Ecuador's Leveraging of China to Pursue an Alternative Political and Development Path

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This paper examines Ecuador's use of financing, commerce with, and investment from the People's Republic China (PRC) in its pursuit of a path independent of the United States and traditional Western institutions. The work details significant Chinese engagement with the country in the political, economic, and military arenas. It finds important differences in the dynamics and progress of Chinese companies in different sectors, as well as numerous challenges for Chinese companies, including both legal challenges to past contracts, as well as political mobilization against construction and extractive sector projects. Ecuador's engagement with the PRC is compared to and contrasted with patterns of engagement between the PRC and two other ALBA countries: Venezuela and Bolivia. In all cases, populist elites changed the political system and accountability mechanisms, and isolated their country from traditional commercial partners in ways that helped Chinese investors to reach deals that personally benefitted the populist elites and the PRC-based companies at the expense of the country. The work concludes by examining the prospects for the evolution of the relationship under the country's new leadership.

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In the literature on interactions between the People's Republic of China and Latin America, the PRC relationship with Ecuador has received relatively little attention outside Ecuador itself.[1] Among the countries of the Bolivarian Alliance of the Peoples of the Americas (ALBA), scholars have principally focused on the PRC

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relationship with Venezuela. Ecuador, like other members of ALBA, was until recently headed by a relatively anti-US leader (Rafael Correa) who borrowed significant amounts of money from the PRC, secured by exports of petroleum, to obtain resources for a political course independent of the United States and traditional Western institutions such as the International Monetary Fund. Yet while Ecuador's relationship with the PRC shares characteristics of China's relationship with Venezuela and other ALBA countries, it also stands out from those other cases in important ways. Ecuador is both one of the countries with the highest rates of Chinese loans on a per capita basis, and one of the first in the region in which a PRC-based company made a significant investment of its own resources to operate in the country, with the China National Petroleum Corporation (CNPC)-led Andes coalition in 2005.[2] Ecuador is further one of the countries in which Chinese companies operating on the ground have encountered the most violent resistance, with significant incidents against Chinese-owned oilfields in Tarapoa in 2006[3] and protests in Dayuma in 2007.[4] Ecuadorans have also mounted significant mobilizations against Chinese mining projects in Zamora Chinchipe beginning in March 2012[5] and continuing with actions against the San Carlos-Panantza mining project in December 2016,[6] and against the Rio Blanco mine in 2018,[7] among others.

Unique to other ALBA regimes, the Ecuadoran government once suspended the negotiations over a major hydroelectric facility (Coca Codo Sinclair) hydroelectric facility, drove the Hong Kong-based logistics giant Hutchison to abandon its concession to operate and develop the port of Manta, and cancelled the contract of a major Chinese defense contractor, CETC, only to have that company sue the country for over $200 million dollars, even while it continued to purchase defense products from the PRC.

Ecuador is, in addition, the only ALBA state to date to peacefully deviate from a radical populist course. Indeed, when Lenin Moreno, Correa's hand-picked successor elected to the presidency, departed so much from the policies Correa expected that the latter formed a new movement to fight against the direction in which Moreno was taking the country.[8]

Unique among the ALBA regimes, Moreno's new policy direction has included expanded scrutiny of contracts with PRC-based companies and the renegotiation of prior petroleum and credit agreements, coupled with the selection of relatively Pro-West cabinet officials in key Ministries such as Foreign Affairs, Economy and Finance and Defense (among others) and a reapproachment with traditional Western investors and lending institutions such as the International Monetary Fund.[9] The Ecuadoran case thus offers potentially important insights, both for the PRC and for other ALBA governments potentially transitioning to alternative regimes in the future. This paper provides such an analysis, both examining the Ecuadoran case in detail, and looking at the similarities and differences between Ecuador and other ALBA regimes with whom the PRC has had close relations, particularly Venezuela and Bolivia.

History

As the PRC expanded its commercial ties with Latin America in the late 1990s and early 2000s, Ecuador's relationship with the Asian giant principally involved limited but growing trade and investment deals with the conservative Guayaquil-centered business elite, as well as the modest Chinese-Ecuadoran community, whose leaders had business ties to the PRC.

The election of Rafael Correa in November 2006 arguably re-oriented the Ecuador-China relationship and its key players. Initially, the rewriting of the nation's constitutional framework through a constituent assembly from 2007 to 2008, and the 2009 renegotiation of royalty payments for oil operations[10] initially impaired the growth of new Chinese commitments. Nonetheless, the Correa administration's interest in using PRC-based companies and financing as an alternative to Western institutions for developing the country, in combination with Ecuador's self-exclusion from traditional financial markets through its 2008 default on $3.2 billion in loans drove a rapid expansion of commitments to Chinese projects across multiple sectors, from petroleum, to logistics, to hydroelectric power, to telecommunications. Chinese companies and banks increased their willingness to pursue such projects once the new "rules of the game of the Correa administration appeared to have been established. That engagement was managed and led by a group of left-oriented Correa allies in the Ecuadoran government, including Foreign Minister Maria Espinoza and her successor Ricardo Patiño, and Vice-President Jorge Glas.[11] The projects that these figures advanced with Chinese companies drew them into alliances of mutual profit with pragmatic Ecuadoran business figures such as Pablo Campana, son-in-law of business magnate Isabel Noboa.[12]

By 2014, there were 70 Chinese companies operating in the country,[13] and by 2018, Chinese banks had provided the regime with $19 billion in financing through 16 separate loans.[14]

The rapidity of the Chinese advance, in combination with sensitivities to abuses by extractive industries in Ecuador (particularly among indigenous and other local groups directly affected by such activities), contributed to a significant number of problems for the Chinese projects, delaying or sidetracking many, even while the Correa government was lending strong support to the relationship as a whole.

Early problems included previously mentioned problems in Tarapoa in November 2006 and Dayuma in 2007, a fight with Hutchison-Whampoa over the management of the port of Manta that compelled the company to withdraw from the concession, and a dispute over the terms of Ecuador's first major Chinese-built hydroelectric project, Coca Codo Sinclair, that led to an unusually strong reproach of the Chinese by President Correa himself and the suspension of negotiations for four months, and major protests that forced a three-year delay in the Mirador open-pit mining project, granted under Ecuador's new mining laws. Difficulties in guaranteeing supplies of oil not committed elsewhere for a proposed new refinery proposed in Manabí made Chinese investors hesitant to back that project when

Tests begin. On 15 December 2015, the Coca Codo Sinclair business unit of the Ecuadorian Electric Corporation, CELEC EP, starts its first hydraulic tests. The milestone was attended by Vice President Jorge Glas, the Minister of Electricity and Renewable Energy Esteban Albornoz Veintimilla, and state authorities. Photo courtesy of ANDES / Micaela Ayala V.

the Venezuela' oil company Petróleos de Venezuela (PdVSA) failed to produce the funds to take it forward.[15]

As with the previously noted changes in the policy and legal frameworks with President Correa's 2006 election and Constituent Assembly, lesser, but still important changes made by his successor Lenin Moreno gave Chinese companies and the PRC government further cause for concern. These included a national referendum in February 2018 which put some new restrictions on petroleum and mining activities (areas of significant interest for Chinese investors), and which allowed Moreno to change leadership of the powerful "Council for Citizen Participation and Social Control," with the authority to hire and fire judicial officials. It also included an initiative by the new Hydrocarbons minister Carlos Perez to renegotiate the terms of China-Ecuador petroleum agreements, and the initiation of investigations of improprieties involving Chinese loans, petroleum contracts, and other agreements by both the new Ecuadoran Comptroller General Pablo Celi,[16] and the new Attorney General Paúl Perez.[17]

Patterns of Engagement

Ecuador's engagement with the PRC in some ways resembles that of fellow ALBA states, as well as other countries in Latin America. Ecuador stands out from those peers, however, in the relatively large number of Chinese projects relative to the country's modest size, and the amount of pushback from mobilized indigenous, community, and other interest groups, delaying or cancelling many of those activities, and obligating the deployment of security forces on numerous occasions.

Politically, the PRC made significant progress through Ecuador's turn to the left and associated self-imposed isolation from Western finance and investors, including a key 2008 loan default which made Chinese banks one of the country's few sources of financing.[18]

In commerce, both Chinese purchases and equity investments concentrated in extractive sectors, particularly petroleum and mining, while loan-based infrastructure projects concentrated in hydroelectric power generation, some road and facilities construction, and initially, in ports and refinery work. The infrastructure projects in particular would in principal, expand PRC access to Ecuadoran resources, while facilitating Chinese access to Ecuadoran markets.

As with many Latin American and other countries trading with the PRC, Ecuador sought to expand exports of its traditional products to the PRC, such as coffee and fruit, with limited success.[19] For its part, the PRC progressively expanded sales of products to Ecuador across a broad range of goods from motorcycles to autos to heavy equipment and consumer electronics.

In the military realm, Ecuador was relatively ahead of its Latin American peers in the purchase or lease of mid-grade Chinese military equipment, from light transport aircraft to radars, to trucks, other military vehicles, and small arms, but as in its commercial dealings with China, did not shy away from engaging in public disputes with the Chinese when such goods did not meet expectations, such as the purchase of radars from the Chinese firm CETC, detailed below.

Arguably the most important characteristic of the Ecuador-PRC interaction, an attribute that it shares with other ALBA regimes,[20] is the manner in which political changes, including centralization and the weakening of checks and balances,[21] combined with economic isolation to allow Chinese companies to capture Ecuadoran elites in questionable deals that benefitted the Chinese companies and arguably the elites involved in the deals,[22] often at the expense of the country.

Diplomatic Engagement

Ecuador has maintained a relatively limited high-level official relationship with the PRC since the two countries established diplomatic relations in 1980. Left-oriented Ecuadoran President Rafael Correa, who came to power in 2007, made his first state visit to the PRC in January 2015, in conjunction with the summit between the PRC and the nations of the Community of Latin America and Caribbean States (CELAC).[23] Although Ecuadoran presidents prior to Correa had also periodically visited the PRC, it was not until November 2016, with the trip by Xi Jinping that a Chinese President traveled to the country.[24]

Agreements. On 17 November 2016, in the framework of the state visit of the Chinese president Xi Jinping, Ecuador and China signed 11 cooperative agreements in several strategic areas for the development of Ecuador. Photo courtesy of Chancellery of Ecuador.

The 2015 China-CELAC summit was a significant moment in the advance of the China-Ecuador diplomatic relationship, although many of the commercial activities in Ecuador by Chinese companies were mired in problems. During the summit, the PRC recognized Ecuador as a "strategic partner," a status generally associated with a ministerial level governing body to coordinate projects. This step set the stage for an "upgrade" of the relationship during the November 2016 trip by President Xi to Ecuador, to Comprehensive Strategic Partnership,[25] a recognition previously conferred by the PRC principally on larger (and presumably influential) states in the region.

As noted previously, the election of Lenin Moreno in Ecuador changed the tone of the country's relationship with the PRC, through the investigation and renegotiation of contracts by his predecessor, and his improvement of relations with the United States and Western institutions. Yet President Moreno has not changed although it has not fundamentally altered either the presence of Chinese companies or investment contracts in the country. While Hydrocarbons minister Carlos Perez successfully renegotiated terms of some of Ecuador's petroleum and financing agreements with China, the changes were marginal. President Moreno is expected to travel to the PRC and raise the issue of questionable contract terms and behaviors of concern by Chinese companies,[26] yet the extent to which he will truly press Ecuadoran concerns is not yet clear.

The prospects for the future of the Ecuador-China relationship under President Moreno is the focus of the final section of this work.

Commerce

The trade balance between the PRC and Ecuador has been significantly and continuously in China's favor, with the $3.1 billion in goods that the PRC sold to Ecuador in 2016 approximately four times the $785 million in goods that Ecuador sold to the PRC during the same period.[27]

In addition to the sheer magnitude of Ecuador's trade deficit with the PRC, as in many other countries in the region, most of Ecuador's exports to China are primary products, including deliveries of oil by Petroecuador to repay loans for projects performed by PRC-based companies.[28] By comparison, the PRC only purchases modest quantities of traditional Ecuadoran goods such as coffee, cacao and fruits.[29] On the other hand, China exports an ever wider array of high-value added goods to the Ecuadoran market, from motorcycles, autos, and consumer electronics, as PRC-based companies and local partners and importers, become increasingly sophisticated in dealing with the Ecuadoran market.

Petroleum

Ecuador's oil sector was the first target of major Chinese investment, with a consortium led by China National Petroleum company (Andes) acquiring Canadian company EnCana in 2005 for $1.42 billion.[30] Chinese companies currently control over 25% of Ecuadoran oil production on the ground, but per contracts using oil to repay loans to the Ecuadoran state, have a claim on almost all Ecuadorian oil deliveries for export through 2024.

Chinese companies are among those competing for new Ecuadoran oil concessions to be auctioned in 2018.[31] Multiple Chinese petroleum service companies including CPEB and Kerui have also followed the larger PRC-based State Owned Enterprises such as Sinopec into the country.

Chinese oil companies, among others, have also been limited in their expansion in Ecuador by restrictions on exploration and development in terrain believed to contain significant amounts of petroleum underlying the Yasuni national parkland, although the PRC-based company Sinopec was contracted by the Ecuadoran state petroleum organization Petroamazonas for exploration activities in the limits of the Yasuni wildlife refuge.[32] In January 2016, the Ecuador government licensed CNPC and China Chemicals and Petroleum Corporation to explore a block bordering Yasuni.[33] The February 2018 passage of a referendum by the incoming Moreno government contains a provision expanding the amount of national parkland protected from oil development,[34] yet does not appear to impact oilfields currently under development, or areas were targeted for future exploration based on the possibility of containing significant oil.[35]

Due arguably in part to the rapidity with which Chinese companies entered Ecuador's oil sector, and the sensitivities of indigenous and other parts of the Ecuadoran population to the environmental impacts of petroleum operations,[36] PRC-based companies ran into multiple early problems as they expanded their operations in the Ecuadoran amazon, including activists taking control of an Andes-owned oilfield in Tarapoa in November 2006, and protests against the Chinese company Petroriental in Orellana in 2007,[37] prompting then president Rafael Correa to declare a state of emergency in the province and deploy the armed forces.[38] In the refining sector, reflecting the high costs and deficiencies in Ecuador's refining complex at Esmeraldas, various Chinese companies, including CNPC and

Sinomach,[39] have considered funding the Refinery of the Pacific, for processing Ecuador's relatively heavy crude, a project worth as much a $12 billion.[40] To date, the project has not gone forward, although as much as $1 billion has been spent on the effort for site,[41] for studies and the acquisition of land, as well as the preparation of the site.[42] Petroleum sector analysts suggest the project does not make sense due to local seismic instability, elevated costs relative to alternative refineries, and the need to construct significant additional infrastructure not included in the base price of the project, including new pipelines, storage facilities, and a petroleum products export terminal.[43] Nonetheless, the Moreno government continues to express some interest in taking the project forward.

As noted previously, oil deliveries has also been used to secure loans granted by Chinese policy banks, including funding for major infrastructure projects such as the construction of hydroelectric facilities. The terms of the concessions, using linked but separate contracts for the loan, and the associated oil deliveries that repay them, are similar to those employed in Venezuela, and have similarly been criticized for their terms[44] and the dependency relationship that they facilitate on the PRC.[45]

Beginning with the first oil-backed loan deal in 2010 to fund the construction of the hydroelectric facility Coca Codo Sinclair, through 2017, Chinese banks have supplied an estimated $19 billion to Ecuador through 16 lines of credit,[46] obligating the Ecuadoran government to commit 90% of its oil exports to the PRC to service the loan payments.[47]

From 2017 through 2018, the incoming government of Lenin Moreno, its Hydrocarbons minister Carlos Perez, and its Comptroller Pablo Celi investigated the terms of petroleum and associated financing contracts signed between the Chinese and the Correa government,[48] and in May 2018, Hydrocarbons minister Carlos Perez arrived at an agreement with the Chinese for some modifications to the agreement,[49] although significantly less than what some activists believed necessary.[50]

Mining

Ecuador's approval of a new mining law in January 2009,[51] and subsequent refinements in 2012, opened the door to an expansion of interest by PRC-based mining companies in exploiting the long-dormant sector. Those advances included the Chinese company Tongling's December 2009 acquisition of the Canadian mining company Corriente, with an important presence in Ecuador.[52] Soon thereafter, the new owners announced their intentions to invest in a series of mining projects in the Zamora-Chinchipe region. Yet environmental sensitivities in the areas to be exploited generated a significant backlash, initially focused on the first of the announced major projects, the open-pit mine project Mirador,[53] including a national march against the proposed project in March 2012, led by the indigenous-rights group CONAIE.[54] Although the government delayed approval of the project, obliging the new owners to perform a series of environmental impact assessments. In May 2014, as the project prepared to transition to the next stage, 150 protesting workers occupied the site.[55] In June 2015, opponents launched further protests, including in front of the Chinese embassy in Quito,[56] and in September 2015 protesters occupied the mine site, producing a violent confrontation with police.[57]

Like Tongling, the Rio Blanco mine, near Cuenca, operated by the Chinese company Junefield, has also been the focus of protests, including two in 2018, forcing the temporary suspension of operations at the mine.[58] In June 2018, questions of compliance with environmental regulations led the Ecuadoran governments to temporarily suspend the project.[59]

Protests have also occurred at the San Carlos-Panantza copper mine, owned by the PRC-based firm ExplorCobres, including an incident in December 2016 which resulted in a death and multiple injuries, and prompting the government to declare a state of emergency in the province of Morona Santiago where the mine is lcated.[60]

Construction

Chinese construction companies have been very active in Ecuador, principally in building hydroelectric facilities as part of a wave of infrastructure investment promoted by the government of Rafael Correa, and funded (as noted previously) by oil-backed loans from Chinese banks. Yet virtually all of these projects have encountered difficulties which have delayed their progress. With the exception of the $900 million 487 MW Sopladora facility built by China Ghezouba Group,[61] and Coca Codo Sinclair (which is in the process of addressing serious defects identified in an audit of the project),[62] none have been completed.

As noted previously, the first and largest of the Chinese hydroelectric projects was Coca Codo Sinclair, a $2.25 billion facility designed to generate 1.5 GW of electricity (30% of the needs of the entire country), with $1.682B financed by China Export-Import Bank.[63] From the beginning, the project was mired in controversy, with then President Correa suspending negotiations over the project for several months, publicly reproaching the Chinese for demanding sovereign guarantees for debt repayment, and accusing them of being more demanding than the

Western lending institutions such as the International Monetary Fund.[64] The project was also mired by a serious accident in December 2013, killing 13 workers.[65]

Although the facility was formally inaugurated[66] during the November 2016 visit to Ecuador of Chinese President Xi Jinping,[67] as noted previously, Ecuadoran authorities continue to address multiple defects identified in the work.

Other major Chinese hydroelectric projects in various stages of completion include the $506 million Minas San Francisco project, the $100 million, 96 MW Termoesmereldas II (both contracted to the Chinese firm Harbin Electric),[68] the 115 MW $206 million Delsitansagua project (contracted to Hydrochina), and the $240.4 million 1.12 GW Toachi-Pilaton facility. The later was contracted to China Water and Electric, with a role for the Russian firm RAO, after being taken from Odebrecht.[69]

Some of the most notable problems associated with these projects include February 2015, when China Water and Electric, was fined $3.25 million by the Ecuadoran government in conjunction with its work on the Toachi-Pilaton project for non-compliance with its work schedule and violations of workplace and safety regulations.[70] Similarly, China National Electric Equipment Corporation, responsible for the $51 million 21 MW Mazar Dudas facility,[71] and the 50 MW Quijos plant, has had problems with both projects, and was removed from the later in January 2016 by the Ecuadoran government for non-compliance with the established schedule.[72] In July 2014 three Chinese workers were killed in Delsitanisagua by flooding of the Zamora River[73] (which ironically would have been managed by the completed dam).

Beyond just hydroelectric facilities, the Chinese firm Tiesijiu was awarded a $52 million contract for the construction of a dam in Chone, but then had the government revoke its contract in June 2013, due to delays and problems arising from protests by the local community there.[74]

In other electricity projects, a PRC-based firm was involved in constructing the $34 million Villonaco wind farm in Loja, with 11 1.5 MW turbines,[75] while the Chinese firm State Grid has been involved in electricity transmission work to help connect the Coca Codo Sinclair facility to the national power grid.

Beyond electricity, as in Bolivia[76] and a number of Caribbean countries, Chinese construction companies have been involved in the improvement of Ecuador's highway infrastructure. In 2011, the Chinese firm Guangxi Road & Bridge Engineering Corporation completed a $100 million 1.25 mile-long bridge over the Babahoyo River in Guayas province.[77] In 2013, the Chinese company Sinohydro was given a

$204.5 million contract for a three year project to extend and improve the Simon Bolivar thoroughfare in Quito, supported by an $80 million loan from China's Export Import Bank.[78] In the year 2014, Chinese companies worked on 10 highway projects in the country, with a contract value of $312 million. In 2015, Chinese firms worked on three highway projects, for a total value of $85.7 million.[79]

Chinese companies have also been involved in building hospitals and schools in Ecuador, also with problems. Perhaps the most visible and polemical case in this regard is the Millennium project, in which China Railway Corporation was contracted in 2016 by the Correa regime to build 200 prefabricated schools,[80] but after significant delays and cost overruns, stopped work having only completed 30.[81]

Perhaps the biggest failed construction project of the Correa presidency involving (although not exclusively) Chinese companies, was the planned university/technology city "*Ciudad del Conocemiento*" (city of knowledge) in the northern city of Yachay, Partially funded in 2016 through a $198.2 million loan from China Export-Import bank, with contemplated investment in the site by Chinese companies such as JAC Automotive, which indicated intentions to build an automotive assembly facility there.

The project was ultimately sunk by a combination of the failure of the anticipated investment to materialize, plus poor structuring of the project,[82] including water and sewage infrastructure which was not completed by the Chinese contractor Ghezouba in time to support the buildings. As Yachay was delayed and scaled back, even the handful of firms located to the site began to pull out.[83]

Yet other construction projects reportedly include a $55.6 million contract to the Chinese firms CAMC Engineering, Gezhouba and Hydrochina to change the course of the Bulubulu, Cañar and Naranjal rivers.[84]

Perhaps the Chinese construction project in Ecuador with the best prospect for success is the Posorja port project, on the southern Pacific coast, awarded in June 2016 to DP World. DP World and its Ecuadoran partner Isabel Noboa,[85] has contracted China Harbor Engineering Corporation to do the work, potentially valued at $1 billion.[86]

Agriculture

As with most other countries in Latin America, with the exception of exports of bananas and shrimp, Ecuador has had limited success in selling its traditional agricultural products to the PRC. As in other parts of the region, the cost of transporting perishable Ecuadoran agricultural products over long distances to the PRC (typically in refrigerated shipping containers, or by air), increases the price in ways that undercut the competitiveness of Ecuadoran goods against alternatives located closer to China in countries such as the Philippines. Nor has Ecuador been able to establish the strong brand identity to make Chinese consumers willing to pay a premium for its products as the Chileans have done in marketing their cherries, table grapes and other fruits in the PRC.

For Ecuador, the most significant successes in exporting agricultural products to the PRC have occurred with bananas and shrimp. With respect to bananas, 26% of Chinese imports come from Ecuador,[87] which compete with closer suppliers such as the Philippines. In 2014, shipments of Ecuadoran bananas to the PRC expanded when demand and prices in China took off relative to an inflexible supply from the Philippines whose own ability to expand its sales to the PRC is limited by relatively inflexible long term contracts.[88] The other exception was the takeoff of Ecuadoran shrimp exports to the PRC and other Asian markets, to $362 million, in 2016, when the shrimp population in Asian waters was decimated by disease in 2016.[89]

Chinese investments in Ecuador itself have been limited by the lack of large tracts of land usable to grow crops of the type, and in quantities of interest to Chinese markets. Nonetheless, during recent years, private Chinese investors have explored small-scale projects in the country, including investments in the shrimp industry in the province of Manabí, and in African palm tree plantations in the vicinity of Santo Domingo for the production of palm oil.[90]

Manufacturing

Chinese consumer goods have been imported into Ecuador principally by multinational firms or Latin American partners, who have sold them through their own distribution networks. Examples include Chinese motorcycles marketed under the brands Shineray and AKT,[91] as well as various brands of Chinese cars. In 2017, for example, Ecuador's Maresa group added the Chinese car brand Chery to its repertoire.[92]

Beyond retail sales and distribution, by contrast to countries such as Mexico and Brazil, Ecuador's relatively small market and the limited potential for selling manufactured goods to other countries in the region has arguably limited incentives for Chinese and other companies to locate manufacturing operations there. Nonetheless, in recent years, a handful of Chinese investors have considered small scale operations in the country. In 2016, for example, the auto manufacturer JAC proposed a $3 million investment for an assembly facility for SUVs associated with the previously mentioned "City of Knowledge" project in Yachay.[93] The project failed to materialize, however, when the Yachay project itself fell apart.[94]

Logistics

Ecuador's geographic position on the Pacific with important markets to both the north and south, in combination with a relatively functional government, good infrastructure, and low rates of insecurity, give the country potential value as a logistics hub for trade between Asia and south America (although every other country in South America with a Pacific coast, particularly Chile and Peru, arguably have similar aspirations). For many years, Ecuador's ability to realize its potential as such a hub was limited by the nature of its principal Pacific Coast port in Guayaquil, located substantially upstream along the Guayas River. That position limited the size of ships that could use the port, and implied significant continuous dredging costs, were the facility to accommodate the new generation of very large container and bulk cargo ships transiting the Pacific by increasing its channel depth.

In 2006, the Ecuadoran government sought to overcome the limitations of Guayaquil as the country's principal Pacific coast port by giving a concession to the Hong Kong based company Hutchison Whampoa to operate and develop Manta, a natural deep-water port to the northwest of Guayaquil on the Pacific coast. The vision included making Manta into a multi-modal transportation hub, with road and railway links to the Ecuadoran amazon.[95]

In February 2009, an ongoing dispute between Hutchison and the Ecuadoran government regarding the concession holder's obligation to invest in improving the port and the government's corresponding responsibility to invest in enabling infrastructure drove Hutchison to withdraw from the concession,[96] sidelining the development of the port, and by extension, the associated logistics corridor. Despite the setback, PRC-based firms continued to maintain a modest presence in Ecuador's logistics sector. The Chinese shipping company COSCO, for example, used the private port of Fertisa, owned by Grupo Wong, and principally employed for the export of bananas.[97]

Currently, the role of PRC-based companies in the Ecuadoran port sector is poised to take off with the development of the new port of Posorja in the south of the country; the Concession owner DP World and their local partner Isabel Noboa[98] have contracted China Harbor to do a significant portion of the port construction work,[99] with other opportunities for Chinese construction and shipping companies likely to follow.

Technology

Little noticed outside the region, PRC-based firms have been remarkably active in Ecuador's technology sector. The telecommunications firms Huawei and ZTE have captured a major portion of the Ecuadorian market for telephones and communications components. Huawei has become an important contractor for the national telecommunications firm *Corporacion Nacional de Telecomunicaciones* (CNT).[100]

In the space sector, although eclipsed by Chinese work with Brazil, Venezuela and Bolivia,[101] in 2013, the Chinese launched a microsatellite for Ecuador. It was, unfortunately damaged by space debris shortly after being put into orbit.[102]

As noted previously, Chinese companies have also been contracted to build Ecuador's "*Ciudad de Concimiento*" in Yachay, which (if it does eventually go forward, even in a reduced-scaleform) will include not only physical construction work for Chinese companies, but supporting technology infrastructure provided by them, as Ecuador's first "city of knowledge." [103]

More menacing than telecommunications and smart cities, in 2011, China National Electronics Import and Export Corporation (CEIEC) was contracted to construct the national emergency response system ECU-911. Although superficially represented as a system for responding to accidents,[104] in reality it is a public security system modeled on those used for public surveillance and control in the PRC, including cameras with facial recognition technology, two national command and control centers, five regional centers, and eight provincial centers.[105] In April 2014, the Ecuadoran government let a second contract to the Chinese for ECU-911, for $42.6 million in services in support of the operation of the centers. In November 2016, the Centers started operating in Cuenca, Quito, and Guayaquil.[106]

Military

Ecuador has purchased a number of Chinese military systems in recent years, including a 2009 negotiation to acquire two MA-60 military transport aircraft.[107] In the same year, it also signed a $60 million contract with the China Electronics Technology Group Corporation (CETC) for the acquisition of YLC-2V long range and YLC-18 mobile radars, which it intended to deploy principally in strategic locations in the north of the country. The Ecuadoran military subsequently entered into a contractual dispute with the Chinese provider regarding the unsuitability of the equipment and its inability to integrate the systems into the national surveillance and response architecture. CETC eventually agreed to construct a cyber-defense system as part of its remediation of the dispute, yet attempts to resolve the disagreement were unsuccessful and in 2013, CETC brought a lawsuit against the Ecuadoran government seeking $280 million, almost five times the value of the original contract.[108]

Despite the dispute with CETC, Ecuador continued to acquire equipment from Chinese military vendors. In July 2015, for example, the government purchased 709 military land vehicles, mostly by Sinotruk, in a contract worth $81 million, including 226 4x4 trucks, 93 6x6 vehicles, 18 water tankers, 20 gasoline tanker trucks, 62 other vehicles, plus associated parts.[109] In 2016, Ecuador's military took delivery on 10,000 Ak-47 rifles from the PRC,[110] as well as a small number of patrol boats.

Beyond arms sales, as with many other Latin American and Caribbean militaries, personal from Ecuador's military have regularly gone to study in Chinese military institutions, as part of various courses (although the content is seen as having only incidental relevance to Ecuador, which continues to rely principally on US and European doctrine). For its part, the Chinese People's Liberation Army (PLA) has sent instructors to Ecuador's Armed Forces University.[111] There are also periodic institutional visits by the PLA to Ecuadoran institutions and vice versa.[112]

Education

Ecuador has made strides in developing its knowledge about the PRC to support its commercial and other engagement, yet Ecuadorans in general perceive that, for most academics and businessmen, knowledge about China is relatively limited.[113] Leading institutions such as FLACSO University in Quito, and ESPOL in Guayaquil have professors conducting research and offering courses about the PRC, but not initially degree programs in China studies per se.[114] The only Masters-level China studies program in Ecuador is reportedly at the *Instituto de Altos Estudios Nacionales* (IAN), initially established as a university for strategic level military education under the military government of Juan Velasquez Alvarado, but transformed into a civilian school, principally for government bureaucrats, during the Correa administration.[115]

Although various universities and institutes in Ecuador offer Chinese language programs, the University of San Francisco outside Quito was the first to offer a China-studies program, although oriented more toward Chinese culture than business. It was also the first (and to date, the only) university in Ecuador to establish a Confucius institute for study of the Chinese language and culture using instructors officially sanctioned and sponsored by the Chinese government.[116]

Comparisons and Contrasts with ALBA Countries

Ecuador's path bears both similarities to and contrasts with other ALBA countries. As noted in the previous section, as in Venezuela and Bolivia, most of China's imports from Ecuador have concentrated in the extractive sectors, and in particular, oil and mining, while proceeds have been used to support loan-financed infrastructure projects done by Chinese companies. Ecuador has concentrated a relatively greater portion of its work projects in the PRC on re-orienting its energy matrix toward hydroelectric power, although Chinese work with Bolivia also includes a mixture of hydroelectric facilities, road construction and other projects.[117]

The pattern of commercial engagement which most clearly emerges in comparing Ecuador to Venezuela and Bolivia is a destructive combination of populist elites coming to power in a manner that centralized power, including public contracting, while weakening transparency and checks and balances by the political opposition. In all of the countries, these changes opened the door for Chinese companies and the PRC government, operating under different ethical rules than their Western counterparts, to capture new populist elites in need of their cash, producing deals that were "win-win" for the Chinese companies and financial interests of the populist elites, but ultimately, not for the countries.

In comparing the patterns of Chinese engagement with Ecuador to that of Venezuela and Bolivia, each newly elected populist regimes initially reached out to the PRC and was met positively but cautiously. In each case, the relationship then passed through periods of political turmoil in which the Chinese became more cautious, before moving forward with the relationship as they gained comfort with the new legal and political framework for interaction. In this sense, the period of Ecuador's revising of oil royalties and the broader legal framework via the 2007-2008 constituent assembly may be compared to the period in Venezuela from the 1999 revision of that nation's constitution, through the 2003 end of the Venezuelan general strike, and to Bolivia's 2007-2008 period of constitutional dispute with the lowland (*medio luna*) states.

In the case of Ecuador, the populist government of Rafael Correa inherited a uniquely strong Chinese presence on the ground in the oil sector, by comparison to the more modest CNPC presence in Venezuela when Hugo Chavez came to power, and almost no commercial presence in Bolivia when Evo Morales came to power there. In Ecuador, from the beginning of the Correa administration, the government had both a framework from the presence of the Andes consortium, plus the example of loans-for-oil contracts being established by China in Venezuela.

In mining, the Ecuadoran government opened up the sector to the Chinese (and other) mining investors as soon as it had revised the legal framework for the sector, and the Chinese expressed an almost immediate interest in investing, as seen by the acquisition of the mining company Corriente by the Chinese firm Tongling. This early focus on mining in Ecuador contrasts to Venezuela, where petroleum investment always overshadowed mining.

In the case of Venezuela, whose transition to Bolivarian populism occurred earlier, the political struggle and consolidation of populist rule was more drawn out, affecting the parallel advance of the Chinese position; it was not until 2007, almost a decade after Venezuela's populist leader Hugo Chavez took power, that the PRC established the first tranche of loans with the Venezuelan government, in return for petroleum from oilfields over which it had been given control.[118] In Bolivia, although the government had conversations with Chinese companies about mining and oil concessions from the outset of the Morales regime (and to some extent prior to it), the granting of highway and hydroelectric construction projects did not expand in earnest until almost seven years after the government's implementation of a new constitutional order and the resolution of challenges against it.[119]

The level of violent resistance generated by Chinese companies commencing operations on national territory has varied significantly between Ecuador, Bolivia and Venezuela (particularly in the extractive sectors, and with respect to construction projects). Among these three, the highest level of public social resistance appears to have occurred in Ecuador, with violent protests that produced states of emergency in Orellana in 2007 and in Morona Santiago in December 2016, among other challenges. In Bolivia, if mentions of incidents in news stories is a guide, there appear to have been relatively fewer protests against projects by communities against Chinese projects, and more protests by workers on projects being run by Chinese companies.[120]

In Venezuela, it is not clear whether there have actually been fewer incidents of violence against Chinese projects and operations than in Ecuador, but it appears that certainly fewer high-profile national incidents have been publicized. While the reasons for these differences are unclear, hypotheses worth exploring include that Venezuela's populist government achieved relatively greater control over the means of communication than that of Ecuador, and more completely organized or suppressed civil society to its own ends (e.g. Through the "*collectivos*,"), whereas under the Correa regime in Ecuador, the opposition continued to have some space to communicate and mobilize.

A second, complimentary explanation worth exploring is that Ecuadoran communities are more oriented to mobilization against Chinese and other outside interests than are their Venezuelan counterparts. Ecuadoran community and indigenous groups, sensitized to the contamination of lands by foreign multinationals, may have been particularly disposed to oppose the incoming Chinese companies, which could often manage community relations in an insensitive fashion, whereas in Bolivia, where mining in particular had long been a reality throughout the country, communities had become more resigned but workforces more radicalized. In Venezuela, by contrast, there were arguably fewer indigenous groups in the Orinoco belt where the new petroleum operations were occurring, a more relaxed political culture, and arguably less sense in Venezuela that political intervention could make a difference.

Prospects for Change under the Moreno Administration

President Moreno has pursued Ecuador's gradual reconciliation with the United States and the West, and by extension, less of an impulse to use the PRC as a vehicle for maintaining political and economic independence from them. His Hydrocarbons minister has renegotiated contracts with China in a fashion that, while less ambitious than hoped for, are a step in a new direction. The commitments by his Attorney General Paúl Perez, and his Comptroller General Pablo Celi to investigate the administrative and possibly criminal dimensions of past contracts with PRC-based companies[121] highlight a new willingness to increase oversight over deals with China, in the interest of the country.

Aside from such symbolic gestures, President Moreno has also, to a degree, signaled an interest in continuity in the relationship with the PRC, including a possible November 2018 trip to China. With the exception of temporarily halting the Rio Blanco mining project on environmental compliance issues, his government has not taken significant legal action against PRC-based companies, nor moved to block them from bidding on projects and contracts. Even the successful February 2018 referendum, which expanded limits on some petroleum and mining activities, neither explicitly targets Chinese companies, nor significantly impacts their ongoing operations or areas in which they appear to be interested. Projects with Chinese firms appear to be going forward without interruption in the construction sector (including $1 billion of work for China Harbour on Posorja), in telecommunications (Huawei contracts with CNT).

If anything, President Moreno seems to be pursuing a relationship with China that seeks better terms through greater transparency and oversight, and the development of alternatives with Western institutions, such as the Inter-American Development Bank,[122] Ecuador's ability to rebuild a relationship with the United States and Western institutions,[123] and the degree to which that rapprochement pays off for Ecuador on trade and other issues,[124] will likely condition how receptive Ecuador is to PRC requests to "bend its rules" to attract Chinese investment and other forms of support.

Conclusion

This study is preliminary, but serves to highlight the value of examining China's relationships with other populist socialist regimes. The analysis herein is largely anecdotal, highlighting the need for better, more objectively comparable information on key dynamics and behaviors involving the Chinese government and its companies, including investments, incidents of social protest, and government policies.

Key questions for future work include: "why do Chinese companies succeed more in some populist countries in the region than in others," and "why do some populist regimes do better than others in leveraging Chinese resources against the temptations of corruption and bad deals?"

The political path being followed by Ecuador under Lenin Moreno is arguably the first instance of a country formally part of ALBA transitioning from a path of populist socialism heavily financed by the PRC, with associated issues of corruption and questionable contracts, to an alternative trajectory.[125] Ecuador thus offers important insights for both the PRC, and those in the hemisphere observing the PRC's behavior, regarding the dynamics and pitfalls of that transition, and how the PRC responds if its economic and other equities are questioned by the new regime. JIPA

Notes

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