



## THE EFFECT OF COVID-19 ON CHINA AND CHILE'S ECONOMIC RELATIONSHIP

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Since establishing diplomatic relations in 1971, China's and Chile's economic ties have grown rapidly. With its strategic location and over 4,000 kilometers of Pacific coastline, China views Chile as its door to Latin America.<sup>①</sup> Following the signing of a Free Trade Agreement in 2006, and China's expanding search for natural resources, economic relations between the two countries have continued to strengthen in recent years,<sup>②</sup> with China becoming Chile's largest trading partner, and Chile becoming China's third largest Latin American trading partner, behind Brazil and Mexico.<sup>③</sup> In 2019, China's export trade value to Chile surpassed \$16.5 billion, and Chile's export trade value to China surpassed \$22.5 billion. As one of the largest consumers of natural resources in the world, China's interest in Chile, the world's largest producer of copper, is understandable. China is the main market for Chilean copper, and also imports other mineral and agricultural products.<sup>④</sup> According to recent figures, China receives more than 47 percent of Chile's total mining exports.<sup>⑤</sup> China also exports heavily to Chile, though generally in terms of manufactured goods.

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① Sascha Hannig, "Chile: The Door to China's Influence in Latin America?" *China Observers in Central and Eastern Europe (CHOICE)*, October 15, 2020, accessed December 29, 2020, <https://chinaobservers.eu/chile-the-door-to-chinas-influence-in-latin-america/>.

② "China's Growth Benefits Chile Copper Export: Report," *People's Daily Online*, October 27, 2009, accessed December 29, 2020, <http://en.people.cn/90001/90778/90861/6795202.html>.

③ Mark P. Sullivan and Thomas Lum, U.S. Congressional Research Service, *China's Engagement with Latin America and the Caribbean*, 2020, Report IF10982, Washington, D.C., 1.

④ "UN Comtrade: International Trade Statistics," *United Nations*, accessed November 1, 2020, <https://comtrade.un.org/data>.

⑤ "Coronavirus Impact on China to Weaken Latin American Exports and Growth in H1," *HIS Markit*, February 13, 2020, accessed December 28, 2020, [https://cdn.ihsmarkit.com/www/pdf/0220/Coronavirus\\_impact\\_on\\_China\\_to\\_weaken\\_Latin\\_American\\_exports\\_and\\_growth\\_in\\_H1.pdf](https://cdn.ihsmarkit.com/www/pdf/0220/Coronavirus_impact_on_China_to_weaken_Latin_American_exports_and_growth_in_H1.pdf).

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The 2019 outbreak of COVID-19 first appeared in China, but quickly became an international crisis, reaching all corners of the globe. While 96,417 confirmed cases and 4,778 deaths to date are by no means negligible figures, China has fared well in comparison to the rest of the world.<sup>①②</sup> Its organized response and strict containment measures meant that China was able to control the spread of the virus and therefore begin economic recovery much more quickly. Chile, on the other hand, is fighting a long, slow battle against the coronavirus, like most nations. Despite being the richest country in Latin America and having an advanced healthcare system, Chile was one of the hardest hit by COVID-19 in the region.<sup>③</sup> The first case was reported March 3, 2020, but as of December 28, Chile has recorded 600,105 confirmed cases and 16,443 deaths.<sup>④⑤</sup> As Chile only spends 4.5 percent of its GDP on its state health system, rather than the WHO-recommended six percent, and only has 11.78 health personnel per 10,000 population, it was not prepared to manage a sudden public health emergency of such scale.<sup>⑥</sup> Hospital beds, ventilators, and other necessary medical equipment ran out quickly. Stinginess of the government's relief package and political strife only exacerbated Chile's struggle to get back on its feet.<sup>⑦</sup> Initial forecasts therefore expected Chile to experience a six percent contraction in GDP in 2020.<sup>⑧</sup> Due to the economic havoc that COVID-19 has wreaked worldwide, China and Chile's economic

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① "China: WHO Coronavirus Disease (COVID-19) Dashboard," *World Health Organization*, December 28, 2020. accessed December 28, 2020, <https://covid19.who.int/region/wpro/country/cn>.

② Data reflects the number of cases and deaths as of the time of writing (December 2020).

③ Merike Blofield, Bert Hoffmann, and Mariana Llanos, "Assessing the Political and Social Impact of the COVID-19 Crisis in Latin America." Report, German Institute of Global and Area Studies (GIGA), 2020, 6.

④ "Chile: WHO Coronavirus Disease (COVID-19) Dashboard," *World Health Organization*, December 28, 2020. accessed December 28, 2020, <https://covid19.who.int/region/amro/country/cl>.

⑤ Data reflects the number of cases and deaths as of the time of writing (December 2020).

⑥ Barry Cannon, "COVID-19 in Latin America: Uneven Responses, Uneven Impacts, Shared Challenges," in *COVID-19 in the Global South: Impacts and Responses*, ed. Pádraig et al. (Bristol: Bristol University Press, 2020), 109.

⑦ Merike Blofield, Bert Hoffmann, and Mariana Llanos, "Assessing the Political and Social Impact of the COVID-19 Crisis in Latin America," 6.

⑧ Joaquín Cottani, "The Effects of Covid-19 on Latin America's Economy," *Center for Strategic and International Studies (CSIS)*, 2020, 3.

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relationship has certainly also been affected. With China as its greatest trading partner, Chile's economic recovery and development prospects are and will continue to be significantly linked to China's. However, as China's economy will likely see growth as all other nations forecast losses, this linkage could be Chile's saving grace. This paper aims to briefly address how COVID-19 has and will potentially continue to affect the economic relationship between China and Chile, primarily in terms of trade.

In the early stages of the pandemic, it was predicted that global trade would be greatly affected by commodity price depression and supply chain disruption. Indeed, the global demand for most commodities has decreased in the past year, and will remain low "as long as the industrialized countries in the Global North remain in crisis mode."<sup>①</sup> Chile's mineral sector has been no exception, and will continue to see lower prices as long as there is lower demand.<sup>②</sup> Latin America saw decline in most mineral and metal prices, with copper specifically decreasing by 15 percent. Such a drop is significant, as just a ten percent decrease in commodity prices could cost the country more than one percent in GDP growth.<sup>③</sup> Chile's high dependency on the export of minerals and agricultural products means that further fluctuation of these international commodity markets, which have already experienced decline in recent years, will have detrimental effects on an already weakened economy.<sup>④</sup>

Another trade-related concern brought forth by COVID-19 is the potential fragmentation and regionalization of supply chains, leading to reshoring of production in key markets and therefore dividing Asian

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① Blofield, Hoffmann, and Llanos, 7.

② Ibid.

③ Lee Corrick, et al., "Mining Tax Policy Responses to COVID-19" (International Institute for Sustainable Development (IISD), 2020), 2.

④ Karolien Van Teijlingen and Barbara Hogenboom, "COVID-19 Impact on the Value Chain in Latin America," Clingendael Institute, 2020, 2.

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and non-Asian markets.<sup>①</sup> At the beginning of the outbreak, when China was hit hardest, supply chain disruption did become an issue for nations in Latin America that have China as a key trading partner. Disruption at Chinese ports caused delays in incoming shipments from Chile as confinement measures meant reduced operating capacity.<sup>②</sup> However, this does not appear to be a lasting detrimental factor to China-Chile trade, as Chinese ports have returned to full operating capacity, and the Chilean government has thus far not applied consistent lockdown measures, meaning mining operations have been able to continue more or less as before.<sup>③</sup>

Although China's reduced economic activity in the first few months of 2020 played a part in diminishing demand and weakening the price of copper,<sup>④</sup> its need for the mineral has since risen immensely. Early emergence from lockdown and its ability to ramp up production meant that China was able to begin applying its economic recovery plans—of which copper is an integral part—earlier than most. In the first seven months of the year, China was the only significant market to increase its purchases from Chile, and in these seven months, 35.2 percent of all Chile's exports went to China. July 2020 alone accounted for a 25 percent increase in Chilean exports to China as compared to the previous year.<sup>⑤</sup> Due to the mineral's importance and continued demand from China, Chile's mining and agricultural sectors, the backbone of its export-led development model, have been able to continue operating at only a slightly reduced tempo.<sup>⑥</sup>

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① Samuel Brannen, Habiba Ahmed, and Henry Newton, "Covid-19 Reshapes the Future," Center for Strategic and International Studies (CSIS), 2020, 16.

② Blofield, Hoffmann, and Llanos, 7.

③ Jorge Heine, "Early Glimpses of Post-Pandemic China-Latin America Relations," Kissinger Institute on China and the United States, Wilson Center, 2020, 1.

④ "Coronavirus Impact on China to Weaken Latin American Exports and Growth in H1," *HIS Markit*, February 13, 2020, [https://cdn.ihsmarkit.com/www/pdf/0220/Coronavirus\\_impact\\_on\\_China\\_to\\_weaken\\_Latin\\_American\\_exports\\_and\\_growth\\_in\\_H1.pdf](https://cdn.ihsmarkit.com/www/pdf/0220/Coronavirus_impact_on_China_to_weaken_Latin_American_exports_and_growth_in_H1.pdf) (accessed December 28, 2020).

⑤ Jorge Heine, "Early Glimpses of Post-Pandemic China-Latin America Relations," 1.

⑥ *Ibid.*

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COVID-19 has severely impacted the global economy, with few countries exempt from its effects. For Chile and most of Latin America, next year's recovery will be relatively weak, and follow years of low growth. The Chilean economy is expected to recover in 2021, growing around 4.5 percent, but a new constitution and President Piñera's declining legitimacy clouds the long-term horizon.<sup>①</sup> Chile's strong ties with China have in part enabled it to avoid more drastic costs to its domestic economy. China's rigorous pandemic response permitted it to restart industries and international commerce, in which Chilean imports play a key role. As China was one of the few large economies to have positive growth in 2020, it was not surprising that some of Latin America's leading countries did more, rather than less, trade with Beijing in 2020.<sup>②</sup> For Chile, the primary reason for such an increase is China's dependency on Chilean mineral commodities. The trillion-dollar, multiyear recovery plans in China and other leading nations require significant quantities of copper and will therefore accelerate the demand for the metal which has already increased due to its vital role in the digital, green economy of the future. COVID-19 has also expanded copper's importance due to its antimicrobial properties, creating entirely new sources of demand. Essentially, as a result of the pandemic, the "fundamentals of copper demand have changed for the better."<sup>③</sup>

In terms of regional influence, COVID-19 seems to have only magnified preexisting trends. The United States' stringent zero-sum approach to relations with Latin America juxtaposed with Beijing's more flexible and ad hoc engagement strategies has decreased its presence and leadership in the region, thus allowing China to "carry the

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① Joaquín Cottani, "The Effects of Covid-19 on Latin America's Economy," 5.

② Jorge Heine, "Early Glimpses of Post-Pandemic China-Latin America Relations," 2.

③ Karina Fernandez-Stark et al., "COVID-19 Precipitated the Age of Copper: Are Producing Countries Prepared to Supply the World and Capture Greater Value?" *Inter-American Development Bank*, September 2, 2020. <https://blogs.iadb.org/energia/en/covid-19-precipitated-the-age-of-copper-are-producing-countries-prepared-to-supply-the-world-and-capture-greater-value/> (accessed December 15, 2020).



mantle.”<sup>①②</sup> Despite continued pressure from the U.S., Chile and other Latin American countries are likely to increase their engagement with China, as it is currently better equipped to expand its own economic development, thereby enabling Chile to do so as well. Finally, the rapidly developed COVID-19 vaccine, now being distributed worldwide, reduces future risks, minimizes the possibility of renewed outbreak, and allows countries to focus more fully on economic recovery in the coming years.<sup>③</sup> During this recovery period, it is likely that the economic ties between China and Chile will continue to expand.

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① Mark P. Sullivan and Thomas Lum, U.S. Congressional Research Service, *China’s Engagement with Latin America and the Caribbean*, 2020, Report IF10982, Washington, D.C., 2.

② Paul Angelo and Rebecca Bill Chavez, “‘Gracias China!!!’,” *The New York Times*, April 21, 2020, <https://www.nytimes.com/2020/04/21/opinion/china-latin-america-covid.html> (accessed December 29, 2020).

③ “Coronavirus Impact on China to Weaken Latin American Exports and Growth in H1.”

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- [3] Brannen, Samuel, Habiba Ahmed, and Henry Newton. "Covid-19 Reshapes the Future." Center for Strategic and International Studies (CSIS), 2020.
- [4] Cannon, Barry. "COVID-19 in Latin America: Uneven Responses, Uneven Impacts, Shared Challenges." In *COVID-19 in the Global South: Impacts and Responses*, edited by Carmody Pádraig, McCann Gerard, Colleran Clodagh, and O'Halloran Ciara, 105-14. Bristol: Bristol University Press, 2020.
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- [6] "China: WHO Coronavirus Disease (COVID-19) Dashboard." *World Health Organization*, December 28, 2020. <https://covid19.who.int/region/amro/country/cn> (accessed December 28, 2020).
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- [8] "Coronavirus Impact on China to Weaken Latin American Exports and Growth in H1." *HIS Markit*. February 13, 2020. [https://cdn.ihsmarkit.com/www/pdf/0220/Coronavirus\\_impact\\_on\\_China\\_to\\_weaken\\_Latin\\_American\\_exports\\_and\\_growth\\_in\\_H1.pdf](https://cdn.ihsmarkit.com/www/pdf/0220/Coronavirus_impact_on_China_to_weaken_Latin_American_exports_and_growth_in_H1.pdf) (accessed December 28, 2020).
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- [10] Cottani, Joaquín. "The Effects of Covid-19 on Latin America's Economy." Center for Strategic and International Studies (CSIS), 2020.
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