/SA), inter-regional cooperation (SA/AP), global, more equitable trade?
 - Will TPP eventually accommodate (or not) China, others (Chile, Vietnam)
 - **Maybe influencing a less agonistic forthcoming international system?**

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... OR A BALANCED TREATY?

- Maybe China and the US will be able to advance toward the “new model of relations for major countries” which highlights cooperation, mutual respect of interest and mutual benefit (President Xi Jinping to President Obama in last visit)
 - “The TPP could be a starting point where the two big economies practice this ‘new model’ of relations, abating mistrust and build the long-awaited partnership” (Yuan 2013)
- Maybe the US standards will be more flexible: to keep an eye on how TPP (US) deals with
 - Vietnam: Global signal for developing countries
 - Chile: Regional signal for Latin America and the Caribbean
- Summary: TPP an open, not closed issue

TPP: Investments

- A) Dispute settlements between investors-state: no additional compromises
- B) SOE: available information indicates that US introduced language aimed at regulating and limiting SOEs operations regarding production and distribution of goods, services, conditioning to private enterprises
 - It would not threaten already existent SOEs (CODELCO, ENAP)
 - It could limit Chilean policy options/autonomy in areas like pensions, health, clean energies, among other critical areas currently under open political debate about the future model of development in Chile
- C) Capital movements
 - US introduced language for increased liberalization of capital movements despite IMF recommendations in the opposite direction after the US-originated 2008 intl. financial crisis. Chile has a strong regulatory system that kept the country off the 2008 crisis
 - It shifts the 2004 US-Chile bilateral FTA, when Chile kept capacities to regulate capital movements under crisis of balance of payments
- **B) and C) should be red lines for Chilean negotiators**

TPP: Environment

- Current FTAs consider bilateral and international norms of environmental protection, and domestic legislation
- New language introduces sanctions, protectionist non-tariff measures
 - Recent bilateral US FTA under new standards have limited local governments powers, leading to new conflicts with local communities in fragile ecosystems

TPP: Regulatory coherence

- Initially to guarantee regulatory coherence among different areas has been received as a good idea in general. However, language is controversial
 - Opens virtually every thing to what authorities or companies of TPP countries may consider a limitation to trade: language too wide
 - Considers public consultations and submitting issues to technical committees that may limit policy options for national public agencies and authorities
 - Language diminishes authority of national authorities, which may become submitted to interests of foreign companies or/and agencies

TPP: Intellectual property rights / Patents

- Currently regulated by US Chilean FTA. Ambiguous, negotiated language
 - Chile has been included in the USTR "Priority Watch List" (as Canada, Brazil, Israel, among others)
 - 2013 Official Chilean statement: US report is made out of the US-Chile FTA. Is not recognized by Chile as valid instrument
- Chilean and international consensus, oriented to develop generics
- Reopening negotiations would have high cost for Chilean health policies and Chileans access to medicines, without any visible compensation

TPP: Intellectual property rights / Patents

- After 2004 bilateral FTA, it has made important changes to strengthen IPR and Copyrights
 - 2006, 2010 laws
 - 2009 creation of the National Institute for Property Rights (INAPI in Spanish)
 - Creation of special police unit for IP
 - Signature of several treaties

TPP: Intellectual property rights / Digital rights

- TPP introduces much of the legislation already rejected in US (Stop online Piracy Act, SOPA) or in Europe (Protect IP Act, PIPA)
 - If approved, SOPA and PIPA will become international law and enforceable in each TPP country
- Threatens global public good: access of citizens to culture and knowledge
 - Restricts rights that are currently critical for global processes of democratization

COMPARATIVE ASSESSMENT (Source: Furche 2013, translated by author)

	PIPA	SOPA	TPP
Risks platforms and online communities	√	√	√
Uses an excessively Wide definition of “piracy” that includes web sites and services used to storage, share and link (to mess media)	√	√	√
Threatens great number of legal, innovative online services like Twister, Factbook and Youtube		√	√
Establishes negative precedent for Internet censorship at global level	√	√	√
Uses same technical tools that other governments use to suppress freedom of expression and dissidents	√	√	¿?
Sets an example for other countries to block any type of unfavorable online content, which may lead to Human Rights violations	√	√	√
Breaks Internet structure	√	√	¿?
Threatens online security	√	√	¿?
US requirements to domain names suppliers (DNS) to block an user to access an specific web site	√	√	¿?
Interferes with current efforts to improve online security, making users more vulnerable to phishing and other problems of security.	√	√	¿?
Exposes users that try to avoid being blocked to virus. Infected computers may be used for cyber attacks to other systems, posing the country under risk of cyber attacks.	√	√	¿?