

# **CHILE IN THE COMPETITION BETWEEN CHINA AND THE UNITED STATES**

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Since 2001, with its accession to the World Trade Organization, China has become a central player in the international system. At the same time, over the years China has acquired an increasingly prominent role in Latin America. A period of great relations began with the visits of Jiang Zemin in 2001 and Hu Jintao in 2004. Today, relations between China and Latin America have grown in economic (trade, investment and financing) and political terms, with Latin American countries supporting various initiatives proposed by the Asian giant. The aim of this article is to take a closer look at one of the Latin American countries, Chile, to observe how the competition between China and the United States has impacted.

### **CHINA'S ARRIVAL IN LATIN AMERICA**

Latin America has been considered the "backyard" of the United States throughout the 20th century. However, China's growth in this century has implied hegemonic competition at the global level and also in Latin America. Latin American countries' diplomatic relations with China began in the 1970s, when most countries broke ties with Taiwan and linked up with the People's Republic of China. However, the boom in the region's relations with China came a few decades later and focused mainly on economic issues. At the beginning of the 21st century, approximately 1% of the total trade of Latin American and Caribbean countries was with China, representing US\$10 billion (Wise and Chonn Ching 2018). Today, trade is around \$300 billion, which has implied a displacement of the historical trading partners: the United States, the European Union and Japan.

Exports of raw materials (oil, copper, iron and soya) to China triggered a commodities boom and led to large export revenues for countries such as Brazil. However, the economic relationship was not just about trade; over the years, China also became important in terms of investment and financing, with large Chinese companies (Sinopec, State Grid, etc.) investing in mining and electricity, and the Export-Import Bank of China and the China Development Bank became major lenders to countries such as Venezuela, Brazil and Ecuador.

China's relationship with the region is not only limited to the economic sphere but is also advancing politically. Through the 2008 and 2016 white papers for Latin America, China sought greater relations with the countries of the region, an important part of the world for China because this is where Taiwan has half of its allies. In political terms, the main forum for relations is CELAC-China, an intergovernmental cooperation body that brings

together 33 Latin American and Caribbean countries and allows for dialogue without the United States.

In response to China's increased importance, the United States has once again turned its attention to the region. In terms of investment, the United States continues to be essential for Latin American countries, and even in terms of trade, mainly for northern countries such as Mexico. At the same time, in the context of China's global proposals such as the Belt and Road Initiative and the Asian Infrastructure and Investment Bank, US diplomats have warned about China's positioning and its goals. In this context, the region has been caught up in the dispute for global power between China and the United States (Actis and Creus 2020).

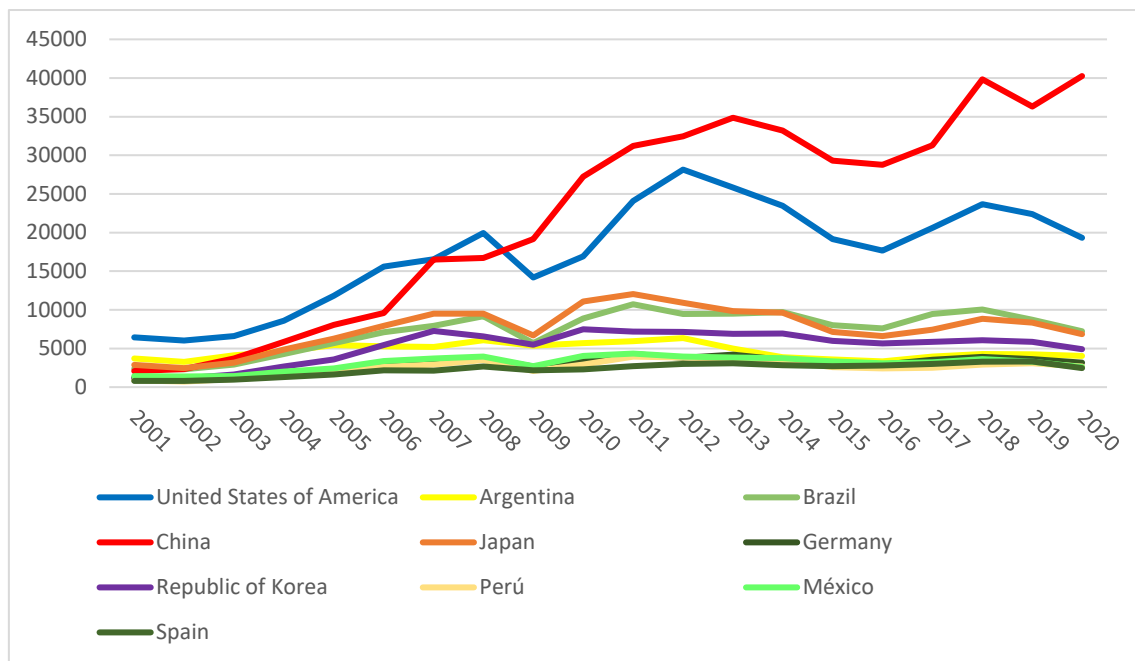
## **CHILE AND ITS RELATIONSHIP WITH THE TWO GREAT POWERS**

Chile, one of the leading countries in Latin America in terms of both its level of democracy and its human development index, has very fluid political, economic, and social relations with the United States (Fuentes-Julio 2021). These relations go back a long way, as the US has been a priority ally since the Second World War, with an influential role and economic predominance in terms of both trade and investment (Morandé Lavín 1992). Even during the Cold War, the US supported Pinochet's right-wing coup d'état. With the return to democracy in Chile, the United States consolidated itself as an ally with the signing of a Free Trade Agreement in 2003 and with large investments in different sectors, including technology.

On the other hand, and more recently, Chile has been a pioneer in relations with Asia-Pacific. Since the return to democracy, Chile has had a model of economic openness that has led it to sign free trade agreements with countries such as Australia, Malaysia, Vietnam and Thailand, among others. With China in particular, Chilean diplomats are proud to be the first to establish diplomatic relations in South America, to support its entry into the WTO and to sign a Free Trade Agreement. In this sense, Chile differs from certain countries in the region because it has managed to make progress in many aspects of its relationship with China before the United States began to take a closer look at China's activities in its backyard.

Chile established diplomatic relations with China in 1970 and maintained ties even during Pinochet's right-wing dictatorship, an aspect that shows the pragmatic attitude of both countries, which maintained relations beyond ideological differences. In terms of trade, the relationship took off after the entry into force of the free trade agreement in 2006 and China is now the main destination for Chile's exports and imports (Table 1). The United States is the second largest trading partner with a total trade of US\$ 15 billion. Both partners are far ahead of the rest: Brazil, Japan and South Korea.

*Table 1. Main Chile trade partners (US\$ millions)*



Source: Trade map

However, as with the rest of Latin America, relations with China go beyond the commercial. Investments have been slow to arrive in Chile, but in recent years, China Railway Construction, State Grid and Tianqi Lithium have made large investments (table 2). According to Borquez (2019), Chile has also positioned itself as a financial platform for China's internationalisation in the region. As if this were not enough, Chile has a very interesting pattern of cooperation with China, not only for being the regional center of the Confucius Institute for Latin America, but also in terms of cooperation in technology.

Table 2. Main Chinese investments in Chile in the last three years

Investing Company	Year	Sector	Investment (million of dollars)	Target company
China Railway Construction Corporation	2021	Transport	800	Minister of Public Works
State Grid Corporation of China (SGCC)	2020	Energy	3000	Compañía General de Electricidad (CGE)
State Grid Corporation of China (SGCC)	2019	Energy	2300	Chilquinta Energia
Joyvio Agriculture Development	2019	Food and Beverages	922	Australis seafood
Huawei Technologies	2019	Communications	100	Huawei Chile
Tianqi Lithium Corp	2018	Minerals	4066	Sociedad Química y Minera de Chile S.A
Joyvio Group CO. LTD	2018	Food and Beverages	880	Australis seafood
State Grid Corporation of China (SGCC)	2018	Energy	1300	Transelec

*Source: Red Académica de América Latina y el Caribe sobre China & China Global Investment Tracker .*

In political terms, the relationship with China acquired a new status with the signing of the comprehensive strategic partnership in 2016. In addition, Chile's different governments, regardless of their ideological leanings, have responded favorably to the global initiatives proposed by Xi Jinping's government. Chile has signed a memorandum of understanding on the Belt and Road Initiative and is the only country in which its presidents have been present at the first two official face-to-face forums held in Beijing (Serrano Moreno, Telias, and Urdinez 2021). Chile is also a member of the Asian Infrastructure and Investment Bank, which is a new source of financing and a link with China.

## **HOW TO SURVIVE THE COMPETITION?**

Not everything has been easy for Chile in its relationship with China. It has been one of the countries that has felt the pressure of hegemonic competition between the two great powers. A clear example of this was in 2019 when Mike Pompeo, former U.S. Secretary of State, visited Chile prior to Piñera's trip to China and warned about the debt trap with respect to Chinese investments and the link between Huawei and the Chinese government. This provoked a diplomatic response from former Chinese ambassador Xu Bu, who also in 2019 spoke out against the meeting of a Chilean parliamentarian with the leader of the protests in Hong Kong.

The Huawei issue was reflected in the Chilean government's submarine cable project, which was originally intended to connect Chile to Asia but which ended up linking it to Oceania, presumably due to pressure from the United States. Another aspect in terms of technological investments was the case of the Chinese company Aisino, which was left out of the bidding process for the manufacture of passports and identity cards, after questions were raised about the possibility that Chile's private data and national security might be at risk.

Beyond some setbacks in terms of technological investments, the pandemic has shown Chile's deep ties with China. The Latin American country has been the third largest recipient of medical assistance in the region with a total of almost \$10 million in donations (Telias and Urdinez 2021). In addition, more than half of the vaccines inoculated in Chile come from Chinese pharmaceutical companies. Even an agreement with the Catholic University led to the production of vaccines with Sinovac. This shows that in the context of the pandemic, the relationship with China continued to deepen, advancing in aspects that had not yet been explored, such as collaboration in health matters.

If we look only at trade and cooperation issues in general terms, we might make the mistake of thinking that Chile only has deep relations with China. The Latin American country has also been close to the United States in terms of defense cooperation, both in terms of joint training in Chilean territory and movements in the Pacific Ocean. Even as a sign of its rapprochement with US policy, Chile dedicated a space in the 2020

defense policy to the Indo-Pacific region, and has held several senior-level meetings in the military sphere (Jenne 2021).

Chile's future seems to be centered on the domestic matters. After the protests of 2019, the country began a process to draft a new constitution, and this will determine the year 2022 for the political system with a new plebiscite to decide whether to approve or reject the new constitutional text. In addition, a new government will take office to replace Sebastián Piñera. Foreign policy has not been a major campaign issue, but whatever the government, it will have to deal with a post-pandemic context marked by the dispute between the United States and China. Different voices within Chile have proposed what is called 'active non-alignment' (Fortín, Heine, and Ominami 2020). There is no doubt that to get ahead in a context of post-pandemic and hegemonic struggle between China and the United States, Chile will surely have to look to other partners (South Korea could be an option), seeking more opportunities there to continue its development.

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