Business Insider

The Chinese have taken control of Ecuador's oil sector, Reuters' Joshua Schneyer and Nichoals Medina Mora Perez report.

Finding themselves largely shut out of credit markets since defaulting on $3.2 billion in debt in 2008, Ecuador turned to China.

In exchange for covering 61% of the country's $6.2 billion financing needs in 2013, China last November secured the rights to up to 90% of Ecuador's oil shipments in coming years (for comparison, China holds 23% of U.S. debt just held by foreigners).

What's more, little of the oil actually gets shipped to China. Instead, Chinese oil firms are able to sell the oil to would-be Ecuadorean trading partners and capture an enormous discount. Reuters says Ecuador's annual oil sales are valued at $13 billion, and China's cash advances cover only a "slice" of that near $13 billion Ecuador could earn from oil sales.

The U.S. is the largest recipient of Ecuadorean oil.

"This is a huge and dramatic shift," Rene Ortiz, the secretary general of OPEC and a former Ecuadorean energy minister, told Reuters. "Never before has Ecuador committed its oil to a lender."

If this arrangement appears paradoxical for a region constantly complaining about Western meddling, you're right.

"President Rafael Correa, a socialist who is critical of the power that Western oil majors and private energy trading firms once held in Ecuador, has touted the Chinese deals as a triumph of trade between close allies," Schneyer and Medina Mora Perez write.

"Ortiz and other critics say the cash-strapped government's dependence on loans with increasingly onerous terms could hurt PetroEcuador's competitiveness, damage transparency in an oil industry that accounts for half of Ecuador's exports, and distance the country from other creditors."

We've heard of South American countries nationalizing their oil sectors, but never internationalizing them.

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