



**Andrés Orlando Bórquez
Basáez¹**

¹University of Chile
Institute of International Studies
Santiago de Chile, Chile
E-mail: andres.borquez@uchile.cl

 ORCID ID:
orcid.org/0000-0002-3904-409X

Dorotea López Giral²

²University of Chile
Institute of International Studies
Santiago de Chile, Chile
E-mail: dolopez@uchile.cl

 ORCID ID:
orcid.org/0000-0003-4819-7351

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Navigating US-China technology competition among Middle Powers: study of Chilean response

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Abstract

Amid intensifying US–China rivalry over digital governance, middle powers like Chile face growing pressure to navigate an increasingly fragmented global order. This article examines Chile's response through expert interviews and analysis of three key technology cases involving Chinese firms. The findings show that Chile has adopted a Hedging Strategy, limiting involvement in sensitive tech projects aligned with US security concerns, while continuing to attract Chinese investment in areas like electromobility and renewables. The study underscores the combined impact of geopolitical tensions, domestic bureaucratic constraints, and the challenges of engaging with China, whose growing presence still requires a process of mutual adaptation. These dynamics raise questions about Chile's priorities and the limits of its autonomy in this complex context.

Keywords: Chile Foreign Policy, US-China Competition, Middle Powers, Technology Competition.

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Introduction

The traditional unipolar order that the United States has led with its institutional liberalism since the beginning of the 21st century is breaking down, opening up a period of transition towards a new world order in which at least two evident scenarios can be envisaged. First, a bipolar order established by the United States and China, which is already reflected in a latent competition for spheres of influence and mutual containment. Second, a multipolar order consisting of several centres of power organised along regional, economic and geopolitical lines. Although no one knows with certainty which order will prevail, competition between China and the United States will critically orient international

relations. This creates enormous challenges for small and middle powers that had been locked into the liberal order, basing much of their interactions on ideas of open economies, multilateral rule-following and multiple partners.

This strain of realism has focused on the shifting balance between an existing hegemonic power and a rising power that challenges the former. Stein (2022) suggests that in this context of Sino-US rivalry, policymakers need to consider hegemonic transition theory in order to respond to China's rise. Joseph Nye Jr. (2022) argues that the US should limit China's options for power through strategic competition, avoiding direct confrontation. His approach balances elements of containment and multilateral diplomacy, seeking to shape the international environment without excluding cooperation in key areas.

One of the core areas chosen by the US is digital governance, where middle powers are under pressure to choose technological networks (see former US Secretary of State Mike Pompeo's clean network policy). In order to achieve hegemony in this area, the US has put pressure on other countries, mainly middle and small powers, to reduce interactions on digital and data issues with Chinese technology. This is happening in the context of the "Fourth Industrial Revolution", where innovations in digital technology have developed, especially in the manufacturing sector, with elements of the advanced internet, such as artificial intelligence, robotics and data analytics, among many others, being incorporated into the global value chain, which can also be shared by different countries (Schwab 2015).

The positions of the two powers in this data and digital governance are not completely fragmented, but mutual mistrust has grown and, as a decoupling between the two countries is more conceivable (given the military and economic costs), they are competing to attract followers to their modernisation industries. In this context of hegemonic struggles, small and medium-sized powers are often more vulnerable and exposed to the fluctuations of these tensions. Moreover, the position of small and middle powers introduces unpredictable dynamics in technological and digital competition.

Chile has tried to adapt to this new scenario by moderating its interactions with China in the area of data governance and connectivity, while seeking to maintain its level of exchange with China in other economic sectors. In this context, the study seeks to answer the following empirical conundrum: How has Chile, a country historically open to foreign investment and with a policy of non-discrimination, chosen to limit its cooperation with China in the technology areas while maintaining a strong trade relationship with this country in other sectors? This apparent contradiction raises questions about the coherence of Chilean foreign policy in a context of hegemonic competition.

The study seeks to answer this question by analysing the power dynamics that influence the decision-making of a middle power in a context of hegemonic competition. Specifically, the article analyses these dynamics through the case study of three projects that the Chilean government has cancelled or frozen involving Chinese technology companies (submarine cable, the suspension of the Chinese observatory project and the Aisino passport contract). In particular, it focuses on

the perceptions of Chilean experts, academics and decision-makers regarding the course of these cancelled projects. This study reflects how the extra-territorialisation of great power tensions activates new dilemmas in middle powers, which had chosen to follow the rules of institutional liberalism established after the triumph of the United States at the end of the Cold War (Norrlof and Wohlfor 2019). Although digital security has not historically been a priority in Chilean foreign policy, the increasing US scrutiny of the country's technological infrastructure has led the government to become more concerned.

The paper is structured as follows: First, it addresses the theoretical framework of competition for digital governance and the responses of middle powers in a hegemonic struggle. Second, it analyses Chile's decision-making perception with respect to three specific projects is presented. The final section addresses the implications of this study for Chilean foreign policy and the question of how to navigate in a context of growing power tensions.

Theoretical framework

Data governance and hegemonic competition

China has increased its technological presence in the Global South in terms of the quantity of products offered, the type of distribution channels, and the diversification of the profile of recipient nations (Song et al. 2020). In its latest five-year plan, the Chinese government proposed to increase research and development spending by more than 7% between 2021 and 2025 (Asian Development Bank 2021). One of the pillars of this increase is the promotion of local innovation in strategic areas such as computing and artificial intelligence. As a result, this has ceased to be a secondary issue for the US, positioning China as a strategic rival (Doshi and McGuinness 2021, Ali 2024).

So far, the literature on hegemonic competition emphasizes that technology operates as a means to hegemonic order, and thus its role in tensions is framed as instrumental coding (Hugill 2018). However, technologies related to big data and cyberspace have been changing this perspective. Digital governance is seen as one of the dimensions of the modern international order. Data influences the decision-making capacity of governments and individuals without the need to sponsor threats or the use of military and economic weapons (Nye Jr. 2021). In other words, the role of data is based on establishing a direct and intrinsically linked relationship between information and governance, which favours the convergence of objectives to ensure the sustainability of hegemony. In this sense, the control of data allows not only to protect the national security of the hegemonic state, but also to shape the preferences of actors at the international level (Barbosa 2024).

This study aims to examine recent tensions between the US and China in countries such as Chile, with a particular focus on the increasing presence of Chinese digital technology in the

Global South (Norrlof 2015; Hugill 2018; Norrlof and Wohlforth 2019). The research examines Chile's response to the digital competition between China and the United States. The US has adopted a strategic approach of targeted containment. This involves traditional and non-traditional diplomatic activities aimed at persuading Global South countries not to cooperate with Beijing on data-related projects such as undersea cables, data centres and 5G services (Schuman 2023). Faced with the prospect of being isolated from the US information sphere, middle powers are adjusting their technology initiatives by limiting their engagement with China (Gong 2024). This shift could have implications for the evolving international order, particularly as it differs from traditional hegemonic struggles in areas such as trade and economic standards. This has made the competition for digital governance an international battleground, particularly in the quest to influence middle powers, which are often followers of the technologies of the great powers (LaForge and Gruver 2023).

The responses of the Middle Powers in the context of hegemonic competition

A middle power is a state that lacks power and influence on a global scale (such as the United States or China) or influence on a regional scale (such as Brazil, Germany or India), but possesses endowments and capabilities that allow it to influence certain key areas of the international system, such as countries that play a key role in critical mineral sectors, food security or energy (Patience 2013; Laurence 2023). This type of country is characterised by its ability to act as a mediator in crises, using its position to facilitate regional peace and stability. They also tend to be active participants in multilateral spaces and forums, and develop their foreign policy by focusing on strategic interests and partnerships that allow them to maximise their influence in a changing environment (Robertson 2017; Teo 2022).

In the context of growing hegemonic disputes, middle powers such as Australia, New Zealand, Canada, South Korea, Malaysia, Chile and Colombia, among others, are exposed to systemic pressures from global powers. If a middle power chooses one side or the other, it runs the risk of suffering reprisals or being excluded by the other: the limits of the strategic base and the capabilities of the intermediate powers are now clear. These nations must develop strategies to navigate an ever-changing global system (Aydin 2021; Jeong and Lee 2021; Nagy 2022; Huynh 2021; Plagemann 2021, Khoo forthcoming). In this context, the middle power literature identifies three dominant types of expected responses that middle power decision-makers may implement when faced with a scenario of hegemonic contestation. These strategies are not mutually exclusive, but are prioritised by state decision-makers according to their respective capabilities:

1) **Commitment to multilateralism:** Shin-wha Lee (2022) argues that middle powers adopt common economic security strategies within a multilateral framework in order to maintain their autonomy and avoid open confrontation with great power structures. Middle powers can play a leading role in resolving issues of importance to the international community, such as food

security, climate change and the maintenance of free trade. They may also have some ability to influence great powers through numerical superiority and a unified voice. The authors focus their argument on analysing the tendency of middle powers to merge foreign and trade ministries, as well as their participation in regional trade blocs such as the Asia-Pacific Economic Cooperation (APEC) and trade agreements such as the Trans-Pacific Partnership (TPP). While this response has been effective since the end of the Cold War, in the current context of growing tensions between superpower, the effectiveness of multilateral spaces is under threat. The ability to persuade these great powers to behave predictably and according to the principles of consensus and joint decision-making has become less evident. This can lead to paralysis on pressing issues and limit the potential of middle powers to advance agendas that truly reflect their interests and concerns, as the bargaining power of the great powers often dominates these fora, reducing the ability of multilateral agreements to deliver effective results.

2) **Reinforcement ties with like-minded middle powers:** Huynh (2021) argues in “Bolstering middle power standing: South Korea’s response to US Indo-Pacific strategy from Trump to Biden”, that in the face of increasing pressure between the United States and China, countries should strengthen ties and cooperation with other middle powers that share similar values, economic interests, and geopolitical goals. A similar approach is proposed by Wilkins (2023), who argues that a valid alternative is for countries with shared values and principles to form special strategic partnerships. By sharing common concerns, they can create a network of mutual support. This approach allows them not only to improve their ability to influence international decisions and increase their presence in multilateral forums, but also to minimise their dependence on the great powers. The main limitations of this approach are the significant differences in the priorities of intermediate powers, which make it difficult to formulate effective common policies. Economic and resource constraints can also be an obstacle, as can external pressure from great powers such as the United States and China, which can undermine such cooperation.

3) **Strategic Hedging:** According to Kuik (2024), the Strategic Hedging approach is an intermediate strategy employed by small and middle states to maximise the economic benefits of the rise of great powers, such as China and the United States, while preserving their autonomy and security. This approach involves adopting a cautious and flexible stance in relations with both superpowers. This allows them to maintain the internal legitimacy of their regimes by balancing relations with the powers in question without compromising their sovereignty or stability. Kuik identifies five key elements of this strategy: economic pragmatism, binding engagement, limited bandwagoning, dominance denial, and indirect balancing. These components serve as complementary policy tools that offset each other. However, a notable drawback of this approach is that it can create uncertainty and mistrust among both great powers and other international entities. A perceived lack of clarity or decisiveness in foreign policy may result in middle powers being overlooked or underestimated in critical negotiations. Furthermore, this cautious stance may result in pressure

from both great powers to take sides, thereby complicating these nations' ability to maintain balanced relationships and ultimately leaving them vulnerable to the tensions and conflicts that may arise between the United States and China.

This study argues that Chile has adopted a Strategic Hedging approach. This is manifested in the moderation of its technological cooperation with China, while maintaining its commercial relations with the Asian giant. Faced with rising tensions between the United States and China, the Chilean Foreign Ministry has tried to prevent its measures from being interpreted by Beijing as a government concession to the United States. For the same reason, they have stated that in these cases it is only a formal problem, that the agreements do not have an adequate legal framework or are not viable.

Research Design

This study is based on an empirical assessment of how a middle power responds to hegemonic tensions. It focuses particularly on the perceptions and interpretations of these dynamics by Chilean decision-makers and policy experts. Since 2019, a pattern of project cancellations involving Chinese investment and technology has emerged in the wake of public announcements. This study investigates the decision-making processes behind these cases. Between March 2024 and April 2025, 18 semi-structured, in-depth interviews were conducted with key Chilean foreign policy figures. All interviews were conducted under conditions of strict anonymity, focusing on capturing the participants' perceptions, interpretations and strategic reasoning. The interviews were coded thematically and triangulated with official statements, specialised media and public documents. Qualitative interviews were employed to access insights that would remain inaccessible through quantitative methods (see Table 1).

The selection of interviewees was based on a purposive sampling strategy designed to include a range of perspectives. These included active and former diplomats, public officials from relevant ministries, academic researchers and policy consultants. The main criterion was to incorporate expert voices with direct or indirect involvement in foreign policy processes, enabling a more comprehensive and balanced understanding of Chile's strategic posture to be achieved. As in many other middle powers, academic elites and foreign policy experts play a crucial role in shaping foreign policy in Chile due to the limited influence of public opinion (Saunders, 2022). These experts act as epistemic communities, providing strategic analysis and counsel through research, consultancy and public service (Adler and Haas, 1992; Seabrooke, 2021). Their insights help to define national priorities and responses to international challenges, which is why anonymous expert interviews are essential for understanding Chile's foreign policy orientation.

Regarding case selection, this study focuses on three high-profile projects that became objects of controversy and international attention: the undersea cable, the Aisino passport contract, and the proposed Chinese observatory. These cases were selected following the logic of influential cases

as conceptualized by Seawright and Gerring (2018), which are particularly useful for diagnosing theoretical hypotheses. In this context, the objective was to test whether Chile's policy decisions in the face of Sino-American competition reflect a consistent Hedging Strategy, balancing economic ties with China against security cooperation with the United States.

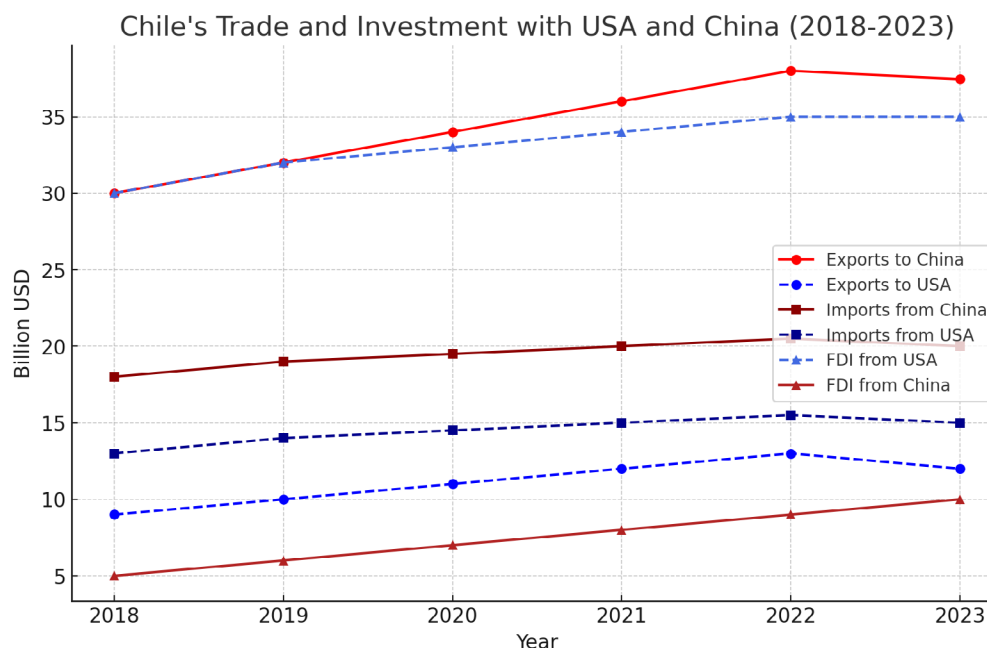
Table 1 – Interviewees list

Nº	Gender	Occupation	Category
1	Male	International Relations academic	Professor
2	Male	International Relations academic	Professor
3	Male	Diplomat and head of an international organization	Diplomatic (retired)
4	Female	Academic on technology issues	Professor
5	Male	Academic on technology issues	Professor
6	Female	Expert on digital technology	Expert
7	Female	Professor of US foreign affairs	Professor
8	Male	Foreign Affairs Ministry former authority	Expert
9	Male	Foreign Affairs Ministry former authority	Expert
10	Male	Foreign Affairs Ministry former authority	Diplomatic (retired)
11	Female	Expert on digital technology	Expert
12	Male	Foreign Affairs Ministry former authority	Diplomatic (retired)
13	Male	Foreign Affairs Ministry former authority	Diplomatic (retired)
14	Male	Advisor to the Ministry of Foreign Affairs	Expert
15	Female	International Relations academic	Professor
16	Male	Foreign Affairs Ministry former authority	Diplomatic (retired)
17	Male	Foreign Affairs Ministry former practitioner	Practitioner
18	Male	Expert on observatory projects	Expert

Chilean case

Chilean triangular relations with China and the United States

The two great powers are Chile's main economic partners, China occupying the first place as a trading partner and the United States as the main investor (Lopez et al. 2022). This relationship has remained stable in recent years as can be seen in the graph, with China leading in terms of exports, especially copper and other natural resources, while the United States continues to be the main source of foreign direct investment (FDI), boosting sectors such as mining, energy and technology. This duality reflects Chile's balance in managing its economic relations with two great powers, each with complementary but distinct interests. China represents 40% of Chilean exports and the United States is Chile's second largest trading partner, accounting for 14% of Chilean exports (Observatorio de Complejidad Económica 2023).

Figure 1 – Chile's Trade and Investment with USA and China (2018-2023)

Sources: Atlas of Complexity (2024), Central Bank of Chile (2024) and Ministerio de Relaciones Exteriores de Chile (2024).

The bilateral relationship between China and Chile dates back to the establishment of diplomatic relations in 1970. However, bilateral trade relations truly flourished following the signing of the Free Trade Agreement in 2006, which marked a turning point in their economic engagement. This relationship was further deepened in 2017 through progressive stages. China has since emerged as Chile's foremost trading partner, deeply integrating into various sectors of the Chilean economy. Portales (2022) discusses the significant growth and diversification of China and Chile's interests, which have been primarily fostered through expanding contacts, mutual knowledge, and the development of bilateral networks. This growth has been fuelled by a remarkable increase in commercial exchanges between China and Chile. According to official trade statistics, bilateral trade grew at an average annual rate of approximately 6.2% between 2002 and 2023 (Ministerio de Relaciones Exteriores de Chile 2024). This integration is evidenced by a diverse range of raw materials exported to the Chinese market, as well as Chinese investments in key sectors such as energy, agriculture, fisheries, and financial services (Borquez et al. 2022).

Regarding Chinese investments in Chile that have predominantly focused on acquiring assets in electricity distribution and mining, the involvement of Chinese companies in public tenders for data technology projects has garnered significant attention locally. As noted by ICLAC (2023), the perceived influence of the Chinese Communist Party (CCP) within Chinese firms has rendered certain sectors more sensitive. Consequently, there has been a proliferation of critical narratives surrounding Chinese investments in Chile, highlighting concerns about their secretive nature and the perceived presence of the CCP in the leadership in strategic investments (Borquez et al. 2023).

Technological cooperation between Chile and China has materialised in various concrete projects that benefit both countries. In the field of renewable energy, Chinese companies have contributed to the development of Chile's clean energy transition by supplying key technologies and equipment. During the 'El Romero' solar energy project, one of the largest photovoltaic plants in Latin America with a capacity of 196 MW, it incorporated photovoltaic panels and components sourced from China. Chinese manufacturers have also played a growing role in Chile's expanding portfolio of solar and wind projects by providing solar modules, inverters, and battery storage systems (Myslikova et al. 2023).

In the field of electromobility, the Chilean government has forged strong partnerships with Chinese companies to promote the electrification of public transport. Chinese firms such as BYD and Foton have supplied hundreds of electric buses to the capital, Santiago. Since 2018, Santiago has become the city with the largest fleet of electric buses outside China, placing Chile as a regional leader in sustainable urban mobility ("Santiago moves towards 100% electric public transportation by 2040." 2025).

In agriculture, the implementation of Chinese technologies has supported efforts to modernize and improve the efficiency of production systems. Chinese suppliers have provided solar-powered irrigation systems and precision agriculture tools, contributing to more sustainable and resource-efficient farming practices, particularly in arid zones such as northern Chile (Borregaard et al. 2015; "Chinese supplier submits US\$100mn Chile solar project for environmental review." 2025).

By contrast, the relationship between Chile and the United States is characterised by a strategic alliance founded on political, economic and cultural cooperation. Since establishing formal diplomatic relations in the 19th century, the two countries have developed a significant bilateral relationship. Trade is one of the most prominent aspects, especially since the signing of the Free Trade Agreement in 2004, which has facilitated the exchange of goods and services and encouraged mutual investment. In 2023, the United States was Chile's second most important export market, receiving approximately 16% of all Chilean exports.

At the same time, the US was also a key supplier for Chile, providing about 20% of the country's total imports. From the United States, Chile mainly imported petroleum, machinery, chemical products, electronic goods, and other industrial items. In the other direction, the US imported a variety of Chilean products, especially copper, fresh fruit, wine, and seafood, reflecting the strength of Chile's mining and agricultural sectors (US Trade Representative 2024).

In terms of investment, the United States is one of the top sources of foreign direct investment (FDI) in Chile, with a strong presence in sectors such as mining, energy (particularly renewable energy), finance, manufacturing and services. US companies have also contributed to Chile's infrastructure, telecommunications, and innovation ecosystems. A key feature of Chile-US relations is their shared commitment to security. Despite challenges such as perceptions of US interventionism, the strategic alliance between the two countries remains a fundamental pillar of their respective foreign policies (Ulrich 2014).

This commitment is evident in the signing of various agreements aimed at bolstering cooperation in areas such as counterterrorism, drug trafficking, organised crime, and cybersecurity. One notable example of this collaboration is the 2005 Defence Cooperation Agreement, which established the basis for institutional dialogue, joint training, and defence coordination (US Department of State 2005). Additionally, in 2018, both countries signed a Memorandum of Understanding on Cybersecurity Cooperation, reinforcing their joint efforts to safeguard critical infrastructure and bolster institutional capabilities in the face of evolving digital threats (“Chile y Estados Unidos firman acuerdo de cooperación en Ciberdefensa.” 2019). Both agreements were signed before the sharp escalation of strategic tensions between the United States and China, and prior to the 2019 visit of US Secretary of State Mike Pompeo to Chile, which marked the beginning of more explicit US pressure on digital governance and technological security in the region (Göpel and Catena 2019).

This historical context helps to explain why Chile later faced growing dilemmas in balancing its strategic partnerships while maintaining an open and diversified foreign policy. Furthermore, both countries continue to collaborate on broader issues such as democracy, human rights, environmental protection, and sustainable development (US Department of State, 2024).

The intensification of strategic competition between the United States and China, particularly since Washington identified Beijing as a systemic rival in its 2017 National Security Strategy (Timothy 2017), has had direct effects on countries such as Chile. Triangular relations are no longer limited to traditional economic logic, but have shifted toward sensitive areas of technological sovereignty, such as digital networks, cybersecurity, and data governance. In this context, open economies face increasing pressure to align themselves, which challenges their room for manoeuvre and forces them to design international integration strategies that combine diversification, resilience, and autonomy in an increasingly polarized global environment.

Description of the specific cancelled or suspended projects

Chile-Asia Submarine Cable Project

As part of bilateral technological cooperation based on a Memorandum of Understanding, a feasibility study was carried out in 2016 to connect China and Chile through a trans-Pacific fibre-optic cable (Subsecretaría de Telecomunicaciones de Chile 2016). This initiative, championed by Chilean president Michel Bachelet, aimed to improve the country’s technological capabilities, particularly in terms of data navigation speed and capacity, enabling advances in virtual reality, robotics and artificial intelligence (“El despliegue del cable transoceánico que conectaría a Chile con el Asia a través de Australia.” 2016). The cable project aimed to establish a direct fibre optic link between China and Chile enhancing communication speed and quality while bolstering digital infrastructure and bilateral relations in the digital era.

In 2017, Huawei Marine, a Chinese company, conducted a pre-feasibility study for the project with China as the cable's intended destination. However, concerns arose in the United States regarding the cable's direct connection between China and the Southern Cone, particularly amidst the trade tensions during Donald Trump's administration. Secretary of State Mike Pompeo's visit to Chile underscored US opposition to the cable passing through China. Some interviewees and media relate these pressures to a turning point in Chile's decision to abandon its initial project to connect with China. This is reflected in an excerpt published in the Chilean newspaper *DF*, which states that the Secretary of State, Mike Pompeo, visited Chile and met with Minister Gloria Hutt and the Undersecretary of Telecommunications, Pamela Gidi. In that meeting, Pompeo explicitly told them: "The cable cannot pass through China, no way". The Chilean authorities replied that, if that was what they wanted, they should present a proposal (Durante 2024).

Subsequently, Google engaged in discussions with Chilean authorities to redirect the cable to connect the Southern Cone with Australia, thereby excluding China from the final route (Durante 2024). This decision was perceived as a setback for China and Huawei, reflecting broader tensions between China and the United States in global telecommunications and data projects (Hirose and Toyama 2020).

The Chilean government justified the route change citing cost-effectiveness and feasibility, opting for a route connecting to Australia with an investment of approximately USD\$400 million due to its shorter length ("En Japón destacan el 'desaire' de Chile a China en la elección de la ruta para el Cable Transoceánico." 2020). However, former Undersecretary of Telecommunications Pedro Huichalaf criticized the decision, arguing that the selected route failed to achieve the objective of establishing a direct connection to Asia-Pacific. According to Huichalaf, "if a direct cable to the Asia-Pacific were built, traffic would increase directly from that development pole to Latin America, through Chile. Now it will only go to Australia" (BCN 2020). Huichalaf emphasized the importance of Chile maintaining technological neutrality, ensuring security conditions in inter-state agreements, and facilitating increased traffic from the Asia-Pacific region to Latin America through Chile.

Aisino Passports Project

In October 2021, the Chinese company Aisino won the contract to produce passports and identity cards in Chile under Exempt Resolution No. 353. The decision was based on the consortium's efficiency and its bid of USD\$222 million, the most competitive among all contenders. However, a month later, the Civil Registry revoked the contract through Exempt Resolution No. 424, citing lack of information from Aisino and noting that the deadline for submitting background information had passed. They emphasized that the authority to review information was part of the bidding conditions, leading to the contract's revocation due to identified irregularities.

The decision to cancel the tender sparked controversy in the local media, with suggestions that it was influenced by a desire to maintain the Visa Waiver program with the United States and potentially Canada (“El documento del FBI contra la empresa china a la que se retiró la adjudicación de los pasaportes chilenos tras presión de EEUU.” 2021). Reports (Hermosilla 2021; Vargas 2021) indicated that a US delegation visited Chile in October to gather information for the program’s review, and the FBI raised concerns about cybersecurity risks linked to Aisino’s alleged ties to the China National Information Security Engineering Center, a state-owned entity (Montt et al. 2023). Public figures such as Jaime Naranjo and Miguel Mellado expressed concerns about potential foreign access to Chileans’ personal data, citing risks associated with the CCP (“Es tremendamente peligroso: Diputados piden investigar licitación de empresa china por pasaportes y cédulas.” 2021). After losing the contract, the Chinese company announced plans to challenge the decision in court, alleging discriminatory treatment by the Civil Registry and filing a diplomatic complaint. They highlighted a lack of transparency in the process and asserted compliance with security standards. Ultimately, the contract was awarded to the French company Idema Identity & Security Chile, the second-place bidder, through Exempt Resolution No. 431. The controversy surrounding this issue transitioned from an administrative matter to a foreign policy concern, with geopolitical implications. Criticisms were directed at the decision-making process for its lack of thoroughness and oversight of cybersecurity risks during the initial contract award (Montt et al. 2023). This incident in the IT sector underscores the rivalry between the United States and China, characterized by the US employing a realism strategy, particularly in hegemonic transition scenarios. The strategic importance of technology in this competition is clear, with the US designating countries as “safe partners” based on their technological engagements with China.

Transitory Object Monitoring (TOM)

When President Xi Jinping made his last visit to Chile in 2016, a series of agreements were signed, which, although mainly aimed at expanding the Free Trade Agreement that China has with the South American country, did not fail to include agreements in other areas, such as scientific cooperation. It is within this framework that the Chinese Academy of Sciences, and more specifically its National Astronomical Observatory (NAOC), signed an agreement with the Catholic University of the North (UCN) to develop various projects on Cerro Ventarrones, located in the Antofagasta region of northern Chile (“Astronomy: China to install megaproject in Chile.” 2019).

In 2023, after multiple conversations and other agreements, this understanding led to the signing of a more detailed agreement on the installation of the TOM observatory and astronomical centre, i.e. the Transient Source Time Domain Astronomical Observation Project. This would aim to observe near-earth objects, supernovae, fast radio bursts, etc., through advanced optical telescopes. With a budget of USD\$80 million, work officially began in May 2024 (García, 2025). However,

in December of that year, just seven months after construction of the centre had begun, Newsweek Magazine warned that TOM's scope would go beyond academic-scientific cooperation, and would become involved in strategic Chinese defence and military operations, mainly due to its ability to track satellites in orbit ("Chinese space project under review after Newsweek investigation." 2025). This information would have set off alarm bells in the US government and "according to Ex-Ante, before leaving her post as US ambassador to Chile, Bernadette Meehan communicated to the Chilean government the concern that the project had generated in Washington" (Suazo 2025).

From that moment on, uncertainty over TOM increased, especially considering the great geopolitical tension between China and the United States. In March 2025, the decision was made to suspend construction of the centre, which occurred at the same time as the publication of an article in Newsweek describing new details of the case, including statements that some authorities had given to Ex-ante news. It should be noted that the Chinese ambassador to Chile, Niu Qingbao, who said that the project was focused on technological cooperation between the two nations, developed with total transparency and following the required guidelines. While it would call attention to how nations with "hundreds of military bases abroad (...) allow themselves to criticise and interfere in legitimate technological cooperation between other nations" Niu Qingbao in "Embajada de China responde cuestionamientos de EE. UU: a proyecto astronómico en el norte de Chile." (2025). This would add to the words of the UCN, insofar as they affirm that the project focuses on scientific-academic cooperation and that they are willing to present all the necessary background information to the Foreign Ministry for review (Suazo 2025).

Main results

Chile-China submarine cable project: detour of the route

The Chilean authorities opted to modify the route under pressure from Mike Pompeo, supporting a project that connects Chile with Australia and from there with the countries of the Asia-Pacific basin, including China. The official reason for this route change was to achieve economic savings and reduce project implementation times. This decision allowed the Chilean Foreign Ministry to prevent Beijing from interpreting the measure as a government concession to the United States. For this reason, they have remarked that in this case it would only be an economic problem and that, rather than discarding the connection with China, the technology already enabled by Australia would be used to connect with China and, at the same time, expand connectivity with other Asian countries with which Australia already has submarine cables.

Regarding the cable, I think it is a very good decision to go to Australia because it is part of our Western bloc, so it does not create any political problems and from Australia you can connect to many more countries, not only China. (Interviewee 5).

The perception of China's reaction is also a striking theme of this case. Chilean interviewees assume that the Chinese counterpart understands that this is a clash of priorities, where the security issue takes precedence over other aspects such as trade.

China knows our situation, so it is not surprised that Chile does things that seem to be against China. China says, 'it's obvious that Chile has to react like this', so it doesn't miss it. (Interview 3).

In this case, Chile's Hedging Strategy when approaching another middle power to avoid being in the middle of the US-China competition highlights the complex interplay of technology, security and geopolitical interests. The reorientation of the Chile-China submarine cable project underscores the evolving nature of international relations and the strategic choices countries must make to effectively navigate this challenging landscape.

Aisino Passport Project cancelled by secretariat

The annulment of the contract granted to the Chinese company Ansino for the production of passports was established through a secretariat. The official communication was based mainly on the non-compliance of technical and administrative aspects during the bidding process. Specifically, the authorities of the Civil Registry requested complementary information from the Chinese company after the awarding of the bid, but did not receive a response ("Registro Civil dejó sin efecto licitación de empresa China Aisino." 2021). The cancellation of the award led the Civil Registry's management to acknowledge management problems, which led to the departure of two directors of the service:

The large number of appeals filed with the Public Procurement Tribunal and the overwhelming number of questions regarding the tender conditions clearly reveal serious shortcomings in the management of the administrative process (interviews 5).

However, in the same official communiqué ("Registro Civil dejó sin efecto licitación de empresa China Aisino." 2021), the Civil Registry pointed out that according to information provided by the Ministry of Foreign Affairs, the continuity of the visa waiver program with the US was at risk if the company in charge of manufacturing the passports was from China. In this line, the interviewees consider that this type of measure is based on China's lack of reciprocity with respect to the management of its own data. It is argued that, if China has a digital wall, it is normal that other countries are also suspicious.

If China is closed to investment from other countries in data business on Chinese territory, if China has a digital wall, it is normal for other countries to be suspicious (Interview 1).

From these perceptions, experts advocate for a more thoughtful approach to preparing bidding conditions, integrating broader consideration beyond cost. The interviewees advocate a more strategic approach to bidding processes, suggesting that security and sustainability aspects should be prioritised, and highlighting the need to incorporate screening mechanisms for certain investments.

The cancellation of the tender illustrates the need for a more strategic outlook in such decisions. The authorities failed to recognize the implications of entrusting demographic data to foreign entities; a national tender should have been prioritized (Interviewee 5).

Chile does not have a screening mechanism for investment, a system that channels foreign investments. Chile's situation is what the civilized world had 15 years ago, now these "civilized" countries are starting to have a screening mechanism system (Interviewee 2).

The Chilean decision to prevent the measure being interpreted by Beijing as a government concession to the United States was based on the argument that, in this case, it was an administrative problem and a problem of timely provision of information. This explanation was not incidental: it reflects broader structural issues in Chile's bureaucratic system. The idea that limited administrative capacity shapes foreign policy implementation has been supported in comparative studies. Academic literature points out that Chile exhibits a limited administrative capacity, with structural problems in inter-agency coordination, low policy implementation effectiveness, and insufficient integration across government levels. Haque and Oliveira (2021), in a comparative analysis with Singapore, emphasise that despite some institutional progress, Chile continues to display weak administrative performance and fragmented public management, which ultimately affects its ability to act coherently in complex diplomatic contexts. This highlights the Strategic Hedging approach of lack of reciprocity as a key element in opening this type of passport business.

TOM suspended until further notice

The suspension of the astronomical project, which was already under construction, reflects how Chilean authorities use legal arguments to justify administrative decisions and claim that current regulations prevent private institutions, such as the Universidad Católica del Norte (UCN), from signing international agreements without the consent of the State.

It should not. I believe that the precedent has been set for some time, which is that NAOOC (Chinese counterpart) does not have this quality of international organization, and therefore does not comply with the norm to be part of the exceptions, or of the current legislation on astronomical matters, which gives benefits to astronomical projects (interviewee 17).

Management issues, particularly with regard to communication breakdowns and the Chinese side's limited understanding of Chilean administrative and legal procedures, were also highlighted in the interviews conducted for this case. These issues may be key to understanding Chile's decision to cancel the projects on procedural grounds. Notably, Jorge Heine had already identified this institutional barrier in his 2016 research, emphasising Chile's relatively complex legal framework, which places a strong emphasis on formal procedures and transparency (Heine 2016). This poses particular challenges for Chinese companies, which are often unfamiliar with such regulatory environments and are more accustomed to direct state-to-state negotiations.

They have management problems, they are also without representation. Their director, for example, is not residing in Chile. They have problems with decision making, bureaucracy.... They have funding issues, personnel issues. Administrative issues in general. Issues of lack of knowledge of the legislation....Because they are very lost in some things, of management in Chile. They don't speak Spanish, so... (Interviewee 17)

Another aspect that is corroborated in the third case is related to the position of the United States, which has expressed growing concerns, mainly through its Department of Commerce's Bureau of Industry and Security (Shivakumar et al. 2024), about China's expanding technological and strategic influence aligning with broader trade and security tensions outlined in the US-China trade relationship ("The Contentious US-China Trade Relationship." 2025).

But the concern of the United States about the observatory project began to emerge, it was already evident in the second half of last year. They came, they brought journalists to report on the subject, people from the United States came to the embassy to investigate the subject. So, yes or yes, there was pressure, I would say of a diplomatic nature (Interviewee 17).

The combination of US pressure, inefficient Chilean administrative procedures and China's lack of knowledge about how Chilean institutions work reflects a complex exercise for Chilean policymakers, which leads them to handle each case with care to avoid sending signals that reflect a position between the two powers.

Chilean response: Strategic Hedging approach

The ambiguity of Chile's response to China's growing technological presence is due to the fact that the country has decided to modify its technological cooperation with China in order to prioritise its historical relationship with the United States, which includes security aspects. Despite this reorientation, Chile is seeking to deepen its economic and commercial ties with China, as evidenced by the remarkable growth in bilateral trade, which has reached 40 per cent in recent years.

I am very critical of active non-alignment. Chile and other countries, I believe, do not have the capacity to approach it in this logic. I don't think we are in a position to have technological autonomy, but we do have to be much more realistic about the levels of commitment (Interviewee 7).

This trend is clearly observable in the Chilean case. Prior to the context of hegemonic disputes Chinese technology was widely accepted. There was little public concern about its origin, and companies such as Huawei were viewed as supplementary to Western providers rather than as strategic threats. Huawei, which has been operating in Chile since 2002, notably participated in the Cable Submarino Austral project, which aimed to improve digital connectivity in the southern regions of the country (See more background information in “Huawei detalla avances de fibra optica austral.” 2018). However, a turning point came with US Secretary of State Mike Pompeo's visit to Santiago in April 2019, when he explicitly warned Latin American governments about the risks of trusting Chinese technology (see more background information in “Mike Pompeo advierte a Chile sobre China y Huawei: ‘Esa infraestructura presenta riesgos a los ciudadanos de tu país.’” 2019). From that moment on, Chinese digital infrastructure began to face increased scrutiny in Chile amid growing geopolitical tensions.

Chile's position on Chinese technology has changed following Western securitisation efforts, de facto modifying Chile's historic open-door policy in order to strengthen historical ties with the United States. However, it is now important to develop a strategy towards China that makes it clear that the bilateral relationship will be primarily economic and commercial (Interviewee 15).

Despite the openness to adopt a security posture more aligned with the US, interviewees point to the importance of continuing to benefit from the growth in bilateral trade with China. They raise the need to develop a strategy that maintains economic and commercial rapprochement with China, without assuming that this change in stance will exclude China from investing in some technology companies in Chile.

I believe that China is very willing to attract companies that are generating a virtuous circle of innovation, offering opportunities such as hiring Chileans, scholarships for study abroad, among others. Therefore, there are opportunities for reciprocal collaboration between both parties, at the level of academia, the public sector and the private sector, which could be beneficial for all parties involved (Interviewee 3).

In this new context, the challenge facing middle powers such as Chile is to maintain a balanced position in the face of pressure from hegemonic powers. Ambiguity becomes a complex and perhaps unsustainable exercise, given the intense geopolitical and economic pressures. In this context, there is growing awareness of the need to explore alternatives focused on technology

outside the sphere of influence of the United States and China. This shift in perspective is essential to understand the broader geopolitical dynamics at play, beyond just technological considerations.

We have to look for alternatives with a focus on technology in countries other than the United States and China, which will allow us to take another look at this perspective (Interview 7).

The case of Chile illustrates the difficulties it faces in maintaining effective independence when the strategic interests of dominant actors are at stake. There is growing recognition of limited technological autonomy; as mentioned, non-alignment is becoming increasingly difficult, especially under pressure from the United States (interviewee 4). The Strategic Hedging approach may be an attractive option, but it also poses serious risks and challenges to the cohesion of Chilean foreign policy.

Remaining “non-aligned” is increasingly challenging, particularly with the United States exerting pressure (Interviewee 4).

Summary of Findings

Strategic Hedging emerges as the dominant logic across the three analysed cases. Chile consistently avoided open alignment, framing decisions in administrative or technical terms and seeking to minimise reputational costs with regard to both the United States and China. This cautious and adaptive behaviour reflects the core principles of a Hedging Strategy.

This interpretation is also supported by the fieldwork: Twelve out of eighteen interviewees expressed views consistent with a Strategic Hedging approach, emphasising the need to preserve room for manoeuvre, avoid binary choices and manage bilateral tensions through discretion and flexibility. These informants view hedging as not only a viable strategy, but also a pragmatic response to Chile’s structural constraints and geopolitical positioning.

Cooperation with other middle powers only emerged in the submarine cable case, when Chile explored alternatives with Japan and Australia. However, this approach was not institutionalised and remains constrained, particularly given Australia’s alignment with US interests, which limits its usefulness as a neutral partner.

While multilateralism is formally upheld, it is not used as an active mechanism to manage geopolitical tensions. While Chile continues to respect international norms, it does not escalate bilateral disputes to regional or multilateral platforms. This underutilisation reflects the declining effectiveness of multilateralism in an era characterised by intensified great power rivalry and institutional fragmentation.

Table 2 – Chile's Foreign Policy Responses

Response Strategy	Submarine Cable	Aisino Passport Contract	Chinese Observatory Project	Interviews
Primary: Strategic Hedging	High. Chile avoided open alignment; project justified on technical grounds; later cancellation reframed as administrative.	High. The government framed the cancellation as procedural rather than geopolitical; maintained neutrality narrative.	Moderate. Quiet withdrawal avoided escalation; project dropped without diplomatic confrontation.	1, 2, 3, 7, 8, 9, 10, 11, 13, 15, 16, 17
Secondary: Middle Power Cooperation	Moderate. Chile consulted with Australia on cable alternatives.	Not evident. Decision was unilateral; no coordination with other middle powers was reported.	Not evident. No sign of coordination with scientific partners.	4, 5, 6, 12, 14
Not applied substantively: Multilateralism	Weak. No recourse to multilateral tech forums; justification remained domestic.	Weak. No international mechanisms were invoked	Weak. Chile respected international norms but did not escalate the issue to any multilateral body.	18

Chile's Hedging Strategy Across Three Cases

These findings suggest that Chile's foreign policy responses are consistent with a strategy of hedging. This approach is characterised by economic pragmatism during the initial stages of engagement with China, followed by a cautious withdrawal when geopolitical tensions escalate. This reflects a deliberate attempt to avoid signalling alignment with either major power. Chile systematically avoids formal alliances, demonstrating a clear commitment to preventing any one power from achieving exclusive dominance, a key element of hedging. However, Chile's indirect balancing strategies, such as partner diversification or regulatory tightening, appear to be more reactive than strategic, driven by immediate pressures rather than long-term planning. Overall, these findings emphasise the cautious logic behind Chile's Hedging Strategy, as well as the structural limitations that influence its behaviour as a middle power within an increasingly polarised international order.

Table 3 – Patterns of Chile’s Hedging Approach Across Cases

Hedging Dimension	Submarine Cable Project	Aisino Passport Contract	Astronomical Observatory
Economic pragmatism	Initial openness, viewed as a cost-effective option	Selected Aisino for economic criteria	Scientific collaboration aligned with tech diplomacy goals
Binding engagement	Limited institutional backing; project bypassed broader diplomatic coordination	Weak interagency coordination; decision made at operational level	Lack of long-term institutional framework with China in the scientific domain
Limited bandwagoning	No formal alignment; Chile remained open to alternatives (e.g., trans-Pacific routes)	Chile revoked contract under political pressure	Project dropped discreetly, without endorsing China’s broader agenda
Dominance denial	US pressures acknowledged, but Chile avoided public alignment; opted for “technical criteria” narrative	Emphasized administrative causes, distancing the decision from geopolitical motives	Does not give the impression of being loyal to either of the powers.
Indirect balancing	Sought alternative partnerships (e.g., Australian routes) after cancellation	Reinforced procurement review protocols post-case	Strengthened internal policy coordination on scientific cooperation and investment screening

Implications for Middle Powers and Hegemonic Competition Literature

In the analysis of Chile’s response to the emerging tensions of technological competition between the US and China, it has been identified that its empirical approach predominantly aligns with the Hedging Strategy, which stands as the third theoretical alternative available in the literature on the response of Middle Powers in an environment of increasing hegemonic competition.

This behaviour is understood as Chile’s ability to balance its investment and security dependence on the US, while protecting its commercial interests with China, which is revealed as a new essential component of its foreign policy, at least as an initial response to pressures. As Hurrell (2006) points out, middle powers seek to navigate the international system without directly confronting the great powers, which explains why Chile has limited its collaboration with China in sensitive areas, such as digital infrastructure, while maintaining an active trade relationship with the Asian giant. This logic is in line with Kuik (2024), who describes the Hedging Strategy as a tactic that allows small and medium-sized states to maximize the economic benefits derived from the rise of powers such as China and the United States without compromising their autonomy or security. In the case of Chile, key elements of this strategy can be observed, such as economic pragmatism, selective involvement, and indirect containment.

This study reveals that decision-makers in Chile face a particularly complex scenario, as they must deal with geopolitical pressures from the United States, as well as internal institutional constraints and asymmetries in mutual understanding with China. In particular, the inefficiency of administrative procedures in Chile, which includes excessive bureaucratic complexity, overlapping responsibilities between agencies, and delays in regulatory approvals, has been identified as a key obstacle to the consistent implementation of foreign investment policies, as noted in works such as that of Shamsul Haque and Oliveira (2020), which highlight the structural weaknesses of the Chilean public apparatus compared to that of other countries.

At the same time, China's lack of knowledge about Chilean institutional functioning, motivated by cultural, administrative, and communication differences, has generated friction and misunderstandings in bilateral cooperation. This last point is consistent with the findings of *The Political Economy of China–Latin America Relations in the New Millennium*, which shows that Chinese actors acquire knowledge about local regulations and institutional dynamics only through their direct participation in specific projects, which often leads to initial misunderstandings that are gradually resolved (Myers and Wise 2016). Together, these factors create a sensitive diplomatic and technical environment that forces Chilean officials to manage each case with great caution to avoid sending signals of alignment with any of the major powers.

Conclusion

The intensification of competition between the United States and China over digital governance poses a growing challenge for countries with intermediate capabilities, which must navigate a more uncertain and fragmented global environment. This study analyses how Chile has responded to this new context by adopting a Hedging Strategy. This is a pragmatic stance that allows it to maintain ties with both powers without fully committing to either.

Within this framework, Chile has moderated its participation in sensitive technology projects, in line with previous commitments made with the United States on cybersecurity. The cancellation of the submarine cable, the astronomical observatory project, and the contract with the company Aisino are examples of this more cautious shift. However, this does not imply a general distancing from China. On the contrary, Chile continues to actively promote Chinese trade and investment in strategic sectors with high potential, such as electromobility and renewable energy.

The results of the study show that these decisions are not solely a response to external pressures. The country faces a triple challenge: geopolitical tensions, internal bureaucratic constraints, and difficulties interacting with extra-regional actors, such as China, whose presence in Chile has intensified over the last decade. Even so, a process of mutual adaptation persists, complicating the relationship. In this context, the Hedging Strategy emerges as a pragmatic but limited response. For middle countries such as Chile to act with greater coherence and autonomy in a changing international order, it will be essential to strengthen their institutional

capacities and deploy more active and sophisticated diplomacy. The urgency of this debate has increased with Donald Trump's new term in office, as he poses a more direct challenge to decision-makers in small and medium-sized countries that have historically been close to the US, such as Canada, Panama and Colombia.

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Data Availability Statement

The data that support the findings of this study are not publicly available due to privacy restrictions, but are available from the corresponding author on reasonable request.

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