



Is the Ecuadoran government of Rafael Correa a wholly owned subsidiary of China? The more analysts look at the finances of the Andean nation of 15.6 million, the more it seems that the Correa government is selling the country's resources to one main buyer in order to pay for its populist agenda. After taking up residence in the Palacio de Carondelet in 2007, the country's executive mansion, the socialist Correa declared the country's sizeable foreign debt to be "illegitimate" and "odious," contracted with "monsters" in the world of finance. By December 2008, Ecuador defaulted on \$3.2 billion in global bonds. World capital markets reacted harshly treating Ecuador as a pariah. The country faced potentially serious hardships as its solvency was directly challenged, but as economic circumstances would have it the resource rich-nation, like many other commodity exporters, was able to ride the wave of rising world prices for petroleum.

Since the 2008 default, China has become Ecuador's largest foreign lender with \$9.9 billion in forward oil sales. This has allowed the Correa government to maintain its high rate of social spending. In July 2009, PetroChina loaned the Correa government \$1 billion in exchange for 96,000 barrels per day (pbd) in crude petroleum exports to China. The petroleum, like other cash for oil agreements around the world, was intended to fuel China's growing economy. By 2010, a new deal for an additional \$1 billion was negotiated with China Development Bank (CDB), and this time the CDB was able to cut the premium price paid as Ecuador also conceded to China's resale of its oil on the world market. In 2011, yet another \$1 billion was negotiated. The continuing exchange of oil for loans has now reached dramatic proportions. For instance, while in April 2010 China was receiving about one-third of all Ecuador's oil exports, by 2013, China was receiving an estimated 83 percent of all Ecuadoran oil exports in exchange for approximately \$9 billion, or 11 percent of Ecuador's GDP. In a 2011 Reuters article, journalist Felix Salmon estimated that Ecuador already owed China about \$8 billion, or 19 percent of the country's GDP. Further, the country needed a \$10 billion credit line, owing China 24 percent of GDP, to cover its government spending. Most of the spending has gone to infrastructure and social welfare spending critical to Correa's ability to garner political support among the poorest Ecuadorans. Currently, while 520,000 barrels per day (bpd) are exported to China, it is estimated that only about 15,000 bpd actually go directly to China. It seems as Chinese oil companies developed their economic footprint they tend to trade more oil than they import. According to petroleum analysts, given the US's ability to refine crude, most of Ecuador's oil goes to the United States for resale to American refineries. According to Business Insider reporter Michael Kelley, the Ecuadoran government is also looking for other ways to access Chinese loans and credit. In March 2013, the Correa government began auctioning off about 3 out of 8.1 million hectares of Ecuador's Amazon rainforest for exploration and development by Chinese oil companies. Despite considerable protest from Ecuador's indigenous people and



environmental activists, Correa's government sees few options but to exchange subsoil for cash to keep its populist spending on a roll or risk an economic slowdown with negative political consequences. Increased dependence on China is a function of foreign investment levels in Ecuador remaining the lowest in the region. Correa's domestic and foreign policies continue to fuel uncertainty. In 2009, Mr. Correa refused to renew a 10-year agreement allowing the U.S. military from conducting anti-drug operations from the base at Manta, Ecuador. Correa's government also looked around for a potential maritime power to lease its naval facilities. As a [September 2008 Washington Post article](#) reported: "President Hugo Chávez of Venezuela stood alongside President Rafael Correa of Ecuador in July to announce a jointly financed \$6 billion oil refinery to be constructed on the outskirts of Manta. And Hong Kong-based Hutchison Port Holdings has begun building what will be among the largest deep-water ports on the west coast of South America, a \$523 million project with piers, cranes, tuna-boat terminals, roads, and the capacity to eventually handle 1.6 million shipping containers a year at the continent's closest point to Asia." Ecuador, like Bolivia and Venezuela, is a founding member of the ALBA (Bolivarian Alliance for the Americas) an alliance of populist and socialist regimes founded by Venezuela's late president Hugo Chávez. The ALBA model has several critical elements. First, ALBA nations are hostile to the United States political and economic presence in the Americas. ALBA has worked to promote alternative trade blocks such as MERCOSUR and was key to establishing CELAC (the Community of Latin American and Caribbean States), a sort of alternate OAS, conspicuous by its exclusion of the United States and Canada. Next, the ALBA nations promote an economic model expanding the public sector at the expense of the private sector. Thus making the population progressively dependent on government-run economic activities, along with state-sponsored employment, housing, education, and health services. While continuing to hold elections, each of the ALBA nations provide government largesse to the poorest in exchange for their votes. In order to finance its public and social spending, the ALBA nations have largely traded their natural resources for cash, loans and credits. Venezuela alone has received over \$43 billion in Chinese financing in exchange for petroleum, which accounts for over 90 percent of that country's exports. Bolivia has also exported large amounts of petroleum and much of its tin supplies. The extent of Ecuador's relationship with China, however, seems to have grown exponentially as a critical source of financing. This is due to Ecuador's unique currency situation. In 2000, the Ecuadoran government switched from its currency, the sucre, to the US dollar after experiencing a major banking crisis. Unlike other ALBA countries, the Ecuadoran central bank and government cannot print their way out of deficits, devaluing the currency to make up for shortfalls and overspending. In fact, one of the Correa government's top reform agendas includes the de-dollarization of the Ecuadoran economy. Lacking a monetary tool for inflation, Correa's government must resort to borrowing to finance its considerable outlays.



Does China Own Ecuador?

The use of Ecuador's petroleum resources appears to have led to China's near-monopoly control of Ecuador's crude exports, making for what some critical analysts describe as Ecuador's new status as a wholly owned subsidiary of China. China may not technically own Ecuador, but Correa seems to be selling everything in sight to stay in power.