

# China's Emerging Role in Ecuador<sup>1</sup>

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## **Abstract**

When Chinese foreign policy makers began to show some interest in Latin America during the early 1960s Ecuador was not a priority. However, the PRC has significantly strengthened its interests towards, and presence in, Ecuador since 2005. The provision of oil but also metals – primarily copper and gold - and increasingly agricultural products has taken centre-stage in Beijing's strategy towards the Andean country. Creating access to the country's market for China's growing export volume of manufactured products also plays an important part in China-Ecuador relations. Furthermore, Beijing has made clearly visible political and military advances to Ecuador, accompanied by growing ODA for the country. From a neostructural perspective it can be argued that Ecuador is embracing China with the objective of fostering technical innovation through partial Chinese subsidies and the promotion of strategic alliances between local and Chinese firms.

*Keywords:* China, Ecuador, Latin America, neostructuralism

## **Resumen**

Durante los años sesenta, cuando los encargados de la política exterior china empezaron a mostrar cierto interés en América Latina, Ecuador no era considerado como una prioridad. Sin embargo desde el 2005 la RPC ha incrementado significativamente tanto su interés como su presencia en Ecuador. El aprovi-

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sionamiento de petróleo pero también el de metales, básicamente el cobre y el oro, y la constante demanda de productos agrícolas; se han convertido en los pivotes esenciales en los que se sustentan la estrategia de Beijing hacia este país andino. El crear acceso a nuevos mercados que aseguren la comercialización del increíble volumen de productos manufacturados, de su crecimiento y exportación; juega un rol importante en las relaciones entre China y Ecuador. Además China, ha evidenciado claramente su posición política y militar en Ecuador, a través de un incremento en su fondo de ayuda económica para el desarrollo (FAD). Desde una perspectiva neoestructural se puede argumentar que Ecuador está acogiendo a China con el objetivo de beneficiarse de la innovación técnica que ofrece este país, a través de subsidios parciales y de alianzas estratégicas entre compañías locales y empresas chinas.

*Palabras claves:* China, Ecuador, América Latina y neo-estructuralismo.

### **Introduction: China's rise in Latin America**

Conceptualising and explaining the rise of the People's Republic of China (PRC) – and particularly Beijing's hunger for raw materials and resources – has exercised academics and policy-makers for some time. Interestingly, to date the vast majority of observers have focused on China's growing economic and political involvement in sub-Saharan Africa, in addition to ever-tightening relations between Beijing and its regional neighbours in East Asia. China's emergence as an important actor in Latin America has attracted relatively little scholarly attention. This is surprising given the substantial intensification of Chinese-Latin American interaction especially since November 2004, when Chinese President Hu Jintao's first tour of Latin America marked the beginning of a new phase in Beijing's relationship with the western hemisphere, which – at first glance – is mainly driven by accelerating economic exchange. China's trade with the region totalled US\$180 billion in 2010, up 50 per cent from 2009 and a sharp growth since 2000 when the China-Latin America trade volume stood at just US\$13 billion. In 2007, bilateral trade already exceeded Hu's original benchmark of \$100 billion set for 2010 (China Daily, 13 June 2011).

However, trade is only one of several factors in the PRC's relations with Latin American states. The frantic and in most cases successful attempts of Chinese state-owned corporations, such as PetroChina and Sinopec, to get their hands on Latin American oil and other commodities; the establishment

of “strategic partnerships” and “strategic dialogues” with several states in the region; China’s training of increasing numbers of Latin American military personnel; extensive party-to party ties of the Chinese Communist Party (CCP) with political parties across the continent and other examples for intensifying Sino-Latin American links seemingly support the neo-realist notion of China following a “containment through surrogates” strategy (Malik 2006). According to this view, Beijing counters the perceived containment of its regional and global aspirations by the United States and Washington’s allies and engages in soft balancing of the OECD world through trade, investment and development aid. China, so the argument goes, takes advantage of a power vacuum in the region that had been created by the United States’ and also Russia’s declining interest in Latin America (Li He 2008: 195).

Chinese foreign direct investment (FDI) reached approximately US\$15 billion in Latin America and the Caribbean in 2010 representing 9 per cent of the region’s total FDI. More than 90 per cent have been invested in natural resource extraction. The main recipient countries were Brazil, Argentina and Peru. China has established itself as the third largest investor in the region, behind the United States and the Netherlands. Until 2009, Chinese FDI had barely registered (ECLAC 2011).<sup>3</sup>

When Chinese foreign policy makers began to show some interest, albeit limited, in Latin America during the early 1960s – immediately after and as a result of the Cuban Revolution - Ecuador was not a priority. Even during the 1970s and 1980s when China was looking for new friends in the wake of Beijing’s long exclusion from the post-World War II international system and the unsettled nature of the Taiwan issue, Ecuador was at best seen as an “also run” in the Western Hemisphere. Instead Argentina, Brazil, Chile, Mexico and Peru became the focus of China’s interest and these countries were also the first to establish diplomatic relations with China in the 1970s, followed by Ecuador in January 1980 (Xu 1994: 150). Almost three decades

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3. These FDI figures provided by the United Nations National Economic Commission for Latin America and the Caribbean (ECLAC) – also known under its Spanish acronym CEPAL – are much lower than in other reports because they exclude large sums of FDI in the region which reportedly are destined for off-shore financial havens such as the Cayman Islands and the Virgin Islands, to be reinvested in China (thereby taking advantage of tax breaks for “foreign companies”). For example, according to PRC official data, Latin America had received US\$22billion in cumulative PRC investment at the end of 2006. When the tax havens were excluded, only about US\$1.9 billion remained (Lum et al. 2009: 12-13).

later, however, China has emerged as a major factor in Ecuador's foreign and economic relations. Ecuador is not the only example and similar empirical evidence for an assertive China can easily be found for almost all states on the continent. China's strategy towards Latin America has been openly discussed in the Chinese media and academic publications. Pan Wei, an eminent professor of international relations, emphasised "in order to meet the huge demand for energy and natural resources in its economic rise, China must explore new and larger markets. The developed countries are more likely to become a threat to the security of China's energy and strategic resources, than its main suppliers. To reduce the dependence on Western markets, China needs to look for new markets" (Pan 2006).

This paper argues that China's approach to Ecuador reflects the overall pattern of its relations with Latin America. More specifically, Beijing follows a three-fold political and economic strategy towards Latin America: first, and most importantly, to secure the provision of raw materials (especially oil) and agricultural products; second, to create access to new markets for the country's growing export volume of manufactured products; and third to make sure that Latin American governments adhere to the 'one China principle' in their foreign relations. This is of particular importance vis-à-vis Latin America where China had previously lost diplomatic ground when some states officially recognised Taiwan.

The article begins with some thoughts on the relevance of neostructuralism as an explanatory framework for China's growing role in Latin America in general and Ecuador in particular. It then provides an overview of Ecuadorian perceptions on China, before delving into the PRC's increasing involvement in Ecuador's oil industry as well as copper and gold mining and infrastructure development. This process is accompanied by a small but increasing Chinese ODA programme for Ecuador and even military ties between the two nations. The final part tries to shed some light on any consequences of China's involvement in Ecuador for the latter's relations with the United States.

## **The Relevance of Neostructuralism**

Ecuador is a fascinating test case for China's new involvement in Latin America because all three strategic goals have become visible since China strengthened its interests towards, and presence in, Ecuador around 2005. It is important to note that China's rise in Latin America and elsewhere in

the world is not only the result of Beijing's interests and strategies but to an equal extent the product of how other actors perceive and respond to the PRC's behaviour on the international stage and provoke certain actions (Spanakos, Tony and Yu 2010: 222). From a neostructural perspective it can be argued that Latin America is embracing China with the objective of fostering technical innovation through partial Chinese subsidies and the promotion of strategic alliances between local and Chinese firms. Even though at the moment Latin America has mainly raw materials to offer, the long-term aim is to benefit from China's technology. Brazil provides a good example for the emergence of a "strategic partnership between Brazil and China" in the field of "scientific and technological cooperation in order to break the monopoly held by developed nations". This partnership even extends to space technology (Altemani de Oliveira 2010: 41). In a similar vein, since the signing of a free trade agreement with China in 2005, Chile has been trying to benefit from a transfer of Chinese technology to improve the competitiveness of products particularly of small and medium sized enterprises (SMEs) (García 2008). The FTA entered into force in October 2006 and is the first that China negotiated with a nation outside Asia.

The effort of Latin American nations to attain "progressive modernity" requires a shift towards exports with higher valued-added and an international competitiveness based in increased productivity and innovation. If Latin America is to gain the economic, social and political benefits offered by globalisation, it will have to move beyond the export of natural resources with low levels of processing and produced by low-wage workers (Leiva 2008: 6-7). In this context neostructuralism postulates development as an integral process that focuses not simply on macro- and micro-economic factors but gives prominent attention to social and political structures as well as institutional, cultural and psychological factors (Thiery 1991: 17). To be sure, neostructuralism is not a new idea in Latin America but until recently economic development and the foreign economic policy of Ecuador – and most other countries in the Western Hemisphere – had been firmly embedded in neoliberal thinking based on the Washington Consensus. First and foremost, neostructuralism served as a suitable critique of neoliberalism but not as a recipe for policy-making. In Ecuador neostructuralism has only become a political reality under the Presidency of Rafael Correa since 2007. Both neoliberalism and neostructuralism agree on the necessity and urgency of far-reaching economic reforms in Latin America as much as they embrace

market economy and the necessity of participating in a global and open trading system. However, they differ on the role of the state. Neostructuralism categorically rejects market fundamentalism and brings the state back in. Jilberto and Hogenboom suggest that “as a result of many leftist governments in Latin America [including Ecuador], an interesting pragmatic convergence with China has come about: the state is granted an important role in the economy (again)... China and Latin America have both been moving in the direction of a development model in which there is reconciliation of state and market” (Fernandes Jilberto and Barbara Hogenboom 2010: 191). Yet, it is easy to overstate similarities in China’s and Latin America’s development paths and declare the dawn of the “Beijing Consensus”<sup>4</sup>. Countries like Ecuador are in urgent need of foreign direct investment, new trade opportunities and a diversification of its foreign economic relations to reduce its traditional dependency on the United States. China provides this opportunity but this does not mean that the PRC and Latin America are natural bed fellows.

### **Ecuadorian perceptions of China**

In the perception of many Ecuadorians the first truly important event ever linking the country to China happened on 22 August 2008. In the late evening hours Jefferson Perez won the silver medal in the 20 km walk event at the Beijing Olympics. Beyond the temporary national euphoria created by the happenings many thousand miles across the Pacific, China’s rapidly growing significance for the Andean state will not have escaped the attention of even those citizens who might not normally take a strong interest in the outside world. Chinese retail shops and other small businesses have mushroomed all over Ecuador and become a common sight in almost every town and city. According to the PRC’s Embassy in Quito, so far more than 20 Chinese companies have invested in Ecuador, with an accumulated total investment of more than UD\$ 2,200 million. The main sectors are oil exploitation, infrastructure, telecommunication, agricultural and fishery (Chinese Embassy in Ecuador 2008a).

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4. The term “Beijing Consensus” is not an invention of the Chinese government or Chinese scholars but was coined in 2004 by the consultant Joshua Cooper Ramo in a paper entitled *The Beijing Consensus* for the UK based Think Tank Foreign Policy Centre which was launched under the patronage of the then British Prime Minister Tony Blair.

At the same time mystery surrounds the growing Chinese presence. Local shopkeepers ask themselves: how are the Chinese competitors able, for example, to offer three times the going monthly rent of about US\$ 100 for a small store in the centre of Cuenca, Ecuador's third largest city? According to government estimates, a majority of Chinese businesses do not operate legally in the country. Only the largest enterprises, two oil companies and two corporations of the communications and electronics sector are registered with the Superintendencia de Compañías, the national regulative agency of the private sector (Superintendencia de Compañías, Quito 2007). According to Xavier Patiño, Executive Director of the Chamber of Commerce in Cuenca, "the knowledge about many Chinese businesses is minimal. Among the dozens of Chinese stores in the city, only five or six are members of the Chamber (author interview in Cuenca, August 2007).

Many Ecuadorian stakeholders are convinced that Chinese shopkeepers received some form of subsidies from the Chinese government to set up their businesses and successfully compete against national enterprises. However, it is impossible to find hard evidence for this claim as the Chinese entrepreneurs are usually tight lipped about their businesses. Yet, it is undisputed that China needs markets for its electronics, apparel, toys, textiles and footwear (Li 2007: 842). Between 2004 and 2010 China's total trade with Ecuador grew 5.5 times from US\$ 436 million to US\$ 2.4 billion US\$ in 2010 - mainly due to rapidly increasing Chinese exports to the Andean country (Xinhua Economic News Service, 13 August 2008). In the first seven month of 2005 alone, China's share of the Ecuadorian textile market grew from 25 per cent to 56 per cent,

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while the share of Latin American producers declined from 26 per cent to 8 per cent (Ellis 2010: 5).

This development mirrors the general trend in Latin American's rapidly increasing importance for Chinese exports. During the first half of the last decade China-Latin America trade has expanded faster (32.7 per cent on average per year) than China's global trade (25.1 per cent) (Teng 2007: 86). While the volume of Ecuador's exports to China is still small, it has been growing too. According to the Chinese Ministry of Commerce, Ecuador has already emerged as one of China's major trade partners in South America. In November 2010, Quito and Beijing signed a US\$ 20 million procurement agreement to support agricultural exports, including banana and fish meal and flour, from Ecuador, which will now supply eight Chinese companies regularly (China Knowledge Newswires 2010; Renuncio Mateos 2010). Other Chinese firms have indicated strong interest in importing coffee and fruits from Ecuador.

Ecuador lags behind other Latin American economies, most prominently Chile, with regard to the quantity of trade agreements with China but the Ecuadorian government and the Chinese-Ecuadorian Chamber of Commerce have been increasing the exchange of official delegations and their participation in trade fairs to narrow the existing gap. In November 2007, for example, Correa travelled to China with a delegation of Ecuadorian entrepreneurs to pave the ground for several trade agreements. Prior to the visit an Ecuadorian delegation had taken part in the China Import and Export Fair (Canton Fair) for the first time.

### **The Importance of Oil, Minerals and 'Geopolitical Windows'**

Growing trade, however, is only secondary to China's quest for access to Ecuadorian oil. Ecuador, the smallest of the OPEC members in terms of crude output, has 6.03 billion barrels of proven oil reserves – the third largest reserve in Latin America, just after Venezuela and Brazil. Ecuador pumped about 486,000 barrels per day in 2010, of which 62 per cent were moved by the state owned enterprise Petroecuador and the rest by foreign firms. Of its output, Ecuador exports about 340,000 barrels per day and generated revenues of US\$ 8.93 billion in 2010 (Agence France Presse, 23 February 2011). In 2005, a joint venture of the Chinese petroleum companies agreed to buy the Canadian EnCana Corporation's oil and pipeline assets in Ecuador for US\$

1.42 billion. Since 2007 Andes Petroleum, which is owned by two Chinese state companies (China National Petroleum Corporation and Sinopec) has heavily invested in Ecuador's oil sector. Andes Petroleum produces 62,000 barrels per day, equal to 12 per cent of Ecuador's total, state and private, crude oil output (Latin America News Digest 2008).

However, not all has been going according to China's plan. In 2007, the Ecuadorian government suddenly raised the petroleum tax from 50 per cent to 99 per cent, making PetroChina and Sinopec incur a substantial loss (Tendersinfo, 10 April 2009). Furthermore, a dispute between the government and the Chinese oil companies in the country over contracts looked likely to lead to an international arbitration case before the parties reached a settlement in 2010. At the core of the dispute was Quito's attempt to fundamentally change the nature of foreign access to Ecuadorian oil: the companies were pressured to surrender concessions that give them a share of oil field profits and accept service contracts instead. In March of the same year negotiations about a Chinese US\$ 1.7 billion loan to build a hydroelectric plant in Ecuador entered troubled waters, when President Rafael Correa complained about the Chinese negotiators. Correa said he was upset about "the mistreatment and the rudeness" that his country's representative endured in the talks with the Chinese counterparts, and added that negotiating with China was "worse than the IMF". Ecuador suspended the negotiations with China's Eximbank when the latter demanded to provide the assets of Ecuador's central bank as collateral. The loan was eventually signed, but details are unclear (Tendersinfo, 19 May 2010). These examples show the limits of the presumption that China and Ecuador are firmly united under the banner of the Beijing Consensus, which *inter alia* is based on a policy of self-determination, where the less developed nations use leverage to keep the big powers in check and assure their own financial sovereignty (Cooper Ramo 2004). Beyond the neostructural rhetoric on both sides, hard economic and business interests rule the bilateral relations. State interventionism is not a mutually acceptable value in itself and only welcomed as long as specific business interests are not at stake. In other words, China's state owned oil companies in Ecuador do not have much sympathy for the development credo of the Beijing Consensus and indeed Quito's policy of self-determination when it comes to restrictions to their activities and generation of revenues in the Andean country.

Yet, both sides are conscious about the importance of their bilateral economic relations. Since 2009, Quito's main emphasis has been on attracting

Chinese investment for major infrastructure projects in return for oil, a clear evidence for the neostructural proposition that Ecuador does no longer follow a foreign economic policy that is solely based on increasing income from the export of crude oil, raw materials and agricultural products but seeks to create an economic value added through the transfer of technology and infrastructure development. In April 2009, China and Ecuador signed a first major agreement to that effect that included a fund worth one billion dollars from the Chinese development bank for the construction of roads, refineries, hydroelectric plants, ports and airports. Ecuador will pay in the medium and long term with crude supplies (Ministry of Foreign Affairs of the PRC 2010).

Generally, Chinese state owned companies can move quickly when it comes to the establishment of new business relations and the negotiation of contracts with foreign governments such as Ecuador. As Stephen Johnson (2005: 4) explains,

China can bargain on the spot without a lot of caveats. Its transactions are based on simple exchanges. Their leaders have broad authority to negotiate foreign deals without worrying about legislative oversight, the rule of law, or altruistic objectives. Unlike Western leaders, Chinese leaders represent state monopolies—which mesh well with Latin American government ownership or management of telecommunications, mining, and energy industries.”

In October 2009, Sinohydro-Andes Corporation and the government of Ecuador signed an Engineering, Procurement and Construction (EPC) contract for the Coca Codo-Sinclair Project, which will be the country’s biggest hydropower plant. The plant, to be located about 75 km east of Quito, will have a capacity of 1,500 megawatts to cover 75 per cent of the country’s energy demand. According to the Ecuadorian government the value of the project is in the region of US\$ 2 billion, 85 per cent of which will be financed by Sinohydro-Andes (Xinhua News Agency, 22 April 2009). Chinese companies and banks have also indicated an interest in cooperation with Ecuador on other hydropower projects. Furthermore, in their first ever attempt to cooperation in Latin America, companies from Russia and China will jointly build an electric hydropower plant in Ecuador (SKRIN Market & Corporate News 2010).

As announced in November 2010, China will be a major financing and engineering partner in a gold mining development project in Ecuador. International Minerals Corp. (IMZ), a major Canadian gold and silver producer

in the Americas, signed memorandums of understanding with China CAMC Engineering for the financing and construction of IMZ's Rio Blanco and Gaby gold projects in Ecuador. IMZ holds a 100 per cent interest in the Rio Blanco project and variable interests in the mineral concessions comprising the Gaby project, ranging from 51 per cent to 100 per cent. The Rio Blanco project is believed to hold proven and probable reserves of 605,000 ounces of gold and 4.3 million ounces of silver, while the Gaby mine is estimated to hold 6.9 million ounces of gold. A feasibility study at Rio Blanco was completed in 2006 and production is supposed to begin in late 2013 or early 2014 but no date has been set for the Gaby mine where a full feasibility study remains to be completed. In addition to Ecuador, IMZ has silver and gold production from its 40 per cent-owned Pallancata Mine in Peru, one of the Top 10 primary silver mines in the world (United Press International 2010).

Another core area for Chinese investments is the Ecuadorian copper industry. In 2009, a massive deposit of some 600,000 tonnes of copper was discovered in Ecuador. A venture of two Chinese firms plans to invest US\$ 3 billion in the Corriente Copper Belt. Production is likely to start in 2013 with an expected output of 30,000 tons in the first year which is projected to double a year later (Tendersinfo 14 August 2010, 24 September). China's own copper resources are insufficient to keep up with its rapidly growing economy. There is a major bottleneck though: improvements to Ecuador's transport infrastructure are crucial for Chinese investments and generally FDI to take full effect. In this context the development of the former Manta Air Base was supposed to address this problem.

During a visit to Beijing in 2007, President Rafael Correa offered Chinese investors a "geopolitical window" to use Ecuador as a bridge for accessing markets in South America. While this is not the first time China has been made such an offer by a Latin American nation, it was the first time that US interests in the region had been directly affected. At issue was Manta Air Base in Manta which can operate round the clock due to the coast's good weather condition and is described by the Ecuadorian government as the "the best port in the South Pacific" (Agence France Presse, 13 November 2010). The base had been used by the US Air Force Southern Command (South Com) under a 10-year agreement signed with Quito in 1999. Approximately 475 US military personnel were stationed there as part of the US campaign against the illegal drug trade in the "source zone" of Colombia, Peru and Bolivia. The agreement never enjoyed much popularity in Ecuador and was possibly un-

constitutional. In view of the then looming expiration of the lease agreement with Washington (which was eventually not extended; US forces left in September 2009), a tender for a 30-year concession to operate the Port of Manta was launched. Correa aimed at securing Chinese capital for fulfilling Manta's future role as the largest Sino-Latin American trade trans-shipment hub on the South American west coast. The Hong Kong-based company Hutchinson Port Holdings (HPH) – the same company that controls both entrances to the Panama Canal – was awarded the concession (it had been the only applicant) and announced to invest US\$ 578 million over the following three decades to transform Manta into China's gateway to the Americas (Latin American Thought 2009; Geopolitical Monitor 2007). Soon thereafter, however, relations between the company and the Ecuadorian government went sour and resistance against the project was voiced by the provincial government and the public arguing that leaving Manta to Chinese investors was not in Ecuador's national interest. In addition Quito accused Hutchinson of non-compliance with the contract (García 2010). According to a cable by the US Consul General in Guayaquil,

“HPH planned to position Manta as the primary port for Ecuador and a redistribution center for other destinations. However, with the dramatic reduction in Pacific Ocean trade, HPH was unable to court shipping lines to the Port of Manta. In addition, HPH was frustrated that the Government of Ecuador failed to make good on its promised \$55 million investment to improve the poor road network linking Manta to the rest of Ecuador.... [In January 2009] President Correa threatened to expel HPH from Manta due to delays in modernizing the port [...]. The President announced changes to the concession agreement that would limit the Government of Ecuador's contribution. In response, HPH announced that it would abandon the concession due to the unilateral modifications to the concession (Cable 09GUAYAQUIL52, 2009).

Subsequent negotiations failed to and the project was eventually abandoned by HPH. The company decided to invest in the Peruvian Callao Port instead.

### **China's emergence as a donor: Challenging the 'West' and Japan?**

In line with the global trend in China's foreign economic relations, Chinese investment in Ecuador has been accompanied by development aid. Although

figures for total ODA worldwide do not exist, there are clear signs that development assistance of so-called emerging donor countries, such as China, Brazil, India, Indonesia, Malaysia, Mexico, South Africa and South Korea, has been significantly growing while the boundaries between donor and recipient countries have become increasingly fuzzy. This is particularly the case in Asia where most of the “new donors” are located with China being the most important one (Drifte Reinhard 2008). At the same time, the development aid strategies and policies of OECD donors have markedly changed in recent years. In addition to the Millennium Development Goals (MDGs)<sup>5</sup> the promotion of democracy, good governance, and respect for human rights and for the rule of law occupy centre-stage on the development agenda. The possible clash between OECD and Chinese concepts of development assistance towards the African continent has recently been the growing focus of academic and practical-political discourses. Yet, Latin America has received relatively little attention, partly because the seeming contradictions between European, Chinese and Japanese ODA policies and the potential long-term implications of increasing competition among donors are less obvious here than in Africa or Asia. Furthermore, given Latin America's advances in the consolidation of democratic political systems, there are little international concerns about a potential link between China's economic involvement and a strengthening of authoritarianism in the Western Hemisphere – a concern that has been voiced with regards to the African continent.

Despite being still a developing country itself (by official classifications) China has in recent years developed pro-active and visible foreign economic policies which in some ways resemble the Japanese version of the same policies between the 1970s and 1990s. A Japanese 2006 ODA White Paper claimed that contributions by China, India and other emerging donor nations had “become significant enough for developing countries to influence them” (The Daily Yomiuri 2006). Indeed, China has been accused of providing unconditional aid and opaque loans that are said to undermine European, US and multilateral efforts to persuade governments to increase their transparency, public accountability and financial management; intensifying global economic and strategic competition to secure energy supplies; and neglecting environmental and social standards (Berger/Wissenbach 2007).

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5. The MDGs, among other objectives, aim at the eradication of poverty, achieving universal primary education and promoting gender equality.

In 2006, the Chinese government for the first time extended two loans of US\$ 2.4 million to Ecuador. And in February 2009, China and Ecuador signed four cooperation agreements totalling US\$ 25 million during a state visit by Chinese Vice Premier Hui Liangyu. As part of the agreements China granted a credit line to Ecuador of about US\$ 7.3 million to increase trade in agricultural products and investment in the country's agricultural sector (Business Daily Update 2009). Other assistance provides computer technology and supports higher education in Ecuador (Agencia EFE, 27 December 2010). In late December 2010, the first Confucius Institute opened its doors in Ecuador to promote Chinese language and culture – at San Francisco University in Quito. Western observers regularly describe Confucius Institutes as a contribution to the expansion of Chinese soft power where Beijing “sees the promotion of its culture and its chief language, standard Mandarin, as a means of expanding its economic, cultural, and diplomatic reach” (Schmidt 2010). While, overall, ODA is still a relatively modest sum it marks the beginning of Chinese development aid to Ecuador and reflects the general pattern of rapidly increasing development assistance to strategically important developing nations in Asia, Africa and Latin America. At the same time, Japan's small ODA budget for Ecuador has declined between 2005 and 2009. Ecuador received US\$ 5.44 million in Japanese grant aid in 2009 as opposed to US\$ 19.6 million in 2005, while technical cooperation was reduced from US\$ 10.26 million in 2005 to US\$ 9.31 million in 2009 (MOFA).

Furthermore in May 2006, China added Ecuador to the list of approved overseas tourism destinations for Chinese citizens. In return – and on various other occasions - the Ecuadorian government has reaffirmed its one-China policy and support of China's position on the Taiwan question (Ministry of Foreign Affairs of the PRC 2007). According to the Chinese Ministry of Foreign Affairs, “the two countries maintained sound cooperation in the United Nations and other international and regional organizations. The government of Ecuador is committed to the one China position on issues related to Taiwan and Tibet (Ministry of Foreign Affairs of the PRC 2010).

### **Implications for Ecuador-US Relations**

China's open advances to Latin America have the potential to challenge the United States – as the example of the Manta base shows. Will the traditional dependency of Latin America on the US sooner or later be replaced by a new

dependency on Beijing? In other words, is China's poaching in Washington's backyard as Alberto Camarena has put it? (Camarena 2010). If it was true that China was gaining significant influence in Latin America at the expense of the United States it would be no small irony.

There is a historical irony to this turn of events, though neither governments nor corporations are likely to see it as such. ... It's ironic that it is China, and not a European power, that would challenge the Monroe Doctrine. The irony is doubled as China turns the original US Open Door Policy of 1900 (designed to allow US access to Chinese markets) back on the United States to get better access to Latin American markets (Geopolitical Monitor 2007).

However, no matter how strong China's influence in Latin America has become, its role is still overshadowed by the US. US-Latin America trade is currently roughly ten times larger than China-Latin America trade and US foreign direct investment in Latin America dwarfs China's FDI. Nicola Philips is broadly right in her assessment that "the emerging relationship with China has not altered the extent to which the economic and geopolitical structure of the Americas is conditioned by US power and dominance" (Philips 2010: 196-197). But it is also clear that Washington is not taking the existing structures for granted and takes Beijing's growing competition for geo-economic and geo-strategic influence in the Western Hemisphere very seriously. President Obama's visit to Latin American (Brazil, Chile and El Salvador) in March 2011 was widely seen as a move to counteract the rising influence of China in the wake to Beijing's success in securing bilateral economic agreements worth at least US\$ 65 billion (which translates into at least a million barrels of crude oil and refined products per day) throughout the region since early 2010 (Christian Science Monitor 2011).

Like all other Latin American states, Ecuador is not interested in shifting all its eggs from the US basket to the China basket. Instead, Quito follows a strategy of diversifying its foreign and foreign economic policy and thereby decreasing its dependency on the United States. For example, this strategy became obvious in 2007 when the US Congress revisited the Andean Trade Preferences Act (ATPA) which allows Ecuador to export some products to the US under preferential trade conditions, e.g. at reduced tariff rates. While Ecuador's benefits under the Act were eventually extended in 2009, for two years Ecuador was facing the prospect of a withdrawal of duty free and other preferential treatment which would have resulted in an increase of the price

of Ecuadorian products on the US market of up to 17 per cent. At the time of the review President Correa pointed out that Ecuador needed to look for alternative options in its trade relations and explicitly mentioned Asia and specifically China. And the increasing links with China do not stop at economic relations. Beijing is training increasing numbers of Latin American military personnel, taking advantage of a void created by a 2002 US Law barring military training and aid to a dozen Latin countries – Barbados, Bolivia, Brazil, Costa Rica, Ecuador, Mexico, Paraguay, Peru, St. Vincent and the Grenadines, Trinidad and Tobago, Uruguay and Venezuela – that refuse to exempt US citizens from the jurisdiction of the International Criminal Court. These countries had, in the past, received US training and aid. During a trip to the region, then Secretary of State Condoleezza Rice described the result of the law “the same as shooting ourselves in the foot” (USA Today, 5 April 2006).

Latin American countries and China have developed quiet but already extensive military ties. Between 2006 and 2008 four members of China’s Central Military Commission visited the continent - more than any other region in the world; and a steady stream of Latin American defence ministers have visited Beijing. In line with this development the bilateral military relations between China and Ecuador have been growing since 2008. In 2009 alone, the Vice Minister of the International Department of the CPC Central Committee Chen Fengxiang and other high ranking military officials visited Ecuador while, in separate trips, the Ecuadorian defence minister Javier Ponce, Lieutenant General Fabián Barrera, Chief of the Joint Command of the Armed Forces of Ecuador, and a delegation of the Guayas Navy School travelled to China. Bilateral agreements on military cooperation cover areas such as professional training, medical assistance and logistics. For example, China has provided Ecuador with two small airplanes, 15 trucks and military equipment (Chinese Embassy in Ecuador 2008b).

## **Conclusions**

China’s Latin America strategy is not a regional one but part of the global blueprint that neither aims at an open containment of US power nor includes any explicit anti-US rhetoric but follows the objective of limiting US dominance through South-South cooperation. This approach has often been described as containment through surrogates strategy as part of which China is supporting those countries in Europe, Asia, the Middle East, Africa, and

Latin America that seek to counter the United States and its policies. In most country cases, when the US withdraws or is negligent militarily, politically or economically, Chinese stakeholders move in. While political and military advances to Latin American countries - including Ecuador in an explicit and visible way - have been made, the economic factor is the most important of the three. Creating access to the country's market for China's growing export volume of manufactured products plays an important part in China-Ecuador relations but the objective of securing the provision of oil, but also metals – primarily copper and gold – and increasingly agricultural products has taken centre-stage in Beijing's strategy towards the Andean country. The activities of Chinese state owned companies in Ecuador are accompanied by a growing volume of development aid for technical assistance, trade related matters and education. As a quid pro quo, Ecuador has willingly and vocally confirmed its strict adherence to the “one China principle” in its foreign relations. Overall, China's approach to Ecuador and other Latin American states can be best described as a soft balancing of the OECD world through trade, investment and development aid.

Chinese FDI and ODA in Ecuador are welcome because both are urgently needed for the country's development and not sufficiently provided by other actors, including the United States and the European Union. As a country that has already (just) achieved “high human development” as defined by the UNDP, Ecuador's interest is no longer directed towards simply increasing GDP per capita but has a strong emphasis on qualitative factors. This is where the necessity for technology transfer and infrastructure development comes in and where President Correa's neostructuralist agenda and China's foreign economic interests meet. While it is true that China and Ecuador subscribe to a development model in which the reconciliation of the state and the market is key, and both broadly confine to what has been labelled the “Beijing Consensus”, the similarities do not go beyond a pragmatic convergence of economic interest in the broadest sense. China is not attractive a model for governance due to the strong rejection of even the slightest hint at authoritarianism in Ecuador. Besides, the recent dispute between the Ecuadorian government and Chinese oil companies and the difficulties surrounding Hutchison's investments in Manta show that Chinese-Ecuadorian relations are not trouble-free and the Correa administration has not shown any willingness to accept investment deals at high political cost. It should also be noted not all Chinese companies necessarily represent the PRC's national interest. The

Ecuadorian public, the media and even the government do not differentiate between the origins of certain investments and the motivations and interests behind them. In the popular perception there is no difference between Hutchison Port Holdings and Andes Petroleum. However, while the former is a private firm based in Hong Kong – HPH is a subsidiary of the multinational conglomerate Hutchison Whampoa Limited – the latter is a joint venture of the state-owned corporations China National Petroleum Corporation (CNPC) and China Petrochemical Corporation (SINOPEC), which are based in the PRC.

Overall, China is an increasingly important factor in Ecuador but it cannot supersede the role of the United States. US trade and investment in Latin America in general and Ecuador in particular is not only much larger than that of China, but Washington's economic engagement has so far also been qualitatively different from that of China – as a provider of high tech and knowledge-based goods and services. However, this might be changing in the years to come when Ecuador has made more progress towards diversifying its foreign relations. In this process the main interest is directed at moderating US pre-eminence, not substituting it. 

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