



STRATEGIC FILE

No. 8 (35), November 2013 © PISM

Editors: Marcin Zaborowski (Editor-in-Chief) • Wojciech Lorenz (Managing Editor)
Jarosław Cwiiek-Karpowicz • Artur Gradziuk • Piotr Kościński
Roderick Parkes • Marcin Terlikowski • Beata Wojna

Copper Opens the Way to a New Beginning in Polish–Chilean Relations

Kinga Brudzińska

Even though Poland and Chile have not been priority partners for each other in the past, a recent investment by Polish mining company KGHM in Chile could be a game-changer. Cooperation on copper production may form the grounds for the further development of economic and scientific ties, and for stimulating people-to-people contacts.

Chile is the world's largest producer of copper, which is also the nation's most valuable resource. An internationally integrated and open economy with a strong institutional setup, low level of corruption, and a stable and transparent policy framework for foreign investment make the country an attractive partner with which to trade or invest. No surprise then that Chile is the most competitive and easiest country to do business with in Latin America.¹ Chile's competitive advantages were discovered by Polish mining company KGHM (which has the largest European mine output) when it invested in the Sierra Gorda mining project in 2012. The project is expected to be operational for the next 20 years. It is worth mentioning that this was not only the biggest Polish investment in Latin America so far but also the biggest Polish investment abroad in the last 20 years. Even though in 2012 Chilean companies invested \$21 billion abroad (second in Latin America after Mexico), Poland is not yet on the radar.² Therefore, bilateral cooperation in the mining sector could be a game-changer in bilateral economic relations and could translate into closer political cooperation as well as closer people-to-people contacts.³

Good Foundations for Cooperation

Poland and Chile have a 77-year history of diplomatic relations. Established in 1920, they were suspended during Augusto Pinochet's rule (1973–1989). When re-established on 19 March 1990, the contacts between the two countries became increasingly more rich and complex. This is reflected in the growing number of bilateral agreements and mutual visits. Since 1990, Poland and Chile have signed 11 agreements, such as avoidance of double taxation (2000), strengthening and protection of investment (2000), and cooperation in science and technology (2006). Cooperation in defence is also being developed, with the most recent

¹ Ease of Doing Business, Economy Rankings, The World Bank, <http://www.doingbusiness.org/rankings>.

² Chilean companies mostly invest in Latin America (85.5% of FDI).

³ The Polish Ministry of Economy does not report any Chilean investments in Poland. Within the EU, Chile directs its FDI mainly to the United Kingdom, Spain, and the Netherlands (Chilean FDI in the EU constitutes only 3.1% of total Chilean FDI). For more, see: Polish Ministry of Economy, International Cooperation, Chile, www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Chile.htm and Chilean Foreign Direct Investments in the World 1990-2012, <http://www.direcon.gov.cl/inversion/3971>.

related memorandum signed in 2013. In comparison to other emerging Latin American countries, such as Mexico and Brazil, the number of high-level mutual visits kept pace (even though Chile is much smaller than other two in terms of GDP and population).⁴ Former Polish President Lech Wałęsa visited Chile in 1995, Prime Minister Jerzy Buzek in 2000, and President Aleksander Kwaśniewski included Chile in 2002 in his Latin American tour (Brazil, Chile, Colombia, and Peru). These trips were followed by visits by the Chilean minister of foreign affairs (2000) and defence (2004), then by former President Ricardo Lagos to Warsaw in 2002. Recently, Polish delegations, headed by Prime Minister Donald Tusk then by the undersecretary of state with the Ministry of Foreign Affairs, visited Chile in 2008 and 2012.

The main mechanisms of political and economic relations with Chile are consultations between deputy ministers or MFA political directors. In recent years, Polish–Chilean relations have been shaped by a gradually accelerating economic agenda. Even though neither market is a traditional target for the other, they have separately started to engage in each other’s region. Chile sees Poland foremost as a gateway to Central and Eastern European markets. Due to its know-how on doing business with Ukraine, Kazakhstan and Russia, Poland is perceived as an important economic and trade hub in the region. Therefore, Chile in 2010 established in Warsaw an office for ProChile, an agency that aims to attract foreign investments and strengthen Chile’s international position as a destination for foreign investment.

The results of the upcoming presidential elections in Chile, planned for 17 November, should not result in any unexpected changes in Chilean policy toward Poland. Due to the longstanding tradition of consensus amongst the political parties on foreign policymaking, whichever candidate wins, Chile will probably maintain its objective to seek multiple partners and maintain a balanced presence in the world. Therefore, Poland would still be seen as a window to Eastern Europe and at the same time, as a point of entry to the EU single market. If Michele Bachelet, the centre-left candidate from the Nueva Mayoría coalition and former president, wins, there could be some positive change in attitude toward leftist governments in the region. According to a poll released this month by the University Diego Portales, Bachelet should be the winner as her approval rating (37.7%) is significantly higher than for the opposing candidate, Evelyn Matthei, from the ruling conservative Alianza por Chile coalition (12.3%).

Growing Interest and Investments

As of 2012, Chile was the fourth-largest trade partner in Latin America for Poland, after Brazil, Argentina and Mexico,⁵ and the second-highest recipient of Polish foreign investments in the region (after Brazil). In 2012, Polish foreign investments there were 32% higher than a year ago and accounted for \$32 billion. Chile’s investment attractiveness had been confirmed in the first multiannual strategy of the Polish MFA for 2012–2016, in which Chile was mentioned as one of the five most-important countries in the region with which Poland aims to develop, foremost, economic relations, as well as engagement in areas such as climate and energy policy. Therefore, KHGM’s involvement in the Sierra Gorda copper-molybdenum project could help stimulate bilateral trade and investments, and reach the goals of the Polish strategy towards Latin America. The magnitude of the project is reflected in the fact that KHGM’s goal in Chile is to produce on average every year 220,000 tonnes of copper,⁶ 11,000 tonnes of molybdenum, and 1.8 tonnes of gold, starting from 2014. Moreover, the company estimates that it will hire more than 2,000 permanent employees and will contract around 7,000 people. The first signs of growing interest were recent investments in Chile by Polish companies Ingot (cosmetics) and InPost (postal services).

The growing interest in Chile is likely due to two factors. First is the rising capability of Polish companies to invest abroad. The Polish Ministry of Economy (MoE) estimates that around 130–140 Polish companies are

⁴ According to the World Development Indicators database, Brazil is seventh, Mexico is 14th, and Chile is 36th in the World GDP ranking. In regard to total population, they are, respectively, fifth, 11th, and 59th in the world. For more, see: Gross domestic product ranking table, the World Bank, 23 September 2013, <http://databank.worldbank.org/data/download/GDP.pdf> and Population, the World Bank, extracted 28 October 2013, http://data.worldbank.org/indicator/SP.POP.TOTL?order=wbapi_data_value_2012+wbapi_data_value+wbapi_data_value-last&sort=desc.

⁵ *Synthetic Information about Polish Export and Import 2012*, p. 35, www.mg.gov.pl/Analizy/HANDEL+ZAGRANICZNY.

⁶ Copper is essential for making power cables and electrical wiring. It is also used in bridges, cars, fridges and more or less anything that uses electricity. For more, see: KHGM International Ltd., Our Growth Profile, Sierra Gorda Project, www.quadrafnx.com/our-growth-profile/sierra-gorda-project/default.aspx.

ready to go global. As KGHM's example shows, some of them want to turn themselves into global players. The second reason is Chile's good economic performance and openness to the world. In 2012, Chile's economy had positive growth of 5.6%, mainly due to the expansion of business services, commerce, construction, personal services and manufacturing. According to the *Index of economic freedom*, Chile is seventh out of 185 countries in terms of economic freedom (to compare, Poland is 57th).⁷ The UN Economic Commission for Latin America and the Caribbean (ECLAC) states that the average GDP per capita growth in Chile between 2000–2007 of 3.2% was higher than that of Argentina (2.5%), Mexico (2%), and Brazil (1.9%). Finally, Chile is a pioneer in the region in terms of the number of Free Trade Agreements (FTA) in which it participates, which also attracts foreign investors. As of 2013, it had 22 FTAs with 60 countries (even more than Mexico, which is four times larger in terms of GDP), with total market access to 4.2 billion people.

However, at this stage bilateral Polish–Chilean trade remains low, which means that there is potential to conquer each other's markets. Polish total trade with Chile (\$202 million as of 2012) was bigger than with Colombia (\$116 million) and Peru (\$90 million), but smaller than with Caribbean island states such as the Bahamas (\$470 million) or Antigua and Barbuda (\$224 million).⁸ Polish exports to Chile constitute only 0.04% of total Polish sales, and imports account for 0.07% of Polish purchases. Another problem is that the official volume of trade published by the Polish and Chilean authorities differs rather significantly. According to the Chilean National Bank, the trade balance with Poland in 2010 accounted for \$6 million while the Polish MoE assessed it at \$199.8 million. In 2012, the difference was smaller, and bilateral trade stood at \$127 million, according to the CNB, compared with the \$202 million estimate from the Polish MoE.⁹ The volume of trade carried out by other countries reselling Polish products is the probable cause of this difference. The biggest EU exporters to Chile are Germany (a primary Polish trading partner), Italy then Spain (3.6%, 2.6% and 2%, respectively, of total Chilean imports). On the other hand, within the EU the biggest recipients of Chilean exports are the Netherlands, Italy and Spain (4.7%, 3.4% and 2%, respectively, of total Chilean exports).¹⁰

Another good sign of the potential for future cooperation is the continuous growth in bilateral trade. Similar to the whole EU, trade between Poland and Chile has increased significantly since Poland's accession to the European Union, which made the EU–Chile Free Trade Agreement from 2013 binding on the two countries.¹¹ Between 2004 and 2012, Polish trade with Chile grew even faster than between the EU on the whole and Chile (Poland–Chile trade grew fourfold, compared to the EU's three-fold increase). Polish exports to Chile increased from \$17.5 million in 2004 to \$75 million in 2012, and Polish imports grew from \$21.6 million to \$89.4 million, respectively.¹² This growth was put down to an increase in Polish imports in two sectors. The first was copper, which in 2012 constituted 68% of total Polish imports from Chile. The second was agricultural products (mainly dried fruits, wine and hake).¹³ There is a need to further explore opportunities in the mining, infrastructure and green technology sectors.

⁷ 2013 Freedom Index, www.heritage.org/index/ranking.

⁸ *Synthetic Information about Polish Export and Import 2012*, p. 35, www.mg.gov.pl/Analizy/HANDEL+ZAGRANICZNY.

⁹ Bilateral Trade, ProChile (Ficha Polonia 2013).

¹⁰ *Information on Economy and Trade. Chile 2013*, ICEX, www.oficinascomerciales.es/icex/cda/controller/pageOfecomes/0,5310,5280449_5296128_5287111_4661751_CL,00.html.

¹¹ *The EU's bilateral trade and investment agreements—where are we?*, 1 August 2013, http://europa.eu/rapid/press-release_MEMO-13-734_en.htm.

¹² Poland–Chile trade, Eurostat, data extracted 11 October 2013. For more, see: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>.

¹³ Poland imports more from Chile than it exports (the average Polish trade deficit in 2005–2012 with Chile was \$147 million). On the opposite side, Poland exports to Chile such things as mining and construction equipment, cars, cables, wire, tracks, sweet syrups, and potato flakes. For more, see: Information note on Polish–Chilean Economic and Trade Relations, Polish Ministry of Economy, 31 May 2013.

Society

Similar to investment and trade, the two countries cooperate in education, mostly in geology and mining technology. On the Polish side, the AGH University of Science and Technology in Cracow engages the most in the development of Polish–Chilean academic relations. In 1992, the university signed an agreement for education exchanges with Serena University, then in 1994 with the University of Chile and in 2006 with the National University of San Marco and Ibero-American University of Science and Technology. In 2012, AGH signed a six-year agreement with Magno University, which aims in part to educate students in high school who are interested in the mining sector. Although there is no official scholarship programme for Polish students to study in Chile (Mexico is the only country in Latin America with such a programme), KGHM has a project called “Go Global Internships” that offers fellowships in Chile for 24 students from AGH, the Technical University of Silesia, and the Technical University of Wrocław. Therefore, there is still room for both the government and private companies to invest in and stimulate academic exchanges, create traineeships or even “work and travel” summer programmes.

Given the level of cooperation between Poland and Chile during their transitions to democracy (they exchanged experiences with such areas as pension systems and adjustments towards a market economy) and shared values and ideas, they have engaged in supporting democratic transitions worldwide. This common agenda was reaffirmed in their role as founding members of the intergovernmental organisation the Community of Democracies (CD) in 2000. Their commitments in this respect are reaffirmed every two years during CD Ministerial Conferences. Chile, together with Italy, headed the CD’s Poverty, Development and Democracy Working Group, while Poland and Mongolia lead the Working Group on Education for Democracy. Both countries are also working to develop their democratisation policies so they may share their transformation experience with third countries. Additionally, an EU-level dialogue on human rights has been set up within the framework of Association Committees and Councils. EU–Chile dialogue sessions on human rights were held in 2009, 2011 and 2012.¹⁴

Towards Deeper Relations

Bringing relations to the next level would require solid pillars that ensure mutual interest in developing cooperation. For both Chile and Poland, trade and investment, science and technology, as well as democracy support already form the base.

Poland, first and foremost, should focus on maintaining cooperation with Chile in mining and related sectors. The Spanish Institute for Foreign Trade (ICEX) predicts that between 2012 and 2018 there will be \$120 billion in investments in the mining sector, out of which 40% will be designated for machinery and other equipment. Therefore, ICEX projects significant demand for material-handling equipment, such as mechanical shovels, hoppers, and conveyors, as well as other mining equipment, automation elements, and mineral processing.

Second, aside from cooperation in the mining sector, both countries should create a medium- or long-term strategy that would aim at diversifying the areas of economic cooperation. The Polish MoE recognises that there is room in the Chilean market for Polish manufacturers of elements of railway transport (tracks and accessories), construction (windows, doors, parquet), communication (cables), chemicals (fertiliser, tyres, cosmetics), glassware and ceramics. The medium-term strategy could be shaped by the development of cooperation in environmental protection. There are visible synergies between the two countries here. ICEX assesses that in recent years there has been growing demand in Chile for goods and engineering services for ensuring clean water and a low carbon footprint, environmental consulting, solar technology, and wastewater treatment technologies. On the other hand, Poland has recently launched the fourth edition of the innovative project GreenEvo—Green Technology Accelerator—which aims to support domestic companies involved in the development of green technologies for foreign markets.¹⁵ Polish green technologies have a competitive advantage as they are often cheaper than their foreign counterparts (for example, products from Spain) while they have the same good quality. Additionally, Polish companies

¹⁴ *Political Dialogue between Chile and Poland*, http://eeas.europa.eu/delegations/chile/eu_chile/political_relations/political_framework/index_es.htm.

¹⁵ A list of Polish companies participating in GreenEvo can be found here: <http://greenevo.gov.pl/en/companies>.

receive government support for sales to foreign markets (e.g., they take part in commercial missions abroad and receive organisational support for participation in international fairs), which could be useful to present offers to potential Chilean contractors.

Undeniably, it will take more than just government-driven, top-down incentives to invigorate Polish–Chilean business relations, but the recently signed Memorandum of Understanding between ProChile and the Polish Information and Foreign Investment Agency (PAIIZ) should help bring entrepreneurs from both countries closer together. Another recommended step would be to tweak the existing promotional mechanisms by establishing better information and media cooperation to promote Polish products in Chile and vice versa.

With regard to academic cooperation, it is recommended that a joint network for science, technology and innovation be created to stimulate the implementation of projects between Polish and Chilean academic and research institutions for the long term. Establishing such a network could be possible thanks to a call launched by the Chilean National Commission for Scientific and Technological Research (CONICYT), which aims to promote establishing cooperation and finding synergies and solutions to common problems between academic and research centres outside Chile. CONICYT offers up to \$16 million towards the implementation of a joint project.¹⁶ Polish and Chilean institutions could also make use of the European Union–Latin America and Caribbean Foundation (EU-LAC), which aims to connect related networks and to increase interaction between civil society and government to foster participation in the bi-regional partnership. The foundation offers two kinds of funding: open calls (twice a year) for research projects on topics concerning the bi-regional relationship, or up to €30,000 and consultation on the elaboration of specific studies.

Finally, the two countries could also work closer on sharing their democratic transformation experiences. Poland and Chile, which had different but successful experiences with this, could support countries undergoing it elsewhere in the world. Some aspects of the Polish and Chilean transformation experience, such as national reconciliation and establishing civilian control of the military, could be relevant to such countries as Egypt and Tunisia. This type of cooperation could be mutually beneficial as it could strengthen the Polish presence in the Middle East and North Africa and make Chile the first Latin American country to strengthen its democratisation agenda. In light of the upcoming Community of Democracies' Ministerial Conference in El Salvador in 2015, Chile and Poland could work closely in pursuing the goals of their Working Groups or even create a joint Working Group that would specialise in sharing Central and Eastern European and South American expertise. Moreover, financial support for non-governmental organisations, cooperation in the development sector or in the field of democracy support, and joining the NGO pillar Community of Democracies association could help develop social relations and broaden networking possibilities. Track-2 diplomacy in science and technology and democracy support could create a solid basis for tightening relations between Chile and Poland in the long term.

Given the opportunities in these fields, Poland and Chile have a good chance to revive the spirit of cooperation they held in the 19th century. Then, Polish geologist Ignacy Domeyko, who arrived in Chile in 1838, not only laid the foundation for the country's understanding of its geology and contributed to improving its mining technology but also spurred a spark of closer bilateral cooperation, which now could be re-kindled.

¹⁶ *Support for Creation of International Networks between Research Centres 2013*, www.conicyt.cl/dri/2013/03/27/formacion-redes-entre-centros-investigacion-2013.