Council on Hemispheric Affairs
Director Larry Birns
2501 Calvert Street NW
Suite 401
Washington, DC 20008 USA
T: (202) 223-4975

Sino-Ecuadorian Economic Interaction Exploits Natural Resources and Indigenous Peoples

By Liam Timmons,
Research Associate at the Council on Hemispheric Affairs

Since the early 2010's, Ecuador has turned to China as a source for development loans, a means to alleviate budget deficits, fund hydroelectric dams, oil refineries, and more. Sino-Ecuadorian trade stems from simple economic necessity: Ecuador needs development funding, and China needs oil. Following its 2008 default on $3.2 billion in Brady Bonds, Ecuador was shut out of global financial markets and found itself unable to keep its economy running.[i] At the same time, Chinese oil consumption had nearly doubled in a decade, increasing from 4.1 million barrels per day in 1998 to 7.9 million in 2008.[ii] Thus, China turned to Ecuador to fulfill its petroleum shortfalls, and an unlikely economic partnership was born. Given the conditions of this partnership, it has come with myriad negative implications for Ecuador, including the loss of trade sovereignty, repression of indigenous people, and damage to the environment. Ironically, when President Rafael Correa cited "obviously immoral and illegitimate" debt conditions that have prevented the Ecuadorian government from essential spending on housing, health care, and other social services, he effectively locked Ecuador into even more exploitative loan conditions preventing any semblance of financial independence and flexibility.[iii]

In fact, Ecuador received over $17 billion in loans from the state-linked Export-Import Bank of China and the China Development Bank between 2009 and 2015[iv], doubling the debt-to-GDP ratio from one-sixth to one-third.[v] Earmarked for renewable energy, infrastructure, and public services such as transportation, education, and health care projects, these are a welcome bonus for impoverished government coffers, as budget deficits have increased to as much as 4 percent of GDP as of 2013.[vi]

These loans have come at a price not only in the costs of repayment but as an opportunity cost for Ecuadorian trade expansion, however. Typically, Chinese loans demand interest rates between six and eight percent with payment made not in dollars but rather in barrels of crude oil. When a Chinese bank grants a loan to Ecuador's Finance Ministry, state oil company Petroecuador ships millions of barrels of oil to China. Chinese oil companies purchase the oil at market price, deposit the money into Petroecuador's bank account, and use said money to repay the bank for the loan.[vii] This process ensures China a long-term supply of oil and positions it as a dominant creditor in the region. Additionally, by securing more oil than is necessary to repay the loan and tying it to market prices rather than quantity, China effectively mitigates the risk of its loans.[viii]

This repayment system gives China nearly complete control of Ecuador's oil exports and drastically decreases Ecuador's ability to market itself as a major global petroleum source. While Chinese loans represent only a small fraction of the $13 billion Ecuador could earn from annual oil sales, the revenue from the oil used to repay these loans has a much higher value than that of the loans themselves. In recent years, Ecuador has pledged the vast majority of its oil production to China; by 2013, Chinese firms received 83 percent of Ecuador's exported oil, an increase from one-third in 2010 and two-thirds in 2011.[ix] This leaves as little as 10 percent of annual production available for Ecuador to sell on the open market, thus denying the country much of its sovereignty over one of its most valuable natural resources.[x] In addition, conditions in Chinese loans often require the borrower to purchase Chinese construction and telecommunications equipment, satellites, and other hardware. The Chinese Development Bank's $1 billion loan to Ecuador in 2010 mandated 20 percent of Chinese purchases, while the Export-Import Bank's $1.7 billion Coca-Codo Sinclair hydroelectric dam loan in 2010 required 100 percent in export credits.[xi]

In addition to oil-based loans, Chinese mining initiatives have created concern in Ecuador, especially among environmentalists and indigenous groups. Bolstered by regulatory overhaul, the creation of a stand-alone mining ministry and a large-scale investor engagement campaign, Ecuador expects mining investment to increase by 360 percent by 2021, to a total of $21 billion. Major Chinese investments include El Mirador copper mine and the Rio Blanco copper mine along the Peru-Ecuador border.[xii]

Rights to El Mirador were awarded in 2012 to Ecuacorriente, a subsidiary of two Chinese state enterprises, China Railway Construction Company and Tongling Nonferrous. The licensing to begin open pit mining and exploitation of minerals found at El Mirador generated intense controversy and a group of environmental activists immediately occupied the Chinese embassy to urge the ambassador to reject the El Mirador project.[xiii] Additionally, human rights groups and Ecuadorian NGOs brought a lawsuit against the government of Ecuador, arguing that the El Mirador project violated the Rights of Nature as codified in the 2008 Constitution of Ecuador. The lawsuit was decided in favor of the project, however, with the judge ruling that it would not affect a protected area despite evidence to the contrary, and the fact that societal efforts to protect nature constituted a private goal in contrast to the public interest of the mine.[xiv] Fundación Pachamama, one of the NGOs that brought the lawsuit, was later shut down by the government on the grounds of "fomenting dissent and violence."[xv] Ecuacorriente has thus decided to go ahead with plans for construction of the mine. Production is expected to begin by 2018 with the mine reaching its maximum potential by 2020. In addition to the mine proper, Ecuacorriente is considering building an export terminal and a hydroelectric power plant to supply the mine.[xvi]

The Rio Blanco copper mine, located along the Ecuador-Peru border, is owned by Monterrico Metals, now a subsidiary of the Chinese Zijin Mining Group. Like El

Mirador, Rio Blanco faced stiff opposition at its inception. Monterrico failed to get permission to mine from local communities as required by law, and citizen demonstrations against the project resulted in arrests, violence, and the kidnapping of 25 citizens by mine security guards.[xvii] After Monterrico was acquired by Zijin Mining Group, local governments held non-binding referenda for citizens to voice their opinions regarding the Rio Blanco project.[xviii] Despite the results of the referenda, Zijin went ahead with its plans for the mine, and emphasized 2017 as an important year for its development.[xix] Overall, the Environmental Justice Atlas identifies 11 mining conflicts in Ecuador, in addition to Rio Blanco on the Peruvian border.[xx]

These mining projects pose grave concerns for indigenous peoples and environmental rights activists in Ecuador. As the Chinese company Explorcobres S.A., a subsidiary of Ecuacorriente, prepared to construct the San Carlos-Panantza copper mining project, police officers attempted to evict the indigenous Shuar community from the municipality of Nankints.[xxi] The project sits on 41 thousand hectares of land across the Cordillera del Cóndor mountain range, of which nearly half are ancestral Shuar territory.[xxii] At the site, military police fired gas into the crowds of peaceful protestors, set fire to a village, and slaughtered farm animals, eventually forcing residents towards the village of El Tink, which remains under drone and helicopter surveillance.[xxiii] President Rafael Correa has accused the Shuar community of starting the violence, claiming indigenous leaders supported “paramilitary and semi-criminal” activities.[xxiv] The arrest of Agustín Wachapá, President of the Interprovincial Federation of Shuar Peoples, demonstrates the far-reaching implications of Chinese mining projects in Ecuador: from the poorest and least-educated to the leaders of entire ethnic groups, the rights of indigenous peoples are under threat.[xxv]

In addition to the impacts on indigenous peoples, Chinese mining projects in Ecuador have had wide-ranging environmental effects. Since open-pit mining involves ore deposits often buried in the ground, removing overburden and waste ore requires the removal of native vegetation and the dumping of toxic substances. This makes open-pit mining one of the most environmentally hazardous types of mining, especially in biodiversity hotspots such as tropical forests.[xxvi] The El Mirador mine is situated in one of the most biodiverse areas on Earth: the Cordillera del Cóndor region has one of the richest floras in the world, with over four thousand species of vascular plants, and 11 mammals considered endangered or vulnerable.[xxvii] Should the El Mirador project carry on as scheduled, three species of amphibian and one reptile are likely to become extinct.[xxviii]

Additionally, El Mirador mine would use 106 million liters of water per day to operate, changing the hydrology of the river Wawayme and poisoning waterways with waste products.[xxix] This tainted water will be used to process 50 thousand tons of rock each day, with over 99 percent of the rocks left on the forest floor, leaching heavy metals into the environment.[xxx] These environmental impacts have led the El Mirador mine project to receive a four out of five risk factor and four out of five for contamination from acid rain drainage and heavy metals in an assessment of its environmental impact.[xxxi,xxxii]

Ecuacorriente has stated it plans to spend only $2.5 million on environmental rehabilitation in the area, a paltry sum when considering the lack of success and the cost of rehabilitation efforts for mines in Canada and the United States.[xxxiii]

However, Ecuador may not have to remain in this exploitative economic relationship permanently. The country already has a model for beneficial international economic cooperation, seen in its 2016 accession to the European Union's (EU) free trade agreement with Colombia and Peru, which took effect at the beginning of this year.[xxxiv] This trade agreement provides for a full liberalization of more than 96 percent of tariffs between the parties, the elimination of technical barriers to trade, and the incentivization of sustainable trade and development. In contrast to Ecuador's economic interactions with China, the free trade agreement provides significant economic advantages for all parties. Because of the provisions of the trade agreement, Ecuador's real GDP could increase by 0.4 percent compared to a baseline wherein it maintained its Generalized Scheme of Preferences (GSP) tariffs, a profile made even more significant when considering Ecuador was set to lose these tariffs.[xxxv] Ecuadorian traders would experience a decrease in import prices and an increase in export prices, with an accompanying surge of a 0.5 percent wage increase for skilled and unskilled workers.[xxxvi] Overall, Ecuador's exports to the EU would increase by 30 percent and imports from the EU by 40 percent over the rate if Ecuador had not joined the extant free trade agreement.[xxxvii]

In addition to economic benefits, the EU free trade agreement contains provisions for environmental protection and sustainable development. In particular, the agreement attempts to "strengthen compliance with the labour and environmental legislation of each Party, as well as with the commitments deriving from [...] international conventions [...] to enhance the contribution of trade to sustainable development" and to "strengthen the role of trade and trade policy in the promotion of the conservation and sustainable use of biological diversity and of natural resources, as well as in the reduction of pollution in accordance with the objective of sustainable development."[xxxviii] In this way, the EU free trade agreement avoids the major drawbacks of Ecuadorian interaction with China by developing reciprocal, non-exploitative trade committed to sustainable environmental practices.

Should Ecuador continue its close relationship with China, it might do better to distance itself from exploitative loans that cripple its ability to conduct trade and end the leasing of environmental destruction to foreign firms. While an influx of funds for infrastructure and public services may seem appealing in the short run, long term erosion of trade sovereignty and harmful loan repayment systems leave Ecuador's hands tied for the future. In spite of its initial commitment to the "Sumak Kawsay" development model entailing a commitment to establish an alternative standard of harmony between human beings and the natural environment[xxxix], the Ecuadorian government has increasingly ignored the wants and needs of its indigenous peoples and environment, favoring foreign mining schemes that destroy natural resources and deny the rights of Ecuadorians to live in their ancestral homes free of violence and pollution.

There is a crucial choice that must be made in considering the future of Ecuador's economic policy. The government can either continue down the current road of exploitation, destruction, and lack of sovereignty which has been wreaked by Chinese loans and mining, or it can pivot to the economic benefits brought about by carefully monitored bilateral free trade agreements. The choice is clear. It is now up to the incoming Moreno administration to make the right choice for the people and the environment of Ecuador.

By Liam Timmons,
Research Associate at the Council on Hemispheric Affairs

Additional editorial support provided by Lynn Holland, Senior Research Fellow, Emma Tyrou, Extramural Research Associate, and Blake Burdge and Emma Pachon, Research Associates at the Council on Hemispheric Affairs

[i] Koening, Kevin. "Amazon Threatened by China-Ecuador Loans for Oil." China Dialogue. July 3, 2017. https://www.chinadialogue.net/article/show/single/en/9651-Amazon-threatened-by-China-Ecuador-loans-for-oil.

[ii] "China Oil Consumption." YCharts. June 22, 2016. https://ycharts.com/indicators/china_oil_consumption.

[iii] Watkins, Neil, and Sarah Anderson. "Ecuador's Debt Default: Exposing a Gap in the Global Financial Architecture." Institute for Policy Studies. December 15, 2008. http://www.ips-dc.org/ecuadors_debt_default_exposing_a_gap_in_the_global_financial_architecture/.

[iv] Gallagher, Kevin P., and Margaret Meyers. "China-Latin America Finance Database." Inter-American Dialogue. 2016. http://www.thedialogue.org/map_list/.

[v] "Ecuador Government Debt to GDP." Trading Economies. May 2017. https://tradingeconomics.com/ecuador/government-debt-to-gdp.

[vi] "Ecuador Government Budget." Trading Economies. May 2017. http://www.tradingeconomics.com/ecuador/government-budget.

[vii] Gallagher, Kevin P., Amos Irwin, and Katherine Koleski. "The New Banks in Town: Chinese Finance in Latin America." 2012. http://ase.tufts.edu/gdae/Pubs/rp/GallagherChineseFinanceLatinAmericaBrief.pdf.

[viii] Ibid.

[ix] Schneyer, Joshua, and Nicolas Medina Mora Perez. "Special Report: How China took control of an OPEC country's oil." Reuters. November 26, 2013. http://www.reuters.com/article/us-china-ecuador-oil-special-report-idUSBRE9AP0HX20131126.

[x] Ibid.

[xi] Gallagher, Kevin P., Amos Irwin, and Katherine Koleski. "The New Banks in Town: Chinese Finance in Latin America." 2012. http://ase.tufts.edu/gdae/Pubs/rp/GallagherChineseFinanceLatinAmericaBrief.pdf.

[xii] Jamasmie, Cecelia. "Ecuador Anticipates $4 Billion in Mining Investments by 2021." Mining.com. March 10, 2017. http://www.mining.com/ecuador-anticipates-4-billion-in-mining-investments-by-2021/.

[xiii] "Ecuadorian Women Lead Protests Against Chinese-Financed Canadian Project." Mines and Communities. March 14, 2012. http://www.minesandcommunities.org/article.php?a=11546.

[xiv] Kauffman, Craig M., and Pamela L. Martin. "Testing Ecuador's Rights of Nature: Why Some Lawsuits Succeed and Others Fail." In International Studies Association Annual Convention, Atlanta, GA. 2016. http://www.harmonywithnatureun.org/wordpress/wp-

content/uploads/Papers/Testing%20Ecuador%E2%80%99s%20RoN_16_04_20.pdf.
[xv] "El Mirador Copper Mine." BankTrack. October 12, 2016.
https://www.banktrack.org/project/el_mirador_copper_mine/pdf.
[xvi] "Ecuador's First Major Copper Mine to Debut in 2018." Argus Media. June 27, 2016.
http://www.argusmedia.com/pages/NewsBody.aspx?id=1265256&menu=yes.
[xvii] "Rio Blanco Copper Mine." BankTrack. November 1, 2015.
https://www.banktrack.org/project/rio_blanco_copper_mine/pdf.
[xviii] Ibid.
[xix] "Zijin Mining, Peru Make Strides in Rio Blanco Copper Mine." Metal.com. November 23, 2016.
https://news.metal.com/newscontent/100711656/Zijin-Mining,-Peru-Make-Strides-in-Rio-Blanco-Copper-Mine.
[xx] "Mining Conflicts in Latin America." Environmental Justice Atlas. https://ejatlas.org/featured/mining-latam.
[xxi] Brown, Kimberley. "Indigenous Leaders Denounce Ecuadorian Government Over Mining Conflicts." Mongabay. March 13, 2017. https://news.mongabay.com/2017/03/indigenous-leaders-denounce-ecuadorian-government-over-mining-conflicts/.
[xxii] Van Hulst Miranda, Bryan. "Shuar Tribe Face Government in Amazon Mining Protests." Al Jazeera. December 29, 2016. http://www.aljazeera.com/indepth/features/2016/12/shuar-tribe-face-military-amazon-mining-protests-161228112853484.html.
[xxiii] Watts, Jonathan. "Amazon Land Battle Pits Indigenous Villagers Against Might of Ecuador State." The Guardian. March 19, 2017. https://www.theguardian.com/world/2017/mar/19/ecuador-indigenous-shuar-el-tink-mining-land-dispute.
[xxiv] Brown, Kimberley. "Indigenous Leaders Denounce Ecuadorian Government Over Mining Conflicts." Mongabay. March 13, 2017. https://news.mongabay.com/2017/03/indigenous-leaders-denounce-ecuadorian-government-over-mining-conflicts/.
[xxv] Van Hulst Miranda, Bryan. "Shuar Tribe Face Government in Amazon Mining Protests." Al Jazeera. December 29, 2016. http://www.aljazeera.com/indepth/features/2016/12/shuar-tribe-face-military-amazon-mining-protests-161228112853484.html.
[xxvi] "Open-Pit Mining - General Overview." Protect Ecuador. http://protectecuador.org/portfolio/open-pit-mining-general-overview-2/.
[xxvii] Chicaiza, Gloria. "Mineral Extraction and Conflict in Cordillera del Cóndor, Ecuador." CEECEC. March 2010. http://www.ceecec.net/case-studies/mining-conflict-in-cordillera-del-condor/.
[xxviii] "El Mirador Copper Mine." BankTrack. October 12, 2016.
https://www.banktrack.org/project/el_mirador_copper_mine/pdf.
[xxix] "Usage of Water by the Mirador Open-Pit Copper Mine." Protect Ecuador. December 28, 2012.
http://protectecuador.org/usage-of-water-by-the-mirador-open-pit-copper-mine/.
[xxx] "Factsheet—Mirador Mine." Protect Ecuador. January 17, 2013. http://protectecuador.org/factsheet-mirador-mine/.
[xxxi] Ibid.
[xxxii] "Adverse Ecological Effects of the Mirador Open-Pit Copper Mine." Protect Ecuador. December 28, 2012. http://protectecuador.org/adverse-ecological-effects-of-the-mirador-open-pit-copper-mine-2/.
[xxxiii] Chicaiza, Gloria. "Mineral Extraction and Conflict in Cordillera del Cóndor, Ecuador." CEECEC. March 2010. http://www.ceecec.net/case-studies/mining-conflict-in-cordillera-del-condor/.
[xxxiv] "Ecuador Joins the EU's Trade Agreement with Colombia and Peru." European Council. November 11, 2016. http://www.consilium.europa.eu/en/press/press-releases/2016/11/11-ecuador-joins-eu-trade-agreement-colombia-peru/.
[xxxv] "Assessing the Economic Impact of the Trade Agreement Between the European Union and Ecuador." June 2016. European Commission.
http://trade.ec.europa.eu/doclib/docs/2016/september/tradoc_154964.pdf.
[xxxvi] Ibid.
[xxxvii] Ibid.
[xxxviii] PRC-Peru, R. T. A. "Trade Agreement between the European Union and its Member States, of the

one part, and Colombia and Peru, of the other part, signed 26 June, 2012."
http://trade.ec.europa.eu/doclib/docs/2011/march/tradoc_147704.pdf
[xxxix] "Rethinking Education: Towards a Global Common Good?." UNESCO. 2015.
http://www.unesco.org/new/fileadmin/MULTIMEDIA/FIELD/Cairo/images/RethinkingEducation.pdf.