

Latin America, Chile and East Asia: Policy-Networks and Successful Diversification*

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Abstract. Latin American countries have a long tradition of attempting to diversify their external relations. In this context, since the end of the Cold War East Asia has gained increasing importance. However, despite the rising interest in improved political and economic links, these attempts at diversification showed only modest results, Chile being a noteworthy exception within this overall trend. The following analysis presents an empirical overview of the development of relations between Latin America and East Asia with special emphasis on Chile, demonstrating how domestic transformation has affected the Asia-Pacific policies of Latin American countries. The main conclusion is that while in most countries domestic conflicts over the future course of political and economic development have hampered the creation of a consistent Asia-Pacific policy, the elite settlement in Chile has enabled strategic actors to create a policy network which provides the institutional basis for successfully diversifying external relations to East Asia.

Introduction

As the Cold War faded into history, the European integration process gained momentum and the rise of East Asia seemed to initiate a Pacific century, Latin American elites identified a growing threat of international marginalisation. Under such circumstances, many Latin American decision-makers began to perceive East Asia as an area which could enhance a diversified integration of Latin America into a globalising world economy. The salient international position of the United States augmented the implicit advantage of diversification towards the Asia-Pacific within a framework of modified foreign economic policies. Yet, despite the increasing interest in improved political and economic links with this region, the gains made at the turn of

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the century did not match the often euphoric expectations.¹ While diplomatic contacts as well as the absolute amount of economic transactions have undoubtedly increased, the relative weight of East Asia in Latin American foreign policies is still modest. A most notable exception to this overall trend has been the successful diversification of Chile's political and economic relations to East Asia. However, when trying to explain the exceptional development of Chile's relations with East Asia, common systemic and structural approaches contain serious shortcomings. Though neorealist, structural economic and cultural arguments are not insignificant, they are insufficient to explain the relative success of Chile's East Asia Policy in comparison to those of other Latin American states.

From a neorealist perspective, Chile's achievements should be rooted in the balance of power argument.² According to neorealist thinking, Chile has balanced its foreign relations by increasing links with Asia, thereby responding to modifications in the distribution of power within the international system. However, this argument fails to explain why states such as Peru, Ecuador and Colombia, whose governments were confronted with similar changes in the international power structure and which have also articulated increasing interest in strengthening ties with Asia have been far less successful than Chile. The balancing argument of neorealist theory also does little to explain the gap between the rhetorical highlighting of East Asia in Mexico and the disappointing reality of relations between East Asia and Mexico throughout the 1990s.³ As neorealist theory falls short, structural economic explanations might bridge the gap. Flourishing exports to Asia might be attributed to the high compatibility of the Chilean export structure with the import demands of East Asian economies. Yet several Latin American countries' exports are concentrated on mining, commodities and agro-industrial products, but in spite of their respective governments' desire to use these advantages to boost economic relations with East Asia economic outcomes have been very heterogeneous. The structural argument thus fails to give a satisfactory explanation of the necessary conditions for realising such economic potential. Finally, still modest relations between the two regions can be put down to weak cultural and historical ties. While the cultural argument is of importance, because cultural distance functions as a barrier to increasing interregional relations, this line of reasoning again fails

¹ For a recent and rather sceptical overview of the development of these relations see Shoji Nishijima and Peter Smith (eds.), *Cooperation or Rivalry? Regional Integration in the Americas and the Pacific Rim* (Boulder/Oxford, 2003).

² See Kenneth Waltz, *Theory of International Politics* (New York, 1979).

³ For a critical assessment of these relations see Jörg Faust and Uwe Franke, 'Attempts at Diversification – Mexico and the Pacific Asia,' *The Pacific Review*, vol. 15, no. 2 (2002), pp. 299–324.

to explain the relative success of Chilean Asia-Pacific policy. Even if Chile has some important historical relations with East Asia, historical and cultural ties to the region have been of no more importance than those of Mexico, Brazil or Peru, which should have profited from cultural linkages established by Asian migration in the late nineteenth and early twentieth centuries.

Thus, while these arguments highlight some important aspects of inter-regional relations between Latin America and East Asia, they are not sufficient to explain the variance of success among Latin American countries. The question remains, what factors beyond those aspects might explain the relative success of Chilean Asia-Pacific policy. I will argue that a focus on domestic politics is especially promising in explaining Latin American foreign policies, because policy-makers have been facing profound transformations at the domestic level.⁴ As periods of political and economic transformation include the rearrangement of political coalitions and conflicts between different strategic groups, foreign policy strategies often become entwined in the transformation process. In Latin America the withdrawal of the authoritarian and economic interventionist state has had severe consequences for the effective positioning of foreign policy measures in a re-organised societal space. Consequently, the diversification of economic and political relations within a more liberal development model has required voluntary cooperation between private and state actors. Crucial for effectively governing foreign relations in such a context is that strategically relevant actors overcome the problems of collective action by establishing encompassing policy networks. Accordingly, encompassing policy networks between state and societal actors may only be achieved if domestic elite settlements on topics such as the development model and regional diversification have been consolidated.⁵

With regard to Latin American East Asia policies, my argument identifies the successful creation of an East Asia policy network as a crucial explanatory variable. While structural aspects have affected several Latin American countries in a similar manner, the domestic configuration of interests and institutions in Chile has differed substantially from that in most Latin American states. While struggles surrounding democratic consolidation and economic reform have increased political fragmentation and exercised

⁴ For this liberal perspective in foreign policy analysis, see for example Robert D. Putnam, 'Diplomacy and Domestic Politics: The Logic of Two-Level Games,' *International Organization*, vol. 42, no. 3 (1988), pp. 427–60; Helen Milner, *Interests, Institutions and Information: Domestic Politics and International Relations* (Princeton, 1997).

⁵ Policy-networks are organisations located between the hierarchy of the state and the anarchy of the market. They reduce the gap between the rising complexity of the environment and the shrinking complexity of small organisations. Private and state actors in policy networks are connected by the exchange of goods and/or information, thereby decreasing strategic uncertainty and transaction costs.

negative externalities on the creation of consistent foreign policies in most of the region, the consensus among societal and political elites in favour of the liberal export-driven development model in Chile has been relatively stable.⁶ From this consensus emerged an encompassing interest among the relevant actors within the state, business and academia with respect to East Asia policies. Hence, Chile's relative success is not only the result of historical linkages, power balancing and economic compatibility with important Asian countries. Rather, the relative success of Chile's Asia policy can only be explained with reference to the domestic configuration of interests and institutions, which has allowed technocratic expertise to create an effective policy network aiming at increasing political and economic relations with East Asia. In order to pursue this argument, the following sections present an overview of the relations between the regions with a special emphasis on the Chilean case, then link the development of interregional relations to the domestic context, again emphasising the particularity of the Chilean case.

Relations between Latin America and East Asia

Historical experiences and the development of new strategies in the 1990s

Even if the first relations between Latin America and parts of Asia can be traced back to the sixteenth century, when the Spanish Vice-Kingdom of Mexico colonised parts of what are today the Philippines, connections with Asia have played only a minor role in Latin American history.⁷ Overall, the establishment of diplomatic ties between China, Japan and the Latin American republics in the late nineteenth century, ethnic linkage as a result of Asian migration and the largely rhetorical alignment between some Asian and Latin American states during the 1960s and 1970s were of little relevance for Latin American foreign policy. The only exceptions to this overall trend were the increasing trade and investment relations with Japan since the 1960s, which were adversely affected by the Latin American debt crisis in the 1980s.⁸ Even so, from the end of the 1980s, many Latin American

⁶ Kurt Weyland, 'Economic Policy in Chile's New Democracy', *Journal of Interamerican Studies and World Affairs*, vol. 41, no. 3 (1999), pp. 67–96.

⁷ On Japanese-Latin American relations see Barbara Stallings and Gabriel Székely, 'The New Trilateralism: The United States, Japan and Latin America', in Barbara Stallings and Gabriel Székely (eds.), *Japan, the United States and Latin America* (Baltimore, 1993), pp. 3–48; Torcuato Di Tella and Akio Hosono (eds.), *Japón/América Latina: la construcción de un vínculo* (Buenos Aires, 1998); on relations between China and Latin America see Frank O. Mora, 'Sino-Latin American Relations: Sources and Consequences, 1977–1997', *Journal of Interamerican Studies and World Affairs*, vol. 41, no. 2 (1999), pp. 91–116.

⁸ On the Japanese role in the Latin American debt crisis see Kotaro Horisaka, 'Japan's Economic Relations with Latin America,' in Barbara Stallings and Gabriel Székely (eds.), *Japan, the United States, and Latin America*, pp. 49–76.

governments have become interested in expanding political and economic relations with East Asia.⁹

From a Latin American perspective, the advance of the European integration process during the 1990s frequently appeared as discriminatory bloc building. Furthermore, the turn of the European Union toward the transforming societies of Eastern Europe and the attention the Asia-Pacific region received from European and North American actors aggravated Latin American concerns over impending peripheralisation. In response to these challenges, Latin American decision-makers identified East Asia as a focus for strategic diversification. Closer political relations would primarily build beneficial economic relations but could also craft new coalitions with respect to global topics. Expanding bilateral relations with East Asian countries were to be complemented by achieving membership in trans-Pacific cooperation mechanisms such as the Pacific Economic Cooperation Council (PECC) and the Asia Pacific Economic Cooperation (APEC).¹⁰

In particular, the economic objectives of diversifying relations towards Asia have been closely connected with the changing development model. As macroeconomic stabilisation and economic growth have been sought via more market-oriented strategies, the wave of privatisation and liberalisation has given rise to foreign economic policies focusing on export-oriented growth and the attraction of foreign investment to compensate for the shrinking role of the state. The orientation toward the economisation of foreign policies – geared toward market-driven integration into the world economy – has prioritised economic interests. Growing import demand for natural resources resulting from the economic boom in East Asia has made those economies attractive for Latin American exports, and the expected export surplus should have worked as a means to stabilise current accounts. More qualitative motivations stem from Latin America's desire to exploit the opportunities of intra-industrial trade, thereby achieving technology transfer. Furthermore, due to the high demand for foreign capital, Latin American countries have striven to increase the influx of Asian investment. Financial

⁹ For some early discussion of the potential benefits of expanded relations with East Asia see Francisco Orrego Vicuña, 'Pacific Cooperation: The View from Latin America,' *The Pacific Review*, vol. 2, no. 1 (1989), pp. 57–71; William L. Guttman and Scott D. Laughlin, 'Latin America in the Pacific Era,' *The Washington Quarterly*, vol. 13, no. 2 (1990), pp. 169–81.

¹⁰ Since these multilateral forums assemble various interest groups from politics and society in several policy-oriented working groups to confront the challenges of growing economic interdependence, Latin American participation would help to overcome mutual feelings of estrangement and offer insight into the economic and political structures of East Asia. For an analysis of multilateral economic cooperation in Asia-Pacific see Vinod K. Aggarwal and Charles E. Morrison (eds.), *Institutionalizing the Asia-Pacific: Regime Creation and the Future of APEC* (Houndmills/London, 1998); John Ravenhill, *APEC and the Construction of Pacific Rim Regionalism* (Cambridge, 2001).

Table 1. *Economic Objectives of Increasing Relations with East Asia*

	Foreign Trade	Investment
Macroeconomic aspects	Stabilisation of current account Trade diversification	Investment diversification
Microeconomic aspects	Technology transfer Diversification of export products	Technology transfer Competitive advantages

liberalisation and market-oriented regional integration in Latin America have been perceived as matching the interests of comparatively capital intensive Asian economies.¹¹

In general, the Chilean case has mostly paralleled the historical experiences and motives of Latin America's recent diversification attempts. During the nineteenth century, the country's important commercial fleet increased trade ties with Asia, and diplomatic ties were established with Japan and China.¹² Yet sustainable societal relations did not develop. Rather, the United States' dominance over the Western hemisphere and the turn toward inward-oriented development in the first half of the twentieth century brought Chile's foreign policy into line with most of its Latin American counterparts. Shallow and disappointing Chilean efforts to increase ties with Asia between 1950 and 1973 paralleled the unsuccessful attempts of other Latin American countries.¹³ From the late 1970s, however, Chile's military government considered the often equally authoritarian regimes of Pacific-Asia as an escape route from its increasing isolation. In order to counterbalance increasing international opposition to its military rule, the Pinochet regime began to court several Asian governments. Nevertheless, while trade relations began to expand substantially in the second half of the 1980s, attempts to expand political links with Asia faced severe setbacks.¹⁴

Since the return to democracy, Chilean governments have increased efforts to expand Chile's political and economic relations with East Asia for similar reasons to most other Latin American countries. As a small economy with an export-oriented model of development, Chile is highly sensitive to external changes. In the context of securing and expanding Chile's export markets, improving economic links with East Asia has been a centrepiece of

¹¹ See Hernán Gutiérrez, 'Asian Conglomerates and Regionalism in the Southern Cone of Latin America,' Working Paper, Center for Iberian and Latin American Studies, University of California (San Diego, 1997).

¹² Juan Salazar Sparks, *Chile y la Comunidad del Pacífico* (Santiago de Chile, 1986), p. 67.

¹³ Heraldo Muñoz, *Las relaciones exteriores del gobierno militar chileno* (Santiago de Chile, 1986), p. 226.

¹⁴ For an analysis of Chile's relations with East Asia during the Pinochet regime see Muñoz, *Las relaciones exteriores del gobierno militar chileno*, pp. 222–4; Salazar Sparks, *Chile y la Comunidad del Pacífico*, p. 101.

Chile's regional diversification strategy. Penetrating the new and promising markets of East Asia has been of utmost importance for the sustainability of the Chilean development model. In addition, even if the Chilean economy has not been as dependent on foreign investment as other Latin American economies, Asian FDI has been attractive because of its potential modernisation effects in export-oriented sectors and infrastructures. Finally, the geographic position of Chile has made increasing economic links with Asia highly attractive as it allows Chile to position itself as a bridge between East Asia and the MERCOSUR countries.¹⁵

With regard to the analytical framework of this article, the general objective of diversifying relations towards Asia can be closely connected to neorealist arguments. In a neorealist (anarchic) world of self-help, states try to maximise their autonomy, or in other words their room for manoeuvre in the international system. Successful realisation of the above goals would have expanded the room for manoeuvre of Latin American countries in two ways. First, by reinforcing their reformed development model, thereby reducing their economic vulnerability against external policy interventions; second, by distributing external relations more equally among regions, thereby reducing the relative importance of their asymmetrically structured relations with Europe and especially the United States. Thus, the assumption of an international anarchic system, where states strive for survival and compete for power, helps to explain the rising interest in East Asia. Furthermore, structural economic arguments are also of relevance, because of the underlying assumption that the compatibility of specific structural characteristics of Latin American and Asian economies would boost interregional economic relations. Finally, the interest of Latin American countries in participating in trans-Pacific multilateral forums can be interpreted as a strategy to become part of a dense multi-level network in the Asia-Pacific, thereby helping to overcome the mutual lack of knowledge of each region's specific political, economic and cultural characteristics.

The development of political relations with East Asia

After more than a decade of the pursuit of diversification towards East Asia, diplomatic relations have intensified, notably at the bilateral level. Despite the ongoing importance of Japan, diplomatic interactions have also included China, South Korea, and the most important states of Southeast Asia.

¹⁵ For this argument see Manfred Wilhelmy and Rosa Maria Lazo, 'La estrategia bilateral de Chile en el Sudeste Asiático,' *Revista de Ciencia Política* (Santiago de Chile), vol. 19, no. 1 (1997), pp. 37–60; Hernán Gutiérrez, 'Chile and Pacific Asia – The Economic Connection,' in Jörg Faust and Manfred Mols (eds.), *Attempts at diversification, Latin America and East Asia* (Hamburg, 2004).

Equally, heads of state and ministers from all over East Asia have visited Latin America. However, these new political links have generally remained rather loose and focused mainly economic issues. For instance, despite some initiatives to improve political connections with Latin America, Japanese and Korean governments have never seriously questioned the primacy of the United States in the Western Hemisphere and have mainly been interested in economic matters.¹⁶ In contrast, the potential for expanding political relations with the People's Republic of China (PRC) and the developing countries of Southeastern Asia appeared rather promising at the beginning of the 1990s. The PRC took the greatest (economic) interest in Mexico, Brazil, Argentina, Chile, Peru and Cuba, stressing their common interests as developing countries. In response to this Chinese courting, most Latin American countries voiced little criticism of the authoritarian rule in the People's Republic, fearing that such criticism might affect the potential progress of economic relations.¹⁷ Yet, a potentially complementary partnership turned out to be rather problematic. Trade exchange has been mainly to the advantage of China, and Latin American anti-dumping measures and complex negotiations over Chinese membership in the WTO clouded diplomatic relations despite ongoing rhetoric about cooperation. With respect to South East Asia, several countries of this region, such as Indonesia, Singapore, Malaysia and Thailand, expressed rhetorical support for Latin American aspirations for diversification. Yet, NAFTA and negotiations over a free trade agreement for the Americas (FTAA) had sobering effects and brought to light the economic rivalries between South East Asian and Latin American countries.¹⁸

Bilateral Latin American rapprochements were accompanied by the attempts of several Latin American countries to become members of multi-lateral cooperation mechanisms and by the creation of the Forum for East

¹⁶ See Keiichi Tsunekawa, 'Japan and the Asia-Latin American Connection,' in Peter Smith, Kotaro Horisaka and Shoji Nishijima (eds.), *East Asia and Latin America – the Unlikely Alliance* (Boulder, 2003). The Taiwanese case differs slightly, as almost half of all states acknowledging Taiwanese sovereignty are minor Latin American or Caribbean states that receive considerable amounts of economic aid. See Mora, 'Sino-Latin American Relations,' p. 50; Chen Jie, *Foreign Policy of the New Taiwan* (Northampton, 2002), pp. 27, 106.

¹⁷ On relations between the PRC and Latin America see Mora, 'Sino-Latin American Relations'.

¹⁸ Neither China nor the majority of Southeast Asian states were overjoyed by advanced moves toward hemisphere-wide free trade agreements in the Americas, because Latin American countries are direct competitors for direct investments and North-American markets. See Mohamed Ariff, 'Outlooks for ASEAN and NAFTA Externalities,' in Shoji Nishijima and Peter Smith (eds.), *Cooperation or Rivalry. Regional Integration in the Americas and the Pacific Rim*, pp. 209–24; Zhao Suisheng, 'China's Perceptions of NAFTA,' in Shoji Nishijima and Peter Smith (eds.), *Cooperation or Rivalry? Regional Integration in the Americas and the Pacific Rim*, p. 226.

Asian and Latin American Cooperation (FEALAC). Chile, Mexico and Peru gained access to PECC and were subsequently followed by Colombia (1994) and Ecuador (1999). With regard to APEC, Mexico achieved full membership with the support of the United States. Gaining access to APEC remained more complicated for others since parts of the US and Australian administrations had concerns over the potential for mobilisation around mutual interests by Asian and Latin American states. Chile joined APEC after severe conflicts between several APEC members and Peru's membership of APEC (1998) was the result of president Fujimori's active lobbying among Asian members.¹⁹ Because of the modest participation in PECC and APEC, the restricted membership of both mechanisms and some fruitless attempts at establishing institutionalised links between ASEAN and MERCOSUR, the 1998 Singaporean initiative of creating an East Asia Latin American Cooperation Forum was highly welcomed in the region. Its emphasis on low-profile activities such as cultural interchange programmes and trade studies is intended to prevent the mechanism from being encumbered by over-ambitious goals. However, this approach has jeopardised the necessary commitment of member countries, which have already burdened their external agendas with multiple activities in regional and global cooperation mechanisms.²⁰

Against this background of bilateral and multilateral relations, the Chilean case reflects the predominance of economic issues in Latin American-East Asian political relations. Yet, in contrast to other Latin American countries, Chilean governments have been more successful in crafting sustainable political links. As international isolation declined along with re-democratisation, Chilean governments promoted Chile to Asian countries as the ideal bridging-point between the two regions. Furthermore, acknowledging the limitations of multilateral frameworks such as APEC, Chile's Asia Pacific

¹⁹ Anglophone countries such as Australia, Canada, New Zealand and the United States feared that an expansion of the forum would obstruct its further institutionalisation toward a free trade agreement as APEC's decision-making processes relied on consensus, which might have become unattainable with a greater heterogeneity of members. See Keiichi Tsunekawa, 'Latin America's Place in Asia-Pacific Cooperation,' *Japan Review of International Affairs*, vol. 8, no. 3 (1995), pp. 259–65; Yoichi Funabashi, *Asia Pacific Fusion. Japan's Role in APEC* (Washington, 1995).

²⁰ Founded in 1999, FEALAC consists of 32 members, including Australia and New Zealand. It is coordinated by one Latin American and one Asian country, Chile and Singapore for 1999–2001 and Colombia and the Philippines for 2001–2003. FEALAC is supposed to organise an annual Senior Official Meeting and a Ministerial Meeting every two years. Furthermore, three working groups have been established – Politics and Culture; Economy and Society and Technical Cooperation – each coordinated by one Latin American and one Asian government. For an overview see Manfred Wilhelmy, 'El foro de consultas asiático-latinoamericano: FALAE,' *Revista de Ciencia Política* (Santiago de Chile), vol. 20, no. 2 (2000).

Table 2. *Agreements between Chile and countries of East Asia 1991–1999*

Year	Country	Economic Agreements	
		Type of Agreement	
1991	Malaysia	Framework agreement on 'Reciprocal Credit and Payment' between Chilean Central Bank and Negara Bank of Malaysia	
1992	Malaysia	Agreement on promotion and protection of mutual investment	
	China	Memorandum of understanding on scientific cooperation	
1994	Korea	Agreement on scientific and technical cooperation	
	Philippines	Agreement on phytosanitary standards	
1995	Philippines	Agreement on promotion and protection of mutual investment	
	Indonesia	Memorandum of understanding on cooperation in telecommunications	
	China	Agreement on promotion and protection of mutual investment; Agreement on fishery cooperation; Agreement on forestal cooperation	
	Malaysia	Agreement on maritime transportation	
1996	Korea	Agreement on promotion and protection of mutual investment; Chile associates to Korean Peninsula Energy Development Organisation KEDO	
	China	Agreement on cooperation on agriculture and livestock	
	Japan	Agreement to promote technical cooperation	
1997	Japan	Memorandum of understanding on financial cooperation between the Ministry of Economy and the Export-Import Bank of Japan	
1999	China	Final Agreement on China's entry to the WTO	
	Japan	Association programme on technical cooperation with third countries	
	Indonesia	Agreement on promotion and protection of mutual investments	

Bilateral trade and investment agreements with Asia (2001)

	Free Trade Agreement	Double Taxation Agreement	Investment Promotion/protection agreement
Korea	(1)	(1)	(3)
China			(3)
Philippines			(3)
Japan	(1)		
Malaysia		(1)	(3)
Indonesia			(3)
Vietnam		(2)	(1)
Singapore	(2)		(1)
Thailand			(1)

Source: DIRECON, Chilean Foreign Ministry (website).

(1) Under negotiation, (2) Preliminary Study completed, (3) Concluded.

policy also reflected the trend toward the negotiation of bilateral trade and investment agreements.²¹

²¹ On this trend toward bilateral agreements within the Asia-Pacific-Region see among others Christopher Dent, 'Networking the Region? The Emergence and Impact of Asia-Pacific Bilateral Free Trade Agreements,' *The Pacific Review*, vol. 15, no. 4 (2002). On the limitations of APEC see Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*.

Bilateral relations with Japan regarding trade, investment and development issues intensified strongly. In 1995, Japan became Chile's most important donor of development aid, and in 1997 her most important commercial partner. Throughout the 1990s, a number of framework and cooperation agreements were signed in policy areas such as mining, fishery, natural resource management, infrastructure and development cooperation. In 2000, preliminary studies on the effects of a bilateral free trade agreement reflected both countries' increasing interest in starting concrete negotiations.²² A similar development can be observed in Chile's relations with South Korea. As Korean *chaebols* increasingly used Chile as a test market for their Latin American marketing strategies,²³ the Korean government began to develop an interest in fostering closer relations with Chile. Their trade promotion agencies began to coordinate their activities and after the 1994 visit of president Frei to Korea, governmental relations increased substantially. In 1996, Chile gained the status of 'special partner,' which until then only Australia and Canada had obtained. In 1998, the presidents of Chile and Korea announced that they were planning to negotiate a bilateral free trade agreement and despite severe obstacles, negotiations were successfully concluded in 2002, paving the way for the first free trade agreement between an Asian and a Latin American country.

With respect to the two Chinas, Chilean diplomacy maintained its One-China policy in favour of the autocratic mainland regime. Despite democratisation in Taiwan and increasing trade relations, intergovernmental relations were almost non-existent. Taiwanese officials, who have informally visited Chile in order to foster economic and scientific cooperation, therefore had to rely on their ties with private actors. In contrast, diplomatic relations with the People's Republic were only temporarily clouded when China's nuclear weapon tests provoked Chile's first UN-vote against China's human right abuses. In 2004, official negotiations on a bilateral trade agreement have started. Finally, diplomatic relations between Chile and Southeast Asian countries developed impressively.²⁴ Despite Malaysian and Indonesian rhetoric highlighting South-South cooperation, Chile's diplomatic relations with these countries turned out to be pragmatic, oriented mainly around economic issues. The excellent relationship with Malaysia in particular was helpful not only in introducing the country to the whole South East Asian region but also providing diplomatic leverage for entry to APEC.

²² Neantro Saavedro-Rivano, 'Chile and Japan: Opening Doors Through Trade,' in Barbara Stallings and Gabriel Székely (eds.), *Japan, the United States, and Latin America – toward a trilateral relationship in the Western Hemisphere*, p. 191.

²³ See Mitsubishi Research Institute (ed.), *Research on the Medium- and Long-Term Prospect for Direct Investment in Chile* (Santiago de Chile, 1996), p. 87.

²⁴ On the development of these relations see Wilhelmy and Lazo, 'La estrategia bilateral'.

Chile's access to and participation within trans-Pacific multilateralism reflects its comparatively high level of commitment to its Asia-Pacific policy. After joining PECC in 1991, the government successfully brought together specialists from business, academia and the state administration in order to coordinate the multiple technical issues within the mechanism's working groups. Thereafter, the Aylwin administration stepped up its efforts to join APEC, perceiving this to be the most relevant forum to promote free trade in the Pacific Rim.²⁵ Yet, as Australia's prime minister and elements of the US administration had reservations over Chilean membership, Chile faced a difficult situation. In the end, Malaysian Prime Minister Mahathir stated that he would not accept either Mexico's or Papua New Guinea's entry if Chile was not allowed to join. As this decision affected the interests of these countries' promoters (USA and Australia), a compromise was reached allowing Mexico and Papua New Guinea to enter in 1993, with Chile joining in 1994.²⁶ Once a member, Chile strongly favoured institutionalised trade liberalisation in a future APEC free trade area.²⁷ However, when it became clear that APEC was failing to become the driving multilateral force of trade liberalisation in the Pacific Rim, Chilean participation did not diminish. Rather, parallel to its search for bilateral agreements, Chile's multilateral strategy has continued to promote its bridgehead position, using APEC effectively as a coordination and information platform.

Economic relations between Latin America and East Asia

From a Latin American perspective, the development of economic relations with East Asia also took a rather disappointing course during the 1990s, Chile again being a notable exception. Commercial exchange had been increasing in absolute terms between the regions, but the relative weight of Latin America's exports to East Asia decreased. While at the beginning of the

²⁵ When Chile posted its application for membership, the country fulfilled the two basic membership criteria: being part of the Pacific Rim and having substantial economic relations with Asian economies. Furthermore, Chile as an exporter of natural resources and commodities did not represent a threat to Asian exporters of manufactured goods. In contrast to Chile, Mexico was admitted to APEC not because of its links to Asia but rather because of its NAFTA membership. See Tsunekawa, 'Latin America's Place in Asia-Pacific Cooperation,' p. 262; Manfred Wilhelmy, 'La política multilateral de Chile en Asia-Pacífico,' *Estudios Internacionales*, vol. 30, no. 117 (1997).

²⁶ On Chile's entry into APEC see Funabashi, *Asia Pacific Fusion*, p. 143; Jaime Lagos Erazo, 'El ingreso de Chile a APEC,' *Diplomacia*, no. 73 (1997).

²⁷ Having already liberalised its foreign trade to a large degree and relying on a flat tariff structure, Chile advocated an institutionally sheltered and accelerated process of liberalisation with binding principles, rules and codes of conduct. Furthermore, Chile was opposed to the sectoral liberalisation approach that had been gaining momentum in APEC since 1999.

1990s most Latin American countries still had trade surpluses with East Asia, these often turned into considerable deficits throughout the decade as Latin American states engaged in trade liberalisation while failing to penetrate Asian markets. In contrast, the importance of Asia as a source of imports increased (Table 3).²⁸ Regional cooperation within the subcontinent and NAFTA redirected trade flows, and market potentials in Asia were not exploited. This trend was exacerbated in the course of the Asian Crisis, forcing several Latin American governments to raise trade barriers.²⁹ The Chilean pattern differed substantially from this trend. Chilean exports to East Asia increased fairly steadily from the mid-1980s, making East Asia Chile's most important trading region. As with most other countries, Japan remained Chile's major trading partner in Asia, but other countries such as China, Taiwan, and Korea gained relative weight. The significance of South East Asia in general remained of minor importance, even though Malaysia's and Singapore's relative weight as commercial partners increased.³⁰ Therefore, the external shock of the Asian Crisis directly influenced Chile more than any other Latin American country, even if Chilean exports recovered from this shock.

With regard to the composition of trade, commercial relations between the two regions are still characterised by a rather traditional pattern of interaction with low levels of intra-industry trade.³¹ This development is consistent with structural economic arguments. Latin American exports to Asia consist mainly of raw materials and agro-industrial products, while imports from Asia stem overwhelmingly from the manufacturing sectors.³² With respect to Chile, in one respect the country's trade structure reflects this overall trend. Copper, some commodities, and products from the agro-industrial and fisheries sectors have been by far the most important exports

²⁸ For an overview of trade and investment relations see Mikio Kuwayama, José Carlos Mattos and Jaime Contador, 'Trade and Investment Promotion Between Asia-Pacific and Latin America: Present Position and Future Prospects,' CEPAL (ECLAC) International Trade and Development Finance Division Working Paper No. 9 (Santiago de Chile, 2000).

²⁹ See Won-Ho Kim, 'East Asian-Latin American Economic Relations. A Korean Perspective after the International Financial Crisis,' paper presented to the UN Economic and Social Commission for Asia and the Pacific seminar on Interregional Cooperation in Trade and Investment between Asia and Latin America (Bangkok, February 15–16, 2000), p. 22.

³⁰ In general, the significance of trade with Latin America for Asia is much lower than it is for Latin America, even if imports from mining, and agriculture and fishery are of specific importance.

³¹ See Kuwayama/Mattos/Contador, 'Trade and Investment Promotion'.

³² Furthermore, the major part of trade has been channelled through a small number of Asian conglomerates or Latin American business groups. See Kuwayama, Mattos and Contador, 'Trade and Investment Promotion,' p. 32; Hernán Gutiérrez, 'Lectura latinoamericana de las relaciones económicas con China: cambios y perspectivas,' *Estudios Internacionales*, no. 133 (2001), p. 42.

Table 3. *Latin America's Trade with East Asia*

% of total	Latin America			USA			EU			East Asia		
	1990	1996	2000	1990	1996	2000	1990	1996	2000	1990	1996	2000
<i>LA exports</i>												
Mining	9	14	18	45	46	42	25	21	19	10	10	10
Agriculture												
Manufactured Goods	18	21	15	35	51	73	24	12	6	11	8	2
Total	14	19	16	39	49	60	24	14	10	11	9	5
Total excluding Mexico	16	27	29	31	27	32	27	21	17	11	12	10
<i>LA imports</i>												
Mining/Agriculture	24	38	38	25	31	35	2	3	6	4	5	4
Manufactured Goods	16	17	11	43	46	53	23	19	18	11	12	13
Total	17	19	16	40	45	51	20	17	13	9	11	12
Total excluding Mexico	23	27	30	28	28	27	21	22	18	11	13	14
<i>Chile's exports to Asia as a % of total imports</i>					1988		1990		1996		1998	2000
Japan												
Mining and Agriculture					—		21		32		27	29
Manufactured Goods					—		15		11		9	7
Total					12		15		17		14	14
Rest of East Asia												
Mining and Agriculture					—		7		11		9	13
Manufactured Goods					—		10		22		15	17
Total					8		10		18		13	15
<i>Chile's imports from Asia as a % of total exports</i>							1990		1996		1998	2000
Japan												
Mining and Agriculture					—		1		0		0	0
Manufactured Goods					—		9		6		6	5
Total					8		8		6		6	4
Rest of Asia												
Mining and Agriculture					—		3		9		10	4
Manufactured Goods					—		6		12		12	15
Total					10		5		11		11	13

Relative Weight of Trade Relations with East Asia – selected Latin American Countries (in %)

	Argentina	Brazil	Mexico	Peru	Chile
Exports					
1990	10	17	7	19	25
1996	11	16	3	26	33
1998				16	27
2000	8	11	1	18	29
Imports					
1990	12	11	8	7	14
1996	12	15	10	15	17
1998				17	18
2000	14	16	11	19	17

Source: DIRECON Dirección General de Relaciones Económicas Internacionales, Dirección de Estudios; CEPAL; Panorama de la Inserción Internacional de América Latina y el Caribe, various issues.

to East Asia. On the other hand, Chilean negotiators have had some success in eliminating trade impediments in sectors with higher value-added goods.³³

With respect to Asian Foreign Direct Investment (FDI) in Latin America, while exact data is almost impossible to obtain, recent studies provide enough evidence for sketching its most important features.³⁴ Mainly concentrated in the major Latin American economies (Brazil, Mexico, Chile and Peru), Asian FDI is still headed by Japan, while Korean firms have been catching up with huge investment projects in manufacturing industries. Among internationally-oriented manufacturing firms, only Mexico and Brazil are considered as important FDI targets. Beyond the manufacturing branches, mining, fisheries and forestry have also been important because of Asian re-export strategies. However, in relative terms Asian FDI represented less than 10 per cent of total FDI in Latin America during the 1990s, so Asian FDI flows did not fulfil expectations for diversification. Even if Asian interest in Latin America was growing before the Asian Crisis, according to a survey by the Bank Boston in 1997, Asian firms did not take part in the FDI boom during the 1990s as strongly as European and US firms. Asian FDI, especially in the Southern Cone, under-performed despite regional integration, because Asian firms participated very little in the privatisation process in financial services or the non-tradable goods sector. Furthermore, because MERCOSUR's institutional framework is discriminatory, market-seeking investment strategies in MERCOSUR have been more attractive than efficiency-oriented FDI strategies.³⁵ In contrast, Mexico has absorbed comparatively high levels of Asian FDI in absolute terms, since NAFTA allows foreign investors to pursue efficiency-seeking strategies by incorporating their investment into a broader strategy oriented towards global production and distribution networks. Another explanatory factor for the low levels of

³³ Such barriers include, for example, cascading tariff schemes to avoid high value imports and trade distorting subsidies, and for domestic Asian producers, the use of sanitary and phytosanitary regulations. While Chilean exports to Japan are still characterised by traditional products from mining, fisheries and agriculture, non-traditional exports and manufactured goods have gained weight with respect to the rest of Asia. As reflected by the success of Chilean wine and fresh fruit for instance, there have been signs of diversification within the Chilean export structure. See Eugenia Muchnik and Pedro Tejo, 'Market and Trade Outlook for the Food and Forestry Sectors of Latin America in the Asia-Pacific Basin,' *ASEAN Economic Bulletin*, vol. 15, no. 2 (1998); Hernán Gutiérrez, 'Chile and Asia Pacific. The Economic Connection,' paper presented at the University of Mainz for the seminar on Latin America and the Pacific Asia (Mainz, November 7–10, 2002).

³⁴ The relative inaccuracy of official statistics on Asian FDI stems from the problematic collection of data in Asia and from the fact that FDI from US-based Asian subsidiaries appears in the statistics as US investment. For data regarding Asian FDI in Latin America see Gutiérrez, 'Asian Conglomerates and Regionalism in the Southern Cone of Latin America'; Kuwayama, Mattos and Contador, 'Trade and Investment Promotion'.

³⁵ See Peter Nunnenkamp, 'European FDI Strategies in Mercosur Countries,' *Journal of World Investment*, vol. 2 (2001), no. 3, pp. 457–80.

Asian FDI is the economic crisis in Japan and the Asian Crisis, which obliged Japanese and Korean firms to adjust their FDI strategies.³⁶

In Chile too, Asian FDI has not reached the anticipated levels. This is because the Chilean market is constrained by its size and because low Chilean trade barriers allowed the country's markets to be supplied from neighbouring economies. Furthermore, even though domestic political and macroeconomic conditions were favourable for long-term investment, most of the manufacturing sector suffered during the economic restructuring process in the 1970s and 1980s. Therefore, it made no sense for Asian firms in the automobile, machinery and consumer goods-oriented sectors to locate their FDI in Chile. Rather, Asian FDI in Chile has been mainly oriented toward the potential for inter-regional trade. Mining, fisheries, agriculture, and related industries are by far the most important sectors of Asian FDI. In addition, infrastructure projects such as port modernisation and the possible realisation of bi-oceanic corridors between Southern Cone countries are expected to attract increasing amounts of FDI. Furthermore, comparatively successful attempts at crafting bilateral free trade agreements with Asian countries should have positive effects on Asian FDI.

The domestic impact on diversification attempts

Domestic transformation and foreign policy towards East Asia

As the preceding overview has demonstrated, structural arguments are of special relevance when explaining the motives of Latin American policy-makers' attempts at diversifying relations towards East Asia. They provide valuable insights into the power considerations and they also enlarge our understanding of the structure of economic interactions between both regions. Yet, the overview of Latin America and East Asia presented in the last section leaves the puzzle of Chile's relative political and economic success under-explained. Neither Chile's relatively intense political ties at the bilateral level and its prominent role in multilateral trans-Pacific mechanisms nor the impressive course of Chilean exports to East Asia are adequately explained by structural arguments. Attention to the micro-political level might enhance our understanding of Latin American East Asia relations by clarifying two issues: (1) how successful diversification of foreign relations can be fostered by efficient coordination among the relevant actors and

³⁶ Before the crisis, Korean firms were among the most dynamic in Latin America, as Korean conglomerates aggressively pursued internationalisation. However, the currency and financial crises put a sudden stop to the Korean investment boom in Latin America. See Gutiérrez, 'Asian Conglomerates and Regionalism in the Southern Cone of Latin America'; Kim, 'East Asian-Latin American Economic Relations'.

(2) how the creation of effective policy networks is nested in the broader context of political and economic institutions.

The parallel process of economic and political transformation in Latin America has not only reshaped the range of state intervention but has also created severe collective action problems with regard to the institutional rearrangement of political and economic rights.³⁷ These problems resulted from the tensions between two major consequences of reform: the distributional conflicts accompanying deep institutional transformation and the need to build encompassing policy networks in order to cope with the challenges of governance in the context of political and economic liberalisation. Foreign economic policy has been especially affected by this tension since it has been deeply embedded in the domestic conflicts over economic restructuring and democratic participation. This is because regional integration, trade liberalisation and capital account opening have had severe distributional effects at the domestic level. Furthermore, the economisation of foreign policy in Latin America has had consequences for the distribution of ministerial competences, thereby tending to provoke distribution conflicts between different state agencies. Changes in foreign economic policy, often designed by small and exclusive circles originating from Central Banks and the Ministries of Finance and the Economy, run parallel to the revalorisation and growing importance of technocratic expertise. The reduced influence of the often traditional diplomatic corps from Foreign Ministries has resulted in a pragmatic turn away from former third world rhetoric, and given rise to bureaucratic struggles between different ministries and state agencies.

These conflicts have arisen at a time when voluntary cooperation is urgently needed. Current account and capital liberalisation have led to the confluence of domestic and external policy issues, demanding the cooperative reorganisation of foreign policy. As the state in the course of economic liberalisation and democratisation has lost several of its traditional interventionist instruments, effective governance requires new organisational skills. While democratisation has at least partially redistributed the instruments of political influence, economic reforms aiming at market-led and export-oriented world market integration have impinged on a vast and increasingly overlapping number of policy areas, such as infrastructure development, and competition and industrial policy, as well as financial sector regulation. In order to obtain political legitimacy and to coordinate these overlapping issues, different policy arenas have had to be connected through encompassing policy networks. Foreign policy has been confronted with the

³⁷ On collective action problems with regard to the institutional rearrangement of political and economic rights see for example Hector E. Schamis, 'Distributional Coalitions and the Politics of Economic Reform in Latin America,' *World Politics*, vol. 51, no. 1 (1999), pp. 236–68; Mancur Olson, *Power and Prosperity* (New York, 2000).

task of linking domestic policy networks effectively with international platforms, where different policy issues are dealt with at the regional, trans-regional and global level. In addition to requiring a growing amount of highly skilled personnel, the resulting challenges for foreign policy coordination have called for a consensus between increasing numbers of actors from different state and societal organisations.

The co-existence of distributional conflict and new organisational challenges has frequently created a dilemma for consistent foreign policy making. Economic liberalisation and political transformation both generate trends toward a decentralised organisation of societal transactions. Along with these changes, effective governance in the field of foreign policy has been confronted with decreasing state intervention capacities, thereby increasing organisational challenges. Within overlapping policy areas, the latter has required intensive coordination and cooperation between different actors. However, the emerging distributional conflicts induced by profound transformation have increased the danger of political fragmentation, or the rise of small, exclusive and illiberal decision-making circles.³⁸ Thus, as long as intense domestic conflicts over the redistribution of political and economic rights have obstructed a new elite settlement, the trend towards the fragmentation of the political system has negatively affected the capability to build encompassing foreign policy coordination.

In general, Latin American attempts at diversification towards East Asia illustrate this tension. On the one hand, governments have tried to reorganise foreign policy in accordance with the requirements of modified state-society relations and the specific needs of diversification goals. The goals of expanding exports to Asia and attracting Asian FDI have led Latin American governments to try to conjoin various political branches on the national and international level. The organisational effort to engineer a state policy able to enhance economic relations with Asia has aimed at reducing transaction costs. These costs have been extremely high because of the low level of knowledge about East Asian politics, economies and cultural peculiarities. Business, especially small and medium enterprises, was uninformed about Asian markets. State actors faced similar problems, as they lacked knowledge of economic policies in Asian countries that might offer scope for political and economic action. Political, economic and cultural differences between Latin American and Asian societies, together with the limited knowledge of the specific tools needed to promote diversification, presented a major challenge, aggravated by the heterogeneity of societies within East Asia.

³⁸ See Schamis, 'Distributional Coalitions and the Politics of Economic Reform in Latin America'.

Consequently, most governments realised that any success in diversifying relations with East Asia not only depended on the international power structure or economic compatibility but also on building inclusive networks for those willing to penetrate difficult markets and acquire specific knowledge of Asian politics and societies. Governments tried to connect different ministries, business sectors and academia, in the hope that the combined forces of these actors could create policy-specific synergies. During the 1990s, the governments of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru created specific commissions responsible for coordinating foreign policy toward Asia. Mostly coordinated and headed by personnel from the Foreign Ministry, business involvement was intended to provide entrepreneurs with a forum in which they could articulate their specific needs and the difficulties of different sectors with respect to trade and investment issues. The inclusion of academic expertise aimed at creating information input on Asian societies and elaborating strategies for universities and think-tanks to increase the skills of private and state professionals. The participation of various branches of the executive such as trade promotion agencies and of representatives of various ministries was considered a necessary condition in order to take account of overlapping aspects from different policy arenas. Furthermore, under the umbrella of those coordination mechanisms, members were to be integrated into trans-Pacific mechanisms. As PECC and APEC were also operating with the strong participation of different government agencies, academic institutions and business, the linking of national commissions in Latin American countries to these multilateral platforms would have drawn all relevant actors into the broader Pacific community. Such a broad linkage would then have facilitated the governance of Latin American-East Asia relations. Yet, despite the existence of formal organisations in several Latin American countries, domestic conflicts and crises had a negative impact on their effectiveness.

In several countries, intra-bureaucratic conflicts hampered the work of the Asia-Pacific commissions. In Mexico, collective action problems arising from intra-bureaucratic rivalries have been most apparent. Asia-Pacific policy became subject to these conflicts, as the Ministry of External Affairs and the Ministry of the Economy took different views of the importance of regional diversification. The outcome was that no state agency was able to take clear responsibility for designing a coherent Asia-Pacific policy without others trying to undermine it.³⁹ In Argentina, the presidential change in 1999 resulted in a politically motivated reshuffle of bureaucratic personnel which severely damaged previous attempts to build an Asia-Pacific Policy Network.

³⁹ For a detailed description of these conflicts see Faust/Franke, 'Attempts at Diversification,' pp. 312–16.

In Colombia, the permanent domestic political crisis restricted the East Asia activities of the administration. In Peru, presidential diplomacy under Fujimori was partly successful in intensifying political links with several Asian countries. Yet, when the Fujimori regime disappeared it became obvious that beyond the presidential circle there had been no systematic policy coordination. Without strong presidential support, the problem of erratic and ad hoc business participation in Peru's East Asia policy increased, and a small part of the diplomatic corps was the only (collective) actor left to deal continuously with the country's East Asia relations.⁴⁰ In Brazil the fragmentation of the political system and the business community hampered the development of a more export-oriented model of development.⁴¹ Held back by domestic struggles regarding development strategies, Brazil has only recently begun to design an approach for its future Asia-Pacific-policy, which builds upon on its regional weight, its societal connections with Japan and episodic cooperation with regional Asian powers such as China and India.

In conclusion, intra-bureaucratic struggles and a fragmented state limited organisational capacities and hindered the exploitation of opportunities to coordinate foreign policies effectively by combining national and international policy arenas. The erratic macroeconomic development of most Latin American economies also affected the foreign policy process. As a result of distributional domestic conflicts, the course of trade and capital account liberalisation often resulted in macroeconomic crises as imperfect regulatory reforms and macroeconomic management persisted.⁴² Domestic economic crises affected Asia-Pacific policies as they reduced resources potentially available for the construction of encompassing policy-networks and reinforced the trend towards short-term policy-making. Furthermore, despite the interest in increasing links with East Asia, the lack of resources further augmented the role of the relations with North America and Europe. Those relations have been less resource intensive, because of the accumulated knowledge about the areas and their greater regional coherence in comparison with East Asia. Attempts by regional organisations, such as

⁴⁰ According to Ruben Berrios, the attempts of the Fujimori regime to increase sustainable links with East Asia were hampered by the lack of institutional support, explicable in terms of the domestic political context. See Ruben Berrios, 'Peru and Pacific Asia,' paper presented at the conference on Latin America and the East Asia, Johannes-Gutenberg University (Mainz, 7–9 November 2002).

⁴¹ On Brazil's political fragmentation and 'deadlocked democracy' see Barry Ames, *The Deadlock of Democracy in Brazil* (Ann Arbor, 2001); on business see Kurt Weyland, 'The Fragmentation of Business in Brazil,' in Francisco Durand and Eduardo Silva (eds.), *Organized Business, Economic Change, and Democracy in Latin America* (Coral Gables, 1998).

⁴² On the role of distributional conflicts and distributional coalitions see for example Stephan Haggard and Robert R. Kaufmann, *The Political Economy of Democratic Transitions* (Princeton, 1995); Schamis, 'Distributional Coalitions and the Politics of Economic Reform in Latin America'.

SELA, to foster the coordination of the Asia-Pacific policies of Latin American governments were mostly doomed to failure. In sum, regardless of the rising interest in the then fastest growing region in the world, domestic conditions in most Latin American countries have driven the relevant actors to pursue short-term political and economic interests instead of designing and implementing long-term foreign policies. Therefore, critical voices in relation to Latin American Asia-Pacific policies have expressed the opinion that the call for more integration with the Pacific Rim has mainly consisted of rhetoric presidential diplomacy without substantial policy outcomes.⁴³ In comparison with the ineffectiveness of coordination attempts in most other Latin American states, Chilean governments have been strikingly successful in building up the domestic institutions necessary for a successful East Asia-policy. As the next section demonstrates, effective institution building with regard to Chile's Asia-Pacific policy has rested upon a relatively stable political and economic environment founded upon informal agreements among political elites on foreign economic policy issues.

The domestic foundations of Chile's East Asia Policy

Since the end of the monetarist experiment and the adoption of pragmatic neoliberalism in the mid-eighties,⁴⁴ a stable macroeconomic environment and a comparatively consistent model of export-driven growth have characterised the Chilean economy. Chilean export-led growth has resulted from combining macroeconomic management with adequate microeconomic regulation.⁴⁵ The political foundations of successful economic management had already been established in the mid 1980s and consisted in an informal pact between business and the state elite. Because of Chile's financial crisis in the early 1980s, business began to oppose the radical neoliberal strategies imposed by the Chicago Boys. The military regime responded to this increasing opposition from its most important societal pillar with more pragmatic policies. While the principles of an open market economy were not abandoned, a new group of more unorthodox liberals began to replace the Chicago Boys in key economic policy-making positions. Economic policies were now crafted in cooperation with Chile's business associations. Thus, the political basis of the subsequent economic success-story was a more

⁴³ See Juan González García, 'La difícil integración de América Latina con el Pacífico Asiático,' *Comercio Exterior*, vol. 47, no. 2 (1998), p. 948.

⁴⁴ Eduardo Silva, 'Business Elites, the State, and Economic Change in Chile,' in Sylvia Maxfield and Ben Ross Schneider (eds.), *Business and the State in Developing Countries* (Ithaca/London, 1997), pp. 152–88.

⁴⁵ Carol Wise, 'Latin American Trade Strategy at the Century's End,' *Business & Politics*, vol. 1, no. 2 (1999), p. 126.

consensus-based relationship between business and political decision-makers, which left the state with sufficient autonomy to design overall strategies and business with enough weight to influence the policy-making process. Interestingly, the distribution conflicts surrounding re-democratisation in Chile did not lead to the fragmentation of economic interests and the disappearance of consistent stability- and export-oriented policy-making.⁴⁶ Not only have post-transition governments managed to withstand the pressures resulting from a reshuffle of political rights, they have also continued down the path of market-friendly microeconomic regulation, improved macroeconomic stability and sustained the country's low level of vulnerability towards intra- and extra regional financial shocks. Furthermore, they have expanded export-promotion policies in the new international environment created by the Uruguay round and the WTO.⁴⁷ Three factors have been crucial for Chile's relative success in overcoming the collective action problems normally accompanying structural adjustment and democratisation processes:⁴⁸ (1) The authoritarian enforcement of economic liberalisation of the late 1970s and early 1980s weakened those parts of the Chilean economy that had long profited from import-substitution strategies, severely constraining potential opposition to market-friendly export orientation. Thus, the relatively low complexity of the Chilean economy diminished the number of actors involved in policy-implementation, making policy-coordination easier than in highly heterogeneous economies such as Brazil and Mexico; (2) The relatively strong position of authoritarian regime elites during the democratic transition enabled the autocratic coalition to establish constitutional veto-points against any substantial changes in the development model; (3) Chile's highly centralised and disciplined parties of the Concertación prevented vested interests from successfully pursuing sectoral or regional goals. The electoral system and highly centralised party organisation reduced the number of political players involved in the coordination game of democratisation.⁴⁹ Thus, the leaders of the multi-party coalition of the

⁴⁶ On the political economy of Chile and state-business relations see among others Eduardo Silva, *The State and Capital in Chile – Business Elites, Technocrats, and Market Economics* (Boulder, 1996); Peter Thiery, *Staat, institutioneller Wandel und Entwicklung in Chile [The State, Institutional Change and Development in Chile]* (Frankfurt, 2000).

⁴⁷ See Ricardo Ffrench-Davis, 'El impacto de las exportaciones sobre el crecimiento en Chile,' *CEPAL Review*, no. 76 (2002).

⁴⁸ See Weyland, 'Economic Policy in Chile's New Democracy'.

⁴⁹ On the specific incentives of the party system, the electoral system and the legislative process in postauthoritarian Chile see Peter M. Siavelis, 'Exaggerated Presidentialism and Moderate Presidents: Executive-Legislative Relations in Chile,' John M. Carey, 'Parties, Coalitions, and the Chilean Congress in the 1990s,' and John Londgren, 'Appointment, Reelection, and Autonomy in the Senate of Chile,' in Scott Morgenstern and Benito Nacif (eds.), *Legislative Politics in Latin America* (Cambridge, 2002), pp. 114–46, 222–53 and 341–76 respectively.

Concertación could control those forces which favoured a more redistributive policy and would have preferred a stronger confrontation with the former representatives of the military regime.

In sum, these factors prevented the Chilean economy from being affected by short-term struggles between sectoral and regional interest groups. Rather, even if the latent conflict about redistribution-policies persisted, especially in the realm of social policy and labour-capital relations, the consensus among the political elites on the principles of an export-led and market friendly development model created an encompassing interest. This domestic configuration prevented Chile's young democracy from becoming fragmented, and provided the political basis for governments to secure macroeconomic stability and concentrate on those areas that were most important for sustaining export-led growth. The specific combination of actors and institutions during the 1990s sustained the room for manoeuvre for technocratic pragmatism in foreign economic policy.⁵⁰ Additionally, as Chile's international isolation dwindled away with the transition to democracy, foreign policy-makers were able to widen their international room for manoeuvre. Technocratic pragmatism and the end of international isolation together constituted the political foundations for securing and opening new markets.⁵¹

The domestic configuration of Chilean Asia-Pacific policy has mirrored the cooperative environment between technocratic expertise, organised business and academic consultancy. The beginning of a coordinated policy between business and state towards the Asia-Pacific had begun already during the Pinochet regime, shortly after the initiation of intensified coordination between state and business. The political interest of the Pinochet regime in political diversification and the growing export orientation of Chilean entrepreneurs led to the beginning of coordination efforts between the foreign ministry and business associations. Parallel to the take-off of Chilean exports to Asia in the second half of the 1980s, Chile's participation within the business-oriented PBEC became more active. Yet, those coordination attempts were restrained by two factors: first, the PBEC's restriction to business and second, Chile's non-admission to the more encompassing PECC because of the country's authoritarian regime. Second, internal coordination was mainly restricted to some members of the Asia department in the foreign ministry and major business associations.

⁵⁰ On technocratic expertise in Chilean foreign policy see Manfred Wilhelmy, 'Politics, Bureaucracy, and Foreign Policy in Chile,' in Heraldo Muñoz and Joseph S. Tulchin (eds.), *Latin American Nations in World Politics* (Boulder, 1996).

⁵¹ See Patricio Silva, 'Going Asia: Economic Internationalization and Technocratic Empowerment in Chilean Foreign Policy,' paper prepared for delivery at the XX International Congress of the Latin American Studies Association, Guadalajara, Mexico, April 17–19, 1997.

After re-democratisation, however, this nucleus of the Chilean East Asia policy network expanded and became more institutionalised. Between 1990 and 1994 Chilean East Asia policy was characterised by the amplification of an informal coalition between different state agencies, business and academia consistent with the general tendency of de-politicisation in foreign economic affairs.⁵² Such an environment made it possible to combine technocratic expertise and political pragmatism, both aspects vital for a successful Asia-Pacific-Policy due to the economic, cultural and political heterogeneity of the area. In contrast to the case of Mexico, no strong inter-ministerial rivalries hampered the implementation of successful policy-coordination. Instead, the post-transition government sought to amplify the institutional basis of Chile's East Asia policy in order to secure and extend the country's links with the region. Two main factors were responsible for this development.

Firstly, even in the immediate wake of the transition to democracy no rivalries emerged within the foreign ministry regarding the Asia-Pacific policy. The new planning elite in the ministry – often coming from abroad or from academic think-tanks – had almost no experience with East Asia. Consequently, it depended on the expertise of the area specialists carried over from the Pinochet government, who had begun to gain expertise on the region. As space for technocratic expertise existed within the area of foreign policy-making, these actors used it as an opportunity to acquire a better status within the foreign policy bureaucracy, whose leading personnel came from the political opposition of the Pinochet regime. Thus, even though two groups with different political background met within Chile's East Asia policy, confrontation was avoided by those incentives and by the fact that both groups agreed on the need to build up a coherent policy network able to foster political and economic links with the region.

Secondly, the position of the foreign ministry in relation to other ministries with respect to the Asia-Pacific policy was strong, even though the first foreign minister was mainly concerned with diplomatically embedding a re-democratised Chile in the international system. As the ministry disposed of two highly competent agencies – the trade promotion agency Pro-Chile and the Directorate of International Economic Affairs DIRECON – it was able to develop a counterweight to the strong positions of the Central Bank and the Economy Ministry with regard to foreign economic policy-making.⁵³

⁵² On the cooperation of different actors in Chile's East Asia Policy see Wilhelmly and Lazo, 'La estrategia bilateral,' p. 18; Silva, 'Going Asia,' p. 9.

⁵³ The effective activity of the Chilean Foreign Ministry could be observed during the negotiations of Chile's APEC admission. Although Australia and the USA had reservations about Chilean membership, Chilean state agencies lobbied effectively, winning Asian support, dividing the US delegation and convincing Malaysia that it should not favour any new

The foreign ministry gained further influence under the second government of the *Concertación*. Thus, the rivalry between foreign and economy or finance ministries often observed in other Latin American countries did not emerge to an extent that could severely damage policy coordination.

The participation of public agencies was extended towards institutions such as the Central Bank and the Chilean Copper Commission, and the most important business associations became more involved just as academic institutions began to expand their research and consultancy activities.⁵⁴ In 1994, after Chile's successful entry into APEC, Chile's East Asia network became adapted to the country's increasing political, economic and academic activities. A clear division of labour was established: the key agency in the network was the foreign ministry, which in coordination with the presidency and other state agencies formulated goals and strategies. The foreign ministry's semi-independent DIRECON took charge of coordinating Chile's participation in APEC while participation in PECC was embodied in a newly created institution, the Chilean Pacific Foundation, an independent body co-financed by Chilean business. Thus, while being responsible for the general course of the Chilean East Asia policy, the foreign ministry delegated the coordination between state, business and academia to those two organisations, which became responsible for coordinating the day-to-day activities of Chile's East Asia policy. The active participation of diplomats in bilateral and multilateral affairs established further institutional communication and negotiation channels. Their efforts were sustained by input from academia, business and other state agencies. Growing academic expertise on political and economic affairs in the Asia-Pacific provided the information necessary for evaluating the potential of the economic and political framework in East Asia. The participation of business and other state agencies, which identified and communicated their problems and strategies with regard to East Asia, enabled diplomats and negotiators to orient their efforts to the needs of societal actors, which in turn developed into the transnational foundation of improved relations.

The comparatively successful establishment of an East Asia policy network in Chile had positive spillover effects in several concrete policy areas. The first positive result of the consensus among state and private sector actors was Chile's admission to the PECC in 1991. Because of the mechanism's tripartite structure, Chilean academics and personnel from several ministries now obtained access to a trans-Pacific network which handled all the economic issues relevant to increasing interdependency in the Pacific

membership if the Chileans were not admitted (Funabashi, *Asia Pacific Fusion*, p. 143; Lagos, 'El ingreso de Chile a APEC'; Wilhelmy and Lazo, 'La estrategia bilateral').

⁵⁴ Wilhelmy and Lazo, 'La estrategia bilateral,' p. 16.

Basin. Furthermore, PECC membership functioned as a springboard for intense and successful diplomatic lobbying to enter APEC, and provided the necessary space for active cooperation between state officials, academics and business leaders. Second, effective policy coordination increased the country's reputation and was rewarded by prestigious concrete responsibilities: in 1997, Chile became the first Latin American country to organise the annual PECC summit, in 1998 it coordinated the annual PBEC meeting, and in 1999 it organised the APEC Economic Outlook. Furthermore, Chile was chosen as the first Latin American coordinating nation of FEALAC for the 1999–2001 period. Besides building political relations through these events, the government also used these occasions to promote its position as the 'natural' bridging point between the two regions. Third, technocratic expertise and effective policy coordination helped to make Chile the preferred partner for negotiating free trade agreements, thereby sustaining the export-oriented strategy. Beyond the successful conclusion of the Chile-Korean free trade agreement, Chile is currently aiming at negotiating a tripartite trade agreement with New Zealand and Singapore as well as a bilateral agreement with China. Furthermore, the governments of Thailand and Indonesia have also expressed their interest to start negotiations on bilateral trade agreements. Fourth, the joint efforts of different actors have provided the information flows needed to substantially reduce the transactions costs of business, helping to extend the range of products exported to East Asia. Furthermore, after the Asian Crisis, those actors worked together to respond quickly to the threat to Chilean exports, contributing to the comparatively quick recovery of Chilean exports to the region.⁵⁵

Conclusion

The last decade of the twentieth century was not only characterised by an upsurge in regional cooperation mechanisms but also by an increasing number of interregional and transregional initiatives. Within this context, initiatives between Latin America and East Asia represented relatively new and rather unexplored patterns of relations. With a special focus on the exceptional Chilean case, this article has focused on the development of

⁵⁵ See Gutiérrez, 'Chile and Asia Pacific – The Economic Connection'. For instance DIRECON, Pro-Chile and the Pacific Foundation took a number of measures aiming at fostering Chilean exports to the region: (1) a more aggressive presence of Chilean firms in East Asian trade fairs, (2) a doubling of state-led marketing campaigns in East Asia, (3) the implementation of a monitoring system on the price and demand development of typical Chilean products exported to East Asia, (4) an increase in trade offices in East Asia and (5) an increase in technical support given to Chilean entrepreneurs wanting to engage in joint ventures or strategic alliances with East Asian firms.

relations between the two regions from a Latin American perspective and has tried to explore the domestic sources of the successful diversification of external links to Asia. Attempts to diversify political and economic relations to East Asia have been part of an overall strategy to overcome the threat of international marginalisation. Diplomatic relations at the bilateral and multilateral levels have increased substantially. However, neither political-institutional nor economic relations have gained relative importance in comparison to relations with North America and Europe. The evolving economic relations between the two regions 'do not reflect the potential for interregional trade and investment that exists in an increasingly globalised world characterised by trade liberalisation and investment deregulation.'⁵⁶ Resulting policy suggestions have often called for improved coordination between different state agencies and societal actors in order to minimise the transaction costs stemming from poor knowledge of risks and opportunities.⁵⁷ However, as this article has highlighted such consistent and coordinated foreign economic policy-making requires a consensus among political elites. More generally, as a country's foreign policy is nested in the broader political context, it requires consensus about the general features of an economic development model. In Latin America, economic and political liberalisation has reorganised the relations between state and society, making more decentralised forms of governance via policy networks the only way of efficiently managing foreign economic relations. Yet, as there has often been no general consensus on adequate strategies to overcome the perceived challenges, such effective coordination is obstructed by domestic struggles. With regard to the East Asia policies of Latin American states, the lack of consensus among political elites on how to address structural economic problems and integrate the economy into a globalising world has been *for* a major source of disappointing results from their Asia-Pacific policies. Facing immense collective action problems arising from the parallel process of political and economic transformation, Latin American foreign policies toward Asia have been undermined by domestic fragmentation. Thus, domestic struggles have often obstructed coherent foreign economic policy-making because they have politicised a policy area in which technocratic pragmatism was vital if the transaction costs of state and societal actors were to be reduced.

The Chilean experience highlights the importance of a coordinated approach towards East Asia. In the Chilean case, neither intra-bureaucratic

⁵⁶ Kuwayama/Mattos/Contador, 'Trade and Investment Promotion,' p. 7.

⁵⁷ For such policy-recommendations focusing on a better coordination between state agencies, business and academic think tanks see among other Kuwayama/Mattos/Contador, 'Trade and Investment Promotion,' pp. 49–62.

struggles nor political or business fragmentation hampered such a coordination process. Within a framework of political and economic stability, the foreign ministry has functioned as the key agency in the development of political and commercial strategies towards the region. At the same time, much of the coordination has been delegated to other agencies, which have organised the communication process between state, business and academia. The successful organisation of this policy network has contributed substantially to the improvement of bilateral and multilateral relations with East Asia. As this encompassing policy network has rested upon a broader consensus of the Chilean elite on the export-driven development model, the Chilean case highlights the importance of an elite settlement for the organisation of such a multifaceted agenda as the diversification of external relations towards such a complex area as East Asia. At the same time, the specific features of Chilean society make it questionable whether the Chilean success story could serve as a blueprint for the rest of Latin America. Overall, the low complexity of the Chilean export-driven development model suggests that it would be difficult to transfer the model to much larger and more heterogeneous economies such as Brazil and Mexico. Furthermore, in the economic sphere, the predominance of large economic groups has reduced the number of relevant business actors, and the concentration on very few sectors has further decreased the potential for business fragmentation. At the same time, a highly centralised political system with a relatively disciplined party structure has further reduced the number of interest groups involved in foreign economic policy-making. Therefore, one may conclude that from a collective action perspective the comparatively low complexity of the Chilean economy together with a relatively hierarchical political structure have been important causes of the avoidance of the collective action problems so typical in the region at the turn of the century.