

IDENTITY AND INSTITUTIONALISATION AS TRUST BUILDING STRATEGIES: THE SINO-CHILEAN CASE*

Identidad e institucionalización como estrategias de construcción de confianza: El caso Sino-Chileno

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ABSTRACT

This article argues that China has used two mechanisms to build trust as a way to counteract the uncertainties and perception of risk produced by its growing hegemony in Latin America. On the one hand, China has reshaped its own identity by narrowing it to its market dimension. On the other, it has embarked in a process of institutionalisation of its commercial relations in order to portray itself as an actor playing by the rules of the open global economic market and international insertion. In this scenario, the 2006 Sino–Chilean Free Trade Agreement– the first that China has ever signed with a western country, emerges as a perfect case to illustrate China’s benign influence in Latin America, therefore making the analysis of it in the broader context of the rise of Chinese power in the region a productive endeavour.

Key words: *Trust, Foreign Policy, Sino-Chilean bilateral relations, Sino Latin American relations, Chinese expansion.*

RESUMEN

Este artículo argumenta que China ha utilizado dos mecanismos de construcción de confianza que tienen como fin contrarrestar la incertidumbre y percepción de riesgo que su creciente influencia en América Latina provoca. Por una parte, China ha redefinido su propia identidad al restringirla a su dimensión económica. Por otra, se ha embarcado en la institucionalización de sus relaciones comerciales para aparecer como un actor respetuoso de las reglas de intercambio económico global. En este escenario, el Tratado de Libre Comercio entre China y Chile firmado el año 2006 –el primero que China firmó con un país no asiático– emerge como un ejemplo que demuestra la influencia benigna de China en América Latina, por lo que debe ser analizado dentro de un contexto amplio que tome en cuenta el creciente poder chino en la región.

Palabras clave: *Confianza, política exterior, relaciones bilaterales sino-chilenas, relaciones Latinoamérica-China, expansión china.*

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I. INTRODUCTION

In 2005 the People's Republic of China (PRC) and Chile signed a Free Trade Agreement (FTA).¹ It was the first commercial agreement of this kind that China had with a western country, and according to Zhang, it was driven by the interest of the Chinese government to institutionalise their economic relations (2006). From the Chilean government's perspective, given that China constituted one of its main commercial partners, the FTA was regarded as a milestone on Chile's road to development (Direcon, 2006). In theory, the FTA would improve Chilean exports by enhancing diversification and promoting those goods that were not already present in the traditional export portfolio to China –such as agro-industrial and livestock products (*ibid*, 2006).² The agreement was considered as especially significant given the growing relative influence of China in the development of emergent economies (Henderson, 2008; Kaplinsky, 2008; ECLAC, 2011). Besides, the FTA would offer Chile the possibility to become a platform for relations between Asia and Latin America, consolidating Chile's economic and political influence in the region. Finally, the FTA constituted an institutional highway to the most dynamic economy in the world, with a potential market of 1.4 billion consumers.³ From a bilateral perspective, though, the benefits of this FTA for China were not immediately evident. As a market, Chile did not appear especially attractive compared to its neighbours Brazil or Argentina. Despite being an important emergent economy, it has a small internal market and contributes by only 2 percent to the total world Gross Domestic Product (GDP). Chinese exports to Chile were already diversified and therefore taxation benefits would not greatly affect the Chinese export structure in Chile. Additionally, as explained in an official Chilean document, Chinese imports from Chile were concentrated on items that already had low taxation rates (Direcon, 2006).

¹ The 2006 agreement included only goods. On April 15th 2010, the Chilean Senate unanimously approved the Complementary Agreement on Services. Source: <http://asiapacifico.bcn.cl/noticias/politica/senado-aprueba-acuerdo-suplementario-servicios-tlc-china>. Accessed on 19/04/2010. The section on investment was signed in 2012 by both governments-. http://www.minrel.gob.cl/prontus_minrel/site/artic/20120909/pags/20120909140122.php Accessed 01/04/2013

² In effect, since 2007 China has become the most important destination for Chilean exports. Governmental figures show that 15 percent of all the total exports are directed to China. Only a year after the FTA was signed, the commercial trade between China and Chile grew 98 percent, allowing China to become the primary destination for Chilean exports. Although the major commodities traded came from the mining sector (nearly 85 percent), the boost also reached other Chilean economic products such as agriculture, seafood, wine, livestock, and even textiles. The following is an extract per productive sector. Fruit: the exports have been duplicated, from USD 8.1 million in the first semester 2006 to USD 17,2 million in the same period in 2007. Livestock: USD 2.7 million (2006) to USD 3.6 million (2007). Fishing: From USD 3.5 million to 6.4 million in 2007. Textile industry: USD 400,000 in 2006 to USD 3.6 million in 2007. Wine industry: from USD 5.8 million to USD 24.7 million. See Wilhelmy and Hurtado (2006). Nevertheless, Chinese investment has not increased as expected. It has been reported that Chinese investment between 1974 and 2009 reached US 85 million, which represents only 0.1% of the total Foreign Direct Investment (FDI) received for that period (Direcon, 2010).

³ At that time, growth in China was around 10 percent (Naughton 2007), according to the CIA World Fact book, the estimated growth for China in recent years (2008, 2009 and 2010) was 9 percent, 9.1 percent and 10.3 percent respectively. Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> Accessed 03/02/2011.

The research question that arises therefore is why China purposively sought to create an institutional bond with Chile since it would not bring the Asian power evident benefits. This article offers an answer from the point of view of trust building in international relations. It argues that the Sino-Chilean institutional engagement was carried out as part of the Chinese trust building strategy in order to counteract the risk perception and uncertainty associated to its growing presence in Latin America. This increased risk perception and uncertainty has two parts. On the one hand, the United States has political concerns regarding the consequences of China's rising influence on its traditional backyard, which might potentially include changing the current international landscape and thus eroding US hegemony (Roett and Paz, 2008). On the other, those Latin American economies that do not appear as benefiting from China's growing influence on the continent share an apprehension that China will undermine their own development (González, 2008). The article contends that in order to face these concerns, China has embarked on a twofold project of building normative trust. Firstly, to counteract US apprehensions, China has sought to build identity-based trust⁴ by reshaping its foreign policy discourse with the objective of diminishing political uncertainties, in this way narrowing the signification of China's increased presence to one driven by economics and devoid of political and ideological content. Secondly, China has focused on creating institutional-based trust by engaging in formal agreements that norm commercial exchange within the rules of the game of the current global economy. In this way, China aims to counteract Latin America's apprehensions of economic risk and vulnerability in the face of its rising hegemony in the region.

Within this context, the Sino-Chilean FTA appears as a milestone for China's trust building intentions since it becomes an example of what China wants to fulfil with its twofold strategy. On the one hand, it shows how a country can economically engage with China without menacing US interests in the region. On the other, the Sino Chilean FTA demonstrates how a Latin American country may benefit from its cooperation with China within the framework of an institutional bond that safeguards commercial exchange.

By using trust as the analytical framework, and the geopolitical context of Chinese rise in Latin America this article aims to offer a broader and richer understanding of Sino-Chilean commercial engagement. This allows looking at the case study from a novel and a more nuanced perspective. The insights offered here are qualitative, based on official and media documentation and original primary data collected via interviews conducted in Santiago and Beijing with Chinese and Chilean governmental high rank officials and academics in the 2008-9 period.⁵

⁴ According to Oxford dictionary, there are 4 meanings for identity. Definition number 4, understands identity as a "close similarity or affinity" which is the meaning used for this article, derived from the original meaning of the Latin concept from the late 16th "identitas" (same). (http://oxforddictionaries.com/definition/american_english/identity). For the purposes of this article, the conceptualisation of identity-based trust refers to a common social similarity in which the parties involved in the trusting relation recognize shared characteristics. It has also been called "characteristic -based trust" by authors such as Zucker (1996).

⁵ The empirical data was collected in Santiago (September and October 2008) and Beijing (May 2009) mainly using semi structured interviews. Of the 83 interviews, 45 were carried out in Chile, 36 in China, and two were carried out by telephone. The findings presented in this article have a qualitative nature and are mostly guided by interpretivism as the epistemological orientation.

II. DEFINITION, SOURCES, AND BENEFITS OF TRUST

Although the subject of trust is not new in the academic literature,⁶ beginning in the 1990s different social science disciplines (sociology, economy, anthropology, and political studies) have incorporated trust as “an essential component of all enduring social relationships” (Seligman 1997: 13), highlighting its benefits for social interaction. As for its functions, trust has been considered key to strengthen cooperation (Granovetter, 1985; Kramer *et al.*, 1996; Hardin, 2002; Van de Ven and Smith, 2006), mobilize and get access to resources (Esser, 2008), avoid opportunistic behaviour (Hardy *et al.*, 1998), and lower or cut transaction costs (Coleman, 1988; Fukuyama, 1995b; Zak and Knack, 2001). Furthermore, trust has been appointed as a mechanism to reduce system complexity and, risk levels (Luhmann, 1979; Gambetta, 1988), (given that “trust alleviates fears of exploitation and minimizes feelings of vulnerability while those involved search for optimal solutions to the problem” (Boon *et al.*, 1991: 191). Trust therefore, ultimately acts not only as deterrence against opportunistic behaviour but as a way to cope with uncertainty and vulnerability (Heimer, 2001), because “under conditions of uncertainty, trust stabilizes the expectations that people have of one another” (Child, 2001: 276).

There are different definitions for trust in the literature (Kim, 2005), depending on whether they are positioned within a rational (instrumental) or normative perspective. Within the first group, trust is understood as an intersection of interests in which trust is “encapsulated”, given the “causally connected” interests among the trustor and the trustee, and thus trust can only be maintained “as long as the relationship continues” (Hardin, 2002: 4). Therefore, trust is narrowed to specific purposes and bounded only until their completion. Rationalism has also understood trust as an estimation of probabilities (Gambetta, 1998), that entangles expectation of future behaviour (Boon *et al.*, 1991; Knight, 2001; Yamagishi, 2001). The sources in which trust is based are related to rational calculation (Hardin, 2001; 2002), reputation (Dasgupta, 1988; Dasgupta and Serageldin, 2000), as well as experience and knowledge (Dirks, 2006; Lewicki and Bunker, 1996; Axelrod, 1984).

Nevertheless, there is a more normative stance that states trust as a belief (Levi, 1998; Misztal, 1996; Ostrom and Ahn, 2008), a moral community (Fukuyama, 1995a) and moral value (Uslaner, 2002; 2008). This kind of trust emerges from shared norms and institutions (Knight, 2001; Beugelsdijk, 2006; Serageldin and Grootaert, 2000) understood as the rules of the game –be these formal or informal (North, 1990). From this viewpoint, institutions are a source of trust not only because they develop the environment in which trust can occur, but also because they allow the possibility of punishment should trust be breached. Furthermore, norms “may provide sufficient information and deterrents to greatly increase the likelihood that Trustees will behave in reciprocal ways even when they face very high material temptations to break the trust placed in them [...]

⁶ Adam Smith, David Hume, Alexis de Toqueville, John Stuart Mill, and Thomas Hobbes have been named as the first authors highlighting the importance of trust in social, political and economic action (Gambetta 1988; Putnam 2000; Zak and Knack 2001).

Thus, when institutions are effective, I would rather reciprocate than exploit" (Ostrom and Ahn, 2008: 84). Finally, another important source of normative trust comes from sharing a common identity (Fukuyama, 1995b; Putnam, 2000) in the sense of "who we are" proposed by Putnam (2007). As this author explains, this identity can be socially constructed and de-constructed (*ibid*), as has occurred in this case and will be shown for the case study.

In the international relations field, trust has been identified as having a key role in determining cooperation and conflict (Kydd, 2005). However, despite its importance in the general realm of social sciences (Stolle, 2001), scarce research has been done in the area (Welch, 1997).

For the purposes of this analysis, in which the argument is based on the risk perception and uncertainty that the Chinese rise generates, trust will be understood as an expectation (as in the definition provided by authors such as Boon *et al.*, 1991; Knight, 2001; Yamagishi, 2001 already cited) that China –the trustee– will behave in a way "beneficial or at least not detrimental" to the trustor's interests (Gambetta, 1998 in Kim, 2005). This implies having "confident expectations in the benevolent intentions of another" that help to make decisions "in the face of uncertainty" (Boon and Holmes, 1991: 190).

III. CHINESE RISE IN LATIN AMERICA

The last twenty years have witnessed an explosive increase in the commercial relations between China and Latin America, causing a so-called "China fever" (Domínguez, 2006: 1). Several reports show this: for example, between 1999 and 2005, Chinese imports from Latin America grew around 60 percent per year reaching an estimated \$50 billion in 2005 (*ibid*, 2). Chinese government data show that bilateral trade augmented from \$15 billion in 2001 to \$124 billion in 2008 (cited in Jiang 2009: 2) and according to the Economic Commission for Latin America and the Caribbean (ECLAC), between 2005-2010 "China's exports to and imports from the region grew twice as fast as its trade with the world overall" (ECLAC 2011:5). The last years have maintained this growth: from 2010 to 2011, Latin American exports towards China grew 51 percent while Chinese exports to Latin America increased 48 percent (*ibid*). The following figure illustrates the pace at which China has become a key trading partner for Latin America and the Caribbean:

Figure 1: Latin American and the Caribbean: trade with selected partners, 2006-2011 (Billions of dollars and growth rates)

	2006	2007	2008	2009	2010	2011	Annualized growth rate 2006-2011
Exports to China	22,2	34,8	42,8	47,6	71,8	94,1	33,5
Imports from China	49,1	67,4	89,2	75,5	111,6	139,7	23,3

Source: ECLAC 2012, 27.

This growing economic engagement stands on the Chinese necessity for primary resources in order to sustain its domestic growth (Jiang, 2006; Santiso, 2007; Kaplinsky, 2008; Roett and Paz, 2008; Shambaugh, 2008). These include energetic resources (Pérez-Le Fort, 2006). This has allowed a shift in the importance China has attributed to Latin America relative to its past in which the relationship used to be considered “normative but necessary for identity and political reasons” (Xu, 1994: 152). Therefore, to be portrayed as a partner can now be considered of strategic importance for China’s own economic development, and thus acquires political significance (Song, 2008).

China’s rise has triggered concerns in the western world on whether its growing economic and political power may threaten the current geopolitical and economical world order (Kristoff, 1993; Kurlantzick, 2007; Ikenberry, 2008). As stated in the introduction, within the Latin American context these concerns are focused on two dimensions. On the one hand, the increasing presence of Chinese in what is traditionally considered the US backyard is seen as a threat for the stability of the current geopolitical order in the region (Domínguez, 2006; Ellis, 2009). Indeed, since Sino-Latin American bilateral relations are understood as an outcome of the state of Sino-US relations in a triangular relationship, this growing engagement cannot be analysed without considering its repercussions on the US (Gutiérrez, 2000; Pérez Le-Fort, 2006; Roett and Paz, 2008; Stallings, 2008).⁷ In fact, as stated by Roett and Paz, “China’s self-proclaimed “peaceful rise” has led to several major intellectual debates about the changing international landscape, including whether US hegemony has begun an inexorable decline” (2008: 1).

On the other hand, there is concern and risk perception regarding whether or not China’s growing economic influence will undermine Latin American growth. In the words of OECD economist, Javier Santiso, it is still under debate whether China should be seen as an “angel or a devil” for Latin America own development (Santiso, 2007). Although Chinese engagement has brought benefits to the region (Roett and Paz, 2008; ECLAC, 2009) –helping to diversify Latin America’s market (Ellis, 2009), increasing the value of its trade (Stallings, 2008) and nurturing its economy beyond the traditional European and American poles (Santiso, 2007), China has also brought drawbacks to the continent. In fact, China has been made responsible for its “*re primarysation*” since 90 percent of Latin American exports are primary resources, while 88.5 percent of Chinese exports towards the region are manufactured products (ECLAC 2011). Moreover, China has been pointed out as creating a “new colonial pattern” based on a North–South model, one which is heavily based on trade and investment [from the Chinese side] related to energy and natural resources (Xiang, 2008).

Using trust as the analytical starting point, this article argues that China has created two mechanisms of trust building as a strategy to counteract the uncertainties and risk

⁷ One of the key moments that illustrate this triangular relation is recounted in this analysis: “In the early 1970s, China’s international position was greatly raised by two significant events: its re-entry into the United Nations and President Nixon’s visit to China. Many Latin Americans started to look at China with new eyes. From 1971 to 1980 twelve Latin American countries established diplomatic ties with China” (Jiang, 2006: 66).

perception that its ascension produces in the two dimensions explained in the previous paragraphs. Although driven by national interest, Chinese trust building strategy aims to create a normative-based trust supported by identity and institutionalisation. On the one hand, China has engaged in a process of construction of a new identity based on a foreign policy discourse that supports the benign thesis developed by Beijing; and, on the other, institutionalizing trust through legitimate instruments such as the FTAs. In this context, the current Sino-Chilean relationship appears as a case of a successful Chinese strategy. This relationship is crystallized in the first FTA with the region that, given its characteristics may have acted as both trial and model for the rest of the region.

IV. "HARMONIOUS WORLD" AND INSTITUTIONALISATION OF ECONOMIC RELATIONS

One of the major challenges in Chinese foreign policy in the last years is the creation of a discourse to counteract the negative impacts of its rising power, especially in the Western hemisphere (Xiang, 2008).⁸ Hu Jintao's new conceptualisation of 'harmonious world' (*hexie shijie*) explained before the United Nations in 2005 attempted to resolve this challenge by calling for a "new mentality", detached from the dynamics of the Cold War and which highlights "trust, mutual benefit, equality and cooperation". Furthermore, Hu hoped to build "a fair and effective collective security mechanism aimed at preventing war and conflict and safeguarding world peace and security" (Hu, 2005). In his proposal, trust appears as one of the main pillars for international security (Hu, cited in Jiang, 2008: 15). In fact, Chinese scholars have stated that trust building becomes "worthy of the greatest attention, because mutual distrusts or misperceptions easily lead to conflicts between the countries" (Yuan, 2008: 11), identifying three sources of trusting relations: international economic interdependence, mechanism construction, and international cooperation (*ibid*, 2008: 3). From the theoretical perspective of trust, *hexie shijie* rhetoric can be understood as a mechanism deployed in Chinese foreign policy as a strategy to reshape its own identity in order to support China's global economic and political insertion and status as an emerging global power. By enhancing cooperation, economic interdependence and stability as the central points of its discourse, China aims to reinforce the benign aspects of its rising political and economic power and simultaneously diminish the perception of China as a threat.

This strategy involves connecting the need for a "harmonious world" to China's own development; and in doing this, linking Chinese identity to its economic dimension. As this prominent Chinese scholar points out: China "strive [s] for a peaceful international environment for its development and to promote world peace through its own development" (Liu, 2008: 13). Chinese intellectuals have highlighted this dimension. Zheng and Tok,

⁸ Indeed, the idea of China's "peaceful rise" (*heping jueqi*) introduced by Zheng Bijian in November 2003, did not last within the Chinese foreign policy because it generated controversy in the West given its conceptualization of "rise" that was associated with threat and power emergence. Further discussion in Suettinger (2004).

for example, argue that the current foreign policy discourse follows “the footsteps of previous policy discourses to map out China’s developmental direction” (2007: 1); referring to previous discourses such as the conceptualisation of China’s peaceful development (*zhongguo heping yu fazhan*). This concept, which was also promoted by Hu is justified because a harmonious world allows a “long-lasting peace and common prosperity” (Hu, cited in Jiang 2008: 33). *Hexie shijie* then, appears as essential for Chinese economic growth, which has been defined at the centre of current Chinese conception of national interest (Chan, 1999: 81).⁹ This also implies stressing China’s intention to confront this global era with a “non-ideological approach, hoping that this strategy will positively complement current economic development” (Xiang, 2008: 52).

Indeed, in regards to Latin America, this new identity also strives to leave behind the belligerence and ideological predominance of previous discursive stances –such as the Three World’s Maoist theory.¹⁰ In fact, current Chinese identity building process are based on a new version of South-South cooperation mostly related to further enhance economic ties and detached from its initial ideological conceptualisation (Roett and Paz, 2008: 4). Furthermore, Chinese academics stress that China’s main motivations towards Latin America are linked to economic interests which do not intend to affect third parties– particularly the United States (Xiang 2008). As an example, CASS¹¹ researcher Jiang Shixue exemplifies the economic preponderance within Chinese official discourse, highlighting that the first Chinese Policy Paper on Latin American and the Caribbean –released in 2008– had 1400 Chinese characters devoted to economic cooperation of a total of 5000 in the document (Jiang, 2009).

A second strategy for trust building is constituted by the institutionalisation of Chinese economic relations. In his report to the 17th Party Congress, Hu Jintao noted that seeking free trade agreements with other nations has become a strategy for his country (cited in Jiang, 2009: 3). In regards to Latin America, China has prioritized institutionalizing its economic relations with the region (Song 2008). As has been clearly stated by the Chinese government: “China will, on the basis of mutual benefit and win-win cooperation, give positive consideration to concluding free trade agreements with Latin American and Caribbean countries or regional integration organisations”, as appeared in the first Chinese White Paper towards Latin America (Xinhuanet 2008). By doing this, Hu has reaffirmed the importance in Chinese economic diplomacy of the institutionalisation

⁹ On the question of what constitutes national interest, Chan emphasizes that current Chinese understanding of national interest comes from Deng Xiaoping, citing researcher Yan Xuetong: “The core of China’s state interest is sovereignty, without which it would be pointless to talk about the protection of other state interests. State interests can be divided into security interest, political interest, economic interest, and cultural interest. Which type of these divided interests is more important depends on the specific time and situation (...) In a book published in 1996 on China’s national interest, Yan affirms that ‘economic interest should top other interests and be followed by security, political and cultural interest’” (Chan 1999, 80-81)

¹⁰ Three World’s Maoist theory attempted to build a shared identity with the in which China was positioned as part of the developing world (Third World) together with most of Asia, Africa and Latin America, and in an antagonistic position regarding the great powers: The US and the Soviet Union (the First World). In between were countries such as Japan, Canada and Europe. Source: <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18008.htm>

¹¹ Chinese Academy of Social Science (CASS) is a think tank that belongs to the government.

of Chinese commercial exchange through “the initiation, negotiation, or conclusion of free trade agreements” (Medeiros, 2009: 64).

The analysis of current Chinese institutionalisation strategy under trust conceptualisation helps shed new light on this process. As it has been argued, current Chinese rhetoric “has proven insufficient to assuage fears about China’s global emergence” (Xiang, 2008: 52). Therefore, China has also supported its trust building process on institutional sources as a way to legitimate itself within the global capitalist model (Caballero, 2008: 93). By doing this, it aims to be perceived as a “constructive participant, stakeholder, co-operator [*sic*] and reformer” of the new order (Dong, 2005: 70) - in tune with its global insertion.

This strategy has been coupled with the institutionalisation of global economic participation through the country’s various memberships in world trade institutions (Yang and Su, 2000) and the go-global policy. From this perspective, China’s entrance to the World Trade Organisation, the Inter-American Development Bank, and its FTA policy can be seen as a way to manage the international community’s expectations and enhance cooperation through institutional trust building. Ultimately, it reflects China’s efforts to create a “system guarantee to potential partners in order to minimize risk perceptions, allowing China to show itself as a reliable economic partner, inserted within the rules of the global economy” (Lu, 2006: 41).

In effect, it has been stated that “China has no interest in challenging the interdependence that the western-open market system has institutionalized through principles, rules and institutions” (Caballero, 2008: 93). Furthermore, Chinese scholars argue that the past 30 years of opening up have been considered as “a process of understanding, embracing and reaping rich rewards” from economic globalisation (Ma, 2008: 10).

The next sections will lay out the case for understanding the Sino-Chilean FTA as a milestone for China’s trust building strategy in Latin America; which in turn, has been supported by the Chilean embracement of Chinese *hexie shijie* through the portrayal of China as a “market opportunity”. By institutionalizing their economic relations through the FTA, China has been able to show itself as a trustable emerging power with motivations anchored in the economic sphere and relations framed into institutional mechanisms that will not alter the current geopolitical order or Latin America’s economic development.

V. IDENTITY-BASED TRUST: CHINA AS A MARKET OPPORTUNITY

This section will lay out the way that Chilean political and economic elites have embraced Chinese identity-based trust strategy. In the context of the Chilean export-oriented model of growth, the significance of trade with China has been understood mostly as an economic opportunity for domestic growth. In this narrowed conceptualisation, China does not appear as a threat for national growth, but instead as a necessary partner in order to attain desired development. As noted by previous researchers, this consensus has allowed for the implementation of a successful economic foreign policy, because

“political visions concerning foreign policy materialize successfully only when the relevant elites have identified homogeneous interests” (Faust and Mols, 1998: 34).

Chilean foreign policy towards China has been developed in a framework of historical pragmatism, mostly targeted to support mutual economic enhancement. This implies avoiding criticism towards sensitive issues such as Taiwan and Tibet, a strategy which is based on the principle of non-intervention that has guided Chilean foreign policy. Indeed since the establishment of diplomatic relations between both countries in 1970, pragmatism has been a historically constant strategy. Furthermore, the overall relationship has been deemed as guided by interests where “ties are mutually beneficial” (Montalva and Navia 2007: 2). The most prominent example is given by the fact that the PRC never officially broke diplomatic relationships during the right-wing dictatorial regime of Augusto Pinochet, at a time when Chile faced diplomatic isolation:

Sino-Chilean relations after 1973 are a good example: they cooled but neither side broke them. Political interests sustained them. Chile’s relations with China improved as the Pinochet government became ideologically and politically isolated internationally for its human rights record. Pinochet’s Chile faced hostile governments in the United States and Europe most years from the mid-1970s forward. China welcomed the weakened Soviet position in Chile, opposed international interference in the domestic affairs of countries on human rights grounds, and sought to forestall the restoration of Chilean relations with Taiwan. In 1978, Chile and China established a Mixed Binational Commission that would meet annually to deepen commercial relations and coordinate scientific, technical, and cultural agreements. China supported Chilean sovereignty claims over disputed parts of Antarctica (Domínguez, 2006: 6).

Even when diplomatic ties were made official between the socialist government of Chilean President Salvador Allende and Mao’s regime (*ibid*: 4), as was explained in the Joint Communiqué read by Allende in January 1971 pragmatic factors were also considered in the decision (Montt, 2005: 42).¹²

This pragmatic posture has been translated into the way the Chilean state has managed the Taiwan and Tibet issues. Following a basic principle of Chilean foreign policy—which is the non-intervention in domestic affairs, the government has been very careful to keep matters that could potentially cause political trouble in China away from center stage (Montalva and Navia 2007). For example, Chile has “voiced little criticism about

¹² To further sustain the argument of the relevance of pragmatism within Sino-Chilean bilateral relations, it seems relevant to highlight that the relationship was not considered ideological even when Chile was under Allende’s rule. The Chinese Communist Party (CCP) never accepted the Chilean “way to socialism” as a valid one, and the Chilean Communist Party was not perceived as having a real Marxist-Leninist essence (Conelly and Cornejo 1992; Pakarati 1998). The Chilean way to socialism was defined by Allende in a speech given on May 21st 1971 in front of the Chilean Congress. Here he stated: “In direct terms, our task is to define and put into practice a new state, economy, and society model centred on the human being’s necessities and aspirations. For that, it is necessary to have the courage of those who dare to rethink the world as a project targeted to serve the human being. There are not previous experiences that we could use as a model, thus we have to develop the theory and the practice of new forms of social, political and economic organizations that may comply with the efforts to eradicate underdevelopment but for the socialist formulation as well” (Allende, 1971: 7-8).

the authoritarian rule in the People's Republic", referring to the events of Tiananmen (Xu, 1994: 156).

As declared by one high rank official from the Ministry of Foreign Affairs, when explaining the Chilean posture towards Tibet:

We've got to remember that we need to have an absolutely pragmatic relationship in the face of what China is, what China means and what it will be. We do not have to forget that China will mean much more in the future and it is difficult for us to embrace a "moralist" posture. Chile needs to export [to the world] and China is our main (economic) partner.¹³

Furthermore, in a newspaper column published in 2008, Ambassador Fernando Ayala explains: "Decisions that can be so important in the bilateral relations cannot be exclusively based on the defence of principles" (Ayala, 2008: A2).

Chilean policy is not confined to the last presidencies: "Chile's policy toward China is the policy of the Chilean state, not just of one particular administration" (Domínguez, 2006: 32). The following newspaper column written by a former Minister of Foreign Affairs during Pinochet's regime with respect to the PRC and Tibet shows the importance of pragmatism in order to keep bilateral trust:

[Chilean action] is limited by the superior duty of national interest [...]. We do not have the capacity of changing what is happening, we can only harm ourselves. China will not resign to put order in their own territories and [should Chile intervene] will look for other countries able to fulfil their promises [...]. [China] contributes to our trade and we have mutual cooperation. Only the reciprocal trade equals the 10 percent of our GDP. Besides, Chile will lose Chinese trust, acquired by years of constant respect of mutual agreements (Errázuriz, 2008: A3).

The preceding quotes show how pragmatism has been oriented towards reaching economic benefits, thus it has facilitated the development of a commercial engagement in which political interests remain out of the bilateral agenda, excepting situations where both nations may benefit from them (Montalva and Navia, 2007). By doing this, pragmatism has helped to strengthen Sino-Chilean economic cooperation (Jiang, 2001).

Moreover, Santiso explains that within Latin America, Chile has been an example of "the political economy of pragmatism" (Santiso, 2007: 13), which is intertwined with a lack of a political regime identity (Domínguez, 2006). In fact, it has been stated that "compared to China's relations with other large South American countries, this relationship is the least politicized" (*ibíd.*: 37). This is supported by the "trading state" self-portrait Chile has developed, which involves having "no worldwide heavyweight ambitions (unlike Brazil) or ideologically contestatory [*sic*] objectives (unlike Venezuela and Cuba)". As a consequence, "Chile is not keen on balancing U.S. power and in that regard differs from Argentina, Brazil, Venezuela, and Cuba" (Domínguez, 2006:25).

¹³ High rank official, Foreign Affairs Ministry. Interviewed in Santiago, Chile, October 24th 2008.

As it can be noted, the political economy of pragmatism named by Santiso not only refers to the non-intervention in Chinese domestic affairs by Chilean authorities. It also implies an emphasis placed on economic rather than political matters. As expressed by former authorities, Chile wants to be seen as a “reliable commercial partner” by its Chinese peers (Cabrera, 2006; Matus, 2006). Indeed, Sino-Chilean relationship has been labelled as economically-based (Soto, 2005). To illustrate this point, when the last designated Chilean ambassador in Beijing explained his priorities to the press, he only referred to economic objectives and highlighted diversifying the Chilean export basket towards China and attracting Chinese investment as his two primary objectives (BCN, 2011).

The economic benefits China has brought to Chile have contributed to enhance this discourse. Insofar as Chile emerges as a beneficiary of its relationship with China and with no evident harm to its economy, the relationship becomes an opportunity for Chile’s path to development (González, 2008; Ellis, 2009). In consequence, according to a high ranking Chilean official, the mutual diplomatic discourse between Chile and China has been “marketised”, and it has become more “liberal”, exemplified by an “absence of the (Chinese) solidarity rhetoric that it is sustained with the rest of Latin America”.¹⁴ In other words, the diplomatic discourse has been focused on mutual economic growth rather than on ideological bases. By doing this, Chile has embraced China’s identity-based strategy for trust building in which the Chinese economic dimension prevails. As in the case of China, Chile is driven by national interest to support this identity building process.

The consensus of highlighting the economic dimension involves Chilean domestic economic elites; a fact that has also been acknowledged by previous Chilean researchers. Gutiérrez, for example, believes that the drive to develop this perception stems from the entrepreneurs who have understood the importance of China as a market (2000; 2001). Wilhelmy also states that already in the 1990’s China began to appear as an important market with a future in the framework of the post-Cold War phenomena because “the dissuasive element that used to act as hindering the relationships with China lies in the past” (2001: 5). More recently, the view of the business community can be summarized as follows: “Let’s take advantage of the opportunity we have to enhance our ties with China in every area. By doing this, we can look at the future of the 21st century with the most important commercial partner”, as stated by the *President of Confederación de Producción y Comercio* (the most important Chilean business association) in a newspaper column (El Mercurio: A2). As in the diplomatic discourse, the entrepreneurs and businessmen also share the aspiration of being considered commercial partners for Chinese. As stated by this financial consultant: “China today, with its 1.3 billions inhabitants, (sic) represents an unsuspected market that may demand all our products (...) China is a giant opportunity” (Parodi, 2004).

The Chilean media reflects this position: “There is no anti-China backlash in Chile’s mass media. The Chilean public opinion welcomes China’s influence in the world and its

¹⁴ High rank official, Foreign Affairs Ministry. Interviewed in Santiago, Chile, October 24th 2008. *Op. cit.*

growing economic power” (Domínguez 2006: 36). As an example, here is an extract taken from the main influential newspaper in Chile that further highlights Chilean positive perceptions on China, in particular when compared to other Latin American countries:

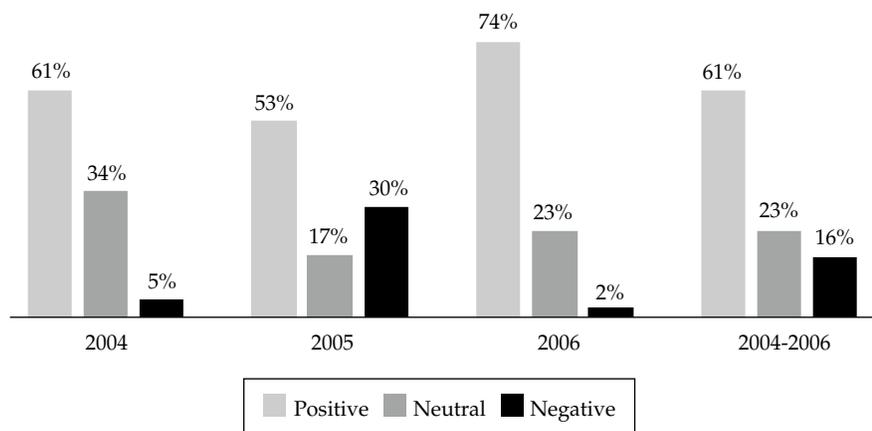
In the Brazilian and Argentine press, almost every day, there are apocalyptic headlines regarding the future of their local industries given the Chinese threat. In November, Brasilia and Buenos Aires recognized China as a market economy [...]. With this, Argentines and Brazilians would not be able to accuse China of antidumping actions [...]; Chile did the same before but it has not caused any concerns. Haroldo Venegas, from the Industrial Exporters Association, Asexma, explains that Chile is used to compete without any special protection [in international markets] (Olivares, 2004).

Indeed, at a macro level, a poll demonstrated that “in late 2004, pluralities of Chileans (...) thought well of China’s greater economic power [...] consistent with the marked increase in trade between China in these two countries” (Domínguez 2006: 12). Furthermore, public opinion studies have demonstrated that China’s rise has not encountered opposition; and it has been accepted by different social, political, and economic groups “from the armed forces and the business community to the civilian parties in government and the opposition” (*ibíd*: 12).

To further support this argument, a study within the Chilean media was conducted.¹⁵ It consisted of running a query with the words China + TLC (acronym for Free Trade Agreement in Spanish) + Chile in three key moments of the relationship: 2004, 2005, and 2006. The results confirm that a positive perception predominates amongst elites – especially the economic one, and it is strongly linked with embracing China as an opportunity and market, therefore highlighting China’s economic dimension. As shown in the following figure, a total of 61 percent of the analysed news was considered positive, 23 percent was categorized as neutral and only 16 percent negative.

¹⁵ The study was carried out in Chile, at the Consorcio Periodístico, Copesa, S.A., database, one of the largest media conglomerates in the country (www.copesa.cl). Its objective was to measure the perception towards China within Chilean media by looking at the positive/neutral/negative news, columns and editorials published in three milestones related to the Free Trade Agreement: the APEC summit in November 2004 in which the first FTA talks began; October 2005, when the FTA negotiations were concluded, and August 2006 when the FTA was put into effect. These three moments grabbed the media attention and therefore an important amount of news was published at that time. The study considered 9 Chilean newspapers: La Tercera, La Hora, Que Pasa, El Mercurio, Diario Financiero, Estrategia, La Segunda, Diario 7 (currently not being published) and El Sur. The analysis was carried out according to the following criteria: first, all those news and editorial considered not relevant, meaning not being directly connected to the FTA as the main subject in the context, were excluded of the analysis although they appeared in the query results. Categories were defined as negative, neutral, and positive. The negative category covered all those contents (either in the headline or in the main content) as mostly centred in the negative aspects derived from the FTA engagement, for example, those containing certain negative wording as “negative impact”, “warning”, “disadvantages”, etc. A news/editorial was considered neutral when the contents were purely informative, for instance “Talks will start in November” or when the positive/negative aspects were balanced. Positive news included contents regarding the FTA beneficial outcomes, tied to words such as “benefits”, “advantages”, “opportunities”, “winners”, etc. The first sample, 2004, relates to an APEC meeting, in which the preliminary talks to start the FTA negotiations began. The second one, 2005, constituted the FTA signing and the third one, 2006, when the FTA came into effect. The positive, neutral and negative perceptions were measured.

Figure 2: Chilean media perception towards China by year, 2004-2006



As can be observed in the above figure, the FTA preliminary talks (2004) were embraced as a positive event by media reports. Only 5 percent (two news items) of the total news items were negative, and these were focused on the negatives consequences of a FTA for fiscal revenues and the inconvenience of the FTA as a mechanism to liberalize commerce. The positive news highlighted the economic possibilities of a diversified export basket –to the point of changing the Chilean export profile– as well as forecasted major export returns. For the most part, they conceptualized the possibility of a FTA as an opportunity rather than a menace. The second sample taken in 2005, shows that 53 percent of the media articles held a positive perception of China and 30 percent were negative. The negative perceptions nevertheless, were due to a focus on the terms of the negotiations, as they were considered not completely beneficial for Chile; and not to the existence of a FTA in itself. During 2006, the positive attitude towards China increased to 74 percent exhibiting an increase from the initial enthusiasm towards this institutional agreement; and hence, the high expectations behind it.

VI. INSTITUTIONAL-BASED TRUST: THE FTA

According to previous researchers, the aim behind this Chinese FTA offensive is to comply with three Chinese foreign policy objectives: to “expand China’s access to markets, investment and technology; gain access to strategic resources, and reassure other nations that China’s growth will not undermine their economic interests” (Medeiros, 2009: 64). Under the trust perspective, Sino-Chilean engagement complies with the third point of Medeiros analysis: it was intended to create institutional trust offering a normative guarantee in order to minimize risk perception and vulnerability to potential partners. This is very important for nations such as Chile, where global openness has constituted the cornerstone of a growth strategy supported by domestic liberalisation “as part of a development model based on free trade and export-led growth” (Wise 2004: 95). Given

its small domestic market, Chile needs to play “following the [international] rules of the game” (Matus, 2006, 22). As stated by this high ranking Chilean official, “We are a small country. This implies at least two requisites for our own development: On the one hand we need to secure a bigger market to allocate our products, but on the other, we need to have the rules of the game very clear (...) so we can protect ourselves in the international soccer match”.¹⁶ Thus, the Sino-Chilean FTA was considered not only the road to secure access to the Chinese market, but also a way to reach for a stable economic relationship (Direcon, 2006).

From the Chinese perspective then, Chile appeared as the perfect candidate to support the Chinese aim to build institutional-based trust. It could act as the starting point of similar future arrangements because “what we may be witnessing with China’s new regional trade agreements is the emergence of a third wave of large power regional agreements which will likely set the precedent for other Chinese regional agreements to follow in future years” (Antkiewicz and Whalley 2005: 1539). Indeed, it was China that took the political initiative to start conversations with Chile. As accounted in Zhang (2006: 113), the talks for the FTA were first driven by the interest of the Chinese government: “In June 2002, the People’s Republic of China offered Chile the chance to start negotiating a Free Trade Agreement, which was made official in 2004”.

The Chilean FTA was considered, in the words of a Chinese known expert, as “a test ground”,¹⁷ and in the words of a Chilean expert “an experiment, a first step to prepare its team for future negotiations”.¹⁸ It would serve as well as a “good trial” (Wu, 2008: 11) which would allow China “to enter at a later stage, with other Latin American partners”.¹⁹ A former diplomat exemplifies this: “I have the impression that for China, Chile constitutes a country that, despite its size is nevertheless serious and innovative; and therefore we can debate, discuss, and test new things. We are a good sparring partner; a convenient guinea pig”.²⁰ These findings are in agreement with previous Chinese literature in which the Chilean FTA is presented as bringing “positive experiences for future FTA negotiations between China and the rest of Latin American countries” (Lu, 2006: 41), supporting the thesis of Chile as a test ground. These positive experiences include the process of learning carried out by Chinese FTA negotiation team which openly acknowledged their interest in learning from Chileans.²¹ A former negotiator explains that in the initial phase of the process,

¹⁶ High rank governmental source at the Chilean Export Promotion Bureau. Interviewed in Santiago Chile, October 6th 2008.

¹⁷ Chinese academic. Interviewed in Beijing, China May 19th 2009.

¹⁸ Chilean academic. Interviewed in Santiago, Chile, September 26th 2008. *Op. cit.*

¹⁹ Former Chilean FTA negotiator. Interviewed in Santiago, Chile, September 23rd 2008.

²⁰ High rank official, Governmental Agency. Interviewed in Beijing, China, May 18th 2009.

²¹ Former negotiators and academics who were directly involved in the FTA rounds commented that, at the beginning of the negotiations, the Chinese team openly expressed their will to learn from the Chilean experience and the first meetings were dedicated to that. This experience was commented on separately by different respondents. Chilean academic. Interviewed in Santiago, Chile, 24 October 2008; former high rank official, Governmental Agency. Interviewed in Santiago, Chile, 2 October 2008; former FTA negotiator. Interviewed in Santiago, Chile, October 8th 2008; and former FTA negotiator. Interviewed in Santiago, Chile, September 23rd 2008. *Op. cit.*

There were long conversations to establish the framework of the discussion [...]. This was very different from earlier negotiations - with the United States for example, in which our counterpart knew what they had to do. We could get together and we could immediately begin to discuss [the main subjects] and that was it. When we started the discussion with China, we had to spend a lot of time talking about what we were going to do. Even more, there were conversations in order to identify the key elements of a Free Trade Agreement, and which were the commitments each part needed to comply with.²²

A second motivation is found in the Chinese opportunity to use this institutional bond “as an example to give a new push to enhance cooperation between China and Latin America and for the complete Asia Pacific Region” (Lu, 2006: Jiang 2001), ultimately targeted to engage in formal commercial agreements with more strategic regional economies such as Brazil or blocks such as Mercosur. As Chilean professor Martín Pérez Le-Fort explains:

In this sense, we can assume that this agreement is a previous step, with an important demonstrative effect, for a future negotiation with Mercosur [because] it seems evident that Chile is not the priority for China, [and] it is worth remembering that there are other priorities such as Brazil [...] that also want to play an important role, even though they are less reliable [and therefore] Chile can play an initial symbolic role, because deepening ties [with Mercosur] is a result of the dialogue with the main regional actors and the Latin-American integration scheme (2006: 100-101).

The FTA has also been functional because of its demonstrative effect beyond the boundaries of Latin America. The interest of Chinese in obtaining Market Economic Status (MES) in order to comply with WTO requirements was easily granted by Chile, as it was requested to start the bilateral negotiations during the 2004 APEC Summit.²³

The demonstrative effect may also have economic implications. Although Chile does not symbolize the whole Latin American trade structure, it does stand for the continent insofar as it is a producer of primary goods (ECLAC, 2004; 2011). Thus for Chile as for the rest of Latin America, China “represents an important market and a potential new source of investment capital” (Ellis, 2009: 1). Conversely, Chile is also representative in terms of being a market for Chinese products (*ibíd*, 2009). From this perspective, choosing Chile as the first country in Latin America to sign a FTA could help China show how it could contribute to its partner’s economic development; and by doing this enhance its own legitimacy. As stated by Aggarwal and Espach: “in an increasingly dense and multilayered international system, trade agreements –aside from their economic logic– are one of several instruments for the enhancement of a country’s legitimacy as a partner in the making of international rules. And, in a reciprocal fashion, elements of that legitimacy can strengthen a nation’s hand in trade negotiations” (2004: 262).

A third reason from the viewpoint of trust conceptualisation relies on the symbolic meaning that a FTA with Chile implied, given its recent economic history. In fact,

²² Former FTA negotiator. Interviewed in Santiago, Chile, October 8th 2008. *Op. cit.*

²³ Former FTA negotiator. Interviewed in Santiago, Chile, September 23rd 2008. *Op. cit.*

accomplishing a FTA with Chile –which has been historically considered “the darling” of the developed countries because of its successful application of liberal policies (*ibíd*, 2004: 15)– allowed China to be portrayed as a responsible stakeholder in a global world, able to truly embrace free market economy. As illustrated by this Chilean diplomat: “This FTA represents a symbol for the rest of Latin American countries [but also] constitutes a gesture towards the free trade [ideology], not only in Latin America but for the rest of the world”.²⁴ This opinion is shared by Chinese officials when referring to the importance that the success of this treaty has for China, not only in the Latin American context, but also in a broader aspect.²⁵

Additionally, the historic political pragmatism between China and Chile, the Chilean embracement of Beijing’s *hexie shijie* rhetoric and their intersection of interests would guarantee a fast negotiation and a smooth process.²⁶ This was reinforced by the negotiation strategy, which was based on a step-by-step methodology. As explained by a Chinese academic who considered the Sino–Chile FTA a “good trial [since] the two governments took an active attitude on the FTA and split the negotiation into easy –to– difficult stages” [...]. This method achieved a good result” (Wu, 2008: 11). This quote shows how the methodology of breaking the negotiation down into steps – goods, services and investment– was also a safe strategy to support the FTA success.²⁷ In fact, the negotiation process was indeed considered itself a model, because it was characterized as being “fast and effective” by both sides, since “the (...) talks started in January 2005 in Beijing and concluded in October during the same year” (Direcon, 2009: 171). The smoothness of the process surprised even the Chilean negotiators: “I thought that after goods, we would have to wait 30 years to start the services part... However, after a couple of months we were at the negotiation table again, and despite my pessimism we also finished this section very quickly”.²⁸

As summarized by a former Chilean negotiator,

The first negotiation was essential for Chinese interests, and Chile complied with all the requisites. First, it was a friend. Secondly, it was a country with a considerable experience in negotiation that could be transmitted. Thirdly, it was a small country that could not possible bring damage to them. For China then, it was sweet as pie.²⁹

²⁴ High rank official, Foreign Affairs Ministry. Interviewed in Santiago, Chile, October 24th 2008. *Op. cit.*

²⁵ Chinese high rank official. Interviewed in Santiago, Chile October 14th 2008.

²⁶ As argued in the previous section the FTA had broad support within Chilean elites (media study)

²⁷ Chinese high rank official. Interviewed in Santiago, Chile, October 14th 2008. *Op. cit.*

²⁸ Director Governmental Agency, Interviewed in Santiago, Chile, October 17th 2008. On April 15th, 2010 the Chilean Senate unanimously approved the Complementary Agreement on Services (National Congress Library 2010). However, and despite the optimism of the interviewees it is worth highlighting that between the signing of the goods chapter and the final approval for the services chapter, almost four years passed. Nevertheless, it can still be considered a triumph in Foreign Policy, compared to similar experiences. Australia, for example, started negotiations with the PRC on April 2005. According to the official website of the Australian Department of Foreign Affairs and Trade, it concluded its 14th round of negotiations in March 2010 (Australian Department of Foreign Affairs and Trade 2010).

²⁹ Former FTA negotiator. Interviewed in Santiago, Chile, October 8th 2008. *Op. cit.* The translation of the respondent’s quote is the author’s translation of the Spanish expression “miel sobre hojuelas”.

VII. CONCLUSIONS

This paper has analysed Sino-Chilean current bilateral relations from the perspective of trust conceptualisation, focusing on the 2006 Free Trade Agreement. Through the inquiry of why China engaged with Chile in its first FTA signed with the western world, the thesis developed in this article argues that the Sino-Chilean FTA is best understood framed within the broader Chinese strategy to build normative trust – by means of identity and institutionalisation– in order to diminish the uncertainties, risk perception, and vulnerability produced by its growing political and economic presence in Latin America.

In order to establish the theoretical underpinnings for trust analysis, the article then made a distinction between rational and normative approaches to trust highlighting trust functionalities for social and economic interaction. Based on the definition of trust as an expectation of future behaviour and acknowledging the different grounds for trust creation, it was argued that China has embarked onto a process of trust building to counteract negative expectations caused by its growth. These expectations consisted of US concerns regarding the geopolitical and economical consequences of Chinese rising influence in the continent, and the risk perceived by Latin American countries regarding the potentially deleterious effects economic engagement with China would have on their own development.

The article then proceeded to point out the two main Chinese mechanisms for trust building. Firstly, it explored how China has intended to reshape its own identity, highlighting its economic dimension based on the *hexie shijie* rhetoric. Secondly, it analysed how China has focused on creating a normative framework via the institutionalisation of its commercial relations in order to show itself as playing by the rules of global economic exchange and international insertion.

With this scenario as a context, the article explained how Chile engaged with both strategies by narrowing China's identity to a market opportunity and embracing the FTA as a commercial opportunity, in this way becoming an example of China's benign influence on the region. Regarding the former, the acceptance of this narrowed identity of China has been crystallised not only in the pragmatism developed in their mutual diplomatic history, but also in the private sphere –that has exhibited a willingness to frame China in this manner. With respect to the latter, the Sino-Chilean FTA was analysed as a trial and example to start this institutionalisation-based trust process.

As it has been argued throughout the article, using trust conceptualisation has allowed a broader perspective of this case study, offering an innovative perspective on the current state of Sino-Chilean relations. It has also helped to answer the initial research question on why China purposively sought a Free Trade Agreement with Chile. Further research is needed to follow the case study's future development beyond the current Chinese trust building strategy. It is also necessary to explore the evolution of bilateral relations in relation to other dimensions that may be shaping trust–such as cultural variables, which are particularly ripe for analysis via case studies.

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