

# BTI 2010 | Ecuador Country Report

|                         |      |             |             |   |
|-------------------------|------|-------------|-------------|---|
| <b>Status Index</b>     | 1-10 | <b>5.56</b> | # 68 of 128 |   |
| Democracy               | 1-10 | 5.90        | # 62 of 128 | ➔ |
| Market Economy          | 1-10 | 5.21        | # 76 of 128 | ➔ |
| <b>Management Index</b> | 1-10 | <b>4.42</b> | # 84 of 128 |   |

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

|                  |        |      |                              |      |                      |    |      |
|------------------|--------|------|------------------------------|------|----------------------|----|------|
| Population       | mn.    | 13.3 | HDI                          | 0.81 | GDP p.c.             | \$ | 7437 |
| Pop. growth      | % p.a. | 1.0  | HDI rank of 182              | 80   | Gini Index           |    | 54.4 |
| Life expectancy  | years  | 75   | UN Education Index           | 0.87 | Poverty <sup>2</sup> | %  | 12.8 |
| Urban population | %      | 64.9 | Gender equality <sup>1</sup> | 0.61 | Aid per capita       | \$ | 16.1 |

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Ecuador is in the midst of a historically unprecedented process. Over the last two years, a series of institutional changes have occurred and the governing elites have practically been replaced. This is all part of a model that questions liberal democracy and market economics, proposing “socialism of the 21st century” as an alternative. At the head of this process is President Rafael Correa, who until less than three years ago was virtually unknown. Yet, in the course of becoming a well-known figure in Ecuador, he has been able to connect with the majority of the electorate. Correa’s style is very similar to that of classic Latin American populists; he is an individualistic and charismatic leader with a black-and-white, deeply moral vision of politics (which he reduces to a struggle between good and bad). He enjoys relatively high levels of support (about 70%). Apart from his methods of governing and relating to the electorate, one of the most notable features of the period analyzed here is the capacity that he and his Patria Altiva y Soberana (PAIS) political movement have demonstrated in forming a well-prepared team, both in technical and political terms, to put their plan of political, social and economic transformation into practice. Of course, to be part of the team, it is necessary to show unconditional submission to the president.

A Constituent Assembly also took place during this period. As a result, the “Homeland” was supposedly re-founded by writing a new constitution that strengthens the president of the republic and the state as an economic, social and political actor, as well as offering and creating a series of rights. The country’s economic situation over the past two years has been positive, as it has enjoyed significant earnings from high oil prices and remittances sent home from Ecuadorians living abroad. At the international level, Ecuador has joined the politically left-leaning, anti-United States coalition headed by Venezuela’s President Hugo Chávez, whose lead Correa closely follows. Given Ecuador’s recent past of governance by mostly corrupt and incapable political elites, Correa has had some success in restructuring the country’s formerly very diffuse political system and in creating a more decisive political management, albeit one not

oriented to liberal democracy and only partially to a socially responsible market economic system.

## History and Characteristics of Transformation

Ecuador's transition from a military dictatorship to a democratic system of government took place in 1979. Ecuador was one of the countries gripped by the third large wave of democratization in Latin America in the late 1970s. The Ecuadorian process of transition took place on the basis of an agreement between civil reformers and elements within the military intent on more openness. Transition suffered because powerful conservative, liberal and other sectors of society were opposed to transition and were therefore excluded from influencing future policies.

The political alliances that subsequently formed civil governments also proved too weak to integrate the opponents of transition into the new political order. This group, which excluded itself from the process of democratization, nevertheless continued to be influential and even won the presidency five years after the transition process had begun. From this position they attempted to undermine political participation through parties, one of the essential agreements of the transition, by anchoring political participation through so-called Independientes (independents) in the constitution.

The political elite generally lacked widespread appreciation for the democratization process and its rules of the game, which some political actors did not regard as their own. Transition therefore failed to reach a consensus on the mechanisms of the allocation and distribution of political power; this in turn restricted the consolidation, legitimacy and durability of the democratic model. Since transition, inconsistencies have developed between political participation and representation: While the parties held a monopoly over political participation, they failed to anchor themselves in society in a manner that would have enabled them to fulfill the function of representation. They therefore lost legitimacy rapidly.

The Ecuadorian process of democratization took place against the background of a long and profound economic crisis, which further impoverished vast sectors of the population. The consequence was a delegitimization of the democratic model, as large sections of the population did not consider it capable of solving the most urgent economic problems. The economic crisis led to a considerable overall reduction in material, human and power resources, while the state increasingly lost control over the assets that remained.

Furthermore, the economic crisis brought international financial organizations onto the national political scene in the form of political actors participating in political events in accordance with specific preconditions; there was practically no space for discussing or questioning their conditions or decisions. This by no means fortified the legitimization of the democratic model.

Twenty-five years after the formal transition to democracy, the populace gave way to mistrust of the democratic system.

The cycle of political crises that have dominated the past eight years began in February 1997, with the resignation of President Abdalá Bucaram, who was forced out of office by the parliament and pressure groups. National Congress President Fabián Alarcón succeeded him, albeit as a result of only marginally constitutional proceedings in which political actors ignored official procedure. Political stability seemed to return with the adoption of a new constitution and the assumption to office of President Jamil Mahuad in August 1998. However, after a few months, the government and society as a whole were shaken by a financial crisis that led to measures including the introduction of the U.S. dollar as the national currency, ultimately followed by a coup d'état on 21 February 2000. In order to preserve the institutional continuity of democracy to some extent, the relevant political parties and actors agreed on the nomination of Vice President Gustavo Noboa to the office of president; Noboa held office until Lucio Gutiérrez, who had been a key figure in the military-backed coup, took over the presidency in January 2003. After losing support in parliament and society, Gutiérrez was removed from office in April 2005 and replaced by Vice President Alfredo Palacio, who remained in office until the presidential election of 2006. Winning 57% in a run-off election, Rafael Correa won the elections against Álvaro Noboa and assumed the presidency in January 2007.

As in most other South American countries, the transformation of Ecuador's market economy involved abandoning the traditional model of development typical in Latin America from the 1930s onwards. This model consisted of industrialization as a substitute for imports. This meant that market-based structures did exist during the transition to democracy, but the domestic market was relatively isolated and overregulated, with a broad public sector. In Ecuador, this was partly a result of the early 1970s oil boom under military rule, which had not been channeled into a consistent and sustainable economic policy. Instead, the military's outdated development plans brought about increasing macroeconomic imbalance within Ecuador, and resulted in growing budgetary deficits and an explosion in state and private debt.

The debt crisis of the early 1980s revealed the frailty of this development model. In the 10 years that followed, the governments of Osvaldo Hurtado, León Febres Cordero and Rodrigo Borja made a great effort to stabilize the Ecuadorian economy with varying and altogether very little success. However, economic policy measures were increasingly determined by IMF alignment requirements. Under the somewhat chaotic governments of the 1990s, no fundamental stability was achieved.

In 1998 – 2000, these developments resulted in Ecuador's worst economic crisis of the 20th century. Triggered by a combination of factors, the Ecuadorian economy was already crisis-prone by the mid-1990s. Poor economic policy decisions and various negative external influences (e.g., El Niño floods in late 1997 that affected the agriculture of coastal regions in particular; the retreat of investors and creditors from Ecuador during the crises in Asia, Russia and Brazil in 1998 and 1999; and a severe drop in international oil prices in 1998, which led to a drop in export revenue) exacerbated the difficult situation.

The liberalization of the Ecuadorian financial market also led to a prolonged financial crisis that began in the mid-1990s. The dependence on the export of primary goods and on few price-volatile products in particular largely makes Ecuador more prone to external influences. By late 1999, the Ecuadorian economy had recorded a 7% reduction in GDP, and was able to recover in the years that followed. However, even after this deep crisis, fundamental reforms of the market economy were not undertaken. President Mahuad's introduction of the U.S. dollar as the national currency in 2000 marked the only milestone. Although this step helped to lower inflation, it was also one of the reasons for Mahuad's removal from office. The subsequent government of President Noboa completed the transition from sucres to dollars in 2001, and entered into negotiations with the IMF. In contrast, the Correa government has launched a political and economic project called "21st century socialism" that openly criticizes the market economy, which, without excluding the private sector, promotes the active intervention of a strong state in society and the economy.

# Transformation Status

## I. Democracy

### 1 | Stateness

There are no organized groups in Ecuador that permanently and systematically question the state's monopoly over its territory. Likewise, no separatist movements, guerrillas, terrorist groups or large organized crime rings have become consolidated in the country. However, there have been isolated events in which groups have questioned the state's monopoly of force, with violent acts such as lynchings (which tend to end with the death of the victim without a formal trial, and impunity for those responsible) or a restriction on the freedom of movement for goods or people, an action which is usually used as a means to exert pressure on the government or individuals in disputes. There have also been cases of incursion by the Revolutionary Armed Forces of Columbia (FARC) guerilla organization into Ecuadorian territory. For this reason, in March 2008, Colombia's armed forces carried out a military operation in the Ecuadorian zone of the border region which caused relations between the two countries to be broken off.

Monopoly on the use of force

The new constitution extends citizens' rights considerably, as a result of the novel concept of "Good Living" (or "Sumak kawsay"). According to the members of the Constituent Assembly, this term refers to an indigenous worldview that seeks a balance between the individual, society, the economy and the environment. This was translated into numerous rights protecting people in "special" situations, and innovations such as the right to "universal citizenship," giving foreigners who are in the country the same rights and obligations as Ecuadorians. In practice, there are problems in guaranteeing equal rights due to trends of exclusion generated by the country's social and economic structures and their effects on the functioning of state institutions. Therefore, in Ecuador we can say that there is de facto but not juridical discrimination.

State identity

Despite the strong influence of the Catholic Church and the increasing influence of other Christian churches, religion has not been a cause of conflict in the country. State and church have been separated since the beginning of the 20th century, and there is freedom of worship. However, when the 2008 constitution was being drawn

No interference of religious dogmas

up, religion became one of the most controversial issues due to the pressure exerted by conservative sectors within the Constituent Assembly and from the Catholic hierarchy not to include the right to abortion or to same-sex marriage. There were also debates on whether to incorporate a religious invocation in the constitution's preamble (which ultimately was decided in the positive), and then how this should be done. All of this comes in the context of President Correa's constant professions of faith during his public appearances, as a self-confessed practicing Catholic.

The basic elements of Ecuador's public administration are in place throughout the whole territory (although they are more concentrated in the urban nuclei). However, there are serious working problems due to the lack of professional training for civil servants, the absence or lack of continuity of guidelines at the different levels of government, and corruption. This is compounded by a lack of economic resources, infrastructure and materials. The attempt to carry out neoliberal reforms in Ecuador did not have significant impact on public companies, although the public administration was severely affected. The aim was to reduce the bureaucracy, but in the end various public organisms simply disappeared. During the two years that President Correa has been in office, important efforts have been made to increase administrative presence at different levels.

Basic  
administration

## 2 | Political Participation

There are few legal restrictions on electoral freedoms. One of the decisions adopted in the 2008 constitution was to draw up a new register of political organizations. As a result, parties and movements have had to present signatures of individuals supporting them (which varied in number according to the political grouping's territorial reach). This, in some sense, poses an additional hurdle to participation, especially when taking into account the costs of mobilization, the lack of time available to collect the signatures, or the strength of the government's own political movement, which has become an axis for all political activity in the country. With the new constitution, changes were made to the structure of the electoral authority with the supposed intention of giving it greater transparency and control. The former Supreme Electoral Tribunal (TSE) was divided into two organs: one in charge of electoral administration and the other in charge of electoral justice. The TSE was questioned during the first period of Correa's government because, among other things, it did not show impartiality when intervening to regulate government propaganda during elections, ruling that contested messages amounted to communication campaigns rather than electoral propaganda.

Free and fair  
elections

In fact, the contents of the messages were the same as those transmitted by the government party's campaign. The imbalance that can be caused by the government's elevated expenditure at campaign time alters the conditions of competition, particularly considering that Ecuador has a relatively restrictive and

punitive law on electoral expenditure which, in this case, serves to limit the action of opposition parties. Proof of the TSE's submission to the government's interests occurred at the beginning of 2007 when 57 parliamentary deputies were dismissed, accused of interfering in the electoral process since they had questioned the legality of the Constituent process. Moreover, the character of this action offers proof that it was a maneuver by the government and not merely impartial application of the law: Included on the list of those dismissed were opposition deputies who did not even attend the meeting where the resolution triggering their dismissal was actually voted on.

In Ecuador, there are no non-elected individuals or groups that oversee legitimately elected authorities. During the period under review, there was a strange process by which the legislative body was dissolved. There has been a clear concentration of power in the hands of President Correa (who was legitimately elected), but the other elected authorities (members of the Assembly or of local government) are restricted in carrying out their functions when they do not share the president's views.

Effective power to govern

The rights of association and assembly are guaranteed, and there are no serious threats to them. Civil society has been a relevant political actor during the democratic period, although in the last two years it has lost part of its influence due to the fact that the government has taken on board a significant number of its demands.

Association / assembly rights

This is one of the areas where the loss of democratic liberties under Correa's presidency has been most keenly felt. However, although instances of intervention undermining democratic liberties have increased, outright prohibitions on the press are limited to a few isolated cases. Correa has adopted a stance of open confrontation with the press, which he accuses of opposing him through slander and manipulated information. The government claims that its activities are not attacks on press freedom but a question of "putting the media in its place," since the Ecuadorian press is not fulfilling its social function of offering impartial and well-researched information. The government defends itself by saying that the problem is due to certain publications seeking to defend the business interests of their owners, who have been negatively affected by the progress of the "Citizens' Revolution." At the present time, the government controls one newspaper and two TV channels, obtained as part of debt-liquidation agreements between the state and their previous owners. Although initially claiming the TV channels would be sold as soon as possible, the government ultimately changed position and has maintained them under direct control. The journalists who work in these companies have denounced purges and pressure from the new directors. Another mechanism used as a way to pressurize the media is the refusal to renew contracts for radio frequencies. These cases were justified by administrative irregularities or the end of the concession (the state is the owner of the electromagnetic spectrum). The government's aggressive and confrontational attitude, and particularly President Correa's relationship with

Freedom of expression



the media and journalists, has been denounced by Reporters without Borders and the Inter-American Press Association (IAPA).

### 3 | Rule of Law

As of January 2009, the structure of the separation of powers has been weakened, as they have been concentrated into the figure of President Correa. Even if the formal division has been maintained, the different posts holding veto and oversight powers are occupied by people close to the president, who respond to his agenda. President Correa has always been critical of the role of Congress and other state powers; his conception of government is of a strong president to which other powers are subordinate. During the electoral campaign, his party did not present candidates for deputy, a gesture critical of Congress' recent political history. Furthermore, arguing that the existing political order was worn out, his central suggestion was to call a new Constituent Assembly tasked with renewing institutions. However, given that Congress had to approve a series of procedures before choosing the new Constituent Assembly, the government first carried out the irregular dismissal of 57 of 100 deputies. Substitutes were transported to Congress by bus with police escort by order of the Ministry of Government. These politicians, who later supported the government's initiatives, were previously prepared and taken from their respective provinces to a hotel near to Quito, where they waited to be taken to the Congress building. Whilst the Constituent Assembly was in process (November 2007 to July 2008), the Congress was declared to be in recess, and the newly elected body assumed its functions. The government party had an absolute majority in the Assembly (80 of 130 members), and President Correa intervened both directly and indirectly in the decisions that were taken. Now that the Assembly's sessions are over, legislative powers have been passed to a Legislative and Oversight Commission, which is made up of members of the Constituent Assembly and in which the government party also has a majority (46 out of a total of 76 members). The judiciary has also suffered from government interference.

Separation of powers

After the crisis caused by President Gutiérrez leaving office (2003 – 2005), the Supreme Court of Justice was restructured to prevent it from being manipulated by different political sectors. This process included observers from international bodies, in order to give it transparency. A sector of the PAIS Movement, which is the governing party, headed by Constituent Assembly member César Rodríguez (who has several lawsuits pending against him) began a maneuver to restructure the Supreme Court of Justice. This was opposed by a sector of the movement headed by the ex-president of the Constituent Assembly, Alberto Acosta, who after various disagreements gave up the presidency and left the movement. Another channel through which the president and his allies can control justice is the Constitutional Court, which is made up of a majority of members who show unconditional support

Independent judiciary

for the “Citizens’ Revolution.” This body, the equivalent of which used to be the Tribunal of Constitutional Guarantees, was bolstered by the Constituent Assembly; it now has the capacity to interpret the constitution, serves as a court of the highest level, and settles disputes between powers or different levels of government. In the lower ranks of the justice system there are often formal and informal complaints against judges and civil servants who do not apply the law impartially. On the other hand, civil servants who work in the judiciary constantly complain about the lack of material and human resources to respond to the demands of the users. The current government has created a Ministry of Justice that aims to improve the justice system.

Fulfilling one of his campaign promises, President Correa has made efforts to combat corruption, including the creation of a secretariat for this purpose. An oversight function was included in the 2008 constitution with the creation of the Council for Citizen Participation. However, in the last two years a series of acts of corruption have been denounced involving members of the government. Those implicated have not been tried with the necessary speed, despite the number of complaints against them, which in some cases even include various documents as evidence. The government has made great efforts to combat what it calls the “corruption of businessmen” and has accelerated embargo procedures (without always respecting due process) against bankers responsible for the bankruptcy of the financial system that occurred at the beginning of the decade. Multinational companies operating in Ecuador have also been challenged. The most famous case involved a Brazilian construction company in charge of constructing a hydroelectric powers plant. The unilateral cessation of the contract and the government’s unwillingness to negotiate led to the withdrawal of Brazil’s ambassador from Ecuador. As a result of his style of government, President Correa does not respect the processes of public contracts.

Prosecution of  
office abuse

There is no history of mass violation of human rights in Ecuador, in contrast to other countries in Latin America. There are, however, cases of abuse of authority and violations of certain rights by the police when taking the declarations of detainees or when engaged in “anti-delinquency” operations. With the new government, a series of arbitrary actions has occurred that sets a bad precedent in this sense. More than 10 people have been detained by order of the president or security agents and accused of misdemeanors toward the head of state, legislation dating from one of the dictatorial periods. In the majority of cases (more than 10, according to the *Universo de Guayaquil* newspaper), detainees are accused of having insulted, affronted, or made obscene gestures at the president in public. In many of these cases, it has been proved that the accused were not guilty of the “crime” of which they were accused. The most absurd case happened when security agents attempted to detain a non-uniformed policeman when he was mixing with the crowd. As highlighted above, due process has not been respected in the cases of

Civil rights

embargos against bankers who committed fraud with savings, or in other operations carried out by the government.

#### 4 | Stability of Democratic Institutions

Although the country has formal democratic structures, they have not become a central means for the processing of political conflicts, and have not been respected by political actors. The best indicator of the weakness of democratic institutions is the fact that none of the three presidents elected before Correa reached the end of their respective terms. Over the last two years, political processes have called into question representative democracy based on liberal principles. Correa leads the “Citizens’ Revolution,” which led to the creation of the Constituent Assembly. According to its supporters, the political order was re-founded in order to produce a new form of radical, direct and participative democracy: the political order of “21st century socialism.” Despite the eagerness to re-found the political order, the country’s political situation is in fact similar to traditional populism, in which the leader connects directly with the people (the “homeland” in Correa’s discourse) and receives constant support via continuous elections. The system is hyper-presidential, with a plebiscitary leadership that sees the channels imposed by liberal democracy and the rule of law as an obstacle to the attainment of national goals.

Performance of  
democratic  
institutions

The level of consolidation of Ecuador’s democratic institutions is very low. Democracy as a regime does not have strong roots in the country and has suffered from severe, near-perpetual crisis since 1995, a situation made worse by economic crisis. In this context, there has been a profound political transformation that follows the lines described in section 4.1. It is important to bear in mind that the president and the majority of government members are openly critical of liberal democracy and market economics, and are in favor of trying out different political models. It is also worth pointing out that levels of approval of Correa’s administration are extremely high (around 70%) for any head of government, and even more so bearing in mind historical comparisons with other Ecuadorian presidents.

Commitment to  
democratic  
institutions

#### 5 | Political and Social Integration

The transformations in the party system are the best reflection of the changes that are occurring in the country. The format of political representation that operated with only slight variations since the transition period has practically disappeared. Such radical change was possible as a result of Ecuadorian citizens’ extremely negative perception of political parties. According to the 2007 report of the Latinobarómetro Survey, only 8% of Ecuadorians showed a lot or some trust in parties, which is the lowest value in the whole of Latin America. This evident crisis

Party system

of representation was very cleverly channeled by the Patria Activa y Soberana (PAIS) movement and its leader Rafael Correa. They centered their proposals on an end to what they called the “particracy,” an umbrella term which includes parties and traditional elites – essentially the forces they hold responsible for Ecuador’s economic, political and social crisis. In the elections for the Constituent Assembly, held in September 2007, Alianza PAIS (the label used by the PAIS Movement) obtained 61% of the seats. This was the first time a political organization had obtained an absolute majority in plurinominal state elections. Only three of the traditional parties managed to form their own small groups (winning a total of 17% of the seats), and the rest of the seats were distributed amongst 18 small political movements.

Interest groups have been badly affected by the new political climate in Ecuador. Business organizations have lost all their previous influence, and have been unable to make Correa take their demands into account in various attempts to negotiate with him. In fact, the president waited more than a year before receiving a delegation of businessmen. The Confederation of Indigenous Nationalities of Ecuador (CONAIE), which acts both as social organization and interest group, has lost its capacity to mobilize or connect with its bases. Its leaders’ attempts to gain support in clashes with the government have had very little impact. It is clear that new sector-based interest groups close to the government will emerge, but neither their demands nor their capacity to influence are yet clear.

Interest groups

In a survey carried out toward the end of 2007 and the start of 2008 by Vanderbilt University’s LAPOP project, 66.6% of interviewees showed support for democracy, which puts Ecuador in the fifth place out of the study’s 22 countries in Latin America and the Caribbean. The rather moderate level of support for democracy amongst the country’s population is confirmed when considering the indicator of political tolerance (a value associated with democracy) that is included in the same study: only 47.3% of Ecuadorians say that they are politically tolerant (fourth from the bottom in the Latin American context). With the new constitution, principles of representative and liberal democracy have been partly replaced by more direct forms of democracy. This complies with the citizens’ disillusionment with conventional forms of democratic representation, in particular political parties, and their support of a more populist style of government.

Consent to democratic norms

Associations and organizations have been among some of the most active collective political actors in the country, but their practices and discourses have not favored the formation of interpersonal trust or other behavior that can turn into democratic social capital. The objectives of organizations have been more private or corporative in nature. Correa’s government created a Secretariat for the Peoples, Social Movements and Citizen Participation, which has the ultimate aim including different collective actors in decision-making processes. Sectors that are critical of the government, many of whom come from social organizations, question the new

Associational activities

secretariat's role. In their eyes, it is a mechanism for political control of civil society organizations. They also question whether the head of this secretariat should also be responsible for the organizational activities of the government party. There have been many situations in which the governments' activities and those of PAIS have completely merged.

## II. Market Economy

### 6 | Level of Socioeconomic Development

Ecuador has improved its position on the UNDP's Index of Human Development, and is now ranked at number 72. Poverty levels have also been reduced, according to data from Ecuador's National Institute for Statistics and Censuses (INEC), with 38.3% of Ecuadorians in a situation of poverty (measured by indirect methods or data on consumption). One of the defining characteristics of poverty in the country is the fact that it is concentrated in rural areas and affects women and the indigenous population more intensely. Taking the Gini coefficient as an indicator, we can say that in the last decade inequality levels have increased. According to the UNDP, the country's Gini coefficient was .437 in 1998 and according to the INEC in 2006 it was at .46 (measured according to restrictions on consumption).

Socioeconomic  
barriers

| Economic indicators       |          | 2004    | 2005    | 2006    | 2007           |
|---------------------------|----------|---------|---------|---------|----------------|
| GDP                       | \$ mn.   | 32642.2 | 37186.9 | 41763.2 | <b>45789.4</b> |
| Growth of GDP             | %        | 8.0     | 6.0     | 3.9     | <b>2.5</b>     |
| Inflation (CPI)           | %        | 2.7     | 2.4     | 3.0     | <b>2.3</b>     |
| Unemployment              | %        | 8.6     | 7.9     | 7.8     | <b>6.1</b>     |
| Foreign direct investment | % of GDP | 2.6     | 1.3     | 0.6     | <b>0.4</b>     |
| Export growth             | %        | 15.9    | 9.0     | 8.6     | <b>-1.7</b>    |
| Import growth             | %        | 11.1    | 13.7    | 9.2     | <b>6.5</b>     |
| Current account balance   | \$ mn.   | -542.2  | 347.2   | 1615.2  | <b>1597.6</b>  |
| Public debt               | \$ mn.   | 10537.2 | 10597.9 | 10065.0 | <b>10446.9</b> |

|                         |          | 2004    | 2005    | 2006    | 2007           |
|-------------------------|----------|---------|---------|---------|----------------|
| External debt           | \$ mn.   | 17126.3 | 17064.8 | 17058.9 | <b>17525.3</b> |
| Total debt service      | % of GNI | 12.1    | 11.7    | 10.4    | <b>8.3</b>     |
| Cash surplus or deficit | % of GDP | -       | -       | -       | -              |
| Tax Revenue             | % of GDP | -       | -       | -       | -              |
| Government consumption  | % of GDP | 11.4    | 11.1    | 10.9    | <b>10.7</b>    |
| Public expnd. on edu.   | % of GDP | -       | -       | -       | -              |
| Public expnd. on health | % of GDP | 2.1     | 2.1     | 2.3     | -              |
| R&D expenditure         | % of GDP | -       | -       | 0.1     | <b>0.2</b>     |
| Military expenditure    | % of GDP | 2.2     | 2.6     | 2.3     | <b>2.9</b>     |

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The market economy is weak, like the rest of the country's institutions. The informal sector has a strong presence, as does the "bazaar economy." The government created a normative framework to protect them, and the informal economy was even included in the constitution, under the argument that it was a way of guaranteeing the right to work. Laws have also been drawn up which made municipal regulations designed to regulate the informal economies as invalid. It is worth pointing out that the government's political and economic project openly criticizes the market economy, instead promoting a model called "21st century socialism" which, without excluding the private sector, promotes the active intervention of a strong state in society and the economy.

Market-based competition

Rafael Correa's government is in favor of state intervention in the economy via public companies, which generally enjoy monopolies. Public companies, which in the previous period of reform had been divided to make them more attractive for possible privatization, have been reconstituted. Due to the reduced size of the market and the concentration of business, Ecuador has tended towards oligopoly with respect to certain basic consumer products (flour, sugar, etc.). In this field, the government has made efforts to change the situation, resorting to greater regulation or the direct intervention of the state as an agent in this economic process.

Anti-monopoly policy

The government has adopted protectionist policies by increasing tariffs on a number of imports. The government justifies the measure due to the necessity to limit the increase in purchases abroad, as a result of the adoption of the dollar in 2000. The government's commercial strategy has been focused on finding new markets (such as Iran or Indonesia), decreasing emphasis on the traditional markets for Ecuadorian products and strengthening so-called South-South relations. In this sense, the reticence shown in joining the Bolivarian Alliance for the Peoples of Our Americas (ALBA) is striking, despite close relations with the Venezuelan government, which is a promoter of the Alliance. However, now that the regional negotiations for a commercial agreement with the European Union have broken down, the government has shown an inclination to negotiate a bilateral free trade agreement with Europe.

Liberalization of  
foreign trade

The banking system has been recovering since the crisis of the late 1990s. However, taking into account the country's risk levels, bankers are offering high interest rates for loans and low rates for savings. Faced with this scenario, the government has intervened in the Superintendency of Banks (an organ in charge of regulation, which included the representation of bankers) arguing that it was necessary to have greater control over banks. With the passage of the Law on Financial Security, it created a new legal framework that fixes maximum and minimum interest rates and limits the charging of commissions. These measures have notably reduced banks' profits. Faced with this situation, the Association of Private Banks issued a press release in which they warned of impending industry troubles due both to the international financial crisis, which made it difficult to get credit on the international market, and the operating restrictions imposed by the new law. The crisis was announced at the end of 2008, and as of the end of the review period, it was not yet possible to evaluate the real seriousness of the situation. The government claimed that there was no risk to the banking system and announced that if "destabilizing maneuvers" continued, it would intervene in the financial system. As of this writing, the situation had calmed somewhat, making it very difficult to make predictions.

Banking system

## 8 | Currency and Price Stability

Ecuador's economy has been dollarized, which means the government does not have much room to maneuver or intervene with monetary policy. Over the last two years, inflation has increased (to nearly 10% in the second half of 2008), but decreased in December to 8.83%. The increase in inflation at the beginning of Correa's government could be explained by the transmission of resources to the population via mechanisms such as an increase in direct subsidies. The government explained the last growth cycle as a result of the country's exposure to international inflation due to its currency. In this sense, there have been measures put in place,

Anti-inflation /  
forex policy

such as the restriction of imports. According to data from the World Bank, imports and exports made up 34% of GDP in 2007; that is to say, the commercial balance sheet was zero in that year. Despite restrictions on imports through the increase in tariffs that occurred at the end of 2008, it is foreseen that earnings from exports will also decrease in 2009 due to the decrease in oil prices.

The government's economic team believes in increasing expenditure as a necessary means for economic development (12.9% of GDP was spent on investment in 2008), though without ignoring other macroeconomic balances. Mechanisms to capture resources have improved, through channels such as the optimization of the tax-collecting system. Correa and his team have critical positions on the country's external debt, which has closed many channels for finance. Therefore, the president has sought external finance via agreements with the governments of countries such as Venezuela and Iran, which have had excesses of liquidity thanks to high oil prices.

Macrostability

## 9 | Private Property

The new constitution guarantees a series of forms of property (private, state, mixed, public, community and cooperative) with an emphasis on the social function that each should carry out. Although there has been a certain climate of respect for property rights on the part of the state and the majority of citizens, private property has been questioned under the new political environment, and topics such as the expropriation of land or other goods have again become topics of debate. The government's attitude has contributed to this as it constantly uses the threat of embargo or nationalization as a way to put pressure on private firms.

Property rights

The right to engage in business is formally guaranteed. However, during the last two years, juridical uncertainty and a lack of economic clarity has worried businessmen, due to certain attitudes and interventionist policies on the part of the government. In particular, boundaries laid down by official guidelines and the rule of law have been replaced by what the government considers the "national interest."

Private enterprise

## 10 | Welfare Regime

A social security network called the Ecuadorian Institute of Social Security (IESS) offers health services, pensions and loans. However, it suffers from financial problems, and its coverage of health services is rather centralized in large urban centers. The IESS primarily covers workers within the formal sector of the economy. There is also a Peasant Social Security System which deals with rural workers under a different regime. The police and armed forces have their own social security systems, which, according to statements made by associations of

Social safety nets



retired officers, are on the verge of breaking down. This has been denied by the government, however. With the new constitution, social security coverage has been in theory widened to the whole population, but the necessary mechanisms, infrastructure and resources that would turn this right into a reality have not yet been put in place. In terms of attention for more vulnerable sectors (the poor, the disabled, the elderly and single mothers), apart from a public health system that has serious limitations, there are indirect subsidies for products such as fuels or electricity and direct subsidies such as the so-called Human Development Bond, which consists of a monthly payment of \$30 per family.

One of the principal limitations to equal opportunity in Ecuador is the structure of exclusion with roots deep in the country's history, based on ethnic and social differences. Women and the indigenous population in particular suffer from limited access to participation in society. The Ecuadorian government has increased investment in sectors such as education and health with the aim of improving opportunities in the mid- to long term. There are special programs for women and children in poverty, and against racial discrimination. In December 2008, the Ministry of Social Welfare was renamed by decree to the Ministry of Economic and Social Inclusion, thus symbolically manifesting the government's programmatic approach to social policies.

Equal opportunity

## 11 | Economic Performance

Ecuador's macroeconomic figures have improved over the past two years, in part due to the increase in the price of oil and remittances sent by immigrants to their families, sources of income that will fall in 2009 in the wake of the world economic crisis. The Ecuadorian government has fallen into the same trap as others in questioning data offered by sources outside of the government, which generates uncertainty for analysis. According to the government, GDP growth was about 5% in 2008 and 2.7% in 2007, but according to the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), Ecuador's economy grew by only 3% in 2008. In 2008, inflation closed at 8.8%, on a downward trend. The maximum level reached during the period studied here was about 10%.

Output strength

## 12 | Sustainability

Environmental policy is another area in which the government shows open contradictions. The National Plan of Development (which, if unmet, provides cause to call early elections, according to the new constitution) prioritizes environmental sustainability as an element of economic development, giving it an equal or superior status to social equality and the development of a "radical democracy." However, the president has proposed an aggressive mining and oil policy as a way to generate

Environmental policy

wealth. Correa's environmental sensibility is rather doubtful. For example, Presidential Decree No. 486 (amended by Decree No. 902), which was opposed by environmental experts and activists, regulated the "incidental fishing" of sharks, which are a protected species at the international level and which are fished essentially for their fins. Another episode was the dispute over the possible exploitation of the IIT oil fields in the Yasuni Protected Reserve, between then-Energy Minister Alberto Acosta and the president of Petroecuador. The former proposed a plan to leave the oil untouched in order to protect the park and to seek the support of the international community for economic compensation. The president of the oil company was in favor of exploiting the fields. Correa showed a preference towards Petroecuador in the dispute, and Acosta soon lost his ministry post. The most difficult social conflict that Correa has faced during his time in government has been the protests carried out by the indigenous and peasant groups opposed to the government's projects of mining exploitation; these groups claim that the zones where these projects are carried out are ecological reserves and will contaminate their water sources.

The education budget has increased and as a result 12,000 new teaching posts have been created. Free education has become a reality at the three levels. Enrollment figures at the primary level increased by 23% in 2008. There has also been a program to offer free books and school dinners. Despite these changes, research and development activity remains limited, as these processes need several years in order to show results.

Education policy /  
R&D

# Transformation Management

## I. Level of Difficulty

Ecuador's difficulties are more political than structural; it was at 72nd place out of 179 countries in the UNDP's list of human development in 2008. This ranking shows that the country's structural conditions are by no means disastrous, although they could be better. Though a high percentage of Ecuador's population lives in conditions of poverty (which could be considered a structural limitation), the country has access to substantial natural resources and is free from big epidemics, pandemics, natural disasters and internal wars.

Structural  
constraints

There is a strong culture of organization in Ecuador but practices are rather particularistic and do not contribute significantly to the formation of interpersonal trust and/or trust in institutions, or indeed to the accumulation of democratic social capital. Rather, this culture responds to the logic of indigenous social organizations, which are focused on their own communities. The state's historic weakness and incapacity has generated incentives for self-government in the solution of public problems. The Catholic Church has also acted as a promoter of trade unions and local, peasant and indigenous organizations. Together with these elements, we could add the indirect effect of political parties' weakness and their resulting incapacity to represent social demands. The government is making significant efforts to incorporate organizations of civil society into its political project, and a Secretariat of State has been created with this aim in mind.

Civil society  
traditions

Like any good populist leader, who by definition needs to propagate a black-and-white vision of reality, President Correa has dedicated himself to polarizing society throughout the two years of his administration. The dividing line is between those who criticize him and those who support him; in this sense, he has heightened the ethnic and social divisions that have always been present in Ecuadorian society. The use of terms such as "bigwigs" has helped him group the oligarchy, the traditional political class, opposing leaders, journalists and technocrats, among others, in the same bracket. Recently some left-wing sectors critical of Correa have emerged (including environmentally minded indigenous peoples, social organizations and others) which, considering that they cannot be called "bigwigs," are accused instead of being "infantile" and unrepresentative.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

One of the strong points of Correa's government is that it knows how to fix priorities and define strategies to fulfill them. The necessary political, human and material resources have consistently been used. The only objection that could be made in this sense is that the objectives reached do not always strengthen democracy or the market-based economy.

Prioritization

The Ecuadorian government has been very effective at carrying out its project of political and economic reform, and has adopted the right team and political means to do so. Furthermore, it is one of the few times throughout the democratic period that there has been a group of people trying to put a clear political project into practice. However, this reform project does not defend either the market economy or liberal democracy.

Implementation

The political process now underway demonstrates the lack of capacity among the Ecuadorian leadership in terms of learning and making the most of past experiences. Despite past problems, they have once again chosen strong leaders who are not very tolerant of or receptive to the point of view of their critics. As a result, polarization has increased and a statist economic model is being promoted which contains various strategies that failed when used in the past. Though the Correa government has shown a slightly higher capacity for policy learning than its predecessors, a more positive evaluation is constrained by its somewhat ambiguous goals.

Policy learning

### 15 | Resource Efficiency

One of the problems with the adequate use of human resources is the high replacement rate of appointed politicians. Out of the 17 ministers in PAIS' initial cabinet, only four had retained their posts through the beginning of 2009. Correa's ministers serve for a relatively short period of time, which has made it difficult for public policy plans to be maintained. The constant change of ministers shows a model of political leadership in which efficiency is understood as infallibility, combined with the maximum possible attachment to the president's every whim (which constitutes the axis of the management model). One of the positive aspects of Correa's government is that the use of economic resources has improved.

Efficient use of assets

Although it is still not optimum and is in certain cases rather questionable, his record is still much better than that of previous governments. Thus, for example, expenditure on health and education has tripled in comparison with the previous government.

In contrast with previous governments, the current government has a system of planning and coordination as well as a National Development Plan. However, a system that initially appears to be based on group effort is ultimately confronted with decision-making mechanisms based on the hierarchical leadership of President Correa. It could indeed be argued that coordination exists because the entire apparatus of government is at the service of the president's will. Another contrast with previous governments is in the government's capacity to coordinate closely with its party, which has meant that its agenda has been incorporated into the new constitutional text and that the Legislation and Oversight Commission (which functioned as a legislative power until the April 2009 elections) approved of its projects.

Policy  
coordination

The government has made various attempts to control corruption, including the creation of an anti-corruption secretariat and the inclusion of better mechanisms of control in the new constitution. However, on certain occasions, it has shown an ambivalent response to concrete and justified complaints against its allies.

Anti-corruption  
policy

## 16 | Consensus-Building

A series of mechanisms have been put in place in order to create consensus, such as the Constituent Assembly. However, instead of offering a meeting place for different points of view, these have only helped to legitimize PAIS' political project. After the Assembly, the main pitfall in the construction of consensus has been the belligerence with which President Correa reacts to dissent.

Consensus on goals

Given the previously explained background of Ecuador's political transformation, the assessment of this issue must remain somewhat ambiguous. On the one hand, as Ecuador still has to be considered at least a defective democracy, President Correa doesn't have to fear unconstitutional veto powers that could obstruct the government's policies. On the other hand, as has been pointed out throughout this text, liberal democracy is not a value respected by Ecuador's government or by a large part of the population. The government maintains that representative democracy is an outdated type of regime and it supports the construction of a different type of democracy, which it often qualifies with a series of adjectives without ever defining them clearly; these include "radical," "participative," and "sovereign," among others. It remains far from clear whether Ecuador will maintain its status as a democracy or instead decay into a soft authoritarian regime like Venezuela. In this case, the anti-democratic actors would be in government.

Anti-democratic  
veto actors

The government does not seek to reduce existing conflicts or prevent them from escalating; the strategy in dealing with conflicts consists in the total “destruction” of actors who do not share the government’s position. For the government, democracy consists of doing the will of the majority, and the personification of the majority is the president.

Cleavage /  
conflict  
management

Despite the government’s discourse of encouraging participation in public affairs, this participation is minimal because the regime does not accept demands that are not in line with its own position. The president makes weekly visits to different parts of the country where he receives requests from the people and organizations. Thanks to this type of practice, participation has turned into a type of paternal relationship between the president and society.

Civil society  
participation

Given the particular character of Ecuador’s pre-1978 authoritarian rule, reconciliation as understood by transitology research is not really an issue.

Reconciliation

However, the president called a truth commission to investigate and write a report on the events that occurred during the democratic government of León Febres Cordero (1984 – 1988). During this period, a series of human rights violations were committed and justified by the Cordero government in terms of the need to disband the nascent guerrilla group Alfaro Vive Carajo. The incumbent government has used the commission’s report as a weapon to attack its political opponents and as a tool in its electoral campaign.

## 17 | International Cooperation

President Correa has carried out intense international activity with the aim of strengthening relations between Latin American countries, with an emphasis on governments who share his left-wing beliefs and anti-U.S. stance. He has aimed to improve relations with European countries and made various visits, particularly to Spain, during which he has engaged in electoral campaigning with the community of Ecuadorians who live in the country (which is about 400,000 strong). However, his constant outspoken remarks and pressure on European companies have lowered other nations’ expectations of a president who at the start was able to portray himself as an educated and cosmopolitan individual, eager to change things in his poor country. He has particularly capitalized on the good relations he enjoys with Venezuela’s Hugo Chávez, as a result of which commercial flows between Ecuador and Venezuela have increased. However, there has also been a period of deadlock due to Venezuela’s delay in paying for goods and services, as a result of its restrictive currency control measures. Ecuador has become an ally of Chávez’s allies and therefore has strengthened relations with Iran, among others.

Effective use of  
support

The Ecuadorian government has been losing international credibility among countries, institutions and companies, as is clearly reflected in the increase in its country risk measured by different indicators. Standard & Poor's has lowered the country's qualification for short-term debt from CCC to SD (selective delay), while long-term debt has gone from CC to SD. Fitch Ratings has also lowered the country's risk qualification from CCC to selective delay and Moody's has reduced it from Caa1 to Ca. The government's self-contradictions on topics such as external debt management has also contributed to this, since on more than one occasion it has threatened not to pay, arguing variously that components of the debt are illegitimate, immoral or illegal, or that the governments that signed the contracts betrayed the "homeland." It has also forced the renegotiation of contracts signed between the state and telecommunications and oil companies operating in the country. Relations with international institutions are not good; one of the government's first acts was to expel IMF and World Bank missions (who had been carrying out what the government called the "long and sad neoliberal night") from the offices that they occupied in Ecuador's central bank.

Credibility

Ecuador's government has an ambivalent position, because at the discursive level it supports the need for Latin American integration. Furthermore, President Correa has carried out intense international activities to promote the Union of South American Nations (UNASUR) and strengthen links with other Latin American countries, particularly those which are governed by left-wing leaders. However, it has had direct clashes with the Colombian government, due to a Colombian military operation against the FARC carried out on Ecuadorian territory. This conflict worsened when Ecuador's government argued that it, as the country attacked, deserved reparations. Another conflict occurred with the Brazilian government over the actions of Oderbrecht, a Brazilian company. Although the Ecuadorian government was right in its accusations, it took the conflict to the extreme of withdrawing ambassadors, despite the inclination of the company and the Brazilian government to negotiate right from the very start. The final episode of regional confrontations stemmed from Ecuador's protectionist measures, which caused protests from its "brother" government in Bolivia. La Paz's argument is that the measures violate the agreements of the Andean Community of Nations, an accusation Ecuador rejects. Beyond the facts, it is clear that, whenever there are differences of opinion, the government looks for crisis and confrontation (with the argument that the "homeland" has changed and now has a brave president who is not afraid of anything or anyone) in order to stage meetings between heads of state – as a negotiating space – instead of using preexisting mechanisms to resolve disputes between countries.

Regional  
cooperation

## Strategic Outlook

Due to the country's changing situation, it is difficult to make predictions; however we can point out a series of likely events:

After winning the elections of April 2009 by a large majority, President Correa has a wide margin of action to implement his policies. As a result, the "Citizens' Revolution" will be guaranteed and reinforced, together with the figure of Rafael Correa as its leader. The wide majority he obtained will undoubtedly serve as an excuse to justify the potentially authoritarian actions of the "21st Century Socialists."

After the elections, the transformations of the party system are more evident. This makes us think that Alianza PAIS will become a hegemonic party that will fuse its organization and interests with the state. Useful comparisons would be the PRI in Mexico when it was the hegemonic ruling party or, more recently, Venezuela's governing Partido Socialista Unido.

At the economic level, it is foreseeable that the country will have problems with a reduction in state income resulting from decreases in oil prices and the level of remittances sent by Ecuadorians living abroad. Given that Correa's economic reactivation plan is based on spending, it is to be expected that imbalances will be created, or that he will be obliged to change his development strategy.

At the international level, it is foreseeable that Correa's role as Hugo Chávez's alter ego (in all senses) will be strengthened, as there are no signs that their relationship is cooling. However, we have to bear in mind that they are two personalities who like to be the center of attention, and therefore it is possible that friction will arise, particularly if the pupil wants to come out of his master's shadow. Still at the international level, it is also to be expected that relations with Colombia will remain tense for some time to come.

It remains unclear how opposition forces will react to such a presumed deepening of Correa's "Citizens' Revolution," or whether the government will react to growing political confrontation by following a polarization strategy similar to that of Evo Morales in Bolivia or Hugo Chávez in Venezuela. It is possible that Correa, despite his sharp rhetoric during the last two years, will prove a more pragmatic president now that his power seems to be consolidated. By concentrating on solutions to Ecuador's economic and social problems he might achieve much, especially in the field of social inclusion. However, to allow for a more consensual and less confrontational transformation course, it will be important to avoid further damage to democratic institutions, and instead to strengthen mechanisms which allow for a certain measure of oversight and transparency, above all the rule of law and press freedom.