NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

THE INFLUENCE OF CHINA’S ECONOMIC ACTIVITIES ON LATIN AMERICA

by

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June 2019

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REPORT DOCUMENTATION PAGE			*Form Approved OMB No. 0704-0188*

1. AGENCY USE ONLY ***(Leave blank)***	**2. REPORT DATE** June 2019	**3. REPORT TYPE AND DATES COVERED** Master's thesis

4. TITLE AND SUBTITLE THE INFLUENCE OF CHINA'S ECONOMIC ACTIVITIES ON LATIN AMERICA	**5. FUNDING NUMBERS**
6. AUTHOR(S) David DelValle	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000	**8. PERFORMING ORGANIZATION REPORT NUMBER**
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A	**10. SPONSORING / MONITORING AGENCY REPORT NUMBER**

11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.

12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release. Distribution is unlimited.	**12b. DISTRIBUTION CODE** A

13. ABSTRACT (maximum 200 words)

Since 2001, China has been expanding its influence into Latin America, but this phenomenon has remained relatively underexamined. To help fill this gap, this thesis examines China's bilateral relationships with Peru and Ecuador and examines the effect of China's growing economic presence on their economic development. The main findings are that China's loans and investments have supplied Peru and Ecuador with very short-term economic advantages, but their increasing financial presence also has adverse consequences that will likely worsen over time. This thesis identifies two major negative effects of China's economic activity: 1) it exacerbates the resource curse through further deepening commodity dependence and undermining industrialization; and 2) increased Chinese investment in oil and mining provides short-term benefits, but also creates negative externalities such as pollution and deforestation, which are costly to address. In attempts to manage the China challenge, Peru relies on metal exports but successfully diversified into other service sectors, whereas Ecuador has been less successful in diversification, and its dependence on loans for oil has only deepened Ecuador's debt. This thesis makes recommendations on how these countries can maximize the benefits from China's growing economic presence, while minimizing the risks, and move toward more sustainable economic development.

14. SUBJECT TERMS globalization, resource curse, commodities, commodity dependence, deindustrialization, externalities, geostrategic	**15. NUMBER OF PAGES** 103
	16. PRICE CODE

17. SECURITY CLASSIFICATION OF REPORT	**18. SECURITY CLASSIFICATION OF THIS PAGE**	**19. SECURITY CLASSIFICATION OF ABSTRACT**	**20. LIMITATION OF ABSTRACT**
Unclassified	Unclassified	Unclassified	UU

NSN 7540-01-280-5500 Standard Form 298 (Rev. 2-89) Prescribed by ANSI Std. 239-18

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THE INFLUENCE OF CHINA'S ECONOMIC ACTIVITIES ON LATIN AMERICA

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Submitted in partial fulfillment of the
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES
(WESTERN HEMISPHERE)**

from the

**NAVAL POSTGRADUATE SCHOOL
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ABSTRACT

Since 2001, China has been expanding its influence into Latin America, but this phenomenon has remained relatively underexamined. To help fill this gap, this thesis examines China's bilateral relationships with Peru and Ecuador and examines the effect of China's growing economic presence on their economic development. The main findings are that China's loans and investments have supplied Peru and Ecuador with very short-term economic advantages, but their increasing financial presence also has adverse consequences that will likely worsen over time. This thesis identifies two major negative effects of China's economic activity: 1) it exacerbates the resource curse through further deepening commodity dependence and undermining industrialization; and 2) increased Chinese investment in oil and mining provides short-term benefits, but also creates negative externalities such as pollution and deforestation, which are costly to address. In attempts to manage the China challenge, Peru relies on metal exports but successfully diversified into other service sectors, whereas Ecuador has been less successful in diversification, and its dependence on loans for oil has only deepened Ecuador's debt. This thesis makes recommendations on how these countries can maximize the benefits from China's growing economic presence, while minimizing the risks, and move toward more sustainable economic development.

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LIST OF ACRONYMS AND ABBREVIATIONS

ALBA	Alianza Bolivariana para los Pueblos de Nuestra America
CDB	China Development Bank
CELAC	Comunidad de Estados Latino Americano y Caribenos
CHINALCO	China Aluminum Corporation
CONAIE	Confederacion de Nacionalidades Indigenas del Ecuador
EIBC	Export-Import Bank of China
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade of the Americas
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
LAC	Latin America and the Caribbean
NGO	Non-Governmental Organization
OBOR	One Belt, One Road
Yasuni-ITT	Yasuni-Ishpingo-Tambococha-Tiputini

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ACKNOWLEDGMENTS

First and foremost, I would like to thank God for giving me the strength and patience to accomplish this goal. I would also like to thank the two most important women in my life, Gabriela and Abigail. Gabriela, thank you for your unwavering support throughout the long nights and the weekends we missed being together. Thank you for being my rock and giving me great advice during the challenges and obstacles I encountered. To my beautiful daughter, Abigail, you are truly my joy, and I cannot express how much you motivate me. I know that this effort came at the expense of family time, but I hope that you know that investing in our future was with the best of intentions. During this arduous process, I have been surrounded by marvelous people. This has definitely been a team effort, and I cannot take credit alone for this achievement. I would like to thank my thesis advisors: I am grateful to Dr. Thomas Bruneau for his expert advice on Latin America and Dr. Michael Glosny for his expert advice on China. The doors to both were always open whenever I ran into a trouble spot or had a question about my research or writing. They consistently allowed this paper to be my own work and steered me in the right direction whenever I needed it. On the topic of thanking academics, I would also like to thank Graduate Writing Center coaches Dr. Kate Egerton and Alison Scharmota. They both pushed me to think critically and write concisely at the graduate level; I have no doubt their efforts are visible within this thesis. Last and certainly not least, I would like to thank all the education techs, especially Myrna Hill. Her advice, assistance, and investment of time in helping me navigate through this process is sincerely appreciated.

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I. MAIN RESEARCH QUESTION AND MAIN FINDINGS

Since 2001, China has been expanding its political and economic activities into Latin America. While numerous studies have focused on China's policy toward Africa, scholars have devoted less attention to examining China's role in Latin America. Several factors have precipitated China's expansion. Over the past 35 years, having benefitted from the wave of globalization, China's gross domestic product has surged faster and longer than any economy in history, thus creating an economy that is in comparison to that of the United States.[1] Additionally, in 1978 during the historic Third Plenary Session, Deng Xiaoping's appeal for "reform and opening up" drove Chinese global expansion and two decades later, Beijing's going-out policy further boosted China's corporate and business global activities.[2]

However, China lacks some necessary natural resources, so to sustain its economic boom, China has turned its sights on Latin America, well known, among other regions, for raw material, and natural resources. According to Myers, Wise, and Naughton, China reformed its economic strategy and issued its "opening up" and "going out" policy.[3] Some argue that China's expansion in Latin America heightened due to a shift of U.S. priorities after September 11, 2001, and neglect of its political and economic relationships with Latin America. In the view of these analysts, this has created a void, and China sees this as an opportunity to exploit and fill the gap in pursuit of its political and economic interests. As a result, from 2003–2013, Latin America had experienced the "China Boom" as it provided natural resources to help fuel China's development allowing its economy to grow by 3.6

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[1] Barry Naughton, *The Chinese Economy: Adaptation and Growth* (Cambridge, MA: MIT Press, 2018), 1.

[2] Benjamin Creutzfeldt, "One Actor, Many Agents: China's Latin-America Policy in Theory and Practice," in *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World,* eds. Margaret Myers and Carol Wise (New York: Routledge. 2016), 24

[3] Margaret Myers and Carol Wise, eds., Introduction, *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World* (New York: Routledge. 2016), 9; Naughton, 123, 446.

percent per year.[4] To meet the need for these resources, China increased negotiations of trade with many Latin American countries especially, the Pacific Alliance—Chile, Colombia, Mexico, and Peru—because of their openness to free trade, investment liberalization, and strong economies. Moreover, South American countries like Argentina and Brazil recovered quickly from the 2008–2009 financial crisis due to China's growing need for raw materials.

Additionally, in 2013, in efforts to strengthen financial and political ties, China encouraged Latin American and Caribbean nations to become part of the "One Belt, One Road" (OBOR) initiative.[5] This initiative illustrates China's financial reach as it extends its commercial trade routes from Asia to Latin America by land and sea with "billions of dollars in infrastructure investments."[6] China's 2008 and 2016 policy papers and OBOR initiative serve as foreign policy strategies for China to seek resources and trade in Latin America to sustain growth.[7]

Analysis of the current literature and reports reveals that a crucial question remains under-examined: "How have China's economic activities affected Latin America's political and economic development?" The thesis will examine the economic activities that have resulted in significantly increased Chinese engagement in the region and the impact and effects in specific economic sectors of countries in the Andean Region of Latin America. It will also examine how countries are faced with the resource curse through commodity dependence and how the lack of competitiveness in other sectors are driving deindustrialization, and the increase of negative externalities are a result of the impact of

[4] Kevin Gallagher, The China Triangle: Latin America's China Boom and the Fate of the Washington Consensus (New York: Oxford University Press, 2016), 2

[5] Fabian Cambero and Dave Sherwood, "China Invites Latin America to Take Part in One Belt, One Road," Reuters, January 24, 2018, https://www.reuters.com/article/us-chile-china/china-invites-latin-america-to-take-part-in-one-belt-one-road-idUSKBN1FB2CN.

[6] Cambero and Sherwood.

[7] "China's Policy Paper on Latin America and the Caribbean," Ministry of Foreign Affairs of the People's Republic of China, November 5, 2008, http://www.gov.cn/english/official/2008-11/05/content_1140347.htm; Ministry of Foreign Affairs of the People's Republic of China, "China's Policy Paper on Latin America and the Caribbean," November 24, 2016, https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1418254.shtml.

trade with China. Lastly, the thesis will examine how geostrategically and economically important China's increasing presence in Latin America is for the United States and how this increasing presence of China affects Latin America-U.S. relationship.

Since 2001, the trend of China's growing influence in Latin America remains fairly under-examined. In order to bridge this divide, the thesis examines China's bilateral relations with Peru and Ecuador and examines the effects on the economic development of both countries with regard to China's increasing financial activities. However, these investment projects raise the issue of a lack of transparency in these oil and metal extractions. After analyzing the literature, the main findings are that China's increasing presence in Ecuador and Peru provide short-term economic gains, but negative effects from the growing investments threaten its long-term development. This thesis identifies two major negative effects of China's growing economic activity: 1) it exacerbates the resource curse by creating reprimarization and de-industrialization by driving dependence on the export of a chief primary commodity and shift away from higher value-added exports; and 2) negative externalities from Chinese projects are creating environmental problems of deforestation, water contamination, and oil waste pollution is destroying ecologically sensitive areas of the Amazon. Additionally, the environmental problems from metals and mineral extraction, including pollution of rivers and coastal waters from mining waste have been studied and through credible research have shown a mounting level of proof of health consequences in local areas linked to oil/metal extraction in which extraction chemicals causing cancer and other diseases.[8] If both Ecuador and Peru are going to continue business with China, they need to invest their capital gains in other export sectors and reinforce environmental and safety regulations with Chinese companies. This "win - win" financing seems to be driving the political economy of Ecuador and Peru, supplying China with the energy and materials needed to feed its internal industries and resulting in a complementary, not competitive agreement.

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[8] Jill E. Johnston, Esther Lim, and Hannah Roh, "Impact of Upstream Oil Extraction and Environmental Public Health: A Review of the Evidence," *Science of The Total Environment* (2018): 190.

A. SIGNIFICANCE OF THE RESEARCH QUESTION

In Latin America, the United States played a very active role in preventing the spread of communism during the Cold War. When the Cold War ended in 1991, the U.S. aimed at increasing relations with Latin America, with the proposal for the Free Trade of the Americas (FTAA) in 1994, which, however, was opposed by some Latin American countries.[9] It resulted in the U.S. negotiating some bilateral agreements for trade with some countries like Chile, Colombia, and Peru.[10] In addition to being rebuffed in the FTAA, U.S. interests and focus further shifted after 9/11 toward the Global War on Terrorism and Latin America is not the political and economic priority it used to be for the United States.

Furthermore, some Latin American countries blame the U.S. for adopting the failed Washington Consensus economic policy, which was intended to promote economic growth.[11] Now, as Joshua Ramo and Chris Alden explain, China is offering an alternative model, the 'Beijing Consensus,' to Latin America, it seems evident that some countries in Latin America have accepted this new relationship.[12] The China model, based on the Beijing Consensus, exemplifies how a one-party government became a world economic power.[13] Several Latin American countries have been seeking improvement in their economies following the 1997 Asian economic crisis and the 2008 financial crisis and pursued their interests aside from what the U.S. wants for them.[14]

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[9] Riordan Roett and Guadalupe Paz, eds. Introduction, in China's Expansion into the Western Hemisphere: Implications for Latin America and the United States (Washington, DC: Brookings, 2008), 12

[10] "Outcomes of U.S. Trade Agreements," U.S. Department of State, accessed January 12, 2019, https://www.state.gov/e/eb/tpn/bta/fta/c76143.htm.

[11] Roett and Paz, Introduction, 10.

[12] Joshua Cooper Ramo, *The Beijing Consensus* (London: Foreign Policy Centre), 2004, 3–4; Chris Alden, "China's New Engagement with Africa," in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States,* eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings, 2008), 230.

[13] Roett and Paz, Introduction, 10.

[14] Benjamin Creutzfeldt, "One Actor, Many Agents: China's Latin-America Policy in Theory and Practice," in *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World,* eds. Margaret Myers and Carol Wise (New York: Routledge. 2016), 16; Myers and Wise, Introduction, 2

The increasing Chinese presence in Latin America and its enormous investments in countries such as Peru, Ecuador, Mexico, and Venezuela shows a geopolitical shift in the region where the U.S. has been losing its long-standing predominance. China has overtaken the U.S. and became the principal trading partner for Brazil, Chile, and Peru[15] , and according to Ellis, the list of countries will continue to grow to allow China's efforts to oppose U.S. hegemony in the western hemisphere.[16] It is important to note that China's economic engagements and presence in Latin America are a part of its assertive global outreach that stems from its "opening up" and "going out" policy.[17] This study has great importance because China's increasing presence appears to divide Latin America, forcing countries to choose sides, which can lead to misunderstandings. China's economic activities are affecting Latin America's political and economic development in varying degrees with both positive and negative impacts. This study deals with these circumstances, along with unanswered questions of China's increasing economic activities in Latin America and the political and economic implications for all countries in the Western Hemisphere. This study will provide a basis for highlighting China's opaque system of economic policies and strategies relative to Latin America's development and subsequently shedding new light on this evolving Sino-Latin America relationship. Furthermore, the thesis focuses on the important developments regarding China's economic activities in Latin America in addition of examining the political and economic significance of studies by contrasting the dominant viewpoints and illustrating their effects on the region.

B. LITERATURE REVIEW

The purpose of this literature review is to examine the major policy-relevant and academic literature on China's increased presence in Latin America since 9/11. It will summarize the findings of the increase in China's political and economic activities in Latin

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[15] Carol Wise, "After the China Boom: What Now for Latin America's Emerging Economics," in *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World*, eds. Margaret Myers and Carol Wise (New York: Routledge. 2016), 143

[16] R. Evan Ellis, *China in Latin America: The Whats and Wherefores* (Boulder, CO: Lynne Reinner, 2009), 16.

[17] Myers and Wise, Introduction, 9

America. To determine the extent of China's activities and impact, the literature review will include a discussion on three main themes associated with China's foreign policy and the effects of China's economic activities affecting Latin America. The summary will then conclude by explaining how the China-Latin American relationship is creating an economic trade imbalance for Latin America, and the impact merits a closer examination.

1. China's Foreign Policy with LATAM

On January 2015 during Beijing's first ministerial meeting of the Forum of China and the Comunidad de Estados Latinoamericanos y Caribeños (CELAC), the Community of Latin American and Caribbean States, China's President Xi Jinping committed billions of dollars in trade and foreign direct investment toward Latin America and the Caribbean over the course of a five year period.[18] China's foreign policy outlines these promises, which are a critical theme concerning the Sino-Latin America relationship. Some say in the 21st Century, China has been promoting an alternative model from the West, providing distinctive contributions to the world and developing economies, and centered on a distinct culture with a Chinese foreign policy containing the rhetoric of "peaceful rise," "harmonious world," "win-win solutions," and "strategic partnerships."[19] Some scholars such as Kevin Gallagher, Benjamin Creutzfeldt, Margaret Myers, and Carol Wise, have stated that China is seeking not only to improve their agricultural industries and mining extraction, but in production, processing, logistics, and marketing allow China to better control supply and pricing in order for their SOEs to compete against multinational and American firms.[20] Benjamin Creutzfeldt and Evan Ellis argue[21] that China's foreign policy aims toward an assertive and unilateral pursuit of self-interest; in contrast, Kevin Gallagher and Mariano Turzi argue China's policy aims toward passive and steady

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[18] David Dollar, "China's Investment in Latin America," *GeoEconomics and Global Issues* 4 (2006): 1.

[19] C. Bergsten, C. Freeman, and N. R. Lardy, *China's Rise: Challenges and Opportunities* (Washington, DC: Peterson Institute Press, 2008), 214.

[20] Creutzfeldt, "One Actor," 16; Myers and Wise, Introduction, 11; Kevin P. Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Stanford, CA: Stanford University Press, 2010), 3–4.

[21] Creutzfeldt, 16–18; Ellis, *China in Latin America*, 1.

assimilation within the international system.[22] China's diplomatic strategy within the region is forging strategic partnerships and expanding its "South-South" diplomacy.[23] Kevin Gallagher, Roberto Porzecanski, Joshua Kurlantzick, and Chris Alden, all debate that the "Beijing Consensus" is offered as an option to Latin American countries vice the "Washington Consensus" the economic model that was unsuccessful.[24] They argue that trade and investments primarily drive China's foreign policy with Latin America; however, these dealings are posing adverse effects like trade imbalance for Latin America[25] and "over-dependence on the Chinese market."[26] Although China has produced two policy papers on Latin America for political exchanges, the majority of the researchers including Monica Hirst state that "China's strategic agenda with Latin America is driven primarily by economic interests" without proposing "alternative models of governance for international institutions and regimes."[27] China's conflicting foreign policy articulates a "peaceful rise" and "harmonious world" but on the contrary, the Chinese government coincidentally strategizes trade agreements with the Bolivarian Alliance for the Peoples of Our America (ALBA), which include Antigua and Barbuda, Bolivia, Cuba, Dominica, Grenada, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent, and the Grenadines and Venezuela.[28] The regimes of these countries actively resist U.S. institutions and policy

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[22] Gallagher, *The China Triangle,* 2–7; Gallagher and Porzecanski. *The Dragon in the Room*, 1–6; Mariano Turzi, "The Agropolis: South America, China, and the Soybean Connection," in *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World*, eds. Margaret Myers and Carol Wise (New York: Routledge. 2016), 185.

[23] Roett and Paz, Introduction, 3

[24] Gallagher and Porzecanski. *The Dragon in the Room*, 1; Joshua Kurlantzick, "China's Growing Influence in Southeast Asia," in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States,* eds. Riordan Roett and Guadalupe Paz, (Washington, DC: Brookings, 2008),193; Alden, "China's New Engagement with Africa," 213.

[25] Wise, "After the China Boom," 158. Ellis, *China in Latin America*, 54, 62, 200.

[26] Wise, 143.

[27] Monica Hirst, "A South-South Perspective," in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States,* eds. Riordan Roett and Guadalupe Paz, (Washington, DC: Brookings, 2008); 96; Roett and Paz, Introduction, 16.

[28] R. Evan Ellis, "Latin America and the Caribbean," in *China Steps Out: Beijing's Major Power Engagement with the Developing World,* eds. Joshua Eisenman and Eric Heginbotham (New York, Routledge, 2018), 207; Ted Piccone, *The Geopolitics of China's Rise in Latin America* (Geoeconomics and Global Issues Paper 2) (Washington, DC: Brookings, 2016), 1–5.

goals in the region. They have also become important customers for Chinese military hardware and construction service while serving as major sources of commodities.[29] The Chinese have countless political and economic motives for continuing the Sino-Latin America relationship.

2. China's Economic Activities in LATAM

In addition to China's foreign policy, economic policies are the more critical factors in China's growing presence in Latin America, creating trade imbalances and long term economic deterioration with some Latin American countries causing these countries to have an increasing reliance on exports of a primary resource for survivability. China views increase trade and bilateral agreements as a "win, win" approach for both sides. According to Roett and Paz, there is no doubt that the United States remains vital to Latin America's exports and a crucial trading partner for the region with several fortune 500 companies doing business in Latin America.[30] However, relations between Latin America and the United States have been strained due to rising geopolitical issues such as failed policies and weakened trade deals,[31] allowing China to come in as an alternative model for Latin America and a chance to improve their economy and infrastructure. According to several scholars, including Trinkunas and Naughton, China's economic engagements and its "One belt, One road" initiative will facilitate growth and prosperity in both China and Latin America.[32] Although infrastructure projects are essential, Ellis states that these expensive projects are a mechanism to allow China "to control commodities and natural resources."

Additionally, Barbara Stallings states that China's capital investment and loans present a friendly face before revealing the actual demands for natural resources and

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[29] Bergsten, Freeman, and Lardy, *China's Rise,* 197; R. Evan Ellis, "Cooperation and Mistrust between China and the U.S. in Latin America," in *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World*, eds. Margaret Myers and Carol Wise (New York: Routledge. 2016), 37.

[30] Roett and Paz, Introduction, 10.

[31] Roett and Paz, 11–15

[32] Harold Trinkunas, *Renminbi Diplomacy? The Limits of China's Influence on Latin America's Domestic Politics* (Geoeconomics and Global Issues Paper 3) (Washington, DC: Brookings, 2016), 18; Naughton, *The Chinese Economy,* 447.

domestic market access.[33] Furthermore, Dr. Ellis argues that the Sino-Latin American relationship is threatened by the economic "imbalance of trade" because certain countries in the region have higher imports from China, exceeding their exports to China.[34] China's economic activities are having positive and negative economic implications for Latin America and other countries in the Western Hemisphere.

3. The Resource Curse

Lastly, some argue that several Latin American countries are plagued by the resource curse, which shows how fluctuations in commodity prices can have negative effects in those principle export sectors.[35] Furthermore, reliance on a chief commodity export may exacerbate this issue.[36] Additionally, Kevin Gallagher, Barbara Kotschwar, Carol Wise, and Zhang Yong draw attention to an increase in countries returning to deindustrialization and declining competitiveness as the emphasis has shifted away from exporting of higher value-added products.[37] Francisco Gonzalez's research views "winners and losers" in Sino-Latin American interactions and how the "commodity lottery" apportioned "gains and losses" for certain countries in the region.[38] According to his analysis, "winners" are countries like Chile and Peru who have high exports of natural resources and "losers" are Mexico and various Central American countries due to their

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[33] Barbara Stallings, "Chinese Foreign Aid to Latin America: Trying to Win Friends and Influence People," in *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World,* eds. Margaret Myers and Carol Wise (New York: Routledge. 2016), 86.

[34] Ellis, China in Latin America, 143–146

[35] Wise, "After the China Boom," 158; Gallagher, *The China Triangle,* 8.

[36] Wise, 158; Gallagher, 8.

[37] Kevin Gallagher, "A Catalyst for Hope: China's Opportunity for Latin America," in J. Santiso ed., *The Oxford Handbook of Latin American Political Economy* (New York: Oxford University Press, 2012), 333–363; Barbara Kotschwar, "China's Economic Influence in Latin America," *Asian Economic Policy Review* 9, no. 2 (2014): 202–22, https://doi.org/10.1111/aepr.12062; Carol Wise and Zhang Yong, *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World* (New York: Routledge, 2016); Myer and Wise, 155.

[38] Francisco E. González, "Latin America in the Economic Equation—Winners and Losers: What Can Losers Do?," in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States,* eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings, 2008), 148

high exports of apparel and merchandise.[39] Although his analysis is solid, it illustrates an outdated short-term outlook on winners and losers, wherein more exploration is necessary to facilitate a clearer portrayal of the risks from trade between China and Latin America. Other studies by Gallagher and Porzecanski have shown as of 2002; China became the prime destination for essential Latin American exports such as soy, iron ore and copper, which have dramatically improved commodity prices on global markets, benefitting high exporting countries like Brazil and Argentina.

Conversely, Luisa Palacios illustrates the opposite in which certain commodities like oil being exported by Latin American countries to China face two significant challenges, over-consumption in the region and the legal context for investment, which needs to be revisited to highlight its long-term effects.[40] Although Colombia, Brazil, and Peru have opened up the hydrocarbon sector for the private sector's involvement, the opposite is occurring in Venezuela, Ecuador, and Mexico in which the government is retaining control jeopardizing the country's position as a primary net exporter and generating a bleak investment outlook.[41]

4. Summary of the Literature

This literature review reveals the most important issues facing China's increasing activities in Latin America. The views vary on China's true ambition in its growing economic power to the dangers and impact of China's expanding trade toward the economic system of developing countries. Over the past decade, studies have been focusing on the political and economic analysis of Chinese policy papers and economic activities. Ellis explains various linkages with political and economic effects across the region

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[39] The new challenge: China in the Western Hemisphere: Hearing before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives, 110th, 2nd, June 11, 2008, iii; Rhys Jenkins, Enrique Dussel Peters, and Mauricio Mesquita Moreira, "The Impact of China on Latin America and the Caribbean," World Development 36, no. 2 (2008): 235–253.

[40] Luisa Palacios, "Latin America as China's Energy Supplier," in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States,* eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings, 2008), 170

[41] Palacios, 170

regarding China but does not provide any economic tables or data in his research.[42] Roett, Paz, and Ellis offer a great overall analysis from an International Relations perspective while Gonzalez, Devlin, and Stallings provide quantitative data from the effects of trade but the data is not current and needs reexamination.[43] The deficiency uncovered in the studies is narrowing the efforts on the impetus behind China's trade and resource and extraction projects. Consequently, the results, conclusions, and recommendations vary regarding China's ambition and the immediate effects on emerging economies.

Additionally, the narratives fail to provide a complete picture of implications from Chinese dealings and growing influence in Latin America. The limitations are the small number of countries China is dealing with because China is, not surprisingly, trading with nations that can favorably contribute to their economic interests. China's fast-growing economy is involved in many countries globally to satisfy its increasing consumption of natural resources. Latin America is the prime destination to fulfill this consumption all while seizing the opportunity to improve its economic position seeking out ways to engage the Chinese market.

5. The Gap in the Research and Perspectives

The focus of this thesis is to determine how have China's economic activities affect Latin America's political and economic development, now that they depend less on the U.S. and its weakened trade deals. Despite extensive research and studies, several questions are still being raised as well as several theories such as the "resource curse" and "dependency theory," which have intensified in academia over the sensitive topic of China's increasing political and economic activities in Latin America.[44] The limitations of

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[42] Ellis, China in Latin America.

[43] Gonzalez, "Latin America in the Economic Equation"; Robert Devlin, "China's Economic Rise in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States,* eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings, 2008); Barbara Stallings, "The U.S.–China–Latin America Triangle: Implications for the Future," in *China's Expansion into the Western Hemisphere: Implications for Latin America and the United States,* eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings, 2008).

[44] Bergsten, Freeman, and Lardy, *China's Rise*, 46; Ellis, *China in Latin America*, 1; Myers and Wise, Introduction, 4, 158.

these theories are limited in scope and require closer examination. China's drive for commodity exports has implications, and this appetite for commodities is raising Latin America's reliance on commodity exports endangering other manufacturing areas in Latin America, causing the "resource curse" like in Venezuela.[45] This relatively new Sino-Latin American relationship has unlocked new markets for resources for both countries in hopes of boosting their economies. To sustain this relationship, China is attempting to offer the "Chinese model" to Latin America since the U.S. focus has shifted and improved its economy and infrastructure through much-needed loans and capital for development. The U.S. government has expressed concern regarding a lack of transparency with China's activities, and how its behavior toward Latin America might change as its national power continues to grow."[46] China's expanding presence in the region is received well by several countries in Latin America that are benefitting from this relationship as an alternative to the United States hegemony.

C. POTENTIAL EXPLANATIONS AND HYPOTHESES

Based on the literature review, two hypotheses are examined as potential explanations regarding China's increased economic activities and their impact on Ecuador and Peru. This thesis postulates that these two hypotheses indicate that China's economic activities have positive and negative effects while impacting Latin America's political and economic development. These hypotheses are worthy of examination:

1. Hypothesis 1: "The Resource Curse"

China's trade impacts on several Latin American countries raise two contentious issues. The first issue is Latin American economies are experiencing the resource curse effect. The other issue for Latin America is the impact of the demand for commodities. Luciano Bolinaga and Ariel Slipak point out the process of "reprimarization" is an

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[45] Bergsten, Freeman, and Lardy, 159; Kevin Gallagher and Roberto Porzecanski, "China Matters: China's Economic Impact in Latin America," *Latin American Research Review* 43, no. 1 (2008): 192–193, 185–200, https://doi.org/10.1353/lar.2008.0012.

[46] Ellis, "Latin America and the Caribbean," 193

important but arduous process from an economic point of view.[47] The hypothesis is that Ecuador and Peru are affected by the resource curse and trade deals with China will create reprimarization and de-industrialization by forcing them to solely focus on their commodities sector and shift away from higher value-added exports.

China is focusing on these countries for their natural resources with capital and loans-for-oil to sustain its economic growth. Chinese investments in Latin America is more prevalent in countries that have substantial resource endowments. Over the past decade, countries such as Ecuador and Peru have seen their value added to their exports fall considerably.[48] Profits from resource exports connect to low levels of economic development due to the redirection of capital away from other primary manufacturing sectors leading to deindustrialization. The increase in capital from natural resources will increase the exchange rate, in turn, negatively affecting the competitiveness in other exporting industries and creating an unbalanced economy, thus revealing the resource curse.

Additionally, the volatility of oil prices can exacerbate the negative effects on the economy further intensifying deindustrialization and create a lack of diversification in other sectors of the economy like technology or manufacturing. Since 2005, China has loaned $56 billion to Venezuela and roughly $11 billion to Ecuador, and in return, China receives oil in addition to repayment of the loans.[49] This has resulted in a disastrous economic development for Venezuela with hyperinflation, mining and oil concessions, and mounting debt resulting in a crisis from the resource curse.[50] These circumstances are creating a reprimarization of the Venezuelan economy, causing the government to return to primary commodities as the main source of export revenues. China has also extended an

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[47] Luciano Bolinaga and Ariel Slipak, "The Beijing Consensus and the Reprimarization of the Productive Structure in Latin America: The Case of Argentina," *Problemas del Desarrollo,* 46, no. 183 (October–December, 2015): 33.

[48] Kotschwar, "China's Economic Influence in Latin America," 217.

[49] China's Advance in Latin America and the Caribbean: Joint Hearing before the Committee on Foreign Affairs and Subcommittee on the Western Hemisphere, 114th Cong., 1st (2015), 2, https://www.hsdl.org/?abstract&did=790919.

[50] Piccone, The Geopolitics of China's Rise in Latin America, 21

$11 billion line of credit to Argentina leading up to the nation's October 2015 presidential elections.[51] Under former President Kirchner, Argentina advanced closer relations with China, while maintaining a rancorous relationship with the U.S. receiving billions in new loan-for-infrastructure agreements, which resulted in years of debt payments.[52] After the 2014 global commodity crisis and mismanagement of funds by Argentina's government, the external shocks has repositioned Argentina's reliance on one agricultural export which has negatively impacted and will continue to impact Argentina's economic growth and long term development.[53] The resource curse plaguing certain countries if not managed correctly can create large amounts of debt and economic deindustrialization as a consequence of China's increased economic activities in Latin America which can affect their political and economic development.

2. Hypothesis 2: "Negative Externalities"

An externality is a positive or negative consequence of third party economic activities. China's economic engagement in Latin America through trade and investments are having negative externalities in other sectors of the economy and society. The hypothesis is that Ecuador and Peru are experiencing negative externalities from trade deals with China, and it is negatively affecting their economic development.

China's mining companies in Peru are violating human rights, labor laws, and environmental pollution from its very lax standards, which are affecting the population and financial sector. One example is the Chinese firm Shougang in Peru, which had the highest number of strikes due to unfair labor practices, days lost over union disputes, and failure to provide a safe working environment.[54] Other similar issues are often overlooked. Other economic externalities are degradation of economic growth resulting from high commodity

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[51] Piccone, 210

[52] Luke Patey, "China Made Mauricio Macri a Deal He Couldn't Refuse," Foreign Policy, January 24, 2017, https://foreignpolicy.com/2017/01/24/china-made-mauricio-macri-a-deal-he-couldnt-refuse/

[53] Patey.

[54] Cynthia Sanborn and Victoria Chonn Ching, "Chinese–Peruvian Relations," in *The Political Economy of China–Latin America Relations in the New Millennium: Brave New World,* eds. Margaret Myers and Carol Wise, (New York: Routledge. 2016), 125.

prices as an outcome from China's increasing demand for commodities. This causes concentration on the commodity sector exposing it to external shocks from commodity price fluctuations. These negative externalities if not managed appropriately, can deteriorate the economy of some Latin American countries. China has been strengthening Argentina's recovery by purchasing the majority of its soybean exports and providing billions of dollars due to Argentina's global financial market credit collapse in 2001, forcing the government into debt default.[55] China has been deepening its power in Argentina with capital and loans in exchange for energy and agricultural resources. However, this can create a negative externality by diminishing the government's ability to shift toward higher value-added sectors such as manufacturing and can worsen Argentina's future economic development. Ecuador and Venezuela are both experiencing this as well. China is playing a dual role in Latin America by becoming by becoming the number one trading partner for countries like Peru and Ecuador and also a critical source for capital, loans, and infrastructure projects however, through flooding of cheap Chinese goods, exposure to fluctuating global commodity prices, it can cause reprimarization and de-industrialization for Latin America.[56] The Sino-Latin America relationship can become lopsided and can create several negative externalities that can affect the political and economic development of these countries.

D. RESEARCH DESIGN

To determine the extent of China's increasing economic activities and the impact in the political and economic development of Latin America, the thesis will incorporate a comparative case study on Peru and Ecuador. By analyzing the Sino-Peruvian and Sino-Ecuadorian relationships, the thesis can focus on how these countries are affected by the resource curse and the creation of negative externalities. A narrow analysis of each country's political economies will allow for a thorough evaluation of the extent of the impact of Chinese activities. Although these countries are merely a fraction of the Latin

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[55] Patey, "China Made Mauricio Macri a Deal He Couldn't Refuse."

[56] Gil Barragán, Juan Manuel, and Andrés Aguilera Castillo, "China and Latin America: Strategic Partners or Competitors?" *Revista EAN* 82 (2017): 90.

American region, it can address similar impacts in other Latin American countries. Ecuador was selected due to its economy being plagued by the resource curse (Oil), which can illustrate the outcomes when proving both hypotheses.

According to OPEC, Ecuador's Crude oil accounts for 58 percent of its exports.[57] As of December 2013, China became Ecuador's principal foreign lender, and Ecuador had contracted more than 9.9 billion to China supporting the government's future oil projects and financing.[58] Some of Ecuador's current environmental problems are deforestation, water contamination, and oil waste pollution in ecologically delicate areas of the Amazon and Galapagos Islands.[59] Peru was selected based on the country's major exports to China, which is copper and other minerals accounting for a total of 34 percent of its exports.[60] Peru also faces similar environmental problems from metals and mineral extraction, including pollution of rivers and coastal waters from mining waste. Both these countries have China as their number one trading partner. If China deepens its relationship with these countries through loans-for-oil and capital investments for infrastructure, coupled with both countries volatile regulatory environmental institutions and fragile judiciary systems, it can have a disastrous effect on the countries future development and the region as a whole.[61]

These comparative case studies and statistical graphs and charts will also illustrate the level of China's increasing FDI, investments, and trade to extract the commodities and resources it needs. The thesis will also look at how China's economic activities in Latin America are creating negative externalities created from trade and how some countries are affected by the resource curse, which impacts their political and economic development. Additionally, exploratory research will be conducted using the Qualitative and Quantitative Research method. The data collected in the qualitative study will consist of an explanation

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57 "Member Countries," OPEC, 2019, https://www.opec.org/opec_web/en/about_us/25.htm

58 "Peru vs. Ecuador," Indexmundi, https://www.indexmundi.com/factbook/peru.ecuador.

59 Indexmundi, "Peru vs. Ecuador."

60 "Peru Exports," Trading Economics, 2019, https://tradingeconomics.com/peru/exports.

61 Indexmundi, "Peru vs. Ecuador."

of the causes and effects of both the independent and dependent variables associated with the problem.

The resource curse will be measured by comparing Ecuador and Peru's economic indicators such as the Gross National Income, Poverty, and Economic inequality indicators along with GDP against other countries in Latin America that do not rely on one commodity export like Colombia to analyze the impact. Furthermore, graphs and charts showing China's oil imports to distinguish the levels between Latin America and other countries; illustrate Ecuador and Peru's commodity exports to China and the loans-for-oil from China.

Negative Externalities will be measured by the effects on the countries of Ecuador and Peru. For example, Peru has a positive externality in copper mining with China, wherein over the last decade, they receive billions of dollars from China for mineral exploration. Mining in various parts of Peru is costly (land issues, pollution, human rights violations), but society benefits in terms of more jobs, modernized equipment, and new infrastructure.

The data collection tools for the study and analysis is based on information derived from primary sources such as government documents, the data, and statistics from the World Bank, Pew Research Center, Latinobarometro, and United Nations statistics. The secondary sources will be books, scholarly journals, peer-reviewed articles, and scholarly reports from the Wilson Center. All this data will be analyzed by synthesizing, categorizing, and organizing the data into patterns that produce a trend or a narrative of the synthesis of the literature. Upon conclusion, the evaluation and analysis of the data will establish the credible sources used to prove the validity of my hypotheses.

E. THESIS OVERVIEW AND DRAFT CHAPTER OUTLINE

China's footprint in Ecuador and Peru has been focused mainly on natural resource extraction in the oil and mining sectors. After analyzing the literature, the main findings have shown that the increasing presence of China in Ecuador and Peru afford short-term economic gains, but negative effects from the growing investments threaten its long-term development. This thesis identifies two major negative effects of China's growing economic activity: 1) it exacerbates the resource curse by increasing commodity reliance and undermining industrialization; and 2) the negative externalities derived from oil and mining extraction projects are destroying the Amazon and plaguing local communities with illnesses. There is a perception these new investments should have a more positive implication because both governments are involved, but this does not seem to be the case due to the lack of government-compliance in oil and metal extraction regulations in Ecuador and Peru. Despite the opposition of many of these projects by local residents, Chinese interest in the area shows no sign of slowing down or diminishing. Ultimately, In Ecuador and Peru, Chinese investment is an attractive option to engage its numerous problems but it comes at a cost of exacerbating the resource curse and creating negative externalities. The thesis concludes with suggestions for maximizing the advantages of China's increasing financial presence while minimizing hazards towards a sustainable economic development.

This examination of the Impact of China's Economic Activities in Latin America is divided into four chapters. Chapter I is on the Sino-Latin American relationship, along with China's growth and its increasing economic activities in Latin America. Chapters II and III will illustrate a comparative case study of Ecuador and Peru and discuss the effects of the resource curse, and the effects of negative externalities and Chapter IV will wrap up the conclusion.

Chapter I: Provides an overview of relationships and foreign policy between China and Latin America, conducted in the introduction and literature review. The data throughout the thesis will be analyzed by making connections to the hypotheses and integrating it with relevant concepts and theoretical framework to prove them. The thesis will show how China's growing presence and the nature of its engagement with Latin America have important economic and political implications in the region.[62] China's intentions are purely economic, and the geographical distance along with a sluggish Latin American economy does not attract its full attention. However, this region remains vital in its long-term political and economic strategy.

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[62] Ellis, "Latin America and the Caribbean," 206.

Additionally, it will concentrate on the areas of China's policy directions and areas of economic engagement in Latin America. It will capture the expansion of China's activities in the region and explore how China is targeting specific Latin American countries that are rich in commodities in exchange for capital and infrastructure projects they much desire. The data collected in the qualitative study will first focus on China's economic policy with Latin America and its dollar diplomacy. China's economic activities in Latin America is the independent variable, and the Latin American countries economy affected by the increase in economic activities are the dependent variables associated with the problem. The explanation of the dependent variable will be the object of this research, and the study will show the contrasts between the independent and dependent variables.[63]

Chapters II–III: These chapters will illustrate a comparative case study of Ecuador and Peru to explain how the resource curse plagues these countries and how China is increasing trade and capital to extract the commodities and resources it needs. It will focus on Foreign Direct Investment, macroeconomic trends, and the impact of China's effect on its future development. The data collected in this quantitative study will focus on the short and long-term effects from China's increasing investments to extract commodities and resources. Other major examples include China joint venture in Peru in mining through a Peru-China Free Trade Agreement in 2009 for extraction of precious metals.

Additionally, China took over Ecuador's oil through perplexing Chinese deals and the impact this will have on these countries future development. As the global prices of commodities are shrinking in conjunction with the leveling of China's financial growth, the effects of these agreements will be captured along with future trends of economic decline in Latin America. It will explain how these Latin American countries looking to increase economic growth find China very attractive and are willing to take risks in a trade that is sometimes not beneficial for them. It will explain how China is primarily looking out for its own best interest while Latin America endures the resource curse and economic stagnation.

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63 Chava Frankfort-Nachmias and Anna Leon-Guerrero, *Social Statistics for a Diverse Society,* 2nd ed. (Thousand Oaks, CA: Sage Publications, 2000), 9–10.

These chapters will also focus on the effects of negative externalities in Latin American countries from Chinese engagements. It will range from environmental and legal issues to domestic market declines in Latin America stemming from threats of Chinese goods and competition. It will explain how these negative externalities affect Latin America's economic development and how it results in market inefficiencies. It will illustrate the effects on the primary sectors of Latin America's economy. Lastly, it will demonstrate how these deals with China can create reprimarization and de-industrialization and shift away from higher value-added exports.

Chapter IV: The thesis will conclude by answering the main research question and proving the hypotheses. Furthermore, the research findings of this study will conclude and provide recommendations for future research and topic exploration. This thesis will reveal that China is offering an alternative model for trade other than that of the United States that will have varying effects resulting in both positive and negative implications for Latin America and its ongoing political and economic development.

II. A CASE STUDY: SINO-PERUVIAN TRADE RELATIONS AND IMPACT

During the period after September 2001, Peruvian-U.S. relations declined, and Beijing quickly established the Sino-Peruvian relationship. This chapter analyzes the various Chinese capital investments in Peru and the increased extraction of precious minerals and metals by Chinese companies in Peru since 2003. It then argues that Chinese business dealings with Peru for these resources are exacerbating Peru's resource curse, displacing the indigenous people, escalating social tensions, and creating poor working conditions, poverty, and inequality. Moreover, Chinese mega-projects, including mining, are creating negative environmental externalities in the form of deforestation, and water and air pollution, which affect the biodiversity in the Amazon. After analyzing these effects and conditions, this chapter finally argues that although Chinese investment has provided Peru significant short-term benefits economically, Peru will face long-term consequences to its industrial sector that may outweigh the short-term gains.

A. SINO-PERUVIAN POLITICAL AND ECONOMIC RELATIONS

Peru's leaders viewed China's President Xi Jinping as the most influential leader and the greatest champion of economic openness and free trade, surpassing the United States.[64] In 2016, China's soft power actions aimed at the regional level were particularly significant, from the Year of Cultural Exchange to various cooperation and exchange programs.[65] Following the collapse of the Washington Consensus, Peru's economic growth stagnated, and then dropped from 6 percent to under 2.4 percent throughout the late 1990s.[66] After 2001, the Peruvian economy started to stabilize through exports of natural

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[64] Juan Pablo Cardenal et al., "Sharp Power: Rising Authoritarian Influence," *International Forum for Democratic Studies* (2017): 81

[65] Cardenal et al., 82

[66] Kevin Gallagher, "Why Latin America Should Not Squander the China Boom," BBC News, January 27, 2015, https://www.bbc.com/news/world-latin-america-30982544 25.

resources.[67] The global price of metal and mineral commodities increased by roughly 78 percent between 2003 and 2007.[68] This increase corresponded with China's growing demands for natural resources, fostering Peru's economic growth. As a result of this growth, Peru had become one of the most positive stories in Latin America, achieving sustainable economic growth, reducing poverty, and creating a new and growing middle class. According to the World Bank, from 2004 to 2015, poverty in Peru sharply declined 1.4 percentage points for each point increase in GDP growth. Additionally, the poverty rate of 9.3 million Peruvians reduced by more than half, with extreme poverty falling from 16 percent to 4 percent.[69] Furthermore, over this period, the economic inequality gap shrunk by 12.6 percent, with the middle class growing by 18 percent.[70]

This remarkable increase in economic growth occurred because Peru opened its economy to China, which was rapidly consuming natural resources such as metals and minerals.[71] Approximately 60 percent of all Peruvian exports including 25 percent of FDI and 15 percent of tax revenues is achieved by these resources including copper, silver, ore, and other raw materials.[72] In 2004, Peru's recognition of China as a market economy fostered a robust economic relationship between the two, skyrocketing Peru's commodities trade upwards of US$1.75 billion.[73] In January 2005, the vice president of China, Zeng Qinghong, visited Peru and appeared in the "first inaugural ceremony of the ministerial-level meeting of the China-Caribbean Economy and Trade Cooperation Forum" to further

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[67] Maureen Taft-Morales, "Peru in Brief: Political and Economic Conditions and Relations with the United States" CRS Report No. R42523 (Washington, DC: Congressional Research Service, 2012), 1.

[68] World Bank, Global Economic Prospects 2009: Commodities at the Crossroads (Washington, DC: World Bank, 2009).

[69] "Peru Systematic Country Diagnostic," World Bank, 2017, https://openknowledge.worldbank.org/handle/10986/26376.

[70] World Bank.

[71] Gallagher, The China Triangle, 2

[72] Cynthia Sanborn, Yong Manrique, and Alexis Siwaig, "Peru's Economic Boom and the Asian Connection," (document discussion, Washington, DC: Woodrow Wilson Center for Scholars, 2013), 3

[73] Christopher J. Robertson et al., "A Cross-Cultural Comparison of Ethical Orientations and Willingness to Sacrifice Ethical Standards: China versus Peru," *Journal of Business Ethics* 81, no. 2 (2008): 413–25. http://www.jstor.org.libproxy.nps.edu/stable/25482223.

increase trade relations.[74] In 2009, China established a bilateral Free Trade Agreement (FTA) with Peru and surpassed the United States as Peru's top trading partner.[75] By 2015, the FTA allowed roughly "170 Peru-based Chinese companies to invest US$14 billion, while bilateral trade reached US$16 billion."[76] According to Roett and Paz, Peru opened up its domestic markets to China in exchange for guaranteed Chinese investments in infrastructure, and China welcomed Peruvian imports.[77] As of 2018, illustrated in Figure 1, China had become Peru's primary market for exports, generating US$1.434 billion. This figure is in stark contrast to Peruvian exports to the United States, which totaled only US$7.73 million, as shown in Figure 2.[78]

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[74] Challenge or Opportunity? China's Role in Latin America: Hearing before the Subcommittee on Western Hemisphere, Peace Corps, and Narcotics Affairs of the Committee on Foreign Relations, United States Senate, 109th Cong. 1, 20005), http://purl.access.gpo.gov/GPO/LPS71784; China's Influence in the Western Hemisphere - State (statement of Roger F. Noriega, Assistant Secretary for Western Hemisphere Affairs), https://2001-2009.state.gov/p/wha/rls/rm/2005/q2/44375.htm.

[75] "China-Peru Free Trade Agreement," China,org.cn, accessed January 12, 2019, http://www.china.org.cn/business/node_7233287.htm#a10.

[76] Cardenal et al., "Sharp Power," 67.

[77] Gonzalez, "Latin America," 154.

[78] Xinhua, "China Becomes Largest Importer of Peru in 2017," China Daily, last modified February 8, 2018, http://www.chinadaily.com.cn/a/201802/08/WS5a7bc3d2a3106e7dcc13b8bc.html; "Peru Exports to China," Trading Economics, accessed https://tradingeconomics.com/peru/exports/china. Accessed on 12 January 2019.

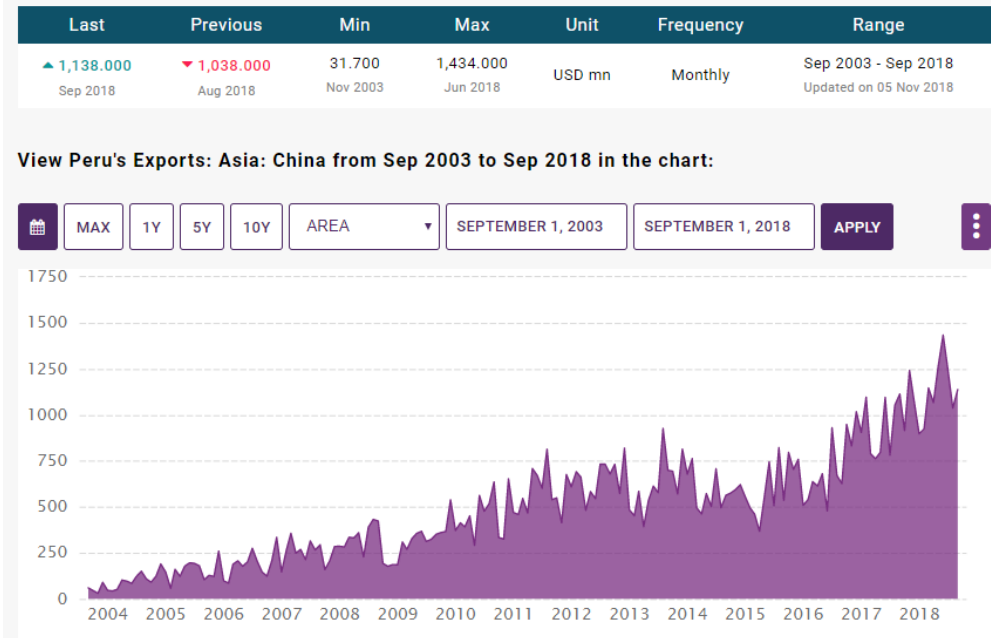

Figure 1. Peru—Total Exports to China ($ of total exports)[79]

[79] Source: "Peru Exports: Asia: China," CEIC, accessed January 12, 2019, https://www.ceicdata.com/en/peru/exports-by-country-ministry-of-foreign-trade-and-tourism/exports-asia-china.

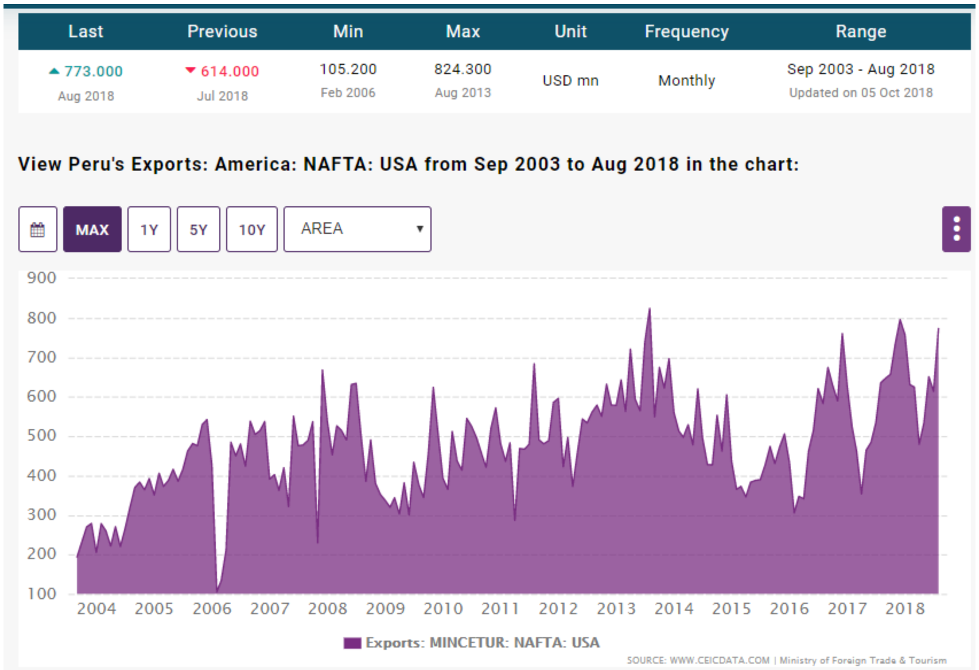

Figure 2. Peru—Total Exports to the U.S. ($ of total exports)[80]

B. CHINA'S CAPITAL INVESTMENTS AND LOANS FOR METALS AND MINERALS

After signing the 2009 Sino-Peruvian FTA, China expanded into Peruvian markets in energy, telecommunications, machinery, agriculture, construction, and commerce.[81] The Chinese National Petroleum Company also purchased Peru's holding of Petrobras, the Brazilian oil giant, diverting over 40 percent of hydrocarbon to Chinese companies.[82] However, just as in Ecuador, China's primary focus has been the extraction of metals and minerals, particularly iron and copper. China requires these metals to proliferate the expansion of Chinese housing and industrial factories. As Latin America's top producer

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[80] Source: "Peru Exports: America: NAFTA: USA," CEIC, accessed January 12, 2019, ,https://www.ceicdata.com/en/peru/exports-by-country-ministry-of-foreign-trade-and-tourism/exports-america-nafta-usa.

[81] Sanborn and Ching, "Chinese–Peruvian Relations," 117.

[82] Sanborn and Ching, 117.

of gold, silver, and ore, in addition to being the world's biggest manufacturer of copper and zinc, Peru has attracted significant Chinese direct investment in mining activities.[83]

The 2009 Sino-Peruvian FTA has also allowed China to acquire more access to and management over the extraction of these resources through joint Sino-Peruvian mining ventures.[84] Chinese management allows for faster transportation of resources back to China, incurring as little interference as possible from the government in Peru. In 2011, to further facilitate Chinese management of investments in Peru, representatives of major Chinese state-owned oil and mining companies (the China National Petroleum Company, Shougang, Chinalco, and Minmetals) created the Association of Chinese Enterprises. This association consisted of a panel of 43 members responsible for overseeing and protecting Chinese interests and investments in Peru.[85]

Since 2004, major Sino-Peruvian companies have been responsible for 74 percent of copper production in Peru, and the country's 30 percent tax on metal and mineral revenues has been a critical resource for the economy.[86] In 2017, exports of these natural resources from Peru grew 25 percent from the previous year due to increases in the demand from China and the rest of Asia. As a result, Peru saw a rebound in commodity prices in which the average costs of iron ore and copper rose by 77 percent and 25 percent, respectively, from 2016.[87] Since 2009, Chinese investment has increased to roughly US$57 billion across 50 projects in the Peruvian mining sector.[88] Figure 3 shows the major Chinese companies and the primary projects worth millions of dollars.

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83 Abdenur, "Skirting or Courting Controversy," 192185, http://hdl.handle.net/10419/178420; "Peru-Mining and Minerals," export.gov, November 7, 2018, https//www.export.gov/article?id=Peru-Mining-Minerals.

84 Sanborn and Ching, "Chinese–Peruvian Relations," 117.

85 Cynthia A. Sanborn and Alexis Yong, "Peru's Economic Boom and the Asian Connection," in *Reaching Across the Pacific: Latin America and Asia in the New Century,* eds. Cynthia J. Arnson, Jorge Heine, and Christine Zaino (Washington, DC: Wilson Center, 2014), 64–65

86 Kevin P. Gallagher and Roberto Porzecanski, "China and the Latin America Commodities Boom: A Critical Assessment" (working paper series 192, PERI, 2009), 24

87 Giordano, Michalczewsky, and Martínez, *Trade Trend Estimates.*

88 Ben Laidler, et al., "South-South Special-What a Globalizing China Means for LatAm" (report, HSBC Global Research, 2013), 19.

Sector	Project	Chinese Company	Investment[a] (millions of dollars)	Comments
MINING	Las Bambas[b]	China MinMetals Corporation	5,850	Aproximate ammount paid to Glencore Xstrata
	Toromocho[c]	Chinalco Peru (Chinalco)	4,820	Started up on December 2013
	El Galeno	China MinMetalsCorporation[d] Jiangxi CopperCompany Ltd[e]	2,500	Possibly completed in 2014–15 China MinMetals Corporation (60 percent),
	Extension of Marcona mine[f]	ShougangHierro Peru (Shougang Corporation)	1,200	In progress
	Pampa de Pongo[g]	Nanjinzhao Group	3,005	Investment over 2010–14 Plans to invest US$ 1.5 billion plant by 2016
	Rio Blanco	Zijing Mining Group[h] Tongling Nonferrous[i] Xiamen C&D[j] (former Monterrico Metals y Majaz)	1,500	Investment over 2009–14 Zijing Mining Group(45 percent) Tongling Nonferrous (35 percent) Xiamen C&D (20 percent)
	Mina Justa[k]	CST MiningGroupLimited	N.A.	Until 2012; afterward, sold their participation (70 percent) to CumbresAndinas
	Cercana project (Yarabamba, Arequipa)[l]	JunefieldGroup	To be defined	Exploration
	Llama TY01 (Huancano, Ica)[m]	JintongMining	To be defined	Exploration
	Marcobre	China SciTech[n]	N.A.	Exploration
		Shandong Exploration[o]	N.A.	Exploration
		Anhui Exploration[p]	N.A.	Exploration
		Hebei Exploration[q]	N.A.	Exploration

Figure 3. Current and Announced Investments from Chinese Companies[89]

C. RESOURCE CURSE

Over the past decade, China's increasing demand for minerals and energy has provided Peru with excellent opportunities to attract new investments. As a result, Peru is one of Latin America's most engaged countries with China. Although economic relations with China have conferred benefits on Peru, the international demand for resources raised Peruvian concerns regarding the so-called "resource curse," the jeopardy of the Peruvian export economy coming to be excessively reliant on commodity exports, and fundamental challenges to the development of a more diverse and productive economy.

1. Peru's Export Dependency on China

To sustain China's increasing economic progression, the stability of non-renewable resources is crucial. But Peru, like China, requires similar non-renewable resources to sustain its growing economy in the short and long-term. During the short term, Peru will

[89] Source: Sanborn and Yong, "Peru's Economic Boom and the Asian Connection," 84.

receive benefits from non-renewable export resources. However, the depletion of these resources impede the long-term interests of modernization and future goals which conflicts with short-term benefits, creating a dilemma for Peru. Therefore, it is essential to pursue rational resource exportation and consider the long-term perspective of these commodities instead of bolstering China's surging economy.

For example, when China was actively purchasing Peruvian metals like copper in 2017, Peru's export rate grew by 25 percent.[90] However, in the first quarter of 2018, Table 1 illustrates the export growth declined down to -2.4 percent, due to China's reduced demand for copper.[91] China's increase or decrease in demand for metals and minerals affects Peru's export growth rate, which affects the overall economy and exacerbates the resource curse.

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[90] Giordano, Michalczewsky, and Martínez, *Trade Trend Estimates,* 23

[91] Giordano, Michalczewsky, and Martínez, 5

Table 1. Growth of Latin American and Caribbean Exports by Selected Destinations[92]

TABLE 1 • GROWTH OF LATIN AMERICAN AND CARIBBEAN EXPORTS BY SELECTED DESTINATIONS
(Annual growth rate, percentage, 2017 and 1Q 2018)

	1Q 2018 vs 1Q 2017							2017 vs 2016
Exporting Group/ Member	Subregion	Latin America and the Caribbean	United States	Asia (excl. China)	China	European Union	World Total	World Total
SOUTH AMERICA	**15.2**	**18.0**	**3.6**	**5.1**	**16.0**	**19.5**	↓ **10.4**	**14.9**
Argentina	19.4	19.1	18.9	5.5	23.2	4.7	↑ 12.9	0.9
Bolivia	23.8	23.4	−12.0	33.2	−16.5	43.3	↑ 21.9	10.7
Brazil	14.9	13.3	7.0	−17.0	2.4	37.4	↓ 7.8	17.6
Chile	−0.4	0.3	25.0	20.4	53.1	11.2	↑ 24.3	14.0
Colombia	30.7	54.6	8.1	−24.8	19.1	−14.0	↓ 13.9	18.9
Ecuador	18.7	30.6	−18.6	22.7	109.5	4.5	↓ 7.8	13.8
Paraguay	31.2	27.9	−38.5	−59.5	27.8	−68.7	↓ −6.7	2.1
Peru	10.5	11.3	28.7	31.9	−2.4	20.9	↓ 10.4	21.5
Uruguay	−8.5	−3.2	17.5	−5.9	63.0	14.6	↑ 16.1	12.7
Venezuela	−49.7	−26.3	−31.9	28.6	17.7	−39.1	↓ −7.8	21.7
MESOAMERICA	**5.6**	**11.2**	**8.5**	**15.1**	**13.8**	**33.0**	↑ **10.8**	**9.1**
Mexico	0.7	15.2	8.7	16.0	−1.8	38.2	↑ 11.5	9.5
Central America	**5.9**	**5.4**	**4.5**	**8.9**	**231.7**	**12.2**	↓ **4.8**	**5.8**
Costa Rica	7.8	6.3	3.5	13.4	99.1	10.0	→ 7.5	7.0
El Salvador	7.3	7.6	0.7	−61.6	1887.7	−25.9	↓ 3.1	6.3
Guatemala	3.3	4.9	12.7	−63.9	56.6	2.5	↓ 0.3	5.1
Honduras	12.8	14.4	−4.8	51.1	41.7	4.9	↓ 4.1	9.3
Nicaragua	30.4	1.6	0.3	82.1	n.a.	92.1	→ 7.1	7.2
Panama	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	↑ 9.1	3.8
Dominican Republic	−12.4	−3.0	6.6	49.4	−36.7	22.3	↑ 6.8	1.0
CARIBBEAN	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**5.3**
Bahamas	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	39.2
Barbados	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0
Belize	−19.8	−0.2	−26.1	n.a.	n.a.	−23.5	↓ −19.0	10.9
Guyana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25.6
Haiti	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.4
Jamaica	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	↑ 17.6	9.0
Suriname	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	45.4
Trinidad and Tobago	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	−7.0
LATIN AMERICA	**16.6**	**16.3**	**7.6**	**6.9**	**15.8**	**23.4**	↓ **10.6**	**12.0**
LATIN AMERICA AND THE CARIBBEAN	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	↓ **10.6**	**11.9**

Source: IDB Integration and Trade Sector with data from official national sources, except for the figures for Venezuela, which were estimated with data from the OPEC and the IMF.

Note: The table does not include the growth rates or absolute changes of non-selected destinations. Thus, the sum of absolute changes does not match the total. Data for Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua include exports under special trade regimes (STR), except for 1Q 2018 data for Honduras. For individual Central American countries, the subregion corresponds to Mesoamerica, whereas for Central America, Mexico is excluded and the subregion includes only intra-Central America trade. See Methodological Note for additional information on the procedures, time periods, and data sources used in the estimates. n.a. means data not available. The arrows show the variation with respect to the previous year.

2. Non-diversification of Peru's Export Sector

The economy in Peru depends heavily on its vast mineral resources, and its mining industry is the principal driving force for growth. China's ability to increase and decrease demand for Peruvian commodities makes Peru's economy vulnerable to external shocks. Due to the resource curse, Peru faces the challenge of diversifying its economy, ensuring

[92] Source: Giordano, Michalczewsky, and Martínez, 5

inclusive economic growth and sustaining years of poverty decline as China's and the world's commodities demand falls.[93]

Approximately 26 percent of Peru's total exports are to China, which creates an ongoing problem of a lack of diversification in its economy, exposing the country to external shocks and causing deindustrialization in other sectors of its economy.[94] Peru has been unsuccessful in diversifying its export sectors even though it has tremendously boosted its commodity transactions to China, creating an asymmetrical trade deal because China only buys small quantities of value-added manufactured goods from Peru.[95] Gallagher argues that "countries overly dependent on commodities have been shown to deindustrialize because discoveries of such resources and their subsequent export raise the value of a nation's currency and make manufactured and agricultural goods as well as services less competitive."[96] As a result, imports will be increased, and exports decreased, creating problems with the balance of payments heading toward a horrendous effect of Peru's economy. Ultimately, this increased trade with China creates a negative effect due to the vulnerability of Peru's domestic market to the external shocks from China's penetration of imports, as illustrated in Figure 4. This influx of cheap Chinese goods into the domestic market has generated frustration and discontent among the local populace in the weak textile sector, which promotes deindustrialization.[97]

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93 "Peru Seeks to Maintain Growth as Demand for Commodities Falls," Oxford Business Group, accessed, March 9, 2019, https://oxfordbusinessgroup.com/overview/balancing-act-ensuring-inclusive-growth-amid-falling-demand-commodities-peru%E2%80%99s-main-challenge.

94 Arnson and Davidow, China, Latin America, and the United States, 4

95 Carol Wise and Victoria Chonn Ching, "Conceptualizing China–Latin America Relations in the Twenty-First Century: The Boom, the Bust, and the Aftermath," *The Pacific Review* 31 no 5. (2018): 556, https://doi.org/10.1080/09512748.2017.1408675.

96 Gallagher and Porzecanski. *The Dragon in the Room*, 4.

97 Javier Ernesto Ramírez Bullón, and Lizeth Vanessa Ayala Castiblanco, "China's Importance in the Foreign Policy of Colombia and Peru: A Comparative Perspective," paper prepared for ISA's 58th Annual Conference Baltimore, February 22–25, 2017, Baltimore, MD, 32.

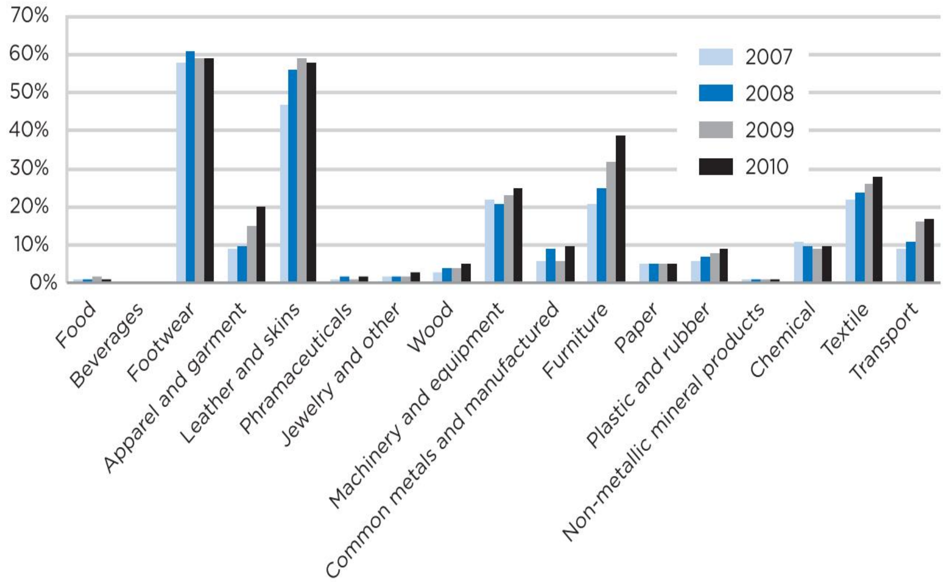

Figure 4. Penetration of Imports from China into the Peruvian Market, by Sector[98]

3. Subnational Resource Curse

Another issue related to the resource curse is Peru's internal domestic effects from resource extraction and the question of whether a corresponding "subnational resource curse" is present, which is defined by researchers from the U.S. Natural Resource Governance Institute as an "overall net negative economic impact in resource-producing regions."[99] Typically, citizens expect significant local impacts because the primary source of national advantages is profits, which accrue from taxes utilized by the central government.[100] Since 2003, the Peruvian government has reallocated roughly 50 percent of all revenues from mining companies income taxes to local district and county officials

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[98] Source: Sanborn and Yong, "Peru's Economic Boom and the Asian Connection," 72.

[99] Jim Cust and Claudia Viale, *Is There Evidence for a Subnational Resource Curse* (New York: National Resource Governance Institute, 2016), 1.

[100] Cust and Viale, 2

in which the mining industry operates.[101] The income tax money is known as the "mining canon," denoting that huge revenue flow down to the hands of mayors and council members to devote toward needed infrastructure and services in underprivileged indigenous communities.[102] While success stories were reported in areas such as Moquega and Arequipa, regions like Cajamarca and Huancavelica also have a little positive impact on these income streams due to the inability of regional and local government to implement these resources.[103] At the same time, the mining industry has generated high environmental and social costs like expropriation/displacement of indigenous people, poor working conditions, poverty, inequality, and social tensions, indicating a "subnational resource curse."[104]

D. NEGATIVE EXTERNALITIES

An externality is a positive or negative consequence of third party economic activities. Peru has a positive externality in metal and mineral extraction with China, wherein over the last decade, they received roughly US$12 billion from China for mining investments.[105] The negative externality is created by dangerous waste spillages, which crushed the landscape, contaminated environments and seriously affected the wellbeing and prosperity of local communities. The negative externalities have also created severe environmental problems stemming from mining, water and air pollution on the biodiversity in the Amazon, and human rights and labor abuses. Furthermore, China is the foremost producer of carbon emissions globally contributing to air pollution, raising a political conflict with the government of Peru over the extraction of copper and minerals.[106]

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[101] Cynthia Sanborn and Victoria Chonn Ching, *Chinese Investment in Peru's Mining Industry: Blessing or Curse?* (London: Anthem Press, 2017), 22.

[102] Sanborn and Ching, Chinese Investment in Peru's Mining Industry, 22,

[103] Javier Arellano-Yanguas, *Minería sin fronteras? Conflicto y desarrollo en regiones mineras del* (Perú, Lima: IEP, 2011); Sanborn and Ching, 22; Juan Arellano, "Problems of the Mining Industry in Peru," Future Challenges, accessed March 9, 2019, https://futurechallenges.org/local/the-problems-of-the-mining-industry-in-peru/.

[104] Arellano-Yanguas 22; Arellano.

[105] Sanborn and Ching, 10

[106] Arnson and Davidow, China, Latin America, and the United States, 5

1. Human Rights and Labor Abuses

Chinese mining activities in Peru have also resulted in negative externalities such as human rights and labor abuses. Minmetals, another Chinese company has encountered local resistance in one of its large developments in Las Bambas, a copper mine in Peru's central highlands. On 30 September 2015, the Las Bambas mining project suffered an explosion, and due to the lack of safety measures in place, it resulted in four deaths and 15 injured and faced repeated protests from the local Peruvian community due to the lack of accountability by the Peruvian government *(Peruvian Times,* 2016).[107] In November 2018, a report titled "China: Human Right Violations in the Name of National Security" was published by Amnesty International.[108] The report states that, since 2015, Las Bambas, the largest mining project in the Apurímac area carries 370 mineral and chemical trucks daily, which have been contaminating 18 rural communities along the route resulting in adverse health consequences for the people.[109] Chinese Company Chinalco, which is in charge of Junín's Toromocho project, has moved the Morococha population to an unhygienic, contaminated, seismic area resulting in heavy sickness of the local people, especially kids.[110]

The "Shougang Corporation's purchase of Hierro Perú in Marcona was the first mining privatization to occur under former Peruvian president Alberto Fujimori's new neoliberal regime."[111] An investigation by the Peruvian government for corruption brought clashes between governmental institutions and labor unions which revealed the Shougang corporation brought in hundreds of Chinese workers to replace the Peruvian workers and took over water and sanitation plants which were supplying the local communities.[112] Additionally, Shougang paid low wages of US$14 per day with long

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107 Abdenur, "Skirting or Courting Controversy?," 186

108 Julieta Pelcastre, "China Violates Human Rights in Peru," Dialogo, February 7, 2018, https://dialogo-americas.com/en/articles/china-violates-human-rights-peru.

109 Pelcastre.

110 Pelcastre.

111 Arnson and Davidow, China, Latin America, and the United States, 27

112 Arnson and Davidow*,* 27

working hours, while the average worker should be receiving roughly US$30 per day.[113] A number of Chinese mining companies have transferred up to 80 percent of the work force independent workers and freelancers to avoid legal liabilities and continue payment of low wages.[114] Former Vice Minister of Environment, Jose de Echave argues that "intermediaries and contractors and lack of safety measures" are key contributors to the decline of quality mining services.[115] These independent workers receive half the wages of an average employee, with zero benefits or future employment guarantee.

2. Chinese Companies and Environmental Issues

In addition to the resource curse and Chinese trade limiting Peru's economic diversification, Chinese mining companies received harsh criticism by International Organizations and NGOs such as Comité Académico Técnico de Asesoramiento a Problemas Ambientales and Oxfam America for harmful environmental effects in the local communities like Cajamarca and Marcona.

a. Pollution

These Chinese mining companies experienced violent protests after rising pollution affected the local water supply in Cajamarca, one of the poorest cities of Peru.[116] In 2012, when global commodity prices declined, China pushed to increase mineral production in Peru but faced stiff pushback from the local populace and local government for not adhering to social (expropriation, inequality) and environmental regulations.[117] Furthermore, in 2014, the Aluminum Corporation of China (Chinalco), had to suspend its operations in the Toromocho mine, the largest copper plant in central Peru[118] after an inspection by the Organismo de Evaluación y Fiscalización Ambiental expressed concerns

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[113] Amos Irwin and Kevin P. Gallagher, "Chinese Mining in Latin America: A Comparative Perspective," *The Journal of Environment & Development* 22, no. 2 (2013): 219.

[114] Irwin and Gallagher, 220.

[115] Irwin and Gallagher, 220.

[116] Bullón and Castiblanco, China's Importance in The Foreign Policy of Colombia and Peru, 30.

[117] Myers and Wise, Introduction, 13.

[118] Abdenur, "Skirting or Courting Controversy?" 186.

over the company's illegal dumping of waste into nearby lakes, which was endangering local communities.[119] Further negative externalities in the region are evidenced by the closure of the Minera Chinalco Peru, a subsidiary of Chinalco, after the contamination of lakes Huacrococha and Huascacocha in Tomorocho.[120]

b. Indigenous Community Issues

In addition to environmental and human rights violations, expropriations of indigenous land have been rising by the Peruvian government based on Chinese mining agreements. Conflicts between Chinese businesses and indigenous people have increased over land appropriation and the pollution of the environment. Figure 5 shows the locations of the indigenous communities and new Chinese mines established by the government of Peru in addition to the original mines represented in Figure 6. Therefore, the additional locations of these mines are creating more problems in many of the highest populated areas where indigenous people reside, in which mining, oil exploration, and extensive agricultural activities often compel forest clearance and water pollution.[121] These horrid conditions are negatively affecting the indigenous people and the biodiversity of the region.

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[119] Abendur, 186.

[120] Bonilla Soria, Adrián, and Paz Milet, eds., *Latin America, the Caribbean and China: Sub-regional strategic scenarios* (San José Costa Rica: FLASCO, Ingenium Studio, 2015); "Chinalco Peru Business Unaffected by Plant Closure," Global Times, March 31, 2017, http://www.globaltimes.cn/content/851954.shtml.

[121] Gallagher, "Why Latin America Should Not Squander the China Boom."

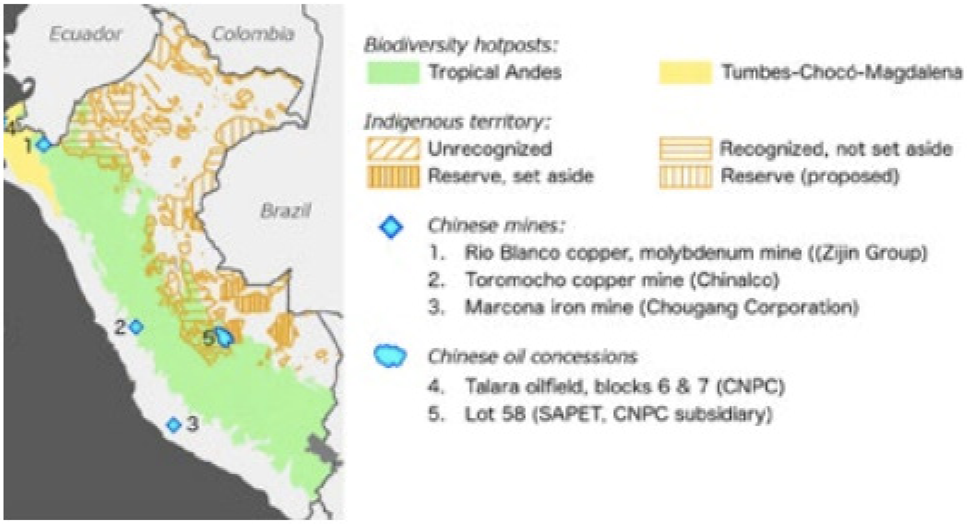

Figure 5. Map of Chinese Mines and Locations of Indigenous Communities (2015)[122]

[122] Source: Andrew Miller, "Oil in the Peruvian Amazon: A 2015 Panorama," Amazon Watch, February 6, 2015, https://amazonwatch.org/news/2015/0206-oil-in-the-peruvian-amazon-a-2015-panorama.

Figure 6. Map of Chinese Mines (2012)[123]

c. Biodiversity Issues and Endangerment of Wildlife

Since 1999, both Chinese and local companies in the Peruvian Amazonia continue to prey on biodiversity resources, mainly based on the extraction of gold.[124] Although many areas of the Peruvian Amazon are still remote, the area still faces serious environmental challenges, such as the pollution of water with mercury from gold mining, particularly by rivers near large settlements in the city of Iquitos.[125] In 2002, the government of Peru finally signed a national agreement explicitly calling for the conservation and promotion of biodiversity as a national priority.[126] This ecological crisis in Peru is part of a global epidemic that is generating a great deal of concern and debate worldwide on environmental problems, in particular, habitat devastation and the inevitable

[123] Source: Ruben Gonzalez-Vicente, "Mapping Chinese Mining Investment in Latin America: Politics Or Market?," *The China Quarterly* 209 (2012): 35–58.

[124] S. Juvonen and Hernán Tello Fernández, "Important Advances in Biodiversity Conservation in Peruvian Amazonia," *Lyonia* 6, no. 1 (2004): 27

[125] Juvonen and Fernández, 27.

[126] Juvonen and Fernández, 27.

loss of species.[127] Chinese demand for and involvement in mining for metals and minerals, has exacerbated the already significant environmental impacts. The link between mining and biodiversity is complex and interacts on multiple scales where various mining methods create different threats to biodiversity. Figure 7 indicates the serious risk created by the significant Chinese investments in the highly biodiverse areas and indigenous territories, which is endangering the four species groups shown here (mammals, birds, amphibians, and plants).[128] The majority of Peru's deforestation is caused by Chinese companies' extraction of metals, minerals, and increases biodiversity risks.[129] One major problem the indigenous communities are facing is deforestation of their homelands. In 2017, as Figure 8 illustrates, there was an estimated loss of 354,410 acres (143,425 hectares) of forest across Peru.[130] The deforestation is contributing to the destruction of the ecosystem in the Amazon. Ultimately, Peru's weak environmental governance is vulnerable to corruption and conflict, and its inability to hold Chinese companies accountable further compounds these threatening processes.[131]

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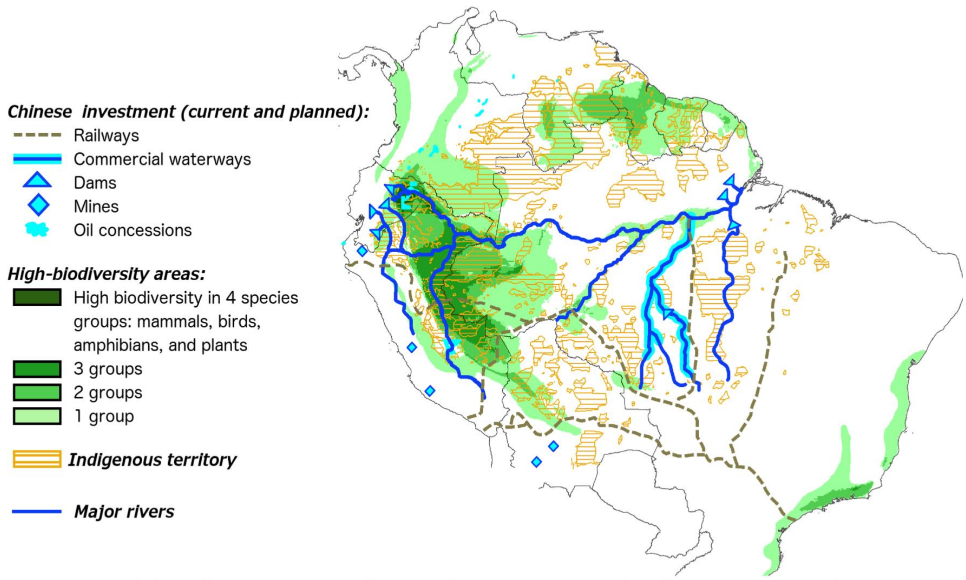
[127] Juvonen and Fernández, 27.

[128] Rebecca Ray, Kevin P. Gallagher, Andres Lopez, and Cynthia Sanborn, "China in Latin America: Lessons for South-South Cooperation and Sustainable Development (discussion paper, Boston University, Global Economic Governance Initiative, 2015), 12

[129] World Bank, "Peru Systematic Country Diagnostic."

[130]"MAAP #78: Deforestation Hotspots in the Peruvian Amazon," Amazon Conservation, 2017 https://maaproject.org/2018/hotspots-peru2017/.

[131] Sanborn and Ching, Chinese Investment in Peru's Mining Industry, 38



Source: Ray et al. (2015). Note: Mines and some oil concessions are already in operation. Railway locations are approximate, as most plans are not yet final. High biodiversity is defined as the top 6.4% of South American land area for species richness. Indigenous territory includes lands with and without official state recognition.

Figure 7. High Biodiversity Areas, Indigenous Territory, and Chinese Investment[132]

132 Source: Ray and Gallagher, "A Line in the Equatorial Forest," 14.

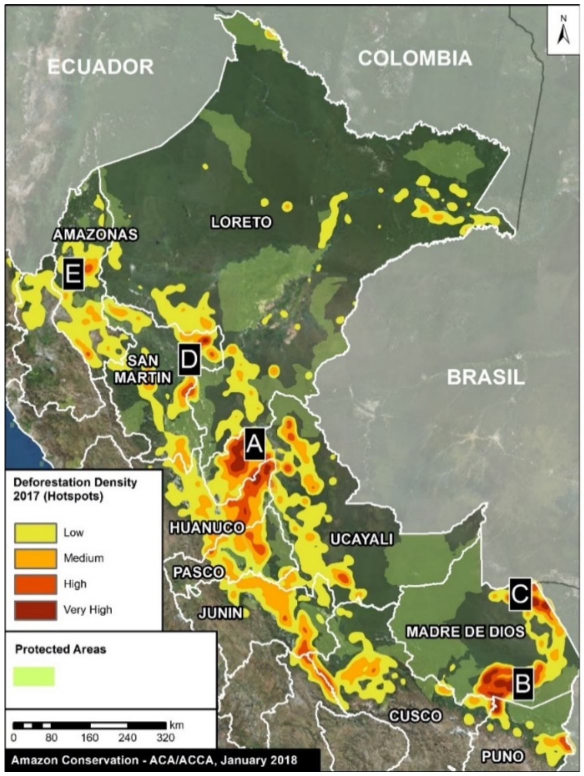


Figure 8. The Most Intense Hotspots (Areas with the Highest Density of Forest Loss) of Deforestation[133]

E. CONCLUSION

Peru is an attractive location for mining ventures, as it possesses vast metal and mineral reserves, including large, undiscovered deposits of copper, gold, silver, zinc, tin, and lead. This wealth of metal and mineral resources has attracted Chinese companies to meet China's increasing demand. Chinese trade and investments in primary commodities have led to a rise in prices, and due to the resource curse, it has made manufacturing industries in Peru less competitive globally.[134] When commodity prices rose, Peru's domestic market suffered, and textiles, footwear, and leather lost significant market share in regional markets. As resource dependent countries do not strongly develop, because of the resources curse based on Chinese trade and investments affects the country's domestic

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[133] Source: Amazon Conservation, "MAAP #78: Deforestation Hotspots in the Peruvian Amazon."

[134] Gallagher, "Why Latin America Should Not Squander the China Boom."

economy. Sachs and Warner have argued that “Nations overly dependent on commodities have been shown to de-industrialize because discoveries of such resources raise the value of a nation's currency and make manufactured and agricultural goods as well as services less competitive, eventually increasing imports, decreasing exports, creating balance of payments problems, and leading to poor economic performance.”[135]

China’s trade impact on Peru is having severe implications for Peru’s economy. Peru recognizes both positive and negative effects of Chinese investments. Chinese extraction companies expand the mineral and metal markets to advance the Peruvian economy, but the growth rate of cheap Chinese goods threatens Peru’s domestic markets.[136] On the positive side, China’s growing demand for minerals investment is a benefit for Peru affording the country the opportunity to diversify away from dependence on primary commodities like copper, iron, and ore.[137] China also provides a large steady source of funds, including an opportunity for much-needed capital and technology.[138]

On the negative aspect, the impending deindustrialization of Peru’s economy focuses on the exportation of a chief commodity, which creates or exacerbates the resource curse, causing its added value of other exports to decline. In 2017, Peru’s economic growth declined because copper exports to China decreased. This drop in demand is an example of the resource curse affecting Peru’s exports to China. Peru has become one of the world’s largest gold, silver, and copper producers, but also grappled with the resource curse and the impact of its abundant resources, including negative externalities such as unregulated mining contamination, and deforestation.[139]

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135 Gallagher and Porzecanski, “China and the Latin America Commodities Boom,” 17.

136 Bonilla Soria and Milet, Latin America, the Caribbean and China.

137 Theodore Moran, Barbara R. Kotschwar, and Julia Muir, “Chinese Investment in Latin American Resources: The Good, the Bad, and the Ugly” (working paper, Peterson Institute for International Economics, 2012), 2.

138 Moran. Kotschwar, and Muir, 2.

139 Toni Johnson, “Peru’s Mineral Wealth and Woes,” Council on Foreign Relations, February 9, 2010, www.cfr.org/backgrounder/perus-mineral-wealth-and-woes.

Once deals are finalized and agreements signed, there have been modest attempts by Peru to take advantage of trade and investment opportunities with China and develop better economic policies.[140] Instead of taking advantage of the premiums gained from China's increasing demand for natural resources and investing the profits in the industry, innovation, people, and environmental protection, Peru's government missed the mark.[141] A crucial challenge for Peru will be to continue to strive for the correct balance between the rights of the indigenous people and growing expectations of local communities in mining areas and the need to attract foreign investment to ensure continued economic growth.

Dr. Evan Ellis stated that by 2050, Chinese based companies would have acquired or supplanted the U.S. and European mineral companies in Peru as mining operations become a critical source of income through expansion in other sectors of mining.[142] China is not trying to supplant the U.S. in the region or with Peru, and it is just proposing its Chinese economic model called the Beijing Consensus. This economic model is driving Peru to focus solely on their commodities sector and shift away from higher value-added exports creating reprimarization and de-industrialization.

Moreover, the exploitation of natural resources can be linked to environmental and social degradation. The full extent and distribution of threats to the ecosystem needs to be examined closely and included in governmental conservation plans to manage biodiversity efficiently in Peru's mining regions. Peru and China are middle-income countries with a growing middle class, and Peru needs to alter the pattern of asymmetric trade to reap the benefits of trade and investments. Peru needs to bear in mind that China is an important economic partner and will remain one of the biggest markets for its exports, and a vital source of investment.

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[140] Sanborn and Yong, "Peru's Economic Boom and the Asian Connection," 89.

[141] Gallagher, "Why Latin America Should Not Squander the China Boom."

[142] Evan Ellis, *The Future of Latin America in the Context of the Rise of China* (Washington, DC: Center for Strategic and International Studies, 2018), 1. https://www.csis.org/analysis/future-latin-america-and-caribbean-context-rise-china.

III. A CASE STUDY: SINO-ECUADORIAN TRADE RELATIONS AND IMPACT

The United States left a void in Latin America and after shifting its priorities toward the war on terrorism, allowed China to increase its presence in Ecuador. In combination with the financial crisis of 2008, poor relations between the United States and Ecuador aligned China's development bank with the socialist, anti-American president Raphael Correa. This chapter examines the effect of China's booming trade and investment on Ecuador's political and economic development. The Amazon basin in Ecuador is critical to China's overseas oil investment strategy because of the fairly great supply of oil and raw materials.[143] The chapter also analyzes the various Chinese capital investments and loans for oil over the last two decades, explaining how Ecuador is affected by the resource curse and negative externalities, including protected land settlement, deforestation, and consequential habitat degradation, destruction of biodiversity, poor working condition, social tensions, and soil and water pollution. It includes the impact of negative externalities within various cities stemming from the increasing trade and extraction of commodities and resources by China. Additionally, increased Chinese demand continues to improve agricultural and extractive sectors in Ecuador, while exports from Chinese manufacturing continue to threaten the national industries in Ecuador. Lastly, Chinese investment in Ecuador is an appealing alternative to address its many economic issues, but it only serves to exacerbate the resource curse and create negative externalities. This chapter concludes with suggestions to maximize the benefit of the growing financial presence of China while minimizing the risks to a sustainable economic development.

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[143] Rebecca Ray and Adam Chimienti, "A Line in the Equatorial Forests: Chinese Investment and the Environmental and Social Impacts of Extractive Industries in Ecuador" (discussion paper, Boston University, Global Economic Governance Initiative, 2017), 107.

A. SINO-ECUADORIAN POLITICAL AND ECONOMIC RELATIONS

Ecuador is known for its abundant farmlands, precious commodities, and prosperous agriculture. Ecuador bananas exports account for more than 30% of the world trade.[144] Furthermore, coffee is cultivated on roughly 150,000 hectares of land, with approximately 60% shared with other crops such as bananas and mangoes.[145] However, "Ecuador's present external-debt problem can be traced back to the 1970s when the start of large-scale oil exports generated a growth spurt, and the private and public sectors began borrowing heavily."[146] Ecuador's economy thrived with high rates of GDP, reaching 9.5% in 1980.[147] However, it did not remain prosperous and spiraled downward during the "lost decade" of the 1980s.[148] This "lost decade" was a period plagued by corruption, inflation, and macro-financial mismanagement that swept the entire region.[149] The U.S. encouraged the "Washington Consensus" in Latin America, a policy diminishing the state's role in the economy. The Washington Consensus helped to put an end to inflation and fiscal irresponsibility but left Ecuador even more vulnerable to external shocks. The Asian market crisis of 1997 resulted in another recession, setting off profound economic and political devastation in the region, and in Ecuador explicitly.[150] During the collapse of oil prices in 1998 and early 1999, Ecuador's economy was immensely affected as crude oil was its primary export.[151] It was Ecuador's largest source of foreign exchange and its

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144 http://www.new-ag.info/en/country/profile.php?a=2741

145 http://www.new-ag.info/en/country/profile.php?a=2741

146 Paul Beckerman and Andrés Solimano, *Crisis and Dollarization in Ecuador Stability, Growth, and Social Equity* (Washington, DC: World Bank, 2002), 26.

147 José Antonio Ocampo, "Commodity-led Development in Latin America," *International Development Policy* 9, no. 9 (2017): 14.

148 Ocampo, 18.

149 Gallagher, The China Triangle, 4

150 Gallagher, 5

151 Luis Ignacio Jácome, "The Late 1990s Financial Crisis in Ecuador: Institutional Weaknesses, Fiscal Rigidities, and Financial Dollarization At Work," *International Monetary Fund*, no. 4–12 (2004): 16

export earnings diminished from US$5.3 billion to US$4.3 billion in 1999.[152] In January 2000, Ecuador formally implemented the dollar as its currency to stabilize the economy. However, it resulted in hyperinflation, and the people blamed the administration. The financial and social tragedy amid corruption, which led to growing social unrest, damaged the credibility of the government, and it resulted in President Mahuad fleeing to the U.S. after being deposed.[153]

In early 2001, in attempts to recover from economic depression, "the core of Ecuador's public-finance problem was (and indeed remains) that revenue depended too heavily on volatile oil earnings, while inadequate non-oil revenue and overwhelming debt-service and payroll commitments narrowed the scope for developmental expenditure."[154] Ecuador witnessed a series of natural disasters by El Niño and various floods. Additionally, with corrupt politicians and three border conflicts with Peru, Ecuador went into an economic depression. From 2003–2006, under former president's Lucio Gutiérrez and Alfredo Palacio, the state failed to improve Ecuador's economic conditions until President Correa came into power in 2007.[155] In late 2008, Correa, the former president called the United States, "immoral and illegitimate" and discontinued payment of required annual interest, resulting in a default.[156]

Subsequently, after the Ecuadorian government defaulted on about $3.2 billion in sovereign bonds, it scrutinized its relationship with multilateral organizations, and the Correa administration affirmed that oil and tax revenues would help the country get out of this turmoil.[157] During this period, Correa abandoned the Washington Consensus for a

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152 "Ecuador Goods Exports, in BoP, Current US$1995-2002," World Integrated Trade Solution, accessed January 12, 2019, https://wits.worldbank.org/CountryProfile/en/Country/ECU/StartYear/1995/EndYear/2002/Indicator/BX-GSR-MRCH-CD.

153 Jácome, "The Late 1990s Financial Crisis in Ecuador," 5

154 Beckerman and Solimano, Crisis and Dollarization in Ecuador, 36.

155 https://freedomhouse.org/report/freedom-world/2006/ecuador

156 Clifford Krauss and Keith Bradsher, "China's Global Ambitions, Cash and Strings Attached," *New York Times,* July 25, 2015, 24.

157 Mark Weisbrot, Jake Johnston, and Lara Merling, "Decade of Reform: Ecuador's Macroeconomic Policies, Institutional Changes, and Result," *Center for Economic and Policy Research* (2017): 4.

more centralized economic planning with government control, as a result of which he turned to China.[158] The Ecuador-China economic relationship was not just confined to economic growth and resource acquisition, but also as a source of financial lending with the majority of the loans coming from China's development bank.[159]

During late 2008 during the outcome of the global financial crisis, Ecuador and Petroecuador, the state's oil corporation, were headed toward bankruptcy and as the country was incapable of borrowing from international lenders due to loan defaults, Ecuador turned to China in 2009.[160] After abandoning the tenets of the Washington Consensus, Ecuador branched out from its regular trading with the United States and Europe, capitalizing on the economic opportunities China presented after witnessing its impressive rate of economic growth, seeing it as a model for developing countries. China has emerged as a vital financial source for Ecuador, usually by way of the China Development Bank and the Export-Import Bank of China who reportedly gave more than $150 billion in loan commitments directed towards infrastructure projects.[161] Additionally, PetroChina as part of the capital and loans for oil strategy loaned Ecuador "$1 billion in August 2009 for two years at 7.25% interest."[162]

Meanwhile, China's goals in the region included obtaining access to raw materials, promoting Chinese brands, establishing new markets for Chinese exports, and promoting Chinese firms.[163] Ecuadorean foreign minister Ricardo Patiño called the country's new dealings with China a "diversification of its foreign relations."[164] China's growing interest

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[158] Caio Piza, Alejandra Palma, Tulio Cravo, Simon Lodato, and Jose Claudio Linhares Pires, *Country Program Evaluation: Ecuador (2007-2011)* (Washington, DC: Inter-American Development Bank, 2012), 2.

[159] Anabel González, "Latin-America China Trade and Investment amid Global Tensions," Atlantic Council, December 3, 2018, https://www.atlanticcouncil.org/publications/reports/latin-america-china-trade-and-investment-amid-global-tensions.

[160] Krauss and Bradsher, "China's Global Ambitions," 24.

[161] Anabel, "Latin America China Trade and Investment amid Global Tensions."

[162] Krauss and Bradsher, "China's Global Ambitions," 24.

[163] Congress, House, Committee on Foreign Affairs and Subcommittee on the Western Hemisphere (2015); 69

[164] Krauss and Bradsher, "China's Global Ambitions," 24.

in Latin America is seeking access to the natural resources in the region in exchange for trade and investments. China's increased involvement in the region has also affected U.S. influence in that area. China's economic policy tactics now use mergers and acquisitions through joint ventures with local companies to encourage capital loans in exchange for oil.[165]

Ecuador being a natural resource-rich country is jeopardized by the political, social, economic developmental problems such as an inefficient public sector and low private investments.[166] Since 2008, according to Figure 9, on average, exports from Ecuador to China have exponentially increased annually reaching a high of roughly $800 million, and according to Figure 10, oil is the primary export to China. However, Ecuador's energy policy is plagued with multifaceted economic and political objectives, which are very hard to reconcile consistently. Ecuador has an abundance of natural resources and rich biodiversity. Still, the country suffers from tensions that arise from political conflicts and unwarranted development imperatives, which paves the way for foreign financing. The most significant element preventing the expansion of the country's energy sector is the government's developmental policies and redistributive strategies. As a result, it has resorted to taking Chinese loans-for-oil as a short-term solution but lacks long-term efficacy.[167] The global economic crisis adds to the current crisis of Ecuador. Chinese loans and investment provide financial relief, but with previous policy measures still in action, the crisis seems reinforced with more defensive trade strategies consequently.[168]

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[165] Cynthia Arnson and Jeffrey Davidow. *China, Latin America, and the United States: The New triangle* (Washington, DC: Woodrow Wilson International Center for Scholars, 2011).

[166] https://www.worldbank.org/en/country/ecuador/overview

[167] Gonzalo Escribano, "Ecuador's Energy Policy Mix: Development Versus Conservation and Nationalism with Chinese Loans," *Energy Policy* 57 (2013): 152–159.

[168] Fredrik Erixon and Sally Razeen, "Trade, Globalisation and Emerging Protectionism since the Crisis," (working paper, no. 02/2010, ECIPE, 2010).

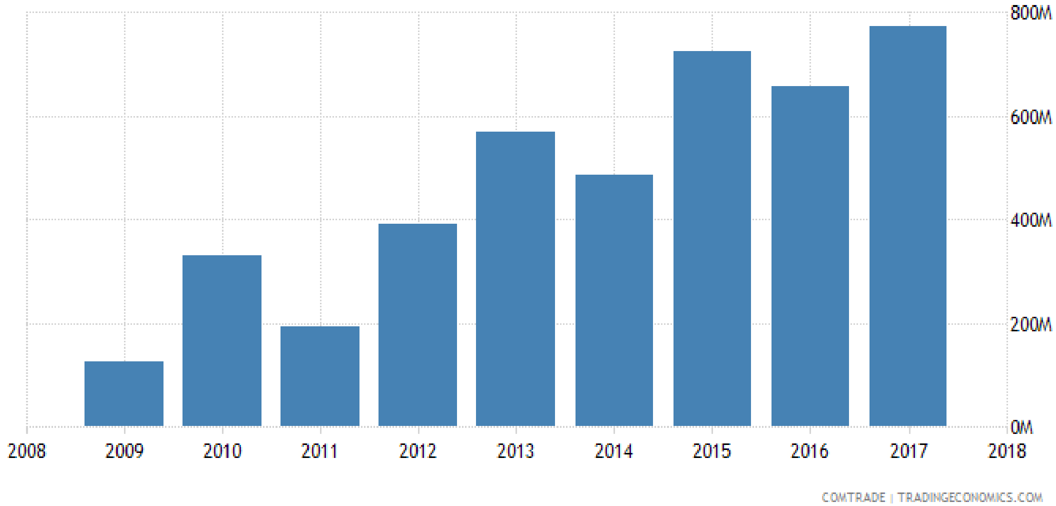

Figure 9. Ecuador's exports to China ($ of total exports)[169]

169 Source: "What Does Ecuador Export to China? (2000-2016)," Observatory of Economic Complexity Accessed on 12 January 2019. https://atlas.media.mit.edu/en/visualize/line/hs92/export/ecu/chn/show/2000.2016/.

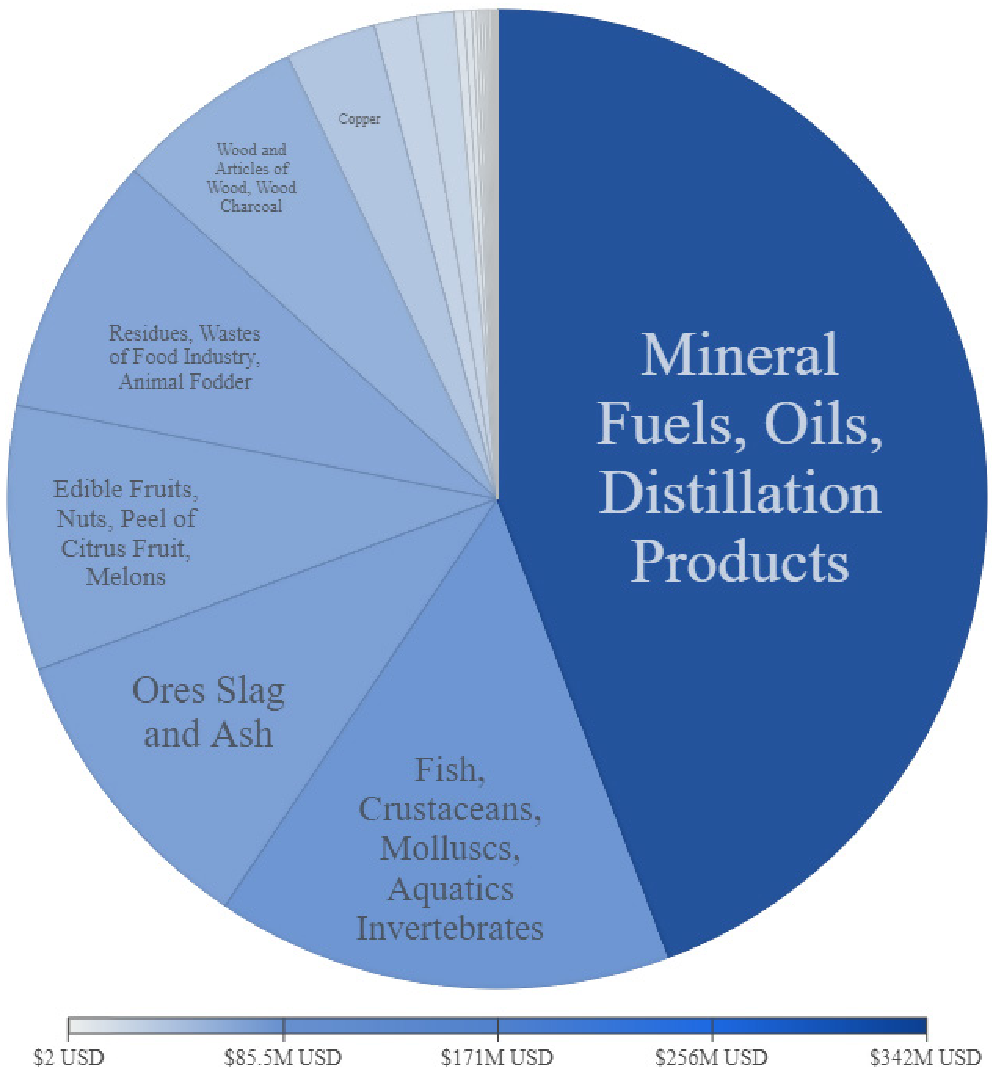

Figure 10. Ecuador's exports to China ($ of total exports)[170]

B. CHINA'S CAPITAL INVESTMENTS AND LOANS FOR OIL (INVESTMENT)

The Chinese investment in Ecuador is considered both a political move and a profitable investment strategy. The most important part of the Chinese FDI in Ecuador is concentrated in mergers and acquisitions, which is concentrated in energy.[171] Chinese

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170 Source: Observatory of Economic Complexity.

171 Anabel González, "Latin-America China Trade and Investment Amid Global Tensions," Atlantic Council, December 3, 2018, https://www.atlanticcouncil.org/publications/reports/latin-america-china-trade-and-investment-amid-global-tensions, 8

investments gravitate toward rich resource economies as a portion of China's "Going Out" strategy.[172]

The negotiations with Chinese banks forced Ecuador to use predominantly Chinese companies and technologies, on any joint ventures they are receiving loans beckoned with increasing *interest rates*.[173] As part of the loans for oil strategy, China provided Ecuador with $821 million for hydropower projects and roads in 2014.[174] According to Figure 11 below, throughout this period, China demands mainly oil from Ecuador in exchange for capital and infrastructure investment loans.[175]

China has been a significant economic partner for Ecuador based on Figure 12.[176] These positive and negative effects in Ecuador's energy sector are a result of China's economic boom and its attempt to maintain growth at all costs. China is adding a $1.42 billion petroleum investment in Ecuador to its portfolio through acquisitions and joint ventures. "Since 2010, the China Development Bank and China Export-Import Bank have provided eleven loans to Ecuador totaling US$15.2 billion in overseas foreign investment, largely for energy, infrastructure, and transportation projects."[177] Ecuador's growing debt to China is roughly a third of its GDP as China becomes their main financial provider. The loans for oil deals under Ecuadorian President Correa were primarily for the oil company Petroecuador in a joint venture with PetroChina, which is now committed to providing oil

[172] Gonzalez-Vicente, "Mapping Chinese Mining Investment in Latin America," 35–58

[173] Adriana Erthal Abdenur, "Skirting or Courting Controversy? Chinese FDI in Latin American Extractive Industries," in *Alternative Pathways to Sustainable Development: Lessons from Latin America,* eds. Gilles Carbonnier, Humberto Caampodónico Sánchez, and Sergio Tezanos Vázquez (International Development Policy series, Leiden, Netherlands: Brill-Nijhoff, 2017), 190, http://hdl.handle.net/10419/178420; "Peru-Mining and Minerals," export.gov, November 7, 2018, https//www.export.gov/article?id=Peru-Mining-Minerals.

[174] Kevin Gallagher, "Chinese Loans Helping Latin America amid Oil Price Slump," DW, February 27, 2015, https://www.dw.com/en/chinese-loans-helping-latin-america-amid-oil-price-slump/a-18284605.

[175] Kevin P. Gallagher and Amos Irwin, "China's Economic Statecraft in Latin America: Evidence from China's Policy Banks," *Pacific Affairs* 88, no 1 (2015): 113.

[176] H.R., China's Advance, 70.

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

to Beijing until 2024.[178] "While the oil discovery was a blessing for the floundering Ecuadorian economy, it would also prove to be a long-term curse due to the reliance on world oil prices and the need to continually maintain, or increase, export levels."[179]

Figures 13 and 14 show China's top two energy sources (oil and mining) that remain prominent FDI in Ecuador. According to Table 2, Ecuador had an increase of 7.8% in its exports in the first quarter of 2018, lower than 13.8% of 2017.[180] Ecuador grew 11.4% in 2017 but then fell 18.6% year-on-year between January and March of 2018.[181] Table 2 illustrates significant increases in exports to China (109.5%) and LAC (30.6%), which counterbalanced the decline. Oil exports were the most dynamic, growing 18%, whereas non-oil exports expanded a mere 2%. According to Figure 15 and Table 2, China's types of commodities in Ecuadorian exports may be grounds for concern over the extent to which Chinese and global demand for these commodities will exacerbate the resource curse. This curse created a negative externality for Ecuador because it is overly dependent on oil and neglects other industrial sectors, which have been shown to de-industrialize the economy.

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178 Koenig.

179 David W. Schodt, *Ecuador: An Andean Enigma* (Boulder, CO: Westview Press, 1987), 105.

180 Paolo Giordano, Kathia Michalczewsky, and Alejandro Ramos Martínez, *Trade Trend Estimates Latin America and the Caribbean-2018 Edition* (Washington, DC: Inter-American Development Bank, 2017), https://publications.iadb.org/en/publication/17339/trade-trend-estimates-latin-america-and-caribbean-2018-edition.

181 Giordano, Michalczewsky, and Martínez, *Trade Trend Estimates.*

		PDVSA			infrastructure, other projects
2008	Venezuela	BANDES and PDVSA	CDB	4000	Infrastructure, including satellite
2009	Brazil	Petrobras	CDB	10000	Pre-salt oil technology
2009	Ecuador	Petroecuador	PetroChina	1000	Advance payment for Petroecuador oil
2010	Ecuador	Petroecuador	CDB	1000	80% discretionary, 20% oil-related
2010	Venezuela	BANDES and PDVSA	CDB	20000	Funding infrastructure
2011	Ecuador	Petroecuador	CDB	2000	70% discretionary, 30% oil-related
2011	Ecuador	Petroecuador	PetroChina	1000	Advance payment for Petroecuador oil
2011	Venezuela	PDVSA	CDB	4000	Infrastructure
2012	Ecuador	Government	CDB	2000	Budget deficit
2012	Venezuela	BANDES and PDVSA	CDB	4000	Joint infrastructure financing fund
TOTAL				53000	

Sources: IAD database

Figure 11. Chinese Loans for Oil Chart[182]

[182] Source: Gallagher and Irwin, "China's Economic Statecraft in Latin America," 113.

Figure 12. China—Investments in Latin America[183]

183 Source: Kenneth J. Stier, "Can Latin America Survive the Chinese Economic Juggernaut?" *China in Latin* America 6, no., 11 (June 5, 2012), https://library.cqpress.com/cqresearcher/document.php?id=cqrglobal2012060500.

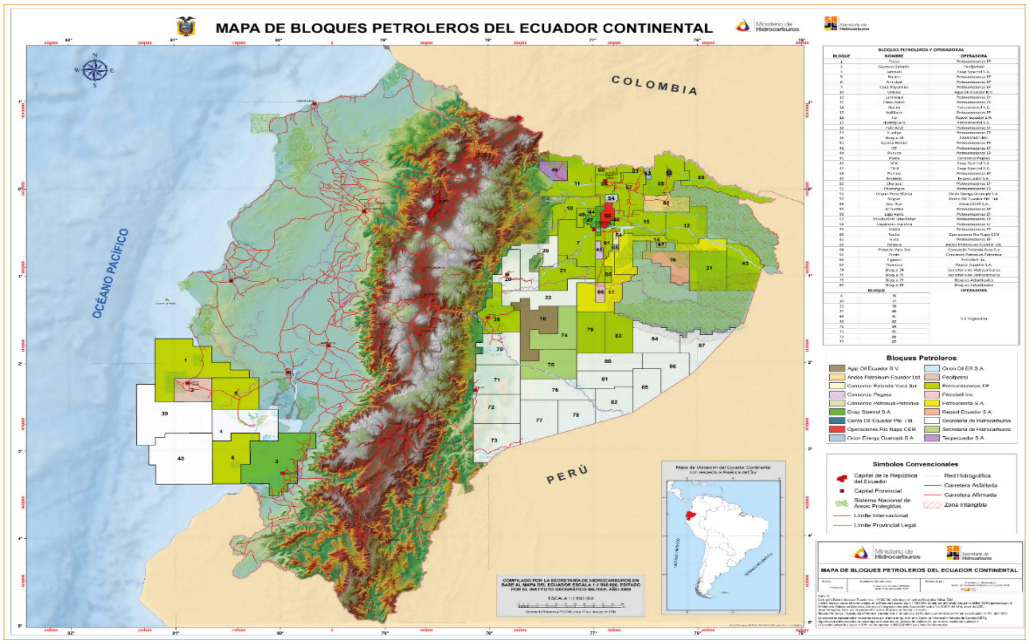
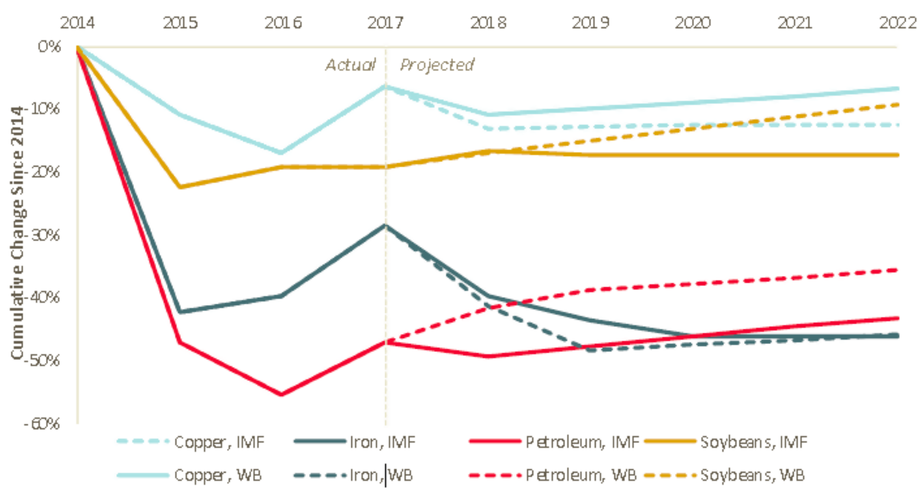


Figure 13. Blocks of Various Oil Companies in Ecuador[184]

184 Source: Richard Aidoo, Pamela Martin, Min Ye, and Diego Quiroga, “Footprints of the Dragon: China’s Oil Diplomacy and its Impacts on Sustainable Development Policy in Ecuador and Ghana,” *International Development Policy* 8, no 1 (2017), http://journals.openedition.org/poldev/2408.

INDUSTRY	AMOUNT (US$ BILLIONS)	# OF DEALS
Oil & Gas	25	27
Mining & Metals	27	48
Transport	9	15
Automotive	11	79
Finance	7	28
Electricity/Utilities	9	16
Alternative Energy	4	14
Information & Communication Tech	2	52
Consumer Products/Electronics	4	54
Agriculture	0.8	15
Machinery & Equipment	0.3	23
Chemicals/Rubber	2	19
Construction & Construction Materials	2	16
Other Services/Wholesale	7	16

Figure 14. Chinese FDI in Latin America by Industry (2003-2016)[185]



Source: Authors' calculations from IMF and World Bank data.

Figure 15. World Bank Future Commodity Price Projections[186]

185 Source: Rolando Avendano, Angel Melguizo, and Sean Miner, *Chinese FDI in Latin America New Trends with Global Implications* (Washington, DC: Atlantic Council), http://publications.atlanticcouncil.org/china-fdi-latin-america/.

186 Source: "Commodity Markets Outlook," World Bank, April 2019, http://www.worldbank.org/en/research/commodity-markets.

Table 2. Growth of Latin American and Caribbean Exports 2017[187]

PERFORMANCE BY SUBREGION

TABLE 1 • GROWTH OF LATIN AMERICAN AND CARIBBEAN EXPORTS BY SELECTED DESTINATIONS
(Annual growth rate, percentage, 2017 and 1Q 2018)

Exporting Group/ Member	1Q 2018 vs 1Q 2017							2017 vs 2016
	Subregion	Latin America and the Caribbean	United States	Asia (excl. China)	China	European Union	World Total	World Total
SOUTH AMERICA	15.2	18.0	3.6	5.1	16.0	19.5	↓ 10.4	14.9
Argentina	19.4	19.1	18.9	5.5	23.2	4.7	↑ 12.9	0.9
Bolivia	23.8	23.4	-12.0	33.2	-16.5	43.3	↑ 21.9	10.7
Brazil	14.9	13.3	7.0	-17.0	2.4	37.4	↓ 7.8	17.6
Chile	-0.4	0.3	25.0	20.4	53.1	11.2	↑ 24.3	14.0
Colombia	30.7	54.6	9.1	-24.8	19.1	-14.0	↓ 13.9	18.9
Ecuador	18.7	30.6	-18.6	22.7	109.5	4.5	↓ 7.8	13.8
Paraguay	31.2	27.9	-38.5	-59.5	27.8	-68.7	↓ -6.7	2.1
Peru	10.5	11.3	28.7	31.9	-2.4	20.9	↓ 10.4	21.5
Uruguay	-8.5	-3.2	17.5	-5.9	63.0	14.6	↑ 16.1	12.7
Venezuela	-49.7	-26.3	-31.9	28.6	17.7	-39.1	↓ -7.8	21.7
MESOAMERICA	5.6	11.2	8.5	15.1	13.8	33.0	↑ 10.8	9.1
Mexico	0.7	15.2	8.7	16.0	-1.9	38.2	↑ 11.5	9.5
Central America	5.9	5.4	4.5	8.9	231.7	12.2	↓ 4.8	5.8
Costa Rica	7.8	6.3	3.5	13.4	99.1	10.0	→ 7.5	7.0
El Salvador	7.3	7.6	0.7	-61.6	1887.7	-25.9	↓ 3.1	6.3
Guatemala	3.3	4.9	12.7	-63.9	56.6	2.5	↓ 0.3	5.1
Honduras	12.8	14.4	-4.8	51.1	41.7	4.9	↓ 4.1	9.3
Nicaragua	30.4	1.6	0.3	82.1	n.a	92.1	→ 7.1	7.2
Panama	n.a	n.a	n.a	n.a	n.a	n.a	↑ 9.1	3.8
Dominican Republic	-12.4	-3.0	6.6	49.4	-36.7	22.3	↑ 6.8	1.0
CARIBBEAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.3
Bahamas	n.a	n.a	n.a	n.a	n.a	n.a	n.a	39.2
Barbados	n.a	n.a	n.a	n.a	n.a	n.a	n.a	0.0
Belize	-19.8	-0.2	-26.1	n.a	n.a	-23.5	↓ -19.0	10.9
Guyana	n.a	n.a	n.a	n.a	n.a	n.a	n.a	25.6
Haiti	n.a	n.a	n.a	n.a	n.a	n.a	n.a	1.4
Jamaica	n.a	n.a	n.a	n.a	n.a	n.a	↑ 17.6	9.0
Suriname	n.a	n.a	n.a	n.a	n.a	n.a	n.a	45.4
Trinidad and Tobago	n.a	n.a	n.a	n.a	n.a	n.a	n.a	-7.0
LATIN AMERICA	16.6	16.3	7.6	6.9	15.8	23.4	↓ 10.6	12.0
LATIN AMERICA AND THE CARIBBEAN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	↓ 10.6	11.9

Source: IDB Integration and Trade Sector with data from official national sources, except for the figures for Venezuela, which were estimated with data from the OPEC and the IMF.

Note: The table does not include the growth rates or absolute changes of non-selected destinations. Thus, the sum of absolute changes does not match the total. Data for Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua include exports under special trade regimes (STR), except for 1Q 2018 data for Honduras. For individual Central American countries, the subregion corresponds to Mesoamerica, whereas for Central America, Mexico is excluded and the subregion includes only intra-Central America trade. See Methodological Note for additional information on the procedures, time periods, and data sources used in the estimates. n.a. means data not available. The arrows show the variation with respect to the previous year.

187 Source: Giordano, Michalczewsky, and Martínez, *Trade Trend Estimates.*

C. RESOURCE CURSE AND NEGATIVE EXTERNALITIES

Ecuador had its fair share of political polarization and instability with five different presidents from 2000–2007.[188] It is essential to understand the implications for Ecuador, and the negative and positive impacts China's development will yield. China considers Sino-Ecuadorian strategic relationship as a win-win solution, yet the potential is different for both countries.

1. Resource Curse and Both Positive and Negative Externalities

As the resource curse plagues Ecuador, China exploits it further for capital in exchange for natural resources to sustain its economic growth. Barbara Kotschwar argued: "Countries such as Ecuador have seen their value added of their exports fall significantly across the board in the past decade, and analysts fear the employment and development implications of this deindustrialization."[189] Another concern for Ecuador is the adverse effects when Chinese demand or global prices for commodities decline. The resource curse effect will be more profound when there is a global shortage of commodities, and when prices fluctuate in various industrial sectors ranging from food products to precious metals, it will be destructive to Ecuador's economy.[190] Mariano Turzi believes "This so-called 'resource curse,' moreover, inevitably spills over to the political arena, creating a cycle of political polarization, nationalist rhetoric, populist policies, and institutional instability."[191]

Furthermore, solely focusing on one main export also detracts from product divergence creating an unbalanced pattern of development. For example, Figure 16 shows the adverse effects after oil prices dropped in 2014,[192] which became a disaster to

[188] Schodt, *Ecuador,* 105.

[189] Kotschwar, "China's Economic Influence in Latin America," 217.

[190] H.R., China's Advance, 28.

[191] Turzi, "The Agropolis," 178.

[192]Giordano, Michalczewsky, and Martínez, *Trade Trend Estimates.*

Ecuador's political economy.[193] The prices have not returned to the height before 2014, which alludes to a slow economic recovery. Figure 15 illustrates the need for Ecuador to avoid and survive the resource curse, and it should consider diversification away from these main commodities and invest in higher value-added products.[194]

China's Amazon oil extraction projects in the Amazon are having profound negative consequences by reducing the rain forest by 20%, endangering the various diverse species of the area and displacing the indigenous people irrespective of their protests.[195] On a macro level, the Chinese investment promotes economic growth, but it is mostly context dependent. There can be an increase in jobs, but harmful health effects of oil exploitation will prevent the population from benefitting from it owing to poor health. Consequently, investments might create plentiful jobs, but locals will be restricted to start their own business or be self-employed. High oil extraction zones contribute to the mortality rate among locals, as locals are more involved in low-skill jobs, which are very dangerous. Hence, the negative externalities outweigh the positive outlook. The oil drilling also results in the contamination of land and water resources. Toxic waste produced as a result of these activities can cause negative psychological externalities. The psychological side effects are present in populations living near oil drilling sites. Pollution also adversely affects people's wellbeing and mental stability.[196] An additional negative externality is a high cost due to land appropriation issues from the indigenous, but society benefits from modernized equipment, and advanced technology. Conversely, as a result of earlier negotiations and based on authorized contracts in 2010 and 2011, Petroecuador and the Ministry of Hydrocarbons are losing anywhere from US$44 million to US$100 million dollars by offering oil to China at discounted prices.[197] With protests outside the capital in

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[193] Turzi, "The Agropolis," 179

[194] Rebecca Ray, "China and Latin America Economic Bulletin—2017 Edition" (discussion paper, Boston University, Global Economic Governance Initiative, 2017), 8, https://www.bu.edu/gdp/2017/01/03/2017-china-latin-america-economic-bulletin/.

[195] Koening, "Amazon Threatened by China-Ecuador Loans for Oil."

[196] Maia Eliscovich Sigal, "Socioeconomic Effects of Oil Drilling: The Case of Ecuador" (senior essay, Yale University, New Haven, CT, 2016).

[197] Aidoo et al., "Footprints of the Dragon 17

Quito, Humberto Cholango, the president of the Confederation of Indigenous Nationalities (CONAIE), condemned the Ecuadorian government's reduced oil rents to the Chinese as illegal and is rallying the indigenous people to get the Chinese companies out of Ecuador.[198] President Rafael Correa launched the Yasuni-ITT Initiative but scrapped it in July 2013 due to lack of commitment by the International Community in attempts to preserve the rainforest. Ecuador estimated that the environmental costs of oil production in the ITT would be at least US$1.25 billion from deforestation, the loss of ecotourism potential, and some externalities of oil exploitation like spills, local pollution, and effects on public health.[199] The perception that a critical level of urbanization is essential to induce positive externalities is what inspires China-Ecuador relationship. This outlook has been severely challenged as the competition between local and foreign firms imposes a negative externality. The scale of the externalities concerning diversity is positive in manufacturing but has different implications in the service industry.[200] Ultimately, Ecuador needs to realize the level of impact from negative externalities on the environment and find ways to mitigate this while maintaining its economic source from its Sino-Ecuadorian relationship.

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[198] Aidoo et al.

[199] Carlos Larrea et al., *Yasuní-ITT Initiative: A Big Idea from a Small Country*" (Quito, Ecuador: Ministerio del Ambiente de Ecuador, UNDP Ecuador, MdGs, 2009), 27.

[200] Carolina Guevara, Stéphane Riou, and Corinne Autant-Bernard, "Agglomeration Externalities and Urbanization in Ecuador," in *European Regional Science Association*, *55th Congress* (Lisbon, Portugal, August 25–28, 2015), https://halshs. archives-ouvertes.fr/halts-01212174.

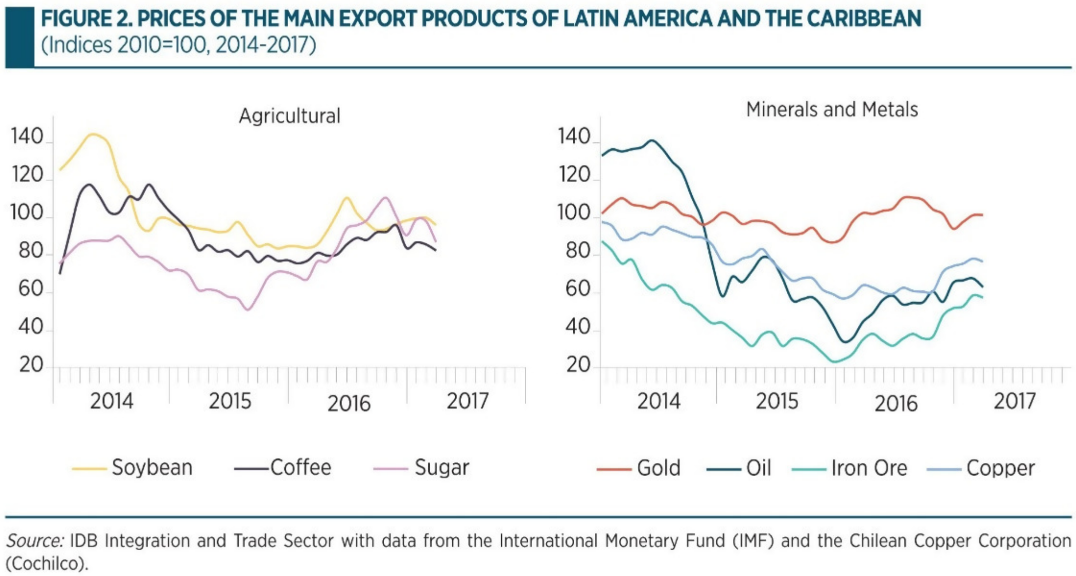

Figure 16. Agriculture and Commodities Prices[201]

D. CONCLUSION

After several years of dealing with China and plagued by the resource curse, Ecuador has experienced adverse effects from these oil extraction projects that have surfaced throughout the country, creating negative externalities. First, the impending deindustrialization of its economy focusing on the exportation of principle resources creates the natural resource curse effect, which causes its value added of exports to decline. Second, is the potential impact on the economy and other industrial sectors if the Chinese reduce their needs for these commodities.[202] China continues to be a source for Ecuadorian commodities exports, and Ecuador is still a source of profitability for Chinese Foreign Direct Investment.[203] As China becomes more critical to Ecuador, its use of soft power and strategic diplomacy is manifesting in the area as it has in other countries.[204] However, after becoming president in May 2018, Lenin Moreno, primarily suspected to follow in

[201] Source: Giordano, Michalczewsky, and Martínez, *Trade Trend Estimates.*

[202] Kotschwar, "China's Economic Influence in Latin America."

[203] Gallagher, The China Triangle.

[204] Kurlantzick, "China's Growing Influence in Southeast Asia," 194

Correa's footsteps has replaced all of the former leftist Correa appointees in the departments of Foreign Affairs, Finance, and Defense.[205] The Moreno government has quickly launched criminal investigations towards the illicit activities by Correa the previous president and his shoddy trade contracts with China.[206] Ecuador surprisingly did a 180-degree turn from the populist socialism and anti-US orientation to a more earnest relationship toward expanding Ecuadorian-U.S. security and business relations and improving future trade agreements.[207] The 2018 investigation into the loans for oil deals, will inquire into both the high-interest rate ("partly due to Ecuador contracting it after failing to pay 3.2 billion dollars in the debt of December 2008"), and their conditions. It will specifically address the price difference of an average of $ 4 a barrel between the price paid by China for the Ecuadorian viscous oil and its retail price on global markets.[208]

Research by the Amazon watch and United States Congressional Research on Sino-Ecuadorian relations have noted a sharp increase in significant investments toward oil extraction. [209] Chinese companies are adopting multiple strategies and are leaning toward mergers and acquisitions in preference to joint ventures, which implies the scale of institutional learning by Chinese companies and banks to avoid governmental regulation scrutiny.[210] In sum, China undermines Ecuador through dollar diplomacy with these trade deals. Increased demand from China continues to improve Ecuador's agricultural and extractive sectors, while China's manufacturing exports continue to threaten Ecuador's domestic industry.

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205 R. Evan Ellis, "Lenin Moreno and the Struggle for the Soul of Ecuador's (and Latin America's) Left," Global Americans, https://theglobalamericans.org/2018/08/lenin-moreno-and-the-struggle-for-the-soul-of-ecuadors-and-latin-americas-left/.

206 Ellis.

207 Ellis.

208 Ells.

209 Koening, Kevin. "Amazon threatened by China-Ecuador loans for oil." *Diálogo China. July* 3 (2017); Beittel, June S. *Ecuador: Political and Economic Conditions and US Relations*. Washington, DC: Congressional Research Service, 2013, 3-4

210 Abdenur, "Skirting or Courting Controversy," 192; "Peru-Mining and Minerals," export.gov, November 7, 2018, https//www.export.gov/article?id=Peru-Mining-Minerals.

Additionally, China promises capital and infrastructure projects in exchange for oil. China reduces the risk of default in its loans for oil plan enabling China to continue lending to non-trusted debtors.[211] The China Development Bank backs loans with oil shipments to reduce risk and allows the bank to squeeze interest from oil rents, guaranteeing loan payback to continue these oil export transactions.[212] These loans-for-oil makes the ease of borrowing seems like a win for both sides. Ecuador revealed that its loans for oil represent million dollar losses based on oil premiums.[213]

China strategically selects certain countries in Latin America, in this case, Ecuador with abundant natural resources and leverages them with money along with the appearance of a *win-win* strategy linked with misleading notions based on Beijing's interest. China is not attempting to replace the United States in the region but merely present an alternative; the China model or Beijing Consensus comes at the cost of reprimarization and de-industrialization by forcing it to solely focus on their commodities sector and shifting away from higher value-added exports.

Ecuador's policies lack coherence and face political inconsistencies. The country's core drivers are rainforest conservation, infrastructure development, and resource nationalism. China's influence has further fractured Ecuador's already damaged political landscape. Chinese loans and investments favor pragmatism but end up limiting resource nationalism. Learning the lessons from other countries in Africa or Latin America asserts that in order to extract the most value for investments a foreign government's institutional and judiciary body need to enforce the laws. Identifying the possibility that China's intrusion in Ecuador and understanding institutions and policies matter will help to address the resource curse. Global Policies can help to address the negative externalities by making Chinese investors accept international industry standards for best practices.

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[211] Gallagher and Irwin, "China's Economic Statecraft in Latin America," 117.

[212] Gallagher and Irwin, "China's Economic Statecraft in Latin America," 117.

[213] Gallagher and Irwin, 117.

IV. CONCLUSION

The growing presence of China in Latin America and its enormous investments in countries such as Peru and Ecuador show a geopolitical shift in a region where the United States has been losing its long-standing predominance. This thesis has argued that China's growing presence in Ecuador and Peru produce short-term economic benefits but jeopardize their long-term economic development through deindustrialization and lack of diversification of industrial sectors. The thesis has shown that China, since 2001, has aggressively pursued its objective to strengthen its influence in the western hemisphere through economic engagement and diplomacy, ensuring that China maintains a reliable supply of natural resources from countries like Ecuador and Peru. Chinese President Xi Jinping dubs Latin America "vibrant and promising," and is taking advantage of America's mistakes in the region to expand its influence by offering itself as an alternative partner for economic trade.[214]

A. THE IMPACT OF CHINA'S ECONOMIC INVESTMENTS IN ECUADOR AND PERU

The hypotheses are that Ecuador and Peru are both affected by the resource curse and trade deals with China will create reprimarization and de-industrialization by forcing them to solely focus on their chief commodities sector and shift away from higher value-added exports along with negative externalities derived from extraction projects for oil and metals which are destroying the Amazon and inhibiting economic development costing both the Ecuadorian and Peruvian government millions in reparations.

This thesis has validated both hypotheses and concludes that China's trade impact results in both positive and negative implications for the economies of both Ecuador and Peru.[215] In the short term, Ecuador and Peru have taken economic advantage of intense

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[214] Tom Harper, "Beijing's Gains in Latin America Leave U.S. Foreign Policy Toward China in Need of a Rethink," The Conversation, September 4, 2018, https://theconversation.com/beijings-gains-in-latin-america-leave-us-foreign-policy-toward-china-in-need-of-a-rethink-91989.

[215] First hypothesis is Ecuador and Peru are plagued by the resource curse and the second hypothesis is investments by China creates negative externalities in Ecuador and Peru.

international commodity demands to develop its export sector and reduce the country's staggering social inequality. Moreover, Ecuador and Peru have improved their competitiveness and expanded their global commercial power as a result of allowing Chinese companies to introduce and set standards for new industry and technology.[216] Chinese President Xi Jinping said that cooperation between Ecuador, Peru, and China had brought significant advantages to all three countries as their economies are highly complementary and ripe for collaboration in such fields as infrastructure construction, energy, and resources development, mining, agriculture, manufacturing industry, and technology.[217]

Regardless of the short-term economic advancements, Ecuador's and Peru's economic competitiveness is unsustainable in the long term due to lack of export diversification. Deindustrialization is linked to the concept of "primarization" or "re-primarization," which denotes an increased reliance on the exportation of a chief primary natural resource in exchange for foreign reserves.[218] Palma argued that the theory of the resource curse or Dutch disease is associated with a shift in the economy during a commodity upsurge in which manufacturing creates trade surpluses.[219] The natural resource curse is deindustrializing the economies of both Ecuador and Peru by narrowing the focus on exporting primary resources and reducing the added value in exports. Without diversifying to other industrial sectors of their economies, Ecuador and Peru are reliant on global price commodities or China's demand to buy those commodities. If China decides not to purchase oil and metal from Ecuador and Peru, their economies will decline. This

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216 Luis Enrique Pedauga, Lucien David Pedauga, and Blanca L. Delgado-Márquez, "Relationships between Corruption, Political Orientation, and Income Inequality: Evidence From Latin America," *Applied Economics* 49, no. 17 (2017): 1689–1705.

217 "2016 Business Review XXIX: China-Latin American Countries' Economic and Trade Cooperation Keeps a Steady Development," Ministry of Commerce People's Republic of China, February 14, 2017, http://english.mofcom.gov.cn/article/zt_businessreview2016/news/201704/20170402559003.shtml.

218 José Gabriel Palma, "De-industrialization, 'Premature' de-Industrialization and the Dutch Disease," *The New Palgrave Dictionary of Economics: Volume 1–8* (2008): 1297–1306.

219 Palma, "De-industrialization."

became evident in 2017, when Peru's and Ecuador's economic growth declined because oil and copper exports to China diminished.

However, the resource curse affects country differently. It was more prominent in Ecuador and less prominent in Peru because of how the governments responded with the new inflow of Chinese capital. Ecuador did attempt to diversify its economy by looking into mineral extraction in the amazon. Under the Correa administration, the mineral industry played a more prominent role and, thanks to strained relations with the United States, the economy was diversified from its dependence on oil exports through foreign investment to tap into the rich mineral resources of the country. [220] Although there is an increase in jobs for the locals, the negligence by the Chinese companies and lack of governmental regulations led to contamination of the rivers in the local communities. Furthermore, Ecuador faces a large budget deficit from numerous Chinese loans which prevent the government from diversifying it's exports putting the country in a tough position. Since Ecuador dollarized it is unable to produce currency and to make matters worse, many developments financed by Chinese loans are not producing revenue the government desparately needs. On the other hand Peru's bilateral trade and diplomatic relations with China have increased. Peru wisely utilized this inflow of capital and loans from mineral extraction towards the services sector which currently contributes mainly to the nation's GDP, accounting for almost 60% of the GDP. [221] Solid inflow of capital from the United States and United Kingdom Foreign Direct Investment (FDI), specifically in the mining sector allowed for Peru to have a healthy economy. Mining output rose significantly between 2016 and 2017, helping Peru achieve one of Latin America's highest GDP growth rates, and Peru should continue to grow strongly in 2018. [222] The main difference between Ecuador and Peru is that Peru doesn't give China metals and minerals at a lower price. Peru having a strong mining sector along with strong economic institutions allow for better

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[220] https://multimedia.scmp.com/week-asia/article/3011618/beijing-conquest-latin-america/chapter02.html

[221] https://www.focus-economics.com/countries/peru

[222] https://www.indexmundi.com/factbook/compare/ecuador.peru

progression. Ecuador on the other hand doesn't have a large oil export market and being heavily in debt to China makes it difficult for the government to develop.

Long-term consequences are apparent in Ecuador in the form of negative externalities. For example, China's loans-for-oil agreements exploit Ecuador; and Ecuadorian oil analyst Fernando Villavicencio argues that loans for oil represent million dollar losses based on global market oil prices.[223] Ecuador owes China roughly US$ 19 billion from loans to the government in exchange for significant projects like the Coca Codo Sinclair dam, bridges, roads, and other infrastructure projects it is struggling to cover.[224] To cover this debt, China receives over 80% of oil at a discounted rate which is Ecuadors' principal export based on bilateral agreements.[225] This has been very disruptive to Ecuador's economy and has inhibited growth, as illustrated in Chapter II.

A prime example of negative externalities in Ecuador and Peru are the severe impacts on the environment and indigenous communities. In Ecuador and Peru, China's proven neglect of social and environmental project costs has led to stiff opposition by the local populace and global Non-Governmental Organizations like Amazon watch.[226] As shown in Chapter III, inadequate safety measures by Chinese companies in Peruvian mines in the Amazon region have caused over a 100 deaths, displaced the indigenous people, and damaged the environment, destroying 20% of the rainforest.[227]

Chinese companies have created additional negative externalities in Ecuador and Peru, resulting from unregulated mining contamination and air and land pollution.[228]

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[223] Gallagher and Irwin, "China's Economic Statecraft in Latin America," 67.

[224] Nicholas Casey and Clifford Krauss, "It Doesn't Matter If Ecuador Can Afford This Dam. China Still Gets Paid," Amazon Watch, December 24, 2018, https://amazonwatch.org/news/2018/it-doesnt-matter-if-ecuador-can-afford-this-dam.-china-still-gets-paid

[225] Casey and Krauss.

[226] Jonathan Kaiman, "Ecuador Auctions Off Amazon to Chinese Oil Firms," *Guardian,* March 26, 2013, https://www.theguardian.com/world/2013/mar/26/ecuador-chinese-oil-bids-amazon

[227] Casey and Krauss, "It Doesn't Matter"; Jan Rocha, "China's Environmental Impact in the Amazon," China Dialogue, July 13, 2016, https://www.chinadialogue.net/article/show/single/en/6211-China-s-environmental-impact-in-the-Amazon.

[228] Johnson, "Peru's Mineral Wealth and Woes."

Webb reported that waste remediation uncovered extreme concentration of urinary mercury in the oil and metal mining areas of Ecuador and Peru where men's health are affected operating in the petroleum sectors and women using surface water in their homes.[229] A credible research study showed different dimensions in the environmental health of upstream oil metal extraction activities and concluded that severe health consequences are linked to and around oil/metal mining communities, in contrast to other communities, leading down the path confirming hazardous substances are causing cancer and other diseases.[230]

Finally, the resource curse effect and negative externalities on the environment for both countries have resulted in billion-dollar losses in environmental costs. The Human Rights Watch's 2018 world report provides details of environmental damages from the deforestation of the Amazon in Ecuador and mountains being demolished in Peru affecting the biodiversity, which is evidence of the extent to which China will go to meet their growing demand for commodities.[231] If both Ecuador and Peru are going to continue business with China, they need to reinforce environmental and safety regulations with Chinese companies so they can avoid these negative externalities.

B. TRIANGULAR RELATIONS BETWEEN THE UNITED STATES-CHINA-LATIN AMERICA

China's leaders believe that the world has entered the fourth era of globalization, which demands a new global multipolarity with shared development and cooperation.[232] When Chinese politicians talk about a multipolar world, they talk about the world they

[229] Jill E. Johnston, Esther Lim, and Hannah Roh, "Impact of Upstream Oil Extraction and Environmental Public Health: A Review of the Evidence," *Science of The Total Environment* (2018): 190.

[230] Johnston, Lim, and Roh, 197.

[231] Jonathan Watts, "China's Exploitation of Latin American Natural Resources Raises Concern," Guardian, March 26, 2013, https://www.theguardian.com/world/2013/mar/26/china-latin-america-resources-concern; Marcos Orellana, "Earth Matters: The Case for the Right to a Healthy Environment," Human Rights Watch, 2018, https://www.hrw.org/world-report/2018/country-chapters/global.

[232] John Batchell, "China Embraces Rather than Fears a Multi-Polar World," Peoples World, July 27, 2018, https://www.peoplesworld.org/article/china-embraces-rather-than-fears-a-multi-polar-world/.

want to see, not the world as it is today.[233] Not surprisingly, in the world they envision, they have a larger share of political and economic power, the highest Gross Domestic Product (GDP), surpassing all countries particularly the United States. China is in a rapid push to gain economic and political ascendancy across the globe, spending billions of dollars in concessional loans to developing countries, extracting natural resources, and enabling Latin American countries to build up infrastructure and energy projects. China is not trying to challenge the United States; it is attempting to provide an alternative model, the Beijing Consensus, into a region with long historical ties to the United States.

Historical accounts of United States involvement in Latin America present evidence that the United States had a long-held belief that interference from influencers outside the Western Hemisphere presented a threat to United States security and regional stability. However, the United States foreign policy toward Latin America has significantly declined under the Trump administration. Over the past two years, strident political rhetoric and several actions on immigration and trade have increased remarkably, resulting in negative views of United States leadership in Central and South America.[234] However, this is attributable to the discord between the political branches of the United States government. There have been several instances in which Trump's administration had disagreements with Congress and the Senate over frustrations with government policy.[235] In February 2018, the Department of State laid out the framework of United States policies for the region, focusing on "three pillars: economic growth and prosperity, security and democratic governance."[236] The framework reflects continuity with long-standing U.S. policy priorities in the region but also appears to contradict the administration's policies on foreign aid, trade, and immigration. For example, the administration's planned foreign

233 "Is a Multipolar World Emerging?" Geopolitical Futures, May 2, 2018, https://geopoliticalfutures.com/multipolar-world-emerging/.

234 M. P. Sullivan, *Latin America and the Caribbean: U.S. Policy Overview,* CRS Report 7–5700 (Washington, DC: Congressional Research Service, 2019), https://fas.org/sgp/crs/row/IF10460.pdf.

235 https://www.businessinsider.com/trump-gop-republican-senate-increasingly-at-odds-2019-4

236 Sullivan.

aid budgets for FY2018 and FY2019 for Latin America have been significantly reduced by 36% and 35%, respectively.[237]

Furthermore, Boyer argues that China's growing dominant financial position jeopardizes trade relations including the longstanding economic and political relations between the United States and Latin America.[238] These trade agreements reduce trade barriers and create a more stable and transparent business and investment environment that allows Ecuador and Peru to export their good and services to the United States, thereby diversifying their other industrial export sectors.[239] The growing Chinese involvement in Ecuador and Peru puts these trade agreements in jeopardy because China is using dollar diplomacy to put these countries in a debt-trap with huge loans which inhibits Ecuador and Peru from negotiating new trade deals with the United States.

These growing trends of risky loans and investments are evident in countries across Latin America besides Ecuador and Peru. In Argentina, President Macri is keen to avoid antagonizing China because Chinese President Xi Jinping is looking into making significant increases in Argentina's credit line being Argentina's largest agricultural customer for soybeans and other products. Although Argentina's government acknowledges China's preferential loans and investments as a positive contribution to infrastructure improvements, in contrast, however, the economic agreements in their bilateral trade give China preferences which hinder Argentina's industrial modernization and development.[240] "China has invested $124 billion in Brazil since 2003, mostly in the oil, mining, and energy sectors."[241] It has been worrisome for Brazil that even Brazil's

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237 Sullivan.

238 Pedauga, Pedauga, and Delgado-Márquez, "Relationships between Corruption, Political Orientation, and Income Inequality."

239 Robert McMahon, "The Rise in Bilateral Free Trade Agreements," Council on Foreign Relations, June 13, 2006, https://www.cfr.org/backgrounder/rise-bilateral-free-trade-agreements

240 Eduardo Daniel Oviedo, "Argentina Facing China: Modernization, Interests and Economic Relations Model," *East Asia* 30, no. 1 (2013): 24–25.

241 Jake Spring, "Bolsonaro's Anti-China Rants Have Beijing Nervous About Brazil," Reuters, October 24, 2018, https://www.reuters.com/article/us-brazil-election-china-insight/bolsonaros-anti-china-rants-have-beijing-nervous-about-brazil-idUSKCN1MZ0DR

President, Jair Bolsonaro, stated “The Chinese are not buying in Brazil. They are buying Brazil, as a predator looking to dominate key sectors of its economy.”[242]

For the United States to maintain its presence and improve relations with Latin America, it needs to reform its political and economic policies. In order to achieve reliable and trustworthy relationships with Latin America and steer them away from risky Chinese loans and trade deals, the United States needs to get the U.S. Agency for International Development and the U.S. International Development Finance Corporation to work in concert with countries in Latin America and global banking institutions to provide necessary investments and loans. The problem is that Ecuador and Peru desire Chinese financing precisely because it does not necessitate the expensive and grueling assessments of social and environmental effects that global lending institutions require.[243] However, with the help of the United States and these multilateral institutions, Ecuador and Peru will be capable of improving their industrial and power sector in a sustainable way, particularly the social and environmental protections for future development without having negative externalities.[244] This will assist both Ecuador and Peru to navigate away from dependency on Chinese capital and loans.

Historically the United States has been deeply involved in Latin America versus the new Chinese influence, which both appear to be dividing Latin America, forcing countries to choose sides which can lead to misunderstandings. Instead, the goal should be to identify ways for the United States and China to work more effectively in collaboration with the nations of the region.[245] Ecuador and Peru currently lack environmental protection due to weak judicial and regulatory agencies to guarantee Chinese mega-projects

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242 https://www.americasquarterly.org/content/china-brazil-trade

243 Max Nathanson, “How to Respond to Chinese Investment in Latin America,” Foreign Policy, November 28, 2018, https://foreignpolicy.com/2018/11/28/how-to-respond-to-chinese-investment-in-latin-america/.

244 Nathanson.

245 Ellis, “Cooperation and Mistrust,” 42

have successful results and not destroy the ecosystem and pollute the environment.[246] Max Nathanson articulates that "the United States, by playing a supporting role in development, could help to lay the groundwork for increased economic connectivity, regional political integration, an approach to growth mindful of and respectful to indigenous communities and the environment, and substantial reductions in poverty and inequality across the region."[247] Stable trade and agreements between the United States, China, and Ecuador and Peru will result in a win-win for everyone.

C. FUTURE AREAS OF STUDY

A future area of study this thesis highlights is what this means for the United States, and if the United States is engaged in a balance of power with China over Latin America. If China's growing influence in Latin America poses a security challenge for the United States, then studying the United States' reluctant behavior can help explain the future outcome of China and the United States' relations. Analyzing this balance of power can help predict if China's rise is peaceful or if it will create conflict from an International Relations perspective. Ultimately, China's influence and economic model (Beijing consensus) are currently significantly impacting the global economy through current levels of industrial production, consumption, trade, massive loans, and movements of assets and tourism; therefore, research into this paradigm is relevant.[248]

Another area of study worth is understanding how Chinese actors view their relationships with Latin America vis-à-vis the United States and how China handles the new geopolitical role it has assumed in the western hemisphere. Researchers can utilize the information contained in this thesis to extrapolate why Latin America views China as a significant economic opportunity, especially in light of Beijing's regional diplomatic

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246 Max Nathanson, "How to Respond to Chinese Investment in Latin America," Foreign Policy, November 28, 2018, https://foreignpolicy.com/2018/11/28/how-to-respond-to-chinese-investment-in-latin-america/.

247 Max Nathanson, "How to Respond to Chinese Investment in Latin America," Foreign Policy, November 28, 2018, https://foreignpolicy.com/2018/11/28/how-to-respond-to-chinese-investment-in-latin-america/.

248 John Wong, "China's Rising Economic Soft Power," *Asia Dialogue,* March 25, 2016, http://theasiadialogue.com/2016/03/25/chinas-rising-economic-soft-power/.

initiatives. These include the "one belt and one road" planning and the Asia Infrastructure Investment Bank loans, as well as China's push for bilateral and regional free trade agreements.[249] Studying China's changing geopolitical role in Latin America along with its increasing economic engagements draws an inference that Chinese investments and trade with Latin America is a zero-sum game, and there are negative implications for the developing nations caught in this debt-trap diplomacy with China. Studying this debt-trap is important because it will highlight disastrous outcomes like Venezuela's current economic status. In 2007, Venezuela came to an agreement with China over a $ 6 billion collaborative business venture to process Venezuela's heavy crude oil for home infrastructure projects, as well as for oil refineries in China.[250] After Venezuela's former president, the late Chavez and current president, Maduro, both squandered the government's money it continuously went back to China for more. By 2015, after lending Venezuela over US$ 50 billion and resulting in the Venezuelan solvency crisis, China had to finally shut the credit taps, leaving Venezuela in economic ruins from debt-trap diplomacy.[251] In 2019, the continuous impasse in the crisis in Venezuela reveals the complex reality of contemporary geopolitics in the world as Venezuela became a failed state. If other countries in Latin America follow in Venezuela's footsteps and do not reinforce strong institutions, having multiple failed states in the western hemisphere can have a cataclysmic effect on the global economy.

[249] Marc Lanteigne, *Chinese Foreign Policy: An Introduction* (New York: Routledge, 2015).

[250] Michael Cerna, "China's Growing Presence in Latin America: Implications for U.S. and Chinese Presence in the Region" *China Currents* 10 (2011): 3; Javier Santiso, "Can China Change Latin America? A New Global Courtship Is Blossoming, and It Is Bringing China and Latin America Closer Together. Whether It Ends in Happiness Or in Tears Depends Mostly On Latin America," *OECD Observer* 262 (2007): 13–15.

[251] "Why Some Venezuelans Fear Maduro Is Selling Them Out to China," CBC, September 15, 2018, https://www.cbc.ca/news/politics/venezuela-china-beijing-maduro-economy-support-1.4824112

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