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**A model for trust building:**

**The state, market, and cultural norms in Sino-Chilean  
economic exchange**

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A Thesis presented for the degree of  
Doctor of Philosophy

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Durham University

## **Abstract**

The Free Trade Agreement (FTA) between the People's Republic of China (PRC) and Chile came into effect in 2006. The complementarities of both nations' economies, their shared profile as export-oriented countries, the shared institutional framework and their diplomatic history forecasted a promising future of cooperation. Yet, expectations have hardly been fulfilled.

Based on the analytical framework provided by trust theories –a culturally-shaped variable– and on the empirical support given by an extensive fieldwork, this dissertation explains why Sino-Chilean economic cooperation has not flourished as expected.

For this, it explores the sources of international –between states– and transnational –between business and corporations– trust. The findings show the pivotal role trust has played in their economic foreign policy and how they have used it as a strategy to fulfill their national interests. Although the results demonstrate that both states have engaged in a trust-building process, the trust constructed is nevertheless narrow and weak, since it is bounded to particular objectives, especially from the strongest party.

At a transnational level, the dissertation analyzes the main sources that are framing trust-building, which embrace market, cultural and institutional variables. Based on this, it is argued that trust entails a paradox: although it is a necessary condition for mutual growth and a source of economic benefits, building trust can be costly to acquire and maintain, given the structure in which is embedded. Finally, the research tackles the process of transnational trust building carried out by the main actors.

Through the examination of the case study, this research illustrates the nuances of the trust-building process, portraying trust as a complex but necessary variable for economic development, and by doing this, offering a novel view on the role culture plays on growth.

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Finally, I would like to dedicate this thesis to my beloved husband Dani and son Benjamin. Dani's unlimited support and Benjamin's smile have kept me going even in the most difficult moments. I love you both.

## **Declaration**

I hereby confirm that this thesis is a result of my original work. All references, citations or quotes which are not my original work have been duly acknowledged. None of the materials in this thesis has previously been submitted for any other degrees in this or any other university.

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# Chapter 1: Introduction

***Chile has the obligation to look towards the Asian  
new markets in order to reach development.***

*Chilean high rank official, Ministry of Foreign Affairs, October 2008 Interview# 58.*

## 1.1 The Chinese unfulfilled opportunity.

In 2006 the People's Republic of China (PRC) signed its first Free Trade Agreement (FTA) and it was with Chile, a non-Asian country. Chile is a Latin American nation that, despite having 2% of the world GDP, is considered a successful emergent economy and one of the best examples of economic liberalization in Latin America (Aggarwal and Espach 2004)<sup>1</sup>.

For the domestic political elites, the institutional arrangement was mainly the outcome of friendly political and diplomatic relations –uninterrupted since 1971 despite internal Chilean political changes– as well as the result of strong economic complementarities, based on the intersection between China's need of natural resources and primary products for its own development (Ellis 2009) and Chile's offer of raw materials and agro-industrial products (Manríquez 2006). It was also supported by a common history of successful economic liberalization, reform and international insertion as a means to achieve economic development<sup>2</sup>, the two countries were even considered “among the world's most open economies,” by the World Bank (Domínguez 2006, 37).

With these precedents, expectations regarding the outcomes of the FTA were high among Chilean political leaders and the business community. Indeed, the FTA was regarded as a milestone in Chile's road to development, since it would enhance

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<sup>1</sup> The FTA was negotiated in three steps. This statement refers to the goods chapter. In 2010, the Services Chapter came into effect. At the time of this writing the investment chapter was still under negotiation.

<sup>2</sup> In Chile, the Pinochet regimen started the economic liberalization in the mid 80's. This policy was followed by the *Concertación de Partidos por la Democracia* (Concert of Parties for Democracy, *Concertación*) governments, in which the internationalization became a priority. Indeed, getting access to world markets through bilateral agreements was chosen as the way to take Chile out of poverty. On the other hand, China started a process of economic reforms and liberalization since Deng Xiaoping.

diversification of exports by specifically promoting those goods that were not already present in the traditional export portfolio to China (Direcon 2006); it was also expected to advance Chinese investment in the country. The agreement was seen as especially significant given the growing weight that China in relation to the development of emergent economies (Henderson 2008; Kaplinsky 2008; ECLAC 2011). Besides, the FTA would offer Chile the possibility to become a platform between the Asian giant and Latin America, consolidating its economic and political influence in the region. Finally, the FTA constituted an institutional highway to the most dynamic economy in the world, with a potential market of 1.4 billion<sup>3</sup>.

Thus, the road for mutual cooperation seemed to be paved when looked at through the lens provided by traditional political economy approaches. All the market conditions were set: intersection between liberal economic policies, mutual interest and complementary resources, high institutional support given by the FTA and the growing strength of both economies.

These expectations, however, have not been entirely fulfilled. Furthermore, as stated by former Chinese Ambassador in Chile Liu Yuqin: “We need to be conscious that there is still a long road before we [meaning Chile and China] can reach our shared objectives (...) [since the current economic exchange] is based mostly on either primary products or those with scarce added value, few investments and limited corporate cooperation” (Shang Bao 2007, 11). Indeed, and although the FTA undeniably increased Chilean exports (98 percent of growth after its implementation)<sup>4</sup>, and China became the first destination for Chilean products, the total revenues are still mostly the result of the mining sector, which accounts for nearly 85 percent of its total (Direcon 2010a). In this context, despite the growing exportation levels of some Chilean products (Wilhelmy and Fajardo 2006), the Chilean export basket towards China remains bound to the mineral sector, specifically copper, with 92.3 percent of Chilean total exports coming from five primary products (three of them from the copper industry). Additionally, only 315 different products are sent to the PRC while, 3,132 are directed towards Latin America

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

<sup>4</sup> Compared with the same period in 2006 (Wilhelmy October - November 2007, 5).

(ECLAC 2011).<sup>5</sup> Moreover, it has been predicted that this scarce diversification “will likely remain so” (Montalva and Navia 2007, 10)<sup>6</sup>. A former Chilean Minister of Foreign Affairs has publicly illustrated this: “Only a few companies represent the 80 percent of total exports to China [and] From a total of 7000 exporting companies, only 650 currently have China as a destination”<sup>7</sup>. Also, high concentration prevails: 25 percent of the exported products account for 98 percent of the total value exported, and the main fifteen selling companies, which mostly belong to the mining sector, are responsible for 85 percent of the total exports to China (Direcon 2010a).

On the other hand, Chinese investment has not materialized. Current investment in Chile amounts to USD 85 millions, which represents only 0.1 percent of its total Foreign Direct Investment (FDI). This data contrasts with China’s global investment (up to 2009) of USD 220 billions, USD 41 billions of which were directed towards Latin America. In fact, Chinese investment has been lower than Chilean, which currently holds around USD 200 millions in the PRC (Direcon 2010a).

I personally witnessed the challenges faced by Chileans when trying to attract China’s market and resources from my former position in the Chilean Ministry of Economy. Middle-range entrepreneurs, mostly from the agricultural sector, were perplexed and unable to find reliable explanations for the perceived difficulties in engaging in business activities with Chinese partners. According to their stories, most of their attempts were “long” and “tiring” and the majority did not end successfully. They blamed “cultural distance” as the main obstacle for further mutual engagement, anticipating the path of this research pointing towards sociocultural aspects as the main barriers for economic cooperation.

The inability of Sino-Chilean bilateral exchange to flourish despite the existence of favourable political, economic, and institutional conditions triggered the initial enquiry of this thesis. This project seeks to establish the reasons for the relative failure of the FTA to deliver the anticipated outcomes. In looking for a theoretically grounded explanation,

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<sup>5</sup> Another fact has been noted by Ellis: 98% of the total Chilean exports to China come from only nine primary-product sectors (2009, 34).

<sup>6</sup> Also mentioned by a Chinese researcher expert in Latin America (Interview # 76) of a Beijing Think Tank. Beijing, May 2009.

<sup>7</sup> “China y Asia en la política exterior chilena” [China and Asia in Chilean foreign policy]. Speech offered by former Chilean Minister of Foreign Affairs, Hernan Felipe Errazuriz during the First Summit on Chinese Business Law and Practice (FSCBLP) held at Universidad Católica de Chile, November 26, 2010.

the weakness of traditional “hard variables” –such as economic complementarities or institutional strength– directed the investigation towards the growing relevance of “*soft variables*”, defined as “the mental and cultural dimensions of social reality” (Sztompka 1999, ix). Trust emerged from within this frame. Either in its stand-alone version or in the context of social capital conceptualization, trust appeared as an interesting and novel starting point.

This investigation, then, is an effort to contribute to the understanding of Sino Chilean bilateral relations from the perspective offered by trust conceptualization. It will do so by exploring the process of trust-building as well as its sources.

## **1.2 Background and context of the case study.**

In order to do this, first it is necessary to look at the broader context surrounding the main topic.

The starting point for the investigation is economic development, because the objectives of both parties to the FTA are related to their strategies for, and paths towards, development. Since the assumptions predicted on the “hard” variables have proved insufficient (insofar as they cannot fully explain the outcomes of the FTA), the investigation begins by examining how a “soft variable” –culture– may also be included in the approach. So the case study begins by addressing the wider discussion on the role that culture plays in economic development, and therefore how a culturally-shaped variable, trust, can affect bilateral economic exchange. The use of trust to examine the case study also derives from the analytical realization that current theories on economic development offer monocausal explanations that revolve around the state, market or culture/society, and therefore may be considered partial viewpoints incapable of giving satisfactory answers to the problematic posed by the case study. In contrast to this situation, trust offered a complex and challenging perspective that could incorporate different, even opposite, theoretical viewpoints. This would help avoid the trap posed by “one purpose remedies” (Sen 1999, 126) to complex phenomena such as the one discussed here.

The effects of culture on economic life have been widely studied in the literature on development; they emerge as an alternative to the predominant economicist views on

development, in which the discussion is centred in either the state or the market as the main source of domestic growth. Based on Weber's notion of culture as an independent variable, the relationship between culture and economy was subsumed into the question of values and specifically which of them are the most appropriated to reach growth. The incorporation of culture as a new variable for development opened the door to "bring the society back in" to the economic analysis (Clark and Roy 1997), opening the door to a broader understanding of economic phenomena.

Secondly, this research is placed within the context of economic globalization. As the literature points out, the discussion on economic development cannot be detached from the processes of globalization (Rodrik 2009), in which transnational economic relations are a predominant feature, since "more and more countries [are] accepting liberal principles as they open their economies to trade and foreign investment" (Gilpin 2001, 13). The case study is an illustration of transnational economic relations and how they have become critical for domestic economic growth; it portrays two economies that have embraced an export-oriented strategy as the way to reach development and fully insert themselves in the global economy. Nevertheless, as the interaction between these nations becomes closer, they face increasing economic, institutional and cultural challenges. They are two structurally different –as well as asymmetrical– nations that need to bridge the gap and build trust in order to foster economic exchange. It is in this context that understanding trust becomes a "fundamental necessity" for international alliances (Child 1998, 242) and therefore, a condition for development.

Thirdly, the case study acknowledges the current geopolitical shift in the international order, with China rising as the new political and economic centre, changing the traditional structure of globalization and challenging western dominance (Henderson 2008; Kaplinsky 2008).

### **1.3 Methodology and research questions.**

Taking into consideration the literature revised and the particularities of the case study, the initial research question was formulated as follows:



## **RQ1 What function does trust play in shaping Sino-Chilean bilateral economic relations?**

Studying Sino-Chilean bilateral economic relations from the perspective of trust theories is important at least for two reasons. First, the current state of Sino Chilean economic interaction cannot be fully explained by traditional political economy theories and therefore an alternative approach is needed. Secondly, trust appears as a new factor that enhances not only economic interaction at the micro level of business to business dynamics, but also determines growth at a systemic level. Indeed, in the last decades, trust –in the context of social capital conceptualization– has been considered a new variable to explain economic development (Fukuyama 1995b Putnam 2000, Knack & Zak, 2001). It has even been labelled the “missing link” that would explain the differences in national growth (Humpfrey 1998), somehow filling the gap left by the failure of traditional perspectives on development (Woolcock and Radin 2008), which centre on the market vs. state discussion. Instead, trust emerges as a concept that focuses on the interaction and organization of economic agents (Grootaert 1998:1 in Castiglione 2008). Therefore, by looking at the role trust has played in shaping Sino-Chilean economic interaction, this research aims to tackle the broader question of economic development.

Based on the above, the initial hypothesis is:

### **H1: Trust plays a role in enabling Sino-Chilean bilateral economic relations.**

As already discussed, trust has been conceptualized as a variable that shapes economic interaction at a micro and systemic level. The preliminary revision of the literature available –regarding both trust theorization and the case study– suggests that both the initial hypothesis and research question need to be considered from two levels of scrutiny, which are critical to understanding the role that trust has played in Sino-Chilean bilateral economic relations. On the one hand, there is the international dimension, mostly based on the analysis of state-to-state interactions at a macro level. On the other, the transnational dimension targets the sphere of business exchange at a micro level. This distinction allows for the formulation of two subsidiary research questions that tackle both dimensions of trust and guides the research design, data collection and analysis, as well as the presentation of the findings. By answering the two subsidiary research

questions, the research not only tests and enriches the general hypothesis proposed, but also answers the primary research question that initially triggered this dissertation.

**Subsidiary Research Question 1: What are the sources that determine Sino Chilean trust-building at a state level?**

Although scarce, existent literature on the case study suggests the state has played a pivotal role in enhancing cooperation between both nations (Poklepovic 2006, Jiang 2001). Nevertheless, the current theoretical corpus on trust has neglected the role of the state in the field of economic exchange, either diminishing its functionality or ignoring it as a valid source of trust, because the academic enquiry has been mostly confined to the private sphere of social interaction (Field 2002) and so, research has been scarce (Stolle 2007).

Thus, this question aims to explore how historical, political and institutional factors have shaped trust between Chile and China, two distant and asymmetrical states. By analyzing the role of trust from a state perspective, this investigation wants to incorporate a developmental and political economy view to the study of trust, which is absent from previous studies but is still critical considering the importance that governments have when setting the rules that guide economic outcomes (Gilpin 2001). It also looks at the state within the globalization phenomenon, and therefore shades new light on its function in a global economy.

This approach suggests that trust can be derived from state policies and actions. Consequently, this research question will be answered by accessing existent and available documentation such as public policy statements, government policy actions, literature on the case study, media sources (editorials and news content), and economic data at a macro level.

Nevertheless, in order to fully understand the processes of trust comprised in the case study, it also seemed critical to obtain primary data from the actors directly involved in the process, such as former and current diplomats, academics and bureaucrats, through in-depth interviews that showcased their vision and stories regarding the state as an actor shaping bilateral trust. Chapter Five is devoted to this research question.

The second subsidiary question focuses on the transnational aspects of trust's role in economic interaction; therefore, it covers the micro sphere of business.

## **Subsidiary Research Question 2: What are the sources that determine Sino Chilean trust-building at the micro-level of business interactions?**

This second subsidiary question aims to understand the dynamics and sources of trust-building within the sphere of business interactions.

Empirically, the relevance of transnational forces in economic development in the current context of globalization makes this a critical question to explore, especially considering the narrowness of Sino-Chilean economic exchange which has been sustained not only around a limited amount of products, but has also concentrated in a few companies and industries<sup>8</sup>.

Theoretically, trust literature at this level has acknowledged the necessity to further disentangle a subject that urgently needs more academic attention (Child 2001; Reinke de Buitrago 2009). Additionally, the multiple definitions of trust available (Kim 2005) make it difficult to find a unique and clear conceptualization, and consequently, there is not a consensual theoretical support on how trust is built, since its variation depends on the discipline from which is studied (Lewicki and Bunker 1996), as well as on the underlying theoretical conception of social interaction behind it (Lane 1998).

Furthermore, as some have stated, there is an important cultural component on trust understandings (Fukuyama 1995b; Knack and Keefer 1997; Glaeser 2000; Putnam 2000, Child 2001; Zak and Knack 2001; Putnam 2007) which further contributes to the absence of a clear definition (Carpenter, Danierieb et al. 2004; Newton 2007; Stolle 2007).

Nevertheless, this research question appears critical to unravel the sources of trust-building at a transnational level since, as it is also pointed out in the literature, trust is not given (Arrow 1974) and therefore needs to be cultivated (Sen 1999).

This approach suggests that trust emerges from the individual perspective and social interaction. Thus, in order to fully comprehend the role of trust in the case study at a business level –which brings together two nations with scarce common cultural identity– it was necessary to go to the primary sources and gather the data directly from those fully involved in the process, allowing them –businesspeople and entrepreneurs– to

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<sup>8</sup> The last report published by the Direcon: *Dirección de Relaciones Económicas y Comerciales* (General Directorate for Economic Affairs - Chile), presents a worst scenario. Currently, only 553 companies (of a total of 7000 exporting companies) send their products to China. In 2009, the number of companies was 646 (Direcon 2011).

freely define their views on the sources and dynamics of trust-building and how they had affected their economic interactions.

Hence, the most appropriate instrument to gather data was to personally interview relevant actors using in-depth, open-ended questionnaires to find out their stories and experiences, in order to deconstruct the meaning, sources and functionalities of trust from their own perspective. Nevertheless, in order to have a comprehensive answer to this subsidiary question, the information gathered was enriched and complemented with additional supporting data-collection methods that included the analysis of previous documentation and media sources, and a small survey performed within the respondents to check out some of the initial findings. This analysis is developed in chapters Six and Seven.

As subsidiary research questions one and two show, the research design and the empirical discussion are also guided by the methodological distinction between sources and processes of trust-building, which will be acknowledged in the empirical chapters. With this, the dissertation wants to differentiate between the structural components – sources– on which trust can be based, and the process themselves –agency– carried out by the main objects of study (state and businesses).

Consequently, this dissertation uses deductive methodology supported by a variety of methods selected to enrich the findings, but with an important emphasis on the gathering of primary data. Indeed, 83 in-depth interviews were carried out in China and Chile to academics, officials and businesspersons. The relevance of the primary data in the research is borne out of three considerations. First, it was necessary to properly answer the research questions, since there is no similar previous attempt to examine a broad case study of transnational economic relations from the point of view of trust. Second, the literature reviewed indicated the necessity to broaden the scope of current studies. Finally, the extent and characteristics of the case study, was a factor in and of itself, given that it has been scarcely undertaken by academic enquiry.

The data analysis was based on the interpretative tradition of qualitative research that aims to gain insights by discovering the “meanings and actions of actors according to their own subjective frame of reference” (Williams 2000, 210), having the underlying

epistemological approach of constructivism that understands processes as socially constructed (Wendt 1992; Zehfuss 2002).

This methodological design was devised to test the current theoretical corpus on trust, applying it to this specific case study in order to expand trust conceptualization through the examination of both its transnational and international aspects. By doing this, this investigation intends to contribute to the understanding of the role trust has played in bilateral relations.

Ultimately, by combining the insights gained from each type of data and each object of analysis, it is possible to get a fuller and more holistic understanding of trust, one that incorporates different cultural meanings inserted in their specific contexts, rather than imposing an a-contextual understanding of trust which might not be relevant for the subjects involved, and hence for the case study.

#### **1.4 Statement of significance.**

The subject of Sino-Chilean bilateral relations through the theoretical umbrella of trust conceptualization is important for various reasons. It offers a fresh angle on the relationship between China and emergent economies like Chile, and it does so by offering an analysis from the viewpoint of the actors involved in the process, rather than the external perspective of first world analyses. By doing this, this research help to refocus the academic enquiry towards the standpoint of a developing nation, with academic and policy implications, especially for those countries that may want to explore their bilateral relations with China from a non traditional perspective.

In this context, the Sino-Chilean case becomes not only an illustration of bilateral exchange between the PRC and Chile, which has been an understudied subject in the current literature<sup>9</sup>, but also contributes to the general understanding of Sino-Latin American relations, illustrating some of its key aspects, such as the increasing dependency of the region on the PRC, the existent and growing power asymmetry

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<sup>9</sup> To my knowledge, only few major works –as in post graduate studies– have tackled this subject. See for example Matta 1993: *Las Relaciones Bilaterales entre Chile y la Republica Popular China*, Lin 2004: *Chile y China: inmigración y relaciones bilaterales (1845-1970)* y Montt 2005: *Relaciones enre Chile y China 1970-1978*. However, none of them have explored the subject under the perspective offered by this dissertation.

between the parties, and the importance of economic soft power as a source for trust. in this light, the case study becomes a case in point of the challenges posed by the new world order in which China is playing a fundamental role in the development of emergent economies –especially in Latin America– but inserted in the dynamics of the North-South relationships, where power asymmetry guides the economic exchange.

Moreover, the use of theories of trust to investigate bilateral economic relations enriches the international relations field. In fact, despite the recent importance that trust has been given in the realm of social sciences (Stolle 2001), there is scarce research in this field (Welch 1997). It is to be expected that the optic provided by the analysis of trust and social capital formation from a political economy perspective will help to explore the relationship between trust and power.

Finally, by interrelating the state and transnational forces as simultaneous objects of enquiry, this research raises the subject of international trust and social capital formation as a source of economic development in the context of globalization, and therefore contributes to elucidate the state and market's role in it. It offers original empirical data to contribute to the under-studied subject of trust (Child 2001; Reinke de Buitrago 2009) and demonstrates that “communities, market and states are complements, not substitutes” (Bowles and Gerbert 2002, F419) in the question of economic development. Hence, this dissertation hopes to contribute to the theoretical discussion on trust and economic development beyond the domestic boundaries of the nation state, which is the scope that currently dominates mainstream trust and social capital literature, a trend initiated with the seminal work of thinkers like Putnam (1991) or Fukuyama (1995).

## **1.5 Research outline.**

In order to properly answer the research questions and test the proposed hypothesis, this dissertation is structured as follows:

## **Chapter 2, “State, market and culture in economic development: a critical review”.**

The thesis begins by discussing the relationship between culture and economic development in order to introduce the significance that trust, a culturally-shaped concept, has for national growth, given that it offers an alternative explanatory variable to traditional ones. By doing so, the analysis of trust becomes not only engaged in a broader theoretical topic but it also justifies its relevance for the case study. The chapter starts with a critical review of the so-called “economization of development,” an approach based on the prevalence of neoclassic economic perspective that has dismissed cultural influences on economic life. Then, the chapter discusses modernist thought and its role in bringing back cultural and societal features to the study of development. Within economic globalization, the discussion on the role of culture takes a new turn and social and cultural features appear relevant, insofar as they affect transnational economic relations such as the ones addressed by the case study. The chapter ends by concluding the necessity to incorporate trust to the analysis on economic development since, although culturally shaped, is able to articulate different theoretical conceptions of social interaction.

## **Chapter 3, “Perspectives in trust and economic development”.**

In order to set the theoretical bases to support the empirical investigation, this chapter offers an overview of the perspectives developed over the past decades, which consider trust a crucial element of economic growth,. It does so by providing a review on the main conceptualizations on trust, whether considered as an outcome of rational understandings or shaped by institutional or cultural influences, in both the interpersonal and social dimensions. After a comprehensive review of the available literature, the chapter will conclude that three elements need to be addressed in order to contribute to knowledge in the area. First, academic enquiry on trust needs to acknowledge its complexities, and therefore, to embrace the different schools of thought in order to fully understand its sources and dynamics, as well as the different levels that trust comprehends. Secondly, when looking at the role that trust has played in the overall

relationship between two nations, economic interaction cannot be reduced to the transnational sphere, and therefore the role the State has played in shaping trust becomes fundamental. Finally, the role of trust in economic development needs to acknowledge globalization, going beyond the scope of domestic affairs that currently dominate the literature.

#### **Chapter 4, “Methodology”.**

This chapter justifies the methodology selected to undertake the case study in order to fully comprehend how the research questions were addressed throughout the dissertation, including epistemological and ontological considerations. In order to have a general overview of the methodological standpoints that this dissertation embraces, Chapter Four will examine the methods used throughout the course of the research, how it was collected, analyzed and presented as findings. As for the findings, the results will be structured around the two fundamental aspects of the subsidiary research questions – trust sources and trust-building– which will also contribute to address the traditional hurdle in social science regarding agency and structure (Carnsnaels 1992). It will do so in the two objects of study that this dissertation undertakes: the state and transnational actors.

#### **Chapter 5, “The political economy of trust in Sino-Chilean bilateral relations”.**

As the first empirical discussion, this chapter aims to analyze the role that the state –from a political economy dimension– has had in the construction of a trust narrative as the basis to institutionalize bilateral relations. In doing so, this chapter will not only answer the first subsidiary research question but it will also contribute to the understanding of trust by adding the role that the state plays in international trust-building.

This chapter will argue that Sino-Chilean bilateral exchange has to be understood in the broader context of Chinese strategy to look for further engagement with Latin America. It will contend that from the point of view of trust theories, Chile has been pivotal for Chinese soft power expansion in Latin America, insofar as it has acted as both



an example and a learning curve to create institutional trust with the rest of the continent and by doing this, helping to diminish fear of China. The chapter will highlight the role that trust conceptualization has had in both Chinese and Chilean foreign policy discourses, not only regarding mutual engagement but also as a means to account for their international insertion. The chapter will end by concluding that, although the role of the state has been critical in creating sources for trust-building, enhancing both institutional trust and creating a narrative of trust, has a bounded and narrowed nature and thus there are scarce probabilities that further trust can be developed at this level.

#### **Chapter 6, “The paradox of trust: sources for transnational trust-building”.**

This chapter aims to answer subsidiary research question number two: it explores the sources of bilateral trust at a transnational level and the role played by them in shaping trust-building. Its argument is based on the conceptualization of the “paradox of trust” –although trust is crucial for mutual economic growth, building it can be costly and slow– this chapter will assess the major conditions (which embrace market, cultural and institutional variables) that are playing a pivotal role in Sino-Chilean trust-building. Nonetheless, Chapter Six will argue that despite the economic importance and the need to build trust at a transnational level, its high costs –given the nature and structure of its sources– is deterring rather than enhancing cooperation. Based on this analysis, a model for trust-building will be proposed.

#### **Chapter 7, “Trust-building strategies in Sino Chilean business exchange”.**

Finally, the last empirical chapter of this dissertation will further explore the process of trust-building at a transnational level for the case study. It does so, by examining the three major strategies –sinicization, formalization, and over personalization– that Chinese and Chilean businesspeople have adopted as their most relevant mechanisms to overcome the framework examined in the previous chapter and build the trust needed for economic cooperation. It will highlight two main elements that are shaping trust-building at a transnational level: culture and power. With this, the

research wants to undertake the agency role that the transnational forces are exercising when shaping trust-building in the current context of globalization. This argumentation further answers subsidiary research question number two.

## **Chapter 8, “Conclusions”.**

This last chapter will offer a summary of the main findings and contributions of this dissertation and, subsequently, suggest some guidelines for further research.

## **Chapter 2: State, market and culture in economic development: a critical review.**

*If an economic explanation can be found, there is no need to look elsewhere, especially not to the area of the cultural explanations (...) At best, culture will only appear as a residual to which recourse is made when all else fails (Holton 1992, 154).*

### **2.1 Introduction.**

Chapter Two will critically review the main theoretical stances regarding the sources of economic development, in which the state, the market or cultural variables have been appointed as its main foundations. Yet, it will demonstrate that they are limited by their exclusive focus on one kind of variable, and thus they have become incomplete theoretical explanations.

First, the chapter will start by highlighting the process labelled here as “the economization of development”, which has at its core the idea of understanding economic processes conceptually detached from the social, institutional and cultural framework in which they are embedded, assuming rational actors mainly driven by self interest. The discussion between the role of the state and the market in national economic success will illustrate the weaknesses of these postures.

Secondly, it will direct the discussion towards the subject of culture by reviewing how the literature has attempted to include it as a valid determinant for economic life, mainly centring the analysis on the question of values proposed by the modernist school. It will conclude that modernism, despite having received several criticisms, has incorporated cultural variables in the analysis, and by doing so, has moved a step towards a de-economization of development. This viewpoint will be illustrated by the neo-Weberian perspective that advocates culture as a key determinant of growth, and the Confucian Capitalism theory, which has highlighted the role of a Confucian ethos as the main driver of the Asian economic revival.

To finalize, the discussion will address the necessity of amending or adjusting theoretical considerations of culture in the light of the current phase of economic globalization, since neither the conceptualization of economic development nor the case study can be fully comprehended without inserting them within this phenomenon.

The chapter will conclude that trust theories offer a new perspective that incorporates the role that the state, market *and* culture play on economic development, which will be explored in the next chapter as the theoretical umbrella that will frame the case study and on which the empirical investigation will be based.

## **2.2 The economization of development.**

The literature has argued that in most of the XIX and XX centuries development has been mainly studied from an economic perspective, driven by the notions inherited from the enlightenment that implied the predominance of empiricism, science, reason, individualism and uniformity of human nature (Schech and Haggis 2000, 4-6). Therefore, multiple dimensions of cultural and societal aspects have been left aside when analysing development. To start with, the definition of development –and what the concept implies– has been circumscribed solely to economic growth (Sen 1998b; Elliott 2006) reducing it to its material dimension and measuring it accordingly. Some have even argued that the concept of development is a discursive construct created by western countries (Escobar 1995). But most importantly, this vision has dismissed cultural characteristics as variables that influence economic outcomes, which in turn, has affected not only the analysis of the causes of underdevelopment, but also policy implementation in third world countries (Sen 1999; Worsley 1999; Easterly 2001; Easterly 2006; Elliott 2006).

As a consequence, there has been an “economization of development” that, in turn, has narrowed the discussion into whether the market or the state is the most appropriate mechanism to reach prosperity as the following quote shows: “among both scholars and public officials, there are strong disagreements regarding the relative importance of the state and the market in economic development” (Gilpin 2001, 305). As a result, “development theories tended to emphasise the state, planning, the market, labour-flows, money-supply or commoditisation” (Worsley 1999, 30).

Economic liberalism, neoclassic economics, and laissez faire theory have advocated the market as the main enhancer of development, both in the theoretical analysis as well as in policy implementation (Granovetter 1985; Throsby 2001) and consequently seeing state intervention in economic activities –i.e. import–substitutions strategies– as hindering growth (Krueger 1997). As accounted by McMichael, in neoclassic economics “markets are compromised by state 'intervention', [and] by definition (...) they are more efficient with less state regulation” (2000, 102).

The prevalence of neo-classical economics has emphasized the idea of development as a mono-causal, standard and technical matter (Escobar 1995; Clark and Roy 1997; Sen 1999). As explained by Chung and Hamilton: “[in] the theory of global capitalism, most economists, as well as those inclined towards strictly economic interpretations, support a theory of capitalism that could be identified as ‘global convergence’. Economic efficiency and profit maximization dictate that firms in whatever economy, if they are to survive in the long run, must operate in similar ways” (2009, 52). This assumption has been mainly based on rational choice theory, which understands “the actor as having goals independently arrived at, as acting independently, and as wholly self-interested. Its principal virtue lies in having a principle of action, that of maximizing utility. This principle of action, together with a single empirical generalization (declining marginal utility), has generated the extensive growth of neoclassical economic theory” (Coleman 1988, S95-96). The idea of economic actors sharing the same motivation (maximization of utilities) supports the belief that a free market environment (which in turn will bring the “right prices”) together with an entrepreneurial spirit (that comes attached to the idea of self interest) will be sufficient to bring about growth and prosperity, thus economic development. It would also imply that the policies and solutions must work equally for all, since every actor is driven by the same kind of motivation, which has been understood as the capitalist model in the West.

The economization of development has not only been driven by economic liberalism. Opposing theories took roots, especially in Latin America during the 60’s, such as the Marxist-based Dependence theory. Born and raised under the Economic Commission for Latin America and the Caribbean, ECLAC, this vision understood development as structural. The existence of underdeveloped countries –or the periphery–

was a direct consequence of the existence of the western industrialized nations, the so-called centre, their colonial and post-colonial advanced economic status, and their exploitative economic strategies (United Nations Conference on Trade and Development, 1964, Prebisch 1964; Cardoso and Faletto 1979). This led to a series of policies during the subsequent decades aiming to amend these structural problems, mainly Import Substitution Strategies in Latin America and, according to some scholars, in East Asia, which sought to protect infant industries and discriminate against exports, although there is still controversy around the subject (Gold 1986, Chen 1989, Naya, Roy et al. 1989, Krueger, 1997, Clark and Roy 1997).

Some authors went as far as to ask for a re-emergence of the state in the economic sphere, highlighting the necessity of “bringing the state back in”. According to them, the state structure has “definitively shaped economic development” based on the idea that “a paradigmatic shift seems to be underway in the macroscopic social sciences, a shift that involves a fundamental re-thinking of the role of the states in relation to economies and societies” (Skocpol, 1985, 7). Yet, such development theories have also been interpreted as containing the same rationale as neoclassic economics, and therefore, have been criticized with similar arguments:

Statists make an analogous assumption [as the neo-classicists] at the national level. In this perspective, states are conceived as unitary actors that logically consider a range of policy options and select the ones most likely to promote economic development or achieve some other objective (...) Rational actor theory appears simplistic for at least two important reasons. First, even casual observation indicates that states are not unitary, and neither individuals nor states rationally pursue objective economic goals with any great exclusivity. Second (and more profoundly), this is so because individual decisions and state policies are embedded within a much broader and richer institutional context of cultural and social forces that shape both to a considerable extent (Clark and Roy 1997, 165).

Thus, the economization of development stands over a contested and problematic premise, because it bases its analysis on an “undersocialized conception of human behaviour” (Granovetter 1985, 483)<sup>1</sup>, namely the belief that economic behaviour is only

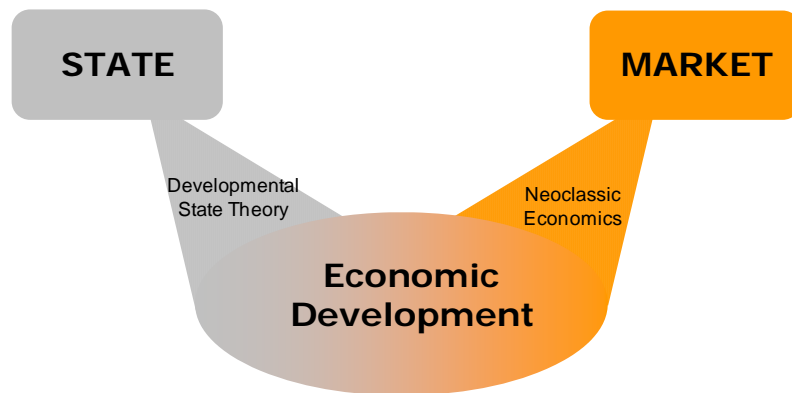
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<sup>1</sup> Based on Polanyi’s concept of embeddedness, Granovetter (1985) analyzes how neoclassical accounts have *undersocialised* the idea that behavior and institutions are affected by social relations, whereas others –mainly from the sociology field– have *oversocialised* it.

motivated by self interest, without considering particular conditions, i.e. institutional, historical, or cultural processes that may have affected it.

However, not only the economist's point of view (whether stressing the role of the state or the market in economic development) has been blamed as neglecting socio cultural aspects. Despite the fact that political economy recognizes “economy and markets embedded in a socio-political system” (Gilpin 2001, 45), it has also been criticized for neglecting cultural influences on the analysis, and considering them “irrelevant”, except when rationality or economic interest do not have enough explanatory power (Holton 1992, 154-155). In sum, “developmental analysts and analysts commonly ignored religion, kinship, ethnicity or the arts, and thought of their economic and political model as acultural (...) it meant that the complexity and diversity of human social life was lost” (Worsley 1999, 30).

Thus, the debate in the framework of what has been called “Economization of development” can be illustrated as in figure 2.1.



**Figure 2.1: Economization of development**

Figure 2.1 represents the model in which the argumentation has been narrowed to whether the state or the market is the valid source for prosperity, rejecting, or at least diminishing, societal and cultural aspects in the economic analysis, simplifying not only the theoretical debate, but also influencing the sphere of empirical discussion, and thus having a tremendous impact on policy planning. As stated by Nobel Prize economist Amartya Sen:

Arguing that human beings are uncompromisingly self-centred and self-interested, and given that presumption, the point is sometimes made that the only system that can work effectively is just the capitalist market economy. However, this view of

human motivation is not easy to sustain in terms of empirical observations. Nor is it correct to conclude that the success of capitalism as an economic system depends only on self-interested behaviour, rather than on a complex and sophisticated value system that has many other ingredients, including reliability, trust, and business honesty (in the face of contrary temptations). Every economic system makes some demands of behavioural ethics, and capitalism is no exception. And values do have very considerable reach in influencing the behaviour of individuals (1999, 279).

The impossibility of understanding development just as a by-product of self interest and rational behaviour without considering other variables has been illustrated with the so-called Washington Consensus<sup>2</sup>, which tied the United States and international financial institutions loans to ten specific economic prescriptions that during the 80's and part of the 90's tried to enhance economic development in Latin America. For some authors, the failure of this set of policies demonstrated the difficulties encountered when technocratic oriented recommendations do not consider the particularities presented by the country in which they are applied, including societal and cultural aspects (Hurrell 1999, Rivero 2001)<sup>3</sup>.

### **2.3 Broadening development.**

In the last decades, however, the concept of development has started to expand, academically as well as in the policy making arena. In the latter, new approaches such as sustainable development, or the Human Development Report from the United Nations Development Program<sup>4</sup> have helped to understand it in a broader sense, including

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<sup>2</sup> The term was coined by John Williamson in 1989, an economist from the Peterson Institute for International Economics in Washington. More recently, Williamson has revised the ten ideas of the Washington Consensus in order to defend the concept: Fiscal Discipline, Reordering Public Expenditure Priorities, Tax reform, Liberalizing Interest Rates, Competitive Exchange Rate, Trade Liberalization, Liberalization of Inward Foreign Direct Investment, Privatization, Deregulation and Property Rights. See Williamson, John, Did the Washington Consensus Fail? <http://www.iie.com/publications/papers/paper.cfm?researchid=488> Accessed on 09/03/2011

<sup>3</sup> Interesting, however, is noting that one of the successes claimed by the supporters of the "Washington Consensus Policy" is what Milton Friedman has called the "Miracle of Chile", referring to the policies carried out by The Chicago Boys School during Pinochet Regime (1973-1989). For Freeman's account on Chile's economic liberalization, please refer to the discourse "Economic Freedom, Human Freedom, Political Freedom, delivered on November 1, 1991 <http://calculemus.org/lect/07pol-gosp/frlect.html>. For a complete opposite interpretation please refer to Rodrik (2002). As it will be later discussed, Chinese academics do not recognize Chilean economic success as a by product of the Washington Consensus policies either.

<sup>4</sup> The report can be found in <http://hdr.undp.org/en/> According to the official website: "Development is thus about expanding the choices people have to lead lives that they value. And it is thus about much more than



ecological concerns, and new concepts such as long and healthy life, knowledge, and education. In fact, the idea of sustainable development is accepted and carried out as a policy goal of many of the major institutions of the world, including the United Nations, the World Bank and the World Trade Organization (Elliott 2006). Also, numerous international reports have started to incorporate new variables when talking about development (Throsby 2001).

In the academic sphere, a new awareness of the importance of interdisciplinary studies has been arising, which, in turn, has contributed to welcome cultural and societal variables to the debate, trying to leave behind the “mainstream development theory” (Banuri 1990, 65) and therefore, enriching the traditional state/market discussion. As stated by Amartya Sen, “This [new] type of framework involves rejecting a compartmentalized view of the process of development (for example, going just for “liberalization” or some other single, overarching process). The search for a single all-purpose remedy (such as “open the markets” or “get the prices right”) has had much hold on professional thinking in the past” (1999, 126-127), and therefore a new, broader approach will allow us to better understand and tackle development.

In fact, it has been argued that the separation of economic and socio-cultural processes has been artificial (Granovetter and Swedberg 1992)<sup>5</sup> because economic life cannot be conceived as completely detached from social interaction (Granovetter 1985; Fukuyama 1995b), although “there is a mistaken tendency, encouraged by contemporary economic discourse, to regard the economy as a facet of life with its own laws, separate from the rest of society” (Fukuyama 1995b, 6). Because, as stated by Greif, “Past, present, and future economic growth is not a mere function of endowment, technology, and preferences. It is a complex process in which the organization of society plays a significant role. The organization of society itself, however, reflects historical, cultural, social, political, and economic processes” (1994, 944). Furthermore, some authors have argued that it is possible to empirically demonstrate a reciprocal and constant interaction between economy and culture, establishing a dual causality (Inglehart 1997; Inglehart and

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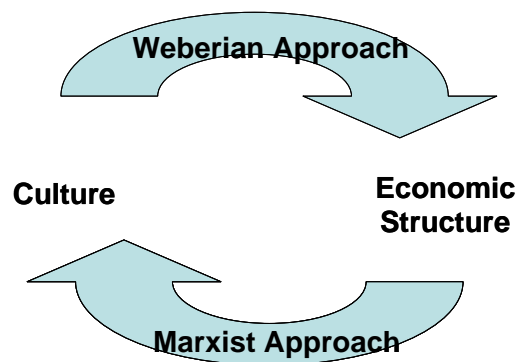
economic growth, which is only a means -if a very important one- of enlarging people’s choices” (<http://hdr.undp.org/en/humandev/>) Accessed 05/08/2008.

<sup>5</sup> Granovetter (1992) highlights some schools of thought that have been taking socio economic approaches to the study of social actions such as Rational Choice Sociology, New Economic Sociology, Socio Economics, PSA Economics and Transaction Costs Economics.

Baker 2000), trying to solve the old modernist problem on the causal direction in the correlation of economy and culture, as will be explored in the next section.

## 2.4 Modernization theories

Modernization theories have tried to understand the relationship between culture (mainly in the dimension of values) and economic development. However, their approach to cultural values has been explored from opposite perspectives, creating a circular explanation of the relationship between culture and development; placing the former as either the independent or the dependent variable, as it is shown in figure 2.2, without really sorting out the dilemma.



**Figure 2.2: Modernization theories: cultural and economic structures.**

As seen in the previous figure, the upper arrow shows the approach in which culture will be determining economic outcomes. The lower arrow, instead, represents how the economic structure influences culture. The next paragraphs will be dedicated to exploring these theoretical stances.

### 2.4.1 Culture as the dependent variable.

As figure 2.2 indicates, the arrows coming from “Economic structure” look at the economy as shaping and determining cultural outcomes. This line of research is rooted on the theoretical Marxist school, and understands: “culture as superstructural and having a

derivative relationship with economic relations: the economy sets the conditions for culture, and when the economy changes, culture changes to accommodate” (Brook and Luong 1997, 2). In relationship to this research, it is worth highlighting this posture because it can be understood as a secondary source for the economization of development argued in the previous section. If cultural changes occur only when the economic structure varies, there is no reason to consider culture as an explanatory or independent variable, since culture is seen as an effect of the economic structure rather than its cause.

#### **2.4.2 Culture as the independent variable.**

On the other hand, the upper arrow in figure 2.2 shows the Weberian posture that considers culture as the independent variable that shapes and influences economic development. The subject has its roots in economic sociology, especially in Talcott Parsons and Weber. The first one has been seen as the pillar for the modernist theorists based on his idea that “a social system could evolve only when propelled by a transforming and transformative culture” (Brook and Luong 1997, 3). Max Weber’s main thesis –in his classic study “The Protestant ethic and the spirit of Capitalism”– connects cultural characteristics, basically religion, as enhancers of development, taking the example of how Protestantism helped to spread the rise of capitalism in the western world, concentrating his work on “the influence of certain religious ideas on the development of an economic spirit, or the ethos of an economic system” (1930, 27). According to Weber’s view, the values found in protestant culture would be the explanation for the development of a market economy in the western world. As noted by Brook and Luong: “capitalism can be understood only by panning out to the larger field of values and relationships that predispose individuals to act in ways conducive to capitalist accumulation” (1997, 2), and therefore supporting the idea of values as critical determinants of economic structure.

Indeed, Weber’s ideas were spread into modernization thought by advocating that certain values –modern instead of traditional– would foster progress because of their capacity to influence attitudes, and thus creating the behaviour needed to build the capitalist model of the West. It was assumed that modernization would occur “only in so far as they abandoned their traditional cultures and assimilated technologically and

morally "superior" western ways of culture" (Inglehart and Baker 2000, 19). In fact, since the 60's –when development began to be studied as a discipline– it was envisioned as being strongly linked to “economic growth and the application of modern scientific and technical knowledge as the route to prosperity in the underdeveloped world at that time. In short, the 'global development problem' was conceived as one in which less developed nations needed to 'catch up' with the West and enter the modern age of capitalism and liberal democracy” (Elliott 2006, 15). Rooted in the early works of Rostow (1960) and Lerner (1958), modernization theories “assumed that the Western path to industrialization was a universally valid one and recommended that the developing world simply follow this tried–and–true formula. This would primarily involve the replication of Western economic and political institutions (e.g. capitalism and democracy) and the replacement of traditional societies and cultures by "modern values" that would promote this economic and political change” (Clark and Roy 1997, 3). Under this view, pre-capitalist economies were related to “cultural practices inconsistent with rationalization” and therefore, it was necessary to do a transition from the “embedded to differentiated rationalised economic systems”, although this did not mean a prevalence of rational thought and self interest over culture, but instead a change in cultural and economic practices towards modernization (Holton 1992, 201).

The revival of the Weberian thought –labelled as neo-Weberian<sup>6</sup>– has stressed the idea that some cultures (either western/capitalist cultures or those that are open to engage with western values) are more willing to successfully adopt development, while for others will be intrinsically difficult –if not impossible– to growth (Harrison 1992; Landes 1999; Harrison 2000; Huntington and Harrison 2000). Harrison, for example, has strongly stated that “underdevelopment is a state of mind”, to demonstrate the reasons for the Latin American backwardness (1985)<sup>7</sup>. Moreover, it has been argued that “culture makes almost all the difference”, emphasizing the direct link between culture and performance (Landes 2000, 2-3). Within this line, ideal categories of cultural typologies

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<sup>6</sup> I have borrowed here the conceptualization found in Peter Berger, to name the group of scholars who, as Berger points out, are “convinced that culture matters” (2006, xvii).

<sup>7</sup> An exception, however, has been made in the case of Chile, because despite being a Latin American country, and therefore shaped by the forces of Catholicism and Spanish heritage which would be acting as constrainers of development, the influence of the Basque immigration together with a geographical isolation, have made Chileans different from the rest of their neighbors. Also, institutional, economic and technological changes have been pointed out as the main drivers of cultural changes (Hojman 2006).

that either hinder or favour the possibilities for development have been proposed. They comprehend worldviews, values and economic and social behaviours (Grondona 2000; Harrison 2006)<sup>8</sup>.

But understanding culture as a set of values not only affects individual behaviour, but also the society's capacity to create reliable and stable institutions; for example, emulating those structures that have been successful in other socio-cultural contexts (Greif 1994).

#### **2.4.2.1 Critics of the culturalist explanation.**

However, this posture has been widely contested, mainly for three reasons: ethnocentrism, vagueness in the definition of the concept (and thus, the excessive weight given to a “slippery” variable such as culture), and the impossibility of measurement.

##### **Ethnocentrism and determinism.**

Some critics have argued the existence of an underlying determinism and ethnocentrism behind the statement that some societies are culturally more prepared to reach development than others. Power and Clark, for example, warn “that the concept too easily lends itself to ethnocentrism. In the “wrong hands”, cultural variables can be used in judgmental and deterministic ways that would seem to rule out democracy and development for Third World” (2001, 52).

Moreover, and in a general sense, culturalist views, especially the ones held by Huntington (1996), have been the focus of sharp critics as contributors to perpetuate the “myth of the other”, and, therefore, building a “conceptual framework around the notion of us-versus-them [which] is in effect to pretend that the principal consideration is epistemological and natural –our civilization is known and accepted, theirs is different and strange– whereas in fact the framework separating us from them is belligerent, constructed, and situational” (Said 2002, 369), and thus considering this posture as part of a rhetoric embedded in the Cold War.

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<sup>8</sup> These categories are: religion, trust in the individual, the concept of wealth, the moral imperative, views of competition and justice, value of work, role of heresy, type of education, utility, the lesser virtues, rationality, authority, world and life view, utopia, nature of optimism, and vision of democracy.

There is also the basic idea of the changing nature of the cultural traits of a society, because “neither development, nor religion, is a fixed set of beliefs or signs. Both are thus always contested and therefore, are being redefined, both in their universal goals and in their particular spatial and temporal manifestations. Any significant analysis, therefore, needs to view both religion and development as a set of interlinking processes which engage with each other to produce changes” (Raghuram 1999, 239), and thus to understand them as mutually interacting with each other.

In fact, as noted by Wedeen, seeing culture as a static set of values comes from the rational choice theory: “Some practitioners of rational choice theory use culture similarly to refer to an already–given community that can be studied by listing its fixed shared beliefs or values” (2002, 715). Indeed, the idea of fixed values denies the possibility of even constructing common identities –for example via repeated interactions or history (Wendt 1992; Wendt 1999; Zehfuss 2002)– and, consequently, refusing *ex ante* cooperation in a global world.

### **Vagueness on the definition.**

A second criticism is based on the difficulty to define culture, and therefore, the impossibility of setting a standard. Culture is a wide and complex concept that has been the subject of both criticism and vagueness in social sciences, particularly from the anthropology and sociology fields (Brightman 1995; Wedeen 2002). In fact, already in 1952, Kroeber and Kluckon compiled 164 definitions for culture, emphasizing the concepts as

(...) human made; it includes ideas, values, and codes known to all members of the group ; it is a learned system of behavior based upon symbolism; it is transmitted from generation to generation....Culture is the society's blueprint for behavior: what must be done, what ought to be done, what may be done and what must not be done (...) “culture may be defined as behavior peculiar to Homo sapiens, together with material objects and as used as an integral part of his behavior; specifically, culture consists on language, ideas, beliefs, customs, codes, institutions, tools, techniques, works of art, rituals, ceremonies and so on (in Thomas 1999, 12).

More recently, Fang analyzes the diversity of meanings given to culture in the academic literature, as shown:

Culture can be viewed as consisting of everything that is human made (Hexslzovits, 1955); everything that people have, think, and do as members of their society (Fermro, 1990); communication (Hall, 1959, 1976 11 98 1 Hall & Hall, 1 989); a system of shared meanings (Geertz, 1973); the way of life of a group of people (Barnouw, 1979); collective programming of the mind (Hofstede, 1980, 1991); inherited ethical habit (Fukuyama, 1995); a "tool kit" of habits, skills, and styles from which people construct "strategies of action" (Swidler, 1986); one of being composed of both "objective culture," such as chairs, tools, and jet planes, and "subjective culture", such as categories, norms, roles, and values (Triandis, 1994); a set of understandings shared among persons who have been similarly socialized (Terpstra & David, 1991); or a system consisting of subsystems, such as kinship, educational, economic, political, religious, association, health, and recreational systems (Harris & Moran, 1996) (1999, 21).

Even Samuel Huntington, one of the main exponents of this neo-Weberian trend, recognizes that the definition has been made in "purely subjective terms, as the values, attitudes, beliefs, orientations, and underlying assumptions prevalent among people in a society" (in Huntington and Harrison 2000, xv). But the lack of a unified and clear definition of culture has not only become a problem when theorizing about its meaning; it has also contributed to a methodological weakness, which has been the focus of the main critics to this approach.

### **Methodological problems and difficulty of measurement.**

Ultimately, the lack of agreement in understanding what encompasses the definition of culture derives from confusion as to which are its key constituents (whether they are habits, values, norms, or attitudes as stated in the previous definitions) and therefore complicates the conversion into quantifiable indicators, given the "difficulty of identifying which cultural elements are crucial to explain human behaviour" (Castaneda 2006, 5).

Also, the idea behind the correlation between values and economic performance is problematic, without considering other variables. This excessive weight of the influence of cultural values on economic development is based on understanding values as ontologically functional in any historic and institutional setting, and thus creating

“functionalist, essentialist, static and ahistorical” explanations for economic growth (Goodman 1999, 135). For example, Porter has argued that

(..) treatments of the role of culture on economic prosperity tend to focus on generic cultural attributes that are deemed desirable [...] but none of these generic attributes is unambiguously correlated with economic progress. Hard work is important, but just as important is what guides and directs the type of work done. Initiative is important, but not all initiative is productive. Education is crucial, but so is the type of education sought and what the education is used to accomplish. Saving is good, but only if the savings are deployed in productive ways (2000, 14-15).

Some authors, however, have tried to overcome this critique by establishing categories in order to measure the relationship between culture and economic performance. Thus, a quantitative methodology has been proposed in an attempt to compare cross-cultural behaviours. One of the most influential works is that of Geert Hofstede and his cultural dimensions, focusing on how cultural differences affect economic performance, negotiation processes and organizational structures, understanding culture as a “program of the mind” (1980). The five categories created by Hofstede –Power distance Index, Individualism, Masculinity, Uncertainty Avoidance Index, and Long-Term Orientation– were based on a questionnaire within a corporate organization (IBM) with offices around the world, in an attempt to isolate the cultural variables that affect economic behaviour<sup>9</sup>. Other categories have been created in order to

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<sup>9</sup> According to Geert Hofstede’s website (<http://www.geert-hofstede.com/>) these are the definitions for each category: “**Power Distance Index (PDI)** that is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. This represents inequality (more versus less), but defined from below, not from above. It suggests that a society’s level of inequality is endorsed by the followers as much as by the leaders (...) **Individualism (IDV)** on the one side versus its opposite, collectivism, that is the degree to which individuals are integrated into groups. On the individualist side we find societies in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family. On the collectivist side, we find societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families (with uncles, aunts and grandparents) which continue protecting them in exchange for unquestioning loyalty (...) **Masculinity (MAS)** versus its opposite, femininity, refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found (...); **Uncertainty Avoidance Index (UAI)** deals with a society’s tolerance for uncertainty and ambiguity; it ultimately refers to man’s search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. **Long-Term Orientation (LTO)** versus short-term orientation: this fifth dimension was found in a study among students in 23 countries around the world, using a questionnaire designed by Chinese scholars (...) Values associated with Long Term Orientation are thrift and perseverance; values associated with Short Term Orientation are respect for



enhance cross-cultural management (Trompenaars and Turner 1993, Triandis 1991)<sup>10</sup>, who have also included some of Hofstede's ideas (collectivism vs. individualism) but without performing a similar empirical work. For example, in this last one, collectivist societies will fail to reach the western "integrated" social structure that has allowed developed countries to build organizational structures and institutions (such as contracts) that have permitted economic exchange between members of different groups "based on legal, political, and (...) economic organizations for enforcement and coordination" (Greif 1994, 942).

Hofstede's effort has been key in order to "prevent research from endless attempts to define culture as an object of study and to move investigation forward towards the study of effects" (Redding 2000, 34) but there are still complaints about a methodological failure when connecting individual responses (that may be psychological rather than cultural) with the organizational level of analysis or national data: "Tracing the steps in the middle –going, in other words, from the psychological predisposition of individuals to behave in a certain way through the maze of organizational characteristics to outcomes such as performance, and even more so to the performance of numbers of organizations seen collectively– is a notoriously difficult intellectual task. Correlation is not causation" (ibid 2000, 34).

These attempts to create categories to link economic development and culture have also been criticized as ethnocentric: "Nevertheless, these dimensions all share a weakness (which is) failure to penetrate into a culture to discover the indigenous cultural values and norms that underpin people's behaviour in that specific culture" (Fang 1999, 25-26) and therefore lacking the insights provided by their own cultural elements.

However, as it has already been explained in this chapter, the culturalist account is also considered a partial explanation, as happened with both the neoclassic economics and developmental theories (illustrated previously on figure 2.1 that summarized the concept of economization of development).

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tradition, fulfilling social obligations, and protecting one's 'face'. (...) the dimension also applies to countries without a Confucian heritage".

<sup>10</sup> He distinguished three categories embracing seven dimensions as it follows: a) relationships with people (universalism vs. particularism; individualism vs. collectivism; neutral vs. emotional; specific vs. diffuse; achievement vs. ascription); b) attitudes to time and c) attitudes to the environment (Trompenaars 1993, 8-10).

Furthermore, modernization theory –which based its argumentation on western values as a pre existent condition to develop capitalism– has been questioned by the so-called “question of Asian values”, because “Western economies are no longer assumed to be the model for the world” (Inglehart and Baker 2000, 20). Instead, they have shown that “we [westerners] now know that other values work too –and often work better– and this is the lesson that has been emerging over the last century” (Sen 1998a, 41). The next section will show a new approach towards economic structure based on the prevalence of Asian values that nevertheless, as in modernization theory, gives excessive weight to cultural influences, which may be narrowing the analysis to one conceptualization as well.

## **2.5 Asian values.**

One specific mode of incorporating culture into understandings of economic development is the proposition of “Asian values”. Its analysis is placed here as an illustration of the limited explanatory value of culture when narrowed to one single variable. As recounted by Sen (1998a), analysts first started to draw attention to the issue of “Asian values” when Japan, after World War II, experienced sustainable and impressive economic growth. These economic achievements were followed in the 90’s (and before the financial crisis of 1997) by the four Asian tigers –Singapore, Malaysia, Hong Kong, and South Korea– with rapid industrialization processes. During the last decades, the question of Asian values has reached China and the analysis of its unprecedented growth. In this case, the focus has been placed mainly on a microeconomic perspective, which aims to understand Chinese business practices –that have been related mostly to Confucianism– in the PRC. This stance reinforces the idea that Confucian thought has also influenced the management and negotiation style of Chinese business people, as it is recognized in the abundant academic literature regarding both Chinese negotiation practices (see for example Pye 1992; Blackman 1997; Fang 1999; Graham and Lam 2003) and organizational structure (Kao 1993).

Briefly, the Asian values theory attempts to show that a new “ethos” –based on Confucian values– has helped to build a different kind of capitalism within the Asian region. The term, initially coined by Kahn, aimed to understand that there is a Confucian Ethic that, on the one hand, will create “dedicated, motivated, responsible, and educated

individuals”, and on the other, would promote a “sense of commitment, organizational identity, and loyalty to various institutions”. Therefore these Neo-Confucian societies would have “at least potentially higher growth rates than other cultures” (1979, 122).

The Confucian Capitalism theory bases its argument on the assumption that there is a new set of values that would enable growth, such as self-discipline, thrift (which in turn favours a high rate of savings), elevated educational aspirations, dedication to family and respect for order and authority (Redding 1990; Hamilton 1999; 2006). As stated by Kahn: “A properly trained member of a Confucian culture will be hardworking, responsible, skilful, and (within the assigned or understood limits) ambitious and creative in helping the group (extended family, community, or company)” with less emphasis on individual interests as in the western capitalist conceptualization (1979, 121).

The Confucian Capitalism theory is closely entangled with the idea of the so-called “Bamboo Networks” (Weidenbaum and Hughes 1996) formed by a strong Chinese Diaspora in the East Asian Region organized in clusters, based more in personal connections –known as *guanxi*, or the “art of relationships” (Yang, 1994), which will be further explained in the next chapter, and on a shared identity rather than a certain institutional and legal environment (Wai-Chung Yeung 1997; Wang 2000)<sup>11</sup>. It has been said that it has a “unique mode of economic organization” (Crawford 2000, 69), that does not rely only on pure rational choice and in the conception of a rational self-interested actor as in the West, but instead is based on cooperation and personal relations (Wai-Chung Yeung and Olds 2000, 12). The particular nature of these relations is also constituted by its transnational character, that goes beyond the concept of state, constituting what Cheung has labelled “made by Chinese” (2009), and which, despite the lack of institutional enforcement, has the capacity “to maintain order if no formal hierarchy and formal legally binding principals govern their behaviour” (Cheung 2004, 665).

However, the question of Asian values has also been contested as a whole or unique justification for the Asian economic development. One of the first criticisms comes from the political economy arena and proposes that the neo-Confucianism explanation has been created by the local elites in order to search for equivalents to

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<sup>11</sup> The concept of *guanxi* will be analyzed in the next chapter tied to the social capital and trust theories.

protestant ethics, with the objective of enhancing the spread of capitalism in their countries throughout the creation of a common identity. Thus, the revival of Asian values would be a political decision of local elites in order to legitimate capitalism without facing opposition (Brook and Luong 1997; Harianto 1997; Yao 2002). This argument is based on the historical view of Asian values as hindering –instead of promoting– economic development by modernist accounts<sup>12</sup>. In fact, for most of the XX century, Confucianism was regarded as a constrainer of development (Chen 1989, 63) and, equated “with the retardation or failure of the modernizing project. It was pilloried in the second decade of the century in China and Korea for having played this role and was scourged in China as late as the 1970s as an impediment to the state economy” (Brook and Luong 1997, 8-9). Even in the 90’s Confucian values have been pointed to as the explanation for the incapacity of China to develop modern corporations, which can move beyond the constraints of family influence (Fukuyama 1995b).

The actual existence of this common identity both within the Chinese Diaspora – (Gomez and Hsiao 2001)–, as well as in mainland China, has also been questioned as constituting only one more link within the global division of labour (owned by multinational companies) and therefore lacking a real and personal identity (Pan 2009)<sup>13</sup>. Also, it has been argued that historic reasons rather than cultural reasons have lain behind the organizational structure of Chinese business (Harianto 1997; Chung and Hamilton 2009).

Overall, however, the main weakness behind the question of Asian –or Confucian– values proposition, is that it cannot be taken as the whole or unique explanation for the Asian revival, without considering historical, institutional, economic and political variables: “Suffice it to say that cultural heritage has a certain role and importance but is not the only one. It is a necessary but insufficient condition. Further

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<sup>12</sup> To resolve the apparent contradiction between the traditional Confucian stance regarding commercial activities (traditionally disregarded by Confucianism) and advocates of the Asian values as enhancing economic activities (based on Confucian ethics), Peter Berger has argued that imperial Confucianism has evolved into a new vulgar or secular version because of historical, political and economic circumstances (in Chen 1989).

<sup>13</sup> In a recent report made by the online version of China Daily, is highlighted that “Of the total January [2009] external trade, foreign-funded companies accounted for 52.2 percent [and] State-owned businesses made up 22.3 percent”, which shows that more than 50 percent of the ownership (at least in the export sector) is based on foreign capital [http://www.chinadaily.com.cn/bizchina/2009-02/11/content\\_7465795.htm#](http://www.chinadaily.com.cn/bizchina/2009-02/11/content_7465795.htm#) Accessed 11/02/ 2009.

analyses are needed, particularly on the economic and structural conditions that enabled such latent entrepreneurship to blossom” (Harianto 1997, 138). Because, “by ignoring historical processes and specific relations of political power, the treatment of culture in political science has downplayed the heterogeneous ways in which people experience the social order within and among groups, while exaggerating the commonality, constancy, and permanence of intragroup beliefs and values” (Wedeen in Cheung 2004, 679), again supporting a static and isolated perception of culture.

Or, from a more neo-classical account: “if Confucianism is conducive to economic development, it does not matter (...) whether this is economic development because of import–substitution or export–oriented industrialization” (Chen 1989, 65). Indeed, “Confucianism can be used as one of the measurements in studying the cohesiveness among the Chinese Diaspora; but like many other ideas, it should be studied in conjunction with the others facets of international relations” (Cheung 2004, 679), demonstrating, once again, the need for broader perspectives.

## **2.6 Economic development and globalization.**

From the 90’s onwards, the discussion on development has been framed by the phenomenon of globalization and the question about whether or not this has been beneficial for economic development, especially for growing economies (Rodrik 1997). This discussion drew together a wide range of visions; from bitter opponents who argued that globalization and trade only enhanced poverty in developing countries (Krasner 1985; Rivero 2001), to sceptics (Hirst and Thompson 1999), to fervent supporters who envisioned a borderless world functioning in a perfect market scenario, with growth and prosperity reaching every nation (Bhagwati 2004; Friedman 2006; Ohmae 1996; Wolf 2004). This debate covered the extent and depth of this phenomenon. Hirst and Thompson, for example, doubted the global character alleged by supporters of globalization, arguing that currently the world appears to be less integrated than at other similar cycles in the past (1999). Nonetheless, the recent financial crisis of 2008–2009 has renewed the debate on globalization and development, highlighting two essential aspects: on the one hand, the global character of the financial crisis has been an empirical demonstration of the depth and impact of economic globalization, to the point that it is

impossible to deny the existence of an interconnected economy. On the other, it has revived the discussion on the role that market forces and the state play in the field of global growth (Abdelal and Meunier 2010).

### **2.6.1 Economic globalization: Definition and scope.**

Although there are many definitions of globalization<sup>14</sup>, all of them describe an interconnected world (by means of communications and technological advances) interacting at a pace and with an intensity never seen before. As Roland Robertson asserts: “what makes contemporary globalization unique is that (...), increasingly, nations now engage more in a wide range of economic, military, cultural and political contacts and people everywhere have increasingly come to comprehend the world as 'one place' and to think, feel and act globally” (in Dunkerley and Beynon 2000, 9). Therefore, globalization is seen as a comprehensive phenomenon with social, cultural, political and economic dimensions.

The latter has been particularly significant, to the point that some authors have declared globalization to be changing world economy on a long-term basis (Prakash and Hart 2000). Furthermore, it has been considered one of the most important foreign policy debates of the last decade (Friedman cited in Rodrik 1997).

Economic globalization implies many concurrent phenomena such as market integration, global commodity chains and extensive capital flows. Here, globalization as a concept will be understood as Bhagwati defines it, embracing “diverse forms of international integration, including foreign trade, multinational foreign investment, movements of short-term portfolio funds, technological diffusion, and cross border migration” (2004, ix). This definition strongly highlights the growing weight of transnational actors such as multinational companies (MNC's) –market forces– in determining economic growth on a global scale (Rodrik 1997; McMichael 2000, Bhagwati 2004; Held 1999; Nye 1990), either by means of trade or investment; their

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<sup>14</sup> In the book “Globalization: the reader” Dunkerley and Beynon (2000) compile multiple definitions on globalization. They highlight, for example, Giddens’ understanding as ‘the intensification of world-wide social relationships which link distant places in such a way that local happenings are shaped by events occurring many miles away and vice-versa’ (p. 64). Or Beck’s definition who defines globalization as “the processes through which sovereign national states are criss-crossed and undermined by transnational actors with varying prospects of power, orientations, identities and networks’ (p. 4).

actions follow their own corporate interests and therefore, are not necessarily defined by their homeland's national interest (Ohmae 1996).

The growing importance of multinationals in determining economic growth on a global scale, has triggered the discussion on what is the state's role in this new scenario, somehow replicating the "economization of development" process discussed earlier, in which the state and the market were seen as the main drivers of economic growth.

But globalization, as stated in the previous discussion, has consequences beyond the economic sphere. As it will be argued later in this section, it also revives the debate on the role of culture, and how it has affected –and been affected by– the formation of a global economy.

### **2.6.2 Market and state in economic development.**

When globalization and growth are analyzed from the viewpoint of neo-classical economics, free trade and the free flow of capital are highlighted as the cornerstones of development. Its promoters portray a "flat world" (Friedman 2006) in which the advent of a free market ideology is key to reach growth (Wolf 2004), together with minimal state intervention in the economy, and the downsizing of economic barriers to international trade (Krueger 1997). Indeed, supporters of this stance understand globalization as not only having economic benefits, but also social ones since, from their perspective, the arrival of corporate actors in developing economies brings clear consequences such as job placements for otherwise unemployed workers, and knowledge transfer to domestic companies (Bhagwati 2004).

The growing power and influence of multinational companies in dictating economic growth raises the question of the role of the state in the global market. Indeed, and despite the many definitions on what economic globalization implies, most of these conceptualizations incorporate the discussion on the challenges posed to the nation-state in an era considered to be immersed "in a post Westphalian paradigm where governments lack the capacities and willingness to enforce policies even within their jurisdictions" (Prakash and Hart 2000, 2).

The discussion, then, becomes centred on the role that the state plays in economic growth and whether its influence has been diminished (to the point of forecasting its

eventual death as in Ohmae 1996), erosion (Prakash and Hart 2000) or at least reshaping in its economic function, as stated by Dicken who declares “*The State is Dead, Long Live to the State*” (2003, 122), narrowing the state’s role to the creation of the necessary conditions (legal framework, institutional and macroeconomic stability, among others) to successfully develop the private sector (Dicken 2003).

Others have argued –without denying the importance of market forces and private entrepreneurship as the drivers of the current economic agenda– that “governments also perform a strategic and coordinating role in the productive sphere beyond simply ensuring property rights, contract enforcement, and macroeconomic stability” (Rodrik 2009, 100), suggesting a critical function for the state even in the age of economic globalization (Prakash and Hart 2000). Korean economist Ha-Joon Chang has stressed the critical role that state-planned policies play in the successful handling of globalization challenges, as the Korean and other Asian economies demonstrate, challenging the neo-liberal assumption of *laissez faire* economics as the primary source of development in a global era (2007). Another example lies in those emergent economies’ policies that have consciously developed international integration as a means of economic development, and the crucial role that the state has played in this process, as the case study acknowledges<sup>15</sup>.

Beyond this controversy, additional insights have emerged on how states have responded to the challenges posed by globalization. For example, the creation of trade blocks such as the European Union, the ASEAN, or MERCOSUR may be suggesting that regionalism is emerging as a new force within the context of economic globalization (Robles 2000).

The policy-making world as well as academia seem to have reached the consensus that both market forces and state intervention are necessary within a global world (although the degree of intervention is still discussed), as this quote from Rodrik shows:

Few people seriously believe any more that state planning and public investment can set as the driving force of economic development. Even economists of the Left share a healthy respect for the power of market forces and private initiative. At the

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<sup>15</sup> Rodrik (2009) places several examples of emergent economies that have combined in their economic policies industrialization and market opening as a way of development. In these examples, China and Chile are included.



same time, it is increasingly recognized that developing societies need to embed private initiative in a framework of public action that encourages restructuring, diversification, and technological dynamism beyond what market forces on their own would generate. (...) Therefore we now confront a rare historic opportunity. The softening of convictions on both sides presents an opening to fashion an agenda for economic policies that takes an intelligent intermediate stand between the two extremes cited above [making reference to the debate between market forces and regulation] (2009, 99-100).

The need to balance both poles has been reinforced by the recent financial crisis of 2008–2009, which cast doubts over the legitimacy of global exchange based on a *laissez-faire* vision and in turn has strengthened the idea that globalization needs to be managed by institutional rules and not only determined by the market's behaviour, as the concept of “managed globalization” proposes (Abdelal and Meunier 2010).

But, despite the consensus reached by the political economy approach, this understanding still lies within the concept of “economization of development,” as exposed in this chapter, and so socio-cultural variables that may influence economic interaction are mostly left out of the analysis. As will be discussed in the next section, and although academic studies have defined culture as a variable for economic development in the context of globalization, it has been confined to the modernist understanding of the concept as values; this train of analysis has mostly taken the form of comparative national studies or analysis confined to the microscopic sphere of corporate interaction.

### **2.6.3 Culture and economics in world economy.**

The role of culture and its interaction with economics has also been a relevant aspect of globalization. Much of the discussion regarding the role that socio-cultural factors play in development, also responds to the underlying modernist assumption discussed previously, in which culture acts either as a cause or as an effect of economic structure, reviving the arguments between Weberian and Marxists discussed in section 2.4<sup>16</sup>.

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<sup>16</sup> There are, however, authors that contend this kind of analysis. They argue that culture and globalization “matter intrinsically to each other” rather than portraying them as in a unidirectional causal relationship (Tomlinson 1999, 1).

In the global context, the modernist argument is translated into whether economic exchange becomes a vehicle to convey the cultural values of the predominant geopolitical and economic actor<sup>17</sup>. While in the 80's and 90's, the concept of McDonaldisation proposed by Ritzer (2004) claimed that the processes of economic globalization was producing a westernization of culture (also called Americanization, in reference to the spread of the United States' influence through its corporate brands), in the first decade of the XXI century, the economic shift towards Asia opened the door to the "Asianization" of the world, which highlights the growing predominance of the Asian region in many aspects, including the cultural one (Henderson 2008).

This discussion has also permeated the debate between cultural convergence/cultural divergence as an outcome of economic globalization and firm internationalization<sup>18</sup>.

The former issue, whether or not culture affects economic outcomes, has been tackled at a micro level by the literature mostly from the point of view of comparative studies, especially since the influential work of Hofstede already cited, in which national cultural characteristics are systematized into broad categories that ultimately affect economic outcomes (1980) and the results emanated from Ronald Inglehart's World Values Survey (1997, 2000, 2004) among others<sup>19</sup>.

Cultural influence on economic matters has also been discussed in the context of transnational actors; for example how cultural adaptation determines the success or failure of corporate internationalization. This last stance has placed culture as a "barrier" (at least initially) to economic interaction, for example when it determines initial investment (Mitra and Golder 2002). Moreover, recent studies have shown that most of the current economic exchange is carried out by actors that share geographical and cultural proximity and thus, despite global interaction, the principle of homophily –based

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<sup>17</sup> For a good review on the many visions on this subject, please refer to Skelton and Allen (1999), and Dunkerley and Beynon (2000).

<sup>18</sup> For an analysis on the subject please refer to Kwok Leung, Rabi Bhagat, Nancy R Buchan, Miriam Erez and Cristina B Gibson (2005).

<sup>19</sup> The World Values Survey (WVS) is "a global network of social scientists who have surveyed the basic values and beliefs of the publics of more than 80 societies, on all six inhabited continents" (See [http://www.worldvaluessurvey.org/index\\_organization](http://www.worldvaluessurvey.org/index_organization)). The WVS is a global study that comprehends research on political and sociocultural change. As it will be further explained on Chapter Three, one set of questions is related to trust. The data is accessible on [www.worldvaluessurvey.org](http://www.worldvaluessurvey.org) Accessed on 03/05/2009.

on the idea that cultural similarity enhances cooperation— has prevailed in global business and furthermore “global trade has become more geo-culturally embedded” (Zhou 2011, 193). Once again, this fact supports the importance of culture when it comes to economic exchange, even despite the claims of globalization and world flatness. As can be seen, notwithstanding its nuances and different viewpoints, this current of analysis has been highly influenced by modernism, as evidenced by the emphasis on the importance of cultural convergence to reach development, a scenario that is ultimately determined by the most powerful economic actor.

Another approach on how globalization has shaped the analysis around economics and culture is the one sported by those who see a revival of national cultures as a way to respond to the cultural hegemony imposed by economic powers, specifically the westernization phenomenon described above. As stated earlier in this chapter, this view, led by Huntington (Huntington 1996) foresees a world in which the source of global conflict will be the clash between national cultures, highlighting the negative aspects of cultural divergence. Worsley also suggested that Fukuyama was in line with this thesis of divergence when he asserted that the “integration of global economy has heightened the significance of cultural differences” (1999, 41); nonetheless, Fukuyama does not see this as a potential source of conflict, as the Huntingtonian view does.

As a response to the modernization predominance in mainstream literature on economics and culture, other authors have promoted the idea that economic globalization will produce not only cultural integration but also unique forms of cultural manifestations (Appadurai 1996), giving birth to what has been called “glocalization” (Ritzer 2007). This stance abandons the underlying modernist view of cultural domination, because “it is manifestly clear that any sense of the West's previously assumed superiority in the more interconnected 'globalized' world we now inhabit has disappeared” (Dunkerley and Beynon 2000, 10) and a process of cultural hybridization prevails (ibid 2000, 27).

## 2.7 Chile and China in the debate of culture, state and market.

This case study is an illustration of how two nations have developed in a global scenario, as well as an example of the challenges posed by global economic exchange on their own respective growth. Both China and Chile –formerly closed economies– represent a process of successful incorporation to the world economy, based on market reforms that have been ongoing for over 30 years, as a strategy for economic development. Despite having different economic and political histories, they also illustrate –contrarily to what *laissez faire* supporters would argue– how global economic integration can be reached as a result of consciously planned state policies geared towards enhancing trade and investment.

In the case of China, its global insertion was structured together with careful domestic industrial planning. Indeed, as it is well documented, China encouraged the development of what has been called “capitalism with Chinese characteristics,” in which the state has played a pivotal role both in industrialization and in opening the economy (Naughton 2007; Naughton 2008; Rodrik 2009). This has been coupled with the institutionalization of global economic participation through the country’s various memberships in world trade institutions (Yang and Su 2000), and go-global policy.

In Chile, the Pinochet regime started economic liberalization –following the Washington consensus recommendations– in the mid 80’s, under the group called Chicago Boys<sup>20</sup>. Economic liberalization was followed in the 90’s by the *Concertación de Partidos por la Democracia* (Concert of Parties for Democracy, Concertación) governments, and economic internationalization –based on a strategy of bilateral agreements– became a priority. Since then, Chilean export-oriented policy has been one of the cornerstones of economic development. Nonetheless, at a later stage Chile came to realize that it needed to distance itself from the Washington Consensus, and added to its market policies stronger state intervention in some key areas. In this way, the economic success story of Chile can illustrate policies that mix elements of orthodoxy with

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<sup>20</sup> The Chicago Boys was a group of Chilean young economists who were disciples of neoliberal icons such as a Milton Friedman and Arnol Harberger in the University of Chicago. After they came back from their post graduate studies they had high positions during Pinochet regime, who was convinced to implement neo liberal economic reforms.

unconventional institutional innovations. For example when combining “capital controls with otherwise quite orthodox economic arrangements” (Rodrik, 2002, 3)<sup>21</sup>.

From this perspective, Chile and China are both good examples of the new consensus that holds that both the state and the market have roles to play, and that development can be reached via a combination of these variables, as portrayed by the “economization of development” concept explained here.

As argued in the preceding paragraphs, the debate on development has been bountiful: whether or not we are living a real globalization, whether or not economic globalization has been positive for developing countries and, in view of the emergence of transnational actors, what should be the role of the state. As the case study shows, it is possible to argue that economic globalization has been beneficial for both actors, which have actively engaged in global insertion but maintaining a pivotal role for the state: ultimately both nations have reached levels of domestic growth that were unknown before they opened up their economies.

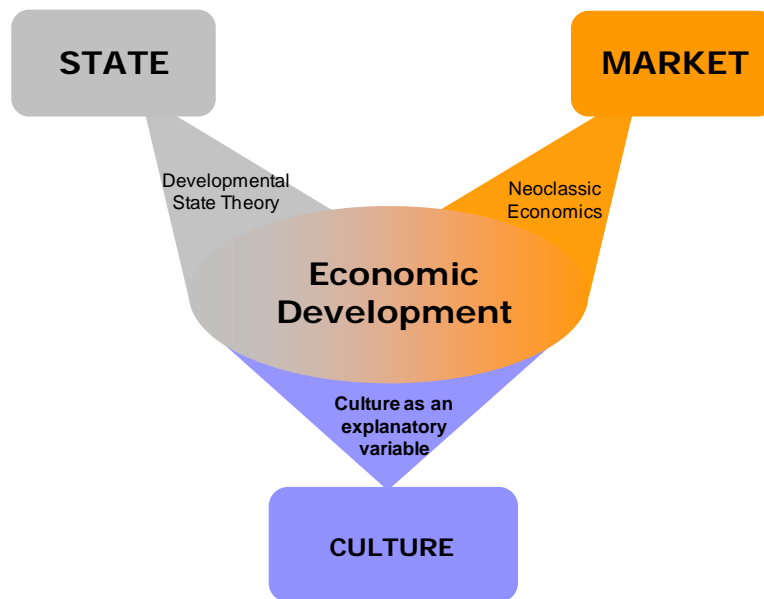
Yet, the case study –which links together two nations that are not only geographically but culturally distant– also shows the importance of socio-cultural variables when analyzing development in a global era, since, as it will be further argued in the empirical chapters, cultural variables do affect economic interaction. This is especially significant for a country such as Chile, whose economic development heavily relies on China’s copper consumption, and therefore is in high need to nurture interaction.

## **2.8 Conclusions.**

This chapter has critically reviewed the discussion on the key sources of economic prosperity given by three traditional approaches, which have been individually appointed as the critical variables for growth: state, market and culture, as shown in the following figure.

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<sup>21</sup> Even Chinese scholars have highlighted that Chilean economic success is based on the “detour from neoliberal policies” allowing a model that involves “self decisions and creativity (Su 2006, 47) and therefore creating an economic model with its “own characteristics” (Qi 2006, 64).



**Figure 2.3: Traditional explanations of economic development.**

The first argument made here was centred on the idea that development –its conceptualization, sources, and policy implementation– has been narrowed down to the exclusive sphere of rational economics, and therefore leaving aside the richness that a more comprehensive analysis, that include socio-cultural aspects, may provide. This claim was illustrated through the scrutiny of neo-classical economics and state developmental theories, which not only have detached the economic and socio-cultural spheres but have also contributed –borrowing again Granovetter’s conceptualization– to create an “undersocialized view” of economic interactions (1985), in which rationality and interest were the main –if not the only– drivers of economic decisions.

Nevertheless, this chapter has also considered a third posture (the lower section of figure 2.3) which claims the importance of culture when analyzing economic growth. Despite its drawbacks and criticisms –this time, creating a over-socialized view of economic interactions– the incorporation of culture into the analysis has the merit of calling attention to a subject historically disregarded by both political economy and neo-classical economics, such that that “the question of to what extent culture “matters” in the process of capitalist transformation and economic growth is no longer being raised in isolated circles, as even some economists now acknowledge a need to bring culture back in, at the very least at the microeconomic level” (Brook and Luong 1997, 14).

Nonetheless, the conceptualization of culture as the sole explanation for economic growth remains empirically contested and this was illustrated with the analysis of the role played by Asian values and Confucian capitalism in the Asian economic revival. In so doing, this stance has demonstrated the same weakness that neo-classical economics and developmental views have shown in offering monocausal explanations for economic prosperity, without considering related factors.

Finally, this chapter engaged the discussion on globalization, concluding that the debate on global economic exchange deals with the same broad variables –state, market and culture– tackled in this chapter. Nevertheless, globalization brings new complexities to the interrelation of these variables, since the discussion now is not centred on how culture shapes economic outcomes –or vice versa–, but instead on how different cultures, due to economic globalization, reciprocally interact and impact each other in a global market. Therefore, these cultural interactions are critical for economies undergoing processes of global economic integration, and which depend on them to sustain domestic growth, as the cases of Chile and China demonstrate.

The next chapter will explore the conceptualization offered by trust theories as an alternative explanation to the question of economic growth. As will be shown, this theoretical stance allows us to integrate elements from rational, cultural and developmental perspectives, and therefore provides a multi-causal explanatory framework.

## Chapter 3: Perspectives in trust and economic development.

*“Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence”  
Kenneth Arrow (1972, 357).*

### 3.1 Introduction.

The academic literature has already started to avoid the trap that the remedy to economic backwardness relies on either the state or the market as the unique mechanisms for achieving development. It has also set serious doubts regarding the premise that a nation's capacity to grow is intrinsically dependent on cultural roots. This has not only permitted the establishment of a broader view, but has also enabled us to leave behind the underlying assumption of economization of development, in which “there was nothing else on the menu and mix and match was out of the question” (Bowles 2002, F419). A new trend, rooted in the “growing awareness that the standard theory of perfect competition under complete contracts is insufficient to accommodate a number of important economic phenomena” (Cersosimo and Nistico 2008, 386), has increased the importance of “soft variables” –defined as “the domain of ‘intangibles and imponderables’ or [as] the mental and cultural dimensions of social reality” (Sztompka 1999, ix)– when analyzing development. It has also incorporated the urgent necessity to “bring the society back” to the economic analysis (Clark and Roy 1997, ix). This evolution, as pointed out previously, has also been guided by changes in the international scenario and the failure of western policies such as the Washington Consensus, that has dragged the traditional focus on development to an “intellectual dead end” (Woolcock and Radin 2008, 415).

The new scenario of a declining hegemony of the economization of development has allowed fresh ideas such as neo-institutionalism, social capital, and trust to find fertile ground to be cultivated as valid cultural variables for economic growth. They have



become legitimate social dimensions of development and thus theorists have abandoned the notion of epiphenomenal sources of growth.

This chapter will concentrate on critically reviewing the role of trust within the economic literature, not only from the organizational and social capital perspectives, but also in its relationship with institutions, understood here not only in the sense of the rules of the game (North 1990), but also as the players (Arrighetti, Seravalli et al. 2008).

It will also assess the need for a theoretical and empirical framework that on the one hand, engages trust in a broader conceptualization and, on the other, frames it in the context of trade relations. Furthermore, it will show that the sources for trust-building have been analyzed only from a fragmented dimension, without deeply looking at the interactions between the different levels<sup>1</sup>.

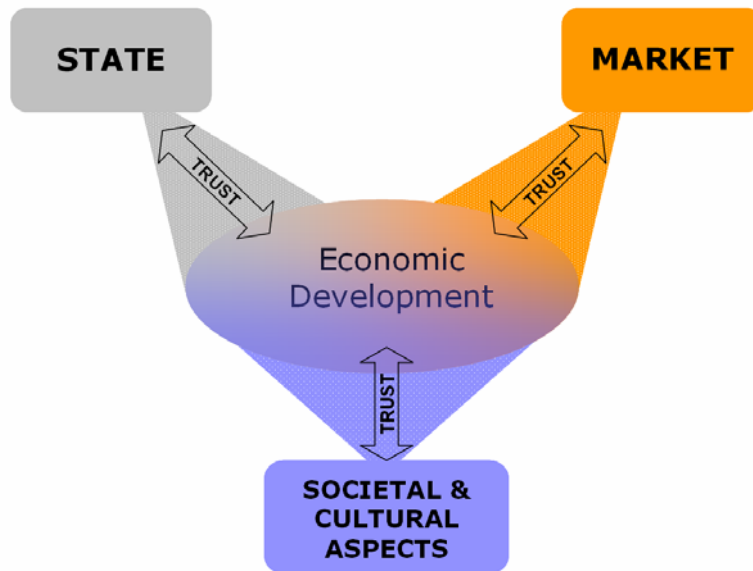
The chapter will start by showing the importance of trust as an enhancer of economic processes and establishing proper categories for the analysis, framing them into the three dimensions discussed in the previous chapter. The first one, the individual/market perspective on trust, will be carried out from the microeconomic point of view, theoretically based on the concept of strategic and knowledge-based trust and having cooperation theories and rational choice as the underlying theoretical support. The cultural dimension will be linked to social capital theories, in their collective aspect, having identity and shared values as enhancers of trust-building, as well as from a neo institutional perspective, which places institutions as sources for trust. Finally, it will be argued that in a global economy –and despite the growing and undeniable importance of transnational phenomena– the state still performs a critical role in trust-building processes through the inclusion of tools extracted from soft power, public diplomacy and nation branding. Consequently, it will embrace the claim that the role of the elites and the state has been neglected as sources of trust and thus a more comprehensive vision –that includes the political economy of trust, but also incorporates the individual/market and culture/normative view– is needed for international and transnational analysis. The political economy of trust is especially important in the case study chosen, given the primacy placed by Chileans and the Chinese on trade and investment to achieve growth.

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<sup>1</sup> Some authors have expressed concerns regarding the possibility of separate trust in levels or dimensions. For example, Mc Emily and Ho wonder whether trust can be analytically studied from the individual level v/s group level and whether they actually influence or not each other (2006).

Throughout the inclusion of the political economy of trust, this research aims to fill the gap highlighted by some, regarding the lack of studies that analyze the state role and its organizations in trust-building (Bowles 2002), engaging with the idea that this may be an opportunity –rather than a weakness– to further enlarge the scope of the theory (Comim 2008, 630).

Figure 3.1 illustrates the inclusion of trust on the analysis of economic development:



**Figure 3.1: Trust and economic development**

As figure 3.1 shows, the analysis of the current section will be guided by the same framework discussed in Chapter Two, in which the role played by rational economics (reflected in market behaviour) and the state, together with cultural and societal forces, jointly interact as sources of trust production. This framework will allow us to overcome the weaknesses highlighted earlier in this dissertation.

### 3.2 Trust and economic exchange.

Although the subject of trust is not new in academic literature<sup>2</sup>, it is mainly from the 90's that different social science disciplines (sociology, economy, anthropology, and political studies) have incorporated trust as "an essential component of all enduring social relationships" (Seligman 1997:13 in Sztompka 1999, ix). In addition, the subject has reached the sphere of policy-making by attracting attention from important international organizations<sup>3</sup> and permeating institutions like the World Bank, which has hosted the Social Capital Initiative since the 90's (Boix 1998; Harriss 2002)<sup>4</sup>. It has also reached the economic arena, as argued by Granovetter: "[since the 70's] there has been a flurry of interest among economists in the previously neglected issues of trust and malfeasance" (1985, 487).

But despite being in the spotlight of both the academic and policy making worlds, trust is still claimed as being under-studied (Child 2001; Reinke de Buitrago 2009), and questioned or not considered by some mainstream economists (Sollow 2000, 6). Because although "economics has begun to recognize the importance of trust [it still] tends to underestimate its complexity and to misconstrue it" (Nooteboom 2002, 2).

Moreover, it has been argued that the concepts of trust and social capital have not been able to create a systematic theoretical corpus "resulting in a confusing potpourri of definitions applied to a host of units and levels of analysis" (Shapiro 1987, 625), and

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<sup>2</sup> Gambetta, for example, analyses the importance that Adam Smith and Hume have placed on trust (1988a, 213-237). Alexis de Toqueville has also been cited in relation to the relevance of networks within civic society, a basic component of Social Capital theories (Putnam 2000). Zak and Knack (2001) also called the attention on John Stuart Mill's work, who already in the 19<sup>th</sup> century warned about how lack of trust may interfere in business transactions. They also highlighted the words of Hobbes, regarding the necessity of some coercive power to assure it. Newton goes further back and states that "Confucius who suggested that trust, weapons, and food are the essentials of government: food, because well-fed citizens are less likely to make trouble, trust because in the absence of food, citizens are likely to believe that their leaders are working on the problem, and weapons in case neither of the other two work" (2007, 243).

<sup>3</sup> In 2002-2003, the World Economic Forum published its annual report "*Building Trust, Peace and Reconciliation*" demonstrating how the subject has permeated important organizations in the global scenario (2003).

<sup>4</sup> However, it is important to highlight that many authors have explained the rise of social capital and trust as a deliberated attempt from the liberals (illustrated by the World Bank policies) to place development far from the state responsibilities. In fact, as noted by Field (2002), the theoretical corpus of social capital theories has deliberately neglected one of the fathers, Bourdieu who stressed materialist aspects of social capital. Instead, it has highlighted the work of Coleman and Putnam, closer to liberal thinking. For more debate, please refer to Harriss (2002), and Bowles and Gintis (2002).

being poorly defined (Carpenter, Daniereb et al. 2004). Therefore, confusion and controversy persist (Nooteboom 2002; 2006), even in its own definition (Newton 2007; Stolle 2007)<sup>5</sup>.

However, concepts in social sciences do not need “a consensus” (Woolcock and Radin 2008, 413) or even “a universal conceptual understanding” because the fact of disagreement or even the existence of multiple definitions “does not invalidate its use in scientific discourse” (Castiglione, Deth et al. 2008, 9). Instead, the literature has shown the necessity to perfect its conceptualization –rather than eradicate it–, highlighting the need to interrelate the different analytical layers (Lane 1998, 14) and make it applicable to specific contexts (Buchan and Croson 2004, 488).

In fact, the existence of divergent conceptions of trust has not invalidated its functionality in economic exchange, as Castiglione correctly asserts. Instead, it has gained acceptance in the last decades as a variable for economic development in both organizational and macro economic contexts (Bohnet and Croson 2004; McEvily and Ho 2006), reaching both the “stand-alone” version of organizational/functional and social exchange theories, as well as being closely linked to networks and social capital, in their individual or generalized/systemic form<sup>6</sup>.

Already in the 70's, Nobel Prize economists stated the relevance of trust in economic exchange: “Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people's word” (Arrow 1974, 23). After Arrow, others have stressed the link between trust and economic performance. Its absence has been connected, for example, to backwardness or underdevelopment (Fukuyama 1995b), and therefore, it has been placed as an independent variable for growth (Knack & Zak, 2001), because “a society that relies on generalized reciprocity is more efficient than a distrustful society” (Putnam 2000, 135). Some enthusiasts have even labelled trust as the ‘missing factor’ “that explains why some countries develop rapidly and others lag behind. Societies that have higher levels of trust appear to grow faster” (Humpfrey 1998, 214), as in the work of Fukuyama, who places

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<sup>5</sup> Kim (2005), for instance, gathers around 30 different definitions in the literature regarding trust.

<sup>6</sup> According to the Harvard University website, two of Robert Putnam's books –one of the fathers of Social Capital theories– *Making Democracy Work* and *Bowling Alone* rank “high among the most cited publications in the social sciences worldwide in the last several decades”. <http://www.hks.harvard.edu/about/faculty-staff-directory/robert-putnam>. Accessed on 03/05/2009.

trust as key to determine national industrial structure (1995b). Empirically, economic development has been directly linked with higher levels of interpersonal trust, based on the results of the World Values Survey (WVS) (Inglehart 1997; 2004)<sup>7</sup>.

From a microeconomic perspective, trust has also been considered key to strengthen cooperation (Granovetter 1985; Kramer, Brewer et al. 1996; Hardin 2002; Van de Ven and Smith 2006), mobilize and get access to resources (Esser 2008), avoid opportunistic behaviour (Hardy, Phillips et al. 1998), and lower or cut transaction costs (Coleman 1988; Fukuyama 1995b; Zak and Knack 2001). It also appears especially important when facing imperfect information (Luhmann 1979), incomplete contracts (Coleman 1990; Sollow 2000; Cersosimo and Nistico 2008), institutional weakness (Knack and Keefer 1997; Child 2001), or market failures (Wolleb 2008). Thus, trust seems to be a complement for the aforementioned structures when confronting opportunistic behaviour, although it has been argued that its function goes beyond mere deterrence: “While formal governance structures may act as 'safeguards' against opportunistic behaviour, they are, in themselves, not sufficient to ensure the sort of performance –innovation and learning– which trust induces” (Sako 1998, 91). Moreover, some have pointed out trust as a precondition for market existence (Beckert 2006).

Trust has also been understood as an essential component for business relationships between organizations (Lane 1998; Bromiley 2006); i.e. between buyer and suppliers (Humpfrey 1998; Sako 1998), in on-line buying (Gefen 2000; Nissembaum 2004), when monitoring daily performance (Ensminger 2001) or in the constitution of international alliances (Child 1998; 2001).

Within organizations, several studies have shown the effectiveness of trust in managerial control (Long 2006), stressing for example how trust in leaders may diminish turnover intentions and increase commitment and performance (Dirks 2006). It is also a

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<sup>7</sup> As it will be further explained in the empirical chapters, the WVS conclusions are based on the analysis of the question: *Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?* These data have been compared to levels of GDP. The findings show a correlation between higher development in those countries with significant levels of interpersonal trust (when respondents prefer the answer: Most people can be trusted). Thus, countries like Norway, Switzerland or Sweden appear to have high trust levels. On the other hand, some African countries show very low trust levels and this would constitute the explanation for their poor economic performance. The data is accessible on [www.worldvaluessurvey.org](http://www.worldvaluessurvey.org) Accessed on 03/05/2009.

factor of corporate productivity (Miller 2001), when lowering transactions costs in the internal company processes (Cummings and Bromiley 1996).

At the bottom of the functions of trust mentioned in the previous paragraphs – either in its macro or individual level– lies the theoretical premise that trust acts as a mechanism to reduce system complexity and therefore, risk levels (Luhmann 1979; Gambetta 1988a), because “trust alleviates fears of exploitation and minimizes feelings of vulnerability while those involved search for optimal solutions to the problem” (Boon and Holmes 1991, 191). Trust therefore, ultimately acts not only as deterrence against opportunistic behaviour but as a way to cope with uncertainty and vulnerability (Heimer 2001), because “under conditions of uncertainty, trust stabilizes the expectations that people have of one another” (Child 2001, 276). Ultimately, trust refers to risk, which is essential in economic exchange, given the time gap between transactions (Coleman 1990, 91)<sup>8</sup>. As it can be observed, the literature has mostly assumed trust and high levels of social capital as beneficial for economic purposes<sup>9</sup>.

This theoretical assumption, however, must not be confused with what has been labelled “blind trust”, which will hinder instead of promote growth (Powell 1996; Child 2001) producing, for example “over-embedded relations that create unnecessary obligations between the parties” (Gargiulo and Ertug 2006, 165). Therefore, “trust, (...) is not naive faith, but [is] based upon such reflexive monitoring and thus, exhibits some degree of reflexivity” (Sydow 2006, 385), which according to some, will indicate that trust “does not flow freely in economic exchange” (Beckert 2006, 319) and therefore, it is imperative to look for its sources, as it will be reviewed in the next section.

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<sup>8</sup> Heimer understands uncertainty and vulnerability as core elements of trust. Uncertainty is defined as the “inability of an actor to predict the outcome of an event because she or he lacks the information about the intentions and competence of another actor who directly control this outcome”. Vulnerability, instead “has to do with the amount of risk an actor incurs by engaging in a particular interaction and is a function (nonlinear and increasing) of the proportion of the actor’s total assets that are at stake at the interaction” (2001, 41 and 43-44).

<sup>9</sup> Critical postures regarding trust and social capital are nevertheless found in literature that criticizes the effects of trust in other social interactions. See for example Gambetta 1988a and 1988b; Portes 1998; Callahan 2005, in which the role of trust is not portrait as bringing positive outcomes.

### 3.3 Nature and sources of trust.

In fact, the necessity to understand the dynamics of trust-building processes is rooted in the idea that trust is not given, especially in those interactions in which previous contacts have not yet taken place. As Arrow states:

Unfortunately this [trust] is not a commodity which can be bought very easily. If you have to buy it, you already have some doubts about what you've bought. They are goods, they are commodities; they have real, practical, economic value; they increase the efficiency of the system, enable you to produce more goods or more of whatever values you hold in high esteem. But they are not commodities for which trade on the open market is technically possible or even meaningful (1974, 23).

Yet, trust does not seem to have a clear root, as the literature emphasizes diverse origins that act as contradictory forces. It is clear however, that the debate on trust sources is knitted to its definitions and dimensions. It is undeniable that the definitions for trust –and therefore its sources– vary immensely across the literature. In effect, trust has been understood from completely unrelated perspectives, ranging from encapsulated interest (Hardin 2001; 2002), expectations (Boon and Holmes 1991; Knight 2001; Yamagushi 2001), estimation of probabilities (Gambetta 1988a), belief (Levi 1998; Mitzal in Knight 2001; Ostrom and Ahn 2008), to even moral community (Fukuyama, 1995b) and moral value (Uslaner 2002; 2008).

The object of analysis –dimensions– also varies when understanding trust as an enhancer of economic development. As Esser points out, the classic authors within social capital theories (Coleman, Bourdieu and Putnam) acknowledge both the collective and individual dimensions of social capital, and therefore, trust (2008)<sup>10</sup>. This is clear in Knight's definition of generalized trust: “*general sense of trust* in the other members of one's society. This is the form of trust most closely related to other concepts like social capital or community. Its most important features are that it is *interpersonal in nature*, generalized across the members of a group, and not tied to the reputation of particular individuals” [original in italics] (2001, 354).

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<sup>10</sup> Some versions of rational choice proponents however, reject the concept of generalized trust (Hardin 2002). Uslaner, in turn, although agreeing with the conceptualization of generalized trust, discards the idea that trust towards strangers (or generalized trust) stems from interpersonal trust, based on his own research (2002).

Although most of the literature emphasizes the relational aspects, some have placed the accent on the microeconomics of trust, therefore stressing the individual/rational point of view, studying those relationships in which truster and trustee are clearly identified. Yet, others have approached it through generalized trust, which has a more systemic character and normally arises attached to social capital. Generalized trust has been analyzed at an aggregate level (Buchan and Croson 2004), because it “reflects general levels of trustworthiness in a society” (Ostrom and Ahn 2008, 88) and it is social insofar as it is targeted to those “people on whom the trusting part has no direct information” (Bjørnskov 2009, 250), and therefore having a more diffused nature (Esser 2008). A clear distinction between individual and generalized trust has been proposed by Stolle: “Generalized attitudes of trust extend beyond the boundaries of face-to-face interaction and incorporate people not personally known. They are indicated by an abstract preparedness to trust others and to engage in actions with others” (2001, 205), drawing the line between personal and individual trust, and general levels of trustworthiness within a particular society.

The idea of different definitions and dimensions of trust demands an analysis of its sources that includes the incorporation of these differences and embraces them in proper categories. In fact, trust has been understood from having psychological (Nooteboom 2006) and biological bases (Woolcock and Radin 2008)<sup>11</sup>, being a function of networks of civil society (Putnam 1993; 2000; 2002), a result of foresight, interaction and reputation (Axelrod 1984; Dasgupta and Stiglitz 2000; Ensminger 2001), social distance (Glaeser, 2002), shared cultural norms, (Granovetter 1985; Fukuyama 1995b; Knight 2001), levels of mutual cognition and knowledge (Yamagishi and Yamagishi 1994; Hardin 2002), or deeply linked to institutional or normative identification frameworks (Zucker 1986; Sen 1999), among others.

These broad, and even opposing conceptions, seem to be directly associated with the multiple perspectives from which trust has been studied and, “as can be expected, each literature has approached the problem with its own disciplinary lens and filters” (Lewicki and Bunker 1996, 115), which in turn, has not only affected the definition but

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<sup>11</sup> The psychological and biological accounts of trust are left aside for this dissertation, because they constitute an area beyond the domain of this study.



also its operationalization and measurement (Van de Ven and Smith 2006, 147). Ultimately, “such divergences depend partially on the model of human nature and or of social interaction underlying theories, i.e. whether man is primarily seen as a rational egoist, or whether social interaction is viewed as being informed by either moral considerations or by cultural scripts and meaning systems” (Lane 1998, 4). In this respect, the debate regarding the definitions and sources of trust emulates the discussion summarized in the previous chapter, and whether this is driven by rational choice, values and norms, or certain institutions, like the state.

### **3.4 The neo-classical and rational choice dimension.**

This theoretical stance is based on rational choice and neo-classical economics that understand the individual as being motivated by selfish interests such as maximization of benefits (Dasgupta 1988; Coleman 1990; Hardin 2002)<sup>12</sup>. In this view, the object of analysis is the trust created by individuals –whether considering its position within networks or not– and by organizations<sup>13</sup>.

Hence, the rational view focuses its attention on individual trust –also called private or personal– based on “face to face interactions” and developed within specific counterparts (Stolle 2001, 205). In here, the truster is able to calculate losses and gains, based either on knowledge (Hardin 2002), repeated interaction (Axelrod 1984) or reputation (Dasgupta 1988) in the framework of expected reciprocity (Hinde and Groebel 1991; Tyler 1998).

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<sup>12</sup> Some authors, however, have dismissed the idea of trust related to self interest. Noteboom, for example, classifies trust according to control (which will be related to self interest) and beyond control (therefore beyond narrow self interest). To him, the latter is real trust (2002, 2006). The same debate can be found in Williamson, who argues that the concept should be placed in the domain of personal relations, friends and family rather than in the economic field (in Noteboom, 2006).

<sup>13</sup> Some authors have made the distinction between corporate actors and the sum of individuals constituting the corporate unit (Lane and Bachmann 1998). For example, Sydow (2006) understands trust as an attribute of an organization rather than an individual. In this sense, organizations would have different sources of trust and therefore, a different model must be applied. However, for the purposes of this definition, the micro dimension of trust will encompass both persons and organizations and thus, the subsequent categories of analysis in rational stance (i.e. reputation, interaction, and risk) apply equally for both. In fact, as it will be seen in the subsequent chapters, in which the case study is analysed and the empirical data retrieved, the line between both becomes more diffused. For example, when trust formation between businessmen is conditioned by corporate attributes. For further discussion, see Arrighetti, Seravalli, et al. (2008).

Thus, trust appears as a product of personal rational actions, in which individuals behave similarly to markets, looking to maximize benefits and reduce risks. Ultimately, this kind of trust is “an ongoing, market-oriented, economic calculation whose value is derived by determining the outcomes resulting from creating and sustaining the relationship relative to the costs of maintaining or severing it” (Lewicki and Bunker 1996, 120). From this perspective, trust is seen as a resource that, unlike others, is stimulated by its use: “trust is therefore like a renewable resource which atrophies with disuse and multiplies with use” (Sako 1998, 93).

The notion of the individual making calculations on whether or not to trust, is based on the premise that “in the rational account we trust because we can assign probabilities to the expected gains from cooperation with another” (Ensminger 2001, 189). Thus, trust becomes a reflexive decision that nevertheless, implies a risk because “the incentive structure of these situations is that while there are mutual gains that can be achieved through trust, there are also incentives for the other to act unethically” (Messick and Kramer 2001, 92), and by this, having a calculative (Lane 1998) and strategic nature (Uslaner 2002)<sup>14</sup>.

Moreover, rational-driven trust has to be placed over a specific purpose and therefore it is possible not only to define the players but also the object because “trust has three parts: A trusts B to do X. The act of trust is the knowledge or belief that the trusted will have an incentive to do what she engages to do” (Levi 1998, 78). This argument is also taken by Hardin who has labelled trust as “encapsulated interest”, and thus permitting trust-building when truster and trustee have interests that are “causally connected”, and thus trust can only be maintained “as long as the relationship continues” (2002, 4).

This last statement engages with a second major element in trust relationships: the idea of repeated transactions with expected reciprocity (either by incentives or punishment) as an essential component of the rational account of trust (Hinde and Groebel 1991). As a result, trust becomes a central player in game theory because,

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<sup>14</sup> As any definition, this one also incorporates controversy. As stated earlier, Williamson, an important author in transaction economics, has sustained the idea of calculative trust as a contradictory concept in itself. This research however, will accept this notion as valid, given the results of the empirical work in which the data confirms the idea of “rational/calculative trust”, as it will be explained in subsequent chapters.

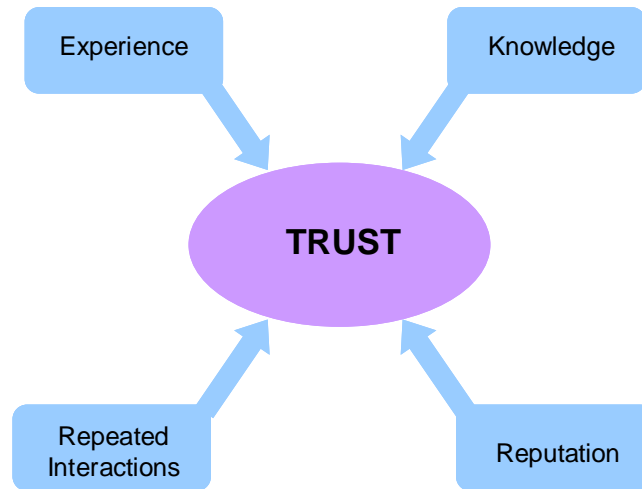
(...) game theory has identified conditions that coax players with a calculative sense of trust to display trusting behaviour. These conditions have in common that they offer the players means to punish cheating or reward each other for honouring trust. The basic condition explored by game theory is repeated play. In a repeated context, the players recognize that making a costly contribution to the collectively optimal outcome today can be rewarded in the future by the promise of repeated contact (Van Witteloostuijn 2006).

From this perspective, sources of trust rely on both the past –due to previous experience– and the future, given the incentive for future exchanges (Burt and Knez 1996). In fact, as Axelrod argues, cooperation is sustained by the “fact that the players may meet again. This possibility means that the choices made today not only determine the outcome of this move, but can also influence the later choices of the players. The future can therefore cast a shadow back upon the present and thereby affect the current strategic situation” (1984, 12). Moreover, there is “a calculation of the likelihood of future cooperation” (Williamson, 1993 in Kramer and Tyler 1996, 4), based on individual experience which affects future behaviour (Dirk 2006). As Luhmann argues, “The complexity of the future world is reduced by the act of trust. In trusting, one engages in action as though there were only certain possibilities in the future. The actor binds his future–in–the–present to his present–in–the–future” (1979, 20), emphasizing the temporal duality of trust creation. Past experience and knowledge also produce familiarity, that in turn, helps to reduce risk in complex environments because “it makes it possible to entertain relatively reliable expectations and, as a consequence, to contain the remaining elements of risk as well [...] Familiarity is the precondition for trust as well as distrust” (ibid 1979, 19).

Thus, rational accounts recognize the benefits of cooperation and trust as long as they are framed in certain conditions, such as past experience, long term exchange, or the capability to foresee the future. Trust can also emerge when there are either incentives or the means of punishment when confronting deviant behaviour. It also encompasses as its crucial elements the idea of constant interaction, calculation and risk.

If trust is a reflexive choice, taken nevertheless under some conditions, which are the elements that would contribute to making the best possible decision? Figure 3.2 illustrates the main sources of trust-building according to the rational viewpoint found in

the majority of the papers reviewed that argue on the rational sources of trust, which is summarized in this figure:



**Figure 3.2: Sources for trust, the rational perspective.**

Figure 3.2 shows four elements as the major means to establish trust in resource exchange: experience, repeated interactions, knowledge and reputation. As stated, experience can be acquired by repeated interaction (Axelrod 1984) and by means of cognition (Hardin 2001) and therefore trust is developed based on “information [of the other party] rather than deterrence” (Lewicki and Bunker 1996, 121). Knowledge-based trust involves not only “employing available information to make intentionally rational assessments of risky situations” (Whiting 1998, 167), but in addition the acknowledgement of mutual benefits at stake when trusting: “As long as they share the knowledge that they can individually benefit from following the same pattern of behaviour, cooperation can in principle be sustained even though they do not value the pattern of behaviour to the same degree or in the same way” (Knight 2001, 358), detaching, therefore, values and economic behaviour.

The cognitive experience also carries the implicit idea that information of past behaviour will enhance predictability of the future; therefore it can be anticipated (Lewicki and Bunker 1996). It is highly possible that predictability can be developed in

economic theory because actors involved in economic exchanges are willing to maintain their reputation (Dasgupta and Serageldin 2000), and it “generally pays to keep it” (Casson and Della Giusta 2006, 352).

From this point, reputation becomes another source of trust insofar as “trusting another individual or group depends in part on the reputation of the latter: individuals may invest resources in order to augment the trust that others have in them, and dealings between groups may likewise be influenced by the perceived reputation of the other” (Hinde and Groebel 1991, 187), despite its indirect nature.

Reputation is especially important at the initial phase of the relationship when there is no direct previous experience (McKnight, Harrison et al. 2006). From this perspective, trust constitutes a kind of capital, insofar as it can activate resources and benefits because “of this reputation for being trustworthy” (Esser 2008, 34)<sup>15</sup>. Moreover, reputation has been considered “the breadth of trust”, when trust is viewed as a scarce good (Casson and Della Giusta 2006). Some have even identified a special kind of trust based on reputation: process-based trust as in the work of Zucker (1986).

The relationship between reputation and trust works in both directions: “Trust is a purely instrumental non-material resource in which people will explicitly invest with the purpose of building a reputation for honesty. The latter in turn makes possible cooperative behaviour and the emergence of stable structure for transacting” (Casson and Della Giusta 2006, 339). But although reputation-based trust is considered rational and can be acquired “through behaviour over time in well-understood circumstances” (Dasgupta 1988, 53) as well by investing resources to build it (ibid 1988), normative elements –a moral commitment and shared beliefs– contribute to its development (Casson and Della Giusta 2006, 352). In addition, reputational effects are not only dependent on the actual behaviour of the counterpart, but also on the social networks that can carry this reputation (Putnam 1993; Kramer and Tyler 1996) and even on third party gossip (Burt and Knez 1996, 83).

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<sup>15</sup> Reputation will be understood here not only in its individual dimension, but as part of a bigger structure (i.e industrial sector or a nation) as proposed by the theories of Public Diplomacy and Competitive Identity, that involves an active participation of the State.

As it will be seen in the next section, normative stances together with societal aspects start to appear in the analysis when hyper rationality gives place to a broader conceptualization in economic exchange, in which social variables are taken into account.

### **3.5 The cultural dimension: Social capital theories.**

The previous section mostly focused on the idea of trust from the economic perspective given by social exchange theory, emphasizing either the individual aspect of trust, or within corporate actors from a rational standpoint.

This view has been contested by pointing out the deficiency of pure rational choice theory and instrumental models to explain the creation of trust (Kramer and Tyler 1996). It has also considered its limitations due to its restriction to micro social relations (Coleman 1988).

For some authors, trust not only goes beyond “naked self-interest” (Holton 1992, 184) but also enables individuals “to take risks in dealing with others, solve collective action problems, or act in ways that seem contrary to standard definitions of self-interest” (Levi 1998, 78), and consequently challenging rational stances.

This section will review the so called cultural accounts for fostering trust, emphasising the role of networks, institutions, as well as identity and values, under the general umbrella of social capital<sup>16</sup>.

As argued in Granovetter’s concept of embeddedness, the previous account of the economist prevalence in social understandings have pushed a model of under socialized – atomized– individuals: “This view sees the economy as an increasingly separate, differentiated sphere in modern society, with economic transactions defined no longer by the social or kinship obligations of those transacting but by rational calculations of individual gain” (1985, 482). He also criticizes an over socialization of behaviour that gives room to individuals “overwhelmingly sensitive to the opinions of others and hence obedient to the dictates of consensually developed systems of norms and values, internalized through socialization” (ibid, 483). In this argument, trust appears as a result

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<sup>16</sup> Although some authors deny that norms are part of the definition of culture (Williamsom 1998 cited in Beugelsdijk 2006), this research will place them as in Knight (2001) who understands norms as part of the cultural framework. It will accept this differentiation, though, when analyzing institutions in the sense of organizations or formal norms (i.e rule of law).

of “concrete personal relations and structures (or "networks") (...) generating trust and discouraging malfeasance” (ibid, 490). The idea of the individuals embedded in networks that produce trust has been incorporated through social capital theories, capturing “not only social structures at large but the ensemble of norms governing interpersonal behaviour” (Serageldin and Grootaert 2000, 46). And although the concept of social capital was conceived –at least in Coleman’s work– as “a way to reconcile individual action and social structure, normative–driven and self–interested behaviour in social analysis” (Castiglione, Deth et al. 2008, 3), the role of self interest and rational choice, culture, and institutions is still debated<sup>17</sup>. In fact, as noted by Ostrom and Ahn, there are two main understandings of social capital: “one is derived from neoclassic economics in which trustworthiness is a personal behavioural characteristic [and the other] understands trustworthiness embedded in intrinsic norms, whether there is personal interest or not” (2008, 71 -72)<sup>18</sup>.

Yet, as in many concepts in social sciences, the ongoing debate does not affect the widely recognized importance of social capital in economic development, since it has brought to “economics an important feature of social and political science: the feature of actors as socialized beings, whose behaviour is not merely governed by their self–interest but by norms, institutions, and social bonds among individuals” (Comim 2008, 627). Furthermore, social capital theories have been considered as filling the gap left by theories of economic development “which have traditionally focused on stocks of natural, physical, financial, and human 'resources' as the preconditions for development, but have overlooked the importance of how economic agents 'interact and organize themselves' (Grootaert 1998:1 in Castiglione 2008, 555).

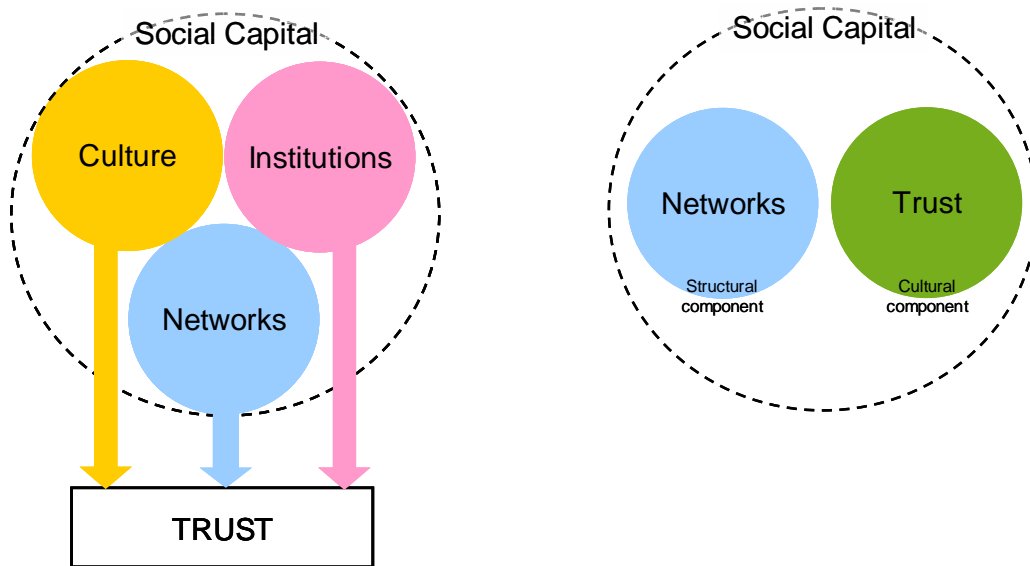
To Putnam, “social capital refers to connections among individuals, social networks and the norms of reciprocity and trustworthiness that arise from them (2000, 19). It is also considered as the "glue that holds societies together" (Serageldin 1996, 196) based on strong ties that “make possible transactions in which trustworthiness is taken for granted and trade can occur with ease” (Coleman 1988 S 99). In the end, “social capital

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<sup>17</sup> However, not everyone that has related trust and successful exchanges agree with the concept of Social Capital, as in Sollow (2000).

<sup>18</sup> Some have argued that these distinctions have been “largely artificial and unnecessary. They detract from the fact that different types of social capital coexist and can be mutually reinforcing” (Serageldin and Grootaert 2000).

generally refers to trust, concern for one's associates, a willingness to live by the norms of one's community and to punish those who do not" (Bowles 2002, F419). As it can be seen in figure 3.3, trust is placed at the core of network relationships, either in their individual or generalized dimension.



**Figure 3.3: Trust as a result and a component of social capital.**

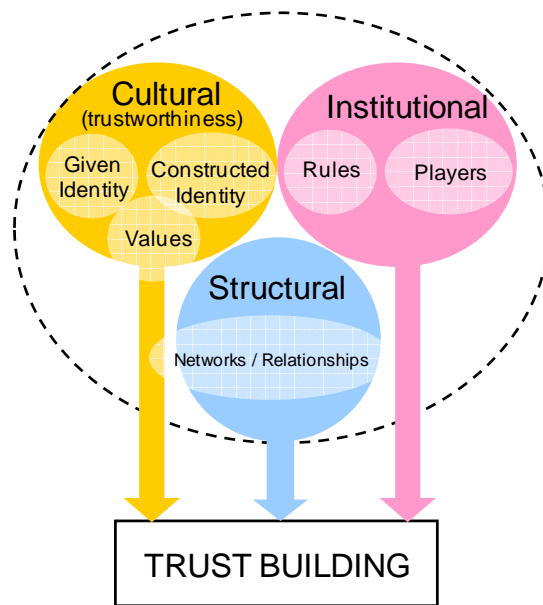
As shown in the preceding figure, trust appears as an essential component (Coleman 1990; Newton 2007) and an outcome (Putnam 2000; Esser 2008; Ostrom and Ahn 2008) of social capital. It has also been argued that trust precedes social capital formation as in the work of Warren (2008)<sup>19</sup>. The next section will examine the idea of social capital as a source for trust, as it constitutes the core of this research<sup>20</sup>.

<sup>19</sup> I have avoided naming here the position represented by Fukuyama, since in earlier accounts he looks at trust as a component (1995). Later, however, he states that trust is "epiphenomenal, arising as a result of social capital but not constituting social capital itself" (2001, 7). Indeed, as it was experienced in the fieldwork, the line drawn between trust as a component, and as an outcome or a source for social capital can be diffuse. Nonetheless, trust will be analytically and empirically understood as an outcome of social capital for this dissertation.

<sup>20</sup> Nevertheless, I offer here a brief summary of trust as a component of social capital. Within the bibliography consulted, trust appears as the cultural or attitudinal component for social capital. The structural component, instead, is defined by networks, or the position of the individual within them (Hooge 2008, Van Deth 2008, Stolle 2001).



Although the analysis will be partially based on Ostrom and Ahn's classification (2008) and will therefore have networks, institutions and trustworthiness as the main sources for trust production, the present scrutiny will expand the scope of their typology, incorporating a second meaning of institutional understanding, as well as encompassing a cultural perspective in the concept of trustworthiness. Figure 3.4 represents this categorization, regarding how social capital acts as a source for trust:



**Figure 3.4: Dimensions of social capital affecting trust-building processes (adapted and expanded from Ostrom and Ahn 2008).**

This model summarizes the three aspects of social capital that frame trust-building which will be reviewed in the next section. On the one hand, it illustrates the structural component given by networks and relationships. It also considers the role of institutions, in both formal and informal versions, as well as within the organizational dimension. Finally, it shows the importance of shared cultural values and common identities, either given or constructed as the cultural source within social capital.

### 3.5.1 The network approach.

When understanding social capital as having networks as its core (Putnam 1993; 2000, 2002; Lin 2002, 2008), trust is perceived as a result of the interaction among them. From the interpersonal stance, and highly influenced by rational accounts, it has been claimed that social capital “facilitates the realization of collective projects because it reduces the risk of free riding and strengthens the trust in interpersonal relationships” (Arrighetti, Seravalli et al. 2008, 521).

Functionally, networks strengthen trust through their ability to conduct information (Cersosimo and Nistico 2008). As explained by Putnam: “trust and cooperation depend on reliable information of past behaviour and present interest of potential partners” (1993, 174). Trust is enhanced by networks as well, because the participants within them know that it will be better for their own interest to reciprocate rather than defect (Ostrom and Ahn 2008), acting both as deterrence and incentive mechanisms to allow cooperation.

The argument of social capital as a trust producer also applies to the concept of generalized trust. Putnam’s seminal work argues that associational (formal) memberships are the main source for social capital, and therefore, generalized trust: “Networks of civic engagement foster robust norms of reciprocity [...] facilitate communication and improve the flow of information about the trustworthiness of individuals. [...] Other things being equal, the greater the communication (both direct and indirect) among participants, the greater their mutual trust and how easier they will find it to cooperate” (1993, 173-4). As in Coleman, Putnam’s argument combines both rational choice and normative stances when asserting that social trust rise from norms of reciprocity as well as a by product of networks of civic engagement” (1993)<sup>21</sup>.

However, the correlation between associations and generalized levels of trust has been criticized for not having enough empirical support (Boix 1998; Hooge 2008). Even researchers like Stolle, who agrees in many theoretical aspects of social capital, argues that Putnam’s empirical evidence does not support the causal correlation between memberships and generalized attitudes such as trust, despite finding a connexion (2001).

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<sup>21</sup> In later works, Putnam (2007) will recognize other sources for trust formation.

Uslaner also rejects Putnam's claims and states that networks enhance particularized, not general trust, because "we might learn to trust our fellow club members more", as opposed to strangers, which is at the core of the concept of generalized trust, as seen earlier (2002, 5).

### **3.5.2 The normative approach.**

The institutional standpoint of trust does not reject many elements of rational choice, but claims the need for norms as the necessary mechanisms to enforce trust and act as its guarantors. In fact, the neoinstitutional perspective bases its theoretical corpus on Douglas North, who defined institutions as any form of constraint –informal or formal– which he denominated the "rules of the game" that build the "framework within which human interactions take place" (1990, 4). From this perspective, institutions are a source of trust not only because they develop the environment in which trust can occur, but also allow the possibility of punishment should trust be breached, because norms "may provide sufficient information and deterrents to greatly increase the likelihood that Trustees will behave in reciprocal ways even when they face very high material temptations to break the trust placed in them [...] Thus, when institutions are effective, I would rather *reciprocate* than *exploit*" (Ostrom and Ahn 2008, 84). Luhmann also stresses the idea that the "possibilities of sanctions" enhance trust by structuring motivations, diminishing uncertainties, and creating imputation of guilt (1979, 37). In this way, and within social capital and trust literature, institutions become "the commonly understood, agreed upon, and enforced prescriptions used by groups of individuals in multiple forms of organizations, ranging in scale from the household to international regime" (Ostrom and Ahn 2008, 84). Furthermore, they form "a sense of moral community, that is, an unwritten set of ethical rules or norms that serve as the basis of social trust" (Fukuyama 1995a, 190), stressing the regulatory nature of institutions, despite being rooted in consensual agreements.

Applying the functionality of institutions to the development of generalized trust, Knight goes a step beyond and introduces some doubts regarding the rational premise that experience is a primary source for trust at a social level by stating that

For each individual in a society there are two primary sources of trust: individual past experience and cultural factors (the most important of which are social norms and conventions, the informal rules that structure social life). Although past experience is a major source of belief formation for each individual, the diversity of experiences makes it an unlikely primary source of socially shared factors. This leaves cultural factors such as social norms [in the sense of rules of behaviour] as the probable source of these expectations (2001, 358-359)<sup>22</sup>.

Therefore, the relationship between institutions and trust in social capital theories understands generalized trust as a product of its proper functioning, meaning that the adequate norms help to build trust, either by way of incentive or deterrence.

But institutions may also seem to bear trust in the exact opposite situation. Coleman, for example, states that risk may be overcome by rule enforcement, but when this is not possible, risk can be “treated” under the concept of trust (1990, 91). Thus, trust—which nevertheless seems to have a more private or individual nature in this case—appears in the absence of legal, formal norms or in a general weak institutional environment. Thus, it has been proposed that when formal institutional settings fail, informal rules become stronger:

It is then that we come across a paradox. In societies where there is a high degree of uncertainty and a generally low level of trust, whom you can actually trust becomes a vital consideration. In other words, when institutional supports for trust are weak, people have to resort to supports of a traditional nature. In these circumstances, trust provides an extremely significant bond in personal relationships that assume much greater importance than in the so-called high-trust societies. At the same time, because people then depend on trust so highly, they require assurances of a traditional kind before they are willing to trust in others (Child 2001, 277)

Beyond the argument on whether institutions work as a source of trust because of their strength (facilitating social trust) or weakness (enhancing private trust), the correlation between institutional incentives, either formal or informal, and trust generation has been demonstrated by empirical research. Zak and Knack’s findings show that “trust depends on the social, economic and institutional environments in which

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<sup>22</sup> The relationship has been discussed as bidirectional, when authors like Fukuyama, Putnam or La Porta argue that high levels of generalized trust determine institutional performance, constituting the so called neo Tocquevillian hypothesis, according to Arrighetti, Seravalli, et al (2008).

transactions occur [and] clearly support the theory's predictions that institutions affect growth via their impact on trust" (2001, 296 -297), giving importance to the institutional framework that surrounds trust-building.

Other important discussions within the formal institutional view are related to the relationship between trust and contracts, which is necessary to highlight given its relevance to the case study. The first one, as in Coleman and Child, is based on the premise that trust acts as a substitute for contracts, either when inexistent or weak (and thus invalidating its functionality to monitor economic exchanges). The second follows the idea that trust facilitates economic exchange, even with the existence of a contract (Fukuyama 1995b), and therefore sees trust as a complement for incomplete legal formal arrangements (Cersosimo and Nistico 2008) given the fact that "principals cannot possibly control every agency relationship with contracts or pseudocontractual stipulations" (Shapiro 1987, 633). Because as stated by the Nobel Prize winner Robert Solow, "During the life of any contract, contingencies will arise that were not provided for when the contract was drawn up. Not every contingency can be foreseen or even imagined [but] even if they could, it might be unprofitable, given what lawyers make, to spell out the obligations of the parties in all of the low-probability cases" (2000, 8). Thus, as highlighted earlier, lack of trust will make "people [...] increasingly unwilling to take risks, demand greater protections against the possibility of betrayal, and increasingly insist on costly sanctioning mechanisms to defend their interests" (Kramer and Tyler 1996, 3-4), highlighting once again the alternative costs of trust absence.

A final consideration rests on the specific work of Deakin and Wilkinson who, based on previous research, argue that the functions of institutional norms go beyond "filling the gap in incomplete contracts", because more than acting as an imposition to actors, norms operate "setting standards which, to a greater or lesser degree, are internalized by agents, and which may serve to reinforce expectations of future behaviour (1998, 154). Institutions, then, act as "bases for trust between actors, because they imply a high degree of taken for grantedness which enables shared expectations even between actors who have no mutual experience or history of interaction" (Möllering 2006, 373) that facilitates cooperation.

However, the definition given by North –which is followed by most of the institutionalist researchers– deliberately leaves aside the role of institutions as the “players” (in the sense of organizations) including political, economic and social bodies. But as it will be demonstrated, organizations provide the necessary knowledge to trust someone (Coleman 1990), and by doing so they play “the role of intermediaries in trust for our relationships with others” (Hardin 2002, 109). Furthermore, they may alter the rules of the game, because they are blended in one entity (Cersosimo and Nistico 2008).

This argument goes in line with Shapiro’s proposition of “impersonal trust”, in which the framework surrounding trust is specifically placed on institutions that operate as its guarantors, based on the idea that modern specialization does not allow having all trust situations embedded in networks (1987); or in Zucker’s “institutional based trust”, in which trust is tied to “formal societies structures” (1986, 153). Although this vision diverges from the idea of institutions and networks found in social capital theories, it is very useful for the case study analysis because the institutional context affects decisions of those who are under this structure either directly or indirectly.

Another relevant subject is the legitimacy of these institutions, whether they are considered norms or organizations. In this sense, the institution itself becomes an object of trust and therefore “institutional based trust between actors requires that the institutions on which such trust is based are 'trusted' themselves” (Möllering 2006, 373). But institutional legitimacy is important for economic exchanges no matter what its nature because if “your trust in the enforcement agency falters, you will not trust persons to fulfil their terms of an agreement and thus will not enter into that agreement” (Dasgupta 1988, 50). From here, it is possible to develop the idea of institutions and norms as influencing trust-building due to their “channelling” role (Deakin and Wilkinson 1998).

However, as stated by some, there is still a second dimension which constitutes the internal framework that guides the individual: trustworthiness, which ultimately works as an “internal parameter” (Crawford and Ostrom in Ostrom and Ahn 2008, 83) for individual action. Trustworthiness encompasses a range of concepts –values or habits for example– that belongs to the concept of culture within a society, and is a subject that will be analyzed in the following section.

### **3.5.3 Identity and values.**

The claim that a shared identity strongly influences both individual and generalized trust has been proposed theoretically (Child 2001; Putnam 2007) and tested empirically (Knack and Keefer 1997; Glaeser 2000).

In fact, the concept of social capital has been conceived “with a certain degree of common cultural identifications, a “shared identity or reciprocity” (Putnam 2000, 18) that implies a sense of “belonging” and “shared behavioural norms” (Serageldin and Grootaert 2000, 44). These commonalities can be either “given” or “constructed”, and thus its sources are different. While the first stem from a more culturalist perspective, the latter can be seen through a constructivist lens.

In the first account, trust is seen as an outcome of shared cultural values. This school of thought was mainly initiated by the sociologist Talcott Parsons, who basically argued the necessity of shared values and a common solidarity for trust development. By doing so, he openly rejected the idea of rational interest as a source of trust (Lane 1998, 8). More recently, the culturalist perspective on trust and social capital has been personified by Francis Fukuyama, who has argued that “social capital differs from other forms of human capital insofar as it is usually created and transmitted through cultural mechanisms like religion, tradition, or historical habit” (1995b, 26). Following this argumentation, trust can be considered a “non rational factor” rooted in “premodern sources” (Fukuyama 1995a, 103), and “tend to be the product not of rational choice in the economists' sense of the term, but of nonrational habit” (ibid, 90), again conceptualizing culture as the opposite of rationalization.

As in the culturalist perspective of economic development, this stance homologates culture and values. However, there is a second approach in the literature concerning trust and shared identity based on given values that does not centre the debate on the primacy of some values in order to reach economic development like in modernization theories. Instead, their promoters see values as “key to understanding trusting relations” (Braithwaite 1998, 47) because they give not only a common framework, but through the use of common symbols provide “an intersubjective social

'reality' that cannot exist, regardless of the good intentions of partners, unless the symbols used to sign trustworthiness have meaning for all parties" (Hardy, Phillips et al. 1998, 70). Values, therefore, "shape expectations of others and are linked to the criteria used to identify others as trustworthy" (Braithwaite 1998, 46-47). This second stance is the one that will be incorporated into the empirical research.

Other "given" cultural sources for trust to emerge are based on the possession of common ascribed characteristics, when the foundations of trust are "tied to [a] person, depending on characteristics such as family background or ethnicity" (Zucker 1986, 60), which has also been called affected-based trust (Child and Möllering 2003).

Empirically, and established upon the analysis of case studies, Putnam has recently asserted that in the short term "trust (...) is lower, altruism and community cooperation rarer, friends fewer" in ethnically heterogeneous communities" (2007, 137). Through this, he is supporting the so-called 'conflict theory', which suggests that, for various reasons –but above all, contention over limited resources– diversity fosters out-group distrust and in-group solidarity at least in the short run.

In the same path, empirical research has found that higher levels of interpersonal trust are present in homogeneous societies, based on the data of the WVS (Knack and Keefer 1997). Using a laboratory experiment, Glaeser et al. conclude that "trustworthiness declines when partners are of different races or nationalities" (2000, 811). Their findings support the claim that variables such as the degree of social connections, race and background characteristics influence the level of trust between individuals. Furthermore, they discovered that although social connections generally predict the levels of trust and trustworthiness in the two-person trust game, which "support the idea that repeated play in dense social networks facilitates trust", the effects of heterogeneity "are stronger than the social network effects and survive controls for the social connection of the sender and recipient", since when individuals are paired "with a partner of a different race or nationality" less trusting behaviour is observed (ibid 2000, 814).

In social capital language, this kind of trust can be equating to the idea of "bonding social capital" exposed by Putnam, who refers to the kind of capital that produces "inward looking and tends to reinforce exclusive identities in homogeneous



groups” that in turn creates “strong in-group loyalty” (2000, 22-23). A similar conception can be found in Lin when he identifies weak (instrumental) and strong (expressive, to similar ones) ties, the latter being based on the principle of homophily (2002; 2008). In fact, the whole argument of the Asian values and Confucian Capitalism explained in the previous chapter can be theoretically supported by this idea of ascribed trust and bonding social capital, as it will be further developed in the next section and later applied to the case study.

The second standpoint, in which identity can be built, may be considered from a constructivist stance (which also internalized some rational arguments) and can be the result of multiple factors, not necessarily as a cultural product, but that nevertheless ends in commonalities that may even include shared values.

It has been argued that identity is produced when there is an “identification with the other's desires and intentions [therefore] trust exists because the parties effectively understand and appreciate the other's wants; this mutual understanding is developed to the point that each can effectively act for the other” (Lewicki and Bunker 1996, 122). It also occurs when people fit into personal categories (Stolle 2001, 205), and as a product of a social categorization process (McKnight, Harrison et al. 2006). For example, research has shown how perceived membership to a social group facilitates intra group cooperation (Rabbie 1991), and empirical results have confirmed that one member is able to transfer her trustworthiness to other members and therefore “new relationships and interactions with previously unknown members of a collectivity do not start from a clean slate, but are construed through the lens of shared group identity with those with whom one has experience” (McEvily and Ho 2006, 65). The construction of common meanings also facilitates trust “between individuals with different values and backgrounds” in which shared meanings and symbols are not initially present (Hardy, Phillips et al. 1998, 70).

In this last point, building broader identities can also be understood from the idea of bridging social capital since, as stated before, networks may facilitate information flows and therefore are able to connect different groups. This is specially important for the case study, because in business relationships with Chinese counterparts, if “ascribed or primordial traits such as kinship, native place, and ethnicity” or acquired ones given by

mutual experience are not present, then there is a primordial necessity to “consciously establish or seek to manufacture *guanxi* when no prior basis exists” (Gold, Guthrie et al. 2002, 6). This possibility of *guanxi* as a cultural resource that nevertheless can be manufactured, opens the door for analyzing a deep cultural trait in Chinese society that frames (institutionally and culturally) economic exchanges with a lens that goes beyond the culturalist idea of Confucian Capitalism highlighted in the previous chapter.

The conceptualization of *guanxi*, and embedded *xinyong* within this, will be analyzed in the next section as they are pivotal concepts for the case study development.

### **3.6 Networks and trust: *Guanxi*, *xinyong* and the Chilean *pituto*.**

As stated in the introduction, the two subsidiary research questions aim to find out the sources of trust-building processes between China and Chile at a transnational and international level. This is relevant since, the case study portrays two trading nations embedded in the world economy that despite globalization still have to face important challenges in order to build trust, due to structural and cultural differences. The next section will therefore interconnect trust and social capital to the Chinese concepts of *guanxi* and *xinyong* (business trust) as crucial elements in the case study’s bilateral economic relation. It will also review the scarce literature on the similar Chilean network structure called *pituto*.

As stated in the previous chapter, *guanxi* has been defined as the “art of personal relations” (Yang 1994, 8) or simply as “connections” and it can be found in all the social expressions of Chinese daily life, not only in the economic sphere (Gold, Guthrie et al. 2002).

During recent years, the importance of personal relations and networking in Chinese societies has caught the attention of western academics focused on Chinese business practices, given its particular nature and sources (Gold, Guthrie et al. 2002). Although some scholars argue that migration trends and globalization have diminished the importance of *guanxi* networks in the motherland (Graham and Lam 2003), others look at it as one of the engines for the recent Chinese economic development. As stated by Wellman, Chen and Dong: “*guanxi* relationships (...) provide informal ways to reduce environmental uncertainty and opportunistic behavior (...) *Guanxi* networks are flexible,

efficient, available and custom tailored sources of social capital that are low in financial cost” (2002, 222), constituting an important engine that moves the Chinese economy<sup>23</sup>.

The importance of *guanxi* in social relations in China in general, and in business in particular, is well understood by the literature, even despite Chinese globalization: “The significance of any *guanxi* base due to the environmental changes, can change. However, the importance of *guanxi* has not. Much energy is invested into the development of useful personal contacts, as traders believe that *guanxi* is critical to secure favours and resources” (Kiong and Kee 1998, 80), findings that are concurrent with the ethnographic study performed by David Wank, in which he proves that regardless of rapid Chinese industrialization, *guanxi* –although modified– is a critical feature of current Chinese economy (Wank 1999).

*Guanxi*, however, is not a straight forward concept. As stated, it may mean simply connections, but it has also been related to a culture of gift exchange and even corruption (Yang 1994). Xinci Xinyu Cidian defines it as “the use of someone’s authority to obtain political or economic benefits by unethical persons” (in Huang 2003, 8). As when conceptualizing the drawbacks of social capital (see for example Gambetta 1988a and 1988b; Portes 1998; Callahan 2005) *guanxi* has also been associated with negative corruptive practices, and this has become the reason behind mainland authorities’ desire to sweep it away (Gold, Guthrie et al. 2002, 4). This section, however, will analyze *guanxi* as a “group of relationships that works in a framework of reciprocity” (Ordóñez 2004, 222), in line with social capital and therefore considered as having positive externalities as in the bamboo networks theory<sup>24</sup>.

As stated, *guanxi* can be considered a particular form of social capital because it has within itself the concepts of “social connections” and “social networks” (Pye 1992; Yang 1994; Yeung 1997; Liu 2000; Wang 2000; Gold, Guthrie et al. 2002; Lin 2002). Furthermore, they share the idea of “investment in social relations with expected returns in the marketplace” (Lin 2002, 19), and therefore as containing reciprocity (Coleman 1988). Despite this, *guanxi* also has its own characteristics and differences to social

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<sup>23</sup> As it will be further argued, this last statement will be contested by the empirical data of this dissertation.

<sup>24</sup> Nonetheless, as it was argued in the introduction, the fieldwork data have shown that at least in the initial phase of a commercial relationship, these networks would hinder, rather than promote, economic exchange, and thus, growth.

capital<sup>25</sup>, its foundations being the most important, as it will be exemplified in the following paragraphs and through the case study.

Maybe the most important attribute is that *guanxi*, despite being a culturally rooted phenomenon, incorporates the idea of mutual interest, as in the western –and rational– concept of trust relationships. Analyzing Chinese characters –*Guan* meaning door or exit and *xi* to tie or to bond– Ordóñez attaches *guanxi* to “relationships or social connections based on mutual interest and shared benefits” (Bian in Ordóñez 2004). A particular characteristic of Chinese *guanxi*, therefore, relies on its mixed nature, because it is: “a complex cultural phenomenon that combines instrumental motivations with a highly developed set of ethics rooted in aspects of a populist form of the Confucian tradition” (Yang 1994, 71). In social capital terms, *guanxi* mixes instrumental with expressive ties (Huang 2003).

This mixed understanding of rational and cultural traits coexisting in the *guanxi* definition also involves the concepts of reciprocity or reciprocal obligation –*renqing*– which is conceived without any deadline, because the expectations are that “the debt incurred will be paid sometime in the future” (Yang 1994, 1-2). But *guanxi* also has an affective component –*ganqing*– (Gold, Guthrie et al. 2002; Ordóñez 2004), almost impossible to find in the West within the instrumental or strategic version of trust, that also makes *guanxi* ties stronger when the affective component prevails (Li 2007).

Pye also strongly links Chinese *guanxi* with the concept of face or *mianzi*, because Chinese use “shame as a social control mechanism”, therefore “a great deal can be gained helping the Chinese to gain face” (1992, 101). However, warns Pye, the concept of sincerity closely attached to face in Chinese culture is more related to etiquette, like if they were saying: “I will show you my sincerity in my relations with you by going to the trouble of being absolutely correct toward you so that you will be happily untroubled about any matters of face” (1992, 101), again mixing culturally rooted behaviours with strategic considerations. *Mianzi* has also been translated as reputation,

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<sup>25</sup> Qihai Huang provides a comparison between *guanxi* and the concepts of social capital from Bourdieu, Coleman and Putnam, concluding that although there is an overlap between the four concepts, *guanxi* is closer to Bourdieu’s ideas because in his work social capital “is mainly looked at from the relational dimension of social capital to refer to the actual and potential resources embedded within, available through, and derived from the networks of relationships possessed or created by an individual” (2003, 21). This will be further explored in the empirical chapters.

and determines a person's position in the social ladder. Consequently, one of the sources of *mianzi* is to have a good network behind you –*guanxi*– to rely on (Graham and Lam 2003).

A second etymologic analysis of *guanxi* not only brings the attention to its dual nature, with both cultural as well as rational aspects; it also highlights the specific characteristics of the *guanxi* networks, which in social capital language, would be inserted into the bonding category explained earlier:

Guan, as a noun, means door or pass [...] Guan is also a verb with the meaning of “close up”. Both usages [‘door’ and ‘close up’] have the metaphor of a barrier. Consider in human relationships, a person inside the barrier is one of us, insider; while another person outside the barrier has no ‘relationship’ with us, or even can be our enemy, and thus is not of our concern (Huang 2003, 8).

Thus, *guanxi* is an inclusive (for those within the network) and exclusive (for those outside the network) concept that is also culturally rooted: “It is worth noting that the Confucian moral thinking is not a universal one, but closely related to family or group. It is the family or group that demarcates the borderline between trust toward insiders and distrust toward outsiders (Fang 1999, 109–110). Because, as stated by Kao, “the only people you can trust are family” (Kao 1993, 25). In fact, within the five cardinal relations established by Confucianism, three of them are related to family relationships<sup>26</sup>.

As stated by Lui, “the essence of Chinese *guanxi* actually is about the drawing up of a social boundary” (2001, 390) between those inside the networks (Chinese) and those outside of them, as the traditional Chinese proverb –*neiwai you bie*– (distinguish between insiders and outsiders) points out (cited in Wank 1999, 93). This seems to be very important, since by doing this, “the Chinese define the boundary within which trust can be extended” (Lui 2001, 390).

Besides family ties being the main source for *guanxi* networks, the importance of the place of origin is also highlighted (Ordóñez 2004). These ties are “based on ascribed or primordial traits such as kinship, native place, and ethnicity and also on achieved

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<sup>26</sup> The five cardinal relations are between ruler and subject; father and son; husband and wife; elder and younger brother and between friends. This cultural trait has been the explanation for the Chinese companies reluctance to hire foreign personnel for key positions (Kao 1993), and also the reason why Chinese companies cannot reach a professional organizational structure (Fukuyama 1995b).

characteristics such as attending the same school (even if not at the same time), serving together in the same military unit, having shared experiences, such as the Long March, and doing business together” (Gold, Guthrie et al. 2002, 6). The first part of Gold’s definition goes hand in hand with what has been called ascribed trust and characterized as proper of pre market societies, whereas

(...) all that is necessary is information concerning social similarity. Others with similar characteristics –such as ethnicity– may be sought out for exchanges under the premise that many background understandings will be held in common, smoothing or eliminating the negotiation over terms of exchange and making it more likely that the outcome of the exchange will be satisfactory to both parties. These characteristics are ascribed [and] generally very difficult to alter (Zucker 1986, 61).

But as it can be noted in the second part of Gold’s definition and as it was already introduced in the previous section, a common identity –either constructed by history or experience– seems also to be a legitimate source: “*Guanxi* is usually established among people who share a commonality of certain identities, for example, *tongxue* (schoolmates), *laoxiang* (fellow villagers), and *laopengyou* (old friends)” (Fang 1999, 119). Indeed, as stated by Lane, “empirical work tells us that trust can be built even between people from different cultural backgrounds or between individuals who share no values beyond their narrow business goals” (1998, 8), opening the door to further cooperation.

Nonetheless, the process of penetrating closely knitted trust-based networks can be difficult and costly to build and maintain (Wang 2000; Warren 2008). As warned by the economist Amartya Sen, “successful operation of an exchange economy depends on mutual trust and the use of norms – explicit and implicit (...). When they have to be cultivated, their lacuna can be a major barrier to economic success” (1999, 263). In the case of China, “this implies the expenditure of a significant amount of time to develop contacts and build associations involving personal trust (Ellis 2009, 23).

Consequently, this viewpoint allows trust to become a private good (as explained in the *guanxi* networks) and thus discriminating according to the object in which trust is placed, as in the accounts provided by Hardin (2001; 2002). It also resembles the metaphor offered by Chinese sociologist Xiantong Fei to explain the general patterns of Chinese social relations –structured in concentric circles, like the ones made when a stone

is thrown in a river— which determine the degree of trustworthiness and obligations depending on which circle the group is placed in (Fei, Hamilton et al. 1992). Other studies have been based on this idea, as in the concept of Fukuyama's radius of trust (1995) or the “gaps” confronted when dealing with Chinese societies (Kumar, Siddique et al. 2005). As in Lui, it can be said that “Chinese economic culture is a combination of trust and distrust. Trust is confined to social circles (but) people outside these restricted circles are often distrusted (2001, 390). In sum, “trust seems to decrease as the distance between one's immediate family and a given group increases” (Tang 2004, 8).

From this perspective, *guanxi* can be homologated to the original concept of social capital developed by Bourdieu (2005), that is seen as a private resource and taken by authors such as Lin (2002; 2008), but somehow opposed to the understandings of the American academia, in which social capital and generalized trust are considered a public good, and therefore closer to the idea of trustworthiness, which is empirically analyzed and measured as a cultural trait or even a moral value (Uslaner 2002; 2008).

*Guanxi* and trust are related to each other not only because the latter appears as a fundamental condition to establish the former, but also because the nature of trust, specifically business trust or *xinyong*, relies heavily on an investment in interpersonal relations, and thus trust becomes an outcome of the network as well.

This marks out a difference with the western conceptualization of business trust in which other sources such as corporate or brand reputation have more relevance: “The Chinese trust is more an interpersonal trust than organizational (...) [and] differs from the western “organizational trust” based on professionalism. The Chinese culture makes individual trust more important than organizational trust, with the latter frequently being a consequence of the former” (Fang 1999, 110). Furthermore, personal relations play a key role in the decision making process (Kiong and Kee 1998).

Indeed, interpersonal/deep trust (*xinren*) —as a standalone concept— has been gaining status as an important determinant of Chinese negotiation style when confronting foreign negotiators, even displacing the role of *guanxi* networks and, by this, enabling the prevalence of the content instead of the structure in which it is embedded, because “success in China is built on interpersonal *xinren* and not, as most are suggesting, on *guanxi*. In Chinese markets it becomes evident that *guanxi* opens the door but it is *xinren*

that determines how well you will be treated once you are in” (Kriz and Fang 2003, 1). Furthermore, a typology of Chinese business behaviour based on the amount of trust built between the partners has been proposed, which constitutes the final determinant of the negotiation process characteristics and outcomes (Fang 1999; 2006).

Nevertheless, ascribed characteristics (hence, cultural explanations), experience and common interests (rational accounts) do not constitute the only sources of *guanxi* and *xinyong*. Institutionalism has also pointed out its role to understand *guanxi* production. Kirby for example, has placed the origin of *guanxi* within the lack of a proper law regarding commerce and trading, which has helped to build the networking practice in business (2004). In fact, only in 2007 the PRC Congress approved the law that regulates private property, after 13 years of discussion. From a normative perspective, Chinese institutional weakness (exemplified here with the rule of law) has been an incentive to develop closed networks based on individual trust, where the personal word has sometimes even more value than a written document (Yang 1994)<sup>27</sup>, with trust networks themselves becoming informal institutions acting as a safeguard against opportunistic behaviour (Liu 2000). As illustrated by Child: “In a society like China, this means that successful business collaboration depends very much on establishing trust between people, both between locals and locals with foreigners” (2001, 277). However, most of the time this kind of trust based on instrumental purposes –which may be valid for “mutual economic exchange” (Bian 2001, 279)– may also be considered a “non kin weak tie” (Li 2007, 65) with the consequences of building weak trust, as it will be further discussed in the empirical chapters.

In Chile, interpersonal trust has also been considered a critical asset to smooth processes in business transactions. Nevertheless, scarce academic material regarding trust and economic outcomes is available in Chile when compared to the academic dedication to concepts such as *guanxi* or *xinyong*.

As in China, cultural, historical, and geographical conditions have converged to make private trust –also based on family ties– an important asset within relationships (Valenzuela and Cousiño 2000; Rodríguez and Majluf 2002; Rodríguez 2007). It has

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<sup>27</sup> Yang has also stressed that the political structure created by the Chinese Communist Party indirectly empowered these practices as a method of survival, despite the official discourse against these “feudal” practices (1994).



been argued that even big local corporations consider trust as the main element that has driven the spirit of national joint ventures and fusions (Rodríguez 2007)<sup>28</sup>. In consequence, Chile may also be seen as a society in which trust is rooted in particular networks of acquaintances, and in which reciprocity and a culture of gift exchange, known as the informal institution of *compadrazgo* or in local terms, the *pituto* (influence), has traditionally pervaded the society (Lomnitz 1971; Barozett 2006).

As in the case of Chinese, Chileans also establish networks that need an extra effort to build. Extra knowledge and intimacy is needed to establish deep relationships in order to avoid any unfamiliar element (Valenzuela and Cousiño 2000; Rodríguez and Majluf 2002; Rodríguez 2007).

### **3.7 Weaknesses of trust conceptualization.**

Current theoretical and empirical studies have acknowledged the relationship between trust and economic performance from two main standpoints: rational economics and social capital theories. Both, nevertheless, share three important weaknesses: the prevalence of an inward viewpoint, which neglects the challenges posed by global exchange; an absence of critical analysis on the costs involved in trust building, and a dismissal of the state's role, even in social accounts of trust and despite the prevailing tendency to be inward-looking.

#### **3.7.1 Trust and economic globalization.**

As reviewed this chapter, interpersonal trust has been mostly undertaken from the micro point of view of organizational theories, and therefore framing the analysis to the corporate context, either within or between organizations. Following a rationalist and under socialized view of corporations, these accounts have understood them as isolated entities within their own corporate system. Although some efforts of comparative analysis have been made (see for example Brenkert 1998, Sako 1998, Child 1998; 2001; 2003, Buchan and Croson 2004), the study of trust in the corporate sphere still remains

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<sup>28</sup> Rodríguez, though, embraces Luhmann's distinction between confidence and trust (Luhmann 1979). As explained in the methodology section, this will not be considered for the purposes of this research.

highly detached from the socio-cultural and institutional challenges that global interaction presents.

Nevertheless, these studies shed some light regarding the relationship between culture and trust-building in the context of transnational activities developed by Chinese corporations. Child, for example, has argued that “trust is the fundamental bond in global collaboration” (2001, 274), having demonstrated the benefits trust-building entangles for corporate performance cross-culturally. Luo (2002) has determined that cultural distance affects trust levels in international strategic alliances, while Zolin et al. have concluded that “initial perceptions of trustworthiness are particularly important in cross-functional, geographically distributed work”, and thus emerging as critical for collaboration in geographically distributed partners (2004, 1). Another interesting work lies on the already cited work of Fang (1999) who argues that transnational trust between Chinese and western partners is interpersonal rather than organizational. All this literature has acknowledged by different means that cultural distance acts as a barrier to trust-building and at the same time as a predictor of possible trust levels: while short distance facilitates trust engagement, a greater one places extra burdens (Luo 2002).

Notwithstanding the aforementioned works, trust in this context remains “an under-theorized, under-researched, and therefore poorly understood phenomenon” despite its importance in transnational cooperation (Child 2001, 275) and restricted to comparative studies at a corporate level rather than a real engagement with global economic phenomena.

On the other hand, social capital research is confined to the boundaries of the nation state, as the most important measurement of general trustworthiness –the WVS– indicates, and thus not properly engaged with current economic globalization. Indeed, the classical works on the relationship between social capital and economic growth refer to domestic degrees of general trustworthiness, either at regional or national levels, as an influence that comes since the seminal study of Putnam on the economic backwardness in southern Italy (2003).

It may be argued that social capital and trust have been studied from a transnational perspective, as the case of the “bamboo networks” described in Chapter Two. Nevertheless, this affirmation can be refuted by highlighting their inward nature,

insofar as these networks are constituted by ethnic communities glued together by shared cultural roots and norms, which have already acquired trust by means of ascription. Furthermore, the argumentation on the economic benefits of these trust-based networks weakens when applied to the discussion of building trust with external actors, and when cooperation has to be achieved between different and distant communities, like in the case of the international exchange and investment that this dissertation aims to address. Furthermore, as it will be seen in the empirical case study, this kind of trust may be negative for trade and investment because it clashes with the concept of globalization (Zucker 1986) and contributes to see the other as a non-legitimate other, as highlighted by Said (2002).

Once again, borrowing Putnam's terminology, the necessity rests on assessing studies able to bridge social capital in a global economic context. In other words, it means being able to create "broader identities and reciprocity" (Putnam 2000, 22-23), with "a new, broader sense of 'we'" (Putnam 2007, 139), beyond the domestic perspective.

Yet, and although the Chinese concept of networks allows the possibility of constructing *guanxi* for instrumental purposes, several drawbacks can be found during trust-building processes, due to the specific structural, cultural and institutional conditions in which a particular relationship is embedded<sup>29</sup>.

Building trust in this setting takes us to the second weakness mentioned earlier in this section, which refers to the lack of studies appraising the costs of engaging in a process of this kind, especially when trust is understood as a resource.

### **3.7.2 Costs of trust-building.**

Indeed, the investment needed to achieve trust has been almost completely neglected by the literature, despite being especially important for those communities with strong internal bonds which aim to internationalize or those wanting to enter them, as in the case study. It has already been stated that "cooperation based on social ties within a

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<sup>29</sup> This is especially in the initial phase of the relationship, which appears critical because it may set the pace for future interactions: "initial trust has further importance because it excavates a cognitive/affective channel that often has lasting implications for the future mental model of the relationship" (McKnight, Harrison et al. 2006, 29).

given community could in fact be harmful for other (unlinked) members of society” (Spagnolo cited in Cersosimo and Nistico 2008, 402), because research has shown that “individuals tend to view out-groups as less cooperative, honest, and trustworthy, and tend to expect less positive behaviour from out-group members” (Brewer in McEvily and Ho 2006, 64), and thus, placing extra difficulties and costs in trust-building. In new relationships, for instance, experience and knowledge is impossible when there is no familiarity involved (Bigley and Pearce, 1998 in McKnight, Harrison et al. 2006, 29) and when the cultural and normative systems are either not shared or unknown, and therefore trust support is debilitated (Child 1998).

In the specific setting of Chinese business and their global interaction, some literature has already faced this problem explaining that the process of trust-building in the PRC makes business negotiations slower and more complicated, and in which the difficulties faced by foreign companies to penetrate closed local networks are recognized due to institutional and cultural factors (Fukuyama 1995b; Child 1994, 1998 in Child and Möllering 2003). But, as stated, they are confined to the sphere of private interaction. Additionally, current studies are limited to the analysis of first world foreign companies and their interaction with Chinese businesses.

### **3.7.3 Role of the state in trust-building.**

Finally, the third limitation of the current trust theoretical corpus –and despite the prevailing domestic perspective on the relationship between trust and economic development– is the lack of studies considering the role of the state and its institutions in fostering trust. With this, trust processes have been confined to the micro aspect of the private sphere of corporate relations, a posture that combines well with the idea that globalization has threatened the continuity of the nation state as the basic unit of the international system due of the growing power of multinational companies (Ohmae 1996; Friedman 2006).

As stated, trust has been conceived as an outcome of rational behaviour (therefore, linked to rational choice and neoclassic economics), or as a result of social capital. In the first one, the role of the state is denied or reduced at its minimum, while the latter has centred its attention on networks and norms –civil society– and by doing this, either

ignoring, minimizing, or even “denying” the state role in enhancing trust levels (Lowndes and Pratchett 2008, 700). For example, it has been argued that the role of the state in trust-building processes is only necessary in familistic societies where levels of trust are low, therefore, only worth considering in specific cases (Fukuyama 1995b)<sup>30</sup>.

There has been, however, some attempts to incorporate the state as providing either an incentive or coercion to foster trust in line with the institutional perspective, and therefore, acknowledging its importance regarding “the capacity to monitor laws, bring sanctions against lawbreakers, and provide information and guarantees about those seeking to be trusted” (Levi 1998, 85). At the end, the role of the state will be “to enable an environment of trustworthiness” by using specific mechanisms that ultimately incite the parties “to rely more heavily on interpersonal trust” (Smith Ring 2004 in Van de Ven and Smith 2006, 157-158), and thus narrowing its role to an “enabler” rather than a participative actor. As a consequence, the analysis does not go beyond the idea that “from a policy point of view [...] by modifying the institutional context through a system of rules and incentives, public policies can create the conditions for social capital to have a positive influence on the development of an area” (Cersosimo and Nistico 2008, 403), but again in the context of domestic trust production, without engaging it with economic globalization.

Yet, the dynamics of trade are inserted in a geopolitical context, as highlighted by the political economy school when understanding that “national governments still make the primary-decisions regarding economic matters that continue to set the rules within which other actors function, and they use their considerable power to influence economic outcomes” (Gilpin 2001, 18) in which, as stated in the previous chapter, globalization has reshaped –not eliminated– the role of the state in economic development, since the state has a fundamental role as container of cultural structures, practices and institutions, as well as being in charge of the policies to regulate trade, foreign investment and industry (Dicken 2003).

Acknowledging these pitfalls on current trust conceptualization, the empirical chapters will incorporate the study of trust by framing it within the dynamics of economic

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<sup>30</sup> A recent book published in Latin America: *Redes, Estado y Mercados: Soporte de la Cohesión Social Latinoamericana* tackled the necessity of a more prominent state role in enhancing levels of national trust (Tironi 2008)

globalization given the nature and scope of the case study. This posture incorporates both the recognition of the costs involved in transnational trust-building at a business level, as well as the inclusion of the notion labelled here as the political economy of trust, which involves the state actions (and their relation with power) towards international trust-building. As a result, this dissertation will offer a model that combines rational, cultural and institutional sources in the context of global exchange.

As the successive chapters will mainly reflect the fieldwork results, this dissertation will echo Newton's perspective, when he states that "it is better to take the pragmatic view that there is no point in defining the essence of trust, because it has none" (2007, 343), and instead it will understand trust according to the findings, rather than base its definition on pre established theoretical approaches. Finally, the empirical chapters will offer a multidimensional perspective on trust, because as Levi writes, "Trust is not one thing and it does not have one source; it has a variety of forms and causes" (1998, 791). This purpose will be mirrored in the subsequent analyses, by the incorporation of macro and micro aspects of trust-building.

### **3.8 Conclusions.**

In the quest for finding broader and more inclusive explanations to tackle the question of economic development, this chapter has embraced the new perspective offered by trust conceptualization and analyzed its role on growth. First, and in order to legitimate its function as an effective enhancer of economic success, the chapter extensively reviewed previous literature that has proven –either by laboratory experiments, case studies, quantitative surveys or theoretical insights– the benefits that trust brings in any kind of economic cooperation. The analysis was made considering the two main dimensions of trust: the stand alone concept of interpersonal trust, and the more systemic account present on social capital theories.

Then, the chapter focused on the scrutiny of the sources of trust-building. It was argued that trust (as the concept of development itself) has been understood as being derived from different perspectives, each one based on theoretical stances that conceive trust-building rooted in diverse degrees of rational, institutional or culturalist variables. Although the analysis may show some antagonism between the different sources, it can

as well be understood as a continuum that goes from the pure rationalism found in economic approaches to an “over socialized” view based solely on cultural explanations.

The rational account of trust offered the notion of trust as a decision, based on knowledge, reputation, repeated interactions and experience, which is certainly the type of trust that can be found in economic exchanges. However, it was warned that hyper rationality only highlights one side of the coin and leaves the concept and operationalization of trust fragmented (Bachmann 1998), overstating “the extent to which the continued success of a relationship is based on the ability of parties to take a long-term view and practice mutual forbearance” (Powell 1996, 63). As in the debate on development, a rational account of trust offers a single explanation for a complex and multidimensional phenomenon such as trust-building.

Nevertheless, the conceptualization of trust as a result of social capital has allowed the incorporation of normative and cultural variables as valid sources of trust-building. This does not mean considering trust as the result of pure cultural values, because “to posit common values and norms as the *sole* basis of trust is as one-sided as the notion of calculative trust” (Lane in Sydow 2006, 377). On the contrary, this chapter has aimed to demonstrate the necessity to widen and enrich the analysis by the interlocking of multiple theoretical perspectives.

The scrutiny of Chinese *guanxi* and *xinyong* illustrated that trust-building in the context of network structures can be analyzed from a varied viewpoint, highlighting the mixed nature of *guanxi* relationships and therefore the trust stemming from them. As it was argued, pure culturalist explanations to understand the phenomenon of *guanxi* and *xinyong* are not enough, because they do not consider the idea of mutual benefits in constructing *guanxi*, as well as the key institutional elements such as organizations – including here the state– and norms involved<sup>31</sup>.

The chapter ended up by highlighting three weaknesses of the current trust conceptualization if looked at it in the current context of economic globalization. First, it stressed the prevalence of an inner –domestic– viewpoint (either national or regional, but always confined to the boundaries of the nation state) when interrelating the notions of

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<sup>31</sup> *Guanxi* has eminently a private nature and it does not relate to organizations like in some accounts of Social Capital (i.e. Putnam). See (Huang 2003). Nevertheless, as it will be seen further in this dissertation *guanxi* networks may be permeated by other sources.

trust and economic growth, either in the corporate context or in the systemic notion of generalized trust. Secondly, the literature has mainly concentrated on the economic benefits of trust, neglecting the costs involved when trying to achieve it, despite its conceptualization as a resource, which is especially significant when there is cultural distance as in the case study. Finally, the role of the state in trust-building has not been widely studied yet and, when undertaken, it has only been from the point of view of domestic policies, as how to enhance domestic social capital levels.

As revised, the literature review sheds light on the guidelines that the empirical investigation needs to follow when applied to the case study. First, it establishes the need to study trust at different levels to have a broader understanding on the sources of trust-building for the case study. Therefore, this dissertation will incorporate two levels of analysis. On the one hand, trust can be examined from an international perspective to discover how states engage in trust-building at a macro perspective. On the other, trust can be studied –as in social capital theories– as a by product of social interaction through networks. For the case study, this will constitute the dimension of international trust-building, since it tackles economic interaction in transnational actors –businessmen and corporations– and will cover the micro level of analysis. Second, the literature review suggests having a broader approach to obtain a richer and deeper understanding of the sources of trust-building, since one theoretical stance does not give account of a complex phenomenon. Therefore, the dissertation will blend different theoretical stances. From the culturalist perspective, the research will look at cultural identification as a critical source of trust-building. From rational choice theory, trust-building will be understood as the by product of calculation of probabilities, interests, experience, knowledge and reputation, both at a macro and micro level of interaction. This epistemological stance will be complemented by the neo-institutional perspective which comprehends those institutions –understood here broadly as informal (i.e cultural norms) and formal rules (i.e institutional agreements) as well as organizations– that set “the rules of the game” in which trust-building is embedded. Within this perspective, both the state and the transnational networks of businesses appear as the critical actors that are shaping those rules.



Therefore, having reviewing the literature on trust and social capital, the literature has narrowed the objects of study to the state and transnational business networks as the two main actors involved in the study of trust for the case study, as it will be further explained in the methodology chapter.

## **Chapter 4: Methodology.**

### **4.1 Introduction.**

Having framed the research topic in Sino-Chilean economic bilateral relations, decided its scope, and developed a theoretical framework based on the existent literature covering various economic and sociological perspectives on trust, this chapter will delve into the methodological aspects of this dissertation, in order to explain how to “go about acquiring the new knowledge” (Hay 2002, 64).

As stated in the introduction, this research uses deductive methodology. It aims to test one broad hypothesis, based on a general research question and two subsidiary research questions. Research question 1 –What role does trust play in shaping Sino-Chilean bilateral economic relations?– is based on existent literature that features trust as a cultural variable that has a preponderant role in socio economic interactions. This initial research question was framed to give a theoretical explanation to the current affairs of Sino-Chilean bilateral relations, this far unexplained by traditional political economy approaches. From this starting point, a broad hypothesis emerged: Trust plays a role in enabling Sino-Chilean bilateral economic relations. In order to test this hypothesis, two subsidiary research questions were developed. The first one focused on finding the sources and dynamics of international trust-building, thus exploring trust from the point of view of the state, its institutions and their role in shaping economic bilateral interaction. The second aimed to discover the sources of trust and the dynamics of trust-building that operate at the micro level of business interaction; which is to say, within the scope of transnational exchange.

Theoretically, this was an important distinction to make for various reasons. First, it enabled the investigation to distinguish among different levels of analysis, a recognized gap in previous literature (Shapiro 1987), and by doing this, expand our understanding of trust. Second, it allowed for the state to be added as an effective actor in trust-building, a subject that had been previously overlooked in literature (Welch 1997, Stolle 2007). Third, the characteristics of the case study, in which preliminary data showed that dynamics and sources presented different outcomes depending on the object of study (positive at a state level and negative or at least weak at a transnational level) indicated

that transnational and international trust-building had particular mechanisms despite its interrelation.

This chapter will begin with an explanation of the research design. Then, it will offer a detailed account of the data-collection process and the fieldwork experience, followed by a description of the data analysis process, to end with the presentation of results. The chapter will close with some ethical considerations and an acknowledgement of this research's limitations.

## **4.2 Research Design.**

First, it is necessary to define the research paradigm in order to establish “how the social world can and should be studied” (Bryman 2008, 13). As stated by Creswell, research design involves “the intersection of philosophy, strategies of inquiry, and specific methods” (2009, 5). This implies determining the appropriate methodology to answer the research questions and test the hypothesis, based on epistemological and ontological considerations that should be congruent with the main strategies involved in the research –whether qualitative or quantitative–, so as to ultimately define the specific methods that are most suitable to arrive at the expected findings.

For this dissertation, and given the considerations explained in the introduction of this chapter, I believe that to achieve a broader understanding of Sino Chilean trust-building and its sources, it is most functional to draw from different philosophical postures such as interpretivism, positivism, neo institutionalism, and rational choice perspective. This stance derives from the current state of affairs concerning the conceptualization of trust, which is defined in different terms according to a variety of epistemological approaches, as was stated in Chapter Three. Consequently, the research worldview can be defined as pragmatic, since the researcher “use (s) all approaches available to understand the problem” (ibid 2009, 10).

On the one hand, there is an eminently interpretivist approach towards the objects of study, because this research understands actions as “inherently meaningful” (Schwandt 2000, 189) and therefore the investigation intends to unveil the “subjective meaning of social action” (Bryman 2008, 16). The objects of study are considered within the

particular cultural system in which they are embedded, their interpretation of reality varying according to their cultural framework. This determined the prevalence of an emic perspective, understood as an “insider approach to cultural description” (Ferraro and Andreatta 2010, 17)<sup>1</sup>. Ultimately, interpretivism guided the “strategies of enquiry”, which consist mainly of a qualitative strategy based on semi structured interviews performed in three fieldwork rounds, carried out specifically for this dissertation, and the interpretation of available documents on the subject, which will be extensively explained in section 4.3.

Three main reasons account for the prevalence of qualitative methods. First, it is necessary to stress that this dissertation focuses on the process through which trust is built, and the sources on which it is established. Secondly, previous literature points out that trust must be “socially and institutionally contextualized” in order to have more “promising and rewarding” outcomes (Beugelsdijk 2006, 384). Having a qualitative – interpretative– approach supports this contextualization. Thirdly, there is no previous data regarding trust in Sino-Chilean economic exchange, and therefore interviews seemed more pertinent to the case study, as a first step to explore the subject (Bryman 2004).

When choosing the research instruments, interpretivism influenced not only the goal, but also the data analysis and the drafting of the findings. The data needed to be interpreted in order to grasp the personal point of view of the social action’s participants. Their subjective experiences constitute the answers to the main questions on the sources and processes of trust-building at both macro and micro levels.

Nevertheless, the research also called for a more rational perspective, a positivist approach, through which the data obtained via quantitative strategies could be used to support the argumentation developed in the empirical chapters. This translated into the incorporation of primary data gathered through methods such as closed interviews (used in chapters Six and Seven), content analysis (as the one performed on Chilean media in Chapter Five), and the use of available secondary data, such as the results of previous surveys on related subjects.

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<sup>1</sup> The etic perspective, instead, “uses culture general variables or dimensions of cultural variability, such as individualism versus collectivism (...) to examine behaviour patterns in one culture and compare them across cultures” (Fang 1999, 9). For further explanation on this methodological differentiation, please refer to Triandis, McCusker, et al. (1993) and Fang (1999). The ethic perspective will be, nevertheless, used in the last part of Chapter Six.

Although this standpoint brings together apparently contradictory philosophical /methodological approaches, it was devised to expand and enrich the findings. Indeed, a combination of methods helped to verify the accuracy of the data gathered, and provide complementary data to reinforce the results. From this point of view, qualitative methodology contributes with the necessary depth that the initial hypothesis –as well as the subsidiary questions– demand, while quantitative data is critical to support generalizations, considering that “the overall strength of a study is greater than either qualitative or quantitative research” (Creswell & Plano Clark. 2007 in Williams 2000). In fact, “mixed method designs are usually used because one method alone will not provide a comprehensive answer to the research question” (Richards and Morse 2007, 93).

As a result, this dissertation has attempted to use a combination of methods in order to get better and more trustable results, because “one approach is rarely adequate; and if the results of different methods converge (agree, or fit together) then we can have greater confidence in the findings” (Gillham 2000, 2).

This is also coherent with the way literature has covered the objects of study addressed in this dissertation –international trust-building and transnational trust-building–. From the state point of view, trust-building seems to be a top–down process in which the sources are found at the macro level of state actions. Therefore, as explained in Chapter One, the research methodology to explore international trust was heavily based on official documentation such as public policy statements, government policy actions, media sources (on line and off line, official and non official), literature on the case study, and economic data at a macro level. In order to complement this information, primary data was also gathered via interviews with officials and academics. On the contrary, and as stated in Chapter Three, previous studies suggest that from the transnational perspective, trust is a bottom–up process, and therefore emanates from the business actors that engage in transnational collaboration and exchange. Given the transcultural character of the case study –and trust being culturally shaped–, the cultural context in which businesses operate and are located play a critical role in the definition and conceptualization of trust. Thus, it was necessary to go directly to the main actors involved in the process of trust-building, to collect their perspectives and understandings, which ultimately determined the predominant instrument of semi-structured interviews as

the main method of data collection, an approach that was adequate to answer the second subsidiary research question.

This mixed methodology is in line with the current trends in academia when dealing with research topics such as trust or social capital. As Woolcock and Radin clearly explain: “we are bound to stress that any such measure(s) [for social capital] must necessarily be understood within their social context, and that as such comprehensive qualitative approaches must also be incorporated. Indeed, in our view, the most insightful and persuasive accounts of social capital and economic development processes [...] have incorporated a 'mixed methods' approach” (2008, 418).

Another methodological consideration needs to be mentioned. As stated in the subsidiary research questions, the empirical investigation was targeted towards understanding the sources and processes of trust-building at two levels of enquiry. Although closely interrelated, this separation aims to clearly distinguish between agency (processes of trust-building) and structure (sources of trust-building).

Finally, it is necessary to highlight how the research design determined the structure of the following empirical chapters. The first one, Chapter Five, focuses on subsidiary research question number one, which examines the role of the state in international trust-building. Chapters Six and Seven, on the other hand, attempt to answer subsidiary research question number two by exploring the role of transnational actors in trust-building. While Chapter Six stresses the sources that have conditioned trust-building, Chapter Seven undertakes the strategies that transnational actors have developed in order to build trust.

The next section will examine how the data collection, mainly interviews, was carried out and acts as the cornerstone of the subsequent empirical chapters.

### **4.3 Data collection and the fieldwork experience.**

Given that the presentation of the findings is strongly based on first data collection, the fieldwork performed was aimed to have a preponderant role within the scope of this dissertation.

With this in mind, the dissertation was early planned to be mainly the result of empirical studies to gather the necessary preliminary data. In order to accomplish this task, three phases were conceived. The first one intended to review the literature, therefore the effort focused on researching both the theoretical framework as well as the literature regarding Sino Chilean bilateral relations<sup>2</sup>. The second phase was devoted to preparing and carrying out the fieldwork (which was itself divided into two main stages, as it will be explained in the following paragraphs) and the last one to analyze and writing up the findings.

In consequence, the fieldwork was developed after a year of literature revision. Previous (secondary) data was also gathered before the trips, which were carried out in three locations considered relevant for the topic: Santiago –Chile– and Shanghai / Beijing in the People’s Republic of China. They were conducted during 2008 and 2009 respectively.

The main planning was based on the general understanding that the scope of the research would be clear, the location of the fieldwork, dates for the subsequent trips and characteristics of the sampling in both countries, supported by particular objectives that will be explained in the next section. In total, 83 in–depth interviews were conducted in China as well as in Chile, which lasted on average, between 45 minutes and one hour each.

Following the classification proposed by Bickman and Rog, it is worth highlighting the two basic phases of any applied research: planning, which implies the definition of the research scope and the developing of a “comprehensive” plan, as well as the execution; which for the authors includes the design (already developed in point 4.2 of this chapter), data collection and analysis, and management procedures (2009, 3). This conceptual framework will guide the next paragraphs.

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<sup>2</sup> The bibliography written in Spanish and used for this dissertation has been translated by the author. To avoid confusions, the original title of the book/paper was preserved in that language. For the literature found in Chinese, help from native speakers was received in order to get the data.

#### 4.3.1 Planning.

This research deals with distant cultures and thus a cultural awareness regarding behavioural considerations was important when planning the fieldwork steps. Consequently, cultural variables could not be isolated from the research design. As it is well known in both cultures, Chilean and Chinese, networking is crucial for establishing some kind of relationships and this can be extrapolated to the possibility to have access of the potential interviewees, which was a fact worth considering when designing the execution of an empirical project<sup>3</sup>. I was well aware that for the Chilean case, high executives will not accept to be interviewed unless I was recommended by a mutual acquaintance. In fact, of the 46 interviews carried out in Chile, 25 were a direct product of networking (54 percent). The rest were possible through persistent calls and very early contact. However, most of the interviewees who accepted being part of the study without having been contacted by a mutual acquaintance, belonged either to a governmental institution<sup>4</sup>, or came from an academic sphere which had –as one of the interviewees correctly puts it– “academic sensibility”<sup>5</sup>.

The process in China seemed a lot more difficult, not only because of language problems and the difficulty of getting the official data<sup>6</sup>, but also because my lack of connections (or *guanxi*) could jeopardize the fieldtrip. This was confirmed later, as one Chinese respondent told me in an informal gathering: “If you had not come to me recommended by “X”, I would not have even answered your email”<sup>7</sup>, denoting not only cultural behaviour but also political constraints. Needless to say, there is not an official register or list in the PRC regarding which Chinese companies are doing business with Chile, either for trade or investment. A similar situation was found from the Chilean point

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<sup>3</sup> This statement will be widely proved during the dissertation; as it is intimately related with the research topic.

<sup>4</sup> Since Ricardo Lagos government it has been a non written “norm” in Chile that encourages civil servants and public authorities to answer the requests of common citizens (private conversation with a former public servant during Lagos government).

<sup>5</sup> Interview #73 Chilean academic, expert in Asia Pacific Research, Santiago, September 2008.

<sup>6</sup> As one personal friend –who works as a researcher for the Central Bank in Germany– told me, “in China you have two sets of statistical data and you only work with the official” (personal conversation, August 2009).

<sup>7</sup> Interview #76, op.cit.



of view, where –for example– Chilean Foreign Investment is sometimes not directly sent to China but through a third country<sup>8</sup>.

Therefore, and following Silverman recommendations regarding the “need to fit your research design to your research topic” (2005, 8); the decision on defining a qualitative sample was early determined. Indeed, trying to assess a quantitative sample would not only be inappropriate given the nature of the subject and the research questions, but also because of the impossibility to determine the universe of the sample and the evident constraints to reach potential interviewees. In this case, proposing a quantitative approach based on traditional survey methods would have been the safest path to academic failure and it would have experienced all the downturns highlighted by the literature when doing quantitative surveys, including “problems of data quality (...), “typically low response rate unless sample ‘captive’” (...) and problems of motivating respondents [which in this case was far from being captive and motivated], complications regarding question wording [rooted in the fact that three languages were used in the investigation: Spanish, English and Mandarin], among others (Gillham 2000, 8). As it will be fully explained in the next sections, other sampling methodologies were used in the fieldwork in order to adapt to the peculiar characteristics of both the subject and the respondents, and therefore reach the appropriate sample.

#### **4.3.2 Execution.**

This section will describe the two fieldwork studies from which the primary data was gathered. As accounted, the first one was developed in Santiago, Chile, and the second one was conducted in Beijing and Shanghai, although two trips to China were required. The decision to privilege these settings was based on the criteria that most of the potential interviewees were concentrated in these three cities. In the case of Chile, Santiago is the capital where the majority of the political, economic, and academic activities are concentrated. Shanghai was chosen for being the place where most of the Chilean businesspeople are conducting business. Furthermore, the only Chilean Business Centre (a state office, which aim is to offer support to the Chilean companies in China) is located in this city. It was also planned that through this office the potential Chinese

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<sup>8</sup> Interview #34, Governmental high rank official, Shanghai March 2009.

respondents would be contacted. Beijing, on the other hand, is the PRC's capital and has a political and academic profile which was also part of the research project objectives. The location as well as the duration of the trips were decided early in the chronogram, because as stated by Holliday "the setting is connected closely to the research question in that it provides an environment in which the questions can be addressed (...) and within which interconnect data" (2002, 37 and 45).

#### **4.4 First fieldwork: Santiago, Chile: September / October 2008.**

The first fieldwork was planned with the objective of carrying out interviews in Chile as well as researching secondary data not accessible from Durham or China. This last point also included research targeted at collecting the news regarding Sino Chilean relationship and its main actors, given the possibility to access the biggest newspaper database available in Chile, belonging to Copesa Group<sup>9</sup>. It also included the libraries of the *Centro de Estudios Internacionales* from the Universidad de Chile and *Fundación Chilena del Pacífico*.

After two months, 45 in-depth interviews were carried out and important secondary data was gathered (including bibliographic material and statistics).

##### **4.4.1 Data collection: Questionnaires.**

The in-depth interviews were thought to be exploratory in order to get "the interviewee point of view" (Bryman 2004, 319). Three kinds of questionnaires were developed, each one targeted to the groups described in the paragraphs below (please refer to the "Sampling" section).

Although the questionnaires were prepared as a base, the aim was to perform semi-structured interviews in order to "provide a greater breadth of data than the other types [of interviews], given its qualitative nature" (Fontana and Frey 2003, 74). To avoid

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<sup>9</sup> I am deeply grateful to Sandra Rojas, former economic editor of La Tercera Newspaper for granting me access to the databases of the holding and the coffees she would offer me during the nights spent there trying to get public information about my topic. I am also grateful to Professor Manfred Wilhelmy, who gave me access to the Fundación Chilena del Pacífico and to Professor Martin Pérez Le Fort who not also granted me permission to Universidad de Chile Library, but also contacted me with important academics in Beijing.

leaving important themes aside because of the typical “rambling” that characterizes this type of interviews (Bryman 2004, 320), a grid with the main topics was prepared for the case of the businessmen (see Appendix 1) and was carried out throughout all the interviews. In order to give the interview a structure that was easy to manage, it was divided in sections, defined by subtopics<sup>10</sup>. Therefore, when the interviewee did not have enough time to answer all the questions, at least this system helped to cover the most important themes within each subsection. In the case of the questionnaires targeted to public authorities, each one had an individual section specifically designed to examine the role of that particular agency in the Sino–Chilean bilateral relationship<sup>11</sup>.

As suggested by some authors (Lincoln and Denzin 2003; Bryman 2004; Silverman 2005) the interviews were mostly recorded, in order to be able to transcribe them later to gain a better analysis of the subject, because “transcribing interviews from an oral to a written mode structures the interview conversations in a form amenable to closer analysis and it is in itself an initial analytic process” (Kvale and Brinkmann 2009, 180). It would also help to pay more attention to the respondent and gain awareness to counter ask, as highlighted by Gillham (2000)<sup>12</sup>.

#### **4.4.2 Extra considerations.**

**Administration:** The questionnaires were designed to be administered by the researcher during the months of September and October in Santiago, Chile. No questionnaires were handed out to the interviewees for self administration. Only one interview was conducted by phone during November from England, since the respondent is a high executive of one of the most powerful economic groups in Chile and he is often travelling abroad. Nevertheless, there was a previous personal meeting to explain the research objectives and gain his confidence.

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<sup>10</sup> Please see Appendix 1 for the complete version of the questionnaires.

<sup>11</sup> Despite the particular contents of each interview, all of them (including the second fieldwork) were conceptualized and administered having in mind the typology of questions suggested by Kvale and Brinkmann (2009): Introductory questions, follow up questions, probing questions, specifying questions, direct questions, indirect questions, structuring questions, silence (allowing pauses) and interpreting questions.

<sup>12</sup> As for the whole fieldwork, the transcripts reached 522 pages, single spaced.

**Location:** The locations of the interviews were decided by the interviewees, normally in their own offices. However, some were carried out outside the place of work, especially when the respondent wanted to avoid being seen with the researcher or using his/her working hours for extra work activities.

**Questionnaire versions:** The first version of the questionnaires was written in English in order to discuss them with the supervisor. However, with Chile being a Spanish speaking country, the questionnaire was translated into this language.

**Validation of the questionnaire:** Due to both the nature of the research, and the impossibility of testing the questionnaire with a real sample –the universe is too small, specific and difficult to access to “waste” some interviewees in a pilot– another strategy was taken. In order to polish and assess its validity, it was decided the questionnaire would be tested by nine professionals from different fields during July and August 2008<sup>13</sup>. Seven of them were chosen because of their expertise in preparing questionnaires and interviewing people, and the other two were considered to have similar characteristics to the sample. The questionnaire was sent by email with few explanations, in order to test the clarity and coherence of it. The only instructions were to look for coherence and structure and spot any possible bias in the questions. The common characteristic was also that they were all native Spanish speakers, therefore having the capacity to test the questionnaire in the language that it was actually going to be administered. After two weeks, all the questionnaires were returned with corrections and suggestions, which were taken into consideration in order to improve the questionnaire.

**Language considerations in the question wording and considering problems with the translation:** For Spanish speakers there is no differentiation between the English concepts of *trust* and *confidence*. There is only one word to refer to both concepts in Spanish and that is “*confianza*”. Although some authors have made the theoretical difference in English (Luhmann 1979; Beugelsdijk 2006; Reinke de Buitrago 2009) and some previous research on multicultural business and trust have specifically treated this subject and the problems addressed to the translation of trust to Spanish (Cunliffe–Korp 2005), these nuances only apply to English, and thus they were not taken into

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<sup>13</sup> The professions of the testers were: 1 economist, 1 sociologist, 1 organizational psychologist, 4 journalists, 1 business administrator and 1 engineer.

consideration for the questionnaires' design and application due to the facts mentioned above. A deep and long conversation with a Chilean linguist who was currently studying in England at that time helped me to make the decision<sup>14</sup>. As in Jennings, I am treating confidence and trust as equivalents, not only for translation purposes but because there is empirical evidence that people equate the terms (1998).

**Administration and contents:** As already explained, and following suggestions from the pre test of the questionnaires, the researcher would have a grid or "topic map" with the main subjects to be ticked once answered, in order to avoid asking the question twice (due to the nature of a semi-structured questionnaire, some questions may be answered in a previous one).

#### **4.4.3 Data collection: Sampling selection.**

For this fieldwork, a combination of snowball sampling, in which "the researcher makes initial contact with a small group of people who are relevant to the research and then uses these to establish contacts with others" (Bryman 2004, 100), and what Liamputtong and Ezzy have called a "criterion sample", in which the cases are selected according to a pre established criteria (2005, 47)<sup>15</sup> were used.

The sample considered three main target groups that would allow a wider perspective of the issue.

**Target Group 1: Chilean Businesspeople with at least three years experience doing business with China.** This category comprised exporters, importers and investors. It also considered the criteria of size and productive area, in an effort to cover the whole spectrum of entrepreneurs and executives. The representatives of the main business associations related to the topic, which had either vicarious experience (having heard many stories of their affiliates) or an interesting institutional posture regarding the subject were also considered within this group.

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<sup>14</sup> Yasna Pereira is currently a Lecturer at the faculty of Arts and Humanities in Universidad de Concepcion, Chile. She holds a Masters Degree from Lancaster University.

<sup>15</sup> This is similar of what Bryman calls a "purposive sample", which is "essentially strategic and entails an attempt to establish a good correspondence between research questions and sampling. In other words, the researcher samples on the basis of wanting to interview people who are relevant to the research questions" (2004, 333-334).

In target group 1, the snowball sample had two starting points. The first one was conformed by acquaintances and personal friends who had relevant contacts with potential interviewees, while the second one was based on people chosen from a data base of exporters given by the Chilean Export Promotion Bureau, Pro Chile, as well as executives and entrepreneurs widely known to do business in China because of successive appearances in Chilean newspapers.

**Target Group 2: Governmental authorities.** This category comprises high rank authorities chosen in the main governmental offices related to the Ministry of Foreign Affairs. It included the General Directorate for Economic Affairs, Direcon; the Export Promotion Bureau, Pro Chile, and the Asia Pacific Department of the Ministry of Foreign Relations. It also incorporated officials related to the Foreign Investment Committee, Cinver, which manages the FDI in Chile<sup>16</sup>.

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<sup>16</sup> The Direcon is the service in charge of the trade negotiation and export policies. According to the official website: “The activities carried out by Direcon, which depends on the Ministry of Foreign Affairs, have a direct impact on the daily life of Chileans. As a matter of fact, our growth and employment depend basically on our exports. The Economic Complementation Agreements, ECA, the Free Trade Agreements, FTA, and other bilateral agreements serve to improve the access conditions to several markets, strengthening exports. In addition, the tariff cuts on imported goods reduce the production cost of our supplies, machinery and equipment, thereby promoting the exchange of technologies and favoring consumers with a more varied and high-quality offer of commodities and services at international prices. Our foreign trade policy aims at expanding international insertion, combining the development of exports with the promotion and protection of investments; enhancing competitiveness [*sic*] and the spreading of technological change, in a context of stable rules, of monitoring unfair competition, and with policies that reinforce their impact on social equality. In order to develop exports resulting in more and better jobs, the trade negotiations oriented towards opening and consolidating new markets must be compatible with the exports promotion performed by ProChile. Both tasks - trade negotiations and exports promotion - constitute Direcon’s core business”. For more information, please refer to: [http://www.direcon.cl/index.php?accion=quienes\\_somos](http://www.direcon.cl/index.php?accion=quienes_somos) (Accessed on 03/03/2009). Regarding Pro Chile’s role: “ProChile, Export Promotion Bureau, belongs to the General Directorate for Economic affairs, from the Ministry of Foreign Relations, in order to deepen and promote the Chilean Commercial Policies. Pro Chile’s work is based on four main pillars: to support small and medium companies in their internationalization process, to implement opportunities given by the commercial agreements held by Chile, to enhance the work between the public and private sector, and to help promoting the Chilean Brand abroad (*translation made by the researcher*). Please refer to: [http://www.prochile.cl/quienes\\_somos/que\\_es\\_prochile.php](http://www.prochile.cl/quienes_somos/que_es_prochile.php) (Accessed 03/03/2009). About CINVER: “The Foreign Investment Committee is the agency that represents the State of Chile in its dealings with those investors who elect to use the Foreign Investment Statute (D.L. 600) as the legal mechanism to bring Foreign Direct Investment (FDI) into the country. The Foreign Investment Committee is formed by the Ministers of Economy (who acts as President of the Committee), Finance, Foreign Relations and Planning, plus the President of the Central Bank”. [http://www.cinver.cl/index/plantilla.asp?id\\_seccion=8](http://www.cinver.cl/index/plantilla.asp?id_seccion=8) (Accessed 03/03/2009). In other official material it can be read that: “The Foreign Investment Committee’s mission is to help position Chile as a highly attractive destination for foreign investment by developing and implementing an investment promotion plan that draws attention to the competitive advantages afforded by the Treaties that Chile has signed, focusing its efforts on positioning the country as a platform from which to export goods and services with value added as an incentive for investment” (Cinver 2007, 4).

These institutions consisted of either current or former high rank officers. Other governmental authorities with direct knowledge of the subject were also contacted.

**Target Group 3: Academics.** Four main universities that at the time of the research had an “Asia Pacific Department” were covered. In this case, there was not a questionnaire, but a list of relevant topics to discuss (see Appendix 1).

During the trip to Santiago, I was also able to interview one Chinese entrepreneur and two Chinese bureaucrats from the Embassy.

The following table summarizes the samples and the objectives of the Santiago fieldwork:

	<b>Objectives</b>	<b>Type</b>	<b>Interviewees</b>	<b>Selection criteria</b>
<b>Gov. Agencies</b>	Understand the differences/similarities in the negotiation styles, cultural differences, role and sources of trust, role and effectiveness of state policies, role and effectiveness of private initiatives.	In – depth/semi structured	General Directorate for Economic Affairs - Direcon-; Export Promotion Bureau -Pro Chile-; Ministry of Mining, Foreign Investment Committee	Trade related, current or former members of Asia Pacific Departments, Nation Branding Related
<b>Private Sector</b>	To analyze policy design and policy implementation and the main initiatives and its effectiveness to make Chile a “trustable” country in the Chinese eyes. To hear about their own experiences when doing business in China.	In – depth/semi structured	Executives, businessmen and private organizations.	Knowledge of the Chinese Business Culture, Important market share (mining sector) or governmental priority (wine, fish, agriculture)
<b>Academia</b>	To obtain a global, impartial and broad vision of the problem, with emphasis on the macro view and with a political economy as well as historical perspective.	Guided conversation defined by topics	Professors and researchers of Universities and Research Centres	Specialization in Asia Pacific or China

**Table 4.1: Profile of the Interviewees - Chilean Fieldwork**



## **4.5 Second fieldwork: Shanghai /Beijing, March /May 2009.**

The second fieldtrip had two main objectives. First, it aimed to explore the real experience of Chilean businesspeople living in the PRC and to obtain the Chinese point of view of the bilateral relationship by interviewing Chinese executives and entrepreneurs doing business with Chilean companies. Secondly, it also intended to collect bibliographic material and have conversations with Chinese academics, especially from the Department of Latin American Studies from both the Chinese Academy of Social Sciences (CASS) and the China Institutes of Contemporary International Relations (CICIR). It is important to highlight that both think tanks represent the official policy of the PRC towards Latin America, and therefore they share the official discourse in foreign policy (Shambaugh 2002), which the investigation needed to explore. Indeed, their help and vision was an asset that gave a greater value to the research and allowed a first hand point of view; almost impossible to obtain without travelling to China. Also, an interesting conversation was held with an academic from Fudan University that complemented this vision.

Regarding Chilean data, many important materials (surveys, studies and visuals) were provided by Pro Chile Shanghai.

After two trips to the PRC, 36 semi structured interviews were conducted and important bibliographic material was gathered. Overall, travelling to China was an invaluable experience and vital for a more comprehensive understanding of Chinese business behaviour and Chinese foreign policy towards Latin America.

### **4.5.1 Data collection: Questionnaires.**

A different questionnaire was created to target businesspeople in China. This was based on the preliminary findings from the Chilean fieldwork<sup>17</sup>. In fact, since November 2008 to February 2009, about 50 percent of the interviews conducted in Santiago were transcribed and went to a process of preliminary analysis (coding) in order to define the main important categories to work with during the second fieldwork. If the questionnaire

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<sup>17</sup> For a complete version of the Questionnaires for the Chinese fieldtrip, please refer to Appendix 2.

in the Chilean fieldtrip had a more exploratory character, this one intended to narrow the subjects as well as obtaining more comparable data, especially in the case of businesspeople. It also took advantage of the experience gained during the previous fieldwork.

For both, Chilean and Chinese businesspeople, the questionnaire was divided into two main parts. The first part was built based on 12 open ended questions (and in the case of Chinese, one extra asking for anything they wanted to freely say, which is very polite in Chinese eyes and curiously they were the longest answers). In these questions, wording was more precise and focused in specific subjects. The second part contained a structured small questionnaire: 10 closed questions with pre fixed alternatives and Likert Scale types. This questionnaire was applied to 12 Chilean and 9 Chinese businesspersons. As explained earlier in this chapter, this mixed methods approach was chosen in order to test the validity of the answers and strengthen the results. Additionally, due to the fact that the questionnaire targeted to Chinese was about their personal impressions regarding Chileans and the interviewer belonged to that nationality along with the traditional politeness attributed to Chinese people, there was a possibility of suffering the bias highlighted by some academics, when “the respondent may deliberately try to please the interviewer or to prevent the interviewer from learning something about the respondent. In order to do this, the respondent may embellish a response, or omit certain relevant information” (Bradburn, 1983 in Fontana and Frey 2003, 69). Therefore, some critical subjects in both closed and open questions were duplicated in order to test coherence in the answers. For the Likert Scale-type questions, the interviewees received a card with the options, in order to clarify the different alternatives.

The interviews with businesspeople were all recorded, except for one respondent who expressed his concerns. The meetings with the academics were not recorded, because they were established as conversations rather than formal interviews, but notes were taken.

#### **4.5.2 Extra considerations.**

**Administration:** As in the first fieldtrip, the questionnaires were designed to be administered by the researcher in person. Only one interview was conducted by telephone.

**Location:** The location of the interviews was predominantly in the interviewee's office. Some interviews were carried out in cafes or restaurants.

**Language considerations:** This fieldtrip needed extra consideration regarding translations, because a third language –Mandarin– was added. As in the first fieldtrip, the draft of the questionnaires was written in English to be discussed with the supervisor. After this process and the subsequent questionnaire refinement, the one targeted to Chileans was translated to Spanish and the other one to Mandarin with the help of a bilingual doctorate student, who also offered their comments to improve it. Two bilingual Spanish–Mandarin people revised this version and helped to refine the questionnaire wording and understanding of the questions. Bilingual translators helped to administrate the questionnaire to Chinese businesspeople during the course of the interviews. The translators (two different translators were used because of issues of availability) were properly coached regarding the subject and tone of the interviews before they were conducted. Subsequently, the interviews with businesspeople were conducted in Mandarin with translation into Spanish (translator #1) and English (translator #2). It is worth noting that most of the Chinese respondents had a wide understanding of the English language; however they felt more comfortable giving their answers in Mandarin. Because some interviews did not need a translator (the interviewee did not ask for one and had good command of spoken English), and to avoid translation problems especially in the second part of the questionnaire, this was always presented –and answered– in Mandarin, in an effort to standardize them.

In order to double check the translation –acknowledging that during an interview it is impossible for the translator to give complete details of the conversation– two bilingual English–Mandarin people were in charge of doing the proper transcriptions (after the fieldwork) and, therefore, double check the initial translations. According to their report, the translations were correct; however some details were missing, which were then added.

In the conversations conducted with Chinese academics the language used was English and Spanish, and as stated earlier, notes were taken, based on a thematic guide already prepared.

**Content considerations:** For the wording of the questions, special attention was given to the questionnaire targeted to Chinese interviewees, in which delicate matters were intended to be treated indirectly, considering the difficulties in getting straightforward answers for some topics that may seem difficult to manage<sup>18</sup>.

#### **4.5.3 Data collection: Sampling selection.**

**Target Group 1: Businesspeople.** In this case, the sampling selection obeyed different criteria depending on whether the businesspeople were Chilean or Chinese. For the Chilean executives, both the snowball technique and purposive sampling were carried out. Some of the interviewees were reached with the help of Pro Chile –Shanghai– and personal aid from the Chilean Ambassador in Beijing. In general terms, almost the entire universe of Chilean businesspeople and executives in both Shanghai and Beijing was reached. Only those who never responded to emails or who plainly refused to cooperate are not present in the sample.

For the Chinese businesspeople, mostly interviewed in Shanghai, the strategy was similar to the “gatekeeper” (Silverman 2005) which this time worked as a facilitator and intermediary with the potential interviewees. The sample, however, included executives from private and State Owned Enterprise (SOE) and different productive sectors. Two other Chinese respondents were contacted via the snowball technique. Within this group, was also the interview conducted with the Shanghai Industrial Federation which is an institution that is part of the state apparatus. However, because the nature of the conversation had a more business-like than political approach, this interview was grouped in the first target group.

**Target Group 2: Official Authorities.** Although two Chinese bureaucrats were interviewed in Chile (that belonged to the PRC Embassy), I was well aware that Chinese officials do not speak with foreign researchers directly. Therefore, an indirect strategy was followed, through the contact of the two think tanks –CASS and CICIR– to obtain

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<sup>18</sup> One of the most highlighted points by Chilean interviewees in the fieldtrip to Santiago was the difficulty of the businessmen –as well as of the Chilean authorities– to establish a more straightforward conversation with their Chinese counterparts, together with a general Chinese tendency to stress the general points, and avoid confrontation, instead of going deep –at least at the beginning of the relationship– into the details of a matter. This characteristic Chinese behavior is confirmed by traditional literature on Chinese Business behavior such as the classic book *Chinese Negotiating Style*, by Lucien Pye (1992).

the official version on the subject. They were contacted through a long process of emails and academic intermediations, involving my supervisor and the Director of the Asia Pacific Department from the Universidad de Chile. Chilean official authorities were reached in both Shanghai and Beijing. One of them was interviewed by phone.

The following table summarizes the sample for the Chinese fieldwork:

	<b>Objectives</b>	<b>Type</b>	<b>Interviewees</b>	<b>Selection criteria</b>
<b>Private Sector (Chileans)</b>	To collect data regarding their personal stories, narratives and perception on their own experiences in trust-building processes	In – depth, semi structured interview /Closed questionnaire section	Executives and businesspeople and private organizations.	Conduct the business from China, therefore, have knowledge of the Chinese Business Culture.
<b>Private Sector (Chinese)</b>	To collect their point of view and narratives regarding Chilean image, business behaviour and own experiences in trust-building processes	In – depth, semi structured interview/ Closed questionnaire section	Mainly importers of fruit, seafood and commodities.	Having experience in doing business with Chilean in relevant productive sectors
<b>Academia</b>  <b>Gov. Officers (Only Chilean side)</b>	To obtain both academic and political perspective  To obtain their vision and experience regarding the political and economic bilateral relationship.	Conversation guided by topics  In – depth, semi structured interview	Universities and Research Centres  Export Promotion Bureau (Shanghai) Embassy (Beijing)	Having both political and academic knowledge.  High rank officials

**Table 4.2: Profile of the Interviewees - Chinese Fieldwork** (Shanghai and Beijing, 2009).

## 4.6 Data Analysis.

As stated in this chapter, a mix methodology was used to develop the argumentation presented in the empirical chapters, combining qualitative and quantitative techniques. Regarding the interviews, since they comprised both semi-structured and closed questionnaires, the analysis had to be divided accordingly.

For the qualitative analysis, the coding was developed in line with the traditional coding for qualitative inquiry: broad categories at first, to be followed by the formulation of related subcategories of analysis (Silverman 1993, 2005). Although there has been concern regarding a number of issues such as whether the respondents' statements need to be considered "true or false" (Baker in Silvermann 1993, 90) this problem was not found in the data analysis. Most of the questions sought to learn the respondents' point of view regarding Sino-Chilean interactions and since they were personal accounts, this dilemma did not surface. Nevertheless, difficulties arose in relation to the amount of data to be coded –as said, more than 80 in-depth interviews, and around six hundred pages of transcription– and therefore, the amount of work required to complete the task. To manage this appropriately, the coding was performed by paragraphs, rather than line by line as suggested by some authors (Silverman 1993, 2005), which were placed in one or more categories. The coding work began immediately after the first fieldwork. This qualitative coding process was based on the interpretivist paradigm that the "primary issue is to generate data which gives an authentic insight into people's experiences" (Silvermann 1993, 91).

For the closed questionnaire, the coding was an easier process since the questions were pre-fixed. As they were designed to triangulate the results obtained through qualitative method in topics defined previously, they were used as points of proof and triangulation.

A second instrument of analysis was media resources, on line as well as off line. They were used in two complementary ways. On the one hand, qualitative analysis of editorials and news were used to further enrich the findings and mostly to get the viewpoint of economic and political elite members that were not available to participate

directly. The coding process was developed independently from the analysis of the interview data, even if the same technique was used.

For the quantitative analysis of media resources, specifically for the study on Chilean media perceptions towards China, content analysis was used. Three broad categories were defined, to then establish the number of instances in which they appeared. The full method can be found on Appendix 4.

Official documentation, such as communiqués, white papers, press releases and official statements, was used to further support the argumentation and provide the official viewpoint on critical aspects of the research, especially those referred to trust sources and trust-building at a state level.

#### **4.7 Presentation of the findings.**

The findings were structured around the subsidiary research questions established in the introduction of this research. Therefore, the first empirical chapter was dedicated to presenting the findings at a state level (Chapter Five) and the other two (chapters Six and Seven) were devoted to the findings at a transnational level. As stated earlier, the case study had been scarcely analyzed before, and so this investigation favoured a general approach, especially within the transnational argumentation. Additionally, as explained previously in this chapter, the sampling methodology did not allow presenting segmented findings, for example, based on type of industry or productive sectors, since the universe of the sample was unknown and therefore no general conclusions could be drawn based on specific cases. Finally, the fieldwork results indicated that, whether the respondent belonged to a big corporation or a small company, similar sources and processes of trust-building were encountered. There were three factors that determined variations in the results of trust-building at a transnational level, which are properly acknowledged in Chapter Six. First, the degree of interest of the powerful actor determined the pace as well as the characteristics of trust-building. Secondly, the degree of exposure to globalization of the parties. Finally, the scope of the business –and therefore, the risks involved–influenced the amount of trust needed and therefore shaped the process as well.

Consequently, as explained at the beginning of this chapter, the methodological segmentation is mostly based on whether the results refer to the sources or the processes of trust-building.

#### **4.8 Ethical considerations**

As stated before, the interviews were mostly recorded. In order to do that, the consent for recording was asked before starting the interview. Except one, all the interviewees gave consent to record the interview. The only one who denied that possibility, also asked for a transcription of the conversation (based on the notes taken during the interview), which was sent the day after the interview.

One of the main concerns of the respondents, especially from the Chilean businesspeople point of view, was related to the prospective audience of this research. Therefore, the possibility of anonymity for those who asked for it was offered. For clarification purposes, the concept of anonymity was explained to them, meaning “that the names and other unique identifiers of the subject are never attached to the data” (Sieber 2009, 117). Normally they took the decision after the interview was conducted<sup>19</sup>. In order to avoid confusion, I elaborated a special list to differentiate confidential conversations, which were filled out immediately after each interview.

Another ethical aspect that I encountered was the receipt of confidential documents that despite having obtained, I was requested to use only for background purposes, which I did. I also kept a written record of those documents.

#### **4.9 Methodological limitations and further considerations.**

As in any research, limitations to the design and execution may be encountered. However, as I tried to establish throughout this chapter, I have taken all the possible measures to overcome them, despite natural constraints that any research(er) may come across.

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<sup>19</sup> For the details of all the interviewees, please see Appendix 3, in which it is possible to find the complete categorization of the respondents. For standardization purposes –not all of them asked for anonymity– I have eliminated all the names of the interviewees and instead I have based the classification used by Tsai in her book “Capitalism without democracy” (2007), although I have made some changes to fit it to this sample.



As explained by Gilham, it is necessary to do “a lot” of semi structured interviews to obtain breadth (2000, 21). Being aware of this, I have tried to perform an extensive amount of interviews in order to have a critical number of respondents (and therefore, perspectives) that could allow me to find valid categories and base my interpretations on a considerable sample. The second strategy was to back up the case studies with quantitative data.

The second concern may apply to the length of the fieldwork carried out in both China and Chile (approximately two months in each), due to the restrictions imposed by the sponsor and personal circumstances<sup>20</sup>. The limited time available (almost 4 months for the whole fieldwork), encouraged me to perform an exhaustive work of research and networking before the trips to secure some of the interviews in advance. To speed up the process (normally, the potential interviewee would ask for a document with the main topics of the research) a web page was developed with the necessary information about the research. Another strategy was to look for intermediaries that would help me to find the potential respondents. A second limitation was the impossibility to perform a longitudinal study, which I tried to substitute by asking the respondents to remember past experiences in order to analyze the differences between their former and current situation.

The third apprehension was related to language problems, because of the three languages involved in the research and the fact that I do not speak Mandarin. As mentioned earlier, many of the decisions taken on this regard were based on the professional opinion of a Chilean linguist. The second measure that was taken, as it was also explained previously, was to use a translator during the interviews and double check (with two different Chinese native speakers) the recorded interviews afterwards in order to get most of the information.

Additionally, it is worth to mention the consideration given towards the sampling technique used in Shanghai for the Chinese entrepreneurs. I was preoccupied that, because some of the interviews were arranged by Pro Chile, some respondents felt constrained in their answers and would only say positive things about the matter. Surprisingly, they were able to incorporate criticism and what they called “suggestions”

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<sup>20</sup> One of the most comprehensive works in the Chinese private sector has been done by Tsai (2007), who spent around seven years doing interviews in China and also an extensive fieldwork is found in the work of Guthrie (1999).

(as they mostly referred to when criticizing any aspect of Chilean behaviour, either private or public).

It is necessary to address some characteristics of the quantitative results that will be shown in the next chapters. As stated, there was a section within the Shanghai and Beijing questionnaire targeted to Chilean and Chinese businessmen, in which 10 closed questions were asked to respondents. They constitute the bases for the percentages and graphs used in chapters Six and Seven that illustrate and systematize the qualitative findings. Therefore (as it was stated previously) these data do not intend to have statistically purposes, but instead they aim to further support and illustrate some of the argumentations developed in the empirical chapters.

The underlying dilemma that any researcher encounters is being constantly confronted and torn between the ideal research and the real circumstances and possibilities that surround that research (Bryman 2004). During the course of this journey, I have tried to stay as close as possible to the former. Yet, I have always been aware of the advice given by Silverman: “it is sensible to make pragmatic choices between research methodologies according to your research problem and model” (2005, 15) and thus some pragmatic decisions were made when needed.

Therefore, I have tried to acknowledge all of the potential weaknesses and find alternative strategies to enhance the investigation, basically based on anticipating circumstances and through a carefully planning. Despite this, I have tried to be open to the new changes and circumstances that made me modify the original plan. Maybe the most important one was the discovery that even though the initial questionnaire was useful for the first stage of the fieldwork (Chile), it would not be completely appropriate for the second one (China). I have understood, also, that a research of this kind is not a straightforward process, but a journey that had many stops and drawbacks to test. Constant questioning and self criticism was also a very important underlying base from the beginning.

Although I can certainly agree with the idea that it “is not possible to be completely free of bias” (Strauss and Corbin 1998, 97), I also think that, as a researcher, I have done my best to follow a path that allows a comprehensive view of the subject, trying to check and confirm the data and analysing it with honesty and professionalism;

in other words, having in mind that “analytic moral is not to take situations or saying for granted. It is important to question everything” (ibid, 98), as I constantly tried to do.

#### **4.10 Conclusions.**

This chapter explored the methodological aspects of this dissertation in three determinant aspects. First, it explained the paradigms behind the methodological choices made in this research. Then, it went on to explain the mixed methodological approach given the particularities of the case study and the literature revised. The third aspect was the description of the particular methods used to collect and analyse data.

To bring this chapter to a close, the limitations and further considerations were explained, as well as the strategies used to tackle the regular challenges that an applied research will encounter.

## Chapter 5: The political economy of trust in Sino-Chilean bilateral relations

*“Countries use economic instruments to pursue a variety of foreign policy objectives – some of which may be far from removing securing domestic economic benefit, narrowly conceived” (Ravenhill 2009, 28).*

*“Sino-Chilean FTA negotiation was preceded by a solid political relationship, which has been basically supported by an important dosage of trust” (Former Chilean negotiator, Interview#56).*

### 5.1 Introduction.

This chapter will be dedicated to exploring the role of the state in Sino-Chilean trust-building and will look into the international dimension in order to answer subsidiary research question number one<sup>1</sup>.

Chapter Five will argue that the state played a critical role in fostering trust in two complementary ways. At a bilateral level, it will analyze the sources of trust-building and the dynamics behind this process. It will contend that Sino-Chilean relations have been driven by their reciprocal national interests and sustained by a purposively created narrative of trust. This narrative has constituted an essential part of the bilateral discourse, involving not only the political but also the economic and academic elites; via the FTA, it finally became the basis for the institutionalization of economic bilateral exchange.

At a regional level, it will be contended that Chile has supported China's soft power expansion in the continent by creating two mechanisms of trust-building. On the one hand, it has contributed to the Chinese “Harmonious World” discourse by framing their bilateral relations in an economic rather than a political context, narrowing China's identity to its market dimension. By so doing, it has helped to reduce the uncertainties and risk perceptions raised by the Chinese growing influence in the region. On the other

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<sup>1</sup> As in Aggarwal and Espach, this chapter will understand the concept of states, government and countries as interchangeably and rational actors “not because we believe that these entities are undifferentiated, but because our analysis lies at the second level of international analysis, that of national interest”. Likewise, we do not “question the extent to which national trade policies are shaped by an administration's goal of winning elections. Also, we do not differentiate among government branches, such as the executive and congress, except sometimes in our discussion of individual national behaviours” (2004, 6). This understanding also goes in line with the semantics used by the interviewees.

hand, the Free Trade Agreement of 2005 enhanced Chinese-Latin American institutional trust. Furthermore, it helped China to practice and gain experience on international economic negotiation processes, without endangering her own domestic economy and – most important– before engaging in formal commercial agreements with strategic regional and international actors. By using Chile as a learning ground and as an example of the benefits brought by the institutionalization of their economic relations, the PRC aimed to diminish the “fear of China” –both economic and political–, further enhance its soft power and neutralize the charges of neo-colonialism in its relationship with developing economies.

Chapter Five will open with an analysis of the growing engagement between China and Latin America, so as to consider the case study in the broader context of China’s rise as a new centre of geopolitical and economic power. It will continue with the examination of the current discourse of Harmonious World as the construct developed by the Chinese state to create trust in the international scenario, especially in the third world, including Latin America. It will also examine how trust has played a critical role in Chilean economic foreign policy.

Within this framework, the analysis then goes on to understand the sources of Sino-Chilean trust, which allowed the institutional engagement.

The chapter will end by concluding that, notwithstanding the importance given to the state and its diplomatic actions to enhance bilateral relations through a discourse of trust, and recognizing that it has actually opened the door for economic cooperation, the economic and political motivations that drove the Chinese state to seek an institutional commitment with Chile are now fulfilled, and there are scarce possibilities that at the state level bilateral exchange can be further advanced. Thus, the task of trust-building has moved from the field of international relations to the domain of businessmen and corporations, such as transnational actors, to engage in further economic exchange.

## 5.2 Sino-Latin American relations.

### 5.2.1 A growing engagement.

This section will explain the shift in the relationship between China and Latin America in order to frame the case study in the broader context of Chinese growing influence in the region.

The last twenty years have witnessed an explosive increase in the commercial relations between China and Latin America, causing a “China fever” (Domínguez 2006, 1). Between 1999 and 2005, Chinese imports from Latin America grew around 60 percent per year, reaching an estimated \$50 billion in 2005 (ibid, 2). Recent data from the Chinese government shows that bilateral trade augmented from \$15 billion in 2001 to \$124 billion in 2008 (cited in Jiang 2009, 2).

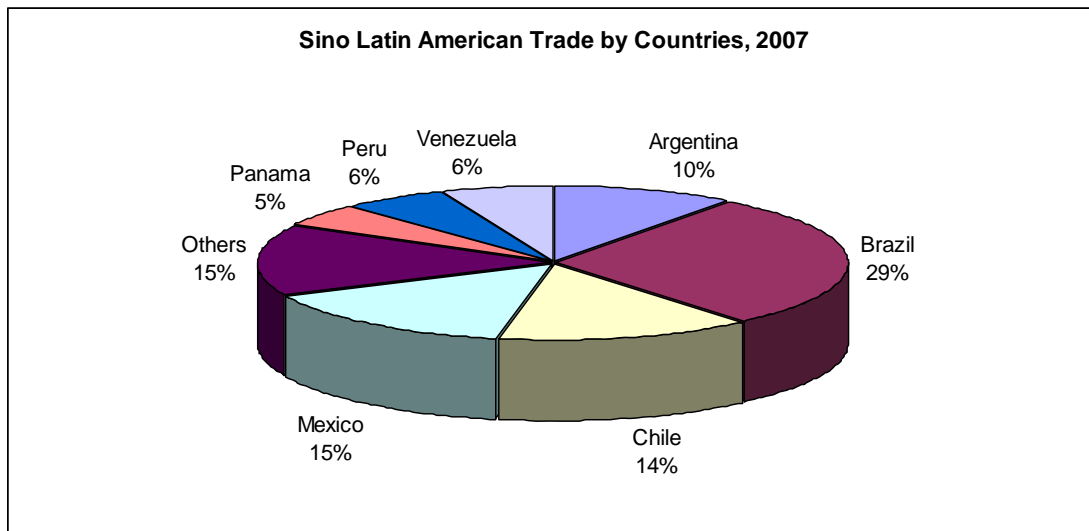
This has allowed China to become the second most important destination for Latin American products, while imports from China have also increased, as the following table shows:

Country	Exports		Imports	
	2000	2008	2000	2008
Latin America and the Caribbean	16	2	9	2
Argentina	6	2	4	3
Brazil	12	1	11	2
<b>Chile</b>	<b>5</b>	<b>1</b>	<b>4</b>	<b>2</b>
Colombia	35	4	15	2
Perú	4	2	13	2
Venezuela	37	3	18	3
Costa Rica	26	2	16	3
México	25	5	6	3
Cuba	5	2	5	2
Uruguay	4	5	7	4
Bolivia	18	10	7	6
Ecuador	20	17	12	4

**Table 5.1: China’s ranking in selected countries within Latin America.**

**Source: (ECLAC 2009a, 33)**

The ABC countries (Argentina, Brazil and Chile) in the Southern Cone further illustrate this: according to OECD figures, from 2000 to 2003, Brazil's exports increased by 500 percent, Argentina's by 360 percent and Chile's by 240 percent (Santiso 2007). Moreover, "in accordance with Customs Statistics of China, there were 5 countries (i.e. Brazil, Mexico, Chile, Argentina and Panama) in 2001 whose bilateral trade with China was over \$1 billion and accumulated 77 percent of total trade. While in 2007, 11 countries reached the above level, including 1/3 of the total countries and 94 percent of the total trade in this region. Among them, China's trade value with Brazil, Mexico and Chile was over \$10 billion" (Wu and Yue 2009, 29-30), as it can be seen in figure 5.1:



**Figure 5.1: Sino Latin American Trade by countries, 2007.**

**Source: Wu and Yue (2009, 29) based on Customs Statistics of China.**

As it can be seen in the above figure, the ABC countries' trade account for 68% of the total trade of the region with China. Chile represents 14%, ranking after Mexico and Brazil.

This growing economic exchange is derived from the overall complementarities between both regions, mainly driven by the Chinese need to support its domestic growth. As stated by Gutierrez, "The [trade] structure is simple: Latin America export mix consists of natural resources with little processing (mineral, agricultural and fisheries products) while the region imports a wide range of industrial goods from China" (2001a,

82). Thus, Latin America emerges as a “natural resource generator”<sup>2</sup>, including energy resources (Pérez-LeFort 2006a), which have become crucial for China’s own domestic development<sup>3</sup>, and at the same time as a provider of other primary resources also considered critical for domestic growth (Jiang 2006; Santiso 2007; Kaplinsky 2008; Roett and Paz 2008b; Shambaugh 2008). This has allowed a shift in the importance China has given to Latin America compared to the past, when the relationship was considered “normative but necessary for identity and political reasons” (Xu 1994, 152). Today Latin America may be considered as a strategic partner for China’s own economic development, and therefore acquires political significance (Song 2008).

The increasing engagement between China and Latin America must be inserted in a broader Chinese global geopolitical strategy, triggered by a variety of motivations, that besides economic interests such as getting access to resources and expand the market for Chinese products, also includes diplomatic objectives (such as the isolation of Taiwan) and political objectives (such as promoting a multipolar and a more democratic world) (Pérez-LeFort 2006b; Medeiros 2009). In this sense, the bilateral relationship needs to be characterized more broadly, thus “clearly (...) determined by a varying combination of considerations: security, trade and investment, natural resource needs, and geopolitics” (Roett and Paz 2008a, 4). As summarized by one Chilean academic: “the relationship between China and Latin America has been conformed by two main factors: the necessity of getting resources to reach economic development and also to strengthen political ties with the region” (Perez Le-Fort 2006a, 89).

The current Chinese official posture towards the region has been systematized in the publication of the China’s first official governmental White Paper called “Policy Paper on Latin America and the Caribbean” (Xinhuanet 2008) in November 2008. According to Chinese academics, this publication created a milestone in Chinese foreign policy towards Latin America, since it was the first document of this kind, and thus symbolizes the growing importance that the region has for China<sup>4</sup>, which until the 90’s was characterized by an “indifference and lack of Chinese commitment”, despite the discourse developed by Chinese elites (Bravo 2001, 63). The visits made by high ranking

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<sup>2</sup> Interview #31. Chinese Academic Researcher, specialist in Latin American studies, Beijing May 2009

<sup>3</sup> Interview #76, op.cit.

<sup>4</sup> Interview #31, op.cit.



Chinese officials and businessmen –started by Jiang Zemin’s visit in 2001, followed by two Hu Jintao trips; one in 2004 (Domínguez 2006) and the last one during the first trimester of 2010<sup>5</sup>–, seem to confirm the shift towards the region.

### **5.2.2 Benefits and drawbacks of Sino-Latin American relationship.**

Chinese economic expansion is seen by a wide range of academic observers as responsible for the current prosperity in the region (Roett and Paz 2008a). First, it has helped to foster the diversification of the Latin American market (Ellis 2009) beyond the traditional European and American poles (Santiso 2007). It has also increased the value of trade (Stallings 2008, 249) by raising the price of its primary goods in the international markets, which in turn has generated better revenues (Lora 2007; Jiang 2008b). Moreover, it has been argued that Latin American exports to China have constituted a key variable for its performance during the 2008 financial crisis. A report of the United Nations Economic Commission for Latin America and the Caribbean, ECLAC, highlighted the key role China played in improving both the volume and the terms of trade of the Latin American region during the 2008 financial turmoil, stating that the PRC, “has rescued Latin American exports” (2009b, 27).

From a Chinese viewpoint, the engagement with Latin America has also been beneficial in terms of managing the 2008 financial crisis. Latin America’s resilience made it an alternative market for the allocation of Chinese products<sup>6</sup> and thus helped to cope with Chinese uncertainties (Wu 2008).

Notwithstanding the data offered above, Chinese benefits are debatable. OECD economists have discussed the role of China in Latin America, and whether China needs to be considered an “angel or devil”, controversy that has not been solved yet (Blázquez-Lidoy, Rodríguez et al. 2006; Blázquez-Lidoy, Rodríguez et al. 2007). In fact, the growing Chinese presence in the continent has brought negative outcomes, especially for those countries that share the same productive and trade structure, such as Mexico and

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<sup>5</sup> Hu’s Latin American tour, however, was interrupted due to the earthquake in Qinghai and the visit to Chile was cancelled.

<sup>6</sup> Interview #81. Chinese Academic Researcher, specialist in Latin American studies, Shanghai, March 2009. The viewpoint of considering the financial crisis as an opportunity to strength ties was also supported by many Chilean buyers which have taken advantage of the financial crisis, getting better conditions in negotiation processes, given the changes on the western buying capacity.

some Caribbean countries (Gonzalez 2008; Jenkins, Peters et al. 2008). They not only compete in this third market but also in attracting foreign investment<sup>7</sup>. Furthermore, the impact of Chinese economic influence has divided the continent into what has been called “winners and losers” (Gonzalez 2008), setting doubts regarding the positive vision of China in the region. As argued in the work of those authors concentrated on the negative externalities that Chinese investment has triggered (Kurlantzick 2007), Chinese expansion is seen as a menace for the current economic and political order of the region.

Economically, China has been pointed to as being responsible for causing a “*re-primarization*” of Latin America, since most of its exports are concentrated in a few products, and are mainly attached to primary resources (ECLAC 2011) which in the long run may have negatives consequences for Latin America’s growth. As noted by Xiang, there is a danger that the trading pattern with China may crystallize in a “new colonial pattern”, resembling a “North–South model, with trade and investment [from the Chinese side] heavily tilted toward energy and natural resources” (2008, 54-55).

Indeed, according to ECLAC information, Latin America and China have established an unbalanced and asymmetrical partnership, in which 90 per cent of the total exports to China are constituted by primary products, while 88.5 per cent of China exports towards the region are manufactured products. Besides, China has had a historical trade surplus with Latin America, currently accounting for 40 billion dollars (in 2010, total Chinese sales towards the region were 111 billion dollars while Latin America sold 71 billions to the PRC)<sup>8</sup>. This data indicates how China’s growing presence in Latin America is being configured in an increasing dependent relation, with China becoming as a new centre of economic and political power and Latin America as its periphery.

There is also the problem of China enhancing the so called Dutch disease which is considered “classic market failure faced by raw material producers” (Devlin,

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<sup>7</sup> Although in general terms, China has not become a threat of diverting the FDI towards Latin America (Devlin, Estevadeordal et al. 2006; García-Herrero and Santabarbera 2007; Arroba, Avendaño et al. 2008)

<sup>8</sup> *Advierte Cepal desequilibrios en asociación China-Latinoamérica* [ECLAC warns on Sino Latin American economic relationship]. Source <http://www.milenio.com/cdb/doc/noticias2011/8204d02574644a1dea28b3a09d1f1b71> 15 June 2011. Accessed on 15 November 2011.

Estevadeordal et al. 2006, 217), because, according to Chinese researchers it is highly unlikely that the trade structure will vary in the next years<sup>9</sup>.

The drawbacks that China is bringing to Latin America have been at least partially acknowledged by Chinese academics in the official media, when stating, for example, that “in the sectors where China and Latin America are competing with each other, Chinese exports have brought pressure on several countries in the region. Aid can be adopted as a means to compensate the countries” (Sun 2010, 16), accepting in this way that the relation between both regions is not completely positive despite the growing commercial exchange and the official discourse.

A second concern regarding the increasing Chinese presence in the region goes beyond the economic perspective and frames Chinese foreign policy towards Latin America within global geopolitics, and specifically, taking into account the role of the United States on it. From this perspective, Sino-Latin American bilateral relations are understood as an outcome of the state of Sino-US relations (Gutierrez 2000; Perez LeFort 2006a; Roett and Paz 2008a, Stallings, 2008)<sup>10</sup>, and therefore a strong Chinese presence in what is traditionally considered the US backyard, causes some concerns in the western world, because it is considered a threat for the stability of the current geopolitical order in the region (Domínguez 2006; Ellis 2009).

Ellis, for example, argues that many investment projects “have taken place in countries with relatively anti-US foreign policy positions, such as Venezuela and Ecuador, or countries that have changed their diplomatic posture on Taiwan, such as Costa Rica, reflecting the complex mixture of economic and strategic considerations that drive Chinese investments in the region” (2009, 3).

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<sup>9</sup> Interview #76. op.cit. The Dutch disease effect has been defined as the “reduction in a country’s export performance as a result of an appreciation of the exchange rate after a natural resource such as oil has been discovered” (Barder 2006, 1).

<sup>10</sup> One of the key moments that illustrate this triangular relation is recounted in this analysis: “In the early 1970s, China’s international position was greatly raised by two significant events: its re-entry into the United Nations and President Nixon’s visit to China. Many Latin Americans started to look at China with new eyes. From 1971 to 1980 twelve Latin Americans established diplomatic ties with China” (Jiang 2006, 66).

It is in this scenario that the Sino-Chilean relationship takes relevance when observed with the analytical tools provided by trust theories. The next section will explain the current conceptualization of trust within Chinese and Chilean foreign policies in order to frame the case study within both the bilateral dimension as well as within the broader perspective of Latin America.

### **5.3 Trust in Chinese and Chilean foreign policy.**

This section will deal with the role trust conceptualization has played within Chilean and Chinese economic foreign policies.

The significance of trust within Chinese and Chilean economic foreign policy has been acknowledged by both nations as an important element of their diplomatic discourse and action. Moreover, trust has acted as part of their global insertion strategy. However, their understanding and application vary greatly between them. For China, the concept of trust has two dimensions. On the one hand, China has embraced trust-building as a mechanism to legitimize its new status of great power and to pursue its geopolitical and economic goals. On the other, it has been understood as a previous condition to deepen economic cooperation with potential partners, and therefore linking trust dynamics to the political sphere and thus exercising its soft power over the region. In the Chilean case, trust-building has been conceived as a mechanism to enhance bilateral trade and attract foreign investment through its promotion as a reliable country. Therefore, reputation-based trust has become fundamental for Chilean economic diplomacy, as the case study will show.

#### **5.3.1 China: Harmonious world and benign economic rhetoric.**

This section will analyze how the current Hu Jintao's discourse of "Harmonious World" aims to build trust by narrowing Chinese rising hegemony to economic purposes and stressing China's benign influence.

Since Deng Xiaoping open up reforms in the late 70's, China has gradually become integrated with the global economy as a critical step in its own path for development. As an example, "its share of global trade rose from less than 1 per cent in 1980 to around 8 per cent, and in 2009 it became the world's largest exporter ahead of

Germany” (...) and has also become a major destination for foreign direct investment (FDI), accounting for over 5 per cent of global FDI inflows between 2005 and 2008” (Jenkins 2010, 809-810).

This growing and fast international insertion has triggered the need to build a new foreign policy discourse targeted towards the fulfilment of two objectives. From the economic perspective, China has to continue its global economic insertion in order to ensure its own development (Zheng and Tok 2007, Ding 2008). Politically, the PRC requires counteracting the negative impacts of its rising power, especially in the western hemisphere, a goal that has constituted one of its major foreign policy dilemmas over the last years (Xiang 2008)<sup>11</sup>.

Hu Jintao’s new conceptualization of ‘Harmonious world’ (*hexie shijie*) was designed to solve this dilemma. In 2005, in a speech before the United Nations, the Chinese General Secretary of the Central Committee of the Communist Party of China, Hu Jintao, declared: "We must abandon the Cold War mentality, cultivate a new security concept featuring trust, mutual benefit, equality and cooperation, and build a fair and effective collective security mechanism aimed at preventing war and conflict and safeguarding world peace and security."<sup>12</sup> In Hu’s proposal, trust appears as one of the main pillars for international security (2008, 15). In fact, Chinese scholars have stated that trust construction becomes “worthy of the greatest attention, because mutual distrusts or misperceptions easily lead to conflicts between the countries” (Yuan 2008, 11), identifying three sources of trusting relations: international economic interdependence, mechanism construction, and international cooperation (ibid 2008, 3).

From the theoretical perspective of trust, *Hexie shijie* rhetoric can be conceived as a mechanism of Chinese foreign policy discourse to build trust in the international scenario in order to support China’s global economic and political insertion, as well as its status as an emerging global power among the international community. By enhancing cooperation and stability in its discourse, China aims to reinforce the benign aspects of its

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<sup>11</sup> Indeed, The idea of China’s “peaceful rise” (*heping jueqi*) introduced by Zheng Bijian in November 2003, did not last within the Chinese foreign policy because it generated controversy in the west given its conceptualization of “rise” that was associated with threat and power emergence. For further discussion see Suettinger, R. L. (2004). "The Rise and Descent of “Peaceful Rise”." *China Leadership Monitor* 12.

<sup>12</sup> Source: <http://www.china.org.cn/english/features/UN/142408.htm> Accessed 2 November 2011.

rising political and economic power, and thus diminish the perception of China as a threat and advance its soft power in the international community<sup>13</sup>.

In fact, Chinese government and intellectuals have emphasized *hexie shijie* as closely connected with Chinese own development in an effort to narrow China's rise to the economic dimension. According to them, the current foreign policy discourse follows "the footsteps of previous policy discourses to map out China's developmental direction" (Zheng and Tok 2007, 1), such as the conceptualization of China's peaceful development (*zhongguo heping yu fazhan*) –also promoted by Hu–, because a harmonious world allows a "long-lasting peace and common prosperity" (Hu, cited in Jiang 2008a, 33). This is considered essential for Chinese economic growth, which has been defined at the centre of current Chinese conception of national interest (Chan 1999, 81)<sup>14</sup>. As this scholar points out: China "strive [s] for a peaceful international environment for its development and to promote world peace through its own development" (Liu 2008, 13), statement that goes in line with the Five Principles of Peaceful Coexistence, the cornerstone of China's foreign policy (Wen 2004)<sup>15</sup>.

Liu's quote also exemplifies another objective of Chinese leadership when defining the elements of its discursive use of trust: the need to position China as a responsible stakeholder and a rule follower within the international community, as a way to legitimate itself within the global capitalist model. In effect, it has been argued that "China has no interest in challenging the interdependence that the western–open market system has institutionalized through principles, rules and institutions" (Caballero 2008, 93). Furthermore, the past 30 years of opening up have been considered by Chinese

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<sup>13</sup> According to Joseph Nye, soft power can be defined as "getting others to want the outcomes that you want [and therefore] co-opts people rather than coerces them" (2004b, 5). It is based on its culture, political values, and its foreign policies (2004b, 11).

<sup>14</sup> On the question of what constitutes national interest, Chan emphasizes that Chinese current understanding of national interest comes from Deng XiaoPing, citing researcher Yan Xuetong: "The core of China's state interest is sovereignty, without which it would be pointless to talk about the protection of other state interests. State interests can be divided into security interest, political interest, economic interest, and cultural interest. Which type of these divided interests is more important depends on the specific time and situation (...) In a book published in 1996 on China's national interest, Yan affirms that 'economic interest should top other interests and be followed by security, political and cultural interest'" (Chan 1999, 80-81)

<sup>15</sup> One Chinese academic interviewed during the fieldtrip reminded me how Chinese government has been trying to divert the discourse from peaceful rise to peace and development, because it sounds less threatening, especially towards western eyes (Interview #81, op.cit.) A similar argumentation can be found in Suettinger (2004).

scholars as “a process of understanding, embracing and reaping rich rewards” from economic globalization (Ma 2008, 10). Because of that, “China approaches the world system and international order as a constructive participant, stakeholder, cooperator [sic] and reformer” (Dong 2005, 70), in tune with its global insertion.

Thus, Chinese intellectuals and policy makers have built a foreign policy discourse representing a stark contrast with former Chinese self-representations, which portrayed China as being in conflict with the dominant powers. Mao’s Three Worlds theory, for example, was “birthed in international conflict and domestic controversy [and therefore considered] combative” (Harris and Worden 1986, 34). This conceptualization attempted to build a shared identity in which China was positioned as part of the developing world together with most of Asia, Africa and Latin America<sup>16</sup>, and in an antagonistic position regarding the great powers, as illustrated by Deng Xiaoping’s speech at the United Nations assembly when he defined the third world as “a revolutionary motive force propelling the wheel of world history and are the main force combating colonialism, imperialism, and particularly the superpowers”<sup>17</sup>. In order to face these forces, Deng highlighted the need of South–South cooperation, because developing countries “cannot afford not to understand each other and promote the friendship between us” (1992, 29).

### **5.3.2 Trust in the Chinese discourse towards Latin America.**

In relation to Latin America, Chinese scholars have also emphasized the Chinese intention to confront this global era with a “non-ideological approach, hoping that it will complement the current economic development” (Xiang 2008, 52). More critical views, nevertheless, portray Chinese discourse towards the region as a “way of wielding China’s soft power in the global south,” in an attempt to “cultivate a favorable [sic] national image [and] exert its political influence on regional affairs” (Ding 2008, 193) which is demonstrated by the foreign policy gaps between Chinese discourse and action (Blanchard 2008). Furthermore, it is contended that the Chinese economic offensive in Latin America is part of the China “charm offensive” in which, through soft power,

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<sup>16</sup> Source: <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18008.htm#> Accessed on 02/11/2011

<sup>17</sup> Speech By Chairman of the Delegation of the People’s Republic of China, Deng Xiaoping, At the Special Session of the U.N. General Assembly, April, 10, 1974. Source: <http://www.marxists.org/reference/archive/deng-xiaoping/1974/04/10.htm> Accessed 11/03/2011

China seeks to challenge the current international order (Kurlantzick 2007). But despite the analysis of Chinese intentions behind its current foreign policy economic discourse, it is clear that the country needs to confront the charges brandished against it of hegemonic expansion or new colonialism (Ding 2008, Xiang 2008) in Latin America, and counteract the subsequent fears and criticism.

In order to do this, China has applied the rhetoric of *hexie shijie* with an emphasis on economic discourse (rather than the political sphere), in line with China's self perception as a benign power. This is closely linked to the new version of South–South cooperation, detached from the ideological tint that it used to have. Instead, China now focuses on “a win–win rhetoric of promoting world peace and harmony, South–South economic and diplomatic cooperation” (Roett and Paz 2008a, 4).

As expected, economic cooperation is understood by the Chinese from a benign perspective, in which neither the “China threat nor the fear of China are correct” (Jiang 2006, 19) when referring to Latin America's economic development (Blázquez-Lidoy, Rodríguez et al. 2006; Blázquez-Lidoy, Rodríguez et al. 2007). On the contrary, both actors “need each other” because China requires natural resources and Latin America necessitates the Chinese market to allocate its own production and exports (Xu 2006, 110). This is also translated into the official Chinese academic work, in which the prevalence of economic drivers as well as the spirit of “benign cooperation” (Wu 2008, 1) is constantly highlighted.

In fact, Chinese intellectuals –particularly those closely linked with governmental think tanks–, have purposively emphasized the predominance of economic reasons behind China's expansion to the continent, especially in relation to the US: “China's relations with Latin America are for economic purpose, not for political intention against the U.S. China understands well that Latin America is the backyard of the United States, so there is no need for China to challenge the American influence in Latin America” (Jiang 2009, 11). Moreover, “in no way should China's growing presence be interpreted as a challenge to US hegemony in the hemisphere” (Jiang 2008a, 28). As a proof, they argue that in the aforementioned Chinese first official document towards Latin America, economic aspects constitute the base for the major argumentation. They aim to demonstrate that economic cooperation is located at “the core of the Sino–Latin



American relations” (cited in Jiang 2009, 2)<sup>18</sup> and furthermore that “[it] is the economic sphere which is prevailing in the regional relationships, [and thus] ideological considerations are playing a marginal role” (Manríquez 2006, 29).

In other words, the Chinese contend that their actions are not driven by ideological factors as in the previous decades (Xiang 2008). Some western academics have also supported this position (Domínguez 2006; Tokatlian 2008) explaining that China does not want to threaten her access to North American markets (Malamud 2007).

This also agrees with some westerner’s points of view on contemporary Chinese foreign policy, in which “China’s current international strategy does not appear to be revisionist in nature, but rather, to be characterized by pragmatism and caution and led by necessity and opportunity” (Roett and Paz 2008a, 3). It also goes in hand with conciliation and stability (Tokatlian 2008, 60), and it is in tune with a general Chinese posture in which “pragmatism has remained the hallmark of China’s economic diplomacy in the years since the WTO entry” (Ravenhill 2009, 28).

This discourse is complemented with Chinese efforts to downsize the growing engagement with Latin America, stressing that the continent lags behind the developed world or those falling into its regional sphere (Xu 1994; Gutierrez 2001; Tokatlian 2008). To further emphasize this point, a known researcher from a Chinese governmental think tank uses the following analogy when discussing this particular subject in a personal interview: “The president of China does not wake up in the morning thinking about Latin America, he may first think on the great powers, then, on those who are closer in the region –its neighbours– and maybe in the afternoon he will think of Latin America”<sup>19</sup>.

A second characteristic of trust in current Chinese posturing towards the region relies on the existent power asymmetry that pervades trust-building within Latin America and China, in which the latter seems to be dictating conditions to further engagement, as inserted in this new scenario in which Latin America is becoming more and more dependent on Chinese economic exchange in order to grow. This has been clearly

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<sup>18</sup> To further support this argumentation, the preponderance of the economic aspect in the Chinese Policy Paper on Latin American and the Caribbean has been noted: of the total 5000 Chinese characters in the document, 1400 are devoted to economic cooperation (Jiang 2009).

<sup>19</sup> Interview #31, op.cit.

illustrated by the Costa Rican case, in which the FTA was signed only after the country shifted diplomatic recognition from Taiwan to the PRC.

Although this will be further analyzed when discussing the dynamics of the Sino-Chilean case in the next section, it is necessary to highlight the importance of developing political trust within Chinese foreign policy towards the region, as a requisite for mutual understanding. Already in 2004, the top leader of the CCP, President Hu Jintao, proposed that “the two sides [Latin America and China] should strengthen strategic common ground and enhance mutual political trust” (cited in Jiang 2006, 78) in order to “support each other to become trusting friends in the political sphere” (cited in Xu 2006, 108).

This is illustrated by the Chinese White Paper towards Latin America in which pays attention to the increasing “mutual political trust” between them (Xu 2008). In fact, the first goal of China’s policy towards the region mentioned in the White Paper is to:

Promote mutual respect and mutual trust and expand common ground. Based on the Five Principles of Peaceful Coexistence, China and Latin America and the Caribbean will treat each other as equals and respect each other. They will strengthen dialogue and communication, enhance political mutual trust, expand strategic common ground, and continue to show understanding and support on issues involving each other's core interests and major concerns (Xinhuanet, 2008).

This last paragraph points out how the Chinese official posture towards the region highlights the importance of political trust, despite the predominance of the economic discourse.

### **5.3.3 Chile: Reputation-based trust as a way of development.**

Chilean trust-building strategy has been built based on two main sources. First, it has ‘created a strong institutional network that has become pivotal for the exports’ competitiveness and at the same time it has offered institutional support to its commercial exchange. Secondly, it has carefully built a reputation of a solid and stable economy in order to attract investment and boost its trade.

Indeed, since the 90’s, Chile has started to consciously build a network of commercial agreements throughout the world in order to assure competitive market conditions for its products and services, being considered “the most prominent Latin

American example of unilateral trade liberalization” (Aggarwal and Espach, 2004, 14). According to official information, Chile holds 20 commercial agreements with 56 countries, which means preferential access to a market of 3,800 billion, reaching 60 percent of the world population, and 86 percent of global GDP (Direcon 2010b). Additionally, Chile has an 80 percent degree of trade openness (as compared with its total GDP)<sup>20</sup>.

Chilean global openness has constituted the cornerstone of a growth strategy supported by domestic liberalization “as part of a development model based on free trade and export-led growth” (Wise 2004, 95), given its small domestic market which pushes Chile to play “following the [international] rules of the game” (Matus 2006, 22). As former General Director of Economic International Affairs for Chilean government and current ECLAC Director for International Trade asserts: “Chilean trade policy seeks to secure, through bilateral and multilateral means, competitive conditions that Chile would hardly be able to obtain through unilateral measures alone, to facilitate access to new markets and defend the success of its exporters” (Rosales 2004, 189). This is illustrated by one high rank governmental official interviewed in Santiago: “We are a small country. This implies at least two requisites for our own development: On the one hand we need to secure a bigger market to allocate our products, but on the other, we need to have the rules of the game very clear (...) so we can protect ourselves in the international *football match*”<sup>21</sup>. In fact, Chile has advocated an economic foreign policy that ultimately pursues the building of institutional trust derived from the guarantees provided by a formal bond like the FTA’s and other commercial agreements. As noted by previous researchers: “Chile has actively undertaken unilateral liberalization, complemented by bilateral and multilateral trade approaches, as a strategy to enhance its economic competitiveness and minimize risks” (Aggarwal, Espach et al. 2004, 261). By doing this, Chile “strives to lower transaction costs faced by private agents by reducing the levels of uncertainty, information asymmetry, and lack of transparency, while challenging mechanisms that

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<sup>20</sup> Estimation based on International Monetary Fund and the Institute of International Finance. Source: El Mercurio (2009, June 30) “La apertura comercial de Chile lo deja más expuesto a los shocks internacionales” [Chilean degree of trade openness makes it vulnerable to international shocks]. El Mercurio, pp B4.

<sup>21</sup> Interview #09. High rank governmental source at the Chilean Export Promotion Bureau, Santiago, October 2008.

may lead to a proliferation of protectionist attitudes” (Rosales 2004, 194-195), as one of the most important objectives of its current economic foreign policy.

In order to support this trade strategy, Chilean state has consciously managed a process of trust-building in the international scenario. Thus, trust has been formed as the result of planned policies targeted to enhance its own reputation, which in turn has nurtured the Chilean stock of soft power.

First, it can be argued that the Chilean state has created institutions deliberately sought to enhance trust by managing reputation and image through what has been traditionally called public diplomacy, defined a decade ago by Tuch as the “government process of communicating with foreign publics in an attempt to bring about understanding for its nation’s ideas and ideals, its institutions and culture, as well as its national goals and current policies” (1990, 3). Furthermore, it can be said that the Chilean government is fully applying the principles of the recently coined concept of Competitive Identity to promote the country, which has been understood as “the synthesis of brand management with public diplomacy and with trade, investment, tourism and export promotion. CI is a new model for enhanced national competitiveness in a global world” (Anholt 2007, 3).

In this context, trust and reputation appear interconnected in a dependent relationship, because “like a branded product, branded states depend on trust and customer satisfaction” (Van Ham 2001, 2-3). More deeply, as stated by Keohane: “to a government that values its ability to make future agreements, reputation is a crucial resource; and the most important aspect of an actor’s reputation in world politics is the belief of others that it will keep its future commitments even when a particular situation, myopically viewed, makes it appear disadvantageous to do so” (1984, 116). Furthermore, the literature has recognized that for countries like Chile, with scarce stock of hard power, the ability to manage reputation becomes essential for growth because “reputation, goodwill and credibility are keys to competitiveness –to attract foreign investment, recruiting the best immigrants, and wielding political influence” (Potter 2002, 7).

These institutions, Export Promotion Bureau –Pro Chile–, the recently created “*Fundación Imagen País*” (Nation Branding Foundation) and to a lesser extent the Foreign Investment Committee, Cinver, for its acronym in Spanish, *Comité de*

*Inversiones Extranjeras*, and the *Corporación de Fomento de la Producción*, CORFO, have contributed to creating a Chilean image abroad in order to attract investment, promote tourism and enhance trade. Ultimately, to use “the nation’s image to promote sales and exports” (Fan 2006, 4), having the underlying premise that for an unbranded state it is difficult to attract economic and political attention (Van Ham 2001).

The objective has been to position Chile as encompassing “confidence, low country risk, credibility, transparency and responsibility” (Cinver 2007, 5) within Latin America, to also differentiate itself from the turbulence that cyclically affects its neighbours: “Chile is seen as a serious and trustable country, which is always able to fulfil its commitments”, stated former President Bachelet (2008, 5).

The Chilean government has based its strategy on key messages developed by the aforementioned institutions that advertise a politically stable and economically sound country. The promotional website developed by Pro Chile, [www.chileinfo.com](http://www.chileinfo.com), highlights that “the Chilean economy emphasizes trade and investment and it is recognized around the world for openness and stability”. In the same website, the country’s economy is defined with the attributes of being “stable and robust”, while the financial information is promoted as “modern and trustworthy”<sup>22</sup>. In the official website of Cinver the same tone is observed: “Chile’s low level of public debt, its sound macroeconomic policies, the integrity of its institutions and the health of its financial system give it high foreign–currency sovereign ratings. According to the Risk Ranking, published by the Economist Intelligence Unit (EIU) in March 2009, Chile is one of the world’s lowest–risk countries”<sup>23</sup>, focusing the attention on its advantages for investment.

Thus, in Chilean advertising, trust is therefore attached to specific attributes that ultimately intend to associate Chile with low levels of risk. The following advertisement targeted to foreign companies illustrates this point:

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<sup>22</sup> Source: <http://www.chileinfo.com/conocechile.php> Accessed on 17/03/ 2010.

<sup>23</sup> Source: [http://www.cinver.cl/english/clima/competitividad\\_agencias\\_agencias\\_clasif.asp](http://www.cinver.cl/english/clima/competitividad_agencias_agencias_clasif.asp) Accessed 17/03/2010. Also refer to [http://www.todochile.cl/the\\_chilean\\_advantage](http://www.todochile.cl/the_chilean_advantage) Accessed 17/03/2010.



**Figure 5.2: Chilean advertising on trust.**

**Source: *In*, Lan Chile Magazine (June, July 2008, 17)<sup>24</sup>.**

This Chilean advertisement, created by Pro Chile, written in English and published in a bilingual magazine, shows how Chile appeals to all the attributes highlighted earlier: an open, interconnected and modern country, which reinforces the institutional stability of a democratic and serious nation. Finally, the advertisement ends with the sentence: trust us! The piece shown in figure 5.2 clearly intends to make a distinction with the rest of the continent, stressing Chilean political and economical reliability and highlighting its global vocation, and therefore contributing to enhance Chile's reputation as a source of trust for business making. Because, as summarized by Aggaewal, Espach et al:

<sup>24</sup> With the permission granted by Pro Chile.

Although the benefits of international reputation are notoriously hard to determine and fragile, Chile's image abroad as South America's most stable and prosperous country (...) makes it an attractive economic or political partner, (...) Chile's trade policy of aggressive, independent multilateralism has been an important part in building that image (2004, 274-275).

The second consequence is constituted by the impact caused by this trade strategy and Chile's managed reputation in Chilean stock of soft power<sup>25</sup>. Analyzing the Chilean case –and for example its capacity to negotiate with great superpowers such as the US– Tulchin concludes that “the relative success of trade strategies is determined, at least in part, by effective application of soft power” (2004, 39) and conversely “trade and economic relations involve far more than the creation or diversion of jobs and investment. They also involve strategic alignment and positioning (...) trade strategy is one of several means by which governments seek to expand their influence in the international community, and expanded influence and the economic benefits of expanded trade can be mutually reinforcing” (Aggaewal, Espach et al. 2004, 265). Consequently, the relationship between trade and soft power is reinforced in a circular way.

As it will be further analyzed, Chilean reputation-based trust has been one of the important sources for trust-building within the case study.

#### **5.4 Sources for trust-building in Sino-Chilean relations.**

The following section will present the main sources of trust-building for the case study. It will contend that national interest has acted as the primary source that has driven Sino-Chilean trust. While Chile needed China given its export oriented model of growth, China required Chile in order to reinforce its benign discourse towards the region, as well

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<sup>25</sup> However, the research has found that there are controversies within the Chilean business community with both the formulation of the nation branding strategies and the effectiveness of its application. Critics also referred to the performance of the government when promoting its industries abroad. For instance, some respondents have criticized their particular experience with Pro Chile when proposing co-joint activities to promote a specific industry, stressing that the lack of standard policies causes the predominance of personal views in the decision making process (Interview #21, Chilean businessman in the Fisheries Industry, Santiago, September 2009, and Interview #44, former high rank executive from Chilean Foreign Investment Committee, October 2008). Also, the continuity of particular campaigns remains uncertain, due to changes in Chilean government after the fieldwork was completed.

as to create institutional trust with the Sino Chilean FTA. This analysis is mostly based on the rational approach, in which trust has a calculative nature and therefore is restricted to the specific objectives for which it was built. The following paragraphs will also argue that the process of trust-building has been based on a constructed narrative of trust based on the creation of a shared identity adopted by the key elites and operationalized by the state. The stance draws upon a constructivist perspective in which identity construction plays a critical role, but without abandoning the strategic framework in which the relationship is embedded.

#### **5.4.1 National interest as the primary source for trust-building.**

As explained on Chapter Three, rational perspectives on trust highlighted the pivotal role interest plays in the dynamics of trust-building. From this theoretical stance, this section chapter will show how trust has been built following Chile and Chinese national interests and therefore guiding the framework of trust-building for the case study.

It will explain that while China has been motivated by the political interest of having Chile as an important step within its offensive in Latin America, for the latter China represents the interest of the opportunity given by the attractiveness of the Chinese market and the possibility to become a bridge between Asia and Latin America.

##### **5.4.1.1 Chinese FTAs and institutional trust for global economic legitimacy.**

In his report to the 17th Party Congress, Hu Jintao noted that seeking free trade with other nations has become a strategy for his country (cited in Jiang 2009, 3). With this, Hu reaffirmed the importance of the institutionalization of commercial exchange through “the initiation, negotiation, or conclusion of free trade agreements” in Chinese economic diplomacy (Medeiros 2009, 64). For Chinese researchers, the FTA is seen with a specific functionality to institutionalize economic relationships, and therefore, acting as a facilitator of economic exchange<sup>26</sup>.

In regards to Latin America, the Chinese position has been clearly stated by its Government: “China will, on the basis of mutual benefit and win–win cooperation, give positive consideration to concluding free trade agreements with Latin American and

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<sup>26</sup> Interview #75, op.cit.



Caribbean countries or regional integration organizations”, as appeared in the first Chinese White Paper towards Latin America (Xinhuanet 2008) in order to institutionalize its economic relations with the region (Song 2008).

According to Medeiros, the aim behind this FTA offensive is to comply with three Chinese foreign policy objectives: to “expand China’s access to markets, investment, and technology; gain access to strategic resources, and reassure other nations that China’s growth will not undermine their economic interests” (2009, 64). Under this perspective, this research has found that for the case of Chile, the purposes behind the Chinese pursuit of establishing institutional commercial relations with Chile responds more to strategic objectives rather than direct economic reasons.

Medeiros’ first objective, access to market, investment and technology, is rather limited since the rest of Latin America offers more interesting markets to deal with, such as Brazil, Mexico or Argentina, or institutional blocks like Mercosur. And although Chile has invested considerably in comparison with its neighbours<sup>27</sup>, Chilean investment on Chinese soil is still limited<sup>28</sup>.

The second objective also appears to be insignificant in the Chinese decision making process, since the most interesting Chilean resource for the Chinese government –copper– already had a flat tariff for the international markets, and Chile has always been keen to supply the high Chinese demand for this natural resource, which made an institutional tool to facilitate its acquisition totally unnecessary<sup>29</sup>. In addition, commodities like the ones China needs from Chile behave exclusively according to the international market rules<sup>30</sup>. Other Chilean products (such as the non-traditional exports that Chile is hoping to introduce to Chinese market) did not seem to trigger great attention from Chinese authorities yet, as explained by a former commercial attaché in the PRC:

The Chinese government was only interested in showing Latin America as a raw material provider. The rest had no interest at all for them. We had some discussions

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<sup>27</sup> Interview# 34, op.cit.

<sup>28</sup> Between 1990 and December 2008 reached US\$75 millions, which only represents 0.2 percent of the total Chilean FDI abroad (Direcon 2009b). Currently, this investment has grown to reach approximately USD 200 millions (Direcon 2010a).

<sup>29</sup> Interviews #34 and #64. High Rank governmental executives Shanghai, March 2009.

<sup>30</sup> Interview # 72. General Manager of a Chinese SOE, Beijing, May 2009.

with the embassy because they only wanted to highlight Chile as a copper producing country. We had to send a very clear message that we were not only copper, and it was very complex because it meant challenging the government directives<sup>31</sup>.

Therefore, objective three, to “reassure other nations that China’s growth will not undermine their economic interests” would be a more plausible explanation for the Sino-Chilean venture, understanding that “what we may be witnessing with China’s new regional trade agreements is the emergence of a third wave of large power regional agreements which will likely set the precedent for other Chinese regional agreements to follow in future years” (Antkiewicz and Whalley 2005, 1539). Ultimately, Sino Chilean engagement intended to create institutional trust that could offer a system guarantee to potential partners in order to minimize risk perceptions, allowing China to show itself as a reliable economic partner, inserted within the rules of the global economy (Lu 2006, 41).

#### **5.4.2 Chile as a trial and learning curve.**

As previously stated, and despite Chinese efforts to promote a harmonious world in order to assure its own development, the fear of Chinese hegemony in Latin America still remains. Chinese “rhetoric has proven insufficient to assuage fears about China’s global emergence” (Xiang 2008, 52). In this scenario, the institutionalization of Sino-Chilean economic relations through the Free Trade Agreement acquires strategic importance emerging as a safe model –economically as well as politically– and a learning curve to enhance Chinese regional purposes.

As recounted in Zhang, the talks for the FTA were first driven by the interest of the Chinese government to institutionalize their economic relations: “In June 2002, the People’s Republic of China offered Chile the chance to start negotiating a Free Trade Agreement, which was made official in 2004” (2006a, 113).

There are two main strategic motivations for Chinese engagement. First, China wanted to learn from a nation with recognized training and knowledge in international economic negotiation processes. Indeed, Chilean expertise in bilateral negotiations has been widely recognized as a distinctive characteristic (Domínguez 2006), key to its soft

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<sup>31</sup> Interview# 34, op.cit.

power (Tulchin 2004) and a source of opportunities to engage with countries that are willing to learn from the Chilean experience<sup>32</sup>.

Thus, from the Chinese perspective, a Chilean FTA was considered, in the words of a Chinese known expert, as “a test ground”<sup>33</sup>, “an experiment, a first step to prepare its team for future negotiations”<sup>34</sup>, as well as a “good trial” (Wu 2008, 11), which would allow China “to enter in a later stage, with other Latin American partners”<sup>35</sup>. A former Chilean ambassador in Beijing exemplifies this: “I have the impression that for China, Chile constitutes a country that, despite its size, is nevertheless serious and innovative; and therefore we can debate, discuss, and test new things. We are a good sparring partner, a convenient guinea pig”<sup>36</sup>. These findings are in agreement with previous Chinese literature in which the Chilean FTA is presented as bringing “positive experiences for future FTA negotiations between China and the rest of Latin American countries” (Lu 2006, 41), supporting the thesis of Chile as a learning curve.

In addition, the fieldwork results have shown that the Chinese FTA negotiation team openly acknowledged their interest in learning from the Chileans, and by this they have accepted their lack of experience<sup>37</sup>. In fact, the interviewees recognized the differences between both teams, whereby the Chilean party clearly had the dominant knowledge. A former negotiator explains that in the initial phase of the process,

There were long conversations to establish the framework of the discussion (...). This was very different from earlier negotiations, with the United States for example, in which our counterpart knew what they had to do. We could get together and we could go directly to discuss [the main subjects] and that was all. When we started the discussion with China, we had to spend a lot of time talking about what we were going to do. There were conversations to exploring the key elements of a Free Trade Agreement, and examining the commitments the parties needed to comply with<sup>38</sup>.

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<sup>32</sup> Interview# 58, op.cit.

<sup>33</sup> Interview #31, op.cit.

<sup>34</sup> Interview #73, op.cit.

<sup>35</sup> Interview #67, op.cit.

<sup>36</sup> Interview #54. Former Chilean Diplomat in China, Beijing, May 2009.

<sup>37</sup> Former negotiators and academics who were directly involved in the FTA rounds commented that, at the beginning of the negotiations, the Chinese team openly expressed their will to learn from Chilean experience and the first meetings were dedicated to that. This experience was commented on separately by Interviewees #36, 42, 56, 67.

<sup>38</sup> Interview #56, op.cit

This is reinforced by the fact that the Chinese diplomatic teams have a mixed nature. On the one hand, there were those young negotiators trained in western countries and on the other, there were the traditional ones with less expertise in such economic matters<sup>39</sup>.

In fact, after the FTA with Chile in 2005, China successfully completed negotiations with Peru and Costa Rica (a formerly Pro Taiwan nation, which in 2007 established diplomatic ties with the PRC<sup>40</sup>). Furthermore, in 2008, China “finally reached an agreement to join the Inter–American Development Bank, which expands its ability to bid on lucrative development projects in Latin America” (Medeiros 2009, 160). China has also concluded commercial bilateral agreements with other developing and developed countries<sup>41</sup>.

A second strategic motivation is found in the Chinese opportunity to use this institutional bond “as an example to give a new push to enhance cooperation between China and Latin America and for the complete Asia Pacific Region” (Lu 2006, 41), ultimately targeted to engage in formal commercial agreements with more strategic regional economies such as Brazil or blocks such as Mercosur. As Chilean professor Martin Perez Le Fort explains:

In this sense, we can assume that this agreement is a previous step, with an important demonstrative effect, for a future negotiation with Mercosur [because] it seems evident that Chile is not the priority for China, [and] it is worth remembering that there are other priorities such as Brazil (...) that also want to play an important role, even though they are less reliable [and therefore] Chile can play an initial symbolic role, because deepening ties [with Mercosur] is a result of the dialogue with the main regional actors and the Latin-American integration scheme” (Perez Le-Fort 2006a,100-101)<sup>42</sup>.

The FTA was also functional as having a demonstrative effect beyond the boundaries of Latin America. The interest of Chinese in obtaining MES in order to comply with WTO requirements was easily granted by Chile, as it was requested to even

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<sup>39</sup> Interview #73, op.cit.

<sup>40</sup> A clear example of how soft power (through economic diplomacy) may work.

<sup>41</sup> At the time of this research, China also held FTA with Pakistan, New Zealand, Singapore, and the Association of Southeast Asian Nations (ASEAN). Source: “China, Costa Rica ink free trade agreement” 08/04/2010 [http://www.chinadaily.com.cn/business/2010-04/08/content\\_9704164.htm](http://www.chinadaily.com.cn/business/2010-04/08/content_9704164.htm) Accessed on 16/04/2010.

<sup>42</sup> Also in Pérez Le-Fort (2006b)

start negotiations during the 2004 APEC Summit<sup>43</sup>. Chilean recognition also had a demonstrative effect for the western world: “More tactically, China has successfully used FTAs to gain commitments from several countries to provide China with market economy status (MES), a legal determination under World Trade Organization (WTO) rules” (Medeiros 2009, 64).

One of the reasons Chile was considered a suitable candidate was its recent economic history. In fact, to accomplish a FTA with a country that has been historically considered “the darling” of the developed countries because of its successful application of liberal policies (Aggarwal and Espach 2004, 15) would allow China to be portrayed as a responsible stakeholder in a global world, able to truly embrace free market economy. It would also allow to represent China as a nation that considers other developing countries as legitimate trading partners and, by doing this, “reinforcing the western order” (Caballero 2008, 93)<sup>44</sup>, having again a demonstrative effect for the international community. Therefore, the Sino-Chilean FTA comprised an important symbolic element, as illustrated by this Chilean diplomat: “This Free Trade Agreement represents a symbol for the rest of Latin American countries [but also] constitutes a gesture towards the free trade [ideology], not only in Latin America but for the rest of the world”<sup>45</sup>. This opinion is shared by Chinese officials when referring to the importance that the success of this treaty has for China, not only in the Latin American context, but also in a broader sense<sup>46</sup>.

Chile was also strategic as an example of the economic benefits brought by a Chinese engagement and thus useful to reduce the “Chinese threat” view, given their economic complementarities and non ideological relationship –which will be further explained in this chapter– that would bring benefits to a smaller economy as Chile, as it was constantly mentioned by a couple of Chinese researchers when stressing the Chilean balance surplus in relation to China<sup>47</sup>. Moreover, it would show how China could contribute to its partner’s economic development, and by doing this enhance its own legitimacy, because: “in an increasingly dense and multilayered international system,

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<sup>43</sup> Interview # 67, op.cit.

<sup>44</sup> Although this comment was made in the context of Chinese economic relationships with Africa, it may well apply to Latin America.

<sup>45</sup> Interview #58, op.cit.

<sup>46</sup> Interview # 60. Chinese Commercial Attaché in Chile, Santiago, October 2008.

<sup>47</sup> Interview #75, op.cit

trade agreements –aside from their economic logic– are one of several instruments for the enhancement of a country's legitimacy as a partner in the making of international rules. And, in a reciprocal fashion, elements of that legitimacy can strengthen a nation's hand in trade negotiations” (Aggarwal, Espach et al. 2004, 262).

From a political perspective, mutual interests would guarantee a fast negotiation and a smooth process to be later considered as an example for other Latin American countries, and even for the world. As stated by a CICIR expert: “the Sino–Chile FTA is a good trial. The two governments took an active attitude on FTA and split the negotiation into easy–to–difficult stages. They signed a FTA in goods and then a FTA in services, and agreed on the further negotiation on investment. This method achieved a good result” (Wu 2008, 11). This quote shows how the methodology of breaking the negotiation into steps was also a safe strategy to support the FTA success<sup>48</sup>. In fact, the negotiation process was indeed considered itself a model, because it was characterized as being “fast and effective” by both sides, since “the (...) talks started in January 2005 in Beijing and concluded in October during the same year” (Direcon 2009a, 171). The smoothness of the process even surprised the Chilean negotiators: “This FTA was defined by stages: first goods, then services and finally investment. I was part of the sceptic group who thought that after goods, we would have to wait 30 years to start the services part... However, after a couple of months we were at the negotiation table and despite my pessimism we also finished this section very quickly”<sup>49</sup>.

As the analysis will show, Chinese based their decision to trust Chile “as the perfect candidate for this trial”<sup>50</sup> to suit their economic and geopolitical interests within the region on the minimum risks that Chile represented in both political and economic spheres.

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<sup>48</sup> Ibid.

<sup>49</sup> Interview #01, op.cit. On the 15<sup>th</sup> April, 2010 the Chilean Senate approved unanimously the Complementary Agreement on Services. Source: <http://asiapacifico.bcn.cl/noticias/politica/senado-aprueba-acuerdo-suplementario-servicios-tlc-china>. Accessed on 19/04/2010. However, and despite the optimism of the interviewees it is worth highlighting that between the signing of the goods chapter and the final approval for the services chapter, almost four years passed. Nevertheless, it can still be considered a triumph in Foreign Policy, compared to similar experiences. Australia, for example, started negotiations with the PRC on April 2005. According to the official website of the Australian Department of Foreign Affairs and Trade, concluded the 14<sup>th</sup> round of negotiations in March 2010. Source: <http://www.dfat.gov.au/geo/china/fta/> Accessed on 21/06/2010.

<sup>50</sup> Interview #31, op.cit.

### **5.4.3 Chile as a politically safe partner.**

The Sino-Chilean historical relationship has been defined by both pragmatism and power asymmetry and is rooted in the Chilean awareness of China's critical role for its own development and its self consciousness as a small country. Thus, pragmatism and power asymmetry have become key elements for China to trust Chile as a politically safe partner.

#### **5.4.3.1 Historical pragmatism in Chinese and Chilean bilateral relations.**

Chilean foreign policy has been considered independent, "it has never been ideological, and instead it has focused on friendly relationships with all the countries in the world, despite their ideological or political position" (Poklepovic 2006, 55), while in the PRC a realist model that since Deng has placed economy as the driving force of Chinese foreign policy has prevailed (Perez Le-Fort 2006a).

For the Sino-Chilean experience, "pragmatism has helped to overcome the obstacles [within the relationship]" (Jiang 2001, 12), and thus has facilitated the development of a commercial relationship "whose political interests are left out of the bilateral agenda, except when both countries can benefit from expressing mutual support" (Montalva and Navia 2007, 8). Thus the Sino-Chilean partnership appears not only as a pragmatic and an economically-based relationship (Soto 2005), but also as lacking "ideology and political regime identity" (Domínguez 2006, 4). OECD economist Javier Santiso explains that, within Latin America, Chile has been an example of the "the political economy of pragmatism" (2007, 13).

In fact, pragmatism has been a historical constant since the establishment of diplomatic relations between Chile and the PRC in 1970. Moreover, the overall relationship has been considered as guided by interests in which "ties are mutually beneficial" (Montalva and Navia 2007, 2). The most prominent example is given by the fact that the PRC never officially broke the diplomatic relationships during the right wing dictatorial regime of Augusto Pinochet at a time when China itself faced diplomatic isolation in the international scenario:

Sino-Chilean relations after 1973 are a good example: they cooled but neither side broke them. Political interests sustained them. Chile's relations with China

improved as the Pinochet government became ideologically and politically isolated internationally for its human rights record. Pinochet's Chile faced hostile governments in the United States and Europe most years from the mid-1970s forward. China welcomed the weakened Soviet position in Chile, opposed international interference in the domestic affairs of countries on human rights grounds, and sought to forestall the restoration of Chilean relations with Taiwan. In 1978, Chile and China established a Mixed Binational Commission that would meet annually to deepen commercial relations and coordinate scientific, technical, and cultural agreements. China supported Chilean sovereignty claims over disputed parts of Antarctica (Domínguez 2006, 6).

Even in the only “ideological moment” when diplomatic ties were made official between the Socialist Government of Chilean President Salvador Allende and Mao's regime (ibid 2006, 4), more pragmatic factors were also considered in the decision, such as looking at China's population, as was explained in the Joint Communiqué read by Allende in January 1971 (Montt 2005, 42). Furthermore, Sino-Chilean bilateral relations were not considered ideological even when Chile was under Allende's rule, since the CCP never understood the Chilean “way to socialism” as a valid one, and the Chilean communist party was not perceived as having a real Marxist–Leninist essence (Conelly and Bustamante 1992; Pakarati 1998)<sup>51</sup>.

This ideologically-free pragmatic posture has been translated into the way the Chilean state has managed the Taiwan and Tibet issues. Following a basic principle of Chilean foreign policy, which is non-intervention in the domestic affairs of others, the government has been very careful to keep away from matters that could cause political trouble in China (Montalva and Navia 2007). For example, Chile has “voiced little criticism about the authoritarian rule in the People's Republic”, referring to the events of Tiananmen (Xu 1994, 156).

As declared by one high rank official from the Ministry of Foreign Affairs, when explaining the Chilean posture towards Tibet: “We've got to remember that we need to have an absolutely pragmatic relationship in front of what China is, what China means and what it will be. We do not have to forget that China will mean much more in the

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<sup>51</sup> The Chilean way to socialism was defined by Allende in a discourse given on 21st May 1971 in front of the Chilean Congress as it follows: “In direct terms, our task is to define and put into practice a new State, Economy, and Society model centred on the human being's necessities and aspirations. For that, it is necessary to have the courage of those who dare to rethink the world as a project targeted to serve the human being. There are not previous experiences that we could use as a model, thus we have to develop the theory and the practice of new forms of social, political and economic organizations that may comply with the efforts to eradicate underdevelopment but for the socialist formulation as well” (Allende 1971, 7-8).



future and it is difficult for us to embrace a “moralist” posture. Chile needs to export [to the world] and China is our main partner”<sup>52</sup>. This demonstrates how China has influenced Chilean economic foreign policy via soft power. This official posture is widely shared by Chilean diplomats. In an editorial published in 2008 ambassador Ayala explains: “Decisions that can be so important in the bilateral relations cannot be exclusively based on the defence of principles”<sup>53</sup>.

However, this is not confined to the last *Concertación* governments: “Chile’s policy toward China is the policy of the Chilean state, not just of one particular administration” (Domínguez 2006, 32), which has been kept over time, as the recent designation of Chilean Ambassador in Peking demonstrates <sup>54</sup> and as it was exemplified by a newspaper editorial written by a former Minister of Foreign Relations from Pinochet’s regime with respect to the PRC and Tibet:

[Chilean action] is limited by the superior duty of national interest (...). We do not have the capacity of changing what is happening, we can only harm ourselves. Chinese will not resign to put order in their own territories and [should Chile intervene] will look for other countries able to fulfil their promises (...) [China] contributes to our trade and we have mutual cooperation. Only the reciprocal trade equals the 10 percent of our GDP. Besides, Chile will lose Chinese trust, acquired by years of constant respect of mutual agreements”<sup>55</sup>.

This last quote also shows the importance of the policy of gestures that have been an essential complement of Sino Chilean bilateral relations. If, as Chilean sinologist Augusto Soto asserts, since Zhou Enlai the importance of how to develop *renqing* (reciprocity, as explained in the previous chapter) through gestures has been an important feature of Chinese foreign policy (1996, 206), Chile has been able to develop a *renqing*

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<sup>52</sup> Interview # 58, op.cit.

<sup>53</sup> See the Editorial by Fernando Ayala (2008, April 25). "Camara de diputados y Tibet" [Chamber of Deputies and Tibet] *El Mercurio*, pp. A2.

<sup>54</sup> Sebastián Piñera (elected by a right wing coalition) took office following the last *Concertación* government named the former president of the Chilean Bank Association –a position held for 17 years– as his ambassador in Beijing, which demonstrates that the Chilean posture towards China surpasses a particular government and has indeed become a state policy. Although the businessman declined the offer, the vacancy was filled with other businessmen from the agro industrial sector with a similar entrepreneurial profile.

<sup>55</sup> See the Editorial "Pragmatismo or Moralismo" [Pragmatism or Moralism] by Hernan Felipe Errazuriz. (2008, April 12). *El Mercurio Newspaper*, pp. A3.

policy based on avoiding complicated subjects which has been “welcomed by the Chinese government” (Montalva and Navia 2007, 11).

To further illustrate the Chilean posture, the administration of former president socialist Michelle Bachelet serves as an example. Very close to her first visit to China, a group of Chilean congressmen (lead by the Socialist Party) wanted to officially censure the PRC for the recent events of human rights abuse in Lhasa, putting the government in an awkward position towards China<sup>56</sup>. According to media reports, this complicated matters for the Chilean President, who wanted to set a commercial agenda for her visit to China, mainly to enhance the FTA with the signing of the service chapter<sup>57</sup>. In fact, the Ministry of Foreign Affairs issued a short press release indicating that although the recent “violent events” in Tibet were “unfortunate”, the Chilean government wanted to reaffirm the “One-China policy” that it has always supported and to express “trust that Chinese authorities [will] establish a peaceful and respectful environment for all the inhabitants of that Chinese autonomous region”<sup>58</sup>. The media report also stated that although a direct influence by Chinese authorities was denied, they were “satisfied” with the official press release. The impasse was sorted out with a joint Official Press Release by both countries, in which Chile repeated the support for the One-China policy (including Taiwan and Tibet) that was appreciated by the Chinese government<sup>59</sup>.

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<sup>56</sup> After President Bachelet’s trip to China, the Chilean Chamber of Deputies reached an agreement to condemn Chinese behaviour in Tibet. This however, did not have political consequences and was not embraced by the Chilean government. However, it was feared that this would “cool down” diplomatic relations with China as warned by some congressmen. See Salinas, Claudio (2008, April 18) “Cámara de Diputados condena “represión” china en el Tíbet ” [Chamber of deputies condemns Chinese repression on Tibet]. *El Mercurio* Newspaper, pp. C2. This was also complicated because at that time, Chile was promoting its candidacy to the United Nations Human Rights Council. Chile was finally elected as a Latin American member on May 2008, which would last until 2011.

<sup>57</sup> Duran, Phillip (2008, April 17) “Lobby de China por conflicto con el Tíbet antecede próxima gira de la Presidenta a Beijing.” [Chinese lobby regarding Tibet conflict precedes next Presidential Tour to Beijing], *La Tercera*

<sup>58</sup> Press release of the Chilean Ministry of Foreign Affairs regarding the Tibet situation: “Comunicado Sobre la Situación en Tíbet” [Press Release regarding Tibet Situation] 26/03/2008 [http://www.minrel.gov.cl/prontus\\_minrel/site/artic/20080714/pags/20080714135349.php](http://www.minrel.gov.cl/prontus_minrel/site/artic/20080714/pags/20080714135349.php) Accessed 23/11/2009.

<sup>59</sup> Co joint communiqué between the PRC and Chile, “Comunicado de prensa conjunto entre la República Popular de China y la República de Chile” [Joint Communiqué between the People’s Republic of China and the Republic of Chile] 14/04/2008 [http://www.minrel.gov.cl/prontus\\_minrel/site/artic/20080727/pags/20080727204751.php](http://www.minrel.gov.cl/prontus_minrel/site/artic/20080727/pags/20080727204751.php) Accessed 24/11/2009.

From a trade point of view, trust has also been nurtured with commercial gestures. According to the opinion of two researchers from a Chinese governmental Latin American Studies Centre, the role of Chile is essential because it has never applied antidumping complaints against China<sup>60</sup>, which appears to be an exceptional situation within Latin America (Kurlantzick 2007, 162).

On the other hand, China has also returned these considerations, for example inviting former President Bachelet to the Boao conference as a special guest and even modifying its planned agenda to wait for her arrival<sup>61</sup>. Other gestures closely linked to etiquette (*li*) have been mentioned in the research towards Chilean authorities<sup>62</sup>.

This pragmatic posture has also been translated into the Chilean self-portrait as a “trading state” which involves having “no worldwide heavyweight ambitions (unlike Brazil) or ideologically contestatory [*sic*] objectives (unlike Venezuela and Cuba)”. As a consequence, “Chile is not keen on balancing U.S. power and in that regard differs from Argentina, Brazil, Venezuela, and Cuba” (Domínguez 2006, 25) and therefore a predominance of a market discourse over a political one exists. In fact, it has been stated that “compared to China’s relations with other large South American countries, this relationship is the least politicized” (Domínguez 2006, 37).

The Chilean non ideological approach to Beijing has triggered in turn, a more liberal stance from its Chinese counterparts, “marketizing” its diplomatic discourse, for example, with an “absence of the solidarity discourse that it is sustained with the rest of Latin America”<sup>63</sup>, as stated by a former Chilean diplomatic.

Chilean self definition of “trading state” also involves “harnessing its foreign policy and associated resources to foster economic growth” (Domínguez 2006, 25), which takes the analysis towards the second element that has been predominant in the bilateral relations, and which supports the interest-driven motivations to engage in an institutional agreement: power asymmetry.

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<sup>60</sup> Interview # 75, op.cit.

<sup>61</sup> During Bachelet’s trip to Boao, the presidential plane had a malfunction delaying the official arrival. Instead of accepting to start the official reception without the Chilean President, Chinese President Hu Jintao changed the original schedule to include her in the protocol. I am indebted to former Ambassador in Beijing, Fernando Reyes Matta, for this story.

<sup>62</sup> Interview #62. Former high rank Chilean official from the Copper sector. Santiago, September 2008.

<sup>63</sup> Interview #58, op.cit.

#### 5.4.3.2 Power asymmetry.

Sino Chilean bilateral relation has an unbalanced nature, both politically and economically (Soto 2005). Indeed, Sino Chilean FTA represents the profile of “regional agreements negotiated by large powers with smaller countries [in which] the large power has the dominant interest” (Antkiewicz and Whalley 2005, 1556).

This unbalance is reflected in the pragmatic policy described in the previous paragraphs regarding Taiwan and Tibet, in which Chilean economic dependency to China holds down its foreign policies to economic interests, having an “asymmetrical bargain power” when making political or economic concessions (Domínguez 2006, 23).

Furthermore, as with Latin America, the recognition of the One China policy acts as the requisite to establish or deepen economic interactions. The official document released by the Chinese government during the last visit of former Chilean President Michele Bachelet to China in 2009 further demonstrates this point, when stressing the continuous “building up” of political trust based on Chilean “long-term adherence to the One-China policy and its understanding and support on issues concerning Taiwan and Tibet”. The document immediately highlights the economic dimension, declaring that “economic and trade cooperation has reached a new height [because] the China–Chile FTA Agreement on Trade in Goods is under smooth implementation and their economic cooperation has been continuously strengthened”<sup>64</sup>

This political friendship emerges as a requisite for economic interaction. The “understanding and support” of the question of Taiwan and Tibet (Jiang 2001, 14), and a common search for multipolarity and democratization (CICIR cited in Pérez Le-Fort 2006a), are understood as establishing the political bases for further institutionalization and economic engagement, mirroring the conceptualization made earlier in this chapter with respect to Latin America in which political trust appears as an antecedent of economic interaction.

One former Chilean FTA negotiator clearly illustrates this causal relationship in which China is directing the way economic interaction takes place: “I truly believe that this agreement has been reached because there was a previous political friendship. This

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<sup>64</sup> Source: <http://www.fmprc.gov.cn/eng/wjlb/zzjg/lmzs/gjlb/3478/3480/t627716.htm#> Accessed 19/11/09.

means the recognition of the PRC as the only China. Once you have reached that, the Chinese world opens up for you. For them this is important. They have always stated that they will only negotiate with friends. In other words: I always consider my best friend as my first priority”<sup>65</sup>.

This power asymmetry has also been reflected in the importance given to each other in their foreign policy, as it can be read in the editorial of a former president of the Confederation for Production and Commerce (which gathers the most prominent Chilean productive areas) when affirming that “China is a priority of our foreign policy”<sup>66</sup>.

On the contrary, China has been clear in stating the gap between both nations. As expressed by this researcher of the CICIR governmental think tank: “The asymmetry in the economic importance [of each country] has caused an asymmetry in the importance given to bilateral relationships by the two countries (...) although [China] has put more attention to the Latin American countries, Chile will not become a significant partner in the short run” (Zhang 2006b, 91). And the author adds in another paper: “this asymmetry may be reflected in an [other] asymmetry with regards to the promotion of the bilateral enhancement” (Zhang 2006a, 116).

The unbalanced Sino-Chilean relationship can also be examined from the economic point of view. For Chile, China constitutes a cornerstone in its development, being the first commercial partner in recent years (ECLAC 2009). On the other hand, Chilean exports to China are not significant in terms of volume, despite the trade surplus that the country has with China derived from the copper exchange (Direcon 2009).

Most importantly, power asymmetry becomes clear when analyzing the trade structure between both countries, which appears as a modern version –and narrowed to economics –of a “centre–peripheral [structure] (without its negative 1960s-ish connotation), where China imports raw materials and exports manufactured goods to Chile” (Montalva and Navia 2007, 1)<sup>67</sup>. As stated, the bulk of Chilean exports are

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<sup>65</sup> Interview #01, op.cit.

<sup>66</sup> Editorial, “China, prioridad de nuestra política exterior” [China, a priority within our foreign policy] by Alfredo Ovalle. (2008, April 14) El Mercurio Newspaper, pp. A2.

<sup>67</sup> It is different from a traditional centre-peripheral model as the one promoted in the 60’s by the ECLAC in the sense that “China does not pressure Chile to go along with its foreign policy nor has China expressed interest in establishing a military and political influence in Chile” (Montalva and Navia 2007, 1), following, from this viewpoint, the principles drawn by the so called Beijing Consensus (Ramo 2004).

concentrated on its main commodity, copper, which has reached 80 percent of the Chilean exports directed to the PRC, while Chinese exports to Chile are more diversified (Direcon 2010a), mirroring the situation with the rest of Latin America and again framing the relationship in a dependency model in which Chile becomes a periphery and China the centre of the economic power.

#### **5.4.4 Chile as an economically safe partner**

Chile was perceived by China to be economically harmless for two reasons: Chilean soft power and reputation, as well as complementary trade structures.

The data collected supports the idea that trade strategies have enhanced Chilean stocks of soft power using the attractiveness of Chilean economic foreign policy, showing it as a reliable country able to build a strong network of commercial agreements. It can be considered that soft power, to some extent, has allowed Chile “to shape [other’s] preferences” (Nye 2004a, 2) therefore giving it “a role in the international scenario that traditionally hard power would not indicate” (Rovira 2006, 3).

Chinese academic elites have identified Chile as a country worth making deals with, because its political and economical stability promotes not only trade but also investment (Jiang 2001, 2009), and thus have given Chile—at least at the discourse level—a special recognition within Chinese foreign policy towards Latin America. In conversations held with Chinese researchers from Beijing and Shanghai, they constantly stressed the special role performed by Chile in Latin America given its political stability and steady economic growth, which have worked as institutional guarantors for Chinese investment, since one of the major fears of Chinese businessmen is constituted by the image of instability and uncertainty in the region. In fact, Chile seems to be more interesting than some of its close neighbours that despite having more resources—and therefore more attractiveness from the point of view of hard power—may be perceived to be more turbulent or risky<sup>68</sup>. In addition, Chilean institutional strengths would also help to avoid the criticism made to Chinese investment in developing countries, in which negatives aspects of environmental and labour behaviour have been emphasized (Kurlantzick 2007).

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<sup>68</sup> Interview #75 and #81, op.cit.

Secondly, Sino Chilean complementary trade structures have made Chile appear as a winner in its relationship with China (Gonzalez 2008). As stated, Chilean trade surplus in the last years (Direcon 2009b) is explained mostly by Chilean copper exports, which accounts for more than 80% of the total exported to China, even today<sup>69</sup>. China, instead, have concentrated its exports towards Chile in the automotive, electronics and communications sectors (ibid 2009b). This is reinforced by the fact that Chile has a small productive capacity and therefore does not represent a menace for Chinese economy<sup>70</sup>. One Chinese researcher illustrates this in a crystal clear way: “Even if the FTA was a failure it will not cause any harm to China”<sup>71</sup>.

Thus, as explained by Inter American Development Bank researchers, Chile “suffers little trade competition from China’s increased role in the global economy. The two countries’ export structures are strikingly different (...) In fact, Chile could benefit from China’s emergence by becoming a destination for Chinese natural–resource–seeking investments, particularly in the mining sector” (Devlin, Estevadeordal et al. 2006, 164). Indeed, economic complementarities ensured mutual beneficial outcomes, even in such delicate subjects as the agricultural ones, given their opposite seasons<sup>72</sup>.

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<sup>69</sup> In effect, since 2007 China has become the most important destination for Chilean exports. Governmental figures show that 15 percent of all the total exports are directed to China (Direcon 2010c). Only a year after the FTA was signed, the commercial trade between China and Chile grew 98 percent, allowing China to become the first destination for Chilean exports. Although the major commodities traded came from the mining sector (nearly an 85 percent), the boost also reached other Chilean economic products such as agriculture, seafood, wine, livestock, and even textiles. The following is an extract per productive sector. Fruit: the exports have been duplicated, from USD 8.1 millions in the first semester 2006 to USD 17, 2 millions in the same period in 2007. Livestock: USD 2,7 millions (2006) to USD 3.6 millions (2007). Fishing: From USD 3.5 millions to 6.4 millions in 2007. Textile industry: USD 400,000 in 2006 to USD 3.6 millions in 2007. Wine industry: from USD 5.8 millions to USD 24.7 millions. See Wilhelmy and Hurtado (Octubre - Noviembre 2007). This information agrees with previous studies carried out by the Chilean Government (Direcon 2006). On the other hand, China has ranked second as an importer.

<sup>70</sup> Ibid.

<sup>71</sup> Interview #31, op.cit. Additionally, Chinese authorities extended a safety net by not negotiating the sanitary protocols within the FTA framework. In fact, the absence of sanitary protocols has stopped the entrance of some Chilean products, despite the inexistence of trade barriers due to the FTA (Interview # 4. Manager of International Trade, Chilean Business Association, October 2008. Interview # 34, op.cit). To exemplify, at the time this dissertation was being written, only five Chilean fruits had the sanitary protocols required to make the benefits of the FTA effective (See the Web page of the Chilean *Servicio Agrícola y Ganadero*, [Agricultural and Livestock Services] SAG: <http://www.sag.gob.cl/opendocs/asp/pagDefault.asp?boton=Doc50&argInstanciaId=50&argCarpetaId=1332&argTreeNodosAbiertos=percent281332percent29percent2850percent29&argTreeNodoSel=1274&argTreeNodoActual=1332> in which the existing protocols are shown).

<sup>72</sup> As explained by this experimented negotiator, one of the most delicate points in any bilateral agreements is the agricultural field. Interview # 58, op.cit.

These complementarities have been measured. For example, in a recent report, the OECD examines the levels of competition between China and selected countries, using the Coefficient of Specialization. A coefficient of 0 would mean countries export completely different products, a coefficient of 1 would mean that the countries export the exact same product basket. Chile appears under 0.1 on the scale, whereas other Latin American countries, such as Mexico, have over 0.5 (Arroba, Avendaño et al. 2008). This is complemented by the Export Similarity Index (ESI) that compares the national export structures between countries. An index of 0 means that the countries' export structures are completely different and a score of 100 means that they are exactly the same. Historically, Chile has scored less than 5 points with respect to China, demonstrating that “Chile’s export structure barely coincides with China’s” (Devlin, Estevadeordal et al. 2006, 119)<sup>73</sup>, which is contrary to the general trend observed in Latin America, in which overlapping with more industrialized countries is observed: “As China and Latin America –and Mexico, in particular– have converged toward increasingly similar export baskets, especially in manufacturing industries, direct competition has intensified. The challenge to Latin American manufacturers may well intensify given the relentless expansion of China's international production and its export base” (ibid, 123).

Yet, Chile emerges as beneficiary of its relationship with China with no evident harm to its economy, and instead an opportunity for Chilean path to development, as discussed in the next section.

Thus, Chile becomes a safe model, first, because of the existent pragmatic foreign policy and the power asymmetry that pervades the relationship helped to avoid the political fears of a Chinese engagement within the region and thus instrumental insofar as it contributes to diminish the “fear of China” by supporting Chinese desire to be seen as a partner, whose main motivations towards Latin–America are linked to economic reasons which do not intend to affect third parties, particularly the United States (Xiang 2008). Additionally, the Chilean self-image of a trading state agrees with the strategy followed by Beijing, which has “been careful to downplay any connection with the wrong left” in

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<sup>73</sup> As explained by Devlin, Estevadeordal et al. (2006), this index was elaborated based on Finger and Kreinin that in 1979 created the Export Similarity Index (ESI)



the regional sphere (Roett and Paz 2008a, 19) that contribute to further enhance Chinese objectives within the region.

On the other hand, economic complementarities between both countries and Chilean reliability assured a risk-free economic exchange (with no evident negative drawbacks for either side), ideal to be shown as an example of the Beijing benign influence.

As summarized by a former Chilean negotiator: “The first negotiation was essential for Chinese interests, and Chile complied with all the requisites. First, it was a friend, secondly, it was a country with a considerable experience in negotiation that could be transmitted, and thirdly, it was a small country that could not possible damage them. For China then, it was sweet as pie”<sup>74</sup>.

#### **5.4.5 Chile: the interest of opportunity.**

Chile was one of the first Latin American countries to realize the role Asia could play for its own economic growth (Faust and Mols 1998). Furthermore, in Chilean diplomatic and economic circles it is believed that “Chile has the obligation to look towards the Asian new markets in order to reach development”<sup>75</sup>. Over the last ten years, Chinese rapid development has made Chile concentrate its diplomatic efforts on deepening ties with the PRC, becoming “one of the main objectives of our foreign policy” (Poklepovic 2006, 55). This has translated into Chilean pursuit of multiple agreements to enhance the institutional framework. A former attaché in Beijing explained that Chile has more agreements with China “than any country in the world”. Currently, the Chilean Ministry of Foreign Affairs has recounted 32 agreements with the PRC in different subjects.

From the Chilean perspective, the reason behind its pursuit of deeper economic ties with China appears to be very simple from a national interest point of view<sup>76</sup>. Having a complementary trade structure and a potential market of millions, the engagement with

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<sup>74</sup> Interview #56, op.cit. Author’s translation of the Spanish expression “*miel sobre hojuelas*”.

<sup>75</sup> Interview# 58, op.cit.

<sup>76</sup> As it was explained earlier, there is a second level of analysis in which the domestic events are considered. In the case study, there is mention by the interviewees of domestic factors that contributed to the development of Sino Chilean ties, especially from the Chilean perspective, which at that time was related to the closeness of a presidential election (Interview # 67, op. cit). However; this analysis is not within the boundaries of this research.

China would only bring economic opportunities for Chile, specifically, as a receptacle for its main commodity –copper– as well as a potential market for non traditional exports. The Chilean interest in China goes in line with the overall trade policy explained earlier in this chapter because “Chile pursues its external trade objectives by seeking bilateral agreements with its main trading partners, or by improving the conditions for competition guaranteed under the multilateral system” (Rosales 2004, 191). Indeed, the current data available shows the importance that the bilateral exchange has for Chile, in which “more than half of the net dollars that Chile obtains as a result of its total commercial exchange, come from China” (Direcon 2009b, 7).

A second reason was constituted by Chilean’s geopolitical ambitions of becoming a platform (also called a bridge by the literature and some of the respondents) between Asia and Latin America, and therefore gaining not only economic benefits, but also political leverage within the region (Soto 1998; Cabrera 2006; Poklepovic 2006). As stated by a former Chilean negotiator: “Clearly the Asian market offers tremendous opportunities and Chile wants to be a leading player in gaining access to the potential they represent [...] In addition, Chile is interested in obtaining the benefits of increased investments from those nations and in becoming a platform for the expansion of their activity to the rest of South America” (Rosales 2004, 201). In this way, Chile can be seen as an easy and fast gate to enter the Latin American market by its Chinese counterparts<sup>77</sup>. Indeed, the fieldwork results show that the Chinese decision to choose Chile as the first non Asian nation with which to institutionalize their commercial exchange is read by Chilean authorities as a geopolitical triumph within its foreign policy<sup>78</sup>.

Chilean claims of being a natural bridge between Latin America and Asia are sustained on the same reputation based-trust argumentation of having macroeconomic balance, fiscal discipline, economic soundness, political stability and a non discriminatory legal system (Artaza 2001; Errázuriz 2001) that Chile uses as a means of promotion. This aspiration has been keenly accepted by Chinese academic elites as an opportunity for China, since Chilean networks of commercial agreements can be

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<sup>77</sup> Interview #67. Former Chilean FTA negotiator, Santiago, September 2008

<sup>78</sup> Interviews #01 and #26. High rank officials at the General Directorate for International Economic Relations, Direcon, Santiago, October 2008.

efficiently used by the Chinese as a way of increasing its trade with the rest of Latin America<sup>79</sup>.

## **5.5 Trust narrative: historical friendship and market identity.**

The fieldwork results show that Sino-Chilean trust has been built based on two mechanisms (processes) that have acted as pillars to build a narrative that has permeated not only the diplomatic discourse, but also it has spread to the economic and academic elites. On the one hand, both nations have engaged into a diplomatic rhetoric that has acted as the discursive support for trust-building, and on the other, they have created a common identity functional to both parties' interests.

### **5.5.1 Discourse of the first.**

In December 1970, Chile became the first South American country to start diplomatic relations with the PRC. According to Chinese researchers, this constituted “one big step forward” in the overall relation with Latin America (Jiang 2006, 202). Since then, “the one-China policy has been a key element in [Chilean] Foreign Policy” (Poklepovic 2006, 56).

After this, several “firsts” have populated the mutual rhetoric in official and non official encounters and within governmental documents on both sides: Chile as the first nation that gave market economy status (MES), Chile as the first country to support China's entrance to the WTO, and Chile as the first non Asian individual country to sign a commercial agreement with (Direcon 2009b).

The discourse of the first has to be understood as part of a long term diplomatic effort in creating a shared narrative from which mutual trust can be based. In fact, beyond the real political effect that Chilean support have signified for China, it is clear that these historical “firsts”, have given Chile –at least at the discursive level– a special status, and thus they have been pivotal in trust-building production, providing a start point from which the political and economic relationship can be framed, both from the macro institutional perspective, as well as the one found in the daily interplay of business transactions.

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<sup>79</sup> Interview #75. Conversation held with two researchers of a Chinese Think Tank, Beijing, May 2009.

The discourse of the first has provided the perception of having a partnership within a privileged status, in which history acts as a proof for future interactions, as expressed by a former ambassador: “Chinese development will require trustable partners to provide natural resources [...] history has demonstrated that Chile is a trustable partner and therefore, it will be that way in the future” (Cabrera 2006, 2).

Thus, these historical milestones serve as the foundations in which the Sino-Chilean partnership can be rooted, an account put forward by all the Chinese academics and especially Chilean governmental authorities interviewed for this research. In the same way, official documents embraced this discourse, using it as a routine of their introductions<sup>80</sup>.

The discourse of the first is also instrumental for Chilean economic diplomacy, insofar works as an effective tool for Chilean negotiators and authorities to gain legitimacy. This is exemplified by a former commercial attaché in China:

In a discursive level, there is not doubt that [the discourse of the first] works. It is our “battle horse”; we put it into the table when we have a problem, and it works. We have to show ourselves as the strategic partner we are for China; as Chinese’s allies. We have to take advantage of this. It is like saying: hey, we have supported each other since we were small; we have always pursued a common interest... The relationship, then, becomes very important<sup>81</sup>.

The importance of partnership has permeated the economic interaction at a micro level, surpassing the boundaries of the diplomatic sphere, pervading Chilean and Chinese economic elites. A former high rank Chilean official analyzes how this construct has worked as a facilitator for economic interaction and furthermore it has been used as a differentiation tool with the rest of the Latin American countries<sup>82</sup>:

Governmental relationships have been essential in mutual business development. Given China’s politic and economic culture, the good diplomatic relation has been very well welcomed. The fact that Chile has been the first country in South

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<sup>80</sup> This assessment stems from different formal conversations and interviews with Chilean and Chinese diplomats in Chile during the fieldwork. Most of the conversations started establishing the importance of the diplomatic frame given by the historical advantage that Chile has held on being the first in these important issues (Interviews #9, 10, 37, 54, 58, 60, 65). See also the review made by one of the most important Chinese researchers on Latin America (Jiang 2006b).

<sup>81</sup> Interview #34, op.cit.

<sup>82</sup> Interview#10. Former Chilean Commercial attaché in China, Santiago, September 2008. This will be further explained in the next chapter.

America to establish diplomatic relations with the PRC, breaking what was the international norm at that time, generated a norm of ideological trust which in that moment opened the doors for Chile. Thus, the sequence of the first has acted as an open door, which is primarily a political factor<sup>83</sup>.

As it can be checked by this Chinese wine importer that illustrates how political friendship interrelates with the economic interaction:

Of course a good relationship between our countries makes our trade easier. This is simple, everyone loves their own country, [thus] a good relationship between two countries would be an advantage for trading between them. Who likes to do business with someone that doesn't have a good relationship with his own country? This is not only politics (...) we are businessmen; money is important but of course there are some things more important [like the] love [of] our country, this is more important<sup>84</sup>.

Hence, this narrative has gained a practical value, specially benefiting the Chilean side. It has been recognized by part of the Chilean private sector as an advantage for business relations, especially when trading with a Chinese SOE company which, by its own nature, has faster integrated the political discourse of the first, as it has been recognized by some of the respondents. As exemplified by this Chilean interviewee who has lived for over 8 years in Shanghai as the general representative of one of the most important Chilean economic groups who states that “Chinese only do business with friends”<sup>85</sup>.

It has also permeated Chilean media discourse towards China. A good example is given by the local press which has documented this narrative with headlines such as “China does not forget”:

Chinese negotiators have constantly repeated to their Chilean counterparts the sentence: ‘China does not forget’. They quote three factors that made China think of Chile when negotiating the first FTA in Latin America. China does not forget that Chile was the first South American country to recognise Mao Zedong’s regime on December 1970. China also does not forget that Chile was the first one in the region that supported Beijing in the one China policy. Also, Chinese do not forget a

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<sup>83</sup> Interview# 58. Former High Rank Official from the Ministry of Foreign Affairs, Santiago, October 2008.

<sup>84</sup> Interview # 80. Chinese General Manager of a Wine Importing company, Shanghai, March 2009.

<sup>85</sup> Interview #45. Chilean General Manager in Shanghai, March 2009.

third important factor: Santiago was the first to support China's WTO entrance, which was finally achieved in 2001<sup>86</sup>.

Consequently, the discourse of the first has been understood as the most important pillar for the political trust existent between both nations at a diplomatic level: "the historical support is fundamental. You are not a newcomer... you are the first in some milestones that are important for China" (...). We were able to sit and negotiate with a giant like China. It is not that simple. And how did we get this? Because there is a political will to close negotiations with us"<sup>87</sup>.

### **5.5.2 Identity-based trust** <sup>88</sup>.

The second mechanism of trust-building is based on the construction of a common identity. As stated in Chapter Three, sharing a common identity –either ascribed or constructed– is one of the most important sources for trust production at any level of analysis. This concept has already been applied to international relations through the constructivist school which highlights the value of shared knowledge, understanding and identity in the creation of international institutions (Terada 2003)<sup>89</sup>.

Although a few authors have found some shared identities between Chinese and Latin American cultures that may help to get business partners closer (Berliner 2003) such as a mutual "common sense of colonial and semi colonial roots" (Xiang 2008, 45), this research has witnessed the difficulties of creating a shared identity within the case study. From the obvious structural distances to the geographic and cultural ones, historical factors seem to complicate a potential common identity. The Chilean sinologist Augusto Soto summarized the gap between both nations:

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<sup>86</sup> Olivares, Eduardo (2004, November 14) "China no Olvida" [China does not forget] La Tercera Newspaper.

<sup>87</sup> Interview # 01, op.cit.

<sup>88</sup> As in Chan, we take the stance of culture and identity as non fixed phenomena, constructed and interactive: "A culture explanation of international relations is necessary but difficult. It is necessary because what we think affects our behaviour and how we behave affects the perception and behaviour of others" (1999, 55).

<sup>89</sup> As briefly mentioned at the beginning of the dissertation, according to constructivism, processes are constructed (not given "naturally") and are based upon factors such as repeated interaction and history. In this sense, relationships are formed by the states and depend on the interpretation and meaning of the players involved (Wendt 1992; Wendt 1999; Zehfuss 2002).

Throughout much of the XX century Chile's interests have been defined in relation to the U.S., Latin America and Europe. China and the Asia Pacific have remained unknown. Prejudice and misperceptions represented a gap difficult to fill. The distance was based on ethnic and cultural differences (the 'yellow peril' image was prevailing in the West), underscored by the dramatic political events taking place after the collapse of the Qing dynasty. The sense of insurmountable distance was augmented by the enormous geographical barrier posed by the Pacific Ocean (1998, 1).

The historically insignificant migration trends between them (Conelly and Bustamante 1992), which persists even today, seem to widen this gap. The database of Shao Center Ohio University shows that the ethnic Chinese population in Chile reaches around 5000 immigrants; few when compared with Brazil (150,000) or with Peru (1,300,000)<sup>90</sup>.

To add another difficulty, identity building is constrained by an absence of mutual knowledge. A poll conducted by the Department of Latin American Studies of the Chinese Academy of Social Sciences, CASS, showed that although some generic knowledge of Latin America existed in China, specifics were more difficult to determine. For example only 12 percent of the respondents knew that China has signed a FTA agreement with Chile, compared with the 37.24 percent that did not know (Zhen and Guang 2008). More dramatically, research conducted by the Pro-Chile agency in Shanghai indicated that 74.1 percent answered *no* to the question: *Do you know Chile?* Lack of knowledge also reaches the academic sphere: there are only around 100 academics studying Latin America in China<sup>91</sup> and recently one of the most prominent researchers in Latin America in Beijing was appointed for European Studies.

In Chile there is a general knowledge of China, given its dimensions and its importance in the international scenario. Nevertheless, this knowledge does not go beyond general and sometimes stereotyped information<sup>92</sup>.

Despite the difficulties, an identity discourse has been elaborated by both parties, trying to appeal to a sense of belonging; a “togetherness” that is difficult to achieve given the explanations detailed earlier. While in the case of China, the official efforts have been

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<sup>90</sup> See Web Site from Ohio Libraries: [http://cicdatabank.library.ohiou.edu/opac/population\\_map.php](http://cicdatabank.library.ohiou.edu/opac/population_map.php) Accessed 14/02/2011

<sup>91</sup> Interview # 76, op.cit.

<sup>92</sup> Interview # 47. High executive of a Chilean group with business in China, December 2008.

directed to highlight “third world” commonness (in line with China’s official discourse towards Latin America) Chile has focused on a mutual Asia-Pacific spirit. At the end, however, a different identity has emerged between both nations which ultimately has successfully worked as the second mechanism of trust-building process: the construct of China as a Market.

#### **5.5.2.1 South-South and Asia Pacific identity.**

As stated earlier in this chapter, China has tried to reach a common identity with Latin America with a renovated version of the South-South cooperation discourse; portraying itself even today as “the largest developing country in the world” (Xinhuanet 2008) to create identity ties with third world countries<sup>93</sup>. Towards Chile, Chinese have also intended to construct a common identity based upon the idea of being both third world/developing countries, which must cooperate together to reach economic development. Indeed, for the Chilean case, economic cooperation is supported by sharing “a similar stage of development” (Jiang 2001, 12).

From the Chilean side, however, the intents to build a shared identity are outside the framework of the commonness of being third world members. Instead, Chile advocates “pronouncedly pragmatic foreign policies devoid of *tercermundial* [sic] (third world) ambitions” (Faust and Mols 1998, 28). In fact, as stated previously in this chapter, the self-image that Chile is trying to portray is closer to a modern country, reliable and efficient, than to an underdeveloped nation, despite its official memberships in international forums such as the Group of 77<sup>94</sup>. The recent Chilean entrance to the

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<sup>93</sup> Nonetheless, there is debate regarding whether or not China should be treated as a developing country. Hamilton, for example, compares China and Japan (the latter, being consensually recognized as a developed country) and concludes that the parameters to classify a nation on whether or not it has reached a developed status are debatable. He argues: “The classification, however, begs the question: what is the dividing line between developed and developing? Is it per capita income? Japan wins. Is it the absolute amount of manufactured products or the diversity of manufactured goods produced or a ratio between industrial output and total gross national product? China wins on all scores. Is it some level of infrastructure, such as the tallest buildings, the largest ports, or the newest and biggest cities? China wins again” (2006, 2). However, given its industrial capacity and other factors, traditional indicators of growth, such as GDP (PPP) –US\$6600 estimated for 2009 according to the CIA World Factbook (See “CIA, The World Factbook” <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> Accessed 21/06/2010) and a growing inequality (Lin, Zhuang et al.) – show China as a country that, although rapidly growing, is still featuring the complications of a developing nation.

<sup>94</sup> This self portrait can be observed in some of the promotional Chilean websites. See for example: [www.thisischile.cl](http://www.thisischile.cl); [www.todochile.cl](http://www.todochile.cl).



Organization for Economic Co-operation and Development –OECD, also known as the “club of the rich countries”– was touted by former President Bachelet as “clear proof that Chile walks the road of development [...] It is the beginning of a new road plenty of future, that opens new opportunities to go faster to the development we dream”<sup>95</sup>, highlighting its objective of being viewed as a developed country rather than a poor nation.

Thus, Chile has chosen a different path to build common roots with China. Its strategy is based on the construction of an Asia Pacific Identity (Gutierrez 2000, 30) that utilizes the Pacific Ocean as the common ground for building ties (Artaza 2001; Marchant 2001; Cabrera 2006). This is based on the strong importance that Chile has given to the Asian region since the 80’s, constituting an exception within Latin America (Devlin 2008). It is also congruent with Chile's economic interests, globalization trends and therefore with its general growth policy of opening up to the world (Soto 1998)<sup>96</sup>.

With this discursive posture, Chile aims to fulfil two objectives. First, it will gain proximity and minimize the structural problems behind the relationship, such as the geographical distance, absence of direct connections, the time zone difference and even communication problems given by the different language, aspects widely repeated by Chilean and Chinese businessmen during the fieldwork<sup>97</sup>. It also breaks the structural gap provided by the size of the economies<sup>98</sup>: “We want to demonstrate that the relationship between a big country and one of a medium size, but neighbours by the Pacific and with complementary economies (...) may enhance partnership in mutual development” (Cabrera 2006, 3), therefore contributing to diminish the power asymmetry between them. Secondly, the Pacific Identity also provides the closeness needed for going a step forward into Chilean political pursuit of becoming the bridge between Asia and Latin America

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<sup>95</sup> "Chile firma ingreso oficial a la OCDE." (Chile officially enters the OECD) Fundación Imagen Chile <http://www.thisischile.cl/frmContenidos.aspx?id=2797&sec=288&aje=&t=> Accessed 10/04/2010.

<sup>96</sup> The Chilean strategy of integrating Asia to its economic foreign policy goes in tune with what the literature has called the “Asia Era” or the shift of the globalization processes towards Asia. See for example, Kaplinsky (2008) and Henderson (2008).

<sup>97</sup> The majority of the Chinese businessmen interviewed in China who trade with Chile have never been there. One interviewee emphatically explained that Chile was too far away to visit (Interview # 77). Most of the interviewees communicate with each other using the English language. These considerations, however, will be extensively considered in the next chapter.

<sup>98</sup> Interviews #56, #42. Former high rank officers from Chile's General Directorate for International Economic Relations and Chilean Foreign Investment Committee, Santiago, October 2008.

despite the geographical distance: "Chile appears as a platform country. We are far away, on the other side of the world, but we know distance would be a minor obstacle in the 21<sup>st</sup> century"<sup>99</sup>, as publicly pointed out by former Chilean President Bachelet.

Chilean aspirations are not only found in the discursive dimension of the diplomatic and academic spheres but they also constitute the aim behind Chilean active participation on the APEC and other Pacific related fora: "This is the deep meaning of Santiago's APEC summit. We demonstrated the protagonist role we want to play in this shift towards the Asia Pacific Basin" (Cabrera 2006, 3)<sup>100</sup>. Indeed, Chilean participation in these mechanisms means "an opportunity to change the notions of indifference and political distance between the two regions by socially integrating Latin Americans into the possible formation of a Pacific community" (Faust and Mols 1998, 10), and by doing this moving forward to the construction of a common identity.

Nevertheless, these Chilean aspirations never crystallized, and it is unlikely they will in the near future. Two facts demonstrated the problems that Pacific identity construction has faced. On the one hand, Chilean aspirations to be a bridge between Asia and the region have been diluted with the scarce level of Chinese investment in the country, with Chile having received only US\$ 85 millions in Chinese investment between 1974 and 2008, according to the data from the Foreign Investment Statute (Direcon 2010a)<sup>101</sup>.

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<sup>99</sup> "Bachelet valora importancia de China" [Bachelet values China's relevance] 16/04/2008. La Nacion.cl [http://www.lanacion.cl/prontus\\_noticias\\_v2/site/artic/20080415/pags/20080415224252.html](http://www.lanacion.cl/prontus_noticias_v2/site/artic/20080415/pags/20080415224252.html) Accessed 05/08/2009.

<sup>100</sup> For example, FEALAC, Forum for East Asia and Latin America Cooperation, is defined as "the first and only forum for debate between Asia and Latin America. Also, it is the only interregional group with transpacific characteristics (...). Currently, FEALAC has become the biggest interregional forum, linking together South East Asia, East Asia, Oceania, Central America, South America and the Caribbean. See "Organizaciones y foros de cooperación regional e interregional en Asia Foro de Cooperacion America Latina-Asia-Este (FOCALAE)". Source: <http://www.casaasia.es/triangulacion/organiz/focalae.pdf> Accessed 07/02/2011

<sup>101</sup> This figure is based on the regulatory framework for foreign investment in Chile called DL 600, which is the most used mechanism to invest in Chile (there are two others). According to the Foreign Investment Committee, the agency in charge of administering and applying the DL 600, the principles under which this is conceived are: "enshrined in Chile's Political Constitution and include equality before the law, economic freedom and non-discrimination. \* Non-discrimination: This principle derives from the constitutional guarantee of equality before the law and ensures that, on economic matters, foreign investors receive the same, or not less favourable, treatment from the State and its agencies as local investors. \* Non-discretionary treatment: Procedures relating to foreign investment must be clear and transparent and administrative decisions cannot be in any way subjective, providing a guarantee that investors will receive fair treatment. \* Economic freedom: Free access to all sectors of the economy is guaranteed and only the

On the other, a further obstacle is presented by the fact that Peru (which also shares the Pacific Rim) and that signed a comprehensive FTA in 2009 –including goods, services and investment–, has received considerable Chinese resources, and has taken away the temporary exclusivity that Chile held for a couple of years<sup>102</sup>. Structural problems, such as a lack of real connectivity with the Atlantic (Brazil and Argentina) have somehow discouraged the idea of a bridge between the two regions among some public and private spheres, and for the moment this remains only as a foreign policy ambition<sup>103</sup>.

The fieldwork, however, has encountered a third constructed identity that –unlike the previous two– has actually worked as a legitimate mechanism for trust-building. Legitimacy comes from the instrumental function of fulfilling their strategic interests within a “safe partnership” –and is therefore risk free– based on narrowing China into its market dimension. This perspective, the narrative of China as a market, as it will be shown in the subsequent paragraphs, has conveniently worked for China’s overall objectives in the region as well as for Chilean economic development strategy<sup>104</sup>.

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law can, in exceptional circumstances, reserve a certain sector for domestic investment. Article 19 N° 21 of Chile's Political Constitution guarantees the right to develop any economic activity within the framework of the corresponding regulation, provided it is not contrary to morality, public order or national security. As the research will show later and given Chinese cultural and institutional variables, the non discriminatory principle may have affected Chinese FDI in Chile. Source:

<http://www.cinver.cl/english/regulaciones/marco.asp> Accessed 22/04/2010.

<sup>102</sup> It has been recently reported that for 2010 “Four Chinese companies operating in the mining, fishing, trade and industrial sectors will enter the Peruvian market this year with an investment of at least US\$ 2.5 billion”. Currently, Chinese investment in Peru reaches 1.2 billion, according to *Andina*, Peruvian News Agency. Source: Andina, Agencia Peruana de Noticias (2010) "Four Chinese companies to invest US\$ 2.5 billion in Peru this year" 08/04/2010 <http://www.andina.com.pe/Espanol/Noticia.aspx?id=2d+QPTw90k0=> Accessed 19/04/2010.

<sup>103</sup> The structural obstacles within the Sino Chilean commercial exchange is a concern shared by Chinese and Chilean interviewees within public and private sphere. Here, it is illustrated with the opinions offered by high rank Chilean governmental sources, representatives of business associations as well as Chilean and Chinese academic experts (Interviews #42, 51, 53 56, 81). Alfredo Moreno, Chilean Minister of Foreign Affairs, in a speech given at the Asia Pacific Foundation (23/06/2010), highlighted the main structural problems that surround the Sino Chilean partnership: geographical distance and size of their economies.

<sup>104</sup> According to Devlin et al. there are four dimensions of perceptions of China in Latin America: There is “China the successful growth story and potential source of policy lessons, (2) China the market of 1.3 billion consumers and low-cost source of good and services (3) China the partner and (4) China the strong competitor” (2006). For Chile, China is preponderantly number 2 -especially the market to allocate Chilean products- and to a certain extent, number 3.

### 5.5.2.2 China as a market identity

The identity of China as a market has been rooted in the pragmatic foreign policy already analyzed in this chapter, and strongly linked with each party's national interest. From the Chilean side, the narrowing of China into its market dimension responds to the structural necessities imposed by the Chilean model of growth, in which China is presented as an economic opportunity given the size of its market that allows to potentially allocate a wide range of exports, and the Chinese need for key primary resources that Chile is able to produce. In Chile, the benefits obtained from this economic exchange have enhanced the concept of China as a market, which has consensually embraced the image of China as an economic opportunity within the political, economic, and academic local elites, understanding it as a strategic partner key for domestic growth:

In this respect, Chile represents the sole exception [in Latin America] and lends evidence to the fact that, given the convergence of domestic and foreign affairs, political visions concerning foreign policy materialize successfully only when the relevant elites have identified homogeneous interests, in which historical and cultural aspects combine with rational cost-benefit calculations to form a unified Pacific policy (Faust and Mols 1998, 34).

In other words, Chilean foreign policy towards China is reinforced by the domestic interests provided by the relevant elites that have acted jointly in order to pursue similar objectives.

For example, the Chilean Academia has privileged an approach that emphasizes the business perspective rather than a security or geopolitical one, in tune with the Chilean official posture and thus understanding China as bounded to its economic sphere<sup>105</sup>. An analysis of the recently created postgraduate studies in several business schools confirms this business orientation<sup>106</sup>.

This is also valid for some academic institutions which work closely with the business sector: "For us, the Chilean economic foreign policy is just data. We take it as

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<sup>105</sup> Interviews #51 and # 11. Chilean academics, experts in Asia Pacific matters. Santiago, October 2008.

<sup>106</sup> See for example "Business in China 2010" from Universidad Diego Portales. <http://www.asia.udp.cl/> or International Business in Asia Pacific from Universidad Adolfo Ibanez. [http://www.uai.cl/cee\\_mailings/dgni-ap2009/dgni-ap.pdf](http://www.uai.cl/cee_mailings/dgni-ap2009/dgni-ap.pdf). Accessed 07/07/2010

“given”, because as an institution, we do not question official behaviour”<sup>107</sup>. Furthermore, as critically stated by this Chilean researcher: “Chilean academic circles have drawn Asia Pacific, and within this China, as an economic opportunity from the 90’s and onwards influenced by the neo-liberal influence of the Chilean economic foreign policy. Moreover, it can be said that the history between Chile and the Asia Pacific region has been rebuilt”<sup>108</sup>.

The research has also found that this consensus involves domestic economic elites; a fact that has also been acknowledged by previous Chilean researchers. Gutierrez, for example, believes that the driver to develop this perception stems from the entrepreneurs who have understood the importance of China as a market (2000; 2001b). Wilhelmy also states that already in the 90’s China started to appear as an important market with a future in the framework of the post cold war phenomena because “the dissuasive element that used to act as hindering the relationships with China lies in the past” (2001, 5). More recently, the view of the business community can be summarized as follows: “Let’s take advantage of the opportunity we have to enhance our ties with China in every area. By doing this, we can look at the future of the 21st Century with the most important commercial partner”, as stated by the *President of Confederación de Producción y Comercio* (the major Chilean industrial federation)<sup>109</sup>.

At a macro level, a pool demonstrated that “in late 2004, pluralities of Chileans and Brazilians thought well of China’s greater economic power” (...) consistent with the marked increase in trade between China in these two countries” (Domínguez 2006, 12).

Furthermore, “Sino-Chilean relations have broad support in Chile, ranging from the armed forces and the business community to the civilian parties in government and the opposition, and have endured and prospered through different presidencies. There is no anti-China backlash in Chile’s mass media. Chilean public opinion welcomes China’s influence in the world and its growing economic power” (Domínguez 2006, 36). As an example, here is an extract taken from the main influential newspaper in Chile:

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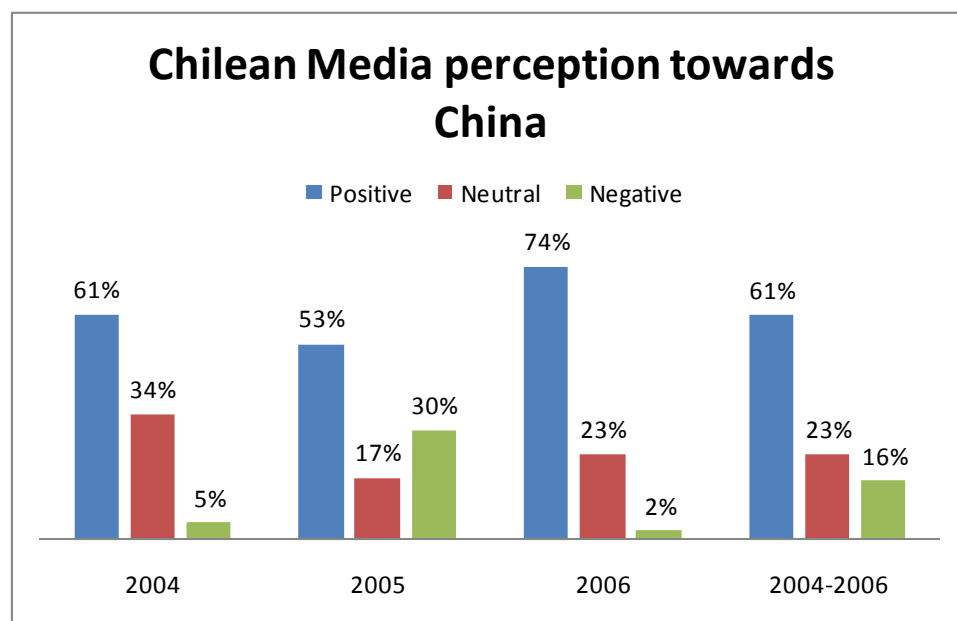
<sup>107</sup> Interview# 73, op.cit.

<sup>108</sup> Interview# 51, op.cit.

<sup>109</sup> Editorial: “Chile en la Exposición Universal Shanghai 2010”. [Chile in the Expo Shanghai 2010] (2010, March 26) El Mercurio Newspaper, pp. A2.

In Brazilian and Argentinean press, there are apocalyptic headlines mostly every day regarding the future of their local industries –powerful in both countries– given the Chinese threat. In November, Brasilia and Buenos Aires recognized China as a market economy (...). With this, Argentineans and Brazilians would not be able to accuse China of antidumping actions (...) Chile did the same before but it has not caused any worries. Haroldo Venegas, from the Industrial Exporters Association, Asexma, explains that Chile is used to compete without any special protection [in international markets]<sup>110</sup>.

To further support this argument, a study within the Chilean media was conducted. Running a query with the words China + TLC (acronym for Free Trade Agreement in Spanish), + Chile in three key moments of the relationship (APEC meeting, FTA signing and when the FTA came into effect) the positive, neutral and negative perceptions were measured. The results confirm that a positive perception predominates within the elites, especially the economic one, and is strongly linked with the idea of China as a market. Taking into consideration the three periods, a positive perception prevailed. 61 percent of the news analyzed was considered positive, while neutral reached 23 percent and negative only 16 percent, as shown in figure 5.3<sup>111</sup>



**Figure 5.3: Chilean Media perception towards China by year, 2004-2006.**

<sup>110</sup>Olivares, Eduardo (2004, January 12). "Informe de factibilidad preparado por ambos gobiernos: Estudio: forestales y agro se beneficiarán de TLC con China" [Feasibility Study prepared by both governments: Industrial Forest and agriculture will be benefited by FTA with China] La Tercera Newspaper.

<sup>111</sup> The methodology for this study can be found in Appendix 4.

For example, during APEC's first conversations (2004), 61 percent of the media reports and editorials showed positive outcomes when analyzing the possibilities of signing a commercial agreement. As it can be observed in figure 5.3, the FTA preliminary talks were embraced as a positive fact by media reports, with only 5 percent of the news items being negative (two news items), focused on the fiscal revenues lost and the inconvenience of the FTA as a mechanism to liberalize commerce, while 35 percent were considered neutral, as mostly having an informative aim and referring to the pace of the negotiations. The positive news items highlighted the economic possibilities of a diversified export basket –to the point of changing the Chilean export profile– as well as the forecast of major export returns, mainly considering the possibility of a FTA as an opportunity rather than a menace. The analysis carried out in the months surrounding the FTA signing (2005) (second sample) shows that 53 percent of the media articles had a positive perception towards China and 30% percent remained negative. Although the negative perceptions increased, this was due to a focus on the terms of the negotiations, as they were considered not completely beneficial for Chile. As it can be seen, this does not refer directly to the FTA itself, but to the way it was tackled by the authorities. During 2006, the last measurement, the positive attitude towards China increased to 74 percent while only 2 percent was negative, showing a rise in the initial enthusiasm towards this institutional agreement, and hence, showing the high expectations behind it.

From the Chinese side, the instrumental benefits brought by the construction of China as a market identity have allowed both its endorsement and enhancement. Firstly, narrowing China to its market dimension fits perfectly well with the harmonious world rhetoric in which an economic discourse prevails. It is also instrumental insofar helps to avoid the “China as a threat” perception in the continent and furthermore, it is seen as a benign influence for the region. Thirdly, narrowing China to its market dimension implies downsize some of the political aspects China wants to avoid, as the criticism for human rights or the Taiwan and Tibet issues<sup>112</sup>.

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<sup>112</sup> Interview #51. Chilean Asia Pacific academic expert, Santiago, September 2008.

This section explored the role the state has played in the Sino Chilean trust-building process. It aimed to examine the actions –agency– of the state, so as to clearly determine its pivotal role in international trust-building. In so doing, it took a fresh perspective to explore the role of the state in the framework of global economic exchange and its function vis-a-vis domestic growth. The findings demonstrate that the state has been a key actor in shaping not only bilateral trust but also in developing broader strategies to increase its soft power. In the case of China, its trust-building strategy has been supported by a foreign policy rhetoric that stresses the benefits of the Chinese growing economic and political hegemony. At the same time, it has been geared towards the advancement of institutional trust, in order to be considered a responsible stakeholder in the international community. By doing this, China has aimed to counteract not only the negative perceptions raised by its growing hegemony, but also as a way to increase its soft power in the region. As it was demonstrated, Chile has been pivotal in fulfilling Chinese objectives in Latin America. By using the Sino Chilean FTA, China attempted to build institutional trust at a bilateral level, and use it as an example for the rest of the continent. To this end, it chose a politically and economically safe partner and therefore, engaged in minimum risk.

Regarding Chile, the examination also demonstrated the key role the state, through its institutions, played in the process leading to the establishment of trust. Contrary to the Chinese case, Chile has built trust not as a way to counteract any risk perceptions, but as a mechanism to support its export-oriented strategy. By building reputation-based trust, Chile aims to insert itself in the global market stressing its sound economy and reliable institutional framework.

At a bilateral level, trust-building adopted a different dynamic, mostly based on the construction of a common identity. At an initial level, efforts pointed to the construction of a narrative of diplomatic friendship based on historical milestones, labelled here the “discourse of the first”. Even if rooted in the diplomatic sphere, it was adopted by other critical actors. Additionally, the Chilean state followed a strategy that narrowed Chinese identity into its market dimension by “marketizing” its diplomatic discourse. This course of action emerged as a by-product of a pragmatic foreign policy as well as of the country’s own national interests. Such a rhetoric has been welcomed by China, insofar as



it interlinks with the Chinese win-win discourse regarding the benign influence of its growing economic hegemony in Latin America. Key domestic elites have also growingly ascribed to this narrative, further contributing towards Chinese goals in the continent

The section also revised the main sources that enabled Sino-Chilean trust. The first is the correlation between Chinese and Chilean national interests, a coincidence that served as the foundation for the institutional engagement. The second is Chile's reputation as an economically reliable and politically stable nation and the third, the country's economic export structure, which allowed forecasting a win-win partnership. All these sources are in line with the theoretical rational conceptualization of trust. Historical pragmatism and a power asymmetry between both nations assured a smooth implementation with scarce political risks.

## **5.6 The restrictive nature of Sino-Chilean trustworthiness.**

As it has been argued during this chapter, Sino-Chilean trust at a state level has been driven by pragmatic foreign policy objectives in which trust is supported by the intersection of mutual interests and by the creation of an instrumental common narrative that has helped to enhance economic interaction. Notwithstanding, as stated by this Chilean researcher who critically assesses the nature and scope of the Sino-Chilean trust, "If trust is constrained to the economic sphere, then the trust-building process as a whole process can be limited and restricted to formal channels without a powerful content"<sup>113</sup>. In the long run, it seems that this may harm economic relations, because as a CASS academic highlights: "strong political will is needed on the part of China and Latin American countries to deepen trade cooperation and seek out more workable methods of collaboration (Sun 2009)". Indeed, the restricted nature of the Sino-Chilean relationship may explain the classificatory status of "cooperative partnership" given by China, which ranks in second place behind Argentina, Brazil and Peru, which hold the more engaged "strategic partnership" categorization (Domínguez 2006)<sup>114</sup>, leaving Chile, even despite the FTA, in a worse political condition than its neighbours (Argentina, for example has a

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<sup>113</sup> Ibid.

<sup>114</sup> Up to this dissertation, Chile still holds this label since "the establishment of bilateral comprehensive cooperative partnership in 2004". See "Hu Jintao Meets with Chilean President Bachelet" <http://www.fmprc.gov.cn/eng/wjb/zzjg/lmzs/gjlb/3478/3480/t627716.htm>

lower commercial exchange and does not have a trade agreement). According to Dominguez, this stems from the fact that “Argentina has communicated a greater willingness for political communication with China than Chile” that would explain the classificatory difference (2006, 23)<sup>115</sup>. From this perspective, the restrictive nature of the Sino-Chilean trustworthiness can be as well a plausible explanation for the scarce Chinese investment in the country and the scarce diversification of Chilean exports.

This has further consequences for Chilean economic development. If, as stated, Chile has based its economic growth on an export based model, being China its first trade partner, the fact that the PRC has already fulfilled its national objectives set doubts regarding the possibilities of further economic engaged at a state level. The existent power asymmetry between both nations deepens the possibilities of this statement, since the particular interest is already fulfilled by the strongest side.

## **5.7 Conclusions**

This first empirical chapter was dedicated to analyzing the sources of trust-building at a state level, so as to understand the bilateral relationship between Chile and China and to answer subsidiary research question number one.

In order to place the case study within a broader conceptual context, it first provided a general overview of the relationship between Latin America and the PRC, highlighting the recent economic interdependence between them. It was stated that although trade and investment have been mutually beneficial –the former contributing with natural resources to Chinese industrialization, and the latter providing an attractive market and cheap manufactured products– there is a strong perception of China as a menace for Latin American growth, together with concerns regarding Chinese political influence in the continent. Based on this assessment, the chapter argued that the Sino-Chilean FTA has played an essential role in Chinese trust-building with Latin America,

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<sup>115</sup> It would also explain the concession made by the government of Hu Jintao to the Cristina Fernandez government in Argentina through a loan that allows Argentina to pay imported products from China in RMB currency, which was labeled as a “Historical agreement with China to eliminate the USD on commercial exchange.” Source: China View, “Argentine media hails Argentina-China currency swap deal”, 31/03/2009 [http://news.xinhuanet.com/english/2009-03/31/content\\_11106499.htm](http://news.xinhuanet.com/english/2009-03/31/content_11106499.htm) Accessed 22/04/2010. This is a concession only given to Asian partners such as Malaysia, the Republic of Korea, Hong Kong SAR of China, Belarus and Indonesia. It is doubtful, though, given the economic framed relations between China and Chile that the latter would have pursued this possibility.

contributing to diminish the uncertainties and risk perceptions spurred by the growing Chinese political and economic influence in the region.

In order to support this point, the chapter went on to analyze the role that trust plays in Chilean and Chinese foreign policies, arguing that it constitutes an important component of their economic discourse. Then, it examined the general strategies of trust-building –and their sources– that each of the parties has followed in pursuit of a deeper global economic insertion.

The Chilean strategy has been based on reputation and institutional sources. In fact, the Chilean state –through policies and institutions– has purposively crafted a reputation-based trust discourse that describes Chile through nation brand attributes such as political stability and economic reliability. Institutions-based trust has been achieved via a strong network of commercial agreements with major powers and economic blocs.

As for the main sources that support the Chinese trust-building strategy, they comprise identity and institutions. China's self portrait as a benign power is a good summary of its identity-based trust policy, mostly based on narrowing its foreign policy discourse to economic aspects, a tendency that crystallized in the "Harmonious World" narrative. Regarding Latin America, this has been translated into a win-win discourse and a revised view of South-South cooperation. At an institutional level, China builds trust based on its engagement with economic international organizations, such as the WTO, and by seeking economic agreements with specific partners, in order to enhance its image as a responsible stakeholder fully inserted in the global economy.

Within this framework, the key source of Sino-Chilean trust is national interest, a testament to the pragmatic view that guides their bilateral relation. Indeed, Chile emerged as a crucial step for China's pursuits in Latin America, working both as an example and a learning curve without political or economic risks. At the same time, Chinese engagement was beneficial for Chilean interests because it enhanced Chilean domestic growth and political leverage in the region.

As for the process of Sino Chilean trust-building at a bilateral level, the findings have shown that this has been achieved through the implementation of two mechanisms. On the one hand, both countries have created a narrative of trust based on historical and diplomatic milestones that have granted the relationship a special status of friendship,

despite the scarce commonalities. On the other, they have constructed a consensual Chinese identity bounded by its market dimension. Both mechanisms have reached economic and political elites that have supported them. In turn, this process has advanced China's broad objectives in the region by sustaining the Harmonious World rhetoric, which emphasizes the Chinese economic dimension in an attempt to diminish the fear of China.

However, the data has also shown that since the main source that enables trust-building for the case study relies on rational and instrumental goals, the trust built by both parties is limited and bounded to specific interests which, once satisfied, may prevent –or at least not support– further cooperation at this level. In fact, the perspective given by the idea of encapsulated interest applied to the Sino-Chilean case set doubts regarding an enhancement of bilateral relations; insofar as the interests that linked A to B to do X are already fulfilled by the strongest part of the equation, given its asymmetrical nature. Indeed, since China's objectives for signing the FTA have already been fulfilled –and its immediate goals accomplished– the subsequent process of trust-building necessarily moves to the transnational level. Nevertheless, state actions themselves become another source of trust-building since they have crystallized in institutional instruments, such as the FTA.

This argumentation is also supported by the literature, which also suggests the need to look at the micro sphere of business interactions when analyzing trust sources and dynamics. Indeed, transsocietal phenomena, such as the development of transnational and transcultural economic relations on which this dissertation bases its case study, must also be examined from the micro perspective provided by the experiences and interactions of businessmen, otherwise, “when state-centered theories are used to analyze transsocietal phenomena, the state continues to be the unit of analysis” (Hamilton 2006, 27), and thus other dimensions ought to be considered, as it will be discussed in the next chapter.

## **Chapter 6: The paradox of trust: sources for transnational trust-building.**

**“We do not think we have different standards, everybody follows the rule”. Chinese Businessperson, Interview # 72.**

**“China it is a very difficult country, because it is culturally far away”. Chilean Businessperson, Interview #29**

### **6.1 Introduction.**

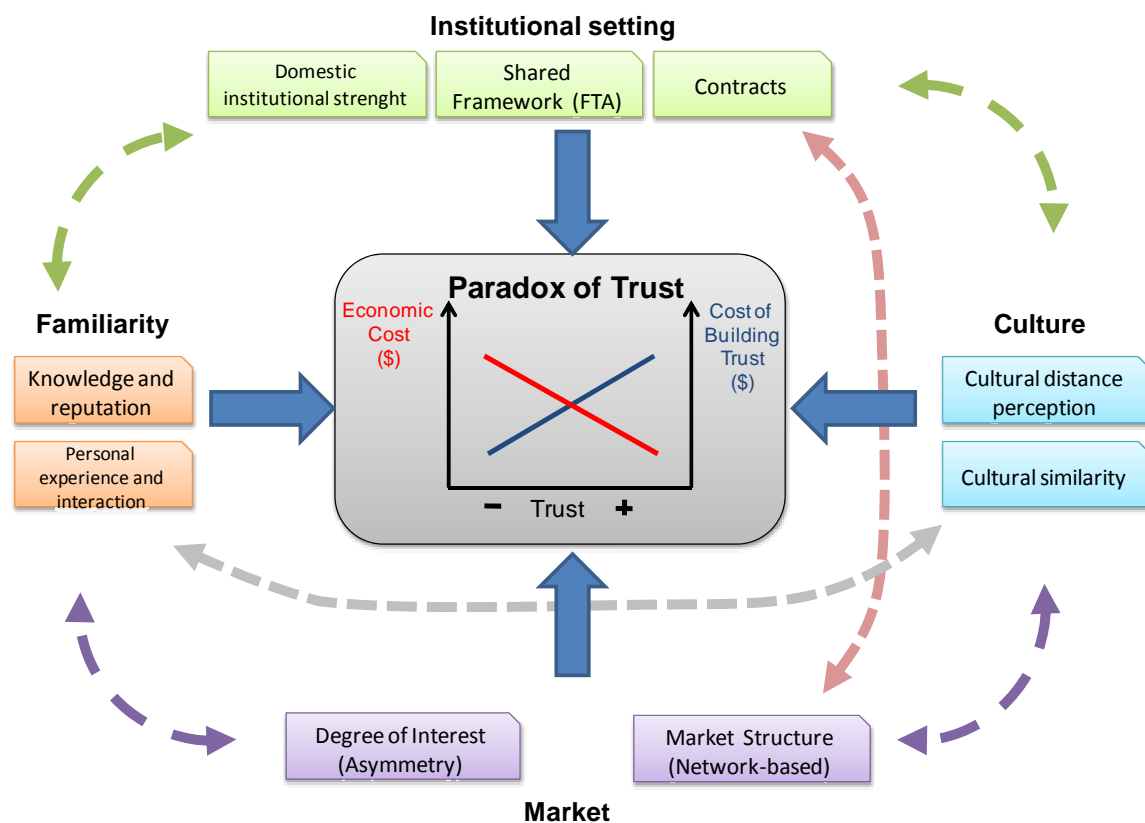
This chapter aims to look at the sources for transnational trust-building within the case study. By doing this, it will contribute to answer the subsidiary research question number two that sought to find the sources for Sino-Chilean trust-building at a micro-level of business interactions. The results discussed in this chapter are mostly based on the primary data gathered from the fieldworks carried out in Santiago, Shanghai and Beijing and thus, are based on the insights and conversations sustained with business respondents.

This chapter will first state the key role trust plays in Sino-Chilean bilateral economic exchange that makes it necessary in order to reach the expected economic outcomes. Nonetheless, it will also argue that the same empirical results have unveiled that for trust to be built, considerable resources are needed, and therefore trust becomes a costly good to acquire and maintain. Indeed, there is a deep perception between the respondents –supported by the current trade structure and degree of diversification, together with the scarce levels of mutual investment– that trust, albeit critical, is difficult to achieve. Consequently, trust-building may initially act as an invisible barrier for economic exchange rather than an enabler of economic interaction, and therefore partially contradict the initial hypothesis developed for this dissertation.

Therefore, the findings show a paradox in trust economic functionality for the case study. Although a great amount of trust is needed to facilitate Sino-Chilean

economic exchange, building trust can be extremely costly, given the sources in which is based.

In order to examine the foundations of this paradox, a model has been designed based on four sources for trust-building: institutional setting (domestic institutional strength, FTA, and contracts) market characteristics (interest asymmetry and network-based structure), levels of familiarity (knowledge, reputation, past experience and repeated interactions) and cultural variables (perception of cultural distance and cross cultural similarity). This model is based on the data collected during the fieldwork, which suggests a categorization of factors that are summarized in the model illustrated by Figure 6.1, and which will be used to analyze the sources of transnational trust within Sino-Chilean relations. As it can be observed, they are interacting with each other:



**Figure 6.1: Model of the sources for transnational trust-building applied to the Sino Chilean case study.**

This model aims to contribute with a broader conceptualization of trust and economics, since it considers institutional, cultural, rational, and market sources mutually interacting with each other. Therefore, trust rises as a multi-causal phenomenon that must be taken into account to elaborate responsible conclusions when consider trust as an enabler of economic relationships. It will also shed light on the kind of trust produced and its consequences in the process of trust-building to be discussed in the next chapter.

The next sections will further explain the particularities found for the case study, starting by the explanation of the paradox of trust, illustrated by the central box in figure 6.1, to later discuss each one of the four sources that are shaping trust-building.

## **6.2 The paradox of trust**

### **6.2.1 The importance of trust**

Chapter Three stressed the recent attention that trust, as a critical variable for economic development, has received in academic circles, whether the analysis stems from the point of view of social capital theories, and therefore being embedded in networks, or through the scrutiny of trust as a “stand alone” concept. As reviewed, while most of the academic work has concentrated on the benefits that trust brings for economic growth, some researchers have highlighted the drawbacks of trust and social capital.

The importance of interpersonal business trust –*xinyong*– entrenched in *guanxi* networks, has been explained in the theoretical chapters, either placing it as an illustration of how cultural variables affect economic development, considering it as the natural outcome of institutional weakness, or as a product of historical circumstances<sup>1</sup>. Likewise, as stated in Chapter Three, Chilean culture considers trust a critical factor to enhance business transactions.

The research findings coincide with these insights, showing trust as effectively fostering smoother transnational business and as well as acting as a facilitator of

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<sup>1</sup> For instance, Hamilton has highlighted the importance of trustworthiness for Chinese economic life since the Qing dynasty, and has placed trust as an outcome of merchant associations, which were in charge of “instilling trustworthiness in the marketplace (...) by establishing reliable economic standards and by building regionalized reputations” (2006, 64).

negotiation processes, confirming its importance as a “lubricant” that successfully helps to achieve economic goals (Arrow 1974). Indeed, the role of trust was continuously emphasized either explicitly or implicitly in each interview performed during the fieldwork.

Most of the Chilean respondents have given trust a critical role in facilitating opportunities in China thus granting it economic value. Moreover, they have realized that the Chinese look at trust as the previous step before actual negotiations take place, a fact that has initially surprised Chilean business circles. A former president of a Chilean guild federation explained how striking Chinese business behaviour seemed for him since each business completion seemed to be linked to the development of previous personal ties. For example, he pointed out, “There were constant interruptions at any time of the negotiation process in order to celebrate”. This was interpreted as the Chinese way to know each other better and create trust ties<sup>2</sup>. As illustrated by this governmental representative who has lived in China during different administrations: “trust-building process is essential if you want to advance in any negotiation. There is always first the necessity to build trust”<sup>3</sup>.

On the other hand, Chinese respondents recognize the importance of trust either based on friendship, knowledge, information or even *yuan*<sup>4</sup>. Trust appears a key element in order to initiate, complete, and maintain business relationships. As accounted by this member of a Chinese Industrial Federation: “You make friends with the Chinese, not like in Germany, where business is business. Friendship with the Chinese is different. First, you need to become close friends and after [that] you do business, it is the most common (way) (...). The Chinese like friendship”<sup>5</sup>, again illustrating the need for building trust ties before business takes place.

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<sup>2</sup> Interview #59. Santiago, October 2008.

<sup>3</sup> Interview #09, op cit.

<sup>4</sup> According to Hwang, *yuan* can be defined as natural affinity, and stem from the interpersonal fatalism that “has been quite prevalent among Chinese”. It is used by Chinese to interpret the establishment and quality of an interpersonal relationship, therefore understanding their meeting as a “predestined occurrence that will lead to happy results and thus try to assimilate each other into their own social networks” (1987, 963).

<sup>5</sup> Interview #71. High rank members of a Chinese Industrial Federation, Shanghai, March 2009. As it will be seen later, the significance of friendship for the Chinese in a business framework with foreigners is more attached to get higher levels of knowledge, and therefore, a way to cope with risks, rather than a friendship understood as purely affective ties.



Despite this, it seemed difficult for the executives to quantify trust benefits through sales or by using other financial examples. Maybe the unique quantitative indicator was given by a couple of respondents who explained that they have stopped using letters of credit after years of trading, which has obviously diminished transaction costs<sup>6</sup>, because “once you have built a long term relationship, you can forget about documents and papers”<sup>7</sup>. A second example is the wider margin to negotiate price: “the Chinese (are) like this, if we become friends we can sell you the product at a very low price!”<sup>8</sup> Furthermore: relationships determine whether or not the business starts. “If you are not my friend, maybe I am not doing business with you”<sup>9</sup>, as it was stated by this Chinese businessman.

In general, the most repeated economic outcomes refer to the facilitation of the negotiation process, risk possibilities decrease, better access to market information and distribution channels, reciprocity –especially in turbulent times<sup>10</sup>–, improvement of price and quality conditions, and even a safeguard against copyright. At the same time, trust is seen as a powerful tool to overcome institutional weaknesses, as well as market disadvantages and imbalances. In sum, trust embedded in personal relations is considered a protection against the risks perceived by the respondents. Although they may have different causes, Chile confronting a complex market and China facing a distant and unknown country, trust is a legitimate and successful way to ensure economic transactions by diminishing environmental uncertainties<sup>11</sup>.

Figure 6.2 illustrates the answers to the question towards Chilean/Chinese executives in Shanghai and Beijing when asked: Do you think that spending time with, getting to know your Chinese/Chilean counterpart, and developing a friendship with him/her has helped you to ...

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<sup>6</sup> Interviews #18, #21, and #49. General Managers of exporter and importer companies (heavy industry, fishing, and textile sectors). Santiago, September 2008.

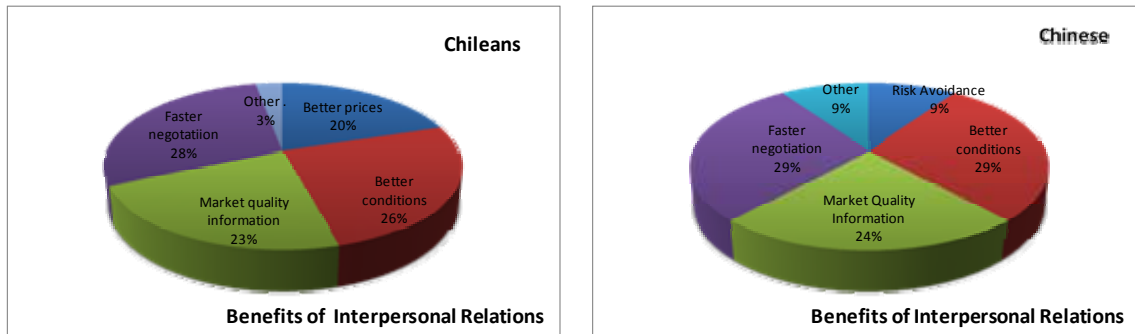
<sup>7</sup> Interview #21, op.cit.

<sup>8</sup> Interview #71, op.cit.

<sup>9</sup> Ibid.

<sup>10</sup> The interviews were conducted during 2008 and 2009, which was coincidental with the global financial crisis known as the subprime mortgage crisis.

<sup>11</sup> This statement summarizes the information gathered by a series of interviews developed within Chilean and Chinese businessmen in both fieldworks. The most illustrative interviews were #06, 15, 18, 21, 25, 35, 36, 40, 43, 49, 50, 55, 66, 70, 71, and 80.



**Figure 6.2: Benefits of Interpersonal Relations.  
Chilean and Chinese respondents.**

As shown in figure 6.2, creating interpersonal relations has directly benefited business outcomes, especially referring to the acceleration of negotiation process (28 percent of Chileans answers, 29 percent of Chinese answers), accessing better deal conditions (26 percent of Chileans answers, 29 percent of Chinese answers) and getting better access to quality market information (23 percent of Chileans answers, 24 percent of Chinese answers). It is interesting to note that none of the respondents marked the option “I have not developed a friendship” or “it has not helped at all” demonstrating once again the importance of interpersonal trust when doing business in the PRC<sup>12</sup>. A Chinese businessman summarizes it by expressing that “respect to each other is the most important [thing and], developing a real partner relationship with our partners is what matters”<sup>13</sup>, emphasizing the relevance of interpersonal relations as the source of enduring economic exchange.

<sup>12</sup> The question allowed more than one response. Therefore, the figures obtained represent the percentages of the total answers, not the percentages of the number of respondents (12 Chileans and 9 Chinese respondents). The variable “price” was not asked to Chinese because the previous fieldwork indicated that Chilean price did not vary much when negotiating. In fact, this was highly criticized by the Chinese as a lack of flexibility in negotiation and even greediness by the Chilean part (Interviews #17 Deputy General Manager of a holding group which import, export and has investment activities in Chile, and #79 Director of a Chinese trading company. Shanghai, March 2009). Instead, the previous fieldwork performed in Chile, indicated price variation as the most fluctuating outcome of cultivating relationships with Chinese when asked to Chileans.

<sup>13</sup> Interview #80. op cit.

### 6.2.2 The high cost of trust.

However, the fieldwork has also confirmed the idea that socially embedded features such as trust can eventually become a burden for economic exchange, raising the paradox of trust. By acknowledging this paradox, the case study also aims to dig into the negative externalities of trust-building due to its high costs –measured by the time as well as the monetary resources needed–, especially for those who reside in the weakest side of the equation.

As established in the previous paragraphs, trust acts as a lubricant and a tool to lower transaction costs *once trust is reached*. Yet, as some literature has already pointed out, when trust is attached to strong networks, as in the case of China, there are difficulties to build it across networks. As this Chilean entrepreneur analyses: “First they (the Chinese) are your friend, and only after that are they your partners. They want to create trusting relationships. And that takes time. Trust takes time. You cannot establish trusting relations in one week. Trust needs to be built over time”<sup>14</sup>, further stressing the costs of trust given the time needed to develop it.

The interviews offered numerous examples of the difficulties encountered during trust-building processes. Doing business in the PRC was even defined as a “constant headache with high costs”<sup>15</sup>. A successful Chilean investor in China summarizes them by expressing the tremendous personal effort that developing his company has meant, and the difficulties encountered due to market complexity, as well as cultural and institutional circumstances<sup>16</sup>.

The difficulties of trust-building also stem from the low starting point from which the process begins, in which a state of distrust –or at least a question mark regarding the subject– predominates<sup>17</sup>. For example, Chileans start business with some concerns regarding China, as illustrated by the following Chilean investor in China: “My

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<sup>14</sup> Interview #23. Operations Manager, Logistic sector. Santiago, September 2008.

<sup>15</sup> Interview #14. Chilean investor in China, Agro industry sector. Santiago, October 2008.

<sup>16</sup> Interview# 50. Chilean investor in China, Manufacturing sector. Santiago, September 2008.

<sup>17</sup> This perception is not related to the industry, size or nature of the companies. This is shared by investors, exporters and traders from different industries. For example, interviews #05, 07, 13, 14, 24, 50, and 57; respondents who belonged to the agro industrial, investment, financial and manufacturing sector.

impression is when I trade with the western world we begin the relationship trusting each other, but in China we start from a mutual state of distrust”<sup>18</sup>. This initial state is also acknowledged by the Chinese:

It is very difficult to understand what a Chinese businessman wants, because he is cautious, distrustful and does not want to give away what he owns. Information, for instance, is offered step by step, and only when he is sure of what the counterpart is going to do with it (...). If he is not sure, [the process of negotiation] may last a year, without the other part having a clue of what is really going on<sup>19</sup>.

Thus, these unusual efforts required to develop trust determine the long time it takes before actually completing a commercial agreement. As described by most of the interviewees, the process of business completion includes, at least, the stages of preliminary contacts, gathering information and data, negotiation of terms, and (positive or negative) conclusion of the negotiation<sup>20</sup>. It is within this process –focused on the “gathering information and data” stage, that also involves further preliminary talks– that a trusting relationship takes shape, and thus determines the amount of time devoted to the process. In other words, what frames the long time between the first stage of information gathering and preliminary contacts, to the final conclusion of the business, is a consequence of trust issues rather than the negotiation itself.

An illustrative case of the amount of time, and therefore, investment, that trust-building implies, was given by one senior Chilean executive who pointed out that it took his company eight years before starting doing business with a Chinese partner, investing more than 800,000 USD in “relationship building” which even included paying for university degrees for Chinese employees, without making any profit during the process<sup>21</sup>. A Chilean trader working in Shanghai since 2000 remembers that in the first two years he could not finish any sale, even though at that time he did not have significant competitors<sup>22</sup>. Although the first example may seem exceptional, the second one

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<sup>18</sup> Interview #14, op. cit.

<sup>19</sup> Interview # 78. Chinese General Manager of a trading and services company. Santiago, October 2008.

<sup>20</sup> This last stage, however, may have further negotiation involved because, as stated by many respondents, “negotiation does not end with the contract”, Interviews #09 and #34. op.cit.

<sup>21</sup> Interview #25. Product manager of a big exporter Chilean company, mineral sector. Santiago, October 2008.

<sup>22</sup> Interview #08. Managing Director of a Trading Company. Shanghai, March 2009.

represents the normal experience recounted by most of the interviewees. Moreover, the length of the negotiations was a major complaint that came from Chileans<sup>23</sup>. One Chilean investor summarizes this overall perception by pointing out that: “The most difficult thing on earth is to develop real trust with the Chinese. That does not exist. Well, it is not inexistent, but it is really complex”<sup>24</sup>, illustrating the difficulties encountered when engaging in trust relationship building.

In order to systematize these impressions, some statements were tested in the fieldwork conducted in China. For Chileans, two sentences were tested. The first one, “It is difficult to get closer in order to generate trust with the Chinese counterpart”, obtained 62 percent for the categories agree and completely agree. For the statement, “In Sino Chilean commercial relations, the parties can immediately get a high degree of trust”, 94 percent disagreed or completely disagreed. On the other hand, 50 percent of Chinese respondents, agreed/completely agreed on the sentence “It takes time to build up a solid business relationship with Chileans”<sup>25</sup>.

In the end, difficulties and troubles are only surpassed by the expectations of future gains, and trust-building seems a necessary step to positively engage within the process, despite its drawbacks. Nevertheless, trust-building’s length and costs seem to have important consequences for Chilean companies, especially those without sufficient resources to withstand a long period of negotiation before the deal is concluded<sup>26</sup>.

### **6.3 Sources of (mis) trust**

As shown in the model presented through figure 6.1, the evidence collected points towards four sources that are shaping trust-building for the case study. As it will be

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<sup>23</sup> These findings may contradict some current literature that have placed globalization as a force shortening these time periods due to a recent Chinese understanding of the time value (See Faurea and Fang 2008). Yet, this research has found some nuances of this conceptualization. First, as it will be further argued, market considerations explain this behavior for the case study. Secondly, levels of knowledge and reputation also may be influencing the time involved on negotiations with Chileans.

<sup>24</sup> Interview #50. op.cit.

<sup>25</sup> As explained in the methodology section, when the questionnaire was elaborated, cultural awareness was a main concern, because of the bias that the nationality of the researcher could have produced, due to Chinese (*li*) etiquette. Therefore, and although it was intended to measure the same data, the sentences had slightly different wording for Chileans and Chinese in an effort to avoid interviewer bias.

<sup>26</sup> Interview #34. op.cit.

discussed, they constitute sources of trust and also of mistrust, depending on how the interaction between them develops.

First, the relationship has been strongly nurtured by the institutional setting in which is embedded. This section will analyze three institutional sources and their consequences for trust-building within the case study: the domestic institutional setting as the general framework, the FTA as the most important shared formal mechanism, and the role of contracts in daily economic transactions.

A second source is constituted by the market that influences not only the participant possibilities, but also the kind of trust at stake. Here, the imbalance of both actors, and the interest asymmetry within the relationship, determines the unique characteristics that drive the process when compared to the developed world experiences. The characterization of the Chinese economy as network-based also determines the pace and nature of trust-building.

The levels of familiarity are the third source for trust-building at a transnational level, by means of knowledge, reputation and experience. Therefore the results confirm the importance of non cultural variables when considering trust within the business framework. The novelty of the relationship brings with it consequences that affect individual trust-building.

Finally, cultural sources are discussed. On the one hand, and in accordance with previous studies, the findings will show how cultural distance hinders, rather than enhances, trust-building. On the other, it will demonstrate how cultural similarities – measured by cross cultural categories– also hinder trust-building since they promote particularistic trust.

Thus, the analysis will be based on these four initial sources, denoting trust-building as a complex phenomenon with multiple and differentiated sources, but nonetheless crucial for economic exchange. As recently stated by the Chilean Minister of Mining: “Investment is based on trust: knowing who the partners are, knowing the country, developing friendships, and also setting clear rules of the game”<sup>27</sup>.

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<sup>27</sup> Chilean Minister of Mining, Laurence Golborne, during the seminar held at Universidad Andres Bello on December 1st, 2010: “Chile and China 40 years”, op.cit.

### 6.3.1 Institutional Setting.

Institutions facilitate economic development by reducing “transaction costs and ensuring competitive processes” (Islam in Soysa and Jütting 2007, 32). However, as it will be further argued in this section, institutional sources –from the trust perspective– have mixed results when related to economic interaction. This section will tackle how levels of domestic institutional strength, the FTA and contracts act as a source of trust –or not– within the case study.

#### 6.3.1.1 Levels of domestic institutional strength.

China has been able to grow without having a proper rule of law, at least in western terms (Wang 2000). Recent research confirms that when it comes to economic development and China, the concept of growth requiring “a legal order offering stable and predictable rights of property and contract” does not have enough explanatory power (Clarke, Murrell et al. 2008, 376)<sup>28</sup>. Furthermore, it has been argued that even though China’s rapid development and increasing openness, the absence of transparency and institutional trust is widespread (Redding and Witt 2007).

Moreover, China has been considered institutionally weak because “despite (the existence of) quite extensive formal legal provisions, implementation of those laws is rather arbitrary and affords only limited effective protection” (Child 2001, 276). Its legal fragility is derived from the weakness of the Chinese state, unable “to uphold an effective system of rules” (Wang 2000, 531), for example, due to the high discretionary power of local authorities to apply the law, especially those referring to investment, such as taxation matters and permit concessions, since provinces compete to have better economic performance in front of the central government (Brandt Rawski et al. 2008)<sup>29</sup>.

A second dimension of institutional weakness highlighted by the respondents as affecting trust-building, rests in the mixing of the political and economic spheres. Although it has been stated that institutionally China has already overcome the challenges that the transition from a planned to a market economy poses (Naughton 2007), the

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<sup>28</sup> This posture has been contested on the context of the current modernization China is living (Faurea and Fang 2008)

<sup>29</sup> Also mentioned in interview #81, op.cit

political system based on an authoritarian and hierarchical regime still remains intact (Naughton 2008), making boundaries blurrier between the economic and political spheres, and thus establishing “a wide grey economic area, in which the public and the private, power and wealth, legitimate and illegitimate interests intermingle with one another. In such an environment, government bureaucracies both regulate and participate in the economy” (Wang 2000, 541)<sup>30</sup>. Furthermore, there is a lack of separation between market and state (Lora 2007), in which “it is not possible to precise the line between public and private property” (ibid 2007, 27). Indeed, this environment has been acknowledged by the Chilean respondents, especially those living and working in the PRC, in spite of recognizing the process of modernization and globalization China is facing<sup>31</sup>. A Chilean businessmen living for seven years in the country stated: “The state is everywhere (...) it is not obvious for someone who comes here once a year and thinks this is New York [referring to Shanghai] but the state controls everything, directly or indirectly”<sup>32</sup>.

The weak levels of Chinese institutional strength and the blended political and economic spheres have had mixed results for trust-building within the case study. On the one hand, as already discussed in the literature review, this weak institutional environment has enhanced private trust as an informal mechanism to foster economic interactions. In fact, the interviews show that mechanisms of this kind have also emerged as a way to foster security and furthermore, they have brought economic advantages after a trusting relation has been built. Some respondents described the amazing “flexibility” regarding the application of formal rules, which can be translated into the “room for negotiation” able to develop when, for example, discussing taxation matters with local authorities<sup>33</sup>, or the unique situation of having permits and paperwork for a building construction only after the construction has already begun<sup>34</sup>.

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<sup>30</sup> One example that illustrates the blending between political and economic (private actors) is the board composition of the Shanghai Federation of Industry and Commerce, which currently shows as the first vice chairman the “Secretary General of Communist Party Section in SFIC” [http://www.sfic.org.cn/intro/e\\_intro\\_2.asp](http://www.sfic.org.cn/intro/e_intro_2.asp). Its Chilean counterpart, Sofofa, “Federation of Chilean Industry” is a 100 percent private initiative. <http://web.sofofa.cl/languages/en/> Accessed 24/11/2010.

<sup>31</sup> Interviews #02; #09; #19; #24; #35; #41; #42; #45, op.cit and #54, Chilean High Rank diplomatic. Beijing May 2009.

<sup>32</sup> Interview #45 ibid.

<sup>33</sup> Interview #50. Op.cit.

<sup>34</sup> Interview #14. Op.cit.



Secondly, many Chilean executives highlighted the benefits of holding good diplomatic relations as a starting point to engage in business transactions in an environment in which economic and political spheres are complementary. For instance, they acknowledged how political friendship has helped them to overcome difficulties imposed by a changing institutional environment and by this, gaining confidence in business making in China, as the following story illustrates:

Once, one of the products we used to sell in China got an additional tax (...). That would mean that the product will lose all the competitive advantage it had, and we would not be able to compete with alternatives products. So I had to travel (to China). There, I received all the embassy support, including transportation, human resources and even an office. They arranged meetings with the Central Bank, the Ministry of Finance, the Ministry of Foreign Affairs, and so on, and I always went with a Chilean high rank bureaucrat to talk with Chinese authorities. We finally were able to eliminate the tax<sup>35</sup>.

Some Chinese businessmen also looked positively at the good diplomatic relationship existent between the parties. They saw political trust as being directly connected to economic outcomes, because diplomatic friendship was perceived as an informal insurance of future interaction and a bridge for economic opportunities<sup>36</sup>.

On the other hand, however, the blending between both spheres perplexes Chilean businessmen who, although they are used to a collaboration between the state and private spheres (Maxfield 2004) have done it within the frame of a relationship considered in a “rational technical category” (Silva 1996), and therefore far from the particularism observed in China (Guthrie 1999; Tsai 2007).

Moreover, the weak institutional trust perceived has allowed the strong impression of vulnerability in front of potential institutional changes given the high level of discretionary power held by the local authorities, and thus enhancing uncertainty and at the same time, further eroding institutional trust<sup>37</sup>. This awareness is stronger in those

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<sup>35</sup> Interview #25 op.cit.

<sup>36</sup> Interviews # 17, 32, 79, and 80, op cit. There was one Chinese trader who showed a more market oriented perception and considered both spheres as functioning separately. As he metaphorically explained it: “Relations between governments help business. It is true. But, sometimes, even when the parents do not get along well, the children like to work together. If they [the authorities] have good relations it is smoother but business is between countries, not between governments” Interview #77, op.cit.

<sup>37</sup> Interview # 14 op.cit.

Chilean businessmen with longer and deeper Chinese experience<sup>38</sup>. As a result, the findings confirm previous conclusions in which trustworthiness has been debilitated by a weak institutional frame, and in which risk perception tends to be higher when formal institutions appear frail (Knight 2001).

The case of how the degree of domestic institutional strength in Chile affects trust-building must be analyzed from a completely opposite perspective. As stated in the previous chapter, Chileans have used their strong institutional setting as a tool to promote a stable and reliable country which, according to the argumentation developed earlier, has worked as an important source of trust for developing Sino Chilean bilateral relations<sup>39</sup>. At the micro level, however, results are mixed depending on the viewpoint taken into account.

As a source of trust, Chilean legalism seems relevant for Chinese investors, who rely on the Chilean rule of law, therefore acknowledging that “what is written in the paper it is what actually happens in reality”<sup>40</sup>. For instance, according to the DL 600, the main legal instrument to manage foreign investment in Chile, the revenues from the foreign business can be taken back to the country of origin, which appears to be an important incentive for the Chinese.

Secondly, foreign investors feel that the Chilean legal system does not discriminate between nationals and foreigners, for example in taxation and other corporate regulations. As pointed out by this Chinese investor: “Chile is fair in the legal aspect, it is open and safe. It is very fair for foreign people to do business in Chile. In terms of registrations, applying for permits, the process was very smooth; we did not face any difficulty, which is a very important reason for us to do business in Chile”<sup>41</sup>.

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<sup>38</sup> Interviews with Chilean businessmen. All the respondents who stressed this point were living in China at the time of the interview; most of them for more than 8 years. Interviews # 02, 05, 14, 24, 35, and 45, op. cit. On the contrary, for those recently arrived (for example, respondents #19 (General Manager of Chilean company, Beijing, May 2009 and #44, op cit.) this matter was not a source of preoccupation.

<sup>39</sup> Hofstede’s explanation on why Chileans are so attached to formal rules lies in the high score in Uncertainty Avoidance (UAI) index (86) which would be indicating the society’s low level of tolerance for uncertainty. “In an effort to minimize or reduce this level of uncertainty, strict rules, laws, policies, and regulations are adopted and implemented. The ultimate goal of this population is to control everything in order to eliminate or avoid the unexpected”. Source: <http://www.geert-hofstede.com> Accessed 03/07/2010.

<sup>40</sup> Interview# 17, op.cit.

<sup>41</sup> Interview #17, *ibid*.

However, on a daily basis, and notwithstanding the guarantees offered by the Chilean legal system, there are drawbacks of this institutional strength as a source of trust-building. Several former Chilean authorities explained during the interviews that the first Chinese approach is to look for “special guarantees” to invest, mostly related to tax incentives<sup>42</sup>, as the ones they have enjoyed in Sub-Saharan Africa<sup>43</sup>. Other Chilean regulations seem to have had a boomerang effect for Chinese investment, as the limitation, by law, on the number of foreign workers allowed in a company<sup>44</sup>.

As it will be further analyzed in section 6.3.1.3, the excessive attention that Chileans pay to legal matters may also complicate negotiations with the Chinese, and furthermore, being perceived as a system inflexibility.

At the end, the clash seems to be focused on the different approaches towards formal and informal institutions, and therefore the role trust plays in that milieu. Chileans, comfortable in the legalist European tradition in which law is founded<sup>45</sup>, and in which the risks are prevented by the power of a contract, clash with Chinese tradition in which relationships and knowledge are the shield to opportunist behaviour. Indeed, it has been argued that the Chilean legal system is

relatively simple [...] and consistent enforcement of contracts have made the contracting process more secure, so that few contracts are renegotiated [...] the extent to which informal associations can replace the rule of law and a formal court system is limited, underscoring the importance of the role of macrolevel Social capital in making business possible and especially of the government's role in providing an enabling environment that is simple, transparent, and consistent (Serageldin and Grootaert 2000, 50).

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<sup>42</sup> Interviews #01, 42, 54, 62, and 67. Chilean governmental and diplomatic authorities. Santiago, September–October 2008; Beijing, May 2009.

<sup>43</sup> Interview #76, op.cit. When asked why Chinese investment was so prolific in Africa, compared to Latin America, the Chinese researcher highlighted stronger political and diplomatic bonds between Africa and China, but also recognized that they could enjoy “special treatment”. According to the data provided by the Heritage Foundation, Sub Saharan Africa appears as the region of the world (excluding Hong Kong), with most of the Non – Bond Chinese Investment: 28.9 billions USD. Instead, Latin America accounted for 7.1 billions. Source: Heritage Foundation Database <http://www.heritage.org/static/reportimages/1FAC1A6032556546C4F2F63A532A3A83.gif> Accessed on 26/12/2010.

<sup>44</sup> The article 49 of the Labor Law says that for those companies with more than 25 workers, at least 85 percent must be Chilean nationals (Código del Trabajo, 2008, 11). This rule applies for local and multinational companies.

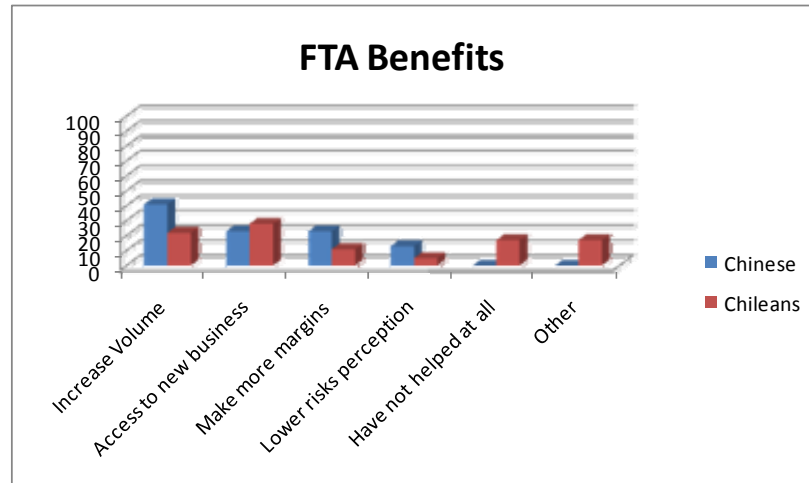
<sup>45</sup> Insight made by Dr. in Law, Professor Jose Jaramillo, Acting Director for the Asian Center Studies at Universidad Catolica at the FSCBLP. 25/12/2010.

As one Chilean academic exemplifies: “we are rule-based and they are relationship based”<sup>46</sup>. However, as indicated already, this statement has its own nuances, because trust based on relationships is also crucial for Chileans, which will be further argued in this chapter.

### 6.3.1.2 The Free Trade Agreement.

As a formal institution, the FTA has facilitated economic growth by reducing transaction costs with lower tariff barriers, and therefore allowing more competitive conditions for both nations.

Figure 6.3 shows the benefits of the tariff decrease. To the question: “Do you consider that the Free Trade Agreement between China and Chile has helped your company to...”, the most preferred answers were “increase business volume” (41 percent Chinese, 22 percent Chilean) and “better access to new business”, (28 percent for Chilean, 23 percent for Chinese). Curiously, while none of the Chinese respondents says that the FTA has not helped at all, 17 percent of Chileans chose that alternative<sup>47</sup>.



**Figure 6.3: FTA benefits**

As it can be observed in figure 6.3, the survey performed for this research during the fieldtrip to China shows that volume and access to new markets have been the two

<sup>46</sup> Interview # 73, op.cit.

<sup>47</sup> This question allowed more than one response.

main variables enhanced by the FTA, demonstrating its functionality by offering competitive advantages since the beginning of its application. However, these benefits are only temporary since, following the argumentation sustained previously, China has engaged in a FTA policy in order to secure the natural resources needed for its growth and therefore has signed agreements with strategic countries<sup>48</sup>. Moreover, some of the current Chinese FTA's are held with direct Chilean competitors, such as Peru and New Zealand, countries that share a similar export basket with Chile. Yet, they hold the advantage of having fully comprehensive FTAs, including an investment chapter.

Yet, the functionality of the institutions does not end here. As stated previously, institutions set the "rules of the game" in which economic transactions are embedded. As pointed out earlier in this dissertation, the Sino-Chilean FTA was planned as a critical starting point for institutional trust in which economic transactions at a micro level should be inserted. In fact, the Chilean aim behind the FTA was to "protect the property rights of its investors in China and provide legal guarantees for market access and fair pricing for its exporters" (Domínguez 2006, 37). As stated by former Chilean President Ricardo Lagos: "Because of our size, we need to set the rules of the game, otherwise, the gap will be filled by the most powerful"<sup>49</sup>.

However, according to the respondents' perception and experience, the FTA has not been completely successful in becoming a source of institutional trust that ultimately will enhance economic relations<sup>50</sup>. As an example, only 13 percent of the Chinese importers interviewed in Shanghai and Beijing for this study viewed the FTA as having lowered their risk perception, and the number falls to 5 percent in the case of the Chileans. In addition, within Chinese importers of Chilean products, there is a feeling they have not fully enjoyed the benefits of the treaty, according to a study conducted by the Chilean commercial office in Shanghai (ProChile, Xu et al. 2008).

In effect, the FTA's institutional weakness as a trust source, is based on its lack of enforcement and punishment capabilities should trust be breached, which complicate

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<sup>48</sup> Indeed, the official website of the Chinese Ministry of Commerce, Mofcom, shows seven FTAs already underway, five under negotiation, and another four in the feasibility study stage China FTA Networks. Source: Ministry of Commerce, People's Republic of China. <http://fta.mofcom.gov.cn/english/index.shtml> Accessed on 04/12/2010.

<sup>49</sup> This insight was made at the Seminar: "Chile and China 40 years", op.cit.

<sup>50</sup> Institutional trust has also been labeled as impersonal trust by Shapiro (1987) and process-based trust by Zucker (1986).

matters more since “the establishment of formal institutions requires the existence of some organizations able to enforce laws and regulations” (Raiser 1997, 6). Indeed, the FTA examination shows that the arbitral procedures only define the constitution of an arbitral panel and its prerogatives, but it does not provide a formal organization fully dedicated to enable the arbitral panel’s decision. In addition, the FTA does not contemplate a mechanism to ensure fair prices. As stated, negotiations for the investment chapter have not been concluded between the parties at the time of this writing, thus the current state of the FTA does not consider protection on investment as exposed by Dominguez<sup>51</sup>, or as publicly expressed by President Hu<sup>52</sup>. This institutional weakness is not, nevertheless, strange to Chinese strategy. According to previous analyses, all Chinese FTAs are characterized by their: “brevity, (...) focusing more on trade in goods and services rather than non-WTO matters, the absence of formal dispute resolution, and a negotiating style of initial agreements followed by subsequent elaboration rather than one-off treaty negotiation” (Antkiewicz and Whalley 2005, 1556).

From the Chilean point of view, the FTA can also be considered weak because it was not negotiated tied to the agricultural and livestock sanitary protocols, as explained in the previous chapter<sup>53</sup>. In fact, for a long time, some products actually had tariff reductions programmed without the proper sanitary approval, as the case of some livestock products demonstrates<sup>54</sup>. This has been fiercely argued by Chilean industrial federations, although some frustration persists on their leaders, who considered Chinese authorities as “opening the door only to close the window”<sup>55</sup>. Finally, other non traditional barriers to commerce apply for the case study that cannot be properly managed by the FTA. The study conducted by Chilean authorities in Shanghai shows that 45.9 percent of Chinese importers feel that “the customs procedures of applying for the

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<sup>51</sup> Please see the English version of the arbitral procedures in Appendix 5.

<sup>52</sup> Hu Jintao in an interview with a Chilean newspaper explained: “A FTA will offer an institutional guarantee for the development of our economic and commercial ties, in order to develop commerce and mutual investment”. *El Mercurio* newspaper. 11/12/2004.

<sup>53</sup> Interview #74. Chinese Academic, Shanghai, March 2009. Indeed, this Chinese researcher explains that sanitary protocols should be negotiated at the highest political level, but currently a technical department, SAG, the Agricultural and Livestock Chilean Service, is trying to solve the problem, which is one of the main concerns of the agricultural sector. See <http://diario.elmercurio.cl/detalle/index.asp?id={32399d5c-8662-4288-a316-d02fc4edbfff}> Accessed 31/01/2011.

<sup>54</sup> Interview #04. Manager of International Trade, Chilean Business Association, October 2008, Santiago.

<sup>55</sup> Interview #20. President of a traditional guild, Santiago, October 2008. See also the opinion of Chilean Senator Fernando Flores in his blog: <http://www.fernandoflores.cl/node/895> Accessed 14/12/2010.

benefits of the FTA in China are very complicated and the transparency of information is not sufficient” (ProChile, Xu et al. 2008, 4).

Other mutual institutional mechanisms provided by the state have also been considered weak by the respondents. Although the formal institutional framework between Chile and China is substantially large, it has not acted as an incentive for economic exchange and broader cooperation, since their potential beneficiaries have not taken their advantages as they could have<sup>56</sup>. Others have directly stated that these cooperation mechanisms do not have the strong content needed in order to be legitimated by the parties<sup>57</sup>. Alternative mechanisms such as complaints to the WTO have never been used by Chileans and vice versa.

Nevertheless, the FTA has indirectly acted as a positive source for trust-building, enhancing trust through the promotion of market certainty –based on political trust, as explained in the previous section– and cooperation via knowledge spread and also by “providing a structure to everyday life” (North 1990, 3).

Indeed, the fieldwork results suggest that the FTA has acted as a source of trust, insofar it has been seen as a powerful tool of communication, helping to place Chile into the mindset of the Chinese through media exposure, and thus giving Chile more prominence. Additionally, the FTA has augmented Chilean reputation within Chinese business circles<sup>58</sup>. In the words of a Chinese representative of a business federation: “After the FTA, the Chinese are becoming more aware of Chile”<sup>59</sup>. A similar effect has occurred in the Chilean mindset regarding the Chinese<sup>60</sup>.

Secondly, the FTA has been considered by most of the respondents as the crystallization of the mutual political trust. In fact, both the narrative of the first and the

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<sup>56</sup> Interview #82, op.cit. In fact, official data shows 32 Cooperation Agreements between the two countries. See the official webpage of the Chilean Embassy in China: <http://chileabroad.gov.cl/china/relacion-bilateral/acuerdos-y-tratados-bilaterales/>. Accessed 12/10/2010

<sup>57</sup> Interviews #11 and #51, op.cit.

<sup>58</sup> Interviews with authorities and businessmen: #02, Former Chilean representative in China, Shanghai, March 2009; #15 Chief Representative of a Chilean Importer Company, Shanghai, March 2009; #30 General Manager of a Business Association, Santiago, Chile, September 2008; #68 International Relations Manager for a Business Association, Santiago, October 2008; and #34, 50, 67, 71 op.cit.

<sup>59</sup> Interview #71, op.cit. It can be said that together with the FTA as a communicational milestone, the Chilean’s Pavilion in the 2010 Expo Shanghai also gave media coverage to Chile, according to its Joint-Commissioned, Mr. Sergio Toro. Speech made at FSCBLP, 25/11/2010. However, this event occurred after the fieldwork was performed and thus it was left out of the analysis.

<sup>60</sup> Interview #68, op.cit.

existent “friendship” between the nations were spontaneously mentioned during the interviews as elements helping to improve economic ties, and therefore demonstrating how the political rhetoric has pervaded the business sector<sup>61</sup>. One Chinese entrepreneur summarized it by stating that “as long as my country trust yours, I can feel safe”<sup>62</sup>. In the Chinese case, the narrative of the first has been especially relevant for those companies closely connected to the State and it has had a more rhetorical component rather than an economic function<sup>63</sup>. For Chileans, it has become an advantage that supports at least the first stage of trust-building<sup>64</sup>.

As a conclusion, the FTA –despite being a formal institution by nature– has not acted as a source of institutional trust beyond the assurance of lower tariff barriers applied universally to all<sup>65</sup>. Nevertheless, it has acted as a source for trust-building by providing awareness of Chile, and thus, contributing to enhance mutual knowledge. It has also given political certainty in a context in which capitalism has developed despite lacking in democratic institutions (Tsai 2007). As explained, in this milieu in which the economic and political spheres are somehow interrelated and boundaries are blurred, where a mutual interdependence between the state and economic actors exists, the FTA has offered an important economic value as a symbolic shield against authority’s discretionary behaviour<sup>66</sup>.

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<sup>61</sup> Several respondents mentioned this as an advantage for economic relations. Some examples are constituted by the interviews #10, 45, 02, and 47, op.cit.

<sup>62</sup> Interview #79, op.cit.

<sup>63</sup> Interview #32. Vice General Manager of a Chinese import corporation (SOE). Shanghai, March 2009.

<sup>64</sup> Interviews with business associations and corporate executives: #04, #25, and #30, op.cit.

<sup>65</sup> Even this last point can be argued because there are still non tariff barriers in Sino Chilean relations as the one related to sanitary protocols.

<sup>66</sup> This is not to say that the FTA assures due process, but at least Chinese middlemen authorities recognize Chilean products as coming from a friendly country and thus, with more chances to cope with arbitrary measures. However, this does not totally protect the arbitrary behavior of Chinese authorities if a political impasse between both nations occurs. Interview #34, op.cit.



### 6.3.1.3 The role of contracts<sup>67</sup>.

Given the particular institutional structure described earlier in this chapter (China as institutionally weak and Chile perceiving itself as the opposite; and in which their main shared formal mechanism, the FTA, lacks real enforcement capabilities), it is legitimate to contemplate the validity of a written contract as a source of trust for the case study.

In this respect, the results offer two kinds of opposite conclusions, which may be the outcome of the current “changing Chinese values” due to globalization (Faurea and Fang 2008). On the one hand, there is a strong impression within Chileans that contracts do not foster institutional trust in China either because there is a perception of the impossibility of local enforcement; cultural and historical reasons; or strategic considerations. One Chilean lawyer living in China explained that although the possibility of suing in Chinese courts is high, the chances of winning are low, illustrating that although the institutional framework exists, its weakness makes it difficult to take full advantage of it<sup>68</sup>.

Modern Chinese contract’s law is relatively new (1999) as it happens with all the laws and regulations regarding commercial law, investment or property rights in China<sup>69</sup>. Therefore, these kind of formal regulations are still gaining legitimacy, verbalized by a Chinese lawyer as China currently experiencing “a learning process” in this matter, because economic changes have been faster than the institutional capacity to rule them, acknowledging the system’s imperfection<sup>70</sup>. This fact, together with the high discretionary power of local authorities mentioned earlier, reaffirms the Chilean perception that is

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<sup>67</sup> Contracts are not the only mechanism used by Chinese Jurisprudence to base conflict resolution. There are also the guidelines provided by Judicial Interpretations issued by People of Courts and the General Principles of the Civil Law, together with China’s affiliation to UN international convention on contracts. However, this scrutiny goes beyond the scope of this research, and thus, this section will only analyze the contracts.

<sup>68</sup> Interview #40. Legal advisor for a Law Firm in Chile, Santiago, October 2008.

<sup>69</sup> For an excellent overview of the Chinese laws and regulations, please refer to Clark, Murrell, et al. (2008). For the full text of the Contract Law in china please see [http://www.novexc.com/contract\\_law\\_99.html](http://www.novexc.com/contract_law_99.html) Accessed on 07/12/2010.

<sup>70</sup> Will Fung, lawyer at Grandall Legal Group in Beijing. Speech offered at the FSCBLP, 26/11/2010.

almost impossible for Chinese courts to favour a foreign plaintiff<sup>71</sup>, a view that seems to be shared within the western world<sup>72</sup>.

On the other hand, traditional Chinese culture has preferred oral commitment in economic operations rather than relying on written contracts, despite the evidence of some contract use in imperial China (Pye 1986, Cohen 2005)<sup>73</sup>, emphasizing the government of men rather than law (Brandt, Rawski et al. 2008, Faurea and Fang 2008). Indeed, before the Company Law of 1904, which intended to regulate and to promote industrial Chinese development during the Qing dynasty, “very little in written Chinese law (that) addressed the regulation of private economic activity” (Kirby 2004, 30) existed. This oral tradition seems to establish a clear “difference in contractual practice” when compared with the west (Landa 2001, 347). In fact,

Legalism does not feature in Confucianism. Leadership is demonstrated through moral examples instead of legal punishment. The traditional Chinese aversion to law may be viewed as a by-product of the Confucian moral thinking: law does not eradicate problems; people’s behavior can only be influenced effectively by a set of self-regulating moral mechanisms, e.g., by *li* (ritual propriety, etiquette, etc.) and by instilling a sense of shame into people’s mind (Faurea and Fang 2008).

Even today, the Chinese interviewees are surprised by the amount of legal support necessary to do business in Chile, as the experience of a Chinese investor indicates:

If you do not follow the Chilean way, then you are not able to survive. For instance, in China when signing the contract, it is enough just to sign it, in Chile

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<sup>71</sup> During the interviews, many Chilean respondents explained the difficulties of enforcing a contract in the PRC. For example #07, Business Manager. Agro industrial sector, Shanghai. March 2009; #40 op.cit., #43, Director of Finance and Business Development for a Chilean Export company. Beijing, May 2009; and #46 Sales Director Asia. Commodity sector, Santiago, October 2008.

<sup>72</sup> For instance, Odean Volker, an American Lawyer from Haynes and Boone, recommends all the arbitral procedures with Chinese companies to be carried out in a non Chinese Arbitral Institution. Speech offered during at the FSCBLP, 26/11/2010. At the same summit, Professor of the Law School at George Washington University, Dr. Donald Clarke highlighted that the impossibility of a fair process even applies when suing Chinese companies abroad. He explained that because normally all the Chinese companies are somehow related to a SOE (State Owned Enterprise), then the principle of “sovereignty immunity issues” apply, with the consequences of this company not been able to be judged outside Chinese territory. Speech offered during the FSCBLP, 26/11/2010. “Transnational Litigations with China”.

<sup>73</sup> Cohen (2005) shows several examples of the presence of contracts in Chinese late imperial period. Nevertheless, he acknowledges the importance of social relations as a way to support those contracts not registered with the local county’s registered office.

you have to go to a notary and with lawyers. So you need to go with a lawyer and spend money [in the notary]. After a long time of being there we have adapted to the system because in Chile everything has to go through a lawyer; now we know how to deal with the system<sup>74</sup>.

On the contrary, for daily transactions such as the importation of goods, a lawyer is not required in China because “you will never make it to the courts”<sup>75</sup>. In fact, courts constitute the last resort that the Chinese would use to resolve a commercial problem, because they prefer to solve disputes directly (Clarke, Murrell et al. 2008), behaviour that is rooted within the resolution dispute mechanisms established by merchants associations (Hamilton 2006), which may also explain the growing legitimacy of arbitral procedures in post reform China (Clarke, Murrell et al. 2008).

Thirdly, the cultural inclination of the Chinese to see the contract as setting the general framework (Pye 1992) has also been experienced by Chileans, but only some of them have understood that “what is written (in a contract) is only a reference expressing an intention”<sup>76</sup>. The striking contrast between this Chinese conception on understanding the contract as setting the general rules as opposed to the western thought which intends to cover all the potential risks with the provisions of a contract, was observed at the First Summit on Chinese Business Law and Practice held at the Universidad Católica de Chile. While a Chinese lawyer argued in his presentation that they believe in macro intentions (and thus, allowing “big subjects” to prevail), instead of focusing their work on every detail as foreigners do, the Chilean lawyer dedicated more than 45 minutes to explaining that in China everything has to be clearly detailed in a contract in order to cope with the risks and uncertainties, even regarding possible future interactions.

The changing nature of the contract, in which constant review seems to be the norm in Chinese culture (Pye 1992), also enhances the sceptic perception towards contracts as a source of institutional trust<sup>77</sup>: “In China, the signature in a contract is just the beginning of the negotiations in detail”<sup>78</sup>.

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<sup>74</sup> Interview #17, op.cit.

<sup>75</sup> Interview #15, op.cit.

<sup>76</sup> Interview #34, op.cit.

<sup>77</sup> Interviews #35, General Manager of a Representative Office Industrial Sector. Shanghai, March 2009; #41 Ex Asia Manager. Mining sector, Santiago October 2010; and #17, 25, 40, 46, and 50, op. cit.

<sup>78</sup> Interview #41, op cit.

Finally, strategic considerations seem to be an important reason to avoid taking legal actions in the PRC, enforcing a contract or a law. The potential negative consequences of creating bitterness in these recently formed market relationships also act as a motivation to resolve a commercial dispute using alternative methods. For example, when a high executive of a Chilean export company realized that his brand (logo) has been copied by a Chinese local enterprise, he decided to talk with the company first, instead of starting any judicial action. Furthermore, he was “flattered” by this copyright infringement, since it demonstrated that the brand was getting some value in the PRC<sup>79</sup>. Another company whose contracts were ignored by Chinese partners during the 2008-2009 financial crisis, decided not to take further legal action because “you never know when you are going to need those buyers again”<sup>80</sup>.

As a result, most of the trade disputes are never settled within the Chinese or Chilean judicial system, despite the fact that an average of one weekly complaint has been reported by Chilean authorities<sup>81</sup>. Thus, either the parties accept this risk and keep trying to engage in new business relations (if the expected profits are higher than the potential risks), or they can also decide the contrary, disappointed by the high degree of uncertainty. However, most of the negative experiences seem to be related to one-shot interaction as opposed to long term relations, in which “you can always solve your problems”<sup>82</sup>.

Disappointment with formal resolution mechanisms also apply to the Chinese. This is illustrated by the story of a Chinese wood importer who promised “never to trade again” with an unknown Chilean company, due to a fraud he suffered from an alleged Chilean exporter<sup>83</sup> and the frustration he felt when realizing that no sanctioning mechanisms can be imposed by the Chilean representative offices other than to eliminate this Chilean exporter from the official listing. As expected, neither the consulate, the embassy or the commercial office have the power to enforce the “rules of the game” between the two nations, and they cannot apply sanctioning mechanisms either, which

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<sup>79</sup> Interview #43, op.cit.

<sup>80</sup> Interview #46, op.cit.

<sup>81</sup> Interview #82, op.cit.

<sup>82</sup> Interviews with Chinese and Chilean businessmen #15, #17 op. cit.; and #77 Director of a Chinese trading company. Interviews held on Shanghai, March 2009.

<sup>83</sup> Interview #39. CEO of a Chinese Furniture company currently importing Chilean wood. Shanghai, March 2009.

makes the participants feel unprotected when facing trade difficulties, especially the Chinese, who are accustomed to relating governmental authorities with enforcement power.

A second perspective regarding contracts as a source of trust is given by those respondents who were devoted to highlighting legal instruments as a secure way to avoid potential dangers<sup>84</sup>, “especially for the foreigner who is the one taking the biggest risk”<sup>85</sup>. They, however, constituted a minority within the Chilean sample interviewed. Instead, all of the Chinese respondents highlighted the necessity of having contracts in order to set the general terms of the agreement and to demonstrate willingness to mutual cooperation<sup>86</sup>.

Mostly, the approach towards contracts seems to be different for Chileans and Chinese. The analysis of the data shows that for Chileans, a contract has legitimacy by itself. One respondent stated that “the role of the contract for a westerner is sacred”<sup>87</sup>. Contracts act as an assurance mechanism to avoid risks, which cannot be left entirely to the safe net provided by trusting relationships: “I sleep better because I have signed a contract, not because of the friendship I have developed”<sup>88</sup>. For Chileans, it also acts as a deterrence mechanism especially critical on those occasions when a crisis arises, because it seems natural to first escape from obligations which are not bonded by written documents: “I think is necessary to keep the formalities, because the real problems come in bad moments. Not in good moments. In the bad moments, if I had a debt, I prefer to keep my commitments with those who have a written document signed by me rather than keep my obligation with those that do not”<sup>89</sup>.

For Chinese, on the other hand, the evidence gathered shows that using contracts is a way to show their counterpart trustworthiness and the willingness to follow the rules of the game. As stated by this respondent: “We do not think we have different standards,

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<sup>84</sup> Interviews #19, #35, #40 op cit.

<sup>85</sup> Interview # 35, *ibid*.

<sup>86</sup> Most illustrative interviews were #16, Vice General Manager, retail chain. Shanghai, March 2009, #17, #32; and #39 op.cit.

<sup>87</sup> Interview #35, op.cit.

<sup>88</sup> Interview #43, op.cit.

<sup>89</sup> Interview #40. op.cit. A similar opinion was found on interview #35. However, respondent #46, op.cit., explained that despite having contracts signed, his partners did not comply with their commitments when the 2008 financial crisis started.

everybody follows the rule”<sup>90</sup>. Indeed, every Chinese interviewed for this study, raised the fact that they work with contracts and written documents to show the seriousness and reliability of their businesses. Indeed, as pointed out by previous research, the Chinese have started to look at contracts as binding documents, with the consequence that Chinese corporations have started to use them as a way to regulate economic interactions with clients and suppliers (Clarke, Murrell et al. 2008; Faurea and Fang 2008).

However, the analysis of the data gathered indicates that the approach to the legal system, and therefore the role of trust in it, seems to be radically different for both actors. As stated earlier in the theoretical chapter, the western world has seen trust either as a substitute or a complement of contracts. The primary data obtained, however, point towards the idea that for the Chinese the question that needs to be addressed is whether or not contracts act as a substitute or a complement of trust, placing contracts as the written crystallization of the trust previously reached, and by this validating trust as the moral support of the written document. A Chinese vice General Manager of a retail chain summarizes this finding by expressing that,

As long as we have sincerity, meaning I want to import your product and you want to sell your product to me, and then we are sincere to each other we can have a contract or receipt, like how much I order from you. So we will list down and then we implement the agreement following the contract. If the contract mentions we need to pay 10 percent or 20 percent deposit, these can be negotiated, but we will follow the general rules<sup>91</sup>.

As this trader asserts: “trust needs to be demonstrated, (...) there is not (automatic) trust just because a contract is in existence”<sup>92</sup>, reflecting the idea that what matters is the process carried out before the contract signing, in which both parties had previously agreed. Contracts, then, are the result of a mutual understanding, and its real value rests on the legitimacy conferred by the previous agreement<sup>93</sup>. As stated by Clarke, Murrell et al: “human actors will not reliably disclose true conditions upon request or self-fulfil all promises, a contract as mere promise, unsupported by credible commitments, will not be self-enforcing” (2008, 601).

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<sup>90</sup> Interview # 72, op.cit.

<sup>91</sup> Interview #16, op.cit. This also shows the Chinese tendency to use contracts as general intentions, in which details are always negotiable.

<sup>92</sup> Interview #24. Managing director of a consultant company. Shanghai, March 2009.

<sup>93</sup> Interview # 50, op.cit.

For some respondents, this degree of mutual understanding, and therefore, the levels of trust and protection against malfeasance are closely linked to *guanxi* networks rather than contracts, and therefore are still somehow connected to ascribed trust, as it will be further argued in the last section of this chapter. From this point of view, these findings support previous research that links institutional frameworks and *guanxi* importance: “*guanxi* makes up for the weak legal system in China in two ways. First, it has been used to complement law, clarifying legal ambiguity and providing access to legal mechanisms of contract enforcement and dispute settlement. Second, it has been used to secure business opportunities with high profit potentials, compensating for the high risks of investing in China” (Wang 2000, 534-535). From the Chinese perspective, *guanxi* also constitutes a guarantee: “When honesty is not warranted because the deal is, for instance, made with someone who does not belong to one’s *guanxi*, the written contract serves as a protection” (Faurea and Fang 2008, 202), demonstrating, on the one hand, the network’s value as a legitimate assurance against deviant behaviour, but also the protection conferred by a contract when these networks are either weak or non-existent.

### **6.3.2 Market characteristics.**

This section will discuss how the market may -or not- act as a source of trust for the case study. Although it considers Chinese market complexities, or as labelled by one respondent “the patchwork”<sup>94</sup> that finally constitutes the whole market, it highlights two aspects that are relevant for the case study.

The first one, called here asymmetrical market relations, refers not only to the obvious disparities provided by the size of each market, but also the different levels of demand and interest that each market holds towards the other. The second one points to the organizational structure of a network-based economy that gives Chinese capitalism special foundations for trust-building.

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<sup>94</sup> Interview # 36, *ibid.*

#### 6.3.2.1 Asymmetrical market relations.

As exposed in Chapter Three, rational accounts understand trust as the result of shared mutual interests. Furthermore, following Hardin's approach, trust can only be created in a context of intersecting mutual interests, and therefore the object of trust is clear and determined (2002). There is enough evidence gathered by this investigation that supports Hardin's view point and is illustrated by one academic and Asian consultant, who explains that the basic condition to start business "conversations" between western people and the Chinese is the sharing of mutual economic interests<sup>95</sup>. Thus, shared interests constitute a critical source from which trust-building may begin: "if a Chinese person sees that (the relationship) is worth it –because of the kind of business involved– then he opens up in order to build trust. In this sense, Chinese businessmen start from a very neutral standpoint"<sup>96</sup>.

Interests are also crucial for further interaction:

Relationships are kept insofar as there are common interests and opportunities that can hold them. There must be a common interest. Obviously, when relationships go further, new tools for better negotiation are developed in order to improve mutual conditions. It means: You already tried me and saw you can trust me; I proved I was stable and now we can have a long standing relationship<sup>97</sup>.

As in the case of international trust-building, interest as a source of transnational trust is also related with the balance of power within the relationship. In this case, asymmetrical interests are not only determined by the size of the market, but also rely on the basic market mechanism of supply and demand. The evident example here is the Chinese need for copper and other natural resources such as cellulose for industrial development. In addition, the convenient Chilean prices in the market place China in a dependent position<sup>98</sup>. As stated by this Chinese trader: "Power? It is on the Chilean side, because as I told you it is very difficult to find a substitute.... we have to buy"<sup>99</sup>.

However, Chinese frail market position constitutes an exception. Normally, Chileans hold a higher degree of interest –which places them in a weaker power position–

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<sup>95</sup> Interview #36, *ibid*.

<sup>96</sup> Interview #05. Export Director. Wine Industry. Shanghai March, 2009.

<sup>97</sup> Interview #19, *op cit*.

<sup>98</sup> Interview #19, *op.cit*.

<sup>99</sup> Interview #72, *op.cit*



because China is an attractive market for Chilean products<sup>100</sup>, as well as an immature market, in which profits and growth rates are higher than in developed markets<sup>101</sup>.

For Chilean producers, China is attractive as well, given the low cost of production<sup>102</sup>. Indeed, for some respondents, the only way to compete in a global market with the same Chinese products is to set China as part of the chain of production<sup>103</sup>. On the other hand, the Chilean market does not seem to be as attractive yet for Chinese exporters, which enhances this interest asymmetry. As it is well described by this Chilean trader, “the thing is that China is a market for us, but not the other way around”<sup>104</sup>. Indeed, only having nearly 17 millions inhabitants, the size of the market does not represent an attractive place to sell Chinese products and the idea of Chile being a bridge between Asia and Latin America has encountered several problems in its real application due to communication and transportation difficulties together with conflicts derived from double taxation when exporting from Chile<sup>105</sup>.

Even more, the scarce purchasing capacity of Chilean companies makes Chile weaker in front of its multinational competitors when facing Chinese exporters and producers<sup>106</sup>, who certainly have an awareness of China being the current “*prima donna*”<sup>107</sup> for buyers. In other words, Chileans are actually competing for Chinese attention even when buying.

This is also related to the dimensions that both markets hold, the reality of which does not seem to be completely understood by Chileans. As explained by a couple of

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<sup>100</sup> The classical example given by the respondents is the concept of “one Chinese, one apple”. This means if Chilean are able to sell one apple to one Chinese, then Chile would reach development..

<sup>101</sup> Interview # 43, op.cit.

<sup>102</sup> Interview #14 and #50, op.cit. The minimum monthly wage is around 400 USD in Chile, which is determined by law. Sources: Meneses, Angelica (2010) "Senado dio luz verde a salario mínimo de \$172 mil" (Senate gave support to a minim salary of 172,000], La Nacion.cl 30/06/2010 <http://www.lanacion.cl/senado-dio-luz-verde-a-salario-minimo-de-172-mil/noticias/2010-06-30/205317.html> Accessed 16/12/2010. In China, the minimum wage depends on the province, but fluctuates between 120 USD to 150 USD according to Journalist reports. Source: Chen Yang (2010) "Chinese local govts mull raising minimum wages", Global Times 28/01/2010 <http://business.globaltimes.cn/china-economy/2010-01/501625.html> Accessed 16/12/2010.

<sup>103</sup> Interview# 14, op.cit. This concurs with the OECD suggestion towards Latin American companies: “successful business strategies to adapt to Chinese competition in particularly exposed industrial sectors involve bold and ambitious moves along the value chain and geographical expansion” (Arroba, Avendaño et al. 2008, 12).

<sup>104</sup> Interview #23, op.cit.

<sup>105</sup> Interview # 42, op.cit.

<sup>106</sup> Interviews # 15; 36, 40, 45 op.cit.; and #55, Sales Agent for Asia, retail chain. Santiago, October 2010.

<sup>107</sup> Interview # 47, op.cit.

Chinese businesspersons, the problem can be found within the conceptual distance between both countries, in which “big or small” have different meanings<sup>108</sup>. As illustrated by one Chinese entrepreneur: “You realize the different dimensions when counting the members belonging to a chamber of commerce in each country. While in Chile a chamber of commerce may be legitimate with 30 members; in China you easily find similar organizations with thousands of companies”<sup>109</sup>. Other examples were given by respondents, in which the difference between the volumes they wanted to purchase and the total exporting capacity of the Chinese producer was striking<sup>110</sup>.

As a result, these interest imbalances affect trust-building even when Chileans are buying. The anecdote recounted by this Chilean buyer speaks for itself: “Our position before the crisis was very weak. Last year (2008), I had to beg them [the Chinese] to sell to me; I even had to bring them bottles of wine ... unbelievable, the client giving gifts to suppliers!”<sup>111</sup> In fact, the 2008–2009 financial crisis, in which Chinese exports diminished by 20 percent during the first semester of 2009, demonstrated –for a while– a shift in this asymmetry, a fact that was realized by some Chilean importers<sup>112</sup>. Indeed, during 2009, imports from China decreased by less than the total imported by Chile (Direcon 2010a).

But besides the market’s lack of attractiveness, Chilean products do not seem to be widely recognized yet by Chinese consumers; and this fact downplays the degree of interest at a business to business (B2B) level. For example, a food retailer manager in Shanghai explains that she is currently not able to buy more than one container of

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<sup>108</sup> Interview # 36; #74, and # 78, op.cit.

<sup>109</sup> Interview #78, ibid. Although the respondent exaggerated, this quote still illustrates the gap. As an example, the Shanghai Federation of Industry and Commerce (representing only Shanghai industries) had in 2007 more than 28,000 members. Source: Shanghai Federation of Industry and Commerce, [http://www.sfic.org.cn/intro/e\\_intro\\_1.asp](http://www.sfic.org.cn/intro/e_intro_1.asp). Sofofa, its Chilean counterpart, with a national scope, has 2,800. Source: Sofofa, <http://web.sofofa.cl/corporativa/quienes-somos/percentC2percentBFque-es-sofofa/>. The “*Camara de Comercio e Industria Chileno China* (Chamber of Commerce and Industry Sino Chilean), with quarters in Santiago, has around 60 members, only 3 are Chinese. See: [http://www.camarachilenochina.cl/index1.php?menu=4&submenu\\_sel=72&tipo=1](http://www.camarachilenochina.cl/index1.php?menu=4&submenu_sel=72&tipo=1) These URLs were accessed on 15/12/2010.

<sup>110</sup> Respondent #36, op.cit. exemplifies this with the story of a Chilean company wanting to import rice from China, Nevertheless, the number of monthly tons required was very insignificant for the Chinese market, and thus the deal was never completed. Respondent #70 argued that while his company needed 20,000 units per season, European competitors handled volumes of 300,000 per month in the textile industry. General Manager, Retail Sector Shanghai, March 2009.

<sup>111</sup> Interview # 15, op.cit.

<sup>112</sup> Interviews # 02; #08; and #15, op.cit.

Chilean fruit per month, because there are not enough buyers for these products and otherwise she would start having “trouble selling it”<sup>113</sup>.

A second problem lies in the impossibility to comply with the volume that China requires which affect interest levels. Several stories were told by Chileans regarding Chinese demands that were unable to be sustained by Chilean producers<sup>114</sup>, and that has obviously complicated trust-building from the Chinese point of view.

Thus, the fieldwork data helps to conclude that the scarce attractiveness that the low volume that Chile is able to comply with (either by selling or buying) seems to be one of the sources that are affecting interest level as a source for trust-building. Surprisingly, this does not seem to be totally acknowledged by the Chilean counterpart, as brilliantly exemplified by this Chinese entrepreneur:

There are lots of [Chilean] people complaining that they need to travel one, two, even three years [to China] and no business seems to flourish. But I also know people who have closed a deal immediately. I think there are two factors. One is the need. If your offer complies with the other's needs, then the business comes out very quickly. However, it is important to wonder why some Chilean purchases are not successful. This is ridiculous, because they have the power of money! That would mean, then, that the purchasing capacities are not attractive, but if they keep insisting on buying –and also at a low price–, it will not work out. Yet, this does not mean that you can't trade with China<sup>115</sup>.

A final element is determined by the Chilean market capacities and these apply not only to trade but also to some investment projects, which is related to cultural factors. As it has been said, Chileans have limited volume capability, even when buying. For many cases, this has determined the kind of Chinese counterparts they may reach and their levels of globalization, which ultimately, affects the weight that cultural traditions have on business behaviour. A Chilean importer in the textile arena explained that he cannot reach global suppliers, since the volume and the price that Chilean companies are willing to offer, are not attractive for bigger Chinese companies who are working for well known western brands with significant and regular volumes<sup>116</sup>.

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<sup>113</sup> Interview #16, op.cit.

<sup>114</sup> Interview #36 and #42, op.cit.

<sup>115</sup> Interview #78, op.cit.

<sup>116</sup> Interview #70. op cit. This fact was also noted by respondents #14, #15, and #36, op.cit.

#### 6.3.2.2 Network-based economy.

It has been argued that China is a network-based economy which rests on informal ties based on trust and reciprocity, in contrast with western organizations based on firms (Redding 1996; Wang 1999; Hamilton 2006). Inserted in this organizational structure is the concept of *guanxi*, which has already been described in this dissertation. As accounted previously, there is a current discussion in the academic arena as to whether or not *guanxi* is still predominant in Chinese society. The fieldwork has gathered enough evidence to support the idea of a network economy, despite the influences of globalization and western practices.

Firstly, all the Chilean respondents<sup>117</sup> who were interviewed while living in China knew and make use –in the broader sense of what the concept constitutes– of *guanxi* networks. Furthermore, it was declared that in China “without connections one would be lost”<sup>118</sup>. A successful wine company manager explains that his company had chosen not to trade directly within the Chinese market and instead makes use of a local trader for distribution, precisely because it was the trader who held all the important connections to distribute the product: “Directly reaching the retailer here is nonsense, because we do not know the rules of the game and therefore that could act against us, as many others have negatively experienced it before”<sup>119</sup>. On the contrary those who have built networks have accomplished its business purposes. Indeed, it was because of *guanxi* that one Chilean agro industrial product was able to be distributed in a famous Chinese retail chain, when both the brand and the product were absolutely unknown in the market<sup>120</sup>.

The importance of *guanxi* –unanimously equated to connections for the Chilean respondents– as a source of trust was recognized by all the Chilean respondents either directly or indirectly. Although for those Chileans living in Chile and sporadically trading with Chinese companies the concept of *guanxi* was not very familiar, they still highlighted the importance of developing networks and make trusting friends to improve business performance<sup>121</sup>. Those closer to Chinese market reality, either by a long term

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<sup>117</sup> Except # 44, op.cit.

<sup>118</sup> Interview #45, op.cit.

<sup>119</sup> Interview #05, op.cit.

<sup>120</sup> Interview #07, op.cit.

<sup>121</sup> Interviews #13, Operation Supervisor Logistic industry, Santiago, October 2010; #57, Executive Director Agricultural sector, Santiago, September 2010; # 68, #20; #25, #47, and #49, op.cit.

trade relationship or by having lived in China earlier, not only recognized the concept, but knew exactly its meanings and benefits<sup>122</sup>.

Within the Chinese Diaspora in Chile, *guanxi* networks were also rated as highly valuable source of trust (yet, as in the Confucian Capitalism theory, these ties are mostly given by ascription because of ethnicity) and have allowed the development of a growing Chinese community around a Free Trade Zone in the North of Chile<sup>123</sup>. These *guanxi* networks have indirectly provided an incentive for further investment, and therefore economic growth. One Chinese investor accounts that he did not know anything about Chile, but his first contact was made by a friend with a successful business there<sup>124</sup>. However, *guanxi* networks in this context still follow the logic imposed by domestic networks producing ascribed trust. Furthermore, the benefits of these “bamboo networks” also have their nuances, as explained by a general manager of a chamber of commerce, who stressed the difficulties that Chinese newcomers face when trying to enter the market based only on their previous networks<sup>125</sup>. Besides, as pointed out earlier, the DL 600 allows foreign investors to take their profits out of the country, a tool highly used by Chinese investors<sup>126</sup>.

From a Chilean perspective, though, the existence of closed Chinese networks constitutes a barrier for trust-building –and therefore for business completion– rather than a source, at least initially: “We did not have the relationships needed to do business. Now that we had Chinese partners, they helped us with that. (...) the basis for everything is personal relations (...) here *everything* is *guanxi*, *everything* is networking”<sup>127</sup>. As further illustrated by this wine importer: “At the beginning, it was a very tough experience. I did not have any networks. Even local Pro Chile (Chile commercial office) did not have networks. I placed my first office next to them to make synergies, but after a while I

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<sup>122</sup> Interviews #10 and #59, op.cit.

<sup>123</sup> Interviews #17; #78, and #79, op.cit. Currently, the Chinese community at Zofri counts around 20 percent of the total. In conversations with a Zofri consultant, I was told that the Chinese community there is very closed and “keep thinking about coming back to China”. Interview #83, December 2010, Santiago, Chile.

<sup>124</sup> Interview #17, op.cit.

<sup>125</sup> Interview #30, op.cit.

<sup>126</sup> Interview #17, op.cit. This was also supported by Interview #83, op. cit.

<sup>127</sup> Interview #07. op.cit

realized that we were at the same stage! (...) The first year it was only devoted to networking”<sup>128</sup>.

This high rank financial executive summarizes it: “the importance of networks and relationships is the same globally. But what varies [for the Chinese case] is the amount of effort you have to put on [building the relationship] and it varies significantly by country, not only the country you are going to, but also the country you are from”<sup>129</sup>.

The troubles imposed by a structure in which strong ties prevail, are stressed by the lack of bonding social capital within the Chilean businesspersons, either translated into the weak association capabilities within the Chilean community living in the PRC<sup>130</sup> or into the low associational levels of the Chilean industry, unable to be organized around common industrial objectives. Indeed, Chilean behaviour –in which unwillingness for mutual collaboration between nationals prevails– seems to be the opposite of what has been argued as the key success for the Chinese Diaspora abroad. As stated, the latter is related to Putnam’s conceptualization of bonding social capital (2000), insofar as it refers to the limited cooperation existent in the Chilean industrial sphere (thus, among peers) even though this would solve the problems generated by the Chinese demand, especially for medium and small enterprises that face problems to satisfy Chinese needs. Therefore, it can be established that this lack of bonding social capital is actually hindering economic opportunities<sup>131</sup>. This agrees with the findings made by Rodríguez, who highlights the reluctance of Chilean firms to cooperate in order to compete in giant markets such as China or India (2007). As illustrated by this academic who also acts as a consultant:

There have been many proposals for medium and small companies to start in China jointly, in order to share the initial costs and explore the market, but Chilean executives are afraid to share information (...) You may think that because they belong to the same industry, mutual cooperation would smooth the negotiations with the Chinese, but it does not work that way, they are afraid [of each other] and this is a behaviour that stops cooperation”<sup>132</sup>.

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<sup>128</sup> Interview #08. op cit

<sup>129</sup> Interview # 47, op.cit.

<sup>130</sup> Interview #29. Chief Representative in China, and #52, Chilean FDI’s owner. Shanghai, March 2009.

<sup>131</sup> Interviews #43 and #65, op.cit.

<sup>132</sup> Interview #73, op.cit.

Furthermore, there are accounts that instead of mutual help, Chilean entrepreneurs compete fiercely for Chinese attention in local fairs<sup>133</sup>.

Although there have been efforts to promote cooperation by some formal industrial associations located in Chile, and by the Santiago-based Sino Chilean Chamber of Commerce, awareness of the urgent need to improve associational levels exists<sup>134</sup>. Yet, these efforts have not been translated into an institutionalization of the relevant industries in formal groups. In fact, only the wine industry has been able to develop some joint activities in the PRC and have shown to be successful: the increment between 2004 and 2009 of Chilean wine to China was 90 per cent, despite the weak Chinese per capita consumption<sup>135</sup>.

The fieldwork data then confirm previous studies in which the structure is a source for trust-building since, until someone is part of the network, then he/she cannot be a subject of trust and therefore, although at the end the business can be accomplished, it would not go smoothly and easily<sup>136</sup>.

However, the mere fact of entering the network does not ensure success in trust-building. Neither is the only determinant of the levels, length or quality of trust built, since “the time taken to build a good *xinyong* depends on the quality of *guanxi* developed” (Kiong and Kee 1998, 88). Chapter Three stated that ascribed trust was normally tied to strong *guanxi* since the shared commonalities were based on expressive ties known as the *ganqing* dimension. Nevertheless, it was also stated that *guanxi* can be built around weaker ties and furthermore had an instrumental dimension as well. Although Chileans have experienced the viability of constructing non-kin relationships given the highly transitive nature of *guanxi* (Wang 1999), they have also realized that this relationship is restricted to the economic sphere and therefore understood it as a resource<sup>137</sup>.

*Guanxi* then, seems to be understood by the respondents as an instrumental tool to develop business when a common interest is shared, and by this, conceptualizing it as a

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<sup>133</sup> Interview #08, op.cit.

<sup>134</sup> Interview #74, op.cit.

<sup>135</sup> Tapia, Maria José (2010, August 30) "Crece potencial de China para destino de vino Chileno" [Growing potential for Chilean Wine]. La Tercera pp.24.

<sup>136</sup> Interview #36, op.cit.

<sup>137</sup> Interview # 05; #07; #36; and #50, op.cit.

private good<sup>138</sup>, closer to the original concept of social capital developed by Bourdieu (2005) rather than to the American conceptualization. The understanding of *guanxi* as a private good in the Chinese context (and thus instrumental and weak in the case of non *ganqing* presence) may also explain the perception within the Chilean community that “the Chinese will be your friend until it is convenient for them”<sup>139</sup> and the disappointment of many respondents regarding the excessive pragmatism of the Chinese when the market turns sour<sup>140</sup>.

Ultimately, this instrumental conceptualization of *guanxi* networks conditions the kind of trust produced within the case study. As in the international dimension of trust-building, transnational trust in the case study is instrumental and therefore creates weak ties that may be easily broke whenever interests change. As the kind of *guanxi* networks developed within the case study rely heavily on interpersonal trust –rather than being based on corporate or brand reputation as it will be further argued– this debilitate trust-building in the long term, especially for Chilean companies, which have a high rotation of their executives living in China. Although there are not official statistics<sup>141</sup>, this high rotation is illustrated by the fact that one year after the fieldwork was performed, and to the extent of my knowledge, from the 11 Chilean businessmen interviewed in Shanghai in March 2009, only seven remain. The Chilean authorities interviewed are not currently there either. To further prove this point, a comparison between Chilean firms and the executives of those same firms interviewed is useful. While 36 percent of the firms interviewed have been trading with China for less than five years, 67 percent of the total executives surveyed have been trading with China for the same period.

But this interest-driven conceptualization of *guanxi* acts also as a source of mistrust, because of the development of a negative perception by the counterpart, as expressed by this Chinese importer: “(Chileans are) basically not much different from other people. We are based on the ‘I give you benefit then you give me benefit’ principle.

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<sup>138</sup> Others authors as Dasgupta, has conceptualized trust as a commodity (1988).

<sup>139</sup> Interview #35, #46, and #52, op.cit.

<sup>140</sup> Interview #35 and #46, ibid.

<sup>141</sup> Interview #34, op.cit. It was also commented by private entrepreneurs who complained about losing his Chileans friends. Interviews # 08; and #70, op. cit.



They don't like Chinese businessmen who have more humanity moral (sic). They are more realistic”<sup>142</sup>.

This categorization allows additional insights into understanding how *guanxi* acts as a source of trust for the case study. The findings have been in keeping –at least for the non-commodity market and excluding a few important corporations, in which the organization prevails– with those previous argumentations in which individual trust prevails over organizational trust in the Chinese context discussed in Chapter Three. The case of a former Chilean president of a non-profit trade union who negotiated a project with the Chinese government is symbolic here: he still receives calls from Chinese authorities when there is a particular problem of the aforementioned project, although he does not hold this position anymore<sup>143</sup>. However, as it will be seen in the next section, personalization of business trust does not only rely on the nature of *guanxi*. Weak mutual knowledge and weak corporate branding enhance trust based on interpersonal relations.

### **6.3.3 Levels of familiarity**

As reviewed previously, rational accounts consider four basic elements as main sources for trust-building: past experience, repeated interactions, knowledge and reputation. In other words, trust-building is based on either information acquisition (via direct knowledge or by means of reputation) and/or by experience. As the German sociologist Luhmann points out, “trust is only possible in a familiar world; it needs history as a reliable background. One cannot confer trust without this essential basis and without all previous experiences” (1979, 20), because having a common history helps to reduce complexities, and therefore diminishes risk perception (Luhmann 1979; Gefen 2000). In fact, Chinese traditional culture is characterized by levels of familiarity:

Familiarity is an intimate feeling that develops from frequent and repeated interaction occurring over a long period of time. The character used in the first sentence of Confucius's Analects expresses this process of interaction. The character is *xi*, which means “to practice”. If we put this character together with *xue*, which means “to meet strange things for the first time” we obtain the idea to

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<sup>142</sup> Interview #12. General Manager of a Chinese Sea Food Import Company, Shanghai, March 2009. This interview was made in Chinese language, and these are the words used by both the translator who was there during the interview and also corroborated by a second translation made by a Chinese speaking person who listened to the whole recorded interview.

<sup>143</sup> Interview # 59, op.cit.

learn (*xuexi*). First, we encounter, then we practice; and through this process, the unknown becomes familiar (Fei, Hamilton et al. 1992, 42).

Nevertheless, the Sino Chilean case does not seem to present high levels of familiarity since scarce mutual experience has been shared at a micro level. Despite already having 40 years of diplomatic relations with the PRC, economic exchange has only recently increased, after the FTA was signed and put into effect in 2006<sup>144</sup>. As stated, official data shows that exports to China grew by 98.3 percent during 2007, while Chinese exports towards Chile increased by 39.2 in 2007; and the same figure was obtained in 2008 (Direcon 2010a). In addition, the concentration of the Chilean export basket leaves –at least from the point of view of Chilean exports– the interaction in the hands of few companies. A Chilean trader remembers that only 8 years ago he was able to know the whole Chilean community in Shanghai, which was formed by no more than 100 people<sup>145</sup>.

This lack of familiarity encompasses two dimensions for the analysis. On the one hand, there is the macro point of view that the aggregate data may offer and helps the construction of both Chile and China as collective identities. On the other, there is the micro perspective given by the actors' interaction in which individual ties are built (as explained earlier, in the framework of scarce or none existent *guanxi* at least in the initial stage). Nevertheless, both dimensions –the aggregate and the individual level of personal experience– are interconnected by the trust transfer process that “links trust in individuals and trust in collective entities” (McEvily and Ho 2006, 65)<sup>146</sup>, because trust among persons and agencies is interconnected (Dasgupta 1988) and since interaction is possible, the present analysis will combine both levels.

The degree of reciprocal knowledge, or in other words, the amount of mutual information in existence, seems to be critical to start new relationships in the context provided by the case study. When the Chinese were asked to rate the statement “Before I

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<sup>144</sup> Historically, it can also be said that the relationship is relatively new. Lin Chou (2004) explains that no written records of China exist in Chile before 1840.

<sup>145</sup> Interview #08. op.cit.

<sup>146</sup> For the sake of the analysis, then, the collective entity would be given by the nationality “the Chileans” and “the Chinese”. Individual perspective, will be given by the business executives, that although representing a company, the interaction and experience with the company is mainly through the executive, especially from the Chinese point of view: it is very rare for the Chinese to travel to Chile to have other direct experience of Chilean companies when the volume is not worth it.

start any negotiation, I need to personally know my potential business partner very well”, 100 percent of the answers either agreed or completely agreed with it (60 percent and 40 percent respectively). Furthermore, the same respondents indicated that the first stage of the negotiation was to “gather information indirectly” (39 percent) even before the “asking for prices” alternative (23 percent). Chileans on the other hand, when asked to rate the sentence “Lack of knowledge about the business counterpart increments suspiciousness when doing business in China”, 44 percent agreed, while 56 percent completely agreed<sup>147</sup>.

The analysis of the in depth interviews with Chinese managers also demonstrated that information gathering was a crucial step within the negotiation process and this was made not only via the internet, but via networking (and therefore by the reputation mechanism), government officials, private organizations (as chambers of commerce), and when the business was worth it, travelling directly to Chile<sup>148</sup>. Information gathering, then, constitutes the initial part of a wider knowledge process that, again, consumes time resources. As a Chinese trader points out, “in China trust is the most important thing in business... and how do you build it? You do it through knowledge. Knowledge that only time can give. I have met all my South American partners at least five or six years before engaging in a partnership. Their personalities, their abilities to do things, everything”<sup>149</sup>. The necessity of information gathering, however, was directly proportional to the risk at stake given by the levels of commitment that the business implied. For those respondents whose risk was minimal, the requirements on levels of information, trust and familiarity were not considered critical variables to take into account. Business could be conducted only through the internet<sup>150</sup>.

#### 6.3.3.1 Knowledge and reputation

As shown in the preceding chapter, previous studies have demonstrated that the Chinese have limited information about Latin America and especially Chile. The level of

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<sup>147</sup> As stated earlier, the prompts for both groups were slightly modified in order to have culture awareness.

<sup>148</sup> Interviews #17, #39, # 80 op.cit.

<sup>149</sup> Interview #79, op.cit.

<sup>150</sup> Interview #28. General Manager of Importing Company, Santiago, October 2008.

knowledge is so limited that even in the banking system, Chile does not appear as an alternative within the list of countries offered, as one respondent recalls<sup>151</sup>.

China's lack of information about Chile –both as a country and regarding its specific market conditions– constitutes one critical element for engaging in further cooperation not only because its absence enhances risk perception, but because the Chinese do not know the basics on how to start doing business in this context<sup>152</sup>. According to a Chinese researcher, the uncertainties provided by the lack of information act as a strong deterrent for Chinese entrepreneurs when deciding to engage in commercial trade or make an investment in a country as far and distant as Chile<sup>153</sup>. As another researcher points out: “Why would a Chinese businessman go and trade with a country so far away and unknown as Chile?”<sup>154</sup>

In fact, Chinese academics, private organizations and individual entrepreneurs constantly mentioned the necessity to obtain more information from Chile to diminish the uncertainties triggered by the mutual lack of knowledge at both B2B (business to business) and B2C (business to consumer) levels<sup>155</sup>. This information referred not only to specific products but also regarding Chile as a whole, including cultural and geographical information. For example, important Chilean promotional websites started to have, for the first time, mandarin versions of their webpage only in 2009, such as the official website to attract foreign investment in Chile and the most important Chilean industrial federation.

Again, the importance of personal knowledge as a first step towards creating corporate trust –because for the Chinese “interpersonal and interorganizational trust are interwoven and intertransferable” (Luo 2002, 673)– is emphasized by the respondents: “We want to know their people before we know their company. Our business representatives got together to meet and talk about the fruit relevant issues first. They stand for our companies, we want them to trust us, and we want to trust them as well”<sup>156</sup>, which is a positive mechanism when corporate branding is weak, as in the case study.

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<sup>151</sup> Interview #43; who actually had this experience when trying to open a bank account. op.cit.

<sup>152</sup> Interviews #17, #39, and #81, op.cit.

<sup>153</sup> Interview #81, *ibid*.

<sup>154</sup> Interview #31, op.cit.

<sup>155</sup> Interviews #13, 16, 81, 71, 76, and 77, op.cit.

<sup>156</sup> Interview #32, op. cit.

Yet, branding represents a strong source of trust for China. When asked which elements were critical when doing business in China, in a scale from 1 to 5, “having strong corporate brands” constituted the most selected option, rated 4.8 by the Chinese. Thus, the weak branding of Chilean companies and products seems to enhance the problems derived from the lack of information<sup>157</sup>, since brand recognition and name association are two critical pillars in order to compete (Aaker and Joachimsthaler 2002). In effect, the fieldwork has shown that at a corporate level, awareness of Chilean brands is weak, except in specific cases of the raw material sector in which names of the main companies are recognized by decision makers in Chinese industry<sup>158</sup>. For instance, Chilean companies do not have any presence in the most reputed rankings that measure brand awareness, brand or company reputation, or any other indicator for these matters<sup>159</sup>.

In addition, the already mentioned low levels of social capital deter Chilean industries from promoting themselves jointly within the Chinese market<sup>160</sup>. Moreover, Chilean companies are criticized for their lack of advertisement within the Chinese market<sup>161</sup> and even the Chilean Ambassador has complained about limited resources<sup>162</sup>.

Indeed, promotion done by Chilean authorities in China –which according to the information received is very personalized and rests on an almost one to one basis directed to key decision makers– is the most usual way in which potential Chinese partners become aware of Chilean companies and products<sup>163</sup>. However, and as it was anticipated in the previous chapter, the fact that the Chinese government is only interested in

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<sup>157</sup> For the non commodity sector. The subject was highlighted by respondents #07, #16, and #78, op.cit.

<sup>158</sup> Only three brands were named by Chinese respondents as powerful brands. One of them is constituted by Codelco, the Chilean Copper Corporation, Arauco and CMPC, both giant companies in the cellulose industries.

<sup>159</sup> For instance, Interbrand: <http://www.interbrand.com/en/best-global-brands/best-global-brands-2008/best-global-brands-2010.aspx> and Global Pulse (Reputation Institute, [www.reputationinstitute.com](http://www.reputationinstitute.com)) Accessed 20/12/2010

<sup>160</sup> A Chinese wine trader would not understand why Chilean wine producers would approach him on a one to one basis, since it would be more convenient to come as a group. Interview #77, op.cit.

<sup>161</sup> Interview #12, op.cit. During the research another related issue appeared. A lack of budget from the Chilean government to support campaigns abroad restricted entrepreneurs. Interview #21, op.cit.

<sup>162</sup> Aguirre, Bernardita (2010, October 17). "El presupuesto de la embajada no se condice con la importancia que está teniendo el comercio internacional" [The Embassy Budget do not show the importance of international trade] *El Mercurio*, pp. B6.

<sup>163</sup> Interviews #16, #17, and # 77 op.cit.

promoting Chile as a copper-related country, places an extra burden on the effort made by the Chilean government<sup>164</sup>.

But despite the evidence that rises from this research regarding the scarce amount of information that the Chinese actually have about Chile, this is not totally acknowledged by Chilean executives until they spend some time in China<sup>165</sup>. Furthermore, they are perplexed when they realize the need to start from scratch every time they meet a new Chinese audience, and a long process of mutual knowledge begins, as illustrated by this experience:

First meetings are set with the only purpose of (getting mutual) knowledge. Here, they [the Chinese] do not place a purchase order after the first meeting, as it happens with other countries in Latin America or even Europe; at least with Chile that does not happen. First, we are a far away country, maybe they have heard about it but they do not know what Chile is like, what kind of people Chileans are. Thus, the first barrier we encounter is the complete lack of knowledge of our country<sup>166</sup>.

In fact, the “Country of Origin Effect” (COO) described by the proponents of the nation branding theory, which is supposed to “influence attitude and behaviour towards brands, whether products, services or whole nations” (Dinnie 2008, 101), has almost no effect for the case study, at least from the Chilean point of view, due to the weak Chilean positioning. Because despite Chile’s economic achievements and its status as an emergent economy, there is still a gap between the global perception of Chile and the country’s reality, a fact already acknowledged by specialists<sup>167</sup>.

Figure 6.4 shows the answer to the question<sup>168</sup>: Has the fact of being Chilean helped you when doing business in China? 50 percent of the respondents think that being Chilean does not matter when doing business with China, because the degree of knowledge of the counterpart seems to be very limited, either because they do not know Chileans or because they confuse them with other Latin American countries.

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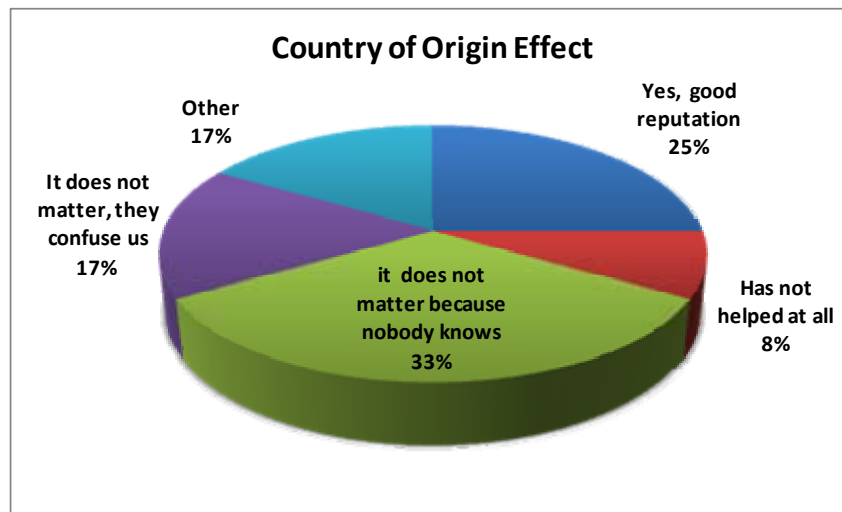
<sup>164</sup> Interview #34, op.cit.

<sup>165</sup> Many respondents highlighted how Chilean self perception does not fit with Chile’s weight (economically and politically) in the international scenario, over stating Chile’s relevance. Interviews # 07, 24, 29 and 34, op.cit.

<sup>166</sup> Interview #07, op.cit. There were many other anecdotes regarding this, for example, interview #47 and #74 op.cit.

<sup>167</sup> See for example, the article: “Chile’s nation brand–mind the gap” at <http://nation-branding.info/2009/12/05/chile-nation-brand-mind-the-gap> Accessed 02/11/2010.

<sup>168</sup> This question was addressed to the Chileans living and trading in China.



**Figure 6.4: Chilean COO in China.**

The results in figure 6.4 show two consequences that levels of knowledge, as a source, bring for trust-building. First, from the 50 percent that thinks being Chilean does not matter, 33 percent express that nationality is irrelevant given the lack of knowledge from the counterpart with the answer “it does not matter because nobody knows us”. This not only implies wasting the positive outcomes of the good Sino Chilean diplomatic relations, but it also entangles the danger of being misled by a wrong in-group categorization, because lack of information “denies the possibilities of reputation inference and in-group categorization, while at the same time certainly enhances more stereotyping” (McKnight, Harrison et al. 2006, 30). Indeed, the 17 percent that answered “we are confused with other Latin American people” places Chile in a category perceived with some poor business attributes such as unpunctuality or a lack of reliability<sup>169</sup>, with the negative consequences that the reputation effect of in-group category may carry for trust-building (Cook, Kramer et al. 2004). This seems to have special costs for Chileans, who, in the reduced circle they are known, are characterized as reliable and serious<sup>170</sup>. In fact, as shown by figure 6.4, 25 percent says that Chileans are perceived as having a good reputation by those who already know them. This is relevant insofar as the process of

<sup>169</sup> Interview #71; and #81, op.cit. .

<sup>170</sup> Interviews #08; 52; 59, and 71, op.cit. It is worth remembering the importance of the *mianzi* concept discussed earlier in this dissertation and how reputation is considered an asset for trust-building (Dasgupta 1988).

trust-building starts from a “presumption of trust of a social category” (Kiong and Kee 1998, 85), which must fit the reality.

The same happens with the Chilean judgment of the Chinese, which homologates Asian and Chinese business behaviour. For example, one respondent was very perplexed that Chinese market structure differed so much from the Japanese in the agricultural sector, while some academics wondered why Chilean wine has been so successful in the South Korean market and this has not been replicated at the same scale in the PRC<sup>171</sup>.

Lack of knowledge also affects Chilean perceptions and derives to in-group categorization as well, mainly regarding the Chilean fear of getting bad quality products or being cheated by the Chinese counterpart<sup>172</sup>. In fact, when Chilean representatives in the PRC were asked about the reasons for having offices in China, an important factor was to monitor quality, especially in technical industries or those facing complex chains of production<sup>173</sup>. However, for those importers from more mature sectors, such as the textile industry, risk perception seems to have diminished given satisfactory previous experiences<sup>174</sup>.

Nevertheless, negative in-group categorization made by Chileans has been resented by the Chinese, who have in the past experienced the prejudices that Chileans had about them when mutual knowledge was inexistent. As stated by this Chinese wine buyer:

At the beginning of our business, some foreign companies were not very polite to us, that's maybe because lack of understanding to our country and people, but now we are ok (...). As you know, a lot of people from other countries still think China is very closed and undeveloped before they visit China. But developing interactions and getting to know each other have made relationships smoother<sup>175</sup>.

These last two examples guide the analysis towards the second source of trust from a rational viewpoint: personal experience and repeated interactions.

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<sup>171</sup> Interviews #11 and #59, op.cit.

<sup>172</sup> Interview #49, op.cit.

<sup>173</sup> Interviews #15; 29 and 35, op.cit.

<sup>174</sup> Interviews #03 General Manager Retail sector. Santiago, October 2010; #18; #28 and #49, op.cit. As stated earlier, this is also highly dependent on the ability to foresee future interactions. As in Axelrod (1984), participants have less incentive to cheat when they are able to foreseen future cooperation.

<sup>175</sup> Interview #80, op.cit.



### 6.3.3.2 Personal experience and repeated interactions

Acquiring information –via knowledge and reputation– does not constitute the only rational source for trust-building. Personal and direct experience, via past interactions, is also crucial to develop familiarity from which trust can be based and yet, scarce direct contact has occurred between the Chilean and Chinese business worlds.

Although some Chinese respondents highlighted the growing influence that the internet is having for business<sup>176</sup>, there was a common consensus amongst Chinese and Chileans that personal experience enhances business possibilities: “If you want to do business with the Chinese, all the entrepreneurs want to talk face to face (sic)”<sup>177</sup>. As appreciated in this quote, this experience requires personal interaction, and therefore calls for constant travels for Chileans<sup>178</sup> and a high amount of informal gatherings<sup>179</sup>. Furthermore, physical absence can be taken as a source of distrust for the Chinese counterpart<sup>180</sup>.

The need for physical presence goes hand in hand with the Chinese necessity for establishing friendship between partners. However, this friendship seems to be bound only to the limits imposed by the business<sup>181</sup>. Even though most of the Chilean businessmen have perceived this as a “cultural trait of the Chinese” supporting previous findings on Chinese business behaviour (Pye 1992; Blackman 1997), from the point of view of rational theories the need for face to face interaction and friendship development seems closer to a mechanism used to get further information about the potential counterpart, especially when analyzing the purposes from which this desire comes<sup>182</sup>. Using the terminology coined by researcher Yang, “banquets” (1994) would be a way to have “more efficiency, because if I want to know you –as a person– and the business is

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<sup>176</sup> Interviews #71 and #77, op. cit.

<sup>177</sup> Interview #77, *ibid.* Although this was the same respondent who stressed the new possibilities that e-commerce would bring, when asked why the Chinese kept insisting on personally meeting the potential counterpart, he answered that face to face interaction was still prevalent in Chinese business behaviour.

<sup>178</sup> Given the asymmetry in interest described earlier in this chapter, this mostly affects Chileans. Interviews #35, 40, 47, and 64, op.cit

<sup>179</sup> Most respondents answered this. However, specific and more extended examples were given by Interviews # 35, *ibid.*, 41, 50, 52 and 78, op.cit.

<sup>180</sup> Interview #43, op.cit.

<sup>181</sup> Interviews #09, #29; #59 op cit. and # 35; #52, *ibid.*

<sup>182</sup> Interviews #78 and #79, op.cit.

important for me, you can get more information in one dinner than in a business meeting”<sup>183</sup>, as it was emphasized by this Chinese businessperson. In effect, as argued earlier, there are constant interactions before the deal is closed, which allow the Chinese to have a common history with the potential counterpart. This also helps to explain the long time that passes between the first gatherings and the final business conclusion. Indeed, many respondents highlighted the fact that suddenly, the Chinese wanted to close the deal, after a long time of several and recurrent meetings in which “nothing seemed to advance”<sup>184</sup>.

Within this process, the strategy proposed by Axelrod (1984), in which cooperation can be reached through steps depending on the reaction of the players, takes relevance. Indeed, the way in which the Chinese constantly tests their counterparts, either before the negotiation is complete or even after it is concluded<sup>185</sup>, closely reminds the Axelrod TIT for TAT strategy. As this businessman points out:

We ought to be patient, because we are constantly under the tests imposed by the Chinese. They test you while they are able to do so; they want to know your influence levels, and whether or not you are the decision maker. They are analyzing you all the time: your position inside the company, your weaknesses, etc, in order to find out where the best business can come from. That is very challenging, and we need to be prepared<sup>186</sup>.

As stated, these tests can be surpassed either by *guanxi* mechanisms, or by repeated interactions, which help to pass from weak trust to affective trust, which by definition is stronger and encompasses a long-term perspective (Luo 2002, 672). As the case of this Chinese trader illustrates: “I like it this way: I give my trust to you and I wait for your response. When I came back to China, I left my company in Chilean hands. Everyone (in China) was worried. My dad asked me whether I was crazy to leave all my work in foreign hands! But I have been very lucky that my partner is responding well”<sup>187</sup>. But as the case study demonstrates, to develop trust based on experience, however, presents complications for the newcomer since no previous bases are set.

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<sup>183</sup> Interview #78, *ibid*.

<sup>184</sup> Interview #07, *op.cit*.

<sup>185</sup> Interviews #08, 32, 34, 36, 41, and 78, *op.cit*.

<sup>186</sup> Interview # 05, *op.cit*.

<sup>187</sup> Interview #79, *op.cit*.

Yet, the need for face to face interactions is not only the by-product of Chinese traditional behaviour or repeated interactions. It is also the result of other variables such as the degree of mutual knowledge (personal and at the aggregate level), levels of branding strength, and kind of *guanxi* constructed, that obliges participants to look for strategies to trust partners when sharing future expectations. In this sense, trust becomes both the result of a common history, but also the guarantee required for a potential future, as illustrated by this Chinese businessman: “We don't feel that it is especially easy trade with Chileans, it is because we have ten years of experience with Chilean companies, and we see the potential of Chilean wine in the Chinese market”<sup>188</sup>.

However, having a common history may also be the basis for distrust when a negative past is associated with a potential partner (Luhmann 1979). The harm however, goes beyond the boundaries posed by the specific interaction, and is also targeted to the category in which this person is inserted, because a group member becomes the object of a “greater reaction to previous experience, particularly when this experience is negative (McEvily and Ho 2006, 60), and because “negative events carry considerably more weight than positive events” (Murnighan, Malhotra et al. 2004, 294). As the story of the cheated Chinese businessman illustrates, who decided not to trade “ever again” with another Chilean company and also spread his negative impressions with the rest of the Chinese business community. Furthermore, he made a comparative assessment with one of the closest Chilean competitors in this particular industry, saying: “this would never have happened with an Australian or with a New Zealander”<sup>189</sup>.

Nevertheless, the analysis of what familiarity implies also include the sharing of mutual codes decoded as signals when a process of learning has occurred (Arrow 1974)<sup>190</sup>. Applied to the case study, and embracing North's definition, the concept can be broadened into codes of behaviour, or the informal rules and conventions that shape human interactions which are embedded in a cultural framework (1990). As it will be discussed in the next section, culture as a source of trust-building plays an important role as well.

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<sup>188</sup> Interview #80, op.cit.

<sup>189</sup> Interview #39, op.cit.

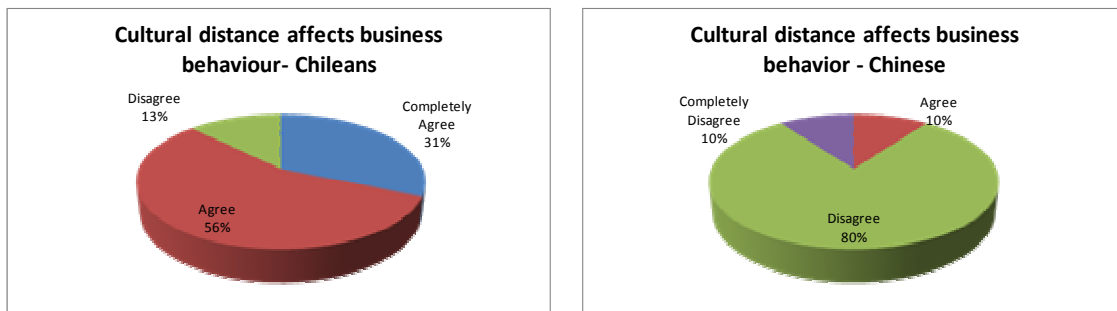
<sup>190</sup> The subject of codes, messages and sign decoding have been extensively studied by communication theory, since the classical theory of Shannon and Weaver (1949). Nevertheless, this is beyond the scope of this research.

### 6.3.4 Culture

As stated in this dissertation, the literature has appointed culture as an important source for trust-building at an interpersonal, as well as a generalized level. Chapter Three discussed how a shared cultural identity, norms and values foster trust. Consequently, when culture is not shared or known –as in transnational economic exchange– cultural distance hinders trust formation affecting economic exchange.

To this respect, the analysis of the primary and secondary data gathered has thrown mixed results depending on whether culture is seen from an emic or an etic perspective<sup>191</sup>. Within the emic perspective the data show that for Chileans culture does play a role on trust-building, although negatively, since the perceived cultural distance – given by the language barriers, norms of behaviour and identity– acts a source of initial mistrust rather than a source of trust, validating previous studies. Chinese, on the other hand, dismiss culture as a determinant for trust-building since they see culture and economy as separate entities<sup>192</sup>.

The next figure shows the difference between the Chinese and the Chileans when asked to rate the statement: Culture matters when doing business with (China/Chile).



**Figure 6.5: Importance of cultural distance for business.**

<sup>191</sup> As stated in the methodology chapter, an emic perspective understands and analyzes culture from within in order to understand cultural behaviors.

<sup>192</sup> The explanation of this has been found within the dynamics of trust-building, in which Chinese cultural norms are imposed when business transactions are carried out. This will be further tackled on the next chapter, when analyzing the process of trust-building and how power balance determines it.

As it can be observed in figure 6.5 the Chileans give more importance to the question of culture and business behaviour: 87% either completely agree or agree with the statement, while for the Chinese respondents only 20% completely agree or agree with the statement and 80% disagree.

From an etic viewpoint, the results contradict the available literature and furthermore, unveil a paradox. Indeed, the analysis made using classical cross cultural categories –including the measuring of social capital levels by the WVS– shows both cultures as having similar cultural patterns and sharing cultural values. Nevertheless, it is precisely these shared cultural characteristics that paradoxically hinder trust-building for Sino-Chilean interplay since its cultural framework enables the conceptualization of trust as a private good and linked it to networks of acquaintances.

The etic perspective will be tackled by using secondary data extracted from classic cross cultural categories and major surveys, as well as new primary data gathered from the fieldwork. The general levels of trust –trustworthiness– will be analyzed as a cultural trait influencing interpersonal trust, as previously done in Yang and Tang's (2010) work.

#### 6.3.4.1. Cultural distance: Identity, language, and cultural norms

As stated in Chapter Three, the literature on trust has constantly highlighted the importance of a shared identity as one of the bases for trust-building, either by familiarity or homogeneity. The case study corroborated this by showing how the absence of a shared identity hinders trust-building. As demonstrated by the fieldwork, differences in language and in cultural codes contributed to increment the perception of cultural distance between the parties, especially when the conceptualization of culture is closer to modernism, as is the case in Chile.

As a whole, Chilean businesspeople do not identify with their Chinese peers. Even more, their cultural understandings of China pose further challenges to the attainment of a shared identity, on which trust can be based. Chileans perceive themselves as belonging to the West and, by default, in conflict with the Asian identity. Even beyond upholding western values and behaviours, this means that Chileans have Latin America, Europe and the United States as their most relevant business partners and

benchmarks. Indeed, every time Chilean businesspersons contrasted Chinese and Chilean economic behaviours, they began their statements with a “We, in the western world...”. This self depiction places economic interaction in opposite spheres and situates both parties in different worldviews, a situation that directly affects economic behaviour. Indeed, Chilean respondents perceived China as a nation that is “completely different from us,” denoting not only that the boundaries between “them and us” are clear, but also that they might be mutually exclusive<sup>193</sup>. Consequently, the Sino-Chilean case comprises the two dimensions that constitute the conceptualization of identity. The first one is the sense of belonging to a particular group, which is absent within the case study. The second one refers to the distinction and differentiation made in relation to the other (Rodrigo 1999); this appears as highly relevant in Sino Chilean interplay, somehow highlighting the “myth of the other” already acknowledged in this dissertation (Said 2002, 369), and therefore acting within the premise of discontinuity and rupture, as some western literature has pointed out (Gupta and Ferguson 1992). This posture has its roots in modernist thought, although not acknowledged or openly recognized by the respondents, and reflects a highly ethnocentric view of Chilean executives.

Indeed, the local Chilean saying “going to China” is metaphorically used to refer to what is far away, or even what is unreachable. The popular slang “this is Chinese” (equivalent to the English expression for “this is Greek”) defines what is beyond comprehension. As pointed out by this Chilean consultant with more than 20 years experience of living and working in the PRC: “The problem of Chilean companies is mostly psychological: they see China as not belonging to our own world, but being instead distant and unknown. Chileans are used to trading with those considered peers in business. Asia in general and China in particular, are not part of this framework yet”<sup>194</sup>.

Within this “us and them” perception, some Chileans believe that Chinese culturally-driven business behaviour is impossible to comprehend and so, culture becomes an issue that needs to be managed in order to assure positive economic results. To this group, the Chinese worldview appears as unreachable and difficult to grasp, even after years of interaction, as this executive explains: “There is a cultural gap that we need

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<sup>193</sup> Most illustrative examples are found in the interviews #29, 49, 55, and 70, op.cit.

<sup>194</sup> Interview #24, op. cit.

to fill. The truth is that we always try to create theories about it [to justify/understand some Chinese culturally-driven business behaviours]. To be honest, I have to recognize that every time I meet my Chilean and western friends, we spend a significant amount of time speaking about Chinese, why they behave the way they do, etc... (...) For me, the 100 percent of Chinese are totally different to us!”<sup>195</sup>.

The west vs. east cultural conceptualization finds another expression in the executives that try to find Confucian-driven explanations to the differences between the west and the east. Although this posture is different –it is based on an effort to understand Chinese economic behavior– it still reinforces the myth of the other and a static vision of culture, given that it is based mostly in a superficial –and sometimes stereotyped– understanding of Chinese culture. The following conversation extract with a high-rank executive from the commodity industry illustrates this point: “The eastern way of thinking is different. The context is what matters. It is also circular like the *ying* and *yang*. One thinks, ‘we have been through this so many times, they are trying to fool me’ but it is not that way, it is just the way they think, a different way from us. We westerners are used to thinking in a linear way and so we think the Chinese have a hidden agenda [based on their business behaviour] but it is not that way”<sup>196</sup>. This posture understands culture as pervading the whole spectrum of Chinese behaviour without strategic considerations and thus, it is rather limited.

Finally, there are those executives that have acknowledged Chinese global insertion but believe Chinese use cultural mechanisms to take advantage of the foreign businesspeople. As demonstrated by this Chilean businessman:

So, I believe in many cases the Chinese use culture to [take advantage] within the negotiation process. The fact that we need to respect their culture, meaning we have to go and have lunch here and there without talking about business, and then go for dinner, and always eat and eat [without having real business interaction to their eyes]. If you follow this, you could be eternally in dinners and lunches and never talk about business!”<sup>197</sup>.

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<sup>195</sup> Interview # 70, op.cit.

<sup>196</sup> Interview #64, op.cit.

<sup>197</sup> Interview #40, op.cit.

In all of these postures, the Chinese are somehow labelled as one entity, one category/collectivity that behaves similarly and, therefore, individual behaviours and distinctions are not recognized.

This in-group categorization constitutes another element that hinders the construction of a cultural common identity to be used as a source of trust. This Chilean tendency to label their business partners based on their nationality, puzzled, and even shocked the Chinese, who do not like to be categorized as a “different other” in a condescending manner,

There is something that I definitely do not like from the Chileans. They always say look at the Peruvians, the Argentineans, the Chinese... In China we do not say, 'those Chileans', we talk about our offices in Santiago. I know this is not conscious, but yet many people may get offended. Chile always puts a label, as if Chileans belong to another group and (as categorizing others) as different from them. And that is not good at all<sup>198</sup>.

Furthermore, the Chinese resent the ethnocentric and modernist conceptualization of western partners when they feel somehow superior to their Chinese peers, with the obvious consequences for trust-building, as explained by this Chinese wine broker: “I had a customer about 10 years ago, I don't want to mention his name now, he felt himself was so much better than us, but after we invited him to China once, he changed. Now, we have no problem, we are fine”<sup>199</sup>.

Nonetheless, the last part of this quote also reveals an important conceptualization that the Chinese hold regarding the interrelation between culture and economics. For them, culture and economy only clash when there is lack of knowledge of the counterpart's culture. As reviewed in section 6.3.3.1, cultural distance can be overcome with mutual knowledge of the other party. From the Chinese perspective then, different cultures would not be an absolute barrier for the creation of a common identity, since it can be constructed based on the intersection of mutual business interests. Pragmatism guides their approach to culture, adopting an undersocialized view of the economic relationship. Some Chinese respondents went even further, considering that business and

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<sup>198</sup> Interview #79, op.cit.

<sup>199</sup> Interview#80, op.cit.



culture are separate spheres. The most illustrative observation regarding this subject was given by this Chinese trader, when asked to describe the importance that culture has had when building business relationships with Chileans:

Forget all you have mentioned, forget the entire culture problem. Drinking and eating can fix all! There are no barriers for Chile, eating and having food is good [meaning all can be fixed in a meal] ... if Chilean wine or food are delicious, people will like you! This is basic. Culture is not very important. Food makes the world peaceful!! (Jokingly)<sup>200</sup>

For them, business can be sustained when holding similar business values – regardless of nationality or culture– and when agreeing on the general negotiation of terms<sup>201</sup>. Furthermore, those Chinese business people with more knowledge about Chilean culture have found similar behaviours, for instance in the importance of networks and acquaintances for business development<sup>202</sup>.

### **Cultural norms and language**

Informal cultural norms have also been considered critical sources for trust-building according to the literature reviewed. Conversely, an absence of shared cultural norms could be acting as a source of mistrust, as the case study demonstrates. Indeed, the respondents have highlighted that unfamiliar “cultural codes” need to be decoded in order to successfully conclude economic interactions, process that is considered difficult and slow. This is especially critical at the beginning of the relationship and brings more complications to the Chilean respondents, due to the diversity of Chinese cultural codes that they need to apprehend, which ranges from exclusively etiquette matters to a wide variety of cultural economic behaviours as previous western literature has already noted (Pye 1992; Blackman 1997; Graham and Lam 2003). Indeed, the critical role that decoding the Chinese cultural code has played in determining the success of negotiations and economic transactions, and therefore the impact that the long process of learning has had for economic gains was constantly verbalized by the Chileans. For example, a wine

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<sup>200</sup> Interview #77, op.cit

<sup>201</sup> Interview #16, op.cit.

<sup>202</sup> Interview #78, op.cit.

trader explained that he spent one year “decoding local codes” before engaging in any business transaction. This lack of knowledge kept him away of concluding successful business deals due to misunderstandings and weaknesses in negotiation skills precisely derived from not having the tools to understand Chinese behaviour<sup>203</sup>.

Indeed, the lack of a common framework is especially significant in the business sphere, in which participants live in a “taken for granted” world (Hamilton 2006, 10). Another consideration may come from the semiotics and language fields. As stated by Rodriguez, Saieh et al.,

When the persons involved in a negotiation come from the same culture, the process is easier because any gesture, action or omission have the same meaning for all. But, if the negotiators belong to different cultural contexts, there is a high probability of misunderstandings (...) the normative world, or what is considered “right” for some, may not be considered equally by others (2006, 298-299)<sup>204</sup>.

Several examples and anecdotes were given during the fieldwork in which ambiguity predominated within the negotiation of terms (that even applied to the characteristics of the product), and was the cause of multiple business failures and disappointments, that finally determined the erosion of trust between the partners. Indeed, the interviews have confirmed that when “global relationships call for more complex co-operation between more different partners, the ability to generate trust in the absence of shared meaning becomes both more important and more problematic” (Hardy, Phillips et al. 1998, 81).

Maybe the most striking story was accounted by one respondent who explained how Chilean importers used local slang to refer to the characteristics of a particular product, for example when referring to a particular blue colour called locally “*azul paquete de vela*”, which literally translated means “blue candle packaging”, because in older times candles used to come in a packaging in a certain shade of blue. Although in the local industry this is acknowledged and understood, this example demonstrates the drawbacks of not sharing the meanings provided by a mutual cultural context<sup>205</sup>.

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<sup>203</sup> Interview #08, op. cit.

<sup>204</sup> Personal translation from Spanish.

<sup>205</sup> Interview #30, op.cit.

This impossibility of living in a “taken for granted” world also refers to the institutional setting, either constituted by the formal or informal rules. One of the main problems that affect both Chilean FDI and offices in China is the wrong assumption that the system works as if mirroring the Chilean institutional setting, especially in the daily process of running an office with local human resources: “In here everything is different. In Chile, when recruiting, you can get an overall idea only with knowing from which school the applicant comes, or even with his/her way of talking. Here, there are no frameworks, nothing at all. Maybe the only objective information is the college in which the applicant studied that is known by its reputation”<sup>206</sup>. The same is felt by some Chinese respondents when they have tried to hire nationals to do a job and have felt totally lost because when trying to manage the Chilean cultural code, they found there is no framework with which to judge what is right and what is wrong<sup>207</sup>.

This is enhanced by the difficulties stemming from the unfamiliarity provoked by the language and the extra burden forced by the mediation of a third language, that is not felt as mastered by any of the parties. Indeed, except three respondents that have greater knowledge of the Chinese language, the rest of the Chileans interviewed did not feel capable of carrying out business negotiations using mandarin<sup>208</sup>. This also constitutes a limitation on trust-building, because as acknowledged by one of the Chilean mandarin speaking respondents, “when you are able to surpass the barrier imposed by the language and master it, having a common language becomes a great advantage, because you turn out to be more common and familiar, and this is congruent with the Chinese concept of family and friendship”<sup>209</sup>.

For the Chinese, nonetheless, the lack of a common language is not seen as an obstacle, since they feel they can develop business either directly using a third language (English) or with the help of a trusted translator, who is normally Chinese. As stated in this chapter, many Chinese think that as long as there is honesty and friendship in the relationship, and that quality and price match the initial expectations and market requirements, the rest can be solved.

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<sup>206</sup> Interview #29, op.cit.

<sup>207</sup> Interview #78, op.cit.

<sup>208</sup> Respondents #05, #24 and #35 mastered Chinese, op.cit.

<sup>209</sup> Interview #35, ibid.

As a summary, from an emic perspective, Chilean respondents, as opposed to the Chinese, place a much higher weight in culture as a source of trust/mistrust within the framework of the business relationship. As it will be further explored in the next chapter, this is partially answered by the power asymmetry that pervades the relationship also at a transnational level.

#### 6.3.4.2 Cultural similarity: collectivism, context and general levels of trust

Cross cultural analyses apply etic categories to compare different cultural behaviours using the same parameters. For the case study, the analysis of some of the most traditional cross cultural categories shows that Chile and China share cultural similarities that theoretically should foster trust, given that the current academic consensus is that cultural similarities enable trust-building. Nevertheless, this case demonstrates the nuances of this theoretical premise. Classical Hofstede's categories are used here as analytical tools to support this point. For example, Chile and China rank very similarly in the Power Distance Index and very low in Individualism Index –China 20, and Chile 23– and thus both appear as collectivist societies, a cultural trait which has been one of the main variables in cross cultural studies of economic behaviour. In fact, the following account of Chilean behaviour in the Individualism Index made by Hofstede may well apply to the description of collectivism in Confucian societies:

(Low individualism) is manifest in a close long-term commitment to the member 'group', be that a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group<sup>210</sup>.

Analyzing this category, it has to be concluded that collectivist societies –as China and Chile are labelled– encourage strong relationships (networks). From the point of view of trust theories, culture then would be fostering private and in-group trust. Within social capital terminology this implies the creation of bonding –rather than bridging– social capital, which does not encourage transnational trust formation. As stated in the literature review, the informal norm of *pituto* shares similar characteristics with the institution of *guanxi*, such as norms of reciprocity and favours. Nevertheless, the

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<sup>210</sup> [http://www.geert-hofstede.com/hofstede\\_chile.shtml](http://www.geert-hofstede.com/hofstede_chile.shtml) Accessed 03/08/2010

respondents do not perceive any of these similarities, even if they constitute a clear cross cultural category that explains similar phenomena; this can be accounted for by the lack of identity discussed in the previous section<sup>211</sup>.

Another classical etic category is given by the high context/low context dichotomy. It has been asserted that both Asian and Latin American cultures are inserted in high context transactions, in which reduced information is transmitted within the message because a high amount of information is placed on the context (Hall 1976; Hall and Hall 1990). Yet, as stated in the previous section, there is no shared context between both parties. Nevertheless, their culturally-driven “high context” characteristic (in which no extra information is given because the context is presupposed) drives them to act as if a mutual context existed, triggering the misunderstandings as the one observed in the “*azul paquete the vela*” story.

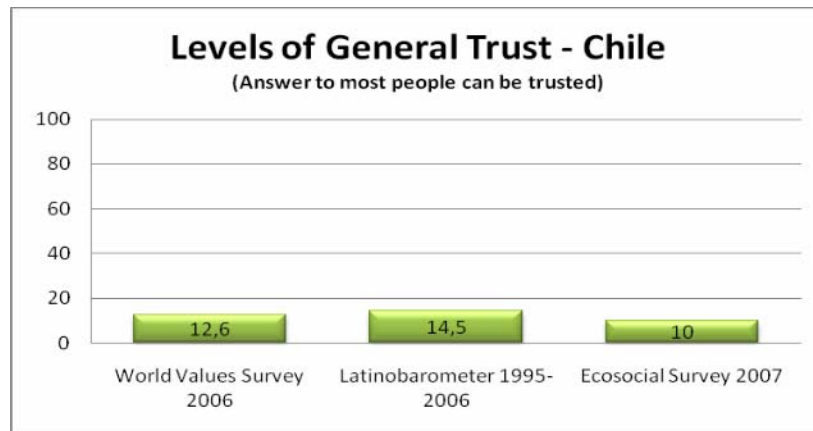
Another example that supports the analysis from an etic perspective is the comparison of the general levels of social capital, which further supports the argumentation of why, for the case study, cultural similarity acts as a source of mistrust rather than trust, since China and Chile hold a similar, culturally-driven conceptualization of trust as a private good.

Chile has traditionally been considered a country with poor levels of generalized trust, even through the lens of foreigners and travellers (Godoy 1976). Historical explanations, such as the strong paternalism derived from the 19<sup>th</sup> century “*hacienda model*” in which relations between the patron and their subordinated emulating family ties gave prevalence to particularistic trust (Rodríguez 2007), have been proposed. It has also been enhanced by the pervasiveness of Catholicism, and a family-driven spirit (Valenzuela and Cousiño 2000). Yet, globalization and economic development have not been able to shift this tendency, and moreover, they have encouraged it, because of the arrival of “new unfamiliar immigrants and a growing sensation of insecurity” (Rodríguez and Majluf 2002, 3). Furthermore, modernization has brought all manner of uncertainties to developing countries such as Chile, enhancing a kind of individualism that, contrary to the one present in the developed world, has progressively increased trust towards reduced circles (Brunner in Arnold, Thumala et al. 2006, 13).

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<sup>211</sup> With the sole exception of respondent #78, op.cit.

Figure 6.6 summarizes the results of recent surveys that asked the question traditionally used in quantitative studies to determine general levels of trust and social capital: Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?:



**Figure 6.6: Levels of General Trust – Chile.**

**Source: World Values Survey (WVS), Latinobarometro, Ecosocial Survey.**

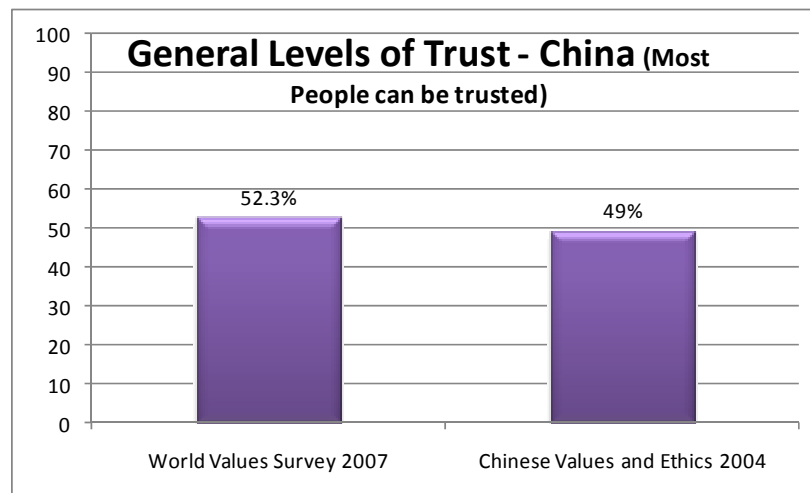
As it can be seen, figure 6.6 shows consistency in the results, placing the degree of generalized trust/social capital between 10 percent and 15 percent in all three surveys carried out in Chile, despite their methodological differences. Latinobarometro, which appears to be the highest with a 14.5 percent, is constituted by an average of 11 years<sup>212</sup>. The lowest is given by the most recent available data in 2007 by the Ecosocial Survey.

For the Chilean case, the low level of general trust is supported by the detailed data obtained from other quantitative studies. For example, the United Nations Development Program (UNDP) survey indicates that levels of low trust prevail in different “civic” aspects of Chilean society, whether they are in the field of interpersonal friendship (30 percent of men and 41 percent of women considered themselves as having no friends), or related to general matters: 69 percent consider that information given to them by people is not trustable/or is not trustable enough (in Rodríguez and Majluf 2002,

<sup>212</sup> There is a similar survey made by the UNDP, United Nations Development Program, in which the degree of trust is higher for 2006, with a 29.4 percent of positive answers. However, It was decided not to use it in a comparative way because the wording of the question was different (*In general, would you say that: you can trust people/ you cannot trust people*), which may explain the different results.

5-6). In addition, and following Putnam's measurement of social capital, Chile appears as having "particularly low" associational levels because "active membership is the most complicated tie with strangers" (Valenzuela and Cousiño 2000, 331). In fact, the WVS data strikingly shows the Chilean's minimal membership in all the categories present in the survey<sup>213</sup>.

The Chinese case, however, offers a completely different scenario according to the raw data found in similar surveys that measure general levels of trust. In fact, the PRC appears as having one of the highest scores within the Asia Region (Tang 2004), when asked the question related to general levels of trust:



**Figure 6.7: Levels of General Trust – China.**  
**Source: World Values Survey 2007 and Tang 2004**

As seen in figure 6.7, the 2007 WVS indicates that 52.3 percent of the Chinese respondents chose "most people can be trusted", while the 2004 Chinese Values and Ethics Survey (*Zhongguo Gongmin Sixiang Daode Guannian Zhuangkuang Diaocha*) carried out by the Research Centre for Contemporary China at Peking University, showed

<sup>213</sup> In the set of questions under the category: "Active/Inactive membership of voluntary organizations" performed in Chile, with the question "Could you tell me whether you are a member, an active member, an inactive member or not a member of XX type of organization? The percentage for the answer *Not a member* of religious organization was 56.3 percent (although 73.4 percent considered religion very or rather important); for sports 70.8 percent; labour unions 83 percent; political parties: 86 percent, environmental organizations 86.5 percent; professional organizations: 84.6 percent; charitable/humanitarian organizations: 78.4 percent and any other 98.2 percent Source: World Values Survey, (WVS), <http://www.worldvaluessurvey.org>

that 49 percent responded affirmatively to the question of generalized trust (Tang 2004, 8). In the Index elaborated by the ASEP/JDS data bank, with countries ranking more than 100 correspond to countries where a majority of people trust others, China ranks 120.9, figure closer to Nordic nations<sup>214</sup>. These findings may seem puzzling when confronted with authors such as Fukuyama who proclaim the drawbacks of Chinese low levels of social capital and general trustworthiness (Fukuyama 1995) or those who consider the “lack of trust common and serious in Today's China” (Ke and Zhang 2003, 2).

Nevertheless, they may be explained by the fact that “in the context of groups with which people have social connections, people's trust judgments become more strongly linked to identity concerns, and less strongly linked to resource exchange” (Tyler 2001, 289). Therefore, what has been measured by the WVS and similar surveys may be more related to trust as a result of social identity rather than the general trustworthiness understood by western social capital accounts –which precisely understand trust regardless of the object in which trust is placed, as reviewed earlier in this dissertation– and the declining levels of trust in modern China would be closely linked to the growing marketization as the results of Ke and Zhang (2003) suggest.

Indeed, this insight can be supported by breaking down the data into groups, and thus embracing the idea of “rather than treating interpersonal trust as a unity, we should also distinguish between different types of interpersonal trust” (Yang and Tang 2010, 427). Consequently, trust to family appears extremely high, with 88 percent of the preferences, while trust towards strangers and foreigners rank less than 2 percent each, challenging the data on general trustworthiness<sup>215</sup>.

From the point of view of Putnam's measurement of social capital, Chinese society also presents low levels of associational membership in all categories, although

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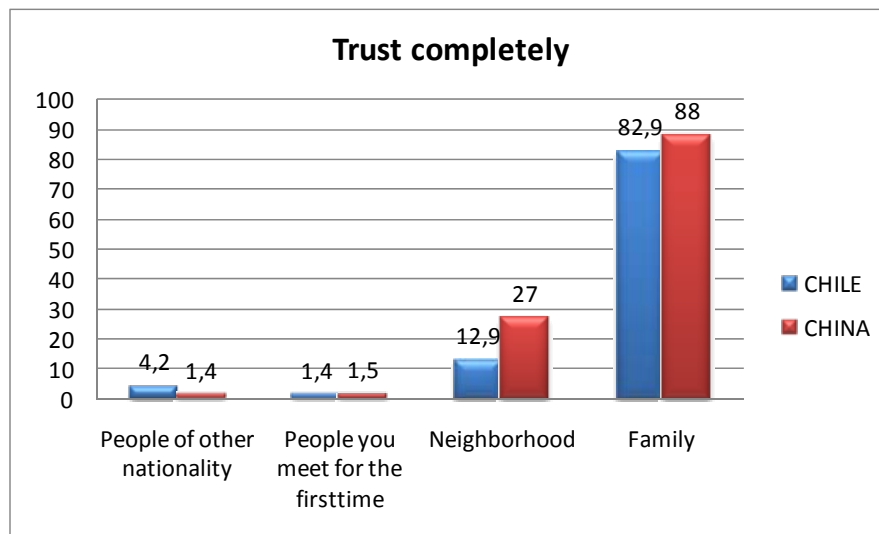
<sup>214</sup> Finland, for example has an index of 117.5 and Sweden 134.5 Source: Diez Medrano, Jaime. "Interpersonal trust" ASEP/JDS Data Bank <http://www.jdsurvey.net/jds/jdsurveyMaps.jsp?Idioma=I&SeccionTexto=0404&NOID=104> Accessed 22/01/2011. The rank was based on the data provided by the Asian Barometer 2005-2008.

<sup>215</sup> Source: WVS, op.cit.



here the WVS data has to be considered more cautiously given the limitations to associational rights in the PRC<sup>216</sup>.

As a result, the data breakdown for both cases calls for a more analytical and comparative perspective, which in turns allows us to look at the cultural similarities found in the case study. The following figure compares the two data sets for the question of the WVS with the prompt: I'd like to ask you how much you trust people from various groups. Could you tell me for each whether you trust people from this group completely, somewhat, not very much or not at all? The results shown in figure 6.8 account for answers within the category of “trust completely”:



**Figure 6.8: Levels of trust by group – Chile and China.**

**Source: Value Survey Databank 2006-2007.**

As it has been argued, these results show a prevalence of particularistic and private trust, mostly by means of ascription in both cases. As stated, in the case of *guanxi* networks, personal relationships in Chilean society are strong and dense, as well as based on the emulation of familistic ties. Yet, trust placed within the family, which is the most

<sup>216</sup> In the set of questions under the category: “Active/Inactive membership of voluntary organizations” with the question “Could you tell me whether you are a member, an active member, an inactive member or not a member of XX type of organization? The percentage in China, for the answer *Not a member* of religious organization was 90.3 percent; for sports 83.3 percent; labour unions 87.2 percent; political party: 87.2 percent, environmental organizations 89.9 percent; professional organizations: 93.2 percent; charitable /humanitarian organizations: 92.1 percent and any other 98.4 percent Source: WVS, <http://www.worldvaluessurvey.org>

trusted object for both cases, is considered parochial trust by the literature, and does not contribute to social capital formation (Yang and Tang 2010). Regarding the low trust towards strangers and foreigners for the Chinese case, this has already been discussed within the extensive literature on the historical distrust for the foreign (Pye 1986; Kiong and Kee 1998, 83; Callahan 2004) and in here, within the *guanxi* analysis already developed. In the case of Chile, in addition to the low levels of trust towards strangers, the null or scarce identification with other developing countries must be considered, as reported by the *Bicentenario* Survey (Alessandri 2010), which again highlights difficulties in trust-building across networks.

Using social capital terminology, it can be said that, given the low levels of generalized trust and the prevalence of particularistic ties for both societies, the possibilities of bridging social capital in this scenario –when bonding social capital or in-group trust prevails– are low, at least for the first stage when a common identity has not been created.

## **6.4 Conclusions.**

This chapter looked into the sources of trust at a transnational level, in order to establish the structure that frames the Sino-Chilean processes of trust-building. In doing so, it aimed to partially answer subsidiary research question number two. The discussion was mostly based on the primary data gathered during the research fieldwork and supported by the secondary data available.

While the findings corroborate the importance of trust for enhancing economic relations, and therefore partially answer the main hypothesis of this dissertation –trust as an enabler of economic relations– they also stress the high costs that trust-building has for the case study, unveiling the paradox of trust.

This paradox is explained by the analysis of the four main sources that support trust-building at a transnational level: institutional setting (domestic institutional strength, FTA, and contracts), market characteristics (interest asymmetry and network-based structure), levels of familiarity (knowledge, reputation, past experience and repeated interactions) and cultural variables (perception of cultural distance and cross-cultural similarity).

Within the institutional setting, the first source of trust-building that this investigation addressed was the domestic environment surrounding the case study, concluding that both the Chinese and Chilean institutional frameworks revealed strengths and weaknesses. Then it went on to analyze the trust outcomes derived from the FTA were analyzed. Contrary to what conventional institutionalism would have predicted, the FTA has not directly set the rules of the game, but instead it became an indirect source of trust-building. Indeed, due to an absence of coercive power and enforcement, the FTA has not been able to foster institutional trust and therefore has failed in reducing uncertainty and risk perception. Nevertheless, it has encouraged trust indirectly by means of promotion and spreading knowledge. By so doing, it has contributed to the development of trust via cognition rather than deterrence. Finally, the examination of the relationship between trust and contracts helped to further demonstrate the ongoing prevalence of informal mechanisms in the Chinese business culture, and the problems that this situation generates when confronted with a legalist culture such as Chile. Although it is undeniable that globalization has made every day contracts more valuable for the Chinese, the interpretation of the data has also demonstrated that rather than indicating an internalization of the conceptual meaning contracts have in the west, the Chinese use them as a way of showing reliability, and furthermore, to portray China as a follower of rules. In other words, while in Chile, trust acts as a substitute or complement of contracts, as the viewpoint found in western literature confirms, in China contracts are the result of previously reached trust.

Regarding market characteristics, the second source of trust-building, the rational perspective gave relevance to the profound market asymmetry between both countries. The structural gaps and the huge imbalances of interests act as a source of mistrust rather than trust. Additionally, the network-based structure of the Chinese economy (in which strong bonding social capital prevails) places extra pressure on Chilean objectives, which are further debilitated by Chileans' poor associational levels and the highly instrumental nature of Sino-Chilean ties.

The third source considered was familiarity, a concept based on levels of knowledge and reputation, as well as mutual experience and interaction. It was demonstrated, though, that limited levels of familiarity exist between the parties (either at

an aggregate level given by the country of origin, or on the particular level of business), which again weakens trust-building.

Finally, when analyzing cultural variables as sources of trust-building, this chapter also looked into the economic costs of trust. The perceived cultural distance, especially as expressed by Chileans, hinders trust, as other studies have already demonstrated. Nevertheless, this study encountered a curious finding that somehow challenges current theoretical approaches: cultural similarities do not act as a source of trust-building as previous studies suggest. Furthermore, they deter trust building. In effect, both countries share cultural characteristics that enable private and familiar trust, while also exhibiting a common historical distrust towards strangers, which ultimately deters trust-building in transnational economic interaction.

The next chapter will deal with the agency of trust-building developed at a transnational level, in order to delve into the structure discussed across Chapter Six.

## **Chapter 7: Trust-building strategies in Sino-Chilean transnational exchange**

**Henry Kissinger:** Many visitors have come to this beautiful, and to us, mysterious land...

**Zhou Enlai (interrupting):** You will not find it mysterious. When you have become familiar with it, it will not be as mysterious as before (quoted in Solomon 1999, 15)

**“At the end, you realize it is not that surprising. Human beings have a lot in common, and of course there are differences but there is something that can be shared and the distances are not as deep [as we thought they may be]. It is in this common sphere in which you can strengthen the capabilities of doing things together, reach agreements and make decisions” (Former Chilean High Rank Governmental Official, Interview #62)**

### **7.1 Introduction.**

This chapter aims to examine the Sino-Chilean trust-building process in order to fully answer subsidiary research question number two, which was partially discussed in the previous chapter when examined the sources of trust. In so doing, this chapter undertakes the agency of trust building processes at a transnational level.

Based on the data gathered in the fieldwork interviews, Chapter Seven will examine three major strategies for trust-building –sinicization, formalization, and over personalization– as the strategies created by businessmen to cope with the structure shaped by the sources of (mis) trust examined in the previous chapter. These strategies do not exclude each other, but rather they are complementary.

Sinicization (the identity strategy) looks at the mechanisms established by Chilean businessmen in order to grab, comprehend and assimilate the Chinese cultural framework, so as to pursue the construction, although bounded, of a common identity to enhance further relations. This section will also discuss the closed connection between trust and power, since the process of sinicization refers to the necessary cultural adaptation that needs to be carried out the by weakest party in order to build trust in an asymmetrical relation.

The second one, called here formalization of informal institutions, (the network strategy) explains the formalization of *guanxi* relations –per se, an informal institution– by means of using the support of formal organizations, public and private, in order to create an “institutionalized *guanxi*”, with the purpose of facilitating the trust building process based on a trustable –and legitimate– formal intermediary.

Finally, the chapter will dig into the widely observed process labelled here as the over personalization (the familiarity strategy) of trust building, in which a process of extreme particularization of economic relations –by emulating traditional practices within the global market– helps to overcome mutual branding and knowledge gaps. Here, the process is supported by the cultural similarities exposed in the previous chapter.

## **7.2 Adaptive informal institutions.**

In order to frame the analysis, this section will borrow the concept of “adaptive informal institutions”, developed by Kellee S. Tsai (2007) to describe those “regularized patterns of interactions that emerge in reaction to constraints and opportunities in the formal institutional environment” (ibid 2007, 212). Although Tsai specifically mentions the constraints imposed by formal institutions, this chapter will also include the informal institutional setting as part of the structure that shapes a trust building, following the model explained in Chapter Six, in which formal (i.e. The FTA and contracts) as well as informal institutions (*guanxi* networks) act as sources for trust at a transnational level.

This conceptualization is useful to understand the strategies developed by transnational actors for trust building insofar they refer to informal practices “derived from shorter-term considerations of convenience, efficiency, and possibility” (Tsai 2007, 212), as the ones found in the case study. As Tsai points out, the conceptualization of adaptive informal institutions must be detached from North’s (1990) proposition of informal institutions, insofar as they do not include “cultural constraints” or “rules of the game” as they were defined; although they do emerge spontaneously (Williamson 2009). In other words, they do not constitute “long standing practices”, or imply the changing of core values; neither are social norms “sustained by people’s desire to be socially accepted” (Raiser 1997, 5).

Indeed, it will be argued, Sino Chilean interaction is not creating informal standardized practices based on the adoption of norms coming from the counterpart, as the institutionalism school proposes, nor it is internalizing values and beliefs. This latter distinction has further relevance since it affects the discussion carried out in Chapter Two in which modernization theories advocated the adoption of certain values as a condition for economic growth. This conceptualization was valid in both the classical Weberian posture found in the *Spirit of Capitalism* as well as in the new Weberian version advocated by the Confucian Capitalism theories. Instead, this chapter will demonstrate that rather than internalizing the counterpart values, businessmen and corporations are strategically looking for coping strategies in order to adapt themselves to the new environment provided by their economic interplay, but nevertheless, bounded to the precise circumstances from which they stem.

These strategies, despite their short term nature and specificity, aim to modify the structure exposed in the previous chapter and by doing this, help businesspersons to pursue their ultimate goals of trust-building to accomplish business objectives. In other words, and again using the sociological conceptualization of agency on social change, this chapter will delve into the strategy developed by the agents to deal with the current sources (structure) that are framing trust-building processes, because being an agent “means to be capable of exerting some degree of control over the social relations in which one is enmeshed, which in turn implies the ability to transform those social relations to some degree” (Sewell 1992, 20). The difference, however, rests on the fact that the strategies developed by the agents –Chileans as well as Chinese– do not pursue social change within the “society” as a supra structure, but nevertheless intend to modify the specific framework in order to build trusting relations.

### **7.3 Sinicization**

The concept of sinicization makes reference to the process in which Chilean businessmen and corporations have modified their cultural business practices by adopting Chinese behaviours, mostly due to the power imbalances already described in this dissertation.

The ultimate goal of this strategy is to construct broader identities, because as previous research has shown, identification-based trust is produced when “your partners have adopted your preferences” (Sheppard and Tuchinsky 1996, 143). This kind of trust allows participants to diminish the identity breach, and consequently, strengthens trust-building via moving towards the construction of expressive ties<sup>1</sup>.

This sinicization, nevertheless, is bound to the specific requirements of the situation and must be limited to the context of economic exchange rather than understanding it as a comprehensive acquisition of permanent values and behaviours from their Chinese counterpart. In this sense, the process of sinicization itself becomes a Chinese traditional behaviour, which has been described as “situation specific” in a network society (Fei, Hamilton et al. 1992, 24), and furthermore, founded on rational roots: “the adaptability of entrepreneurs within a Confucian culture can be related to Confucianism’s world outlook and characteristic dimension of rationalization. Confucianism evaluates the world through affirmation and uses adaptation to the world in the pursuit of the highest good” (Chen 1989, 63). Despite the transitory and instrumental nature of the sinicization process, the conceptualization is intertwined with power, as the process of sinicization stems from the asymmetrical nature of trust building in which Chinese are imposing their normative behaviours as well as the pace and contents of the trust-building process.

This power asymmetry and the need to assimilate cultural patterns is well understood by those Chileans who have been successful in their trust building processes, as was well explained by this Chilean investor, known for his long standing success in China:

I believe the first fundamental thing –which seems to be very hard for Chileans– is starting to have a Chinese worldview. You cannot have previous judgments [about them or their behaviour], but instead, you should put yourself in their feet (...) you have to understand the way they think, and [at the same time] follow some non written rules, especially in inner China. For example, smoking a cigarette together

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<sup>1</sup> Moreover, the research has shown that the process of sinicization has brought benefits beyond identity construction. For example, mastering the language (one element that certainly facilitates the sinicization process) provides not only familiarity and improves negotiation capabilities, but also gives access to documentation written in Chinese, which consequently allows a better understanding –and control– of the formal institutional setting .



makes people closer. I do not smoke, but over there, I do... in order to overcome personal barriers<sup>2</sup>.

The fact that business processes are guided by the “Chinese way” is recognized by most of the Chinese respondents. By doing this, they acknowledge their cultural predominance in business-making. As this Chinese investor simply says: “In here, we do do businesses in the Chinese way and they [Chileans] have accepted it”<sup>3</sup>. This quote is especially significant since this is a Chinese investor who runs businesses in Chile. Instead of apprehending Chilean cultural norms, he is setting his own cultural business behaviour.

As stated, the prevalence of the Chinese way stems from the imbalanced nature of the relationship, in which cultural norms of the most powerful player prevail. One Chilean trader states the mandatory nature of the sinicization process: “To do the best businesses, you have to use the “Chinese way”<sup>4</sup>, highlighting not only the practical outcomes of this adaptation strategy, but the further implications of Chinese soft power spreading via economic exchange<sup>5</sup>.

Indeed, sinicization is only possible in an uneven situation, in which the weakest party needs to adapt in order to build mutual trust. This was brutally exposed by another Chilean investor: “The strategy [towards China] needs to be followed by the understanding that we are a *pulga* [it translates to flea, which means something insignificant] in this process. It is you who needs to see the other’s needs, it is you who

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<sup>2</sup> Interview #50, op.cit. Many other stories were told during the fieldwork about socializing in “a Chinese way”. Some interesting ones were told by respondents #35, #41 and #52, who experienced specific situations in which they felt obliged to follow some “non written rules” in order to get empathy with their current or prospect business partners. Nevertheless, this section aims to focus on the sinicization processes occurring on the negotiation itself rather than in the social aspects of informal gatherings. It may be argued, though, that these situations are actually immersed within the Chinese way of doing business, since most of the negotiations are carried out after formal meetings are concluded and within a non business environment (Interviews #35, ibid and #45, op.cit.).

<sup>3</sup> Interview #17, op.cit. Although the definition of the Chinese way of doing business varied among the respondents, the concept included the whole range of Chinese business behaviour, as it will be further explained.

<sup>4</sup> Interview#24, op.cit.

<sup>5</sup> As it was argued in Chapter Five, Chinese soft power has spread in Chile due to an economic necessity rather than a cultural curiosity and not as an orchestrated policy from the political institutional sphere. Rather, it is an outcome of the micro sphere of businessmen.

need to foreseen where is the other one going to and, doing this, you can become part of the process”<sup>6</sup>.

Furthermore, power imbalance explains two related phenomena. On the one hand, it helps to understand why culture did not seem to have a role in economic relations for the Chinese, as opposed to the Chilean perception, in which culture was considered fundamental; certainly, the effort of cultural adaptation comes from the one who holds the greatest interest, but also the weakest position. For the strongest party, this is almost invisible since there is no effort made of cultural adaptation to the other’s norms. Secondly, it supports the claim made by this dissertation that a relational analysis involving China changes when looked at through the eyes of a small economy. Indeed, western literature has foreseen a growing path of westernization of Chinese practices<sup>7</sup> and yet this research proposes the sinicization of economic behaviour. Although syncretism would probably remain as the long term outcome in this matter, this research aimed to highlight the unique perspective provided by an economy that can hardly impose its own practices and standards.

Therefore, both adaptation to the particular environment and rational behaviour are driving the process. Identity then, becomes a rational mechanism of trust building: “Of course, you have to make a change of paradigm. You have to understand why they think the way they do, why... all this process, so you can align yourself with their wishes<sup>8</sup>. So, it can be said that cultural adaptation becomes a rational –and interest driven– mechanism to pursue economic objectives, and is thus specific and bounded.

Sinicization is also necessary given the market characteristics of the Chinese counterpart to which Chileans have access. As the evidence indicates, most of the Chilean companies trying to conquer the Chinese market are not able to engage at the level of volume of business which is of interest to the Chinese<sup>9</sup>; therefore, they normally need to negotiate with smaller, less global Chinese companies, mostly located in inner China, meaning the strategy of sinicization becomes more relevant. As stated by one Chilean importer: “To get the cheapest [meaning the cheapest Chinese products] you

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<sup>6</sup> Interview #50, op. cit

<sup>7</sup> See for example Guthrie 1999.

<sup>8</sup> Interview #50, op cit.

<sup>9</sup> The analysis, again, is intentionally leaving aside those big Chilean corporations in the commodity area, which, as explained earlier dominate the current trade structure within Chilean exports.

have to go to more ‘Chinese’ companies”<sup>10</sup>, and therefore, more cultural awareness is needed, since the categorization of ‘being a Chinese company made by the respondents implies family businesses, with scarce global business experience.

According to the fieldwork observations, the sinicization process can be structured in three stages. The first has been called the ‘bewildering’ stage. This encompassed the whole range of first impressions that Chilean have when they discover China, as the following description of this former Chilean trader illustrates: “The first experience when you arrive to China without being very clear on what are you going to do, is just terrifying. You see lots of Chinese... and they are lots!!. When you see The Bund [he refers to the high modern buildings in a business district of Shanghai] you really think you are in other planet, you see all that modernity...everything is so unreal... you might even see a flying car!”<sup>11</sup>

In the business negotiation field, this stage encompasses the set of reactions developed by Chileans after their first encounters with the potential Chinese partners, in which deeply internalized norms of behaviour clash with the perceived Chinese behaviour. The most puzzling ones are attached to the negotiation process in which several Chinese features surprise Chilean negotiators. The scope of these behaviours is wide: from matters related to etiquette such as holding the business card in a certain manner or the fact that Chinese negotiation teams are substantially larger than the Chilean ones, to deeper issues such as respecting *mianzi* codes and even correctly identifying the hierarchy within Chinese delegations.

This is concurrent with previous literature, which has systematically highlighted the particular characteristics of Chinese business behaviour (Pye 1992; Alfred D. Wilhelm 1994; Blackman 1997; Solomon 1999; Ambler and Witzel 2000; Chen 2001; Chen 2004). In here, these culturally-driven business behavioural norms are only mentioned in order to conceptualize them within the first stage of the sinicization process, and thus no further explanation will be offered given the extensive literature existent around the subject.

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<sup>10</sup> Interview# 15, op.cit.

<sup>11</sup> Interview #02, op.cit.

The duration, as well as the depth of this stage, differed for each of the respondents since they are directly related to the personal adaptation capabilities shown by the foreign executive –for those living or spending long periods in China– and the support received from their corporate headquarters<sup>12</sup>. One interviewee, for example, recognized that after three years of living and working in Shanghai, he still could not understand –much less accept– some behavioural norms of his local employees, despite acknowledging that many conflicts had derived from this lack of empathy<sup>13</sup>.

The second stage includes the learning process in which knowledge is understood as the means not only for gaining culture awareness, but also as the way to comprehend and grasp the Chinese normative framework, because with further knowledge comes deeper understanding that allows us “to see the meanings behind certain business behaviours”<sup>14</sup>, and thus look beyond the superficial facts. As this respondent explains: “if you go for a product that you know costs “X”, but then your Chinese counterpart puts a price ten times higher than its real value, maybe it does not mean ‘I want to negotiate’, but it may well indicate that there is something else behind, such as the problem you had with his friend a while ago<sup>15</sup>”, implying that knowledge should include the understanding of Chinese cultural codes as a previous step for adaptation. Another respondent expressed: “I believe that is not only about knowledge, it is also about understanding what is behind the cultural codes. There are people only worried about how to hand out a business card, but they do not understand why. And the thing is Chinese are very fond of their own history and culture. They care about it and you have to understand that. You don’t need to agree with them, but instead you have to understand them”<sup>16</sup>.

Indeed, overcoming cultural barriers is seen by Chileans as a process of mutual knowledge and learning, inasmuch as the Chinese do<sup>17</sup>, because “the method of Confucian rationalization is cognition (Chen 1989, 63), which must entangle a willingness to incorporate them. This involves, additionally, leaving behind the

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<sup>12</sup> Corporate support, however, seems to be scarce, since in all the cases, except for company #05, all the executives were sent alone to open offices in China, without a supporting team.

<sup>13</sup> Interview #70, op.cit.

<sup>14</sup> Ibid.

<sup>15</sup> Interview #40, op.cit.

<sup>16</sup> Interview #02, op.cit.

<sup>17</sup> All Chinese businessmen, academics and even governmental sources interviewed for this study highlighted mutual knowledge as a process.

ethnocentrism that pervades some Chileans executives, in which the imposition of one's own standards seems to be the initial behaviour<sup>18</sup>. On the other hand, it calls for a proper preparation of the businessperson because according to Chilean respondents, modifying Chinese behaviour seems a harder task than the process of personal adaptation. As this businessman explains: "You need to be prepared, because modifying them is far more complicated, it is much easier that we understand their codes and work in their timings"<sup>19</sup>. Furthermore, the Chilean respondents are aware they are in foreign territory and thus a process of cultural adaptation needs to be carried out since they hold the major interest: "China belongs to Chinese, and thus we cannot impose our standards"<sup>20</sup>.

Nonetheless, reaching this stage of acknowledgement –and therefore, acting according to it as part of the sinicization process– can further complicate the relationship between Chilean headquarters and their representative offices in China, because they challenge Chilean practices that despite working domestically, do not have the same effectiveness overseas. The clearest example seems to be within the retail industry, which in Chile has an important power over the suppliers (and thus more advantages when negotiating) that dilutes in the Chinese context, a fact that is difficult to assess within the headquarters, since they are not aware that their power relationship with suppliers changes in the Chinese context. The following quote comes from a Chilean businessperson who is currently living in China and shows how this person has dealt with the pressures from his company headquarters. It demonstrates not only the understanding of the power position in which her company is embedded, but also shows how this person has incorporated some Chinese business discourse in her own (in this case, the known discourse of long term relationship building), and therefore her process of sinicization: "We can't be naïve. You can't put pressure on something that is physically impossible. That is so Chilean! You can't do miracles. A plant will not grow in few days, no matter how much watering you do! But you can't explain that [to the headquarters]. Now, I do not give any more explanations [to them] because they just don't understand"<sup>21</sup>. Indeed,

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<sup>18</sup> Interviews #07 and #34, op. cit.

<sup>19</sup> Interview #05 and #08, op.cit. Furthermore, the latter said "China belongs to Chinese" and thus we cannot impose our standards.

<sup>20</sup> Interview #08 op.cit.

<sup>21</sup> Interviews #29, op cit. Similar complaints towards headquarters from interviews #15, and #70, op cit. were collected.

as extensively detailed previously, the slower pace of Chinese negotiations generates friction with the headquarters as well<sup>22</sup>.

The third step, embracement, entails the final incorporation of Chinese practices and behaviours. A common saying of those Chileans who had adapted to the Chinese style were “I am behaving as Chinese, thinking as Chinese, and I am even becoming Chinese”<sup>23</sup>. Although the latter has an important rhetorical component, this last step entails an endorsement of the Chinese norms and behaviours observed in three major levels. The first one makes reference to the acquisition of Chinese customs and etiquette, which constitutes the basic level of embracement and involves almost all the Chilean negotiators. The second level involves the incorporation of general Chinese negotiation style practices as illustrated by this young representative:

“At the beginning, we wanted our ‘business way’ to prevail in the meetings. We came with a prepared speech. The Chinese listened to us but we did not feel any feedback. We wanted to advance too fast [...] but we realized that did not work. Putting pressure on someone is just not well received by the Chinese; they wanted to know us better before, build trust before [...]. After a while, we realized that we were showing all our cards at the very beginning and the Chinese are not like that. We were “take it or leave it” and that did not work”<sup>24</sup>

The third dimension, adaptation of values, represents the final stage of sinicization, and involves the acquisition of deeper Chinese business behaviours. The most noted one was the concept of reciprocity, which, as already explained, is one of the constitutive elements within *guanxi* relationships. Reciprocity, nevertheless, was tackled in two opposite ways. While some respondents emphasized it as a moral obligation with the Chinese partner and thus, a usual practice rooted in years of mutual knowledge<sup>25</sup>, others stressed the instrumental benefits of reciprocity within the concept of *guanxi*. The latter was exemplified by a Chilean respondent who explained that reciprocity had clear economic advantages, for instance, when offering to do the Chinese partner a favour in order to preserve his reputation in front of a superior giving “discrete support by making

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<sup>22</sup> Interview #07.

<sup>23</sup> Interviews #07, #15, *ibid*; and #50, *op.cit*.

<sup>24</sup> Interview #07, *ibid*. Other similar stories were accounted by the respondents.

<sup>25</sup> For example, respondent #55, *op.cit*, which throughout the entire interview mentioned several episodes in which mutual reciprocity took place in order to safeguard each other's *mianzi*.

a better offering without asking anything in return [so that] in the future, we can have reciprocity and we can remind him when we offered our help. He realizes he has a pending *guanxi* needed to be repaid”<sup>26</sup>. This focus, nevertheless, lacks the affecting components that are culturally rooted in the Chinese concept of reciprocity and again reinforces the idea of an instrumentally-driven process of trust building.

### **Drawbacks of the sinicization process**

As discovered in the fieldwork, the identity strategy also has its own nuances and drawbacks. The over-socialized conception of Chileans when making business deals with the Chinese may endanger their negotiation capabilities when trying to build a common identity through the method of sinicization, since they can fall into a position in which all the requirements made by the Chinese party need to be fulfilled. This was shown by some Chileans being afraid that the Chinese may get offended if their rules were not followed, and therefore adaptation may turn into further submission to the counterpart’s power<sup>27</sup>. This possibility was raised by some interviewees, who after several years negotiating with the Chinese, had learnt that the sinicization strategy must also have clear limits and boundaries<sup>28</sup>.

## **7.4 Formalization**

The formalization of informal institutions, describes the ways the Chinese (mostly) and Chileans (to some extent) have found in order to engage in mutual networks that allows trust building as in the concept of bridging social capital already discussed in this dissertation. Here the strategy is based on the inclusion of assurance mechanisms provided by formal organizations within *guanxi* construction; making members of these formal organizations perform as intermediaries between participants. Ultimately, this strategy intends to create a sort of institutional trust, and therefore “tied to formal social structures (...) or [based] on intermediary mechanisms” (Zucker 1986, 53), in an effort to

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<sup>26</sup> Interview #05, op.cit.

<sup>27</sup> This was also described earlier by Pye (1992).

<sup>28</sup> Interviews #08, #34, and #57, op.cit.

consciously build legitimate networks, having in mind that “social networks are not a natural given and must be constructed through investment strategies oriented to the institutionalization of group relations, usable as a reliable source of other benefits” (Portes 1998, 3). Due to its nature, it has been called the network strategy. The formalization of an informal process strategy stems out from the inability of the formal institutions to enforce the normative, as fully explained on the preceding chapter.

As was stated earlier, networks in the Chinese economy constitute informal institutions, with “no explicit boundaries” (Fei, Hamilton et al. 1992, 22) but are nevertheless normatively-driven. Contrarily, the West has been able to create a social structure in which associational memberships have clear boundaries and therefore social order is constituted by organizations, whether they are “firms in the economy, bureaucracies in the government, the universities in the educational system and the clubs in local society” (ibid, 20). Due to these opposite conceptions, the present strategy has been developed as a middle way solution that may reconcile these structural sources.

The findings demonstrate that business actors in Sino-Chilean economic exchange have found two major means to combine both approaches in order to build trust. As explained, this has allowed actors to move towards the incorporation of some sort of institutional trust –through creating ties with an established organization– that augments reliability in business transactions and diminishes potential risks. Indeed, this mechanism follows the logic that institutional actors help to reduce uncertainty and favours social capital formation (Arrighetti, Seravalli et al. 2008).

The first perspective is based on the establishment of ties with local authorities beyond mere protocol, and therefore converting the role of a governmental authority into a reliable “trader” or intermediary within an economic relationship. For example, a former trader explains the great difference that made for him in relying on his embassy’s formal authorities in order to pursue success in business relations: “[before he succeeded] At that time, I used to think how could I possibly get it so wrong? And well, you then understand how their mentality works, you began to understand why you failed... and three years later I came back [to China] but this time supported by the [Chilean] embassy. It is not that the embassy is going to deal for you, but the embassy is the bridge”<sup>29</sup>.

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<sup>29</sup> Interview #59, op cit.



By doing so, they place institutional trust into the local authority, stemmed from his /her position but also rooted on his/her personal reliability<sup>30</sup>. Therefore, there is a blending between the person and the role that is represented, and this combination acts as an insurance of the trustworthiness of the unknown supported party. For instance, the role played by the Chilean Ambassador has been important in providing ties between the local community and the Chilean executives. A former diplomat explained that authorities are seen as a source of corporate reliability, either when they introduce Chilean businessmen to potential Chinese partners via a personal presentation or because the office (meaning the Embassy or the local branch of Pro Chile) is holding an event in which those corporations are formally or informally present. Sometimes, only having a Chilean authority performing a protocolary activity within the corporation gives more reliability and legitimacy in the eyes of the Chinese, because it demonstrates the ability of getting “the support of your own authorities”<sup>31</sup>. For example, having official logotypes in promotional products augments levels of trust in potential partners. A seafood exporter explained that only placing the name of Pro Chile in his promotional advertising kit helped him to gain the trust of potential buyers in their first business meeting: “For them [Chinese] it is extremely important. They trust institutions, they trust governments. If this [shows a brochure] appeared as supported by the government, wow... then it generates trust”<sup>32</sup>.

In addition, major and more secure commitments can be obtained because they were made in front of a governmental official who acted as a witness<sup>33</sup>. A Chilean businessman illustrated this, explaining that being in meetings with embassy personnel “opened the door” to Chinese business circles and furthermore, the results of being accompanied by a Chilean official were noted “immediately”<sup>34</sup>.

Finally, for Chileans, being related to their own governmental authorities may act as a potential guarantee should the Chinese party want to defect, and therefore acts as assurance in case something negative happens, although as stated in the previous chapter

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<sup>30</sup> *ibid.*

<sup>31</sup> Interview #47, *op cit.*

<sup>32</sup> Interview #21, *op.cit.*

<sup>33</sup> Interview #54, *op. cit.*

<sup>34</sup> Interview #25, *op.cit.*

this is only possible via political mechanisms due to the inability of formal institutional rules to punish deviant behaviour<sup>35</sup>.

In fact, this is the idea behind the “Shanghai Business Centre” in which Chilean businessmen and corporations can not only make use, for a minimal fee, of the ProChile physical facilities, but they can also present themselves as being supported by the Chilean government which has the double objective of offering reliability while at the same time acting as an insurance mechanism.

On the other hand, Chinese respondents rely on the ties provided by either the embassy or the foreign commercial office as one of the safest ways to look for partnerships, or at least as trusting sources of information<sup>36</sup>, as recounted by this Chinese businessman:

Normally we seek advice from Chilean government, specifically the consulate in Shanghai. For example, if we want to import wine we will look for information of the possible [Chilean] companies, know which company is good, the market, how much is the production, etc. If they [Chilean consulate] know the information, they will suggest to us [something]. If they do not know, they will tell us how to get the information. Once, Chilean embassy brought us to the south of Chile (wineries) to let us know how the wine is produced, and we could observe, so, through this way we got informed about the factory. We also visited business exhibitions. The embassy did a very good job because we gathered information of the company<sup>37</sup>

This is enhanced and highly supported by the good diplomatic relations between both countries and the already described narrative of the first. Indeed, this kind of trust appears stronger in the Chinese when compared with Chileans, probably rooted in the Chinese perception that both economic and political spheres are somehow blended, as explained before.

This approach is supported by the survey conducted between Chinese and Chilean businessmen in Shanghai and Beijing. When the Chinese were asked to rate the statement, ‘Having the support of the Chilean Government facilitates business making with Chileans’, 80 per cent chose the “agree” and “completely agree” alternatives. When Chileans were confronted to a similar statement, ‘Having the support of the Chilean

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<sup>35</sup> Interview #28, #43 and #50 op.cit.

<sup>36</sup> Interview #39, and #80, op.cit.

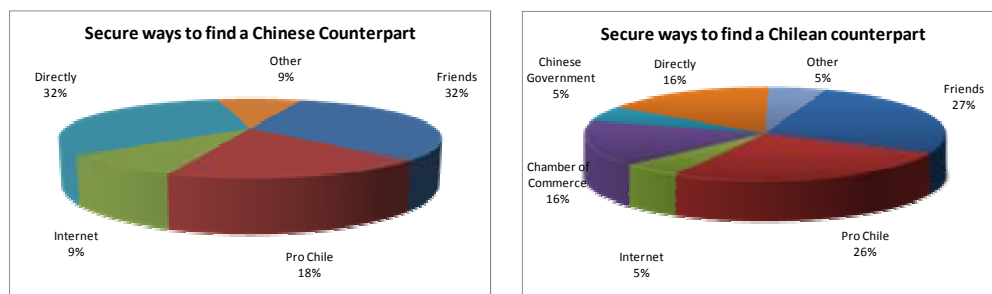
<sup>37</sup> Interview #17, op.cit.

Government facilitates business making in China’, 50 per cent of the respondents agreed and completely agreed, while a significant amount of the answers –44 per cent– disagreed.

Nevertheless, governmental authorities are not the only source when analyzing the formalization of informal structures. Private organizations such as industrial federations or chambers of commerce also offer a third party guarantee. Moreover, they contribute to social capital formation since they have “especially high incentives for collective action” (Arrighetti, Seravalli et al. 2008, 528), because they represent their own business interests.

Yet, as was noted by the general manager of a chamber of commerce, the Chinese do not always want the advice, formal consulting and legal support that this kind of organization is willing to offer. Instead, they ask for informal connections in as much as the ones described by Confucian Capitalism theories<sup>38</sup>.

As with the case of governmental support, and despite both sides agreeing on the importance of relying on public and private organizations as sources of trust, it seems that it is the Chinese parties which are more trusting of these kinds of mechanisms. Figure 7.1 shows the answer to the question: “If you want to find a Chilean/Chinese counterpart (partner, seller, or buyer), which is the most secure way to do it?”<sup>39</sup>



**Figure 7.1: Secure ways to find a potential partner.**

Although the alternatives provided were the same for both groups (Friend, ProChile, Internet, Chambers of Commerce or other private institutions, Chinese

<sup>38</sup> Interview #30, op. cit.

<sup>39</sup> Asked to the sample in Shanghai and Beijing; more than one answer was allowed.

Government, Directly and others), figure 7.1 presents the Chinese as having more willingness to institutionalize personal relationships through organizations, at least in the prospective stage of looking for a commercial partner. In fact, when summing up the formal alternatives: Chinese Government (5 per cent of the total answers), ProChile –as a representative of the Chilean government (26 per cent of the total answers)– and Chambers of Commerce (16 per cent of the total answers), the results show that 47 per cent of Chinese answers mentioned an established organization as the safest way to find a potential business partner. Still, as it has been argued, an important percentage of the responses (27 per cent) referred to networking as a way to reach the same objective.

Chileans, in turn, only named one organization, ProChile, as a safe way to find potential partnerships with 18 per cent of the preferences. As an alternative, they valued more direct contact (32 per cent affirms they prefer doing business directly and 9 per cent using the Internet). Moreover, none of the Chilean respondents chose the alternative of the Chinese Government or Chamber of Commerce as reliable sources, although this lack of trust towards these particular institutions may be explained by specific circumstances. While the former indicates the distance Chileans feel towards Chinese cadres and authorities, the second one can be understood as an outcome of the scarce bonding social capital within the Chilean community in the PRC<sup>40</sup>. Moreover, these figures reaffirm the necessity to improve Chilean associational levels by creating legitimate and powerful industrial organizations in China, able to foster –and offer– institutional trust.

### **Drawbacks of the formalization strategy**

This investigation has found four main drawbacks for this strategy. First, when institutional trust is confused with the person who holds the formal position, it brings back the informal conceptualization of networks in the Chinese economy, and moreover, it can suffer the same problems when the authority changes hands. As explained in the

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<sup>40</sup> In fact, most of the respondents related the alternative “Chamber of Commerce and other private institutions” to the specific Sino Chilean Chamber of Commerce from Shanghai, which apparently has had disappointing results for the Chilean community. Indeed, when trying to contact its Chair for this dissertation no answer was given. In fact, when Chileans were specifically asked to rate the importance of the local Chamber of Commerce for business making, 75 per cent disagreed with the statement: Having the support of the local Chamber of Commerce facilitates business making in China.

previous chapter, due to changes in Chilean government coalition, none of the former authorities are in China anymore. Secondly, as stated by a high Chilean rank official, the Chilean state, as a policy, does not want to get involved in particular projects since the reputation of the government may be damaged if the project is not successful<sup>41</sup>. Indeed, the story recounted in Chapter Six, of the cheated Chinese importer, supports this Chilean apprehension, because his discontent was also extended towards the Chilean government.

A third complication deriving from this strategy is the disappointment felt when realizing that organizations (as thus, its members) do not behave equally across countries, and therefore different rules of the game prevail. As they behave in an unexpected manner, this may provoke a dissonance and even suspicion, which in turn may hinder trust-building<sup>42</sup>.

Finally, role confusion may bring further troubles since expectations are not fulfilled as wanted. As a researcher I experienced this very closely, when a Chinese businessman spent the whole interview considering me an intermediary of the Chilean government, and therefore suggesting to me what my government should do in specific cases (because the interview was arranged by a ProChile secretary and therefore mutual acquaintance with local authorities was presupposed). He also wanted me to act as a promoter of his business amongst Chilean entrepreneurs, actively highlighting the advantages of his company and constantly repeating which kind of services he would be willing to offer for free<sup>43</sup>.

## **7.5 Over personalization.**

The over personalization of economic relations –the familiarity strategy– is related to the significant weight that personal relations have in Sino Chilean economic engagement. The over personalization will be explored here through the Chinese conceptualization of friendship. As commented, friendship –manifested in the necessity of repeated interactions in order to get a better degree of acquaintanceship– was seen as a previous step before entering into business negotiations, even when confined to the

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<sup>41</sup> Interview #09, op.cit.

<sup>42</sup> Interview #40, and #44 op.cit.

<sup>43</sup> Interview #77, op.cit.

ceremonial sphere (Soto 1996). Over personalization differs from the sinicization strategy insofar it takes advantage of a shared culturally commonality, which is the need to make familiar something that is not in order to trust. As stated in the previous chapter, both Chinese and Chileans have high levels of trust towards family members but low levels of trust towards strangers. Therefore, the Chinese need for friendship finds grounds for development in the Chilean culture that also needs to validate what is considered foreign and make it familiar in order to build trusting relations (Valenzuela y Cousino 2000). Thus, the relationship between power asymmetry and cultural adaptation does not play a role here.

This strategy is further enhanced, as stated previously in this dissertation, by the lack of Chilean and Chinese branding, weak country of origin effect in Chile, scarce Chilean bonding social capital and general lack of knowledge, elements that contribute to over-personalized economic relations for the case study. Although framed in global interaction, the over-personalization strategy looks to emulate the traditional behaviours developed in smaller communities in which face to face interaction and personal knowledge is predominant. Indeed, it can be affirmed that this mechanism of trust-building emerges not because is a Chinese predominant cultural behaviour. Instead, is the rational mechanism to follow when critical sources of trust building are absent, as in the case study. When asked to rate the most important factors to do business (from 1 to 5 in a Likert scale), Chinese gave the highest score to rational elements (4.8 to corporate branding; 4.56 to product quality and 4.22 to convenient prices).

Developing this strategy has already been recommended in the academic literature for similar market structures: “It is especially important for small and medium-size enterprises that their leading executives find personally compatible Chinese counterparts and then invest heavily in building trust with them. Such firms can take advantage of niche market opportunities” (Child 2001, 278), as it was corroborated by a consultant during the fieldwork<sup>44</sup>. As stated previously in this dissertation, the benefits are clear: “Chileans without the capacity of developing friendship with their partners are always going to be the last option. On the contrary [Chilean disadvantages] can be overcome

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<sup>44</sup> Interview #36, op.cit.

with a friendship relation”<sup>45</sup>. Curiously, despite the advantages that over personalization may bring to Chileans, they have not sought it proactively, and instead, they have reacted to Chinese guidance.

Additionally, it was previously argued that although highly influenced by cultural roots, the need to cultivate personal relations also helped to cope with the uncertainties provided by the unknown by creating a higher degree of familiarity. With this in mind, most of the Chilean respondents, especially those who had a longer experience trading or investing in China, have welcomed this strategy and have started to understand the conceptual meaning behind Chinese friendship. Moreover, they have been able to tackle the nuances of the concept and understand it as the road for mutual cognition and relationship strength, and somehow incorporating the idea proposed in Chen (1989), regarding the Confucian way of rationalization through knowledge already cited.

From this point of view, this strategy gives place to what has been called “cognition/knowledge based trust” (Lewicki and Bunker 1996; Lane 1998), that includes cognitive considerations such as calculation (Child 1998) and in which expectations regarding the others’ behaviour are managed in the common framework that mutual knowledge provides<sup>46</sup>. Therefore it is based on information rather than deterrence, because “it develops over time, largely as a function of the parties having a history of interaction that allows them to develop a generalized expectancy that the other's behavior is predictable and that he or she will act trustworthily” (Lewicki and Bunker 1996, 121).

This latter argumentation, which includes the concept of calculation in trustworthy behaviour, may suggest the complete instrumentalization of expressive ties. The data however, shows that this varies across the respondents and the degree of instrumentalization depends on personal factors of the business executives and the degree of knowledge –and mutual acceptance– reached by the executives. The Chinese preference for long term relations perceived by most of the Chileans may help to enhance the over personalization in the economic context<sup>47</sup>.

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<sup>45</sup> Interview #40, op cit. This was also supported by the story told by respondent #45, who explained that he had a friend whose relations with his Chinese partners allowed him to have preferential benefits, despite representing only the 2 per cent of his partner’s total sales.

<sup>47</sup> Interviews #7, #10, #13, op cit.; #21, and #55 *ibid*.

Building friendship also involves evaluation from the counterpart based on previous experience: “trust is built [...] upon mutual knowledge and the evaluation of your own values [which implies] the previous behavioural experience and the recognition of your way of working”<sup>48</sup>. The last part of this quote leads to another element that over-personalization aims to reach: competence-based trust, defined with the question “Is the other party capable of doing what it says it will do?” (Sako 1998, 89) and therefore trust is based on the ability to perform the expected task. According to the interviews, this last point seems to be very important for both parties, and mutual interaction over time helps to build this kind of trust. In fact, most of the Chilean importers argued that one of the major reasons for having offices in the PRC was to monitor quality, which refers directly to competence-based trust conceptualization<sup>49</sup>.

As summarized by this Chilean entrepreneur: “At the end, they are looking for the same information we are looking for. The difference is that we look at the papers and they look at the people”<sup>50</sup>, denoting that although the mechanisms may vary, the objectives remain the same.

### **Drawbacks of the over personalization strategy.**

Nevertheless, significant drawbacks can be experienced when this strategy is developed. Maybe the most significant is tied to the misunderstanding of the Chinese friendship concept (cognitive and rational-based) by the counterpart. Furthermore, when the Chinese willingness to become friends is taken as a tricky strategy to get better deal conditions, and thus using a fictional emotional tie as a way to achieve economic advantages, it may have negative consequences, as this Chilean entrepreneur exemplifies: “We are talking about market here (...). I do not want to be his friend and he does not want to be mine, the only thing he cares about is whether or not I am trustable enough”<sup>51</sup>. As a result, for some cases this has acted as a boomerang in trust-building, since there seems to be a sharper distinction between friendship construction –and the methods used

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<sup>48</sup> Interview #10, op.cit.

<sup>49</sup> Interview #15, 29, 35, 70, op.cit.

<sup>50</sup> Interview #15, ibid.

<sup>51</sup> Interview #41, op.cit.



to build it– and business relationships among Chilean executives<sup>52</sup>, as illustrated by the following former Chilean representative in China:

“Please...It is a very fictitious friendship! First, let’s state that this is a fictitious friendship. It is only based on a shared ‘entertainment experience’ because that makes us feel closer, and generates a common identity, a moment of relaxation... I have always said that you have to be very careful with the Chinese, because you start the meeting talking about a specific subject, but then you realize that the discussion did not end in the meeting, but it continued during dinner -with all the drinks [involved] - until you go home (...) And you have to be careful and have your eyes and brain wide opened from the beginning [of the negotiations] until you are back in your hotel<sup>53</sup>

Secondly, this strategy seems to be the longest and the most expensive one, from both the macro and long term perspectives, since it refers to private trust-building and hardly seems to contribute to general levels of trust between the parties at a macro level. In addition, as explained previously, it has individual rather than organizational bases, and therefore depends on the permanence of the executive within the firm, which as demonstrated has been proved to be highly volatile to rely on.

## **7.6 Conclusions.**

This chapter has aimed to comment on three major strategies to build transnational trust. They constitute short term cultural patterns to fulfil economic objectives, and therefore are narrowed to them. Contrary to formal institutions, these are spontaneous responses derived from a determined framework, without including normative adoptions on a long-term basis. Rather, they are confined to the specific needs dictated by the particularities in which they are embedded. However, as also happens in the international dimension of trust building for the case study, these strategies finally build weak trust ties; insofar they are developed mostly with instrumental purposes, bounded to economic objectives.

The first one, sinicization, was largely explained as one of the most recurrent strategies. It has been used by Chilean businesspersons as a way to create identity-based trust by adopting Chinese business behaviour. A sinicization strategy is possible only

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<sup>52</sup> Interview #08, #35, and 52, op.cit.

<sup>53</sup> Interview #35, ibid.

because of the asymmetrical relation between the parties, since cultural adaptation is only developed unilaterally. Secondly, formalization of informal institutions is a strategy in which informal institutions such as *guanxi* can get institutionalized through a third party that can guarantee some sort of institutional trust because of his/her position in a legitimate organization. Finally, over personalization intends to recreate the atmosphere present in smaller communities by pursuing constant interaction and developing friendship. Nevertheless, trust is created by means of mutual cognition, and not solely based on culturally-rooted expressive ties although its building it is enhanced by the shared cultural mechanism of having familiarity as a source for trust building.

Although the drawbacks were analyzed for each one of the adaptive informal institutions explored here, a general conclusion can be extracted from the previous analysis. As it was observed, these strategies were developed as particular initiatives still pursuing private trust, which yet complicates trust formation at an aggregate level. Following the words of Nobel Prize economist, Robert Sollow, trust based on personalization is hardly prevalent in modern societies because,

A reputation for trustworthiness in this sense can be highly valuable; it can make you a desirable partner in just such enterprises. Such a reputation can be built up by repeated exhibitions of trustworthy behaviour in similar circumstances. So trust can emerge without any sort of societal superego to enforce it (...). More to the point, many economically important situations are too anonymous or too idiosyncratic or too rare for reputation-building to be a useful strategy (Sollow 2000, 8).

Although it may be counter-argued that particularized trust still has aggregate impact due to the in-group categorization explained in the previous chapter, in the context of Chinese market, it seems highly unlikely that individual strategies will contribute to enhancing trust towards Chile as a whole.

## **Chapter 8: Conclusions.**

### **8.1 Introduction.**

This study has analyzed Sino-Chilean bilateral economic exchange by examining the process of trust building and its sources at the international and the transnational levels. Ultimately, this research attempted to give a novel perspective on the macro subject of economic development, looking at the role of trust in economic relations. It has done so by presenting a cross-cultural case study embedded in the context of economic globalization, which shows two countries that despite their cultural and structural differences need to interact in order to grow.

This chapter will offer a final overview of the dissertation. It will first review the theoretical and methodological framework in which the empirical study was based. Then, it will highlight the main theoretical and empirical findings by summarizing the results through the examination of the hypothesis and research questions proposed for the study, as well as presenting additional contributions. It will conclude with the acknowledgment of the research limitations that may well constitute guidelines for future empirical studies.

### **8.2 Re-statement of the subject.**

The thesis began with the broad enquiry into why the FTA between China and Chile has not entirely brought the expected benefits that the favourable political, economic, and institutional conditions would have anticipated. Complementary trade structures, a similar path of economic liberalization, friendly diplomatic relations, and a solid framework of institutional agreements had generated forecasts of an increase in, and diversification of, mutual investment and trade after the FTA. Nevertheless, the results have been disappointing: despite the growth of some Chilean exports, its basket towards China remains bounded to the mineral sector and to a limited amount of primary products.

Chile, then, does not seem to be taking advantage of the Chinese go-global policy and its investment policy overseas as some of its Latin American peers do. As a result, this academic enquiry has policy consequences, since economic cooperation with a

powerful actor such as China becomes critical for a small and open economy like Chile, which is highly dependent on trade and investment for domestic development.

In looking for a theoretically grounded explanation for the initial enquiry, I argued that the traditional “hard variables” –such as economic complementarities or institutional strength– constituted weak justifications for the current state of Sino-Chilean economic relations. Therefore, a theoretical framework was sought within the sphere of the soft variables, which encompassed socio-cultural aspects of social reality, in order to understand the case study. Within this sphere trust, either in its stand-alone conceptualization or under the umbrella of social capital theories, constituted an appropriate framework to choose, since it appears capable of integrating different theoretical approaches that would give the depth and breadth required to fully understand the case study.

The investigation, then, is an effort to contribute to the understanding of Sino-Chilean bilateral relations from the perspective offered by trust conceptualization. It did so by exploring the process of trust-building as well as its sources in two different dimensions. On the one hand, it tackled the international dimension of trust by investigating trust-building and sources at a state to state level. On the other, it considered the transnational dimension of trust-building and sources through the study of the businesses and corporations engaged in trading relations.

The thesis tackled the theoretical framework in chapters Two and Three. Chapter Two discussed the relationship between culture and economic development in order to introduce the significance that trust, as a culturally-shaped concept, has for national growth and as an alternative explanatory variable to traditional ones. It concluded that cultural variables have been either ignored by the literature (in front of what it was called economization of development, mainly featured by the discussion on whether was the market or the state the valid way to reach growth ), or reduced to the question of cultural values, even in the current process of economic globalization. It also concluded that traditional explanations of economic development were limited to a mono causal kind of reasoning. The chapter, nevertheless, showed the importance of cultural features in the framework of current economic globalization in which economic interactions are shaped by cross cultural dilemmas. Chapter Three gave an overview of trust in terms of a

theoretical framework, which has been appointed as a variable to be taken into account when analyzing economic growth. It did so in order to set the theoretical bases in which the research was going to be framed. The chapter provided a review on the main stances that have theoretically supported trust conceptualization, from rational approaches to cultural and institutional perspectives in its interpersonal as well in its systemic dimensions. This revision allowed the researcher to develop a methodological approach which would concurrently fill the theoretical gaps needed to be tackled during the empirical investigation. Three elements were suggested to be important in conducting the empirical study. First, it was necessary to acknowledge trust complexities, and thus to consider different objects of analysis as well as different theoretical perspectives, avoiding a restrictive viewpoint. Second, it was needed to explore the role of the state on trust building –which has been neglected by the literature. Finally, trust conceptualization needed to be framed within the current context of economic globalization.

For the methodological conduct of the research, the revision of the literature also suggested the need to make a methodological distinction between the sources and processes of trust building together with the acknowledgement of the different objects of study. For this case, these objects of study were considered to comprise the state –and its role in building international trust– and the sphere of business networks –which comprised the principal agents in transnational trust building.

The literature review also suggested the integration of different research paradigms, and thus cultural, institutional and rational perspectives of trust were included as epistemological options in order to grab the complexities of trust conceptualization. This methodological pluralism invited to use both qualitative and quantitative approaches to have more comprehensive and deeper results. Although the main data sources were the in-depth interviews performed during the three periods of fieldwork carried out in China as well as in Chile, they were completed by a small quantitative questionnaire to the same respondents. Additionally, the fieldwork was supported by the use of existent literature, secondary quantitative data, content analysis methods, and qualitative analysis of media and official sources. The methodology was presented in Chapter Four.

### 8.3 Assessment of the hypothesis and research questions.

The investigation was guided by a general research question and a broad hypothesis supported by two subsidiary research questions that facilitated testing the theoretical framework through the case study:

*RQ1 What function does trust play in shaping Sino-Chilean bilateral economic relations?*

The literature on trust portrayed it as having a critical functionality in economic interactions. Both the organizational theory perspective and the theoretical corpus of social capital showed trust enhancing economic relations at the micro and macro level. Furthermore, the levels of generalized trust have been appointed as a variable that would determine economic development at a national level. Nevertheless, scarce literature paid attention to study how trust can foster economic relations between two structurally and culturally different nations, comprehending not only the micro sphere of business interactions but also the sphere of the inter state actions, especially in the current context of economic globalization. Based on this theoretical framework –and the questions that the current theoretical corpus of trust has been unable to answer–, the case study aimed to find out the role trust has played on shaping the pace and degree of success of Sino Chilean bilateral relations. This research question will be fully answered by the examination of the subsidiary research questions that this dissertation proposed. I will come back to this initial research question after they are explained.

Assuming this framework, an initial and broad hypothesis was drawn up:

*H1: Trust plays a role in enabling Sino Chilean bilateral economic relations.*

The results have shown that, broadly, trust does play a role in enabling bilateral economic relations for the case study. There is enough evidence to demonstrate that trust is a necessary condition to start and keep economic relations, and thus it helps to enhance economic transactions in a broad perspective. However, this statement has to be refined to discriminate between the international and the transnational dimensions of trust, as the sources and dynamics of trust building in each case differ and in some ways challenge this hypothesis.

The international dimension of trust and its role in enabling Sino-Chilean bilateral relations was discussed in Chapter Five. It was argued that both states have incorporated trust conceptualization in their foreign policy discourse and action. Specifically, they have engaged in the creation of reputation-based trust, although driven by different motivations. The Chilean government has focused on a conscious policy of trust building. It has done so by two mechanisms. On the one hand, the state and its institutions have carefully crafted the Chilean reputation of being an institutionally and economically reliable country, in order to attract investment and support private businesses abroad. For that, it has created special institutions that handle and manage the country's reputation. On the other, it has purposively sought the creation of institutional trust through a network of commercial agreements that have enhanced Chilean soft power and have allowed it to improve its commercial network, as to reach powerful agreements with the USA, Europe and China, among others.

China, on the other hand, has also incorporated trust conceptualization within Hu's current foreign policy discourse of a Harmonious World. In order to augment the country's soft power and counteract the negatives perceptions that China's global rise brings –the China threat–, China has portrayed itself as a responsible stakeholder fully integrated into the world economy. It has also highlighted its condition of being a developing country in order to minimize the concern provoked by its rise. Towards Latin America, China has created a foreign policy discourse stressing the economic aspects in a new version of the traditional South-South cooperation scheme given Chinese necessity of Latin America resources and as a means of exercising soft power over the continent. Nevertheless, the analysis of Chinese international behaviour in Latin America has also vindicated the assertion that trust is closely linked to power relations; insofar as the Chinese consider political trust to be a pre-condition to economic interactions, thus shaping a dependent interaction between China and Latin America. Thus, the research has confirmed the importance of trust building at a state level in order to fulfill economic objectives in a global economy.

H1 was thus first tackled by answering subsidiary research question number one: *What are the sources that determine Sino Chilean trust building at a state level?*

The fieldwork unveiled that national interest constitutes the main source of trust between Chile and China, and thus it has become the structure that supports trust building process at the international level. Indeed, the discussion was centred on the convergence of domestic interests that allowed Sino-Chilean trust-building process, which finally crystallized in the Free Trade Agreement of 2006. Chilean interest was based on its necessity to reach the Chinese market to allocate Chilean export products and services (imposed by its export-oriented economic model) and also to receive FDI. Additionally, a closer economic relation with China allowed Chile political leverage within the southern cone. From the Chinese perspective, Chile was significant for enhancing its trust building strategy towards Latin America. On the one hand, Chile represented a safe learning curve, both politically as well as economically, to be later replicated with more powerful actors such as Brazil or regional blocks such as Mercosur. Politically, Chile could give China the necessary expertise needed for future commercial agreement's negotiations. Economically, the small size of Chilean economy assured China minimum risk if engaged in further relations. On the other hand, Chile was the perfect candidate for this trial, since it could act as an example of the benign power and South–South cooperation proposed by Beijing. Indeed, economic complementarities forecasted benefits for Chilean economy after an institutional engagement with China, which would therefore bury the fears of Chinese hegemony and even neo-colonialism in the continent. Also, Chilean pragmatism together with its awareness of China as being a key actor for its domestic development would assure China a smooth political negotiation and exemplary process for the rest of Latin America. In sum, Sino-Chilean engagement was thought to support the current economic foreign policy discourse embedded in the Harmonious World rhetoric proposed by President Hu and the policy of economic institutionalization carried out by China.

The subsidiary research question number one also entangled the discussion of the mechanisms (processes) of trust building for the case study. The investigation pointed towards two processes of bilateral trust building at a state level that finally converged in the institutionalization of trust through the FTA. The first one was called the narrative of trust and encompassed the creation of a shared trust discourse based on diplomatic and historic milestones of political friendship which was labelled the discourse of the first.



This narrative also encompassed a series of political gestures that Chile offered to China, as the result of its pragmatic foreign policy and due to the Chilean principle of non intervention. The second mechanism was the creation of the consensual identity of China as a market, which narrowed Chinese identity to its economic dimension. This consensual identity was supported and incorporated by the economic and academic elites, and by doing this, they have legitimated the current Chinese foreign policy discourse.

As a result of the sources and mechanisms for trust building at this level, it was concluded that the kind of trust produced between Chile and China is based on mutual interests, and therefore weak since it is bounded to specific motivations and objectives that, once fulfilled, may prevent to further develop trust. This is especially significant for the case study, due to the asymmetrical nature of the relationship, and therefore trust-building is guided by the one which holds greater power status and therefore its enhancement is subordinated to it.

Thus, in testing H1, the discussion on Chapter Five has demonstrated that trust building at a state to state level has indeed enabled Sino-Chilean economic interaction, creating an institutional framework provided by the FTA that has set the rules of the game at a macro level which ultimately will enable transnational exchange. However, given the restrictive nature of Sino-Chilean trustworthiness, it is highly unlikely that further agency at a state level will be developed due to China's already fulfilled objectives.

At a transnational level, H1 has been only partially vindicated. Indeed, the evidence shows trust plays a significant role within economic relations at this level. As it has been demonstrated, trust seems to be a pre-condition for even starting economic engagement and an important businesses facilitator. Trust eases negotiation processes, diminishes risk possibilities, and provides better access to market information and distribution channels, among other benefits highlighted by the respondents, which is concurrent with the existing literature on the subject. Nevertheless, the research has also found that although trust does enable economic relations once it has been built, the process of building it may be so costly as to reach the point of actually preventing it. Although the functionalities of trust have been confirmed by the respondents, the findings have also shown that the costs of building trust at a transnational level –given the cultural,

institutional and market structure in which is embedded– are so high that trust building becomes a barrier rather than an enhancer of economic transactions. At this level, it can be said that H1 needs to be re-considered so as to consider the costs of trust building to really understand its role on economic interaction.

H1 was further tackled by answering subsidiary research question number two: *What are the sources that determine Sino-Chilean trust building at the micro-level of business interactions?* This research question was discussed in chapters Six and Seven. While Chapter 6 undertook to elaborate on the sources of trust (structure), Chapter Seven dug into the processes of trust building (agency) carried out by businessmen and corporations.

In respect to the structure that is shaping Sino-Chilean transnational economic relations, there are four sources playing a preponderant role on trust building at this level. The first one is constituted by the institutional sources; the formal rules of the game. The research identified three main institutional sources: a shared framework at a macro level constituted by the FTA –an outcome of the state agency as discussed in Chapter Five–, a shared framework at a micro level constituted by the contracts, and the individual institutional framework of each nation. The analysis concluded that the shared institutional framework –at both macro and micro level– does not act a valid source for institutional trust as proposed by the literature, due to their inability to enforce the norms or to sanction deviant behaviour. For example, the FTA agreement does not provide the necessary mechanisms to be considered a source of institutional trust. Instead, it becomes an indirectly source of trust, via knowledge spread and promotion. In the case of contracts, they contribute to trust not because of their enforcement capabilities –which are considered almost inexistent–, but instead as symbolic tokens of reliability, which help to demonstrate the willingness of the parties to play by the rules of the game. In respect to the individual institutional framework, this has shown mixed results. To Chinese, the strength of Chilean institutions provides legal guaranties that attract Chinese traders and investors. In some cases though, it may act as a boomerang because it may signify business inflexibility. To Chileans, the observed weak institutional framework produces also mixed results. On the one hand, it acts as an initial barrier for economic interaction, since it triggers distrust. On the other, the blurred boundaries between

Chinese economic and political spheres have been taken as an advantage by Chilean businesspersons. They have used –at least at a discursive level– the historic and diplomatic friendship between China and Chile to enter into Chinese economic sphere.

Secondly, the research identified the degree of interest held by the parties and the Chinese market structure as the market sources of transnational trust. In respect to the former, it was concluded that there was asymmetry in the degree of interests, which shaped the pace and kind of trust produced. This left Chileans businessmen and corporations in a weaker position relative to that of their Chinese counter-parts, since they were highly interested in the potential possibilities of Chinese market. This asymmetry was so strong that even when Chilean firms had purchasing power, they were still competing for Chinese attention with stronger international corporations. Meanwhile, Chinese business appeared attracted by specific natural resources, but not by the wider Chilean export basket. As for the latter, the Chinese network-based economy initially acted as a barrier to, rather than a source of, trust building, since the strong Chinese networks were difficult to access by Chilean executives. Nevertheless, once they were accessed, the benefits of being part of the network were also enjoyed by Chileans.

A third source of transnational trust was constituted by the levels of familiarity. Two categories were analyzed. The first one, knowledge and reputation, was tackled from the macro perspective of the nation branding approach and the micro viewpoint of corporate branding. It was concluded that Chile is not a known brand within China, despite having a good reputation in those specific Chinese circles in which Chilean products are known. From the micro perspective, the absence of branded Chilean corporations placed extra obstacles in the path of trust building. Levels of familiarity were also tackled from the viewpoint of personal experiences and repeated interactions, as proposed by the rational approach. In this second category the results were similar. Since individual corporate experiences were scarce and limited given their newly interaction, they did not constitute a source of trust for the case study. As in the previous category, they were closer to become sources of mistrust rather than trust.

Finally, cultural sources were analyzed from opposite perspectives. From an emic viewpoint (and thus taking into account the personal point of view of the respondents) the interviewees, especially Chileans, felt a deep sense of cultural distance, basically

supported by a lack of identification and the impossibility of easily understanding Chinese informal norms. In this respect, this is concurrent with previous findings in which cultural distance acts as a barrier rather than a source for trust building. Nevertheless, when looking at cultural variables from an ethnic perspective, it is the cultural similarities which paradoxically hinder trust building. In fact, as the analysis of secondary data indicated, China and Chile held a similar conceptualization of trust as a private good, with low levels of trust towards strangers and, on the contrary, with high levels of trust towards family and/or friends. This was brought to light by the difficulties of bridging social capital between the parties. The discussion of other cross-cultural categories further evidenced how cultural similarities may deter trust building.

The second subsidiary research question also brought into consideration the agency of trust building at a transnational level. This was tackled in Chapter Seven.

The fieldwork identified three major strategies that have been adopted in order to cope with the structure discussed in the previous chapter. The most important was the sinicization strategy (Chileans adopting Chinese culturally-driven behaviours) which implied cultural submission –although restricted to economic objectives– of the weakest party, in this case, Chileans. The sinicization strategy led to further discussion of the role power plays in shaping trust building processes. Formalization of informal structures – the network strategy– considered the process in which both parties have consciously relied on a formal intermediary to support the informal structure of *guanxi*. As the political authorities constituted the most trustworthy intermediary, business networks have been built around formal authorities (state agents) and its institutions in order to find a common framework to diminish the high risk perceived. Finally, over personalization emerged as a strategy intended to suppress the mutual lack of knowledge between the parties in order to build familiarity between them. Although culturally driven –this time, sharing a cultural tendency to trust what is familiar, and therefore lacking the cultural adaptation observed on the sinicization strategy– the trust building process appeared as a rational way to fill the gap left by the lack of rational and institutional sources of trust explained in the previous chapter.

As a result of the sources and mechanisms for trust-building at this level it can be concluded that, as was the case at the international level, the trust produced here is

cognitive and rational. Although cultural identity processes are carried out in order to enhance trust building, these are driven by instrumental processes and thus bounded to specific objectives. As a consequence, trust formed here is weak since it is guided by the interest of the opportunity. In addition, weak trust is further enhanced by the fact that ties are built around interpersonal rather than corporate networks. Here, trust appears bounded to particular executives –who may change– rather than to the corporations.

As a conclusion then, H1, *Trust plays a role in enabling Sino Chilean bilateral economic relations*, has been confirmed, although a paradox has emerged at the transnational level.

At an international level, the development of trust has allowed the creation of a strong institutional mechanism –the Free Trade Agreement– that has somehow contributed to enable Sino Chilean bilateral relations by giving an institutional setting that allows establishing the formal rules of the game of this economic interaction. But, since it has lacked of the enforcement capabilities that institutional trust requires, it has not acted as a proper source of institutional trust at a transnational level. Additionally, the trust built at the international level seems restricted to particular interests, and therefore bounded to strategic purposes, which diminishes its strength and set doubts regarding further development. At a transnational level, the research has concluded that although trust does enable bilateral relations, and furthermore it is a requisite for economic interaction, the costs to acquire and maintain trust are so high that economic relations for the case study are debilitated by the need of trust rather than enhanced by its presence. As the sources –structure– are inexistent or debilitated, the agency of trust building becomes a costly effort for transnational actors and therefore it is currently hindering, rather than enhancing bilateral relations.

Therefore, in respect to the initial research question, *What function does trust play in shaping Sino-Chilean bilateral economic relations?*, it can be concluded that trust plays a pivotal role in shaping Sino-Chilean bilateral economic relations. The research has demonstrated the difficulties on trust-building given the structure in which the process is embedded (cultural, institutional and rational constraints). As stated, these difficulties have affected the expected economic outcomes, despite having the right economic, political and institutional framework. Additionally, when trust is finally

reached by agency mechanisms –either at the international or transnational level– the kind of trust produced is frail since it is mainly driven by the interest of the opportunity which is subject of constant change depending the needs and interests of the parties involved.

By setting the important role trust plays for the case study and by showing the negative consequences that its absence or weakness brings to economic exchange, the theoretical claim vindicated at the beginning of this dissertation is confirmed. A soft cultural variable, such as trust, *does* matter when analyzing economic development, and hence the economization of development perspective is insufficient to explain the complexities of economic growth.

## **8.4 Further empirical and theoretical contributions**

This research has contributed to the scarce literature on Sino-Chilean bilateral interaction by providing a fresh view of their relations with trust as its theoretical framework. By doing so it has also provided a Southern perspective on the rising hegemony of China. Indeed, by looking at the Sino-Chilean relationship as inserted in a broader geopolitical context, it has been able to propose a new angle to the discussion on Sino-Latin American relations.

The investigation has also enhanced the current theoretical corpus of research on trust and economic development by tackling the role that the state plays in fostering trust building. Indeed, this investigation attempted to go beyond the conceptualization of trust as a variable for economic development from the domestic perspective of social capital (this one focused on the levels of domestic trust and its relation with economic growth) and the micro perspective of organizational theories (that dig into trust conceptualization within and between corporations, but detached from the socio/economic/political framework in which they are embedded). It has also gone beyond the perspective of ethnic networks and their role in determining economic outcomes. By contributing to establishing the role of the state as an agent/source of trust, this investigation hopes to shed light on the role of the state within the global economy. Furthermore, since the discussion relates the state and transnational forces as simultaneous objects of enquiry, the research has raised the subject of international trust and social capital formation as a

source of economic development in the context of globalization, and therefore has contributed to disentangle the role played by culture, the state and market on economic growth.

The research has also discussed the political economy aspects of trust, by analyzing the role played by power in trust building processes. In this respect, within the process of international trust, it was demonstrated that trust building is shaped by the one who holds greater power, which ultimately determines the characteristics, pace and to what extent trust building processes occur. This is mirrored at a transnational level which follows a similar dynamic: in an asymmetrical relation, norms are imposed by the one who holds the greatest power. Nevertheless, cultural adoptions are restricted to economic interaction and therefore they do not constitute –as some modernists would have argued– cultural imperialism.

The paradox of trust proposed at a transnational level has challenged the current conceptualization of mainstream approaches to trust that have mostly portrayed it as a facilitator of economic processes. By orienting the scrutiny towards the sources of trust within bilateral exchange rather than its benefits, this investigation has contributed with a different viewpoint on the economic functionalities of trust, focused on the costs of trust building in the current global economy.

Finally, the research has proposed a broader analysis of trust building sources by interrelating different theoretical approaches, combining methodological stances and entangling different levels of analysis.

## **8.5 Limitations of the study and suggestions for further research**

This dissertation was conceptualized and carried out as an explorative study. As any initial work, it may have left questions unanswered both in the theoretical and empirical dimensions. Yet, these can be taken as opportunities and potential ideas for future research.

In fact, the model developed for transnational sources of trust is intended to have a conceptual nature, with the objective of systematizing the key sources of trust building for the case study, which was a priority goal for this dissertation. However, the proposed

theoretical argumentation would be enriched by follow up investigations based on quantitative techniques capable of measuring the weight of each set of variables proposed by the model; longitudinal studies to offer a wider view of the phenomenon, and the exploration of new case studies. The case study will also be benefited if particular studies incorporated new variables to the analysis such as kind of industrial sector, size of companies, nature of ownership, among others.



## **Appendices**

### **Appendix 1: Chilean Fieldwork, Questionnaires and Guides**

**English Version. September, October 2008**

#### **1. Questionnaire to Chilean Entrepreneurs and business executives (Names of each section are not read to the respondents)**

##### Introductory paragraph:

Thank you for helping me in this questionnaire. Your experience is very valuable for my research. As an academic research the information will be off the record. This means I will use your comments and answers without saying any characteristic or data that may you or your company recognizable.

Now, I will ask you some questions. If you have any doubt, please do not hesitate and ask me. If you do not want to answer some questions, please feel free to tell me.

##### Some initial clarifications:

- When asking about YOU, may also refer to “your company”
- The term “Chinese counterpart” refers to either supplier, buyer or partner.

#### **CULTURAL DIFFERENCES**

- 1) Do you think that culture matters when doing business? Why? Could you give an example?
- 2) Please name three cultural elements that have affected your success (either positively or negatively) when doing business with a Chinese counterpart.
- 3) Do you agree or not with the following paragraph? Please state why: “You will not find it (China and Chinese culture) mysterious. When you have become familiar with it, it will not be as mysterious as before”. Zhou Enlai

#### **NEGOTIATING STYLE**

- 4) How you describe the Chinese way of doing business? How these ways differ/complement the Chilean way?

- 5) How would you describe the steps in the process to do business with a Chinese counterpart? Please describe the process that you have been going through since the first negotiations up to the realization of the business.
- 6) What are the three most difficult aspects when trying to do business with a Chinese counterpart? What are three easiest aspects?
- 7) What do you think are the main useful strategies when doing business with Chinese? Could you please give an example?
- 8) Which is the role of the networking and relationships when doing business with Chinese? Which has been the role of intermediaries on your case?

### **TRUST AND BUSINESS**

- 9) Could you describe the three main reasons that have guided you to choose your Chinese counterpart to do business with?
- 10) How important is to trust the counterpart in a business relationship? Is it worth to invest (money, time, human resources) in building up a close and trustable relation with a Chinese counterpart? How has it been in your case?
- 11) In your opinion, which are the best ways to build trust in a business relationship with Chinese? Describe your experience.
- 12) Please identify obstacles for building trust when doing business with a Chinese counterpart. Please identify three facilitators.
- 13) Does trust built with your Chinese counterpart has helped to improve your business? In which way?
- 14) Which are the major risks when making business in China?

### **STATE POLICIES AND BUSINESS SUCCESS**

- 15) Do you think that the Free Trade Agreement (FTA) has facilitated the process of making business with China beyond the reduction in trade barriers?
- 16) Do you feel more confident and safe doing business after the FTA or it does not affect this aspect of your business?
- 17) Are the current Chilean government policies helping promoting your business in China? Please state how.

- 18) What do you do with the Chilean government and public agencies to help to improve your business?

## **CHINESE SYSTEM**

- 19) How do you face Chinese state system? (only if obstacles are mentioned) How do you solve bureaucratic barriers?
- 20) Do you think your business or personal contacts (networks) help you to solve the bureaucratic problems?

## **OPTIONAL TO ASK WHEN IS APPROPRIATE:**

- 21) How have you managed to solve ethical concerns when doing business with a different culture?

## **2. Questionnaire for Government officials**

### **A) GENERAL QUESTIONS**

#### **CULTURAL DIFFERENCES**

- 1) Do you think that culture matters when negotiating? Why? Could you give an example?
- 2) Please name three cultural elements that have affected the success of the negotiations with Chinese (either positively or negatively).
- 3) Do you agree or not with the following paragraph? Please state why: "You will not find it (China and Chinese culture) mysterious. When you have become familiar with it, it will not be as mysterious as before". Zhou Enlai

#### **NEGOTIATION PROCESSES AND TRUST**

- 4) How you describe the Chinese way of negotiation? How these ways differ/complement the Chilean way?
- 5) How would you describe the steps in the process to negotiate with a Chinese counterpart?
- 6) How important is the building of trust when negotiating with Chinese? Can you give an example?

#### **STATE ROLE**

- 7) Explain the main strategies that your (department, section, ministry) is doing in order to get international reputation and trust?
- 8) How your (department, section, ministry) follow up and evaluate these strategies?
- 9) According to your experience, how important is for Chinese the reputation of the counterpart?
- 10) Chinese are mainly interested in commodities and that is one of the reasons of the recent interest in Latin America and Africa. In the case of Chile, the main interest is the mining sector. What is the Chilean government doing to broaden the export portfolio to China?
- 11) In relation to your knowledge, please state for each one of the following sentences whether you strongly agree, agree, disagree or strongly disagree:
  - a. The strength of Chilean Economy is key to facilitate business abroad.
  - b. The commercial agreements and the economic openness of the Chilean economy is essential to attract foreign investment
  - c. Our political stability allows the possibility of doing business in a long term
  - d. The legal framework facilitates foreign investment
  - e. PR activities held by the Chilean Government are essentials to promote my company abroad and networking
  - f. PR activities held by the Private Institutions are essentials to promote my company abroad and networking
  - g. Creating and keeping personal networking facilitate business making.

## **B. SPECIFIC QUESTIONS**

### **Questions for Chilean Export Promotion Bureau, Prochile:**

- 1) Which are the main guidelines to export a reputable Image to China?
- 2) In one of the last campaigns in Pro Chile, the slogan is TRUST US. Why have you chosen the concept of trust to promote Chile?
- 3) Which are the main channels to promote Chile?
- 4) How are you working with the private sector to enhance business opportunities in China?
- 5) In your experience, which are the key elements for building a trustable relationship with the Chinese?

### **Questionnaire for General Directorate for Economic Affairs, Direcon:**

- 1) What is the Chilean government doing to broaden the export portfolio to China?
- 2) Which are the main channels to promote Chile?

- 3) In your experience which are the key elements for building a trustable relationship with the Chinese?
- 4) How are you working with the private sector to enhance business opportunities in China?

### **Questions for Foreign Investment Committee, CINVER**

- 1) How the Chilean legal framework helps/ constraint the FDI in Chile?
- 2) How important are the rankings (i.e Risk, corruption index, etc for the FDI? How these affect doing business with Chile?
- 3) In your experience, which are the elements taken into consideration when foreign countries decided to do business in Chile? Which are our competitive advantages?

### **3. Topics discussed with Chilean academics**

1. Vision of the relationship between China and Chile within a geopolitical, economic and historical perspective.
2. Importance of the Free Trade Agreement in this context
3. Why Chile was chosen for China to sign a FTA? Geopolitical and economic factors.
4. Importance of this relationship within the Latin-American Perspective (opportunities)
5. Analysis of the South - South rhetoric versus the North South economic relationship.
6. Theory of harmony and the importance of trust and collaboration together with the five principles of Chinese Diplomacy<sup>1</sup>
7. Analysis of the main milestones between Chile and China as demonstrations of mutual trust.
8. Asian (Chinese Values) and economic development compared to Latin America, and specifically, Chile.

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<sup>1</sup> According to the Chinese Constitution of 1982 the diplomacy would be based on 5 principles : "China adheres to an independent foreign policy as well as to the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence in developing diplomatic relations and economic and cultural exchanges with other countries; China consistently opposes imperialism, hegemonism (sic) and colonialism, works to strengthen unity with the people of other countries, supports the oppressed nations and the developing countries in their just struggle to win and preserve national independence and develop their national economies, and strives to safeguard world peace and promote the cause of human progress."

#### 4. Grid for Chilean Businesspeople

GENERAL QUESTIONS	TICK WHEN DONE
Advantages and Risks for Chilean making business in China. How to overcome them	
Reasons for find a Chinese partner	

CULTURAL DIFFERENCES AND NEGOTIATION	
Chinese Business Style. Interaction with Chilean	
Negotiation Process: steps (major difficulties and facilitators)	
CD help or not in business success?	

TRUST AND BUSINESSES	
trust as a factor for enhancing business: Chinese experience	
trust vs. contracts and rule of law	
Strategy for building trust with Chinese	

STATE ROLE AND BUSINESS	
FTA Benefits	
Effectiveness of Chilean government policies towards Chilean business in China (general)	
Effectiveness of Chilean government policies towards Chilean business in China (Multiple choice Q)	
Participation in government activities	

CHINESE STATE SYSTEM	
Major difficulties in the Chinese system for Chileans	
Ethical problems	

## **Appendix 2: Chinese Fieldwork, Questionnaires and Guides**

**English Version. Shanghai, Beijing March/May 2009**

### **1. Questionnaire to Chilean Entrepreneurs and business executives.**

#### Introductory paragraph.

Thanks for agreeing on answering these questions. This is very valuable to my research. The questionnaire has been designed in two parts. The first one contains open questions that you can answer freely. The second part is constituted by multiple choice and closed questions that have to be answered in a scale. In the multiple choice questions you can choose more than one answer for the same question.

If you have any doubt, please do not hesitate to tell me. If you do not want to answer a question, please let me know and I can skip it.

Can I have your permission to record the interview? Your answers will be confidential, unless I can use your case as a case study.

#### **I. Open questions**

- 1) What was the main motivation, as a company, to come to China?
- 2) Could you tell me what was your experience when you started doing business with Chilean companies?
- 3) In your experience in China, do you think culture matters (only in case that the interviewee asks for clarification: language, values, religion, behavior) when doing business? Why?
- 4) How do you describe the Chinese way of doing businesses? (if have not compared: please compare to Chilean) Which are the main steps to follow in a negotiation with a Chinese counterpart?
- 5) Please identify the main obstacles you have had while doing business in China

- 6) Which are the advantages and disadvantages for a Chilean when doing business in China?
- 7) How do you keep a good business relationship in China?
- 8) State the main risks when doing business in China. How have you overcome those risks?
- 9) Please identify the main “enhancers/aids” you have had when doing business in China. Which are the pillars (bases) of them?
- 10) In time of crisis like this one, which are the strategies to be successful in continuing business with Chinese?
- 11) In your experience, do you think that good diplomatic relationships between China and Chile have enhanced your business performance? If so, how?
- 12) Which are the bases to generate trust in your Chinese Counterpart?
- 13) In general terms, would you say that Chinese businessmen are
  - a. Easy to trust
  - b. Difficult to trust
  - c. Neither easy nor difficult
  - d. Just any other businessmen
- 14) Have you ever had problems for trusting too much?

## **II. Multiple Choice Questions**

### **1. State if you are:**

- a) Chilean Exporter
- b) Chilean Buyer
- c) Chilean manufacturer in China (FDI)
- d) Chilean Trader (services)
- e) Other (state). \_\_\_\_\_

### **2. How long has been your company doing business with China?**

- a) 2 year or less
- b) between 2 and 5 years (including year number 5)
- c) between 6 and 10 years (including year number 10)



d) 11 years or more

**3. Please state number of years that you have been doing business with China (in case is different from question number 2)**

a) 2 year or less

b) between 2 and 5 years (including year number 5)

c) between 6 and 10 years (including year number 10)

d) 11 years or more

**4. Do you consider your company The size of your company is (ask Gordon)**

a) Small

b) Medium

c) Large

**5. If you want to find a Chinese business partner (suppliers, trader, etc), which one of the following ways are the more trustable ways to do it:**

a) Through a friend

b) Through Pro Chile

c) Using the Internet

d) Through Chamber of Commerce or other Private Institution.

e) Directly

f) Other (state). \_\_\_\_\_

**6. According to your experience in China, please state the importance of the following factors to make successful businesses in China from 1 to 5 (being 1 the less important and 5 the most important (use a flash card).**

**1 2 3 4 5**

**Have good prices**

**Have built a good relationship with your Chinese counterpart**

**El Country of origin**

**Have good political contacts in China**

**Being supported by Chilean government**

**Have developed good relationships within the market (good networking)**

**Have a strong corporate reputation (good brand)**

**Have a good quality product**

**Comprar grandes volúmenes frecuentemente**

7. According to your own experience in China please state if you completely agree, agree, disagree or totally disagree with each one of the following sentences (use a flash card)

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Lack of knowledge about the business counterpart increments suspiciousness when doing business in China.</b>				
<b>It is difficult to get closer to Chinese to build trust.</b>				
<b>Cultural distance (different values, language, religion, behaviour) makes business more difficult with Chinese.</b>				
<b>In commercial relations between Chileans and Chinese, the parties can easily get confidence between each other.</b>				
<b>The closer the personal relationship with the Chinese counterpart, the easier becomes to get information.</b>				
<b>Having the support of the Chilean Government facilitates business making in China.</b>				
<b>Having a network within Chinese government facilitates business making in China.</b>				
<b>Having the support of the local Chamber of Commerce facilitates business making in China.</b>				
<b>Having a Chinese employee or representative has facilitated business making in China (only if applies)</b>				

**8. Do you consider that the Free Trade Agreement between China and Chile has helped your company to:**

- a) Increase business volume
- b) Make more margins
- c) Increase the levels of security (less risk) when doing business with China
- d) Have easier access to new businesses
- e) Has not helped at all
- f) Other (state). \_\_\_\_\_

**9. Has the fact of being Chilean helped you when doing business in China**

- a) Yes, Chileans executives and entrepreneurs have good reputation
- b) No, it is not convenient to highlight being Chilean
- c) has not helped at all
- d) It does not matter, they confuse us with the rest of Latin America
- e) it does not matter your country of origin
- f) it is indifferent because nobody knows Chile
- g) Other (state). \_\_\_\_\_

**10. Do you think that getting to know your Chinese counterpart and developing a friendship with him/her helps you to:**

- a) Get better prices
- b) Get better conditions in the deal
- c) Get better quality information about the market
- d) Make the process of business negotiation faster
- e) It has not made any difference for me.
- f) I have not developed any friendship with my Chinese Counterpart
- g) Other (state). \_\_\_\_\_

**2. Questionnaires to Chinese Businesspeople**

Introductory paragraph

Thanks for agreeing on answering these questions. This is very valuable to my research. The questionnaire has been designed in two parts. The first one contains open questions that you can answer freely. The second part is constituted by multiple choice and closed questions that have to be answered in a scale. In the multiple choice questions you can choose more than one answer for the same question.

If you have any doubt, please do not hesitate to tell me. If you do not want to answer a question, please let me know and I can skip it.

Can I have your permission to record the interview? Your answers will be confidential, unless you are willing to give me your permission to use your experience as a case study.

### **I. Open questions**

- 1) What was the main motivation, as a company, to start doing business with Chileans?
- 2) Could you tell me what was your experience when you started doing business with Chilean companies?
- 3) In your experience with Chilean (suppliers/buyers/ partners) do you think culture matters when doing business? (only in case that the interviewee asks for clarification: language, values, religion, behavior) Why?
- 4) How do you describe the Chilean way of doing businesses? (if have not compared) Please compare to Chinese.
- 5) Which are the main stages to follow in a negotiation with a Chilean counterpart?
- 6) Please identify the main obstacles you have had while doing business with Chileans.
- 7) State the main risks when doing business with Chileans. How have you overcome those risks?
- 8) What elements have made business with Chileans easier?
- 9) Which are the characteristics you look for in your Chilean counterpart in order to be reliable?
- 10) How do you keep a good business relationship with Chileans?
- 11) In time of crisis like this one, which are the strategies to be successful in continuing business with Chileans?
- 12) In your experience, do you think that good diplomatic relationships between China and Chile have enhanced your business performance? If so, how?
- 13) Have you ever had problems for trusting wrongly?

## **II. Multiple Choice Questions**

### **1. State if you are:**

- a) Chinese Exporter/Producer
- b) Chinese Importer
- c) Chinese Trader (services)
- d) Other (state). \_\_\_\_\_

### **2. How long has your company been doing business with Chileans?**

- a) 2 year or less
- b) between 2 and 5 years (including year number 5)
- c) between 6 and 10 years (including year number 10)
- d) 11 years or more

### **3. Please state number of years that you have been doing business with Chile (in case is different from question number 2)**

- a) 2 year or less
- b) between 2 and 5 years (including year number 5)
- c) between 6 and 10 years (including year number 10)
- d) 11 years or more

### **4. Do you consider your company**

- a) Small
- b) Medium
- c) Large

### **5. If you want to find a Chilean counterpart (partner, seller, buyer), which is the most secure way to do it?**

- a) Through a friend
- b) Through Pro Chile
- c) Using the Internet
- d) Through Chamber of Commerce or other Private Institution.
- e) Through Chinese Government
- f) Directly
- g) Other (state). \_\_\_\_\_

6. From your own business experience, please state the importance of the following factors to make successful businesses from 1 to 5 (being 1 the least important and 5 the most important).

	Least			Most	
	1	2	3	4	5
Convenient prices					
Have built a good relationship with your counterpart					
Being supported by the government					
Have developed good relationships within the market (good networking)					
Have a strong corporate reputation (good brand)					
Have a good quality product ( <b>only for exporters</b> )					
Buy big quantities frequently ( <b>only for importers</b> )					

7. According to your own experience trading with Chilean companies, please state if you strongly disagree, disagree, agree or strongly agree with each one of the following sentences:

	Strongly disagree	Disagree	Agree	Strongly Agree
<b>Before I start any negotiation, I need to know personally my potential business partner very well.</b>				
<b>It takes time to build up a solid business relationship with Chileans.</b>				
<b>Cultural distance (different values, language, religion, behaviour) makes business more difficult with Chileans.</b>				
<b>A close relationship with the Chilean counterpart facilitates to share information.</b>				
<b>Having the support of the Chilean Government facilitates business making with Chileans.</b>				
<b>Having the support of the local</b>				

<b>Chamber of Commerce facilitates business making with Chileans.</b>				
<b>When Chileans have Chinese as employees or representatives, it is easier to do business with them.</b>				

**8. Do you consider that the Free Trade Agreement between China and Chile has helped your company to:**

- a) Increase business volume
- b) Make more margins
- c) Feel safer when doing business with Chileans
- d) Have easier access to new businesses
- e) Has not helped at all
- f) Other (state). \_\_\_\_\_

**9. When you do business with Chileans for the first time, which is the first stage of the negotiation?**

- a) ask for the prices
- b) negotiate volume
- c) meet them personally
- d) gather information about them indirectly
- e) Other (state). \_\_\_\_\_

**a) Getting to know your Chilean counterpart and developing a friendship with him/her has helped you to:**

- a) Avoid risks and disappointments
- b) Get better conditions in the deal
- c) Get better quality information about the market
- d) Make the process of business negotiation faster
- e) It has not made any difference for me.
- f) I have not developed any friendship with my Chilean counterparts
- g) Other (state). \_\_\_\_\_

**3. Questionnaire Industrial Federation - Shanghai**

- 1) What is the role of the Industrial Federation regarding Sino Chilean Trade?

- 2) From the Chinese point of view, which are the main reasons to do business with Chile?
- 3) Which are the most interesting areas for Chinese companies (in Chile)?
- 4) In your experience, which are the main advantages for Chinese companies when doing business with Chile?
- 5) Which are the main disadvantages?
- 6) What are the most common problems that may stop commercial trade between China and Chile?
- 7) Do you think that the good diplomatic relationships between China and Chile help to enhance business? If so, why?
- 8) Do you think culture matters when doing business with Chileans?
- 9) How do you keep a good business relationship?
- 10) Which would you say is the Chilean image in the eyes of Chinese companies?
- 11) Evaluation of Free Trade Agreement. Which are the achievements and which are the pending tasks?
- 12) How important is the building of trust with Chileans? Do you think barriers like language or cultural differences make the trust building process more difficult?
- 13) How do you build business trust with Chileans? Which are the bases for trust building?

#### **4. Academic guide topics**

- 1) What is the importance for Chinese government to increase ties with Latin America?
- 2) What was the motivation to sign a Free Trade Agreement with China? Why did China choose Chile? Is there a demonstrative effect for other countries?
- 3) Which are the bases for the Sino Chilean economic and bilateral relationship?
- 4) State the main barriers that may affect this relationship.
- 5) Which is the role of trust in this relationship?

#### **5. Chilean Governmental Questionnaire**

- 1) Which are the main ways to promote Chile?
- 2) Which are the main activities Chilean government is carrying out in China at the moment?
- 3) Which are the main guidelines to build a reputable image in China?



- 4) How are you working with the private sector to enhance business opportunities in China?
- 5) In your experience, which are the key elements for building a trustable relationship with the Chinese?
- 6) Can you tell me about your experience on what are the advantages of being Chilean when doing business in China?
- 7) Can you tell me about your experience on what are the drawbacks of being Chilean when doing business in China?
- 8) What are the main problems encountered by Chilean executives when trying to start a business in China?
- 9) How do you forecast the future of the Sino Chilean bilateral relationship?

### Appendix 3: Categorization of respondents

#	Category	Position (when interviewed)	Interview date	City
01	Governamental Agency	Director	17/10/2008	SAN
02	Private Company, Wine Industry	Sales Representative	12/03/2009	SHA
03	Private Company, Retail	General Manager	28/10/2008	SAN
04	Business Association	Manager International Trade	01/10/2008	SAN
05	Private Company, Wine Industry	Corporate Export Director	10/03/2009	SHA
06	Private Company, Raw Material Industry	Sales Manager	20/10/2008	SAN
07	Private Company, Agro Industry	Business Manager	24/03/2009	SHA
08	Private Company, Trader	Managing Director	10/03/2009	SHA
09	Governamental Agency	Director	06/10/2008	SAN
10	Governamental Agency	Former Commercial Attaché in China	09/09/2008	SAN
11	Academic	Professor	10/10/2008	SAN
12	Private Company, Fish and Sea Food Industry	General Manager	09/03/2009	SHA
13	Private Company, Logistic	Operation Supervisor	14/10/2008	SAN
14	Private Company, Agro Industrial	Managing Director	20/10/2008	SAN
15	Private Company, Importer, Automotive and Construction	Chief Representative	17/03/2009	SHA
16	Private Company, Retail	Vice General Manager	04/03/2009	SHA
17	Private Company, Investment and Trader	Deputy General Manager	12/03/2009	SHA
18	Private Company, Importer, Construction sector	General Manager	15/09/2008	SAN
19	Private Company, Services	General Manager	14/05/2009	BEI
20	Business Association	President	13/10/2008	SAN
21	Private Company Fish and Sea Food Industry	Director	15/09/2008	SAN
22	Private Company, Trader	China Consultant	02/10/2008	SAN
23	Private Company, Logistics	Operations Manager	15/09/2008	SAN
24	Private Company, Trader and Consultant	Managing Director	19/05/2009	BEI
25	Private Company, Raw Material Industry	Product Manager Fertilizer	15/10/2008	SAN
26	Governamental Agency	Legal Consultant, Asia Pacific Department	17/10/2008	SAN
27	Governamental Agency	Institutional Affairs	27/09/2008	SAN
28	Private Company, Construction sector	General Manager	23/10/2008	SAN
29	Private Company, Retail	Chief Representative	25/03/2009	SHA
30	Business Association	General Manager	23/09/2009	SAN
31	Academic	Professor	18/05/2009	BEI
32	SOE, Fruit Importer and Trader	Vice General Manager	04/03/2009	SHA

#	Category	Position (when interviewed)	Interview date	City
33	Academic	Asia Pacific Coordinator	13/10/2008	SAN
34	Governamental Agency	Director Comercial Office	16/03/2009	SHA
35	Private Company, Automotive Industry	General Manager	11/03/2009	SHA
36	Academic	Lecturer	24/10/2008	SAN
37	Governamental Agency	Embassy Official	17/10/2008	SAN
38	Private Company, Fruit Sector	President Assistant	16/03/2009	SHA
39	Private Company, Furniture Sector	CEO	24/03/2009	SHA
40	Legal Advisor	Legal Advisor	14/10/2008	SAN
41	Private Company, Raw Material Industry	Former Asia Manager	10/10/2008	SAN
42	Governamental Agency	Former Vicepresident	02/10/2008	SAN
43	Private Company, Raw Material Industry	Director of Finance and Business Development	14/05/2009	BEI
44	Private Company, Services Industry	Chief Representative	28/05/2009	BEI
45	Private Company, Logistics	General Manager	05/03/2009	SHA
46	Private Company, Raw Material Industry	Sales Director Asia	17/10/2008	SAN
47	Private Company, Holding Group	Consultant	16/12/2008	Phone
48	Business Association	General Manager	14/10/2008	SAN
49	Private Company, Textile Industry	General Manager	09/09/2008	SAN
50	Private Company, Construction Industry	Director / Owner	24/09/2008	SAN
51	Academic	Director Asia Pacific Department	22/09/2008	SAN
52	Private Company, Trader	Owner	06/03/2009	SHA
53	Business Association	International Manager	26/09/2008	SAN
54	Governamental Agency	High Rank Official	18/05/2009	BEI
55	Private Company, Retail	Sales Agent for Asia	21/10/2008	SAN
56	Governamental Agency	Former FTA Negotiator	08/10/2008	SAN
57	Private Company, Agricultural Sector	Executive Director	02/10/2008	SAN
58	Governamental Agency	Asia Pacific Director	24/10/2008	SAN
59	Business Association	President	08/09/2008	SAN
60	Governamental Agency	Commercial	14/10/2008	SAN
61	Academic	Researcher	20/05/2009	BEI
62	Governamental Agency	President	23/09/2008	SAN
63	Business Association	General Manager	16/09/2008	SAN
64	SOE, Mining Sector	Managing Director	25/03/2009	SHA
65	Governamental Agency	Former Commercial Attaché	07/10/2008	SAN
66	Private Company, Importer and Trader	Chief Representative	09/03/2009	SHA
67	Governamental Agency	Former FTA Negotiator	23/09/2008	SAN
68	Business Association		08/10/2008	SAN
69	Private Company, Services	General Manager	29/10/2008	SAN
70	Private Company, Retail	General Manager	05/03/2009	SHA

#	Category	Position (when interviewed)	Interview date	City
71	Business Association	Liason Department	23/03/2009	SHA
72	SOE, Raw Materials Importer	General Manager	26/05/2009	BEI
73	Academic	Professor International Relations	26/09/2008	SAN
74	Academic	Researcher	23/03/2009	SHA
75	Academic	Researcher	27/05/2009	BEI
76	Academic	Researcher	19/05/2009	BEI
77	Private Company, Trader and Importer	Managing Director & Director	17/03/2009	SHA
78	Private Company, Services Industries	General Manager	10/10/2008	SAN
79	Private Company, Logistic	Director /Owner	19/03/2009	SHA
80	Private Company, Wine importer	General Manager	20/03/2009	SHA
81	Academic	Researcher	11/03/09 & 20/03/09	SHA
82	Governamental Agency	Commercial Attaché	10/04/2009	Phone
83	Consultant	Consultant	08/08/2010	SAN

BEI: Beijing, People's Republic of China.

SAN: Santiago City, Chile

SHA: Shanghai City, People's Republic of China

## **Appendix 4: Chinese perception in Chilean media**

### **1. Description of the study:**

The study was carried out in Chile, at the *Consortio Periodístico, Copesa, S.A.*, database, one of the largest media conglomerates in the country ([www.copesa.cl](http://www.copesa.cl)) during the months of September–October, 2008.

Its objective was to measure the perception towards China within Chilean media by looking at the positive/neutral/negative news and editorials published in three milestones related to the Free Trade Agreement: the APEC summit in November 2004 in which the first FTA talks began; October 2005, when the FTA negotiations were concluded, and August 2006 when the FTA was put into effect. These three moments grabbed the media attention and therefore an important amount of news was published at that time.

### **2. Methodology**

The study consisted in running a query with key words: “China +Chile+ TLC” (acronym for Free Trade Agreement in Spanish), in selected Chilean newspapers: *La Tercera*, *La Hora*, *Que Pasa*, *El Mercurio*, *Diario Financiero*, *Estrategia*, *La Segunda*, *Diario 7* (currently not being published) and *El Sur*. The analysis was carried out according to the following criteria: first, all those news and editorial considered not relevant, meaning not being directly connected to the FTA as the main subject in the context, were excluded of the analysis although they appeared in the query results. Categories were defined as negative, neutral, and positive. The negative category covered all those contents (either in the headline or in the main content) as mostly centred in the negative aspects derived from the FTA engagement, for example, those containing certain negative wording as “negative impact”, “warning”, “disadvantages”, etc. A news/editorial was considered neutral when the contents were purely informative, for instance “Talks will start in November” or when the positive/negative aspects were balanced. Positive news included those contents centred in the FTA beneficial outcomes, tied to words such as “benefits”, “advantages”, “opportunities”, “winners”, etc.

These are the dates selected for each query:

1) First sample: APEC Summit in Chile, November 20 and 21<sup>st</sup>, 2004: During the Asia Pacific Economic Forum, APEC, Chinese President Hu Jintao and Chilean President Ricardo Lagos started the conversations for the FTA. The range of data analyzed was from October 1<sup>st</sup> to December 31<sup>st</sup> 2004.

2) Second sample: FTA signing, 18 November 2005: In a ceremony held in South Korea Chinese President Hu Jintao and Chilean President Ricardo Lagos signed the FTA in the framework of the APEC forum. As the negotiations officially concluded the 31<sup>st</sup> of October, the data was analyzed from September 1<sup>st</sup> to November 30<sup>th</sup> of that year.

3) Third sample: FTA application, 21<sup>st</sup> August 2006: After the ratification of both nations, the FTA came into effect. The months of the study were from July 1<sup>st</sup> to 30th September.

### 3. Final Data

Total news analyzed: 693

Total Relevant Articles: 164

Total Neutrals: 38

Total Positives: 100

Total Negatives: 26

**Table 1: Summary of the results Perception Media Study**

	Total Articles	Relevant Articles	Positive	Neutral	Negative
October – December 2004	274	44	27	15	2
September-November 2005	259	77	41	13	23
July – September 2006	160	43	32	10	1

## **Appendix 5: Free Trade Agreement, Dispute resolution**

### **Free Trade Agreement between the government of the People's Republic of China and the government of the Republic of Chile**

#### **Chapter X: Dispute Settlement**

##### **Article 79 Cooperation**

The Parties shall at all times endeavor to agree on the interpretation and application of this Agreement, and shall make every attempt through cooperation and consultations to arrive at a mutually satisfactory resolution of any matter that might affect its operation.

##### **Article 80 Scope of Application**

Except as otherwise provided in this Agreement, the dispute settlement provisions of this Chapter shall apply:

- (a) with respect to the avoidance or settlement of all disputes between the Parties regarding the interpretation or application of this Agreement; and
- (b) wherever a Party considers that a measure of the other Party is inconsistent with the obligations of this Agreement or that the other Party has failed to carry out its obligations under this Agreement.

##### **Article 81 Choice of Forum**

1. Where a dispute regarding any matter arises under this Agreement and under another free trade agreement to which both Parties are parties or the WTO Agreement, the complaining Party may select the forum in which to settle the dispute.
2. Once the complaining Party has requested a panel under an agreement referred to in paragraph 1, the forum selected shall be used to the exclusion of the others.

##### **Article 82 Consultations**

1. Either Party may request in writing consultations with the other Party with respect to any measure that it considers might affect the operation of this Agreement.
2. The requesting Party shall set out the reasons for the request, including identification of the measure at issue and an indication of the legal basis for the complaint, and shall deliver the request to the other Party.
3. The Parties shall make every attempt to arrive at a mutually satisfactory resolution of any matter through consultations under this Article or other consultative provisions of this Agreement. To this end, the Parties shall:
  - (a) provide sufficient information to enable a full examination of how the measure might affect the operation and application of this Agreement; and

(b) treat any confidential information exchanged in the course of consultations on the same basis as the Party providing the information.

4. In consultations under this Article, a Party may request the other Party to make available personnel of its government agencies or other regulatory bodies who have expertise in the matter subject to consultations.

5. The consultations shall be confidential and are without prejudice to the rights of any Party in any further proceedings.

### **Article 83 Commission - Good Offices, Conciliation, and Mediation**

1. A Party may request in writing a meeting of the Commission if the Parties fail to resolve a matter pursuant to Article 82 within:

(a) 60 days of receipt of a request for consultations;

(b) 15 days of receipt of a request for consultations in matters regarding perishable goods; or

(c) such other period as they may agree.

2. A Party may also request in writing a meeting of the Commission where consultations have been held pursuant to Article 58 or 69.

3. The requesting Party shall state in the request the measure complained of and the provisions of this Agreement considered relevant and deliver the request to the other Party.

4. Unless it decides otherwise, the Commission shall convene within 10 days of receipt of the request and shall endeavor to resolve the dispute promptly. The Commission may:

(a) call on such technical advisers or create such working groups or expert groups as it deems necessary;

(b) have recourse to good offices, conciliation, mediation; or

(c) make recommendations,

as may assist the Parties to reach a mutually satisfactory resolution of the dispute.

5. The proceedings under this Article and the positions taken by the Parties during these proceedings shall be confidential and are without prejudice to the rights of any Party in any further proceedings.

### **Article 84 Request for an Arbitral Panel**

1. If the Parties fail to resolve a matter within:

(a) 30 days of the Commission convening pursuant to Article 83;

(b) 75 days after receipt of the request for consultations under Article 82, if the Commission has not convened pursuant to Article 83;

(c) 30 days after receipt of the request for consultations under Article 82 in a matter regarding perishable goods, if the Commission has not convened pursuant to Article 83; or

(d) such other period as the Parties agree,

either Party may request in writing the establishment of an arbitral panel to consider the matter. The requesting Party shall state in the request the measure complained of and indicate the provisions of this Agreement that it considers relevant, and shall deliver the request to the other Party. An arbitral panel shall be established upon receipt of a request.



2. Unless the Parties otherwise agree, the arbitral panel shall be established and perform its functions in a manner consistent with the provisions of this Chapter.

### **Article 85 Composition of an Arbitral Panel**

1. An arbitral panel shall comprise three members.
2. In the written request under Article 84, the Party requesting the establishment of an arbitral panel shall designate one member of that arbitral panel.
3. Within 15 days of the receipt of the request referred to in paragraph 2, the Party to which it was addressed shall designate one member of the arbitral panel.
4. The Parties shall designate by common agreement the appointment of the third panelist within 15 days of the appointment of the second panelist. The panelist thus appointed shall chair the arbitral panel.
5. If any member of the arbitral panel has not been designated or appointed within 30 days from the date of receipt of the request referred to in paragraph 2, at the request of any Party to the dispute the necessary designations shall be made by the Director-General of the WTO within a further 30 days.
6. The Chair of the arbitral panel shall not be a national of any of the Parties, nor have his or her usual place of residence in the territory of any of the Parties, nor be employed by any of the Parties, nor have dealt with the matter in any capacity.
7. All panelists shall:
  - (a) have expertise or experience in law, international trade, other matters covered by this Agreement, or the resolution of disputes arising under international trade agreements;
  - (b) be chosen strictly on the basis of objectivity, reliability, and sound judgment;
  - (c) be independent of, and not be affiliated with or take instructions from, any Party; and
  - (d) comply with a code of conduct in conformity with the rules established in the document WT/DSB/RC/1 of the WTO.
8. Individuals may not serve as panelists for a dispute in which they have participated pursuant to Article 83.
9. If a panelist appointed under this Article resigns or becomes unable to act, a successor panelist shall be appointed within 15 days in accordance with the selection procedure as prescribed for the appointment of the original panelist and the successor shall have all the powers and duties of the original panelist. The work of the arbitral panel shall be suspended during the appointment of the successor panelist.

### **Article 86 Functions of Arbitral Panel**

1. The function of an arbitral panel is to make an objective assessment of the dispute before it, including an examination of the facts of the case and the applicability of and conformity with this Agreement.
2. Where an arbitral panel concludes that a measure is inconsistent with this Agreement, it shall recommend that the responding Party bring the measure into conformity with this Agreement. In addition to its recommendations the arbitral panel may suggest ways in which the responding Party could implement the recommendations.
3. The arbitral panel, in their findings and recommendations, cannot add to or diminish the rights and obligations provided in this Agreement.

## **Article 87 Rules of Procedure of an Arbitral Panel**

1. Unless the Parties agree otherwise, the arbitral panel proceedings shall be conducted in accordance with the rules of procedure set out in Annex 7.
2. The arbitral panel shall, apart from the matters set out in this Article, regulate its own procedures in relation to the rights of the Parties to be heard and its deliberations in consultation with the Parties.
3. The arbitral panel shall take its decisions by consensus; provided that where an arbitral panel is unable to reach consensus it may take its decisions by majority vote.
4. Unless the Parties otherwise agree within 20 days from the date of receipt of the request for the establishment of the arbitral panel, the terms of reference shall be: "To examine, in the light of the relevant provisions of this Agreement, the matter referred to in the request for the establishment of an arbitral panel pursuant to Article 84 and to make findings of law and fact together with the reasons therefore for the resolution of the dispute."
5. Each Party shall bear the cost of its appointed panelist and its own expenses. The cost of the chair of an arbitral panel and other expenses associated with the conduct of the proceedings shall be borne by the Parties in equal shares.

## **Article 88 Suspension or Termination of Proceedings**

1. The Parties may agree that the arbitral panel suspends its work at any time for a period not exceeding 12 months from the date of such agreement. If the work of the arbitral panel has been suspended for more than 12 months, the authority for establishment of the arbitral panel shall lapse unless the Parties agree otherwise.
2. The Parties may agree to terminate the proceedings of an arbitral panel in the event that a mutually satisfactory solution to the dispute has been found.

## **Article 89 Experts and Technical Advice**

1. On its own initiative unless the Parties disapprove, or upon request of a Party, the arbitral panel may seek information and technical advice on matters raised by a Party in a proceeding, from any person or body that it deems appropriate.
2. Before an arbitral panel seeks information or technical advice, it shall establish appropriate procedures in consultation with the Parties. The arbitral panel shall provide the Parties:
  - (a) advance notice of, and an opportunity to provide comments to the arbitral panel on, proposed requests for information and technical advice pursuant to paragraph 1; and
  - (b) a copy of any information or technical advice submitted in response to a request pursuant to paragraph 1 and an opportunity to provide comments.
3. Where the arbitral panel takes the information or technical advice into account in the preparation of its report, it shall also take into account any comments by the Parties on the information or technical advice.

## **Article 90 Initial Report**

1. The arbitral panel shall base its report on the relevant provisions of this Agreement and the submissions and arguments of the Parties.
2. Unless the Parties otherwise agree, the arbitral panel shall:
  - (a) within 120 days after the last panelist is selected; or
  - (b) in case of urgency including those relating to perishable goods within 60 days after the last panelist is selected, present to the Parties an initial report.
3. The initial report shall contain:
  - (a) findings of fact;
  - (b) its conclusions as to whether a Party has not conformed with its obligations under this Agreement or any other determination if requested in the terms of reference; and
  - (c) the recommendation of the arbitral panel on the dispute and the suggestions if requested by the Parties.
4. In exceptional cases, if the arbitral panel considers it cannot release its initial report within 120 days, or within 60 days in cases of urgency, it shall inform the Parties in writing of the reasons for the delay together with an estimate of the period within which it will release its report. Any delay shall not exceed a further period of 30 days unless the Parties otherwise agree.
5. Panelists may furnish separate opinions on matters not unanimously agreed.
6. A Party may submit written comments to the arbitral panel on its initial report within 14 days of presentation of the report or within such other period as the Parties may agree.
7. After considering any written comments on the initial report, the arbitral panel may reconsider its report and make any further examination it considers appropriate.

#### **Article 91 Final Report**

1. The arbitral panel shall present a final report to the Parties, including any separate opinions on matters not unanimously agreed, within 30 days of presentation of the initial report, unless the Parties otherwise agree. The final report shall be available to the public within 15 days thereafter, subject to the protection of confidential information.
2. No arbitral panel may, either in its initial report or its final report, disclose which panelists are associated with majority or minority opinions.

#### **Article 92 Implementation of Final Report**

1. On receipt of the final report of an arbitral panel, the Parties shall agree on the resolution of the dispute.
2. If in its final report the arbitral panel concludes that a Party has not conformed with its obligations under this Agreement, the resolution, whenever possible, shall be to eliminate the non-conformity.
3. Unless the Parties decide otherwise, they shall implement the recommendations contained in the final report of the arbitral panel within a reasonable period of time if it is not practicable to comply immediately.
4. The reasonable period of time shall be mutually determined by the Parties, or where the Parties fail to agree on the reasonable period of time within 45 days of the release of the arbitral panel's report, either Party may, to the extent possible, refer the matter to the original arbitral panel, which shall determine the reasonable period of time following consultation with the Parties.

5. Where there is disagreement as to the existence or consistency with this Agreement of measures taken within the reasonable period of time to comply with the recommendations of the arbitral panel, such dispute shall be referred to an arbitral panel proceeding, including wherever possible by resort to the original arbitral panel.

6. The arbitral panel shall provide its report to the Parties within 60 days after the date of the referral of the matter to it. When the arbitral panel considers that it cannot provide its report within this timeframe, it shall inform the Parties in writing of the reasons for the delay together with an estimate of the period within which it will submit its report. Any delay shall not exceed a further period of 30 days unless the Parties otherwise agree.

### **Article 93 Non-Implementation - Suspension of Benefits**

1. If the Party concerned fails to bring the measure found to be inconsistent with this Agreement into compliance with the recommendations of the arbitral panel under Article 90 within the reasonable period of time established in accordance with Article 92, that Party shall, if so requested, enter into negotiations with the complaining Party with a view to reaching a mutually satisfactory agreement on any necessary compensatory adjustment.

2. If there is no agreement in accordance with paragraph 1 within 20 days after receipt of the request mentioned in paragraph 1, the complaining Party may suspend the application of benefits of equivalent effect to the responding Party if the arbitral panel decides the responding Party does not implement the recommendations contained in the final report to bring the inconsistent measure into conformity within the reasonable period of time established in accordance with Article 92. The complaining Party shall notify the responding Party 30 days before suspending benefits.

3. Compensation and the suspension of benefits shall be temporary measures. Neither compensation nor the suspension of benefits is preferred to full implementation of the recommendations to bring a measure into conformity with this Agreement. Compensation and suspension of benefits shall only be applied until such time as the measure found to be inconsistent with this Agreement has been removed, or the Party that must implement the arbitral panel's recommendation has done so, or a mutually satisfactory solution is reached.

4. In considering what benefits to suspend pursuant to paragraph 2:

(a) the complaining Party should first seek to suspend benefits in the same sector(s) as that affected by the measure that the arbitral panel has found to be inconsistent with the obligations derived of this Agreement ; and

(b) if the complaining Party considers that it is not practicable or effective to suspend benefits in the same sector(s), it may suspend benefits in other sectors. The communication in which it announces such a decision shall indicate the reasons on which it is based.

5. Upon written request of the Party concerned, the original arbitral panel shall determine whether the level of benefits to be suspended by the complaining Party is excessive pursuant to paragraph 2. If the arbitral panel cannot be established with its original members, the proceeding set out in Article 85 shall be applied.

6. The arbitral panel shall present its determination within 60 days from the request made pursuant to paragraph 5, or if an arbitral panel cannot be established with its original

members, from the date on which the last panelist is selected. The ruling of the arbitral panel shall be final and binding. It shall be delivered to the Parties and be made publicly available.

#### **Article 94 Compliance Review**

1. Without prejudice to the procedures in Article 93, if the responding Party considers that it has eliminated the non-conformity that the arbitral panel has found, it may provide written notice to the complaining Party with a description of how non-conformity has been removed. If the complaining Party has disagreement, it may refer the matter to the original arbitral panel within 60 days after receipt of such written notice. Otherwise, the complaining Party shall promptly stop the suspension of benefits.
2. The arbitral panel shall release its report within 90 days after the referral of the matter. If the arbitral panel concludes that the responding Party has eliminated the non-conformity, the complaining Party shall promptly stop the suspension of benefits.

#### **Article 95 Private Rights**

Neither Party may provide for a right of action under its domestic law against the other Party on the ground that a measure of the other Party is inconsistent with this Agreement.

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