



Crisis in the Andes?

EU RESPONSE CAPACITIES

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Introduction

This CPN in-depth study aims to provide the European Commission and other EU policy-makers with the necessary information and current analysis on on-going developments in the countries of the Andean sub-region (Bolivia, Colombia, Ecuador, Peru, Venezuela), taking into account their common membership of the Andean Community (CAN), and their bilateral and multilateral relations with the outside world, including the European Union. Chile is not considered in this study, due to its decision to withdraw from the CAN in 1976.

The study is organised into three parts. The first part provides the reader with some background information about the general features of the Andean sub-region as a whole, and the individual member states of the Andean Community, in the wider Latin American context. The second part is a series of five country briefings on the current situation in Bolivia, Colombia, Ecuador, Peru and Venezuela that aims to identify the challenges and opportunities from a conflict-prevention perspective. The third part deals with the process of Andean integration, and the policy of third countries/organisations in the Andean region, with a special emphasis on the US and the EU strategies

This study has been developed as a Desk study, with some input from local scholars. Due to the very diverse backgrounds of the fourteen experts involved in this project, this study includes a wide range of opinions. Throughout the study, some concrete policy recommendations for the European Union are listed, that could be helpful in the Commission's drafting of the Country Strategy Papers, and preparation of the next EU-Latin America Summit of Head of States and Governments that will take place in Madrid in 2002. The Executive Summary is a modest attempt to synthesise the key findings of this innovative project.

Jérôme Rivière, Project Manager

Executive summary

Like in other parts of the world, conflict prevention needs to be mainstreamed as a core political paradigm in the relationship between the EU and the Andean sub-region, and a major effort still needs to be made to integrate the objective of “structural stability” into any co-operation agreement with the CAN and/or its member states. Over the last decade, this region has attracted the attention of the international community, partly as a result of growing concerns over the crisis of democratic governance, expansion of drug production and trafficking, money laundering, immigration, environmental degradation, and the resulting threats to security, having spill-over effects, beyond the borders of the countries involved. In this context, the Andean Community seems to be ill-equipped to face the challenges encountered by its Member States (Bolivia, Colombia, Ecuador, Peru, Venezuela).

However, by underestimating the strategic assets, potential and opportunities present in the Andean sub-region (see the first chapter of the study for this matter), this pessimistic diagnostic may only provide a partial account of reality on the ground, and lead to misguided policies by outsiders. Moreover, broad generalisations fail to provide an accurate account of the situation in each member state, that usually requires an individual treatment of the distinct “problem areas”.

Attempts to tackle the so-called “Andean crisis” are based on the assumption that the region may be on the brink of a major armed confrontation, as a result of the internationalisation of conflict in Colombia, and/or the crystallisation of overlapping political and social tensions.

The findings of this study question this analysis by giving a more balanced assessment of the strengths and weaknesses of the Andean sub-region, that could be the basis for a thoughtful redefinition of the EU policy, in this strategically important geopolitical area.

Strengths and weaknesses of the Andean sub-region

Signs of crisis in the Andean sub-region abound: economic slowdown in most countries, explosive social tensions in Ecuador, Bolivia and Peru, authoritarian tendencies in Venezuela, and militarisation of conflict in Colombia (see the corresponding country briefings).

The sub-region is plagued by: weak governance (legitimacy deficit of public institutions, corruption and insufficient public services), biased law application and enforcement by justice and security services, political marginalisation of some social groups or regions,

socio-economic inequalities associated with extreme poverty, social and political violence, fragmented civil society and poor economic performance.

However, this analysis fails to admit that these features are typical of Latin American societies. In fact, some of these characteristics have existed ever since these countries became independent, while some problems are only specific to a limited number of them. What is commonly named the “Andean crisis” may only be an arbitrary listing of some real signs of crisis that are specific to each Andean country, without having regional or international implications.

Critical observers also tend to point out the following structural weaknesses of the Andean Community (see the chapter on the process of Andean integration):

- *The absence of a genuinely “Andean” identity* in the countries concerned, partly as a result of the low degree of interaction between the countries of the region, and the lack of physical infrastructures linking the Andean countries, despite some progress in intra-regional trade.
- *The lack of complementarity between economies* that calls into question the CAN’s ability to be an attractive regional grouping for its member states, in the context of continental-wide trade negotiations. In the absence of redistributive mechanisms, joining Mercosur may be more appealing, even for the poorest members of the CAN.
- *The lack of leadership* among the “Andean” government officials in favour of regional integration. No President of the Andean governments seems to be personally committed to the process of Andean integration, while civil societies remain aloof from each other.
- *The lack of real commitment to democracy and Human Rights*, – despite the recent Protocol on Democracy – that may question the CAN’s ability to fulfil an effective conflict-prevention function.
- *The inability to collectively find a solution to some common challenges*, for instance in the field of drug production and trafficking, money laundering, environmental degradation or in the Andean countries’ strategic relations with the United States.

All these factors seem to be partly compensated by some real assets that are often overlooked:

- *The sharing of a common language, culture and history* that could be better mobilised by the governments of the regions.

- *The presence of strategic resources*, particularly in the energy sector (oil, gas) - some of them still largely un-exploited.
- *The existence of a democratic tradition* of some sort, despite episodes of authoritarian regression.
- *A record of relatively peaceful bilateral relations*, in spite of recent armed conflict between Peru and Ecuador and some territorial disputes.
- *The commitment of the armed forces to the democratic process*, with some serious doubts in Ecuador and Venezuela.
- *The large support of public opinion* for a peaceful mediation of tensions (or conflict), especially in Colombia, the country most affected by violence.

The viability of the process of regional integration in the Andes should therefore be judged on the basis of the CAN's ability to adjust to the upcoming challenges, in the context of an ever-changing global environment.

Upcoming challenges

Presidential and parliamentary elections will be held in Bolivia, Colombia and Ecuador in 2002. Democratic elections could lead to bouts of populism, in the context of a general crisis of political representation. None of these countries is immune against the success of a Fujimori-like candidate. All governments will be pressed to *diffuse social tensions* by creating jobs, fighting poverty, offering essential public services (education, healthcare, civil protection, justice), while preserving an attractive economic environment for foreign investors, and pursuing orthodox macro-economic policies.

At the regional level, bilateral relations could be strained by the growing *militarisation of conflict in Colombia* that could have very adverse side-effects in the neighbouring countries such as: inflow of refugees, implantation of guerrilla movements and shifting of coca production to new territories. The "Colombianisation" of the Andean region is the external risk factor most commonly feared in Ecuador, while it seems to be underestimated in Venezuela. *Continuing trade negotiations* with Mercosur and projects to create a Free Trade Area in South America (SAFTA) and/or a Free Trade Area of the Americas (FTAA) may directly threaten the CAN's ability to survive as a regional grouping, in the absence of progress in the creation of a customs union, and of concrete achievements in other realms. This includes the development of the Common Andean Foreign and Security policy, the full implementation of the Social Agenda and the setting up of effective conflict prevention mechanisms.

Medium-term scenarios for the future of Andean integration

Alternative scenarios on the future of the CAN point into three possible directions:

- *a disappearance of the CAN*, resulting from a worsening of political tensions between the Member States, following a serious confrontation between the government in Venezuela and the United States, an extension of the Colombian conflict and/or the speeding up of the multilateral trade negotiations to create a Free Trade Area of the Americas (AFTA). This scenario could have some serious implications for the European Union. It would cast some doubts as to the EU's ability to successfully "export" its model and values in other regions of the world.
- *a strengthening of the CAN*, following a real integrationist faith of Andean leaders and/or the pressure of powerful groups of civil society in several Andean countries, especially the business community. On-going trade negotiations would force the Member States to accelerate the completion of a customs union and reinforce the role of the Secretariat General of the CAN. Some ambitious redistribution mechanisms in favour of the poorer members would be set up, while the political and security functions of the CAN would be strengthened. This scenario is unlikely to happen in the near future.
- *a redefinition of the tasks of the Andean Community around some core functions*. Following an "audit" of the CAN, the Presidents of the Andean sub-region would define a few priority areas of action (economic co-operation, education, transport, Justice and Home affairs, etc), while removing some of the outdated institutions of the organisation. Member States would pool some of their resources, and delegate more powers to the institutions of the CAN. Under these circumstances, the EU could play a valuable role, by helping the CAN to find a new *raison d'être*.

Priorities of the EU policy in the Andean sub-region

The EU interests in the Andean sub-region are more substantial than may appear at first sight (see the chapter on EU-Andean relations):

- to fight against international drug production and trafficking, money-laundering and terrorism,
- to contain and reduce violence originating from Colombia,
- to address the root causes of immigration originating from the Andean countries,
- to support democratic values, Human Rights and respect for the rule of law,

- to promote a favourable business environment for its foreign investments and exports
- to facilitate access to strategic resources, especially in the energy sector, while preserving bio-diversity in the Andean sub-region.

A critical assessment of the EU policy towards the Andean sub-region so far leads to the identification of some major deficiencies:

The striking *lack of assertiveness* of the European Union in the Andean sub-region. The EU has been extremely reluctant to use its critical mass in terms of development assistance and foreign investment towards the governments of the Andean region in order to impose some necessary changes in the fields of democracy, human rights and wealth distribution. Moreover, “hard-security” problems, especially those linked with anti-narcotics policy, are cautiously left to the management style of the United States while conflict prevention has not been a prominent feature of the EU-CAN relationship.

- The *lack of co-ordination* between the Commission and the EU Member States for the definition of some priority areas which is not specific to the Andean sub-region. Given the limited amount of financial resources devoted to this geographical area in the national budgets, it may be worthwhile to avoid a duplication or overlapping of national programmes.
- The *lack of involvement of civil society* on both sides of the Atlantic which is an additional impediment to more dynamic EU-Andean relations.
- The relative *ineffectiveness of EU-sponsored “crop substitution programmes”* that should be better replaced by a better marketing of Andean products and the removal of remaining tariff and non-tariff barriers to Andean exports.

In shaping a comprehensive conflict prevention policy towards the Andean sub-region, EU decision-makers should recognise the structural limitations of the EU’s projection capacity, and the need for permanent dialogue with the countries of the region. External actors are important to resolving some of the region’s problems, but they will always be secondary. The main players are the Andean governments, civil societies, the United States and other South American countries.

On the basis of these observations, the EU priority areas of intervention in the Andean countries should be the following:

- *To tackle the governance issue* by providing logistical and financial support for upgrading the quality of public services in the Andean countries, especially in the

broad security sector (police, justice, prison), and at the local and regional levels of government.

- *To give priority to poverty-reduction programmes* by promoting a redistributive tax reform, building institutional capacity among some marginalised social groups (especially the Indian populations, women and highland peasantry) or regions (especially the underdeveloped border areas between the Andean countries), and supporting debt relief in international financial institutions.
- *To strengthen the quality of political representation* by supporting electoral commissions, mediation programmes at all levels of government, the training of young leaders and parliamentarians, and the setting up of supervisory bodies.
- *To develop civil society* by giving support to local, national and regional representative Non-Governmental Organisations, specialised in the fields of poverty-reduction, democracy, Human Rights, anti-corruption and environmental protection.

In relation with the CAN itself, additional support should be bound to concrete steps by the governments concerned that show their commitment to regional integration.

Some common approaches should certainly be searched in the following areas:

- Fighting drug production and trafficking, and money-laundering,
- Tackling interrelated security threats (international organised crime, terrorism, illegal immigration),
- Promoting the socio-economic development of the CAN's border regions,
- Developing the conflict-prevention capacities of the CAN.

Additionally, the EU can unilaterally renew the GSP (Generalised System of Preferences) agreement with the Andean countries, while including new products, and removing non-trade barriers to the exports of Andean products.

Some problem areas can only be tackled in combination with other international actors. This is especially the case of conflict resolution in Colombia, and in the field of anti-narcotics policy. In this realm, like in other areas, the EU should especially try to engage in a constructive dialogue with the United States (see the eighth chapter of the study). Additionally, the EU should systematically identify like-minded regional and international organisations (the OAS, the UN, etc), Latin American countries, and other donor countries (Canada, Japan) and try to find common ground for a joint vision of structural stability in the Andean sub-region.

D. Country briefing on Ecuador

Adrián Bonilla Soria & David Mares

Among the five members of the Andean Community, Ecuador has recently attracted the attention of the international community, due to the high level of immigration originating from this country, chronic political instability, and the regional implications of Plan Colombia. This paper is a compact analysis of the most recent political, economic and social developments in Ecuador. The analysis starts with an overview of the current political crisis (I) in the context of deep economic and social crisis (II). It is followed by a description of the various policy responses that are given by competing social and political actors (III). Foreign policy challenges are tackled in a separate section (IV). All these elements are taken into consideration for the formulation of alternative scenarios for the future (V) and conflict-prevention-oriented policy recommendations that the EU could try to implement on its own, or in combination with other actors (VI).

1. The crisis of the Ecuadorian political system

Over the last few years, Ecuadorian democracy has been continuously plagued by instability. In 1995, Vice President Alberto Dahik fled the country to escape charges of corruption brought by the Supreme Court. Following this incident, the former President Sixto Durán Ballen refused to turn over records for this case. In 1997, President Abdalá Bucarám was overthrown by Congress on the dubious grounds of “mental incapacity”. His Vice President succeeded him for a day, before falling to a Congressional decision demanding its President assume an interim national Presidency. Following a catastrophic bank crisis and a questionable bail-out of bank owners, newly-elected President Jamil Mahuad was ousted from power in January 2000 by a popular uprising supported by a broad range of social groups, including a significant number of colonels. The attempt by indigenous groups and the colonels to install a new government was short-circuited by international pressure, political parties and the military command. This year Hugo Quevedo, President of Congress, resigned rather than face impeachment for a series of alleged wrongdoings.

Ecuadorian politics takes place in an institutional framework that encourages elected leaders to pander to the interests of their constituencies, while the country falls deeper into crisis. As a result, political parties proliferate, become dominated by personalities, and are characterised by low party discipline, with legislators frequently changing party affiliation.

In addition, the legislature and executive lack political incentives to co-operate, thereby producing policy stalemates. The economic crisis, which began in the mid-1990s, has grown worse because structural economic reforms cannot be adopted.

Although electoral processes are reasonably transparent, the party structure produces a political system that does not represent regional, ethnic and cultural diversity. Instead, corruption and clientelism are common practices. In this context, social groups and special interests utilise non-electoral channels to articulate their policy preferences, leading to a never-ending sequence of massive street demonstrations and strikes.

II Dollarisation of the economy in the context of deep recession

Since 1992, five different Ecuadorian governments have tried to implement a traditional structural adjustment programme under the terms of the International Monetary Fund. None of them has succeeded. This situation has led to a worsening of the economic situation. Between 1998 and 2000, Ecuador suffered its worst economic reversals in a century. In the course of these two years, Ecuador's GNP shrank to 7.3%. Foreign investment fell by 34.7 %, imports declined by 38.4%, and the value of the dollar against the sucre rose by 362%.

The dollar was adopted as the Ecuadorian currency in January 2000, as a result of the political emergency during the presidency of Jamil Mahuad (1998-2000). It had a short-term stabilising effect over the economy but later that year (2000), inflation increased again until it reached almost 100% (90.3% in the yearly average for 2000). It is expected to stabilise at around 20% by the end of 2002. Dollarisation has led to a significant lowering of interest rates, although they remain at a very high level (16-25%). At the same time, it has also led to an increase in unemployment.

The unemployment rate currently amounts to 20%. Underemployment is also a severe problem as less than 30% of the population have full-time jobs. Extreme poverty has sharply increased. With over 70% of the population currently below the poverty line (against 50% in mid-1998), the United Nations ranks Ecuador as the poorest country in the hemisphere. The social security system has almost totally collapsed, and public investments in the areas of health, education and communal public works are urgently needed.

Emigration is often seen as the only realistic solution to unemployment and economic crisis. The number of Ecuadorians having left the country over the last four years is astounding, well above 10% of the overall population (12 million). The USA is the first choice of emigrants, followed by Spain, Italy, France and Switzerland. Large amounts of remittance revenues coming from the Ecuadorians living abroad have been injected into the economy. These are usually sent to low-income families, thus contributing to poverty reduction and economic growth, especially in the Centre-South Highlands.

In the medium-term, some negative consequences of dollarisation are predicted. Ecuador could lose many of its foreign market shares, if the currencies of export competing countries are devalued or if the dollar continues to appreciate against major currencies. The country's export economy is using outdated technologies, but if Ecuador loses competitiveness there will be no incentives to invest in new technologies. Regional integration has not significantly boosted the country's economy so far and since Andean Community partners are not dollarised, Ecuador might benefit even less in the future. The black economy also represents a significant amount of trade flows.

The economy is expected to improve in 2001-2002, as a result of a major investment scheme of five multinational corporations to construct a new oil pipeline (roughly US-\$ 1.2 billion USD). However, unless policymakers can take advantage of the combination of dollarisation, new IMF loans and the petroleum boom, the economy will sink back into a deeper recession. In this case - they would find dollarisation not to be a saviour but, as in the case of Argentina today - a straitjacket making reform ever more costly.

III Main social/political actors likely to shape developments in the coming years

I. Political parties

As noted, an inordinate number of political parties in Ecuador are represented in Congress. According to a 1999 opinion poll, a mere 6% of the population supported political parties while only 11% had faith in the Congress.

The right-wing "Social-Christian Party" (*Partido Social-Cristiano*) is the strongest in Ecuador. Its electoral base mostly comes from the Coastal Region, and particularly from Guayaquil, the biggest and richest city in the country. This party is led by financial entrepreneurs, agro-exporters and retailers under the leadership of ex-President León Febres Cordero (1984-1988). The Social-Christian Party has been the major electoral and parliamentary force in Ecuador since 1986, but did not have an official candidate at the 1998 presidential elections.

The second most important party is the "Ecuadorian Roldosista Party", (*Partido Roldosista ecuatoriano*). It is led by ex-president Abdalá Bucarám (1996-1997), who was overthrown by a parliamentary coup. This party's popularity was high at the recent elections, particularly in the coastal peripheral provinces of Guayaquil. It received 26.6% of the votes at the 1998 presidential elections. The persecution aura created by Bucarám himself has allowed him to continue to play an important role in Ecuadorian politics, even though he is now a "political refugee" in Panama. The interests defended by the Roldosista Party are basically those of retailers and part of the financial sector of Guayaquil.

The “Democratic Left Party” (Izquierda Democrática) has a long centre-left tradition. Its electoral base is located in the Ecuadorian Highlands Region. It is led by ex-President, Rodrigo Borja (1988-1992), and has its base among entrepreneurs and professionals from the Highlands’ middle class. The party is the strongest in Quito, the capital of the Republic and the second largest city. Given its broad social agenda, it is currently gaining popular support and should receive more votes at the next elections; it obtained 16.1% of the votes in 1998.

The left political spectrum is occupied by the “Movement of Plurinational Unity, “Pachakutik” (Movimiento Todo Pais). It represents an alliance among a group of native Indian organisations, the traditional labour movements and the Left Activist Party. The Pachakutik Party has participated in the last three elections, obtaining 14.7% of the popular vote at the first round of the 1998 presidential elections.

2. The Business Community

The business community plays an important political role behind the scene. It is divided along regional cleavages. The different modes of production in the Highlands (traditional) and in the Coastal Regions (agro-export) have resulted in different entrepreneurial positions in the commercial, agricultural and industrial sectors. The financial sector was weakened by the banking crisis of 1999-2000 but has been strengthened by a bailout and the recent collapse of two major state-owned banks. The business community gives priority to a stabilisation of the economy through neo-liberal policies, although they continue to seek public subsidies for their activities.

3. The Armed Forces

The military is probably the only political actor with a national constituency. Military leadership is dominated by Highlanders, who are displeased by the growing influence of Guayaquil, especially if the *Costeños* promote a greater degree of regional autonomy. Regional loyalties among officers are minimal; surveys indicate that officers see themselves as Ecuadorians above all, with being military professionals following closely behind.

In the midst of the political and economic chaos, the military had enjoyed a high degree of public support. However, with the end of the conflict with Peru and the involvement of the military in the parliamentary coups against two Presidents, this led to diminished public support and also produced important internal fissures within the institution. Against this background, the military continue to look for missions to justify their continued existence and budget. Addressing the drug threat is a potential mission that brings short-term benefits, due to US support.

4. The Native Indian Movement

The Confederation of Indigenous Nationalities of Ecuador (CONAIE, founded in 1986) is the strongest social institution that has emerged over the last decade. The indigenous movement is well-organised and powerful enough to create massive demonstrations and strikes that contributed to the overthrow of two presidents and to block neo-liberal structural economic reforms. In the Highlands and Amazonian regions, the CONAIE has gained importance as a vindication space against arbitrary government, among Indians and other poor segments of the population. During the last years, the Native Indian Movement has formed alliances with various social groups, including the military. CONAIE's participation in the last presidential overthrow may indicate a lack of commitment to the democratic process.

Furthermore, the CONAIE is becoming a victim of its own success: the indigenous movement is itself partly the result of the globalisation process which made distinct local groups perceive a common interest, despite that fact that they still have important differences. The Otovalo group has a successful export business that is damaged by an overvalued national currency, while other groups without exports are more concerned with maintaining the value of the currency as a hedge against inflation. The World Bank is also working closely with several indigenous groups, but not all groups. Overall indigenous group involvement in national politics through the Movimiento Todo Pais, "Pachakutik" is straining CONAIE's unity. Although the CONAIE is likely to remain a powerful opposition force, it will find it increasingly difficult to articulate a coherent vision of reform.

5. The rise in regionalist tendencies

The emergence of very strong local identities that challenge the national unitary image of the Ecuadorian state is an unexpected outcome of the peace process with Peru. The border was one of the most important symbols of national identity. Since the border conflict has been settled, its cohesive power has not been replaced by another factor of unity among the Ecuadorian population. Moreover, the economic crisis of 1999-2000 has questioned the viability of a state-centred development model. The State no longer fulfils its protective functions. The recent political crisis has further weakened the government institutions, including the Armed Forces and their authority in the periphery of the country. As the demographic gap between the Coastal region and the Highlands is steadily increasing, this also has a direct impact on state cohesion.

Over the last two years, Ecuador has experienced several demands for autonomy in some of its provinces. Various options, ranging from greater decentralisation to full autonomy are being increasingly debated. Regionalism is especially strong in the rich and highly populated province of Guayas.

During the weekend of the 2000 coup, a non-binding referendum on decentralisation was coincidentally organised in this region. The overwhelming majority of the voters supported a move towards greater autonomy. This move has also received the wide support of other provinces that blame the centralist nature of the state to be one of the main causes of crisis.

The development of a federal polity in Ecuador could strengthen the political system. Despite the fact that the Guayas region could get along by itself - others regions could not stand alone. These other regions would most likely need to develop more co-operative relations to make up for the resources lost by the autonomy of Guayas.

IV Foreign policy challenges

This section explores Ecuador's policy towards Plan Colombia, Peru, the EU and regional integration in the Western Hemisphere.

1. Relations with Colombia and the USA: Plan Colombia

Ecuador is concerned about the situation in Colombia, due to the Colombian government's inability to curb violence of all kinds within its territory, in spite of the absence of aggressive intentions on both sides. Recognising its weaknesses, the Colombian government, invoking the principle of shared responsibility, has called for the solidarity of the international community in general, and of allied governments in particular.

The US support for the Colombian Army and its scepticism towards the negotiations with guerrilla groups increase the risks of military incidents at the border with Colombia. There is evidence that some violent Colombian actors already operate on Ecuadorian territory. Ecuador opposes the creation of an Andean Security Regime as a response to this situation since this move would imply more US influence that would place the question of drug trafficking at the top of the Andean agenda. President Mahuad already provided the United States with an airforce base for aerial surveillance in the fight against drug trafficking. In return, he received Washington's support in negotiations with the IMF. The existence of the base, nevertheless, increases the risk of a direct involvement of Ecuador in military operations in Colombia.

Ecuador's position in relation to the wider impact of the US anti-drug policy is as follows:

- To avoid any military operation on Ecuadorian territory against the Colombian guerrilla, drug-traffickers and paramilitary forces.
- To neutralise the effects of a potential human disaster resulting from a huge inflow of refugees and internally-displaced people.

- To control national territory and strongly resist against the “Colombianisation” of Ecuadorian society.
- To maintain Ecuadorian territory free from drug crops.
- To preserve the environment.

2. Relations with Peru

The signing of the Peace Agreement with Peru in 1998 pushed the territorial issue to the background. Security-related interests are no longer at the top of the diplomatic agenda. However, both countries share problems linked to political instability, and face the consequences of the fight against drug-trafficking. The implementation clauses that are included in the 1998 Peace Treaty on the promotion of cross-border trade depend on the mobilisation of adequate financial resources. Ecuador considers the development of bilateral trade to be very important question in its relations with Peru and could indirectly benefit from Peru’s rapprochement with APEC and MERCOSUR.

3. Regional Integration and International Trade

Unlike Peru, Ecuador has high expectations concerning the process of Andean integration. Ecuador also aims at a better co-ordination of strategies between the members of the Andean Community, in order to strengthen their position in multilateral forums such as the OAS, the Rio Group or the United Nations.

The Ecuadorian economy is one of the weakest of the region. In comparison with the other Andean countries, Ecuador may have less to win from further economic integration. For the time being, Ecuador has not taken any significant steps to be associated with MERCOSUR. The economic integration process has certainly led to an increase of Ecuadorian exports, and to a certain diversification of export products. Ecuador’s trade balance with Colombia is negative while trade exchanges with Peru are not very significant, with the exception of Ecuadorian exports of oil.

The USA remains Ecuador’s most important trade partner. Approximately 40% of Ecuadorian exports are sent to the USA, while American products account for 40% of Ecuador’s total imports. Ecuador’s agricultural products are not very competitive on the international markets, in spite of recent tax exemptions. Economic integration seems to only benefit to limited sectors of the economy and society. Most social strata are excluded from projects and policies resulting from regional integration. All in all, the implementation of the US-backed project of AFTA will probably not have a positive impact on the Ecuadorian economy.

4. Relations with the European Union

Trade relations between Ecuador and the EU have been significantly affected by the commercial row over the EC banana regime that favoured the ACP countries. This case was brought to the WTO Court of Justice and was won by the countries that felt discriminated, including Ecuador. The WTO sanctioned the European Union for violating free trade laws through the quotas imposed to the Ecuadorian bananas on the European market. The new banana regime has led to a significant increase in the volume of exports of “dollar bananas” to the EU. The EU could have a more active policy of conflict prevention towards Ecuador and the Andean region, without putting its vital interests at risk. Despite this case, the EU usually has a positive image throughout Latin America.

V. Scenarios for the future

Depending on the combination of various factors, the situation in Ecuador could worsen or improve. Powerful external actors, such as the EU or the USA could help mitigate conflict elements, and avoid further instability in Ecuador.

1. Optimistic scenario

A positive scenario for Ecuador would consist in the progressive stabilisation of the economy, based on the maintenance of the current high level of world oil prices and a low dollar.

In the case of pipeline infrastructure, oil spills and related environmental damage would be carefully taken care of. Additionally indigenous groups, oil companies and the state would work together to keep workers from settling into regions that are traversed by the service roads.

Fiscal discipline would attract foreign investment into labour-intensive enterprises, especially in the export sector. As a result, unemployment would decline and “economic” immigrants would begin returning from Europe and the US to Ecuador, seeking new job opportunities. With economic problems at least temporarily resolved, citizens would turn their attention to addressing institutional problems, including the un-governability of the political system. As a result, party volatility would be reduced. Moderate federalism would be adopted, providing incentives for other regions to co-operate, to counterbalance the weight of Guayaquil, thus ending policy stalemate. Social welfare expenditures would increase. Employment, better public services and a responsible legislative process would convince CONAIE, Afro-Ecuadorians and students to channel their demands through the political process, rather than the streets.

The judiciary, including the Supreme Court, would be provided with institutional autonomy. An effective anti-corruption legislation would be adopted and implemented. Colombian guerrillas and drug lords would determine that relocating to Ecuador is an unattractive option, due the enhanced presence of the Ecuadorian State supported by the local population. The military would regain popular respect and support as it would find its *raison d'être* in representing the country in regional confidence-building measures and international peacekeeping missions.

This scenario is not very likely to happen, due the confrontational strategies of most political actors, the entrenchment of clientelist practices, and the predatory logic of economic actors. For the time being, there are no indications that a profound political reform is about to take place, while there are many economic, political and external challenges to Ecuador.

2. Pessimistic scenario

Petroleum prices would continue their downward trend, and the dollar would continue to rise against major world currencies. Pipeline construction would terminate and foreign capital inflows would dry up. The economy would become more dependent upon banana exports, and Ecuador would demand a re-negotiation of the banana agreement with the EU.

More environmental damage would occur in the Amazon region, as the pipeline would be built and workers would begin populating the jungle alongside the service roads. Indigenous groups, as well as international NGOs would organise non-violent protests, along the pipeline route. Plan Colombia would stimulate a movement of drug operations, across the border into Ecuador, while guerrilla groups would pursue their tax base. The Ecuadorian government would be helpless and local paramilitaries would develop. Locals would be caught in the violence between guerrillas and traffickers, both financed through drug profits. Continued economic crisis, along with the new level of violence in the north of the country, would stimulate further immigration to Europe and the US. The legislature and executive would continue to disagree over the need for structural adjustments in the economy. No political reforms would take place. Guayaquil economic and political forces would see controlling the national government as a liability and push for radical federalism. Guayaquil would benefit from it but other provinces would lack even more fiscal revenues. Inflation would stabilise but remain above that in the US.

Ecuador's currency would thus become overvalued, producing a loss of international competitiveness for Ecuadorian exports. Unemployment and underemployment would increase. Indigenous groups, Afro-Ecuadorians, students and urban poor would repeatedly demonstrate in the national capital, bringing activity to a halt. The Highland elites would begin calling upon the military to bring order back to the country.

Opposition groups would demand the military take sides against the elites. The military would take control of the government, with promising to call a constituent assembly to write a new constitution, and return the country to democracy as soon as possible. The US and OAS would withhold sanctions, while observer teams would arrive to oversee the process by which the country is to return to democracy. Opposition groups would be initially pleased, but express dismay that they have not been handed the government.

The military government would implement radical structural reforms. Demonstrations against economic policy would develop, and the military government would begin rounding up the new opposition. Ecuador would be sanctioned by the US, EU and the rest of Latin America for embarking upon a non-democratic path and violating human rights.

As the economy would stabilise, a constituent assembly would be elected. Elites, popular forces and the military in other Latin American countries would take note of the "progress" made in economic stabilisation, political stability and the fight against drugs, paramilitaries, and drug traffickers. The ability of the Ecuadorian government, reminiscent of Fujimori in Peru from 1992-1995, to survive international disapproval, would be recognised. Democracy in Latin America would suffer another major blow.

3. Muddle-through scenario

An intermediate scenario would consist in the continuation of the current situation in Ecuador, characterised by economic recession, massive emigration, social and regional tensions, and capital flight. Regardless of the outcome of the next presidential elections, the government would remain weak and unable to face the upcoming challenges. The success of public policies would depend on short-term political alliances. This scenario is likely to be unsustainable in the long-term, given the strength of Pachakutik, PSC and the consequences of Plan Colombia.

VI Policy recommendations

A conflict prevention policy of the European Union towards Ecuador should concentrate on the following issues: the containment of the Colombian conflict and a vigorous fight against drug-trafficking, the promotion of democracy and good governance, support for macro-economic stabilisation, poverty-reduction and the preservation of bio-diversity.

1. Containment of the Colombian conflict

Since a military solution to the conflict in Colombia (supported by Washington) is unlikely, the European Union would be well advised to first analyse the devastating consequences of violence on Ecuador and search for a dialogue with the US government aiming at scaling down the negative effects of a repressive strategy.

A common understanding is especially needed in the following areas:

- the question of refugees**
- the question of human rights**
- the question of guerrilla incentives for peace**
- the control of the paramilitary forces**
- the behaviour of the Colombian armed forces**
- the search for a sustainable political solution that goes beyond the use of military means.**

2. Support for the fight against drug production and trafficking

For the time being, there is no massive production of drugs in Ecuador. The country is a transit station of illegal drugs towards the United States and Europe. The US policy of interdiction, control and eradication of drug production in Peru, Bolivia and Colombia has been a failure throughout the last twenty years. It has led to a wider dispersion of drug production, social fragmentation, and to a weakening of the legal institutions of the Andean countries. Preventing the extension of drug production to Ecuador should rank among the highest priorities of the EU policy. This implies the promotion of alternative crops, and the mitigation of conflict factors, originating from neighbouring Colombia. The promotion of a demand-reduction approach is a viable alternative to the unilateral US policy of supply reduction. Ultimately, securing Ecuador in the fight against drugs will require economic and political development in the isolated areas bordering Colombia.

3. Support for democracy

Given the strong features of exclusion (racism, hierarchical structure, authoritarian behaviour) of Ecuadorian society, democracy should be supported at the grass-root level. The EU should focus its co-operation programmes on capacity-building at the local level, within the government and civil society through the support for human rights, environmental organisations and indigenous movements.

At the national level, the EU could use its legal and organisational expertise for the reform of the state institutions, for instance through the monitoring and evaluation of the effectiveness of public policies. The experiences of Holland, Spain and the United Kingdom in accommodating multi-ethnic societies should be emphasised in meetings with civic associations and the press. As the federalism debate develops, the EU should offer support for any relevant congressional committees.

Changing the authoritarian political culture of Ecuador implies a long-term effort in civic education. A continuous discussion of the democratic foundations of the Ecuadorian State is needed. The EU should give support to the emerging forums of dialogue that promote conflict resolution mechanisms. The main target groups should be civil servants, political parties and opinion leaders. In this area the EU might find it useful to work with the non-partisan US National Endowment for Democracy.

4. Support for the fight against corruption

Fighting corruption is a very sensitive issue in Ecuador. An effective anti-corruption policy needs the support of the international community through monitoring bodies whose moral authority would be unchallenged. There must also be increased efforts to convince congressmen of the advantages of adopting legislation to increase the transparency of the public purse and the halls of power. The Judiciary and law schools need to be supported in their calls for legal reform.

5. Support for macro-economic stabilisation

In the short-term, the EU and its Member-States should try to use their voting rights at the IMF and the World Bank for finding a sustainable solution to Ecuador's economic recession and the payment of the foreign debt. In light of Argentina's disaster with dollarisation, EU experts' experience with the Euro should help Ecuadorian financial leaders think through alternatives. The continued financial crisis clearly indicates that Ecuadorian authorities are stymied in this entire area. Perhaps a basket of currencies, including the dollar and Euro would prove stringent yet flexible enough to provide financial stability while promoting export growth in new products.

In the long-term, tariff and non-tariff barriers to Ecuadorian exports to the European Union should be progressively dismantled while trade exchanges with small producers, non-monopoly exporters, rural and native Indians co-operatives should be encouraged. To avoid future conflict over bananas, Ecuadorian exports need to diversify more. Effective technical co-operation in this field requires a decentralised structure that implies community participation and accountability.

6. Support for poverty reduction

Ecuador has one of the highest income concentration rates in Latin America. The EU development policies should be focused on the poorest and most marginalised social sectors (e.g. the Indigenous, women, etc.). An empowerment of these groups as well as their encouragement to work through political institutions rather than the streets is needed for ensuring greater social stability and justice. Ecuador needs to reconstruct its health, education and social security systems.

Specific emphasis should be placed on technological education responding to the needs of a modern economy.

7. Preserving bio-diversity

Long-term conflict prevention also implies the protection of Ecuador's bio-diversity in the context of a growing demographic pressure in the Amazonian region. To identify the origin, motivation and exact destination of migration towards these zones is a first and necessary step for defining adequate preventive strategies. Integrated projects should include fixed arrival points to avoid an enlargement of the exploitation zone. This approach should be implemented in close co-operation with representatives of the local population, NGOs, international organisations, environmental organisations conservationists and entrepreneurs seeking to develop these resources.

Bio-diversity has to contribute to the solution of Ecuador's problems if it is to be valued by Ecuadorians. The promotion of eco-tourism is a clear means of doing so and there is already a good deal of European capital invested in enterprises that have direct links to local communities. Sustainable and sensitive eco-tourism should be encouraged further.