



China's Relationship with Chile

by R. Evan Ellis

Republished in collaboration with the Jamestown Foundation, China Brief, Vol. 17, Issue 15, dated 22 November 2017, Edited for OE Watch. For the full article, see: <https://jamestown.org/program/chinas-relationship-chile-struggle-future-regime-pacific/>

OE Watch Commentary: During the Asia Pacific Economic Cooperation forum (APEC) leaders summit in November, China upgraded a free-trade agreement with Chile, building on a free-trade deal first signed in 2005. The first accompanying passage from the *China Daily* discusses the significance of this agreement, pointing out the strength of the economic and political relationship that China has built with Chile, and the influential position Chile currently occupies in shaping Chinese engagement with Latin America. China's relationship with Chile has multiple elements that distinguish it from its relationship with others in Latin America. As the passage notes, Chile is the first Latin American country to sign a free trade agreement with China, making it a key indicator of Chinese advancement into South America and the new version of the Trans-Pacific Partnership, denoted as "TPP 2."

Chile has been one of the most successful countries in the region in establishing a national brand in China and positioning its products in the non-commodity goods segment of the Chinese market. Chile last year replaced Vietnam as the principal supplier of fresh fruit imported by China. It successfully positioned its cherries, table grapes, blueberries as luxury goods in China. Chilean wines have achieved similar recognition in China, as consumption by the Chinese middle class grows.

Despite such success, and Chile's reputation for efficiency, security, and rule of law, investment by Chinese companies in the country ranks among the lowest in the region. The Chilean government has taken note of the contrast between its successes in exporting its products to China, with its inability to attract significant Chinese investment. Ironically, the lack of Chinese direct investment in the country partially reflects Chile's relatively good governance and strong institutions; Chinese companies often prefer to invest where they can secure state-to-state deals on preferential terms. Chile, with its good access to capital markets has not felt compelled to adapt its laws and regulations, such as those governing public procurement, to attract Chinese loans or investors.

Chile's stable and developed financial system and access to international capital markets has limited the need for loans from Chinese policy banks such as China Development Bank and China Export-Import bank, often tied to the use of Chinese companies and laborers in the projects financed. Yet the same strength and sophistication of Chile's financial system has also allowed the country to become the regional hub for clearing transactions conducted in Chinese renminbi (RMB). As the second accompanying passage discusses, the two countries have invested \$189 million to establish a clearing bank in Chile, tied to China Construction Bank, as well a \$3.5 billion currency swap agreement between the central bank of Chile and the People's Bank of China. Chile was one of the first Latin American companies to join the PRC-sponsored Asia Infrastructure Investment Bank (AIIB), in May 2017.

Chinese activities in Chile's defense sector have been minimal. Nonetheless, in June 2015, Chile's Minister of Defense Jose Antonio Gomez traveled to the PRC to meet with his Chinese counterpart, Chang Wanquan to boost defense cooperation. A modest number of Chilean officers regularly travel to China for professional military education programs, and Chinese arms companies also had a significant presence at the Exponaval trade show in Santiago.

Ultimately, Chile's relationship with China will be critical in shaping the dynamics of China's relationship with Latin America in general. As noted, Chile's success in placing products in the PRC has made its practices an important reference for the rest of the region. Reciprocally, its insistence on not bending Chilean laws and contracting procedures to accommodate Chinese companies, as occurred in many other countries across the region, provides an important indication of whether it is possible to attract Chinese investment and maintain a healthy business relationship within the framework of a nation's existing laws and regulations.

Chile's orientation toward China will also be important at the regional level. In the wake of the US withdrawal from the TPP, the support of Chile will be instrumental in taking forward the TPP 2, which would make an important contribution in defining a Trans-Pacific commercial regime which addresses non-tariff barriers to trade, and which protects the intellectual property of the participating nations far more than the alternative "Free Trade Area of the Asia-Pacific" currently being promoted by China. **End OE Watch Commentary (Ellis)**

Source: "Xi, Bachelet witness upgrade of China-Chile FTA," *China Daily*, 13 November 2017. http://www.chinadaily.com.cn/business/2017-11/13/content_34477605.htm

Chinese President Xi Jinping and his Chilean counterpart, Michelle Bachelet, on Saturday [11 November] witnessed the signing of a bilateral deal on upgrading the Free Trade Agreement (FTA) between the two countries.

Xi underlined that this is China's first FTA upgrade completed with a Latin American country.

The upgraded agreement will unleash new impetus for the practical cooperation between China and Chile and set a new benchmark for China's cooperation with other Latin American countries as well as a new role model to the world, he said.

Bachelet congratulated Xi on the success of the 19th National Congress of the Communist Party of China and wished that greater achievements would be made in the implementation of the Belt and Road Initiative.

The Chile-China relationship has made many firsts in the course of developing relations between Latin America and China, said Bachelet, adding that her country will carry forward the pioneering spirit and advance the practical cooperation between the two sides.

Chile is the first Latin American country to sign a free trade agreement with China.

Source: "Spotlight: China opens first RMB clearing bank in South America," *Xinhuanet.com*, 22 June 2016. http://news.xinhuanet.com/english/2016-06/22/c_135457108.htm

"China Construction Bank (CCB) has opened the first clearing bank for transactions in renminbi (RMB) in South America in Chile's capital Santiago, the CCB said on Tuesday.

...The South American branch of the CCB, one of the world's top 10 banks, will not only help boost economic and trade exchanges and financial collaboration between China and Chile, but also help the bank expand its services in Latin America, said Guo [Guo You, president of the CCB's Supervisory Council]."