A Thumb on the Scale: Chinese Investment and Influence in Ecuador and Colombia

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Abstract

Over the past two decades, Chinese involvement in the developing world has increased dramatically, raising concerns over the intentions behind the provision of development packages. Critics have accused China of a practice known as debt-trap diplomacy, a method of ensnaring less developed nations by providing more loans than those nations have the ability to feasibly pay back. While China denies that their loan and investment packages are provided with any ulterior motive, the influence held by an investor like China has the potential to impact these partner countries for decades to come. In light of the scope of China's role in the developing world, this project focuses on two case studies in order to dive deeper into the potential influence generated by Chinese investment. The case studies are Colombia and Ecuador, each of which allows a glimpse into Chinese involvement in developing economies in Latin America. Further, each proves an example as to how such intense investment, such as large infrastructure loans in Ecuador or newly heavy involvement in the Colombian oil sector, affects the nations that receive it. Within each country, this paper delves into projects and development driven by Chinese investment, showcases the level of investment in each country, and analyzes the influence China stands to gain through its investments. To understand this influence, this paper draws inspiration from the CIA's Conceptual Framework for Analysis of Influence, which looks at the domain, scope, and cost of influencing another state. This general framework is used to analyze both present outcomes and future potentials. Overall, this paper finds that Chinese investment in the case studies does act as a tool by which China can further its policy goals in the region, but each case presents limitations of that tool.

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Literature Review

Though literature regarding Chinese involvement in Latin America and literature analyzing Chinese tactics in what some call ‘debt trap’ diplomacy is both plentiful, few analyses have chosen to examine the role of such tactics within Latin America or the consequences thereof. The scholarly context has proved key in understanding the Chinese investment evaluated for this project. Below, works that have shaped this piece are collected into three general categories: China in Latin America, China and Debt Diplomacy, and The Unique Position of Chinese Firms and Foreign Investment. The section covering China in Latin America discusses commercial and political ties and trends, along with different perspectives on the growth of Chinese involvement in the region. Next, the pieces in the China and Debt Diplomacy group evaluate China’s use of debt and loans and the consequences thereof. Finally, the last group looks at the unique relationship between the Chinese government, Chinese firms, and foreign direct investment, namely the lack of truly private enterprises in China. This frames the argument that investment by Chinese firms can and should be considered extensions of state investment, rather than the classic example of profit-motivated foreign direct investment. Together, these pieces create the academic framework within which this project is couched.

Foreign Aid, Loans, and Diplomacy

The connection between aid, investment, and diplomacy is hardly a new occurrence, nor is it one exclusive to China and the Belt and Road initiative. Since the 1940s, the United States has considered foreign aid to be a key piece to achieving

America's political goals overseas.[1] For example, Kuziemko and Werker demonstrate that the United States has long given aid money to the rotating members of the U.N. Security Council: "On average, the typical developing country serving on the [U.N. Security] council can anticipate an additional $16 million from the United States and $1 million from the United Nations. During important years, these numbers rise to $45 million from the United States and $8 million from the United Nations."[2] Further, Dreher, Nunnenkamp, and Thiele propose that the aid correlates with the compliance of those rotating members on voting within the Security Council: "Accounting for the potential endogeneity of aid, our results provide strong evidence that US aid has indeed bought voting compliance. More specifically, the results suggest that general budget support and grants are the major aid categories with which recipients have been induced to vote in line with the United States."[3]

However, the relationship between loans and voting is less clear. Dreher and Sturm found "Regarding voting coincidence with the United States, World Bank non-concessional loans have a significant impact, while IMF loans do not."[4] Meanwhile, Dreher, Nunnenkamp, and Thiele found that "Loans have no impact on voting coincidence at conventional levels of significance." This is significant because, unlike the

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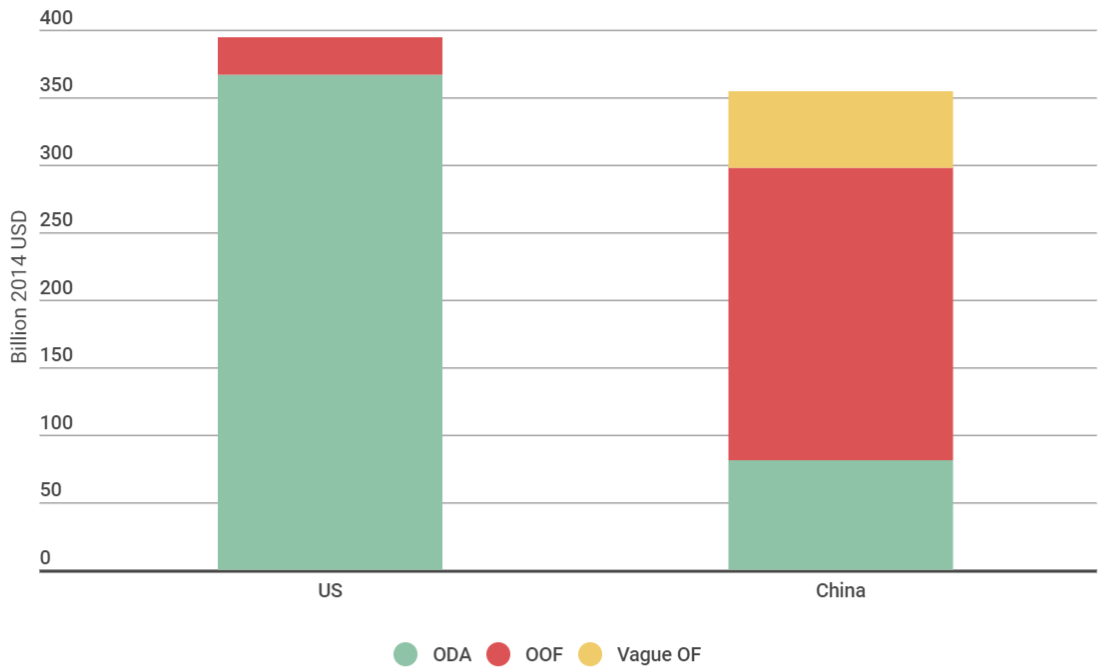
[1] Hendrickson, David C., and Vernon W. Ruttan. "United States Development Assistance Policy: The Domestic Politics of Foreign Economic Aid." *Foreign Affairs* 75, no. 4 (1996): 147. https://doi.org/10.2307/20047692.
[2] Kuziemko, Ilyana, and Eric Werker. "How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations." *Journal of Political Economy* 114, no. 5 (2006): 905–30. https://doi.org/10.1086/507155.
[3] Dreher, Axel, Peter Nunnenkamp, and Rainer Thiele. "Does US Aid Buy UN General Assembly Votes? A Disaggregated Analysis." *SSRN Electronic Journal*, 2006. https://doi.org/10.2139/ssrn.910900.
[4] Dreher, Axel, and Jan-Egbert Sturm. "Do the IMF and the World Bank Influence Voting in the UN General Assembly?" *Public Choice* 151, no. 1-2 (2010): 363–97. https://doi.org/10.1007/s11127-010-9750-2.

United States, most of China's political investments in developing nations are in the form of loans. This difference can be seen in Figure 1 below.

Figure 1: Breakdown of Foreign Aid Given by U.S. and China (Billion USD)
Source: AidData.org



In Figure 1 above, the green (ODA) stands for Official Development Assistance and is what is generally thought of as 'aid'. It involves more concessional terms, consists of more than 25% grants, and aims to primarily support the development of the recipient country.[5] On the other hand, the red refers (OOF) to Other Official Flows, which is non-concessional in terms with less than 25% grants and is primarily intended for commercial or representational purposes.[6]

[5] AIDDATA. "China's Global Development Footprint." AidData, a research lab at William and Mary. William and Mary. Accessed April 23, 2020. https://www.aiddata.org/china-official-finance.
[6] AIDDATA. "China's Global Development Footprint."

While both nations use foreign aid to promote their interests overseas, they do so with very different tools. Comparing the two, the lion's share of the U.S. financial aid is given in the form of more concessional ODA, while China uses much less concessional methods in OOF. The difference in methods has serious implications for the effectiveness of foreign aid in terms of supporting the recipient country. According to research by Dreher, Fuchs, Parks, Strange, and Tierney, less concessional and more commercially-oriented types of official finance do not boost economic growth, unlike more concessional forms of aid.[7] While both the U.S. and China use foreign aid to push a political agenda (Chinese methods and goals are discussed in a later section) the argument that recipients of U.S. aid are comparatively better off is bolstered by the difference in these methods and their outcomes for the host country.

China in Latin America

China's role in Latin America is a topic of some debate in the existing literature. Some, such as Watson, see China as almost purely economically motivated, seeking raw materials and ports through which to ship goods.[8] Others, such as Friend and Thayer, attribute Chinese action in the region to more fundamental ideological goals, namely supporting an alternative to the Washington Consensus and using ideological victories to

[7] Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin M. Strange, and Michael J. Tierney. 2017. Aid, China, and Growth: Evidence from a New Global Development Finance Dataset. AidData Working Paper #46. Williamsburg, VA: AidData at William & Mary.
[8] Watson, Cynthia A. "Concentrated Interests: China's Involvement with Latin American Economics." In *China's Global Engagement: Cooperation, Competition, and Influence in the 21st Century*, 123–51. Brookings Institution Press, n.d.

secure economic gains.[9] This alternative, which Friend and Thayer term the Beijing Consensus, "advances authoritarian government, state-led economic development, protected markets, and acceptable corruption and crony capitalism" in direct contrast with the free-market-oriented Washington Consensus.[10] Per these opinions, Chinese intentions regarding lending policy lie between the unadulterated pursuit of profit and an attempt at ideological conquest. The theory that Beijing has greater flexibility regarding corruption and less than free markets helps to explain how China made inroads with some of South America's less democratically inclined nations, including Ecuador under Rafael Correa.

However, Chinese involvement in Latin America differs between nations; for example, Ellis proposes that, in nations such as Ecuador that have held long-term anti-American sentiment, Chinese investment is an alternative to organizations such as the World Bank and the IMF.[11] Further, Ellis states: "Chinese purchases, loans, and investments in Latin America have undercut the United States' leverage in demanding adherence to certain practices of democracy, human rights and free trade" which enabled leaders such as Correa to pursue their agenda in open hostility with the United States.[12] China's involvement in Colombia is more economically oriented, according to Peña, but the authors cite the scale of the investments and the strategies of Chinese firms in Colombia as a cause for concern.[13] However, Ellis and Peña agree that the role of the

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[9] Friend, John M., and Bradley A. Thayer. "Han-Centrism Provides Strategic Asymmetries for the United States." In *How China Sees the World: Han-Centrism and the Balance of Power in International Politics*, 85–93. Potomac Books, 2018.
[10] Friend and Thayer, 88
[11] Ellis, Robert Evan. *The Strategic Dimension of Chinese Engagement with Latin America*. Washington, DC: William J. Perry Center for Hemispheric Defense Studies, 2013.
[12] Ellis, 141
[13] Peña, Natalia Gómez, and Karla Díaz. "INVERSIONES CHINAS EN COLOMBIA: ¿CÓMO VAN LOS PROYECTOS ..." Ambiente y Sociedad. Accessed February 20, 2020. https://www.ambienteysociedad.org.co/wp-content/uploads/2016/05/participacionchinaenelpais-1.pdf.

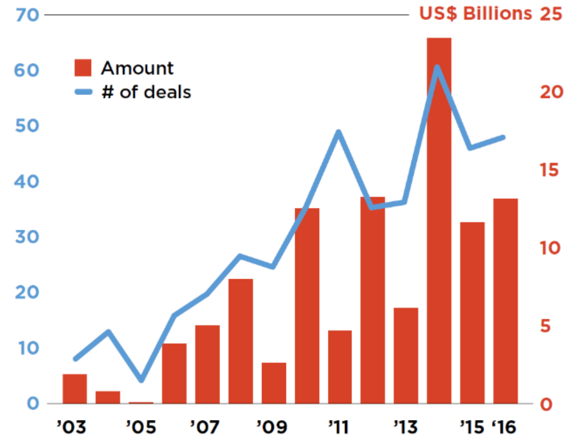
U.S. in these countries acts as a tempering factor. In Ecuador and other nations holding popular anti-U.S. sentiment, Ellis argues, China attempts to distance itself from anti-American rhetoric to preserve its relationship with the U.S.; China does so even while enabling those countries to flaunt U.S. authority in the region.[14] On the other hand, Ellis argues Colombia's ties to the U.S. have prompted caution from Beijing, leading to a more indirect approach described by both Ellis and Peña: more limited infrastructure and military investment, and Chinese firms instead choosing to buy the branches of foreign companies already operating in Colombia and merge those holdings into their own.[15,16]

Regardless of the motivation, the data shows that the number of investment deals between China and Latin America has risen sharply over time, as shown in Figure 1. With most deals being financed by the Chinese Development Bank in some capacity, the increase in deals has gone hand in hand with rising debts to China. As these debts increase, so too does China's presence in the decision-making process of the host country.

[14] Ellis, 4-5
[15] Ellis, 146
[16] Peña 8-10

China and Debt Diplomacy

Figure 2:
Annual Chinese FDI in Latin America



Data Source: Bureau van Dijk, fDi Markets

Graphic Source: Atlantic Council

The fact that China is loaning large amounts of money to less developed countries for a variety of projects is well known; the rapid increase in Chinese investment in Latin America can be seen in Figure 2. However, Chinese intentions regarding those debtor nations are less clear.[17] The theory is that China aims to use the debt it holds to leverage debtor nations into conceding fore favorable trade deals or strategic gains for China: Debt Diplomacy.[18] However, as Parker and Chefitz point out, "the coercive leveraging of debt to acquire strategic assets or political influence over debtor nations…is by itself neither an economic tool nor a strategic end. Rather, it is an increasingly valuable technique deployed by China to leverage accumulated debt to advance its existing strategic goals."[19] As evaluated earlier, this technique is not new, nor is it exclusive to China. Parker and Chefitz are choosing to clarify that the leveraging of the debt and the accruing of the debt by China are separate processes, rather than one long-term strategy. However, others are not as convinced; Chellaney attributes China's lending to a more deliberate quest for manipulation and

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[17] Dollar diplomacy or debt trap?: examining Chinas role in the western hemisphere: hearing before the Subcommittee on the Western Hemisphere, Civilian Security, and Trade of the Committee on Foreign Affairs, House of Representatives, One Hundred Sixteenth Congress, first session, May 9, 2019, § (n.d.).
[18] Chellaney, Brahma. "China's Debt-Trap Diplomacy by Brahma Chellaney." Project Syndicate, January 23, 2017. https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01.
[19] Parker, Sam and Gabrielle Chefitz. "Debtbook Diplomacy." Paper, Belfer Center for Science and International Affairs, Harvard Kennedy School, May 24, 2018.

access: “[T]he projects that China is supporting are often intended not to support the local economy, but to facilitate Chinese access to natural resources, or to open the market for its low-cost and shoddy export goods… It became clear only later that China’s real objectives were commercial penetration and strategic leverage.”[20] This argument requires the assumption that China began lending years ago with a long-term strategy in mind, which is a stretch. However, it does help to explain why China has been so keen to lend so much money to countries that cannot afford to pay back their loans and likely never will.[21] For example, Ecuador’s debt to China is estimated to stand around 38.7% of GDP, and that number will only increase as Ecuador continues to borrow.[22]

Further, examples of China’s not explicitly economic influence are noteworthy for their support of either influence theory. China has created more than 40 Confucius Institutes throughout Latin America, supporting that effort with an information initiative partnering Chinese state television with several local outlets.[23] Furthermore, China supplied varying types of surveillance systems for Uruguay, Mexico, Ecuador, Bolivia, Panama, Venezuela, and Argentina, and in doing so provided both the Chinese and host

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[20] Chellaney, Brahma. “China's Debt-Trap Diplomacy.” Project Syndicate, January 23, 2017. https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01.
[21]Chellaney, Brahma. “China's Debt-Trap Diplomacy.”
[22] Koening, Kevin. “China's Amazon Footprint Gets Scant Attention in Ecuador's Election.” Dialogo Chino, May 2, 2019. https://dialogochino.net/en/trade-investment/8562-chinas-amazon-footprint-gets-scant-attention-in-ecuadors-election/.
[23] Dollar diplomacy or debt trap, 29

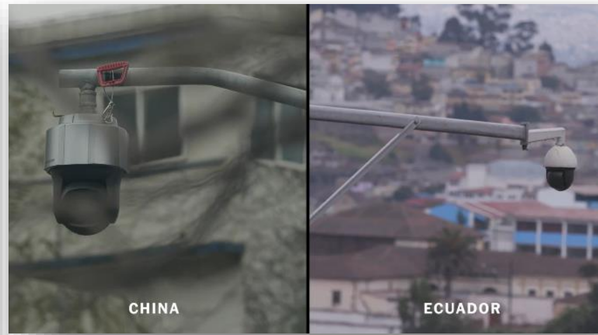


Figure 3: A collection of photos depicting the ECU911 Surveillance system in Ecuador

Photo Credits: Jonah M. Kessel, Melissa Chan, Paul Mozur and John Woo of the New York Times

governments access to surveillance components, not unlike those found in Beijing.[24] Ellis points out that these systems are not inherently negative, but can incentivize autocratic regimes to suppress dissent by making surveillance simpler while providing other nations with an alternative to privacy and respect for citizens' rights.[25] As depicted in Figure 3, the implementation of the ECU911 system has clear parallels to Chinese surveillance systems, and a large workforce monitoring the cameras. Additionally, some fear that private information may be available to Chinese authorities or companies through these systems. Further, it acclimates the population to privacy violations that could later lead to a more rigid suppression of rights.[26] All of this

[24] Ellis, Evan. "Chinese Surveillance Complex Advancing in Latin America." Newsmax. Newsmax Media, Inc. Newsmax Media, Inc., April 12, 2019. https://www.newsmax.com/evanellis/china-surveillance-latin-america-cameras/2019/04/12/id/911484/.
[25] Ellis, Evan. "Chinese Surveillance Complex Advancing in Latin America."
[26] Dollar diplomacy or debt trap, 23

is to say that China using its economic inroads to offer its political model as an alternative to that offered by the U.S. and Western Europe.

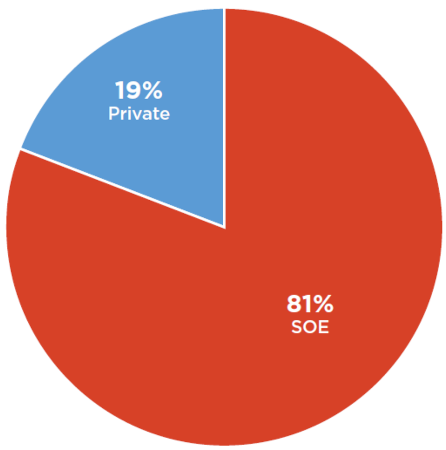
The Unique Position of Chinese Firms and Foreign Investment

Traditionally, FDI theory states that a multinational corporation operating within a country has chosen to do so due to locational advantages and market pressures, and is welcomed in doing so because it brings with it the opportunity for growth, explains Oatley.[27] This growth can be in the form of capital (human or physical) that a host country is lacking, new technology and expertise for future use by the workers of the host country, or new access to marketing networks in the global marketing chain.[28] However, Chinese firms do not operate in a classically profit-seeking private enterprise manner; rather than decisions being made based on market forces, Chinese firms must consider a mixture of profit and political expedience caused by the unique relationship these firms have with their government. Though private companies exist in China, they lack independence from the government in their decision making. As companies, they cannot afford to completely ignore the market; however, Feng argues that, at the end of the day, these companies have almost no power to resist direct requests from the Chinese Communist Party.[29] This is largely due to laws restricting independence from the Party, including the 2017 National Intelligence Law, which states that every organization must support, assist, and cooperate with national intelligence work, and builds upon the legal framework set forth by both the national security and cybersecurity laws.[30] Therefore, despite being private entities in

[27] Oatley, Thomas H. *International Political Economy*. 5th ed. Boston: Longman, 2012.
[28] Oatley 173-174
[29] Feng, Ashley. "We Can't Tell If Chinese Firms Work for the Party." Foreign Policy, February 7, 2019. https://foreignpolicy.com/2019/02/07/we-cant-tell-if-chinese-firms-work-for-the-party/.
[30] Feng, Ashley. "We Can't Tell If Chinese Firms Work for the Party."

name, there is no way to be certain that any given decision was made by the company in the interest of profit, or the Chinese government with some other end in mind.

Figure 4: State Owned vs. Private: Chinese Firms in Latin America



Data Source: Bureau van Dijk, fDi Markets

In Latin America, only 19% of Chinese companies involved in FDI are non-state owned, as shown in Figure 4. This grants the Chinese government a larger amount of control over the investment in the region. Further, the benefits Oatley described as available to host nations are less accessible to those nations partnering with Chinese multinational corporations due to their frequent use of Chinese workers instead of their local counterparts.[31] Chinese firms' reliance on Chinese employees for labor deprives participating countries of jobs, thereby restricting technology transfer and expertise while limiting the economic benefits to the local community.

These two items complicate the assessment of China's involvement in Latin America. First, one must consider that any action taken by a Chinese firm to enter into the region is done with the blessing of the Chinese government. Second, Chinese firms' predominant use of Chinese laborers over those of the host country is no secret to the nations in which China is forging these development contracts. Third, China's use of lending to secure funding for these endeavors shows interest beyond a traditional return

[31] Chandran, Nyshka. "China Can Make Its Belt and Road Project More Successful If It Taps Locals, Experts Say." CNBC. CNBC, September 14, 2018. https://www.cnbc.com/2018/09/14/china-must-do-more-to-tap-locals-in-belt-and-road-initiative-panel.html.

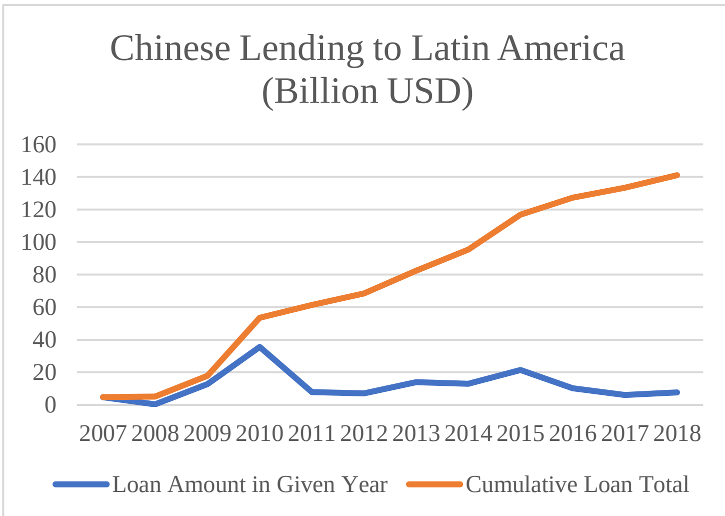
on investment, as many of these countries cannot afford to pay back the loans they already have and still have the option of securing further financing.[32] Finally, China accepts in-kind repayments, often in the form of natural resources or rights thereto in place of monetary compensation.[33] Taken together, a pattern begins to emerge. China offers a development package to a nation, securing the contract for a Chinese firm; often the firms are state-owned, but some are “private” enterprises.[34] The projects themselves have a habit of running over budget, have poor construction quality, and mostly end with little in the way of financial returns, with that little that comes in being routed back to China.[35] All of this makes debt repayment more difficult. Then, China’s government begins to offer in-kind deals to address the overwhelming debt, which can point business back to those same firms that have already underperformed.[36] Without an increase in revenue, the nations in question have little choice but to accept China’s offer rather than repay the now-staggering debt.

Highlighting the role of Chinese lending in its foreign direct investment, Figure 5 shows the rise in Chinese lending to Latin America and the analogous rise in foreign direct investment in the region. As countries in the region owe China more and more, they strike more deals to bring in Chinese firms, which bring more lending. The result is

[32] Parker, Sam and Gabrielle Chefitz, 24
[33] Parker, Sam and Gabrielle Chefitz, 32
[34] Avendano, Ronaldo, Angel Melguizo, and Sean Miner. “Chinese FDI in Latin America: New Trends with Global ...” Atlantic Council, June 2017. https://publications.atlanticcouncil.org/china-fdi-latin-america/.
[35] Parker, Sam and Gabrielle Chefitz, 4
[36] Chellaney, Brahma. “China's Debt-Trap Diplomacy.” 1

the steady rise in debt and FDI as the cycle continues and the region finds itself deeper in debt.

Figure 5: Graphs of Chinese Lending and FDI in Latin America



Source: Gallagher, Kevin P. and Margaret Myers of the Inter-American Dialogue

Source: Bureau van Dijk, fDi Markets
Graphic Credit: Atlantic Council

It is hard to say whether the Chinese firms in these scenarios are acting as tools of the CCP, or witting co-conspirators angling for profitable contracts. However, either way, the role of these firms can be said to be an extension of the will of the Chinese government. Therefore, this project will refer to "China" for the actions of the government, but not excluding the actions of state-owned and "private" firms that act at the direction of that same government.

Introduction

I. Intro and Relevant History

In light of the diversity of interests and methods carried out by China in this region, this project seeks to discover: How does economic investment by China advance Chinese policy goals in Colombia and Ecuador? Chinese influence in developing nations may have profound effects on those countries' policies, economies, and even the regional balance of power. Though China claims a policy of non-interference, countries often make accommodations before receiving Chinese help, or in return for debt renegotiation.[37] Because China has a long-term hold on countries in which it holds debt, assessing China's power in such countries is vital to understanding the role the nation will play in Latin America in the future.

Over the past decade, China has steadily increased its economic presence throughout the global south.[38] However, when it comes to scholarly analysis of Chinese investment policy, much of the focus has been placed on Africa despite major Chinese investments throughout Latin America. As Chinese investment expands in Latin America, the role of the United States as a regional hegemon is threatened. Further, economic inroads would allow China to expand its Belt and Road Initiative, and thereby gain a stronger foothold in the region as a whole through a greater amount of trade. Ecuador, providing the example of a nation with an extensive history of Chinese investment, provides an analysis of how relations with China develop over time. Colombia, whose relations with China are much less advanced, provides a glimpse of how China is seeking to establish itself in developing nations, and how Chinese goals shape the development process. This paper will analyze China's use of lending to facilitate joint infrastructure projects that result in the host nation being mired in debt. Essentially, the model called Debt Trap Diplomacy by some critics constitutes a heavy focus on the rights to natural resources not commonly found in the model. By lending to

[37] Parker, Sam and Gabrielle Chefitz, 25

[38] Koleski, Katherine and U.S.-China Economic and Security Review Commission. Backgrounder: China in Latin America. Washington, D.C.: U.S.-China Economic and Security Review Commission, 2011

developing nations, China can gain access to the natural resources needed to power its economy. Furthermore, by loaning money to those nations as an incentive for access to resource rights, China gains potential leverage over the governments in those countries, especially if and when the debt amounts to the point where repayment would be prohibitively costly to an office motivated government because of the extreme austerity that would be required to repay it.

With Chinese investment on the rise globally, it is unsurprising that Latin America has seen an increase in Chinese projects and loans. However, the political and economic diversity of the region necessitates flexibility on the part of China; both its goals and methods must shift depending on the nation in question. For those who find themselves at odds with the United States, investment from China is attractive in its own right, as it claims to bring development and capital without the requirements imposed by western counterparts such as the World Bank.

In cases where nations are happy to turn to China, loans via the Chinese Development Bank is a common and straightforward route. Chinese firms receive contracts to work on development projects funded by Chinese loans, and the country in question can continue to carry on criticizing the U.S., the IMF, or any other common target. However, China adopts more indirect methods with nations, such as Colombia, where Chinese investment may be regarded with caution in part due to vested U.S. interests. For example, in terms of mineral extraction, China can purchase divisions of corporations already mining in the area rather than try to contract Chinese firms directly. This method is less binding than full-on investment but allows for China to gain access to resources and markets in less hospitable nations.

II. Chinese Goals and Progress

Important to answering this question is also defining what, exactly, are Chinese goals in each country, and how those goals fit in with the more general goals for China globally and within Latin America as a region. Globally, China seeks to expand the Belt and Road Initiative and gain access to natural resources, both of which can be achieved by fostering economic connections with developing nations. Regionally, China pursues both these goals, but with the added incentive to reduce U.S. influence in its backyard. On a country level, both Ecuador and Colombia provide examples of specific Chinese targets (natural resources) and more general goals (subversion of U.S. authority). From Ecuador, China is already receiving a large share of oil, but every renegotiation provides China further opportunity to further leverage its situation and maintain hospitable conditions for Chinese firms in Ecuador, possibly gaining better deals for manufacturers there. As will be later explained, Chinese goals in this sense likely focus more on maintaining a steady flow of natural resources and strengthening its partnership, rather than leveraging some new boon from the country. On the other hand, Chinese development in Colombia is still a relatively new venture, so the potential for expansion is very much there. Currently, China has an extensive swathe of mineral rights it obtained by buying companies already present, inferring that China's interests in Colombia are also mineral in nature.[41] However, China's plans for developing Buenaventura Industrial Park and other infrastructure projects show that there is more as well, using Colombia's

[41] Peña, Natalia Gómez. "INVERSIONES CHINAS EN COLOMBIA: Revisión De Los Convenios De Cooperación Entre Colombia y China." *ASOCIACIÓN AMBIENTE Y SOCIEDAD*, 2015. https://www.ambienteysociedad.org.co/wp-content/uploads/2015/11/Inversiones-Chinas-Colombia-convenios-cooperacion.pdf.

position along both the Atlantic and Pacific oceans to better facilitate supply chains and shipping while offering loans through the Chinese Development Bank.[42] Colombia has a lot to offer China, as will be discussed later, and currently, China appears to be building goodwill with the Colombian government in order to gain better access to what it is looking for.

Case Study: Ecuador

I. Overview: Ecuador

In Ecuador, China has invested in several multibillion-dollar projects including oil and gas refineries, education and technology initiatives, migration support, and infrastructure projects.[63] While many projects were announced under the Correa administration, Chinese investment has by no means stopped under Moreno; for example, in August of 2019, Chinese feed manufacturer Haid announced plans to build a 50,000-metric-ton capacity shrimp processing plant in Ecuador after the company broke ground on a $35 million shrimp feed plant in January.[64]

Possibly the most famous Chinese investment in Ecuador is the infrastructure arena. A series of projects and budgets were financed using around $19 billion in Chinese loans packaged for not just massive hydroelectric dams but also for bridges, highways, irrigation, schools, and health clinics. Ecuador pays at least some of the loans by sending

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[42] Peña, 22

[63] Gallagher, Kevin P. and Margaret Myers (2019) "China-Latin America Finance Database," Washington: Inter-American Dialogue.

[64] Palau, Mariana. “China Looks to Expand Colombia's Buenaventura Port.” 中外对话 China Dialogue, November 29, 2017. https://www.chinadialogue.net/article/show/single/en/10250-China-looks-to-expand-Colombia-s-Buenaventura-port.

80% of its oil exports to China at a reduced price; meanwhile, the dams are beginning to fail due to quality issues and poor geological conditions.[65]

Projects financed by these loans are not always completed or even started. In 2011, China and Ecuador entered negotiations for a $12 billion refinery.[66] The project was supposed to increase domestic refining capacity, to compliment Ecuador's extensive oil reserves. Ecuador went in so far as to secure financing for the project and spend $1 billion preparing the site; however, negotiations for the project stalled, leaving Ecuador repaying its loans with nothing but an empty lot to show for it.[67]

As of now, Ecuador is in an intermediary limbo between Pro-Chinese and Anti-Chinese sentiment fueled by dependence mixed with outrage about Chinese methods. The previous administration under Rafael Correa courted Chinese support and lauded China as a source of finance separate from the U.S., while the current Moreno administration now seeks to distance itself from further Chinese lending.[68] For example, Ecuador's energy minister, Carlos Pérez, told the New York Times: "China took advantage of Ecuador. The strategy of China is clear. They take economic control of countries."[69] However, just last year, President Moreno flew to Beijing to negotiate some of Ecuador's

[65] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid." The New York Times. The New York Times, December 24, 2018. https://www.nytimes.com/2018/12/24/world/americas/ecuador-china-dam.html.
[66] Krauss, Clifford, and Keith Bradsher. "China's Global Ambitions, Cash and Strings Attached." The New York Times. The New York Times, July 24, 2015. https://www.nytimes.com/2015/07/26/business/international/chinas-global-ambitions-with-loans-and-strings-attached.html.
[67] Krauss, Clifford, and Keith Bradsher. "China's Global Ambitions, Cash and Strings Attached."
[68] Valencia, Alexandra. "Ecuador Seeks to Renegotiate China Debt, Does Not Rule out IMF -Moreno." Reuters. Thomson Reuters, December 6, 2018. https://www.reuters.com/article/ecuador-china/ecuador-seeks-to-renegotiate-china-debt-does-not-rule-out-imf-moreno-idUSL1N1YB1YZ.
[69] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid."

massive debt to China and borrow another $900 million.[70] Ecuador might be looking to shift away from China, but whether or not they have the ability to get out from under their Chinese debt is a different question. This is the lens through which this paper will analyze Ecuador, the case study that has seen both a firmly pro-China and a warier moderate regime in the last decade.

A unique aspect of Ecuador's economy that makes the nation an even more interesting example is the dollarization of its economy. In January of 2000, Ecuador adopted the U.S. dollar as its legal tender in the midst of suffering an economic and banking crisis.[71] Experts have concluded that dollarization enabled Ecuador to modernize and improve the soundness of its banking system.[72] Further, they state that using the U.S. dollar "promotes long-term investment and trade since businesses tend to be reassured by the stability of the exchange rate."[73] However, dollarization strips Ecuador's central bank of the ability to have its own monetary policy. This limits the government's ability to adjust to the debt it holds, as it cannot manipulate its currency in order to facilitate an easier repayment. Furthermore, some of the loans are denominated in Chinese Renminbi, though how much is not public knowledge.[74] Whatever tranche is denominated in Renminbi, the Chinese government has even greater power over due to its ability to set

[70] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid."
[71] Quispe-Agnoli , Myriam, and Elena Whisler. "Official Dollarization and the Banking System in Ecuador and El Salvador." *Federal Reserve Bank of Atlanta,* Economic Review, 3 Nov. 2006,
[72] COHA. "Examining the Effects of Dollarization on Ecuador." *COHA*, 21 Nov. 2019, http://www.COHA.org/examining-the-effects-of-dollarization-on-ecuador/.
[73] Quispe-Agnoli , Myriam, and Elena Whisler. "Official Dollarization and the Banking System in Ecuador and El Salvador."
[74] International Monetary Fund. Western Hemisphere Dept. (2019). *Ecuador: Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Ecuador*. Retrieved from https://books.google.com/books?id=jMSSDwAAQBAJ

the financial policy. China understands that Ecuador's options for getting out from under the debt are limited, and as such Ecuador is easily subject to the Debt Trap model.

II. The Path to the Present

As previously mentioned, Ecuador dollarized its economy in January of 2000, all but eliminating the possibility for Ecuador to finance public spending by increasing the money supply.[75] However, Ecuador's public expenditure has increased over the intervening years since its dollarization, from 23% of its GDP in 2000 to a peak of 44% of GDP in 2014, and as of 2018, that number had only dipped to 37% of GDP, as shown in Figure 6.[76]

To finance the continuing expenditure, Ecuador looked for outside sources of funding, namely foreign debt. In 2005, Chinese-led consortium Andes Petroleum, which includes China National Petroleum Corp. and Sinopec group, bought Canada-based Encana's oil and pipeline assets in Ecuador for $1.42 billion.[77]

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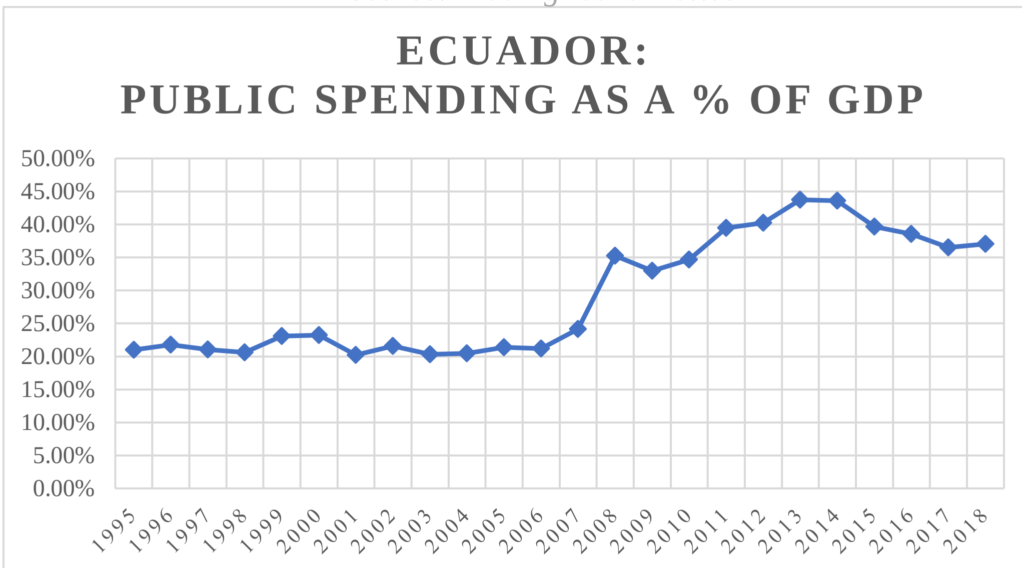
[75] Mills, Fred. "Examining the Effects of Dollarization on Ecuador
[76] "Ecuador - Gasto Público 2018." datosmacro.com. Expansión, October 16, 2019. https://datosmacro.expansion.com/estado/gasto/ecuador.
[77] Dummett, Ben. "Chinese Firms to Pay $1.42 Billion For EnCana Oil Assets in Ecuador." The Wall Street Journal. Dow Jones & Company, September 14, 2005. https://www.wsj.com/articles/SB112660924522839142.

Figure 6

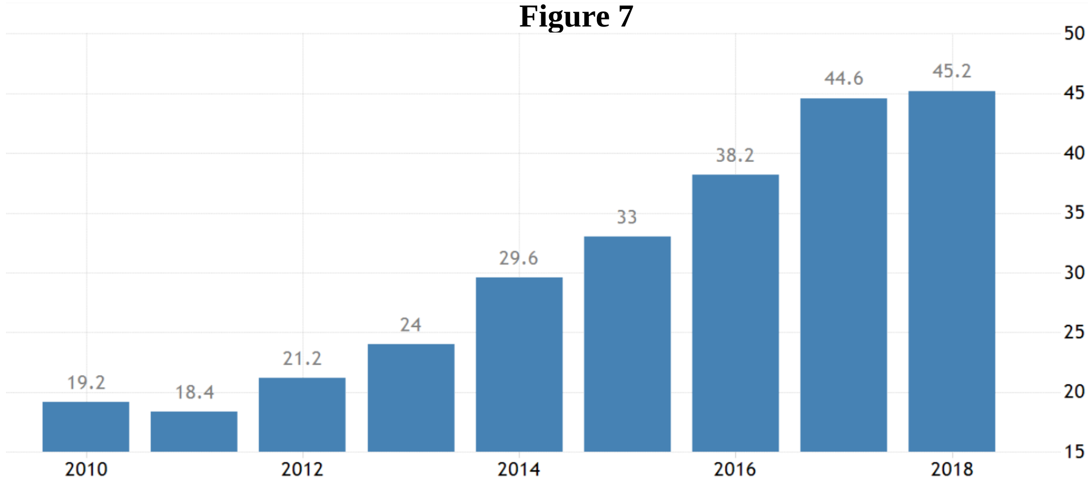
Source: TradingEconomics.com



Under President Rafael Correa (2007-2017), Chinese investment took off: in 2010, Ecuador and China signed a series of agreements totaling $3.3 billion, including $1.7 billion for the Coca Codo Sinclair Dam project and $571 million for the Sopladora hydroelectric dam.[78]

Ecuador Government Debt to GDP (%)

Figure 7



Sources: TradingEconomics.com, Ecuador Ministry of Finance

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[78] Gallagher, Kevin P. and Margaret Myers (2019) "China-Latin America Finance Database," Washington: Inter-American Dialogue.

In the years to come, China invested even more heavily, and Ecuador's Debt to GDP ratio increased dramatically, as shown in Figure 7. In July of 2011, a renewable energy development loan of $2 billion; in December of 2012, a loan to finance the 2013 budget deficit of $2 billion; in January of 2015, a loan to support transportation, education, and health care projects of $5.3 billion; also in January of 2015, a loan to finance the 2015 Annual Investment Plan of $1.5 billion; in February of 2016, a loan to fund the Yachay education complex of $198 million; in April of 2016, a non-discretionary and infrastructure loan of $2 billion; in December of 2018, a development assistance loan of $900 million; and in December of 2018, a loan to fund reconstruction projects of $69 million.[79]

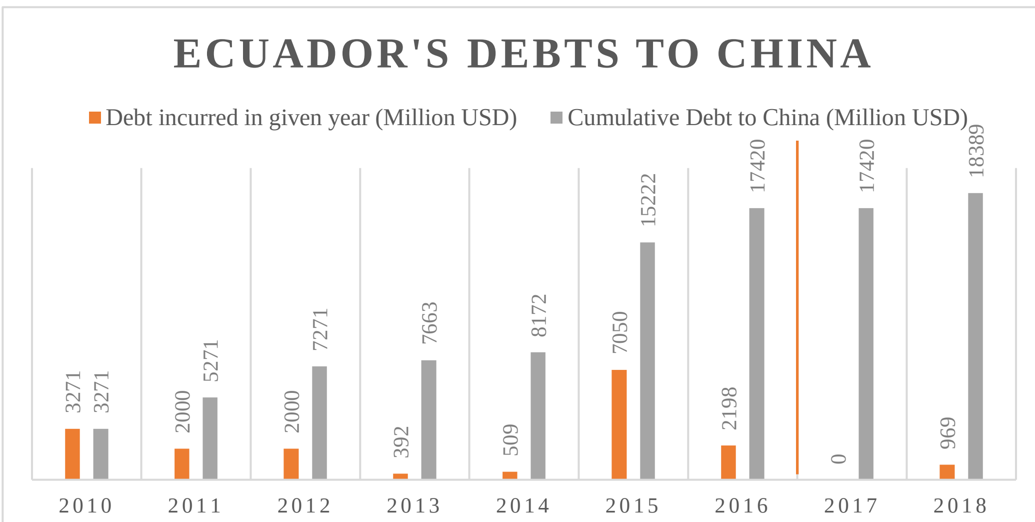

Figure 8 *(Red line indicates shift in Administration from Rafael Correa to Lenin Moreno)*
Source: The Dialogue's China-Latin America Finance Database

As shown in Figure 8, this lending accumulated over time into over $18 billion in debt without considering interest. As terms are not public for many of the loans, it is impossible to say exactly what total the debt stands at today.

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[79] Gallagher, Kevin P. and Margaret Myers (2019) "China-Latin America Finance Database," Washington: Inter-American Dialogue.

As the financing continued to pour in, the projects themselves began to lose their luster. The most prominent of the Chinese investment projects in Ecuador was the Coca Codo Sinclair Dam, a massive hydroelectric plant which was to provide over 40% of Ecuador's electricity.[80] China provided the funds for the massive undertaking as part of a loan package through the Chinese Development Bank; the dam itself merited a $1.68B loan.[81] It was the single largest investment in Ecuador's history.[82]

Unfortunately, it was also a failure. The ecological and geological studies on the location were dangerously out of date, and the dam was built in the shadow of an active volcano despite warnings that seismic activity could trigger deadly floods.[83] Only a few years after its completion, thousands of cracks spiderweb the dam's machinery and the reservoir is clogged, preventing the dam from running efficiently and risking serious damage to the structure itself.[84] The technicians cannot bring the dam to generate over half its capacity; neither the dam's structural integrity nor Ecuador's power grid could withstand it the first and only time they tried.[85] To make matters worse, most of the Ecuadorean officials who lobbied for the dam's construction are jailed or sentenced on bribery charges. Leaving Ecuador with a dam that barely works, a potential for collapse

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[80] "Coca Codo Sinclair Hydroelectric Project - Power Technology: Energy News and Market Analysis." Power Technology | Energy News and Market Analysis. Accessed March 6, 2020. https://www.power-technology.com/projects/coca-codo-sinclair-hydroelectric-project/.
[81]"Coca Codo Sinclair Hydroelectric Project - Power Technology: Energy News and Market Analysis."
[82] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid." The New York Times. The New York Times, December 24, 2018.
[83] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam…"
[84] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam…"
[85] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam…"

and major flooding, and $19 billion owed to China for various projects that have failed to perform as promised.[86]

Figure 9 shows a sign labeling a dial from Coca Codo Sinclair Dam in Chinese, English, and Spanish. The Chinese, correctly, reads: “Direct-Current (DC) Pumping Group.” The Spanish, on the other hand, reads “Pressure Group from Washington, D.C.” Because of poor attention to detail, Ecuadorian workers are left with nonsensical signs to try and operate the machinery. In Figure 10, an emergency phone from Coca Codo Sinclair is labeled mostly in Chinese with one smaller line in English. No Spanish label is present to alert Ecuadorian workers, creating potential safety issues in the event of an emergency.

Figure 9 *Photo Credit: Federico Rios Escobar for The New York Times*

Figure 10 *Photo Credit: Federico Rios Escobar for The New York Times*

[86]Gallagher, Kevin P. and Margaret Myers (2019) "China-Latin America Finance Database," Washington: Inter-American Dialogue.

The failure of prestige projects such as the Coca Coda Sinclair Dam is more than just an unfortunate; it's expensive. Because of the damage to the dam, Ecuador will have to spend more than it anticipated in maintaining it, all while it generates much less electricity than was promised. To finance these repairs, Ecuador may well have to turn to China for funding, extending an already vicious cycle of debt negotiation. China already claims 80% of Ecuador's oil exports as payment on its existing debt.[87] As Ecuador is unable to pay back the balance, President Moreno must petition China for leniency. In 2018, President Moreno went to Beijing to renegotiate Ecuador's debt, and Beijing complied – along with lending Ecuador $900 million more.[88] So long as the debt is renegotiated, China can ask further concessions and extend the time for which Ecuador will remain indebted to China. Without western assistance, Ecuador has little choice but to continue depending on China.

So, in early 2019, Moreno's government petitioned for IMF assistance. In March of that year, the IMF agreed to a $4.2 billion lending program.[89] Moreno turning to the IMF granted him some leeway with China, as now there were other lenders in play. However, the move was immensely unpopular, and the austerity measures that came with IMF assistance led the government to the brink of disaster. Cuts made to fuel subsidies, in an effort to reduce government spending and meet IMF benchmarks, led to outright

[87] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid."
[88] Casey, Nicholas, and Clifford Krauss. "It Doesn't Matter If Ecuador Can Afford This Dam..."
[89] "IMF Executive Board Approves US$4.2 Billion Extended Fund Facility for Ecuador." IMF, March 11, 2019. https://www.imf.org/en/News/Articles/2019/03/11/ecuador-pr1972-imf-executive-board-approves-eff-for-ecuador.

violence in the streets of Quito.[90] The protests paralyzed the city, forcing the government to relocate temporarily and rescind the move and therefore fail to meet one target the IMF had set while leaving President Moreno much less popular.[91] Further, a botched tax reform effort cost Moreno heavily in terms of political capital, and the watered-down reform he eventually managed to pass failed to raise even half of what the IMF had targeted for the effort.[92] The IMF expects Ecuador to introduce further reforms, stating after the passage of the cut-down reform bill "This momentum should continue into early 2020 with the submission of more reform bills."[93] Moreno mobilizing further austerity measures will likely prove difficult in the face of plummeting approval ratings and a hostile Congress.[94] Indigenous groups are calling for the government to cease interacting with the IMF altogether.[95] Moreno is now caught between adjusting to meet the IMF's standards, a move that could mean political suicide, or accepting even more assistance from China, a move that could further perpetuate Ecuador's dependence and endanger its long term growth.

While alternatives to Chinese finance are available, the strings attached are so costly that the potential damage puts into question the validity of such options as a viable alternative. As seen in Figure 11, protests over President Moreno's attempt to do away

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[90] Llangari, Jose. "Ecuador Declares State of Emergency as Fuel Protesters Battle Police." Reuters. Thomson Reuters, October 4, 2019. https://www.reuters.com/article/us-ecuador-protests-idUSKBN1WI25Q.
[91] Long, Gideon. "Ecuador's Moreno Struggles to Meet IMF Targets after Fuel Clashes." Subscribe to read | Financial Times. Financial Times, October 17, 2019. https://www.ft.com/content/c1e7b172-ef6b-11e9-ad1e-4367d8281195.
[92] Long, Gideon. "IMF Releases $500m to Ecuador in Lending Programme." Financial Times Online. Financial Times, December 19, 2019. https://www.ft.com/content/a9c0cc2c-22b1-11ea-b8a1-584213ee7b2b.
[93] Long, Gideon. "IMF Releases $500m to Ecuador in Lending Programme.".
[94] Long, Gideon. "Ecuador's Moreno Struggles to Meet IMF Targets after Fuel Clashes.".
[95] Long, Gideon. "Ecuador's Moreno Struggles to Meet IMF Targets after Fuel Clashes."

with fuel subsidies quickly turned violent, turning Quito into a warzone between protestors and the police. The protests quickly evolved from outrage over the fuel subsidies being cut to demands for Moreno to step down and condemnations of the IMF.

Figure 11: Demonstration Photos
Photo Credits: Reuters' Ivan Castenaria and Daniel Tapia

III. Qualifying Chinese Influence in Ecuador

To gauge China's effectiveness in using economic investment to influence Ecuador and further its own goals in the region, it is important to keep in mind just what those goals might be, and the role both parties have in any attempts to influence one another.

The first questions to ask are: What does success look like to China? What would it look like to Ecuador? From there, comparing the goals of each nation to the scope of their leverage will allow assessment of realistic limits of each nation's ability to achieve its goals. Finally, an assessment of the costs of using the tools to achieve those ends, and comparing that to their likelihood of success, will create a framework by which the situation may be assessed as a whole.

So, what does China want from Ecuador? China most likely has a lot of overlapping goals for the region – some narrow and some specific. Here, I focus on two of China's goals that are easiest to visualize. The first, and perhaps most obvious of these goals is oil; China has gone out of its way to ensure that Ecuador continues to send large amounts of discounted oil as payment on the debt it owes China. While resources play no small role in China's designs on Ecuador, while looking to the future, it is key to consider additional possibilities. Second, Ecuador's proximity to China is in part a response to the Correa administration's distancing from the United States, and increasing that distance is well within China's interests.[96]

It would be no great leap to assess that Ecuador's goals are to gain a more stable footing and begin to extricate itself from the deep hole of debt it has plunged into. Looking at the recent negotiations in Beijing, its progress has been dubious. On one hand, renegotiating the debt provided Ecuador breathing room and the ability to move forward; however, the additional loan, though good in the short term, overall deepened the hole. Further, joining the Belt and Road Initiative means Ecuador will likely see more Chinese-financed projects in the future. With Chinese funding comes Chinese debt, and through that a prolonged obligation to return to China again and again in order to negotiate on a debt Ecuador cannot feasibly pay.

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[96]. Valencia, Alexandra. "Ecuador Seeks to Renegotiate China Debt, Does Not Rule out IMF -Moreno." Reuters. Thomson Reuters, December 6, 2018. https://www.reuters.com/article/ecuador-china/ecuador-seeks-to-renegotiate-china-debt-does-not-rule-out-imf-moreno-idUSL1N1YB1YZ.

However, the question of Ecuador's involvement in the Belt and Road Initiative is a more complicated matter. In 2018, during President Moreno's trip to Beijing to renegotiate Ecuador's debt, along with accepting $900 million in additional loans, Moreno signed a Memorandum of Understanding declaring that Ecuador would join the Belt and Road Initiative.[97] It is unclear if joining the initiative was a condition for the renegotiation of Ecuador's debt, but the timing would lead one to believe that the two issues are indeed connected.

As in previous cases, Beijing has hinted that more assistance is available to those nations that participate in the Belt and Road Initiative.[98] It is no great leap to speculate that further financing from China was indeed stipulated upon Ecuador's joining the Belt and Road initiative, and it is possible to analyze that decision to gain insight into the decision-making process of each of these nations. First, the initial positions of both parties must be considered: China, holding Ecuador's debt, appears at first to have control in the situation. However, Ecuador's position as the debtor leaves it with the ultimate ability to walk away; Ecuador could simply refuse to pay the debt, default, and move on. To do so would have harsh consequences, but it remains an option nonetheless.

This leaves the *status quo* as an entrenched option: Ecuador remains in debt, but China does not try to force Ecuador to pay more than they are able or do something they are vehemently opposed to doing, for fear that the nation will simply walk away. Schelling, in his work discussing negotiations between states, described such a situation as: "a status quo from which one can be dislodged only by an overt act, an act that

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[97] Dreyer, June Teufel. "The Belt, the Road, and Latin America." Foreign Policy Research Institute. FPRI. Accessed March 6, 2020. https://www.fpri.org/article/2019/01/the-belt-the-road-and-latin-america/.
[98] Dreyer, June Teufel. "The Belt, the Road, and Latin America."

precipitates mutual damage because the maneuvering party has relinquished the power to retreat."[99] The bargaining model the two thereby find themselves in is as follows: Ecuador cannot retreat; it must negotiate with China or be forced into default. However, the threat of that default is enough to force China to consider the consequences of its terms because, should it ask too much, it could prompt Ecuador to choose default over agreement. Therefore, the options which China presented were sweetened enough to assuage Ecuador while getting them to agree to join the Belt and Road. Given the result of the meeting, it is clear that Ecuador would rather take out another loan and join China's Belt and Road Initiative than go into default.

Figure 12: Posorja, Ecuador
Map Credit: Google Maps

Furthermore, negotiation between the two states holds several benefits for both parties. For China, using further loans and renegotiation as an incentive to convince Ecuador to act as China would prefer brings with it the added benefit of elongating Ecuador's indebtedness and ensuring the nation will return to renegotiate the debt again and again. An example of a potential benefit for China is in expanded access to Ecuador's ports. To ensure it has the best chance of transporting its goods, China is looking for large ports, in countries willing to accommodate China but also stable enough that violence and regime change are not a threat to commerce. Securing such a location in Ecuador would fit the bill nicely. Posorja, pictured below in Figure 12, is in the midst of major redevelopment. Chinese lending financed the redevelopment of the port into a facility that can house more vessels suited for deeper waters. Though the contract to redevelop the port was

[99] Schelling, Thomas C. *The Strategy of Conflict*. Cambridge, Mass. (U.A.): Harvard Univ. Pr., 1976.

finalized before Ecuador agreed to join Belt and Road, further infrastructure developments will likely follow as a result of Ecuador joining the Initiative. The longer China can draw out Ecuador's indebtedness, the more projects like Posorja it will be able to finance, and ultimately further both its goal to maintain Ecuador's debtor status and expand its access to Latin American markets.

In the case of Ecuador, receiving such funds and renegotiating the debt allows the country to move forward without dealing with the disastrous consequences of defaulting on its massive loans to China. Without Chinese lending, it is doubtful Ecuador would be able to continue operating without great hardship, even with the IMF's recent assistance. Since dollarization, Ecuador has relied heavily on outside financing to fund public expenditure. For example, in 2013 alone, Chinese loans funded 61% of Ecuador's public expenditure.[100] This reliance means that any decline in outside funding will have to be paralleled by a decline in public spending, and recent protests over austerity measures have already shown how the public would react to such efforts. Given that recent turbulence, any drastic change in circumstance could lead to more demonstrations, with potentially more severe consequences for Moreno and his government, including the potential for Moreno and his government to lose power entirely.

IV. Outlook

Looking to the future, Ecuador's shift towards western institutions indicates a desire to balance the sources of its debts. However, the difficulties Moreno has already

[100] Schneyer, J., & Perez, N. (2013, November 26). Special Report: How China took control of an OPEC country's oil. Retrieved from https://www.reuters.com/article/us-china-ecuador-oil-special-report-idUSBRE9AP0HX20131126

faced in his attempt to borrow from the IMF could endanger his plan, and the history of the IMF in dealing with Latin America is, to put it mildly, not cause for optimism. China holds a large portion of Ecuador's debt, and if future debt negotiations contain more loans like the one in 2018 did, it is unlikely Ecuador will be able to make much progress in climbing out of the mire of Chinese debt it finds itself in. Given the amount of privilege China currently enjoys in Ecuador's dependence, and that the IMF is attempting to prove it and its methods can deliver Ecuador from its economic issues, Ecuador should not expect any assistance from either arena should it choose to walk away from its debts and try to start fresh. For the foreseeable future, Ecuador will have to focus on balancing its own needs with those of China and the IMF and hope that there is still a country left to run when the two are through.

V. Has China Advanced Policy Goals in Ecuador Through its Economic Investment?

To assess whether or not Chinese investment in Ecuador has generated influence by which China has been able to advance its policy goals, one must first define China's policy goals in Ecuador. Then, an evaluation must be made regarding how much progress has been made or is likely to be made in the future. Finally, there must be a distinction as to how much of that progress is attributable to Chinese investment, and how much is better described as originating elsewhere.

As previously discussed, China's primary goal in Ecuador is the acquisition of natural resources, namely oil. However, as far as policy goals are concerned, it is not the 'what' China wants, but the 'how' that helps define the goal itself. China's long-term need for natural resources has only grown in recent years.[101] As such, China does not merely want oil; it wants a consistent supply. Chinese hold on Ecuador via the terms of the loans provide just that constancy.

Aside from oil, China wants Ecuadorean cooperation to further its Belt and Road initiative. Ecuador's position, with lucrative markets to the north and south, make the nation a potential trade hub for commerce coming over from Asia.

So, considering these two goals, it is now possible to assess the success China has had so far and the likelihood that China will continue to succeed. For the first, it seems that China has succeeded in securing a stable supply of Ecuadorian oil in the coming years, bar any serious conflict between the two countries. The deal that secured 80% of Ecuador's oil exports for China is set to run out in 2024 unless it is extended as a price for renegotiating Ecuador's debt, which is not outside the realm of possibility.

Second, the Belt and Road Initiative in Ecuador also seems like a success for China. Ecuador signed on to the initiative in December of 2018, of course, and new construction seems to be paving the way for Chinese trade. For example, the southern Ecuadorian port of Posorja is being developed now with large-scale trade in mind, and the Chinese firm China Harbor has been contracted to do a large part of the port construction work.[102] This is likely to be the first of many such port projects that will be

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[101] Daiss, Tim. "The Dangers Of China's Growing Oil Demand." OilPrice.com, December 10, 2018. https://oilprice.com/Energy/Crude-Oil/The-Dangers-Of-Chinas-Growing-Oil-Demand.html.
[102] Ellis, R. Evan. "Ecuador's Leveraging of China to Pursue an Alternative Political and Development Path." *AIR & SPACE POWER JOURNAL En Español* , 2018, 1–18. https://www.airuniversity.af.edu/Portals/10/ASPJ_Spanish/Journals/Volume-30_Issue-4/2018_4_05_ellis_s_eng.pdf.

worked by Chinese firms under Ecuador's participation in China's Belt and Road Initiative.

Finally, were these successes attributable to China's economic investment in Ecuador? The answer here, too, is yes. China's deal for Ecuador's oil comes from its loans through the Chinese Development Bank, which were taken out as part of a development plan for such projects as the Coca Codo Sinclair dam. As a result of those debts, China was able to negotiate to receive the lion's share of Ecuador's oil in payment, hence addressing a policy goal by using economic leverage.

In the case of the Belt and Road, Ecuador agreed to join the initiative during a state visit to Beijing where President Moreno was attempting to renegotiate Ecuador's debts to China. Given that, as previously discussed, it is more than likely the two events are connected, it is fair to say that Chinese debt spurred this decision as well. China's investment in Ecuador put China in a position where putting forth the Belt and Road as a way to ensure the debt was renegotiated allowed China to virtually ensure Ecuador agreed to join, and the projects already underway point towards success for China.

Case Study: Colombia

I. Overview: Colombia

China's interest in Colombia is diverse, including both natural and logistical resources along with any political gain from inserting itself into the politics of a close American ally. One example on the front of natural resources, Emerald Energy PLC, a property of China's state-owned Sinochem, was awarded a contract to explore an area of

239,415 hectares in eight Colombian municipalities to exploit oil for the next 30 years.[103] China's investment in this region has already led to controversy, as the Colombian government intervened on Sinochem's behalf after local protestors complained that the company had violated its environmental promises, going so far as to send the police to break up the protests. This example helps illustrate the support for China's ventures within the Colombian government, and the impact such ventures have on local communities.

Colombia is the United States' closest ally in Latin America. In part due to this proximity, and in part due to Colombia's long-term struggle with civil war, there is little Chinese investment in Colombia compared to nearby countries.[104] The process by which China would achieve a foothold in Colombia is made more difficult by political factors stemming from close U.S. ties than it would be in states such as Ecuador, with long histories of anti-U.S. sentiment leaving space for China. However, as peace negotiations with the Revolutionary Armed Forces of Colombia (FARC) progressed, Chinese interest in new Colombian projects increased.[105]

Instead of relying solely on direct funding from the Chinese Development Bank to place Chinese firms in Colombia, China has used an acquisition strategy to gain a foothold in Colombia's mineral industry. While the Chinese Development Bank has still had a part in the investment, the scale is much smaller than that of Ecuador. Instead of

[103] June 1, 2016: "Understanding Chinese Investments in Colombia." Dialogo Chino, December 19, 2018. https://dialogochino.net/6309-understanding-chinese-investments-in-colombia/.
[104] Muñoz, Jairo. "Will China Make the Most of Colombia's Peace Deal With FARC?" The Diplomat. The Diplomat, September 14, 2016. https://thediplomat.com/2016/09/will-china-make-the-most-of-colombias-peace-deal-with-farc/.
[105] Muñoz, Jairo. "Will China Make the Most of Colombia's Peace Deal With FARC?"

offering loan packages to insert Chinese firms into the minerals sector, Chinese firms have simply bought the divisions that already owned the rights to the area. For example, in 2009 China's state-owned Sinochem bought Emerald Energy,[106] and in 2012 acquired the Colombian operations of Total,[107] two companies with extensive investments and mineral rights in Colombia. More recently, Chinese JCHX Mining Management made a deal with Canada's Cordoba Minerals Corp where it gained a 19.9% stake in the company.[108] Furthermore, the deal granted the Chinese firm the right of first offer to be appointed as the Engineering Procurement Construction contractor in connection with any future mining development on and a right of first offer in respect of any sale of an equity interest in the San Matias project, a copper and gold mining project 200 kilometers north of Medellin.[109] Through these deals, Chinese firms are gaining ground in Colombia without the involvement of the Chinese Development Bank.

On the infrastructure front, however, the Chinese Development Bank is more active. For example, China and Colombia announced a memorandum of understanding to develop the area around the port of Buenaventura.[110] Buenaventura is a major port on Colombia's Pacific coast which processes 27% of Colombia's total customs revenue; however, the city surrounding the port has suffered from poverty and systemic inequality

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[106] Peña, 9
[107] Landauro, Inti. "Total Sells Colombian Assets to Sinochem for $1B." MarketWatch. MarketWatch, February 8, 2012. https://www.marketwatch.com/story/total-sells-colombian-assets-to-sinochem-for-1b-2012-02-08.
[108] "COPPER-GOLD: Chinas JCHX Takes Stake in Cordoba Minerals." Canadian Mining Journal, January 6, 2020. http://www.canadianminingjournal.com/news/copper-gold-chinas-jchx-takes-stake-in-cordoba-minerals/.
[109] Cordoba Minerals Corp. "San Matias." Projects. Accessed March 6, 2020. http://cordobamineralscorp.com/projects/san-matias.
[110] Peña, 24

for years.[111] Buenaventura is located well to be a trade hub; Colombia is the only Latin American nation to have access to both the Pacific and the Caribbean, and Buenaventura itself lies approximately halfway between Chile and Mexico, as can be seen below in Figure 13. However, the city has long dealt with violence, and the locals suffer from a 62% unemployment rate. The project China proposes aims to combat both by providing jobs, but the unstable situation could be a problem in realizing the ambitious project. Using a development plan financed by the Chinese Development Bank, China has offered to develop the surrounding area in "an integrated model of industrial, commercial, logistical and social development by attracting public and private investment and improving the quality of services that can [aid] foreign trade."[112] The extent of this project is wide-reaching and provides insight into the many ways China involves itself with host countries. Furthermore, Colombia's reaction to the plan, including deliberation of stripping land rights from local citizens, further testifies to China's presence leading to harm for local communities and an increased closeness with the government.

[111] Palau, Mariana November 9, 2017. "China Eyes Expansion of Colombias Buenaventura Port." Dialogo Chino, February 27, 2019. https://dialogochino.net/9940-china-eyes-expansion-of-colombias-buenaventura-port/.
[112] Palau, Mariana. "China Looks to Expand Colombia's Buenaventura Port."

Figure 13: Buenaventura

Map Credit: BBC

II. The Path to the Present

Colombia's story when it comes to China is more like two parallel plots than one fluid narrative. On one side, there is the story of Chinese firms and their entrance into Colombian markets; on the other, the Chinese government's interest in development of Colombian infrastructure. Because of the unique nature of Chinese firms being tied to government policies, it is important to look at both stories and see if their parallels are coincidental or structural. Should evidence support the theory that China is driving both narratives towards a single set of goals, then the parallels are structural, otherwise, coincidental.

First, the investment of Chinese firms into Colombia's mineral sector began in earnest in the mid-2000s, with New Granada Energy, an oil exploration and production firm that is a subsidiary of China's state-owned Sinopec.

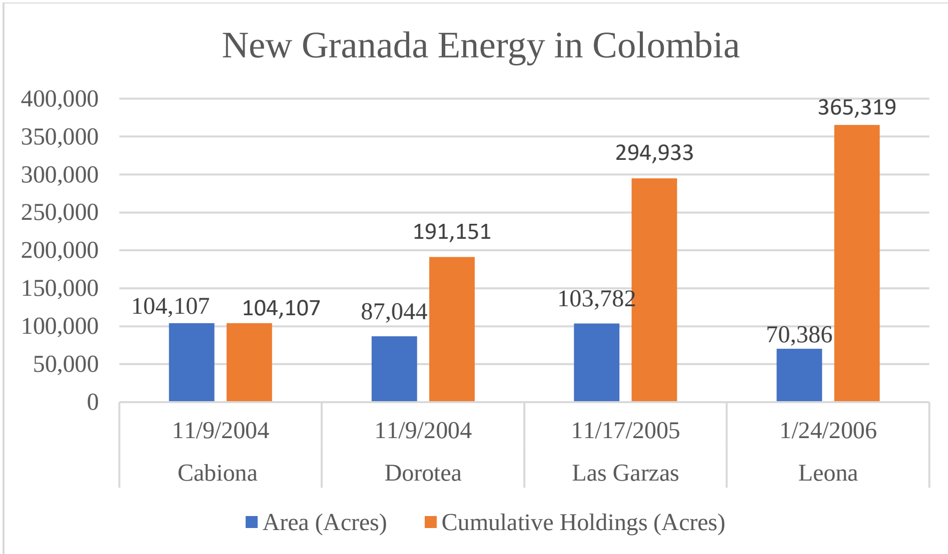

Figure 14

Data Source: Peña, Natalia Gómez, and Karla Díaz. "INVERSIONES CHINAS EN COLOMBIA"

Over 14 months, New Granada gained mineral rights to 365,319 acres across Colombia, the breakdown of which can be seen above in Figure 13.[113] Later in 2006, a joint venture called Mansarovar Energy Colombia was created by China's Sinopec with India's ONGC-Videsh and the acquisition of ONIMEX, gaining the rights to nine separate oil fields and exploratory ventures.[114] In 2009, Sinochem, another Chinese state-run oil company, purchased British Emerald Energy Co., and with it all of its operations within Colombia.[115] In 2012, Sinochem continued the pattern by acquiring the Colombian operations of Total, a French company.

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[113] Peña, Natalia Gómez, and Karla Gómez Díaz. "INVERSIONES CHINAS EN COLOMBIA: Revisión De Los Convenios De Cooperación Entre Colombia y China." *ASOCIACIÓN AMBIENTE Y SOCIEDAD*, n.d. https://www.ambienteysociedad.org.co/wp-content/uploads/2016/05/participacionchinaenelpais-1.pdf.
[114] Peña, 7
[115] Peña, 9

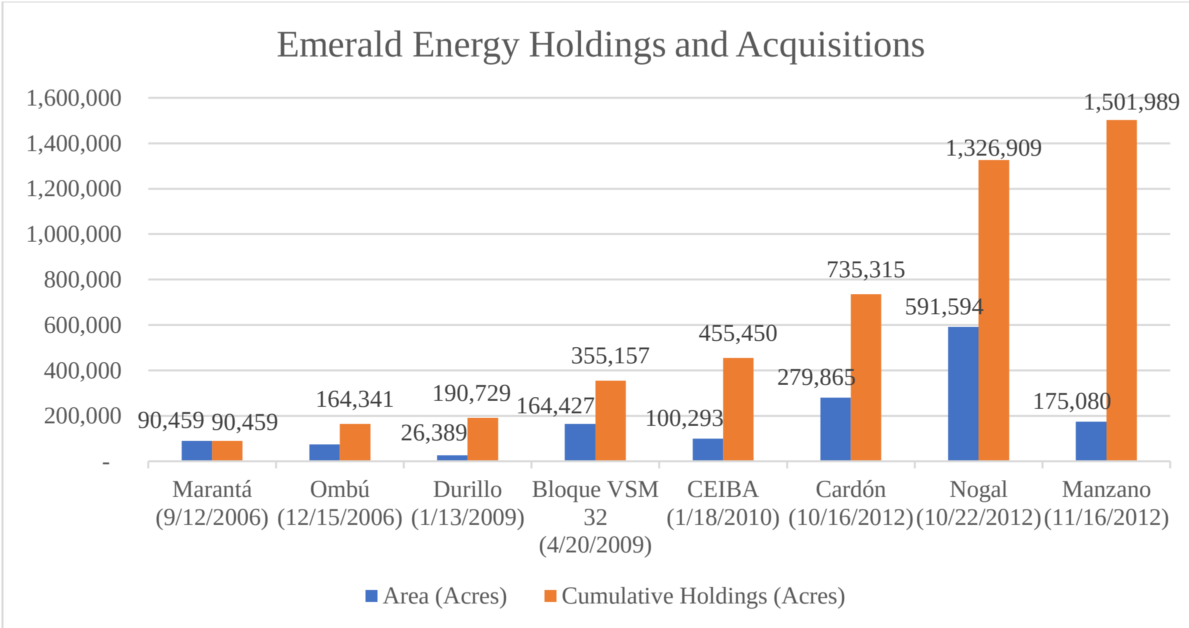

Figure 15

Data Source: Peña, Natalia Gómez, and Karla Díaz. "INVERSIONES CHINAS EN COLOMBIA"

Because of these purchases, Emerald Energy has the largest number of awarded areas for exploration and exploitation in all of Colombia, over 1.5 million acres as shown above in Figure 15. For reference, this is a territory considerably larger than the Florida Everglades under the purview of a single Chinese firm. With this much territory has come a series of social issues; local communities have come into conflict with Emerald Energy more than once over the Chinese company's environmental and business practices.[116] However, the Colombian government has by and large sided with Emerald, sending in police to deal with protestors that interrupt the Chinese company's business.[117]

These Chinese firms and their actions in Colombia are interesting for several reasons. First, the rapid entrance and acquisition of territory. Between Emerald Energy and New

[116] Peña, Natalia Gómez, and Karla Gómez Díaz. ¿CÓMO VAN LOS PROYECTOS CON PARTICIPACIÓN CHINA EN EL PAÍS?." *ASOCIACIÓN AMBIENTE Y SOCIEDAD*, n.d. https://www.ambienteysociedad.org.co/wp-content/uploads/2016/05/participacionchinaenelpais-1.pdf.
[117] Peña, 11

Granada, Chinese firms gained rights to almost two million acres of land in eight years. Meanwhile, by 2012, Mansarovar had become the fourth-largest oil enterprise in Colombia with numerous holdings of its own.[118] In recent years, Mansarovar has singlehandedly represented over 8% of FDI into the Colombian oil sector.[119] These holdings are even more noteworthy when one considers that Colombia's state-owned Ecopetrol still manages over 50% of Colombia's oil output.[120] Therefore, of foreign investors in Colombia's oil fields, Chinese firms hold a large portion of the land available, and their shares only continue to grow.

More recently, China's JCHX Mining Management purchased a 19.9% stake in Cordoba Minerals, a Canadian company, to advance the San Matias copper, gold, and silver project in Colombia.[121] Through this deal, JCHX guaranteed itself, among other things, the right of first offer to be appointed the engineering procurement construction contractor in connection with any future mining development at San Matias, and will also have a right of first offer in respect of any sale of an equity interest in the project.[122] These deals could leave Chinese firms with even more of a hold over Colombia's mineral sector as time goes on.

On the other hand, there are China's interests in Colombia's infrastructure, namely the industrialization and modernization of existing structures to be financed by the

118 "Mansarovar Energy Colombia Will Produce More Oil." Hydrocarbons Colombia, April 27, 2012. https://hydrocarbonscolombia.com/article/mansarovar-energy-colombia-will-produce-more-oil/.
119 "China's Foreign Direct Investment in Colombia." Farmfolio, July 27, 2017. https://farmfolio.net/articles/china-foreign-direct-investment-colombia/.
120 "China's Foreign Direct Investment in Colombia."
121 "COPPER-GOLD: Chinas JCHX Takes Stake in Cordoba Minerals." Canadian Mining Journal, January 6, 2020. http://www.canadianminingjournal.com/news/copper-gold-chinas-jchx-takes-stake-in-cordoba-minerals/.
122 COPPER-GOLD: Chinas JCHX Takes Stake in Cordoba Minerals."

Chinese Development Bank. Like other development projects China has focused on in recent years, these would be aimed towards expanding ports to accommodate more large ships and roads to accommodate more shipped goods. However, the projects are not officially part of the Belt and Road Initiative, likely an effort to not upset the U.S.[123]

Figure 16

Map Credit: WorldAtlas.com

The most prevalent of these projects is the renovation of Buenaventura, a port on Colombia's Pacific coast as seen in Figure 16. Buenaventura is home to more than half of Colombia's imports and exports, but the lack of commercial infrastructure in the port and surrounding area prevent revenues from staying local. Instead, most of the profit goes to cities like Bogota hundreds of kilometers away. Buenaventura is where 80% of Colombia's coffee exports are transported, along with 60% of all of Colombia's other exports.[124] Furthermore, the port handles 60% of Colombia's imports.[125] Despite the port being a massive trade hub, the community around it is struggling to get by. Buenaventura suffers from a 62% unemployment rate, making it one of the poorest cities in Colombia.[126] Before the peace deal with the FARC was signed, it was also the most violent, with an official homicide rate of 50 murders per 100,000 people, well above the national average; however, many residents believed the

[123] Soutar, Robert. "How China Is Courting New Latin American Partners." Americas Quarterly, January 14, 2020. https://www.americasquarterly.org/content/how-chinas-investment-approach-changing-and-courting-new-latin-american-partners.

[124] Peña, Natalia Gómez, and Karla Gómez Díaz. ¿CÓMO VAN LOS PROYECTOS CON PARTICIPACIÓN CHINA EN EL PAÍS?." *ASOCIACIÓN AMBIENTE Y SOCIEDAD*, n.d. https://www.ambienteysociedad.org.co/wp-content/uploads/2016/05/participacionchinaenelpais-1.pdf.

[125] Palau, Mariana November 9, 2017. "China Eyes Expansion of Colombia's Buenaventura Port." Dialogo Chino, February 27, 2019. https://dialogochino.net/9940-china-eyes-expansion-of-colombias-buenaventura-port/.

[126] Palau, Mariana November 9, 2017. "China Eyes Expansion of Colombia's Buenaventura Port."

actual rate to be much higher.[127] More recently, after the peace treaty was signed, Colombia has mobilized forces to secure the community around the port and reduce the violence, with a success that surprised the residents.[128]

Now, China and Colombia have signed a Memorandum of Understanding to develop both the port itself and the surrounding area to create a commercial zone, the Complex of Economic Activities in Buenaventura.[129] The scope of the development itself is massive; the project would allocate large areas to residential, industrial, scientific, and technological development while replacing infrastructure for roads, water, and electricity.[130] Colombia hopes the project would quell the remaining violence in the city by providing legal employment while generating new economic growth for the region as a whole by allowing some of the port's profits to stay local.[131] However, some protest leaders have argued that the government should deal directly with the more pressing concerns of Buenaventura first, such as the still-rampant violence and gang activity.[132] Proponents for the project such as Didier Sinisterra, manager for the project and Buenaventura native, have claimed that the renovation and revitalization of Buenaventura "will create 150 companies in 20 years, and more than 60,000 jobs," and that employment will eliminate the underlying drive for crime: poverty. [133]

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[127] "Welcome to Buenaventura, Colombia's Most Violent City." Thomson Reuters Foundation News, March 26, 2014. https://news.trust.org/slideshow/?id=e179f2c3-4b9b-4256-a2ea-2b2896ba64ef.
[128] McVeigh, Karen. "'It Was Horrible before': How a Deadly Colombian City Became a Safe Haven." The Guardian. Guardian News and Media, October 1, 2018. https://www.theguardian.com/global-development/2018/oct/01/it-was-horrible-before-locals-safe-haven-deadly-colombian-city-buenaventura.
[129] MEMORANDO DE ENTENDIMIENTO RELATIVO A EL DESAROLLO CONJUNTO DE PROYECTOS MODELO, MEMORANDO DE ENTENDIMIENTO RELATIVO A EL DESAROLLO CONJUNTO DE PROYECTOS MODELO § (2015).
[130] Palau, Mariana November 9, 2017. "China Eyes Expansion of Colombias Buenaventura Port."
[131] MEMORANDO DE ENTENDIMIENTO…
[132] Palau, Mariana November 9, 2017. "China Eyes Expansion of Colombias Buenaventura Port."
[133] Palau, Mariana November 9, 2017. "China Eyes Expansion of Colombias Buenaventura Port."

China has offered to invest $16 million in the project through the Chinese Development Bank, but the Colombian government hopes to attract additional financing throughout the project.[134] Though the investment is significantly smaller than those seen elsewhere by the Chinese Development Bank, it is by no means insignificant.[136] Under the proposed model, a Chinese car manufacturing company would receive tax incentives to establish an assembly plant in Buenaventura, which would open up for wider Latin American distribution as a whole. Furthermore, Colombia has a coastline on both the Pacific and the Caribbean, and the modernization of Buenaventura's ports and surrounding infrastructure could give Chinese goods an alternative to traversing the Panama Canal which has proven too shallow for larger Chinese freight ships.[137]

The largest impediment to the project has nothing to do with China, but rather internal Colombian disputes. Much of the region is populated by Afro-Colombians and indigenous communities, and 70% of the 1,200 hectares of land the project would occupy is owned by two legally recognized councils of these groups, known as the Caucana and Gamboa councils. [138] The councils have already approved the project, but in March 2017,

[134] Peña, Natalia Gómez, and Karla Gómez Díaz. ¿CÓMO VAN LOS PROYECTOS CON PARTICIPACIÓN CHINA EN EL PAÍS?" *ASOCIACIÓN AMBIENTE Y SOCIEDAD*, n.d. https://www.ambienteysociedad.org.co/wp-content/uploads/2016/05/participacionchinaenelpais-1.pdf
[136] MEMORANDO DE ENTENDIMIENTO…
[137] Carroll, Rory, and Tania Branigan. "China Plans Colombian Rail Link to Challenge Panama Canal." The Guardian. Guardian News and Media, February 14, 2011. https://www.theguardian.com/world/2011/feb/14/china-rail-link-challenge-panama-canal.
[138] Peña, Natalia Gómez, and Karla Gómez Díaz. ¿CÓMO VAN LOS PROYECTOS CON PARTICIPACIÓN CHINA EN EL PAÍS?" *ASOCIACIÓN AMBIENTE Y SOCIEDAD*, n.d. https://www.ambienteysociedad.org.co/wp-content/uploads/2016/05/participacionchinaenelpais-1.pdf

a judge annulled the councils' land ownership titles.[139] This put the project on hold while the courts decide who exactly owns the land to be developed.

III. Outlook

Given the path Colombia is headed down at this moment, it is likely China's economic investments will generate influence, but not in the same direct way as it is being felt elsewhere. Instead of immediately facing mounting debts to the Chinese Development Bank and agreeing to allow more Chinese firms to do business, it seems more likely that the Chinese firms doing business will begin to pressure Colombia into doing more infrastructure projects with China through the Chinese Development Bank, accruing loans to China along the way. Ultimately, Colombia will have to decide how much Chinese business it can do before beginning to alienate the U.S., but China's commitment to accelerating interests in the country would suggest that there might be more Chinese presence in the country than the U.S. would prefer very soon, if not already.

IV. Qualifying Chinese Influence in Colombia

Defining any current Chinese influence in Colombia will be difficult because of the recent nature of China's ventures in Colombia, but analyzing the potential for future Chinese influence through the existing economic investment in Colombia provides an interesting exercise to look back on later. To evaluate China's potential to use economic investment to influence Colombia and further its own goals in the region, one must again

[139] Palau, Mariana November 9, 2017. "China Eyes Expansion of Colombias Buenaventura Port." Dialogo Chino, February 27, 2019. https://dialogochino.net/9940-china-eyes-expansion-of-colombias-buenaventura-port/.

keep in mind just what those goals might be, and the role both parties have in any attempts to influence one another.

As before, the first questions to ask are: What does success look like to China? What would it look like to Colombia? From there, comparing the goals of each nation to the scope of their leverage will allow assessment of realistic limits of each nation's ability to achieve its goals, either cooperatively or combatively. Finally, as before, an assessment of the costs of using the tools to achieve those ends, and comparing that to their likelihood of success, will create a framework by which the situation may be assessed as a whole.

What is the status quo? Unlike Ecuador, neither side is entrenched; both Colombia and China have invested with one another, but nothing is forcing one side to make a take it or leave it decision. As it stands, the status quo is China having significant, but not controlling, interest in the country's mineral sector and an increasing role in the infrastructure arena, while Colombia still maintains the independence feasibly walk away from expanding Chinese interests without long-term economic damage.

That being the case, what would success in Colombia look like to China? Ultimately, success could take several forms, but here the delineation will be between a partnership and a dominant/subordinate relationship. Does China seek to dominate Colombia, or work with the nation to further the goals of both?

Given China's stance with other developing nations, it is much more likely that the nation will seek to become the dominant force within the deal over the long term.

Chinese deals with other Latin American nations have largely led to this outcome or are well on their way, as are deals with other developing nations around the globe. China's debt diplomacy within the Belt and Road Initiative alone is said to have provided $440 billion in loans to developing nations that will have great difficulty in paying them back.[140]

Further, Chinese actions in Colombia, though separate between explicit overture in the infrastructure realm and indirect approaches via the acquisition of mineral rights and territory, have the common thread of a dramatic increase over a relatively short period. China is presenting itself as a major player in Colombia, and this aggressive rate of investment parallels that found in other nations that have found themselves in China's debt trap.

Whether Colombia would agree to similar terms, however, is a different question. Colombia's political proximity to the U.S. coupled with the examples of Chinese dependence scattered throughout the region will serve as a deterring factor. However, it is difficult to believe that China has had the level of success present today due solely to ignorance or negligence on the part of its partner countries. Though Colombia may not intend to allow China to gain significant advantage via debt diplomacy, it is still a possibility that China has developed methods to mire nations in debt.

Therefore, this bargaining model exists on a spectrum of China, working towards a position of control, and Colombia, seeking investment without strings attached. In the

[140] Tan, Weizhen. "China's Loans to Other Countries Are Causing 'Hidden' Debt. That May Be a Problem." CNBC. CNBC, June 12, 2019. https://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html.

middle exist the sort of projects that China and Colombia are currently developing, such as Buenaventura, which involve significant investment without being inherently burdensome. However, as Colombia continues to engage, the advantage begins to shift in China's favor, as accumulated debt will begin to provide further leverage in negotiations.

For all that it is not inherently burdensome in terms of debt, a massive project such as Buenaventura, run by China in a country considered to be the strongest ally of the U.S. in all of South America, could serve as a symbol for China's increasing strength in the region. The ultimate symbol of this would be Colombia's joining the Belt and Road Initiative; however, the fact that Colombia is willing to commit to such projects demonstrates that the status quo of U.S. involvement may not serve as sufficient deterrence to the mire of Chinese debt.

Further, turning to China demonstrates that Colombia is looking to diversify its economic allies. Just last year, Colombia joined in a Chinese effort to create a "multilateral financial cooperation mechanism" between Latin America and the Chinese Development Bank.[141] While granting contract after contract to Chinese firms signals that Colombia is increasingly willing to work with China in its economic ventures, it also serves to demonstrate that Colombia may be further from U.S. influence than previously assumed.

As far as politics goes, however, Colombia seems hesitant to make any overture to China direct enough that it would upset the U.S. and jeopardize that partnership. This could put Colombia at odds with China, should the latter seek to disrupt the perception of

[141] Xia, Li, ed. "China, Latin America Establish First Multilateral Financial Cooperation Mechanism." Xinhua, April 23, 2019. http://www.xinhuanet.com/english/2019-04/23/c_138001839.htm.

U.S. hegemony in Latin America by damaging the connection between Colombia and the U.S., but for the moment China seems to be working with Colombia in maintaining both nations' relationships with the U.S..

For the scope of China's influence, there is potential for an interesting hybridization of economic power from both the infrastructure and mineral arenas in Colombia. The infrastructural economic power, like that seen with Ecuador in the previous case study, would likely come from the Chinese Development Bank through the lending for the development projects, while the mineral sector would see Sinochem and Sinopec as providing economic leverage. For the purposes of determining the potential for influence, it is not as important why these companies entered Colombia so much as what China is willing to do with the power they have gathered while they are there. The costs, however, would be what was lost in revenue, and the potential to lose a partner in Colombia should China try and act in too heavy-handed a fashion.

As for Colombia, the availability of both mineral rights and lending projects is still completely at the Colombian government's discretion. Colombia holds the power to cut China off from further investing in the land or infrastructure of their country, and since Colombia lacks the level of indebtedness to China that many other Latin American have, the long term consequence of such a choice would be much less damaging than if another nation tried to the same.

V. Can China Advance Policy Goals in Colombia Through its Economic Investment?

In a bargaining model such as that previously discussed for Colombia and China, it is currently difficult for either nation to have too much of an advantage over the other; neither has the leverage to force the other to comply, and the consequences of walking away are relatively mild. However, the future might be a different animal altogether. As Colombia becomes more open to Chinese investment and development, it also raises the possibility of creating dependence on Chinese financing such as that seen throughout much of the rest of the region.

Colombia is already beginning to accept more of China's role in its economy, albeit in a less direct way than a series of multibillion-dollar loan packages. Chinese firms have begun entering the Colombian economy one after another. For instance, last October, a Chinese-led consortium called Apca Transmimetro won the $4 billion contract to build the Bogota metro line.[142]

The largest opportunity for China to use economics to gain influence in Colombia, however, is through telecommunications. Chinese telecommunications companies Huawei and ZTE both do significant business in Colombia, and both were labeled potential security threats by the U.S. Government.[143] Last year, ZTE announced it had signed a 5-year deal with a Colombian university to "establish a 5G

[142] Fieser, Ezra. "Congested Bogota Brings in China to Build $4 Billion Metro Line." Bloomberg.com. Bloomberg, October 18, 2019. https://www.bloomberg.com/news/articles/2019-10-18/congested-bogota-brings-in-china-to-build-4-billion-metro-line.
[143] Jaramillo, Andrea, and Ezra Fieser. "After Trump Taunts Colombia, China Pours Billions Into Country." Bloomberg.com. Bloomberg, January 24, 2020. https://www.bloomberg.com/news/articles/2020-01-24/after-trump-taunts-colombia-china-pours-billions-into-country.

Joint Innovation Research Center in Colombia…both sides will be committed to mutual educational and technological support while building up a cooperative relationship in line with the framework initiatives of training, project development, innovation, and technology."[144] The firm in question has already been accused of repeatedly using its access to data and markets to provide the Chinese government with a strategic advantage.[145] As has been previously discussed, the unique legal relationships Chinese firms have with their government makes it impossible to say that any "private" firm will not act on behalf of the Chinese government when asked.[146] Should ZTE or Huawei be contracted to build Colombia's 5G network, as they have been for much of Colombia's 4G network, China could gain more than just an information advantage; it could gain the ability to pressure Colombia into an agreement using data outages.

5G, though just one example of a possible Chinese entry into the vital systems of Colombia's economy, serves as an analogy of the potential of Chinese debt diplomacy in the country as a whole. After initial Chinese investments, it simply makes sense to continue with the systems that are already part of the country. As those systems accumulate, the difficulty of replacing those systems with another brand increases, and eventually becomes prohibitively expensive. It is simpler to work with the systems already in place than try to start over, and so further

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[144] ZTE. "ZTE Signs 5G Cooperation Agreement with Esteemed University in Colombia." ZTE Press Release. ZTE, August 1, 2019. https://www.zte.com.cn/global/about/news/20190801e1.html.

[145] Balding, Christopher. "ZTE's Ties to China's Military-Industrial Complex Run Deep." Foreign Policy, July 19, 2018. https://foreignpolicy.com/2018/07/19/ztes-ties-to-chinas-military-industrial-complex-run-deep/.

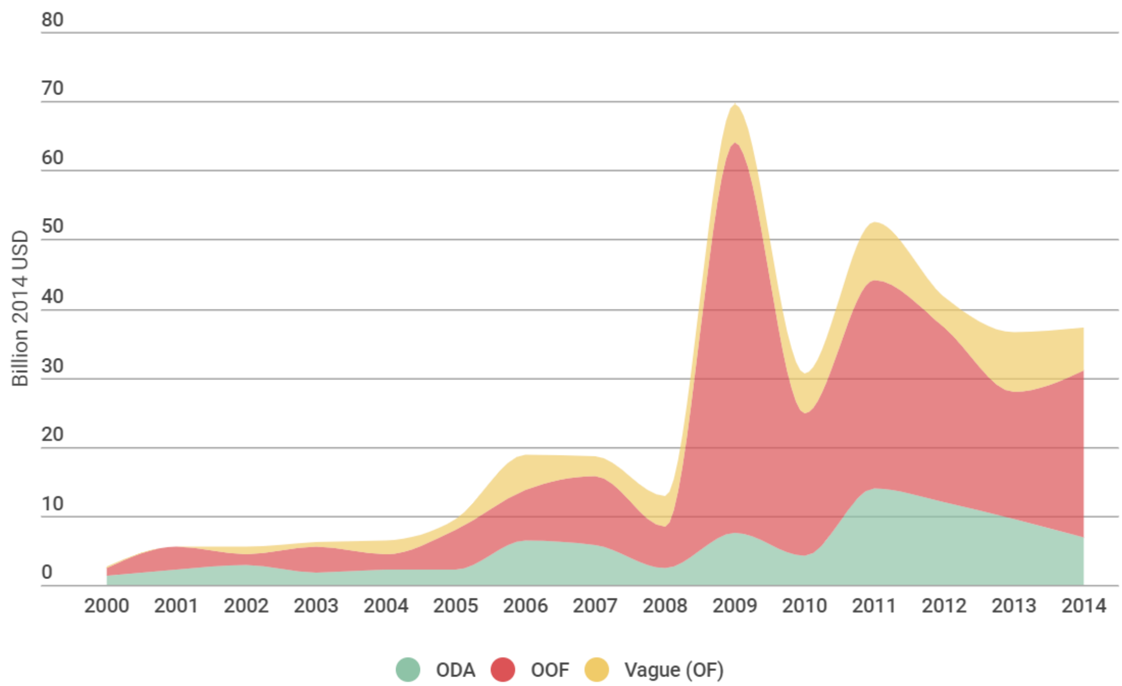
[146] Feng, Ashley. "We Can't Tell If Chinese Firms Work for the Party." Foreign Policy, February 7, 2019. https://foreignpolicy.com/2019/02/07/we-cant-tell-if-chinese-firms-work-for-the-party/.

expansions are negotiated through the proprietor of the existing systems. So, too, with financing from China; the financing infrastructure is easier to maintain than shift, but if Colombia is not careful, it will find China too expensive to replace.

Conclusion

China's use of international aid as a tool to forward its global agenda is not unique; there are numerous examples of nations doing the same, such as the U.S. in the U.N. Security Council as noted by Dreher, Nunnenkamp, and Thiele. However, the use of expansive non-concessionary lending in place of grants and concessionary lending to gain diplomatic allies is a distinctly Chinese twist on the old practice. This evolution of strategy brings with it new advantages, or new dangers, depending on your perspective. Where the U.S. primarily uses grant money as an incentive, China has chosen to greatly expand its non-concessionary funding as a means of inducement, as seen below in Figure 17. As China expanded into financing the developing world, its Official Developmental Assistance (ODA), consisting of grants and concessionary loans, did not increase by a large amount. Instead, the sharp increase in Other Official Flows (OOF) indicates the dramatic increase in non-concessionary lending from China to developing nations. The use of non-concessionary loans in place of concessionary loans and grants separates China's political aid from that of the U.S. and creates a new dynamic between lending and developing nation.

Figure 17: China's Global Development (Billion USD) *Source: AidData*



China is seeking to use this dynamic to further its political goals in a manner that leaves the debtor nation forced to choose between compliance and severe financial distress. As Parker and Chefitz pointed out, China uses existing debt as an inducement in itself, creating a political tool from the existence of debt alongside offering new financing as an incentive. Of course, each additional loan shifts the status quo so that the debt is more influential to a debtor nation's decision making, thereby strengthening China's ability to request political and diplomatic concessions.

Furthermore, Beijing has greater flexibility regarding corruption and less than free markets that allows for incentives to go directly to government officials. Many officials in Ecuador responsible for approving and coordinating the Coca Codo Sinclair Dam project were accused and sentenced on taking bribes, including a former vice president, a former electricity minister, and even the former anti-corruption official in charge on monitoring the project. The anti-corruption officer was even recorded talking about Chinese bribes.[147] China uses its lax stance on corruption to its advantage by incentivizing leaders to make financial decisions that may well not be in the best interests of the countries they serve.

This willingness to bribe officials, combined with a large amount of lending China is willing to provide, creates a very dangerous situation for developing nations looking for nations where China is involved in development projects. The corruption of individuals has the potential to mire a nation in debt, billions of dollars for investments that fail to provide the revenue or growth promised, like Coca Codo Sinclair. Alternatively, pressures coming from other sectors, such as minerals and energy in Colombia, potentially provide an incentive to move forward with Chinese financing despite the dangers demonstrated by neighboring countries.

The connection between Chinese firms and the goals of the Chinese Communist Party, supported by Chinese law, gives China the ability to use foreign direct investment as both an inducement in the negotiation of development projects and another type of leverage after the firm is established within the nation. In Colombia, for example, the Chinese presence in the mineral and energy sector is second only to that of the Colombian government itself.[148] This existing connection could be exploited to provide officials with monetary compensation, pressure local governments into complying or simply offer the ease of working with compatible firms. While this is not in itself

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[147] Casey, Nicholas, and Clifford Krauss. “It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid.” The New York Times. The New York Times, December 24, 2018. https://www.nytimes.com/2018/12/24/world/americas/ecuador-china-dam.html.

[148]

threatening, the potential to shift the status quo beyond the point where Colombia can somewhat comfortably walk away from Chinese investment is very real.

Additionally, the opaque nature of the loans and projects financed by China is detrimental to both the nations involved and the global economic system as a whole. Loans from China are often shrouded in secrecy, with terms and figures unavailable to the public. Many analysts believe the true amounts of these loans to be higher than the numbers that are officially tracked, resulting in so-called “hidden” debts that meet the scrutiny of neither the public of the debtor government nor the international community.[149] As these debts expand, the public is left unaware of the extent of their government’s indebtedness to China, and therefore has little ability to act in opposition should they so desire.

On a geopolitical level, however, the consequences are potentially much more severe. Growing debt burdens invisible to potential investors or organizations like the IMF can easily lead to those groups underestimating the risk of lending money to countries with Chinese debt. This lack of information means investors may believe nations to be more solvent than they are, and provide loans at rates much lower than would be acceptable if all the information was available, or purchase bonds believing the investment to be more stable than it is.[150]

This, in turn, gives China another advantage over its debtor nations. Nations seeking loans under such pretenses would not want potential investors to know the full extent of

[149] Tan, Weizhen. “China's Loans to Other Countries Are Causing 'Hidden' Debt. That May Be a Problem.” CNBC. CNBC, June 12, 2019. https://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html.
[150] Ibid.

the nations' indebtedness to China, as that information would cause funding to diminish and interest rates to increase in response to a riskier lending situation. Therefore, China's information on such debts is another source of leverage, though the power of such a tool would depend heavily on the degree of information asymmetry and China's willingness to reveal its thus far very private loan details. Though it is unlikely at the present, such a possibility still holds power should China need leverage over one of its entrenched debtors.

Essentially, what these factors add up to is China putting its thumb on the scale of decision making in the countries with which it invests. Bit by bit, these influences cumulate from a single project, to increasing loans, then finally to a debt trap. Ecuador borrowed money hand over fist to finance development projects and quickly found itself forced to decide between joining the Belt and Road Initiative and defaulting on its debts. Colombia, more cautious in its approach, has seen a more gradual increase in Chinese influence. From increasing Chinese involvement in the minerals sector, to development projects like Buenaventura funded by the Chinese Development Bank, and finally working with China to install the next generation of communications infrastructure while expanding Chinese involvement in infrastructure projects as a whole. Every step tips the scales a little further, and a slight concession has the potential to snowball into a debt trap.

However, Colombia falling into a debt trap is by no means a foregone conclusion. As of now, Colombia still holds a powerful position in its bargains with China and, having seen the examples set by Ecuador and other nations caught in China's debt trap, Colombia may choose to proceed with caution. Further, China's deliberate use of debt as a trapping mechanism could lead to long term consequences for the lending giant, such as a lack of faith in China's intentions along with nations potentially giving up on paying what they see as, and what very well may be, an inescapable debt.

Chinese firms, though not the agents of trapping nations in debt, have earned their title of accomplice. Projects extended well beyond deadlines, or of poor quality such as Coca Codo Sinclair, are expensive for host nations to clean up and do not help assuage doubts of poor workmanship and ulterior motives. For a while, China might end up with everything it wants from these nations, and having them come time and again to renegotiate debts gives China the potential to ask a lot of any and all of them. However, such tactics only hold their power while a nation is unwilling to face the consequences of walking away; if a nation is pushed too far, or China miscalculates the pressure needed to attain one of its political goals, it could very quickly find itself left with no one to pressure at all.

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