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Chinese advances in Chile

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For more than twenty years, successive Chilean governments, on both the right and the left, have sought to integrate their country, with its back to the Andes mountains, into the Pacific rim's flourishing economy. Chile has already tied itself to Asia and other parts of the world through Latin America's most extensive web of free trade agreements, including the first and, arguably, the most advanced FTA with the People's Republic of China (PRC), the 2005 Trans-Pacific Strategic Economic Partnership (P4), the 2018 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11), and the Pacific Alliance, among others.

With a relatively sophisticated and internationally-oriented business community, alongside the help of its export promotion organization ProChile, the country has been among the most successful in the region in positioning value-added agricultural products, such as wines, table grapes, blueberries, and cherries, in the Chinese market. Indeed, ProChile, which opened its first office in Shanghai in the 1990s, was the blueprint for other Latin American trade promotion organizations not only in their approach to China but in general. Symbolically, Chile's current ambassador to China, Luis Schmidt, arrived at his position after a successful career in China-oriented trade expansion, particularly as head of Chile's National Federation of Fruit Producers (FEDEFRUTA) pioneering Chile's unprecedented placement of its fruit in the Chinese market. However, the value of Chile's signature agricultural exports to China pales in comparison to its exports of low value-added commodities, particularly copper and potassium nitrate.

Chile's lucrative cherry exports to the PRC were put at risk by stories in the Chinese media that the fruit was contaminated by COVID-19. Some in Chile's leadership saw the stories, permitted by the Chinese state-

controlled media despite the contaminated cherries not being from Chile, as a warning to the Chilean government to moderate actions it was taking in other areas. The level of Chinese engagement with Chile has expanded significantly during the past two decades, not only in terms of trade, but in the physical presence of Chinese companies in the country, as well as through political and educational ties and military and space cooperation. In April 2019, the two countries signed a multi-year “Joint Action Plan” to advance their relationship. The agreement included fourteen areas for advancing cooperation, highlighting its breadth.

Chile’s relationship differs, at least superficially, from how leftist populist regimes, such as those in Venezuela, Ecuador, Bolivia, and Argentina have engaged with the People’s Republic of China. Nowhere in the region is there a better test of the hypothesis that, with transparency and strong institutions, a country can economically benefit from trade, loans, and investments from the PRC, while avoiding the associated risks. In a testament to Chilean aversion to being manipulated and bullied, China’s aggressive “wolf warrior” ambassador in Chile, Xu Bu, was discretely forced to give up his posting early and return to the PRC because he was seen as too aggressive for Chile, which takes pride in its strong institutions and autonomy.

Unfortunately, Chile’s institutional strengths have not completely inoculated it against the risks of engaging with the PRC. The COVID-19

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pandemic has deepened Chile's vulnerability to Chinese influence; with relatively few firms looking to make new investments in the South American country in the near future, and numerous Europe-based companies looking to sell off assets, there are few alternatives beyond Chinese investors.

This article examines China's engagement with Chile and finds evidence that Chile's transparency and institutional strength have arguably been the most helpful in securing benefits from the relationship with China, including restricting and/or stopping projects that would have caused significant environmental harm. Yet, the Chilean experience also suggests that even in countries with robust and transparent institutions, engagement with the PRC presents significant, persistent risks that require constant vigilance, including pressures that undermine those same institutions and undercut the country's realization of value added from its own resources.

Political and institutional engagement

Due in part to Chile's long-standing transpacific focus, its relationship with China has a level of normalcy not shared by many other Latin American countries. The duality of Chile's continuing close relationship with the West, whilst at the same time maintaining a strong relationship with the PRC, has its roots in the military government of Augusto Pinochet in 1973—with China being one of only two Communist countries that did not sever ties with the far-right regime. On the contrary, it preserved its diplomatic recognition and continued to build a positive relationship with Pinochet's conservative government, even though the socialist government of Salvador Allende, which Pinochet ousted with significant international criticism, would have seemed more ideologically aligned with China.

Chile has embraced the full range of political and economic vehicles for binding itself to the PRC. In 2012, Chile became a strategic partner of the PRC, subsequently upgrading the relationship to “comprehensive strategic partner” in November 2016. Then, in November 2018, Chile joined China’s Belt and Road Initiative, and in July 2019, the country was accepted into the PRC’s associated institution for finance, the Asia Infrastructure Investment Bank.

All of Chile’s contemporary presidents, on both the left and the right ends of the political spectrum (most recently former President Michelle Bachelet and President Sebastián Piñera), have traveled to the PRC, some on multiple occasions. Due to pandemic-related restrictions, President Piñera’s last visit was in April 2019, in conjunction with China’s Belt and Road summit. However, the president did speak by telephone with Chinese President Xi as recently as December 2020. In addition to official presidential and ministerial-level interactions, delegations of Chilean congresspersons and other politicians regularly travel to the PRC as guests of the Chinese government, a phenomenon generating some criticism within Congress itself, given the relative lack of public criticisms of the PRC by Chilean congressmen.

Trade

As in the rest of the Latin American region, and particularly in South America, Chile’s commerce with China has grown exponentially in the past two decades. In total, trade grew by a factor of 17, from USD \$2.3 billion in 2002 to USD \$39.2 billion in 2019, making the PRC Chile’s number one trading partner. Within that same time period, China’s exports increased from USD \$1.2 billion to USD \$22.7 billion, and its imports increased from USD \$1.1 billion to USD \$16.5 billion.

Trade growth has been facilitated by the aforementioned FTA between the two countries, which went into effect in 2005, and was expanded to include trade in services and other elements in 2017.

Chile's export profile with the PRC is principally characterized by low value-added commodities, including copper and potassium nitrate (used as a fertilizer). As of 2019, 49 percent of all Chilean copper exports were destined for China. Chile also exports some timber and paper products to the PRC. However, what distinguishes Chile among the other countries in the region, is their successful marketing of wines and fruits (particularly cherries, blueberries, and grapes) as luxury products. While such exports are growing as a portion of Chile's overall exports to the PRC, their total revenue continues to be eclipsed by lower value-added commodity exports. According to the Chilean International Trade Subsecretariat (SUBREI), in 2019, cherries, although a lucrative and high-profile export, nonetheless accounted for only seven percent of Chile's exports to China. Other fruits and wine exports did not even make it to the top ten of the export commodities list.

With respect to its imports from China, according to SUBREI, Chileans purchase a broad range of higher value-added goods and services, with over 70 percent of Chinese sales to Chile consisting of telephone equipment, monitors, and other electronics, as well as cars, motorcycles, and other motor vehicles. Chile has become the most significant market, outside the PRC itself, for China's foray into electric vehicles. To date, Chilean municipalities have even purchased 410 electric busses from Chinese firms, including BYD, Yutong, and King Long.

Chinese mining activities in Chile

Mining is one of the pillars of the Chilean economy, and one of the principal vehicles for economic engagement with the PRC. Chile's

restrictions on foreign mining investment have shaped the trajectory of Chinese activity in the sector, until recently, focusing it on the purchase of Chilean copper and associated metals, rather than the ownership of the mines themselves. In 2005, the Chinese trading corporation China Minmetals signed a major advance purchase agreement with the Chilean state-owned mining company CODELCO, providing the latter with an initial loan of USD \$550 million at a 6 percent interest rate to expand its operation in exchange for future copper deliveries at negotiated prices. The long-term agreement was criticized for locking in a lower-than-market price for Chile's copper whilst international prices increased. It also led to tensions because the Chinese had hoped to secure a controlling interest in the Gabriela Mistral (Gaby) mine, which is being developed by CODELCO, but they were blocked by Chilean regulators.

Chinese firms have also invested in Chilean mining projects. The most notable, albeit small, example is the San Fierro Mine, acquired by the Hebei-based Chinese firm Wenfeng. When the copper advance purchase agreement with CODELCO expired in 2017, CODELCO and Minmetals subsequently signed an additional accord, reportedly including Chinese rights to explore lithium and acquire rights to mines in the country in the foreseeable future.

The most significant Chinese advances in Chile's mining sector involve the PRC's access to Chile's reserves of lithium, critical for the production of batteries used to power modern electric vehicles, electronics, and defense technologies. The northern territories of Chile and Argentina, and the southern territory of Bolivia, form the "lithium triangle," which represents the world's most significant source of the strategic mineral outside of the PRC itself.

In 2019, Chilean regulators approved a USD \$4.1 billion deal in which the Chinese firm Tianqi acquired a 24 percent stake in the Chilean company

SQM, involved in the extraction of lithium from the Atacama salt flats. The approval was made after extended negotiations and involved strong concerns by the Chilean partners, including the Pampa group, led by Chilean businessman Julio Ponce Lerou. The apprehension was that the deal would allow Tianqi to obtain protected strategic information from the miner. SQM and Tianqi's ability to extract from the Atacama salt flat mine has also been hampered by environmental factors since extraction consumes significant quantities of the region's scarce water. On top of that, Tianqi is reportedly hampered by financial difficulties, which may restrict its ability to maintain or expand its stake in the enterprise.

Electricity infrastructure

Beyond mining, the PRC has made significant advances in Chile's electricity generation and transmission sectors. In 2018, China's Southern Power Grid purchased a 27.7 percent stake in Chile's largest transmission company, Transelec, for USD \$1.3 billion. In 2019, China Three Gorges acquired Atiaia energy, giving it control over a range of renewable energy projects, including a 90-megawatt hydropower facility proposed in the environmentally sensitive BioBio region. In 2020, the Chinese giant State Grid completed its USD \$2.23 billion acquisition of a 100 percent stake in Chilquinta Energía, the third-largest distributor of electricity in Chile, from the energy infrastructure company Sempra Energy. As with Sempra's sell-off of Luz del Sur in neighboring Peru, the company reportedly facilitated approval of the deal among Chilean regulators in order to receive the 'premium' price that the Chinese paid to obtain the assets so that it could focus more fully on the U.S. and Mexican markets.

Just six months later, in December 2020, State Grid further expanded its presence in Chile, signing an additional USD \$3 billion deal to acquire Compañía General de Electricidad (CGE) from the Spanish firm Naturgy.

With a very high prospect of approval, those acquisitions will give PRC-based companies control of 57 percent of all power distribution in Chile.

While the relative newness of the acquisition makes evaluation of Chinese management of the projects difficult, according to the sources that were interviewed for this article—with close insight on the project—there are some concerns regarding preferences by the new owners to favor Chinese vendors in acquisitions related to its maintenance, the management of and investment in the grid.

Despite such a significant and growing presence in the South American country, not all of the projects led by PRC-based companies have gone forward as planned. In the south of Chile, China National Water Resources and Hydropower Corporation was positioned to have a construction role in the Hidroaysen project involving the construction of five hydroelectric facilities along the Baker and Pascua rivers in Patagonia, with State Grid bidding to build the transmission lines moving electricity from the stations across Chile. However, the project was halted in 2014 following popular resistance to its environmental impacts, particularly the construction of long transmission lines across Patagonia.

Transportation infrastructure projects

China's most significant transportation infrastructure projects have traditionally occurred with politically receptive and financially needy populist regimes. Nonetheless, in recent years, PRC-based companies have successfully secured projects through public-private partnerships and other similar new contracting vehicles in countries with relatively strong public contracting infrastructures such as Chile. Some examples include: the phase one award to PRC-based companies for Chilean Route 5, which runs from Talca to Chillán, and the possible participation by China Railway Road Corporation (CRRC) on the upgrade of Line 7 of the

Santiago metro (although China faces an uphill battle because the metro infrastructure is mainly built with Spanish and other European equipment). In August 2020, China Road and Bridge Corporation won a USD \$224 million concession to build three public hospitals as part of the Maule Network. CCCC companies, China Harbour Engineering (CHEC) and China Road and Bridge Company (CRBC), are reportedly positioned to bid on a number of the USD \$14 billion in public infrastructure concessions the Chilean Ministry of Public Works is expected to put up for public bids through 2024. In addition, the key Chilean port of San Antonio (Valparaiso) is expected to solicit bids to support a major expansion, in which Chinese logistics firms are expected to dedicate significant effort to win a role. Experts consulted for this article reported that Chinese firms appear to be getting better at competing for such projects in general, including partnering with local companies and law firms and hiring and integrating local staff.

As with the electricity sector, Chinese firms have also suffered some setbacks in their pursuit of infrastructure projects in Chile. China Railway Group and China Road and Bridge, for example, decided to withdraw from their participation in the construction of the proposed massive 2.6-kilometer Chacao suspension bridge, which would have connected the Chilean island of Chiloé to the mainland, when they came to understand that they did not have a favored inside track as initially thought. The project was subsequently awarded to a consortium led by the South Korean conglomerate Hyundai. A railway to be constructed by Chinese companies between Santiago to Valparaiso also failed to come to fruition.

Telecommunications

As everywhere in the Latin American region, Chinese companies Huawei and ZTE have played an increasingly important role in Chile's telephone and telecommunications equipment market, including becoming

important suppliers to Chile's telecommunications companies, serving as the almost exclusive supplier of the new operator WOM, as the principal supplier to Movistar (Telefonica), and as an important supplier to Claro (with Entel still relying principally on Ericson and Nokia equipment).

Huawei, which has also built a major cloud data center in the country, is now reportedly the leading contender to provide 5G networks for which the Chilean government has initiated the building of supporting infrastructure. In Chile's 5G bandwidth auction, held in late January, WOM, which relies almost completely on equipment by Huawei, leveraged capital from a recent USD \$450 million bond issuance to win a significant bandwidth across the relevant 5G spectrums, positioning Huawei to play a major role as WOM, Movistar, and Claro build out their 5G networks in the coming years.

Beyond cellular communication and data markets, PRC-based companies also sought (unsuccessfully) to build a trans-Pacific fiber optic cable from Chile all the way to China through Hong Kong, which would have provided the Chinese government with the power to intercept a significant amount of data moving from South America across the Pacific. Huawei Marine Networks could still participate in the project; however, with Australian restrictions on its equipment for national security reasons, it is unlikely that such a bid would be competitive. Chinese financing and/or participation in fiber optic lines from Chile to Antarctica (extending the Huawei-built Fiberoptico Austral network), or a possible trunk line connecting the transpacific cable to Antarctica, is still possible.

Space cooperation

China's involvement in the space industry in Chile has not received the attention given to neighboring countries like Argentina, where a Chinese deep-space radar was built in Neuquén. Nonetheless, the PRC does have a

presence in an observatory near the remote desert town of Paranal in northern Chile. Besides that, a separate attempt to build an additional facility in the city of Antofagasta—exclusively for PRC personnel—was made but ultimately blocked.

Chinese firms have expressed interest in launching or developing satellites for the Chilean government on multiple occasions. Particularly to replace Chile's aging, U.S.-made FASAT-C constellation. However, the Chilean government opted for an Israeli system to update, redevelop, and relaunch the satellites.

Banking and e-commerce

Due to Chile's strong institutions and flourishing financial sector, the nation has become a key Chinese financial hub in South America. In May 2015, the PRC and the Chilean government signed a USD \$8.1 billion currency swap agreement to facilitate trade between the two countries—although the instrument has not been greatly used. Given Chile's relatively healthy financial situation and access to international currency markets, Chinese policy banks have not made major loans to the country.

Nonetheless, China Construction Bank and the Bank of China have operated in the country since 2016 and 2018, respectively. Beyond traditional banking, the Chilean government and its companies have actively worked to place Chilean products in China through access to PRC-based e-commerce platforms such as EMall (with the help of the Chinese government), while Chinese access to Chile's domestic market is facilitated by platforms such as AliExpress and Mercado Libre.

China-Chile COVID-19 diplomacy

As with most countries in Latin America, Chinese sources sold, or otherwise provided, medical supplies and other goods to aid and support Chile's response to the COVID-19 pandemic. In May 2020, for instance,

Chinese sources provided 21 tons of personal protective gear and other medical supplies to Chile. However, despite the donations of such equipment and other medical items from the Chinese government, the vast majority of COVID-19 related assistance either came from Chinese private sources such as the Jack Ma Foundation or was acquired by Chilean businessmen.

The characterization of COVID-19 transactions between China, the Chilean government, and the press often gave the inaccurate impression that they were gifts from the Chinese government, with the qualification that the goods mentioned were bought or came from private sources buried in the later paragraphs of the story. In April 2020, for example, Chilean businessmen organized a purchase of hundreds of ventilators from companies in China. The mischaracterization of the purchase as a Chinese government gift became a controversy when former Chinese Ambassador to Chile Xu Bu said that he had no knowledge of such an official transaction.

With respect to vaccines, Chile has received more doses of vaccine from the Chinese (from Sinovac Biotech) than any other country in Latin America, except Venezuela, despite the relatively low efficacy of the Sinovac vaccine compared to Western alternatives. Sinovac conducted Phase III trials in Chile, among other places, and the Chilean government subsequently contracted with the Chinese firm for 10 million doses of its product, as part of the 35 million doses of vaccine that it has signed agreements to obtain from a range of global providers. At the end of January 2021, the first 4 million doses of the Sinovac vaccine arrived on two airline flights. While the Chileans consulted for this work would have felt more comfortable with taking a non-Chinese vaccine, most took the Sinovac vaccine without complaint, as it was the most available.

Education and media linkages

Chile's relatively strong educational institutions, and Asia-oriented government bureaucracy, have facilitated the development of a sophisticated educational and intellectual infrastructure for engaging with China. As noted previously, major Chile-based companies, with the support of the Chilean government, have been relatively successful in marketing their high-end products in the PRC, from wines to cherries and grapes. The Chilean export promotion organization, ProChile, has a relatively sophisticated, long-standing presence in the PRC, with offices in Beijing, Shanghai, and Guangzhou.

Many major Chilean universities now have China studies programs, including business-oriented activities and Chinese language programs. Reciprocally, Chile is host to three Confucius institutes: The Catholic University in Santiago, the University of Santo Tomas in Vina del Mar, and the University of La Frontera in Temuco (Araucana). Including satellite campuses and classrooms, Chile has a total of 21 Confucius Institute sites across the country (more than any other in the region). In addition, the University of Santo Tomas is host to the regional center for Confucius Institutes for all of Latin America (CRICAL), with an entire building dedicated to the function. The institute even holds an annual event in which they give away a Chinese car to a lucky registered visitor.

In addition to providing relatively inexpensive Chinese language training through the Confucius Institutes, the Chinese education and culture promotion organization, Hanban, has long offered scholarships for Chileans to study in the PRC, making at least 17 such scholarships across a range of categories available in 2021.

Beyond Confucius Institutes, many Chilean universities—and particularly the Catholic University—have highly beneficial economic relationships with the PRC and Chinese students, creating pressures to avoid offending the PRC through overly critical public discourse or curriculum content.

With respect to the media, despite Chile's tradition of professional, independent journalism, the influence of China is visible. The Chilean newspaper *La Tercera*, whose economic difficulties led it to cease its print edition, had an agreement with China Media Group, in which the latter provided the newspaper with significant China-related content. Other major Chilean newspapers, such as *El Mercurio*, have long accepted paid Chinese content.

Illegal and unregulated fishing

Chile has long had difficulties with Chinese fishing fleets, leading it to exclude Chinese fishing vessels from accessing Chilean ports in the early 2000s. The Chinese fleet regularly fishes in, or just outside of, Chile's exclusive economic zone. Since 2016, 18 of 22 recorded violations of Chile's internationally recognized Nazca-Desventuradas Marine Park were caused by Chinese vessels. The Chilean Navy was mobilized as recently as December 2020 to protect against 11 Chinese fishing vessels suspected to be seeking opportunities to fish without authorization in Chilean waters.

Although Chile has one of the most capable navies in the region, the enormous size of its EEZ, reflecting the length of its coast, has made vigilance against the actions of the Chinese fishing fleet difficult. The Chinese government has continued to avoid recognizing and accepting responsibility for the incursions into Chilean waters.

Security Cooperation

Chilean security cooperation with the PRC has been limited yet important. On the one hand, Chile's relatively well-financed, Western-oriented military and elite national police (*Carabineros*) have traditionally procured top-of-the-line systems from the U.S., European, and other advanced providers—rather than, generally less expensive and less capable, Chinese

equipment. Nonetheless, Chinese military vendors are regular participants in Chile's major naval military trade show [Exponaval](#), and its air trade show, [FIDAE](#).

Similarly, the Chileans have traditionally operated their own high-quality training and professional military education programs, supplemented by significant participation in, and trusted access to, elite Western programs. Chile's government has also generally avoided significant institutional ties with the People's Liberation Army (PLA).

Nonetheless, Chile's orientation as a Pacific-facing country, important transpacific maritime routes, and its extensive and exclusive economic zone, have led Chile's military to maintain some ties with the PRC. These have included [military diplomacy](#), the sending of limited numbers of Chilean officers and other personnel to training and professional military education (PME) programs in China; Chinese officers occasionally attending Chilean military courses (including the Command and General Staff Course of the Chilean Navy); [institutional visits](#); engagement with the Chinese in Pacific military forums, such as the [Western Pacific Naval Symposium](#) and the multinational [exercise RIMPAC](#); and a stop in Chile by the PLA Navy hospital ship [Peace Ark in December 2018](#), in conjunction with the Chilean military trade show Exponaval.

Chile previously hosted PLA officers for Chinese language instruction in both the Chilean Army War College and in its national military college ANEPE, as well as briefly in its military foreign language school—however, all three programs have since been terminated. In October 2013, the Chilean military conducted a small-scale combat exercise with [two visiting Chinese missile frigates and a support ship](#), although Chile has not publicly conducted similar engagements since that time.

Beyond military-to-military relations, Chinese firms such as Dahua and Hikvision sell surveillance equipment to Chilean municipal governments, particularly in the greater Santiago area, including one project involving the installation of 1,000 cameras. A Chinese firm also made a high-profile bid for a major contract to provide airport security screening equipment to the Santiago International Airport, but did not win the bid.

Conclusions

Chile stands out as an example in the region of how the PRC and its companies are adapting and advancing in even the most strongly institutionalized countries of the region. China's growing presence in lithium, electricity transmission, and 5G suggests that, in some cases, existing institutional procedures alone may not be sufficient to prevent advances of concern.

Chile is moving toward the April 2021 election of a Constituent Assembly, which will consider broad changes in the nation's constitutional and legal structures that could impact China's position in the country, as well as Chile's ability to administer that relationship. Although no one is certain of what will ultimately come of the assembly, the nationalization of the lithium sector, in which the PRC is seeking a key stake, could be on the table.

As Chile considers changes to its system of governance, it is also worth considering how the nation's existing structures, however potentially unjust, have played an important role in securing benefits from, and protecting against, the more predatory elements of PRC engagement. Both the positive aspects and the limits of Chile's example merit further attention by other nations in the region, both in terms of how to achieve benefit from engaging with the PRC through strong, transparent institutions and what to guard against.

Evan Ellis is a Latin America Research Professor with the U.S. Army War College Strategic Studies Institute. The views expressed herein are strictly his own. The author would like to thank Ambassador Jorge Heine, Jorge Rosenblut, Pamela Arostica Fernandez, John Griffiths, and Enrique Alwayay, among others, for their contributions to this work.

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