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Sino-Ecuadorian Oil Relations: A Microcosm for the Region?

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Ecuador's president, Rafael Correa, has recently announced that he is prepared to introduce legislation that would change the status of private and foreign oil firms and turn them into service providers. The change would mean the takeover of these companies' assets and greater revenue for the government. Correa's move reflects broader pressures on his government and trends on the wider regional oil market – a subject that was covered in a recent publication by the LSE Ideas Centre.

Correa's announcement highlights his urgency for money in the short-term. On one hand, his left-wing government has been actively redistributive, its social programmes heavily reliant on the foreign revenue generated by Ecuador's oil exports. As one of Latin America's more oil-dependent economies though, the country has suffered from low oil prices, limited technical and productive capacity and slow export growth. These constraints are compounded by the country's isolation from international capital markets following Correa's $3.2bn bond default in 2008.

On the other hand, it would seem that Correa is relatively well-placed to impose his demands. As George Philip pointed out in our recent LSE Ideas Centre report, Powering Up: Latin America's Energy Challenges, growing domestic demand and the de-concentration of the international oil market has meant that governments are in a relatively stronger position vis-à-vis private oil companies. Indeed, Correa had managed to prevent private and foreign firms forming a united front against him by threatening a 99% windfall tax on profits of those that seek concessionaire status (i.e. which would provide them with some legal claim over the oil reserves). He is also helped by a referendum-backed constitution last year which gives the government greater authority over strategic areas, including the oil and mining sectors.

However, much uncertainty remains. As Tanya Harmer and I noted in our introduction to *Powering Up,* the wider Latin American energy sector presents not just opportunities, but challenges as well. This is especially the case when considering which firms and whose interests may be affected by Correa's plan and their wider political implications. So far the firms at most risk from the law change are those owned by the Italians, Brazilians, Spanish/Argentines and Chinese.

The presence of the Chinese consortium, Andes Petroleum, in this group is notable since it provides a microcosm of that country's engagement in Ecuador in particular and Latin America more generally. First, the bulk of Chinese investment (around $500bn in 2004) is concentrated in the oil sector which means that the Chinese stand to lose a great deal if the legislative change goes ahead. This would exacerbate differences between the two countries following Ecuador's decision to break off negotiations for a $2bn hydroelectric power plant after the Chinese Eximbank demanded that the Ecuadoran Central Bank put its assets up as collateral for the loan.

Second, the Chinese have been at great pains to expand access to resources, not just in Ecuador but Latin America more generally. Earlier this month President Hugo Chávez announced that China was to loan Venezuela $20bn, which was seen as a step to securing future oil supplies. This followed previous Chinese investment in the Brazilian and Venezuelan state oil companies of $10bn and $4bn respectively last year.

Third, focus on the growing Chinese presence in the region has too often been on the extent to which it presents a challenge to the other hegemonic power in the region, the US, often being portrayed as a zero-sum game between two. In so doing it overlooks the extent to which both global powers have a common interest in ensuring regional peace and political stability so that their respective investments are secured. Furthermore, it largely disregards the role that Latin American actors have to play. Indeed, as the Inter-American Development Bank pointed out in its 2006 report, The Emergence of China, the Chinese economy presents several different scenarios: as a success story and source of policy lessons; as a market; as a partner; and as a competitor to Latin Americans' own goods and services (pages xxvii-xxx). That Latin America – and Ecuador – has such a mixed relationship with China in its energy sector only demonstrates another key observation that we noted in our report: that although there has been a shift towards greater state involvement, there is no certain outcome to this process.

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