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## RELATIONSHIP

BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE REPUBLIC OF ECUADOR: A PERSPECTIVE FROM THE DEPENDENCY THEORY

### RELACIÓN ENTRE LA REPÚBLICA POPULAR CHINA Y LA REPÚBLICA DEL ECUADOR: UNA PERSPECTIVA DESDE LA TEORÍA DE LA DEPENDENCIA

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#### ABSTRACT

From the historical structuralist perspective, it can be argued that, since Ecuador's independence, its economy has played a peripheral role in the international economic scenario due to its internal economic structures. Therefore, Ecuador produces labor-intensive, low-tech primary products and imports high-value-added industrialized goods. In theoretical terms, Ecuador exports primary goods to supply the industry of the countries of the center. To fulfill the objective of the research, a documentary and non-intrusive analysis is carried out, which includes scientific articles in Scopus and WoS indexed journals. Where it is concluded that Ecuador must develop policies for the formation of human capital from an educational and cultural revolution that enhances the capacities of the population and facilitates social mobility from structural changes in the productive export sector and in the technological structures of the Ecuador and that it must follow a development strategy based on the generation of an endogenous technological core.

**Keywords:** Bidependency, dependency, dependency theory, foreign trade, international relations.

#### RESUMEN

Desde la perspectiva estructuralista histórica, se puede argumentar que, desde la independencia del Ecuador, su economía ha jugado un papel periférico en el escenario económico internacional debido a sus estructuras económicas internas. Por lo tanto, Ecuador produce productos primarios intensivos en mano de obra y de baja tecnología e importa bienes industrializados de alto valor agregado. En términos teóricos, Ecuador exporta bienes primarios para abastecer la industria de los países del centro. Para cumplir el objetivo de la investigación se realiza un análisis documental y no intrusivo, donde se incluyen artículos científicos en revista indexadas Scopus y WoS. Donde se concluye que, Ecuador debe desarrollar políticas de formación de capital humano a partir de una revolución educativa y cultural que potencie las capacidades de la población y facilite la movilidad social a partir de cambios estructurales en el sector productivo exportador y en las estructuras tecnológicas del Ecuador y que debe seguir una estrategia de desarrollo basada en la generación de un núcleo tecnológico – endógeno.

**Palabras clave:** Bidependencia, dependencia, teoría de la dependencia, comercio exterior, relaciones internacionales.

## INTRODUCTION

In the late 20th century, China became the most dynamic economy and the fastest-growing economy in the world. This production leadership was based on a very intense consumption of raw materials and fuels supplied with the natural resources of underdeveloped economies (Arteaga et al., 2020). In the mid-2000s, Latin America became the most dynamic partner of China and the greater supplier of primary products such as oil, copper, grains and fish (Rosales & Kuwayama, 2012). For instance, China became the first destination of exports for Brazil and Chile, and the second for Peru, Cuba and Costa Rica. China also is the third country with the most exports to the Latin America region, with a value that represents 13% of the total imports of the region. Also, Latin America became one of the most prominent destinations for Chinese FDI (ECLAC, 2015).

China-Latin America relations is fundamentally based on three characteristics: the export of Chinese industrial goods to Latin America, the export of primary goods from Latin America to China, and the placement of financial assets from Chinese trade such as loans and investments (Slipak, 2014).

In the Ecuadorian case, economic relations with China intensified with the coming to power of Rafael Correa in 2007. In the two consecutive presidential periods of the Correa administration (2007-2012 and 2012-2017), a restructuring of the public external debt was carried, which was not well perceived by international economic organizations such as the IMF and commercial banks. Several Ecuadorian economic analysts argued that the declaration of moratorium made by President Correa in 2008 took Ecuador out of the international financial market, making impossible the placing of Ecuadorian sovereign papers at the average interest rates of the time. Ecuador had in 2008 a public external debt of 10,089 million dollars (Medina Regalado, 2019).

The Correa administration restructured this debt at its discretion as Correa considered it illegitimate by reducing it by 25%. That is, \$ 7,389 million in 2009 (Medina Regalado, 2019). The illegitimacy to which Correa referred is that these debts were contracted in unequal conditions for Ecuador. In addition, Correa directly confronted the position of the IMF and the World Bank since the policy of these organizations is based on the fact that countries must have great fiscal discipline and be payers of international financial commitments to enjoy their benefits. As Correa declared the moratorium on this debt "illegitimate," Ecuador began to have difficulties accessing foreign loans and investments from these organizations, which

led the Correa administration to seek alternative credit lines offered by China (Endrizzi, 2020).

Consequently, China became the leading financier of the investments made during the Correa administration. The payment of the vast majority of these Chinese loans would be made with oil, which compromised the sales of the main Ecuadorian export product. The characteristics of this "credit" agreement were based on an interest rate of 7.25% payable over two years with eight amortizations per month.

It is important to note that a loan with the same characteristics from the World Bank would have had an annual interest rate of 1.5%. Another characteristic of this contract was establishing a penalty on the price of a barrel of Ecuadorian crude between \$ 1.25 per barrel for Oriente crude and \$ 1.35 per barrel for Napo crude. These values are \$ 1.60 less than what was offered by other buyers at the time (Vela, 2009).

The Correa administration compromised a large amount of Ecuadorian oil resources due to the freedom of conditions that Chinese loans offered to access them. As the Correa government was aligned with a leftist ideology, most of its developing plans involved substantial public spending for investments (Aidoo et al., 2017). Therefore, Correa saw Chinese loans as advantageous to finance his projects, consequently compromising Ecuadorian oil. However, the growth of the public external debt increased dramatically due to Chinese loans, and by the end of his government in 2016, there was a public external debt of \$ 22,572 million (Gómez Ponce, 2021).

Ecuador received 15 lines of credit from China during the Correa administration which accumulated 11,320 million dollars. These loans were used to build projects in the energy, infrastructure and mining sectors. 59.5% of these loans were for the construction of energy sector projects such as hydroelectric dams. The effects of the relationship between China and Ecuador denoted a continuation of the disadvantageous historical structure for Ecuador in its relations with its main commercial and economic partners.

The dynamics of Ecuadorian international economic relations are based on exporting its primary goods of low monetary value and importing industrialized goods of higher monetary value. Could China be considered a new "centre" country in its relations with Ecuador? The dynamics of China-Ecuador relations applied during the government of Rafael Correa have created a continuous economic dependence on its primary products for Ecuador with China with typical characteristics of centre-periphery relations.

Through the theoretical framework of the structuralist current of the dependency theory, this paper intends to explain the role that China has as a centre country and Ecuador as a peripheral country in their bilateral relations.

## MATERIALS AND METHODS

To meet the objective of this research, a documentary or “non-intrusive analysis was carried out, where scientific articles from indexed journals with the search” (Vergara-Romero et al., 2022) for the following terms “dependency AND theory”, “china AND ecuador AND dependency”, “china AND Ecuador AND dependency AND theory”, “dependency AND theory AND ecuador”, “dependency theory AND ecuador”, “dependency theory AND china AND Ecuador”, “dependencia AND teoria”, “china AND ecuador AND dependencia”, “china AND ecuador AND dependencia AND teoria”, “dependencia AND teoria AND ecuador”, “dependencia AND teoria AND china AND ecuador” we included. “The search was expanded to include articles from the Journal Indexing Citation Report (JCR) and Scimago Journal Rank (SJR). In the case of Web of Science, the Social Sciences Citation Index (SSCI), Science Citation Index Expanded (SCIE), Art and Humanities Citation Index (AHCI) and Emerging Sources Citation Index (ESCI) were included” (Vergara-Romero et al., 2022).

“Several articles were selected from 2000 to 2022, for a preselection focused on addressing the problem by reading the title, theme, abstract and keywords” (Vergara-Romero et al., 2022). “A bank of articles was created on the Mendeley platform and the study of these articles was expanded, building a systematization of the indicated field and a comparative analysis between the various studies” (Vergara-Romero et al., 2022).

## RESULTS

### Theoretical aspects

The dependency theory “denies the benefits of international trade proposed by the classical school and explains underdevelopment through the subordination or submission that occurs from one country to another” (Cademartori, 2003). “Undoubtedly, this theory tries to find a theoretical answer to why there was an economic stagnation in Latin American countries in the 20th century” (Analuisa-Aroca et al., 2022). “This theory began to form during the years 1950 to 1970 when a group of Latin American scholars worried about the socioeconomic stagnation that was taking place in Latin America” (Cademartori, 2003).

Above all, dependency theory starts from the assumption that the world economy generates a system of inequality

for underdeveloped countries and therefore is detrimental. It makes inequality a structural component where disadvantaged countries can-not rise. “The economies of developed countries grow and become stronger, while the economies of underdeveloped countries are increasingly fragile and weak. In addition, it affirms that there is an axis or a country that acts as a center” (Analuisa-Aroca et al., 2022). This is a developed country endowed with a high level of investment in its production infrastructure. For this reason, the goods and services they produce are manufactured and with a high degree of added value.

Instead, there are many peripheral or underdeveloped countries around this central axis. “Due to their low level of industrialization, they only produce food and raw materials that have very little value in the market, and as a consequence, their prices are very low” (Giller, 2014). “As a result, underdeveloped countries increasingly suffer from a greater degree of industrial and technological marginalization by industrial or developed countries” (Giller, 2014). Two main currents of dependency theory have been distinguished from these central ideas. One is the neo-Marxist current, and the other is the structuralist current (Schaposnik, 2017).

The “neo-Marxist current explains the underdevelopment and inequality that occurs not only in Latin American countries but also at the world economy level” (Solorza & Cetré, 2011). “For neo-Marxists, the inequality that is marked between underdeveloped and developed countries occurs because developed countries act as central countries in the great metropolis of the capitalist world and are supported by peripheral or satellite countries” (Schaposnik, 2017). Therefore, “the satellite countries cannot develop because any surplus that is produced goes to the great metropolis. They consider that this occurs as an effect of the capitalist system” (Solorza & Cetré, 2011).

The structuralist current, which theoretical framework will be used for this research, “explains economic dependence as a central-peripheral relationship that occurs between countries” (Schaposnik, 2017). “In summary, this current proposes that the growing inequality in Latin America is due to the marked disparity generated in the commercial relations established between countries. Thereby, causing the economies of underdeveloped countries to be subordinate to the economies of developed countries” (Schaposnik, 2017). To be more specific, “developed countries buy inputs and raw materials at low prices from underdeveloped countries and transform them into technological or industrialized products with high added value” (Olivares, 2017). “Then, these industrialized products are exported and sold in the market at high prices, making their economies grow, in contrast to the

deterioration suffered by the economies of the peripheral countries” (Olivares, 2017).

At the beginning of the 1950s, and partly due to the disenchantment that originated with linear views of development, historical structuralism emerged with increased vigour. This is what first became known as dependency theory in the 50s and 60s. However, due to the focus and discrepancies of Marxist scholars with structuralists within the dependency school, structuralism started to be distinguished as a separate current. This current is based on the arguments made in the 50s and 60s by “Economic Commission for Latin America and the Caribbean” (ECLAC) structuralist scholars.

Structuralists centred on the belief that rich countries co-existed with poor countries in the same world system of development and underdevelopment. “Development and underdevelopment were seen as two sides of the same coin. The rich countries were considered to be at the centre of this world system that benefited them economically while perpetuating the condition of poverty and misery” in the poor countries of the periphery.

The dependency structuralist theory pointed out that the negligence or deliberate intention of the countries located in the centre of the world capitalist system led to the exploitation of the poor countries of the periphery, which means a permanent concentration of capital at the centre and the absence of it, in underdeveloped countries (Casella, 2008). For this reason, it is judged that all the efforts made by the peripheral countries to national development were not going to give the results expected (Cademartori, 2003).

The dependency structuralist theory reached its highest degree of sophistication in Latin America because it is the creation of Latin American scholars. The majority of these scholars carried out their research work at ECLAC. The most prominent of them, the Argentine economist Raúl Prébisch, is known by his political influence and his historic role as ECLAC’s executive secretary.

ECLAC scholars’ position on economic development “was based on the belief that conventional economic theory, as practiced by developed countries, was inadequate for dealing with the problems of underdevelopment in Latin America. In this way, the study of underdevelopment raised the need for a structuralist approach” (Schaposnik, 2017), that mainly focused on historical analysis in the national context.

ECLAC scholars proposed that conventional economic theory, with its emphasis on the theory of prices and general equilibrium, did not recognize the different existing

structures. According to the structuralist approach, the relationship between the center of the periphery and the periphery produces the concentration of technical progress in the center, which in turn has the effect of reducing the share of primary inputs in the final value of products. This “lead to what was called a state of progressive deterioration in the “terms of trade” for producers of primary products” (Ochoa-Rico et al., 2022).

The idea of the deterioration in the “terms of trade” was developed by Sir Han Singer and Raúl Prébisch. In its original formulation, this idea combined two different but complementary hypotheses. On the one hand, the “negative effect of the income-inelasticity of the demand for raw materials over the terms of trade of the developing countries and, on the other, the asymmetries in the functioning of the labour markets of the center and the periphery” of the world community. According to the first hypothesis, the effects of the low-income elasticity tend to modify the productive structures, decreasing the relative size of the primary sector. In this way, the periphery must grow more slowly than the center, and the surpluses of primary goods will tend to press down their relative prices.

Singer concentrated heavily on the study of productive factors, emphasizing the asymmetry in the functioning of labour markets as a cause of an unequal distribution of the fruits of technical progress. In this regard, Prébisch stated that the lower long-term demand for raw materials meant that the relative surpluses of labour displaced from primary activities tended to be concentrated in developing countries, which, in turn, had difficulties using the factors in new productive sectors.

For example, a certain unit of industrial inputs meant more units of primary export products for the countries of the periphery. The deterioration of the terms of trade is the manifestation of the imbalance between the central and peripheral countries regarding the exchange of products. In other words, peripheral countries will have to contribute a greater quantity of primary products to acquire the same quantity of industrialized goods. Consequently, the producers of raw materials experience problems in the balance of payments, which in turn has a direct impact on the internal inflationary process (Casella, 2008). For this reason, ECLAC scholars proposed that to reverse this situation of capital depletion, Latin America, as a fundamental economic policy, should industrialize to reduce the degree of dependency and achieve this through high import tariffs to provide support to small industries. This strategy came to be known as “import substitution industrialization (ISI),” which promoted the creation of national industries that could supply the demand previously created by imports.

In other words, ISI argues that for a country to develop, it must transform the raw materials it possesses rather than export them. The state should encourage the local manufacture of first-rate goods to reach the final consumer (Rene, 2019). The objective of the ISI model is to make the nation less dependent on the commercialization of its natural resources. The ISI model promotes national investment for the creation of an autonomous industry. In order to acquire this, restrictions must be imposed, such as higher tariffs or caps on imports, depending on the merchandise and its place of origin (Giller, 2014).

Nevertheless, the structuralists themselves criticized the way in which the ISI model was implemented. The gains of technological advances did spread as planned but concentrated in the hands of the owners of capital and excluded the majority of the population, exacerbating existing inequalities in the distribution of the incomes. In addition, the external vulnerability of the economy deepened in such a way that it led to growing foreign control of the industrial sector (Schaposnik, 2017).

According to Dos Santos, the central thesis of dependency theory could be synthesized as follows: “the interdependence relationship that exists between national economies and the world economy becomes a dependency relationship when some countries can expand through their self-drive, while others being in a situation of dependency, can only develop as a reflection of the expansion of the dominant countries, which in any case would have positive or negative effects on their immediate development” (Dos Santos, 2018).

Among the various opinions on how to reverse the condition of dependency are those of Cardoso and Faletto. They believe it is possible to reach a “dependent development” that contains a “structural dynamism” instead of stagnation. This structural dynamism would be developed by multinational corporations need to produce due to their accumulation process. According to them, the developed countries would dictate the conditions and directions of this development. The reforms made at the domestic level would produce an important change in the traditional patterns of underdevelopment. These authors considered that with the creation of an endogenous-technological nucleus of national development, the situation of dependence existing in the peripheral countries of Latin America could be reversed.

The conceptualization of Cardoso and Falleto could explain what happened in East Asia and Southeast Asia with the so-called new industrialized countries and the new ex-ported countries. In the last decades of the 20th century, these countries went from promoting ISI policies

to developing strategies based on an export promotion policy. This caused the countries to move from a productive cycle based on the export of natural re-sources to a manufacturing cycle with great added value for export. The governments of these countries used incentives for expanding domestic entrepreneurs and growth in the level of the labour force. On the other hand, the combination of state participation in the economy, especially in the formation of human capital and the reduction of poverty levels through successful education programs, allowed structural changes in the society and economy of these countries (Ghazali et al., 2018).

Whatever the limitations on the interpretive methodology of dependency theory, there is an undeniable fact. This theory denotes a critical point in explaining the Latin American development process. The interaction between Latin American and international structures forms the necessary starting point for understanding the region’s development process.

#### How is the Ecuadorian economy?

Ecuador’s economy is mainly “based on mining, agriculture and fishing. The mining and exporting of oil have played a dominant role in the country’s economy since the early 1970’s” (OEC World, 2022). “Recent years have seen Ecuador’s economy depend more and more on the export of cocoa and bananas, of which Ecuador is the world’s largest exporter and has been for several decades” (World Bank, 2022). “To be more specific, the top exports of Ecuador are Crude Petroleum (\$7.85B), Crustaceans (\$3.89B), Bananas (\$3.43B), Processed Fish (\$1.2B), and Refined Petroleum (\$947M)” (OEC World, 2022). “Ecuador has substantial petroleum resources, which accounted for 40% of the country’s export income and one-fourth of central government budget revenues in recent years. As a result, fluctuations in world market prices can have a substantial domestic impact” (World Bank, 2022).

From the historical structuralist perspective, it can be argued that since Ecuador’s in-dependence, its economy has played a peripheral role in the international economic scenario due to its internal economic structures. In other words, Ecuador produces labor-intensive and low-tech primary products and imports industrialized goods with high added value. In theoretical terms, Ecuador exports primary goods to supply the industry of the Centre countries (Vergara-Romero, et al., 2022).

Since World War II, Ecuador has primarily supplied its primary products to the United States. Today, 45 percent of the total exports of Ecuador go to the United States, and 27 percent of imports come from the United States,

making the North American country the first trading partner of Ecuador (OEC World, 2022). It is important to note that the goods imported from United States are industrialized ones. Moreover, when the trade balance between the two countries is analyzed, it is evident that the balance of primary goods is a surplus while the balance of industrialized goods is in deficit. This demonstrates the peripheral role of the Ecuadorian economy and the dependence it suffers on the United States due to the inequity in its terms of trade.

The multiple disadvantages of this insert model to a peripheral country like Ecuador are the dependence on non-renewable resources such as oil, depletion of soil nutrients in the case of agricultural products, relative technological backwardness that generates low competitiveness, low wages typical of unskilled labour and dependence on the economic cycles of the centre (Jenkins, 2012). This situation validates the postulates of the dependency theory from the structuralist vision since it exposes the form of limited development that peripheral countries such as Ecuador (Vergara-Romero, et al., 2022).

The leading cause of the limitations Ecuador suffers from developing is the lack of a development model to change the productive structures that lead to the generation of work with increasing productivity. Furthermore, this makes Ecuador's insertion on the international scene subordinate to its main trading partners, such as the United States. Nevertheless, the main disadvantage of this model of primary export insertion is the unfavourable asymmetries in prices studied by the structuralists Prebisch and Singer. These asymmetries are one of the causes of the repeated balance of payments crises. In the 21st century, these relationships are repeated and deepened, but now with China as a new actor (Ortiz, 2012).

### Presence of the People's Republic of China in Latin America

The rise of China as one of the world's economic leaders is undoubtedly one of the most meaningful events in the current dynamics of capitalist development and the most obvious sign of the significant transformations of power in the global order. Its rapid insertion into the world economy and political activism at the bilateral and multilateral levels has aroused expectations and concerns in developed and peripheral countries.

The presence of the Asian giant in the economic dynamics of Latin America grew exponentially in the last decade. China has increased its importance as a consumer of energy resources and raw materials to maintain its high growth rates (Díaz Vásquez, 2010). This has been officially reflected since November 2008 when the Chinese

government approved, for the first time, a document that summarizes its policy towards Latin America and the Caribbean, in which five principles of "peaceful coexistence" are applied to an extensive program of South-South cooperation and exchanges

The increase in investment by China in the region has been enormous after the out-break of the global crisis (Gallagher et al., 2013). Several scholars have pointed out that its impact has managed to reorient the trade and development policies of several countries in a very short time, affecting in some cases strategic decisions related to geopolitical alignments in the hemispheric and international scenario (Dussel, 2015). ECLAC, in a "report on Chinese investment in the Latin and Caribbean economies between 2005 and 2020, stated that China's FDI in the region was 83,000 million dollars" (Bárcena et al., 2021). It is essential to mention that Chinese investments in Latin America between 2005 and 2009 were 4%, between 2010 and 2014, 17% and between 2015-2019, 22%" (Rodríguez Salcedo, 2021). This shows an accelerated increase in Chinese foreign direct investment in the region. On the other hand, the United States decreased its FDI investment in Latin America, going from 20% of FDI in the period 2010-2019 to 13% in 2020 (Bárcena et al., 2021). This shows the dynamism of the growth of Chinese investment in the region to the detriment of American investment.

### Diplomatic relations between the people's republic of China and Ecuador

Diplomatic relations between Ecuador and China formally began in 1979 within the framework of the modernization process undertaken by Deng Xiaoping. "During the 1980s and 1990s, the ties between the two countries were incipient and consisted of a few agreements for diplomatic cooperation, trade promotion, and scientific-technical cooperation" (Zapata et al., 2018). It was not until 2007, with the start of the "Revolución Ciudadana" led by the Rafael Correa government, that Ecuador's relations with China became strategic. A few months after Correa assumed his first presidency term, he visited his then-counterpart, Hu Jintao, to lay the foundations for broader bilateral cooperation (Zapata et al., 2018).

From the Chinese perspective, it is evident that Ecuador is part, along with the rest of the Andean countries, of its strategy of "opening outwards" in geographical areas. Even though Ecuador is far from its geographical orbit, it would ensure a provision of natural resources and energy in the event of any eventuality of a political nature, regional conflict or natural catastrophe in its vicinity (Narins, 2012).

In geoeconomics terms, China emphasizes the importance of boosting physical connectivity in the Asia Pacific region to facilitate trade and economic development. This has generated great expectations in several countries on the Pacific coast, such as Chile, Peru, Mexico, Colombia and Ecuador. China views the geographical position of these countries as a “point of connection” or the main entry and exit point for products from China to the region and vice versa. Since the beginning of the Correa administration, Chinese investors have been invited to take advantage of the geopolitical advantages of Manta, a port city on the coast of Ecuador, as well as the Manta-Manaus axis, as a way for products to enter South America (Gudynas, 2012).

The close ties between China and Ecuador are also inserted in the framework of the transformations that took place in the context of the *Revolución Ciudadana* political process. Two key aspects explain the fluidity of the bilateral relationship under the Correa administration. Firstly, the turn of the Ecuadorian foreign policy as of 2007. Secondly, the promotion of a development model based on a “progressive” extractivism, as certain scholars catalogued it (Petras & Veltemeyer, 2014). For the Correa administration, relations with the Asian country responded to the objective of diversifying its political and commercial ties, which have historically revolved around a dependency with the United States.

In the financial area, the Correa government proposed to transfer the strong ties it had with the United States and multilateral credit organizations to non-traditional partners such as China. The purpose of this was to find new sources of credit and lower the existing dependence on financing from the United States. Additionally, the development model proposed by Correa combined a classic approach based on economic growth, exports of raw materials, extractivism and characterized by high state intervention in the economy (Lapeña-Sanz, 2018). This allowed large Chinese investments to enter the mining and hydrocarbons sector.

The economic policy applied in the Correa administration made it easier for China to constantly increase imports of industrialized products to Ecuador and exports mainly of raw materials from Ecuador to China. Therefore, China represents for Ecuador the same center-periphery dynamic it has with the United States.

It is essential to use the theoretical body of the dependency structuralist theory to analyze the relationship between China and Ecuador to explain why trade between Ecuador and China is unfavourable for the Ecuadorian trade balance, why Ecuador's exports to China have

disadvantageous prices compared to Chinese imports to Ecuador and why Ecuadorian industrial exports are not very competitive compared to Chinese manufactures. Also, it is important to clarify that the dependency dynamic that Ecuador suffers with the United States is the same that Ecuador suffers with China in theory and practice. Therefore, Ecuador passed from having one dependency relation with one country to two, United States and China.

For Ecuador, a developing country on the periphery, the insertion of the international market and the strengthening of commercial relations with various nations represents a fundamental aspect of moving towards the centre of the system. In the Correa administration, commercial policy focused on opening and strengthening non-traditional markets with diverse commercial partners. Among these, China stands out fundamentally. However, due to Correa's foreign policy and ideology, the possibility of expanding its commercial partners and international investors was limited, practically turning China into its sole supplier of capital. Regarding the non-oil trade balance, Ecuador mainly exports goods with little or no added value, while imports industrialized goods with Chinese technology typical of a centre country. In addition, centre countries such as China have autonomous development based on technological progress while the periphery experiences development dependent on the actions of the centre country. It is evident how Ecuador experiences a peripheral role in the face of domination in its commercial relationship with China.

#### Ecuador-China trade balance

Ecuadorian exports to China are not very diversified, with a contraction mainly in crude oil. Therefore, fluctuations in international oil prices create further instability, seriously affecting Ecuador. Trade relations between Ecuador and China grew exponentially during the Correa administration. However, compared to the rest of South American countries, Ecuador's participation in the total trade of goods with China is quite modest. According to ECLAC, Ecuador exported USD 723 million to China in 2015 compared to Brazil (USD 35,608 million), Chile (USD 16,671), Peru (USD 7,333), Venezuela (USD 6,888) and Argentina (USD 5 174). The exchange has also had an uneven impact on both countries. For China, Ecuador plays an insignificant role, representing only 0.036% of its total imports and 0.19% of its exports in 2014 (Zapata et al., 2018). On the contrary, the role of China has become increasingly important for Ecuadorian trade. In Ecuador's import market, China went from 10th place as a trading partner in 2000 to second in 2015, displacing the European Union. Ecuadorian imports from China represented 8.41% in

2008, while by 2015, this figure had doubled, reaching 15.1%, although less than the United States, from which 26.8% of the total was imported. In terms of total exports, China's role is minimal. In 2015, exports from Ecuador to China represented just 3.9% of the total, compared to 39.5% to the United States, which continues to be the country's leading trading partner (Zapata et al., 2018).

Historically, the trade balance with China has been in deficit. Furthermore, the gap between exports and imports has been accentuated in recent years to the detriment of Ecuador. It has also been the deepest in comparison with the total balances of the rest of the trading partners. This shows a typical commercial relationship between a centre (China) and a peripheral country (Ecuador). Before the Correa government, in 2006, Ecuador had a trade surplus of 614 million dollars, in 2007 a surplus of 427 million dollars. As of 2008, Ecuador began to have a trade deficit until 2015, with 2010 and 2015 being the peaks of this deficit with more than 3 billion dollars in its trade balance. This deficit was mainly due to the trade relations between Ecuador and China.

Ecuadorian exports to China are not very diversified, with a contraction mainly in crude oil. Therefore, fluctuations in international oil prices create further instability, seriously affecting Ecuador. According to figures from the Central Bank of Ecuador, in 2008, the trade deficit with China was USD -1,079.43 million, and in 2015 it had doubled, reaching USD -2,363.99 million. On the other hand, the composition of the trade balance is quite uneven in terms of added value. Ecuador's exportable supply is largely reduced to primary goods, mainly three: crude petroleum or bituminous mineral oils, frozen shrimp, prawns and decapods, and bananas. Regarding imports, the range of Chinese products sent to Ecuador is more diversified. In 2015, the main imported products were pipes for the extraction of oil, rolled iron products, wire rods, electrical conductors, transformers and vehicles (MREMH, 2015).

These data empirically validate Prebisch and Singer's theory of the deterioration of the term of trade. In other words, Ecuador's primary product exports are at a disadvantage as they have less added value than imports made from China, thus creating a deterioration in their terms of trade and subordination of the Ecuadorian economy with the Chinese economy.

On the other hand, Ecuador's trade balance with the United States has been in surplus during the period analyzed (2007-2017), with its low point in 2010 with a surplus of 1,454 million dollars and the highest in 2008 with 5,580 million dollars (MPCEIP, 2019). These figures show us that the trade balance with China is less favourable for

Ecuador. Above all, the Ecuadorian economy is dollarized and therefore has a significant dependence on its foreign trade to enter fresh money since it cannot make monetary issuances.

The figures mentioned above for the trade balance of China and Ecuador and the United States and Ecuador reaffirm Prebisch and Singer's postulates about the deterioration of the terms of trade. Regardless of whether the bilateral trade balances are in surplus or not, what is important is the weight that these markets have for Ecuador and the level of subordination of the Ecuadorian economy to imports or exports to China and the United States (Macas-acosta et al., 2022; Ochoa-Rico, Jimberdel-Río et al., 2022). In other words, it is essential to recognize the importance of Chinese imports and exports to the United States for the operation of the Ecuadorian economy. Therefore, any imbalance in Ecuador's bilateral trade with China or the United States would seriously affect the functioning of the productive apparatus and the development of the Ecuadorian economy. In other words, the Ecuadorian economy has a similar dependence behaviour in relation to imports from China and exports to the United States. Therefore, this affirms that the Ecuadorian peripheral economy suffers from a bidependence.

According to the dependency theory, the peripheral countries do not efficiently use the savings from their exports and therefore do not invest adequately in national development. This causes foreign financing alternatives to be sought under the conditions stipulated by the owners of the capital, generating a relationship of dependency with the lending nations (Agbebi & Virtanen, 2017). This situation can be clearly seen in the Ecuadorian case since the 1960s when oil exploitation began. With the Correa administration, the Ecuadorian foreign debt underwent a radical change. The dependence that existed with multilateral credit organizations is transferred to Chinese loans. This can be seen in the increase in Ecuador's debt with China, which from 803 million in 2003 reached a record figure of more than 8 billion in 2016, representing a growth of 1000% of the external debt with China.

Shortly after Rafael Correa assumed the presidency, his administration started investigating the foreign debt Ecuador has through the Commission for the Comprehensive Audit of Public Credit. Correa described it as "illegal" and "illegitimate," stating that he would prioritize social spending more than to pay for it. Therefore, a restructuring of the public external debt was carried, which was not well perceived by international economic organizations such as the IMF and commercial banks. Ecuador had in 2008 a public external debt of 10,089 million dollars. The Correa administration restructured this debt at its discretion as Correa

considered it illegitimate by reducing it by 25%. That is, \$ 7,389 million in 2009. The illegitimacy to which Correa referred is that these debts were contracted in unequal conditions for Ecuador. In addition, Correa directly confronted the position of the IMF and the World Bank since the policy of these organizations is based on the fact that countries must have great fiscal discipline and be payers of international financial commitments to enjoy their benefits. Consequently, Ecuador began to have difficulties accessing foreign loans and investments from these organizations, which led the Correa administration to seek alternative credit lines offered by China (Endrizzi, 2020). Additionally, the boom in raw materials and the government's interest in building a "sovereign" economic policy laid the foundations for expanding and deepening financial relations with China. The Asian country thus became the main financier of the Correa administration.

### Chinese financing in Ecuador

Regarding financing from China, two moments can be distinguished in Ecuador's credit history. The first covers the period 2009-2014 and is inserted in a context of high prices of raw materials and limited access of the country to international financial markets. In this period, the loans were mainly destined to finance large projects of the Ecuadorian State conditional on oil sales and contracting of Chinese companies (Zapata et al., 2018). The second moment, which covers the period 2015-2016, is characterized by the oil price crisis and the country's return to the international financial markets. In this period, Chinese credit has been granted through large commitments to supply deficits in the general budget of the State and the debt with suppliers of investment projects, among them the same Chinese companies (Zapata et al., 2018).

The loans have been of three types: 1) For the construction of megaprojects, whose financing package is characterized by being conditional on the hiring of Chinese companies, labour and equipment, supplies and technology. 2) Credits of free availability, whose financing is not conditional. 3) Financial advances for the sale of oil. It is essential to mention that Correa government did not consider this as an external debt since its payment is given in advance through commitments to send oil. However, many scholars did consider it part of Ecuador's foreign debt due to the terms and conditions of these contracts.

It is essential to mention that Chinese loans have conditions that forced Ecuador to contract Chinese companies to carry out any infrastructure work. According to the dependency theory, financial dependency acts on a centre nation's credit generated through its international banks. In the case of Ecuador, China granted Ecuador

loans from its main banks, Exim Bank of China and the China Development Bank, to carry out infrastructure projects such as the construction of hydroelectric dams, educational complexes, mining projects, etc. These loans were often tied to the advance sale of oil (Herrera-Vinelli & Bonilla, 2019). For example, in 2008-2014, 9 contracts were signed where 12 billion dollars in barrels of oil were committed. It is necessary to reflect that the loans were characterized by high-interest rates that ranged between 6% and 7.25% in the short term

This commercial and financial relationship is clearly typified in the dependency theory when it is stated that the borrowed credit limits the government's actions of the peripheral country. In this case, Ecuador committed its product with greater commercialization to pay the foreign debt with China, losing the possibility of carrying out other commercial transactions with other partners and consequently creating a significant dependence on the sale of its main export product to a single country.

According to the Ministry of Energy of Ecuador, in Ecuador, the production of oil reaches about 500 thousand barrels per day, of which 261 thousand are exported. Of the total exports of PetroEcuador, a public oil company, 85.1%, that is, 222 thousand barrels of oil are committed to three Asian oil companies, two of which are Chinese: PetroChina and UNIPEC and the third company are Thailand: PetroThai. This shows the total dependence of Ecuadorian oil exports on Chinese companies. In other words, what is left of oil to freely export to Ecuador and take advantage of better diversification and the rise in crude prices is very marginal.

The characteristics of this "credit" agreement were based on an interest rate of 7.25% payable over two years with eight amortizations per month. It is important to note that a loan with the same characteristics from the World Bank would have had an annual interest rate of 1.5%. Another characteristic of this contract was establishing a penalty on the price of a barrel of Ecuadorian crude between \$ 1.25 per barrel for Oriente crude and \$ 1.35 per barrel for Napo crude. These values are \$ 1.60 less than what was offered by others buyers at the time [8]. Therefore, this commercial agreement hurts Ecuador since it has a penalty for the sale price of Ecuadorian crude in international markets. In other words, the agreement is neither beneficial nor fair for Ecuador since, in the period of Correa's administration, the price of crude oil at the international level had values well above those bought by China.

It is essential to mention that the Ecuadorian external public debt structure at the end of the Correa government period reached 27 billion dollars. 30% of the debt was

from Chinese bilateral loans, 31% from multilateral organizations, and 33% from sovereign bonds of the Ecuadorian government placed in international financial markets. The second country in the bilateral external debt relationship with Ecuador during the Correa administration was Spain, which only represented 1.2%, and the third country was France with 0.9%. It is noteworthy that the bilateral debt with the United States represented only 0.2%. This shows the tremendous financial dependence with which the government of President Correa ended in relation to China (MEF, 2017).

On the other hand, financing from multilateral credit organizations, specifically the IMF, is associated with specific objectives. In the case of the IMF, the main aim is for Ecuador to generate sufficient public savings to reduce the burden of external indebtedness (Romero-Subia et al., 2022; Vergara-Romero et al., 2022). Nevertheless, these loans are conditioned with a fiscal adjustment closely linked to the external opening of the economy that allows the free entry of capital from transnational companies from the centre countries.

In the case of China, there is no explicit conditioning to the government's economic policy, but it is interested in Ecuador generating the necessary liquidity to pay its debt. In addition, most Chinese loans are linked to contracts with companies of Chinese origin to carry out the investment projects for which these loans are intended. This shows us that in both cases, a dependence is generated directly or indirectly from the peripheral country to the center countries.

### Chinese Foreign Direct Investment in Ecuador

Foreign direct investment (FDI) from China in Ecuador began to occur in 2006, with the arrival of the Andes Petroleum company, when Chinese investments gained strength in the hydrocarbon sector. Since then, more than 70 Chinese companies have registered in the country and have begun to operate in different sectors such as hydrocarbons, energy, mining, bridges, road infrastructure, sanitation, defense, provision of services, among others (ECLAC, 2015). Chinese investments are mainly concentrated in hydrocarbons, hydroelectric power and mining, and are primarily located in the eastern mountain range and the Ecuadorian Amazon (Zapata et al., 2018).

During the Correa government, FDI was considered an engine for the economic development of the country and a complement to national investment. This was because Correa eliminated the reserve funds generated by the oil surpluses in Ecuador, thus remaining without the national public savings required to carry out the different investment programs and projects in his government. For this

reason, an organic code of production, trade and investments was approved in December 2010 to encourage and regulate national and foreign private investment. In this code, investors' rights and free entry of foreign capital to Ecuador were established (Herrera-Vinelli & Bonilla, 2019). Its objective was to position Ecuador as a destination to invest and generate profits since the image left by the debt restructuring in 2008 continued to creep into the perception of investors worldwide. When analyzing Chinese FDI by a branch of economic activity, it is observed that 98.28% of Chinese investment is in mines and quarries, which is due to the profitability and facilities granted by the Ecuadorian government during the Correa government.

The growing presence of China in Ecuador in the sectors analyzed has generated discontent in civil society groups, particularly NGOs and indigenous populations that live in the territories where Chinese companies operate. Groups such as Yasunidos, the Association of Sapara Women of Ecuador (Ashiñwaka), the Confederation of Indigenous Nationalities of Ecuador-CONAIE, Ecuarunari, Acción Ecológica, the Center for Economic and Social Rights, the Ecuadorian Committee for the Defense of Nature and the Environment, among others, directed their criticism at the Correa's government, Chinese companies and the Chinese banks that financed mega-projects (Ying, 2016).

Chinese foreign direct investment in Ecuador is directed mainly to the exploitation of natural resources, in this case, in the mining, hydroelectric and hydrocarbon sectors, which generated a dependence of the Ecuadorian government on Chinese loans and investments [38]. According to the postulates of the dependency theory, the peripheral countries are subordinated to the terms and conditions imposed by the center countries in the agreements, loans and investment projects. This can be clearly seen in China-Ecuador relations, where on several occasions during the Correa administration, there were reports of violent, illegal evictions without prior notification of indigenous families by the Ecuadorian police and the private security of the Chinese companies.

For instance, in 2015, violent and illegal evictions were reported without prior notification of indigenous families from the Tundayme Parish, Zamora province, by the Ecuadorian police and the private security of the Chinese company Ecuacorriente in charge of the Mirador project. Additionally, in December 2016, there was a confrontation between the Shuar indigenous community and Ecuador's military and police forces in the La Esperanza mining camp, Morona Santiago province, where the Chinese company Explorcobres S.A. operates. EXSA (a subsidiary of Ecuacorriente) as part of the Panantza-San Carlos

mining project. Shuar leaders argued that the Ecuadorian government did not consult on the handover of their territories for exploitation.

However, the previous mentioned is not new for Ecuador since transnational companies of American origin have exploited, evicted and contaminated large territories of the Ecuadorian Amazon before. For example, the transnational company Texaco, bought by Chevron in 2001, operated in Ecuador from 1964 to 1990. It caused severe natural disasters that could never be remedied and caused irreparable damage to the inhabitants of the Ecuadorian Amazon (MREMH, 2015). These examples of Chinese and American companies are manifestations of the abuse exercised by the central countries in the peripheral countries, thus demonstrating the subordination and loss of sovereignty that these dependent countries suffer.

Moreover, this showcases the dependence created in the Correa administration in terms of financing and investment concerning China. It is even more evident when we see that their commercial ties have led to the exploitation of areas inhabited by indigenous communities, which must be protected and not economically exploited according to the Ecuadorian constitution and laws (Reyes Cajas, 2021). Moreover, for Ecuador to have this dynamic of dependence with China, fundamentally on the exploitation of natural resources and in the receiving of financial investments, it ratifies that Ecuador maintains its productive model and its peripheral position of the international order.

## CONCLUSIONS

In conclusion, the objective proposed in this research was to analyze the bilateral relationship between China and Ecuador during the government of Rafael Correa from the perspective of the structuralist current of dependency theory. The intention is to identify if the elements present in Ecuador-China relations allow us to determine a power relationship between a centre country and a peripheral country.

Indeed, to deepen the analysis of this research through the chosen theory, the postulates of Raul Prebisch and the other ECLAC scholars must be taken into account. The dependency structuralist theory affirmed that the growing inequality in Latin American countries was due to the marked discrepancy caused in the commercial relationships recognized with realms in the center of the periphery. Therefore, producing the economies of underdeveloped countries to be secondary to the economies of developed countries. More specifically, centre countries buy inputs and raw materials at low prices from the periphery and transform them into technological or industrialized products with high added value. Then, these industrialized

merchandises are distributed and sold in the market at high prices, making their economies grow more and more, in divergence to the decline suffered by the economies of the peripheral countries.

In this context, it is possible to affirm that the nature of the bilateral relationship between China and Ecuador verifies several elements that replicate a Center-Periphery relationship. This is evident when the commercial exchange between these two countries is analyzed, characterized by the export of a few primary products from Ecuador to China and the import of large quantities of industrialized products from China. This asymmetry translates into a high deficit trade balance for Ecuador, a scenario that has been maintained before, during, and after the Correa government.

In addition, the concentration in natural resources is also noticeable in the FDI from China to Ecuador. It is important to emphasize that some Chinese companies have been involved in conflicts and complaints by the local population. This denotes the relationship of subordination and verticality, marked by the exploitation of human and natural resources.

Therefore, from a structuralist and economic point of view, the Sino-Ecuadorian bi-lateral relationship shows the typical center-periphery dynamic that Ecuador has historically maintained with the United States.

The fact that China, a country that recognizes itself as developing and as part of the Global South, occupies a role closer to the center than to the periphery invites the academy to think that the rise of new powers can modify to a certain extent the international order. However, the system and the power relations present in it are still in force. That is why categories such as Center-Periphery are valid. The asymmetries this model reflect in international trade are far from being dissolved, showcasing that international relations continue to be configured under marked power relations.

The analysis shows that the rapprochement with China had ambivalent results for Ecuador. On the one hand, issues such as support and the formation of coalitions in multilateral spaces, and access to financing free from political conditioning and interfering in national sovereignty, gave the country greater autonomy in the internal field, and to some extent, in the international sphere. However, the economic relations between Ecuador and China reaffirm the role of Ecuador as a country with an economy configured from the needs of external markets, which presents a deep dependence on raw materials and natural resources. This scenario has proven not sustainable for a long time and has already generated conflicts at a social

and environmental level. To reverse this situation, Ecuador must increase its internal efforts, both at the state level and the private level, so that Ecuador moves towards an industrialized economy that results in a less inequality gap and in better socioeconomic conditions for the Ecuadorian population.

The structuralist current of the dependency theory adequately adjusts to conceptually explain the reality of the bilateral relations between China and Ecuador. Through the analysis of fundamental aspects of commercial exchange, the production model of each country, focus on foreign direct investment and indebtedness, this theory allows us to explain how there is a dependence of Ecuador concerning China. The bilateral relationship between these two countries is ideal for helping us comprehend China's new role in the global economy and how Ecuador continues to experience a peripheral economy with this new actor.

Therefore, the economic policy developed during the Correa administration to diversify Ecuador's trade partners due to its dependence on the United States did not achieve its purpose. Ecuador is now not only dependent on one country but two, China and the United States. It is not unreasonable to propose scholars to reevaluate the dependency theory in correspondence with the centre role that emerging economies such as China have in the periphery. Specifically, in their relationship with peripheral countries such as Ecuador, where China shares with the United States the role of subordinating peripheral economies.

Finally, and taking reference to the postulates of Cardoso and Falleto, in order for Ecuador to eliminate its subordination and economic dependence with the United States and China, Ecuador must apply policies similar to those used by the new industrialized and exporting countries of East Asia and Southeast Asia. Ecuador should develop policies for the formation of human capital from an educational and cultural revolution that enhances the population's capacities and facilitates social mobility based on structural changes in the productive export sector and in Ecuador's technological structures. In other words, Ecuador should follow a development strategy based on the generation of a technological nucleo-endogenous. This will transfer the Ecuadorian economy from a productive cycle based on the export of natural resources to a manufacturing one and of a great added value for exportation. This development strategy could get Ecuador out of the vicious circle it suffers from its peripheral status in the international economic scenario.

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