

Santiago, December 13th, 2019.

THE CURRENT STATE OF CHILEAN MINING IN THE FACE OF OCTOBER 2019 SOCIAL CRISIS.

I. Background.

- a. After October 18th, Chile has faced its biggest political crisis since the return to democracy in 1989. While the Government seeks to maintain institutional stability by taking measures that favor a common ground with civil demands, the country's economy reflects the difficult scenario that Chile is going through. According to December's monetary policy report, prepared by the Central Bank, the growth expectations for this year is 1%, and a range between 0.5% and 1.5% by 2020. A gradual recovery is expected by 2021, placing growth expectations in a range between 2.5% and 3.5%¹.
- b. According to the Political Monetary Report (In Spanish, "IPOM"), while the private inversion that is not destined to the mining sector fell by a 4%, the negative impacts over investment are partially compensated with the continuation of mayor mining projects which started to develop before the crisis exploited, a significant arise of the public investment and the monetary politic expansive.

The expected behavior for the investment, is also supported by qualitative information collected by the Central Bank, which confirms that the development of the main investment projects of the mining and industrial sector have not been affected, while in other sectors it realizes a reassessment of the previously committed investment terms and amounts.

- c. The Mining Minister, Mr. Baldo Prokurica, indicated on December 3rd, the following: "*we must not lose sight of the fact that mining is our main economic activity*", where 14% of fiscal revenues between 2006 and 2018, come from the state and private mining industry².

II. Monthly Indicator of Economic Activity in the mining business.

While the mining Monthly Indicator of Economic Activity (hereinafter, the "IMACEC" for its initials in Spanish), grew 2.0%, the non-mining IMACEC fell 4.0%. The economic activity of the month was affected by the performance of the activities of services, commerce and manufacturing³. Therefore, in October, IMACEC recorded an annual fall of 3.4% compared to the same month of the previous year (month that recorded the same number of business days as October

¹ Fuente ChileReports: https://chilereports.cl/docs/default-source/default-document-library/ipom-dic-2019.pdf?sfvrsn=9a95401e_4

² Source: Mining Ministry: <http://www.minmineria.gob.cl/columna-de-opinion/enfrentar-los-desafios-de-la-automatizacion-minera/>

³ Source Central Bank of Chile: <https://www.bcentral.cl/imacec>

2018), which was composed of a 2% increase in the mining sector and a 4% drop in the non-mining sector.

III. Peso/Dólar.

On December 9, the Bloomberg portal places the exchange rate at \$769.82 CLP, which represents its lowest level since last November 11. This means that the Chilean peso is the currency that is most strengthened in the world so far this December⁴. (*Although this probably remains a constant rise and fall, and the peso / dollar ratio will remain high in the medium term*).

IV. Copper price.

The monthly price of copper was US \$ 2,660, and the average of 2019 reached USD \$2,717, with a negative variation of 8.54% compared to the previous year⁵.

V. United States and China.

As is public knowledge, China and United States, are negotiating an agreement, aimed at de-escalating their commercial dispute, which, according to Cochilco's weekly report, presents a positive bias in the short term with respect to the price of copper. Furthermore, the reduction of the US trade deficit favors the copper price, which in October reached a minimum for a year and a half and the return to the expansion of the Manufacturing Purchasing Manager Index (PMI) of China, suggesting that fourth quarter growth has stabilized.

VI. Investment, China and mining.

- a. According to InvestChile figures, the portfolio of Chinese initiatives grew from 5 projects for USD \$310 million in 2016, to 20 projects for more than US \$ 1.8 billion at the end of 2018. For the first half of 2019, 23 Chinese projects were counted in the portfolio, which together amounted to more than USD \$2.1 billion⁶.
- b. How would this crisis affect Chinese investment in Chile? Francisco Urdinez⁷ - in the column published in the Diario Financiero⁸ - suggests that, based on Chinese experience in other countries in the region, it is likely that greater economic dependence, and therefore political dependence, will be created. In Brazil, given the

⁴ Source Diario Financiero: <https://www.df.cl/noticias/mercados/divisas/dolar-cae-de-los-770-y-el-peso-chileno-es-la-moneda-de-mejor/2019-12-09/085048.html>

⁵ Source The Times: <https://thetimes.cl/contenido/4726/el-precio-del-cobre-se-dispara-y-opero-por-cuarta-jornada-consecutiva-al-alza>

⁶ Source La Tercera: <https://www.latercera.com/la-tercera-pm/noticia/las-cifras-tras-la-imparable-inversion-china-chile/764938/>

⁷ Doctor in International Relations, expert in economic diplomacy from China and academic from the Pontificia Universidad Católica de Chile.

⁸ Source Diario Financiero: <https://www.df.cl/noticias/opinion/columnistas/conexion-a-china-crisis-economica-y-dependencia-de-china/2019-12-09/183711.html>

recent crisis, China took advantage of the devalued Brazilian Real and the economic urgencies, regardless of the instability prevailing to invest more, and invest in greater proportion than in the past. Although Chile's commercial dependence with China was already the largest in Latin America before the crisis (30%), Urdinez believes that **it would not be unusual for the 2020-2022 triennium to be the main destination of Chinese investments as a percentage of GDP.**

VII. Construction of the national mining policy 2050.

- a. Notwithstanding the foregoing, and the unexpected crisis begun in the last quarter, in order to boost the industry, it is that in August of this year a cycle of work tables began, in order to move towards the Construction of the National Mining Policy 2050 (here in after, “PNM” for its Spanish initials), a table in which members of civil society, academia, community associations and actors of the mining industry participate.
- b. Through a joint work with the Chilean Copper Commission (In Spanish, “COCHILCO”), four workshops will be held on economy, environment, and social value and governance, whose conclusions will be agreed on a roadmap to 2050⁹. The cycle of tables that has a duration of six months, seeks to perform an analysis on each thematic axis that allows delimiting the work that should be done in the future economy, starting in 2020.
- c. At the last PNM meeting, the Minister of Mining, together with the undersecretary of such Ministry, announced this year's progress and defined the new thematic axes to join the PNM, focusing on proposals and transversal agreements that seek to enhance a modern institutionality to ensure the sustainable development of mining, which, in the words of the undersecretary, Ricardo Irarrázaval, represents an anticipation of the current citizen demand: “*a genuine dialogue, incident, and participation*”¹⁰.

VIII. Conclusion.

Everything suggests that if the trade war between China and the United States ends, the price of copper will tend to rise. On the other hand, the social conflict in Chile and the constitutional changes (*if any*) will possibly open the door to greater mobility of Chilean mining projects, if the prices of the latter tends to fall (and the price of copper rises). Those investors less risk averse will have a unique chance to enter a market with discounted prices in the coming months (or years, as the case may be).

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⁹ Source Minería Chilena: <http://www.mch.cl/2019/08/12/comienzan-las-mesas-de-trabajo-para-la-politica-nacional-de-mineria-2050/#>

¹⁰ Source Nostálgica: <https://www.nostalgica.cl/dan-a-conocer-avances-en-la-mesa-politica-nacional-minera/>