Energy Relations and Oil Politics Between China and Latin America: the Case of Ecuador

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ENERGY RELATIONS AND OIL POLITICS BETWEEN CHINA AND LATIN AMERICA: THE CASE OF ECUADOR

By

Nashira Chavez

A DISSERTATION

Submitted to the Faculty of the University of Miami in partial fulfillment of the requirements for the degree of Doctor of Philosophy

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ENERGY RELATIONS AND OIL POLITICS BETWEEN CHINA AND LATIN
AMERICA: THE CASE OF ECUADOR

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The following research sheds light on explanatory causes behind the policy decision of an oil rich states to engage in oil-for-loans agreements with China using Ecuador as a case study (2009-2014). The study presents alternative hypotheses that explain this policy outcome from a Latin American perspective and looks at national responses to China’s increasing engagement in the region. China’s quest for oil in particular has ignited a controversial debate over the nature of its objectives in the international oil market and the growing engagement of its national companies in the Western Hemisphere. Yet, less is known about how oil for loans in addition to other economic instruments serve the foreign economic policy of resource-rich countries. As oil is Ecuador’s main source of revenue, the decision to commit its oil supply exclusively to China is drastic shift for an industry considered a national strategic asset.
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1 Chapter: Introduction

The 21st century is not the first time the world has witnessed the international projection of the Middle Kingdom. Already in the 15th century a “Going Out” policy in China sent 27,000 men and 317 ships to explore countries abroad.¹ Nevertheless, the Emperor prohibited long-range explorations for domestic political reasons as the economic power of the merchant class was rising. Contrary to the experience in the 15th century, China is showing no sign of reducing its influence abroad anytime soon. Its “landing”² particularly in the Western Hemisphere is one of increasing interest due to its political and economic projection in the United States’ natural sphere of influence.

There are a variety of reasons for the attention China attracts, especially in Latin America. Over the last ten years, China has performed the role of a market, investor, and creditor in Latin America. In the last decade, trade between China and Latin America increased 666%, reaching $250 billion in 2012 rivaling the U.S and in many cases, surpassing it as the mayor economic partner. China is the major trading partner for Brazil, Chile and Peru, the second for Argentina, Mexico, Venezuela, and it is Ecuador’s major creditor. China’s demand for commodities underpin the extraordinary growth in inter-


state relations between China and Latin American countries. As much commodity prices soared, the region prospered.

Energy is at the heart of these new relations. More than 60% of the $119 billions of Chinese financing in Latin America is geared toward the energy sector, 96% of this energy related financing is concentrated in three countries: Brazil, Ecuador, and Venezuela. Much of the energy agreement is structured as oil-for-loans deals defined as state-to-state energy deal which consist of commercial-rate loans in exchange of a steady fixed supply of oil to China. The loans are paid by a portion of the crude and fuel sales to China. Oil for loans agreements are among the most salient, flexible tools of economic engagement between China and resource-rich countries in Latin America.

The following research sheds light on explanatory causes behind the policy decision of rentier resource rich states to engage in oil-for-loans agreements with China using Ecuador as a case study. The study presents alternative hypotheses that explain this policy outcome from a Latin American perspective and looks at national responses to China’s increasing engagement in the region. China’s quest for oil in particular has ignited a controversial debate over the nature of its objectives in the international oil market and the growing engagement of its national companies in the Western Hemisphere. Yet, less is known about how oil-for-loans, in addition to other economic instruments, serves the foreign economic policy of resource-rich countries. As oil is Ecuador’s main source of revenue, the decision to commit its oil supply exclusively to China is drastic shift for an industry considered a national strategic asset.
Rather than attempt to survey all the foreign policy tools that encompass China’s tactical investments in the region, this research attempts to build a theoretical framework that can explain the reason Latin American countries engaged in alternative oil-for-loans bilateral agreements. The aim is to explain why Ecuador engages in oil-for-loans agreements. In addition, this study attempts to provide a theoretical framework applicable to other cases. Such a framework would address the following questions: Are these relations dominated by power? Rational economic benefits? Domestic institutions? Ideology? Ultimately, the research will facilitate a functional analytical framework to explain other cases other cases of Latin America’s engagement with China in the extractive resource sector, predominately oil.

1.1 The Ecuadorian Case

China’s impact in the commodity-boom has been viewed as a positive development for Latin America, an impact which has been warmly greeted. Yet, power is a defining term when it comes to relations with a major actor like China. Notwithstanding China’s renovated links with developing countries and deeper economic engagement, China’s relationship with Latin American countries including Ecuador is characterized by asymmetrical disparities. This created the fear Chinese deals are seen as predatory because of the insurmountable power gap they advance between China and countries like Ecuador³ and heightened Ecuador’s primarization. Equally important, the deals echoed China’s economic challenge to the U.S. influence in the region; Ecuador in particular has

been primarily dependent of relations with the U.S. The China boom has created the perception that countries like Ecuador are passive actors vulnerable to international effects and forces. As mentioned, Ecuador has received 10 loans from China amounting to $9.9 billion since 2009, 50% percent of which fall in the loans-for-oil category reaching $5 billion.\textsuperscript{4} Evidence suggests as much as 90% of Ecuadorian oil production goes to China.\textsuperscript{5} In light of asymmetrical dynamics, a question emerges: What motivated Ecuador’s diversification of relations towards China?

I also found it puzzling that a country like Ecuador for which oil is a source of national power and is linked to the state’s welfare (oil accounts for 53% of total exports), would compromise its main asset to one single country. From a rational perspective, this policy remains a fundamental problem for a country with few conventional power resources. Ecuador itself is an oil price taker of a market controlled by big oil producers, and its reliance on these agreements could potentially undermine the leverage afforded by limited energy resources. This inquiry leads to additional questions: what explains a resource-rich state mortgage by commitment its strategic asset and source of revenue, namely oil, to a single country? What explains this policy outcome?

\textsuperscript{4} Kevin P. Gallagher, Amos Irwin, and Katherine Koleski, ¿Un mejor trato?: Análisis comparativo de los préstamos chinos en américa latina (Mexico City: Centro de Estudios China-México, 2013).

\textsuperscript{5} Joshua Schneyer and Nicolas Medina, China's Power Play in America's Backyard (New York: Reuters, 2013).
If reports⁶ suggest that the odds are against Ecuador, the question remains, why has Ecuador decided on such a policy option? Furthermore, has Ecuador obtained a good deal? My research focuses on two main questions: what explains oil-for-loans agreements between China and Ecuador? Why has Ecuador chosen this policy course?

Responses to these questions are far from obvious in particular because mainstream studies⁷ reduced explanations strictly to the terms of the agreements. As I test a series of alternative hypothesis I found the crucial factors are domestic politics and economic interests. In the theory testing process, I argue that the bulk of studies on China-Latin America relations lack a theoretical conversation. The current economic characterization often misses the mark that politics, as well as the agency of small states, is fundamental to explain policy outcomes. I also claim economic foreign policy change is an important empirical question, particularly in light of the arrival of new actors like China and new flexible dynamics like oil-for-loans tools. Oil-for-loans, a recent feature of foreign economic policy, is intrinsically important in light of oil’s predominant role in the global economy and the potential effects of such flexible terms, which will be expanded in chapter 5, for the oil order and principles. Most literature on the subject


follows China’s loans in Africa, while studies on Latin America are recently emerging.\(^8\)
The magnitude of these deals and their span across countries sets a breaking point in international economic relations and we thus need to build an analytical model to explain such a phenomenon.

The Ecuadorian case is a revealing case for several reasons. Although a small country, Ecuador sits among the top four Latin American countries vis a vis China and finds itself in the company of major Latin American economies such as those of Venezuela, Brazil, and Argentina.\(^9\) For the smallest OPEC exporter, this might involve compromising its main source of revenue, which is a drastic shift for an industry that has traditionally been tightly controlled by the state. The Ecuadorian case will elucidate the issue of oil-for-loans in Latin America and help assess the causal mechanisms that determine oil-for-loans preferences. It sheds light on the policy decisions of resource rich states to engage in oil-for-loans agreements with China looking at Ecuador and oil-for-loans agreements between 2006-2013.

At the same time, China’s energy demands have profound political, economic and environmental implication for international relations. Different arrangements with producer countries will impact resource governance and the international engagement of developing countries. The Ecuadorian case offers the possibility to explain the response of small states to a rising power, the tools small nations use for their energy goals in these


new dynamics, as well as the lenses to unravel the political and economic determinants of different oil arrangements. This research argues economic foreign policy change is a relevant empirical question in light of the great deal of speculative concern regarding debates over their geostrategic, market, or ideological determinants.

1.2 Framing the Case: Oil and Economic Statecraft

China plays a vital role in the new course and shape of globalization in the western hemisphere. Nederveen’s reviews of today’s trends in finance, trade and international institutions and claims international dimensions are moving to new shores. The 21st century globalization marks a move from North-South to East-South relations. Furthermore, its expanding economic trade exchanges with Latin America defy regional logics traditionally marked by U.S. sphere of influence. Economic terms between China and Latin America are growing faster than those with developed countries along multiple economic domains: boosting the value and demand of commodities, becoming a lender of last resource, and providing flexible economic agreements. Over the last ten years, China has performed the role of a market, investor and creditor in Latin America. This relocation of accumulation centers suggests looking at China and its ability to define the terms of globalization in the periphery.


There is the belief that China is redefining the patterns of inter-state relations and development in developing countries. The Ecuadorian case, while a single case study, uncovers patterns and themes relevant to across the scope of China’s relations in Latin America. Beijing’s engagement in extractive resources in developing countries is often depicted under strategic geopolitical scenarios and distributional power resources, which in turn portrays Latin America in an aggregate manner as a homogeneous passive actor vulnerable to China’s fatal energy security quest. Also important is the perspective that bilateral relations with Beijing are grounded on ideological affinities and alliances are ensuing among governments that share a combination of authoritarian, free market economics and environmentally unaccountable policies in resource governance. At the same time, most accounts of recent Chinese finance footsteps and its oil backed loans arm take an exclusively economic perspective and indicate that this instrument is intended to extend finance to states that lack access to global capital markets, and China, by implication, acts as a lender of last resource. Most importantly, the literature


assumes a new phase of Latin American dependency on commodity exports is materializing, this time with China.\textsuperscript{14}

Latin American position in the global division of wealth is not new. Dependency on raw material exports is a central and enduring economic condition of the region.\textsuperscript{15} In this context, the current literature’s attention on the asymmetrical disparities between China and small developing countries like Ecuador is fruitless and poses no major theoretical contribution. It is self-evident relative and absolute powers leans in China’s favor. As such, its potential influence is overwhelming. At the same time, available economic resources do not mean effectiveness influence. Foreign policy, as with any policymaking, involves a purposive behavior that become more relevant as we recognize the interests from the perspective of target countries. As such, while asymmetry and Latin America’s position in the global economy holds, policy strategies to manage external economic forces do not become the backbone of their agency. The current debate thus fails to capture the central feature of Latin America’s international relations in the contemporary global economy: the basis, scope and shape of policy adjustment to manage their external economic relations, specifically shifting patterns of economic power to the East. Latin American countries have begun experimenting with a new series of policies designed to address their expanding relations with a vast economy like China;


\textsuperscript{15} Fernando Henrique Cardoso and Enzo Faletto, \textit{Dependency and Development in Latin America} (Berkeley: University of California Press, 1979).
yet we know little about the intertwining political and economic underpinning of such policies.

At the same time, all possible explanations while valid, face the same fundamental problem: they fail to address their assumptions against alternative explanations, identify the mechanisms that can account for state’s behavior, and as result are less analytically effective. At the same time, the economic indicators in which these analyses are based on downplay the fact that extractive industries and oil in particular is a controlled market dominated by large and powerful actors such as states and transnational companies. Moreover, they fail to report why and how host countries adopt these flexible policies; the most common explanation reduces oil/finance to China’s energy needs and description of the agreements. While China’s rising energy demand plays an increasing role in the oil system, not all oil exporting countries engaged in these agreements. China’s engagement in extractive resources in the world varies, even among Latin American countries, has nationalized raw materials. One obvious reason is that countries choose different foreign policy tools. Yet, it deserves particular attention to identify which countries engage with which tools and why. At the heart of this analysis is the efforts to generate hypotheses from latent theoretical claims in the literature about the causes of state behavior and resource policy in the context of China’s recent footsteps in the Western Hemisphere.

This research attempts two simultaneous efforts. At an empirical level, the following case study attempts to explain why a resource-rich country like Ecuador will opt for oil-or-loans agreements; for a country with few conventional power resources
these agreements could potentially undermine the leverage afforded by energy resources. Through the lenses of China-Ecuador oil-for-loans deals, this work also offers insights into Latin American countries response and management of external economic relations in one of its emblematic commodity sectors and in particular, explain how host Latin American countries respond to the broadening interdependence with a rising power like China.

Equally important is that at a conceptual level, the Ecuadorian case is an instance of foreign economic policy choice in oil politics. As such the study attempts to fulfill the conceptual gaps in the China-Latin America research program by generating hypothesis and building a theory on state behavior and resource policy in the context of the recent footsteps of an extra-hemispheric power in the region. While the discussion concentrates on a specific sector and country, the theoretical discussion within the empirical case is linked to broader debates in China-Latin American research agenda and to the strategic use of financial and natural resources under conditions of modern globalization.

1.3 The Ecuadorian Case in Theoretical Perspective

This research speaks to a wide variety of literature. First, it is linked to scholarship on Latin American international politics, and in particular to main themes such as autonomy (from the US), interdependence, and development.16 The bigger theme and overall assessment of this approach draws attention to China’s challenges to the development of

Latin America sparked by the commodity boom.\textsuperscript{17} The commodity cycle has become the engine of economic growth with fear over the proliferation of the Dutch disease looming large in the debate. Today, China as the biggest energy consumer (21\%) is expected to impact and Latin America with the second biggest reserves after the Middle East. Extractivism has taken hold in the region viewed as a re-primarization led by China’s demand of primary goods as exports of primary good rose from 20\% to 60.7\% in Latin America.\textsuperscript{18} In this context, high oil prices have become a strong source of economic growth and interdependence with the Chinese market.

Debate over the long-term effects of China focuses on the disequilibrium of distribution of gains from an economic standpoint and the potential for dependence. The general assumption is that today’s efficient exchange of scarce resources is not equal and will renew dependency relations. As a result, there is consistency in understanding foreign economic policy of Latin America as predominately affected by asymmetrical capabilities. Under this prism, there is an automatic a priori reductionist proposition in the literature of what is evident in plain sight: the striking self-evident asymmetrical capabilities of China vis-a-vis Latin American countries. The existence of power and the comparison of actors while important, says little about the consequence and actual

\textsuperscript{17} Meine Pieter van Dijk, ed., \textit{The New Presence of China in Africa} (Amsterdam: Amsterdam University Press, 2009).

effectiveness of foreign economic policy choices. The field requires a more profound discussion on the tools of foreign economic policy and policy options available to Latin America in this new context.

This research also builds on the emerging research program on China-Latin America relations, which has burgeoned on the first decade of the 21st century. The liberal view of relations suggests that policies are based on market conditions and the need to diversify relations; this means that they are led to international economic conditions, not realpolitik views concentrated on the state. *China’s and India’s Challenge to Latin America* edited by Lederman, Olarreaga and Perry\(^\text{19}\) claims Latin America has benefitted directly (commodity demand) and indirectly (commodities prices) from China’s Going Out policy. The liberal approach asserts China’s growth and its participation in the region have, overall, positive effects throughout Latin America with the exception of Mexico.\(^\text{20}\) Its studies find evidence of China-Latin America economic complementarity due their comparative advantage in the manufacturing and commodity sectors respectively. Other seminal works like Gallagher’s and Porzecanski’s *The Dragon in the Room* offer a similar claim: China’s accelerate growth and export-led economy is a short-term opportunity for countries specializing in commodities.\(^\text{21}\)


\(^{21}\) Ibid.
Adherents of the liberal approach argue politics take a secondary role; this implies the rules of comparative advantage take place and as such, the nature of relations is harmonious as both parts are gaining from their complement economies and division of labor even if the distribution may not be equal. In the oil sector in particular, any mercantilist notion is seen as a mischaracterization of operations abroad and instead claims transnational forces are at play. New agreements in the infrastructure or extractive resources sector result from a conjunction of global market trends. First, they are largely a result of the lack of access to the international market many developing countries face; China has been characterized as a “lender of last resort” for many developing countries cut off from the international credit market such as in the case of Ecuador. Second, relations with China are new major features of economic interdependence based on complementarity and mutual gain. The main use of economic tools from this vision is consequently the search for profits and a calculus rational decision where they can make the best deals.

From the realist camp, a relevant part of the literature addresses China’s potential challenge to order in the Western Hemisphere. Two main questions surround the inquiry of China-Latin America economic relations: is China’s increasing economic participation in Latin America a threat or an opportunity to counterbalance U.S. influence? What is the


potential conflict and impact for Latin America in this triangular relationship, China-U.S.-Latin America, in the context of China’s rising power? China’s presence in Latin America has been understood from the general premises of defensive realism. *China’s Expansion in to the Western Hemisphere* for example, is one of the first works attempting to deal with the issues of competition, threat, power, conflict, and capabilities so familiar in the realist lexicon. The book, a compilation of works, tackles the impact of China’s economic strides in the context of U.S. hegemony in the region. The contribution of Tokatlian for example, emphasizes the lack of material evidence and capabilities directed towards hegemonic actions and counterbalance options for Latin America. Tokatlian sees the presence of China in the region as a cautious strategy mainly concerned with a balance relationship with its biggest debtor and market: The United States. Yet, constant in the debate is a sense of caution towards China’s policy of “peaceful rise,” with an emphasis on the *rise*. Roett and Paz in the same book point to the need to look at all the dimensions of the triangle relation but also effectively consider China’s increasing economic capabilities as an important source of power more than often associated with geopolitical influence.

The realist views in the literature pay less attention to the policies enacted by Latin American countries possibly from the assumption that asymmetrical capacities between


China and Latin America, the geopolitical position of the U.S., its lack of a comprehensive policy toward Latin America, and the priority of Great Power politics between the Sino country and the United States diminish the possibility of challenges to the U.S. hegemony. The field tends to privilege the importance of large capabilities and stress how countries like Ecuador are vulnerable to international pressures and are simply believed to acquiesce to move in autopilot across the international chessboard dominated by Great Powers. Yet, studies\(^\text{26}\) have found China has strengthened ties with countries that have been vocal against Washington’s imposition of policy agendas suggesting Latin American countries are advancing a sense of policy space facilitated by China’s arrival in the region.

Cognitive assumptions that surround the literature discussed the importance of a shared vision of for example, China and Ecuador as developing countries facilitate their relations.\(^\text{27}\) Development is still a theme pending for both China and Latin America. They have shared the same goal since 1980 when the two countries decided to enter the world market in an effort to stimulate their economies.\(^\text{28}\) Latin America has enthusiastically welcomed China’s arrival and similarities in their approaches to development. Namely, they both have been distancing themselves from the “there is no alternative” policy which calls for rigid austerity and a market-led economy under the neoliberal model. John


\(^{28}\) Gallagher and Porzecanski, *The Dragon in the Room*. 
Williamson, creator of the Washington Consensus at the Washington Peterson Institute for International Economics, has expressed concern that the principles of economic liberalism are being replaced by interest in China’s successful model, which contains authoritarian and regulatory elements. As a result this literature claims relations between China and Latin American that do not fit the neoliberal market model are based on convergence of their beliefs on development and the role of the state.

Finally, the research also draws on a growing literature on rentier theory and foreign policy. According to rentier theory, in the case of democratic countries, resourced-rich countries whose rents largely come from the extraction of natural resources such as oil, gas, minerals, or metals display weak level of representation through the concentration of power in a few. In particular, resource-rich countries display what Mazzuca calls a “plebiscitarian superpresidentialism” defined as a regime approach in which “the president dominates the entire decision-making process at the expense of the national legislature and receives nothing more than nominal scrutiny from other branches of governments or non-partisan oversight agencies.” Along this line, studies on domestic policy orientation in Latin America for example claim that large countries that are highly dependent on rent for public finances establish coalitional governance dynamics that concentrate power and the entire decision making that reduces

29. Williamson, "Is the" Beijing Consensus" Now Dominant?"
check and balances and “stimulate propensity toward risk-taking.” Weyland argues boom and bust cycles of resource-rich states affect the capacity to maneuver policy choice, stimulating the opportunities to alter market limitations for countries, which are highly dependent on extractive resources.

A discussion of oil diplomacy in the literature is important and timely, as Asian countries become dominant players in the global economy. China will continue to advance its position as a dominant buyer of Latin America’s oil despite its growth “slowdown” to 7.8 percent. Projections assert China’s demand for oil in the transport sector will rise by 35 percent and by 2030; Beijing along with India will account for more that 40 percent of growth in oil global demand by the same year. Latin America and China’s growing relations are cemented in the complementarity of their economies. China is redefining the energy industry due its middle class growth, rapid urbanization and limited access to its own natural resources. On the other hand, the spike in oil reserves puts energy-rich South America at a potential advantage. Brazil, for example, accounts for over half growing oil reserves in the last decade and Ecuador is among energy surplus countries. While some inroads have been made in learning about China’s engagement in Africa, there is less insight on energy relations with Latin America.


33. Arriaga and Espinasa, “China, Latin America and the United States.”

Oil politics is a multidimensional sector that touches upon security, geopolitics, resource competition, dependence and great power relations. Furthermore, financial power and oil diplomacy intersect at the oil-for-loans strategy and the emerging East-South relation is a major current event linked directly and indirectly to energy and all these different aspects. Despite the blooming body of research on China-Latin America’s relations, we still have few explanations and scarce empirical data on the subject. Within the literature remains the need to go beyond the description of major trends towards specifying and testing systematically competing explanations of the nature of these relations and state behavior.

1.4 Organization of the Study

Chapter one introduces the competing theoretical explanations about state preferences and behavior on the context of China-Latin America energy deals circumventing market rules. I present their main assumptions and hypothesis relevant to the empirical case. Chapter two offers the methodology of the research, addressing the advantages of a qualitative single case study for the theory building objectives, the limits as well as detail on the methodological strategies and measuring techniques. The next chapter uncovers the Chinese oil quest in developing countries. In particular, it maps thee reasons behind Beijing energy interests and its implications for the Western Hemisphere. The fourth chapter focuses on Ecuador’s oil politics by presenting an overview the role oil for the country, a description of the deals within the Ecuadorian context and potential advantages and disadvantages. Chapter five delves into applying three of the competing theories--bureaucracy, ideology and domestic liberalism approaches-- to the nuances of the case.
The sixth chapter discusses the applicability of the soft balancing and economic liberal explanations to the case. Finally, I will offer some conclusions on the explanatory cause or causes of this policy, discuss the empirical findings, and the policy implications of these agreements.
2 Chapter: Navigating China’s Footprint in Latin America: A Theoretical Construct

2.1 Overview

Many have seen the commodity boom and the expanding of relations that has ensued with China as a major, positive development for Latin America and have greeted it warmly. Yet, there is increasing concern that capital flows along the East-South axis are bolstering Beijing’s financial arm as an instrument of statecraft. This appraisal is anchored on the economic and financial literature that concludes financial leverage in international politics builds the capacity to project political power, especially among debtors who cannot access alternative sources of credit. The financial statecraft theme figures prominently in the ongoing growing Chinese lending to Latin American countries that according to reports, are in desperate need to find lines of credit and are economically strained. Yet, to understand the scope of Chinese influence in the region it is first necessary to unravel the conditions and motivations that underpin the adoption of this policy choice by target states. Inquiry of Chinese footsteps in the region and its capacity to flex its financial muscle is an empirical question that resides first in the analysis of the debtors’ capacity and ability to make choices; understanding the practical application of these economic tool serves to identify the strategic use of financial and natural resources under conditions of modern globalization.

Responses to these questions are far from obvious. The recent development of China-Latin America relations in the last nine years implies delving into a nascent field of study in which data remains fragmentary and for the most part insufficient, in particular because the mainstream lacks the ability to advance their claim in a theoretical manner that in turn could be used as a framework for cumulative knowledge. Moreover, the literature predominately underpins economic incentives as a unicausal claim divorcing it from geopolitical and domestic analysis. In light of the scant theoretical developments in these new dynamics, this research engages with the complexities of the social phenomena by suggesting theoretical maps that potentially explain these new patterns of engagement and the use of oil as a tool of foreign economic policy. I do so by applying overarching latent claim along the China-Latin America literature from a guided-theory approach. Thus, this effort applies known theories to a new terrain with the purpose of suggesting potential explanations, and finding reliable patterns regarding the conditions that lead to a policy shift to adopt energy-backed loans. The end goal is to present five competing, yet not mutually exclusive, hypothesis that account oil-for-loans agreements as a preferred tool in foreign economic policy.

The chapter that follows explains the theoretical frameworks encompassing the research and is divided in three sections. The first section briefly explores the literature on foreign policy in Latin America as the background for the study of the issues and trends of foreign policy in Latin America. I followed this argument with the discussion of

alternative explanations to account for oil-for-loans agreements drawn from the realist, liberal and constructivist paradigms. This section in particular has two purposes: to discuss competing theories, and establish hypothesis applicable to the empirical case. A task of crucial importance is to provide the template towards the application of one or two of the most powerful theories to the case study. The chapter will close with final remarks.

2.2 International Relations and Foreign Policy in Latin America

International relations in Latin America have been for the most part marked by regional dynamics and relations with the United States. Within the study of Latin American foreign economic policy, this trend has been most apparent. Tickner claims Latin America’s dependence and sphere of influence status vis-à-vis the United States marks the state of the field and the bulk of conceptual traditions. Such conventional wisdom has been even more dominant in the study of foreign economic policy in the region.\(^{37}\) At the same time, the field has remained extensively silent on liberal theories’ links of state behavior with domestic interests and power relations in Latin America, the latter being particular relevant in a decade where the regional political spectrum has moved to the left and presents a myriad of development models and political platforms echoing varied state preferences.

Dependent foreign policy inspired by dependency claims the position of the region within the international economic structure shares policy options. Dependency

\(^{37}\) Tickner, "Hearing Latin American Voices ."
theory claims orthodox global capitalism has a detrimental effect on national development, a central goal of peripheral states.⁴⁸ As a structural explanation, it underlines the pressures of international capital exchange system and the linkages of states through their productive apparatuses.⁴⁹ Tickner comments the application of dependency theory to Latin American international relations dependency considers the local state in IR while maintaining external pressure exercised by the international division of labor and the economic production structure of the state.⁵⁰ The clearest manifestation of domestic factors in dependency theory reduces causal explanation to the strategic interests among ruling classes. The theory finds a consensual relationship between the core and the ruling classes in the periphery. In Ecuador for example Hey finds President Febres Cordero’s favor toward free market policies fence off domestic opponents and alignment with US. economic prescription.⁵¹

A second debate from Latin America comes from autonomy theory. This conceptual trend was symptomatic of the interest to create IR theories relevant to the concerns of the region. Tickner comments that realist assumptions are inaccurate for peripheral weak countries, which are mostly concerned with improving their international negotiating capacity and sufficient control to conduct activities with state and no-state

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⁴⁹. Cardoso and Faletto, Dependency and Development in Latin America.

⁵⁰. Ibid.

⁵¹. Hey, “Foreign Policy Options under Dependence.”
actors. From a domestic level, the autonomy literature underlines what Jaguaribe called “national viability”: a down-top approach, which refers to the ability of the state to reduce domestic polarity, project its political function, and enhance cohesive foreign policy objectives, compounded by and “international permissibility” provided by the leverage of its economic structure.\footnote{Helio Jaguaribe, "Autonomía periférica y hegemonía céntrica," \textit{Estudios internacionales} 12, no. 46 (1979): 91-130.}

In many forms, foreign policy in Latin America has been deeply linked to development and its abundant natural resources. As mentioned previously, Latin America’s original contribution to IR thinking under dependency theory notices how the economic productive apparatuses of countries condition the course of foreign policy decisions. To be fair, dependency theory is primarily concerned with the pressures of the international capitalist system on underdeveloped countries and the international division of labor it creates according to the nature of a state economy. Yet, as the theory is intrinsically related to Latin America’s insertion in the international system, dependency theory has identified the distinct dominance of productive systems paths. Concomitant with dependency perspectives, autonomy theory is cognizant of how the state attributes define the parameters of foreign policy choice and also how these attribute impact their negotiating capacity and the leverage.

Scholarship of Latin American foreign policy identified three mains themes at the turn of the 20\textsuperscript{th} Century, namely the search for autonomy, development, and US heavy
influence.\textsuperscript{43} Foreign Policy options nevertheless face new trends as the 21\textsuperscript{st} century globalization witnesses the arrival of China to the hemisphere to become among the region’s most important creditors, investors, and partners. The regional contours have also changed and the U.S. democratic neoliberal model is no longer the only game in town. The strengthening of democracy since the early 1980s has taken long strides in the hemisphere. The regional political spectrum has not only surprised pundits and experts with the shift to the left of sixteen countries, but also marked the proliferation of political platforms and participation spearheading demands for representative democracy and development in which neither military coups nor revolutions are viable options.\textsuperscript{44}

Along these lines, Latin American politics calls for rethinking traditional theoretical blocks and expand analysis towards state level dynamics. Foreign economic policy shifts in the oil sector is symptomatic of these dynamics. At a general level, the previous sections provided the theoretical approaches to select both, alternative competing hypothesis, weigh in their valuable explanatory power, and suggest potential influence.

\textbf{2.3 Alternative Theories}

Despite the growing body of research on China’s critical role in the economy of Latin American countries, we still have few systematic explanations of and patchy empirical data on what factors influences these relationships. By looking at one specific sector and

\begin{itemize}
  \item 44. Steven Levitsky and Kenneth M. Roberts, \textit{The Resurgence of the Latin American Left} (Baltimore: Johns Hopkins University Press, 2011).
\end{itemize}
flexible diverse agreements in the form of loans-for-oil, this study attempts to build a theoretical framework that can specify and systematically explain the behavior of target states on a rising power like China.

China’s economic engagement in the Western hemisphere is an arena that garners attention due to its many layers: its effects from a developmental perspective, its political impact, ideological implications, and the engagement of Great powers, among others. In attempting to provide empirically based explanations, I discuss the premises through five alternative theories encompassing realist, liberal, and constructivist theories. Each approach casts light on different explanatory causes focusing on power resources, international market conditions, domestic representation, and ideology. The theories have been presented in such a way that each provides powerful and valid contending formulations instead of providing one single conceptual tool to anticipate foreign economic policy. At the same time, they are mutually exclusive and have been worked as to potentially combine some of the analytical tools in case none of them is entirely sufficient to explain the policy and the case of interest as representative of petro states.

2.3.1 A Realist Approach

In the Post-Cold War era, the decline of military threats prompted the belief that a new strategic era based on an economic platform and interdependence will fade the shadows of power struggle and war.45 Even in the emergence of new dynamics like China’s rise,

the defensive realist liberal camp along with liberal explanations suggests Beijing’s wealth expansion can circumvent political confrontation and China’s “Going Out” is a welcome gesture toward accommodation in a stable multipolar world. Absolute gains from economic expansion will weigh more and lead to stability and cooperation.

Yet for realism, the fundamental nature of politics has not changed under conditions of anarchy either for emerging or peripheral powers alike. When it comes to state relations, economic incentives are not automatically reduced to the laws of comparative advantage and the expansion of wealth. Consistent with these claims, Gilpin for example has examined the way states attempt to control their environment and maintains that as states become wealthier and more powerful, their policy will be able to capture a larger security and welfare goals. For realism, economics is not apolitical. State relations depart from capabilities and realism recognizes economics as a separate issue area of World Politics and in itself an instrument of foreign policy. This tenant becomes more logical for small states that cannot affect international politics and possess low margins of autonomy. Hey, quoting Moon, claims “the conventional wisdom of weak states is largely determined by external forces’ and that this view is ‘now thought so unexceptional that it no longer requires defense’.”

David Vital for example has


48. Hey, “Foreign Policy Options under Dependence.”
explained how limited capabilities of small countries limit their leverage in light of its inability to resort to force in potential times of conflict.49

In recognizing that major power relations define international politics, small states open the space and expand their strategic calculations through economic engagement with emerging states in order to balance against economic dependence with other powers. In fact, Waltz suggests, “Hegemony leads to balance” by default.50 While balancing is an emerging power phenomenon,51 balancing is also a behavior of countries at the periphery52 of International Relations seeking to counterweight the overwhelming asymmetrical capabilities of dominant powers.53 China’s footsteps in the Western hemisphere offer Latin American states alternative extra-hemispheric relations in a region often seen as Washington’s sphere of influence. The huge margin of superiority of Great powers, however, would make aggressive military measures or war-fighting alliances


52. Peripheral states are defined as “those whose economies are deeply affected by cycles of expansion and contraction of the world economy without sharing significantly in their generation and whose position in the interstate system is such that they play a modest role in the establishment of the written system and practically no role in the establishment of it written statutes”. Carlos Escudé, "Realism in the Periphery," in *Routledge Handbook of Latin America in the World*, ed. Jorge I. Domínguez and Ana Covarrubias (New York: Routledge, 2014), 45.

costly for smaller countries and instead look for alternative alliances, a heterogeneity of alliances, to achieve substantial autonomy.

Along these lines, realists also recognize that states relations rather than encompassing a comprehensive approach, take place along alternative “chessboards” from issue to issue.\textsuperscript{54} For peripheral countries’ engagement in the economic realm, interests are defined in terms of economic development\textsuperscript{55} and as a result balance is shaped by threat of perception in terms of the extent to which economic dependence is seen as undermining the national autonomy. In the Western Hemisphere Latin American countries maintain a long-standing economic dependence with the United States; interstate relations face the leading role of United States in its sphere of influence. Power structure under \textit{Dependent Foreign Policy Theory} for example, which focuses on how states with limited capabilities are heavily dependent on one economic partner, attempts to diminish ties and diversify relations away from the preferences of the regional power.\textsuperscript{56} Hey in explaining Latin American divergent foreign policy in the 80s towards the U.S. explains “[in]n many cases, economically dependent states not only fail to follow the core’s lead but in fact pursue foreign policies directly aimed at antagonizing or

\footnotesize{\textsuperscript{54} Paul R. Viotti and Mark V. Kauppi, \textit{International Relations Theory: Realism, Pluralism, and Beyond} (Boston: Allyn and Bacon, 1999).

\textsuperscript{55} Escudé, "Realism in the Periphery," 50.

countering the interests of the hegemon.\textsuperscript{57} As such policy preferences are geared to “counter the consequences of economic dependence” and assume highly dependent relations with the regional hegemon have “economically damaging and politically demeaning” effects.\textsuperscript{58}

In the case of small state that do balance, threat of perceptions is related to a sense of uncertainty over a dominant power’s attempt to use of asymmetrical economic exchanges to pose pressures. In the simplest realist arguments, states should attempt to minimize their vulnerability to U.S.- Latin America imbalanced relations: economic “hawks” point out that states should aim at internal economic development\textsuperscript{59} yet a growing and diversified economy has a marginal impact in its leverage in international politics. In addition, realism at the periphery additionally points to external balancing choices that will facilitate autonomy and control over national economic policy. At the international level, the most consequential effect is that a soft balance strategy that consists of seeking extra-hemispheric alliances to counter states whose superior resources could pose pressures in the form of, for example, conditions, sanctions.\textsuperscript{60} This adopting economic strategies to minimize a country’s dependence and sway the pressures of dominant states and external dynamics.

\textsuperscript{57} Jeanne A. K. Hey, \textit{Theories of Dependent Foreign Policy and the Case of Ecuador in the 1980s} (Ohio: Ohio University Center for International Studies, 1995).

\textsuperscript{58} Ibid.

\textsuperscript{59} Gilpin and Gilpin, \textit{Global Political Economy}.

\textsuperscript{60} Pape, "Soft Balancing against the United States.”
One way to explain policy-balancing efforts against asymmetrical pressures lies in the financial order and the use of International Organizations to advance the interests of Great Powers. Scholars have long debated that International Organizations such as the International Monetary Fund (IMF) are driven primarily by politics and their lending policies are defined by the interest of powerful members like the U.S. The widespread acceptance of the global finance governance as emblematic of U.S.-championed neoliberalism suggests the IMF and the World Bank are functional to the interests of its major shareholder, namely the U.S. The literature suggest for example that countries relevant to U.S. geopolitics received more favorable conditions while others go even further and suggest the U.S. assumes temporary authority of IMF lending procedures for borrower states important to U.S. interests. Moreover, the empirical literature suggests for example loan size and level of conditionality vary substantially across countries influenced by the U.S. position. Within private finance, The IMF’s reports of a country’s economy are detrimental to the access and issuance of sovereign bonds by private international creditors and drawing on domestic politics another explanation claim the U.S. influence the issuance of large loans and conditionality to states largely indebted to U.S. private creditors.

In this context, the oil-for-loans tool with China portrays a substantial policy change that attempts to diverge from the orthodox economic model in specific traditional financial sources and conditional policies while diversifying Ecuador’s economic relation

62. Ibid., 54.
with an extra hemisphere actor. As practical matter Ecuador remains heavily linked to the U.S. through trade, however, as a matter of policy, its strength in the oil sector becomes an instrument to minimize dependence on the Western financial order, achieve substantial autonomy from conditionality and engage with new partners. Dependent foreign policy theory argues that peripheral actors seek venues outside the dominant international system and point to cultivating relations with no-traditional partners and autonomy form the U.S. Oil-for-loans seems to offer some autonomy from US predominance, reducing Ecuador’s vulnerability to conditional agreements and the intervention of Western institutions in domestic politics in light of previous evidence in which lending and economic bailouts form the IMF where conditioned to the implementation of a 12 economic policy prescriptions package. On the contrary, policy conditionality is largely absent thus opening sectorial spaces to maneuver the state economy and alter the rules of the game oriented toward new oil order and cooperation with an emerging actor.

From this perspective, the realist framework suggests the hypothesis that as a rational actor there is a break with the U.S. under which Ecuador does not want to bandwagon on. As a result, when Ecuador seeks greater autonomy form the U.S., it will join forces with other like-minded countries in the region and extra-hemispheric powers that strengthen its possibilities to balance against the U.S. Oil-backed loans are


agreements driven by a strategic interest to diminish reliance on US-oriented finance mechanism and block policy conditionality.

2.3.2 Liberal Theory

The liberal perspective informs policy choice from two theoretical strands. Commercial Liberal Theory finds a state preferences is motivated by the intensity of economic transnational linkages and its incentives to engage with outside actors. The extent of costs and benefits embedded in this economic interdependence fundamentally influence state behavior.

In an era where global wars and military crisis remain low, international economic flows sets the international market to play a critical role on state policy and in coordination among governments. There are thus transnational market incentives that alter costs and benefits external to state preferences and circumscribe policy choice. While liberal theory claims interdependence motivates coordination, it also recognizes the increasing role of the market advances a series of sensibility and vulnerability effects to the state, thus the international spectrum are two sides of the same coin and transnational economic activity can equally create both conflict and cooperation, costs and benefits calculations among states relations and with social actors such as multinationals, international institutions, and the market.


Market incentives--costs and benefits--are precipitated by changes in the domestic and global economy and as such policy choices are functional to this external pressure. These tenets resonate in Gallagher, Irwin, and Koleski’s assessment of a state’s decision to advance oil-for-loans as they find that these instruments are intended to extend finance to states that lack access to global capital markets; China, by implication, acts as a lender of last resource. According to mainstream research and media reports, for Ecuador, a commodity driven and scarce of capital economy, the 2008 sovereign debt default on $3.2 billion on the Global 2012 and 2030 Global bonds strained relations with the international financial market and the catalyst of swift sources of cash from East. The weight and pressure of the international credit market was deeply felt and the timing of the first Chinese loan to Ecuador in 2009 consequently attended to a high-risk economy in need, raising assumptions that Chinese funds have been used to replace access to sovereign credit.

At the international level, extractive resource rich countries that engaged in these agreements faced one particular problem: they are subject to the woes of the financial market and their leverage to impose costly conditions and standards to borrowing governments. Their bargaining power to exert influence over credit actors to lower demands and reduce interest rates is for the most part miniscule. In the political arena, while Quito strained its relations with Washington, it also retained strong and


68. Ibid.
predominant trade ties with the United States; however, it welcomes the diversification of relations.

Within this context, these agreements could not come at a better time to countries that have been frozen out of the global credit market. Oil-for-loans is seen as the best deal for Ecuador’s situational position with the international environment; Ecuador adopted a new policy under conditions of lack of capital supply and this is corroborated by the fact agreements are not subsidized loans but rather interest rates are similar to commercial lending ones. Gallagher and Irwin suggest Chinese financing is largely profit-oriented and thus dominated by a commercial rationale. For Ecuador, the deals involve market prices for its oil, short-term sales, lack of conditions, and finance for infrastructure like hydroelectrics, roads, and ports. As such, it implies oil-for-loans resides in economic cost-benefit calculus, which in the context of limited access to alternative source of credit became an attractive deal.

From a liberal approach, Ecuador makes a calculus rational decision where it can make the best deal. Yet from this perspective, power structure does not define policy option but rather relevant economic cues. Market pressures and the economic domestic structure of what the Financial Times depicted as “some of the region wobbliest economies” see these countries as risky due to its history of default. At the same time, China’s emergence, its demand for raw resources, and its gained material power in

possession of large capital with several strategies to invest money abroad, one of them in the form loans, lead the way to these type of deals.\textsuperscript{71} There is no explicit statement of expectations about such preferences but reports lead to believe that choices are not made in a vacuum but instead respond to a strategic environment informed simultaneously by both China’s demand and constraints in the international financial market.

2.3.3 Government and Levels of Executive Autonomy

On the other hand, Republican Liberal theories claim policy is an instrumental and a purposeful action echoing the preferences of domestic representative institutions and power relations. The foreign policy literature has also provided domestic explanations on foreign policy behavior as an opposite to systemic theories of foreign policy.\textsuperscript{72} Overall there is consensus that unit level pressures can affect foreign policy choice and as result the recognition that the state can be a non-unitary actor shaped by the interaction of agents within and their properties.\textsuperscript{73}

The literature argues institutions constrain and create foreign policy processes;\textsuperscript{74} domestic factors rationale claims that the negligible effect of small states in the international system sets the stage for their ample domestic maneuver. They are usually free riders benefitting from international public goods, such as alliances whose lack of

\begin{flushright}
\textsuperscript{72} James D. Fearon, "Domestic Politics, Foreign Policy, and Theories of International Relations" \textit{Annual Review of Political Science} 1, no. 1 (1998): 289-313.
\textsuperscript{73} Ibid.
\textsuperscript{74} Valerie M. Hudson, \textit{Foreign Policy Analysis: Classic and Contemporary Theory} (Lanham: Rowman & Littlefield Pub, 2007).
\end{flushright}
threat to Great Power, enhances their ability to concentrate in domestic politics.75 Most works on domestic factors in small states concentrate on the policies in industrialized democratic states.76 Yet, the end of the Cold War opened the analysis to the myriad of Lilliputians making up the majority of the international system.77 In the case of oil as a strategic asset for foreign economic policy in cases like Ecuador, in which the state owns and control extractive resources, state-level theories provide also appropriate explanatory power. In particular, government-oriented theories explain cost and benefit calculus among main decision players.

State institutions underpin domestic political effects and executive constrains. Putnam, Katzenstein, Alons, and Risse-Kappen are among the main scholars who account for the balance of domestic and international pressures.78 The authors maintain that national interests are two sides of the same coin: the state represented by the government is concerned with both its power position in the international structure and remaining in


office. Putnam best describes this dynamic as a two board game.\textsuperscript{79} State-power theories have put forward assumptions of national interests depicted in political, economic and ideological dimensions.\textsuperscript{80} Notwithstanding, the domestic side of the game crafts incentives and goals differently. Alons establishes domestic politics is concerned with social stability, domestic pressures, and forming coalitions to maintain power. Endogenous factors are developed at different dimensions. Politically a government is concerned with remaining in office and defending its credibility. Economically, the state aims a “stable development of economic indicators like GDP and employment” and ideologically the state aims toward defending its policy principles and paradigms.\textsuperscript{81}

The Republican Liberal theory offers two clear points of departure. To begin with, domestic governing structure determines state policy. Foreign policy decisions are the winning strategy of the power group in charge, and the groups governance capability—indicated by the degree of the concentration of power among governing groups-- is the moving cause of the favored policy. Andrew Moravcsik explains policy instruments are “biased in favor of the governing coalitions or powerful domestic groups favored by representative institutions- whether those groups are administrators (rulers, armies, or bureaucracies) or societal groups that ‘captures’ the state.”\textsuperscript{82} From the liberal perspective,

\begin{itemize}
  \item \textsuperscript{79} Putnam, “Diplomacy and Domestic Politics.”
  \item \textsuperscript{80} Stephen Krasner, "State Power and the Structure of International Trade," \textit{World Politics} 28, no. 3 (1976): 317-47.
  \item \textsuperscript{81} Alons, “Predicting a State’s Foreign Policy.”
  \item \textsuperscript{82} Moravcsik, “The New Liberalism,” 244.
\end{itemize}
the balance among players suggests the availability of opportunities and spaces for the dominant group’s political criteria in guiding the allocation of economic resources.

In a presidential system existent throughout Latin America, although the executive has a head start in policy choice, constraints exist in the form of veto players (actors that have the power to regulate, control, block a given decision). Irrespective of the political representation and echoing Moravcsik’s liberal explanations, Alons claims the degree of power concentration of the government vis a vis other social actors sets the state ability to maneuver their external preferences. His internal polarity concept defined as “the degree to which power is concentrated within the state” argues that the greater concentration of power within the government, the higher the internal polarity. This therefore allows in return the ability to account for the government’s external interests, in particular to advance the importance of its economic and ideological interests.

The second liberal premise resides in the existence of veto players able to balance predominant governing actors. A broad range of represented interest groups moderate policy implementations and is less likely to adopt flexible unorthodox divergent policies. Alons illustrates this to the extent the existence that a pluralist representation means competing interests will cancel each other and decrease their leverage toward the executive. At an empirical level, Kurt Weyland explains for example that fundamental restructuring of economic exchanges and reforms to market flow exchanges in Latin

83. Alons, “Predicting a State’s Foreign Policy.”

84. Ibid.
American countries has been long associated with the concentration of power in the
government and their domination along the whole political system. Concomitantly,
institutions do not significantly accommodate social groups or bottom-up concerns at the
negotiating table. A vacuum in veto players and a centralization of decision-making
collapses constraints to impose the favored policy instrument.

From the rentier state theory, studies on domestic policy orientation in Latin America claim that in the context of large resource wealth, high rent dependence for public finances, “stimulate propensity toward risk-taking.” Weyland argues boom and bust cycles of petro states affect the capacity to maneuver policy choice, stimulating the opportunities to alter market limitations. Yet, the decision to engage in fundamental policy shift resides in the political spectrum and as such the domestic power game, that is, governing coalitions.

Petro states maintain a strong central government which most likely enables their ability to advanced drastic foreign economic policy changes in the oil industry. This is echoed in the intervention and transformation of oil agreements as a tool for finance. An account for transgressing traditional oil market limits through the adoption of bilateral oil-backed agreements lies in domestic concentration of power among governing groups. One would expect oil backed loans agreements is the preference of domestic governing

85. Weyland, "The Rise of Latin America's Two Lefts."
86. Ibid.
87. Sebastián Mazzuca, "Recursos naturales, populismo rentista y tentaciones hegemónicas en América del sur," Araucaria: Revista iberoamericana de filosofía, política y humanidades, no. 29 (2013b): 3-31; Ross, "Does Oil Hinder Democracy?"
power relations. Thus, an estate is more likely to engage in this policy where 1) power is concentrated—executive dominated— and the government is able to impose its economic policy of preference and 2) veto players are weak and there is not pressure on the government to oppose the agreement. This is represented in the form of a dispersed plural representation of socio political actor reflecting a low institutionalization.

In the Ecuadorian oil industry, the nationalization of resources has been well established since the discovery of oil, although the time of energy-backed loans coincided with a recalibration of policies in the oil sector. In this context the hypothesis zooms in the empirical fingerprints of concentration of power and thus a weak institution that would be evidence in 1) executive dominate legislature balance; 2) other actors such as the military is removed from its management and regulatory role in the oil industry; 3) legislative and constitutional reforms in the oil sector towards fiscal centralization; 4) absence of a government coalition or interest groups; 5) Executive legitimacy (elections and public opinion) and ; 6) low levels of social mobilization and pressures against agreements with China.

2.3.4 Bureaucratic Politics
Interagency groups can be also decisive over foreign policy choices. Bureaucratic politics theory argues policy outcome results from internal bargaining among key players representing the preferences and bargaining leverage of state agencies. Within the state therefore, there are particular interests that are distinct from any societal group as is related to a bargaining process and the role of the state bureaucracy comprised by civilian officers, political appointees and even the military. Allison’s seminal work *Essence of*
Decision formulated the model and claims that policy is a group of agreements resulting from bargaining games and mostly characterized by what Hudson calls “the lowest common denominator outcome.” As a governmental organization model, different decision-makers with their own views of national interests take a position concomitant with their organizational affiliation without precluding the impact of other forces such as role, expertise and political power. In this light, the most important elements associated with the outcome are the bargaining advantages of bureaucratic groups, which involve the control of the implementation and information for key policy themes along the ability to persuade actors across the spectrum.

In the Ecuadorian case, the oil sector is highly controlled by the state-owned company Petroecuador with interests in the distribution and commercial rationale of the industry. The military has been crucial in the strategic perspective on oil and its role for development, and in fact, continued to hold management posts in Petroecuador until the past decade. Other branches of the government such as the Ministry of Finance and the Ministry of Foreign Relations, and Petroecuador participate in the economic, management, and international political dimensions (OPEC) of the sector. In this context, social actors such as public opinions, business, organizations, and unions, while important, are less relevant for the case.

Bureaucratic politics claims foreign policy outcome is not the optimal option but is a compromise decision made at lower bureaucratic level; policy substance results from a limited inventory of policy of agencies and their policy makers. Some of the critics however conclude Bureaucratic Politics lacks explanatory power due to the dominant
power of the executive decision and in this context government official are merely informants and advisors regarding courses of action. Furthermore, because of its broader scope it potentially falls into conceptual overstretching claiming the exaggerated influence of organizational positions.

Nevertheless, important claims can be drawn from this approach. Policy outcome is the result of a bargaining process among small distinct governmental actors with varying preferences according to the collective interests of their organizations they represent. While a pluralist process, it presents more or less a narrow set of preferences. In the Ecuadorian case, actors in the oil sector are circumscribed to the Ministry of Finance, the Ministry of Foreign Relations, the Military and Petroecuador. At the time of the backed loans agreements, the Ecuadorian Government claimed operations were business transactions between the oil companies. Ecuador’s ambassador to China further clarifies: “The advance sale of crude oil is a commercial transaction that Petroecuador with Petrochina. Loans are the ones we request directly to Chinese banks.”88 Within this framework, the State Oil company is at the driving seat of negotiations and this focus has meant factors of the policy environment can be traced back to PetroEcuador claims of a commercial agreement

2.3.5  Ideology

The end of the Cold War marked the conclusion of ideological rivalries and advanced the assumption that free-market and democracy would lay out the way forward. Either from a theoretical approach--Francis Fukuyama’s *End of History* or Huntington’s *Third Wave*—or the empirical front--Margaret Thatcher famous aphorism “there is not alternative” summed up the commitment to move towards a neoliberal market economy prevalent in the final decades of the twentieth century—the consensus was that the world was moving toward a uniform order based on socioeconomic liberal identity.89 Scholars quickly found however that democratic values do not eventually lead to the diffusion of democracy, actually hybrid authoritarian regimes emerged, and international cooperation with authoritarian regimes is commonplace.90 Recent studies are moving away from the study of the diffusion of Western democratic norms among countries to advance liberal order towards a new international dimension defined by the leverage of emerging countries’ political ideology, for example in the case of Soviet Union and China. Similar to the claim that the diffusion of free market and democracy around the world was a defining feature in the economic and political liberalization of governments, there is a focus today on the way China’s rise is rewriting the politics of economic development.


The idea identity and social order explains that state preferences are not new. Either from the liberal or constructivist camp, theories have brought to the table a socially determined understanding of states’ behavior. Holsti for example considers decision makers act upon a “national image” shaped by perceptions rooted in a belief system.\(^9^1\) Ideology variation screens the set of policy dimensions and choice early in the decision making process. Holsti defines ideology as “a set of lenses through which information concerning the physical and social environment is received [...] In addition [...] the belief system has the function of the establishment of goals and the ordering of preferences.”\(^9^2\) Concomitantly, ideational liberal theories focus on preferences derived from states varied “social identity” and conceptions on “desirable forms of cultural, political, socioeconomic order.”\(^9^3\) Its main tenet is that state behavior and ultimately the nature inter-state engagement is motivated by an intense ideology over appropriable domestic order across sectorial dimensions such as national identity, political ideology, and socioeconomic order model.\(^9^4\) Social identity establishes common beliefs that delimits who is in and who is out their particular type of order, which by default enhances the collaboration among countries with consistent patterns of political identity. Or as

\(^{91}\) Ole R Holsti, "The Belief System and National Images: A Case Study," *Journal of Conflict Resolution* 6, no. 3 (1962): 244-252.

\(^{92}\) Ibid.


\(^{94}\) Ibid., 241.
Moravcsik describes “social identity stipulates who belong to the society and what is owed to them.”

In this context, policies are the result of a shared social identity. The South-South cooperation is bounded by a representation China’s and its partner’s position within a “developing” status social identity and a hierarchical unequal global economic divide in which China’s and its partners have been historically located at the periphery. In the broadest sense, the backbone of the argument claims the increasing economic network within the global south is establishing its own rules and standards for policy based on their shared consistent underlying beliefs about development and the proper scope of the state. This shared identity fundamentally advances international cooperation between China and developing countries: there is a process of policy coordination within the energy sector and in particularly oil for loans agreements among a class of states that does not involve a drastic adjustment in their behavior.

The result is policy coordination that involves governments—participating actors—and emanates from a coordinated intentional process—the method to achieve policy—based in mutual ideational support of developmental strategies. Attempts in the west to make sense of China’s increasing presence in the Latin America claims the formation of Beijing Consensus, defined by a combination of authoritarian politics and

95. Ibid., 240.

96. DeHart, "Remodelling the Global Development Landscape."

free market economics underpins relations with countries like Venezuela and Ecuador.\textsuperscript{98} The terms, Beijing Consensus, convey the erosions and concomitantly the western values of political economic order embodied in the Washington Consensus.\textsuperscript{99} Rather, China and its partners argue that their relations are rooted in a South-South cooperation focused on common interests in development and the protection of their sovereignty.\textsuperscript{100} The strategy is guided non-intervention of domestic affair and win-win cooperation, the latter which I define here as the absolute gains or wealth expansion for the states involve in the relations in terms of the convergence of interests between China’s energy demands and Latin America’s commodity surplus.

Narrowing down a shared social identity to a common understanding of the energy sector, central features of China-Ecuador relation in the oil industry coincide in their belief on the expansion of the state in the politics of resources, the advancement of an authoritarian government, and environmentally unaccountable and lack of normative transparency initiatives in the extractive economy. State capitalism refers to a system where the state is the main actor in the economy. Ian Bremmer, one of the main salient authors in the subject, defines state-capitalism as “a system in which the state functions

\begin{quote}
98. DeHart, "Remodelling the Global Development Landscape."; Cooper Ramo, \textit{The Beijing Consensus}; Williamson, "Is the" Beijing Consensus" Now Dominant?"

99. DeHart, "Remodelling the Global Development Landscape."

\end{quote}
as the leading economic actor and uses markets primarily for political gain.”\textsuperscript{101} This type of state-managed economy is emerging among developing countries in which strategic investments, state ownerships, and regulation is handled by the state. As a competing economic model, state-capitalism encompasses four elements: national oil corporations, state-owned enterprises, privately owned national champions, and sovereign wealth funds.\textsuperscript{102} In light of oil strategic asset status, oil state-owned companies own, operate, distribute oil production and distort commercial competition. The government appropriates the leverage of oil in its hands and believes valuable national assets and enterprises in these sectors must be aligned with the government.

The latter is intertwined with political dynamics of an authoritarian government and the belief development project is embedded in the rulers’ violations of competitive channels for opposition. Gonzales-Vicente for example claims China and Latin America’s negotiation in the extractive sector often falls under the perception Chinese operation’s “operate comfortably in coalition with authoritarian rulers.”\textsuperscript{103} China’s closed regime is not equivalent to Latin America’s democratization process. Yet within the pluralistic political forms of Latin America’s governments, there lies the belief that a type of competitive authoritarianism emerges while remaining committed to a procedural conception of democracy, and is exposed to external influence from China. Such an influence includes the diffusion of practices where the state apparatus subjugates societal

\textsuperscript{102} Ibid.
\textsuperscript{103} Gonzalez-Vicente, "Mapping Chinese Mining Investment," 35.
groups (including opposition) an uneven playing field in which government circumvent constitutional channels of control and regulate of appropriation of resources. This involves the claim that China has not kept itself at the margins of domestic politics in the region advancing an ideational or material supports that facilitates businesses with this type of governments.

Finally, the liberal order triumph along the 1990s created series of normative initiatives for resource-rich states aimed to “cure” countries from resource curse which proposed a transnational compromise, a source of cooperation, lead by the World Bank, the IMF and NGOs on the environmental spectrum. Amongst them was a concern to address corruption through the accountability of contracts and revenues, mostly through disclosure of signed agreements between private companies and governments provision of regulatory policy to address, and the strengthening of environmental protection. From an identity and social approach, the rise of multipolar economic centers like China is believed to have altered the normative tone of resource governance. Cooperation encapsulated in China-Ecuador negotiations in resource extraction and specifically oil operates comfortably within contexts of poor governance. There is a lack of market and environmental accountability expressed in opaque terms of the contracts, transparency in revenue outcomes, and flexible policies that have lowered environmental standards.

Under this framework and in the context of the emergence of an authoritarian power like China, we can expect consistencies in the beliefs on the proper scope of the

104. Bremmer, "State Capitalism Comes of Age."
market-state relations, a hierarchical command-centered state apparatus, and a lack of transparency and accountability in control of the extractive resource sector that is most likely to advance coordinated oil arrangements. The outcome of this is the bilateral cooperation in oil-for-loans agreements. China and Ecuador’s shared understanding of their position along the south and politics of economic development impact policy choice arrangements. We can expect social identity impact on policy choice under a diffusion process of political and economic strategies that can take place through 1) the provision of material and ideational support, 2) exchange of ideas of developmental strategies or 3) direct advice on how to deal with socio economic order.\textsuperscript{105} This process can take place through direct and indirect mechanisms. Taking the work of the GIGA research program of international cooperation of authoritarian regimes as the backdrop of identifies mechanisms, we can identify indirect and non-learning/lesson drawing mechanisms from partner, emulation involving a consultation process with partner, conditionality, and persuasion.

2.4 Conclusions

Oil-for-loans is a recent phenomenon in foreign economic policy intrinsically important in light of oil’s predominant role in the global economy and the potential effects of such flexible terms for the oil order and principles. This chapter proposes five alternative explanations to Ecuador’s foreign economic policy decision to embark in oil for loans agreements. They include explanations along structural power, the international market,

domestic structure, bureaucratic politics, and social order or ideology. Table 2-1 summarizes the dominant hypothesis discussed in the theoretical framework chapter, which at same time fulfill patterns described in the studies on China-Latin America financial relations.

**Table 2-1 Assessing Alternative Theories**

<table>
<thead>
<tr>
<th>Theory</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regional Balance</strong></td>
<td>When Ecuador seeks great autonomy from the U.S., it will join forces with other like-minded countries in the region and extra hemispheric powers that strengthen its possibilities to balance against the U.S. Oil-backed loans are agreements driven by a strategic interest to diminish reliance on US-oriented finance mechanism and block policy conditionality</td>
</tr>
<tr>
<td><strong>Commercial Liberal Theory</strong></td>
<td>Ecuador makes a calculus rational decision where it can make the best deal. Oil-for-loans becomes a choice due to limited access to alternative source of credit. It becomes an attractive deal not only in terms of selling oil but also in obtaining finance and infrastructure (obtaining developmental infrastructure, long-term credits, and short-term oil sales) which oil companies, the US, or multilateral institutions were not able to provide</td>
</tr>
<tr>
<td><strong>Republican Liberal theory</strong></td>
<td>Oil backed loans agreements is the preference of domestic governing power relations. A petro state is more likely to engage in this policy where 1) power is concentrated—executive dominated-- and the government is able to impose its economic policy of preference and 2) veto players are weak and there is not pressure on the government to oppose the agreement</td>
</tr>
<tr>
<td><strong>Bureaucracy</strong></td>
<td>State-owned companies, Petroecuador and Petrochina act independently as rational commercial actors. Agreements are business transactions among oil companies</td>
</tr>
<tr>
<td><strong>Ideology or Social identity</strong></td>
<td>China and Ecuador’s shared identity- a common understanding of developmental strategies in the energy sector- advances policy coordination through energy backed loans.</td>
</tr>
</tbody>
</table>
Each proposes a different explanatory take on foreign policy option. As I mentioned before, these perspectives are not entirely new but they are framed and sharpened in a new empirical light. At the same time, this chapter integrates the themes and concepts that have been relevant to explain foreign policy in Latin America. Both seek to simultaneously assess possible explanatory factors and within them find the best tentative explanation applied to the case. At a practical level, this chapter seeks to guide explanation of Ecuador’s decision to engage in oil-for-loans. In a theoretical level, it seeks to establish a comprehensive framework to understand the foreign economic policy of rentier states a general template of dimensions involved in this kind of agreements.
3 Chapter: Methodology and Research Design

3.1 Overview

The following chapter presents the methodology employed for the research, which is mostly qualitative. The emerging nature of the field of China-Latin America relations and the underdeveloped examination of oil-for-loans as flexible tools of foreign economic policy is conducive to a congruent disciplined configurative method. The chapter makes the argument for a case study research design approach and subsequent analytic strategies in five sections. The chapter starts with a discussion of case study design research as the appropriate approach in light of the theory building objectives of this study. Next, I explain the relevance of the issues that are selected for the research. A definition of the theory set describing the attributes of the countries for which the theory is causally relevant follows. The aim of this section is to set a conceptualization that captures under what conditions and for which countries causal mechanisms work in a manner to establish methodological alignment. The third section of this chapter explores the methodological techniques and data collection. Next, I touch on the data collection methods. Finally, the chapter’s concluding remarks shed light on the importance of the research design rationale and the case selection.

3.2 Single Case Study Research Design

Finance features prominently in Chinese foreign relations with developing countries and is at the heart of agreements in the energy sector. Most literature on the subject follows China’s loans in Africa, while studies on Latin America are only recently
emerging. In Latin America, the literature has devoted attention mostly to their economic relations with a focus in the macroeconomic, aggregate findings. Pioneering efforts in understanding China’s financial muscle in the Western Hemisphere like Gallagher, Irwin and Koleski’s, The New Banks in Town: Chinese finance in Latin America and ¿Un mejor trato?: Analisis comparativo de los prestamos chinos en America Latina are among the most complete pieces of information available on the type of loans, the terms of the loans, the sectors in which they are invested, and the targeted countries. Their work has set the stage for the discussion, providing the first clues about the most salient themes for analysis. Similar to the new research on China-Latin America relations, their comprehensive approach on the finance-energy association focuses on the economic terms of the agreements and changes in the global economy structure in terms of and access to the international credit market and as a result is short of theoretical discussion or a close empirical study of the sector and country dynamics.

This case study attempts to overcome the shortcoming of the current literature by building a theory on foreign economic and resource policy choice in the oil sector particular to the new trends of China-Latin America relations. A qualitative case study is significant for theory development: its inductive approach facilitates the refinement of theoretical explanations and causal inferences, it allows for fine-grained connections that will render credibility to the identification of major actors, issues, and interests play in policy outcome. Establishing a theory upon which to base current and future cases is important in the context of the dominant role the resource sector plays in China’s

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international relations. Theoretical premises however are not expressed in a vacuum and this research adopts a theory-guided approach: it applies mainstream theories of foreign policy to an emerging issue-area to suggest potential explanations and improve our understanding of East-South relations.

At an empirical level, my research sheds light on the policy decision of oil producer states to engage in oil-for-loans agreements with China, looking at Ecuador and oil-for-loans agreements from 2006-2013. Although immediate results are uniquely suitable for the Ecuadorian case, I argue that the theory can explain other cases such as Venezuela or be used as a baseline to discuss similar agreements with economies such as Brazil and Russia. Cross-case study of positive and negative cases of these agreements along oil exporter countries in the Andean region—Colombia, Ecuador, and Venezuela— or a multiple case comparison between Brazil’s, Venezuela’s, and Ecuador’s agreements would have equally contributed to the literature. Yet, a cross-case design while important, moves away from the primary effort of this research to explain only the positive cases of the outcome and through this strengthen the explanatory ability of competing theories and building a convincing theory that explains the outcome. In addition, there is no knowledge of whether Colombia has even considered or more importantly refused to engage in such agreements. In the case of an analysis among Latin American countries adopting these agreements, the lack of disclosure of suited documents poses some limitations for a comparative approach; Ecuador is acknowledged as the country with the most accessible information according to previous works. At the same time, the Ecuadorian case attempts to address the lack of fieldwork-based case study and also offer a disciplined explanation of a specific sector and country specific providing insights in
foreign policy, natural resources, and oil governance. As Armony and Strauss suggests, the empirical evidence of China–Latin America relations remains to be detailed and qualified. In this light the study will explain the backbone of China-Latin America relations, namely their relations in the extractive resources sector while simultaneously explaining the Ecuadorian case.⁸⁷

3.3 Foreign Economic Policy and the Oil Sector

Research on oil diplomacy is important and timely. To begin with, oil is not an ordinary trading good. Different to straightforward commercial transaction of other commodities, oil is highly controlled and reduced to the participation of states and large energy conglomerates. The politics of oil supply and demand management is a function of both its strategic value for oil dependent mechanized warfare and the economic growth of both developed and developing states.⁸⁸ Beyond national security implications, oil prices and flows have deserved attention of exporting countries that engaged in cartelization and management of available production capacity to control revenues.⁹⁰

Oil backed loans along other commodities in particular sits at the center of energy agreements China. Brautigam and Gallagher estimate a total of $132 billion has been channeled to governments and state-owned companies in these regions with half of these,

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⁸⁷ Armony, and Strauss, "From Going out (Zou Chuqu) to Arriving in (Desembarco)."


$72 billion, funneled in the form of commodity-backed loans.\textsuperscript{110} In the region, Ecuador sits among the top four Latin American countries that borrow from China in the company of vast economies like Venezuela, Brazil, and Argentina.\textsuperscript{111} Within these actors, Venezuela, Brazil, and Ecuador account for the totality of Chinese oil-backed loans in the region. Oil is the raw material investment of preference in Latin America as $47 billions are committed in this type of agreements.\textsuperscript{112}

The Ecuadorian case embodies the profound consequences of oil on political and economic outcomes. Economically speaking, oil is the main source of revenue: it accounts for 53\% of total exports and also remains the main source of financing public spending financing covering 40\% of the government’s budget.\textsuperscript{113} Despite the fact that oil accounts for 76\% of Ecuador energy matrix consumption, more than half of its 527 thousand barrels produce per day is exportable surplus.\textsuperscript{114} Politically speaking, oil has been traditionally its platform to international politics through OPEC, the backdrop of the domestic power struggles, and important distributive consequences across society. Overall, the country embodies China’s extensive footprint in unexplored geographies of resource extraction in Latin America. Ecuador is a case that reflects politics of supply management of a modest resource-rich country in the context of China’s oil demand.

\begin{footnotesize}
\begin{enumerate}
  \item Gallagher, and Myers, "China-Latin America Finance Database."
  \item Ibid.
\end{enumerate}
\end{footnotesize}
China’s growing energy demand is paving new wave of research in the politics of energy beyond the energy policies advanced industrialized states.  

China will continue to advance its position as a dominant buyer of Latin America’s oil despite its “slowdown” in growth to 7.8 percent. Projections assert that China’s demand for oil in the transport sector will rise by 35 percent by the year 2030; Beijing, along with India, will account for more that 40 percent of growth in global oil demand by that same year. At the same time, China’s scarce oil resources and its increasing demand, in tandem with its rapid industrialization and urbanization, encounters anxiety in the context of its geopolitical rise. China is redefining the energy industry due to its middle class growth, rapid urbanization and limited access to its own natural resources to new high levels and its efforts in to secure stable supply in the oil is seen from a geostrategic interest.

3.4 Methodological Techniques

This research relies on data available through interviews, official documentary records available, media reports, and secondary bibliography sources. I conducted a series key informant interviews with professionals with authoritative knowledge in China-Ecuador and Ecuador’s oil industry between the months of June and July 2013 and May and June of 2014. Key informant’s interviews are important tools and serve as a proxy in light of lack official disclose of official documentation and policy-making process. Viewpoints of scholar, experts and former and current government officials are

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116. Arriaga and Espinasa, “China, Latin America and the United States.”
also important because these individuals hold recognized expertise in the issue area and more often have insight knowledge as state and non-state actors have relied on their expertise to construct policy. I rely on this resource because Oil-for-loans agreements as well operate within a secretive cloud and with scarce access to official records and data. Access to policy-making processes and documents in Ecuador, Venezuela and Brazil is not available to the public due to the strategic nature of oil and resource competition claims. There are limitations to this survey research method as it selects a non-random sample group and as such is not representative of a general population. Yet this approach allows for in-depth qualitative information needed in the China-Latin America research program that cannot be retrieved in a vast representative sample.

Respondents represented varied backgrounds in academia and policymaking and encompassed scholars, diplomatic officials, economic consultants, oil experts, journalists, and former government officials including Ministers of Energy and Economics in order to represent all available positions on the subject. 5-6 individuals from each area of expertise participated in standard open-ended interviews and were asked to respond a set of fifteen questions with the intent to standardize data collection and compare answers within and between groups. Interviews were conducted personally or via voice communication sessions over the internet, ranging from 45 minutes to and 1 hour and 30 minutes in length. To standardize the data, interviewees were asked to respond to the same questions, which were later coded. Time constrains limited the number of participants and as such this preliminary study seeks to describe the interest of Ecuador oil-for-loans initiatives with China, identify the central themes, and most importantly, cover the factual and interpretative levels that inform the debate. In a context of
uncertainty about such agreements, perceptions expressed by key informants shed light on potential policy directions.

The selection of official documents for review in this research focuses primarily on institutional documents and presidential speeches. Institutional documents include reports of the first contract requested by a Congress representative, institutional reports, statistical report on oil, press releases, partial access to agreements, and other various public records. Data obtained from documentary sources contribute to identify the actors that play a role in the policy choice-- a relevant factor for the bureaucratic and domestic hypothesis-- the context in which the deals emerged, and track changes and developments of agreements. This is because the time frame under study comprises a total of four agreements as along the process, and substantive developments may have altered the state’s decision toward oil backed financial agreements and the explanatory cause. At the same time, descriptive statistics allows exploring details and options available to decision-makers in the economic contexts. There are however a number of limitations associated with documentary analysis in closed agreements like oil-for-loans; for example, there is insufficient public information and access to documents has been blocked by the state. Incomplete collection of documents unfortunately does not provide sufficient detail on the background of policies. Nevertheless, it is important to keep in mind the empirical data collected draws upon multiple documentary sources in addition to interviews, which provides credibility to confluence of findings across data sets that can corroborate or disconfirm any of the hypotheses.

Documentary resources are also used from the media coverage. Newspaper reports provide a scope of the national perspective of energy relations with China. Data on
Ecuador-China relations from 2007 to 2013 has been collected in Ecuador’s three largest cities, Quito, Guayaquil and Cuenca, from their national newspapers. Data obtained from newspapers has traditionally entailed validity problems as content reflects journalists’ self-selective processes. To minimize media bias, the research resorts to multiple sources in three different cities. The data set also covers over 600 news pieces combined, which allow observing stability patterns of the debate. Additionally, the collection of secondary non-media resources such as reports and records from organizations will allow correcting any media bias. Reliability is less of a problem in newspaper data collection in cases where newspaper information is collected over time under similar conditions and fulfill methodological requirements: they are national “high-quality newspapers, published continuously and without dramatic changes.” Overall, these sources can help us understand who the actors involved in China-Ecuador’s relations are, what is involved in these agreements, and what factors matters for the development of oil policy.

3.5 Case Selection and Theory Set

The definitions laid out here capture the specific conditions in which the causal claims and concepts work across cases of states engaged in oil-backed loans; in specific, states that feature an extractivist, petro political-economic structure in Latin America. Developing a better understanding of how states use economic interactions to further their national interests requires laying out the criteria in which causality applies. I find that a key set of shared features exist among Latin American countries that adopt this policy. A mapping of Chinese finance in Latin America suggests that over time and across the regional spectrums, loans concentrate in four countries: Argentina, Brazil,  

Ecuador and Venezuela: 85 percent of the loans went to these countries from 2005-2014. Oil-for-loans agreements have emerged in three out of the four, countries--Brazil, Ecuador, and Venezuela--with a large oil industry. Most importantly, the bulk of economic interaction in these countries takes place along strategic natural resources controlled by the state.

The evidence suggests that non-renewables resources, including oil, are key in the economies of Latin American actors engaging in flexible oil for loans agreements. I follow the International Monetary Fund definition of resource-rich developing countries as countries “whose exhaustible resources (e.g. oil, gas, mineral) comprised at least 20 percent of total exports.” At the same time, China’s financial arm is in sync with its support to state companies with the aim of increasing influence and participation in the international market and in related resource intensive industries such as construction, electric power --dams-- oil production, petrochemical, and public infrastructure.

### Table 3-1 Exhaustible Natural Resources as a Percentage of Total Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Total all products</th>
<th>Primary commodities (SITC 0 + 1 + 2 + 3 + 4 + 68)</th>
<th>Percentage of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>$242,178,053.78</td>
<td>$149,344,498.20</td>
<td>62%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>$24,957,644.41</td>
<td>$22,931,507.82</td>
<td>92%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>$87,587,733.89</td>
<td>$74,091,708.98</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: UNTACD

118. Gallagher and Myers, "China-Latin America Finance Database."


The second attribute these countries share is the display of some form of a developmental state model. Central to Brazil, Ecuador, and Venezuela’s politics is a statist project best described by the state’s heavy hand in the economy, a high degree of central planning and national interest in pursuing a developmental agenda. While profit and market relations remain, their political agenda rejects an unregulated market and assiduously relies on the state to correct and overcome the market failures. Statist models along these countries vary and maintain different levels of orthodox macroeconomic policies and market competition. Yet, it suffices to say that they adopt price control, nationalizations, subsidies and privileges to the public and national industries (in particular state-owned companies). Nationalization of extractivist resources have been carried out in the three countries, and the oil industry is largely dominated by state-run companies (Brazilian Petrobras is semi-public).

As a theoretical exercised design to understand state behavior in foreign policy and the importance economics play, causal claims applies even deeper within the homogeneous set of cases. Valerie Hudson explains state attributes have “a probability distribution over certain types of foreign policy choices.” In this context, the vast capabilities of Brazil and Ecuador and Venezuela are too important to ignore. The demographic, territorial, economic, and political structural differences can create


123. George Philip, *Oil and Politics in Latin America: Nationalist Movements and State Companies* (Cambridge: Cambridge University Press, 1982); Andrews-Speed, and Dannreuther, *China, Oil and Global Politics*.

124. Hudson, *Foreign Policy Analysis*. 
different types of causal properties and thus inferences would be flawed. Instead, there
are additional ways of bracketing Ecuador and Venezuela as representative to locate both
in a different category.

3.6 Petro States and Energy-backed Financial Tools

How should one think of the set of countries engaging in these agreements? Who are they
and what do they have in common? Ecuador and Venezuela are in a category in itself,
separate from Brazil for three main reasons.

First, both countries can be described as small states, which place them at a
different structural situation than regional powers like Brazil. Small states are a generic
term to describe sovereign stated that are equal before international law yet politically do
not exercise influence in the international system and lack Great-power capacity to make
an impact to determine world politics. In developing regions, small states are usually
under heavy exogenous pressures highly constraining their ability to pursue independent
foreign policy.125 Their classification is often tied to the relational size of their territory,
population, military strength, and economic capabilities on the aggregate level.126 The
argument is that a small territorial area and thus demographic involves a small domestic
market, a meager productive base and ultimately a modest economy.

Second, these countries are therefore more sensitive to price fluctuations and
international political pressures. Of course, capabilities are a material rationale that

125. James N. Rosenau, "Pre-Theories and Theories of Foreign Policy," in Approaches to
Comparative and International Politics, ed. Robert Barry Farrell (Illinois:Northwestern University Press,
1966); Laura Neack, The New Foreign Policy: U.S. and Comparative Foreign Policy in the 21st Century

126. Tom Crowards, "Defining the Category of "Small" States," Journal of international
in International Relations, ed. Iver Neumann and Christine Ingbritsen (Seattle: University of Washington
simply assumes that small states’ limited resources are not automatically convertible into action, like coercion for example, yet may possess leverage room in a specific sector or along the ideational realm and favor efforts in causes close to international norms. Yet, for purposes of this research the key issue for these states is their vulnerability defined in terms of the difficulty of a country’s ability to adjust policies and the costliness of making such.¹²⁷

Conversely, Brazil sits in a different structural position defined by both its continental size and the ability to “project a persona externally.”¹²⁸ There is a self-help status encompassed in holding the 5th biggest economy in the world and the largest territory in South America. Brazil has regional leverage as it is considered the natural leader to head the sub-regional integration processes as it continues to work its way through the international order and influence the tone of multilateral forums like the G20, BRIC and the United Nations. In this context, if we consider the international system as the stage in which actors enact their foreign policy, Ecuador and Venezuela are more constrained than Brazil.

The third reason deals with the economic structure of Ecuador and Venezuela and the key influence of the oil industry. Ecuador and Venezuela featured economies that Handel calls “one-dimensional states,” which are actors heavily dependent in the production of one commodity.¹²⁹ Thus these countries share the attributes of a petro state


¹²⁸. Neumann and Gstöhl, "Introduction."

defined as “states in which revenues from net oil exports constitute at least 10% of GDP;”\textsuperscript{130} oil rents as a percentage of GDP constitute 27 percent in Venezuela and 20 percent in Ecuador while for Brazil it accounts 3 percent according to the World Bank.\textsuperscript{131} Their economic structure depends heavily on natural resources and lacks a diversified economy. With a modest economy, Ecuador’s main engine for growth is oil, as oil accounts for 53% of total exports with a value fivefold greater than the second highest export product (Banana). It also remains the main source of financing to public spending as it accounts for 35% of government income. Similarly, for Venezuela, oil accounts for 85% of its exports and 48% of its total fiscal income.\textsuperscript{132}

**Table 3-2 Oil Rents as a Percentage of GDP**

<table>
<thead>
<tr>
<th>Oil rents as a percentage of GDP</th>
<th>Brazil</th>
<th>Ecuador*</th>
<th>Venezuela*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecuador*</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venezuela*</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Petro states are defined as states in which revenues from net oil exporter constitute at least 10% of GDP

Source: World Bank, World Development Indicators

Both Venezuela and Ecuador can be considered rentier states. I follow Moss’s conceptualization of a rentier state as resourced-rich country whose rents largely come from the extraction of natural resources such as oil, gas, minerals, or metals. Such rents


are “largely captured by the state via export taxes, corporate taxes, and state-owned enterprises [...] and employ little labor.”¹³³ In this context, Ecuador and Venezuela exhibit two important features in their one-dimensional economy. First, extractivists play a key role which involve 1) an economy concentrated on extracting raw materials like oil, mineral and agriculture staples and 2) exports raw material. Compounding this is fact that the bulk of the windfall gains from natural resources goes towards state revenues and state spending.

**Table 3-3 Theory Set**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Brazil</th>
<th>Ecuador</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource-rich economy</td>
<td>X</td>
<td>X</td>
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This case study research looks at Ecuador in a specific period, 2009-2014, and sector. The selected country offers empirical insight as an instance of foreign economic policy choice and economic statecraft of petro states. Ecuador’s case is representative of countries whose relationship with China is cemented in their oil industry. Furthermore, Ecuador is among countries for which oil is a strategic leverage asset and have decided to implement the policies of interest. Since 2009 Ecuador has received 10 loans from China

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¹³³ Ross, "Does Oil Hinder Democracy?"
amounting to $9.9 billion. Eight of these agreements are on energy, half of which fall in the loans for oil category reaching $5 billion.\textsuperscript{134} Reports on the subject implicitly suggest oil is a strategic resource and performs instrumental objectives beyond its purchase: access of credit, apparent lack of conditional lending policies, expanding relations with another state actor, and a strategic alternative to other international actors such as western creditors. Its distinction also relies on the intervention of state-directed lending altering the way in which companies compete.

### 3.7 Operational Indicators

The congruent disciplined configurative method applied to this research works to find agreement or disagreement between observations from the empirical case and predicted causal assumption of the hypotheses advanced in the previous chapter. This goes hand in hand with the methodological strategy of theory-guided content analysis that facilitates constant comparison between theoretical categories with the data to build evidence that measures the validity of claims. For the operationalization of the theories, I have built a theory-guided coding frame with five separate categories, each category covering one theory. Within one main category I have developed subcategories that will cover the concepts of the distinct theoretical frameworks. Categories and subcategories are as mutually exclusive as the theories they represent. The creation of the coding structure is primarily theory-guided based on the theoretical claims advanced in the previous chapter. This logic is combined with some data-driven coding especially for the subcategories to rely on terms that are reiterated and relevant to the material. For this purpose, I have built a codebook with definitions for categories and subcategories. Within the subcategories, I

\textsuperscript{134} Gallagher, Irwin, and Koleski, ¿Un mejor trato?.
have advanced specific words that account for the presence of a phenomenon according to terms found in the data. At the same time, I have provided examples from the material in order to illustrate their application and abridge theoretical abstraction.

3.8 Conclusion

Methodologically speaking, this study is located within qualitative methods, which attempts to both provide a clear research design and also to raises awareness of case study qualitative methods. This research is structured around the above premise and seeks to understand the circumstances and the conditions in which petro-states in Latin America adopt oil-for-loans agreements. The research is not able to establish universalistic trends across all instances of Chinese loans in Latin America or among all instances across petro countries including the African cases. Yet, this research is strictly defined for the purpose of theory building and refinement and increase our level of confidence in our findings. In this sense, although this research attempts to test a series of theories in the Ecuadorian case, I hope it will provide a theoretical umbrella to explain other rentier Latin American countries that adopt oil-for-loans policy, in particular to pose explanation also for Venezuela. This framework can also offer a theoretical umbrella that could help discuss oil relations with China across regional cases. For the purpose of this research, I develop a theory set to put forward the threshold under which causal claims, described in the previous chapter, will hold.

The primary effort of this research to explain only the positive cases of the outcome; states that choose to adopt oil-for-loans policies. Because of the rigorousness that involves a theory development, the efforts of this research provide a narrow one-way causation that does not make any inference in which the absence of the hypothesize
conditions that also implies an oil-for-loans policy absence. For example, causal claims do not have to be present for the adoption of oil-for-loans to occur (it could be a policy within another class of case). Yet, I argue that when channels of causality are present, oil-for-loans policy will always occur. On this note, the study of positive cases favors two complementary tasks, first assessing the explanatory ability of competing theories and second, building a convincing theory that explains the outcome.

In sum, the congruence design is best apt for research focused on building an understanding of causation, theory development, and testing empirical fingerprints of a hypothetical relationship. As such it is a particularly useful choice in that we need to consolidate the initial assessment of observational correlations between cause and outcome in unfamiliar or understudied fields. Accordingly, and as George and Benet suggest, congruence design “begins with a theory and then attempts to assess its ability to explain or predict the outcome of a particular case.” Looking at the factors that account in oil-for-loans policy choice provides two important functions. First, it will contribute to us understanding what motivates these new patterns of interaction. Second, it will help us learn how commercial activities carry out foreign policy goals in the context of state-to-state deals. Finally, the study will give clues as to the effect of this policy and China in the oil order.
4 Chapter: China’s Energy Quest and Its Footprint in Latin America

4.1 Overview

Since the turn of the millennium, the world political economy has been driven by the accelerated growth of industrializing centers in Asia and, the global south\textsuperscript{135} in general, and their demand for commodities. This trend has altered transnational economic networks as cross-border relations gravitate towards different states and markets other than industrialized countries. Energy is at the heart of these new relations. The fact is that energy, security, and diplomacy cross multiple issues in international politics; frequently energy security touches upon geopolitics, resource competition, dependence and great power relations. The emerging East-South relationship is a major current event linked directly and indirectly to energy markets.

China’s quest for oil has ignited a controversial debate over the nature of its objectives in the international oil market and the growing engagement of its national companies. Yet, less is known about how economic instruments serve Chinese foreign economic policy and the consequences for resource-rich countries. This chapter discusses China’s role in the energy global market and the nature of oil politics between emerging economies, and offers insights into the main trends of China–Latin America relations.

\textsuperscript{135} I am using the terms “global south” as used by the World Bank Institute to describe the increasing flows between developing countries, comprising countries in Africa, Latin America and most of Asia. Most of these countries are geographically located in the Southern Hemisphere but a comprehensive classification comprises medium and low-income countries (between 1,035 and 4,085 of Gross National Income per capita). According to the American University Center for the Global South, 157 out of 184 recognized states comprise the Global South. See for example, http://wbi.worldbank.org/wbi/devoutreach/article/525/rise-global-south-and-its-impact-south-south-cooperation http://www1.american.edu/academic.depts/acainst/cgs/about.html.
The goal is to provide a framework for the analysis in subsequent chapters. The first section provides an overview of three of China’s energy interests abroad: oil security supply, a developmental profit-oriented interest, and the potential for long-term soft power efforts. Next, the work presents the conceptual links between oil and economic statecraft and argues that evidence demonstrates the aforementioned scenarios, which coexists among states international energy relations, while also exploring closely China’s stake in the global energy market. Fourth, I explore China’s position in the global oil order and its resource availability in terms of its implications for the U.S., the overall nature of its oil relations in Latin America, and the relevance of the Ecuadorian case. I will offer some preliminary conclusions on the link between oil and politics and the different starting points of bargaining power and economic statecraft within emerging East- South relations.

4.2 China’s Strategic Interests in the Global Energy Market

Beginning in 2002, Chinese oil investments took hold of oil fields across continents. From Canada to Thailand to Kazakhstan, the blossoming of investments in upstream and downstream operations caught the attention of business pundits and great power political strategists, raising a wide range of significant concern, optimism, and also uncertainty about its implications for global order. Until a couple of decades ago, international economic flow was reduced to Great Power relations and subordinated by military issues. Oil geopolitics in particular was a matter of competition among major industrialized oil-consuming nations for influence in producing regions and oil transit routes. As such these nations have long established elaborate military and economic instruments to ensure supply of oil from conflicting regions. Today Beijing sits at the table of powerful
consumer players like Europe, the US, and lately, India. Concomitant with new actors in the consumers’ side, oil-producing foci are not the same and new producers have emerged or repositioned themselves like the case of Africa, the Caspian Sea Region, and Latin America. As the 21st century globalization progresses, both China itself, its energy relations with these overlooked country producers, and the topic of economic power are no longer at the periphery of oil foreign policy. China is at the center in the changing geopolitics of oil.

China’s oil de ties with developing countries moved to center stage as the recession and slow recovery of the west in 2009 coincided with the rapid growth of developing countries and their affluent economic activities became disconnected from traditional financial routes through New York or London. For Latin America in particular, this issue is important as this region is traditionally considered the U.S. sphere of influence. At the same time, concerns over the global economic crisis seemed to bring back inquiries about the return of the role of the state in economics. The redistribution of economic power, in relative terms, accompanied by flexible terms of engagement of a rising power, has revived interest in economic statecraft and the strategic use of economic instruments for political or business purposes.

By the 1990s China’s oil demands exceed oil production and for one of the fastest growing economies thriving at 10 percent, expanding in population and booming in capital formation, energy challenges pose a security, development, and Great Power agenda. Security of supply marks China’s material needs to strengthen its oil

capabilities, especially in the context of its domestic demands and its great power characteristics. Oil stands alone when it comes to the foreign trade basket of a country by virtue of its strategic importance for the vitality, or at the very least, stability, of economic and even military programs. A healthy economy requires a stable flow of oil to engineer growth, and in this light, the literature has paid considerable attention to China’s scarce oil resources and its increasing demand, in tandem with its rapid industrialization and urbanization.

In simple terms China faces an energy deficit: while energy production increases by 40 percent, consumption increases by 48 percent. Its energy mix centers on fossil fuels at 90 percent, with coal taking up over 70 percent of energy consumption. Efforts to rely on cleaner fossil fuels is declining coal consumption by 1.5 percent a year. Yet, oil consumption is growing at a faster rate than any other fuel type at 6.3 percent which is even outstripping its 10-year average upward trend. By 2015, oil demand is up 63 percent.


139. Ibid.; Arriaga and Espinasa, "China, Latin America and the United States."
Figure 4-1 Oil production and consumption in China


Figure 4-2 China’s Energy Consumption, by Fuel Type

Beginning in the 1990s, China became a net importer and today is the largest importer and second largest consumer of oil in the world.\textsuperscript{140} This fact places China in a vulnerable position as its energy mix continues to evolve towards an increasing share of oil. As domestic oil production declined by 5 percent, the country’s oil import dependence is 59 percent in 2014 and will climb up to 76 percent by 2035; imports of fossil fuel will continue to rise across the board -- gas for example will rise from 30 percent to 42 by 2035—but not with the same intensity as oil dependence. China seizes the largest share of the world’s oil consumption growth, 32 percent and will continue to rise for the next fifteen years,\textsuperscript{141} which will expand its presence in producer countries.\textsuperscript{142} In the context of the unavailability of domestic reserves, an outstanding annual growth, and efforts to increase its position in the international oil market, Chinese foreign policy will mark the agenda of the global oil market.


\textsuperscript{141} U.S. Energy Information Administration, \textit{China: Energy Report.}

\textsuperscript{142} BP Global, "Country Insights: China."

Appropriately, China does not leave oil to market forces alone. Domestically, Beijing highly regulates the production, distribution, and price of oil. A major initiative, for example, includes the construction of an oil storage facility to store more than 500 millions barrels by 2020. There are no proven reserves sufficient enough to keep pace with domestic demand, and as efforts to curtail coal use are underway, there is a lack of alternative fuels; the closest substitute to coal and oil, hydroelectric power, lags with a distant 6 percent share of the energy consumption mix.

Internationally, China’s footsteps in the oil market seek to secure supply and clout in the oil order. The country strategically seeks to reduce its oil dependence through the diversification of imports, investment in fields overseas, participation in joint ventures,

143. Andrews-Speed and Dannreuther, China, Oil and Global Politics.

and acquisition of equity shares. In particular since 2008, China has expanded its oil supply through both overseas acquisition investments and loans-for-oil agreements in addition to the construction of an extensive pipeline networks with Russia, Kazakhstan, and Myanmar led by its national oil companies (NOC).145 There is an intrinsic material interest to reduce its vulnerability to a deliberate oil crisis triggered by supplier nations and avoid the woes of market price fluctuation. Prospects of China’s expanding role in the global economy equally spearhead strategic efforts to increase its oil market share and leverage in the commercialization and bargaining of energy with major oil producers.

Under this vision, the exclusive control of a strategic sector by state-owned companies and its engagement abroad is an expression of economic statecraft. The operations of China’s national oil companies and the oil investments of its policy banks, China Export Import Bank (China Eximbank) and the China Development Bank (CDB) potentially involves business opportunities. Yet, the nature of the political regime that runs these state-owned companies leads to the belief that they are exposed to political leverage and some level of coordination across state agencies that set priorities in bilateral relations with target countries.146 Chinese state companies partake in a more or less unified political body focused on bolstering economic instruments for political purposes, a perspective symptomatic of the “rising power” tag and power associated to a large, and in this case consumer, actor like China. Evidence from relations with African countries affirms that Beijing’s international economic power toolkit seems to


be willing to withstand commercially undesirable terms in order to secure oil flows from resource-rich high-risk countries. It uses its financial muscle to channels economic flexible inducements including large low interest credits, subsidized financing, or payment in kind. Any oil security goal is not a source of conflict as it targets the diversification, steady flow, and access to oil abroad. The use of military force or any kind of coercive capabilities to appropriate oil or control trade routes is largely absent.

Oil security coexist with commercial interests. China’s dramatic economic outward engagement under its “Going Out” policy in the 1990’s is a step ahead of any offensive notions associated to its economic rise. National oil companies, China National Petroleum Corporation (CNPC), the China Petroleum and Chemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC) are the strategic tools of a rising industrial country to advance economic interests. As the world’s leader manufacture house, China dedicates half of its oil to industry, and oil needs from transport is expected to account for 35 percent rise of energy demand. The need to secure oil to fuel development and domestic stability advances systematic domestic reforms as well as an expansion of overseas strategies in light oil imports were 68 percent of China’s total oil consumption by 2015. State oil companies dominate onshore production, market share, and the limited stake of private companies at home in an effort to increase domestic production while appeasing vulnerability to imports shortage and unforeseeable price increases. Information on China’s foreign direct investment by sector


is by far incomplete. Yet, the American Enterprise Institute’s China Global Investment Tracker has offered a few insights and estimate China has invested $511 billion abroad or an overwhelming 42 percent in the energy sector.\textsuperscript{149} China’s venture abroad and ties with favored producers serves to consolidate business operations and expand downstream assets to address the domestic energy need rather than seeking influence in producing areas and control enough strategic supply for geopolitical purposes in order to deny supply to other powers. In this context, Beijing’s outward foreign direct investments in the oil industry in Africa and Latin America seek to diversify from main suppliers in the Middle East and Asia Pacific. Beijing’s oil policy and support to its national companies in sum attempts to tackle future demand.

**Figure 4-4 China’s Outward Foreign Direct Investment**

![China's OFDI by Sector, 2005-2015](chart)

Source: American Enterprise Institute, China Global Investment Tracker

China’s footsteps in the global energy market is spearheaded by its state companies. Following its emblematic entry to the WTO under “Going out” in 1999, the government spearheaded the “Go Global” policy in 2000, a policy aiming at the internationalization of state-owned companies. The commercial approach has thrived to integrate Chinese oil companies into the global market by publicly listing their operated arms while their parent national oil companies, CNPC, Sinopec and CNOOC, continue retain control over the majority of shares. An exclusive mercantilist notion thus potentially mischaracterizes operations abroad and ignores efforts to expand market share, master oil technical skills, in the race to catch up with international oil companies, all this as Beijing takes advantage transnational operation to unload the pressure of its outstanding reserves into outward foreign direct investments (FDI).

**Figure 4-5 Chinese Foreign Direct Investment in the Oil Sector by Region**

![Chinese Foreign Direct Investment in the Oil Sector by Region, 2005-2015](source: American Enterprise Institute, China Investment Tracker)
Evidence suggests oil acquisitions are not automatically imported to China and tones down claims of locking up oil supply. Two thirds of China’s share of oil production was sold in the international market by the end of the last decade; there is no evidence that China’s accumulation of oil imports is reducing supply by the same amount as big country producers.\textsuperscript{150} International oil operations are also economic tools from this vision in the search for profits, and a stake in exploration and production, the most profitable dimensions of the industry.\textsuperscript{151}

Secure access to resources takes a back seat in a business rationale guided by profit-oriented calculus and commercial strategy to improve the opportunities of Chinese firms abroad.\textsuperscript{152} In this case, an enterprise orientation predominates without precluding state guidance. Chinese companies may have access to subsidized capital yet most oil is valued at market prices. China’s oil engagements abroad are marked by the purposes of what Brautigam and Xiaoyang called “the developmental state,” which uses acquisitions and loans as strategic tools for economic opportunities.\textsuperscript{153} Due to these reasons, corporate interests thwart any monolithic political vision of policy choice. Erica Downs goes even further by asserting a “bottom up” organization in which the Chinese government is “hands off” oil operations as companies are the primary decision-makers and manager of


\textsuperscript{151} Ibid.

\textsuperscript{152} Brautigam, and Xiaoyang, "Economic Statecraft in China's New Overseas Special Economic Zones."

\textsuperscript{153} Ibid.
Along these lines, the internationalization of state-owned companies is also a natural extension of the globalization of the Chinese economy and workforce.

Lastly, oil diplomacy potentially serves as an instrument of soft power. China’s position as a global player and in particular its growing expansion in Africa and Latin America raise suspicion about the nature of its intentions blurring the lines again between economics and politics. Political considerations are far more involved than resource security in advancing a Chinese long-term strategy as a global player. There is a lack of material evidence and capabilities directed towards offensive actions or conflict derived from oil accumulations and as such, China’s intentions appear to be benign. Many see the nature of Chinese engagement, however, as a cautious strategy mainly concerned with a balance relationship with the United States given its leverage in the oil market. While there is evidence that Latin America’s increased oil exports to China have not trumpeted supply to the US—US imports 27% of its oil supply from Latin America— the dealings raise alarm over Beijing’s influence in what has been considered the U.S natural sphere of influence. The combination of burgeoning trade, climbing FDI figures, the presence of Chinese national companies, and the complementarity of their economies has set China among Latin America’s main partners, bringing attention to how increasing links will affect norms. John Williamson, the architect of the Washington Consensus has explicitly raised concerns over how Chinese

154. Downs, "China's Quest for Overseas Oil."
156. Juan Gabriel Tokatlian, "A View from Latin America."
flexible contract terms may foreshadow the liberal economic principles underpinning Western order.\textsuperscript{157}

Oil joins the portfolio of tools for economic statecraft including international aid, subsidized credits, and other generous assistance packages for infrastructure in light of its strategic role for the growth of the national economy growth and in turn, its economic lever of power for political purposes. Yet, economic tools can also have an economic purpose, and Beijing’s economic power provides a wide economic toolkit to guarantee both political leverage and economic advantage. In truth, China’s economic statecraft is often difficult to tear apart in the context of its closed regime and the secrecy cloud of its activities. Nevertheless, it is possible to claim that all these factors play in the practical application of economic policy.

4.3 \textbf{China: Oil and Economic Statecraft}

Quincy Wright’s statement, in his seminal work the \textit{Study of International Relations}, argues that “the field of economics and politics overlap” presaged the struggle to draw a clear line between economics and politics in China’s overseas oil exploration.\textsuperscript{158} In common, the three approaches assumed China’s presence in resource-rich countries as a function of its increasing economic capabilities and its position as a rising power.

China is a difficult actor to read as competing multidimensional identities have shaped its behavior. Its vast actual power-- territory, population, and military capabilities--coincides with a close domestic political system that simultaneously courts the international market by strategically accommodating its policies to a Western- oriented

\textsuperscript{157} Williamson, "Is the" Beijing Consensus" Now Dominant?"

\textsuperscript{158} Quincy Wright, \textit{The Study of International Relations} (New York,: Appleton-Century-Crofts, 1955).
order. This, compounded with the conflicted and alarming notions behind transitional power assumptions, enhances distrust over the capricious attributes of Chinese power.

Power is a defining term in a major actor like China. A report from the World Bank shows China as having the fastest ascendance of all the major powers. Within a 30 year period, Beijing has multiplied its share of global output by seven, ballooned its trade twenty two times, and has increased its share of global military spending threefold.159 Its vast growth results in renovated links with developing countries and the formation of deeper economic ties traditionally associated with major power politics. Yet, in the midst of economic reforms, in 1982, Deng Xiaoping eluded a military buildup course for a strategy to "hide [its] capacities" and "bide [its] time."160 Yet, the current literature’s attention to the asymmetrical disparities between China and small developing countries like Ecuador is fruitless and poses no major theoretical contribution. It can be seen that power leans in China’s favor, and as such it’s potential influence is overwhelming. That being said, available economic resources do not mean effectiveness influence. Foreign policy as any policymaking involves a purposive behavior; this becomes more relevant as we recognize China’s multidimensional goals and “win-win” manifesto.

Within China’s economic power structure, policy efforts seem to take a myriad of forms and that might even be complementary. For China’s relations with developing countries, the distinction between tools of economic power is paramount as evidence

159. Daniel Kilman, "Is China the Fastest-Rising Power in History?," Foreign Policy, May 16, 2014.

160. Ibid.
suggests military force is not considered an option currently. Moreover, China for the most part has advanced positive economic instruments rather than negative sanctions.

The literature on China’s relations with African and Latin America has identified four economic tools in the oil diplomacy between China and developing countries. First, there is China’s international aid encompassing concessional lending towards infrastructure (including a share of payment of the debt in kind). The second involves trade tools defined by preferential credits, partly subsidized, for the import of Chinese goods and tariff-free for African exports to China. A third tool is the purchase of resource of extractive operations or subsidized joint venture. Finally, mutual beneficial loans consist of commercial-rate loans with a portion of debt payment in oil, also known as loans-for-oil.161

4.4 The U.S. Factor

As the biggest oil consumer, the U.S. has been the critical player in the world’s energy landscape. In the process of its markedly upward economy however, China has caught up to the to the energy needs of industrialized Great Powers and by 2015, has already surpassed the U.S. as the biggest oil importer in the world. While China remains behind the U.S. in terms of oil consumption, its emergence as one of the main power houses of the global economy assures Beijing a voice in oil governance, oil geopolitics, the search for cleaner energies, environmental efforts, and market standards.

Commercial and resource availability patterns demonstrate a changing composition in the energy matrix of both countries and the challenges it poses for

securing oil supply. Today both China and the U.S. are major energy players in the world. Together they consume 40 percent of the world’s primary energy and 32 percent of oil demand.\(^{162}\) Yet, projections estimate U.S. energy demand will grow by 14 percent while that of China will by 80 percent; between 1990 and 2010 China’s oil consumption had already quadrupled while U.S. consumption declined.\(^{163}\) Difference in demand patterns accompanies different energy matrices. These two countries are the two biggest oil consumers in the world yet the US is powered predominately by oil and gas while China is powered extensively by coal followed by oil. At the same time, the expansion of U.S. energy production with the discovery of unconventional oil and gas sources and technology improvements to extract oil from shale, also called the “shale revolution,” foresees that 99 percent of U.S. energy demand will be satisfied domestically by 2030. With this, the potential exists for U.S. to be the world’s largest oil producer by 2017, and the prospect to be a net exporter of energy by the end of the decade.\(^{164}\) Overall, U.S oil and coal reserves are twice as much as China’s, and the US gas reserves are quadruple that of Beijing. This leads to believe it would be very unlikely that Chinese procurement of oil could deny U.S. access to extensive resources. Chinese efforts to secure adequate oil supply are guided by the scarcity of energy resources and the vulnerability it poses in order to keep the lights of growth on, satisfy the domestic demand of a booming per capita consumption, and meet the upward trend of the transport sector.

In addition, to the inquiry over whether China’s energy quest entails competition and seek to lock to oil supply to the U.S., the geopolitics of oil inquiries into China’s

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162. Arriaga and Espinasa, "China, Latin America and the United States."
163. Ibid.
164. Ibid.
attempt to gain influence in oil producer countries and strategy to challenge U.S. political interests along energy-rich regions. China’s reliance in non-market instruments in terms of political, diplomatic, and military instruments to advance government-to-government energy relations and secure direct access to oil supply can include efforts to establish close ties with oil producers and the use of these non-market instruments that enhances competition with the U.S. and undermine U.S. influence non-energy, broader agenda along oil producer countries.

In the bigger international spectrum, China has shied away from resorting to military capabilities to physically control oil resources because it would be a high risk, expensive strategy seen as an aggressive move by the United States. One can make the single case that evidences China’s reliance in military forces refers to the protection of the East and South China’s seas, which is seen as geopolitical strategic interests related to oil. The Western Pacific region is believed to contain large sources of oil and gas, and in the case of the South China, also involves the protection of the Straits of Malacca as it is the transit route of 50 percent of Asia’s daily fuel supply. China’s deployment of naval forces in face of claims over the areas from Japan, Taiwan, Brunei, Indonesia, Malaysia, Vietnam and the Philippines is believed to be motivated by commercial ends; that is the physical control of resources. Its strategic interest is to retain the regional balance of power and prevent states aligned with the U.S. to increase their power: 60 percent of Japanese, South Korean and Taiwanese energy supply transit through the Straits of

Malacca. Regional oil geopolitics shape major power relations with the United States, the largest oil consumer in the world, as the Obama Administration offered support to countries asserting ownership over the area to which China threaten with military conflict. Besides this case, it seems less likely that a military conflict over resources will ensue between the U.S. and China. Yet, the fact that oil resources are scarce and located in a limited number of oil producers leads to believe in the possibility of tensions for influence in oil producing regions around the world.\textsuperscript{167}

At the same time, oil geopolitics has changed over the years in the context of China’s rise as a powerful consumer players and its substantial interest in regions where it had previous limited engagement such as the case of Africa and Latin America. In efforts to access the international oil market, China has not exclusively relied on market forces and has advanced political, economic, diplomatic and military arrangements to foment government-to-government ties with favored oil producers instead.\textsuperscript{168} As part of this effort, oil purchases in Africa involved loans subsidies and participation of Chinese companies for the construction of railroads, ports among others. Particularly salient is China’s delivery of arms, aircrafts and naval vessels to African suppliers like the Sudanese government at the time that Beijing acquired stakes in the country’s oil production infrastructure. In a similar vein to U.S. inductive foreign policy behavior in history, Chinese provision of arm sales and concessional lending are potential conspicuous statecraft instruments and experts fear that reliance in such non-market


\textsuperscript{167} Ibid.

forces is undermining governance and accountability in unstable parts of the world while advancing corruption and violence in these countries.\textsuperscript{169}

### 4.4 The US-China-Latin American Triangle

The U.S.-China resource rivalry scenario is particularly telling for relations with the Western Hemisphere where the U.S. is the biggest consumer and investor of Latin America’s oil resources and is facing China’s footprint in the exploration, production, finance and, investment in the oil sector. Similar to China’s relations with other developing countries, the efforts to secure oil supplies in Latin America through economic, security and diplomatic arrangements will generate a broader interplay with producer countries, which poses foreign policy choices and challenges for these countries.

In broader terms, there is a concern in the U.S debate that via economic incentives, and under the model of "check diplomacy,” China is obtaining both influence over energy resources and other non-energy issues in Latin America. From a U.S. perspective, China's expansion into Latin America has gone through different stages since the mid-2000s. There are two phases in the U.S. debate over China's presence in Latin America. The first phase was characterized by an evident degree of apprehension in Washington’s political circles in regard to China’s rapid expansion to the Western Hemisphere. After all, Latin America is the last region China entered under the banner of Beijing's "Going Out" strategy in the wake of Southeast Asia and Africa.\textsuperscript{170} President Hu

\textsuperscript{169} Klare, "The Changing Geopolitics of Oil."
\textsuperscript{170} General Bantz J. Craddock, United States Army Commander (Posture of Statement, 109th Congress Housed Armed Services Committee, March 9, 2005); Peter, Brookes, "China's Influence in the Western Hemisphere" (Testimony before the Committee on Subcommitte ont the Western Hemisphere, Committee on International Relations, United States House of Representatives, April 6. 2005).
Jintao's visit to Latin America in 2004 happened at a time when hopes about the Free Trade Area of the Americas (FTAA) vanished due to massive protests against the Bush Administration and the "counter-Summit" campaign led by then President Hugo Chávez of Venezuela during the Presidential Summit in Mar del Plata, Argentina, in 2005. In this context, some sectors in the U.S. Congress suggested the need to contain or balance China's growing activity in Latin America. The most extreme position saw China as an emerging extra-hemispheric power whose presence in the region could have relevant strategic and security ramifications.

The second stage of the debate was set three years later when extreme positions against “Chinese expansionism” in Latin America dwindled. For a majority of foreign policy experts in Washington, China’s economic presences in the region did not represent a threat to U.S. interests. U.S. Secretary of State John Kerry’s remarks “The era of the Monroe Doctrine is over” at the Organization of American States in 2013 signaled the end of a two-hundred-year counter extra-regional intervention Doctrine. However, there are still some concerns in Washington regarding Chinese energy interests, its activities in the Panama Canal and China’s relations with Venezuela and Cuba. The


172. Craddock, "China's Influence in the Western Hemisphere."

173. Library of Congress Congressional Research Service, China's Foreign Policy and 'Soft Power' in South America, Asia, and Africa.


175. Daniel Erickson, "Conflicting Us Perceptions of China's Inroads to Latin America," in China Engages in Latin America: Tracing the Trajectory, ed. Adrian Hearn and José Luis León-Manríquez (Boulder: Lynne Rienner, 2011), 117-38; Jorge Domínguez, "China’s Relations with Latin America:
constant is the debate over whether China’s “peaceful rise” is entirely peaceful. While there is overall agreement that China is not advancing an offensive diplomacy, at least not a direct one, there are lingering concerns about a more interventionist Chinese role as the Asian power deepens its relations with Latin America, among them its energy links.

It deserves noting that the Obama administration has not introduced any specific policy in response to China’s expansion and energy interests in Latin America and the Caribbean. The Sino-Latin American relations are largely absent in U.S. public rhetoric. The United States government has continued the rounds of dialogues with China on Latin America started by President George W. Bush in 2006. In the words of one official who was involved in organizing the talks at the time, the goal was “to understand what the other is up to in the region, to make sure we don’t get our wires crossed.”

Washington’s decision to continue the dialogue shows that both the U.S. and China believe that maintaining this mechanism is more helpful than any kind of offensive diplomacy. This mechanism works well within a context in which the triangular relationship is of limited relevance in the foreign policy of both China and the United States. Yet, President Xi’s last visit to the US by no means achieved all Beijing aspired to, and it remains to be seen whether a new stage in Chinese-Latin American relations will be unconstrained from U.S. shadow.

Of course, U.S.-China relations are not equivalent to the U.S. relationship with Latin America. This means that it is difficult to imagine a situation that could trigger significant conflict between the U.S. and China and elevate the region to a high-priority
level for Washington. Yet, geographic proximity draws a seamless web of economic and demographic integration, the United States is Latin America’s largest trading partner, investor and continues to mark regional politics. In brief, China and the U.S. have parallel interests in Latin America, but different factors including different types of arrangement including government-to-government strategies to access extractive resources could give rise to tensions, different agendas, and affect the political leverage spectrum for target Latin American countries.

4.5 China’s Engagement in the Western Hemisphere

China arrived in the region in 2004 and brought with it its extraordinary history of progress. The fact that China has grown by 10% for more than three decades and has lifted 650 million people out of poverty, more than the entire population of Latin America, has not gone unnoticed in the region. The same goes for innovations to its development model, which emphasizes the role of the state in the economy and flexible policies that contradict the Washington Consensus (experimenting with flexible reforms adapted to specific domestic conditions). China has passed Latin America on every possible development index--GDP, poverty alleviation, foreign investment, trade and capital formation-- even though both implemented reforms at the same time. Furthermore, Beijing’s attractiveness grew in response to the positive impact it had on Latin America’s economic recovery following the 2009 crisis.

177. Williamson, "Is the" Beijing Consensus" Now Dominant?"
178. Ibid.
179. ECLAC, Chinese Foreign Direct Investment in Latin America and the Caribbean: China and Latin America Cross-Council Task Force (Santiago: Economic Commission for Latin America and the Caribbean, 2013).
In many ways China has become the darling to Latin America: it is an important trade partner, creditor and investor. In real terms, China-Latin America relations are expanding exponentially on all fronts. In terms of economics, interaction on all three levels is concentrated in natural resources. Current relations are characterized by significant growth in trade, 14 percent, and rapid growth in the value of trade exchanges. According to ECLAC, China-Latin America trade has multiplied 21 times since 2000 and is approaching US$ 250 billion. It is expected to reach US$ 400 billion between 2014-2016.180 The fact that China is one of the region’s main partners and constitutes 12 percent of the trade basket is refreshing for a Latin America where half of its trade is concentrated in the United States and Europe.

Most of China-Latin America current relations centers on China’s demand for commodities. According to the latest report from the Economic Commission for Latin America (ECLAC), 70 percent of Latin American exports to China is reduced to few products: oil, iron ore, copper, soy, and metal scrap.181 These five products, all commodities, represent 80 percent of exports total value.182 Of course it is essential that any analysis of China-Latin America economic relations starts from the obvious: there is not “one” Latin America. Mexico and Central America are more vulnerable and are at disadvantage to the entrance of China. Their established trade of low-cost manufactured production towards the United States faces steep competition from Chinese manufacturing. The predominant connection Mexico has with the United States through

180. Ibid.
181. Ibid.
182. Ibid.
migration, trade, investment, and the fight against drug-trafficking and security concerns also limits Chinese influence. For example, Mexico and Central America account for 60 percent of Latin America’s exports to the U.S. and 40 cents of every dollar produced in Mexican assembly factories return to the United States. The countries on the positive side of this equation are those in South America. The region enjoys a surplus (although individually some countries may report a deficit) and China has become the main partner for Chile, Brazil, and Peru, and the second for Argentina and Venezuela.

**Figure 4-6 China’s Outward Foreign Direct Investment in Latin America**

![China's OFDI to Latin America, 2005-2015](source: American Enterprise Institute, China Investment Tracker)

There are reasons for China’s attempt to advance a prudent policy of diversifying its energy sources in Latin America following oil investments in South Asia and Africa.

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Estimates claim Latin America holds 17 percent of the world’s oil reserves. In disaggregated terms, Venezuela and Brazil are the major players with large oil reserves and the discovery of pre-salt fields respectively. Mexico, Argentina, Colombia and Ecuador add to the regional oil account. In fact, oil is the single commodity that dominate exports to, and investments and loans from China. Thus, China’s energy interests in the region has acquired different forms: access oil, obtain commercial gains, and extend the market participation of its state oil companies.

China has become an appealing oil trading partner as oil exports from Latin America has expanded from merely 1 percent of the region total exports product to China in 2000—the 19 most exported product-- to over 7 percent in 2015, moving up to the 7th most exported commodity to China according to ECLAC. China’s investment and loans in the region follow a similar expansive trend. More than 87 percent of Chinese loans are geared towards energy in six countries: Brazil, Ecuador, Venezuela, Mexico, Argentina and Bolivia. On the Chinese outward foreign direct investment front (FDI), operations are concentrated in the oil and gas sectors in Argentina, Venezuela, Brazil, Colombia and Ecuador, and mining in Peru. The biggest oil investment acquisitions are located in Brazil, $9.6 billion, and Argentina, $5.5 billion. In 2012 alone, three quarters of Chinese investments went to the oil industry. Overall, investment and loans in the

185. Arriaga and Espinasa, "China, Latin America and the United States."
186. Gallagher and Myers, "China-Latin America Finance Database."
187. Ibid.
188. ECLAC, "Chinese Foreign Direct Investment in Latin America and the Caribbean: China and Latin America Cross-Council Task Force."
region include bidding for oil operations, acquiring a share of international oil companies already established in the region (Brazil, Argentina, Ecuador), building energy infrastructure (pipelines, refineries across the region), engaging in mixed companies with local estate oil companies (Venezuela), and oil-backed lending (Brazil, Venezuela, Ecuador). Of course, Latin American oil producers vary in political orientation, ideology, the role of the state oil company, economic structure, and available resources. Yet overall, they are interested in expanding into new markets, cultivating new partners in the context of their dependence on the U.S. market and America’s leverage over the region, and continuing to use extractive resources to insert themselves internationally.

**Table 4-1 Oil Production and Consumption of Major Oil Producers in Latin America**

<table>
<thead>
<tr>
<th>Country</th>
<th>Consumption</th>
<th>Production</th>
<th>Production Change 2014 over 2013</th>
<th>Share of total 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>662</td>
<td>629</td>
<td>-1.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Brazil</td>
<td>3229</td>
<td>2346</td>
<td>11.2%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Colombia</td>
<td>310</td>
<td>990</td>
<td>-1.4%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>259</td>
<td>556</td>
<td>5.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Mexico</td>
<td>1941</td>
<td>2784</td>
<td>-3.3%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Peru</td>
<td>231</td>
<td>110</td>
<td>7.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>34</td>
<td>112</td>
<td>-3.4%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>824</td>
<td>2719</td>
<td>1.1%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Other S. &amp; Cent. America</td>
<td>1221</td>
<td>149</td>
<td>0.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Total S. &amp; Cent. America</strong></td>
<td><strong>8711</strong></td>
<td><strong>7613</strong></td>
<td><strong>3.9%</strong></td>
<td><strong>9.3%</strong></td>
</tr>
</tbody>
</table>


**Table 4-2 Chinese Foreign Direct Investment in the Oil Sector by Country**

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Quantity in Millions</th>
<th>Chinese Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Ecuador</td>
<td>$1,420</td>
<td>CNPC and Sinopec</td>
</tr>
<tr>
<td>2006</td>
<td>Colombia</td>
<td>$430</td>
<td>Sinopec</td>
</tr>
<tr>
<td>2009</td>
<td>Trinidad-Tobago</td>
<td>$320</td>
<td>CNOOC and Sinopec</td>
</tr>
<tr>
<td>2010</td>
<td>Venezuela</td>
<td>$900</td>
<td>CNPC</td>
</tr>
<tr>
<td>2010</td>
<td>Brazil</td>
<td>$3,070</td>
<td>Sinochem</td>
</tr>
</tbody>
</table>
Ecuador is just a minor player with a stagnant production and moderate reserves that seems inconsequential for efforts to explain China–Latin America relations. The various forms of specific economic tools—concessional lending, preferential credits, purchase of resource of extractive operations or subsidized joint venture, and loans-for-oil—seem to serve a dual purpose: to fulfill the needs of host countries while serving China’s political security, and developmental objectives. In this context, the case of Ecuador is instructive on two accounts. On one level, it identifies some of the different dimensions of economic engagement. At the same time, it empirically explains the nature and implications of such economic tools. At the same time, the case allows us to delve into the nuances of the Ecuadorian case. The oil industry is a central fixture in the Ecuadorian political landscape. Oil has been its main source of revenue, its platform to international politics through OPEC, the backdrop of the domestic power struggles, and a means to social reforms. The Ecuadorian oil boom in 1972 brought major economic and political changes. From then on, oil production has been a focus for the military and

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Amount</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>Brazil</td>
<td>$7,100</td>
<td>Sinopec</td>
</tr>
<tr>
<td>2010</td>
<td>Cuba</td>
<td>$4,500</td>
<td>CNPC</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>$610</td>
<td>CNPC and Sinopec</td>
</tr>
<tr>
<td>2011</td>
<td>Argentina</td>
<td>$330</td>
<td>CNOOC</td>
</tr>
<tr>
<td>2011</td>
<td>Ecuador</td>
<td>$100</td>
<td>Harbin Electric</td>
</tr>
<tr>
<td>2012</td>
<td>Venezuela</td>
<td>$300</td>
<td>Power Construction Corp</td>
</tr>
<tr>
<td>2012</td>
<td>Nicaragua</td>
<td>$230</td>
<td>Sinomach</td>
</tr>
<tr>
<td>2012</td>
<td>Venezuela</td>
<td>$930</td>
<td>Wison</td>
</tr>
<tr>
<td>2013</td>
<td>Venezuela</td>
<td>$1,400</td>
<td>Sinopec</td>
</tr>
<tr>
<td>2013</td>
<td>Brazil</td>
<td>$1,280</td>
<td>CNOOC and CNPC</td>
</tr>
<tr>
<td>2014</td>
<td>Ecuador</td>
<td>$3,000</td>
<td>CNPC</td>
</tr>
<tr>
<td>2015</td>
<td>Brazil</td>
<td>$2,000</td>
<td>ICBC</td>
</tr>
</tbody>
</table>

Total: $27,920

Source: American Enterprise Institute, China Investment Tracker
democracies alike. While oil policies have diverged over time in the scale of participation of private companies, hydrocarbon resources have been owned by the state. Resource nationalism seeks to maximize income and tap on oil revenues to finance public spending, nurture social reforms—many times to appease counter-mobilization-- and gain some independence for its small, commodity driven economy.\textsuperscript{189} China’s “Go out” strategy in Ecuador has played out under these domestic conditions.

Finally, a superficial interpretation would suggest that Ecuador is a natural partner for China not only in the context of its oil surplus but also as a country that has been a critic of the U.S., participated in non-U.S. soft power regional organizations, advanced a statist model, and claimed the use of revenues from extractive resources for development. A deeper examination of Ecuador’s energy relations with China reveals, however, a more nuanced dynamic despite its small country characteristic and heavy dependence on oil. Furthermore, at its core it touches on evolving debates regarding the strengthening of South-South relations, national oil-based relations, and the effect of U.S. power.

4.6 Conclusion

There is optimism for broader oil cooperation between China and energy-rich Latin America. Such perception comes on the heels of China’s growing economic relations with the Latin America and the direct, commodity demand, and indirectly commodities prices positive effect that China’s Going Out policy\textsuperscript{190} that has ensued in the region. Just to name a few, China’s new position as the first or second partner in ten Latin American countries has diminished the region’s exposure to U.S. economic cycles and ultimately helped countries rebound from the 2009 global crisis. Studies find evidence of China-

\textsuperscript{189} Philip, \textit{Oil and Politics in Latin America}.
\textsuperscript{190} Lederman, Olarreaga, and Perry, \textit{China's and India's Challenge to Latin America}. 
Latin America economic complementarity due their comparative advantage in the manufacturing and commodity sectors respectively. Yet, there is growing concern that extractivism will lead to a re-primarization of the region and renew a dependency relation. In simple terms Beijing offers a new market and much-needed funding to Latin America.

Concomitant with this, there is concern that Beijing is altering the political landscape and indirectly impacting Latin America’s leverage in the Western Hemisphere. In particular, Chinese energy interests in the Western Hemisphere brings several implications for a region that has been traditionally U.S. sphere of influence. It inquires to the degree in which the United States has forfeited space, to whether doors are opening for a strategic relationship with China, and how Beijing’s footprint in the hemisphere potentially undermines and impacts the leverage of oil producer countries in addressing energy and non-energy U.S. interests in the region. Furthermore, China’s extensive access to Latin America’s oil resources comes on the heels of record oil prices, $150 in 2008, and at a time when countries like Russia and Venezuela employ oil as a tool of foreign policy, offering energy resources and subsidies in oil purchases to attract allies and organize anti-US regional mechanism.
Chapter: Ecuador’s Petroleum Politics

5.1 Overview

Ecuador’s status as an oil exporting country is not revolutionary, and in fact reflects a longstanding commodity dependent economic pattern. Yet in recent years, as the China-Latin America agenda intersects, and the expansion of the Sino-Ecuadorian energy cooperation has ignited a controversial debate over the nature of agreements and the role of China’s national oil companies. Oil-for-loans agreements is part of an expansive energy agenda between both countries. The advancement of energy diplomacy in sector politically charged by the countries use of bilateral relations to foster energy contracts and provide state companies a competitive edge in the market.

This chapter aims to explain the issues and context in which oil relations between China and Ecuador operate and how they are linked to a broader energy strategy. This study is preoccupied with the causes and use of oil strategies in foreign policy analysis, and is concerned with the pursuit of two ends. First, there are immediate outputs of Energy Diplomacy concerned with energy security and the use state power and bilateral efforts to advance energy interests. Second, government intervention also connotes the way in which the state uses oil strategies for higher political ends. This chapter touches on the first premise – the use of Energy Diplomacy for energy related interests – that also goes hand in hand with the study of the second premise in the next two chapters. In this context, the chapter presents how oil becomes a foreign policy instrument as well as offers a preliminary evaluation of the efficiency of oil agreements with respect to their most immediate goals. As energy is at the heart of these new relations, this chapter demonstrates that energy security and diplomacy cross multiple issues in international
politics, frequently touching upon geopolitics, dependence and great power relations. The chapter is divided into three sections. First, I discuss the notion of Grand Strategy in the periphery and explain how this concept is relevant in understanding which Latin American countries engage in oil-for-loans agreements. I follow this argument in detail delving into the Ecuadorian case to suggest that political advancement of energy grand strategy from an autonomous logic facilitates cooperation with China. Next, I present the use of oil as an instrument of foreign policy for the Ecuadorian case and explore this idea in the nature the oil-for-loans agreements with China. Finally, I will offer some preliminary conclusions on the link between oil and politics and the different starting points of bargaining power and economic statecraft within emerging East-South relations.

5.2 Energy Grand Strategy in the Periphery

The definition of Grand Strategy is often associated with the leverage and projection of a Great Power’s security goals in the international arena. Traditionally, Grand Strategy refers to the coordination of a country’s resources and efforts-- military and non-military- towards the achievement of a unifying national long-term goal. Grand Strategy rests on realist assumptions on the preservation and maximization of power.\(^{191}\) In the energy realm, energy security has long been linked with the access of influential states like the United States and the United Kingdoms to affordable and stable energy supply.\(^{192}\) The oil shocks of the 1970s set the stage for the first wave of inquiry with a national security focus. This concern was devoted to the vulnerability of industrialized states dependent on imported oil, to OPEC’s leverage over world oil prices, and conflict over oil control in


the Middle East.\textsuperscript{193} The attainment of energy security was largely a set of policies to substitute oil energy and to use foreign policy—including military power—to rebalance the physical control of energy resources in producer countries. Energy Grand Strategy, understood from the concerns of Great Power Politics, lay in the hardcore national security realm.

Although the interplay between energy and national interests takes different connotations outside Great Power politics, the essence of the concept still holds. O’Sullivan explains Energy Grand Strategy as an “all-encompassing concept which guides a country in its effort to combine its instruments of national power in order to shape the international environment and advance specific national security goals.”\textsuperscript{194} O’Sullivan’s definition expresses three parts: goals or desired outcome (ends), instruments or tools (ways), and resources (means). In addition to concern over access to reliable and affordable access to energy resources, the concept of energy grand strategy has actually evolved to include the interests of producer countries like Ecuador about security of demand and the control of oil exports as its main source of national income.

The country producers in the supply side, for example, have often engaged in cartelization and management of the available production capacity in order to control prices and revenue. Grand Strategy in the energy realm is not any less central for countries in the periphery. Especially for recourse-rich countries, the possession of raw materials defines their position in the international system as well as their interaction with a host of international actors including states, transnational companies and international

\textsuperscript{193} Keohane, \textit{After Hegemony: Cooperation and Discord in the World Political Economy}; Nowell, \textit{Mercantile States and the World Oil Cartel}.

\textsuperscript{194} O’Sullivan, "The Entanglement of Energy," 32.
organizations. This is particularly relevant in light of China’s quest abroad to feed its energy demands. Oil diplomacy is embedded in a salient and overarching energy national strategy.

Not all countries at the periphery of international politics formulate a Grand Strategy, a fact that is most evident in Latin America. Research by Russell and Tokatlian finds the “concept has been perceived as simultaneously remote and ambiguous”195 to the realities of the region; Ecuador and the region itself remain marginal in international politics. Yet as the same authors reflect, in Latin America the concept of Grand Strategy factors as an “organizing principle of the external actions of countries”196 in the region under two constant higher interests in foreign policy: the logic of autonomy and the logic of acquiescence.197 For the purpose of this research, I concentrate in the logic of autonomy and apply it to the energy realm. Russel and Tokatlian defines the logic of autonomy as “the increase of the capacity to make decisions independently, the quest for peace, the expansion of the geographic scope of foreign relations, the restriction of power of key international actors, particularly the United States, and the construction of a more equitable order.”198

Petroleum as a tool of foreign policy and a means to advance state-to-state deals with China appears in states that mobilize resources towards an Energy Grand Strategy under the logic of autonomy. It encompasses an overarching strategy in the energy realm in which contracts are state-backed and politically charged in the sense that state power


196. Ibid.

197. Ibid.

198. Ibid., 61.
mobilizes to advance energy interest mainly through bilateral trade and cooperation and provides state oil companies an advantage. Not all Latin American oil producer countries have founded their economic and oil relations with China on bilateral agreements through their national oil companies, but countries that have engaged in energy diplomacy with China, and the use of finance and oil, like Ecuador, Venezuela, and Brazil have followed similar patterns. They deploy energy resources as strategic assets in an encompassing unifying set of domestic and international policies seen fundamental to its national interests. At the same time, their energy resources and national oil companies are emblematic national projects and are among the most salient organizing components in their relation with the international environment.

The objectives and character of Energy Grand Strategies among these countries exhibit important variations as well as contrasting roles, purposes and outcomes, in particular for their national companies (more on this on the final chapter). Yet, the existence of an Energy Grand Strategy suggests that oil backed loans of Latin American countries with China do not occur in a vacuum. They instead take place along the commitment and leadership of states toward an articulated package of energy policies that go beyond commercial exchange of a commodity. They cause the countries to engage in Oil Diplomacy. Energy backed loans agreements with China are deeply connected to comprehensive national energy projects that mobilize state resources to open doors and broaden bilateral energy cooperation with China to other dimensions. Furthermore, agreements occur within an overarching set of state energy strategic projects conceived from autonomous rationale, the organizing principle noted by Russell and Tokatlian.
5.2.1 Ecuador’s Energy Grand Strategy

Energy strategies are politically charged in the Ecuadorian landscape. In public view, energy is intrinsically tied to politics and the state as the government sets the construction of an overarching set of energy goals that alludes to a sense of autonomy and sovereignty. Advanced by the 2008 Constitution and the National Development Plan, Plan Nacional para el Buen Vivir (PNBV), energy sovereignty became the most emblematic national project characterized by the commitment and heavily investment of the state toward achieving independence in energy security. Energy resources are fundamental to Ecuador’s national interests and thus maintain strong linkage with development policy.

Ecuador’s energy leverage in its interaction with the external environment including bilateral oil relations is a significant element of this systemic energy agenda. In Ecuador, energy sovereignty is the cornerstone of this Grand Strategy cemented in the 2008 Constitution and the government development agenda which delineate the following goals: 1) strengthen the state capacity to control, regulate, and have access to sustainable energy resources; 2) diversify the country’s energy matrix and ultimately transition to a low carbon and self-sufficient energy structure, 3) expand the state capacity to maneuver and make policy decisions and 4) minimize external pressures perceived in the external market price shocks and pressures of influential powerful states. All countries have energy policies, but an energy grand strategy underlining sovereignty of resources is distinguished by its emphasis in the political state apparatus to mobilize resources towards enhancing government-to government relations and energy

199. SENPLADES, Plan nacional para el buen vivir 2009-2013 (Quito: Talleres Gráficos Calle, 2009); Republica del Ecuador; Asamblea Constituyente del Ecuador, "Constitución de la República del Ecuador," Quito, Registro Oficial 449, October 20, 2008..
goals rather than business opportunities and commercial cost-benefit calculus. The centrality of the state raises the attention of three distinct but intertwined issues, namely energy security—associated with the idea of energy sovereignty—energy diplomacy—as the mobilization of politics towards energy goals—and finally energy as a tool of foreign policy.

From an energy producer country approach, the four axes of the energy agenda seek to transform available resources into energy capabilities. Ecuador’s energy security goal links policies aimed at securing reliable access to energy—security of supply—to security of demand and the leverage of oil as an exporting country. The first two goals of Ecuador’s energy sovereignty advance security of supply efforts in order to strengthen the state capacity to control, access to sustainable energy resources, and diversify the country’s energy matrix to ultimately transition to a low carbon and self-sufficient energy structure. Belyi and Talus define energy security of supply as “government policies aimed at the provision of supply of energy at low cost in order to promote the competitiveness of the national economy as a whole.”

The two goals underpin the mobilization of the state political machinery in prioritizing strategic oil resources in order for the state to make decisions independently in the energy market. This enables the state to align energy trade and revenues with its own interests, and is therefore intrinsically linked to bilateral trade and foreign policy. The same authors explain energy security of demand as a government resource policy “to maximize revenues and exercise

sovereignty” of surplus energy resources.\textsuperscript{201} The central characteristic of an energy security agenda, such as in the case of Ecuador, is that it is fundamentally politicized whereby the state is the center of analysis: its control over resources dictates engagement in the energy market.\textsuperscript{202} Such energy security centers on the state in as much as energy sovereignty encompasses the state appropriation of energy resources, diversification, and infrastructure in an effort to funnel benefits back to the state.

In Ecuador, energy as a strategic sovereign asset extended towards a governmental intervention that placed energy, electricity, hydrocarbons, mining, and renewables (along telecommunications and water), within the Ministry Coordinator of Strategic Sectors and the office of the Vice-president, will power the national economy.\textsuperscript{203} For this purpose, the state was in the driver’s seat of energy contracts to not only supply domestic energy sources but also enhance participation in the international market fostering bilateral relations. In this light, the government did not anticipate the participation of private corporations fundamentally to maintain the strategic control for projects, but actually expected to enhance the role of state owned companies like Petroecuador. Evidence also suggests Ecuador resorts to strategic and instrumental use of to state-to state relations for energy investment projects. For example, with China for construction of hydroelectric projects, and China and Venezuela for an oil refinery; the projects are ultimately owned by the Ecuadorian state (Table 5.1).

\textbf{\textsuperscript{201} Ibid.; O’Sullivan, ”The Entanglement of Energy,” 31.}

\textbf{\textsuperscript{202} Adam Stulberg, \textit{Well-Oiled Diplomacy: Strategic Manipulation and Russia’s Energy Statecraft in Eurasia} (New York: SUNY Press, 2008), 3.}

\textbf{\textsuperscript{203} See Ministerio Coordinador de Sectores Estratégicos http://www.sectoresestrategicos.gob.ec/.}
Table 5-1 Ecuador’s Energy Sovereignty Framework and the Role of China

<table>
<thead>
<tr>
<th>China-Ecuador's Energy Diplomacy</th>
</tr>
</thead>
</table>
| The use of foreign policy to secure access to energy supplies abroad and to promote (mostly bilateral, that is government-to-government cooperation in the energy sector. 

[...] Producer countries use diplomacy to enhancements and reserves. Primary driver is not business opportunities [...] but a political one (Goldthau, 25-25) |

### Energy Sovereignty:

1) Strengthen the state capacity to control, regulate, and have access to sustainable energy resources

2) Diversify the country’s energy matrix and ultimately transition to a low carbon and self-sufficient energy structure

3) Expand the state capacity to maneuver and make policy decisions

4) Minimize external pressures perceived in the external market price shocks and pressures of influential powerful states.

<table>
<thead>
<tr>
<th>Energy security of supply:</th>
<th>Energy security of demand:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Strengthen the state capacity to control, regulate, and have access to sustainable energy resources</td>
<td>3) Expand the state capacity to maneuver and make policy decisions</td>
</tr>
<tr>
<td>2) Diversify the country’s energy matrix and ultimately transition to a low carbon and self-sufficient energy structure</td>
<td>4) Minimize external pressures perceived in the external market price shocks and pressures of influential powerful state</td>
</tr>
<tr>
<td>Energy projects with China:</td>
<td>Reduce dependence on electricity imports and become energy self-sufficient (hydroelectric)</td>
</tr>
<tr>
<td>---------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>8 hydroelectric projects</td>
<td>Become an exporter of hydroelectric power</td>
</tr>
<tr>
<td>1 thermal power</td>
<td>Advance Ecuador's position as gasoline, diesel and other petroleum value-added exports towards Asia-Pacific (refinery)</td>
</tr>
<tr>
<td>1 Aeolic power</td>
<td>Preference to energy regional programs with Latin American countries such as Colombia, Venezuela, and Uruguay</td>
</tr>
<tr>
<td>1 oil refinery</td>
<td>Promote bilateral alliances with state oil companies from China, India, Thailand, Russian, Iran, Qatar and Belorussia</td>
</tr>
</tbody>
</table>

Oil for loans:

- Rapid access to capital through bilateral agreements
- Diversification of markets
- Reduce dependence on U.S. market
- Advance bilateral links
- Promote agreements with states and their national oil
5.3 China and Ecuador’s Energy Diplomacy

Today, China turns out to be essential as the exclusive partner to Ecuador, both as a market for Ecuadorian oil and as investor and constructor of the country’s energy infrastructure. The most updated source of China’s finance in Latin America published by the Inter American claims that China has pledged $119 billion in loans since 2009, 80 percent of this amount finance is funneled to the energy sector. In this light, Energy Diplomacy is at the heart of their relations. Andres Goldthau best defines Energy Diplomacy as “the use of foreign policy to secure access to energy supplies abroad and to promote (mostly bilateral, that is, government to government) cooperation in the energy sector.” Following Goldthau’s argument, the empirical evidence suggests that overarching energy interests and goals open the doors to a new form of international engagement for Ecuador, this time with China.

Geography has automatically granted Ecuador ownership of vast energy reserves, becoming a producer country by default. Since its oil boom 1972, Ecuador has counted on petroleum as its single main source of energy covering 79% of matrix consumption. The country has not diversified and has actually been inefficient in the use of its sources of energy. Despite being self-sufficient in petroleum, Ecuador lacks refining capacity to meet domestic demand and its electricity infrastructure barely meets 26% of domestic

204. Gallagher, and Myers, "China-Latin America Finance Database."


206. Philip. Oil and Politics in Latin America.

demand.\textsuperscript{208} From the \textit{energy security of supply} defined as access to stable and affordable energy, the National Development Plan set a national agenda that move towards attaining a strong national energy infrastructure in order to transform raw energy resources into energy exports and to engine value-added services through the diversification of energy sources. This included the increase in nonrenewable energy, in particular hydroelectric projects, the promotion of other alternative sources such as wind and solar power, and the construction of the Pacific Refinery (graph 5.1).\textsuperscript{209}

\textbf{Table 5-2 Structure of Ecuador’s Primary Energy Production}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|}
\hline
\textbf{Source: Balance Energético Nacional 2015. Ministerio de Sectores Estratégicos.}  \\
\textbf{Gobierno Nacional de la República del Ecuador}  \\
\hline
\end{tabular}
\end{table}

208. Ibid., 1.

For this purpose, Ecuadorian President Correa and his Government sought to buffer the dependence on private partners and traditional creditors and found in China an invaluable economic ally willing to back energy projects. The state embarked in the construction of the biggest power infrastructure program seen in the country through a series of state-owned investments in the energy sector encompassing 13 hydroelectric, a refinery, and 5 thermal powers to name the most prominent ones.\textsuperscript{210} Ecuador seeks to move beyond its diminutive electricity usage of only 10 percent with the new infrastructure, and attempts to double the country’s electricity capacity to additional 4400 megawatts of power installed.\textsuperscript{211} The energy partnership includes credit deals with Chinese national banks to guarantee finance, and the engagement of Chinese companies to develop infrastructure projects. State-directed projects using government-to-government relations provide China’s national banks and state energy companies a competitive edge in the bidding while it provides Ecuador financing and the know-how to develop infrastructure.\textsuperscript{212} Yet, there is no evidence of explicit policy conditionality in terms of the contracts but the employment of Chinese equipment, workers, and companies according to experts interviewed in Quito lead to believe the existence of commercial and investment conditions.

Eight out of ten hydroelectric projects to operate in 2016 in Ecuador are built by Chinese companies and China is expected to participate and finance 90 percent of the Pacific refinery if the project moves forward. Arturo Villavicencio explains that the

\begin{flushleft}
\textsuperscript{210} Arturo Villavicencio, "Un cambio neo desarrollista de la matriz energética. Lecturas críticas," in La restauración conservadora del correísmo, ed. Juan Cuvi (Quito: Montecristi vive, 2014), 278.
\end{flushleft}

\begin{flushleft}
\textsuperscript{211} Ibid., 77.
\textsuperscript{212} Ibid.
\end{flushleft}
Ecuadorian Government expects this infrastructure to power the future metro in Quito (71 MW), mining (255 MW), petrochemical industry (255 MW), and the new refinery (390 MW). Chinese companies are engaged in the biggest hydroelectric projects. Coca-Codo Sinclair by itself, under Chinese construction, will provide 32% of the new energy capacity.\textsuperscript{213} In fact, the first hydroelectric project with China came on the heels of the first oil-for-loans agreements in 2009 and was later followed by alliances with China’s financial arm and companies for the construction of additional seven hydroelectric plant, one refinery, one wind power central and one thermoelectric power plant.\textsuperscript{214} The hydrocarbon arm of the diversification effort plans the construction of an oil refinery along the Pacific Coast that will not only meet local energy demand but will also boost Ecuador’s refining capacity to 300,000 b/d to potentially become the biggest refinery along the South America coast\textsuperscript{215} (Table 5.2). Overall, partnership between Ecuador and China has flourished in a sector considered strategic, where private ownership is legally restricted, and commercial participation is highly regulated thus encouraging the participation of state owned companies such as Sinohydro. Debates in the literature claim the participation of Chinese companies abroad is independent and driven by commercial motives. Yet, evidence statements of the Ecuadorian government over negotiations suggest that while day to day operations remain on the hand of Chinese companies,

\begin{flushright}
\textsuperscript{213} Miguel Castro, \textit{Hacia una matriz energética diversificada en Ecuador.} (Quito: CEDA, 2011), 68.
\textsuperscript{214} Ministerio Coordinador de Sectores Estratégicos, \textit{Rendición de cuentas 2013} (Quito: Ministerio Coordinador de Sectores Estratégicos, 2013); Petroecuador, \textit{El petróleo en el Ecuador}.
\end{flushright}
energy agreements are deeply intertwined with Chinese government support and negotiations.  

Table 5-3 Energy Projects in Ecuador by Chinese Companies

<table>
<thead>
<tr>
<th>Project</th>
<th>Year</th>
<th>Company</th>
<th>Loan Quantity (USD $ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca Codo Sinclair (hydroelectric)</td>
<td>2009</td>
<td>Synohidro Corporation</td>
<td>1.7</td>
</tr>
<tr>
<td>Toachi Pilaton</td>
<td>2010</td>
<td>China International Water and Electric Corp.</td>
<td>0.123</td>
</tr>
<tr>
<td>Sopladora (hydroelectric)</td>
<td>2010</td>
<td>China Gezhouba Group</td>
<td>0.6</td>
</tr>
<tr>
<td>Minas San Francisco (hydroelectric)</td>
<td>2011</td>
<td>Harbin Electric</td>
<td>0.5</td>
</tr>
<tr>
<td>Delsitanisagua (hydroelectric)</td>
<td>2011</td>
<td>HidroChina</td>
<td>0.2</td>
</tr>
<tr>
<td>Quijos (hydroelectric)</td>
<td>2011</td>
<td>China Electric Engineering</td>
<td>0.1</td>
</tr>
<tr>
<td>Dudas-Mazar (wind)</td>
<td>2011</td>
<td>China Electric Engineering</td>
<td>0.052</td>
</tr>
<tr>
<td>Villonaco (hydroelectric)</td>
<td>2011</td>
<td>Xinjian Goldwin Science</td>
<td>0.044</td>
</tr>
<tr>
<td>Transmisión 500 kV (hydroelectric)</td>
<td>2011</td>
<td>Harbin Electric International</td>
<td>0.4</td>
</tr>
<tr>
<td>Esmeraldas Thermal Power Station</td>
<td>2011</td>
<td>Harbin Electric International</td>
<td>0.1</td>
</tr>
<tr>
<td>Pacific refinery (under negotiations)</td>
<td>NA</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>10.819</td>
</tr>
</tbody>
</table>

5.4 State Efforts in Energy Security Demand

Energy security has a different meaning for an energy producer country like Ecuador. Besides its domestic purpose, energy sovereignty comprises sovereignty over resources to increase its leverage on international relations, in particular to enhance its access and
position in the energy market. Oil is the primary source for Ecuador to secure revenues and energy diplomacy.

5.5 Oil Power and International Relations

In fact, oil and new arrangements into oil-for-loans advance both energy and political ends for Ecuador, and as such is an instrument of foreign policy. Goldthau has explained that oil deals do not necessarily follow the maximization of business opportunities or economic cost-benefit calculations.\textsuperscript{217} Rather, oil deals aim to use energy resources to strengthen a state position in the energy market, circumvent external market pressures, and advance government-to-government cooperation in the energy sector. In this light and for the Ecuadorian case, oil remains a foreign policy tool with political ends such as for the state to expand policy leverage and foreign relations in the energy sector. The use of petroleum for political ends engages in a defensive realist dialogue in which the commodity is used as a national asset to maneuver political government-to-government links. The Ecuadorian government regards energy as distinct from other commodities and assigns energy a special and strategic value that increases state leverage with developed energy dependent countries. The following quote echoes this view:

The Government has placed the management of strategic sectors at the forefront of the technological and industrial transformation of the country [ ... . ] At the regional level, natural resources provide a huge bargaining capabilities and the ability to shape the prices of our resources in the context of energy dependence and vulnerability of hegemonic countries.\textsuperscript{218}

\textsuperscript{216} Reuters, "Régimen suspendió negociación con China para crédito de USD 1000 millones," \textit{El Comercio}, November 12, 2009.

\textsuperscript{217} Goldthau, "Energy Diplomacy in Trade and Investment of Oil and Gas,"

\textsuperscript{218} "El Gobierno Nacional se ha propuesto convertir la gestión de los sectores estratégicos en la punta de lanza de la transformación tecnológica e industrial del país [....]A nivel regional contamos con enormes condiciones de negociación y capacidad de formación de precios de nuestros recursos naturales, debido al alto grado de vulnerabilidad y dependencia que los países hegemó-nicos mantienen de muchos
Under this framework, the commercial rationale of energy is inseparable from politics. The state mobilizes resources towards controlling energy resources and uses it as an instrument of the state to expand its policy decision-making in the international arena. Petroleum surplus is Ecuador’s competitive edge in energy markets and its main strategic instrument of foreign policy today. Ecuador is well positioned to meet China’s international energy quest by presenting itself as a petroleum producer and exporter. The country is oil rich – there are no resource constraints. As such, its strength resides in the availability of 8 billion proven reserves, which continue to increase year-over-year by 7% (Energy Information Administration 2014). Despite the fact that oil accounts for 76% of Ecuador energy matrix consumption, more than half of its 527 thousand barrels produce per day is exportable surplus.219

In this context, oil surplus sets Ecuador in a strong position to expand energy relations with countries like China and allows it to rely on politics and government-to-government cooperation to diversify the energy basket, provide competitiveness to its national energy companies, and enhance its position in the energy market. The expansion of oil business relations with China would place Ecuador among the regional top players in the added-value refinery industry. The New York Times claims that the potential construction of the Pacific Refinery “could make Ecuador a global player in gasoline, diesel and other petroleum products.” From the producer side, energy security aims at the state exploitation and control over resources, and the maximization of revenues. In

220. Goldthau, "Energy Diplomacy in Trade and Investment of Oil and Gas."
221. Krauss and Bradsher, "China's Global Ambitions, with Loans and Strings Attached."
the oil sector, Ecuador engaged in a neo-extractivism model as a way in which the state resorted to the control and regulation of the oil supply chain: appropriation of production, absorption and increase of revenues and taxes, revision of contracts, and allotment of exports. This course weighted heavily in the government’s decision against two alternative options, namely, the maximization of production capacity or reliance on the global oil market in terms of oil demand and the attraction of foreign direct investment of oil companies. The goal of the Pacific Refinery is to enhance and expand Ecuador’s participation in the market and among country importers from the east.

In recent years, Ecuador has sought to expand its oil strategies abroad. Through the strengthening of hydro power, Ecuador expects the reduction of its dependence on electricity imports from Colombia and Peru. Most importantly, it will diversify the country’s energy matrix and ultimately transition to a low carbon power economy and energy self-sufficient structure by 2016 with 90% of electricity generated by water. This would lead Ecuador to become an exporter of hydroelectric power.

Simultaneously, Ecuador has sought the expansion of energy based foreign through bilateral relations with an emphasis on the regional arena and extra-hemispheric state driven oil producers. Official records and press releases from the Ministry of Strategic resources revealed the government was eager to provide preferential access to


energy programs with Latin American countries such as Colombia, Venezuela, and Uruguay. At the same time, Ecuador sought to advance relations with extra hemispheric oil producing countries. Since 2007, the government emphasized oil portfolio projects with state companies in state visits to China, India, Thailand, Russian, Iran, Qatar and Belorussia.225

Its potential to use oil as a bargain nevertheless is not without limits because Ecuador is a marginal producer. With all its associated fortune, the oil sector observes stagnant production and reduced revenues. Today’s 527,00 b/d is in fact a fall in production from a 536,000 b/d peak record in 2006226 (Arriaga 2013). Poor performance—defined as the gap between increasing reserves and falling production—stemmed from lack of investment to upgrade technology for oil recovery, environmental standards, operational efficiency, and management of mature oil fields. Comparatively speaking, Ecuador produces227 an amount equivalent to roughly 21% of Venezuela’s or 5% of Saudi Arabia’s production volume228 and as result is a price taker highly vulnerable to price shocks.

225. See Ministerio Coordinador de Sectores Estratégicos’ Noticias section http://www.sectoresestrategicos.gob.ec/noticias/.
Table 5-5 Ecuadorian Oil by Numbers

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proven reserves</td>
<td>8 billion</td>
</tr>
<tr>
<td>Daily production (Thousand barrels per day)</td>
<td>527</td>
</tr>
<tr>
<td>Oil exports (Thousand barrels per day)</td>
<td>272</td>
</tr>
<tr>
<td>Oil consumption (Thousand barrels per day)</td>
<td>255</td>
</tr>
<tr>
<td>Oil rents as % of GDP</td>
<td>19%</td>
</tr>
<tr>
<td>Oil as % total Exports</td>
<td>53%</td>
</tr>
<tr>
<td>Oil trade value</td>
<td>$13,411</td>
</tr>
</tbody>
</table>


In the greater context, Ecuador holds 0.7% of world crude oil, the least reserves among OPEC members and the third in South America after Venezuela and Brazil. Unless new reserves are discovered, coupled with the fact oil accounts for 76% of Ecuador’s energy matrix consumption, reserves remain uncompetitive and as such Ecuador remains an oil price taker.\textsuperscript{229} Despite the fact that the state could triple its production, its oil capability is not sufficient to curtail oil supply to any country or raise prices. Admittedly, the projection of oil as a tool of for a country like Ecuador is commensurate with its limited resources, and thus we can assume that Ecuador possesses an inconsequential role in the international environment and the energy market. As such oil as a power resource and a

tool of economic foreign policy is most likely to advance defensive strategies. This is probably the reason behind attempts to expand business relations with other oil producers and seek cooperation to strengthen the domestic oil infrastructure rather than the expansion of Petroecuador’s oil operations abroad. Ecuador’s foreign policy strategies thus are inextricably linked to oil in light of the country’s scarce resources for which the extraction of raw material and their exports are its main source of revenues.

**Table 5-6 Ecuador’s Main Exports**

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>60%</td>
</tr>
<tr>
<td>Bananas</td>
<td>9%</td>
</tr>
<tr>
<td>Shrimp</td>
<td>6%</td>
</tr>
<tr>
<td>Fuel</td>
<td>4%</td>
</tr>
<tr>
<td>Tuna</td>
<td>4%</td>
</tr>
<tr>
<td>Cocoa</td>
<td>2%</td>
</tr>
<tr>
<td>Roses</td>
<td>2%</td>
</tr>
<tr>
<td>Gold</td>
<td>2%</td>
</tr>
<tr>
<td>Other products</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: Ecuadorian Central Bank

In this context, energy cooperation with China is linked to an overarching strategy to transform energy resources into *energy security* capabilities, alter Ecuador’s position in the regional energy system, exploit its influence in the energy market and the expand the geographic scope of foreign relations through energy. Of course, China’s energy quest abroad is crucial to the expansion of the energy agenda for a capital scarce country like Ecuador. Yet above all, cooperation in the energy sector is concerned with the increase of the state competitiveness and position in the energy market energy is the most prominent
asset to set links and leverage among state counterparts. On the face of China’s enormous
demand for energy resources, particularly oil, Ecuador’s Energy Grand Strategy is well
positioned to set ties with an extra hemispheric partner. Evidence suggests that China’s
energy demand coincides with an expansive agenda. This is important to the discussion
of oil as a tool of foreign policy as it gives context to oil-for-loans. It suggests that
agreements ensue as long as revenues from oil holds ties to an overarching energy
scheme that further diversifies ties to other energy dimensions and motivates bilateral
efforts.

5.5.1 Loans-for-Oil

There is increasing interest in the study of the loans-for-oil tool, also known as mutual
benefit loans, as the most apparent instrument of foreign policy. Financial power and oil
intersect at the oil-for-loans strategy. Oil-for-loans transactions feature underlying
interests to use of oil in order to extend credit lines, get access to stable oil supply,
advance energy security efforts, and enhance international relations. These new nuances
appear on the heels of the engagement of an extra hemispheric actor in the region such as
China, along with its burgeoning energy demand and high oil prices. There are high
stakes when it comes to Chinese loans in Latin America. The latest report by Gallagher,
Irwin and Koleski estimate that more than half of Chinese loans abroad went to Latin
America in 2009 and 2010.230 By the end of 2014 The China-Latin America Finance
Database estimate China finance figures to the region amount to $119,000 million.
Evidence shows that loans began in 2005 with record amounts from 2009 to 2014 (except
for a considerable drop in 2012). There is no official information on Chinese finance in

Latin America, but at least two thirds of Chinese loans encompass built-in privileges for Chinese companies whereby loans finance projects built with Chinese materials and by Chinese companies in the infrastructure, mining and energy sectors. Today Gallagher and et al estimates that 50 percent of Chinese finance, $59,000 million, flowed through loans-for-oil mechanisms. Since 2009, Ecuador has received 12 loans from China amounting to $11 billion. Nine of these agreements are on energy, 50% percent of which fall into the loans for oil category reaching $5 billion.

**Figure 5-1 Chinese Financing in Latin America by Sector**

![Chinese Financing in Latin America by Sector](image)

Source: China Latin America Finance Database

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231. Ibid.
Details and figures of oil-backed loans vary in light of lack of official information and transparency. Similar to findings in previous works, this study finds that Chinese Banks do not publish information on their loans. Furthermore, the Ecuadorian Government concluded deals are of national interest and conceal access to official information under the Public Finance Law, yet during the field research this study found access to copies of the contracts. Empirical evidence from Ecuador suggests that agreements began in 2009 in the midst of the global economic crisis. There are a total of five contracts linked to oil, three of them falling under the strict classification of oil-for-loans terms, and two additional that follow different contract forms but overall share the

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same content characteristics of original oil deals.\textsuperscript{233} Research at forefront of China-Latin America relations has provided detail on some of the loans but has underestimated the number and size of loans, as contracts continued to be renovated according to empirical evidence and interviews in Ecuador:

**Figure 5-3 China-Ecuador Oil for Loans Agreements**

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrower</th>
<th>Lender</th>
<th>Amount (USD Billion)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Petroecuador</td>
<td>Petrochina</td>
<td>1,000</td>
<td>Advancement payment for Petroecuador oil</td>
</tr>
<tr>
<td>2010</td>
<td>Petroecuador</td>
<td>BDC</td>
<td>1,000</td>
<td>80% discretionary, 20% oil-related</td>
</tr>
<tr>
<td>2011</td>
<td>Petroecuador</td>
<td>Petrochina</td>
<td>1,000</td>
<td>Advancement payment for Petroecuador oil</td>
</tr>
<tr>
<td>2011</td>
<td>Gobierno</td>
<td>BDC</td>
<td>2,000</td>
<td>70% discretionary, 30% oil-related</td>
</tr>
</tbody>
</table>

Source: China-Latin America Finance Database

Ecuador and China’s oil-for-loans are symptomatic of recent state-to-state energy deals trends focused on direct oil purchase and oil export credits. Opposite to mainstream media claims such as those from the Wall Street Journal that claimed that such financial transactions are paid in kind,\textsuperscript{234} oil-for-loans consists of transactions between national oil companies of oil producer countries whereby China provides cash advances which in turn are repaid from revenues earned from oil sales to Chinese oil corporations. The conditions set several monthly shipments of a set number of barrels to Chinese national oil companies for a period of two years. In Ecuador, the loans are characterized by their large size $1,000 million credit, high interest rates, and a short

\textsuperscript{233} Gallagher, Irwin, and Koleski, ¿Un mejor trato?; Gallagher, Irwin, and Koleski, "The New Banks in Town."

\textsuperscript{234} Schneyer and Medina, China's Power Play in America's Backyard; Associated Press, "Venezuela says China to give $5 Billion oil loan," The Wall Street Journal, September 1, 2015.
maturity period of two years on average; they establish oil supply negotiations at market prices for two years—renewable—and a 7% interest on average (see table).\textsuperscript{235}

Unlike Chinese agreements in Africa, oil-for-loans in Latin America are not concessional and do follow market interest rates.\textsuperscript{236} Contracts demonstrate that agreements are secured and paid by Latin American governments such as in the case of Ecuador. This evidence refutes a second set of claims, which argue that the agreements provide China access to oil supply at a low prices and preferential rates. It is also relevant to mention that none of the available contracts exhibit clauses that directly require funds to be allocated to infrastructure projects built by Chinese companies in the country. Yet the timing of oil-for-loans agreements and interviews with knowledgeable informants lead to believe that oil-for-loans are better understood in terms of expanding interests and connections to other dimensions in the energy sector including infrastructure.

Oil backed deals encompass particular institutional features that reflect political muscle to secure direct bilateral arrangements. The logic of the agreements implies that host countries and China give their state-owned companies in the oil and bank sector a competitive edge to promote bilateral negotiations encompassing oil and finance. From China’s side, the state-owned oil enterprise CNPC and Sinopec and are tasked with the oil procedural transactions, while both state-owned banks, China Development Bank and the Export-Import Bank of China, clearly defined as “policy banks” by Beijing, focus


\textsuperscript{236} Brautigam, \textit{The Dragon’s Gift: The Real Story of China in Africa}. 
on the financing aspect. Chinese oil companies do not engage in oil deals independently and are involved as long as finance comes from Chinese banks. Income from these agreements is deposited in a borrower’s account opened at the Chinese financing institution, China Development Bank or the Export-Import Bank of China, which automatically withholds loan payments. On the Ecuadorian side, power has been vested to the Ministry of Finance and the state-owned oil company Petroecuador as counterparts.

The president of Ecuador resorted to an Executive Order in order for high-ranking states agencies to carry out deals that, by their own authoritative and discretionary nature, suggest that agreements transcended commercial grounds of a common commodity trade transaction. There was a cloud of secrecy over both the negotiations between government bureaucracy as well as the agreement itself. This raises the view that state oil companies are instruments of the government and operate non-commercial objectives in particular energy security and the advancement of the state position in the energy system. Commercial gains play a part in the agreements and in fact the terms of oil for loans agreements include market functions. Yet in light of the strategic involvement of state agencies, it is reasonable to assume that the state plays a larger role and facilitates agreements between their national oil companies and their national owned banks.

A rising issue is the efficiency and benefits of these loans in target countries like Ecuador. What are the objectives of the agreements? Is this really beneficial for

Ecuador? What is its bargaining position? Immediate security energy security result from both parts remains inconclusive. In fact, there is no easy way to access the data required to make an assessment of the oil-for-loans’ outcome and performance. That said, limited empirical evidence and accounts from interviews with experts suggest that Ecuador is at a disadvantage with regards to both their commercial and non-commercial goals. China and Ecuador described arrangements as commercial deals that harbor “mutual benefits” and “win-win” suggesting a rather liberal focus on absolute gains. Thus the rational immediate goal in this resource policy is to maximize the utility of the agreements.  

At the very least and in economic terms, Ecuador views oil-for-loans as a potent tool to maximize revenues, target the highest price possible, profitability, secure liquidity, and establish agreements that overall do not pose risks to national finances and reinforce the decision to eschew production and revenue sharing agreements with private oil companies. As previously mentioned, agreements consist of China providing cash advances that are repaid by Ecuador though proceeds of oil sales by to Chinese oil corporations and do not directly advance repayment in oil barrels. Payment encompasses a set of terms. First, price of oil barrels allocated are valued at the market price through the Western Texas Intermediate oil pricing benchmark minus a market differential usually subtracted due to the lower quality of Ecuadorian oil (the latter which appears to also follow market prices). Terms also set fixed oil premiums per barrel, which actually declined in the succeeding 2011 agreement. In the first agreement premium


ranges from $1.30 to 1.25, which by the 2010 deal was lower to $0.50. Finally, the terms include an interest rate that varied from 7.25 percent in the 2009 agreement to 6 percent in the last agreement.\textsuperscript{240}

**Figure 5-4 Terms of Oil for Loans Contracts**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 years</td>
<td>7.25%</td>
<td>6%</td>
<td>7.08%</td>
<td>NA</td>
</tr>
<tr>
<td>$1.30</td>
<td>$0.51</td>
<td>$0.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1.25</td>
<td>$0.51</td>
<td>$0.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>720,000 barrels per month</td>
<td>1,800,000</td>
<td>1,440,000 barrels per month</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,160,000 barrels per month</td>
<td></td>
<td>1,440,000 barrels per month</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ban trading oil in Peru, Colombia, and Chile</td>
<td>Eliminates trading conditions to other markets</td>
<td>Eliminates trading conditions to other markets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: China-Latin America Finance Database, and contracts

In the midst of a boom in oil prices, the oil-for-loans course was weighted against the option of continuing to sell production regularly at market prices and maximize revenue opportunities in the global oil market. Yet, performance and terms of the deals suggests that maximization of revenue and profitability was subordinated to rapid access to liquidity. To begin with, the agreements are not profitable operations. Ecuador loses revenue from oil sales in the context of interest rates. Premium values are lower in comparison to premiums achieved in market transactions according to the subsequent
reports.\textsuperscript{241} For example, in a preliminary analysis Maria de la Paz Vega estimate
concurring oil auctions in the market earned between $0.66 to $0.79 higher oil premiums
than original agreements with China. De la Paz concludes terms of agreement incur on
$47 million in losses just in terms of the oil premium value.\textsuperscript{242}

Overall, this study finds that the terms and conditions of agreements also weigh in
China’s favor. Opposite to the finding of this study, mainstream works by Gallagher,
Irwin and Koleski argue that oil-for-loans-agreements seem to benefit resource-rich Latin
American countries such as Venezuela, Brazil, and Ecuador (Gallagher, Irwin et al.
2013). They claim that Chinese interests are high but similar to what Ecuador would have
to pay to international creditors anyway as a high-risk country. Yet, the commercial
conditions of the agreements including the short-term of the loans, monthly payments
backed by oil, rapid payback, and low risk management leads to believe that high interest
rates are excessive in light of all commercial guarantees. This is evidence of predatory
financing. In addition, a main factor in the agreements is their ability to commit oil
supply to Chinese state oil companies for two years; for example, the first agreement
requires Ecuador 96,000 b/d to Chinese oil companies for two years. Under these
agreements, the volumes of oil shipment encompass more barrels than those needed to
repay the loans in order to obtain oil revenue for the producer country while securing an

\textsuperscript{241} Petroecuador, ed., "Contract for Sale of Crude Oil between the Oil Company of Ecuador’s
for Sale of Crude Oil between the Oil Company of Ecuador’s State Company Ep Petroecuador and

\textsuperscript{242} Ibid.
oil quota to Chinese oil companies. By implication, the agreements allow direct oil purchase that is not open for bidding. Oil backed loans gives China a rapid and high return for its capital (oil-for-loans are generally 2 to 4-year loan periods), business for its national oil companies that received volume oil sales arranged in agreements, and stable long term oil supply stream. In particular, since the first deal in 2009 the loans seem to progress in China’s favor at least in the short term. By the latest $1 billion loan in 2011, document leaks revealed a “Four Party Agreement“ letter in which the Ecuadorian government grants Chinese companies a “sovereignty immunity waiver” to seize Ecuadorian oil from Ecuador’s international partners if the country fails to repay the debt. An investigation by the Ecuadorian National Audit Office found that the Ministry of Finance directly ordered this amendment eschewing any bargaining, or a technical and legal review and as result potentially jeopardize commercial relations with third parties. In sum there are scarce regulatory risks for China’s finance base on oil trading. Energy-backed loans tackle multiple goals associated with China’s investment of its outstanding $ 1.5 trillion of foreign reserves, enormous demand for energy, and businesses for its state-owned companies.

On the other hand, although Ecuador receives immediate access to fresh capital, this involves committing its main asset and primary source of state revenue. Reports from Petroecuador claims as much as 80% of Ecuadorian oil production goes to Chinese


corporations and a special report by Reuters expects figures to go up to as much as 90% in the coming years.245 For the smallest OPEC exporter, this could mean to have already committed its main source of revenue, a drastic shift for an industry that has been tightly controlled by the state. Ecuador as a result has only 10% of its oil production to maneuver outside of Chinese commitment according to government officials or as Gonzalo Escribano writes “new commitments to China may have led Petroecuador close to its maximum production levels.”246 While the price of oil barrels allocated to China is valued at the market price the day they are shipped, loan transactions undermine the possibility to readjust supply flows and sell it to the highest bidder.247 All in all, taking into account that agreements are for 2 years renewable by China, this means future revenues are bound to these bilateral agreements that started in 2009. In this light, President Correa has claimed capital from deals goes to investments projects with a return of 25 percent.248 Performance of loans is difficult to measure not only as information of the loan is not officially revealed but also as the revenue from the agreements goes to a single national treasury account hindering any attempt to trace back capital spending.


246. Petroecuador, El petróleo en el Ecuador; Schneyer and Medina, China's Power Play in America's Backyard.


248. Schneyer and Medina, China's Power Play in America's Backyard.
Second, the oil-for-loans strategy sought to advance bilateral links in order to diversify markets. By 2012, Petroecuador announced that 80 percent of state oil exports went to Chinese oil companies. Yet, official reports to Congress reveal that although 80 percent of oil supply went to Chinese oil companies, they did not go China as a final destination. Reports from the National Audit Office found that all 120 oil shipments under analysis arrived in Panama and U.S. ports. Furthermore, none of the agreements restricts sales in Ecuador’s biggest market along the northern pacific even though more than two thirds of Ecuadorian oil end up in the United States. Oil agreements with China actually added one more actor to the trade chain as supply was still bound to U.S. west coast. In this light, the agreements in any case provided Chinese national oil companies with oil reserves to secure China’s access in case of future oil needs and also capacity to project its companies market in the Western Hemisphere. For example, the initial 2009 agreement implemented clauses to prohibit reselling Ecuador’s oil to what is considered its southern natural market along the Pacific, Peru, Colombia, and Chile; this was later lifted in 2010 and approved for the reselling of oil in any market.

Third, oil-for-loans promotes partnership with states and their national oil companies. The use of oil in bilateral agreements such as oil-for-loans was encapsulated under “Strategic Partnership” agreements with the main goal to commit oil production to the expansion of direct economic state-to-state relations and advance common interests


251. Petroecuador, El petróleo en el Ecuador.
with China and other countries through their state oil companies.\textsuperscript{251} The objective of state-to-state strategic alliances to advance trade directly to final consumers and their refineries ultimately failed. The control of resources by the government bring the state back in as a gravitating actor to use output for policies beyond commercial profitability rationale. Producing states traditionally weigh in between liberal strategies that attract foreign investment to expand exploitation of reserves or economic nationalism to increase political power through resources.\textsuperscript{252} The country favored a nationalist approach to control petroleum resources and its supply chain in light of Ecuador’s decision to eschew production and revenue sharing agreements. This logic had wide appeal among officials and became one of the pillars of oil policy beginning in 2007. This was when Ecuador embarked in state-to-state oil agreements that sought to sell oil directly to final country consumers like China or set oil for refined products exchange system under other Strategic Alliances with Venezuela’s PDVSA and Uruguay’ AANCAP\textsuperscript{253}. The ultimate goal was to control the supply chain between production and refinery or consumer countries and in the process promote bilateral relations.\textsuperscript{254} The policy sought to alter the rules of the market, in terms of access to oil and the use of resources, to increase political power.

Along these lines, Ecuadorian oil policy also pinpoints to altering rules of the game in the global oil market, establishes direct means to controlling oil transactions, and

\textsuperscript{252} Andrews-Speed and Danreuther, \textit{China, Oil and Global Politics}.

\textsuperscript{253} Belyi and Talus, "Introduction".

advances direct bilateral agreements. Concomitantly, direct bilateral agreements such as this also attempt to eliminate intermediaries (as a means to increase revenue). These objectives were evident in 2007 as the Ecuadorian Government proclaimed the elimination of market oil trading: "Hemos terminado con los intermediarios de nuestro petróleo." Correa claimed government-to-government oil agreements were a priority to sidestep oil-trading companies—buy and sell oil between producers, energy/refinery companies---to eliminate additional fees from transaction costs. Yet, interviews with oil experts and empirical evidence indicate the lack of National Chinese refineries in the U.S. and the established oil trading structure Chinese oil companies did business with trading companies in order to sell Ecuadorian oil to U.S. refineries.

5.6 Conclusion

In a wider spectrum, oil commitments, through new mechanisms such as oil-for-loans, are state instruments to push energy related goals such as access to market, reserves, building the capacity of state oil companies, and advancing the use of either finance or a natural asset to strengthen government-to-government relations. Furthermore, these agreements encompass an attempt to manipulate the exchange for political aims within the energy system including circumventing the orthodox oil order and advancing the state position in the energy market system. In terms of the performance of the agreements, the terms of contracts suggest that the scope of conditions and demands evolved in China’s favor. Ecuador continues to rely on a single actor, enclosing its strategic asset to only one bidder. While is not new for Ecuador’s oil production to depend on single customer as the United States was traditionally the main destination of oil exports, advanced credit

terms seem to lock up future oil production. Furthermore, in the short-term, agreements are not commercial and profitable opportunities and Ecuador’s political muscle does not seem to have advanced its position in the energy market. It has also minimized the traditional external pressures such as dependence on the U.S. oil market, the shock of oil prices, and the market system, which it has circumvented.

The aim of negotiations with national oil companies is to increase the state capacity and open the political decision-making space; it continues the goal of increasing the state’s leverage and expand policy space. Evidence suggests that oil-for-loans is not profitable at least in its short-term performance. More than maximizing business opportunities, they set strategies to work the global oil market in terms of both energy and political goals in terms of bolstering bilateral relations, providing energy to rising partner, and reducing dependency to one single consumer country. Oil-for-loans is a policy instrument that uses oil as a means to bolster ties with other countries, embedding these characteristics in an effort to use it for commercial but above all political gain in the energy spectrum.

Not all Latin American producer countries engage in oil-for-loans deals despite engaging in resource nationalism and exhibiting state-controlled oil companies. Empirical evidence from the Ecuadorian case suggests that oil-based collaboration operates under a Grand Energy Strategy. This is a national energy project that incentivizes extensive bilateral cooperation and ventures along different dimensions of the energy sector. Oil-for-loans is the latest and innovative economic tool of engagement between China and resource-rich regions like Latin America; it seeks to enhance bilateral energy relations

and cement strategic energy partnership with other states. In this light, China has become the main partner and source of finance of the energy agenda that pursues multiple non-energy goals including economic and political autonomy.
Chapter: On the State’s Choice of Oil for Loans: Domestic Causes

6.1 Overview

Explanations of state behavior of small states traditionally locate determinants of foreign policy at the systemic level. Empirical generalizations from the systemic approach for example interpret interdependence that ensues from China’s rise and its commodity quest in Latin America, alters the region’s economic balance and enhances leverage in the international system. Others argue that countries at the periphery of Power politics lack agency. Yet, for all the reliance on systemic effects, empirical evidence suggests that Latin American states differ in their strategic relations with Beijing, particularly on issues pertaining economic cooperation. In analyzing the decision to cement relations on energy backed loans agreements, domestic politics offers plausible explanations.

To explain this pattern as it pertains to incentives to engage in oil backed loans agreements, this chapter assesses domestic factors that compel engagement in these kinds of bilateral agreements. The main assumption is that even in countries where resource nationalism is at the heart of oil management and the executive branch maintain exclusive power in negotiations, a state is most likely to assume a set of potential agreements that will be politically viable at home, and more likely to endure domestic pressures in countries where oil takes a significant share of total exports. This holds even among oil democracies like Ecuador for which the management of its mains source of national revenue remains a contentious area of the domestic power game and a legitimate preoccupation for a wide range of actors. The argument may help explain the role of agency in small states to advance deliberate policy choices.
rather than the often-assumed systemic factors. In this exploration of causal mechanisms, the chapter delves into three alternative explanations: domestic power structure, bureaucracy bargaining, and, ideology. The first section presents the leader’s perception and ideology as way to understand the link between the state structure and policy. The next section explains the relevance of the oil industry in the Ecuadorian domestic power arena. The second section provides evidence for the domestic power structure approach. The next section tests how the bureaucratic thesis fare as an alternative mechanism followed by evidence from a shared cognitive approach. The chapter concludes with some final reflections.

6.2 The Discourse and Political Vision of Rafael Correa

China arrived in Latin America when a series of heterogeneous regimes were emerging in the region. Fueled by ideology, Ecuador was part of a series of political programs in the region that challenge the neoliberal model. The shift has long been associated with the new Left in Latin America.\(^{257}\) It is often hard to disentangle a left ideology from national interests, and leadership as countries like Venezuela, Ecuador and Bolivia follow a socialism in the twentieth century platform. Yet, not all left governments advance the same foreign policy, a case in point is Chile’s foreign policy. Thus the need to move beyond the conceptual morass by explaining how the strategies pursued are also about leadership, nation-making, and autonomy. Much of the manner of Ecuador relation and agreements with China is related to the interests and principles set by the leader.

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\(^{257}\) Steven Levitsky and Kenneth Roberts, eds., *The resurgence of the Latin America Left*
Rafael Correa run for president in 2006 on a political platform that argue the current political and economic structure was inadequate and delegitimized.\textsuperscript{258} At the international level, he envisioned a radical and rapid change that would rupture with the market-driven orthodoxy of the Washington Consensus including the emphasis on debt obligations and macroeconomic restructuring. Instead, he favored the increase of social spending and the restructuring of the foreign debt.\textsuperscript{259} Breaking from the Washington Consensus also implied taking political distance from the U.S. as Correa run on the electoral promise to terminate the agreement enabling the U.S. use of the air force Manta base. Successive events including the end of U.S. assistance for counter narcotics, the cessation of the renewal of the Andean Trade Preference Act, the expulsion of U.S. ambassador Heather Hodges over the release of diplomat cables by Wikileaks, among others espoused opposition to U.S. interests in the country. Once in office, in his foreign policy plan, Correa set to advance autonomy vis-à-vis the United States under concerns that U.S. security interests have had political consequences over democracy and human rights in the country.\textsuperscript{260}

Ecuador’s foreign policy under Correa pursue two dual goals: the integration of Latin American countries and the diversification of relations and opportunities along the multiple centers of the global economy. The idea of diversification and regional integration were intrinsically linked to the attempt to shift away from the Washington Consensus. The ultimate objective of the diversification of trade and investment was

\textsuperscript{258} Rafael Correa, "Ecuador's Path," \textit{New Left Review} (2012)
\textsuperscript{259} Gustavo Flores-Macias, \textit{After Neoliberalism?: The Left and Economic Reforms in Latin America} (Oxford: Oxford University Press, 2012)
domestic, that is to provide the policy space and capacity to implement policies that “diminishes the social debt the country has with the people.”

Regional multilateral initiatives sought to strengthen political coordination outside of U.S. orbit. In an interview with the New Left Review in 2012, Correa explained his Citizen’s Revolution “was also profoundly Bolivarian, in terms of regional integration” alluding to the legacy of Simón Bolívar liberation and rule over the Gran Colombia (Colombia, Ecuador, Panama, and Venezuela). This followed a dual emphasis on subregional initiatives through the Bolivarian Alliance for the Peoples of our America (ALBA) and continental blocs like the Union of South American Nations (UNASUR) and the Community of Latin American and Caribbean States (CELAC).

ALBA in particular is above all a political project directed to challenging the neoliberal economic model and the rule of the market, thus its active opposition to a Free Trade Area of the Americas (FTAA). In ALBA Correa shares ties with presidents from Bolivia and Venezuela that adopted an “anti-imperialist” public rhetoric towards the U.S. Nevertheless, Ecuador’s approach to the U.S. has been less belligerent and, opposite to Venezuela, Correa has to maintained a constructive relationship with the United States and restore relations with Colombia. The strategy under ALBA complements and is consistent with Ecuador’s commitment with a more moderate regional projects like UNASUR insofar they are both built on the idea of autonomy and as regional balance mechanisms that mitigate sovereignty costs of opposition.

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261 Ibid., 17
262 Correa, "Ecuador's Path."
The diversification of opportunities concentrated on the multipolar centers of the global economy. Correa’s foreign policy set to diversify trade and investments with particular interests China, Japan and other extra hemispheric countries. This strategy seemed to be grounded on a more pragmatic rhetoric to forge ties with new markets that advance modernization efforts yet any international effort is carried out by the Ecuadorian state. In the oil sector for example bilateral agreements were sought with the national oil companies of China, India, Thailand, Russian, and Qatar. This pattern continues as Correa’s government sought to strengthen relations with countries from Easter Europe (Belorussia, Turkey) Asia (South Korea, Indonesia) and the Middle East (Qatar, Saudi Arabia). Recently, Ecuador also reached a trade agreement with the European Union. China has become a vital source for the modernization efforts in the sense it represents fresh opportunities in terms of trade diversification and new sources of financial investment. This in include large sums for development projects such as roads and hydroelectric with Chinese national companies. In addition, Ecuador has sought to expand relation with China in industrialized sector including pharmaceutical, and petrochemicals. Overall, the government of Rafael Correa has advocated for top-down strategies and tactics in which the state asserts control and is at the center of economic transactions with international actors. The private sector, civil organizations or the media are not invited to contribute to a seamless web of economic and demographic integration across borders.
6.3 How does the Ecuadorian Domestic Arena Affect International Oil Policy Choices?

To concede that countries in the region emphasize different economic routes—in trade, investment, loans—and engage in diplomacy with China implies that domestic actors weigh in on foreign policy. Ecuadorian military and democratic governments have traditionally faced antagonistic domestic interest groups that often performed checks and balances in the implementation of oil policy. Actually in the Ecuadorian political arena, high oil prices were key in the transition to democracy and actually trumped the consolidation of the military regime during the oil boom in 1979.265

Oil decision-making in Ecuador is dominated by national considerations. To the extent that oil is the cornerstone of the state windfalls, it finances public spending and nurtures social reforms, often times in order to appease counter-mobilization. The voices of political parties, corporatist organized civil society groups (oil workers, students, teachers and public employee unions), indigenous organizations, the military, the legislative, and the media have both, propose the manner of resource management and advance strong disagreements over extraction.266 While hydrocarbon resources are owned by the state and retains a substantial public sector footprint, the scale of participation of the state and private companies has actually varied. Thus there is a long tradition in the state to resort to bargaining strategies to mobilize domestic groups in favor of its oil policies. Along these lines, the Ecuadorian decision-making apparatus faces bargaining challenges from societal and state actors when it comes to oil in light of

266 Philip, Oil and Politics in Latin America.
its crucial impact for the national economy and its critical location among indigenous settlements and bio diverse environment.

6.4 Domestic Representative Institutions and Executive Autonomy

From a state-centered approach, one would expect that the implementation of international oil-for-loans agreements is the preferred strategy of the winning governing coalition in the domestic power game.267 Traditionally, the executive is the leading actor in international policy. Yet, its bargaining latitude takes place along domestic institutions including executive-legislature balance, administrators (rulers, armies, etc.) and the legitimacy of the executive’s policy is echoed in public opinion.268 The executive-legislature balance power game would claim that a government is able to pursue oil-for-loans agreements in a political arena in which policy makers do not face strong counter balance efforts from domestic regulatory institutions like Congress; the ability to advance oil-for-loans agreements relates to the tightening of the political space in favor of the domestic power group that push this oil policy as the winning strategy. As the lead of state policy, oil policies indicate the tightening of the political space and the enhancement of the executive’s capability to push through oil policies it proposes. The executive has this power over other domestic regulatory agencies such as the legislative.269 Furthermore, as a specialized and strategic sector for the economy, oil also traditionally involves the leverage of the national state company, Petroecuador, and the Military at the


268 Alons, “Predicting a State’s Foreign Policy.”

269 Ibid.
managerial level. Together with private oil companies, they are long associated with the oil sector and have acted as checks and balances manner to the executive.

Furthermore, in such a contentious sector, the government’s ability to affect the domestic power structure is often mediated by its ability to forgo social pressure. In matters of foreign policy based on oil, one would expect the government policies be responsive public opinion; society-centered actors’ vocal opposition or favorable views matter in order to engage extended oil agreements with China. Responsiveness to popular preferences including attitudes over foreign policy and expanding relations with China was key in the midst of multiples calls to the ballot in order to halt Congress, establish a Constituent Assembly to draft a new constitution, get the new Constitution approved in 2008, calling presidential elections in 2009, and getting reelection in 2013.

Exploring the regulatory aspects suggests that the domestic power game over oil resources was a major issue in the government’s efforts to maximize the executive’s agency. Oil-for-loans do not need to be ratified by Congress, yet the empirical evidence suggests that preferred strategies were fostered by the opportunity to act independently of domestic pressures in a strategic sector that traditionally provides leverage to other actors. Correa rose to power in the midst of a political crises that undermined political parties and institutions. His camping proposed a “citizen revolution” that would advance a “radical and rapid change in the existing structures of the Ecuadorian society.” De la Torre best explains that once in power, Correa “shut down or replaced national legislatures, packed institutions of control with supporters, attacked private media outlets,

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270 Correa, "Ecuador's Path."
and harassed civil society groups with ties to traditional parties.”

The opposition further saw representative institutions to crumble as Correa “left the act of voting intact and indeed relied on it for legitimacy.” Furthermore, it placed other institutional actors in a subordinate position allowing the executive to control all stages in the hydrocarbon chain: the expansion of rents, the central control of oil revenues, the elimination of independent oil funds, the erosion of the participation --and by implication leverage-- of Congress, foreign and state oil companies, the Central Bank, and the State’s attorney.

The executive moved forward to circumvent congressional intervention that would challenge the executive’s aggressive expansion and control of the oil sector and related agreements. Control over oil was of strategic importance for the government’s distributional and infrastructure development goals. In the wake of high oil prices, the government bypassed the maximization of supply and the improvement of managerial competence in favor of rent-seeking policy. During Correa’s first year in office, 2007, and with a Congress run by the opposition, the government found little enthusiasm for law reforms that sought to cancel production-sharing contracts with private oil companies in favor of fixed per barrel fees contracts. In fact, the first negotiation rounds to modify revenue agreements with private oil companies in 2008 were unsuccessful and led rather to transitional arrangements. In lieu, the government decided on an Executive Order, No 662 in October 2007, to bypass Congress in order to set a 99% increase, later lowering to

272 Ibid.
70%, in the oil windfall profits tax on revenues above market prices already established by previous contracts.\textsuperscript{274}

The executive’s agency over oil rents furthered after the government placed the Congress into hiatus and succeeded to call for Constitutional Assembly where Correa’s coalition won majority with 80 out 130 seats by November 2007. The Constitutional Assembly drafted a new Constitution but also implemented a new hydrocarbon law\textsuperscript{275} in 2008 that improved the state’s capacity to administer oil, managed debt and eliminated assigned oil funds. The reforms ultimately flow oil revenues towards the single National Treasury Account and eliminate independent funds.\textsuperscript{276} Reforms enacted the state budget exclusively direct oil revenues towards investment projects, thus providing the government with sufficient discretion and flexibility to adopt their favored oil negotiations. The same law eliminated the discretion of the Central Bank and the State’s Attorney General Office to approve the issue of debt, which ultimately remains under the executive.\textsuperscript{277} With the Constitutional Assembly under the control of the government, and the lack of the legislative arm, there was an absence of institutional mechanisms that could balance the executive power’s absorption of the oil industry.

In the overall framework, Articles 315 to 318 of the new Constitution approved in 2009, elevated the state ownership of oil and claimed sovereignty of oil in all its

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\textsuperscript{274} Presidencia de la República del Ecuador, ”Decreto Ejecutivo 662,” Quito, Registro Oficial 505, May 21, 2015.
\textsuperscript{275} Asamblea Constituyente del Ecuador, ”Ley Órgánica para la Recuperación del Uso de los Recursos petroleros del Estado y Racionalización Administrativa de los Procesos de Endeudamiento,” Quito, Registro Oficial 308, April 3, 2008.
\textsuperscript{276} Miguel Ruiz and Pablo Iturralde, ”La Alquimia de la Riqueza,” Estado, petróleo y patrón de acumulación en el Ecuador (Quito: Centro de Derechos Económicos y Sociales, 2013); López, Herrera, and Karla Arias, ”El Liderazgo de la gestión petrolera regresa al estado.”
\textsuperscript{277} Asamblea Constituyente del Ecuador, ”Ley Órgánica para la Recuperación del Uso de los Recursos petroleros del Estado y Racionalización Administrativa de los Procesos de Endeudamiento.”
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dimension: ownership, regulations, administrations, and production. This left little room for the participation of foreign direct investment and technology of foreign companies in the expansion of production, as the new Constitution disclosed that the participation of foreign oil companies would be complementary to the clout of the state national company; private oil companies would invest in association with Petroecuador as a joint venture.

The lack of incentives for FDI and reinvestment of oil earnings back into the sector dented oil production despite the fact the state could triple its production. With the approval of the Constitution and a new legislative branch with government majority in place in 2010, Correa had in place the institutional framework to enact reforms over the nature of contracts and oil revenues presented in 2007. Even while the government had an overwhelming majority in Congress, the executive opted for the unilateral fast-track method to push through its agenda. This means that changes to the hydrocarbon law must be discussed, approved, or censured within 30 days or the law comes into effect at the end of such deadline. The ruling targeted the participation of foreign oil companies in the sector—either state or private—by eliminating profit or production sharing deals and replacing all operational agreements for fixed per barrel fee service contracts. In the mist of negotiations, private operations exited and declined by 15% as state-owned Petroecuador absorbed 73% of oil assets.

279 López, Herrera, and Arias, "El Liderazgo de la gestión petrolera regresa al estado."
Timeline of key changes in oil policy

- Government wins referendum and calls for a Constituent Assembly
  - September

- The Constituent Assembly is installed and suspends Congress.
  - Government has a wide majority, 62% of representatives, and dominates agenda.
  - No executive-legislative balance.
  - Absence of legislative veto player
  - November

- PetroEcuador signs a Strategic Alliance with Petro-China International Co. Ltd
  - January

- First oil for loans agreements signed.
  - July

- Executive order bypasses Congress and pushes nationalist oil policy.
  - Order imposes a 99% tax on oil windfall-profits.
  - First attempt to negotiate operational agreements.
  - October

- Assembly drafts a new hydrocarbon law. Removes regulatory players:
  - Eliminates assigned oil funds,
  - Redirects and allocates oil income directly to the single National Treasury Account and,
  - Eliminates Central Bank’s and the State Attorney General Office’s authority to issue international debt.
  - April

- Correa wins elections and majority in Congress.
  - April

- Articles 315 to 318 of the constitution elevates national and public ownership of oil in all its dimension.
  - Participation of foreign oil companies becomes complementary to the clout of the State oil company.
  - July

- Renegotiation of contracts with oil companies
  - November

- The Executive calls for a fast-track reforms to the hydrocarbon law that bypasses Congress. Reforms:
  - Targets the elimination of production sharing contracts with oil companies
  - Hierarchic policy model: reforms centralize decision-making in the oil sector and new sectorial agencies are created under the executive.
  - Petroecuador to perform exclusively operational functions and excluded from negotiations of agreements and contracts.
  - June
6.4.1 The Changing Nature of Oil’s Institutional Structure

Law reforms ultimately boost the centralization of the oil institutional framework. Traditionally, five state agencies participate in the formulation of oil and financial policy: 1) the Executive defines the organizing principles of external relations and is concerned with improving the state power position; 2) the Ministry of Finance is responsible for allocation of oil revenues and the management of government credits, budget allocations and fiscal balance; 3) Ministry of Foreign Affairs is at the helm of the state’s international relations and in charge of bilateral agreements; Petroecuador is responsible for oil commercialization, and production represents the interest of a specialized sector; and finally Military has a long standing presence in Petroecuador’s administration and the protection of petroleum-related infrastructure due to its strategic status for the national economy. In fact, since the oil boom, the Ecuadorian Hydrocarbons Law of 1978 gave rise to three agents with stakes in oil policy: the Executive branch through its appropriate Energy Ministry, Petroecuador, and the Ministry of Defense.

The 2008-2010 reforms further hierarchically arranged oil institutions in the presidency. The 2010 reforms dismiss the policy influence of both Petroecuador and the Military in favor of the executive’s exclusive management and regulation of the industry creating instead three new institutional players under its wing: the Ministry of Nonrenewable Resources formulates policy, the Hydrocarbon Secretary manages oil

281 Philip, *Oil and Politics in Latin America.*

resources and transactions, and Hydrocarbon Regulatory Agency controls and regulates operations in the industry. These changes replaced practices formerly under Petroecuador’s responsibilities including the technical and operational regulation of oil operations.

The framework relegated Petroecuador to operational management, particularly with regards to production and commerce, as negotiations and in particular oil agreements were reassigned to the Hydrocarbons Secretary. Reforms in the nature of contracts, as fixed per barrel fees service contracts, also withdrew the leverage of private oil companies over oil production. In retrospect, while Petroecuador has been the primary source of national income, it has performed both as regulator of foreign oil firms and oil producer, which implied that as a state owned company it performed different roles beyond commercial operations. Much of the administration of the oil sector remained autonomous with the government focused primarily on the maximization of revenues. Petroecuador’s strength in the oil sector does not amount to an efficient performance, and instead is related to the considerable role of the Military that has administered the company has acted as a dampener on decisions within the company.

At the same time, the military has been a central fixture in the Ecuadorian oil landscape. Beginning with the country’s oil boom in 1972, the military found favorable conditions to take over the management of the sector and catalyze long-term prospects for oil to transform the economy and modernize the Ecuadorian society. In

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283 Presidencia de la República del Ecuador, "Ley Reformatoria a la Codificación de la Ley de Hidrocarburos," Quito, Registro Oficial 244, July 24, 2010
284 Philip, Oil and Politics in Latin America.
285 Ibid.
fact, the military has been pivotal in the protection of oil wells primarily against domestic social protests and mobilization. From the beginning of Correa’s presidency until 2008, the Military remained in control of Petroecuador in light of social protests by oil-rich provinces that demanded a bigger share of the country’s oil-financed infrastructure.\textsuperscript{286} Correa, under an Executive Decree, continued to grant the Military control of oil wells, and the tasked the administration of the company to improve efficiency in the midst of declining production.\textsuperscript{287} But by 2009, the Government weaken the role of the military by announcing its withdrawal from the management of the state oil company. This implied that the military was no longer an agenda-setting actor within the strategic sector and was not a constraint towards new international strategies built on oil.

The strengthening of the executive decision-making capacity propelled Correa to forge oil deals with China. Like the Military, the Ministry of Foreign Affairs was for the most part eschewed from its traditional role leading the formulation and negotiations of bilateral agreements even though, as interviews with the diplomat body claimed, they were very receptive on diversifying and expanding relations with China.\textsuperscript{288} Oil-for-loans agreements were not politically costly in this context; the state did not have to make domestic concessions in light of the absence of political and economic pressures from the Congress and the Military and the political isolation of oil policy-making under the new institutional bargaining.


\textsuperscript{287} "Salida de la marina de Petroecuador no fue producto de ninguna clase de presiones, afirma Germánico Pinto," \textit{Ecuador Inmediato}, September 18, 2009

\textsuperscript{288} Interview with former Foreign Affairs Minister and current diplomatic officials, July 25, 2015.
As the government stood in a higher plane above the Congress and Military in oil policy, negotiations were placed in the trust of the Ministry of Finance. The ministry was high the decision-making model, sitting amongst the three sectors the Executive took under his wing. The Ministry of Finance led oil and energy infrastructure negotiations with China as its official statements to the Ecuadorian press suggest, and brought Petroecuador to discuss technical aspects of the oil exchange. Nevertheless, early signs in the negotiations interviews suggest that officials from the Ministry of Finance were uneager in the agreements and instead favored reforming the economic model by prioritizing government spending.289 The evaluation of the Ecuadorian economic team concluded there was not an urgency to engage in a short-term oil backed loan agreement. Actually, experts conclude that in the context of a declining external debt and a temporary liquidity problem, due to the unforeseen 2009 financial crisis, there was not a pressing macroeconomic problem and the budget could be adjusted as the economy was expected to rebound in 2010.290 By the time of the agreement renewal in 2011, unofficial information claimed opposition over oil agreements was key in the resignation of former Finance Minister Katiuska King; while she approved the credit deals, King resisted the nature of the oil-for-loans agreements and instead favored advancing bilateral financial relations with India and Russia.291

289 Interview with economic consultant and journalist, August 7, 2015.

290 Interview with former Energy Ministers, August 3 and 5, 2015

The oil boom placed Ecuador in a strong bargaining position to consider other factors beyond any economic rationale. At the domestic level, Correa used to his advantage the expansive autonomy and climbing oil prices to advance the government’s national development agenda, in particular expansive infrastructure projects, compromises to relinquish sovereignty, social distribution, and the government’s political stability. The government’s political will was ready to go along with the risks of oil-for-loans agreements in order to finance its economic model. Alberto Acosta, a former ministry of Energy during Correa’s government claims “it was the option for the political economy rationale of the government for modernization and the search of resources for public investment.”

Among interviewees, 90 percent believe that the economic model advanced by the executive was the main explanation of oil agreements, although they diverge on the economic urgency of the policy: while most informants with an economic background and insight into relations believe oil agreements were the only and most efficient tool in light of lack of access to international financing, the rest suggested alternative course of actions were possible in the context of relatively healthy economy.

In this light, China was a lender of preference rather than a lender of last resort. Succeeding oil agreements in 2010 and 2011 that followed were implemented despite a different scenario of 2009, which was climbing oil prices and growing economy. The same oil strategy under different scenarios suggests that domestic economic crisis and limited access to global capital markets were not the crucial or at least not the only determinant of oil agreements. On the contrary, the oil boom seems to provide easy access to finance and investment circumventing market rules.

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292 Alberto Acosta (Former Energy Minister in Correa’s Government), in discussion with the author. August 2015.
Fiscal centralization of burgeoning oil revenues and the following oil-for-loans agreements liberated the government from binding compromises with public and private actors rather than economic distress. Furthermore, it provided incentives to forgo institutional bargaining with Congress and the Military. On the private sector side, it circumvented investment obligations with oil private companies, multinational construction companies and other private sources of FDI whose participation would imply some kind of compromise in revenue or energy production.

6.4.2 Social Pressures: The Role of Public Opinion

The government’s legitimacy to dominate oil policy including oil-for-loans agreements rests on low resistance and political mobilization from the public against relations with China in the energy sector. Politically, one would also expect that positive opinion towards relations with China indicates low political cost for the government to nurture direct ties with extra hemispheric states and allow unprecedented flexible strategies in the focal sector of the economy. Public opinion is particularly important under the assumption that policy preferences are sensitive to public criticism; this is particularly true as agreements materialized at the time Correa’s government faced a series of successive elections and referendums, including presidential elections.

International relations appear to be relevant during elections. During its first presidential run, Correa rallied commanding public support around his anti-US political platform condemning agreements with the U.S. including the U.S. base in Manta, U.S.
stake in oil production, and negotiations of a free trade agreement. Furthermore, indigenous communities, students and territorial movements traditionally mobilize to influence the allocations of oil revenues and the conservation of the Amazon territory from continuous oil extraction. Thus, any censure to the decision to shy away from relations with the United States and favor extra hemispheric relations in strategic sectors would suggest that an increase in social mobilization and pressures from active groups would heighten the Government’s political costs to enact new initiatives like oil-for-loans. It is important to mention there is not data on the specific attitudes towards oil-for-loans agreements. Yet it is possible to suggest overall responses on China provides inferences on the favorability or opposition of initiatives.

Overall, China has not gone unnoticed in the public eye of Latin American countries and cross national surveys suggest that on average, China’s influence in the region is positive. The most recent survey by the Americas Barometer at Vanderbilt University shows that on average 63 percent of Latin Americans think China’s presence is beneficial to the region and only 12 percent consider it to be negative. Ecuador reverberates this sentiment. In the same LAPOP survey 62 percent of Ecuadorian respondents on average, perceived China has some influence in the country. While results are from a 2012 survey, three years after the first agreement, the responses provide clues of favorable attitudes at the time oil and hydroelectric agreements were advanced.

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Public opinion in Ecuador itself generally exhibits favorable views on relations with China. Favorable attitudes on foreign policy nevertheless did not appear in vacuum. Spearheaded by the extensive popular support, Correa’s governed through a “deliberative democracy” that would “allow citizens to exercise power, take part in public decision, and control the actions of their representatives.”295 His commanding 85 percent approval that by 2015 had contracted to a still satisfactory 61 percent,296 enabling the executive to alter the oil institutional structure. Public opinion was particularly important in the wave of Correa’s bids that entailed series of consecutive elections and referendums to legitimize its political project.297

The Biannual surveys of public opinion and foreign policy, 2010, 2012, and 2014, Ecuador, Las Americas y el Mundo: Opinión Pública y Política Exterior reveal an overall positive attitude over the expansion of economic relations with China.298 Both, the 2010 and 2012 reports for example, which take place around the implementation of the agreements, indicate that China is not perceived as a threat; in both it is positioned last among a list of possible threats presented to respondents.299 Favorable public opinion on foreign relations with China reflects Beijing’s consolidation in the Ecuadorian landscape.

298 Francisco Carrión and Hugo Cahueñas Muñoz, Ecuador, las Américas y el mundo 2012 (Quito: Flacso Sede Ecuador; Banco Interamericano de Desarrollo; Programas de Naciones Unidas para el Desarrollo; Instituto de Altos Estudios Nacionales, 2013); Francisco Carrión and Beatriz Zepeda, Ecuador, las Américas y el mundo 2014 (Quito: Flacso Sede Ecuador; Banco Interamericano de Desarrollo; Friedrich-Ebert-Stiftung; Programas de Naciones Unidas para el Desarrollo; Instituto de Altos Estudios Nacionales, 2015); Beatriz Zepeda and Luis Verdesoto, Ecuador, las Américas y el mundo 2010: opinión pública y política exterior (Quito: Facultad Latinoamericana de Ciencias Sociales, Sede Ecuador (FLACSO), 2011).
299 Ibid.
From 2010 to 2012-- around the time first agreements with China in the energy sector--positive attitude towards China either holds or climbs up. In 2010, China is among the third set of countries (58 %), together with Argentina and Mexico, with favorable opinion among Ecuadorians; this attitude holds, 59 percent, by 2012. In fact, positive views on China even surpass affinity toward Latin American counterparts such as Bolivia (53%), and Venezuela (52%), Peru (48%), and Colombia (45%)

**Figure 6-1 Ecuadorians Perceptions on Global Threats**

![Bar chart showing the percentage of threats considered serious by Ecuadorians in 2010 and 2012.](chart.png)

- Drug trafficking and organized crime
- Global warming
- Poverty in the World
- Nuclear weapons
- Epidemics such as AIDS or avian flu
- Natural disasters
- Food scarcity and shortages
- Terrorism
- Economic crisis in the world
- Border conflicts and disputes
- The entry of undocumented immigrants to Ecuador
- The gap between rich and poor countries
- The increase of military spending in Latin America
- Instability in neighboring countries
- That rich countries hinder entry

100% means is considered a serious threat.

Source: Ecuador y el Mundo, 2010 and Ecuador las Américas y el Mundo 2012

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300 Carrión and Muñoz, *Ecuador, las Américas y el mundo 2012*. 
The surveys do not pose questions specific to the oil-for-loans agreements, yet overall, they do confirm friendly attitudes toward China. The closest insights to oil agreements came in the 2012 survey in which 55 percent of respondents believed economic and commercial cooperation agreements with China favor a “lot” or “some” to Ecuador; only 25 percent belief economic cooperation with China did not provide any benefit.\(^{301}\) In comparison economic cooperation with China is view more beneficial than agreements with Venezuela or within the Andean regional mechanism. Overall, more than half of respondents in available surveys belief China’s influence is positive and by 2014, favorable opinions actually increased to 68 percent.\(^{302}\)

**Figure 6-2 China’s Influence in Ecuador**

![Bar chart showing the percentage of respondents' views on China's influence in Ecuador in 2012 and 2014.](chart)

Source: Ecuador las Américas y el Mundo 2012 and 2014

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\(^{301}\) Ibid.

\(^{302}\) Carrión and Zepeda, *Ecuador, las Américas y el mundo* 2014.
Favorability ratings have to be understood within circumstances of climbing trade and financial relations with China as well as the nationalist reorientation of the oil sector. This suggests that institutional reforms and policy orientation including enlarging partnership in the energy sector were not seen with apprehension and did not pose major political costs to the government. Overall, Correa was successful in dismissing domestic opposition over the deals, coming especially from the media and opposition as he condemned, “in the midst of the most serious crisis since 1930, the opposition criticize financing coming from China.”303 By implication, favorable public opinion on relations with China encouraged the continuity and perhaps the expansion of economic interdependence with China. After all, expanding relations with China played out against the backdrop of strained diplomatic relations with Colombia--after the Colombian air force bombing of a camp of the Revolutionary Armed in Ecuadorian territory--

303 Carrión and Muñoz, *Ecuador, las Américas y el mundo 2012*. 
continuous tensions with the U.S., and the stalemate of trade negotiations with the European Union.

It is relevant to mention that in the three public opinion surveys, 2010, 2012, 2014, the U.S. was consistently the country with the most favorable opinion with 69 percent 68 and 63 percent respectively. Overall, respondents perceive the U.S. as the most trusted Great Power. Yet, most interesting in the same category is China’s climb from 8th to an 5th position by the 2012 survey, taking 59 percent of favorable attitudes toward countries and preserving the same position by 2014.304 In fact, Ecuadorians by far see that it is more favorable to emulate the U.S. development model rather than that of China. Furthermore, results evidence that both the United States and China drew the highest scores in favor of “strategic partners” to Ecuador, rather than merely friendly attitudes, with China also scoring high with 44 percent.305 It is possible to argue that positive views of China as a country do not convey objections over its policies. This is notwithstanding that China is usually placed within the last places of the survey among a set of countries listed to interviewees. The results point out that government initiatives to diversify and enhance economic and political bilateral relations beyond traditional partners---United States, Colombia and Perú-- and in particular with China are welcomed, and do not faced major opposition from constituents.

304 Ibid.; Carrión and Zepeda, Ecuador, las Américas y el mundo 2014.
305 Zepeda and Verdesoto, Ecuador, las Américas y el mundo 2010: opinión pública y política exterior.
Figure 6-4 Perceptions on Best Developmental Model

What country would be the best model of development for Ecuador?

Source: Ecuador las Américas y el Mundo 2012

Figure 6-5 Countries with the Most Favorable Opinion

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<tr>
<th></th>
<th>2010</th>
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<th>2012</th>
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<td>69</td>
<td>1</td>
<td>Estados Unidos</td>
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<tr>
<td>2</td>
<td>Spain</td>
<td>68</td>
<td>2</td>
<td>Spain</td>
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<tr>
<td>3</td>
<td>Brazil</td>
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<td>8</td>
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<td>58</td>
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<td>9</td>
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<td>9</td>
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<tr>
<td>10</td>
<td>Cuba</td>
<td>57</td>
<td>10</td>
<td>Venezuela</td>
</tr>
</tbody>
</table>
6.5 The Role of Bureaucracy: Does a Specialized Agency in a Strategic Sector Makes a Difference?

Within the central government, specialized agencies are involved in a series of bargaining and negotiation processes to advance their often-divergent policy preferences. From a bureaucratic approach, governments do not have stable preferences across agencies and decision-makers. According to the agenda and sectorial interests, agencies also constitute
potential veto-player among themselves in the negotiation of bilateral agreements. The specialization and technicality behind resource policy choice implies the national oil company should have leverage and bargaining over the decision-making process of oil bilateral agreements within the central government.

The default assumption over the role of national oil companies posits the hypothesis that state oil enterprises like Petroecuador are strong and assertive voices in oil policy: state oil companies maintain autonomous management from the government or at the very least lead major oil operations. In light of early official reports, which claim that oil-for-loans agreements are strictly commercial and center on the operations of national oil company, bureaucratic arguments claim that Petroecuador or other agencies make a difference in policy choice and lobby in favor of these agreements with alternative markets like China. One would expect that a specialized national firm in such a sensitive strategic sector holds leverage or remains independent from government control in the function and management of energy agreements. This is particularly relevant in the Ecuadorian case in which agencies such as the military have traditionally managed or maintained close links to the national oil company and favored isolated operations of a sector considered the engine of the economy and which is significant for the modernization of the state. State enterprises are crucial in oil policy as they perform commercial functions and act as intermediaries between the market and states. Further, in state-to-state energy relations they perform political and market functions.  

Overall, the previous section gave insight into the restricted bargaining capacity of domestic agencies. Any strategies from the Ministry of Finance, Foreign Affairs, or the

306 Ostrowski, "State Capitalism and the Politics of Resources."
Military were constrained by the concentration of decision-making power on the executive. There is no evidence of strategic interaction or drastic demands within governmental agencies in light of the executive autonomy to regulate the appropriation of resources, the revision of contracts, and the regulation of the sector; the executive was not pressured to balance domestic concerns over oil policy. Yet, the specialized, commercial character of the sector potentially places Petroecuador in the decision-making table.

Within the oil-for-loans agreements, Petroecuador functions as an instrument of public policy and seems to lack leeway in negotiations. First, interviewees concur that Petroecuador did not solicit the agreements and thus, the agreements are not commercially guided by the company’s business strategies.\(^\text{307}\) The government’s mandate to advance business relations with other state oil companies carries political objectives along the commercial nature of commodity trade that underpins Petroecuador functional role. Technically speaking, negotiations were not led by oil-related officials, specialized managers or agencies, but by the Ministry of Finance and the Minister of Strategic Resources, whose role in negotiations continues in his office as Vice-president of the country. In fact, upon a public evaluation of some of the agreements, the Office of the General Comptrollers concluded that some clauses did not follow Petroecuador’s normative. The oil company admitted that different rules applied to these international agreements and mentions, “this is a negotiation in which other state agencies are involved, in order to satisfy a need for resources in advance to the state therefore is not

\(^{307}\) Based on interviews with oil experts in Ecuador, from July to August, 2015
Possible to impose any contract of adhesion. Furthermore, according to the same evaluation, the Ministry of Finance made a demand to PetroEcuador through the “Four Party Agreement” letter in which the Ecuadorian government grants Chinese companies a “sovereignty immunity waiver” to seize Ecuadorian oil from Ecuador’s international partners.

In audits by the Office of the General Comptrollers, PetroEcuador acknowledged that agreements with China display “particular conditions” distinctive of any other contract negotiated by the state oil company. Overall, the government showed little interest in portraying a technical shrewdness in the agreements. PetroEcuador recognized that oil-for-loans was not a common trade agreement and actually recognized the bilateral element and strategic alliance nature, which leads to believe that the agreements were ultimately as a result of political decisions. PetroEcuador mentioned that

“The contracts were signed under the framework of a strategic alliance agreement, the same constitutes a bilateral relationship, and is not subject to the same conditions as a tender in the international market.”

The rise of oil-for-loans agreements seems to draw on the winning coalitional forces within the executive branch which further supports the previous hypothesis.

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308 Contraloría General del Estado, Informe general a los procesos precontractual, contractual y ejecución de los contratos 2010253, ampliatorio y modificatorio 2011048 y 2011203, ed. Dirección de Auditoría de Sectores Estratégicos (Quito: Contraloría General del Estado, 2011).
309 Ibid.
311 Contraloría General del Estado, Informe general a los procesos precontractual, contractual y ejecución de los contratos 2010253, ampliatorio y modificatorio 2011048 y 2011203.
Within the government, the founding Political Bureau of Correa’s movement “the Proud and Sovereign Fatherland Alliance” (Alianza País) took over the control of the most strategic agencies of the government.³¹² The main debate at the executive table was concerned with the appropriate means to reach the re-foundation of the state and the implementation of the national development plan: how to innovate Ecuador development model and reconsider the role of natural resources in the economy, that is, how to take advantage of Ecuador’s petro state distinctiveness.

Two narratives shaped the debate on energy policy within the executive. The first one advanced by the political ecology and ecological economic technocrat wing of Correa’s advisors favored an environmental twist to oil policy. Under the ecological banner, appropriation of oil resources is anchored in environmental policy. It involved an “ecological transition” to diminish dependence on oil and to advance conservation and global warming mitigation actions in face of the negative impact of oil exploitation on bio diversity and indigenous population.³¹³ Much of this agenda originated from intellectuals, activists, the traditional left-wing actors, and advisors linked to the government’s fragile alliance to reach power.³¹⁴ Among them was the indigenous party (Pachakutik), the most prominent confrontational voice over the distribution and exploitation of oil resources.³¹⁵

The extractive wing instead saw the national interest intrinsically linked to a rent-seeking model that focuses on economic development and Ecuador’s lack of

³¹² Ramírez, "Post-neoliberalismo indócil.”
³¹⁴ Correa, "Ecuador's Path.”; Ramírez, "Post-neoliberalismo indócil.”
³¹⁵ Fontaine, "Ideas and Institutions in Policy Change.”
diversification of energy resources. Oil was seen as both a source of national sovereignty and revenue to finance the state grand energy infrastructure project. In this case, the “energy transition” in mind rather than the conservationist policy, is at the heart of developmental program and claims the change of the energy matrix -- construction of power plants-- will bolster an industrial and innovative technology oriented economy.\textsuperscript{316} The goal was the self-sufficiency of the government to maneuver the state formation project. The extractivist strategy also sought to achieve the state’s self-sufficiency and strengthen its national sovereignty. In the context of high oil prices, petroleum was a reliable source that would allow the government to bargain with a multiplicity of actors and not be conditioned by the international community’s stake on ITT. Under an innovative international cooperation framework, the environmental branch of the government advanced the ITT initiative in 2007. Named after the location of oil reserves in the rain forest, Ishpingo, Tiputini, and Tambacocha, the state pushed an international campaign that proposed the non-exploitation of new oil reserves in the area of a National Park in exchange of international donations mounting to $3.6 billion as a compensation for the protection of biodiversity and the non-emission of greenhouse gas.\textsuperscript{317} On the contrary, this group along with the executive branch preferred to manage the increasing appropriation of oil resources and its exports towards strategic alliances with other state oil companies. The two main frameworks diverged and were in conflict with one another; one attempted to place oil as an environmental policy problem and the other identified oil as a resource policy project. Both narratives nevertheless were conscious of the national

\textsuperscript{316} Ibid.
imperative to access fresh capital in order for the state to carry out its aggressive developmental agenda yet through different means.

At first, the ecological branch seemed to dominate policy formation as they held during 2007-2008 strategic positions in the Vice presidency, Ministry of Energy and Mining, Ministry of Foreign Affairs, and the National Secretariat for Planning and Development.\textsuperscript{318} They led the initial foreign policy effort to use oil as leverage in international politics from a multilateral approach envision in the ITT initiative. The ultimate goal of ITT was similar to agreements with China: to acquire finance sources to fund state projects. Yet, contributions barely reached $6.6 million and the objective of the ecological front did not find a material base to sustain the policy. The international campaign went on until 2013 mostly because of indefinite extension of the moratorium to exploit ITT given the lack of profitability for its exploitation the context of low oil prices in 2009.\textsuperscript{319} Politically, the executive branch from the beginning found the international multilateral strategy unviable as it largely relied on the international community and acknowledge the rents-seeking option and the strategic alliance with state owned companies as the instrument of oil politics and foreign policy. All in all, there is no evidence of internal bargaining along the government agencies which seems to validate the claim that the concentration of power in the executive and succeeding defeat of the ecological wing within this branch undermine the ability of state agencies to maneuver policy choices in the oil sector.

Overall, empirical evidence demonstrates Petroecuador’s lack of agency and commercial in oil relations with Beijing. In fact, after reforms to oil policy, Petroecuador

\textsuperscript{318} Fontaine, "Ideas and Institutions in Policy Change," 10
\textsuperscript{319} Ibid., 8
centered on operational functions and by corollary did not have a predominant role in negotiations with China. Ideally, in its commercial role Petroecuador could have still sought agreements with China to diversify oil markets and clients through bolstering production or redirecting supply to China. Yet, Petroecuador exhibited a weak institutional capacity to advance managerial competence and generate technical alternatives towards expanding export operations; the government dictated its market strategies and lacked independence. The evidence suggests Petroecuador’s diminishing production and narrow market served the government priority to favor the maximization of revenues over the expansion of production. Overall, the country’s 527,00 b/d average year production is a decline from a 536,000 b/d peak record in 2006.

6.6 Ideology

China’s footsteps in Latin American have raised both enthusiasm and trepidation. A main reason is that China’s policies with developing countries are often traced to ideology. After all, China was quick to provide support and foreign aid to fraternal socialist national liberalization movements in developing countries in the 1960s, support that only later extended to non-aligned and non-socialist newly independent countries. Beijing claimed that their share of historical experience of colonialism, struggle for independence, and economic development set them in the same political path and by corollary posed the same international challenges. Later in the 1970’s China and Latin

America’s common interests in economic development built a new focus on economic links underpinned by their common economic developing structure.

Renewed relations and deals have prompted the idea that China is reshaping the developmental landscape. At the heart of the debate lay questions about the nature of their relations and the emergence of Chinese soft power: it draws attention to the possibility that oil-for-loans echoes a policy coordination process rooted in a shared belief system. Oil-for-loans exemplifies this trend as a mechanism that links energy security to finance though direct bilateral deals that often extend to infrastructure projects in energy-rich countries. This is underpinned by China and Ecuador’s development interests and south-south strategies. Following their efforts to secure direct oil and finance deals, China and Ecuador appear to show that from a cognitive, perspective, oil diplomacy is bounded by mutual ideational support over developmental strategies and the proper scope of the state.

This approach claims policy coordination within the energy sector is best explained by China and Ecuador’s collective worldview based on their identities as developing countries. The overall developmental framework bounds China and Ecuador within a class of states in terms of the development goals they share. Development is still pending for both China and Latin America in general. They have shared the same goal since 1980 when the two countries decided to enter the world market in an effort to stimulate their economies.\textsuperscript{322} Ecuador has enthusiastically welcomed China’s arrival and similarities in terms of their state driven approach to development.

\textsuperscript{322} Gallagher and Porzecanski, \textit{The Dragon in the Room}. 
The causes of these deals and of the China-Ecuador oil partnership diverges into two representations. A first cognitive model envisions that a Beijing Consensus conveys a combination of authoritarian politics and free market economics and underpins relations with countries like Venezuela and Ecuador. John Williamson for example, creator of the Washington Consensus at the Washington Peterson Institute for International Economics, has expressed concern that the principles of economic liberalism are being replaced by interest in China’s successful model, which contains authoritarian and regulatory elements.

A second representation of the global development landscape attributes economic relations to a South-South cooperation model. Originally promoted by Chinese Premier Zhao Ziyang in 1982, South-South cooperation acknowledges that limited resources restrain developing countries’ assistance to partners in the international system. As a result, South-South methods of mutual assistance emphasize on a win-win cooperation, which actually seems to convey the classic win-win economic principles that favors complementarity and the international division of labor as dictated by supply and demand.

The model is closely linked to China’s “Five Principles” international strategy based on non-intervention and a win-win strategy: 1) territorial integrity and sovereignty 2) non-aggression; 3) non-interference in internal affairs 4) equality and cooperation for

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323 Joshua Ramo, *The Beijing Consensus* (London: Foreign Policy Centre 2004); DeHart, "Remodelling the Global Development Landscape."

324 Williamson, "Is the" Beijing Consensus" Now Dominant?"

mutual benefit and 5) peaceful coexistence. These principles are the basis of their “Go Out” policy and the jumping off point for discussions on “mutually beneficial cooperation,” “common development” and “mutual respect” that have characterized official visits to Latin America. “China’s Policy Paper on Latin America and the Caribbean” explains this concept:

As the largest developing country in the world, China is committed to the path of peaceful development and the win-win strategy of opening-up. It is ready to carry out friendly cooperation with all countries on the basis of the Five Principles of Peaceful Coexistence and build a harmonious world of durable peace and common prosperity.

Undoubtedly, evidence suggests that there are fast-growing economic ties between China and Ecuador, in particular in trade and finance, and indicate that these economic links are unlikely to be reversed. It is thereby unrealistic to suggest that this would even happen. Along these lines, the idea that growing economic presence in Ecuador advances an ideological companionship or the adherence to political strings allowing the replication of Chinese policies domestically is unfounded. Empirical evidence suggests that besides general common political statements alluding to their common interests on development and sovereignty in official visits and bilateral statements, there is not an explicit political agenda and the idea of an alliance of left-wing countries is exaggerated. In fact, Ecuador has not welcomed a single state visit from a

326 Ibid.
327 Gobierno de la República Popular de China, Documento sobre la política de china hacia América Latina y el Caribe
Chinese head of state despite multiple visits of Chinese Presidents to Latin America. Meanwhile, Correa’s first official visit to China only took place in January 2015. At a symbolic level, the lack of frequent political high level exchanges suggests the absence of strategic coordination and mutual trust efforts. China and Ecuador’s increasing economic partnership has not led to spillover effects in the domestic political realm regarding the widespread perception that China’s authoritarian and central regulatory record is attractive to leftist governments like that of Ecuador. While the Ecuadorian policy debate claims that the Government highly censors the media and advances a state driven economy, there is no specific ideational or material support that suggests such events are political consequences of an alignment with some form of Chinese prescriptions. Furthermore, China has kept itself at the margins of political bilateral agreements centering relations instead into sectors with promising economic returns like energy, infrastructure, and mining.

At the material level, neither interviews nor documents available indicate an exchange of ideas or and adjustment of policy based on ideological affinity. Ideological affinity has often been represented by the apparent second-rate nature of the agreements often seen as advancing poor labor standards and environmental damage. Yet, in oil agreements as well as other related energy projects, there is no evidence of explicit agreements or inferior regulations encompassing current low quality of infrastructure by Chinese companies, poor social responsibility records, pollution, and contamination. Nor does the loans negotiation include any political or regulatory up-front conditions.

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328 Yurien Portelles, “President of Ecuador Concluded State Visit to China and Qualifies It as Positive,” Andes, January 9, 2015.
329 Amazon Watch, Beijing, Banks and Barrels: China and Oil in the Ecuadorian Amazon (Washington D.C.: Amazon Watch, 2014).
with respect to the use or allocation of finance. Loans are repaid by proceeds from oil sales to China, although pundits and experts in Ecuador claim that oil-for-loans implicitly tied arrangements to the participation of Chinese companies in key strategic projects. These effects of course are current challenges that suggest the existence of, at the very least, soft standards in continuing or expanding economic partnership with China. Yet, energy has been by default a contentious and environmentally sensitive sector with records of environmental damage from western companies alike. As such, there is no reason to assume that agreements with China will be potentially less self-serving and exploitative based on an ideological South-South solidarity than with other Great Powers. On the contrary, political solidarity has been undermined by the mixed effects of agreements; while agreements flowed-in much needed capital for infrastructure, the government also faces conflicts and pressures from local communities, which continuously put on the spotlight the claims of Chinese labor and environmental malpractice.

Along these lines, there is no evidence of a policy transfer associated with cooperation in the design of strategies over oil policy based on any mutual benefit model; there are not demands for changes or participation in Ecuador’s economic policy. Interviews for example, dismiss the existence of direct personal advice to the Government from China on the proper scope of the market-state relations. 90 percent of the interviewees claim that relations are not defined by like-minded ideologies and in fact argue economic strategies are quiet opposite.

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330 Based on interviews in Ecuador, from July to August, 2015; ”Ecuadorians Fear Their Country Is Being Taken over by China", The Economist, August 21, 2012; Schneyer and Medina, China's Power Play in America's Backyard.
In the broadest sense, China-Ecuador shared development rhetoric is traditionally applied to their membership in informal and broad multilateral coalitions like the G77 and the Non-Aligned Movement, which are in any case the umbrella of consistent common themes for developing countries including similar pasts and common goals like sovereignty and development. At the same time, there are no signs of a Beijing Consensus, per se. China has not put forth a series of economic formulas similar to the Washington Consensus. This idea emerged more as a result of attempts by the West to make some sense of China’s growth.331

6.7 Conclusion

In the context of China’s global oil quest, oil-for-loans agreements are negotiated with national companies of oil producer countries. Yet, not all oil bilateral energy relations engage in oil backed loans agreements nor is this the exclusive “Going out” strategy of Chinese oil companies internationally. This landscape points to the possibility that changing domestic constraints of some countries offered a window of opportunity to the unusual engagement of such a contentious and vital sector into collaborative oil backed loans arrangements with China. At the same time, it requires looking at the role of specialized agencies, in particular host national oil companies.

Empirical evidence from the Ecuadorian case suggests that the ability to advance oil strategies linked to finance emanates from broad institutional reforms in the oil sector. In its nation-making efforts, reforms along the new Constitution, hydrocarbon law, and the use of Executive Orders, the executive branch assumes direct control over oil

331 Cooper Ramo, The Beijing Consensus.
policies.\textsuperscript{332} The reforms eroded the managerial and regulatory oil institutions, dismantled oil stabilization funds, and frustrated the counter balance leverage of Congress and the Military in the oil industry. This is along with the fact that low patterns of mobilization from public opinion lowered the costs of implementing bilateral financial agreements backed by energy. Despite the fact that oil accounts for half of the country’s exports and a third of state revenues, the government was able to negotiate oil agreements with China on the basis of the government’s ability to act autonomously of domestic constraints; there was not a towering political uncertainty for the government that could undermine it development agenda.

The activities of the national oil company did not have any implication for the use of oil resources as a tool in bilateral relations. Petroecuador has traditionally been fundamental for the stream of national revenues and thus it maintains commercial objectives in terms of generating public funds through resource extraction. However, its weak institutional capacity trumps its independence in the allocation of funding and corporate competitiveness. Along commercial activities, Petroecuador has acted as the industry regulator as its functions have ensured compliance of private companies with technical and contractual obligations. Reforms in the oil industry separated the technical from the regulatory functions placing the latter under the Government agencies and Ministries, removing the military as a policy player while increasing the company’s participation in oil production. At first sight, a demarcation of operations could potentially advance efficiency and capacity building but this proved to be a major

challenge in the context of the political terms that prefer country-to-country deals that lack transparency. This together with the fact that changes to service contracts diminished the participation of multinational companies, led oil production to be dominated by Petroecuador and under exclusive control of the, thus allowing the use of oil as an instrument in agreements with China.

Finally, the political consolidation and the leverage of the executive over the oil industry does not evolve form ideological or ideational support. There is lack of evidence that policy reforms, agreements, and energy policy weighs on exchange of ideas, indirect normative lesson learning ideas, or common development strategies that would ensure cooperation. There seems to be some adjustment in behavior regarding the commercial conditions of the agreements in the oil and energy related infrastructure yet there is an absence of policy coordination that could shape the durability of their energy relations.
7 Chapter: The Role of International Causes

7.1 Overview

Has China investment and oil trade in Latin America altered international politics in the western hemisphere? The following chapter test this question and claims that economic relations, particularly in oil, advances China’s international political purposes. The international level offers two possible exogenous explanations to finance-oil related agreements with China as a form of economic statecraft. First, climbing economic engagement between China and Latin American puzzles pundits and experts in light of U.S. influence in the region and the possibility that oil bilateral agreements are soft balancing mechanisms to counter the U.S. While the bulk of the literature concentrates on whether China’s expansion seek to weaken U.S. hegemony, there is much left to be said about Latin American countries’ behavior within this triangle and their handling of the “China effect.” This chapter addresses the Latin American perspective from the Ecuadorian case in an attempt to discern if China’s footprints in the region are seen by Ecuador as an opportunity to leverage and curtail U.S. power.

Concomitantly, the second international explanation looks at whether China is motivated by an exclusive economic calculus or advance political influence in the context of asymmetrical economic relation and Ecuador’s financial dependence on China. At the heart of the debate is the concern that the expansion of Ecuador-China’s financial agreements based on energy—and for that matter the expansion of trade, loans, and investment agreements in general—is driven by an exclusive market logic or is linked to a political rationale. Evidence of political concessions exist if, at the time of growing economic relationship, financial ties cultivate political considerations
within agreements and a convergence of positions along foreign policy. In this light, the chapter is divided in three sections. First, it discusses the hypothesis that bilateral oil agreements are soft balancing efforts to counter U.S. pressures and financial hegemony and proceed to outline evidence and result. This is followed by the discussion of the commercial rationale suggested in the literature which argues that oil backed loans is a strategy to address the country’s lack of access to global capital markets. The conclusion section discusses the implications of these findings.

### 7.2 Soft Balancing and the Contours of Western Defiance

Soft Balancing theory suggests that secondary powers such as Australia or Brazil, with a more diversified economic structure, are more likely to engage in balancing strategies that would restraint U.S. policies in an attempt to enhance their own regional power.

Yet, lately, the process of soft balancing has been applied to the foreign policies of African states and U.S.-Latin American relations in face of the unipolar system of these regions, a crucial condition for soft balancing, spurred by U.S. asymmetrical power in these regions. With this in mind, in the western hemisphere it is puzzling that Ecuador, a country with marginal relevance in international politics and highly dependent on the American market does not adopt bandwagoning but instead is among the most vocal challengers to the U.S. in recent years (this will be explained more in detail below).

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333 Pape, "Soft Balancing against the United States."


The concept of soft balancing thus poses an influential argument in light of available evidence that places Ecuador among a series of like-minded countries, including Argentina, Bolivia, Brazil, Venezuela, and Paraguay that have publicly questioned U.S. intervention. These countries, taken together, advance a cluster of strategies related to soft balancing behavior to curtail U.S. power: reliance on international organizations (OPEC, UNASUR, ALBA, CELAC, Bank of the South), the enhancement of other bilateral relations (China), coalition building, (the cluster for example of “New Left” countries) and an “anti-imperialist” public rhetoric. In sum, Ecuador sits among a group of states that have adopted a brash stance towards the U.S. through ideological rhetoric, regional balance mechanisms, and other hemispheric efforts to purposefully temper the U.S. ’s dominant position.

Ecuador’s relations with the United States strained despite the country’s adoption of the U.S. dollar as its official currency and its dependence on the U.S. market. This is evident in several areas. To begin with, differences stem from diverging conceptions on three common interests: democracy, security, and the economy. During his presidential campaign, Correa vowed not to extend the lease to U.S. counterdrug military operations in the Manta air force base and criticized the operations link to military efforts in Plan Colombia. In fact, by 2012 Ecuador rejected U.S. assistance for counter narcotics surveillance and interdiction bolstered by the apparent participation of the CIA in the Colombian covert launch of bombs across Ecuador’s northern border to eliminate an FARC’s camp. The expulsion of U.S. ambassador Heather Hodges over the release of

336 Ibid.
337 June S. Beittel, "Ecuador: Political and Economic Conditions and U.S. Relations."

diplomat cables by WikiLeaks, which disclosed the Ambassador’s comments on corruption in the Ecuadorian Police, was the lowest point in ongoing diplomatic frictions.\footnote{Luis Daniel Alaniz Rodríguez, "La política exterior ecuatoriana en la era de Correa: las relaciones con las potencias y su impacto regional," \textit{Vox Politikon}, (www.voxpolitikon.com).}

U.S. economic leverage continued once official relations were renewed a year later in 2012, as Washington suggested it would withhold the renewal of the Andean Trade Preference Act if Ecuador offered asylum to Edward Snowden.\footnote{Catherine Shoichet, "Ecuador's President to U. S.: Don't Threaten us on Snowden Case," \textit{CNN}, June 28, 2013.} The position was perceived negatively and Ecuador decided to unilaterally renounce trade benefits under the program. Such a scenario in international politics coincided with the latest phase of high oil prices between 1999 and 2014, which facilitated resource nationalism and the implementation of expansionary fiscal policies. Not all exporting oil countries resort to state oriented policies and in the case of Ecuador it was not until 2006, with Correa’s predecessor Alfredo Palacio, that the government advanced an oil statist agenda.

Ecuador’s escalating refusal to go along with U.S. policies brings attention to the power of a commodity-exporting country and the impact of cultivating economic ties with China. Attempts to frustrate U.S. policies potentially shape the enactment of oil-for-loans agreements as an advantageous mechanism for a small state to undermine U.S. through other means than military strength. Oil is fundamental for this debate since the sector has been the ultimate battleground of Great Power and energy politics. Patterns of oil exports and finance strengthen the position of producer countries and its relations with China while exposes country consumers. At the same time, energy diplomacy designed to control access, trade, and finance of a strategic raw material can be symptomatic of soft
balancing efforts to undermine U.S. trade and financial hegemony in the region. This is particularly important as the United States today imports more oil from Latin America than any other region in the world; Ecuador in particular is a significant supplier for the U.S. west coast.

### 7.3 Soft Balancing and U.S. Reach

There are international politics-related reasons for Ecuador to pursue oil agreements with China, in this case the political influence of U.S.’s economic reach in Ecuador. Overall and paraphrasing Albert Hirschman, U.S. economic power performs a superior “influence effect” in the region as the overwhelming control of economic factors – capital, market, and raw materials – allows the use of trade and financial resources to pursue political goals. In this light, oil deals with China could seek to alter international politics in the region by using energy resources as a tool of foreign policy to circumvent the leverage of U.S. economic relations over political ends in Ecuador.

Oil agreements with China are politically charged at different levels. One way to inquire into the political calculus of Ecuador’s oil deals with China is too look at the country’s responses to the influence of lending policies of Western Banks associated with the Washington Consensus. The literature has long debated the World Bank and the International Monetary Fund (IMF) are functional to the interests of its major shareholder, namely the U.S. The overall perception is that loan disbursement and

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trade agreements with the U.S. and U.S. related institutions like the World Bank are contingent on Ecuador’s alignment with the U.S. geopolitical or commercial interests in the country. This involves political demands over Ecuador’s domestic political economy and oil policy itself including pressures over regulations in the oil industry and allocation of revenues. As such, this proxy serves to explain oil-for-loans agreements as a policy-balancing effort against the economic consequence of resisting U.S. policies echo in conditions by the World Bank and the IMF.

Current strategies underpinning oil resources in Ecuador encompass a perception of threat often linked to soft balancing: the fear that U.S. leverage advances the unilateral use of U.S. power to pressure changes in government policy, carrying along costly commitments to its sovereignty. The Ecuadorian case suggests that oil diplomacy initiatives with China came on the heels of a series of political frictions with the U.S. in which economic and oil deals were required to meet political preconditions. Correa came with an explicit refusal to side with the U.S. economic agenda under the claim that U.S. economic hegemony often push political interests in Latin American countries. Latin America’s engagement with the Western financial architecture in the 80s and 90s has been widely cited as detrimental. Correa has been critical of this international finance order, best known as Washington Consensus, and raised concern over the conditions and political intentions of policy-based lending of western-oriented finance including macroeconomic restructure, fiscal discipline, tax reform, liberalization of interests rates,


trade liberalization, privatization, deregulation, among others in order to access finance. A critical point for Ecuador has therefore been to keep distance from international financial institutions working, according to the Government, on behalf of U.S. interests: “The World Bank, IMF and Inter-American Development Bank (IDB) are the ones who have caused, with the agreement of Washington, privatization and the dismantling of the State” declared Correa as he became president in 2007.

The Ecuadorian government was aggressive in its relations with western creditors and moved towards financial decentralization. By 2008 Ecuador had cut off credit relationships with financial institutions by paying off its debt with the IMF, expelling the World Bank envoy and partially halting the payment of Ecuador’s sovereign debt calling it, “by all measures is immoral and illegitimate.” Just two years prior, President Correa emerged in the Ecuadorian political landscape as the finance minister who confronted the World Bank President Paul Wolfowitz for the cancellation of an authorized $100 million loan. The World Bank’s change of mind came in the context of a domestic policy shift in the use of a governmental fund from oil revenues originally established to pay for debt buybacks towards an alternate fund for social spending. They canceled the loan and claimed the new policy resulted in a “piggy bank to finance the liquidity needs of the

344 Flores-Macias, After Neoliberalism?: The Left and Economic Reforms in Latin America; Levitsky and Roberts, The Resurgence of the Latin American Left.

345 "Ecuador cancela la deuda con el FMI y amenaza con echar al representante del Banco Mundial," El Mundo, April 4, 2007.

central government." Rafael Correa would go further by denouncing the World Bank’s conditions on domestic oil policy and menaced to withhold debt payments to multilateral institutions or bypassing them. By the time Correa became president, the Ecuadorian government expelled the World bank representative from the country. The 2008 default did not put the country on the global map because of any signs of state bankruptcy; it raised eyebrows because it was a political decision that digressed from market-financial assumptions as effort to create a space to enhance the state’s policy autonomy.

The motivation behind these actions was primarily to curtail reliance on these institutions and reduce vulnerability to their political reactions. Finance from the World Bank and the IMF carried sovereignty costs, especially in light of pressures over reforms in oil policy. At the time of the World Bank exit Correa mentioned,

“They punished a sovereign country for modifying a national law […] the government won’t put with blackmail form this international bureaucracy […] We are nobody’s colony.”

Binding demands from the World Bank and IMF set a national policy to divert relations from these institutions and engage with development institutions with no political economic commitments like the Inter-American Development Bank as a means to balance capabilities, according to former Finance Minister Elsa Viteri. Throughout the severed relations, Correa’s reading of western financial organizations has been


348 Ibid.


tantamount with blackmail: “We do not want to know any more about the international bureaucracy. Now the nation recovers its independence to dictate economic policy.”

Along these lines, the political component to dub these financial institutions as “tools of imperialism” echoes wide rejection over the rules of “Washington Consensus” and as a result U.S. hegemony in the western hemisphere. In 2011 at the XXI Ibero-American Summit for example, Correa mentioned, “when I was finance minister [the WB] denied us credit because we changed the economic policy. [The WB] was advocating big capital of extra regional hegemonic interests” alluding to the United States.

Under this scenario, oil is politically charged and plays a major role in international politics along several fronts. First, oil-for-loans along with other energy financial agreements with China play a major role in Ecuador’s squabble with the WB and the IMF and the country: access to Chinese finance based on energy deals made it less costly to discriminate western banks and the international capital market (the latter requires a financial stability report from the IMF). Chinese investment in energy sector had a positive effect as it dwindled Ecuador’s dependence on both western financial institutions and the international market. Beyond official statements railing against the IMF and WB as U.S. tools that undermine the country’s sovereignty, Ecuador started to continuously reduce its financial commitment with both organizations (see Figure 7.1). Data shows that beginning in 2007, Ecuador halted loans with the IMF and substantially decreased financial commitments with the WB in favor of Chinese loans and not

351 Ibid. The quote reads “En ese entonces, el presidente Rafael Correa señalaba: "No queremos saber más de la burocracia internacional. Ahora la nación recupera independencia para dictar su política económica". [Translation by the author].


353 "Rafael Correa se va por el Banco Mundial," Perú 21, 2011.
conditional finance – development finance – with other multilaterals like the Inter-American Development Bank (IDB) and the Latin American Development Bank (CAF). Oil-for-loans as commercial agreements through the state oil company are not officially considered foreign debt, yet they echoed similar traits considering they encompass interest rates and a bilateral lender. In fact, as the following graph suggests that oil-for-loans and bilateral financing from China encompasses 40 percent of Ecuadorian foreign debt, with China becoming the primary lender country.

**Figure 7-1 Ecuador’s foreign debt by creditor**

![Ecuador's external debt by creditor (including oil for loans)](chart)

Source: Ecuadorian Central Bank and Ministry of Finance

At the same time sovereign bonds sold in the international market surged only beginning in 2013 which seem to coincide with the resumption of IMF activities in the country in order to fulfill the Financial Stability Report required to issue debt (under Chapter IV consultations). Yet, Ecuador has not engaged in further financial activities with the IMF.

Second, oil bilateral agreements also integrated efforts to mitigate trade dependence on the U.S. oil market and the political bargaining power it elicited over the Ecuador’s economic and oil domestic policy. Under a wave of domestic discontent and
indigenous uprising, in 2006 president Palacios cancelled agreements with U.S. oil giant Oxy, which produced 20 percent of the country’s total output, following the company’s selling of 40 percent of its share of Ecuadorian oil blocks to the Canadian company Encana without seeking ministerial approval as required by Ecuadorian law.\footnote{Marc Le Calvez, "El impacto de las políticas nacionales en los rediseños de los sistemas de gobernanza petrolera en Ecuador y Venezuela," América Latina Hoy 53 (2010); Cueva and Ortiz, Ingresos fiscales por explotación de hidrocarburos en Ecuador.} The event was followed by the U.S. decision to unilaterally halt negotiations of a free trade agreement with Ecuador as a response to the taking over of Oxy’s assets and contract.\footnote{Council on Hemispheric Affairs, "Ecuador Breaks with Washington over Occidental Petroleum," last modified October 2, 2016, http://www.coha.org/ecuador-breaks-with-washington-over-occidental-petroleum/.} U.S. Trade Representative spokesman Neena Moorjani, stated, “We are very disappointed at the decision of Ecuador, which appears to constitute a seizure of assets of a U.S. company,” […] At this time no further (free trade agreement) discussions are scheduled.”\footnote{Gonzalo Solano, "Military to Guard Ecuador Oil Facilities," The Washington Post, May 17, 2006.} The U.S. further argued that the decision violated the bilateral investment treaty and the Ecuadorian government perceived the decision as an act countering its sovereignty. Free trade agreement negotiations had already become tense in the context of domestic opposition from the indigenous movement and trade unions back in 2006. In the oil sector, frictions with the U.S. further had already expanded in the context of reforms to the hydrocarbons law that provided 50 percent of exceeding windfall revenues to the government; previously contracts were pegged to 1999 oil prices absent of price readjustment rules.\footnote{Cueva and Ortiz, Ingresos fiscales por explotación de hidrocarburos en Ecuador.} Furthermore, Ecuador’s decisions to return to OPEP and to
eliminate oil backed stabilization national funds, originally established to pay for debt, were blatantly resisted in Washington. The event built the threat perception and advanced the idea that the U.S. is not a self-restrained hegemon and in face disagreements over the country’s trade and finance policies, rather opts for unilateral demands over national policies.

In this scenario, international politics played role in oil bilateral agreements: they were also efforts to curtail disruptions from trade dependence with U.S. market and reduce the costs and adverse economic consequence of U.S. political demands. In absolute and relative terms, the United States has been the single critical player in the country’s oil landscape by acquiring more than two thirds of Ecuador’s oil exports in average (see Figure 7.2). The redirection of global oil trade eastwards and the arrival of Beijing’s national oil companies to Latin American shores in the wake of China’s demand allowed the government to work the topic of oil deals with an extra hemispheric power as an opportunity to free Ecuador’s main asset and reduce dependence on the U.S. market (see Figure 7.3). Correa advocated the “geographical diversification” of the oil market and the potential to enhance government-to-government cooperation in the energy sector as to advance control along the supply chain enhance and sell oil directly to other final country consumers outside the region. In face of public criticism to the agreements in 2011 Correa mentioned, “[what the opposition does not say] it is that in 2006, 75 percent of our oil was going to the United States in exchange for nothing, while

358 Petroecuador, El petróleo en el Ecuador.

359 "China in Control of Ecuador Oil," Oil & Gas News, December 9, 2013; Schneyer and Medina, China's Power Play in America's Backyard.
now in this year, 50 percent have been committed to China in exchange for billions of dollars.”

Figure 7-2 Oil as a Share in Ecuador’s Exports to the United States

Source: Trade statistics for international business development and United Nations Conference on Trade and Development

Figure 7-3 Ecuador Main Oil Markets by Country

Source: Trade statistics for international business development

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Another political role relates to the decision to prioritize bilateral energy relationships with oil exporter counterparts and their national oil companies. Ecuador targeted oil portfolio projects with state companies in state visits to China, India, Thailand, Russian, Iran, Qatar and Belorussia.\(^{361}\) Lately, the use of oil in bilateral agreements such as oil-for-loans with China has been encapsulated under “Strategic Alliance” agreements with the main goal to commit oil production to the expansion of direct economic state-to-state relations. Efforts into state-to-state deals sought to reduce decision bargaining conflicts with the different actors across the oil spectrum and to advance the state clout over oil production, investment and trade.\(^{362}\) Overall, these government-to-government cooperation agreements grant preferential access to contracts, credit and circumvent market norms.\(^{363}\) In this light, Ecuador generated sustained efforts for the creation of the Pacific refinery in partnership with Venezuela’s PDVS and China’s CNPC, which would not only signify becoming a main hemispheric producer of gasoline and other petroleum production to deliver East but would also eliminate the participation U.S. refineries in processing Ecuador’s and Venezuela’s heavy crude.

While evidence suggests oil bilateral agreements are politically charged, they do not advance soft balancing against the United States. Oil bilateral agreements do coincide with a series of balancing strategies in the region and are nonmilitary tools that advance bilateral energy diplomacy. They also take place in a regional unipolar setting and meet soft balancing criteria including perception of threat from the United States. The scenario

\(^{361}\) See Ministerio Coordinador de Sectores Estratégicos’ Noticias section http://www.sectoresestrategicos.gob.ec/noticias/.

\(^{362}\)

\(^{363}\) Johnson and Wasson, "China, Latina America and the United States," 130.
in which oil diplomacy surged witnessed regional efforts to circumvent the effects of U.S. concentration of power: the coalitions that formed to restore Cuba’s diplomatic relations and the creation of coordinated efforts such as UNASUR, ALBA, CELAC that excludes notably the U.S. Yet, there is no precise evidence that suggests that these deal are part of a tacit coalition with China and other actors to constrain U.S. power in the regional. Furthermore, the deals are quite recent, temporary, narrow and specific in their policy scope that neglect the cornerstone of soft balancing in response to a perception of threat coming from the U.S. concentration of power in the international system.

From the beginning, energy agreements with China did not attempt to directly interfere or impede a specific U.S. policy in Ecuador or among Latin American energy producers. Contrary to soft balancing, oil strategies have not advanced either multilateral coordinated efforts or a regional energy “Doctrine” that advances new oil norms or laws concerning oil governance of long term strategies to countervail U.S influence in the hemisphere. Nor do they resound a coalition building effort with China to constrain U.S. concentration of power in the Western system one that would often involve generous handouts of oil supply or finance. Strategies including oil-for-loans and government–to-government cooperation agreements are short term issue-specific diplomatic efforts which purpose to increase Ecuador’s leverage and reduce U.S. power over disputes in economic and oil policy.

An alternative explanation for these deals is to claim that they offer what Nicola Phillips mentions as “policy space,” the notion that the presence of alternative partners allows the pursuit of strategies of opposition, avoid external pressure over policy agenda, and distance itself from financial institutions without worrying about U.S. power
Paraphrasing Robert Art et. al referring to policy bargaining, oil-for-loans and other bilateral oil agreements seek to produce specific favorable outcomes with current assets. Thus oil diplomacy enhances Ecuador’s agency rather than any purposeful extra hemispheric alliance to balance the United States. Evidence suggests oil-finance agreements were a defensive strategy to mitigate economic and political consequences of U.S. economic power in terms of providing more latitude and avoid constrains from its U.S. influence. They came on the heels of disagreements with Correa, starting during his tenure as Minister of finance, over the specific disputes that tied international finance, trade agreement, and assistance to the administration of oil revenues and operations. Energy agreements occurred in a scenario in which the Ecuadorian government was critical of apparent U.S. exercise of its economic power to advance policy demands including the intervention in reforms to macroeconomic policy. Resistance to the U.S. originated from domestic policy and sought to restore national sovereignty rather raising the costs of U.S. actions in the international energy market.

Chinese energy financing has for the most part allowed the country to avoid credit transactions with Western financing institutions that include policy conditions until recently, in the midst of drop in oil prices. In hindsight, Ecuador’s financial commitment with the IMF and the World Bank was not a significant percentage of GDP (see Figure 7.4). Oil bilateral deals with China in any case reduce exposure to the concentration of economic power and the policy consequences associated with U.S. related financial

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institutions. In this regard, the distance oil agreements carved out in relation to U.S. and Western financial institutions focuses on autonomy and Ecuador’s ability to formulate distinctive policy.

Figure 7.4: Share of Ecuador’s foreign debt by creditor, 2010-2014

Source: Ecuadorian Central Bank and Ministry of Finance

In essence, rather than soft balancing responses to the concentration of U.S power, oil diplomacy advances the ability of the state to maintain and continue its domestic and economic interests. A perception of threats and opposition does not need to be the case in a scenario with less over-intervention. In 2014 Ecuador gave signs of returning to these institutions as the World Bank doubled the country’s credit line (similarly to other emerging economies) to USD $1000 million\(^{366}\) with no apparent

obligations and favorable terms involving a 30-year payment period and an interest rate of LIBOR + 1.\textsuperscript{367} Correa’s response was cordial and claimed, “[we] [w]elcome funding without conditions. We have not rejected funding, we have rejected its conditions.”\textsuperscript{368}

Rapprochement with the WB and the return to the international market, which required a Macroeconomic report from the IMF under article IV and as such the return of Ecuador to consultations with the multilateral, coincided with the end super oil prices super cycle. Notwithstanding Ecuador has not performed any credit transaction with the IMF to finance the government’s deficits.

Oil bilateral agreements have been not political instruments geared towards cutting the United States from access to resources, producing political changes or altering prices. This kind of behavior would require a consistent, long-term, coordinated partnership to coalesce energy assets into a logistical network and thus concede Chinese influence along the upstream or downstream efforts in order to divert supply to the East. Nevertheless, the Ecuadorian government’s efforts to reduce the participation of foreign oil companies and foreign direct investment, increment taxes on windfall oil profits, adopt service contracts, and further nationalize oil resource demonstrate the government indifference to attract China into a countervailing energy coalition. Actually, the oil sector advanced a series of barriers for foreign investment to enter the industry, including the Chinese, that undermine any accommodation argument. Rather than any complex interdependence, incentives to advance energy agreements with China, as with other


states and their national energy companies, is directly related to advancing bilateral relations with current assets that favors short-term policy to increase productivity and exploration detached from political extra regional balancing efforts. There were attempts to advance informal alignments with other energy producers through bilateral agreements and attempt to enclose and control the supply chain through their national oil companies in an effort to increase production and increase and control revenues. However, there were no informal alignments in the sense of constructing a unison perspective to counterbalance the United States in the energy spectrum.

The use of oil for policy bargaining in any case has not been a threat due to the economic nature of the deal and the structure of the oil market itself. Selling and securing China’s oil demand through oil-backed loans does not advance a zero-sum game. China’s acquisition of oil through these deals does not mean less oil for the United States and as such is not intrusive in regional energy politics. Oil is globally traded and due to the spot sales, shipping costs, and lack of tariffs, Chinese control of Ecuadorian oil resources continues to available to the United States. Within this context, geographic proximity to the United State makes Ecuador economically optimal to reach U.S. market, its natural partner; cargo from an Ecuadorian port to Shanghai takes an estimated 30 days while it takes 10 days to the Long Beach port in California\(^{369}\) (Ecuadorian oil mainly supplies U.S. West Coast). This, coupled with the fact that refineries for Ecuador’s heavy crude are concentrated in the U.S., is probably the reason Chinese companies finds it optimal to continue selling Ecuador’s oil, and Latin America’s oil resources in general, to the U.S.; not to do so will be economically detrimental for Chinese state companies. To

the extent that China’s control of oil trade in the hemisphere is dominated by commercial calculus, its hedging of energy dependence on the Middle East and Africa, and diversification of its energy portfolio – related to the acquired resources from Ecuador, Brazil, and, Venezuela--, the implications for the United States are minimal.

At the same time, as Ecuador’s oil diplomacy was geared towards advancing market diversification in an attempt to diversify its external dependency, the deals it made were not aimed at augmenting U.S.’s access or cost to international oil supply. Thus, there was no need to adjust its policies in the Western Hemisphere. In fact, there is no change in the regional or for that matter global supply of oil despite Chinese control of oil assets through bilateral contracts and actually oil diplomacy with China has not advanced market diversification beyond rhetoric. By 2015, The United States continues to get most of its oil from Latin America and Canada (see Figure 7.5).

**Figure 7-4 United States’ Oil Imports by Region**

![United States' Oil Imports for 2015](image)

Source: U.S. Energy Information Administration
Also, while oil exports to China has grown in value 168% between 2010 and 2014, by 2014 it encompassed less than 1% of Ecuador oil exports to the world. On the contrary, the US market continues to dominate 60% of Ecuadorian oil sales (see Figure 7.7). Foreign Direct investment also demonstrates that despite a downturn in U.S. foreign direct investment in 2009 and climbing Chinese investment, they both posed comparable FDI in the country by 2011. This suggests that other factors such as the global crisis could have also motivated the shortfall in U.S. investment and China is far from replacing or gaining ground to Washington (see Figure 7.6).

**Figure 7-5 US and China’s Foreign Direct Investment in Ecuador**

![Graph showing US and China's FDI in Ecuador](image)

Source: Ecuadorian Central Bank

Furthermore, other efforts to advance energy security by constructing an oil refinery in alliance with China and Venezuela have not come to fruition. The government announced that the refinery will operate in 2017 yet there are no concrete finance
agreements between partners. This trend evidences repercussions of China’s procurement and participation of oil resources from Latin America are for now largely exaggerated. Actually a bigger dilemma now rests on Ecuador’s increased dependence on China. Today, Ecuador is in a poor bargaining position as 40% of external finance rest alone with Beijing and 80% of Ecuadorian oil exports is sold to Chinese oil companies under oil-for-loans agreements.

Figure 7-6 Ecuador’s Oil Export to the United States and China, 2007-2015

Source: Trade statistics for international business development

At the same time, policy bargaining with China has neither been straightforward nor free of conflict. Following the first oil-for-loans agreement, negotiations to finance the biggest hydroelectric, Coca-Codo Sinclair, were suspended as Correa and his Minister

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of Political Economy decried China’s conditions including the purchase of Chinese imports and the assets of the Central Bank as guarantee tied, among others.\textsuperscript{371} Correa claimed, “negotiations have been tough and at times we felt mistreated by China. Not even the Monetary Fund treat us like that [..] [guarantees] have been truly humiliating.”\textsuperscript{372} Concerns with China were equally related to sovereignty costs that came along with the number of demands in the project from the lender country. Finance Ministry Viteri voiced this concern, “to the extent these details are not respected we will not compromise our sovereignty and appropriate funding procedures.”\textsuperscript{373} Ultimately, negotiations resumed under a new Chinese proposal and Synohidro took over the construction of Coca Codo Sinclair.

As Goldthau mentions, oil diplomacy has pernicious effects only if bilateral agreements seek to lock up resources, doing so would only destabilize oil supply and increase prices, only hurting the Chinese economy as top consumer. Chinese control of oil assets and its footprint in the region as a trader in the regional oil market does ensure that China will continue to play a role in the global oil exports. However, for now as it continues to abide to market forces, its actions are interpreted a benign and not confrontational towards the U.S. Thus, locking up resources is an exceptional measure which China has not resorted to. Rather, it is more economically beneficial for China to continue playing along the market forces. Furthermore, the continuous supply of Latin

\begin{footnotesize}
\textsuperscript{371} Reuters, "Régimen suspendió negociación con china para crédito De Usd 1000 Millones."

\textsuperscript{372} "Rafael Correa se desencanta de China,"\textit{El Comercio}, December 3, 2009.

\textsuperscript{373} "Ecuador suspende negociaciones con China para crédito de hidroeléctrica,"\textit{Noticias24}, March 17 2010.
\end{footnotesize}
American oil to the U.S. market mitigates American demand from other oil providers closer to China.

7.4 Commercial Liberal Theory

Debate over the international political implications of oil bilateral agreements leads to appraise the political nuances within Ecuador-China relations in themselves. Growing economic ties leads to inquiry first in an alternative commercial explanation that in turn looks into the possibility such ties have a larger footprint in foreign policy. First, the liberal approach claims economic incentives explain bilateral agreements rather than political influence. A liberal reading proposes the hypothesis that oil bilateral agreements are driven by global market dynamics. We can expect this explanation to be correct if empirics suggest that the terms of the agreements are economic and triggered by market incentives. In this context, the hypothesis follows the bulk of the literature which claims that oil backed loans is a strategy to address the country’s lack of access to global capital markets and does not carry political concession over state policy. If the commercial hypothesis is correct, there is reason to believe a second assumption which suggests that growing dependence on Chinese finance and increasing economic ties do not lead to convergence on foreign policy issues.

In the wake of the unprecedented acceleration of Chinese finance relations with Ecuador, Venezuela, Argentina, and Brazil a chorus of voices pointed finance agreements was precipitated by their lack of access to international capital, in particular by Ecuador, Venezuela, and Argentina.\footnote{Oil-Hungry China Set to Boost Ecuador Ties, \textit{Oil & Gas News}, July 26, 2009; Mapstone, "China-Ecuador: The Love-in Continues."; Gallagher, Irwin, and Koleski, "The New Banks in Town."} In the case of Ecuador, strained relations with the
international financial market followed the 2008 sovereign debt default on $3.2 billion with the 2012 and 2030 Global bonds. This argument minimizes the claim that political sensibilities shape efforts to bolster ties with an extra hemispheric geostrategic partner.

Tracing back the events, evidence suggests that the first Chinese loan to Ecuador took place in 2009 at a time when a dismal economic events for the country converged: a global economic crisis, drop in oil prices, and Ecuador’s high risk position in the global finance following its recent 2008 default.\footnote{Hal Weitzman, "Ecuador Warns of Default on Foreign Debts", 
Financial Times, July 6, 2007, http://www.ft.com/cms/s/0/30e27b6c-2b5b-11de-85f9-000b5df10621.html#axzz4LxRyZJEv; Kueffner, "Correa Defaults on Ecuador Bonds, Seeks Restructuring".} In the terms of pundits and experts, China provided a “lifeline” to the country. It is relevant to mention the 2008 debt restructuring that preceded Chinese financing was a political decision, a strategic unwillingness to pay part of external debt. By 2008, more than a year after the election of President Rafael Correa, the Ecuadorian economy was stable, growing and on the road to recovery since 1999. In only eight years the country slashed three fourths of its 81 percent all time high debt-to-GDP ratio. Since 2000, the fiscal balance, government expenditures-to-government revenues ratio, was negative but not abnormal and actually very manageable for a capital scarce country with $ -148 million yearly fiscal balance in average.\footnote{Banco Central del Ecuador, "Estadísticas económicas: cuentas nacionales," last modified October 2, 2016, http://www.bce.fin.ec/index.php/component/k2/item/763.} Yet, based on a report commended by himself, Correa claimed the debt “by all measures is immoral and illegitimate” and proceeded to halt a $30.6 million interest payment of the 2012 bonds in December 2008.\footnote{"Ecuador: Debates and Defaults" The Economist, February 15, 2007.} This was followed by failure to pay a
$135 million debt-service obligation on a second set of bonds, the 2030 Bonds by February 2009.\textsuperscript{378}

To some extent therefore, the events suggest that energy loans with China is a strategy available to counterbalance pressures from the international market. In hindsight, Chinese financing in Ecuador followed the 2008 default and took place in the midst of a global recession and falling oil crises. Gallagher, Irwin and Koleski have argued Chinese financing in Ecuador and Venezuela has been a “vital source of foreign credit”\textsuperscript{379} for a particular group of countries “which are not able to borrow as easily in global capital markets” and conclude China acts as a lender of last resort.\textsuperscript{380} Indeed, since 2009 Ecuador is the fourth highest recipient of China’s loans, after Venezuela, Brazil, and closely tailing Argentina, with over $15 billion, which amounts to 12 percent of total Sino finance in the region. Within the Latin American landscape, the four countries encompass 98 percent of Chinese finance and Venezuela and Ecuador alone 62 percent\textsuperscript{381} (see Table 7.2). By 2013 Gallagher, Irwin and Koleski claimed 69 percent of total finance was linked to oil. Petroleum has been characterized as a collateral to reduce risks of lending to these countries.\textsuperscript{382} Under this scenario Chinese loans according to Gallagher, Irwin and

\textsuperscript{378} Kueffner, "Correa Defaults on Ecuador Bonds, Seeks Restructuring."

\textsuperscript{379} Gallagher, Irwin, and Koleski, ¿Un mejor trato?.

\textsuperscript{380} Gallagher, and Myers, "China-Latin America Finance Database."

\textsuperscript{381} Gallagher and Myers, "China-Latin America Finance Database."

\textsuperscript{382} Brautigam, The Dragon’s Gift: The Real Story of China in Africa; Gallagher, Irwin, and Koleski, ¿Un mejor trato?. 
Koleski contributed to Ecuador’s stability, regain the confidence of investors, and its return to the international market in 2014.\textsuperscript{383}

**Figure 7-7 Main Latin American Country Creditors to China**

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Type</th>
<th>Purpose</th>
<th>Lender</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>Up to 2015</td>
<td></td>
<td></td>
<td></td>
<td>65,000</td>
</tr>
<tr>
<td>Brazil</td>
<td>Up to 2015</td>
<td></td>
<td></td>
<td></td>
<td>21,800</td>
</tr>
<tr>
<td>Argentina</td>
<td>Up to 2015</td>
<td></td>
<td></td>
<td></td>
<td>15,300</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Up to 2016</td>
<td></td>
<td></td>
<td></td>
<td>15,200</td>
</tr>
<tr>
<td>2009</td>
<td>Energy</td>
<td>Oil backed loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Coca Codo Sinclair (hydroelectric)</td>
<td>China Ex-Im Bank</td>
<td>1,700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>80% discretionary, 20% loans</td>
<td>China Development Bank</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Sopladora (hydroelectric)</td>
<td>China Ex-Im Bank</td>
<td>571</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Renewable energy development</td>
<td>China Development Bank</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Other</td>
<td>Finance 2013 budget Deficit</td>
<td>China Development Bank</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Infrastructure</td>
<td>Road to Quito Airport</td>
<td>China Ex-Im Bank</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Minas-San Francisco hydroelectric dam</td>
<td>China Ex-Im Bank</td>
<td>312</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>Finance Coca-Codo dam transmission system</td>
<td>China Ex-Im Bank</td>
<td>509</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Other</td>
<td>Transportation, education and health care projects</td>
<td>China Ex-Im Bank</td>
<td>5,300</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Other</td>
<td>Finance 2015 Annual Investment Plan</td>
<td>China Development Bank</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Other</td>
<td>Replace Kitchen stoves</td>
<td>China Ex-Im Bank</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>Other</td>
<td>Oil backed loan</td>
<td></td>
<td></td>
<td>15,222</td>
</tr>
</tbody>
</table>


However, economic pressures themselves cannot explain Ecuador’s behavior. After all, defaulting was not a novelty for a country that has defaulted 109 times since 1826 and had already two debt restructuring phases since its return to democracy in 1980.\textsuperscript{384} In fact, according to Buchheit and Gulati in the study *The Risk of Sovereign Lending: Lessons from History*, “Ecuador had the worst debt performance record of any

\textsuperscript{383} Gallagher, Irwin, and Koleski, ¿Un mejor trato?.

\textsuperscript{384} Porzecanski, “When Bad Things Happen to Good Sovereign Debt Contracts.”.
of the 70 payment-challenged countries they surveyed."\textsuperscript{385} Despite this, Ecuador has traditionally found its way back to finance and sovereign bonds and Western creditors.

Although is an economic calculus related to Ecuador’s difficulty to access the global capital market, much of such commercial rationale can be understood if we integrate the idea that China has been a lender of last resort for Ecuador in times of short-term liquidity crisis. However, Beijing has also become the development lender of preference during the boom of oil prices. Indeed, oil agreements did not come at a better time to countries that have been frozen out of the global credit market. Oil-for-loans is seen as the best deal for Ecuador’s situational position with the international environment and as such are more than merely a last resort. Granted, while oil and other energy related agreements ensued in the context of economic vulnerability, they continued and expanded under contrasting scenarios. By 2010 the oil market recovered reaching record high prices for the next three years resuming country’s fast growth during the decade with an expansive spending on infrastructure. China in the last decade has become the partner of choice for Ecuador.

Ecuador’s control of the largest asset of the economy, oil revenues, advanced attractive deals for the government in both times of economic hurdles or prosperity. This is echoed in the commercial terms and form of intervention of oil agreements.\textsuperscript{386} First, lack of conditions provided an alternative source of funding directed to finance


\textsuperscript{386} Petroecuador, ed. "Contract for Sale of Crude Oil between the Oil Company of Ecuador 's State Company Ep Petroecuador and Petrochina Company Limited."
development projects like hydroelectric, roads, and ports. There is no evidence that oil agreements with Ecuador as with other Latin American countries is linked to development assistance; lending ties have involved market prices for its oil and short-term sales. With this in mind, it is also relevant to add there is no evidence of nonfinancial assistance directed toward development projects in the forms of schools or hospitals.

At the same time, finance includes interest rates coming from the banking system: China Development Bank (CDB) and Ex-Im Bank of China (Ex-Im China). CDB loans encompass higher rates than Ex-Im China, between 0.5-2.0 percent higher, most likely because loans are directed toward development energy projects, roads, railways and telecommunications under control of the host country while Ex-Im China advances finance for Chinese exports, imports, and the efforts of Chinese companies abroad. In the case of oil-for-loans agreements, they do not encompass any tied-purchase arrangement. Other cases focused on energy projects, such as hydroelectric run by Chinese companies, are financed by the Ex-Im China thus the reason that interest rates are lower than oil-for-loans agreements through CDB. Also according to interviews, these loans act in part as a credit line to adhere to the purchase of Chinese supplies and technology yet there is not transparent access to contracts to corroborate these claims.

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387 "Empresas chinas levantarán 6 de las 8 nuevas plantas hidroeléctricas de Ecuador," *El Comercio*, October 8, 2015; Alberto Araujo, "La ruta de China y sus empresas en suelo ecuatoriano,"; Gallagher, Irwin, and Koleski, ¿Un mejor trato?.


389 Erica S. Downs, "China's Quest for Overseas Oil,"; Andrews-Speed and Dannreuther, *China, Oil and Global Politics*
revision of Chinese-Ecuadorean trade evidence imports from China climbed exponentially and coincide with energy financing, while Ecuadorean exports have only increased modestly (see Graph 7.8 and 7.9).

Bilateral energy agreements with China do not indicate some form of soft power due to the commercial nature of deals. Energy agreements including oil contracts display higher interest rates than finance from development banks or western institutions like the World Bank or IDB that actually offer loans at concessional rates yet Chinese ratios are lower or close to government bonds. In 2013, for example the CDB and Ex-Im China offered Ecuador a $299 and $312 million at 3.5 percent and 4 percent above the London Interbank Offered Rate (LIBOR). That same year the WB and CAF offered $205 and $275 million at 0.46 percent and 2.6 percent above LIBOR respectively. Furthermore, in 2014, Ecuador sold $2 billion of bonds in the international capital market to yield 7.95 percent and with Chinese loan agreements around 6 percent interest rate they seem to advance commercial benchmarks. The dominant pattern demonstrates that oil backed loans and the rest of energy financing are not preferential loans, grants, or encompass any form of aid relief as in the case of agreements with Africa. While economic benefits seem to be more in favor of China, as explained in chapter five, the pricing of oil in deals are not locked in, and instead are set around a basket of spot market prices of 10 days in average within shipment. Thus, bilateral agreements do not encompass a vast economic loss in order to foster a strategic alliance or as a result of pressures from lack of funding.

The decision to go along with Chinese support is economically strategic in a scenario where financial instruments associated with the West penalize a country like

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Ecuador’s for its resistance to the orthodox financial order. Oil agreements, as with the other energy deals with China, have become more competitive as Western finance demands policy conditions, lengthy negotiations, and ties to additional regulations. For example, OECD sets premium rates for credit risk for loans of their member to non OECD countries. Also, in the cases of bilateral credits by the U.S. Ex-Im Bank for example, it advances the prepayment of 21% of its loans.\textsuperscript{391} Efforts to circumvent these conditions allow to diversify relations with China and to pursue their development strategies without concern of economic or political consequences from the United States or Western creditors.

If the emphasis on commercial interests holds, this implies that growing financial and overall economic relationships have not generated foreign policy shift that seeks to coincide with Beijing’s leadership in the international system. Much of the research related to the foreign policy consequences of economic interdependence spearheaded by Hirschman claim that asymmetrical economic incentives lead to foreign policy alignment.\textsuperscript{392} In a discussion on the consequences of trade for example, Flores-Macías and Kreps explain that the bargaining position of two partners rests on the value of the exchange for their economies;\textsuperscript{393} the partner more dependent on the economic relationship is in a detrimental bargaining position and more likely to accommodate to

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\textsuperscript{392} Hirschman, \textit{National Power and the Structure of Foreign Trade}.

the other’s interests. In this context, Ecuador’s asymmetrical financial dependence on China in both absolute and relative terms rest the argument economic dependence produce political concessions in foreign policy in order to maintain access to Chinese finance.

The extent of China’s growing link with Ecuador can be seen at the trade, investment and financial level. In relative terms, China’s FDI investment in the country has burgeoned by 40 percent since 2009. Nevertheless, investment ties are concentrated in energy and are not disaggregated to other sectors besides energy (particularly the mining sector); according to data from the Ecuadorian Central Bank, on average 96 percent of Chinese FDI concentrates in this sector. The same trend expands to loans commitments as seven out the eleven Chinese credit agreements are in the energy sector encompassing 50 percentage of Chinese financing in the country.

The investment volume in any case is associated with the capital intensive nature of the industry that, in conjunction with accumulation of investments in the extractive sectors, suggests that economic ties are still isolated and not complex enough to reflect a strategic alliance or preferential ties (see Figure 7.8). For now, any advantage nurtured is evident in the inclination to consistently opt for Chinese state companies in the bids on energy infrastructure. Chinese stake in trade appears to have increased as well, but not with the same intensity (see Figure 7.9 and 7.10). While both Ecuadorian exports to and imports from China have tripled in the last ten years, its share value as a percentage is modest compared to the 50 percent in average that encompass trade with the U.S.

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Figure 7.11). Measures of total trade with China are paramount in terms of the growth and share compared to any other partner within a decade, and China has rapidly become the second source of imports after the United States but does not encompass a large market for Ecuador’s exports.

**Figure 7-8 Foreign Direct Investment in Ecuador**

![Foreign Direct Investment in Ecuador](chart)

Source: Banco Central del Ecuador

**Figure 7-9 Ecuadorian Exports to China, 2001-2014**

![Ecuador's Exports Value and Growth to China](chart)

Source: Trade statistics for international business development
Figure 7-10 Ecuadorian Import from China, 2001-2014

Source: Trade statistics for international business development

Figure 7-11 Ecuador's Main Trade Partners
Any asymmetrical dependence is particularly evident in the financial tides. A smaller state like Ecuador is among the top four Latin American borrower countries to Beijing, which according to the Intern American Dialogue loans surpass $15 billion. Financial commitments to China have eclipsed every other financial partner as Beijing encompass half of Ecuador’s foreign debt (see Table 7.2). Such financial dependence implies higher costs for Ecuador from the potential disruption of bilateral economic ties with China. China’s South-South cooperation premise traditionally conveys a non-interference strategy upon which cross-economic ties claim to not resort to the use of economic sanctions, also known as economic statecraft, to influence policy changes in other states. Yet, in the spirit of Hirschman’s logic, there is also the possibility that financial dependence allows China to exercise power disparities and create vested interests that would buttress political concessions to the foreign policy of Ecuador’s key creditor. Ecuador does not have any leverage over the Chinese economy and thus would be compelled to cooperate with its main creditor in light of limited access to few other financial resources.

Source: Trade statistics for international business development
Figure 7-12 Share of Main Creditors in Ecuador’s Foreign Debt

<table>
<thead>
<tr>
<th>Most important creditors (In USD Millions)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Loans as percentage of total foreign debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>China credits + Oil loans</td>
<td>7.1</td>
<td>6</td>
<td>1005</td>
<td>2804</td>
<td>5290</td>
<td>5730</td>
<td>7634</td>
<td>8176</td>
<td>47%</td>
</tr>
<tr>
<td>WB</td>
<td>698.5</td>
<td>623.9</td>
<td>542.3</td>
<td>455.1</td>
<td>375.6</td>
<td>303.3</td>
<td>235.6</td>
<td>182.7</td>
<td>1%</td>
</tr>
<tr>
<td>IMF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>IDB</td>
<td>1993.8</td>
<td>1960.7</td>
<td>2053.9</td>
<td>2085.6</td>
<td>2330.4</td>
<td>2502.7</td>
<td>2714.1</td>
<td>3045.8</td>
<td>17%</td>
</tr>
<tr>
<td>CAF</td>
<td>1867</td>
<td>1734.2</td>
<td>1778.7</td>
<td>2285</td>
<td>2391.6</td>
<td>2528.5</td>
<td>2590.1</td>
<td>2683.8</td>
<td>15%</td>
</tr>
<tr>
<td>FIDA</td>
<td>16.3</td>
<td>14.3</td>
<td>12.9</td>
<td>12.3</td>
<td>13.9</td>
<td>16.9</td>
<td>23.8</td>
<td>30.1</td>
<td>0%</td>
</tr>
<tr>
<td>FLAR</td>
<td>166.7</td>
<td>480</td>
<td>420</td>
<td>180</td>
<td>514.6</td>
<td>450.3</td>
<td>617.6</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>4136.7</td>
<td>4164.1</td>
<td>1117.4</td>
<td>1107.4</td>
<td>1102.2</td>
<td>1096.9</td>
<td>1132.4</td>
<td>3853.6</td>
<td>22%</td>
</tr>
<tr>
<td>Foreign Debt Total</td>
<td>10632.7</td>
<td>10088.9</td>
<td>7392.5</td>
<td>8671.7</td>
<td>10055.3</td>
<td>10871.8</td>
<td>12920.1</td>
<td>17581.19</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Ecuadorian Central Bank and Ministry of Finance

One way to test the influence of growing financial ties towards an increased accommodation to China’s foreign policy interests is the consistency of voting with China in the United Nations General Assembly (UNGA).\(^{395}\) Indication of increased voting convergence with China at the time of financial dependence compared to previous years may indicate political influence. Such voting convergence can be estimated along theme specific votes: economic development, human rights and political/security dimension (the latter exhibited in votes relations to nuclear weapons and arms control).

There are several limits to this primary analysis. Previous works linking growing trade flows with voting proximity notice that voting at UNGA is procedural and potentially costless and inconsequential to spark and inducement towards policy convergence. Also, as previous studies in the subject have shown, this method has difficulty in measuring

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\(^{395}\) Flores-Macias and Kreps, "The Foreign Policy Consequences of Trade."; Kastner, "Buying Influence?."
directionality. An assessment of United Nations General Assembly roll call voting from 2000-2014 offers a glimpse of a relation between political alignment and increase of financial dependence. For this purpose, I rely on official reports from the Ecuadorian Central Bank and Ministry of Finance on loans commitments and on the voting dataset from Anton Strezhnev and Erik Voeten’s United Nations General Assembly Voting Data. In attempting to compare vote affinity I follow Strezhnev and Voeten’s voting index which ranges from 1 to -1 (1 being most similar voting behavior and -1 least similar voting behavior). The evidence reveals a close proximity to China’s voting since 2000 in votes relating to nuclear weapons and arms control. Voting alignment is stable through 2000, an average of 0.75, and has not gone up which leads to believe there is not a linear trend toward policy converge triggered by financial dependence (see Figure 7.12).

**Figure 7-13 Ecuador’s Voting Affinity with China in the United Nations General Assembly in Relation to Loan Commitments to China, 2000-2014**


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396 Flores-Macias and Kreps, “The Foreign Policy Consequences of Trade.”
At the same time, findings across issue areas in the Assembly suggest that while voting affinity oscillated for the last 14 years, it remained on the positive side more often than not, maintaining closeness in voting affinity. This indicates there is not a shift in political cooperation at the international level motivated by financial dependence on China. Trends in policy positions at times imperceptible bilateral economic interaction in the early Twenty Century are not different from the span of growing economic ties beginning in 2008. Furthermore, disaggregation between votes relating to arm control and nuclear weapon vis a vis all issues suggests there is not drastic shift in the convergence of votes with China within UNGA among issues of time period, which leads to conclude finance dependence in specific does not predict political influence abroad. Taking FDI as variable shows similar results of not shift of voting affinity at time of increasing Chinese investments. Moreover, when comparing it to vote affinity in relation to decreasing U.S., FDI evidence indicate again opposition to U.S. policies is trend since 2000 and actually the affinity index increases despite U.S. FDI decreasing beginning in 2009 (see Figure 7.13).
Figure 7-14 Ecuador’s voting affinity with China and the United States in the United Nations General Assembly in relation to Foreign Direct Investment, 2000-2014

![Graph showing voting affinity with China and the United States in the United Nations General Assembly in relation to Foreign Direct Investment, 2000-2014.](image)

Source: Calculated using data Ecuadorian Central Bank and Anton Strehnev and Erik Voeten United Nations General Assembly Voting Data

7.5 Conclusions

Oil trade and agreements with China are instruments to overcome the restrictions and political influence created by the economic relations with the United States. More than a form to access capital, oil deals are also intrinsically links to provide the government leverage in policy choice, particularly domestic policy. Oil agreements are insufficient to form an international regime, multinational mechanism or an informal alliance to balance the United States; it is also not the goal of China or Ecuador to do so. The role that oil plays in foreign policy is also a function of the market. The global characteristics of the energy market structure prices. Neither China nor Ecuador controls
sufficient oil flows to use oil resources as a strategy for coercion or obstruction towards U.S. interest in the Western region. Furthermore, increased Chinese trade and investment is associated with an increased Ecuadorian willingness to accommodate and provide Chinese companies a stake in energy, road and other infrastructure projects and to adhere to the purchase of supplies and equipment from the lender country. However, political influence or stance is for the most part narrowed to the recognition of China as a market economy, the issue of Taiwan or any other actor that defies the Chinese regime dictate over its domestic politics. Rather than any balancing effort towards the U.S. and the establishment of an alliance with China, the country’s large oil exports is an instrument to enhance the Ecuadorian government’s autonomy, reduce costly commitment to the Western power.

Evidence corroborates the economic rationale. Oil-for-loans emerges and continues at a time of lack of access to international capital. The policy was a tool to advance national economic policies circumventing the market distrust and pressures from both development banks and their political conditions and private bond holders. Yet, doubt remains as to what extent China’s role is reduced to be a lender of last resort. It seems that in line with the attempt to reduce the binding commitment aforementioned and in light of high oil prices, China was the lender of preference. Government to government agreed deals have low sovereignty costs because they do not request policy conditions. The latter is particularly evident in the absence of evidence that suggest asymmetrical financial dependence leads to convergence in foreign policy. The nuances of the Ecuadorian case suggest that loan commitment with China, along with the precedent decisions to purposefully default on the sovereign debt and Ecuador’s distance from the
U.S., all play as measures of the economic incentive of oil wealth under a strong executive to liberate the state from sovereignty costs and binding commitments.
Chapter: Conclusions

8.1 Summary

China-Latin America relations have flourished in the last decade and hold great promises for research. To date, the field has been dominated by studies on China’s demand for commodities and how this affects the economy and development of Latin American countries. According to the latest report from the Economic Commission for Latin America (ECLAC), 70% of Latin American exports to China consist of a few products: oil, iron ore, copper, soy, and metal scrap. Overall, the bulk of scholarly work in the area of China-Latin America relations frames the discussion in terms of the impact of an emerging power, China, on the periphery or semi-periphery of the world economic system, as indicated by trends in trade, market share, market competition, and foreign direct investment.

8.2 General Overview

There has been a great deal of debate over the effects of the China Boom in Latin America. There is a benign view that suggests that China’s resource demand is a positive development for Latin America, thereby welcoming this surge. In many ways China has become the darling of Latin America: it is an important trade partner, creditor and investor. In real terms, China-Latin America relations are expanding exponentially on all fronts. In terms of economics, interaction on all three levels is concentrated on natural resources. Current relations are characterized by significant growth in trade (14%) and rapid growth in the value of trade exchanges. According to ECLAC, China-Latin

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397 CEPAL, Promoción del comercio y la inversión con China.
America trade is 21 times what it was in 2000 and is approaching US$250 billion. It is expected to reach US$400 billion between 2014-2016.

In *China and India’s Challenge to Latin America*, Lederman, Olarreaga and Perry established that Latin America, with the exception of Mexico, has benefitted directly (commodity demand) and indirectly (commodities prices) from China’s Going Out policy. The comparative advantage for China in the manufacturing sector, and that for Latin America as the reservoir of key natural resources, has resulted in a symbiotic complementarity.

Other seminal works like Gallagher’s and Porzecanski’s *The Dragon in the Room* (2010) offer a similar claim: China’s accelerated growth and export-led economy is an opportunity for Brazil to provide steel, for Argentina to sell soya beans, for Chile and Peru to trade their copper, and for Ecuador and Venezuela to auction their oil. Even more significant is the capital cushion that Chinese demand for commodity afforded its Latin American suppliers during the 2008 recession. Following the crisis, China played a crucial role in re-stimulating growth in South American countries.

A more critical approach portrays the nature of economic relations as advancing a resource curse in Latin America. This debate is not new as relations between China and Africa had already raised intense scrutiny over dependency links. While the commodity cycle has become the engine of economic growth, there is fear that the Chinese-induced commodity boom will exacerbate a resource curse. For example, Gallagher and Porzecanski call attention to the potential for Latin America to embark on the specialization of commodity: ten sectors account for 74% of exports to China, within

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398 Lederman, Olarreaga, and Perry, *China’s and India’s Challenge to Latin America*
399 Gallagher and Porzecanski, *The Dragon in the Room*.
those sectors 91% consist of commodities. The money pouring in from the energy sector motivates extractivism and increases the role played national oil companies in bilateral relations.

Oil incubates the Dutch Disease with ease. In the midst of China’s energy thirst, oil prices reached a record high and windfalls poured into country producers. Furthermore, for Latin America, oil has become a strong source of economic growth and interdependence with the Chinese market. In the context of its limited energy production and access to extractive resources, China has established footholds in resource-rich Latin America: Venezuela, Colombia, Ecuador, Peru, Argentina, and Brazil. The latest report by Gallagher, Irwin and Koleski estimate that more than half of Chinese loans abroad went toward Latin America. By the end of 2012, 69% of $85,000 billion ($50,000 billion) flowed into loans-for-oil mechanisms.\footnote{Gallagher, Irwin, and Koleski, ¿Un mejor trato?..} China is the biggest energy consumer (21%) and will continue to impact and Latin America, the second biggest oil reserves after the Middle East. With Venezuela and Brazil maintaining abundant oil reserves in the region, China is staying the course providing extensive energy related finance. For example, in April 2016 China Development Bank provided additional $10 billion to Petrobras.

China’s high oil demand and continuous emphasis in primary energy resource could have a dampening effect by leading to a reprimarization of the region.

Another critical view takes a mercantilist security assessment in the context of China’s accelerated domestic demands and great power characteristics. Oil stands alone when it comes to the foreign trade basket of a country by virtue of its strategic importance for the vitality, or at the very least, stability, of economic and even military
programs. China’s footprint in Latin America seeks to expand its oil supply, seeing it as key strategic goods. Furthermore, oil transactions between China and producer countries rests on economic nationalism premises that assume that while energy agreements are critical to strengthen Beijing’s position in the international oil market along, they also consolidate the presence of its national oil companies in producer countries. There is also the belief that Beijing’s presence along developing oil producers through oil-for-loans affects the distribution of power in these regions by counterbalancing U.S influence.

Yet for all the gains made understanding China-Latin America relations, the bulk of studies have centered around economic considerations suggesting that politics takes a secondary role. In the same fashion, the literature frequently presents the behavior of Latin American countries as reactive. For example, studies focus on China’s transnational operations and its efforts to expand its market share and unload the pressure of its outstanding reserves abroad. In the case of Chinese financing in particular, the debate is limited by the claim that Beijing acts as a lender of last resort by pouring capital into Latin American states that lack access to global capital markets. The current economic characterization often misses the mark that politics is fundamental to explain policy outcomes. The main contribution of this study has been first to bring politics back and explore how state and international politics intervene in policy choice. Second, this research has offered a theoretically driven discussion of China-Latin America energy relations, which the literature currently lacks. Mainstream studies reduce explanations strictly to the terms of the agreements and structural factors, the current literature remains

\footnote{Constantin, "Understanding China's Energy Security."; Dannreuther, "China and Global Oil: Vulnerability and Opportunity."}
insufficient to account for foreign policy preferences in oil diplomacy. Equally important, this research has sought to inquire on the behavior of target oil exporter states and posed explanations that account for their preference for oil-backed loans.

There are several key states that engage in these forms of oil diplomacy along Latin America, Africa, and Eastern Europe. They vary in size, regime type, economy, and oil availability. Ecuador is one of them, and as such is a case study able to provide a theoretical construct to explain China’s relations with developing countries and the implications for relations with the U.S. In this context, the study also contributes to understanding how the United States shapes China- Latin America relations in terms of the potential energy competition and the political effect over the none-energy agenda. The objective of the research has been to fill a gap in the literature by explaining the nuances of foreign policy relations around oil through the lenses of China and Ecuador energy relations which could posed potential implications for other cases, a kind of work that has not been done previously. This conclusion summarizes the empirical findings, the theoretical explanations, and the policy implications of these bilateral agreements.

8.3 Empirical Findings on the Ecuadorian Case

Evidence reveals that China’s energy demand is at the center of relations with Latin American oil producers. Oil-for-loans is an oil diplomacy tool, a state-to-state deal which consists of relaxed financial packages in exchange to access to a fixed amount oil supply at market prices. The use of this tool brings back the state as the leading actor in oil politics as the latter attempts to use these agreements to expand bilateral relations and circumvent the dictums of the market. Resource backed loans have led Ecuador to commit its oil supply to China for years to come: the latest agreement in 2016 takes effect
until 2024. Coupled with finance, the agreements seem to be linked to preference for the bids of Chinese companies over energy infrastructure projects. In Ecuador for example, 90% of hydroelectric plants are constructed by Chinese companies financed by Chinese banks; in Venezuela loans opened a window to a 25-year joint exploration agreement; and in Brazil loans are geared to the development of the pre-salt oil reservoirs. In regards to finance, empirics also demonstrate oil does not provide low cost finance and in fact encompass interest rates close to international market rates.

The evidence also suggests that government institutions and policy play a defining role in Ecuador’s decision to engage in oil-for-loans. In the Ecuadorian case, oil-for-loans is the winning strategy of the statesman. While the credit is taken and paid by the state oil company Petroecuador from oil revenues, finance is channeled directly to the Government’s budget. Despite the five oil related loans agreements active granting the selling of Ecuadorian oil until 2024, it is important to mention China’s financial power has not enhanced its clout over Ecuador’s energy assets. The government holds a tight grip of energy assets and its resource nationalism also extends to its relations with China: China does not control the dictums of the national energy strategy, does not have equity share in energy projects, and does not enjoy direct appropriation of resources. Deals seem to be implemented to maximize the state power and the leader’s decision-making leverage domestically and internationally.

The deals also offered a window to domestic politics and the relationship between government and oil companies. Resource nationalism take place along Latin American countries but it is not homogenous as there is a great diversity of resource nationalism among countries. In the Ecuadorian case, the government keeps a firm grip on the oil
sector, and the national oil company is not independent from the government apparatus. Previous key players in oil policy such as the legislative, the military, and relevant ministries had already been stripped of their decision-making power and power over oil policy further concentrated in the executive by 2009. Traditionally, the Ecuadorian national company played a pivotal role in oil policy assuming administrative and regulatory roles towards private oil companies and all energy deals. Under a heavy “strategic resource” discourse, the critical role of oil is also reflected in the former role of military in the administration of the national oil company Petroecuador. Resource nationalism is not new and has continued through the years in Ecuador, but there was a significant change in the balance of power between other governmental players and the executive, in particular between the national oil company and the executive. Furthermore, the peak of oil prices and demand from emerging consumers and national oil companies from China and other countries (most recently India and Thailand for example) allow the government to strain relations with private oil companies and absorb the revenues by advancing a fee-for-serving system.

It is important to mention that commodity trends and revenues from oil resources have been traditionally important to Ecuador’s finances and cannot account for change in foreign economic policy. In fact, natural reserves and oil output has not greatly varied. Moreover, oil has traditionally been paramount for the economy and public finances. While the first oil-for-loans agreement emerged in the context of the global recession and oil prices, these agreements have continued until to 2016 in the midst of low record prices. Thus, these agreements are not determined by a resource boom but rather take place in countries where oil is the largest export under control of the government; the
largest export and economic sector in the hands of the government stimulates the autonomy of the state to advance oil for loans commitments. For the Ecuadorian government, dependence on oil-for-loans commitment posits fewer costs, due to the lack of accountability and its ability to devolve fast into liquidity allowing room to maneuver political calculations.

The debate over China’s relations with resource-rich countries often finds that deals are symptomatic of an ideological affinity, appreciation and respect for their common developing path under the win-win, no intervention banner. Yet, for Ecuador oil-for-loans is a tool of engagement with China and efforts diversify its relations with extra hemispheric states. While oil sales to China expands Ecuador’s partners, it is primarily a source of internal strength and its main tool to steer the market for its own benefit in order to give the government more autonomy to use budget deficits to intervene in the economy. In those terms, China’s oil demand and finance expands the bargaining power of oil-rich countries by granting capital without costly commitments or domestic compromises, which seem to echo the claim that domestic politics and the disproportionate power of the executive explains the policy outcome.

This is corroborated by the fact that Ecuador was not interested in advancing oil or other energy assets to balance against the United States. Granted, Ecuador’s previous access to loans disbursement and trade agreements have been traditionally contingent on its alignment to the U.S. geopolitical or commercial agenda in the country. In this context, oil policy preferences sought to wean the country off of US potential pressure. The emergence of China as an energy partner allowed Ecuador to opt for an oil strategy that reduced the risk to be exposed to conditions over macroeconomic policy
requirements, domestic reforms, regulations in the oil industry, and the allocation of revenues. Furthermore, as an alternative oil and financing partner, China is not interested in directly supporting counterbalancing efforts in the region. However, Beijing is indirectly complicating U.S. interests and bilateral relations with countries like Ecuador. Rather than an ideological affinity, Beijing’s non-intervention principle is a strategy that avert taking over the costs of alliances, support international organizations, and participation in the entanglements between Latin America countries and the United States. As such Beijing remains a status quo power and is not interested into meddling with U.S. leadership in the Western Hemisphere.

Concomitantly, oil-for-loans forms part of a series of Chinese tools that are used to engage in oil transactions with developing countries. It is important for any analysis to recognize that China is not interested in the development of these countries. Instead, China seeks to increase its stake in the oil market through the diversification of its means of access to oil: finance, equity shares, joint ventures, and oil exploration. Chinese national oil companies are tasked with these objectives and turn to state banks to access capital in order to achieve them. During the ventures of Chinese companies abroad, Chinese Banks do not charge interest rates to Chinese national oil companies. They instead extend loans directly to the resource rich countries, which leads to believe there is a more or less coordinated effort between the oil companies and the banks to advance a national agenda. Furthermore, the empirical evidence suggests these deals do not advance China’s energy security through the continuity of supply to the mainland despite claims. Oil supply from these transactions instead are traded within the Western Hemisphere market. There are logistical and profit calculations for trading oil within the Western
Hemisphere while there are also efforts diversify the arrays of tools, investment, and partners.

More importantly, oil-for-loans contribute to the expansion of Beijing’s “Going Out” policy and bolters Chinese national energy champions; they have allowed to gain a stake in the western hemisphere market, participate in regional oil supply routes, access reserves, and enjoy oil supply. Continuous access to oil supply through resource-backed loans grants Chinese national oil companies entry to the oil market across the Americas including access to oil transit routes, oil transport strategies, and transactions with brokers, and refineries in the western hemisphere. Thus, oil-for-loans transactions seem linked to other energy security goals in terms of expanding Beijing’s friendship with oil exporter countries, its participation in the oil market, and as such as stake in oil governance. Beijing’s booming oil demands for years to come leads to believe fomenting relations with oil producers will be a priority and a center piece of its geo-economic interests.

8.4 Theoretical Contributions from the Ecuadorian Case

This research sought to examine the valuable contributions of five theoretical constructs to explain Ecuador’s motivation to engage into oil for loans agreements—domestic politics, bureaucratic politics, ideology, soft balancing, and commercial interests—and its possible implications for other cases. The theories examine the reasons for this policy orientation: whether policy choices are deliberate responses advanced by leaders, the presence of an extra hemispheric power, a challenge to the regional hegemon, or a matter of bureaucratic bargaining. Equally important, Ecuador’s energy diplomacy with China
contributes to understanding the extent the systemic structure and an extra hemispheric power play in policy choices in the oil sector.

Soft balancing did not prompt the use of oil as a tool of foreign policy. To begin with, over the past 15 years Latin America has been distancing itself from the economic neoliberal model advanced by the United States. In the context of 9/11, the region has been changing the way it defines topics of concern it shares with the United States in terms of democracy, security and economic issues. The impetus to oppose the United States thus precedes the rise of oil agreements but seems to be independent of China’s presence in the region. Soft balancing seeks to build coordinated effort, either in the form of international organizations, bilateral diplomacy, coalition building, public rhetoric and other non-military tools to curtail U.S. power. There is no evidence that oil-for-loans is a coordinated effort between Ecuador and China to counterbalance or thwart a specific U.S. policy. In terms of balancing, countries in the region including oil producers like Ecuador, Venezuela, and Brazil have resorted to coordinated efforts along regional organizations such as ALBA and UNASUR to respond to perceptions of aggressive unilateral postures from the U.S. in the Southern Cone. Yet, oil transactions as foreign policy instrument is not directly connected to multilateral institutions geared toward challenging U.S. hegemony in the hemisphere or gaining influence with Washington. As such these deals seem to run parallel to relations with the U.S. Second, soft balancing attempts to accumulate capabilities to counterbalance specific policies and influence international outcomes in the long term. Oil-for-loans is a recent strategy and as such is too early to portray it as sustained position. Instead, to the extent that oil deals expand bargaining leverage for a small exporter like Ecuador, these agreements actually facilitate
opposition in regards to its policy differences with the regional hegemon rather than any soft balancing; in the short-term alternative oil deals frustrates and diminishes risks from U.S. bilateral policy pressures without concern of punishment. Strategies of opposition such as the one under examination are more likely take place under domestic resentment over the predominance of the regional hegemon over recent policy pressures. Thus, Ecuador’s relations with the U.S. are not highly confrontational, as tensions do not result from fundamental incompatible policy preferences but from diplomatic frictions and dissent over a bilateral agenda.

Evidence suggests that these transactions do not exclusively aim to circumvent finances from western creditors and their conditions but instead is a set of tools that allow Ecuador to take distance from the U.S or refusal to go along with the different U.S. interests in the country; this involves political demands over Ecuador’s domestic political economy and oil policy itself including pressures over regulations in the oil industry and allocation of revenues. The ability of the government to control the oil sector in the context of China’s energy demands was an incentive to resist U.S. initiatives in the country and also in general resist making policy commitments to attract foreign partners. The availability of an alternative partner like China does not nurture political influence or opposition to the United States and as such not the driving factor behind the policy decision. Ecuador-- and in similar vein other oil-for-loans target countries in the hemisphere-- continue economic relations and destine oil exports primarily to the United States. China’s energy demand does allow the pursuit of independent strategies, including policies of opposition to the United States without worrying about pressures by the latter.
National oil companies do not play a role in an oil backed loans strategy. In the Ecuadorian case, much of this policy choice has to do with how the government and the state oil company interact. Petroecuador is far from a commercial minded entity and in fact has been removed from its role as a regulator of the operations of international oil companies. Rather, alongside its oil production operations, they carry oil-for-loans agreements as a political function to the government. As a specialized state bureaucracy, the state oil company has little control over state to state-to-state oil agreements and is kept at an arm’s lengths by the government. The Ecuadorian state company behaves as an instrument of the political elite to advance finance that was easy to capture. This behavior does not emerge in a vacuum and it is in tandem with the diluted institutional check and balances in the oil sector. Political ideology or in any case a shared ideology with China poses no explanatory power. Resource nationalism and the control of windfall abound in different degrees along the region. Nor can it be said that Chinese politics has influenced Ecuador’s domestic politics. Further, the lack of complex economic or political interdependence between Ecuador and China suggests Beijing remains agnostic about Ecuador’s economic policies. Ecuador in fact has restricted foreign direct investment and the participation of international actors in the production and control over natural resources assets, for example in oil and mining, including in the case of China.

The crucial factors are domestic politics and economic interests. The goals and strategies behind these agreements is highly a presidential affair. Oil deals are major developments in governments where decision making is highly centralized and where the executive has been able to lock its mandate over oil assets and in the negotiations advanced with international oil partners. The different domestic players, in particular the
Ecuadorian national oil company or the Energy Ministry do not exhibit economic or institutional strength to veto the government. The Ecuadorian case suggests oil for loans agreements occur in countries where oil is the largest export under control of the government, this of course in the context of China’s oil demand. Correa’s leadership and perceptions of the power game is the transmission belt that links the government’s expansive control over the oil sector with the foreign policy choice of oil for loans agreements. Correa’s assessment of geopolitical regional factors and his critique to U.S. sponsored neoliberal model influence the country’s sought to diversify relations along the multipolar global economy and closer relations with other regional peripheral states. The combinations of these perceptions and the deterioration of the opposition and institutional balance at the domestic level enhanced the control of the oil sector and the ability to allocate oil resources to financial agreements with China advancement of oil for loans.

In these terms, the Ecuadorian case suggests that host countries that attract relaxed oil deals with China are likely to have direct control over oil resources; oil national companies in these countries serve the specific objectives and demands of the government when seeking financing and investment deals from China. Oil backed financing deals are not likely to advance business goals or the oil sector and instead are keen to be implemented for the national investment program of interest by the political elite in power at the time. The ability to advance this policy orientation lies in the fact that oil is Ecuador’s largest export and is under the control of the government. Mainstream debates claims oil-for-loans ultimately resulted from lack of access to financial markets after its debt default in 2008. Loans continued even as Ecuador resumed its presence in the financial market and low oil prices. A windfall bonanza is not
necessarily decisive since oil-backed agreements have taken place during both the boom and bust oil cycles; eight oil agreements have taken place between 2009 and 2016, the latest agreement for example, amount to $1,500 million (and 7.25% of interest rate) at a time oil prices are $20 a barrel. In this context, oil-for-loans policy choice takes place along governments where decision making is highly centralized and attempts 1) to circumvent policies and binding agreements with other partners that were seen as costly commitments, and 2) provide bargaining power to counter balance international pressures over domestic policy. In fact, the default, the subsequent strain relations with western financing as well as oil for loans policy are actually all behaviors sustained in the control and national ownership of extractive resources by the government.

Findings also suggests explanations from the commercial liberal theory are well-founded and generate broader implications for Latin America’s relations with China, particularly in regards to national responses to China’s engagement in the hemisphere. Economic factors do matter for developing countries that depend on and are heavily exposed to international forces. Ecuador received the first significant amount of Chinese financing in the midst of strained relations with financial markets. Yet, Ecuador also sought to expand its oil export market and attract sources of foreign energy investments. This suggests that small countries are especially likely to cultivate economic ties and use their strategic assets if a powerful economic partner is available. Equally important, the expansion of energy relations has not explicitly involved greater political compliance or resistance to conditions involving domestic or international policy. Above all, Ecuador’s energy cooperation through these deals seek to lower sovereignty costs for it fosters easy access to capital without policy compromises. This coincides with findings from soft
balancing theory that argue oil as instrument of policy seeks to expand leverage with little incentive to institutionalize a bilateral cooperation that could carry conditions.

In economic terms, China’s vast economy reinforces dependency patterns along the region. Latina American continues to specialize in primary products in the global economy and China role as a consumer of natural resources and provider of manufacturing products fosters an asymmetrical economic relationship. Along these lines, China is interested providing resources and develop its national companies rather than taking over the cost associated with advancing alliances or supporting the costs of geopolitical strategies in the region and in these regards it maintains a low intensity commitment toward developing countries. In the long term however, its economic power could evolve in strategic power.

All this suggests that the presence of extra hemispheric partners is not the driving factor behind preference over these agreements yet in the context of available alternative allies, oil-for-loans policy is driven by the state agency as in the case of Ecuador, the level of autonomy of the executive over the oil sector. The expansive presence of the state enables the centralization of relations in national resources and in Ecuador where the executive concentrates decisional power over oil, this fosters his disproportional weight over policy and the management of resources. Of course Chinese loans disbursement weaned the country off of the global crisis at that time Ecuador struggle to access the financial market. Yet, the executive’s autonomy and control over the single largest export provides the flexibility to advance oil based agreements, allows to postpone imperative economic and political reforms, and strengthen his position in the domestic power game.
8.5 Policy Implications of the Ecuadorian Case for Small States

Oil-backed loans and the announcement of large infrastructure projects linked to Chinese financing provides policy space. China represents fresh opportunities in terms of trade diversification, new sources of financial investment, and multilateral cooperation and as result expanded Ecuador’s capacity to maneuver, make policy decisions, and minimize external pressures from the international market or a powerful state. Preference over oil for loans rests aims to advance political autonomy in domestic and enact policies domestically.

At the international level the expansion of energy relations is not connected to effort to balance the United States or political compliance to China. Oil sale commitments allow rapid access to capital through bilateral agreements thus diminishing Ecuador’s dependence on western credit while Ecuador continues to sell oil around market prices. China attempts to appear as a more flexible partner, easing lending conditionality, though it tends to impose certain conditions that range from the requirement to purchase Chinese equipment to hiring Chinese companies. Agreements are not balancing efforts yet are linked to a series of challenges to U.S. hegemony and extend beyond China’s presence. Oil for loans overcome the restrictions and political influence created by U.S. bilateral pressures over domestic policy without concern for punishment; agreements reduced the risk to be exposed to conditions over domestic reforms, regulations in the oil industry, and the allocation of revenue. Financially, agreements allow to circumvent engaging with Western multilateral institutions or OECD countries like the United States which would require to go over the country’s macroeconomic policy.
Oil politics has not locked supplies. The fact that Chinese National oil companies have access to state finance and lead Beijing’s strategy abroad creates fear that International Oil companies from other consumer countries are at a disadvantage. Furthermore, Beijing’s energy strategy abroad has expanded rapidly in Africa and Latin America and there is fear that China is attempting to control oil supplies from these regions. Evidence suggests oil is internationally traded and as such subject to the prices and logistical challenges posed by the international market. Due to transportation and production costs, Ecuadorian oil supply to Chinese companies remain and is sold in the Western Hemisphere. Chinese footstep in the region do not interrupt the supply of oil. Ecuador maintains oil exports in the context of agreements with China while for others such as Brazil and Venezuela, oil-backed loans include joint ventures in the development of oil reserves; the latter approach actually increases oil volume to the world. China’s oil acquisition has however increased the role of Chinese oil companies as a logistical player in the distribution and transportation of oil supply and as a trader in the regional oil market. China’s reliance in non-market instruments to secure direct access to oil supply can involve establishing close ties with oil producers. So far, Beijing is indirectly complicating U.S. interests and bilateral relations with countries, by weaning these countries off of US potential pressure.

Oil for loans policy did not fulfill the goals it was set to achieve. To begin with, direct bilateral oil deals have done nothing to help the cause of market diversification. The U.S. continues to be the single largest consumer of Ecuadorian oil as Chinese companies resells oil to refineries along the U.S. west coast which echoes incapacity to understand the structure of the international oil market. Nor have direct agreements
advanced strategic alliances that foster energy projects or transfer of technology between state oil companies; Ecuador failed to use its oil and China’s interest on it for further integration and partnership. On a more commercial level, the deals have not revived the competitiveness and production of the Ecuadorian oil sector. Loans have not increased oil production or transfer technology and innovation in oil exploration. In fact, resource nationalism politics undermines Chinese foreign investment in Ecuador as, equally to other oil companies, it limits Chinese companies to fee services contracts. Furthermore, the stake of Chinese companies in domestic energy project is limited to single handing the construction of hydroelectric plants.

Oil-backed loans agreements exacerbated resource governance. Direct oil agreements with China have provided the ruler with a source of unaccountable power, and empowered the government to advance unquestioned policies. Controversy surrounds the Ecuadorian petroleum policy due to the lack of transparency of the bilateral deals with China. There is scatter detail about the agreements; contracts are concealed from public scrutiny, turning blind eye to the effectiveness of the terms of the agreements as well as the allocation of resources. Available information reveal that contracts obligate to sell almost its entire export supply to one single actor. Overall, energy relations with China is not without its problems as reservations have risen over corporate responsibility and labor exploitation of Chinese companies building hydroelectric in the country. The government remains to offer a sober assessment over the size and nature of loans and enhance rules and government transparency.

Oil deals appear to generate a dependency path for the country. Systematic preference for Chinese capital created a new dependency trajectory in addition to the one
with the U.S. The domination of Chinese national companies over natural oil resources including Ecuadorian oil supply, energy projects, and mining putting along accusations of deplorable labor, working and environmental standards of these companies in host countries leads to believe Ecuador finds itself under the control of the latest core state. Ecuador’s exacerbate reliance on Chinese lending-- 40% of Ecuador’s foreign debt is own to China\(^\text{402}\)-- and its $3,000 million trade deficit with China actually reinforces a new dependency direction. In aiming and depending on new sources of trade, finance, and investment does not imply Ecuador will be subject to the orthodox political or economic policy pressures by West creditor yet evidence suggest arrangements pull conditions in multiple directions that undermine development efforts. Energy agreements do not advance energy transfer, equipment comes from China, and require that mid-high management level of energy projects also comes from China.

### 8.6 Looking Ahead

This research covers energy relations between China and Ecuador during the first wave of China’s footstep in the region. Pundits and experts depicted the first wave of China-Latin America relations from 2008 to 2013 as benign and commercially driven by China’s demand for commodities. Much of this assessment by the literature came on the heels of a series of statements in the Policy Paper in 2008 or in official speeches by for example Premier Wen Jiabao’s “Trusted Friend” at ECLAC in 2012, which sought to appease perception of threats among U.S. officials and present China as a trusted partner. Yet, China’s engagement in the region has moved steadily to a different momentum.

\(^{402}\) I am including oil for loans agreements in Ecuador’s foreign debt
marked by an assertive diplomacy following Xi’s rise to presidency of PRC in 2013. China-Latin America relations continues to be bilateral and economic in nature and does no present a compelling military confrontation. China has moved from a cautious and prudent period in economic terms and the literature is beginning to bring attention to Xi’s assertive turn towards economic competition and strategic multilateral approach in this second wave of relations.

The shift to an assertive policy and economic competition is evident along several fronts. In the commodity sector, the fact Beijing spearheaded the “Go Global” policy to explicitly support the expansion of national companies over oil market creates fear that international oil companies from other consumer countries are at a disadvantage. Chinese national oil companies have unlimited access to PRC policy banks which offer a flexible partner and easing lending conditionality and arguably secured preferential treatment for Chinese companies’ investments or bidding for access to energy resources abroad. Oil arrangements largely concentrate in countries with anti-U.S. administrations including the ALBA countries, Ecuador and Venezuela, as well as Argentina and Brazil, which suggests that while energy deals follow the maximization of business opportunities, they have political implications. Equally important, oil relations with China has not locked has not locked supplies to China however oil agreements are fundamental in the increasing role of Chinese national companies in the distribution and transportation of oil supply and as a trader, which signals China is aiming to become a player in the regional oil market along and oil routes.

From China’s presence in the commodities sector, China has moved towards expanding its participation in the automobile, construction, and telecommunication industries in the region.\textsuperscript{404} The unlimited access of Chinese firms to assistance by their government is not a direct threat to the U.S. yet some author believe this “might trigger an increasingly fierce competition for access to market and resources” with European and U.S. companies already present in the region.\textsuperscript{405} Economic competition could ultimately generate spillover bilateral tensions along high politics.\textsuperscript{406} Furthermore, today we see a sustained Chinese economic strategy that sets bold investments in sectors of U.S. interests. Panama for example awarded the operation of the ports along the Panama Canal to Chinese Hutchinson Whampoa and Chinese entrepreneur Wang Jing is investing $ 50 billion in constructing a canal across Nicaragua.\textsuperscript{407}

At a multilateral level, China is advancing dialogue with regional organizations positioned outside of U.S. influence. Coordinated efforts for example concentrates in the Community of Latin American and Caribbean States (CELAC), which excludes the U.S. and Canada. The first China-CELAC summit in 2015 mapped out a five-year cooperation plan that included 13 key areas of cooperation and aim at $500 billions of trade and $250 billions in investments with the region (Latina America’s commerce with the U.S. amounts to $ 800 billions). This regional focus is similar to what China has pursued in

\begin{itemize}
\item[] \textsuperscript{404} Evan Ellis, “Cooperation and Mistrust between China and the U.S. in Latin America,” in \textit{The Political Economy of China-Latin America Relations in the New Millennium}, eds. Margaret Myers and Carol Wise (New York: Routledge, 2017).
\item[] \textsuperscript{405} Nele Noesselt and Ana Soliz-Landivar, “China in Latin America: Competition in the United States’ ‘Strategic Backyard,’” \textit{GIGA Focus}, no. 7 (2013): 6.
\item[] \textsuperscript{406} Ibid.
\item[] \textsuperscript{407} Ellis, “Cooperation and Mistrust between China and the U.S. in Latin America.”
\end{itemize}
its relationship with Africa. Without leaving a bilateral agenda on the side, China has been cautious in choosing an arena of regional participation that is comprehensive and inclusive of all Latin American countries. Other strategic sub dialogues include meeting with some members of the Conference of the Caribbean Community (CARICOM) in 2013. In his next stop in the region in November 2016, Xi will land in Peru to attend the Asian-Pacific Cooperation (APEC) in conjunction to a few official state visits to countries in the region. The regional political agenda has not shown any increased effectiveness with the arrival of China; CELAC is institutionally weak and operate in temporary and isolated areas. However, the contemporary scenario illustrate visits from China to Latin America are becoming frequent and continuous. Ellis for example points out to the fact that Xi Jinping and Prime Minister Li Keqiang “have made at least one trip per year to Latin America” since 2013.

The combination of an upgrade of Chinese economic expansion in the region and constant high politic bilateral visits and engagement with regional institutions signal Xi’s assertive policy. Of course, China-Latin American relations are not equivalent to China’s relations to the U.S. This means that it is difficult to imagine a situation that could trigger significant tensions between the U.S. and China and elevate the region to a high-priority level that would escalate into military tensions. Granted, there is strong evidence Beijing is advancing a new type of economic partnership that is bold and assertive and

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409 Evan Ellis, “Will China Upstage the U.S. at the November APEC Summit?,” (www.latinamericanogoesglobal.org).
410 Ibid.
that a second wave of relations is emerging marked by economic competition which will alter dynamics and require further study.

The oil-driven dimension of China-Ecuador relations has provided lenses to explain China’s footprints in the region and responses from a Latin American country. The analytical framework posed several themes. It debated the question that a new balance of power has emerged, marked by the gradual economic expansion of China and a relative weakening of the U.S. The empirical evidence shows that China plays an expanding presence Ecuador’s access to finance and the development of large energy infrastructure. Yet, for the most part China power subscribe to economic agreements. Neither Ecuador nor China has been interested in soft balancing efforts. Ecuador has not demonstrated interested to compel China at least for now, to deal with sensitive regional issues or influence domestic politics. At the same time, China keeps its distance from issues that have polarized the United States and Ecuador. It remains on the periphery of anti-American sentiment along the executive level and stays on the side-lines of major institutional reforms in the energy sector. It is hard to provide a conclusive analysis at this point whether the terms of oil for loan agreements are optimal or who got the best deals along Ecuador, Brazil, and Venezuela due to the lack of transparency. Ecuador represents the case of a small country yet other countries like Brazil and Venezuela have faced similar dependency patterns even though they are bigger. The result from this research leads to believe that China has been able to dominate negotiations along Latin American countries. The literature will greatly benefit from future studies that can compare Chinese oil politics with Brazil and Venezuela and focus on the results of these dealing, which goes beyond the goals of this dissertation.
For Ecuador, China poses a remarkable opportunity to expand extra-hemispheric relations. As for development, the Chinese option is viewed positively within the Ecuadorian government: flexible financing terms, investment in infrastructure, and the country’s direct impact on demand and rising raw material prices. Most importantly, it strengthens Ecuador’s autonomy. Oil has and continues to be Ecuador’s strategic leverage in particular for an empowered resourced rich government in the domestic power game. China will continue to be a source of demand for raw materials, a source of finance and infrastructure. Yet, Ecuador has not posed a political strategy towards China and fails to capitalize on the potential to attract Chinese foreign direct investment or to envision diverse joint-cooperation projects for example in clean energy. For now, foreign policy as well as development strategies along South-South relations continue to be trapped in the unaccountable power of oil.
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