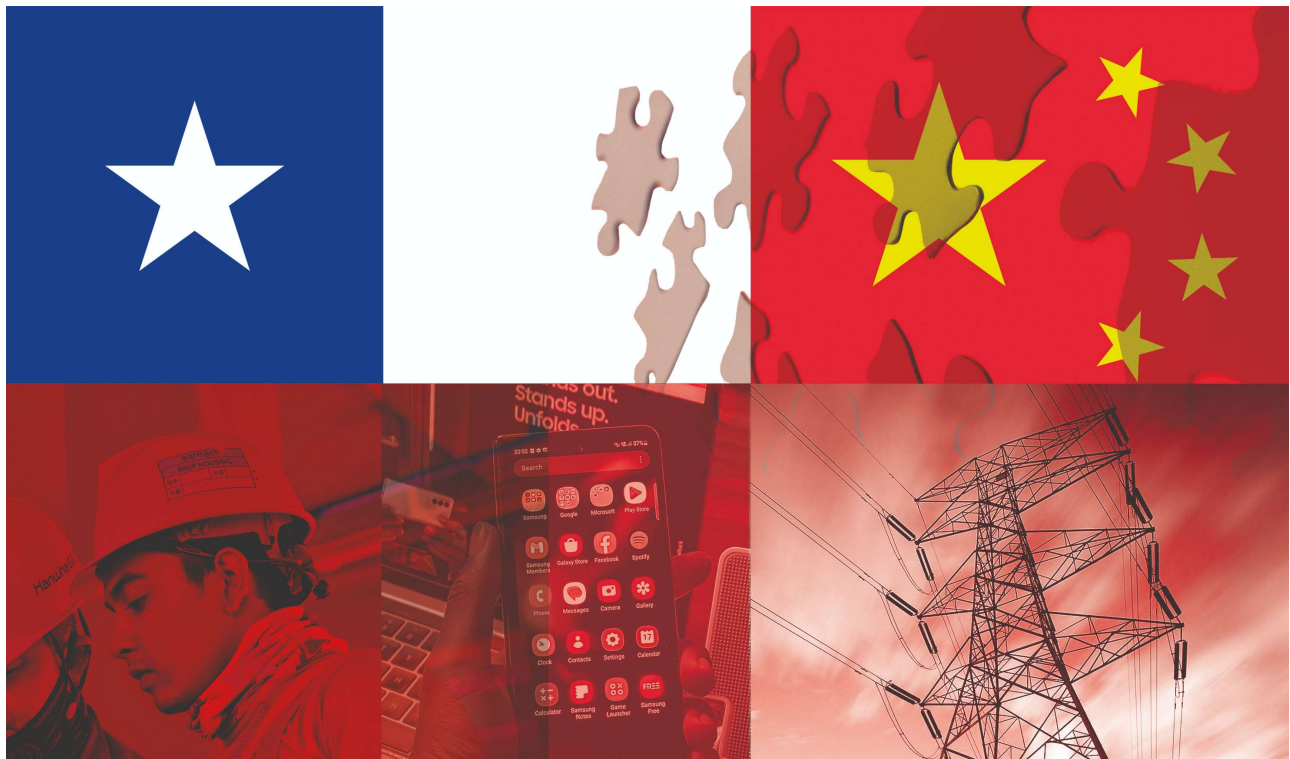




## China's Advance in Chile



Illustration/Diálogo

BY R. EVAN ELLIS

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### Introduction

In October 2023, Chilean President Gabriel Boric [traveled to the People's Republic of China](#) (PRC) to participate in a forum commemorating the 10th Anniversary of the Belt and Road Initiative, and for bilateral meetings with Xi Jinping and senior members of his government. President Boric was accompanied by a delegation of both government and business leaders, including the Chilean business promotion organization SOFOFA. In parallel with his visit, the PRC-based company Tsingshan, announced a planned new [\\$233 million investment](#) in Chile's lithium sector, making batteries from materials obtained at concessionary prices from the SQM lithium operation in which China's Tianqi has a stake. On the other hand, just before Boric's visit, the Chinese pharmaceutical company Sinovac announced that for "[strictly commercial reasons](#)" it would not proceed with a planned \$100 million investment in a vaccine distribution facility in Santiago and an associated research facility in Antofagasta.

This work looks at the evolution of the Chile-PRC relationship, in the context of President Boric's visit to the PRC.



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As noted by Chilean scholar [Pamela Arostica](#), Chile has led Latin America in advancing its relationship with China in numerous areas. It was the first country in South America to diplomatically recognize the PRC, with the socialist government of Salvador Allende establishing relations with the PRC in December 1970. The PRC pragmatically [chose to continue relations](#) with the military government of Augusto Pinochet, after the Chilean military deposed Allende in a coup in September 1973.

Chile was also the first country in the region to advocate PRC entry into the World Trade Organization (WTO), doing so [in 1999](#). It was also the first to recognize the PRC as a "market economy" [in 2004](#).

Reflecting the longstanding relationship between the two countries, Chile was recognized by the PRC as a "[strategic partner](#)" in 2012, then as a "[comprehensive strategic partner](#)" in 2016. With the relationship, the two governments established mechanisms for ongoing coordination on economic and other issues. In 2018, Chile [joined China's Belt and Road Initiative](#) (BRI) one of the first countries in the region to do so. In 2019, Chile joined the PRC institution for financing BRI projects, the [Asia Infrastructure Investment Bank](#) (AIIB).

**PRC-Chile trade**

As with most countries in Latin America, Chile's trade with the PRC has expanded exponentially since the PRC was admitted into the WTO. Chile's imports from the PRC expanded from [\\$1 billion](#) in 2001 to [\\$26.4 billion](#) in 2022, while its exports to the PRC grew from [\\$1 billion](#) to [\\$38.4 billion](#). As a product of its relatively low value added exports of copper to the PRC, Chile is one of the few countries in the region to have a net trade surplus with the country.

Driven in part by the hopes generated by the expanding economic relationship between the two countries, Chile was the first country in Latin America to sign a free trade agreement with the PRC. The agreement, [signed in November 2005](#), was part of a series of agreements Chile negotiated during that period, principally with Asian nations, as it worked to strengthen its integration into the global economy. For the PRC, according to senior Chileans knowledgeable of the matter, the negotiation with Chile was seen as a learning opportunity for a multi-nation trans-Pacific agreement involving the United States and other major actors that China eventually hoped to pursue. Chile subsequently negotiated a supplemental agreement with the PRC for trade in services, [signed in April 2008](#).

Copper and other mining sector goods currently accounts for [over 84 percent of the value](#) of Chile's exports to the PRC. Nonetheless, Chile's government and businesses have been successful in marketing Chilean wine, salmon, [cherries](#), and table grapes to the PRC. Its trade promotion organization [ProChile](#) is considered the [best such organization in the region](#) for working with the PRC market, and has offices in [Beijing, Shanghai, and Guangzhou](#).

Chile's success owes in part to the promotion of its "national brand" in the PRC. Chile has successfully marketed its grapes, cherries, and blueberries in China as "luxury goods," associated with holiday festivities and gift-giving, permitting Chile to sell them at a premium, including their importation via costly means such as via aircraft and in refrigerated shipping containers. Chilean salmon was approved for sale to the Chinese [market in October 2023](#), and Chileans are hoping for another export success in the PRC similar to that achieved by their fruits.

**Mining**

Mining has long been the core of Chinese economic engagement in Chile. Chile's nationalized copper industry, run by the Chilean state company COLDECO, has prevented significant investment by PRC-based companies in the sector, by contrast to substantial PRC mining investments in neighboring Peru.

In 2005, China Minmetals signed a [\\$550 million advanced purchase agreement](#) with COLDECO, funding the expansion of the industry in exchange for Chinese access to copper at an agreed-upon price. The agreement, designed to fund COLDECO's expansion of its mining capacity, prejudiced Chile when global copper prices subsequently rose, obligating CODELCO to sell much of its output to the PRC at below-market prices.

The PRC had also believed that as part of the agreement CODELCO would sell it an interest in the new Gaby copper mine. The Chilean government, which understood the sale of an interest in Gaby [as a mere possibility](#), later [decided not to sell it](#) to the Chinese. According to senior Chileans with knowledge of the matter, this decision created bad feelings on China's side that impacted PRC investment in the sector for years.

In recent years, lithium has become the new focus of Chinese mining investment. In 2018, the Chilean government approved a \$4 billion deal in which the Chinese company Tianqi acquired [a 24 percent interest in Sociedad Quimica de Minerera](#) (SQM), one of the two owners of major lithium concessions in the country, the other being the [U.S.-owned company Albemarle](#). The declared interest by the Boric government to [nationalize the lithium industry](#), and establish a state-owned lithium company on the model of CODELCO, caused some consternation, but has not fully deterred Chinese investors.

As noted previously, the Chinese company Tsingshan committed to [build a \\$233 facility](#) in Chile for processing lithium into lithium iron phosphate for batteries, signing a commitment with the Chilean public lithium body [CORFO to acquire lithium at concessionary rates from SQM](#), in which Chinese company Tianqi has a stake. The Chinese electric vehicle manufacturer [BYD is also exploring](#) establishing a lithium processing plant in Chile.

**PRC activities in Chilean agriculture**

Consistent with the establishment of business relationships for the sale of Chilean wine, fruit, and salmon in the PRC, PRC-based investors have established a modest presence as owners of Chilean [farmland, orchards, and vineyards](#), and distributors of Chilean wine, as well as in the salmon industry.

## PRC activities in Chile's construction sector

During the evaluation process, China's advance in the region, Chile's competitive formal public procurement process, overseen by technically competent institutions, impeded China's ability to win infrastructure work in the region through the "state-to-state" deals that PRC-based companies have used in the developing world.

In recent years, however, PRC-based companies have become more sophisticated in participating in Chile's public procurement processes, including through the use of public-private partnership projects.

The first significant PRC effort to win a project in Chile's construction sector was a bid by China Railway Group and China Road and Bridge to build a [2.6 kilometer-long suspension bridge](#) connecting the island of Chiloe to the Chilean mainland. The PRC-based consortium withdrew, reportedly because they perceived they were [not the favored vendor](#), and the project was subsequently awarded to [the South Korean firm Hyundai](#).

Despite its initial setback, China Railway Construction Corporation (CRCC) went on to win multiple transportation infrastructure projects. In 2021, CRCC won a contract to improve a segment of Chile's principal north-south road, Highway 5, [from Talca to Chillán](#), and operate it as a toll road. In the same year, it won a contract to build [Line 7 of the Santiago metro](#). In February 2023, CRCC won a follow-on contract to improve a second segment of highway 5, from [Chillán to Collipulli](#).

Separately, China Road and Bridge Corporation (CRBC) won a [\\$224 million project](#) for the construction of three public hospitals in the Maule region.

## PRC activities in Chile's electricity sector

China's most significant expansion of commercial presence in Chile has occurred in the country's electricity sector. As in construction, PRC-based companies initially had multiple setbacks in electricity. China National Water Resources and Hydropower Corporation sought to build dams in the environmentally sensitive Patagonian region of Chile, while China [State Grid would build the cables](#) transmitting the power to Chilean population centers further to the north, in the [Hydroaysen](#) project. Environmental sensitivities, however, led to Hydroaysen's [cancellation in 2014](#).

Despite the setback, through acquisitions, PRC-based companies have gone on to acquire control over a substantial portion of the industry. Major deals include China Southern Power's 2018 purchase of a [28 percent stake in Chile's Transelec for \\$1.3 billion](#), and China Three Gorges' [2019 acquisition of Atiaia Energy](#). In June 2020, China State Grid purchased Chilean power distribution company Chilquinta [for \\$2 billion](#). In November 2020, it purchased Chilean electricity distributor CGE from Spain's Naturgy [for \\$3 billion](#). Together, the latter two deals alone give State Grid alone control over [54 percent of the country's electricity customers](#).

Beyond electricity generation and transmission, in the public transit market, China's BYD has sold [455 electric busses](#) to Chile, including their use by the [public transit authority of Santiago, RED](#). Santiago now has the [largest Chinese electric bus fleet](#) of any city outside the PRC.

## PRC Activities in Chile's Financial Sector

The PRC has a relatively strong financial infrastructure for doing business in Chile. Three major PRC-based banks have a presence in the country: China Construction Bank, which [entered in 2016](#), Bank of China, which [entered in 2016](#), and China EXIM Bank, authorized to operate in the country [in 2021](#).

At the national level, in 2015, Chile signed an [\\$8.1 billion currency swap agreement](#) with the PRC, as the country sought to become a key clearinghouse for the PRC's RNB-based transactions in the region.

## PRC activities in Chile's digital sector

As elsewhere in Latin America, PRC-based companies have come to dominate a significant portion of Chile's telecommunications infrastructure and device market, as well as other digital sectors.

In the smartphone market, Huawei is the principal supplier to telephone operator WOM, and an important supplier to Movistar and Claro. China's Xiaomi also has a [sales network](#) and an important presence in the country.

Beyond smartphones, Huawei is a major supplier of Chile's telecommunications backbone, and currently the leading contender to build out its 5G network, after the Chilean government [decided in 2021 not to exclude it](#). [WOM's win of a significant part of an important 5G spectrum auction](#) in 2021 further positions Huawei to play a role in Chilean 5G as WOM's principal supplier.

With respect to fiber optic connectivity, Huawei Marine has built an important fiber optic cable, the Austral, connecting the cities of southern Chile [including Puerto Montt and Punto Arenas](#), and has attempted to sell the Chilean government construction of a transpacific cable connecting Chile to Asia through Hong Kong. In 2020, the government chose an alternative offer by the [Japanese company NEC](#), to build a cable using different route [through Australia](#). International funding for the cable never materialized, however, and the original Huawei proposal is reportedly again being discussed.

As in other countries in Latin America, Huawei operates [multiple data centers](#) in Chile, maintaining sensitive data and intellectual property of persons and businesses operating in the country in the Huawei cloud.

Beyond telecommunications, PRC-based sensor and security companies Hikvision and Dahua, [play a major role](#) in the Chilean market. In 2020, a public contract awarded to Hikvision for the installation of cameras in the greater Santiago area was cancelled after questions emerged regarding [corruption in the award](#). The Chinese scanner company Nuctec is also [present in Chile](#), including an office in Santiago.

In 2021, the PRC-based technology company Aisino won a bid with Chile's civil Registry to produce and manage [identity cards and passports](#), but was disrupted by the process.

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As with other countries in the region, the PRC has sought a presence in Chile's space sector. The most significant PRC activity in the space sector in Chile is the [Chinese Academy of Sciences South American Astronomy Center](#) (CASSACA), [on Calán hill in the greater Santiago area](#), in operation since 2013.

PRC personnel also are present at an observatory operated by the European Space Organization [in Chile's Paranal desert](#) and previously sought permission to construct their [own facility](#) in the area but was denied permission to do so by the Chilean government.

In 2016, the PRC also explored an opportunity to [replace Chile's U.S.-built FASAT-C](#) satellite system with China's Beidou, but the initiative didn't bear fruit.

**Military and security engagement**

PRC military and security engagement with Chile has been relatively limited.

By contrast to many other countries in the region, the Chilean Armed Forces have neither purchased, nor received gifts of major Chinese weapon systems. Nonetheless, Chinese defense contractors regularly participate in Chile's signature military industry conferences, [FIDAE](#) and [Exponaval](#).

Chile has received delegations from PRC Chinese military institutions and has sent limited numbers of persons to the PRC for training. In 2013, [the Chinese destroyer Lanzhou, the missile frigate Liuzhou, and a fuel support ship](#) visited Chile, conducted joint exercises with Chilean navy counterparts and subsequently transiting the Straits of Magellan. In November 2018, the Chinese hospital ship Peace Arc [made a port call in Valparaiso](#). The Chinese and Chilean governments have also held discussions over PRC Navy [access to Punta Arenas](#) to support maintenance of Chinese facilities in Antarctica.

In law enforcement, in the context of the presence of Chinese organized crime groups [operating in Chile](#), the Chilean Investigative Police are [working with the PRC Confucius Institute at St. Thomas University](#) for education on the Chinese language and other aspects of the country.

**Intellectual infrastructure and networking**

Despite its strong institutions and educational system, Chile's academic and people-to-people ties with the PRC have been uneven. The country was relatively late to establish Confucius institutes in the country. It [currently has only three](#): at the [Catholic University](#), and [St. Thomas](#) Universities in Santiago, and at the University of the Frontier in Temuco, Araucanía. The latter is the newest, [just inaugurated in December 2020](#). St. Thomas University is also host to [CRICAL](#), the PRC headquarters organization for all Chinese Confucius Institutes in Latin America.

As with other countries in Latin America, the Confucius Institutes in Chile play an important role as a gateway for the Chinese government to make contact with Chilean students interested in studying the PRC and the Chinese language, linking them to scholarships for study in the PRC, funded by Chinese government organizations and major PRC-based companies such as Huawei.

Beyond language programs, such as those offered by the PRC government-affiliated Confucius Institutes, Chile still lacks a four-year China studies program in a major university.

In the business domain, the [China-Chile Chamber of Commerce](#) (CHICIT) is an important forum linking Chinese and Chilean businesses interested in opportunities in both countries.

The PRC also maintains a broad range of people-to-people networks within the country, generally tied to the United Front Work Department of the Chinese Communist Party. These include the China-Chile Friendship society, sponsorship of trips to the PRC for Chilean academics, journalists, and others.

**PRC media activities in Chile**

As with many other countries in the region, the PRC conducts an array of activities to support positive coverage and a positive image of the PRC within Chile. These include agreements with Chilean media outlets, in which PRC state media organizations provides images, video, and other content to them, including one such agreement between [China Media Group and Chile's La Tercera](#). Because no major Chilean media organization has an office in the PRC, providing of such materials allows the PRC to significantly control the narrative with respect to how its leaders, and events in China are perceived through the Chilean media.

The PRC also regularly purchases informational supplements in major Chilean newspapers such as *El Mercurio* and *La Tercera*. Such material supports PRC messaging objectives on two levels. On one hand, because it has the appearance of other informational content of the paper, many may read it without recognizing it as propaganda produced by the Communist Chinese government. At the same time, because such supplements are an important source of income to often struggling media outlets, some may self-censor their content in other areas to avoid offending their PRC clients.

**Conclusion**

Chile's relatively strong institutions and good governance increase the probability of economic benefits through engaging with the PRC. Nonetheless, Chile's expanding dependence on the relationship in sectors from copper and lithium mining to electricity and digital sectors, as noted in this work, is concerning.

the PRC market and partnerships with Chinese firms, the interest of Chilean media in Chinese sponsors and content providers, and the hundreds of Chilean journalists, academics, think tank professionals, and others who travel regularly to the PRC courtesy of "special relationships" with Chinese think tanks, will increasingly test the stability and functionality of those institutions in dealing with the PRC to the test.

As a Pacific nation, Chile will be illogical for Chile not to engage with the PRC, but its ability to get the "best deal" for the Chilean people, while protecting the cherished values of democracy and individual rights, gives fundamental importance to Chile's continued use of transparency, objectivity, and institutional competency in dealing with the PRC, while also maintaining Chile's many other "options" with democratic friends across the Pacific such as Japan, Korea, India, Australia, and Taiwan, as well as its democratic friends in Europe, and its neighbors to the north.

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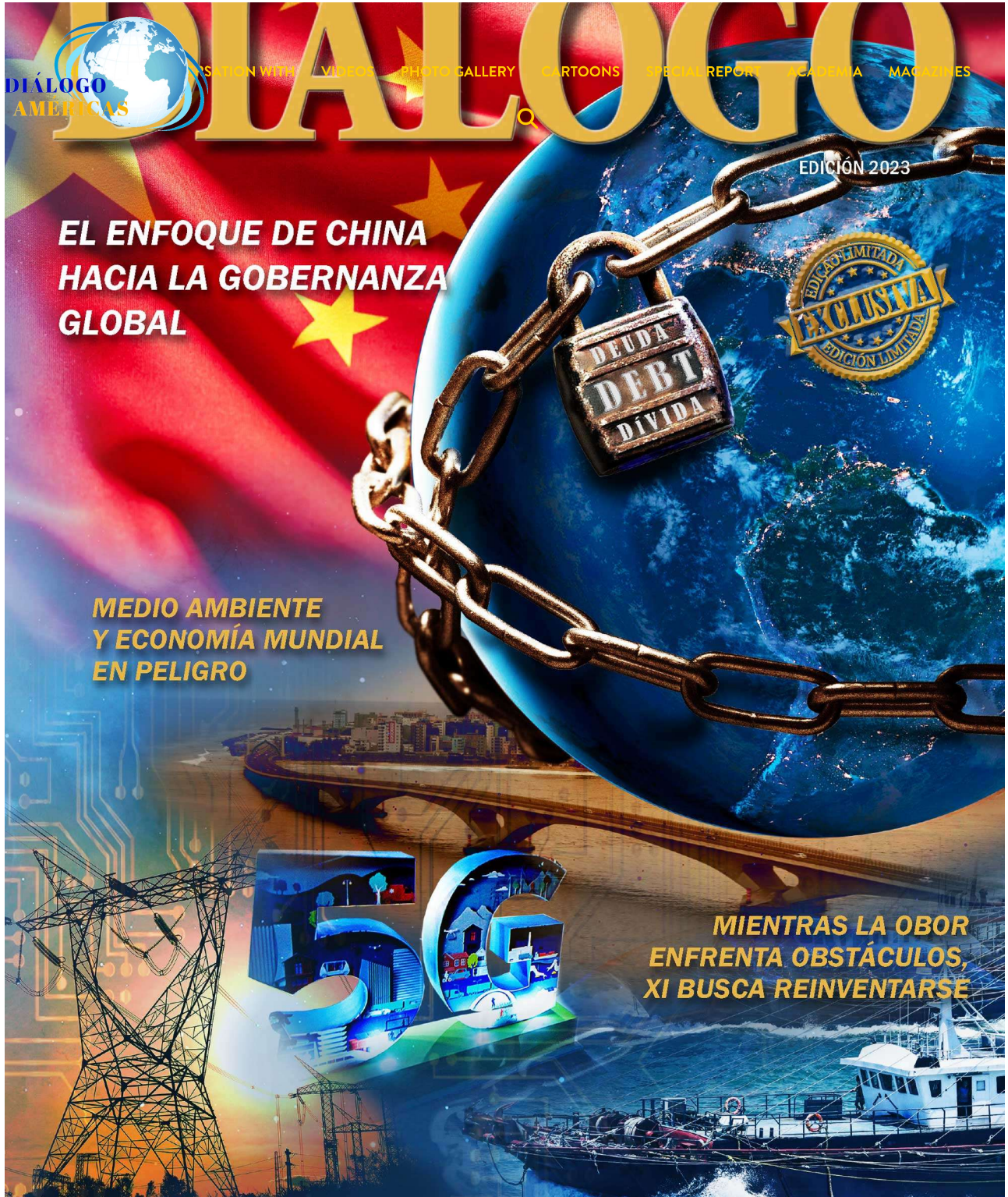




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