

The Belt and Road Initiative

CHILE AS THE GATEWAY TO SOUTH AMERICAN CORRIDOR

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Abstract

This thesis reviews China's Belt and Road Initiative and explores how Chile will fit into the proposal. To that end, the research first looks into the conception of the BRI by exploring different aspects of the proposal and then assesses its potential impact over the Chile-China partnership by looking into the history shared by both nations. As China introduces the BRI to the international community, and an increasing amount of countries are deciding to join the project, an important question arises as to what role will participants play. The paper observes that Chile will become a gateway for the BRI in the South American region, thereby facilitating resources in prospects to the future.

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Introduction

Background

The present generation is witnessing how patterns of behavior are shifting at the core of the international stage; where China is drawing the attention of the world with the “Belt and Road Initiative” (BRI), and Chile is inevitably enmeshed given the preexisting commercial relationship with China. How should Chile align its foreign policy with China’s BRI? The global trends that were once dominated by the Western powers and specifically the United States following the aftermath of World War II are not as conspicuous anymore as in the past, in part due to China's economic ascent (Bremmer, 2016).

For decades, China has enjoyed an economic growth that has fringed on double digits. Nonetheless, the rapid growth in the economy has reached a point of slowdown that has established a point of transition henceforth. In the face of this prospect, Chinese policymakers are indicating their intent to promote not only economic prosperity but political stability as well, both at the domestic and the international level. (Balding, 2019)

In 2014, President Xi Jinping described the forthcoming period of transition in the Chinese economy as the "new normal," and the main features of this vision point to a rewiring of the economy that can be summarized in three key points. First, monetary and fiscal policies have been established to create the appropriate conditions for a “soft landing” of the rampant growth that has characterized the country’s economy since the 1970s. Second, in the interest of designing a long term strategy for the ‘new normal’ of China, the economic structure has to be continuously improved and upgraded in order to

accommodate the country to a different pace of growth. Third, the economy is increasingly being driven by industries of innovation, which entails input and investment. (Lemoine and Unal, 2017)

An essential dimension of the new normal in China is the role that foreign policy will take. China's current position on the world stage forces other nations to pay attention to Chinese foreign policy reforms to tailor their own. Decisions made by more powerful actors will inevitably affect the decisions made by smaller actors (Kenyatta, 2016). However, how is this notion reflected in trends observed currently, and where does the BRI come in?

Among all the trends that have characterized the world order in recent years, the absence of solid leadership demonstrates a general lack of consensus in matters of global concern. Global summits, such as the G7 and the G20, no longer influence politics around the world as they once did. A wide array of reasons has provoked such an occurrence; from the collective doubt in multilateral organizations arising out of domestic politics in the West to the failure of globalism as projected by the United States since the end of World War II (Bremmer, 2013). On the one hand, the recent popularity of anti-globalist views around the western world is undeniable. As evidenced by the rise of nationalist political parties that promote a rejection for international organizations, most notable are the cases of The National Rally in France, the Tea Party in the United States, UK Independence Party in the United Kingdom, and separation from unions of nations, as in the BREXIT vote. On the other hand, an in-depth analysis begs many questions regarding the background of

the current structure under which the international community operates. (Rooduijn, 2018)

So, how did it happen? The lesson in history is that turbulent times in terms of governance in the international stage is followed by a horizontal shift in power toward nation states with higher economic resources. This tendency is appreciated in the demise of empires followed by a horizontal transition of power, such as from Greece to Rome in the early stages in the development of Western civilization, and from Europe to the United States in more recent history. In this vein, it can also be observed that lateral shifts of power held by nation states have typically begun with periods of economic transition, which are then tailed by the reformulation of foreign policy and the augmentation of military budgets. (Ashdown, 2008)

The application of this idea in current times denotes something similar happening, but in a radically different context. For the better part of the 20th century, hegemonic power was held by the United States in a rather unipolar world, subsequent to the two world wars that devastated the European, Asian, and African countries, in many cases causing them to be reconfigured. As a direct consequence of both world wars, every compass needle for or against the political actions of the United States had to be referenced by its position to Washington D.C.

While it is the case the United States currently continues to hold that power, the global context is increasingly changing from a unipolar to a multipolar stage, with China playing a significant role.

The current model of governance was conceived at the end of World War II when the United States came out on top of an international conflict that involved the major powers at the time. Following a debacle of that magnitude in the world order, the question arose about how to go forward and which model could keep a conflict like World War II from happening again. The answer was to promote international cooperation, hence the creation of institutions deriving from the Bretton Woods Conference in 1944. However, a key observation to make here is that this reformulation of the international order was executed with the United States in a position of power, and thus was led by the Americans and the allies. International institutions created from that point onwards represented American values, thereby consolidating the power of the United States in the “new” world order. This global order was unquestioned until the financial crisis of 2008, which uncovered deep-rooted problems at the core of the modeled by Western ideals and institutions. The turmoil transcended the financial world and affected politics as well, to the extent that academics and analysts are revisiting principles about Western-style international governance with a renewed attitude for analysis.

The political intricacies of the West in conjunction with China’s economic rise and underlying drive to play a more critical role within the international community has served as the ideal platform for the implementation of the BRI. While the transatlantic states are stumbling, and their economies are floundering, the argument that aligns developing countries to the Western model of governance is increasingly hard to articulate. Thus,

the emergence of China's BRI offers an alternative model to countries around the world, and it accentuates the multipolar state of the international arena.

In this new context, Chile appears as a developed country with promising prospects for the future (World Bank, 2019). Firstly, Chile and China have historically had a stable and mutually beneficial relationship. With a privileged geographical position to capitalize on resources throughout the country and deepwater ports, Chile meets with essential conditions to serve as a 'gateway' country between the BRI and the South American region. Importantly for the economy, Chilean policymaking must examine the BRI and assess the several implications of aligning the country's economy in the interest of a mutually prosperous future. This thesis explores the potential of Chile as a path that connects South America to China and the rest of the BRI network, ultimately contending that foreign policy should be tailored accordingly to facilitate the process. (Garcia and Hirst, 2019)

Methodology

The core objective of this thesis revolves around examining the impact of the BRI in the international stage, and assesses how Chile fits into the project.

This thesis is descriptive, and it seeks to unfold the prospect of Chile becoming a vital component of another corridor along the BRI network. Given the objective of this thesis and the lack of relevant statistics with regards to the BRI, the research included a bibliographical revision with the bulk of the analysis produced from qualitative information as opposed to analyzing quantitative data. Also, the BRI is a multi-dimensional project that encompasses a tremendous amount of information, but only the aspects that

are relevant to the connection with Chile and the development of a 'South American Corridor' are elaborated.

The contributions of this thesis are valuable because the research conducted is diverse in its resources; whereas, an explicit limitation on this thesis is that the BRI is a multi-decade project that may not be fully completed until the year 2050.

Structure

This thesis is divided into two chapters. Chapter One provides an overview of the BRI, whereas Chapter Two articulates how Chile fits into the Chinese proposal. All of which amounts to a narrative that explains how Chile can become a 'gateway' nation for the BRI in South America.

Academic Literary Review

The subject at hand requires an in-depth and broad review of the literature covering the origins of the BRI, the prospect of the trading relationships involved, and the background of China's partnership with Chile.

In the case of the origin story of the BRI, the sources used range from the official announcement of the initiative by Xi Jinping, to coverage of it by different international media outlets. In terms of the BRI's connection with Chile, academic articles are reviewed for relevant information that contributes to the thesis. Throughout the entire paper, concepts and implications regarding international commerce are addressed, so data from the World Trade Organization is utilized as well.

Chapter I – The Belt & Road Initiative

Before the introduction of the BRI, China was already involved in trading relationships with countries all over the world. This thesis examines how the BRI affects the nature of those agreements; it is necessary to clarify the terms and concepts used for the analysis.

Regardless of where one is in the world, history tells a story that follows some version the same narrative regarding the rise of a nation-state: it begins with economic power, followed by a strategic reformulation of foreign policy. In 2013 President Xi Jinping gave a speech at Nazarbayev University in Kazakhstan in which he revealed China's vision by introducing to the world the BRI as the new focus of their foreign policy. In his speech, President Xi called for the rebirth of the ancient Silk Road, by reminding the audience about the conception of the trade route, and how it connected worlds that would have otherwise remained distant to one another. The Silk Road came into being as a path that facilitated commerce between eastern Asia and Europe, thereby connecting three different continents (Yamei, 2013).

The following chapter analyzes the BRI as the heart of Chinese foreign policy. In this section, the following areas will be discussed: the vision and potential benefits; the nature and principles of the BRI, pointing out similarities with the UN Charter; the central priorities of the proposal; and the layout of the economic corridors of the BRI.

Vision

In the speech, President Xi also emphasized all the potential benefits that would come from embracing the BRI, painting a quid pro quo picture for

all the subjects that decide to take part in the project. The key theme throughout the rhetoric was that adopting a stance of open borders bolsters cooperation between countries to face the problems of our time as a plural subject as opposed to a singular conception of a nation state. The results of which would be 'mutual benefits' for everyone. To support such a vision, Xi Jinping noted that the best teacher is history and pointed to the success of the original Silk Road given the conditions at the time. (Yamei, 2017)

The full extent of the Chinese proposal is estimated to cost over USD 1 trillion and involves an area that covers 55% of World GNP, 70% of the world's population, as well as 75% of energy resources.

Additionally, upon completion, the BRI would integrate more than 60 emerging countries, which account for 65% of land-based production, and 30% of the maritime-based values. These estimates are based on the original plans of the BRI, but given that the program keeps evolving and new corridors are being built around the world, the original projections made should increase. Those numbers alone radiate the potential of the BRI, and the creation of a select group to oversee the implementation of the project under the National Development and Reform Commission (NDRC), is a clear statement that China intends to complete the ambitious initiative. (Hofman, 2015)

The Nature & Principles of the BRI

"The great rejuvenation of the Chinese nation" are the words that have been expressed by the administration of Xi Jinping to characterize the sentiment driving the BRI in China's age of economic transition. The Chinese government envisions the BRI as an international network grounded on principles of peace

and cooperation, openness and inclusiveness, mutual learning, and mutual benefit. However, in the practical execution of the initiative, an important aspect is to assess the consistency of the BRI's vision with the principles of other globalist institutions in the interest of peaceful coexistence. (Aoyama, 2016)

The UN Charter stipulates the Five Principles of Peaceful Coexistence: mutual respect for the sovereignty of other states, mutual nonaggression, mutual noninterference in the domestic affairs of other nations, equality and mutual benefits, and overall peaceful coexistence. The principles are congruent with the nature of the four principles at the core of the BRI. The first one is open cooperation, meaning that the initiative is open for all countries and economies that desire to get involved, including non-state actors such as international organizations. The second principle is for the BRI to be harmonious and inclusive, which means that in order to be part of this program there is no threshold or prerequisite that the respective actors need to meet other than tolerance among the diversity of civilizations. Third, the BRI needs to abide by a code of respect for market rules subject to international norms, which implies that the market will allocate resources. Fourth and last, the BRI will be driven by a culture of mutual benefit for all participants. (Benabdallah, 2018)

Thus, in terms of the principles set by both the BRI and the UN Charter, the parallels are visible and arguably conducive to a scenario where both entities are compatible and mutually beneficial in the new world order.

Also, this is indicative of the opportunity that the Chinese BRI represents for Chile. In these principles, it can be observed that the BRI is open for any nation who wants to be part of the network. Considering that the Chilean economy dramatically relies on exports and China is the main destination of them, the welcoming nature of the BRI appears as an invitation to expand the already successful commercial relationship between Chile and China.

Cooperation Priorities

The basic principles of the BRI are complimented by the cooperation priorities that every participant agrees to in order for the global network to fully blossom. China has identified the following priorities: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds. (Passalacqua, 2016)

Policy coordination implies promoting inter-governmental exchanges, multilevel communication, and mutual political trust, thus enhancing collaboration across borders within the BRI. (CMFA, 2015)

Facilities connectivity focuses on the improvement of the infrastructure used throughout the BRI global network. The success of this global initiative is directly reliant on how prolific the network is at bolstering the exchange of resources, hence the reason why a significant part of the budget is reserved for building and reconstructing infrastructure. Specifically, the BRI is investing in improving the infrastructure of ports, aviation, energy, as well as cross-border optical cables; all of which intends to facilitate connectivity and transportation. Moreover, in the interest of engaging in an environmentally

friendly endeavor, construction under the BRI guidelines promotes 'greener' materials and processes and low-carbon use of energy. (CMFA, 2015)

The next major priority in the program is unimpeded trade. The central idea facilitates the process of trade by removing barriers that curtail the potential for growth. Trade restrictions can manifest themselves in various aspects, such as tariffs or non-tariff barriers (NTBs). The literature professes that trade barrier are detrimental and decrease economic efficiency (Passalacqua, 2016). The economic logic behind this assertion is predicated on comparative advantage between countries, which is at the basis of international trade patterns. Furthermore, some countries are more proficient at producing certain items than others (Karamally, 1998). Notably, under this scheme, the BRI China seeks to remove such trade barriers to expand investment in areas of mutual interest and fostering cooperation in emerging industries.

The ambitious proposal of the BRI lays the importance of the structure in the provision of resources that will enable projects to flourish. Financial integration is fundamental for the success of the BRI, because (a) it clarifies to what extent are other countries involved in the initiative, (b) it lays the foundation for the project to build upon, and (c) if it does not make sense financially, it will be a hard idea to sell outside of China. As a fundamental principle of the BRI the importance of deep financial cooperation is stressed among participants, creating a stable currency system, issuing of Renminbi bonds, and establishing a mechanism for early warning of risk. To that end, all participants are encouraged to endorse the mission of organizations such as

Asia Investment Infrastructure Bank (AIIB) and the BRICS New Development Bank. Additionally, all institutional relationships that are of financial cooperation in character need to be reinforced, ranging from the private sector to organizations like the Shanghai Cooperation Organization (SCO) and the China-ASEAN Interbank Association. (Passalacqua, 2016)

The last priority deemed essential for the development of the BRI considers a social dimension that transcends economic or political principles but is equally as influential: people-to-people bonding. The text that details the plan of the BRI purposely includes words such as 'friendly' and 'mutually beneficial,' to accentuate the notion that the human aspect cherished. It mentions the implementation of the BRI and raising the support from the public in participating countries. Therefore, part of the action plan includes promoting cultural exchange at every level and enhancing the conditions in other markets. One example is tourism, facilitated by easy visa application procedures. Furthermore, the architects of the BRI hold that the program also presents a unique opportunity to increase cooperation in different fields of research such as science and technology. (CMFA, 2015)

Overview of the Corridors and extension to Chile

In the 2030 Agenda for Sustainable Development, trade has been identified as a driver in the process of economic growth in both developed and developing countries. (Xiao, Cheng & Wang, 2018)

The BRI would entail an essential improvement in transport infrastructure and progressive policy reforms that would lower trade costs and enhance overall connectivity in each respective region. For instance, freight

being transported from China to Europe by train travels in half the time than it does by shipments through the ocean route. The problem, however, is that given the current infrastructure in place along the railways, moving shipments by train represents a higher cost. Therefore, improving the quality and capacity of the infrastructure along the railways would change the travel time of shipments. As a direct result of such an investment, the reduction of time and cost would significantly impact the current landscape of international trade. (Ramasamy, Yeung, Utoktham & Duval, 2017)

Knowing as much, the BRI proposes six economic corridors that will accelerate regional development throughout the areas involved. The nature of each corridor will be diverse in terms of their level of development and the amount of trade between countries. Also, some of the trade channels already exist and are currently operating, so under the BRI, those paths are meant to be improved upon and be part of a more significant project in China's foreign policy. With that being established, all six of them intend to serve the same purpose: increase the cross-border flow of goods and people, lower trade barriers, and raise connectivity. The corridors would go as follows:

- 1. The New Eurasia Land Bridge (NELB) Economic Corridor**
- 2. The China-Mongolia-Russia (CMR) Economic Corridor**
- 3. The China-Central Asia-West Asia (CAWA) Economic Corridor**
- 4. The China-Indochina Peninsula (ICP) Economic Corridor**
- 5. The China-Pakistan (CP) Economic Corridor**
- 6. The Bangladesh-China-India-Myanmar (BCIM) Economic Corridor**

These six corridors are part of the initial proposal put forward by the Chinese government in the BRI. However, as noted by the basic principles of the initiative, this is an inclusive endeavor that welcomes other countries around the world to join. Therefore, although the six corridors are part of the initial plan of the BRI, the intention is to expand the network to other regions of the world. For example, in addition to the six original corridors proposed, President Xi Jinping has also encouraged the cooperation between China and Russia to develop the Ice Silk Road. This corridor would promote the development of the Arctic Region, and it would be based on the Northern Sea Route. (Ramasamy, Yeung, Utoktham & Duval, 2017)

This leads to the BRI in South America, and specifically Chile. The number of nations that are officially endorsing the BRI in the region is gradually increasing, and Chile is an optimal candidate to facilitate the absorption of the Chinese proposal.

Chapter II – How does Chile fit into the BRI

Chile is in a unique geopolitical position to broaden its trading partnership with China and become a bridge/gate between the BRI network and the South American region. This notion stems from the historical background between Chile and China, as well as the optimal geographical conditions that facilitate trade between both countries.

Historical Background Between Chile and China

The solid partnership that has prevailed between Chile and China for the past five decades is significantly due to its political history, as well as the mutually beneficial relationship that has developed throughout that period.

A series of political and commercial gestures have paved the way to what has become one of the most significant bonds for both countries. Although bilateral trade agreements began in 1961, commerce did not flourish until 1970, when Chile recognized China and diplomatic relations were established. On one side, this was a meaningful step for China because Chile was the first South American country to recognize them as a sovereign state. On the other side, China was one of the few communist countries that did not break ties with Chile, after the coup 'd'état that took place in Chile in 1973 that ended Allende's left-wing government.

Some critical components for the successful development of the relationship henceforth were the elements pragmatism and non-interference. China recognized Chile's sovereignty in Antarctica, while Chile permitted China to build a Great Wall research station within that territory. After the debacle of Pinochet's regime in 1990, the relations not only continued but

increased, with new democratic Chilean government adopting free-market policies, and supported China's insertion into the World Trade Organization (Montalva & Navia, 2007). Here is a common underlying thread which indicates that the relation between Chile and China has blossomed on the basis reciprocity, and the stability of the partnership has transcended the respective political instabilities.

The next big step in the Sino-Chilean friendship lies in the trade agreements that protect the investments of one country in the other country's territory, and vice-versa. The evolution of these type of agreements naturally created incentives to promote bilateral investment and commerce. Chinese exports to Chile include textiles, clothing, ceramics, chemicals, tools, and consumer electronics whereas Chilean exports to China include: copper, niter, pulp, paper, fish meal, and timber. As the partnership grew, Chile also began to export red wine, marine alga, potassium sulfates, and fruit products. (Mander, 2019)

As mentioned, China and Chile already enjoyed a fruitful bond that extended to commerce, politics, and overall trust. Both parties in the relationship correctly identified that they could maximize the benefits by establishing agreements that facilitated investment and commerce. After aggressive negotiations to bring both nations together, a foreign trade agreement (FTA) was agreed upon in 2006, which significantly stimulated the growth in commerce. Since the establishment of the treaty in 2006 until 2018, trade morphed substantially, with Chilean exports to China climbing 5.3 billion

USD to 19.2 billion USD in 2018, resulting in a trade balance of 3.8 billion USD. (MOFCOM, 2012)

The growth in trade that has ensued following the development of FTAs serves as a clear indicator of the success of the partnership and suggests that implementing policy measures to encourage investment further will produce positive results.

The Geography Factor

In terms of geography, Chile has the better part of the Pacific shore rim in the region, which means that the country has more deepwater ports and is therefore in a better position to trade with Asian countries. These ports are located in Antofagasta, Valparaiso, San Antonio, and Talcahuano. All four of them serve the same purpose and represent an ideal opportunity to become the gate of the BRI in the rest of the region. (Gachuz, 2012)

Out of the four ports, the one located in San Antonio is the most important one, not only for Chile but for South America as well. In the past, China has taken notice of the favorable conditions in San Antonio, especially the easy access of the port to different channels of distribution (railways and highways) for the rest of the region. Accordingly, an investment of 360 million USD was made by Chinese conglomerates to develop infrastructure in San Antonio to facilitate trade between Asia and South America. (MundoMaritimo, 2018)

It is important to note that the BRI puts a label to trading partnerships that China already had with not only Chile but several South American countries as well. However, embracing the BRI implies deepening those

relationships to a new economic degree of interdependence amongst each, and access to a broader array of resources for the countries involved. (Mander, 2019)

Potential for more

While it is clear that Chile and China already have a mutually beneficial relationship, there is also a margin to extend those benefits to other areas where limitations to trade still exist, hence the BRI. Impediments to trade in South America include disproportionately high costs of trading as a result of poor logistics infrastructure, overly complicated non-tariff measures, regulatory constraints in services.

First, the integration of South American economies into the trends of global commerce has never met its real potential, due to the poor condition of the hard infrastructure in the region that hampers the logistics. For example, Mendoza is a city in Argentina that is landlocked and thus has always been handicapped in terms of trade (MdZ Online, 2018). South America has more cases like Mendoza, and an investment to improve the conditions of the hard infrastructure would have a direct impact in reducing the costs of trading and would create more incentives to exploit resources in the region.

Second, South America also has essential barriers to trade that manifest themselves as non-tariff measures. These involve any procedure or part in the process that affects the free flow of goods and services across borders, such as sanitary specifications, technical barriers, import licensing and subsidies, and rules of origin. In Latin America in particular, there is a strong industry of agriculture with competitive exporters, but sanitary and

phytosanitary standards, along with export subsidies appear as major issues impeding market access to OECD countries.

Third, the investment of resources to improve different levels of network and infrastructure across the region has to be matched with appropriate regulatory reforms. In South America, policy coordination is an area that has not been developed efficiently in relation to foreign direct investment, and in the absence of such regulations, the system is unable to address potential market failures.

Analysis

With China willing to invest resources through the BRI, and South America needed them, Chile is in a unique position to become a gateway in another corridor that will open the Chinese led network to another entire region. Accordingly, on November 2nd, 2018, the Chilean Minister of Foreign Affairs signed the Cooperation Agreement that aligned the South American country to the BRI. (Minrel, 2018)

The fact that China already holds strong bilateral agreements with several South American countries should serve as an indicator for the potential in investing resources and expanding markets in the region. The limitations that are currently impeding the economies of the latter to exploit their potential fully and integrate themselves into a global network of commerce lays on variables that can be influenced by the BRI.

The lack of significant investment in hard infrastructure in the region as a whole has curtailed the logistical chain of trade in the region, and as a direct

result kept the costs of commerce high. Under the BRI network, the resources provided will directly address those limitations.

Conclusion

The partnership between Chile and China will serve as a new BRI corridor that develops, connecting South America to the global network. As the alliance between China and South America takes a new step to enhance the benefits of international trade by being part of the BRI, Chile will fit in as the gateway between both continents.

Given the new tendencies developing in international geopolitics, academia plays the vital role of exploring the new paradigms unfolding from the BRI, by adding a layer of depth into the foreign policymaking discussion in years to come. Patterns are shifting, and new paradigms are developing in the geopolitical landscape. The emergence of the BRI appears as a confirmation that China is taking a prominent role within the international community, and an increasing number of nations are choosing to align themselves to the Chinese led global network.

It has also been observed that the BRI is expanding in a context where the Western style of governance is shrinking. Since the 2008 market crash in the financial world, the resources from the major powers destined for foreign aid decreased, and the lack of trust in multilateral organizations increased. Nonetheless, the need still existed for investment in order to develop infrastructure and improve critical aspects associated with international trade, hence the BRI proposal.

China's initiative directly responds to the demands several countries have to fully integrate themselves to the new trends in international commerce, as it is the case with South America. A region filled with goods and services

valuable in the global chain of trade, South America is handicapped by the inefficiency and poor condition of the hard infrastructure in place. The improvement of pipes, railways, highways, and overall cross-border connectors in the region is contingent on a sizable investment of resources such as the one provided by the BRI. As the South American corridor comes into being, Chile will play a vital role as the connector to the global network led by China.

Nonetheless, the path to the place that holds the potential mutual benefits associated with embracing the BRI is paved with pressing economic and policy challenges, both at the domestic and global level. When it comes to international trade, there are sharp contrasts in the capabilities that facilitate commerce at every border, and reform in each case is by no means an automatic endeavor. For that reason, it is essential that the media, academia, pundits, and nation-states, continue to assess the evolution of the BRI in conjunction with conducting the appropriate research that will help tailor the foreign policymaking process.

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