REVISTA DE CIENCIA POLÍTICA / VOLUMEN 31 / Nº 2 / 2011 / 207 – 226

Chile's Rush to Free Trade Agreements*

El frenesí de Chile por los Tratados de Libre Comercio

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ABSTRACT

This article analyses the reasons for Chile's aggressive Free Trade Agreement (FTA) policy. Assessing both how the Chilean government has converged with the export sector and how the government has been able to co-opt, soften and divide those on the losing side of any FTA policy, are key to understanding Chile's vast number of FTAs. However, FTAs are also a constitutive part of a country's foreign policy, which converts these accords into a vehicle for the achievement of state goals dealing with economic issues and power configurations and expectations. It is the interplay between domestic groups' interests and the state's foreign policy goals that explain Chile's rush to FTAs.

Key words: FTAs, trade strategy, domestic preferences, foreign policy, power-based goals.

RESUMEN

Este artículo analiza las razones que llevan a Chile a implementar una política agresiva de Tratados de Libre Comercio (TLC). Para comprender el porqué del frenesí y del número de acuerdos se evalúa cómo el gobierno de Chile logra converger con el sector exportador, y cómo coopta, divide y disminuye a los grupos perdedores de esta política. Sin embargo, los TLC son además parte de la política exterior de un país; lo que hace de estos acuerdos un vehículo para alcanzar objetivos estratégicos para el Estado. Es la interrelación entre los intereses de grupos domésticos y los objetivos de política exterior del Estado los que explican el porqué del frenesí de Chile por alcanzar un alto número de TLC.

Palabras clave: *TLC, estrategia comercial, preferencias domésticas, política exterior, objetivos de poder.*

* I would like to thank Detlef Nolte and the two referees who reviewed this article, for the detailed and thoughtful comments, criticisms and suggestions. I remain responsible for all errors.

I. INTRODUCTION

Chile has become one of the world's leading countries in the proliferation of free trade agreements (FTAs). In fact, Chile has signed 27 trade accords since the early 1990s, of which 21 are FTAs.[1] Moreover, Chile's rush to FTAs has not been affected by severe external economic conditions such as the sub-prime crisis (2007–10), as its negotiations with Australia (2008), Turkey (2009) and Malaysia (2010) illustrate. Chile's FTA policy is thus a long-term process that reveals the country's conviction about how trade liberalisation will strengthen its national economy as a whole.

Although Chile is a pioneer and has a lot of expertise in building FTAs (Mesquita Moreira and Blyde, 2006), there are not many empirically based works that explain Chile's reasons for such an aggressive FTA policy. The existing works on Chile's foreign economic policy analyze its trade policy as a whole without distinguishing the different features and dynamics between a CTA (Complementary Trade Agreement) and an FTA in terms of political and commercial goals (see Sáez and Valdés 1999; Porras, 2003; Mesquita Moreira and Blyde, 2006; and Stallings, 2009). Therefore, this article explains why Chile has pursued such an aggressive FTA policy, and it also illuminates the domestic and governmental motivations behind Chile's rush to FTAs. FTAs, as such, are nothing new in trade policy analysis in general (see Solis, Stallings, Katada eds., 2009; Baldwin, 2006), and for Chile in particular. However, what is new in the case of Chile is the intensity and pace of –and low opposition to– the achievement of a vast number of these accords.

Studying Chile's rationale for a proactive FTA policy can also help us to understand the motivations of other Latin American countries, such as Colombia and Peru, who have recently joined this wave of trade agreements. Moreover, Chile's approach to the global economy differs from other early experiences of economic integration in South America because Chile prioritizes a bilateral approach over regional economic integration schemes. Focusing on Chile's FTA policy as a relevant case is also important because studies on preferential trade agreements and economic governance involving Latin American countries tend to keep the analytical focus on the United States. In these studies, FTAs are presented as a substitute for the US in the stalled process of multilateral liberalisation, at the World Trade Organization (WTO) and also as a way to gain negotiating leverage if there is eventually a breakthrough in the Doha negotiations. Moreover, these studies assess how the US is using bilateral FTAs to create an 'imperfect' Free Trade Area of the Americas (FTAA) (see Tussie, 2009: 178; Phillips, 2005: 9). Although these interpretations of the role of the US are beyond question, they neglect the importance of domestic actors'

1 The remaining accords are Complementary Trade Agreements (CTAs) that were negotiated with Latin American countries and a low-scope trade agreement with India (2007); this latter accord partially liberalises trade in goods and does not include services. In contrast to a CTA, an FTA includes a broad set of issue areas –for example, goods, services, investments, dispute settlement mechanisms and a stronger emphasis on rules of origin. An FTA also has a lower level of exclusions of goods than a CTA. Moreover, for Chile's government, FTAs have become a strategy of internationalisation beyond Latin America. At the time of writing, Chile is conducting ongoing FTA negotiations with India (upgrading from a low-scope accord to an FTA) and with Thailand. It has also concluded negotiations with Vietnam, though the accord has neither been signed nor come into effect.

interests and the state goals of Latin American countries as the negotiating counterparts of the US. Moreover, these studies on the role of the US as the main driver for the rush to FTAs neglect that Latin American states also seek to realize foreign (economic) policy goals through FTA policy.

I argue that Chile's aggressive FTA policy is in response to the economic interests of domestic constituencies; this response is mainly a strategy of market diversification in exports, and it advances the political-economic strategic goals of the state. The state has seen in such accords a vehicle for the achievement of foreign policy goals related to both trade and non-trade issues. The strategic goals of the state are grounded in both defensive and offensive issues, such as reducing the asymmetric economic dependence on a few markets, influencing power poles, and improving the country's bilateral relations and international status.

Specifically, the interests of domestic actors follow this logic: First, the purpose of FTAs is to create trade (since economic gains for most sectors in this country are based on export promotion) and to prevent an eventual deterioration of their economic gains by being left out of these accords. Second, the rush to more FTAs is driven by the conviction of exporters about the favourable economic results that FTAs will bring to their economic sectors: Once the first FTAs were implemented and there was an export boost, those exporters began to advocate for more FTAs. This is a self-reinforcing mechanism. Third, the rush to FTAs –and diminished opposition to it– can also be explained by the coping mechanism the government has implemented for the eventual losers of these accords as a whole, as well as within specific FTAs.

Regarding the political-economic strategic goals of the state for FTAs, first, Chile seeks to create context-based rules of economic governance; specifically, it has the purpose of creating the necessary legal conditions to attract, and increase the level of, foreign direct investment (FDI) (rules of governance = certainty). Second, given the fact that Chile is a multilateral rule-follower, FTAs may give the country the chance to create rules on certain issue-areas of these accords that are more representative of its own economic reality. Third, Chile's rush to FTAs is also related to the difficulties of liberalising agricultural issues at the WTO. This problem has become more prominent since the difficulties in advancing the agenda of the Doha Round. Fourth, a growing web of FTAs helps the state reduce asymmetric economic and political dependence on structural and regional powers, as well as regions, and thus is a balancing strategy and a means of entrapment prevention. Finally, FTAs are also part of a social practice for states like Chile, as such states seek international recognition and legitimacy for their economic policies.

It is pertinent to mention that I do not intend to cover all of the FTAs that have been negotiated by Chile in this article. The data presented in Section 4 regarding the gains in exports are only used to illustrate the preference of domestic actors for an increasing number of FTAs. The criteria of case selection follows Chile's trade relationship in terms of relevant markets for its exports, and as such a division in three levels is used –that is, high-, medium- and low-priority markets for Chile's exports in terms of volume. In the 1990s, the US was Chile's main trade partner; today it is China. The US is still a relevant trade partner, as are the EU, Japan and MERCOSUR. Although the accord with MERCOSUR can be considered a CTA, it has developed into an imperfect FTA (see General Directorate of International Economic Affairs, 2010: 180). In this accord, the Chilean government assumed most of the political costs of its foreign economic policy, so the accord has thus become a stepping stone toward Chile's FTA policy beyond Latin America. Canada, Mexico and South Korea also have a medium trade relationship in terms of exports from Chile. Moreover, Canada was Chile's first FTA partner. Chile and Costa Rica, and Chile and Panama, have always –since even before the FTA negotiation– had a low-intensity trade relationship. These illustrative cases represent the diversity of Chile's trade relations with countries in the global economy in terms of levels of development, regional coverage and relevance with respect to exportation volumes.

This article is structured as follows: First, I introduce the theoretical framework, which relies on the liberal theory of international relations. Second, I give a brief contextual description of Chile's FTA policy. Third, I analyse the domestic motivations of Chile's FTA policy –that is, domestic economic interests as an explanatory factor. Fourth, I present the state dimension of such an FTA policy, in which I assess the different strategic goals of the government in negotiating more FTAs. Finally, I highlight the main findings on Chile's rush to FTAs.

II. ANALYTICAL FRAMEWORK

The liberal theory of international relations offers us some analytical tools to explain Chile's dynamics and its motives for pursuing a proactive FTA policy. On a general level, liberal theory explains the power of endogenous factors as a multi-causal model of instrumental state behaviour in world politics (Moravcsik, 2008: 235). Stefan Schirm (2008: 4) argues that the governmental position and its actions at the intergovernmental level require the analysis of the domestic process of preference formation, when the issues at stake –for example, how economic globalisation induces market liberalisation through FTAs– affect the material interests of such domestic actors (the distribution of costs and benefits, their level of political influence, their degree of exposure to foreign economic competition, etc.). In other words, the government positions are shaped by the preferences of economic, political and social groups acting as a *sine qua non* for international strategies. State international actions are thus part of a two-level game (Putnam 1988).

If one wants to analyze Chile's aggressive FTA policy, it is necessary to understand the domestic sources of governmental preferences for such trade accords. Despite the fact that a government can be characterised as the transmission belt of domestic interests in this theory, the same government can also accede to or resist the domestic pressures for market liberalisation or protection as the actions of the government follow an office-seeking rationale (cf. Schirm, 2002). Yet, such bounded autonomy of the state to realise its 'own' foreign economic policy goals always favours or affects the interests of other domestic groups. This autonomy also carries electoral costs and benefits for the same government. "Internationally, the liberal state is a purposive actor, but domestically it is a representative institution constantly subject to capture and recapture, construction and reconstruction, by coalitions of social interests" (Moravcsik, 2008: 237). Whereas some domestic interests may aggressively push for the negotiation of FTAs with big markets, the government still enjoys room to manoeuvre in defining candidates with whom to negotiate such accords.

The international governmental position regarding FTAs is also shaped by the agency capacity of the state itself –that is, its status in both regional and world economic affairs. The rapid proliferation of FTAs was influenced by the exasperation of market-oriented countries with the slow movement of multilateral negotiations, first at GATT and later under the WTO (Stallings and Katada, 2009: 239). In addition, it is also a way for major powers to realise their strategic goals beyond the scope of the WTO, as well as a 'defensive' response by intermediate and small countries to the leading FTA projects of the US and the EU, as it aims to reduce asymmetric dependence on global powers (Wesley, 2008: 215). Thus, the impasse at the WTO has become, for different reasons, a synergic force for big, intermediate and small countries to enhance economic bilateralism.

Moreover, an explanation based purely on creating trade and preventing trade deviation is important, but still insufficient to explain why countries pursue FTAs, as these accords are also promoted under particular configurations of power and interests in the domestic and external economy, that is, embedded mercantilism (Jayasuriya, 2003). In this regard, the liberal theory of international relations not only opens the 'black box' of the state, but also defines how the interplay between the domestic and intergovernmental levels are key to our understanding of the origins, process and outcomes of a foreign economic policy.

Foreign policy is driven by endogenous interests and the governmental position, which in the case in point of this article forms the FTA policy of a country. *Interests* are based on a cost-benefit analysis that guides domestic economic actors with political clout to increase or hold onto material capabilities as tools for economic performance and for exerting pressure to shape and constrain certain government positions in the national and international arenas. All domestic economic actors are subject to the global market, even those that advocate keeping protection when an FTA policy is pursued, because their increasing exposure to external competition can trigger negative effects in their sectors, such as unemployment and the severe reduction of profits.

On the other hand, export-oriented groups will have a positive attitude towards an FTA policy because such agreements will potentially increase their market shares. Even export-oriented groups will tend to favour an FTA with a counterpart with a similar economic structure. This may be attributed to the possibilities for achieving rules of economic complementarity in the accord, which promote the exportation of agricultural goods during counter seasons. Otherwise, export-oriented groups may be indifferent, yet not opposed, to some negotiations when the counterpart is equally competitive in similar product sectors.

Indicators of the interests of domestic groups can be found in statements, documents, interviews and speeches from the representatives of confederations and business associations.

In addition, the results of initial trade accords, when there was not such preferential bilateral treatment, are also important sources for us to gain a clearer understanding of the domestic forces underpinning the rush to FTAs. The positive results in terms of exports in countries with which Chile has FTAs became a self-reinforcing mechanism for domestic groups about the potential benefits of these accords.

Therefore, the interest of domestic actors in an incremental number of FTAs is based on the trade creation effects, and the fact that they prevent trade deviation toward other countries that are perceived as direct competitors. Furthermore, the aversion of those on the losing side of FTAs would eventually tend to diminish if the FTA policy protects their products and economic sectors through exclusions or long-term phase-outs. The government also seeks to diminish the domestic hostility to specific FTAs by allocating aid packages to the less competitive economic sectors to shift their aversion to the process of economic openness.

Governmental position is an 'official' statement coming from government representatives of the top tier –that is, presidents, ministers of foreign affairs and finances, and experts in trade diplomacy such as the official trade negotiators of these types of accords. A governmental position with regard to FTAs will be found in official documents, public statements and speeches, as well as in interviews with trade diplomats and government representatives. In such statements, it is possible to find the overall arguments in favour of implementing an FTA policy, as well as those for launching FTA negotiations with specific countries.

III. CONTEXT OF CHILE'S FTA POLICY

The three pillars of Chile's external trade policy in a democratic context (1990-present) are unilateral, bilateral and multilateral liberalisation. The unilateral liberalisation was started under Pinochet's authoritarian government (1973-1990), in which tariffs were dismantled to create competition for the local economic sectors by facilitating the import of products. From a simple average tariff of 94 per cent in 1973, the average tariff went down to 10.1 per cent by 1979. As a transitory measure, the tariff barriers were increased within the context of the economic crisis of the 1980s. Along with the tariff reduction, the authoritarian government also eliminated certain non-tariff measures that restricted the level of imports –such as deposits and the payment of rights– to people, companies and regions (Ffrench-Davis, 2005: 119-20).

The unilateral liberalisation was also deepened by the first democratic government, in which the average tariff was brought down from 15 per cent to 11 per cent in 1991. Thereafter, the flat tariff was reduced 1 per cent per annum, from 11 per cent to 6 per cent between 1999 and 2003 (Silva, 2004: 28-9). Under these tariff conditions, and in a context in which unilateral, bilateral and multilateral liberalisations complemented each other (Stallings, 2009), Chile has achieved 21 FTAs and has so far established a network of economic exchange with 55 countries under an FTA umbrella (see Table 1).

Table 1: Chile's FTAs

	Date of signature	Status
Australia	30.07.2008	In force-2009
Canada	05.12.1996	In force-1997
China	18.11.2005	In force-2006
Colombia°	27.11.2006	In force-2009
Costa Rica§	18.10.1999	In force-2002
EFTA‡	26.06.2003	In force-2004
El Salvador§	18.10.1999	In force-2002
EU†	18.11.2002	In force-2003
Guatemala§	18.10.1999	In force-2010
Honduras§	18.10.1999	In force-2008
Japan	27.03.2007	In force-2007
Malaysia	15.11.2010	Not implemented yet
MERCOSUR*	25.06.1996	In force-2006
Mexico°	17.04.1998	In force-1999
Nicaragua§	18.10.1999	Bilateral protocol-signed 2011
P4**	18.07.2005	In force-2006
Panama	27.06.2006	In force-2008
Peru°	22.08.2006	In force-2009
South Korea	15.02.2003	In force-2004
Turkey	14.07.2009	In force-2011
USA	06.06.2003	In force-2004

° Upgraded from CTAs to FTAs.
§ FTA Chile-Central America (bilateral enforcement).
‡ Iceland, Liechtenstein, Norway, Switzerland.
† The EU has 27 member countries.
* Argentina, Brazil, Paraguay, Uruguay.
** Brunei, Chile, New Zealand, Singapore.

Sources: DIRECON (www.direcon.cl); General Directorate of International Economic Affairs (2010).

IV. DOMESTIC INTERESTS

As Chile's economic model relies on the success of its export sector, which consists mainly of commodities, domestic actors from these areas favour any measure that increases their market share. In this way, the export-oriented groups follow a utility-maximising logic to push for FTAs.

Responding to the pressure from export-oriented groups, Chile started to build a trade strategy to secure diverse export markets in the 1990s. Chile's low-level tariff barrier does not include reciprocity from other countries (Rosales, 2004: 194-95). This fact created the incentive to advocate for a bilateral liberalisation through FTAs as a way to increase exports. FTA policies are not designed in a vacuum; they are context-based. In this sense, the initial steps in lobbying for an incremental number of FTAs were a response to the prior knowledge of goods exporters that such accords would boost their utilities, since this sector was also able to realize economic gains without FTAs (Ronald Bown, personal communication, 19 March, 2008; Mario Matus, personal communication, 28 February, 2008).[2] Specifically, the main exports of Chile in the 1990s, excluding copper, were wood, cellulose, fruits (apples, citrus fruits and grapes), salmon and wine (General Directorate for International Economic Affairs, 2010: 222; Ffrench-Davis, 2005: 292).

There is also a competitive logic underpinning the pursuit of FTAs *vis-à-vis* producers from other countries, so as to secure preferential treatment in third markets and to prevent their displacement by a possible trade deviation effect. Different representatives of business associations claimed that there is a need to advocate for an incremental number of FTAs because most countries are implementing similar policies. If Chile is one of the first countries to achieve such an accord with another country, it will have an advantage and the opportunity to realize high economic gains until such time as others negotiate with the same country (Hugo Baierlein, personal communication, 26 March, 2008).

In this regard, Chile took Mexico's trade initiatives with the US, the EU and Japan as examples to follow. In fact, Chile has surpassed Mexico's proactive stance on FTAs, especially in the Asian region. Chile has also taken the lead through FTAs in competing with MERCOSUR within the Americas, Europe and Asia, and it also has a competitive logic regarding emerging market countries from within the Asian region (Stallings, 2009: 125). Thus, Chile's reasons for an aggressive FTA policy are based on the interplay between emulation and competition (Solis and Katada, 2009).

The government's position on FTAs and that of the export sectors converged because a market diversification strategy has a positive effect on macroeconomic indicators like, for example, the GDP. The preferred sequence of accords for these domestic groups –exporters of fruits, wood, salmon and wine– was to focus on the largest economies (especially the US, Europe and Japan) as a way to secure market access and to match Mexico's early FTAs with these countries. However, the agenda-setting of FTAs also depends on the willingness of the counterpart to negotiate a trade accord. According to Chilean trade diplomats, Chile's FTA policy has been unfolded with a great deal of flexibility in order to account for the potential (un)willingness of the possible counterpart to achieve an accord (Andrés Rebolledo, personal communication, 25 March, 2008; Carlos Furche, personal communication, 18 March, 2008).

Chile's initial reason for joining the growing FTA trend was the American promise of an eventual accession to NAFTA. This promise served as a galvanizing force for export-oriented domestic groups to focus on the accession, and to lobby the Chilean government to unfold an economic strategy that would prepare the country for such an enterprise. It

2 See list of interviews for the roles played in Chile's FTA policy and the institutional affiliations of the different persons that were interviewed for this work.

also helped to foster an overall convergence, especially between the Ministry of Finance and the export-oriented groups, around the need to take all the necessary steps to join NAFTA (see Bull, 2008). As the NAFTA accession was delayed –and finally became an unfulfilled promise– Chile prepared itself by instead prioritizing its negotiations with Canada and Mexico.

A comparison of Chile's level of exports to Canada in the year before their FTA (1997) with the years since then shows a growing tendency in the level of exports. From a negative variation of minus 6 per cent of exports to Canada in 1996, Chile increased its exports by 9.4 per cent during the first year of the FTA (1998). Once the FTA became valid, the most favoured sectors in terms of exports to Canada between 1998 and 2003 were copper (46 per cent), wood and wood products (23 per cent), salmon (9 per cent) and fruits (8 per cent) (DIRECON, 2004a: 3 & 10). These positive numbers for the most competitive sectors of the Chilean economy, achieved within only a year of the FTA, were seen as confirmation of the need to increase the number of FTAs, as the accord with Canada was viewed as a learning experience for the government to prepare for NAFTA membership. This self-reinforcing mechanism strengthened the convergence between export-oriented domestic actors and the government, as this convergence eased the political costs for the government ensuing from an aggressive FTA strategy –that is, the possible electoral costs coming from the traditional agricultural sectors' opposition to subsequent FTAs.

> When one starts to export products that before the FTA were not exported at all to some markets, then for sure there is a lot of enthusiasm for more FTAs. […] An FTA is equal to more exports and/or the potential possibility to enter new markets. The government as well as business associations were pushing for more FTAs as a way to ensure that every export economic sector was happy (Ronald Bown, personal communication, 19 March, 2008).[3]

The FTA with Mexico was based on the previous CTA that had been signed in 1991. The upgraded FTA was signed in 1998, and became valid in 1999. This FTA was also thought of as preparation for joining NAFTA. The outcome of the FTA with Mexico was an increase in the level of exports. In 1999 the Chilean exports to the Mexican market were USD 622.8 million; in 2000 that number rose to 818.1 million (see Table 2).

Table 2: Chilean exports to Mexico (in million USD)

1996	1997	1998	1999	2000	2001	2002	2003
146.6	376.4	488.4	622.8	818.1	830.6	912.4	926.9

Source: DIRECON, 2004b: 11.

3 Hugo Baierlein (personal communication 26 March, 2008) made a similar argument regarding how achieving subsequent FTAs not only was a policy to make Chile a global economic actor but was also perceived as a modality to compensate specific groups that in previous or early FTAs did not gain sufficiently or did not gain at all.

Whereas the promise of NAFTA membership explains the launch of the first FTA negotiations, it does not explain the subsequent negotiations with countries from the Central American region, or the cross-regional negotiations with Asian countries, the EU and the EFTA. A plausible explanation for the strong preference for FTAs is the early positive results from the inaugural accords of Chile, in terms of the boost in exports of traditional and non-traditional products. This preference for broadening the umbrella of FTAs is consistent with the utility-maximising logic of domestic export-oriented groups, as well as their competitive logic *vis-à-vis* the export sectors of other countries. Especially strong in this competitive logic is Chile's need to balance Mexico's leadership in FTAs with the EU and the EFTA, as well as Chilean exporters' fears of being displaced from the European market by the EU's new member states.

In the FTAs signed with small countries from Latin America, the coalition of Chilean export groups tends to be broad as these markets are also attractive for small- and medium-sized companies (SMEs) in the industrial sector. These FTAs have a South–South orientation because they can promote the exportation of products with greater added value (Rosales, 2008). One of the main groups that supported FTAs with Central America (2002), Panama (2007) and Peru (2007) was the Chilean Association of Exporters of Manufactured Goods (ASEXMA) (Roberto Fantuzzi, personal communication, 28 March, 2008; Osvaldo Rosales, personal communication, 18 March, 2008). As an example, the FTA with Costa Rica, which is a relatively small country for Chilean exports, also had a positive economic effect, especially on industrial products. This accord became valid in 2002 (see Table 3).

Table 3: Industrial Exports to Costa Rica

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Goods, in million USD	19.2	36.0	40.2	42.4	56.2	53.3	75.1	99.7	171.8
(%) participation	66.1	74.1	76.7	76	73.8	66.2	68.4	71.6	79.1

Sources: COMEX, 2003: 17; COMEX, 2008: 2.

In the first year of the FTA with Panama (2008), 57.8 per cent of Chile's total exports came from the industrial sector, which represents a positive variation of 15.5 per cent from 2007 to 2008 (ProChile, 2009: 3). Other sectors also benefited from this accord as their products were barely or not at all exported before the FTA was implemented – for example, mutton, onions and strawberries. Neither mutton nor onions were exported to Panama before the FTA. During the first (2008), second (2009) and third (2010) years of the FTA, the FOB value of exports for mutton were (in USD) 164,000, 214,000 and 194,000, respectively, and in the case of onions, 79,000, 83,000 and 877,000. For strawberries, the value in exports went from USD 36,000 the year before the FTA to 65,000 (2008), 133,000 (2009) and 176,000 (2010) (ODEPA, 2011: 50). Although the values are rather modest compared to those of other countries, they are important considering the size of Panama's market and the profit-maximising logic that guides the different export sectors of the Chilean economy.

Chile's FTAs with its main trade partners have also increased the level of total exports. The Chile-US FTA, in force from 2003, increased exports by 30.5 per cent during the first year of the agreement (DIRECON, 2005: 6). Between 2004 and 2008, Chilean exports to the US maintained this tendency for growth (see Table 4).

Table 4: Chile's exports to the US (2001–2008) (in million USD)

2001	2002	2003	2004	2005	2006	2007	2008
3,351,700	3,664,700	3,705,700	4,834,500	6,531,600	9,290,500	8,744,700	8,130,600

Source: DIRECON, 2009a: 6.

This strategy of increasing export diversification advocated by the Chilean export sectors also inspired the government to monitor and launch FTA negotiations with Asian countries such as South Korea (2003), China (2005) and Japan (2007). An additional reason for this was the growing dynamism of these markets and, as a result, the increasing demand from them for commodities. As an example of this, the exports to South Korea increased by approximately USD 800 million within the first year of the FTA, from 2003 to 2004. In 2007, Chilean exports to South Korea amounted to a total value of USD 3,879,400 (Chilean Embassy in South Korea, 2008: 1 & 3).

The domestic preference for an incremental number of FTAs can also be measured through the numbers of companies that export through the existing FTAs. The number of Chilean firms exporting through FTAs between 1990 and 2007 increased from 4,100 to 7,915, and the number of products also shows diversification, as 2,300 product types were exported in 1990 and 5,258 in 2007. Moreover, the number of available markets rose from 122 to 189 (Stallings, 2009: 133-134). Those countries that have shown a large increase in the presence of Chilean firms and products are China, South Korea and Mexico. In fact, more than 90 per cent of Chile's exports during 2008 were destined for countries with which it had trade accords (General Directorate for International Economic Affairs, 2010: 230).

The FTA with China is perhaps the one that shows the highest growth dynamic for Chilean economic sectors. In fact, during the first year of the FTA, between 2006 and 2007, Chilean exports grew 98.28 per cent. However, exports to China are highly concentrated on copper and minerals. Amongst the non-mineral items, the ones that were most exported were fish meal, pinewood, trout, concentrated must and grapes (DIRECON, 2008: 15 & 17). Chile's economic relationship with Japan is also strategic for domestic groups, since it was the second most important trade partner for Chile during the 1990s

–now it is fourth behind China, the EU and the US. Within the first year of the FTA with Japan, Chilean exports grew 20 per cent (DIRECON, 2008: 8, 11 & 18).

However, how Chile managed to implement such an aggressive FTA policy is only possible to understand by analyzing how the country has dealt with the domestic groups that oppose such policy-making, because these agents may hamper and stall both the FTA policy as a whole, as well as specific negotiations. This is so even in a country with tariff levels as low as those of Chile. The eventual losers of a trade policy are usually concentrated, and tend to mobilise more efficiently than the winners in the accessible lobbying points provided by the political system (see Ehrlich, 2007). In this regard, the convergence of the commercial interests of exporting groups and the national economic interests of the state does not guarantee success, per se, so long as the state neglects and does not co-opt, soften, attract or even divide those on the losing side of a FTA policy.

The Chilean government successfully countered the aversion to FTAs of those domestic groups that previously enjoyed protection; it has reduced the size of the opposition to FTAs to facilitate the domestic ratification of these accords; and it has also undertaken the conversion of some protective-oriented groups into supporters of FTAs.[4] The eventual losers of an FTA policy have been concentrated within the producers of traditional agricultural products. Yet some sub-groups of the industrial sector have also been reluctant to support specific FTAs, like, for example, the FTA between Chile and South Korea for products such as refrigerators and washing machines, the trade-off of which was the exclusion of apples and pears from the exports to South Korea. A similar fear over possible negative consequences in the industrial sector was also present in the negotiations with China (Stallings, 2009: 131–32).

In this regard, Chile's government has reduced the early opposition of protective-oriented sectors to FTAs by 1) setting them on the path to being phased out in the long term, 2) giving them compensation packages and 3) implementing reconversion programmes to make them more competitive. A good example of this is in the agricultural sector through its sector association, the Sociedad Nacional de Agricultura (SNA). In the case of the SNA, it is important to mention Chile's accord with MERCOSUR (1996). This accord has been the baseline in terms of exclusions and phase-out periods for sensitive products in Chile's subsequent FTAs. The accord with MERCOSUR also became a turning point for the agricultural sector, as it opened up competition for sensitive products –for example, beef, dairy, sugar, wheat and wheat flour– that are set for liberalisation in the future through phase-outs of 10, 15, 16 and 18 years' time. This time frame was constructed as a way to develop competition capabilities once full liberalisation takes place.

Whereas the SNA was opposed to an agreement with MERCOSUR, even with phase-outs of 10, 15, 16 and 18 years for its sensitive products, the executive and legislative branches approved the accord, along with a compensation package to this sector totalling USD 500 million. Similar transition periods for these products were negotiated in Chile's first FTA with Canada. An example of this is sugar, which will be liberalised over the

[4] This process has not been without setbacks and problems for Chilean producers and the government.

course of 17 years, and which will be duty free in 2012, which was also the case in the accord with MERCOSUR. Wheat and wheat flour will also, in both accords, have zero tariff from 2014 onward (see FTA Chile-Canada, 1996, Chile's tariff schedules, Chapters 11 and 17; see General Directorate for International Economic Affairs, 2010: 111). Chile's negotiation with MERCOSUR became an indicator that protection per se was not a guarantee and that sub-sectors within the SNA could not escape from bilateral trade liberalisation. Therefore, this accord triggered the need to make these sectors more competitive in order for them to adapt to the new economic conditions.

> We were not very sympathetic towards these accords at the beginning, but today we tend to support them, with few exceptions, as most of our members are exporting and using these FTAs. Moreover, we did not have strong support from other economic sectors, as they really wanted these FTAs. Even within the SNA there were diverging views, which were used by the negotiators to overcome the resistance of specific sub-groups of our association (Luis Schmidt, personal communication, 1 April, 2008).[5]

In FTA negotiations, Chilean domestic sectors advocate for or against an FTA following the principle of comparative advantages. This comparative advantage logic of domestic groups allows the government to unfold a 'gotcha!' strategy toward loser groups of specific FTAs, as some groups may ask for liberalisation in one FTA and later for protection in another accord, and vice versa. According to trade negotiators (Andrés Rebolledo, personal communication, 25 March, 2008; Mario Matus, personal communication, 28 February, 2008; Carlos Furche, personal communication, 18 March, 2008), this rationale tends to weaken the arguments of domestic groups against FTAs as a whole. For example, the meat producers were against the CTA with MERCOSUR but favoured an FTA with the US. The dairy sector was in favour of an FTA with Central America and a better deal in milk products with Costa Rica, but against an FTA with New Zealand. This comparative advantage principle does not ensure the government full liberalization of protective sectors, as a government in FTA negotiations seeks to protect and achieve gains depending on who the counterpart is. What it does give the government, though, is room to manoeuvre, a pool of possibilities, and trade-offs that trade negotiators can offer to the counterpart in order to secure a final agreement.

V. STRATEGIC GOALS OF THE STATE

While domestic economic actors from the export sector are interested in maximizing their economic gains through FTAs, the Chilean government accedes to such domestic positions because opening markets strengthens the pillars of the national economic model of export promotion. Moreover, continuing growth in exports also has an impact on the macroeconomic indicators that sustain and legitimize the role of the government in the social, political and economic spheres, such as the GDP.

5 Author's own translation.

Ffrench-Davis argues (2002: 147-49) that in the 1990s the growing level of exports impacted the GDP positively. In fact, the share of exports in Chile's GDP was on average 43.3 per cent from 1996 to 2001. Moreover, the export volume grew 8 per cent per annum between 1990 and 2007. In 2008, the export sector of goods –excluding services– accounted for approximately 40 per cent of Chile's GDP (General Directorate for International Economic Affairs 2010: 219). Two of the most important FTAs for Chile in terms of market size are those with the US and the EU, which, according to the economic model simulation of Chumacero e*t al*. (2004: 20), would report an estimated permanent increase of 1 per cent of GDP. The positive contribution of exports to the GDP explains the existent convergence of export domestic groups and the state around the need to enhance the national welfare through FTAs.

A second strategic reason for the government to increase the number of bilateral accords is also related to the creation of economic welfare. However, here the government also seeks to create the conditions for the promotion of Chile as a platform for FDI (Catalina Bau, personal communication, 11 April, 2008; Andrés Rebolledo, personal communication, 25 March, 2008). Latin American countries seek FTAs as a way to create rules of governance that reduce the uncertainty and unilateral decisions of counterparts, which affect the flows of FDI (Gerber, 2000: 48).

Chile's approach to investment matters is based on the NAFTA model, especially with the developed economies, which both protects and liberalizes the investment regime (Reiter, 2006). Governmental reports often mention how these FTAs may generate increasing levels of FDI, especially as a result of those agreements negotiated with developed economies. For example, Canada's FDI between 1974 and 2008 was more than USD 12.9 million. However, over USD 9.4 million of that –72 per cent of Canada's total FDI in this period– was invested in Chile after the FTA was implemented (DIRECON, 2009b: 23). In the case of the FTAs with the US, the FDI has grown *vis-à-vis* the years prior to the FTAs. For example, in 2004 and 2005 the American FDI was USD 124.6 million and USD 78.1 million, respectively (DIRECON, 2007: 12). Yet, the FDI went up from 2006 to 2009, averaging USD 841 million in these four years. The Chilean government attributes this growing FDI to the rules of investment, protection and certainty provided by this FTA (DIRECON, 2009a: 16).

The exasperation with the slow progress of negotiations first at GATT and then at the WTO is also an incentive for Chile to increase its number of FTAs. This incentive is especially relevant regarding further liberalization of agricultural products. Multilateral liberalization at the WTO on issues of agriculture did not advance at a satisfactory pace for exporter countries such as Chile. The slow pace of the WTO negotiations prevented Chile from gaining greater market access not only to big markets but also to intermediate ones such as the Asian economies, which are highly protective of their agricultural producers. In this sense, negotiating with Asian economies and with industrial countries in general on the basis of liberalizing industrial products in exchange for commodities was a strategic decision (Mario Matus, personal communication, 28 February, 2008).

Concomitant with the exasperation at the multilateral liberalization process, negotiating bilaterally has also provided Chile, although in a limited way, with an opportunity to create rules of bilateral economic governance that reflect its economic needs and context in a more beneficial way. An example of interests defended at the bilateral level that were questioned multilaterally was Chile's stance on financial issues –specifically, its implementation of an unremunerated reserve requirement: '*encaje*'. Chile has reserved the right to use its *encaje* system in the FTAs that have chapters on financial services– mainly those FTAs with developed economies. This is to ensure the liquidity of the system in order to prevent speculative investment and to impede capital flight under adverse economic conditions in the national economy. This mechanism is present in the FTAs with Canada (Chile-Canada FTA, 1996, Annex G-09.1), Mexico (Chile-Mexico FTA, 1998, Annex 9-10), South Korea (Chile–South Korea FTA, 2003, Annex 10.11), the US (Hornbeck, 2004: 55; Chile-US FTA, 2003, Annex 10-F, Clause 7) and Japan (Chile-Japan FTA, 2007, Annex 8, Clause 1).[6]

Chile has adopted a defensive position in the world economy with regard to global economic hubs. On the one hand, it wants access to relevant markets for the aforementioned economic reasons, but on the other hand, it does not want to be too heavily dependent on any given one of them, for both economic and political reasons.[7] This avoidance of being dependent is especially important with regard to Chile's relationship with the US. "The dependence on one market also produces volatility regarding prices and constrains the political and economic independence of a country" (López Giral, 2006: 717).[8] While Chile sought to create an FTA with the US, it also simultaneously wanted to reduce the asymmetric economic dependence on this market by pursuing parallel and subsequent FTA negotiations with other industrialized countries and regions, such as the EU (2002), Korea (2003), China (2006) and Japan (2007).

Chile has, by diversifying its trade relations, been rather successful in reducing this asymmetric economic dependence. In the early 1990s, Chile's main market for exports was the US, followed by Japan; currently, its main market is China (15.2 per cent), followed by the US (13.1 per cent). If the EU is taken as a whole, then Chile's exports to this region are higher than those to the two previously mentioned markets (21.5 per cent) (DIRECON, 2008, 12; Silva, 2001: 15). Although Chile signed its FTA with the US in 2003, after those with Korea and the EU, accessing the US market through an FTA was always Chile's main priority.

Within this strategy of negotiating with commercial hubs of the world economy, and not cultivating too strong a dependency on just one or two of those economic centres, Chile has also put special effort into achieving FTAs with other Latin American countries, as a way to exert a certain influence over regional integration. Based on its strategic need to not become just another spoke in the wheel of the process of integration into the global

6 Paradoxically enough, the encaje was eliminated in 2001 (Le Fort and Lehamm, 2003: 35). Yet, Chile continued to negotiate the right to use the encaje system in accords that were signed after 2001, such as those with the US and Japan.

7 Chile uses the tactic of diversification of trade relationships through FTAs in order to reduce its economic vulnerability when it has high trade dependence in one or two markets. In other words, high dependence on one market makes Chile more vulnerable to global adverse economic conditions.

8 Author's own translation.

economy, Chile has become a hub on the Latin American continent (Zechner, 2002: 124).[9] This game of spokes and hubs may favour the latter in economic exchange since the hubs can freely trade with every spoke but the spokes face limitations on trading with other spokes due to the lack of accords between them (Wonnacott 1996).

As a hub, Chile may have, at least potentially, the tools to influence to a certain degree the way that the flows of products and services are distributed on the Latin American continent. Yet being a hub is not only about controlling commercial flows, it is also about gaining political leverage over the integration schemes and over how this integration will be conducted (Smith, 2001: 49). For Chile, regional integration is a vehicle for the enhancement of its national economic performance rather than an end in itself. Chile has unfolded a pragmatic approach to regional integration, giving priority to the economic side of integration rather than to the hopes of other countries (such as Brazil and Venezuela) that regional schemes can be used as political projects.

Thus, Chile's economic internationalization project also helps to reduce the potential political-economic influence of MERCOSUR over Chile. Chile, as an associate member, has an ambivalent position toward this regional grouping. In fact, Chile is pursuing a soft-balancing strategy to prevent a potential entrapment within MERCOSUR, since it wants to lessen its economic dependence on this integration scheme as well as MERCOSUR's potential political influence. By opening new markets, and by having FTAs with all the economic powers and developing countries, Chile is reducing both the economic impact and the potential political influence that world powers and regional groupings may exert over it, through the diffusing effect that having multiple commercial ties produces.

Not only does the government of Chile want to satisfy its endogenous economic actors with its FTA policy, it also wants to achieve an international reputation within and beyond Latin America (Morandé, 2003: 252-53). "FTA talks can be used as a tool to improve countries' status and image by allowing them […] to display 'benign leadership' through collaborative economic projects" (Solis and Katada, 2008: 249). Chile's government also wants to improve its international status and recognition as a way to legitimize, both internally and externally, its pattern of economic development. For example, Chile sees the achievement of an FTA with the US in 2003 as a source of pride and success, as it has become a sort of 'quality stamp' for the Chilean economic model, with a direct effect on the image and international status of the country. Former President Ricardo Lagos (2000-04) had the following to say about the country's FTA with the US:

Today Chile is part of the world. Our small and far away country, which in previous periods was isolated and marginalized, has become today a first-class partner of the main hubs of the world economy. Months ago it was with Europe, weeks ago it was

[9] To determine whether or not becoming a hub in Latin America was a rational planned decision or a foreign policy goal of Chile needs further empirical research. There is no definitive evidence in the scholarly texts and in the interviews conducted by the author that becoming a hub was a planned strategic decision. However, in the interviews with Mario Matus and Andrés Rebolledo, the fact that Chile was a leading country in Latin America in achieving FTAs, and as such it was in a hub position, was mentioned.

with South Korea and today with the United States of America. All this happened in one year (cited in Fuentes, 2006: 120).[10]

VI. CONCLUSION

The motives for pursuing an aggressive FTA policy are diverse and combine economic and political goals. In this case study, the motives of domestic groups in pushing for more FTAs is based on the power of export groups, which are the foundation for the success of the national economic model of export promotion. The early results of the FTAs, in terms of increasing exports, confirmed for both the export groups and the government that there was a necessity to achieve further FTAs. Yet, such proactive behaviour in FTAs is not always guaranteed, as losers of specific FTAs also advocate for bilateral protection. The Chilean government has reduced the domestic aversion to FTAs from those on the losing side of this policy, even in complicated negotiations that either came to an impasse or faced difficulties being domestically ratified, such as the CTA with MERCOSUR and the FTA with New Zealand as part of the P4 Agreement.

As Chile's economic growth is based on export promotion, the government, in cooperation with the export sector, has been able to overcome protectionist groups. Additionally, it has prepared those on the losing side of FTAs for future economic liberalization by granting them an early compensation package, and it has also mitigated the effects by including their sectors in long-term phase-outs into these FTAs. In addition, the government has used a 'gotcha!' mechanism because FTAs are driven, in the goods issue area, by a comparative advantage principle. This mechanism has been used by negotiators to reduce domestic opposition to specific FTA processes, to build room to manoeuvre to secure final agreements in FTA negotiations, and to reduce the overall aversion to increasing the number of FTAs as a state strategy.

Regarding the strategic goals of the government, Chile has used these accords to create specific rules of economic governance to protect its financial system and to attract FDI. The question of whether the increase of FDI in Chile is a direct consequence of the FTA is one that needs further investigation. However, this need for more research on the results does not change the view of the Chilean government that FTAs as a rule-making institution reduce legal uncertainty and create the conditions to attract FDI. Whereas Chile is a rule-follower at the multilateral level, it becomes rule-maker at the bilateral level.

Moreover, Chile's numerous FTAs have become a platform from which to unfold a soft-balancing strategy, following a more classical view of power in external relations *vis-à-vis* the big economic powers and regional groupings, as the cases of the US and MERCOSUR illustrate. In these cases, Chile seeks economic and political cooperation as much as it seeks to balance and reduce strong dependencies on just a few powers. By establishing multiple economic ties, Chile reduces its economic vulnerability and diffuses economic and political dependencies, thereby enhancing its constructed external

[10] Author's own translation.

image of pragmatism and of a 'choosing not to choose' position between the leadership quests of regional and hegemonic powers.

For these reasons, Chile's rush to FTAs is ultimately explained by multiple economic and political factors. The analysis exclusively of the economic dimension, as shown in this work, is insufficient to understand the complete and complex dynamics of this country's FTA policy. Only when the preferences of domestic actors coupled with the political-economic strategic goals of the state are taken into consideration can Chile's reasons for pursuing an aggressive FTA policy be fully understood.

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