

## COVER STORY

# Chinese business both good and bad for Ecuador

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QUITO — They line Avenida Chile in central Quito, the Chinese vendors selling everything from backpacks to alarm clocks to jeans.

“We can feel it,” said Blasco Peñaherrera, the head of Ecuador’s Chamber of Commerce. “The Chinese merchants have invaded, in the best sense of the word.”

But there are also worrisome trends underlying China’s growing economic presence in Ecuador:

- While industrialists and analysts say Chinese investment in Ecuador has reached staggering levels, especially in the oil industry, in recent years, it appears that it is vastly under-reported. Ecuador’s Central Bank, for example, registered a paltry \$55,000 of new Chinese investment in 2004.

Part of the reason for this, says Peñaherrera, is that many Chinese-owned businesses are registered under Ecuadoreans’ names, which allows them to fly under the radar of authorities looking for contraband.

- Much of the merchandise traded along bustling shopping streets such as Avenida Chile is smuggled into the country to avoid taxes. The chamber of commerce estimates that contraband may top \$1 billion annually.

## BOTH GOOD AND BAD

As many Latin American countries are finding, doing business with China can cut both ways with China’s voracious appetite for oil and other raw materials providing a much needed boost for the local economy at the same time a flood of cheap Chinese goods threatens domestic industries.

A recent study by Ecuador’s textile industry association, known by its Spanish acronym AITE, says that \$84 million in contraband textiles entered the country last year alone. “Yes, we’re worried,” said AITE’s President Sebastian Borja.

Inexpensive Chinese clothes dot Avenida Chile stores, and importers and shop owners occasionally peek their heads out from behind an office door, but rarely speak to strangers — in part because many struggle with the language, but also because of their reputation for bringing in contraband to undercut local



PHOTOS BY ELIZABETH DALZIEL/AP FILE

**CHINESE TEXTILES:** According to AITE, Ecuador’s textile industry association, 5,000 people have lost their jobs in the textile industry since 2001 due to the influx of Chinese textiles.

producers.

Chinese government officials were not any more open than the businessmen on the street, shunning repeated attempts to speak about the economic impact of the Chinese or discuss their recent investment in the oil industry and their quiet inquiries about investments in Ecuador’s telecommunications and power industries.

Their Ecuadorean competitors often bristle when asked

about the Chinese.

“My business has been cut in half,” said José Malof, the owner of an Avenida Chile wholesale textile shop for 27 years, “because everyone is buying the finished product now. I don’t know what to do.”

## JOBS LOST

AITE’s Borja says that 5,000 people have lost their jobs in the textile industry since 2001. He’s pleading with the government to do more to combat

Chinese contraband, which is often routed through third countries like Panama, and to raise tariffs to protect the battered textile sector.

But Borja says he has received little response from the government.

In part, this may have to do with Chinese interest in Ecuador’s oil and the long-term potential of petroleum reserves in the Andean foothills and Amazon jungles. Ecuador produces 530,000

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barrels of oil per day and exports 400,000 barrels per day.

Despite its political instability (three presidents since 1997 have resigned from office before the end of their terms, including Lucio Gutiérrez in April, and recent protests temporarily shut down nearly all oil production), four billion barrels in proven reserves make Ecuador an attractive investment for oil-starved China.

## \$1.5 B PURCHASE

This month, the Chinese National Petroleum Co. (CNPC) led a consortium known as the Andes Petroleum Co. in the \$1.5 billion purchase of Canada-based EnCana’s assets in Ecuador. EnCana was the third largest oil producer in the country.

Last year, Chinese majors CNPC and Sinopec bought part or whole stakes in three oil fields in the months following a visit by Gutiérrez to Beijing. Their total investment in the largely foreign-owned oil sector, according to a recent report in *El Comercio* newspaper, is \$400 million.

CNPC and Sinopec are also trying to get pole position to bid on several oil blocks later this year. The bidding process has stalled on several occasions because of the recent political upheaval.

In the telecom field, China also has shown interest in bidding for state-run telecommunications companies Andinetel and Pacifictel, commerce department officials told *The Herald*. Local electricity providers — with their current strong cash flow — are also drawing interest from the Chinese, officials said, although they did not specify which providers have piqued Chinese interest.

“Everyday it’s bigger,” said Peñaherrera referring to Chinese investment. “But it’s a silent presence.”



**CHEAP LABOR:** Workers piece together garments in a factory in Beijing. Ecuador’s Chamber of Commerce estimates that contraband, including textiles, may top \$1 billion annually.