SPECIAL REPORT

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Panama, Ecuador, and China: The Dangers of Short-Term Calculations

By Alvaro Mendez and Chris Alden

The Chinese container ship *Cosco Shipping Rose* in the Panama Canal on December 3, 2018. China is the main destination for Panama's goods exports. (Photo by Arnulfo Franco/AP)

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Summary

- Panama and Ecuador exemplify Latin American countries' eagerness to collaborate with China on significant economic projects. That enthusiasm often leads to short-term thinking and an overdependence on China.
- Partnerships with Panama and Ecuador serve China's broader regional strategy of cultivating bilateral trade and personal relationships with local elites to further Beijing's geopolitical goals.
- Since 2017, Panama's policy toward China has been opportunistic and unpredictable, first pivoting toward Beijing, then scaling back agreements with China before coming full circle and restarting trade talks.
- Ecuador's ties to China have deepened, albeit sporadically, over the past 17 years, while its relationship with the United States has fluctuated, often driven by political changes in Ecuador as well as evolving US policies and priorities.
- To safeguard their long-term economic interests, Panama and Ecuador should update and upgrade their China-related geostrategic knowledge and move away from business-centric approaches.
- Policymakers in the United States and Latin America and the Caribbean should engage proactively with one another, fostering a balanced international stance to support long-term growth and stability.

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SPECIAL REPORT

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CONFLICT ANALYSIS & PREVENTION

ABOUT THE REPORT

This report examines China's growing influence in Panama and Ecuador, both of which display short-term decision-making in their eagerness to develop partnerships with Beijing. It draws upon research conducted in 2022 in both Panama and Ecuador, including participatory workshops and interviews with government officials, former diplomats, and members of civil society knowledgeable about their countries' diplomatic relations with China. The report was commissioned by the China program at the United States Institute of Peace.

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Activists protest outside China's embassy in Quito, Ecuador, on March 5, 2012, following Ecuadorian president Rafael Correa's signing a contract with a Chinese-owned mining company for development of a large-scale, open-pit copper mine. China uses bilateral trade with small states and personal relationships with local business elites to achieve political goals. (Photo by Dolores Ochoa/AP)

Introduction

The People's Republic of China (PRC) has become a significant political and economic force in Latin America and the Caribbean. After the PRC's entry into the World Trade Organization in 2001, Chinese trade with the region consistently expanded, and after two decades, its total volume stood at 20 times what it was in 2001, according to the World Bank.[1] The PRC has become one of the primary trading partners for countries across Latin America and the Caribbean, including Brazil, the region's largest economy.

This development has convinced China to expand the scope of its initiatives in the region, where political and business elites are eager for immediate gains from partnering with Beijing on ambitious development projects. Such initiatives are often framed as national achievements and announced with much fanfare, but then quietly shelved soon afterward. This report focuses on Panama and Ecuador, where a tendency to political short-termism and opacity in the pursuit of PRC-financed development is observed to be acute.[2]

Ecuadorian officials have rushed to approve projects, often doing so with minimal technical scrutiny or stakeholder consultations. Rafael Correa, president from 2007 to 2017, rubber-stamped projects such as the Chinese-constructed Coca Codo Sinclair Dam, a colossus that was supposed to boost the national economy but instead became a national scandal when defective workmanship came to light and Ecuadorian officials were imprisoned for taking bribes from Chinese contractors.[3]

Panama, after dropping diplomatic relations with Taiwan in favor of the PRC in 2017, also found China's investment promises attractive. President Juan Carlos Varela, enticed by promises of a high-speed railway linking Panama City to Chiriquí Province on the border with Costa Rica and other high-value infrastructure projects, agreed to a battery of Chinese proposals, most of which came to nothing. He also tried but failed to negotiate a free trade agreement in less than six months. From this early high-water mark of bilateral cooperation, relations have declined. After 2019, new president Laurentino Cortizo's administration cancelled or postponed several major projects, including a fourth bridge over the Panama Canal, new port facilities in Colón, a cross-country electric transmission line, and the high-speed railway.[4]

Panama and Ecuador are typical instances of China's economic statecraft, which uses bilateral trade with small states and personal relationships with local business elites to achieve political goals.[5] The success of this strategy in shaping a favorable environment for China is essential to Beijing's global ambitions.[6] According to Chinese leader Xi Jinping, "The broad masses of developing countries are our natural allies in . . . international affairs."[7] The statecraft of China has notably impacted countries in Latin America and the Caribbean, simultaneously increasing their dependence on its economic capacity while furthering its broader objectives in the Western Hemisphere and beyond.

Whereas China's strategy for drawing Latin American and Caribbean countries into its orbit is coherent, the foreign policies of most countries in the region are not.[8] This report explores some causes of this asymmetry, including the policymaking role of Panamanian and Ecuadorian political and business elites and their short-termism and opacity in pursuing development funding. By analyzing the way in which these two countries make their foreign policy, the report seeks to offer a better understanding of the dynamics of China–Latin America engagements and their leading motivational factors. The nature of engagement with Beijing means that it is frequently less of a partnership and more of a compromise, characterized by the PRC predominantly shaping the narrative and setting the terms of engagement. As China strengthens its presence in Latin America and the Caribbean, Washington should define a foreign policy strategy that not only safeguards its own geopolitical and economic interests but also supports Panama and Ecuador in their efforts to develop sustainably, without depending too heavily on any one country.

The report draws on published material but is based mainly on original research in Panama City and Quito in 2022 in the form of roundtable discussions and interviews under the Chatham House Rule on Chinese foreign policy with Panamanian and Ecuadorian diplomats, academics, jurists, business leaders, members of the parliamentary opposition, journalists, civil society activists, and former and current policymakers.[9] The report begins with an analysis of Panama's foreign policy toward the PRC since 2017, when it switched diplomatic recognition from Taipei to Beijing, and then details Ecuador's foreign policy trajectory with Beijing since 2007. It concludes with a discussion of several pragmatic implications and recommendations for policymakers.

Panama and China: Open, Closed, Open

Panama's foreign policy cannot be understood without taking account of two interrelated issues. First is its location at one of the world's most pivotal geostrategic choke points, now embodied in a canal linking the Atlantic and Pacific Oceans. For centuries, the area has attracted wanted and unwanted attention from powerful nations ambitious to develop and control the passage between the two oceans. Its strategic importance eventually empowered the people of Panama to gain independence from Colombia in 1903 with help from the United States, which had been interested in controlling the passage for decades.[10] In constructing the Panama Canal, the United States again helped the young nation but imposed an alliance.[11] From that point onward, Panama became deeply dependent on the United States, yielding a Panamanian foreign policy that foregrounded compliance with US diktats, yet did so inconsistently.[12]

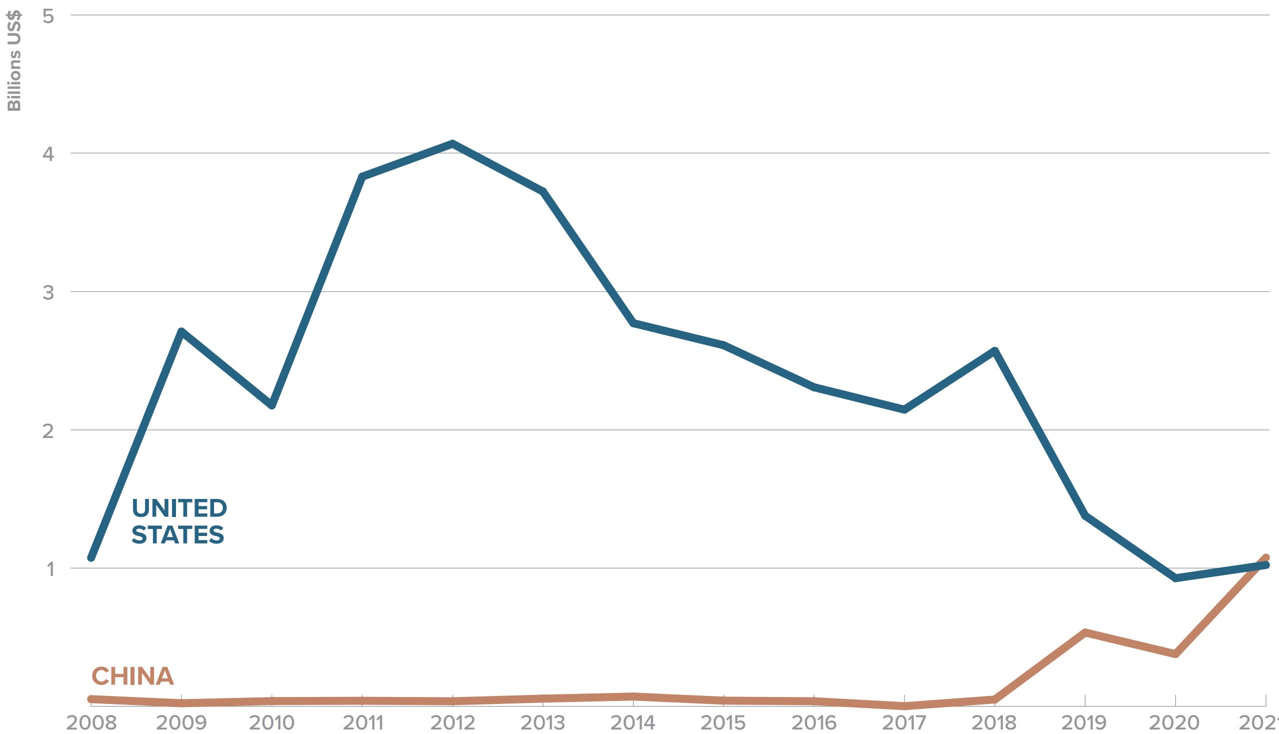
The second issue in Panamanian foreign policy is the enormous importance of the Panama Canal to US security and the United States' national interest in protecting its sphere of influence there.[13] This issue has deeply impacted Panama, resulting in a "hegemonized foreign policy," which conforms to no consistent pattern of behavior.[14] A strategically important small state such as Panama ends up needing cues from the great powers to determine its foreign affairs lest it come into conflict with states bigger than itself or cause conflict between them. This need does not necessarily entail a lack of self-confidence in the small state but is a response to a complex international landscape. Inevitably, however, this obligation to look to the hegemon for direction causes ambivalent, even resentful sentiments. Throughout its history, Panamanian foreign policy has swung like a pendulum between admiration and disdain for the United States, causing what the journalist Stephen Rosenfeld described as an "ambivalence of purpose" in successive administrations, usually depending on the president's and a few high ministers' personalities. This observation has been confirmed by scholars who have looked at Panama's foreign policy in the 1970s and by those who have examined the post–Cold War era.[15]

By contrast, Panama does well in business affairs. A global trading hub, it punches above its weight as a small country. In the World Bank's "ease of doing business" rankings, it scores high among Latin American and Caribbean countries.[16] Panamanians' entrepreneurialism and innovativeness are evident in society at large no less than among the business elites. Some scholars suggest that economic necessity has facilitated "creativity in the marketplace."[17]

Within this complex geopolitical context, Panama's trade relationships take on great importance. The United States remains Panama's largest trading partner, but China is second and quickly closing the gap. Panama has a service-based economy and yet provides no figures on services exports broken down by country, so it is unclear whether China is importing a growing share of Panama's services. But it is the case that China has become the main destination for Panama's goods exports (see figure 1).

FIGURE 1.

Panamanian exports to China and the United States, 2008–21



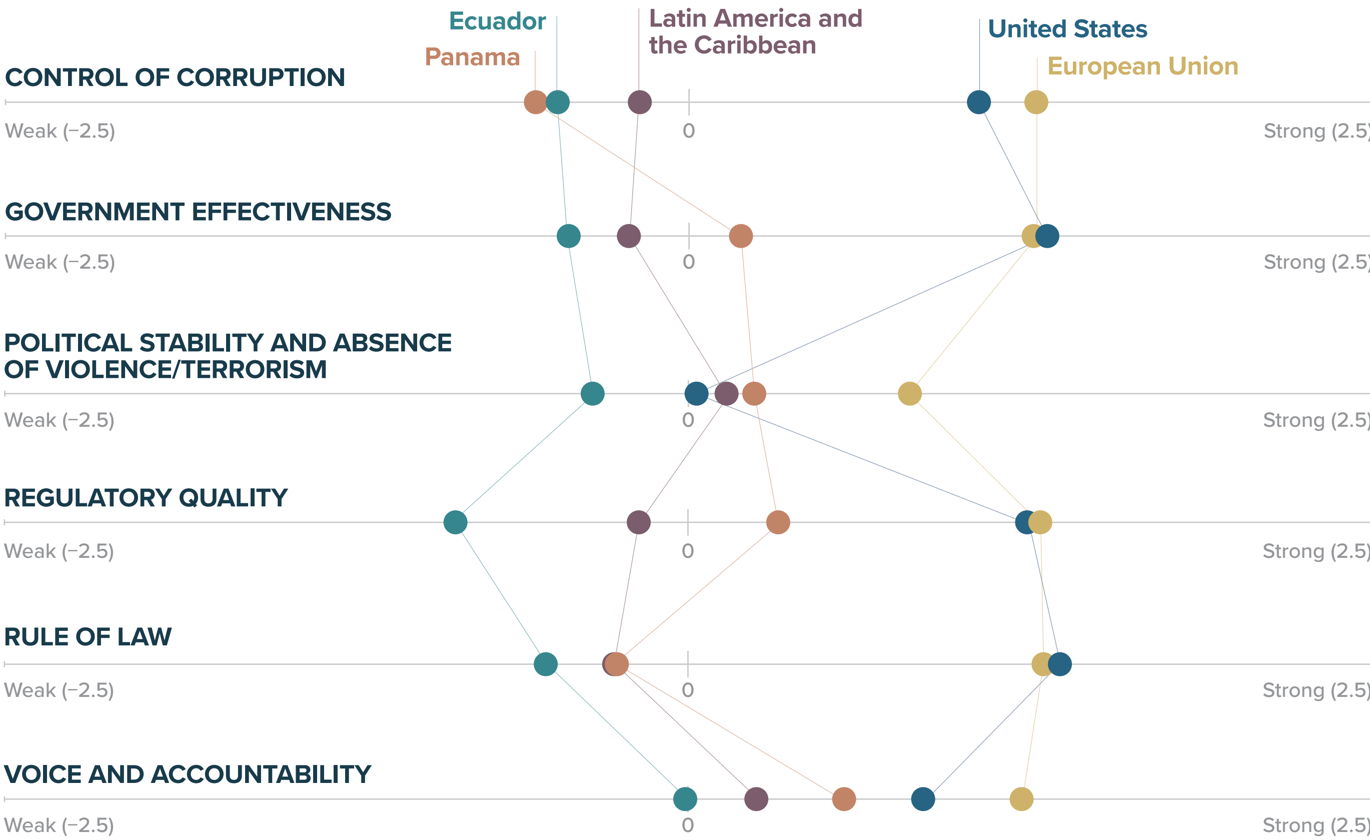
Source: World Integrated Trade Solution, accessed January 25, 2024, wits.worldbank.org. At the time of publication, data were available only through 2021.

Most of Panama's recent presidents, including Varela and Cortizo, were business magnates before venturing into politics, and their business and political interests are intertwined. According to one participant in the workshop held in Panama, "They run for office to then benefit their own businesses and industries." On the positive side, their business experience may help them foster economic growth; on the negative side, self-interest means they may not make strategic decisions that will benefit the whole country in the long term. The double-edged sword of businessmen-presidents has empowered Panama's business elite to attain a "high level of state capture," whereby they exploit foreign policy to reshape "the emerging rules of the game to their own, very substantial advantage."[18]

State capture is complicated by the fact that the business elites are not monolithic; the struggle for power flares between shifting factions. Resistance to business dominance arises from other quarters, such as Congress, which, depending on the circumstances, may be able to modify or restrain the president's influence. Cortizo's coalition won the majority

FIGURE 2.

Select World Bank Worldwide Governance Indicators, 2021



Source: Authors' elaboration of World Bank Worldwide Governance Indicators. Scores range between −2.5 (weak) and 2.5 (strong). Daniel Kaufmann and Aart Kraay, "Worldwide Governance Indicators," World Bank, 2023, https://www.govindicators.org.

of legislative seats in the 2019 elections, yet its own internal divisions allowed other lawmakers to force concessions in appointments, contracts, and the appointment of "relatives of members of parliament to the government bureaucracy or the foreign service."[19]

Undue influence by big business is a problem everywhere, but data indicates it is acute in Panama. The World Bank's Worldwide Governance Indicators features a "control of corruption" dimension, which measures the misuse of public power for personal advantage and the sway of business elites over policy decisions.[20] As shown in figure 2, Panama has a control of corruption score that is notably lower than the regional average and that trails far behind the European Union and the United States.

A Panamanian academic interviewed for this report asserted that Varela's preference for China, including his push to finalize the free trade agreement with Beijing, was motivated by desire to advance his business interests after leaving office. The accuracy of this assertion is difficult to gauge, but the overall tendency toward short-termism and opportunism by Panama's foreign policy decision-makers increases the risk of a top leadership whose business interests are allowed to steer foreign policy. The following subsection explores this issue and its implications for Panama's foreign affairs and long-term development.

OPPORTUNISTIC FOREIGN POLICY: VARELA AND CHINA, 2017–19

With remarkable enthusiasm, President Varela switched Panama's diplomatic recognition from Taipei to Beijing in 2017. Varela had only two years remaining in his term in office and knew he had a fleeting opportunity to seal his presidential legacy, which entailed taking a bold, decisive step that would change the direction of Panama's foreign policy and energize its economy while also burnishing his public image. After all, inaugurating diplomatic relations with the world's largest ascendant economy is a celebratory event for a small state.

This was not the first time, however, that a Panamanian administration had endeavored to normalize relations with Beijing. President Martín Torrijos, try as he might during his tenure (2004–09), was unable to sway Beijing.[21] Torrijos had visibly cooled diplomatic relations with Taiwan, as demonstrated by his refusal to receive Taiwanese president Chen Shui-bian in 2005 during his state visit to Latin America and the Caribbean.[22] Taiwan was sufficiently worried about losing Panama as an ally that Chen subsequently penned a piece in the *Taipei Times* declaring that Taiwan's relationship with Panama remained solid.[23] Torrijos's successor, Ricardo Martinelli, also wanted to switch diplomatic recognition to the PRC in order to benefit from Chinese economic expansion. He offered to sever relations with Taipei in 2009, but Beijing expressed no interest.[24]

Establishing diplomatic relations with the PRC, it should be noted, is not a straightforward process for a small state. Beijing and Taipei can each exert great pressure on a small country and impose tough political and economic consequences for actions they dislike.[25] At present, countries in Latin America and the Caribbean overwhelmingly prefer the PRC, anticipating economic and political benefits from China's global power. Yet if Taiwan offers more favorable terms, they can reconsider.[26] This inconstancy fuels ongoing aid competition in the region; Beijing and Taipei both deploy "checkbook diplomacy," proffering grants, soft loans, and technical assistance in exchange for diplomatic recognition. This rivalry feeds back into the foreign policy decision-making processes of countries in the region, further complicating matters.

Neither Taiwan nor China, however, are indiscriminate about whom they accept as a diplomatic ally. Other variables are in play that have made Beijing, in particular, choosy. Leonel Fernández, former president of the Dominican Republic, described the process of switching diplomatic recognition from Taiwan to the PRC during his time in office as being similar to entering a nightclub: "You have to wait and wait in line for a long time until the bouncer [Beijing] lets you in."[27] Fernández had tried a switch to China in his third term (2008–12) but was unsuccessful.

Between 2008 and 2016, recognition of Taipei in Latin America and the Caribbean remained stable, and "Taipei and Beijing reached a tacit understanding to stop competing for recognition."[28] Taiwan's pro-unification policy and PRC-friendly Kuomintang party rule under President Ma Ying-jeou contributed to the "diplomatic truce," as did growing economic ties across the Taiwan Strait.[29] In 2016, Tsai Ing-wen—a member of the Democratic Progressive Party that sees Taiwan as more autonomous—was elected president, which alarmed Beijing and rekindled its campaign

Panamanian president Juan Carlos Varela speaks at the Panama Invest and Fest conference in Hong Kong on April 2, 2019. In the first two years after Varela established relations with Beijing, Panama and China signed dozens of memoranda of understanding and other executive agreements. (Photo by Kin Cheung/AP)

to peel away Taiwan's diplomatic partners.[30] From January 2016 to January 2020, when Tsai was reelected, Taiwan lost three Latin American and Caribbean countries to China (Dominican Republic, El Salvador, and Panama). Since then, Taiwan has lost two more: Nicaragua in 2021 and Honduras in 2023. (Nicaragua had switched diplomatic recognition to the PRC in 1985, then switched back to Taiwan in 1990.)

In 2017, Panama was the first to switch diplomatic ties to Beijing. In what was characterized as "opportunistic foreign policy" by a Panamanian research participant, Varela jumped after Beijing signaled its openness to full relations. He advanced his courtship of Beijing via Panama's commercial office in China, which had been established in 1996 by reciprocal agreement. Unlike in 2009, China was now eager for Panama's recognition, which it saw as a stepping-stone in its Belt and Road Initiative (BRI). Of the 26 countries in Latin America and the Caribbean that officially recognize Beijing, 22 have now endorsed the BRI. For various political and economic reasons, the Bahamas, Brazil, Colombia, and Mexico have not signed on to the BRI.

Varela organized a state visit to Beijing just five months after establishing relations, with the support of China's first ambassador to Panama, Wei Qiang. It was on this visit that Panama became the first Latin American country to endorse the BRI. By the time Varela left office on July 1, 2019, just two years after the switch, Panama and China had signed dozens of memoranda

Successfully negotiating a free trade agreement is highly prized among Latin America's political and business elites, especially when dealing with "prestige" players such as China, the European Union, and the United States.

of understanding and other executive agreements on matters ranging from cultural exchange and education to infrastructure development and judicial cooperation. One participant in a workshop conducted for this report noted that, by his term's end, Varela had signed a total of 50 agreements—an astonishing number, greater than any other country in the region (many of which had had well-established relationships with Beijing for years).[31] Immediately after recognition, Varela began efforts to negotiate a free trade agreement with China, aiming to finalize a deal before leaving office and, ideally, during Xi's state visit to Panama in 2018.[32]

Successfully negotiating a free trade agreement is highly prized among Latin America's tight-knit policy networks of political and business elites, especially when dealing with "prestige" players such as China, the European Union, and the United States. Opposition to free trade exists in some sectors and businesses harmed by it, but the elites can usually marginalize such "societal actors that have less to contribute to trade negotiations than business sectors."[33] This is why Varela did not open free trade negotiations to public consultation with academia, labor unions, and small business associations.[34]

China currently has five free trade counterparties in Latin America: Chile, Costa Rica, Ecuador, Nicaragua, and Peru. Uruguay hopes to conclude a free trade agreement in the near future. All five existing agreements were signed by the presidents who initiated their negotiation, which may indicate the value some regional heads of state attach to engaging with China and their eagerness to reach agreements with Beijing. Even former president of Costa Rica Óscar Arias acknowledged that negotiating a free trade agreement with China between 2007 and 2010 was one of the high points of his career, a remarkable statement from the man who won the 1987 Nobel Peace Prize.[35]

Varela powered through four rounds of negotiations in the five months from July to November 2018, an incredible rate of progress given the slow pace of diplomacy in general. Yet Varela's hopes of signing a free trade agreement during Xi's December visit, or at least during his presidency, were to be disappointed. In a last-ditch effort before Varela left office, a fifth round of negotiations was concluded in Beijing in April 2019. It was not enough. Responsibility for the failure to conclude a deal lay more with China than with Panama. The trade war with Washington that erupted in July 2018 had made Beijing reticent to sign the agreement.

CIRCULAR FOREIGN POLICY: CORTIZO AND CHINA, 2019–23

When Laurentino Cortizo was elected president in May 2019, Beijing wanted to continue the propitious relations with Panama that it had cultivated under Varela. Wei began making arrangements to have the same access to Cortizo that he had enjoyed with Varela. The day before Cortizo's inauguration, he set up a meeting between Cortizo and Han Changfu, China's agriculture minister, who had come to Panama City as Xi's special envoy to the ceremony. The meeting concluded with Cortizo announcing the first exports of Panamanian meat to China (under agreements Varela had made in 2017), a step which he described as "very positive" for bilateral relations.[36]

This episode demonstrates the finesse of China's economic statecraft. Beijing sent its minister of agriculture, who oversaw China's meat industry, to attend Cortizo's inauguration just as those first exports of meat were being shipped to China. With a deep background in the beef industry, Cortizo has been aptly described as a "livestock businessman with extensive political experience."[37] He told Han of his interest in "reviewing with China the existing trade agreements, in order to expand the opportunities to export agricultural products."[38] Han underscored the importance of Panama to China with an invitation for Cortizo to visit Beijing.

Despite these overtures, Cortizo remained ambivalent about Varela's free trade agreement, so he suspended negotiations in December 2019. One workshop participant from the business sector stated that Cortizo wanted a better deal on China's tariffs on his own industry. Whatever the reasons, he canceled, paused, or scaled back most of Varela's other agreements and initiatives, including the Panama City–Chiriquí high-speed railway.

Putting the free trade agreement on hold gave Cortizo negotiating leverage with both China and the United States. He signed three other agreements with China, two of them motivated by the long-term prospect of boosting Panama's exports of pork and marine products. On the other side of the strategic ledger, Cortizo's cancellations, pauses, and downscaling of projects with China served to steady relations with the United States, retaining Panamanian access to the US Global Entry program (an immigration and customs clearance system for pre-approved, low-risk travelers entering the United States) and appearing to give the United States an opportunity to regain the lead in the geopolitical rivalry over the Panama Canal. These acts exhibited Panama's strategic agency, showing that even amid rampant short-termism there is room for strategic thinking and a degree of autonomy.

In January 2020, the head of US Southern Command expressed concern that Chinese investment in "infrastructure on both sides of the Panama Canal could enable the Chinese military to threaten sea lanes vital to global commerce and the movement of US forces."[39] US pushback and the COVID-19 pandemic slowed Beijing's expansion into the canal region, as did stricter scrutiny of projects by civil society and the impact of "corruption on the commercial and administrative environment in the country."[40]

Panama's Ministry of Public Works subsequently scaled back plans to build a fourth canal bridge, which the Varela administration had awarded to a Chinese consortium. This decision may have been intended to placate US geostrategic concerns, but, as one former government official suggested during the Panama City workshop, it may have been made in an effort to get Washington to renegotiate its 2012 free trade agreement with Panama so as to enable Panamanian producers to compete more effectively against cheap US imports of agricultural products, including beef.[41]

Cortizo's approach to Beijing came full circle in May 2022 when he announced the restart of trade talks, reopening the door to a potential free trade agreement with China.[42] Some analysts argue that this decision was aimed at disciplining Washington for its unwillingness to review its free trade agreement with Panama.[43] According to a research participant familiar with the decision, Cortizo knew it would upset Washington, but he was concerned with his legacy and business interests.

Ecuadorian president Lenín Moreno, left, and Chinese leader Xi Jinping in Beijing on December 12, 2018. Moreno was critical of overindebtedness to China, but Beijing was able to resist his attempts to change course. (Photo by Andy Wong/AP)

Panama's newly inaugurated president, José Raúl Mulino, received a congratulatory note directly from Xi Jinping just days after his May 5, 2024 election.[44] Although Mulino's stance on relations with China is not entirely clear, he was a last-minute replacement in the election for Ricardo Martinelli, who had unsuccessfully attempted to switch diplomatic relations to the PRC during his 2009–14 presidency. (Martinelli was barred from running following a conviction on money-laundering charges.) As Mulino steps into his new role, he may recalibrate Panama's position vis-à-vis China, leading to a closer alignment.

Other small Latin American and Caribbean nations, such as Ecuador, likewise face their own challenges in maneuvering through international politics, often leading to unpredictable foreign policy shifts.

Ecuador and China: Left, Right, Forward

Analyzing Ecuador's foreign policy is a daunting task because it varies in unpredictable ways. This is true of many small, dependent states, which often adjust their foreign policies to meet the demands of external actors, some of them nonstate actors.[45] This tendency makes it problematic to generalize about Ecuador's foreign relations.[46] In this context, the historical record is the best (and often the only) guidepost.

Historically, Ecuador has enjoyed episodes of successful foreign policy design and implementation. For instance, there was the interesting case of "intervention by invitation" in World War II, when Quito convinced Washington to station troops and supplies on the Galápagos Islands to "guard" the Panama Canal from Japanese attack; but in reality, the Ecuadorians wanted Washington to guard their sovereignty over the archipelago from Peru, Ecuador's bitter rival.[47] That was a case, according to one historian, when Quito "got exactly what it wanted," but at other times it has been unable to "respond effectively to foreign policy challenges and defend its national interests."[48] Complicating the historical picture further, Ecuador has never been a purely passive recipient of US foreign policy decisions. Indeed, some Ecuadorian political factions, especially those with a regional focus, have historically viewed the United States as a potential ally to be invited into their local political struggles.[49]

So nonlinear is the evolution of Ecuador's foreign policy that a single overarching and recurrent pattern of behavior may not exist; nevertheless, important convergent factors do exist and are known to influence the country over the long term.[50] One is its vast natural resources, oil in particular, which in most years is its single largest export. The outsized role played by oil exports exposes the economy to the shock of rapidly fluctuating global market prices. Ecuador has faced difficulties in achieving robust, equitable economic growth, a vulnerability commonly observed in nations heavily reliant on primary commodities.[51]

This and other factors may be constant influences, but the use Ecuador makes of them in foreign affairs is anything but consistent. Indeed, its foreign policy has been accurately characterized as "contradictory."[52] This variance is partly the result of formal institutions which are less robust than those of neighboring countries (even Panama), as indicated by the rule of law dimension of the World Bank's Worldwide Governance Indicators (see figure 2).

Institutional weakness has been compounded by political instability. Between 1996 and 2007, seven presidential administrations took office amid economic crises, corruption scandals, and social unrest.[53] This want of a steady hand in the policymaking process has affected relations with China. Quito recognized Beijing back in 1980, but over the next 27 years, although the relationship seemed two-sided, Ecuador did most of the reaching out, striving to cement connections with China but following no coherent strategy. For example, five Ecuadorian heads of state visited China between 1980 and 2007, but not a single high-ranking official from China visited Ecuador.[54] These one-sided diplomatic exchanges might nonetheless have enabled Ecuador to discover common interests with China and opportunities for trade, but Quito seems not to have had a plan for identifying and developing any such opportunities. During this period, Beijing was willing to sign the usual symbolic agreements that it enters into with some Global South countries: technical development and cooperation agreements on education, culture, and trade. Still, China did not show much interest in investing its political capital in closer relations.[55]

This picture began to change, however, in the early 2000s. The last Ecuadorian state visit to China in those early days, by President Lucio Gutiérrez in August 2003, unexpectedly offered an opportunity to pitch to Chinese leader Hu Jintao, in person, an array of investment opportunities across all sectors, from petroleum to agriculture to hydroelectricity. A few months later, Ecuador conceded prospecting rights to the China National Petroleum Corporation and approved China National Chemical's purchase (from ConocoPhillips) of a 14 percent stake in an Orellana Province oil field for $100 million.[56] By then, according to Quito workshop participants, Beijing had awakened to the potential of expanding trade and cooperation with Latin America and the Caribbean by developing relations with countries such as Ecuador.

BORROWING TO BUILD: CORREA AND CHINA, 2007–17

The election of President Rafael Correa gave the bilateral relationship a more strategic flavor. Correa's leftist stance and political skill added strategic depth to Ecuador's international relations, especially with China; ideological and economic alignment made for deeper cooperation. His economic policy contributed to impressive growth and poverty alleviation, but his populism sometimes drew him into opportunism.[57] In December 2007, Correa met with Hu in Beijing, inaugurating a strategic partnership that would be crucial for Ecuador when it defaulted on its external debt in December 2008.[58] With limited options, Correa resorted to using China's "policy banks" (state-owned banks dedicated to supporting Beijing's economic policies and advancing its developmental objectives) to finance needed infrastructure projects that would also boost his popularity.

The influx of Chinese money not only enabled Correa to promote his vision of *buen vivir* (good living) but also boosted national pride; in return, China received access to Ecuador's vast natural resources, fulfilling China's need for resource-backed investments. It was a turning point for both nations, a symbiosis that significantly expanded bilateral cooperation in the years that followed and solidified China's sway over Ecuador's politics and economy. The grand bargain enabled dozens of projects funded and managed by China to go ahead; and it unlocked a trove of short-term benefits for Correa, who could vindicate his populist rhetoric by raising the living standards of the poor and spending massively on social welfare. His borrowing and his popularity grew in tandem. He was reelected in 2009 and again in 2013, when he garnered an impressive 57 percent of the vote—far ahead of his closest rival, Guillermo Lasso, who would ultimately win the presidency in 2021.

Correa's turn to China had consequences for Ecuador's relations with the United States, which he saw as an interventionist force in the region. Aiming to distance Quito from Washington, in 2008 and 2009, he closed the only remaining US military base in Latin America, a counternarcotics facility in Manta, on the Pacific Coast, that the United States had leased from Ecuador since 1999. Correa's government called this "a triumph for national sovereignty."[59] Many tense moments with Washington ensued. US diplomats were expelled on several occasions, and the US ambassador was even declared persona non grata in 2011 after WikiLeaks published diplomatic cables that discussed Correa knowing about corrupt deals during his presidency but doing nothing about them.

Correa travelled again to Beijing in January 2015, where he was welcomed by Hu's successor, Xi Jinping. (Correa and Xi first met in Brazil in 2014.) Xi reciprocated in November 2016; and during that visit, he upgraded Ecuador's status to "Comprehensive Strategic Partner." Xi also used the occasion to promote the BRI and the Asian Infrastructure Investment Bank (AIIB), which China had established earlier that year. (Ecuador went on to become a prospective member of the AIIB in December 2017 and a full member in November 2019, the first Latin American country

The Chinese-constructed Coca Codo Sinclair hydroelectric dam project near Reventador, Ecuador, on November 25, 2018. The dam has never operated at maximum capacity and supplies less than 30 percent of Ecuador's total annual electricity needs. (Photo by Federico Rios Escobar/New York Times)

to do so.)[60] Correa thanked Xi publicly for the 2016 visit, hailing it as the most important "by a head of state in the history of Ecuador."[61] He had reason to be grateful: the China Development Bank and the Export-Import Bank of China, two of the country's main policy banks, had just made multibillion dollar loans to Ecuador.[62]

Xi responded by claiming that aid to Ecuador had "no conditions attached."[63] The reality is that significant concessions were made to China in return for the loans—concessions that had national security implications, according to workshop participants. One project that raised concerns was ECU-911, an emergency response and surveillance system set up and funded by China that has 16 operational centers running a nationwide network of 4,300 cameras monitored by security officers.[64] Critics contend that its real function is to conduct domestic political surveillance, not to help people in distress.[65] Civil liberties groups claim the system is used to monitor protesters, and one workshop participant declared that it surveils not just protesters but all of civil society.[66] All footage is relayed to the intelligence services and processed on equipment very similar to that which China uses to monitor its own people.[67] This arrangement arouses suspicions that data is forwarded to Beijing, but no credible evidence has been produced to substantiate these concerns.

Another concession allowed China full control of various infrastructure projects, some of which were genuinely needed, but too many of which had been approved without proper feasibility studies and which ended up failing, causing significant environmental damage and social unrest. One of the most damaging was the Coca Codo Sinclair hydroelectric dam project; the dam failed to function as intended, and the project was marred by corruption and inefficiency.[68] Since commencing operations in 2016, the dam has never operated at maximum capacity and, contrary to the promised performance, still supplies less than 30 percent of Ecuador's total annual electricity needs.[69] Lenín Moreno, Correa's vice president from 2007 to 2013 and president from 2017 to 2021, was charged in March 2023 with accepting kickbacks of $76 million from the project's Chinese contractor.[70]

The chief beneficiary of Correa's foreign policy was China, which is still being repaid a $1.7 billion loan for the Coca Codo project. To secure that debt, China was promised 80 percent of Ecuador's annual petroleum output.[71] (Many deals China makes with Global South countries stipulate repayment using oil exports.)[72] One former Ecuadorian policymaker summed it up in the Quito workshop: Correa "sold the country" to Beijing for domestic advantage.

MOVING FROM LEFT TO RIGHT: MORENO AND LASSO AND CHINA, 2017–23

Correa's popularity began to plummet in 2016 following a deep recession and multiple scandals, but he retained just enough support among his electoral base on the left to enable his vice president, Moreno, to win the presidency in 2017. Moreno was expected to continue the same policies as Correa, but he took a surprise turn. Moving to the right, he adopted a business-friendly, neoliberal policy and rescinded most of Correa's populist domestic policy. In foreign policy, Moreno was highly critical of Correa's legacy of overindebtedness to China, but Beijing was by then so embedded in Ecuador's economy that it was able to resist all of Moreno's attempts to change course. In December 2018, Moreno traveled to Beijing to renegotiate Ecuador's debts, but he ended up borrowing $900 million more. This loan did not prevent the economic situation from deteriorating further, and in March 2019, Moreno signed a strict credit agreement with the International Monetary Fund. The subsequent austerity measures stoked civil unrest. Moreno, it may be noted, retained the controversial ECU-911 surveillance system, which he could have used to monitor protests.

Among Moreno's foreign policy initiatives was an effort to rehabilitate relations with the United States. In early 2020, he made Ecuador's first state visit to the United States in 20 years, traveling to Washington and meeting with President Donald Trump.

Moreno did not seek reelection in 2021. His designated successor lost to Guillermo Lasso, who became the first right-wing president in 14 years. Lasso promised to reengage with the world as a committed advocate for global cooperation. According to research participants, the accession of Lasso, a major shareholder in an Ecuadorian bank, reassured local and foreign investors, who were convinced that the new president would protect their interests. In foreign policy, he was pragmatic, leading a rapprochement with the United States yet capitalizing on what Correa and Moreno achieved before him by maintaining good relations with China.

Building on this pragmatic and globally oriented approach to foreign affairs, Lasso turned his attention to economic strategy, specifically focusing on free trade agreements as "ideal vehicles" for cooperating with the great commercial powers to improve the country's economic situation, according to research participants. His cabinet wanted to negotiate up to 12 free trade agreements by 2025, an ambitious goal, considering that many of the prospective counterparties were known for conducting slow-moving negotiations. Some observers who participated in the Quito workshop believe Lasso's enthusiasm for these agreements was attributable to his close relationship with big business, which typically benefits the most from them. Proactively pursuing economic opportunities, Lasso visited Beijing in February 2022 to renegotiate Ecuador's existing debts, which by then totaled $4.6 billion, and to set in motion free trade discussions. These conversations concluded in January 2023.

Swift though this negotiating process may seem, it is typical of China's speed in settling free trade agreements with eager Global South countries. Because Beijing has the upper hand, it is able to insist on bypassing technical experts and civil society. One media report said that the "productive sector in Ecuador participated actively in the negotiation" of the free trade agreement.[73] However, activists interviewed by the authors in Quito contradict this, saying that negotiations were conducted mainly behind closed doors and proceeded without civil society consultation. It is true that negotiators did set up a procedure known as *cuarto adjunto* (adjoining room), which in principle keeps civil society informed of ongoing negotiations.[74] But research participants said that the issues discussed were chosen largely by the Ecuadorian Business Committee, which, as its name suggests, represents the interests of the country's business sector, especially major companies. The process overall remained opaque to the general public, who had limited understanding of the issues under discussion.

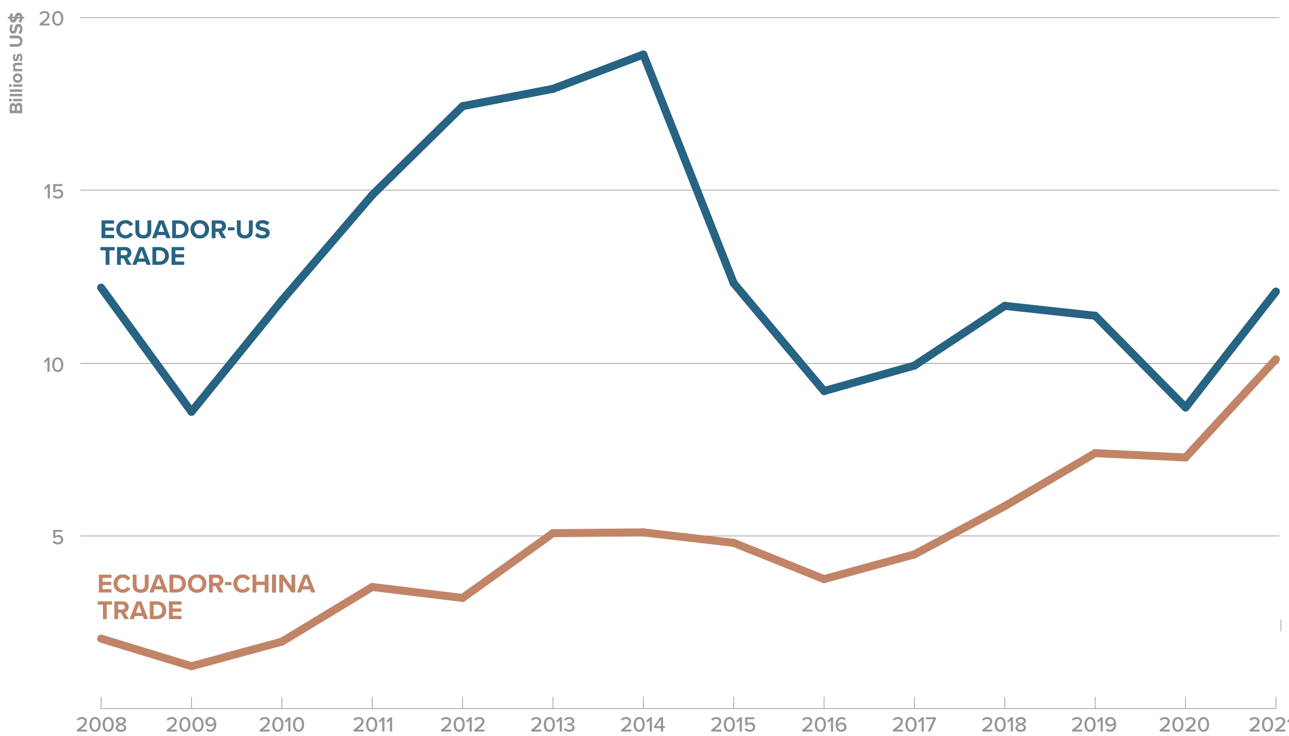
Before the agreement could be implemented, it required approval from the National Assembly. This process was delayed by Lasso's decision to dissolve the legislature in May 2023, prompting a snap general election in August. As no clear majority emerged, a runoff was held in October 2023, resulting in Daniel Noboa's election as the new president along with a new National Assembly. The free trade agreement with Beijing was a key issue for the new legislature and was successfully ratified on February 7, 2024.[75]

The agreement went into effect on May 1, 2024. The agreement grants privileged access to China to 99 percent of Ecuador's current exports, which are predominantly agricultural products.[76] It also paves the way for nontraditional Ecuadorian exports such as pitaya, pineapple, and blueberries to penetrate the Chinese market. But critics accuse the Lasso administration of leaving strategic issues unresolved in its haste to conclude a deal—issues such as intellectual property rights, labor standards, and environmental protections.[77] One possible consequence of the decision to skirt these topics is that the free trade agreement may benefit Beijing disproportionately because opportunities for exploitation may devolve to China in the absence of adequate protections for Ecuadorian workers and the environment.[78]

The World Bank's most recent data, from 2021, shows the United States has been Ecuador's main trading partner, with China second (see figure 3).[79] More recent data from the Ecuadorian government shows a significant increase in non-oil exports to the PRC, rising from $3.6 billion to

FIGURE 3.

Ecuadorian bilateral trade with China and the United States, 2008–21



Source: World Integrated Trade Solution, accessed June 25, 2024, wits.worldbank.org. At the time of publication, data were available only through 2021.

$5.7 billion in 2022 alone.[80] This has established China as the main export destination of non-oil products, which suggests that China may soon displace the United States as Ecuador's largest overall trade partner.

Conclusion and Recommendations

Panama and Ecuador have had similar patterns of interaction with Beijing and incurred similar challenges. Both nations have often adopted short-term, transactional methods in their dealings with China, typically prioritizing immediate economic benefits rather than long-term strategic goals. This tendency stems largely from the influence of business elites in shaping policy, resulting in a bias toward swift agreements and immediate economic gains, sometimes at the cost of wider geopolitical interests.

The experiences of Panama and Ecuador, together with interactions with a broad array of stakeholders during research for this report, have led to the following three recommendations. Geared toward policymakers, political leaders, and key players in both domestic and international realms, the recommendations are designed to foster a more strategic, inclusive, and proactive approach to the complex arena of international relations. Such an approach will help generate more effective foreign policy decision-making overall and, more specifically, will guard against the danger of spoiling relations with China through the short-sightedness and self-interest of political leaders.

The first recommendation is to **develop geopolitical expertise with a focus on China**. Research for this report in both Panama and Ecuador repeatedly exposed a deficit of geostrategic expertise regarding China among foreign policy decision-makers. Panamanian policymakers draw disproportionately on experience acquired in business dealings to tackle the subtler business of foreign affairs. A few special advisers with deeper knowledge of China are typically appointed to foreign affairs ministries, but they are usually political appointees who come and go before they have an opportunity to institutionalize what they know, and who are obliged too often to tell the president and the cabinet what they want to hear.

For example, Panama's free trade agreement negotiations under Varela were overseen by a person with a background in business rather than in the areas of expertise specific to the task. The result was that China prevailed. Panama's negotiators were also pressured by the tunnel vision of a short-termist mandate: get a deal done by December 2018 so the agreement could be signed while Xi was visiting Panama. Another example is a former minister who confused the BRI with the AIIB in an interview for this report. Panamanians' knowledge of China and its foreign policy is in urgent need of improvement. By investing in building capacity and developing a pool of experts inside its formal institutions, Panama could create a sustainable, well-informed decision-making apparatus that could shelve short-termist agendas and approach foreign relations in a more judicious manner.

Ecuador's situation looks better, even if foreign policy is still captured by business elites. President Lasso, in particular, consulted with ministerial experts and technocrats as he weighed decisions. But those with the needed expertise are few and far between. One problem is that in many Latin American foreign ministries, including Ecuador's, such expertise is predominantly found only among legal professionals. The region's legalistic approach to foreign policy has become a hindrance; legal gestures and principled statements can misguide state actors in relations with China.[81] There is a need for experts who understand China's geopolitical ambitions and recognize that Beijing's seeming benignity toward the region is neither selfless nor to be relied upon.

Both China and the United States want to use Latin America and the Caribbean for their own geopolitical and geo-economic advantage. Panama and Ecuador should work on policy continuity, retaining an inner corps of specialists who have the necessary expertise and institutional memory. Multidisciplinary teams in the foreign policy apparatus can help craft effective policies, especially when relations turn upon complex issues, as with China.

A second recommendation is to **increase access to the foreign policy decision-making process by a broader range of domestic actors**. Research with stakeholders in Panama and Ecuador quickly found that foreign policy decision-making has been captured by political and business elites interested in pursuing their own short-termist agendas as well as those of their wealthier constituents. The main problem in both countries is the inaccessibility of foreign policy decision-making processes to those in other social strata who have a stake in the outcome. There is an urgent need to make these processes more accessible to ensure that foreign policy decisions are more representative of and beneficial to the entire country, not just big business.[82]

One initial step toward that end could be to invite academics to bring their knowledge into the official planning environment. Latin American academics interviewed for this report complained that policymakers showed no interest in hearing them out or even in recognizing their knowledge of foreign affairs. One way to shift this dynamic might be through collaboration and exchange between foreign and local academics, and letting joint publications and events amplify local voices.

To implement this recommendation, it is essential to establish structured, ongoing interactions between policymakers and experts. Such interactions could take the form of policy-focused seminars, collaborative research projects, and advisory committees involving academics. These platforms would enable the sharing of scholarly insights directly with policymakers, ensuring that foreign policy decisions are not only inclusive but also grounded in comprehensive research and diverse perspectives. This approach could bridge the gap between theoretical knowledge and practical policy application, fostering a more egalitarian and well-informed foreign policy framework.[83]

Routinizing dialogue between policymakers and leaders of groups such as nongovernmental organizations, media organizations, and think tanks (rather than business interests) would also contribute to inclusive, broadly informed decisions. At the same time, steps should be taken to avoid elite capture—specifically, the undue influence of a small, privileged group over state policies—by insisting on transparency, setting up robust regulatory checks to ensure accountability, and promoting diverse perspectives. The goal should be to democratize the making of foreign policy, turning it into a collective endeavor that considers the voices of all social tiers. Policymakers, as part of their efforts to gain public trust and legitimacy in foreign policy, should adopt a more inclusive and transparent approach. This should involve organizing town halls and trade union and small business roundtables, which are key means of engaging directly with constituents. The basis of these interactions is personal ties, underscoring the importance of community involvement in the decision-making process. Additionally, online platforms for public participation are critical. Digital channels provide a space where the public can actively submit proposals and receive feedback, effectively narrowing the gap between government actions and citizen expectations.

This strategy requires a cultural shift toward transparency and open dialogue that goes beyond conventional diplomatic practices. Innovative engagement formats, as demonstrated by several forward-thinking governmental initiatives in countries such as Canada, Germany, and the United Kingdom, showcase the potential of these new platforms in previously unexplored areas of foreign policy.[84] Such approaches can also be adapted and applied to countries in the Global South, like Panama and Ecuador. By allowing for public involvement (while maintaining

Policymakers in Latin America and the Caribbean and the United States should engage proactively with one another. China is so uninhibited because the United States, at the highest echelons of government, remains disengaged.

appropriate confidentiality), such governments can create a more dynamic and responsive foreign policy process. Participatory approaches in diplomacy promote dialogue and offer an opportunity to rebuild trust and legitimacy.

The third recommendation is for **policymakers in Latin America and the Caribbean and in the United States to engage proactively with one another**. Latin American short-termist foreign policy toward China impacts the entire Western Hemisphere, including the United States. China is so uninhibited in pursuing its strategy in Latin America and the Caribbean because the United States, at the highest echelons of government, remains disengaged. Some elements in Washington's foreign policy apparatus, such as the State Department's Bureau of Western Hemisphere Affairs, take a genuine interest in Latin America and the Caribbean, but their influence is limited by the widespread attitude that the region is of significantly less strategic importance than other places. Regional leaders can respond to this state of affairs by proactively engaging Washington, reminding US decision-makers that cumulative developments in their countries impact the whole geopolitical landscape.

Effective engagement can be seen in the actions of regional think tanks such as the Argentine Council for International Relations (Consejo Argentino para las Relaciones Internacionales) and the Mexican Council on Foreign Affairs (Consejo Mexicano de Asuntos Internacionales). These organizations provide excellent examples of how to maintain a dynamic and influential presence in discussions with Washington, endeavoring to ensure that the strategic importance of Latin America and the Caribbean is recognized and factored into the broader scope of US foreign policy.[85] In the space of seven years, from 2013 through 2019, Xi visited more countries in Latin America and the Caribbean, including Panama and Ecuador, than Presidents Obama, Trump, and Biden combined. Resentment of US neglect was often expressed by stakeholders in both Panama and Ecuador during the research for this report. Their common perception was that Washington takes note of nothing in the region unless and until the United States' own security is endangered. Both the United States and Latin American and Caribbean countries should admit this and build a framework for regular and sustained engagement.

However understandable its reticence to engage in light of a fraught history, from a strategic standpoint the United States should not continue to evade the opportunities and responsibilities that engage its national interests in the Western Hemisphere. One opportunity for improvement may be found in Washington's determination to depend less on Chinese suppliers through "nearshoring," finding alternate suppliers closer to the United States than China (or other Asian countries) to satisfy US production demand. Latin America and the Caribbean have potential as an entrepreneurial space where US-based companies can relocate their technological production. Panama and Ecuador have unique virtues that make them good candidates for US nearshoring, such as geographic proximity, existing cultural and economic ties, favorable economic policies for trade and investment, a readily available and trainable workforce, and time zone alignment, which facilitates business operations. However, they lack the technical capacity, the capital, and the political clout to fully take advantage of opportunities like this. Only the United States—which does have the capacity, capital, and clout—can play that role.

At the same time, countries in Latin America and the Caribbean should not repeat the mistake of relying too heavily on any major power, whether the United States, a European power, or China. They should diversify their foreign ties, maintaining relations with great powers while forging alliances with fellow developing countries in the Global South. It is important for those in the region to realize that not all roads must necessarily lead to either Beijing or Washington. A balanced, diversified approach will enable Panama, Ecuador, and other Latin American and Caribbean states to better negotiate the complex geopolitical landscape and enjoy long-term growth and stability.

Notes

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