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China’s Global Ambitions, Cash and Strings Attached

The country has invested billions in Ecuador and elsewhere, using its economic clout to win diplomatic allies and secure natural resources around the world.

By CLIFFORD KRAUSS and KEITH BRADSHER
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Water pipes set aside near where Ecuador wants a Chinese oil company to build a giant refinery, outside the port of Manta. China has invested heavily in overseas oil projects.
Ivan Kashinsky for The New York Times

EL CHACO, Ecuador — Where the Andean foothills dip into the Amazon jungle, nearly 1,000 Chinese engineers and workers have been pouring concrete for a dam and a 15-mile underground tunnel. The $2.2 billion project will feed river water to eight giant Chinese turbines designed to produce enough electricity to light more than a third of Ecuador.

Near the port of Manta on the Pacific Ocean, Chinese banks are in talks to lend $7 billion for the construction of an oil refinery, which could make Ecuador a global player in gasoline, diesel and other petroleum products.

Across the country in villages and towns, Chinese money is going to build roads, highways, bridges, hospitals, even a network of surveillance cameras stretching to the Galápagos Islands. State-owned Chinese banks have already put nearly $11 billion into the country, and the Ecuadorean government is asking for more.

Ecuador, with just 16 million people, has little presence on the global stage. But China’s rapidly expanding footprint here speaks volumes about the changing world order, as Beijing surges forward and Washington gradually loses ground.

While China has been important to the world economy for decades, the country is now wielding its financial heft with the confidence and purpose of a global superpower. With the center of financial gravity shifting, China is aggressively asserting its economic clout to win diplomatic allies, invest its vast wealth, promote its currency and secure much-needed natural resources.

It represents a new phase in China's evolution. As the country's wealth has swelled and its needs have evolved, President Xi Jinping and the rest of the leadership have pushed to extend China's reach on a global scale.

China's currency, the renminbi, is expected to be anointed soon as a global reserve currency, putting it in an elite category with the dollar, the euro, the pound and the yen. China's state-owned development bank has surpassed the World Bank in international lending. And its effort to create an internationally funded institution to finance transportation and other infrastructure has drawn the support of 57 countries, including several of the United States' closest allies, despite opposition from the Obama administration.

Even the current stock market slump is unlikely to shake the country's resolve. China has nearly $4 trillion in foreign currency reserves, which it is determined to invest overseas to earn a profit and exert its influence.

China's growing economic power coincides with an increasingly assertive foreign policy. It is building aircraft carriers, nuclear submarines and stealth jets. In a contested sea, China is turning reefs and atolls near the southern Philippines into artificial islands, with at least one airstrip able to handle the largest military planes. The United States has challenged the move, conducting surveillance flights in the area and discussing plans to send warships.

China represents "a civilization and history that awakens admiration to those who know it," President Rafael Correa of Ecuador proclaimed on Twitter, as his jet landed in Beijing for a meeting with officials in January.

China's leaders portray the overseas investments as symbiotic. "The current industrial cooperation between China and Latin America arrives at the right moment," Prime Minister Li Keqiang said in a visit to Chile in late May. "China has equipment manufacturing capacity and integrated technology with competitive prices, while Latin America has the demand for infrastructure expansion and industrial upgrading."

But the show of financial strength also makes China — and the world — more vulnerable. Long an engine of global growth, China is taking on new risks by exposing itself to shaky political regimes, volatile emerging markets and other economic forces beyond its control.

Any major problems could weigh on China’s growth, particularly at a time when it is already slowing. The country’s stock market troubles this summer are only adding to the pressure, as the government moves aggressively to stabilize the situation.

While China has substantial funds to withstand serious financial shocks, its overall health matters. When China swoons, the effects are felt worldwide, by the companies, industries and economies that depend on the country’s growth.

In many cases, China is going where the West is reluctant to tread, either for financial or political reasons — or both. After getting hit with Western sanctions over the Ukraine crisis, Russia, which is on the verge of a recession, deepened ties with China. The list of borrowers in Africa and the Middle East reads like a who’s who of troubled regimes and economies that may have trouble repaying Chinese loans, including Yemen, Syria, Sierra Leone and Zimbabwe.

With its elevated status, China is forcing countries to play by its financial rules, which can be onerous. Many developing countries, in exchange for loans, pay steep interest rates and give up the rights to their natural resources for years. China has a lock on close to 90 percent of Ecuador’s oil exports, which mostly goes to paying off its loans.

“The problem is we are trying to replace American imperialism with Chinese imperialism,” said Alberto Acosta, who served as President Correa’s energy minister during his first term. “The Chinese are shopping across the world, transforming their financial resources into mineral resources and investments. They come with financing, technology and technicians, but also high interest rates.”

China also has a shaky record when it comes to worker safety, environmental standards and corporate governance. While China’s surging investments have created jobs in many countries, development experts worry that Beijing is exporting its worst practices.

Chinese mining and manufacturing operations, like many American and European companies in previous decades, have been accused of abusing workers overseas. China’s coal-fired power plants and industrial factories are adding to pollution problems in developing nations.

Issues have already surfaced in Ecuador.

A few miles from the site of the hydroelectric plant, the Coca River vaults down a 480-foot waterfall and cascades through steep canyons toward the Amazon. It is the tallest waterfall in Ecuador and popular with tourists.

When the dam is complete and the water is diverted to the plant, the San Rafael falls will slow to a trickle for part of the year. With climate change already shrinking the Andean glacier that feeds the river, experts debate whether the site will have enough water to generate even half the electricity predicted.

Ecuadoreans on the Chinese-run project have repeatedly protested about wages, health care, food and general working conditions. “The Chinese are arrogant,” said Oscar Cedeno, a 20-year-old construction worker. “They think they are superior to us.”

Last December, an underground river burst into a tunnel at the site. The high-pressure water flooded the powerhouse, killing 14 workers. It was one of a series of serious accidents at Chinese projects in Ecuador, several of them fatal.

The Rise of China

When the research arm of China’s cabinet scheduled an economic development conference this spring, the global financial and corporate elite came to Beijing. The heads of major banks and pharmaceutical, auto and oil companies mingled with top Chinese officials.

Some had large investments in the country and wanted to protect their access to the domestic market. Others came to court business, as Beijing channeled more of its money overseas.

At the event, the managing director of the International Monetary Fund, Christine Lagarde, commended China’s efforts to engage globally through investment and trade, as well as to enact economic reforms. It “is good for China and good for the world — their fates are intertwined,” she said in her keynote address.

China’s pull is strong.

It is the world’s largest buyer of oil, which gives China substantial sway over petropolitics. It is also increasingly the trading partner of choice for many countries, taking the mantle from Western nations. China’s foreign direct investment — the money it spends overseas annually on land, factories and other business operations — is second only to the United States’, having passed Japan last year.

Chinese companies are at the center of a worldwide construction boom, mostly financed by Chinese banks. They are building power plants in Serbia, glass and cement factories in Ethiopia, low-income housing in Venezuela and natural gas pipelines in Uzbekistan.

The evolution has been swift. When China started to open its economy in the late 1970s, Beijing had to court companies and investors.

One of the first multinationals to enter was the American Motors Corporation, which built a factory in Beijing. The project was initially aimed at producing Jeeps for export to Australia, rather than building cars for Chinese consumers.

“We didn’t devote a lot of our boardroom discussions to it,” said Gerald Meyers, then the chief executive of the carmaker. “We were really trying to scrape out a living in our domestic market.”

Today, China produces two million cars a month, far more than any other country. It mirrors the broader transformation of the economy from an insular agrarian society to the world’s largest manufacturer.

While the change has showered wealth on China, it has also brought new demands, like a voracious thirst for energy to power its economy. The confluence of trends has compelled China to look beyond its borders to invest those riches and to satisfy its needs.

Oil has been on the leading edge of this investment push. Energy projects and stakes have accounted for two-fifths of China’s $630 billion of overseas investments in the last decade, according to Derek Scissors, an analyst at the American Enterprise Institute.

China is playing both defense and offense. With an increased dependence on foreign oil, China’s leadership has followed the United States and other large economies by seeking to own more overseas oil fields — or at least the crude they produce — to ensure a stable supply. In recent years, state-controlled Chinese oil companies have acquired big stakes in oil operations in Cameroon, Canada, Kazakhstan, Kyrgyzstan, Iraq, Nigeria, São Tomé and Príncipe, Sudan, Uganda, the United States and Venezuela.

“When utilizing foreign resources and markets, we need to consider it from the height of national strategy,” Prime Minister Li said in 2009, when he was a vice premier. “If the resources mainly come from one country or from one place with frequent turmoil, national economic safety will be under shadow when an emergency happens.”

Road to Dependence

For President Correa of Ecuador, China represents a break with his country’s past — and his own.

His father was imprisoned in the United States for cocaine smuggling and later committed suicide. At the University of Illinois at Urbana-Champaign, Mr. Correa focused his doctoral thesis on the shortcomings of economic policies backed by Washington and Western banks.

As a politician, he embraced Venezuela’s socialist revolution. During his 2006 campaign, Mr. Correa joked that the Venezuelan president Hugo Chávez’s comparison of President George W. Bush with Satan was disrespectful to the devil.

In an early move as president, Mr. Correa expelled the Americans from a military base in Manta, an important launching pad for the Pentagon’s war on drugs. “We can negotiate with the United States over a base in Manta if they let us put a military base in Miami,” President Correa said at the time.

Next, he severed financial ties. In late 2008, Mr. Correa called much of his country’s debt, largely owned by Western investors, “immoral and illegitimate” and stopped paying, setting off a default.

At that point, Ecuador was in a bind. The global financial crisis was taking hold and oil prices collapsed. Ecuador and Petroecuador, its state-owned oil company, started running low on money.

Shut out from borrowing in traditional markets, Ecuador turned to China to fill the void. PetroChina, the government-backed oil company, lent Petroecuador $1 billion in August 2009 for two years at 7.25 percent interest. Within a year, more Chinese money began to flow for hydroelectric and other infrastructure projects.

“What Ecuador wants are sources of capital with fewer political strings attached, and that goes back to the personal history of Rafael Correa, who holds the United States directly or indirectly responsible for his father’s death and suffering,” said R. Evan Ellis, professor of

Latin American studies at the United States Army War College Strategic Studies Institute. “But there is also a desire to get away from the dependence on the fiscal and political conditions of the I.M.F., World Bank and the West.”

The Ecuadorean foreign minister calls the shift to China a “diversification of its foreign relations,” rather than a substitute for the United States or Europe. “We have decided that the most convenient and healthy thing for us,” said the foreign minister, Ricardo Patiño, is “to have friendly, mutually beneficial relations of respect with all countries.”

The Chinese money, though, comes with its own conditions. Along with steep interest payments, Ecuador is largely required to use Chinese companies and technologies on the projects.

International rules limit how the United States and other industrialized countries can tie their loans to such agreements. But China, which is still considered a developing country despite being the world’s largest manufacturer, doesn’t have to follow those standards.

It is one reason that China’s effort to build an international development fund, the Asian Infrastructure Investment Bank, has faced criticism in the United States. Washington is worried that China will create its own rules, with lower expectations for transparency, governance and the environment.

While China has sought to quell those fears over the infrastructure fund, its portfolio of projects around the world imposes tough terms and sometimes lax standards. Since 2005, the country has landed $471 billion in construction contracts, many tied to broader lending agreements.

In Ecuador, a consortium of Chinese companies is overseeing a flood control and irrigation project in the southern Ecuador province of Cañar. A Chinese engineering company built a $100 million, four-lane bridge to span the Babahoyo River near the coast.

Such deals typically favor the Chinese.

PetroChina and Sinopec, another state-controlled Chinese company, together pump about 25 percent of the 560,000 barrels a day produced in Ecuador. Along with taking the bulk of oil exports, the Chinese companies also collect $25 to $50 in fees from Ecuador for each barrel they pump.

China’s terms are putting countries in precarious positions.

In Ecuador, oil represents roughly 40 percent of the government’s revenue, according to the United States Energy Department. And those earnings are suddenly plunging along with the price of oil. With crude at around $50 a barrel, Ecuador doesn’t have much left to repay its loans.

“Of course we have concerns over their ability to repay the debts — China isn’t silly,” said Lin Boqiang, the director of the Energy Economics Research Center at Xiamen University in China’s Fujian province and a government policy planner. “But the gist is resources will ultimately become valuable assets.”

If Ecuador or other countries can’t cover their debts, their obligations to China may rise. A senior Chinese banker, who spoke only on the condition of anonymity for diplomatic reasons, said Beijing would most likely restructure some loans in places like Ecuador.

To do so, Chinese authorities want to extend the length of the loans instead of writing off part of the principal. That means countries will have to hand over their natural resources for additional years, limiting their governments’ abilities to borrow money and pursue other development opportunities.

China has significant leverage to make sure borrowers pay. As the dominant manufacturer for a long list of goods, Beijing can credibly threaten to cut off shipments to countries that do not repay their loans, the senior Chinese banker said.

With its economy stumbling, Ecuador asked China at the start of the year for an additional $7.5 billion in financing to fill the growing government budget deficit and buy Chinese goods. Since then, the situation has only deteriorated. In recent weeks, thousands of protesters have poured into the streets of Quito and Guayaquil to challenge various government policies and proposals, some of which Mr. Correa has recently withdrawn.

“China is becoming the new company store for developing oil-, gas- and mineral-producing countries,” said David Goldwyn, who was the State Department’s special envoy for international energy affairs during President Obama’s first term. “They are entitled to secure reliable sources of oil, but what we need to worry about is the way they are encouraging oil-producing countries to mortgage their long-term future through oil-backed loans.”

Plagued by Problems

A pall of acrimony surrounds the Coca Codo Sinclair hydroelectric plant, Ecuador’s largest construction project.

Few of the Chinese workers speak Spanish, and they live separately from their Ecuadorean counterparts. When the workers leave their camp in the village of San Luis at noon for lunch, they walk down the main street in separate groups. At night, they also walk in separate groups up the hill to the local brothel. (Prostitution is legal in Ecuador.) The workers sit at separate tables drinking bottles of the Ecuadorean beer, Pilsener.

When the Chinese and Ecuadorean workers return to camp, typically drunk, there have been shoving matches. Once a Chinese manager threw a tray at an Ecuadorean worker at mealtime.

“You make a little mistake, and they say something like, ‘Get out of here,’ ” said Gustavo Taipe, an Ecuadorean welder. “They want to be the strongmen.”

Like other workers, Mr. Taipe, 57, works 10 consecutive days. Then he drives seven hours home to spend four days with his family, then returns for another 10 days. Mr. Taipe and others have complained about low pay for grueling work. He initially made $600 a month. After work stoppages, he now earns $914 a month, a decent wage by Ecuadorean standards.

Kevin Wang, a Chinese supervisory engineer at the project, played down the issues, saying, “Relations are friendly.” He predicted that the project would be a success. “We can do something here really important,” he said.

The hydroelectric project — led by Sinohydro, the Chinese engineering company, and financed by the Chinese Export-Import Bank — was supposed to be ready by late 2014. But the project has been plagued by problems.

A drilling rig jammed last year, suspending the excavation for a critical tunnel. Then in December, 11 Ecuadorean and three Chinese workers were killed and a dozen were hurt when an underground river burst into the tunnel and flooded the powerhouse. Workers drowned or were crushed by flying rocks and metal bars.

At a legislative hearing after the accident, one worker, Danny Tejedor, told the lawmakers, “I am a welder, and on various occasions I have been obligated to work in extreme conditions of high risk, deep in water.”

The environmental impact, too, has been controversial. The site sits in an area prone to earthquakes and near the base of a volcano that erupted this spring and produced short lava flows. “We all thought it was too dangerous to put the project there,” said Fernando Santos, a former energy minister who served in the late 1980s.

The construction of multiple access roads threatens the Amazon ecosystem. The roads allow farmers and cattle ranchers to push their way into some of the most remote tropical rain forests in Ecuador, a major corridor for roaming bears and jaguars.

The dam, which will divert water to produce electricity, will nearly dry up a 40-mile stretch of the Coca River for several months of the year, including the falls. An entire aquatic system will be wiped out, because the life cycles of many fish and other species are linked to variations in water flow.

“It would be like leaving Niagara Falls without water,” said Matt Terry, executive director of the Ecuadorian Rivers Institute.

Sinohydro said the location of the project had been determined by its employer, Ecuador’s government.

The Ecuadorean foreign minister brushes aside many environmental concerns. “If you worry about earthquakes, you wouldn’t build anything,” said Mr. Patiño, pointing to the experience of California.

“I don’t know if with climate change, after 50 or 30 years we will have a deficit of water, but in 50 years we may be living on Mars,” added Mr. Patiño, who is on a brief leave of absence to help organize popular support for President Correa. “Right now, there is plenty of water.”

When Ecuadorean delegations visited China in recent years to seek support for the refinery project outside Manta, a festive atmosphere pervaded the trips. The Ecuadorean representatives stayed in penthouse suites at luxurious hotels, with Chinese businesses paying the bills. The Chinese provided buses and Spanish-speaking guides to tour the Forbidden City and the Great Wall.

After each meeting, Chinese government and officials were eager to celebrate, taking their Ecuadorean counterparts to dinners in Beijing of boiled seafood and steamed rice. “They were gracious to take us to restaurants that suited Western tastes,” said a consultant who attended one trip, but was not authorized to speak publicly about it. “There were no scorpions served.”

A ‘White Elephant’

Officials took turns toasting one another, hoisting baijiu, the traditional Chinese spirit. With each drink, the Chinese and Ecuadoreans pledged their commitment.

Confident of China’s support, Ecuador has been moving aggressively on the refinery project. Outside the port of Manta, Ecuadorean workers have flattened 2,000 acres for the Refineria del Pacifico. Workers are busy laying Chinese-made pipe. Ecuador has already spent $1 billion of its own money on the project.

But for now, the pipes just go to several empty white sandy plateaus. The Chinese banks have not officially agreed to finance $7 billion of the project, which is expected to cost roughly $10 billion.

Depending on what happens, the refinery will either be the crown jewel of Ecuador’s relationship with China or an expensive monument to the limits of its largess.

For the Ecuadorean government, the sophisticated refinery is central to making the country self-sufficient in energy. For Beijing, it could mean more gasoline and other petroleum products shipped directly to China, without depending on the American refineries that now process them.

While Chinese officials and executives have said they are interested in the project, they are sending mixed signals and the talks have stalled. “China is definitely interested in this project because it is important for Ecuador and PetroChina,” said a Chinese diplomat in Quito, who spoke on the condition of anonymity because the talks are private. “It will be negotiated.”

But senior executives at PetroChina have misgivings. Even before oil prices started tumbling in 2014, the company, like many in the industry, cut investment spending sharply. This year, PetroChina plans to cut it another 10 percent. A continuing anticorruption campaign has added to the chill on energy spending.

China is broadly reassessing its global investment strategy as the country faces new economic challenges at home and abroad. Rather than blindly spreading its wealth around the world, China is growing more sophisticated about its deal-making in an effort to protect its profits and to ensure the right mix.

The prospects for the Ecuador refinery project now look hazy.

The chief financial officer of PetroChina, Yu Yibo, said the company’s cuts would include refinery projects, but he would not discuss Ecuador specifically. Wu Enlai, the board member who is the company secretary, said PetroChina had not yet approved the project. “It is in the stage of feasibility study.”

Several Ecuadorean energy experts question the economic sense of the project. Ecuador, they say, cannot justify the refinery unless the country significantly increases production. For that to happen, it must drill deeper into the Amazon, an environmentally risky and expensive proposition that has been politically charged since the operations of Texaco and the state oil company caused widespread pollution in the 1970s and 1980s. “If there is no guarantee of more production, this refinery will be a white elephant,” said Mauricio Pozo Crespo, a former economy minister.

The uncertainty worries many in Ecuador.

“Correa says there is no limit to how much we can borrow from China,” said Mr. Acosta, the energy minister during the president’s first term. “But if the Chinese don’t put up the money, there will be no refinery. I have my doubts.”

So does Luis Kwong Li, one of a handful of Chinese-Ecuadorean restaurateurs in Manta.

When he and his Chinese-born parents heard about the refinery project in 2009, they closed their restaurant in Guayaquil and moved to Manta to open a new one. They thought the restaurant would cater to Chinese employees looking for dim sum. But by this spring, only two Chinese investors, who hoped to build a valve factory, had come for lunch.

“The president built up a lot of expectations,” said Mr. Kwong Li. “Maybe it will still happen, maybe in two years. There’s a big hope among the Ecuadorean people that the refinery will create business and jobs.”

Clifford Krauss reported from El Chaco and Keith Bradsher from Hong Kong and Washington.

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