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题目：21世纪的厄瓜多尔和中国：
贸易赤字、资源诅咒和发展旅游业的意义

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Ecuador and China in the Twenty-First Century: Trade Deficits, Resource Curses, and Significance of Developing Tourism

A thesis submitted to Peking University in partial fulfillment of the requirements of the Master Program in International Relations by

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ABSTRACT

China’s economic slowdown has led to a drastic decline in demand for raw materials and a corresponding reduction of exports from Latin American and Caribbean (LAC) countries to China. As a result, growth is slowing in Latin America and trade deficits are ballooning. This thesis diagnoses the increasingly difficult position of LAC and— with a particular focus on Sino-Ecuador relations— argues that tourism could reinvigorate and diversify the economies of the region and minimize the trade deficit.

The first section introduces the argument. Chapter 1 provides quantitative analysis illustrating overall Sino-LAC trade relations. Chapter 2 focuses specifically on Sino-Ecuadorean trade relations, tracing the historical evolution of trade policy and assessing contemporary trade balances. The chapter argues that the resource curse has stymied independent Ecuadorian economic development and induced single-industry (oil) export dependence. When confronted with plummeting oil prices and the April 2016 7.8 magnitude earthquake, the economy entered a crisis phase. Chapter 3 argues that Ecuador’s economy must be reformed to overcome the current crisis and avoid future fluctuations in the oil market. Tourism offers a great potential for Ecuador to accomplish this objective, as it will help diversify the state's productivity matrix by increasing its export of services. The last section provides recommendations towards this end: the most important of these are tourism alliances with other LAC countries and increased cooperation with the private sector.

Keywords: Latin America and the Caribbean (LAC), China, Ecuador, Trade Deficit, Tourism Industry.
21 世纪的厄瓜多尔和中国
——贸易赤字、资源诅咒和发展旅游业的意义

中文摘要

中国经济减速导致其对原材料的需求大幅下降，并相应影响了中国从拉丁美洲与加勒比海国家的原材料进口。受此影响，拉丁美洲与加勒比海国家的贸易赤字逐渐增加，经济发展也随之放缓。本文聚焦当下拉丁美洲与加勒比海国家面临的较为不利的外部环境，特别关注中国和厄瓜多尔的关系，认为促进旅游服务贸易出口将对推动地区经济恢复与多元化发展以及减少贸易赤字有重要意义。

本文第一章对中国同拉丁美洲与加勒比海国家的贸易关系进行了总体分析。第二章则将中国和厄瓜多尔双边贸易作为重点，回顾了相关数据及政策缘起，并就当前的贸易结构等问题做了评估。本章认为，“资源诅咒”一定程度上解释了厄瓜多尔经济长期以来面临的困境。由于对单一产品（石油）出口的严重依赖，厄瓜多尔经济难以有持续、稳定、独立的发展。近年来，国际石油价格暴跌，加之 2016 年 4 月 16 日厄瓜多尔发生的 7.8 级大地震，使厄瓜多尔的经济陷入严重危机。第三章基于以上分析提出，为克服当前危机以及减少对石油出口的过度依赖，厄瓜多尔需在经济领域进行重大改革。借助丰富的旅游资源大力发展旅游服务贸易出口，是推动国家经济多元化发展的一个重要方面。本文在第四章对如何增加厄瓜多尔的旅游服务贸易出口有有针对性地提出了一些政策建议，特别强调了与地区特别是相邻国家以及相关私人部门展开务实合作的必要性。

关键词：拉丁美洲与加勒比海国家；中国；厄瓜多尔；贸易赤字；旅游业
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Introduction

A. Objective of the Study

The value of LAC-China trade increased from $12 billion in 2000 to $261 billion in 2013. However, 80% of the LAC exports were raw materials, i.e. oil, minerals, and soybeans, making some countries in the region dependent on Chinese demand. Meanwhile, the majority of Chinese exports to LAC are high value-added manufactured goods, such as vehicles and electronics. According to The United Nations Economic Commission for Latin America and the Caribbean (ECLAC), a mere five products accounted for roughly 75% of the value of all LAC commodity exports to China in 2013. This has created a challenge for the entire region to assess and overcome its trade imbalance. Consequently, there is a desperate need and great potential for LAC to increase mutual trade of services with China. This research will focus on Ecuador’s tourism industry, in particular analyzing whether increasing Chinese tourist demand and expanding Ecuadorian tourism infrastructure can provide both a possible platform for economic diversification and a pathway towards increased trade in services.

This dissertation suggests that Ecuador suffers from the natural resource curse, particularly oil, and aims to show the Ecuadorian government that investing in services such as tourism, with a focus on the Chinese market, would be one of the effective ways to diversify its economic structure. By growing its tourism industry, Ecuador may increase its macroeconomic development in the long term and minimize its dependency on its oil. With tough economic times, low oil prices, and a recent 7.8 earthquake, this is

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an optimal time to help the economy transition into more diverse industries.

After conducting a quantitative trade analysis between LAC and China, it is clear that a trade deficit exists in most cases. Consequently, after discovering the root of Ecuador’s trade deficit with China, this thesis aims to provide a double solution. Is Ecuador able to pivot from its dependency on oil sales and diversify its economy by investing in the export of services such as tourism?

B. Literature Review

This section will examine the literature existing on the subjects related to LAC conquest to diversify its productivity matrix, analyze the previous works, and present the author’s findings within this context.

According to *Latin America facing China: South-South Relations beyond the Washington Consensus*, China now plays a crucial political and economic role in the affairs of Latin American countries.¹ This book contributes to the foundations of the main argument of the author of this research.

In order to further understand why some LAC countries have a trade surplus and others a trade deficit, the author uses the Resource Curse Theory. The Resource Curse Theory, developed by Sachs and Warner (1995)², refers to a country with an abundance in a specific natural resource that is experiencing stagnant growth or even economic contraction. The books *Beyond the Resource Curse* edited by Brenda Shaffer and Taleh Ziyadov; *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations* by Michael L. Ross; and *Escaping the Resource Curse* edited by Macartan Humphreys, Jeffrey D. Sachs & Joseph E. Stiglitz were used by the author to comprehend the

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² The main idea behind the Resource Curse is that mineral and fuel abundance in less developed countries tends to create negative developmental outcomes, including poor economic performance, growth collapses, high levels of corruption, ineffective governance and greater political violence. Natural resources, for most poor countries, are deemed to be more of a ‘curse’ than a ‘blessing’.
reasons behind this curse and assess the current situation in regards to Ecuador.\footnote{Brenda Shaffer and Taleh Ziyadov, eds., Beyond the Resource Curse, Philadelphia: University of Pennsylvania Press, 2012; Michael L. Ross, The Oil Curse: How Petroleum Wealth Shapes the Development of Nations, Princeton, NJ: Princeton University Press, 2012; Macartan Humphreys, Jeffrey D. Sachs, and Joseph E. Stiglitz, eds., Escaping the Resource Curse, New York, Columbia University Press, 2007.} Although the studies done in these books state that Ecuador is not under the resource curse, the findings of the author show the opposite.

One probable solution for Ecuador’s resource curse, the author suggests the nation invest in the export of services such as tourism. Books such as Tourism and Sustainability: Development and New Tourism in the Third World, by Martin Mowforth and Ian Munt, allow one to further understand the true implications the tourism industry would have on the economy of a country like Ecuador. Also, China’s Outbound Tourism by Wolfgang Arlt helped gather data about the Chinese travel tendencies.\footnote{Martin Mowforth and Ian Munt, Tourism and Sustainability: New Tourism in the Third World, New York: Routledge, 2003; Wolfgang Arlt, China’s Outbound Tourism, London: Routledge, 2006.}

C. Methodology

In order to contribute to the literature, the author conducted several interviews with key individuals involved within the scope of the research. One of the interviews was with the Ambassador of Ecuador in Beijing, Jose Maria Borja. This meeting was conducted to further Ecuador’s perspective on its political and economic relations with China. Another interview was done with Luis Fernando, director of the Commercial office of Ecuador in Beijing. This interview allowed the collection of data regarding the bilateral trade between Ecuador and China. The interview conducted with the Chief Consular of Ecuador’s consulate in Beijing, Paola Prado, contributed to the understanding of the immigration law and new policies that the governments of Ecuador and China have signed in order to incentivize tourism. In regards to gathering data for the tourism section of this thesis, the author participated in different events and internships at the Embassy of Ecuador and Chinese travel agencies. For instance,
presentations given by Enrique Garcia Rodriguez, current president of the Development Bank of Latin America (CAF), and Andreas Pierotic, trade commissioner of Chile in Beijing, were significant sources that contributed to the formulation of the true conditions of the region’s economic and political relations with China. These two presenters focused on topics such as China’s role in Latin America, *The China Effect*, constraints Latin America faces in trade with China, and many more. These experiences helped with fully understanding the Chinese and Ecuadorian perspectives when it comes to tourism. Moreover, the survey taken by 103 Chinese tourists who have already visited Ecuador gave more valuable information for further understanding the Chinese tourist perception of Ecuador. Additionally, constant communication with the representatives of the ministry of tourism in Ecuador and in Beijing enabled the gathering of data needed for this research.

**D. Essay Structure**

This research approaches the key question: whether investing in Ecuador’s tourism industry by attracting Chinese visitors could enable the country to diversify its economy and help to overcome the economic crisis.

In order to understand the specific case of Ecuador’s resource curse and need for economic restructuring, it is important to first illustrate the overall context of LAC and the Sino-LAC trade imbalance. Thus, Chapter 1 serves as a quantitative analysis to describe and illustrate the bilateral trade between China and Latin America. Then, it looks at several countries in detail in order to see if these countries have a trade surplus or trade deficit with China and why this is the case.

Based on the illustrations of Chapter 1, Chapter 2 focuses on Sino- Ecuador relations. It introduces the perspective that Ecuador has a trade deficit with China due to Ecuador’s lack of infrastructure and productivity matrix. Ecuador is an oil exporting
country and due to low prices it is facing an economic downturn. This chapter provides alternative solutions for Ecuador to leave behind its dependency on oil and decrease its deficit with China.

Chapter 3 suggests that Ecuador must diversify its trade balance with China by not only exporting raw materials but also by increasing services such as tourism. Here, different strategies are analyzed in order to observe if investment in Ecuador’s tourism industry would contribute to the country’s GDP composition. Chinese tourists are the target group that this section focuses on in order to start Ecuador’s tourism industry.

The last part concludes this thesis by summarizing the implications obtained in this research, suggestions by the author, limitations of the research and recommendations for future research on this topic.
Chapter 1: Overall LAC’s Trade Balance with China

1.1. Overall Trade Balance between China and LAC

Since China’s accession to the World Trade Organization in 2001, it has quickly claimed a leading role in the global economy. In 2012, it became the largest trading country on the planet, in 2013 the second largest recipient of foreign direct investment FDI after the United States, and also the third largest source of outward investment after the United States and Japan. ¹ Furthermore, China’s influence in LAC has also increased. In the past 15 years, China has become LAC’s strategic economic partner. However, the turning point in regards to trade between these two regions took place in the late 1500’s due to the LAC contribution of silver. Consequently, as Andreas Pierotic, trade commissioner of Chile in Beijing, put it, “Silver, without a doubt, is Latin America’s most significant contribution throughout history to China”.² Currently, China is the second largest trading partner for Latin America. The United States maintains first place while the European Union takes third place. According to the Ministry of Commerce of China, in 2013 China-LAC trade in goods was $261.6 billion, making China the second most influential trading partner in the LAC region. Glancing at these facts, it seems that the bilateral trade benefits both sides: China obtains raw goods from LAC in order to satisfy its growth and energy demand while the LAC receive finished goods like machinery and technology in exchange. However, looking further into each country and the region as a whole, there seems to be a trade imbalance making the LAC countries at risk of an economic meltdown.

² Andreas Pierotic, “China’s New Role in Latin America Geopolitical Implications and Opportunities,” lecture at Peking University, Beijing, April 1, 2016.
1.2. Trade from LAC to China of Specific Countries and Products

LAC exports to China are mostly composed of primary goods while China exports mainly finished goods. For instance, in 2013 China purchased 15% of LAC agricultural and extractive exports but only 2% of the region’s manufactured goods amounting for total exports of $112 billion in goods while in the same year, LAC imported from China $142 billion in goods. Specific LAC countries possess an absolute advantage in specific goods that China has a high demand for, while at the same time China has an absolute advantage in technology and manufactured goods that Latin America desperately needs. In order to further understand the existing trade between China and LAC, it’s necessary to focus on the overall facts. Graph 1.1 represents the total imports, exports, trade surpluses and deficits of 16 LAC during 2013 with China. The author compiled data on the 16 countries in Latin America with the highest GDP, except for Honduras due to lack of available data. This data was collected from the World Bank. Out of the 16 countries considered in graph 1.1., only two experienced a balance surplus: Brazil and Chile, while the other LAC experienced a trade deficit. Furthermore, we will look at several different countries in Latin America and their trades with China in order to attempt to better understand its current status.

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2 Absolute Advantage Theory: “Adam Smith’s theory of absolute advantage and the use of doxography in the history of economics,” Smith states that international trade is beneficial to all countries involved in trade, although not necessarily in equal parts. In other words, absolute advantage theory emphasizes the goods or services a country produces more effectively—cheaper, better, faster—and specializes on that producing those particular goods and hence, developing an absolute advantage over other nations. Reinhard Schumacher, “Adam Smith’s Theory of Absolute Advantage and the Use of Doxography in the History of Economics,” Erasmus Journal for Philosophy and Economics, Vol.5, No. 2, 2012, pp.54-80.
3 According to the United Nation, the classification of LAC countries is composed of the following countries and regions: Anguilla, Belize, Argentina, Antigua and Barbuda, Costa Rica, Bolivia, Aruba, El Salvador, Brazil, Bahamas, Guatemala, Chile, Barbados, Honduras, Colombia, British Virgin Islands, Mexico, Ecuador, Caribbean Netherlands, Nicaragua, Falkland Islands (Malvinas), Cayman Islands, Panama, French Guiana, Cuba, Guyana, Curaçao, Paraguay, Dominica, Peru, Dominican Republic, Suriname, Grenada, Uruguay, Guadeloupe, Venezuela (Bolivarian Rep. of), Haiti, Jamaica, Martinique, Montserrat, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sint Maarten (Dutch part), Trinidad and Tobago, Turks and Caicos Islands, United States Virgin Islands. Accessed on May 20, 2016. http://www.unep.org/tunza/tunzachildren/downloads/country-Classification.pdf
Out of these countries and regions, the author collected data from 16 countries to analyze their trade with China. The countries considered were Brazil, Chile, Bolivia, Uruguay, El Salvador, Panama, Peru, Guatemala, Costa Rica, Dominican Republic, Paraguay, Ecuador, Colombia, Argentina, Venezuela, and Mexico.
Chile is one of the two countries in Latin America that obtained a trade surplus with China in 2013. Consequently, it is crucial to look in depth at the factors that allowed Chile to succeed. First, Chile was capable of satisfying China’s demand for copper because it fully developed its copper industry. Chile’s main export to China is refined copper, representing 38% of the total exports to China, followed by copper ore 30%, and raw copper 9.2%. Consequently, China is Chile’s number one trading partner. China has a high demand for copper and offers an increased value-added price, while Chile is able to meet the demand. Thus, this Latin American country experienced

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1 Data collected from 16 LAC countries which possess the highest GDPs in the region, except for Honduras, due to lack of data.
2 Due to difficulty finding recent data, most of the data in this research dates back to 2013 in order to be consistent.

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Billion of U.S.D

Source: Created by author calculated from the World Bank Direction World Integrated Trade Solution. WITS calculated in USD units
a trade surplus with China in 2013 of $3.4 billion. However, since then, Chile’s total export of copper to China has been reduced from 96% to 76%. Consequently, the Chilean government has had to reduce its national budget and increase the exports of other goods such as cherries and blueberries in order to compensate for the lower demand for copper.

Brazil is the other Latin American country that had a trade surplus with China in 2013. Brazil is a key provider of soybeans to China and the number one receiver of Chinese FDI in the region. This Latin American country satisfies 60% of China’s demand for soybeans, which are the number one export to China, followed by iron ore. Brazil, like Chile, has invested in advanced industries for the extraction of its natural resources in order to be competitive in the international market. China is Brazil’s largest export destination; in 2013 it represented $41.1 billion, followed by the U.S.A. with $25.2 billion. In 2013, Brazil also boasted a trade surplus of $8.7 billion USD. However, challenges lie ahead for the Sino-Brazilian trade relations. China needs to prove that its trade with Brazil seeks to improve and upgrade Brazil’s exports of low valued-added and low technology goods. Also, current political developments and the Brazilian people’s discontent with Ex-President Dilma Rousseff tests the Chinese government’s capability to adapt and effectively comprehend the complexities of Brazil’s political system.

Argentina is China’s another major soybean supplier in LAC. In fact, China represents Argentina’s second biggest export destination after Brazil. Moreover, soybeans are the number one export of Argentina to the world accounting for 14% of

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2 Ibid.
3 Value obtained by author from World Bank World Integrated Trade Solution WITS Database
the county’s total exports. However, the descriptive statistics for the year 2013 show that Argentina imported twice as much from China as it exported to China. According to the World Bank, this generates a trade deficit of $5.8 billion between the two nations. This trade deficit in part is due to lack of bilateral trade agreements between the two nations, insufficient infrastructure, and too much emphasis on using raw materials such as soybeans instead of developing a market for more value-added products.

According to the World Bank Trade database, in 2013 China represented 21% of Venezuela’s imports, mostly in capital goods, manufactured items, and electronics, while China represented 85% of Venezuela’s exports—mostly minerals and raw materials. Venezuela obtained a trade deficit with China in 2013, and the country still faces many economic constraints due to being an oil-dependent economy. Hence, in recent years Venezuela has been negatively affected by the drop in oil prices. Like most LAC countries, Venezuela only has one industry to fuel its economy, making the country vulnerable and dependent on Chinese demand for its resources. Although Venezuela is one of the largest exporters of oil, China’s demand has slowed down because China also obtains oil from its older supplier countries such as: Russia, Iraq, Iran and others. The trade deficit with China will continue to take place unless the price of oil increases or Venezuela diversifies its productivity matrix.

Unlike most countries in the LAC region, Mexico also exports finished goods such as cars, vehicle parts, computers, etc., in addition to crude oil. China represents 2% of Mexico’s exports and 16% of Mexico’s imports, creating a bilateral trade deficit of

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1 Value obtained by author from World Bank World Integrated Trade Solution WITS Database.
Mexico has diversified its economy by investing in several sectors, making its productivity matrix of 230 products competitive in the global export arena. However, Mexico’s trade with China is at clear risk because Mexico is not able to compete with Chinese commodity prices and other finished goods.

Another aspect that affects the bilateral trade between China and Mexico is politics. Political relations have a major influence in this particular case due to Mexico’s strong political and economic ties with the United States such as the North American Free Trade Agreement (NAFTA). Consequently, Mexico has prioritized developing a healthier relationship with China in order to diversify its economic partners. However, the Chinese government lacks understanding of Mexico’s socioeconomic status, legal system, political instability, and corruption issues, which has resulted in Mexico’s doubts about allowing Chinese FDI in their territory.

To summarize, based on the most prominent cases of trade between specific LAC countries and China, there is an overall Sino- LAC trade deficit. Graph 1.2 further illustrates this fact: based on data from the IMF, for the majority of the LAC countries, there has been a constant deficit with China and this figure does not seem to change into a trade surplus. Instead, with every year that goes by, the trade deficit continues. The issue is LAC’s dependency on their natural resources as the only goods available for trade with China, and China’s lack of understanding the politically and economically complexities when dealing with LAC.

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5. China’s “peaceful coexistence” approach does not want to intervene in the internal political affairs of other countries, but it is necessary that China devote more time to fully understand the ramifications when signing treaties with LAC countries. There are many complications in Ecuador due to bad administration and political differences. Ecuador’s government signs all the deals with the Chinese government not allowing the private sector to intervene.
1.3. Agricultural Potential in the LAC

Enrique Garcia Rodriguez raised the question on an official visit to China in May 2015: how can Latin American countries increase foreign investment that goes beyond investing in oil and natural resources? Agriculture seems to be one of the possible answers to this question. In order to leave behind the trade deficit the region faces, LAC countries must attract FDI to industries besides ones focused only on the extraction of natural resources. According to ECLAC, between 2010 and 2013, 90% of the region’s FDI was located in the extraction of raw materials. ECLAC emphasizes the need to diversify the region’s economy by investing in manufacturing, services, infrastructure, energy, transportation, and logistics. ¹ Consequently, there has been

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increased focus on the agriculture sector of LAC countries.

The agricultural sector has great potential to increase the region’s exports to China. According to the Inter-American Institute for the Cooperation on Agriculture, Latin America holds 42% of the world’s agricultural capabilities, hence creating opportunities for its production to grow.\(^1\) On the other hand, China possesses 22% of the world’s population but only 7% of its arable land. Therefore, China is dependent on specific agricultural products in order to meet the demands of its people. China needs Peru’s fish flour in order to raise livestock and Brazil’s soybeans to produce edible oil, just to name an example. In this manner, China will be able to supply its vast demand for meat.

The primary challenge for the Chinese government is making food a secure commodity as China is not self-sufficient. It faces many threats on the dependency of food products. Hence, agricultural trade with the LAC is crucial, as China’s food security policies clearly demonstrate.\(^2\) China has invested and attempted to secure food commodities via production rights in LAC counties. For example, China secures its food commodity by investing in infrastructure in Brazil. This reduces dramatically the cost of shipping food.\(^3\) In addition, examples of LAC countries include two attempts by China to acquire production rights, through state-owned farms, on large areas of land in Argentina. In the first case, Chinese agricultural giant Beidahuang signed an agreement with the Rio Negro provincial government in Argentina. The agreement included contracts for an agro-food project and a proposed port facility, with the


objective of jointly producing and then exporting agricultural goods to China.¹ In the 2000s, countless media reports, journal articles, and databases tracked China’s land acquisitions across the globe. Apprehensions heightened in the midst of the 2008 food crisis when China’s Ministry of Agriculture was rumored to have given the State Council a draft proposal that specifically encouraged overseas land investments. There have been high-profile Chinese investments in foreign land in recent years, some of them in Latin America.²

Graph 1.3 shows the increase of agricultural goods exports from LAC to China since 1993. There has been a gradual and significant increase in the past 20 years; agricultural products account for 15% of LAC exports as a whole.

Graph 1.3. China’s Share of LAC Goods Exports, by Sectors


² Ibid, p.18.
Additionally, graph 1.4, shown below, illustrates China’s agricultural imports. This notes a major increase in the imports of soybeans due to China’s concentration on producing rice, wheat, and corn. These three crops are being planted instead of soy because soy represents a smaller yield. Consequently, stable grains are prioritized by the government and farmers; plus, the increased demand for animal feed and cooking oil has contributed to the increased imports of soybeans from Latin America, Brazil and Argentina in particular.¹

**Graph 1.4: China’s Agricultural Imports, 1978-2012 (Thousands of Tons)**


### 1.4. What Is the Issue?

After describing the data of 16 LAC counties there are certain key points which help with understanding trade between China and LAC counties. China sees LAC as a

place with abundant natural resources, which are necessary to fuel China’s demand. From the data gathered from the World Bank, LAC’ number one import from China is manufactured and electronic goods, while LAC’ number one export to China is natural resources. Based on graph 1.1., 14 out of the 16 countries analyzed have experience some level of trade deficit with China. One explanation for the existence of this deficit is because most LAC counties do not have a developed infrastructure to improve their trade balance with China.

Enrique Garcia Rodriguez stated on May 13, 2015 that the region suffers from political and infrastructural structural cavities. He mentioned during his presentation “Dialogue for Common Development: Building Bridges between China and Latin America” at Beijing Normal University that the region has five major structural issues: first, low saving capacity; second, investment mainly focused on natural resources; third, lack of productive growth; fourth, non-competitive pricing due to expensive exportation of commodities; and lastly, social inequality. ¹

Another issue seems to be that the majority of LAC counties mostly focuses on one industry, making the country dependent on Chinese demand for this specific product. For instance, in 2013 Brazil and Chile experienced a trade surplus with China due to the fact that these two countries supply a significant amount of China’s demand for soybeans and copper, respectively. But what would happen to the trade balance of these two countries if China’s demand for soybeans and copper suddenly lowered drastically? China’s economic growth has already slowed down, hence affecting the economies of many LAC counties that depend on China’s demand. If this economic slowdown continues, how will Brazil with its soybeans, Chile with its copper, and Venezuela with its oil manage to maintain a trade balance with the Asian giant? Would

Brazil, Chile and Venezuela be able to compensate for the decrease of its most valuable export with other goods? It is clear that Brazil and Chile experience a trade surplus because they possess a good that China lacks, but the fate of these two countries would be different if they didn’t have these natural resources. In other words, Chile and Brazil would experience the same trade deficit as all other Latin American countries if they didn’t have copper and soybeans.\(^1\) China is a country that produces mostly anything and everything, making it extremely difficult to export a good that China does not already posses.

1.5. Conclusion

China has increased its influence in LAC not only through trade but also through direct investments. However, according to Enrique Garcia Rodriguez, understanding the implications of such a relationship is lacking on both sides. Latin America lacks understanding of China’s political system, trade, investment, and education initiatives in order to make bilateral trade easier. Similarly, China lacks the same in regards to understanding the economic, political, and sociocultural dynamics of LAC.\(^2\) The Sino-Latin America and Caribbean bilateral trade relations are not sustainable for LAC, and the region needs to develop a strategy in order to pivot from depending solely on the export of raw materials. LAC counties need to utilize institutions like CELAC to, as a region, negotiate with China toward developing a long-term solution such as a post-commodity boom strategy towards China. Also, institutions like Intern-American Development Bank (IDB) and ECLAC should make clear what is part of signing an agreement with China because there is little understanding on the ramifications of these

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\(^1\) “Ecuador's Economic and Political Relations with China,” Interview by author. April 1, 2016.

Consequently, due to China’s trade imbalance and power in dominating the finished goods market, LAC counties must develop new strategies in order to balance the trade deficit. LAC counties ought to invest more in infrastructure in order to gain the capability to export more goods to China more effectively. For instance, they could invest in making customs clearance and transit procedures easy and fast to process. Another area that LAC counties needs to improve is technological innovation to improve labor productivity. Also, the potential alliance of all LAC counties could bring benefits for the whole region, using Brazil, member of the five emerging economies—Brazil, Russia, India, China and South Africa (BRICS)—as the motor to help develop the economy of LAC counties.

Enrique Garcia Rodriguez, suggested regional integration as a method for LAC to be stronger in the political and economic arena. He added that regional integration could extend the market of LAC goods and services, making it more competitive on an international scale. The region needs to think outside the box by not depending only on exporting goods but starting to also develop services to export. In this way, LAC will have a diversified productivity matrix, which will result in a more sustainable solution to easily face the changes that will lie ahead. Enrique Garcia Rodriguez also mentioned that the region needs: good quality investment focus in different fields, infrastructure, education, and reputable institutions. Lastly, LAC must work as a united region through entities such as MERCOSUR and ECLAC in order to increase FDI and diversify their exports. Unified, the region will be stronger in order to truly have a beneficial “win-win” Sino – LAC relations.

3 Kevin Gallagher and Roberto Porzecanski, Dragon in the Room: China and the Future of Latin American
Chapter 2  Case Study: Sino-Ecuador Relations

Introduction

Due to limited accessible data, personal interest, strong political and economic relations, gaps in the literature highlighted in the introduction part, and to narrow down the scope of this research, Ecuador was the chosen country for a case study. In this chapter, the author analyzes the economic and political aspects of Sino-Ecuador relations in order to diagnose the status of this relationship. Is it a “Win-Win” scenario for both parties?

2.1 Ecuador’s Historical Diplomatic Relations with China

China and Ecuador officially established diplomatic ties in 1980; ever since, Ecuador has recognized only one China and supports the country in sensitive topics such as Taiwan and Tibet.\(^1\) For many years, Ecuador has economically cooperated more with the United States and the European Union than with China. However, in part due to the United States’ foreign policy and neoliberal economic policies such as the “Washington Consensus,” countries such as Ecuador, Venezuela, and Bolivia have slowly reduced political relations with the United States. Instead, Ecuador has been turning to China as a source of foreign direct investment to help keep its economy afloat. China has begun to fill the void left by declining U.S.-Latin American relations and build stronger economic ties with Ecuador.

2.2. Facts about Ecuador: Political Instability and Macroeconomic Conditions

Ecuador is a developing country located in South America with a population of about 15 million people. This country has gone through political turmoil ranging from

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\(^1\) “Ecuador's projects financed by China,” Interview by author, December 6, 2014. Refer to appendix for further information about Ecuador’s projects financed by China.
political instabilities like *coup d'états*, to having 7 presidents in less than 8 years, to a financial crisis, which forced the country to abandon their own currency, “Sucre”. Hence, the country had to adopt U.S. dollars as its currency in the year 2000. In 2008, Ecuador defaulted from its public debt; however, due to its oil revenues and economic support from China, Ecuador was able to counterbalance declining foreign investment from the West and continued capital flight. \(^1\) Since then, economic growth and political stability, in comparison to previous years, have been significant.

### 2.3. Economic Ties between Ecuador and China

The economic relations between these two nations seem to have not only benefited Ecuador, but also China. For instance, China’s rapid development, economic progress, and thirst for natural resources have contributed to its dramatic increase in economic relations with Ecuador and LAC as a whole. Therefore, China has placed a particular emphasis on Ecuador’s oil and energy sector. While Ecuador is small in size, it possesses abundant natural resources, including large oil reserves. China has given more than $9 billion to Ecuador in loans in exchange for its oil.\(^2\) This equaled about 11% of Ecuador’s GDP for 2013.\(^3\) Since mid-2009, under President Correa’s administration, China has become Ecuador’s most important trading partner, exporting 360,000 barrels of oil per day. In other words, China controls more than 60% of Ecuador’s oil exports as a way to ensure that the Ecuadorian government repays its loans.\(^4\)

In regards to trade, crude oil is Ecuador’s number one asset. In 2013, it represented 51% of Ecuador’s total exports followed by: bananas 11.5%, crustaceans 6.7%, processed fish 5.4%, cut flowers 3%, and other goods making up the rest. In

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\(^3\) Ibid.

\(^4\) Commercial office Documents, Ecuador Embassy, Beijing. Refer to appendix.
regards to imports, Ecuador imports 23% finished manufactured and technology goods, 23% mineral products such as refined petroleum and coal tar oil, 11% chemical products, 8.8% transportation, and many more high value-added and finished goods.\(^1\) Although China is Ecuador’s number one financial lender, China is not a significant recipient of Ecuador’s exports, but is its second most important import supplier. In other words, Ecuador exports a low volume of goods and services, many of which are low value-added, to China, but it imports a large amount of high value-added goods and services. Graph 2.1 further illustrates the breakdown of Ecuador’s exports to China. As shown, in 2012 77% of Ecuador’s exports to China were petroleum and other raw materials. Furthermore, graph 2.2 shows the breakdown of Ecuador’s imports from China, which are mostly manufactured and technology goods. Consequently, Ecuador maintains a trade deficit with China. According to the World Integrated Trade Solution WITS, in 2014 alone Ecuador imported $4.5 billion and exported $568 million, creating a trade imbalance of almost $4 billion.

**Graph 2.1: Main Exports from Ecuador to China, 2012**

\(^1\) Commercial office Documents, Ecuador Embassy, Beijing. Refer to appendix.
When Ecuador’s ambassador to Beijing, Jose Maria Borja, was asked what he believed was the solution to balancing Ecuador’s trade deficit with China, he answered, “We need to modernize, export products that have value added.” \(^1\) He admitted to having asked himself this same question many times. He also mentioned that he has gathered the staff working at the commercial office to brainstorm ideas for decreasing Ecuador’s trade deficit. The ambassador stated that the problem remains because of the different productivity structures. Ecuador buys industrialized goods from China, which are very big and expensive, he added. For instance, Ecuador buys its oil pipelines, machinery, oil drillers, copper, iron, and other products. On the other hand, what does Ecuador sell to China? Petroleum, bananas, shrimps, coffee, flowers, etc. This explains the trade deficit Ecuador has with China.

Luis Fernando Rojas, director of Ecuador’s commercial office, agreed that the different productivity structure of both countries is the main issue for Ecuador’s trade deficit with China. He added, “In China you can find everything.” He then mentioned that Ecuador imports 3000 to 4000 tariff headings, but it only exports a total of 180 tariff headings, and out of those only 12 to 15 are significant in value and volume. He also said that most likely the trade deficit will lessen when China starts to buy more of Ecuador’s gold, but it is likely that Ecuador will continue to have a trade deficit with China. He concluded that it’s impossible for a country the size of Ecuador to become a second China and produce a countless number of goods and services.\(^2\)

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\(^1\) “Ecuador’s Economic and Political Relations with China,” Interview by author, April 1, 2016.

\(^2\) “Ecuador’s Trade Balance with China,” Interview by author, April 1, 2016.
Moreover, Ecuador should aim to reduce its vast trade deficit with China by increasing its manufacturing and agricultural exports to China. Ecuador imports more Chinese products than it exports, so it should strive for a more equitable trading balance. Ecuador already exports oil, bananas, wood products, seafood, shrimp, and fish powder to China; however, current volumes are not high enough. For example, while Ecuador is the world’s leading banana exporter, it is only China’s fifth largest supplier; clearly there is room for improvement but Ecuador does not have a developed agricultural industry. Hence, the lack of infrastructure puts a constraint on Ecuador to meet the Chinese demand for bananas. Ecuador’s commercial office in Beijing is working in order to increase exports to China of certain products such as bananas, shrimp, and flowers, but there are many obstacles such as: competition, logistics of transportation, lack of industries, low capacity of production, to name a few that make this objective difficult to reach.
2.4 China’s International Political Economy (IPE) Approach towards Ecuador

It is important to also analyze the agenda that China has for Ecuador. The book entitled *China’s Reforms and International Political Economy* edited by David Zweig and Chen Zhimin discusses China’s IPE approach and explains how western scholars see IPE in such things as rational choice, game theory, and mathematical and statistical methods. ¹ Also, the growing prominence of IPE as a field of study is in part a result of the continuing breakdown of disciplinary boundaries between economics and politics and also among the social sciences. ²

Susan Strange, one of the first international relations scholars advocating to study economics and politics together played a central role in developing international political economy as a field of study. She has developed four IPE Structures, which are crucial for this discussion: production and trade, money and finance, security, and knowledge and technology, in order to better understand the foundations of IPE. Each contains a number of state and non-state institutions, organizations, and other actors who determine the rules and processes that govern access to trade, finance, security, and knowledge.

Lastly, it is crucial to comprehend the “rule of the game” in order to avoid misunderstandings when signing agreements. ³ China represents Ecuador’s most important economic partner; therefore, it is crucial to maintain a clear and strong IPE structure to attempt to avoid potential complications.

Economically speaking, Sino-Ecuador relations seem to be at their peak, which suggests that there are two main advantages from these economic relations: first,

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³ There has been constant complications with the funds given by China in regards to completion of the projects, corruption, bad management, bad quality, lack of jobs for the locals since Chinese firms bring their own workers, environmental harm, assassination of native tribe leaders in the amazon, etc. Lastly, still unknown the Chinese government’s reaction when Ecuador has nothing more to offer in exchange of resources and is late on its payments.
Ecuador receives up-front financing for future oil sales, and second, it has increased levels of exports and imports within the bilateral trade framework. However, Ecuador’s dependence on China could come at a high price, since part of China’s IPE approach in Ecuador has been through Chinese companies.

In the case of Ecuador, China has typically offered financial loans in return for oil exports or any other natural resources. Currently, this partnership represents a mutually beneficial solution to both countries’ needs: China receives much needed oil and Ecuador receives much needed debt relief. However, in the end this deal may prove to be costlier to Ecuador than initially expected. Ecuador may find in the future that these loan deals will be more difficult to repay than anticipated since the country still only depends on its oil industry.

2.5 Oil Resource Curse Theory

The resource curse theory, occurs as a country begins to focus mainly on a single industry, such as oil, and ignores other major sectors. The main issue for countries experiencing the resource curse is a lack of diversification in fiscal policies. In other words, the problem occurs because during good times, for instance oil booms, the government overspends, and during bad times the government borrows too much money.¹ This makes the country dependent on the price of commodities, and overall GDP becomes extremely volatile. In Ecuador, this occurs because petroleum represents the number one source of revenue.²

2.6 Ecuador Continues under the Oil Resource Curse

Even though President Correa has started the first steps towards an industrialized

¹ Macartan Humphreys, Jeffrey Sachs, and Joseph E. Stiglitz, eds., Escaping the Resource Curse, p.178.
country, Ecuador’s journey to this objective is still long. Due to its weak institutions, political instability, poor policies, the dollarization of the economy since 2000, lack of investment in education and other key sectors, corruption, and low capital savings, Ecuador remains under the oil resource curse. In other words, the economy of Ecuador depends on the oil market and it makes it highly vulnerable to oil price volatility. During good years, such as when the price of oil reached $145 per barrel, the country experienced prosperity and growth but when the prices went down as low as $30 per barrel, the country suffered.

In order to compensate for the low oil prices and continue to maintain economic flow, the country has borrowed more than $11 billion from China alone since 2008. ¹ Because of this borrowing, there is an external debt of 31%, 40% being the most the country could be in debt before defaulting through bankruptcy. The country currently is going through a recession; the public sector budget has been cut down by 40% having already laid off more than 20 thousand employees nationwide and closed down several “unnecessary” ministries.² In December 2015, the Minister of Education, Augusto Espinosa, and the Vice-minister of Finance, Madeilene Abarca, apologized on national TV for the delay on the salary of teachers in public institutions.³ Around 70 thousand professors didn’t receive their salary due to the scarcity of funding the country is facing. The government paid their teachers 35 days later after having received another loan from China in exchange for future oil sales.⁴ The current crisis that the country is facing is due to the lack of reserves that the country should have had in order to better transition during these difficult times. Consequently, as ex-director of Ecuador’s Central

³ Ibid.
⁴ Ibid.
Bank, Marcos Lopez, puts it, Ecuador only has two options: continuing to borrow money—which increases foreign debt—or increase taxes.¹

2.7. Ecuador’s Public Budget Composition and Correlation with Oil Revenue

In order to better understand Ecuador’s economic situation, it is crucial to analyze data of Ecuador’s annual revenue from Ecuador’s central bank.² Graph 2.3. shows a breakdown of Ecuador’s public budget composition. There is a severe dependency on the oil market as it is what significantly contributes to the balance of payments of the country. For instance, in 2011 when petroleum income was significant due to the high prices of the oil market, Ecuador borrowed less money to make up what it requires to run the country. Taking the same approach, in the year 2014 Ecuador’s income from petroleum sales was very little in comparison to previous years. Consequently, since Ecuador does not possess other industries that could represent significant revenue to the nation, Ecuador borrowed more money from China in order to be able to break even with the expenses the country had for its 2014 budget needs.

Graph 2.3: Total Income Budget of Ecuador’s Central Government

Source: data collected by author from Ecuador’s Central Bank

Graph 2.4 further illustrates Ecuador’s dependence on its oil sales. For instance, in 2008 oil sales represented 41% of Ecuador’s annual budget. But in 2014, oil sales only represented 8% of the national budget due to the drastic drop in oil prices. Ecuador is fortunate to be abundant in natural resources, but at the same time this seems to be a curse. Ever since petroleum was discovered in the early 1970s, the country has used it as its main source of income. Unfortunately, however, previous leaders failed to develop other revenue-generating mechanisms, leaving Ecuador a developing nation dependent on its oil.
**Graph 2.4: Oil Revenue as % of Ecuador’s Total Income**

Source: Data collected by author from Ecuador’s Central Bank

### 2.8. How to Leave the Resource Curse Behind

The International Monetary Fund (IMF) provides five recommendations to aid oil income countries to leave the resource curse behind. First, minimize the risks; second, seek to enhance growth in the short and medium term; third, promote good governance and reduce corruption; fourth, prepare an exit strategy; fifth, regularly reassess the appropriate policy framework.¹ *Escaping the Resource Curse* states another path to leave the oil curse behind, suggesting the development of a time path of public investment suited to the national circumstances, an economic policy framework to support private sector economic activity, and lastly, a political framework to ensure the rule of law and macroeconomic stability of the nation.² These recommendations are similar to President Correa’s, but it takes time to successfully leave the oil curse behind. Consequently, the country must continue its industrialization process, strive to depend less on its oil revenue, and develop other industries as a source of revenue.

¹ Brenda Shaffer and Taleh Ziyadov, eds., *Beyond the Resource Curse*, p.178.
² Macartan Humphreys, Jeffrey Sachs, and Joseph E. Stiglitz, eds., *Escaping the Resource Curse*, p.271.
2.9 Severe 7.8 Magnitude Earthquake April 16, 2016

On April 16th, 2016 Ecuador was hit by a 7.8 scale Richter Earthquake, the most severe earthquake in regards to deaths and economic losses Ecuador has experienced in the past 70 years. President Correa announced on national TV that this earthquake represents $3 billion USD in damages. This natural catastrophe has taken the lives of 654 people, 58 more are people missing, and 12,500 are injured.¹ This earthquake hit Ecuador during an already tough economic situation due to the low oil prices, and worsened Ecuador’s outlook for its future. Therefore, President Correa announced a few new laws in order to attempt to make it through these tough economic times. First, he wants to increase taxes on value-added products and services from 12% to 14% for a period of one year. Second, those with assets exceeding one million USD must pay once 0.9% taxes. Third, pay a 3% increase one time for utilities consumed. Fourth, all public sector employees should contribute one day of their monthly salary if they earn more than $1,000 USD, two days of their salary if they earn more than $2,000, and so on until reaching a maximum of $5,000 USD or 5 days of work.²


Although Ecuador has had a long history of political instability that resulted in economic turmoil, with the election of president Rafael Correa Delgado in 2007 the situation of the country changed for the better. The Ecuadorian ambassador in Beijing, Luis Maria Borja, mentioned that the philosophy of current President Correa

could be summed up as “the search for a change in the productivity matrix.” ¹ In other words, President Correa’s agenda has been to leave behind the dependency of being an exporting country of raw materials and low value-added goods such as: bananas, cacao, coffee, flowers, shrimp. President Correa’s government aims to obtain a higher industrialization level. As the ambassador said, this is easier said than done, otherwise other countries would also be at an industrialized level already. He added, “How can we industrialize a country that does not have roads in good conditions? How can we industrialize a country that has constant power outages? We do not possess qualified technicians or the proper work force to successfully accomplish a job.” ²

It is crucial to know the stage in which Ecuador was when President Correa was elected in order to understand the changes the country is currently facing. In order to start the journey towards becoming an industrialized country, Correa’s government focused on developing an energy matrix and investing in multiple hydroelectric plants across the country. One of the major projects currently is the “Coca Codo Sinclair” hydroelectric facility. This power plant is a very ambitious project located in the Amazon Basin, 100km east of Ecuador's capital, Quito. It is a 1,500MW hydroelectric plant that will be a ‘run-of-river’ project on the Coca River. The plant is expected to produce an average of 8.63GWh per annum, supplying about 44% of the country's electricity needs. ³ This is one of many energy plants being built across the country with the financial support of Chinese loans. These plants are part of Ecuador’s major electrical project, which is to become an energy exporter to not only neighboring countries such as Colombia and Peru, but also to countries in the region such as Argentina. When all the hydroelectric plants are finished and running properly, the

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¹ “Ecuador's Economic and Political Relations with China,” Interview by author, April 1, 2016.
² Ibid.
country will be able to export energy allowing Ecuador to develop another source of revenue; eventually diversifying from mostly being based on oil production. The “Coca Codo Sinclair” hydroelectric will have a total cost of $2.3 billion, which is being financed through public borrowing (63%) and equity (37%). The Export-Import Bank of China is financing 85% of the project cost through a $1.68 billion loan payable in 15 years, with the remaining cost being financed by the Ecuadorian government.

Another crucial project is the “El Mirador” Copper Mine. El Mirador is a copper mine project located in Southeast Ecuador. The total cost of this project is $1.721 billion, which has been given by the Chinese government. Its location in La Cordillera del Condor is widely considered one of the most bio-diverse regions in the world. In 2010, Chinese state-owned enterprises CRCC and Tongling Nonferrous bought Corriente Resources, which owns subsidiary Ecuacorriente Resources. Later in 2012, the Ecuadorian government awarded Ecuacorriente mining rights to “El Mirador”. According to CRCC, the copper deposit contains a proven reserve of 660 million tons of copper in addition to some gold and silver ores. It is expected to produce about 30,000 tons per day during more than 19 years. The mining concession also allows Ecuacorriente the rights to other minerals that may be found in the waste rock, such as uranium or molybdenum.

Lastly, Ecuador started a project entitled Refinery of Pacific, which will bring many benefits to the oil industry of the country by allowing Ecuador to become auto dependent on oil derivatives. Ecuador’s oil is very heavy; hence, the country needs to send its oil abroad to be processed because it does not have the infrastructure and technology to do so. Ecuador, the fifth-largest oil producer in South America, produced

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505,000 bbl/d of liquid fuels in 2012, of which almost all was crude oil and the remainder condensate and natural gas liquids.  

In the past, Ecuador exported most (roughly 70%) of the crude oil it produced, mainly to the United States. However, due to its strong economic relations with China, Ecuador decreased its crude exports to the U.S. and increased its exports to China. As of January 2013, Ecuador had more than 8 billion barrels of proven crude oil reserves, which is a year-over-year increase of 14%. Ecuador has the third largest oil reserves in South America, following Venezuela and Brazil, most of which are in the Oriente Basin, which is located under the Amazon.

Furthermore, the Refinery of the Pacific represents the biggest project in the history of Ecuador, but it also represents the milestone of Ecuador becoming more competitive in the oil industry business as the smallest producer of all of the Organization of Petroleum Exporting Countries (OPEC) members. The refinery is scheduled to be operational starting mid-2017. It must be mentioned that without Chinese economic cooperation this project would be impossible for Ecuador to pursue. The Industrial and Commercial Bank of China funded 70% of the refinery and state oil giant China National Petroleum Corp (CNPC), also known as PetroChina, partnered in the deal with Petroecuador and Venezuela’s PDVSA. This ambitious project will cost a total of $10 billion and will allow Ecuador to process heavy crudes, reduce domestic fuel costs, and minimize the need to import oil products. The Refinery of the Pacific is expected to process 500,000 barrels of crude oil a day, which is 84% of Ecuador’s crude oil and 16% of Venezuela’s crude oil, and Ecuador expects 40% of the Refinery’s

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2 Ibid.
production to be used for local consumption, the remaining to be exported to neighboring countries such as Peru and Chile.¹

The ambassador added that without investing in the energy sector Ecuador’s industrialization challenge would have been impossible to face.² Beyond energy, another aspect that Correa’s presidency has focused on, which is an essential step towards industrialization, is investment in education and health. The effects of Correa’s investment are tangible thorough the whole country. Correa has taken a drastic step towards improving the level of education in the country going so far as, in 2012, to close 14 universities in the country because they didn’t possess a qualified level of education.³ Correa has enforced regulations mandating all professors in the country to have at least a PhD and several publications in order to teach. Nowadays, due to Correa’s reforms, every year the teachers and institutions are evaluated in order to see if they are qualified to do their job effectively.

Additionally, Correa has gradually increased the minimum salary of the Ecuadorian people, providing a higher living standard. The accomplishments mentioned above are just a few of the things President Correa has done to improve Ecuador. Although most of the initiatives mentioned above might not seem like much, for a country like Ecuador with a history filled with poverty and political instability, these changes that have never occurred before seem revolutionary. The journey is long and tough, but the investments that have been done during President Correa’s two periods will prove to have been an essential time for funding the pillars for an industrialized country.

¹ Ibid.
² “Ecuador's Economic and Political Relations with China,” Interview by author, April 1, 2016.
2.11. Conclusion

In summary, China has become Ecuador’s number one economic ally. However, giving loans in exchange for natural resources is not the way for Ecuador to diversify its economy. Ecuador has been an oil-exporting country since the early 1970s, but its revenue has not been invested in the nation. Although China’s approach of “peaceful coexistence” does not lead to intervention in the internal political affairs of the country, it is necessary that China devote more time to fully understanding the ramifications of signing deals with Ecuador and vice-versa. The relationship between these two nations is quite new; hence, neither side has previous experience with each other.

Ecuador has gone through tough economic and political periods in the past 40 years, but during the presidency of Correa the pillars for an industrialized country have been founded. The millennium investments the country has undertaken, such as hydroelectric plants and the Refinery of the Pacific, are a vital step for pivoting away from the oil resource curse. The country has finally seemed to have learned its lesson; it cannot depend on its oil revenue to run the country. The trade deficit with China will continue to exist, but Ecuador must come up with new ways to lessen it. Hoping that China will buy another natural resource does not seem sustainable; hence, the country should also focus on the export of services. In this way, the trade deficit will eventually start to decrease.

The following section will look in more detail at this paper’s main proposition for the diversification of Ecuador’s economy, reduction of its natural resource exports dependence, and alleviation of its current trade deficit.
Chapter 3  Evaluating the Impact of Expanding the Tourism Industry to Help Alleviate the Economy of Ecuador

Introduction

In order to mitigate its trade imbalance with China, Ecuador must pivot from only exporting low-value-added raw materials and should begin to invest in exporting services also. This chapter focuses on tourism investment as a potential tool to help alleviate Ecuador’s trade deficit and diversify its economic structure. However, one must bear in mind that while other industries may bear much potential this paper will not go into these other alternatives. Tourism is the industry that Ecuador should expand because it brings immediate economic benefits and does not require heavy investments from the government or private sector. This investment will help shed off economic diversification and revenue benefits in the short-, mid-, and long-term. By taking this approach, the country can depend less on its oil and diversify its productivity matrix. This chapter will also analyze the pros and cons in regards to bringing Chinese tourist into Ecuador due to its strong economic and political relations with China.

3.1 Why Tourism?

Tourism has been and continues to be a major industry that fuels the world’s economy. Today, the tourism industry is as significant as other sectors such as oil, agriculture, telecommunications, and automobiles. For many nations, especially for developing countries, tourism represents a major player to keep their economy afloat. ¹

Despite the many adversities tourism has had to face, this industry has shown uninterrupted growth. International tourist arrivals have increased from 25 million globally in 1950, to 278 million in 1980, 527 million in 1995, and 1133 million in 2014. Likewise, international tourism receipts earned by destinations worldwide have surged from US $2 billion in 1950 to US $104 billion in 1980, US $415 billion in 1995 and US $1245 billion in 2014.¹ So the question should be, why not invest in tourism? The graph below taken from the United Nation’s World Tourism Organization (UNWTO) further illustrates the contributions of the tourism industry on a global scale.

**Graph 3.1. Tourism Representation in the World**

Ecuador’s ambassador believes the country should expand its tourism industry. Although Ecuador has begun the first steps towards an industrialized country, industries such as tourism require less time and economic support to be effective. Thankfully for Ecuador, this is an easy task because it has many cultural and natural sites recognized by UNESCO, such as the Galapagos Islands, the city of Quito, the historic center of Santa Ana de los Rios de Cuenca, and Sangay National Park, to name a few. Tourism

also has other benefits: it’s also known as “the industry without a chimney.” Tourism creates development, employment and wealth for the country without polluting the environment.¹

### 3.2. Overall Tourism Representation in Total GDP

According to the World Bank, in the year 2013 the tourism industry contributed to 1.3% of Ecuador’s GDP.² Similarly, according to Ecuador’s central bank, foreign exchange earnings from tourism in 2014 came to a total of $1,487.2 million, which represents 1.5% of Ecuador’s GDP,³ which is a very small percentage of its economy. For instance, tourism contributed to 5% of Costa Rica’s economy for the year 2014. Graph 3.2. shows how the tourism industry of other LAC countries such as Panama and Peru also have a higher representation in the economy of their country in comparison to Ecuador. When Ecuador’s non-petroleum exports are compared, tourism is ranked in third place after bananas and shrimp exports. However, the tourism industry’s contribution to the GDP of the country remains low.

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¹ “Ecuador’s Economic and Political Relations with China,” Interview by author, April 1, 2016.
The overall contribution of Ecuador’s tourism industry was 353,000 jobs in 2015. This number represents 4.7% of the total employment. As shown in the graph below, the World Travel and Tourism Council forecasts that the total employment number will increase 2.8% by 2026. However, the Ecuadorian government does not want to have to wait until 2026 to see an increase, nor does it want the increase to be only 2.8%. The Ecuadorian government has realized the great and fast benefits that this industry brings to the nation; hence, they have implemented several approaches in order to accomplish this objective faster.

1 The share of Travel & Tourism spending or employment in the equivalent economy-wide concept in the published national income accounts or labor market statistics. Visitor exports are compared with exports of all goods and services Domestic Travel & Tourism spending is compared with GDP Government individual Travel & Tourism spending is compared with total government spending Internal Travel & Tourism consumption is compared with total internal consumption (i.e. total domestic spending plus total export) Leisure Travel & Tour consumption is compared with total GDP Business Travel & Tourism contribution to GDP is compared with total GDP Travel & Tourism capital investment spending is compared with all fixed investment spending.
2 Interview Ministry of tourism Ecuador E-mail message to author, March 28, 2016. Oscar Lopez, Ecuadorian - Marketing Coordinator for Asia.
Graph 3.3: Direct Contribution of Tourism to Ecuador’s Employment Rate

![Graph showing the direct contribution of tourism to Ecuador's employment rate from 2006 to 2012.](image)

Source: World Travel and Tourism Council Report

### 3.3. Strategies to Increase the Number of Chinese Visitors

In order to increase the number of tourist arrivals into the country, Ecuador has come up with several strategies. As political and economic relations with China have strengthened in the past 15 years, Ecuador has attempted to promote itself as a potential travel destination for Chinese tourists. However, it must be noted that not until recently, due to the critical economic conditions of the country, has Ecuador taken a more aggressive approach to truly start to see a change in their total number of international arrivals. Some of the most significant methods taken by the Ecuadorian government are listed below.

#### 3.3.1 Open Door Policy

In 2008, President Correa opened the doors for everyone in the world to come to Ecuador for business and tourism for a period of less than 90 days. Correa stated, “We

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are in the middle of a campaign to dismantle this invention of the 20th century of passports and visas.”\(^1\) Moreover, legislation from Ecuador’s constitution (Title VIII 1.416.1, 2008), explains this open door policy as a way to “advocate the principle of universal citizenship, the free movement of all inhabitants of the planet, and the progressive extinction of the status of alien or foreigner as an element to transform the unequal relations between countries, especially those between North and South.”\(^2\) However, soon after the implementation of this policy, the country received a lot of international criticism due to security concerns. Countries within and beyond the region exerted diplomatic pressure on Ecuador to reinstate visas based on fears of increasing southern extra-continental migration through, or to, their territory. Although similar concerns surrounded Caribbean immigrants of color, reintroducing visas for African and Asian citizens implied a significantly lower political cost in the context of regional integration. Six months after the implementation of the “Open Door” policy, it became clear that Chinese immigrants represented an imminent threat to Ecuador due to the significant increase of Chinese arrivals. Consequently, visa requirements for Chinese citizens were reintroduced.\(^3\) Similarly, two years after their initial annulment, visa requirements were also reinstated for citizens of Afghanistan, Bangladesh, Eritrea, Ethiopia, Kenya, Nepal, Nigeria, Pakistan, and Somalia.\(^4\)

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1. Ibid.
4. Consular Office Information Ecuador, Interview by Author with Paola Prado, Consular Director of Ecuador in Beijing, conducted April 1\(^{st}\), 2016.
3.3.1.1 Issues Associated with the Open Door Policy

The 2008 Open Door policy created internal and external political pressure. Internally, Correa faced opposition against his immigration policy both from the political opposition and from within his own party. People against the new immigration policy expressed security concerns linked to the perceived increase in both domestic and international crime. Also, racial concerns regarding the impact of visa freedoms on increasing extra-continental South-South immigration became evident in all government departments. Externally, the Correa administration also faced international pressure to reverse universal travel freedom. Due to its porous borders and geographical proximity to Central America, Ecuador was considered a transit country for Latin American migrants seeking to emigrate to the United States and Europe.¹

Moreover, neighboring countries feared that due to Ecuador’s open door policy, the Chinese would use Ecuador as a strategic stopping point to then go to their final destination. In 2007, the number of Chinese entering Ecuador soared, and not all of them returned home.² Data from the National Institute of Statistics and Censuses and Migration Police revealed that 4,855 Chinese entered in 2007 and 4,453 returned. However, in 2008, once the “Open Door” policy was implemented, 10,563 Chinese entered, but only 4,829 returned. The leader of the Chinese Community in Ecuador stated that the arrival of the first Chinese citizens to the country began in 1870. He also states that most of the Chinese arriving to Ecuador comes from the areas of Guangdong, Fujian, and the South Coast of China. Wesley Zeng, chairman of the Dragon Tour travel agency, says that a lot of Chinese also come from Shandong and Shanghai.³

Overall, politicians justify restrictive visa policies by claiming that visa freedom accelerates criminal activities such as drug and people trafficking, or even terrorism.⁴

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³ Ibid.
The removal of visas could represent a national security threat. For instance, human traffickers could use the country as a stopping point in order to move to other countries. This is significant because many Chinese immigrants come into Ecuador either legally or trafficked, and then either stay to work or are trafficked out of the country again to neighboring regional countries like Colombia, Venezuela, Peru, Argentina, Brazil, and the United States.

Additionally, several cases have been found of Chinese immigrants coming into the country legally by plane, and then using the country as a push-off point to be trafficked to other countries. In an effort to avoid dealing with illegal immigration, the Chinese Ambassador to Ecuador pled with the government to reinstate policies since many countries were complaining about an increase of illegal immigrants. ¹

Human smuggling is also another threat that the Ecuadorian government needs to deal with due to its open door policy. For instance, on August 2013 in Guayaquil, Ecuador, 28 Chinese citizens, mostly women and children, were found in two rooms waiting to be transported to the United States. Human smugglers start in Ecuador and are able to successfully trafficked people through neighboring countries where they can obtain false documents to travel to the United States. ²

Another case of human trafficking took place in Tulcan, a city that borders Colombia. In October 2013, 17 Chinese citizens were caught wanting to cross illegally to Colombian territory in order to then migrate to another country. In this operation, a Chinese citizen, Chen Shu Hong, who had 23 Chinese passports and 10,000 dollars in cash, was arrested. Other cases have involved coastal guards catching boats full of Chinese wanting to leave to Ecuador to reach Central America, or planes piloted by Central American citizens loading illegal Chinese immigrants in order to take to Mexico and then to the United States as their final destination. ³

¹ Ibid.
These Chinese who seek a better life in the United States or other countries usually pay with the price of indentured servitude or modern slavery. The passage from Ecuador to the United States is in the range of $70,000 USD, which the victims generally pay with years of servitude to someone in their final destination. Women usually pay their debt by being forced into prostitution; something that is hard to get out after they become involved, since they become property and an asset to the owner.  

3.3.2 New Approach to Ecuador’s Immigration Policy

Although in the past international pressure and internal security issues forced Ecuador to revoke its immigration policy, it has attempted once again to remove visa requirements for Chinese who wish to come to Ecuador as tourists for a period shorter than 90 days. On January 8th, 2015, while visiting Beijing, Ecuador’s president announced that Chinese short-term tourists would be able to visit without a visa. It was anticipated this news would generate a lot of controversy and dispute between Ecuador and neighboring countries such as Colombia, Peru, and Brazil since it created a lot of controversy in 2008. This could mean that illegal Chinese immigrants would use Ecuador as a stopping point to access their intended final destination.

Another concern is the impact the arrival of Chinese people could have on commerce within each nation. In 2008, when many Chinese started to arrive in Ecuador, merchants complained to the authorities because Chinese were bringing their cheap products to the market. Consequently, it was difficult for Ecuadorian merchants to be able to match the prices of Chinese products in order to stay competitive, or in some cases to stay in business. However, Ecuador’s president strongly believes that this will not be the case because the government has implemented security measures learned

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1 Ibid.
from its past experience in 2008. The picture below reflects the countries with the most flexible visas requirements in the world.

Graph 3.4: Tourism Visa Openness Index by Region, 2013


According to President Correa, the total Chinese community in Ecuador is about 70,000 people. Additionally, the Minister of Foreign Relations, Patiño, stated that Ecuador is going to analyze each Chinese person entering in order to control immigration. Also, now that no visa is required for Chinese people, the Chinese people arriving Ecuador will be monitored in order to avoid having migration waves to other areas such as Brazil, Peru, the United States, etc. It is not yet clear what exact

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1 The 2013 UNWTO Tourism Visa Openness Report shows that between 2010 and 2013, the percentage of the population requiring a traditional visa to travel decreased from 77% in 2008 to 64% in 2013. South-East Asian, East African, Caribbean and Oceania destinations are among the most open while Central African, North African and North American destinations are the most restrictive regions. World Tourism Organization (2013), Tourism visa openness report: Visa facilitation as means to stimulate tourism growth, UNWTO, Madrid http://cf.cdn.unwto.org/sites/all/files/docpdf/tourismvisaopennessreport23august20132.pdf

mechanism Ecuador is going to implement in order to avoid the negative effects that happened in 2008. However, the country seems to be aware of the situation and the potential dangers of large numbers of Chinese entering the country.

### 3.3.3. Visa-Free Tourism for Chinese

Although the No-Visa policy for Chinese citizens to enter Ecuador was announced the week of January 5th, 2015, it just became effective on March 1st, 2016. Consequently, the country waits to see whether this new change will cause an increased number of Chinese visitors. The Chief Consular of Ecuador’s consulate in Beijing, Paola Prado, stated that the country and the consulate offices across Beijing are prepared to attend the needs of the Chinese applicants. The consulates will not be providing tourist visas since now they are not required, but the consulate will assess any other inquiries about traveling to Ecuador. Also, visas for any other purposes except tourism will still be processed at the consulate offices across China. Paola Prado and her team have information accessible and ready to be handed out to Chinese citizens. Lastly, the consulate offices in China expect to see an increase in Chinese arrivals to Ecuador.

### 3.3.4 Direct Flights

As another way to promote Chinese tourism to Ecuador, Ecuadorian Minister of Foreign Affairs and Human Mobility, Ricardo Patiño, and the Administrator of Civil Aviation of China, Li Jiaxiang, signed an agreement establishing 14 weekly flights between the two countries.¹ This treaty was signed on November 19th, 2013, and Ecuador expects to gradually increase the number of flights originally established. There are other airline companies, such as American Airlines, KLM, United, and

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DELTA, to name a few, that also fly into Ecuador. However, due to the long distance, the plane needs to make at least one stop. The shortest way to travel to Ecuador from China is leaving from Beijing and then connecting in Amsterdam. After the quick layover, there is another flight that goes from Amsterdam to Quito, Ecuador, directly. The total travel time is about 25 hours plus the additional time difference, which is 13 hours. As the demand increases, the number of direct flights will also increase. For instance, on December 18th, 2015, American Airlines launched a new route: Dallas direct to Quito. This new route gives tourists another option when deciding how to book their next flight from China to Ecuador.

3.3.5 Marketing to Specific Niches

According to the “United Nations World Travel Organization UNWTO” China continues to report double-digit growth in outbound travel.\(^1\) In 2015 alone, 120 million Chinese tourists travelled abroad—the majority between 25 and 34 years old—and spent $104.5 billion USD.\(^2\) Out of the total outbound Chinese tourists, less than 1% of them traveled to LAC countries. For example: in 2014, Brazil welcomed 80 thousand tourists, Mexico, 60 thousand, Chile 15 thousand.\(^3\) The low numbers of Chinese arrivals show that there is great potential for the region to target this market. A survey of Chinese who have already been to Ecuador shows that their main reason to travel to Ecuador or other LAC countries is to experience a new destination. On average, Chinese tourists visit Ecuador for seven days and spend USD $500 per day. A travel agency charges around USD $7,500 for a common seven-day travel package to visit Ecuador. Consequently, it is crucial to understand the Chinese market to target the right group of travelers who

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\(^3\) “The prospect of Chinese tourists in Mexico and Latin America” interview by author with Militza Latapi conducted on April 15, 2015.
will be interested in visiting Ecuador.

3.3.5.1 Survey Results

Survey conducted by the author of 103 Chinese tourists who have already traveled to Ecuador. The author used an online platform to launch the survey, and with the help of travel Chinese and Ecuadorian travel agencies, the survey reached the intended market segment.

Graph 3.5: Gender
Graph 3.6: Age

- 20-35: 80%
- 36-50: 15%
- 51-65: 5%
- 66-80

Graph 3.7: City of Residence

- Beijing: 13%
- Shanghai: 3%
- Guangzhou: 9%
- Hong Kong: 3%
- Macao
- Other: 80%
Graph 3.8: Monthly Income in USD

- 1,500 USD - 4,600 USD: 4%
- 4,700 - 9,200: 5%
- 9,300 - 13,800: 11%
- 13,900 or more: 80%

Graph 3.9: “Had you heard about Ecuador prior to your trip?”

- Yes: 94%
- No: 6%
Graph 3.10: “How did you hear about Ecuador?”

- Word of month: 30%
- TV ad: 18%
- Tourist Event: 27%
- Internet: 10%
- Other?: 15%

Graph 3.11: “Based on your personal experience, what could be improved?”

- Better infrastructure: 25%
- Security: 25%
- No direct Flight: 17%
- Lack of tour guides who speak Chinese: 7%
- Unawareness of Ecuadorians about Chinese Culture: 2%
- Other: 25%
Graph 3.12: “What’s your main purpose for visiting LAC?”

- Uniqueness 11%
- Explore a new Destination 7%
- Other 82%

Graph 3.13: “What was your biggest concern when thinking about this trip?”

- Safety 35%
- Food 14%
- Language 16%
- Distance to travel 18%
- Price of the trip 17%
3.3.6. Training of Travel Agencies

Besides removing the visa requirement for Chinese tourists, Ecuador has utilized several other strategies to promote tourism in China. Ecuador has authorized 20 Chinese travel agencies to sell Ecuador as a tourist destination. In 2014, Ecuadorian Minister of External Relations, Ricardo Patiño, came to Beijing and personally invited all 20 approved travel agencies to visit Ecuador so that they could also experience the allure of the nation’s beautiful destinations. In the same manner, the Ecuadorian government has approved seven travel agencies for Ecuadorians to visit China. Additionally, the office of Ecuador’s Minister of Tourism of Beijing was in charge of delivering information about touring Ecuador to the Chinese media and also responsible for training 40 travel agencies in 2015. They contacted those agencies interested in selling trips to Ecuador and provided them with all the information they required.¹

Prior to 2008, Chinese tourists were only allowed to enter Ecuador in groups and with a tour guide fluent in Mandarin and Spanish. However, the number of groups that used this method to visit Ecuador was extremely low. The consulate of Ecuador in Beijing estimates that in 2013 there were an average of 100 people per month who

¹ “Reporte Sobre Turismo Chino En Ecuador,” E-mail message to author, March 28, 2016, Oscar Lopez, Ecuadorian -Marketing Coordinator for Asia.
applied for an Ecuadorian tourist visa. On the other hand, the consulate also estimated that there were an average of 10 people who applied for an Ecuadorian tourist visa via authorized Chinese travel agencies. Overall, the number of Chinese tourists applying for a tourist visa is very low.

3.3.7 Marketing in China

In the past few years, Ecuador has invested millions of dollars in training Ecuadorians involved in the hospitality industry, infrastructure, and national and international marketing with campaigns such as “All You Need is Ecuador.” In regards towards marketing to the Chinese segment the country has also recently taken some new steps. For instance, in 2015, the ministry of tourism had 40 publications in the Chinese media ($1,402,763) and filmed the reality show Law of The Jungle in Ecuador by Anhui satellite TV ($37,451,613).

These new strategies show that the country is starting to invest on expanding the tourism industry with China. For instance, the reality show Law of the Jungle will be seen by one billion people, which is great advertising for the country. The Chinese audience will get to see the wonders Ecuador has to offer. Oscar Lopez, Ecuador’s coordinator for the Asian Market, said that the ministry of tourism will be traveling to Anhui during the middle of 2016 to inaugurate this reality show, and are preparing the travel agencies to sell Ecuador after the audience develops an interest in the country. Also, the embassy and commercial offices in China have promoted Ecuador through several cultural exchange events such as: displays of art, language exchange, concerts, cuisine, films, EXPOs, etc.

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1 “Ecuador’s Migration Approach with China,” Interview by author, April 1, 2016.
2 Ministerio de Turismo, Principales Indicadores De Turismo, Quito: Ministerio De Turismo, 2015. See appendix
3 “Preguntas Sobre Turismo Chino En Ecuador,” E-mail message to author, March 28, 2016. Oscar Lopez, Ecuadorian -Marketing Coordinator for Asia.
Although actions have been taken to market Ecuador in China, there is a lot more to be done for Chinese tourists to consider Ecuador as a destination when planning their next vacation. CEO of SURTREK travel, Alfonso Tandazo, mentioned that the promotion of Ecuador by the government has been very conservative. He added, “There is not enough information in Chinese regarding the country, regarding traveling, regarding culture and in general regarding the destination.” Similarly, CEO of LAMEITOUR, Gao Yuan, suggests that the country needs to promote its tour products in the Chinese market. 

3.4 Challenges that Ecuador Faces to Attract the Chinese Market

In order to comprehend the implications of attracting the Chinese market segment, in this section some of the challenges are analyzed.

3.4.1. New Visa Policy Effective March 1st, 2016

The new No-Visa policy is different than the one in 2008, since now both countries have signed a bilateral agreement. Although the authorities of Ecuador have taken measurements, it is complicated to guarantee that in the future there will not be another immigration outrage. Even the U.S.A. and Europe have been experiencing immigration crises lately regardless of their advanced mechanism to avoid this. It is hard to control this issue.

Although Ecuador has a mutual visa exemption agreement with China, other LAC countries have also made easier the arrival for Chinese tourists. For instance, in some cases if a Chinese tourist has a U.S. visa or Schengen visa he or she may enter

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Colombia, Panama, Costa Rica, Chile and other LAC country. Consequently, Ecuador has to be more active in its strategies to bring more Chinese tourists because removing the visa requirement is not enough. It is clear that many countries want to make it as simple as possible for Chinese tourists to visit their nations, because attracting Chinese tourists guarantees economic growth. China represents the market segment that spends the most money when traveling, surpassing even Germany.

3.4.2. Security

Security is a big challenge that the country needs to fix in order for more tourists to feel encouraged to visit Ecuador. For Chinese tourists, security was the biggest issue they encountered when traveling to Ecuador. Oscar Lopez, Ecuador’s coordinator of the Asian Market, stated that the country needs to invest more in security in order for Chinese tourists to not feel unsafe during their visit. Cases of robbery or the murder of tourists damages the country’s image and decreases the number of tourist arrivals. Consequently, Ecuador must place a strong emphasis in creating a safe atmosphere for all tourists if the country wants to increase its tourism industry. Graph 3.15 illustrates that Ecuador’s homicide has remained constant but with recent improvement. Although Ecuador’s security has improved in the past few years, Ecuador still ranks number 5th in the region in regards to insecurity.


Another big issue is the language barrier. The common language for Ecuadorians and Chinese is English, but many Ecuadorians and Chinese do not have a good level of English. Therefore, it is complicated to fully communicate with each other. Most Chinese travelers arrive in Ecuador in groups and have a Chinese tour guide with them throughout their trip. This Chinese tour guide only speaks Chinese and some level of English. Therefore, when the group arrives in a country like Ecuador, a local tour guide accompanies the group during their stay. The Ecuadorian tour guide informs the Chinese tour guide in English about the attractions of the country and the Chinese tour guide translates it into Chinese to the rest of the group. Chinese travel agencies such as Lameitour would like Ecuador to have tour guides fluent in Chinese to make it easier and more enjoyable for Chinese tourists to fully understand the information.
conveyed during their stay in Ecuador. As Chinese tourism increases, the country will gradually adapt to meet its necessities.

3.4.4 Competitiveness with Neighboring Countries

Although every country is unique, LAC countries have the same language, similar cultures, wildlife, and other similar attractions. For instance, due to similar climates, the landscape and vegetation is alike. A total of nine South American countries have part of the Amazon forest, and seven share the Andes Mountains. Consequently, it is difficult to advertise the Andes or the Amazon as an attraction that only Ecuador has when, in reality, that is not the case. In order to remain competitive Ecuador needs to heavily promote its attractions and uniqueness. Advertising is a key element to remaining competitive.

Ecuador borders Peru, Colombia, and the Pacific Ocean, and has many unique attractions such as the Galapagos Islands. It is the only country in which, in one day, you can experience four different worlds: the Amazon, the Andes, the coast, and the Galapagos Islands. Using the unique characteristics the country possesses could help create a brand to enable Ecuador to differentiate itself from other LAC countries.
3.4.5. Regional Alliance

The region should join forces and integrate into one. In this way, the region as a whole could be more competitive and powerful politically and economically in the international arena. However, there has not been a commitment from all the countries in the region in order to make this regional integration a reality. Regional integration could also bring benefits for the tourism industry. Currently, there are alliances such as the Andean Community and the Pacific Alliance, which makes tourism easier between members.¹ For instance, in the case of the Pacific alliance, the four members—Chile, Colombia, Mexico, and Peru—have established routes for tourists to be able to see the best of these four countries. They have also opened shared embassies abroad to make it

more accessible for potential tourists to visit. Consequently, it is imperative to unite forces with other regional countries to effectively attract more tourists. Chinese tourists visit at least three countries when visiting the region; therefore, a regional integration of LAC that facilitates Chinese tourist travel within the region without complications will bring benefits to all its members.

3.4.6 Low Budget Allocated to Invest in Tourism

The ministry of tourism announced on the 28th of March, 2016, that their annual budget has been reduced to half of what it was in 2015 due to the economic crisis the country is facing. The low prices of oil have affected the entire nation, and the ministry of tourism is not an exception. Consequently, the private sector must also invest in tourism in order to help the government advertise the country in very creative and cost effective manners. With a bigger budget the country could continue to promote itself, but now it must be able to do as much as it can with the $28 million allocated for 2016—half of the budget for 2015.  

3.5. Conclusion

Ecuador has started to notice the importance the Chinese tourism market could represent to the country’s economy. Several approaches have been taken by the government such as removing tourist visas for Chinese visitors, marketing to a Chinese audience, training authorized Chinese and Ecuadorian travel agencies, and participating in several events representing the best the country has to offer. However, it also faces different obstacles to accommodate the needs of the Chinese tourists. Ecuador needs to

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1 Ibid.
control its borders in order to guarantee that a “no-visa policy” will not bring a wave of illegal immigration. Also, it needs to fix its security issues and minimize the language barrier.

In regards to competition with its neighboring countries, Ecuador should aim for regional integration and an alliance of all LAC countries to promote regional tourism. Lastly, the budget for the ministry of tourism has been reduced to half of what it was in 2015, so the private sector and public sector must work together to continue to promote tourism in the country. There is great potential for the tourism industry of Ecuador to expand and it will bring economic flow during the tough economic times the country is undergoing.
Conclusions

A. Summary

Based on the current economic crisis Ecuador is facing due to low oil prices, the author aimed to analyze an alternative solution. China’s trade has had a significant influence on the Latin American region: LAC export raw materials with no value added while they import finished manufactured goods from China. Due to China’s economic slowdown and the low prices of natural resources, ECLAC announced that in 2016 the region’s GDP will fall by 0.6%. ¹ Part of this recession is due to China’s lower demand for natural resources; consequently, LAC countries have been forced to come up with alternative strategies to be able to meet the needs of their economies.

To narrow the scope of this research, Ecuador is a case study. China is Ecuador’s main financial partner but this research shows that its relationship is not beneficial to both parties. Ecuador depends too much on China and trading raw materials is not a sustainable option for the country’s development. Also, most Chinese investments in Ecuador are related to the energy sector: these have caused a lot of controversy in regards to environmental conservation, indigenous tribes, quality of the construction, corruption scandals, and many more issues.

On the other hand, Ecuador has gone to the extreme of having the U.S.A. as its number one ally to now making China its only ally. Therefore, Ecuador must balance its economic partners so it is not dependent on only one financial source. Although Ecuador has started to invest in crucial sectors to continue its industrialization process,

the country still has a long way to go to be fully diversified. Hopefully in 2017 the newly elected president will continue to invest in these key sectors in order to pivot from dependency on the oil industry. Ecuador’s main issues are its lack of infrastructure and poor productivity matrix. These aspects need to be solved before the country finds itself in an even more difficult situation.

Chapter 3 investigated the tourism industry as a potential solution to alleviate the economic crises that Ecuador and other LAC are facing. The tourism industry in Ecuador only represents 1.5% of the total GDP of the country, while in other LAC countries such as Costa Rica, Panama, and Peru, tourism represents a larger proportion of their total GDP, leaving a lot of opportunity for Ecuador to exploit this industry. Chinese tourism represents a great potential for Ecuador and other LAC countries to target, but there are many challenges ahead before Chinese tourists will consider Ecuador as their next destination. Although the country has advertised in different ways, its promotion is still weak.

On the one hand the country wants to use tourism to help move the economy, but at the same time it has reduced the budget of the ministry of tourism by half. Therefore, Ecuador needs to have a clear agenda on how to face this economic downturn. Tourism has proven to be a quick and do-able solution to Ecuador’s economic crisis, but the government and the private sector need to work together in order to increase the number of tourist arrivals. The Chinese tourist market represents a segment with great potential to be exploited but the country must make it known and accessible to them, and removing tourist visas is not enough. The ministry of Ecuador is convinced that the nation is ready to welcome an increased number of tourists and hopes that by 2017 the tourism industry will represent a higher percentage of Ecuador’s GDP.
B. Suggestions and Recommendations

Ecuador should invest in the export of services such as tourism. In this manner the country will be able to slowly start to diversify its productivity matrix and not depend on oil sales anymore. The government of Ecuador, in conjunction with the private sector, needs to promote Ecuador in booming markets such as the Chinese one. Tourism is an industry that does not require heavy investments and generates quick and daily revenue directly and indirectly to the economy of a nation. Ecuador will not make its economy dependent in tourism because this is not sustainable either, but it could definitely contribute to more than just 1.5% of the country’s GDP. As stated in section 3.2, other LAC countries’ tourism industries such as Costa Rica, Panama and Peru play a more significant role in the GDP composition of their countries. Consequently, Ecuador must strive to reach the same goal.

Additionally, since all LAC countries are suffering from the decrease of exports and the low prices of natural resources, they are also starting to focus on Chinese tourists as an alternative to help alleviate the trade deficit with China. The competition has already started and Ecuador cannot stay behind; otherwise it will lose its potential share of the Chinese market, which could negatively affect its overall economy. Instead of competing, Ecuador and the LAC should form an alliance to facilitate tourism across their borders. Ecuador must put its trust in the tourism industry as the means for the country to overcome this crisis while at the same time continuing to diversify its productivity matrix.

C. Limitations

As a concluding remark of this thesis, this part represents some limitations of
this research and future prospects. The interviews and data gathering were compiled
during a period of two years, which resulted in having some outdated data by the time
of the execution of this dissertation. The author conducted interviews with key
individuals and participated in different events in regards to Sino-Latin America
relations in order to gather data for future research.

Another limitation was the language barrier. The author possesses a basic level
of Mandarin, which made it challenging to connect with the Chinese audience and the
Chinese Ministry of Tourism officials to gather information in regards to their approach
to LAC. In regards to the survey created for the research of this thesis, the sample size
was only of 103 Chinese tourists. These tourists had already visited Ecuador and
received the survey via WeChat or email delivered by the travel agency that they hired
when they traveled to Ecuador, in this case either Surtrek or Lameitour. Although the
survey helps to better understand the Chinese tourist perception about Ecuador, it is not
fully representative of the overall Chinese travel population.

In regards to the data in chapter 1 about LAC and China’s bilateral trade, it was
very difficult to obtain an official number since different sources present different data.
For instance, the volume of trade that the World Bank publishes about Latin America is
different than the one the IMF uses. Therefore, the author had to carefully look into all
different sources in order to use one that is the most representative. Also, some LAC
countries had missing data, like Venezuela, or no data at all, like Honduras. These
factors made it difficult to properly assess the bilateral trade situation of the region as a
whole.

The constant changes of leadership in the ministry of tourism, national budget
cuts, and recent interest in the Chinese tourist market makes it difficult to say how the
country is going to adapt to the potential increase of Chinese tourists. There is not
enough historical data to compare and estimate how the country would adjust to this
new trend. Therefore, the country must remain alert and prepare to welcome the new
tourists.

D. Future Prospects

For further research, it would be imperative to conduct an in-depth analysis about the strategies that LAC will implement in order to attract part of the Chinese tourist market. Perhaps it will be beneficial to do an in-depth investigation of the pros and cons of tourist alliances such as the Pacific Alliance, MERCOSUR, or the Andean community. Little is known about the advantages and disadvantages of these alliances in regards to the impact they have in the regional economy and tourism sector of its members.

Lastly, it would be good to follow up the development of Ecuador’s tourism industry and industrialization process in order to see if the country was successful with its new economic approach or not. The entire Latin American region is going through an economic and productivity matrix readjustment. Consequently, further analysis is necessary to understand the outcome of this transition in regards to the region’s relations with China.
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Appendices

Appendix A: Survey to Chinese that have traveled to Ecuador

QR code. Survey for Chinese tourism that have already traveled to Ecuador

1. 您的性别？
2. 您居住在哪个城市？
3. 您的年龄层？
4. 您的月收入水平？
5. 您前往拉美洲旅游的主要原因？
6. 您在前往厄瓜多尔旅游之前是否听说过这个国家？
7. 您是怎么了解到这个国家的？
8. 您听说过关于厄瓜多尔的什么事情？
9. 根据您上一次的旅游体验您认为在哪些方面还有待提高？
10. 什么问题成为了您上一次旅行过程中最关注的内容？
11. 您是否还会再次前往厄瓜多尔旅游？您是否会将厄瓜多尔介绍给您的朋友？
Appendix B: Interview to Lameitour Travel Agency

关于中国旅游公司推荐中国旅游者将拉丁美洲或厄瓜多尔作为旅游目的地的调查。
1. 什么因素促使贵公司将目标放在拉丁美洲市场？为什么其他旅游运营商没有加入？当与拉丁美洲建立经济来往时贵公司将面临哪些障碍，是语言，缺少对这个国家的了解，还是签证的问题？

2. 贵公司是否成功地向中国旅游者推销去厄瓜多尔旅游？贵公司的营销技术是什么？在这些营销技术中，有什么需要改进的？请详细叙述。

3. 当推荐厄瓜多尔作为潜在的旅游目的地时，贵公司会到哪些挑战？贵公司有什么建议可以提高中国旅游者购买贵公司的旅游产品？其中有哪些需要厄瓜多尔或者中国相关机构帮助贵公司开展业务。

4. 有哪些考虑导致贵公司的客户对去厄瓜多尔犹豫不决？是安全、距离、价格还是不具有吸引力？

5. 每年贵公司送多少中国游客去厄瓜多尔旅游，请估计一下？贵公司是否可以预计一下未来的增长情况？请问如何达到这样的水平？

6. 自从 2016 年 3 月 1 日，厄瓜多尔对中国人民免签后，贵公司可否预计一下该政策对业务开展的影响？贵公司是否有信心将做好送更多的中国游客去厄瓜多尔旅游？

7. 基于贵公司的经验，在中国为更好地推广厄瓜多尔作为中国旅游者的目的地，还有哪些需要考虑在内？
Appendix C: Interview Surtrek Travel Agency

- What factors led your agency to focus on the Latin American market? Why haven’t other tour operators joined? What are some of the obstacles you face when trying to set up a business with a Latin American Country? Perhaps language, lack of knowledge about what the country has to offer? Visas?
- Is your agency successful at selling Ecuador to the Chinese market? What is your marketing technique? What could be improved from your part? Elaborate
- What are some of the challenges that your agency faces when selling Ecuador as a potential destination? What do you suggest could be done to increase the number of Chinese tourists to purchase your tour packages? Does the ministry of tourism of Ecuador or China help your business in anyway?
- Which aspects about Ecuador makes your clients hesitant to travel to Ecuador? Security? Distance? Price? Lack of Marketing?
- How many Chinese tourists does your agency send to Ecuador every year, estimate? Do you foresee that total number increasing? How could this be done?
- Since March 1st, 2016 Chinese Nationals don’t need a visa to enter Ecuador, how do you foresee this new policy affecting your business? Do you believe your agency is prepared to send an increased number of Chinese tourists?
- Based on your experience as a travel agency in China, what is missing to make Ecuador easier to sell?
Appendix D: Projects in Ecuador financed by China

<table>
<thead>
<tr>
<th>EMPRESA</th>
<th>PROYECTO</th>
<th>POTENCIA</th>
<th>INVERSIÓN aproximada (USD/MM)</th>
<th>ESTADO DE SITUACIÓN</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHEREC (China National Electric Engineering Co., Ltd.)</td>
<td>*Quijos (hidroeléctrico)</td>
<td>50 MW (3 unidades)</td>
<td>USD 64 MM + RMB 195 MM = USD 94,6 MM</td>
<td>comenzó en enero de 2012 en ejecución por cumplir en marzo de 2015 plazo: 36 meses</td>
</tr>
<tr>
<td>CRC-Tong Guan Investment Company Ltd</td>
<td>* Proyecto Hidroeléctrico Zamora Chinchipe</td>
<td>I Etapa: captar y procesar 30 mil toneladas/día II etapa: instalar una segunda línea de la misma capacidad</td>
<td>1.721</td>
<td>en ejecución plazo: 36 meses</td>
</tr>
<tr>
<td>Instituto Yang-Tse Changjiang Institute of Survey Planning Design and Research</td>
<td>* Plan Integral de los Recursos Hídricos</td>
<td></td>
<td></td>
<td>se entregó el primer producto de la Planificación Nacional de los Recursos Hídricos (marzo 2014)</td>
</tr>
<tr>
<td>CWE (China International Water &amp; Electric Corp.)</td>
<td>* Proyecto Control de Inundaciones de los Ríos Cañar-Naramal (riñueco)</td>
<td>Sibudria</td>
<td>254 MW</td>
<td>269 (con impuestos)</td>
</tr>
<tr>
<td>CWE (China International Water &amp; Electric Corp.)</td>
<td>* Proyecto Control de Inundaciones de los Ríos Cañar-Naramal (riñueco)</td>
<td>Guayas</td>
<td>Cañar 233 + Naramal 119 = 352</td>
<td>en ejecución</td>
</tr>
</tbody>
</table>

**Source:** Ecuador Embassy Ecuador
Appendix E: Interview Ministry of Tourism Ecuador

1. According to Ecuador’s Central Bank, in 2014 tourism represented 1.5% of Ecuador's GDP, what viable strategies could your institution contribute in order to increase this percentage?

2. What are the most successful methods to promote Ecuador as a destination to Chinese tourist and Chinese travel agencies? Why there is no office in Hong Kong, Macao?

3. Is there any specific alliances between authorized tour operations and the commercial offices in China in charge of tourism? Would an alliance make the job easier? For instance, the Pacific Alliance.

4. Is the ministry of Tourism of Ecuador ready to receive a significant increase of Chinese tourist now that Ecuador has removed the visa requirement? Does the country posses the appropriate infrastructure and training in order to welcome Chinese tourist?

5. How to differentiate Ecuador among its neighboring countries in order to avoid strong competition?

6. What percentage of the total budget 2016 will be allocated for the promotion of Ecuador in the Chinese market?

7. In 2015, the ministry of tourism had 40 publications in the Chinese media ($1,402,763) and a reality show “Law of The Jungle” filmed in Ecuador by the Anhui satellite TV ($37,451,613), do you think these methods are effective? What could be more effective based in the budget constraints?

8. Is there a follow up after the capacitation the ministry of Tourism gives to tour operators in China?

9. Based on the 2015 final report from the minister of tourism there are high expectations for the country to welcome Chinese tourist now that the doors have been open to them. However, the no visa policy was revoked in 2008 but after a few months it was reinstated due to an overwhelming number of Chinese that used Ecuador as a bridge to migrate to a different nation. What different methods have been implemented in this new “open door” policy in order to avoid the mistakes from the 2008 scenario?

10. Any further comments in order to improve the services you provide and increase the total number of Chinese travellers arriving in Ecuador
Appendix F: Interview Ambassador of Ecuador

1. Desde el martes 1 de marzo, los chinos no necesitan visa para visitar Ecuador con fines turísticos durante un periodo de 90 días. ¿Cómo se ha preparado el país y las oficinas consulares de Ecuador en China para poder manejar el incremento de chinos que deseen viajar a Ecuador?

2. Tiene Ecuador la infraestructura necesaria y el apropiado entrenamiento para poder recibir de manera exitosa al turista chino? Nota: en Quito solo hay un hotel que ofrece un menú específico para sus clientes chinos, y la mayoría en la industria no sabe detalles como que al chino le gusta tomar agua caliente durante sus comidas.

3. Recientemente Ecuador ha puesto un énfasis en la industria turística como mecanismo para crear liquidez económica durante estos tiempos de crisis que el país enfrenta por los bajos costos de petróleo. Sin embargo el ministerio de turismo anunció el 28 de marzo 2016 que su presupuesto ha sido reducido a la mitad con relación al 2015 por falta de liquidez en el país. Como el país por un lado quiere utilizar al turismo como plan b frente a la caída del petróleo, y por otro reduce el presupuesto del ministerio de turismo a la mitad, $28 millones?

4. Al momento la industria turística representa 1.5% del PIB del país brindando oportunidad para que el país desarrolle esta industria. Por que el país decidió acoger al turismo como plan b, en lugar de impulsar otras industrias?

5. Como poder diferenciar a Ecuador con países vecinos que ofrecen similares atractivos turísticos? Por ejemplo, hoy en día cuando el turista chino piensa en los andes, solo Peru viene a su mente. Como mejorar la competitividad de ecuador con países vecinos?

6. De los 100 millones de Chinos que viajaron al exterior en el 2015 un numero simbólico llego a Ecuador. Presidente Correa anuncio a principios del 2015 que tiene como objetivo incrementar el numero de turistas Chinos de 17,000 a 150,000 por año. Es posible que el país forme parte de una alianza con otros países de la región para de esa manera poder facilitar al turista Chino un viaje por varios países latinos (ya se hablado de promover paquetes multidestinos con países vecinos, pero qué pasos concretos se han dado para cristalizar esta idea?). El turista chino tiene muchas dificultades al viajar a américa latina no solo por diferentes visados sino también por las diferentes leyes de aduna. Ejemplo: el turista chino compra una botella de vino en Chile, y a lo que va a su siguiente parada, Ecuador, aduanas no le deja entrar la botella de vino. Alianza MERCOSUR?

7. Embajador, volviendo al tema de la exoneración de visado. Ocho años atrás, el Gobierno también exoneró de visado a los chinos y, al poco tiempo, dio marcha atrás. Según reportes de la prensa nacional e internacional, dicha medida no sirvió para dinamizar el turismo de chinos a Ecuador como se dijo, sino que “convirtió al país andino en una puerta hacia EE UU y el resto de América para inmigrantes ilegales, sospechosos de terrorismo y narcotraficantes”, publicó diario El Pais, de España. “Entre junio y septiembre de 2008 habían entrado el doble de chinos a Ecuador que durante todo 2007 y que no iban precisamente a hacer turismo a Galápagos, sino a Tulcán (en la frontera con Colombia) y otros puntos de salida del país hacia el resto de América, y en especial hacia EE UU (http://internacional.elpais.com/…/ac…/1292540412 850215.html). Tomando en cuenta lo mencionado, ¿por qué se decidió retomar esta política? ¿Qué precauciones se tomaran para evitar tener que cerrar las fronteras a los chinos una vez mas?

8. En el 2013 excepto por Chile y Brasil, el resto de países de américa latina y el Caribe experimentaron un déficit comercial con China, cual es la solución que ve usted para que la región pueda equilibrar su balanza comercial? Caso Ecuador?
Appendix G: Visa Exception for Chinese Notification

Nota 3-9-1/2016

La Embajada del Ecuador en la República Popular China- Sección Consular - tiene el agrado de informar que mediante Acuerdo Ministerial No. 000027, a partir del 1 de marzo de 2016, se dispone eximir del requisito de visa a los ciudadanos de la República Popular China, para entradas, salidas o tránsito a través del territorio de la República del Ecuador, por una estadía de máximo noventa (90) días, durante cada período de un año, contado desde la fecha de su primera entrada hasta la fecha de su partida definitiva; para actividades de turismo o afines, y en general actividades no lucrativas.

Esta exención está enmarcada en los esfuerzos conjuntos para fomentar el flujo turístico y fortalecer los lazos entre ambos países. Los ciudadanos de la República Popular China que pretendan entrar y permanecer en la República del Ecuador, por un período mayor a 90 días, o para actividades diversas a las de turismo o afines, deberán aplicar y recibir una visa antes de su ingreso al territorio ecuatoriano.

Beijing, 26 de febrero de 2016

熙会 3-9-1/2016

厄瓜多尔驻华大使馆领事处向相关部门告知，根据第 000027 号部长级协议，自 2016 年 3 月 1 日起赴厄瓜多尔旅游，探亲或从事非营利性活动的中国公民可免签入境、出境、过境厄瓜多尔；从第一次入境日期开始一年之内（12 个月，并非自然年）最多可在厄瓜多尔免签停留 90 天。

该免签协议是中厄双方共同努力的结果，旨在促进两国旅游发展，加强两国友好关系。有意在厄瓜多尔定居、旅游或探亲超过 90 天的中国公民需要持签证入境厄瓜多尔。

北京，2016 年 2 月 26 日
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