Asian Perspective 40 (2016), 653–673

The Chile-China Paradox: Burgeoning Trade, Little Investment

Jorge Heine

Chile, a country that has been at the forefront of Latin America's growing links with China, embodies a paradox in terms of Chinese outward foreign direct investment (COFDI). On the one hand, bilateral trade has thrived, increasing fourfold since the signing of a free trade agreement in 2005, turning Chile into China's third largest trading partner in the region. On the other hand, Chinese direct investment in Chile has been low, much lower than in neighboring countries. In this article I explore the roots of this upsurge in bilateral trade while also explaining the reasons for the dearth of Chinese investment in a country traditionally considered to be attractive to foreign investors. Chile might be a victim of its own success as its economic accomplishments allow it to persist with investment policies that are currently daunting to Chinese investors. ***Keywords:*** *Chile, China, international trade, foreign direct investment, Asia Pacific.*

From May 24 to 26, 2015, Chinese Prime Minister Li Keqiang made his first official visit to Chile as part of a South American tour that included Brazil, Colombia, and Peru. His delegation included Foreign Minister Wang Yi; Commerce Minister Gao Hucheng; the minister in charge of the National Development Reform Commission (NDRC), Xu Shaoshi; and a business delegation of some 120 entrepreneurs and top executives from China's leading banks, industries, and mining companies. Following up on the two meetings held in 2014 by Presidents Michelle Bachelet and President Xi Jinping (one in Brasilia in July, on the sidelines of the Sixth BRICS Summit, and in Beijing in November, after the eleventh Asia-Pacific Economic Forum Summit), the agenda for the meeting covered a wide range of topics, most of them with an economic imprint.

A total of eighteen agreements were signed. As part of the process of sealing their strategic partnership, the first Strategic

Cooperation and Coordination Dialogue took place, chaired by Chile's foreign minister and minister for economic affairs and by the president of the NDRC. A memorandum of understanding was signed to deepen the free trade agreement (FTA) between both countries, in effect since 2006. The memorandum of understanding deals with cutting-edge issues that were not included in the original FTA text, such as e-commerce, public sector purchases, and financial services. In turn, the Central Bank of Chile and the People's Bank of China signed an agreement to engage in currency swaps. It was also announced that the China Construction Bank, China's second largest and newly established in Chile, will become the clearing bank for all renminbi (RMB) operations in Latin America, thus buttressing Santiago's aspirations to establish itself as Latin America's preeminent financial services center. A treaty to avoid double taxation was signed, while working groups on infrastructure, transport, and energy also met (Muñoz 2015).

Links between Chile and the People's Republic of China (PRC) go back a long way (Lee and Wu 2011). In 1970, Chile was the first South American country to establish diplomatic relations with the PRC. Since the turn of the century, trade has thrived, hitting $34 billion in 2014. Nevertheless, investment from China to Chile has been sparse (Gachúz 2012). I aim to uncover the reasons for this paradox. In the normal course of affairs, one would expect some correlation between trade and investment patterns—Chinese firms should feel attracted to a country with which trade has increased fivefold over the past ten years following the signing of the China-Chile FTA (C-C FTA). Yet, that has not been the case. Chinese investment in Chile is still minimal, which stands in stark contrast to what has happened elsewhere in Latin America where Chinese capital has moved in with great brio.

The answer to the puzzling situation regarding COFDI in Chile involves several parts. First, focusing on the resource sector, Chile presents a more competitive, saturated investment environment, unlike the rich opportunities present in its neighbor Peru. Second, investments in Chile require foreign firms to go through a challenging tender process, especially in cases of public-private partnership (PPP) deals, which are unfamiliar to many Chinese firms. For those attuned to the political economy of FDI in Latin America, these facts indicate that voluminous and institutionalized trade relations, extensive political interactions, and favorable host country political stances toward the home country do not guarantee impressive COFDI results.

In the next section I examine the state of relations between Chile and China. I then parse the direction and dynamic of bilateral trade, and dissect Chile's "lateral" international trade policy, based on the pursuit of bilateral or multilateral FTAs with as many countries as possible. I go on to analyze what I refer to as the notion of globalization as Asianization, which has guided Santiago's foreign policy for the past quarter of a century (Arnson and Heine 2014). I then examine China's role in that context and squarely address the dearth of COFDI into Chile, following which I offer some conclusions.

Chile-China Relations: The State of Play

The Importance of the China Trade for Chile

The very notion that Chile and China should have the kind of flourishing relationship that is reflected in the agenda of Li Keqiang's recent visit to Santiago is counterintuitive. After all, China is the second largest economy in the world and the most populated, while Chile, a medium-sized country located *finis terrae*, is about as far away from China as it is possible to get. Their histories and cultures could not be more different. Yet over the course of the past half century or so they have managed to develop the type of link that normally takes much longer to build up between distant nations.

The significance of China for Chile today can hardly be overestimated. Since 2010, China has been Chile's largest trading partner, and by a wide margin. Chile exported nearly $19 billion to China in 2014 and in that year registered a trade surplus of $3.7 billion with China. In the same year it exported half as much, $9 billion, to the United States, its second largest trading partner, but ran a $4 billion deficit. Nearly one-fourth of Chile's exports go to

China (DIRECON 2015b). For an economy such as Chile's that is based on export-led development, these are essential facts.

For China, Chile hardly has the same significance. Still, Chile is China's third largest trading partner in Latin America despite the fact that it is only the sixth largest economy in the region. Furthermore, China is the largest consumer of copper in the world (using 40 percent) while Chile is the largest producer and exporter of copper. On a number of other items, especially food, Chile also has made enormous inroads in the China market, particularly since the signing of the C-C FTA. To put things in perspective, China does more trade with Chile than it does with Pakistan, a neighboring country with a population of nearly 200 million and with which China has very strong political and military ties.

What stands out is the degree to which China singled out Chile for a privileged relationship of sorts, granting the latter duty-free access to its giant market before doing so with anyone else, including Australia and South Korea. Indeed, the C-C FTA represented China's first FTA with any one country, giving Chile's foreign trade an enormous boost (DIRECON 2015a). I argue this situation was the result of a long-standing policy, on both sides, to assign a high priority to these links, to nurture and husband them, and not to let others, or other considerations, interfere with them. We witness a virtuous cycle in which both parties take initiatives of various kinds that show an interest in taking links further. This serves as a confidence-building exercise in which, as more and more trust develops, measures of a different order of magnitude are made possible. Such a process feeds on itself and allows the relationship to move up the ladder to further heights.

A Brief History

The foundation stone for this process goes back to December 1970, at the height of the Cold War, when the Chilean government of President Salvador Allende recognized the PRC and established full diplomatic relations with it, becoming the second Latin American country to do so (Rodríguez 2011). Chile did this some fourteen months before President Richard Nixon's breakthrough visit to Beijing and long before the United States and China established full diplomatic relations in 1979. In a civilization-state with a long memory and sense of history, such things carry weight. Indeed, Li Keqiang remarked in several speeches during his May 2015 visit to Chile that the first informal recognition of the PRC in Latin America took place as early as 1952 in Chile, with the establishment of the Instituto Chileno-Chino de Cultura, an initiative of various personalities such as then-senator Salvador Allende and Pablo Neruda.

Over the course of the next few decades, Chile would time and time again prove its mettle and willingness to go to bat for China. In 1999, it was the first Latin American country to support China's application to join the World Trade Organization (WTO). In 2004, it became the first country in the region to recognize China as a market economy. Under such circumstances, the signing of the C-C FTA the following year should come as no surprise. The impact the agreement had on bilateral trade, and, especially on Chile's exports to China, can be ascertained from the fact that Chile's exports to China doubled from $5.255 billion in 2006 (the year the C-C FTA came into effect) to $10.505 billion in 2007 (DIRECON 2015a).

Ever since Chile's transition to democracy in 1990, every Chilean president has visited China, some several times. In turn, Chinese presidents have visited Chile repeatedly, some at difficult moments, such as the first anniversary of the crackdown in Tiananmen Square, leading to a fluid and open exchange of views on international affairs and their own domestic challenges.

As we shall see below, the Asia-Pacific Economic Cooperation (APEC) forum has been especially conducive to further ties between Chile and China, with Chile hosting the 2004 APEC Summit, and China the one in 2014, occasions during which both underlined their common interests in boosting transpacific trade (Wilhelmy 2010).

Thriving Trade

In terms of its share of GDP and share of its overall exports, Chile is the country in Latin America that trades the most with China.

This is part and parcel of the broader process of enhanced trade and investment links between Latin America and Asia witnessed over the course of the last century. In the new century's first decade, trade flows between the Asia Pacific and Latin America grew by 20.5 percent a year, with two-way trade reaching $443 billion by 2011 (Asian Development Bank 2012). By 2011, trade with Asia accounted for 21 percent of Latin America's international trade, trailing only the United States at 34 percent.

Especially remarkable during this period of expanded Latin America–Asia ties was the explosion of trade with China. It increased from $10 billion in 2000 to $257 billion in 2013, a surge of close to 2,500 percent. By 2011, China had become the largest export market for Brazil, Chile, and Peru, and the second largest for Argentina, Venezuela, Cuba, and Uruguay. It was also "the main origin of imports for Panama and Paraguay, and the second one for nine other Latin American countries" (Arnson and Heine 2014, 10). Indeed, the World Bank observed in 2011 that "the robust growth in LAC [Latin America and the Caribbean] in the past decade is in an important measure due to its connection to China" (Arnson and Heine 2014, 10). The impact on economic growth was the direct result of China's huge demand for commodities such as copper, iron ore, crude oil, and foodstuffs. The impact also was indirect as China's massive demand for commodities exerted upward pressure on commodity prices (Arnson and Heine 2014, 10).

These macro trends are even more starkly visible in the case of Chile. From 2005 to 2013, Chile's exports to China grew from $4.9 billion to $19.1 billion, an average growth rate of 21 percent a year. China's exports to Chile grew at an even faster rate (23 percent) in these years, from $2.96 billion to $13.5 billion (DIRECON 2015a). Within Chile's basket of exports to China, copper carries special weight. In 2013, some $15 billion of Chile's total exports of $19 billion to China consisted of copper. Still, a variety of other Chilean goods, such as wood pulp (nearly $1 billion exported in 2013), wine, sea products, and fresh fruit, have been making inroads in China. In 2014, Chile was the second largest exporter of wine to China (after France) and the second largest exporter of fresh fruit (after Thailand), occupying first place in products such as apples, grapes, cherries, and blueberries.

If China continues to grow at a rate higher than the rest of the world, as most projections indicate it will, its demand for food products will keep increasing. Given that China has 20 percent of the world's population with only 7 percent of the world's freshwater reserves, it will depend increasingly on food imports to satisfy its needs. According to some projections, food imports into China will increase by $20 billion a year over the next five years. Countries like Chile that already are well-positioned in the Chinese market have the strong potential to increase their market share (DIRECON 2014). Moreover, Chile's Mediterranean climate, its island-like features (with geographic barriers that cut it off from the rest of the South American mainland), and high phytosanitary standards, make it potentially a much bigger food exporter than it is now. Indeed, it is an explicit Chilean policy goal (having the motto "Chile, *potencia alimentaria*": Chile, a food power) to make Chile one of the world's top ten food exporters by 2020.

In short, there is little doubt that, as China looms as an ever larger market that attracts producers and exporters from all over the world, Chile is well positioned to expand and consolidate its already significant presence. A key question is how a small- to medium-sized country at the end of the world managed to do this. Far from being simply the result of the impersonal forces of supply and demand, Chile's success is the product of long-in-the-making policies to which I now turn.

FTAs as the Way Forward

Examining Alternatives

In 1990, with the return of democracy, Chile faced a number of international trade policy challenges (Heine 1991). With an economy in full recovery from the 1982 slump (when gross domestic product fell by 14 percent) and highly dependent on exports, stoking the fire of the export machine to sustain the country's then 7 percent growth rate was crucial. This entailed a search for new markets, including expanding extant ones. It also meant adopting supportive export promotion policies domestically, raising productivity, deploying aggressive phytosanitary policies to protect the agricultural environment, and inculcating an export-oriented culture and mentality even among medium- and small-size enterprises.

None of this would have mattered, however, in the absence of access to foreign markets. There was a wide-ranging debate about which policies to embrace to secure and expand access to such markets. One position was that the way forward was to unilaterally lower tariffs to zero. This followed David Ricardo: liberalization is good per se and the very idea of mutual trade concessions is meaningless. The theoretical simplicity of this view made it especially attractive to the neoliberal economists of the Chicago School and it started from the premise that the reduction of tariffs and other barriers to trade was a matter of domestic policy, not of diplomacy. Appealing as this notion may be, it fails to take into account the harsh realities of international relations. For example, what would happen if other countries, blissfully unaware of the principles of neoclassical economics, did not follow suit in applying this optimal solution, did not lower their tariffs to zero, and simply took advantage of Chile's newly opened market? Such a naive economic opening would turn out to be an expensive proposition.

A second approach, very popular on the left, was that Chile should rejoin the various Latin American integration schemes from which President Augusto Pinochet's military regime had withdrawn. However, this was by no means easy, or even viable. To join the Mercosur Customs Union as a full member, Chile would have to raise its external tariff from 6 to 14 percent (the Mercosur average), cancel all ongoing FTA negotiations, and eventually repudiate all existing bilateral agreements. This was just not feasible and Chile politely declined to join. Even so, Chile did become an associate member of Mercosur in 1996. Four years later, President Ricardo Lagos did his best to make Chile a full member, albeit to no avail. This was not because of lack of goodwill, mutual interest, or commitment at the highest levels, but simply because the interests of Mercosur members, especially Brazil and Chile, are very different.

A third approach saw multilateralism as the best option. This meant putting all the eggs in the basket of multilateral negotiations in the hope that these would lower trade tariffs more or less universally.

Chile rejected all three alternatives and came up with its own distinct response: a lateral approach to international trade policy. Acknowledging that each of these three alternatives—unilateral trade reductions, formal relations with the various regional integration schemes, and a constructive role in the multilateral trade talks—had useful pieces, Chile undertook all of them while also pursuing something else: preferential access to Chile's main markets. Fully aware that this might take decades or more, Chile still embarked on that trailblazing route, pursuing it relentlessly for twenty years (DIRECON 2009). Today Chile has the highest number of FTAs of any country (twenty-four with sixty-three countries), its exports have increased almost ninefold from $9 billion in 1990 to $78 billion in 2014, and it is a prime magnet for FDI in the region.

Lessons Learned

This long-term commitment to FTAs and Chile's extensive experience negotiating them over two decades throw light on three points:

- The first has to do with the different perspectives of economists and political scientists. For economists, who look at the world using assumptions that often have very little to do with reality, FTAs are messy, confusing, suboptimal solutions, far inferior to a world in which some 200 countries would lower all their tariffs in one fell swoop to zero. Not surprisingly, most economists do not like FTAs (Bhagwati 2008). Yet, for political scientists, who have played a critical role in Chilean governments from 1990 to 2015, and especially so in its ministry of foreign affairs, the world is messy and imperfect, and it is necessary to deal with it as it is rather than as we would like it to be. An incrementalist, iterative approach like the one followed by Chile (one FTA at a time), with the results mentioned above, has proven to be a fruitful way of gaining market access and fostering sustained economic growth, whatever its theoretical drawbacks.

• A second point relates to negotiating capacity. In the early 2000s, Chile was simultaneously negotiating FTAs with the United States and the European Union. Some observers said that was not a very smart thing to do since, if one compares the number of expert negotiators Chile has on any given issue with those Washington or Brussels can line up, Santiago is vastly outnumbered. This would lead to a severe asymmetry at the negotiating table, an asymmetry that can be fatal for key decisions. Yet, though this was by no means easy, simultaneous rather than sequential negotiations turned out to be the best way to proceed. Chile signed an FTA with the EU in July 2002. This became something of an embarrassment for a US administration ostensibly committed to finalizing a Free Trade Area of the Americas (FTAA) by 2005 but on which little progress was being made. The pressure for a US-Chile FTA was thus ratcheted up and a year later it was dutifully signed, despite some severe political disconnects that led some to believe the whole project would be derailed. Not surprisingly, something similar happened a few years later in the negotiations on trade agreements with China and India, a subject I take up below.

• Third is the choice between multilateral and bilateral agreements. On repeated occasions, regional groups and even individual countries have been flummoxed by having to negotiate with a relatively small country like Chile. This has been especially true of the EU. Since regional integration has worked for Europe, many Europeans believe that everybody else should follow that recipe. Chile was repeatedly told by the EU that negotiations would be so much easier if Chile would join Mercosur as a full member, enabling the EU to negotiate with a single entity. As discussed above, however, the possibility of Chile's joining a regional or subregional group was impractical. Ultimately, the difficulties associated with creating a trade agreement with Chile proved manageable and the two parties signed an agreement as noted. The incremental approach taken by Chile in terms of FTAs has proven to be effective.

Globalization Is Asianization

Not only did Chile select FTAs as the policy tool of choice to open up international markets, it also targeted one continent in particular for FTAs (Arnson and Heine 2014). Like most other Latin American nations, Chilean foreign policy makers and exporters and entrepreneurs traditionally had looked to North America and Western Europe as the main objects of their attention. That is where the most prestigious diplomatic postings have been (Washington, Paris, and London, in that order), where the largest budgets for export promotion have been allocated, and where Chilean presidents and foreign ministers have paid their earliest and most frequent visits. Even today, a quick survey will discover that the largest number of diplomatic resources in terms of number of missions and senior foreign service officers are still assigned to those two parts of the world.

But in the early 1990s an important shift started to take place. The head of international economic relations in Chile's foreign ministry commissioned a think tank with which this writer was associated at the time, the Centro Latinoamericano de Economía y Política Internacional (CLEPI, the Latin American Center of Economy and Foreign Policy), to undertake a study of Chile's international economic priorities. Not surprisingly, the report, undertaken by political scientists and economists, concluded that the Asia Pacific should become Chile's new economic frontier. Edgardo Boeninger, President Patricio Aylwin's chief of staff, an engineer with training both in economics and in political science, was particularly keen on this.[1] He pushed for the creation of Chile's Pacific Foundation, a small but highly effective entity led by political scientist Manfred Wilhelmy to this day, to provide Chile with some minimal intellectual infrastructure to undergird its Asian initiatives.

Thus, in 1994, Chile formally joined APEC, a rather low-profile entity at the time. Chile became the second Latin American country to join APEC after Mexico, which had joined in 1993 (Wilhelmy 2010). Systematic efforts were made to strengthen Chile's presence in the Asia Pacific, especially in East Asia. China was very much the central focus of these efforts, though Japan, South Korea, and Taiwan also received attention. Even human rights concerns, presumably high on the agenda of the Aylwin administration, took second place to this single-minded exercise. A presidential visit from China in June 1990, on the first anniversary of the Tiananmen events, took place without a hitch, a signal Chinese diplomacy could hardly miss. As if to square the circle, eighteen years later, in the summer of 2008, President Michelle Bachelet (herself the victim of human rights abuses under the military regime, and a poster child of the international human rights movement), in the midst of worldwide protests against China's handling of Tibetan demonstrations, undertook a scheduled state visit to China. The possibility of canceling the visit was not even mooted.

What is remarkable are the continuity and persistence of these policies over time, through six different administrations and ten different foreign ministers, each presumably with his or her own priorities and objectives. Moreover, it is one thing to promote greater trade and investment links and quite another to formalize these links through Chile's preferred medium—the FTA—especially with large economies unfamiliar with this particular tool. Yet, amazingly, in 2003 Chile signed an FTA with South Korea, the first between an Asian and a Latin American country; it came into effect in April 2004. In 2005, Chile signed the FTA with China, which was the first between China and any single nation (as opposed to a group of them); and in 2006 I signed a preferential trade agreement (PTA) with India, which was followed shortly thereafter by an FTA with Japan. As of this writing, Chile is negotiating an FTA with Indonesia.

Whereas 34.9 percent of Chile's exports went to Asia in 2004, by 2009 the figure had reached a startling 50 percent. Of Chile's top ten export markets in 2009, three were in Asia: China ranked first with 23.1 percent; Japan ranked third with 9.1 percent; and South Korea fell into sixth place with 5.9 percent. In fact, as mentioned above, in 2014 Chile exported twice as much to China as it did to the United States—\$19 billion versus \$9 billion.[2]

Asian countries, especially the two giants (China and India), have become important driving forces of the world economy, and to some extent these numbers should not be surprising. Chile is a significant commodity producer and exporter, and it is in Asia where the main demand for copper, cellulose, fishmeal, and other such products is to be found. In fact, Chile runs a balance of trade surplus with most Asian nations. My point is a different one, however. One important reason Chile has been able to have the best performing economy of any country outside Asia these past twenty-five years is because it realized very early on that the action was in Asia and targeted the continent accordingly. More broadly, one reason Chile was able to weather the great recession of 2008–2009 better than others was precisely because of the very special links it forged with China and China's steady demand for Chilean products.

Nor is Asian demand confined to exports of Chile's "red gold," copper. When I was posted in New Delhi (2003–2007), I was also cross-accredited to Sri Lanka. I quickly discovered that all imports of fruits from Latin America had been banned there since the 1920s, ever since rubber plants imported from Brazil brought some pests to the island. For three years I worked on having the ban lifted for Chile; that finally took place in 2007. In April 2007, the first containers of fresh Chilean apples arrived in Colombo, thus opening a new market for Chilean fruit producers (Chile is the largest exporter of fresh fruit in the Southern Hemisphere). The Sri Lankan market will not make or break the future of Chilean agriculture, but the principle at work is the same as with the FTAs: one market at a time.

Chinese FDI in Latin America

One of the commitments made by President Xi Jinping during the First China-CELAC (Community of Latin American and Caribbean States) Ministerial Forum held in Beijing on January 8–9, 2015, was to double the stock of COFDI in Latin America by 2025, to $250 billion. The current estimate of total Chinese investment in the region is $110 billion, although, as ECLAC (the UN Economic Commission on Latin America and the Caribbean) has pointed out, so much COFDI is channeled through third countries that it is by no means easy to pin down these figures.[3]

Much as 2000 is considered to be a turning point for China-LAC trade (partly because China joined the WTO in 2001), 2010 is considered to be a turning point for COFDI flows to the region. Whereas from 1990 to 2009 only $7 billion in COFDI flowed to LAC, in 2010 alone some $14 billion did. Since then, COFDI worth approximately $10 billion a year has been flowing into LAC, making up around 5 percent of total FDI inflows.

The natural resource sector has been especially attractive to Chinese companies. In fact, "almost 90 per cent of Chinese investment between 2010 and 2013 was directed towards natural resources, whereas that sector absorbed only 25 percent of all FDI that the region received from the rest of the world in that period" (CEPAL 2015). Oil and gas loom especially large with respect to resourced-related COFDI—Argentina, Brazil, Colombia, Ecuador, Peru, and Venezuela have all attracted companies like China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec), China National Offshore Oil Corporation (CNOOC), and Sinochem. In mining, Brazil and Peru also have benefited from considerable Chinese investments, which in the case of Brazil are estimated to have reached $18.94 billion in 2014.[4]

One sector where outward-investing Chinese companies have significant comparative advantages is in infrastructure. State Grid, an electrical transmission company, has a presence in Brazil, where it acquired assets from Spanish companies and where it has some 6,000 km of electrical lines in operation, with significant expansion plans. There are a number of manufacturing projects undertaken by Chinese companies, mostly in Brazil, that are described in José Augusto Guilhon Albuquerque and Luís Afonso Fernandes Lima's contribution to this special issue, although, as Enrique Dussel Peters reports in his piece, Mexico is also starting to loom larger in this regard, as a base for exporting to the US market.

COFDI in Latin America is lagging behind trade, but it is catching up. All indications suggest that over the next few years we shall see a not inconsiderable expansion of it, which was partly the purpose of Li Keqiang's South America visit in May 2015. The Chinese discourse about deepening economic links with Latin America points to moving beyond the somewhat odd first world–third world pattern of trade between China and LAC: China has a lower per capita income than LAC and exports manufactured products with considerable value added, while importing mostly raw materials and commodities from the region. The emphasis on industrial and technological cooperation, infrastructure development, renewable energy sources, and the signing (or deepening) of FTAs—items highlighted in the First China-CELAC Ministerial Forum held in Beijing in January 2015—all point in that direction.

Much as the Latin American boom from 2003 to 2008 was partly fueled by the commodities supercycle triggered by Chinese growth, there is little doubt that the region's slowdown (projected growth for 2015 is 0.4 percent) is in turn tied to China's "new normal." The key question in Sino-LAC relations thus becomes whether other drivers (in addition to—by now flat—trade) can continue to push the relationship forward. Two obvious candidate drivers are financial cooperation and investment. As China moves forward on RMB internationalization (Lombardi and Wang 2015), the first becomes an especially potent tool. And in an increasingly interconnected world, in which tariffs are getting lower and lower and transport costs and logistics come to play an ever more significant role, the question of connectivity takes center stage. With China's having undergone one of the biggest building booms in recent history, its enterprises have the capital, the installed capacity, and the technical know-how to further develop South America's physical infrastructure, still badly lacking in many ways.

Why No Chinese FDI in Chile?

This leads us back to the puzzle posed at the beginning of this article about the low level of COFDI in Chile. It is true that only since 2010 has COFDI in Latin America and the Caribbean really started to pick up; it still has a long way to go in terms of its awareness and sophistication, as Dussel Peters highlights in his article for this special issue. Yet that does not explain why so little of it has gone to Chile. After all, most COFDI, as noted, has gone into the natural resource sector and Chile has an export-driven economy largely based on natural resources, which should make it especially attractive to Chinese investors. Moreover, Chile has been a powerful magnet for foreign FDI, both regionally and globally. In fact, there have been years where Chile has been among the top ten countries worldwide in terms of FDI, which is presumably an indication that it offers the right conditions and a suitable business climate for it.

Admittedly, Chile has no oil or gas, but it is the ultimate mining country, and one could have expected a considerable amount of Chinese investment in the sector. Yet, with a couple of minor exceptions, that has not happened. Given China's enormous demand for minerals, this is somewhat surprising. Some context will help to shed light on this analytical oddity.

Yes, Chile is very much a mining country, but its mining sector is also highly developed and sophisticated, having attracted considerable attention and investment from some of the biggest mining conglomerates like Anglo American, Rio Tinto, and BHP. This means that much of its territory has already been surveyed and explored for its mining riches, and few bargains are to be found. Neighboring Peru, on the other hand, endowed with comparable mining riches, had for long been wracked by insurgencies and political instability, which acted as powerful deterrents to major mining projects in the sierra, its mountainous areas. In the new century, however, Peru stabilized, liberalized its economy, opened up, joined APEC, and started courting Asian investors, especially Chinese and Japanese ones, with renewed brio. With large swaths of its territory suddenly pacified and open for business, this made it possible for foreign companies, including Chinese ones, to move in full force, and make the most of newfound opportunities. Four major ongoing mining projects in Peru are now in the hands of Chinese companies, the latest of which is Las Bambas, bought by Minmetals in 2014 for $5.8 billion. According to some estimates, about a third of FDI in mining in Peru is now of Chinese origin.

If the Chilean mining sector is very competitive, so is much of the rest of the market-driven Chilean economy. In other countries in the region, one way for Chinese companies to enter the fray is through government-to-government agreements to build, say, a railway or a hydroelectric plant, but that possibility is not available in Chile, where all investment projects have to go to tender. This entails a relatively complex legal process with a strong emphasis on procedural requirements, a process with which Chinese companies are not familiar and that presents its own special challenges.

A subset of these kinds of investment projects is formed by PPP, in concessions for the building of public infrastructure. Chile has played a trailblazing role in this area, and managed to attract some $8 billion in private, mostly foreign (Spanish, Mexican, and Italian), investment in its public infrastructure from 1997 to 2007. As a result, it has today what some consider the best highway system in the region. Yet, in Chile (as elsewhere in LAC), Chinese companies have not done well in these tenders, which present their own challenges, not just procedurally, but also commercially and in terms of capacity for risk-taking. Moreover, such projects also entail a very different kind of business model. Rather than getting the contract, building the road (or bridge, or tunnel), collecting the money, and moving on to the next project, it means getting the return on investment through tolls, for decades or more. This means a very different kind of business horizon than the one many Chinese companies are used to.

In short, it could well be argued that as far as attracting Chinese FDI is concerned, Chile has been the victim of its own success. Because Chile has done well, it has access to international credit on favorable terms, which are very competitive with those offered by Chinese banks. This is not the situation of other countries in the region. In turn, in a highly competitive economy, bargains are hard to find and the barriers to entry, although ostensibly nonexistent in one of the most open economies anywhere, manifest themselves in elaborate procedures that demand much attention to detail as well as flexible business models. Laws establishing PPP were only introduced in China in 2015, twenty years after they were in Chile, and the very notion is quite unfamiliar to Chinese companies.

Conclusion

China has made considerable inroads in Latin America. It has become the region's second largest trading partner, having displaced the EU as the second largest market for Latin American and Caribbean exports—not to mention having also displaced the EU as the second largest market for imports in 2010. This growth in China–Latin America trade is unlikely to continue at the same pace established since 2000; in fact, it has already started to flatten out. A prominent concern is the relatively one-sided nature of this trade—with Latin America and the Caribbean sending mostly commodities and raw materials, and China selling manufactured products, from automobiles to electronics to toys, textiles, and garments. The argument that the net effect of this may be to deindustrialize the region, privileging a return to mining and agriculture at the expense of manufacturing, has been posited for some time now, and it is not one that can be dismissed out of hand (Feinberg 2014; Gallagher and Porzecanski 2010; Phillips 2009).

A related issue is the relative dearth of Chinese FDI in the region. As discussed above, not until 2010 did Chinese investment really take off, and it remains relatively small compared to Sino–Latin American trade. In the wake of Li Keqiang's May 2015 visit, arguably the most significant Chinese visit to the region from an economic and commercial standpoint, Sino–Latin American relations are at a crossroads. Bilateral trade flows, the engine that has been the main driver of transpacific links from 2000 to 2011, have hit a plateau, mainly as a result of lower Chinese growth and China's transition to a new normal or economic growth model. The end of the commodities boom that fueled this trade has been described by some as meaning that the party is over, and that relations between China and Latin America will go back to what they were before—a rather low-profile, low-significance affair, with the US and EU markets resuming their traditional prominence.

Yet indications are that this is a profound misreading of the situation. As the First China-CELAC Ministerial Forum showed, the density of Sino–Latin American/Caribbean links has reached a stage where going back to past models is no longer possible. As it happens, this moment coincides with China's further transition to becoming a capital-exporting country. As the returns on domestic investment diminish, Chinese companies, both state-owned and private, are increasingly looking for opportunities abroad. Latin America offers considerable opportunities in this regard. Infrastructure, energy, and transport seem especially promising, as these are areas where China has developed comparative advantages and where many needs remain to be filled in the region (Gallagher 2016). Much as China in the course of the past decade has unified its vast territory through two key tools, mobile telephony and bullet trains, it could do something similar in South America, a vast continent whose countries are separated by long distances, high mountains, and dense jungle territory, and whose productivity and connectivity would much benefit from Chinese engineering.

For Chinese companies the challenge is not so much technical or financial as managerial. Are they ready to take part in the tenders and open bids for projects that are such a critical component in the rise of the most dynamic and fastest-growing economies in Latin America? In the past, this has been a major obstacle for China. Indications are that they are gearing up to compete. Whether we shall see a major increase in Chinese investment in Chile will largely depend on how China accommodates this managerial demand.

Notes

Jorge Heine is ambassador of Chile to the People's Republic of China. A past ambassador to South Africa and India, and a Wilson Center Global Fellow 2013–2015, he is on leave from his position as professor of political science at the Balsillie School of International Affairs, Wilfrid Laurier University. He is the author or editor of fifteen books, including *21st Century Democracy Promotion in the Americas* (2014) and *The Oxford Handbook of Modern Diplomacy* (2013). He can be reached at jsievertheine@gmail.com.

1. Boeninger is one of the key architects of Chile's transition to democracy and of the "softly, softly" strategy, which particularly included the *democracia de los acuerdos* (democracy of agreements) idea followed by the opposition in the early 1990s. For an excellent profile, see Serrano (2009). For his posthumous reflections on Chile's next development stage, see Boeninger (2009).

2. These statistics can be found on the Chilean foreign ministry's Directorate of International Economic Relations website, www.direcon.cl.

3. For some points about the challenges involved in calculating COFDI, see Enrique Dussel Peters in this special issue.

4. For more on COFDI in Brazil and Peru, see, respectively, Guilhon Albuquerque and Lima and Creutzfeldt in this issue.

References

Arnson, Cynthia J., and Jorge Heine, eds. 2014. *Reaching Across the Pacific: Latin America and Asia in the New Century.* Washington, DC: Woodrow Wilson International Center for Scholars.

Asian Development Bank, Inter-American Development Bank, and Asian Development Bank Institute. 2012. *Shaping the Future of the Asia and the Pacific–Latin America and the Caribbean Relationship*. Manila: Asian Development Bank.

Bhagwati, Jagdish. 2008. *Termites in the Trading System: How Preferential Agreements Undermine Free Trade.* Oxford, UK: Oxford University Press.

Boeninger, Edgardo. 2009. *Chile rumbo al futuro: Propuestas para reflexionar* [Chile toward the future: Proposals to reflect]. Santiago: Uqbar.

CEPAL (United Nations Economic Commission for Latin America and the Caribbean). 2015. *Primer Foro de la Comunidad de Estados Latinoamericanos y Caribeños (CELAC) y China: Explorando espacios de cooperación en comercio e inversión* [First forum of ECLAC and China: Exploring commerce and investment cooperation spaces]. Santiago: CEPAL.

DIRECON. 2009. "Chile: 20 años de negociaciones comerciales" [Chile: 20 years of trade negotiations]. Santiago: Dirección de Relaciones Económicas Internacionales, Ministerio de Relaciones Exteriores (Directorate of International Economic Relations, Foreign Affairs Ministry).

———. 2014. "China como comprador mundial de productos agrícolas, pesqueros y alimenticios" [China as a global buyer of agricultural, fisheries, and food products]. Santiago: Dirección de Relaciones Económicas Internacionales, Ministerio de Relaciones Exteriores (Directorate of International Economic Relations, Foreign Affairs Ministry).

———. 2015a. "Análisis de las relaciones comerciales entre Chile y China en el marco del tratado de libre comercio" [Analysis of the commercial relations between Chile and China in the framework of the free trade agreement]. Santiago: Dirección de Relaciones Económicas Internacionales, Ministerio de Relaciones Exteriores (Directorate of International Economic Relations, Foreign Affairs Ministry).

———. 2015b. "Informe anual de comercio exterior de Chile, 2014–2015" [Chile's annual report of foreign commerce]. Santiago: Dirección de Relaciones Económicas Internacionales, Ministerio de Relaciones Exteriores (Directorate of International Economic Relations, Foreign Affairs Ministry).

Feinberg, Richard. 2014. "Latin American–Asian Trade: No Turning Back." In Cynthia J. Arnson and Jorge Heine, eds., *Reaching Across the Pacific: Latin America and Asia in the New Century.* Washington, DC: Woodrow Wilson International Center for Scholars.

Gachúz, Juan Carlos. 2012. "Chile's Economic and Political Relationship with China." *Journal of Current Chinese Affairs*, vol. 41, no. 1, pp. 133–154.

Gallagher, Kevin P. 2016. *The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus.* New York: Oxford University Press.

Gallagher, Kevin P., and Roberto Porzecanski. 2010. *The Dragon in the Room: China and the Future of Latin American Industrialization*. Stanford: Stanford University Press.

Heine, Jorge. 1991. "Timidez o pragmatismo? La política exterior de Chile en 1990–1991" [Shyness or pragmatism? Chilean foreign policy in 1990–1991]. In Jorge Heine, ed., *Hacia unas relaciones internacionales de mercado: Anuario de políticas exteriores de América Latina y el Caribe, 1990–1991* [Toward market international relations: Yearbook of foreign policies of Latin America and the Caribbean, 1990–1991]. Caracas: Nueva Sociedad.

Lee, Yun Tso, and Wu Hongying, eds. 2011. *Chile y China: Cuarenta años de política exterior* [Chile and China: Forty years of foreign policy]. Santiago: RIL.

Lombardi, Domenico, and Hongying Wang, eds. 2015. *Enter the Dragon: China in the International Financial System*. Waterloo, Ontario: Centre for International Governance Innovation.

Muñoz, Heraldo. 2015. "Un hito de China en Chile" [A milestone of China in Chile]. *La Tercera* [The third], May 30.

Phillips, Nicola. 2009. "Coping with China." In Andrew F. Cooper and Jorge Heine, eds., *Which Way Latin America? Hemispheric Politics Meets Globalization*. Tokyo: United Nations University Press.

Rodríguez, Isabel. 2011. "Chile y China: 40 años de relaciones de cooperación y amistad" [Chile and China: 40 years of cooperation and friendship]. In Yun Tso Lee and Wu Hongying, eds., *Chile y China: cuarenta años de política exterior* [Chile and China: 40 years of foreign policy]. Santiago: RIL, pp. 167–208.

Serrano, Margarita. 2009. *La igual libertad de Edgardo Boeninger* [The equal freedom of Edgardo Boeninger]. Santiago: Uqbar.

Wilhelmy, Manfred. 2010. "La trayectoria de Chile frente a la región del Asia Pacífico" [The path of Chile facing the Asia Pacific región]. *Estudios Internacionales* [International studies], no. 167, pp. 125–141.