

# The Andes in Focus

Security, Democracy & Economic Reform



edited by | **Russell Crandall,  
Guadalupe Paz, and Riordan Roett**

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Russell Crandall

Guadalupe Paz

Riordan Roett



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## Ecuador: Democracy and Economy in Crisis

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*Fredy Rivera Vélez and Franklin Ramírez Gallegos*

If up to the early 1990s Ecuador had enjoyed an image of being an “island of peace” amid the sea of turmoil engulfing its neighbors Peru and Colombia, that image has been shattered in the first years of the new century. The intense problems of democratic fragility, social exclusion, and citizen insecurity have undermined the capacities of state agencies to respond. Contributing to the tension is the emergence of a new national security agenda based on Ecuador’s involvement in the U.S.-led regional security strategy to fight drug trafficking and terrorism.

Ecuador’s new reality is complex. The fragility of public institutions is clear; there is little consensus or coordination among the main political actors to move the political agenda forward. The democratic order that has been in place since 1979 is in a precarious state. Furthermore, the programs of structural adjustment and export promotion in place since the early 1980s have not overcome economic stagnation. To the contrary, their social cost in terms of mounting social inequality, persistent poverty, and structural unemployment has been high. In sum, Ecuador faces a difficult reality in the early twenty-first century, one that clearly illustrates the concept of the elusive trinity proposed in this book’s introduction.

Ecuador’s complex dynamic of political instability and socioeconomic crisis has been accompanied by strong political conflict between a reformist group and an antireform coalition. The reformers are composed of right-of-center parties, chambers of commerce and industry leaders, and technocrats, all followers of the so-called Washington Consensus during the 1990s that promoted largely free-market oriented economic strategies. The antireformist coalition is led by the indigenous movement and is supported by public-

sector trade unions, civil organizations, and leftist parties. This recent political juncture can be characterized as a long period of transition in which power has not been exercised on the basis of the active consent and articulation of solid alliances around a given program. Thus, one of the urgent challenges of Ecuadorian political leaders is to produce a basic platform based on consensus-building and democratic coalitions that would allow the country to emerge from the conflicts of an entire decade, so that public institutions can function effectively.

The rise to power of Lucio Gutiérrez in 2003 in an alliance with Pachakutik, the political organization formed around the indigenous movement, had the possibility of being a watershed event. In his first three months in government, and contrary to expectations, President Gutiérrez implemented the same reformist agenda he had criticized during his political campaign, causing the breakdown of his governing coalition. In the face of intense political polarization, shoring up the economic model of dollarization, put in place in 2000, and the national and regional security agenda poses huge challenges to social stability, the prospects for integration into the regional economic agenda, and the very future of the government alliance.

In this chapter we explore the complex political dynamics that have perpetuated Ecuador's socioeconomic crisis, the fragility of the country's public institutions, and the uncertainty in taking on a new security agenda in the region. The political management of the neoliberal reform agenda implemented during the 1990s is the main context in which these processes have emerged.

## **Historical Background**

To understand Ecuador's political-economic dynamics since the mid-1990s, we must briefly review the characteristics of the model of state developmentalism. This paradigm centers on governmental policies that make the state the chief promoter of economic and social development. In Ecuador, as in other parts of Latin America, the model was implemented in the 1960s and 1970s, and it later declined under the democratic transition and the debt crisis of the early 1980s.

### *The Rise of Ecuadorian Developmentalism*

In the 1960s, a new economic model emerged that, for the first time in Ecuador's history, offered an alternative to the traditional land-based, agricultural export economy, in addition to partially dismantling the power bases of the highlands and the coast. Two elements presaged this transformation. First, from 1948 to 1952, the Liberal government of Galo Plaza took the initial steps

of Ecuadorian economic development with the design of a modern state, aimed at more social integration and national planning. And second, the appearance of a new political movement known as *velasquismo* meant the end of the status quo in which the elites of the highlands and the coast had concentrated power.

Velasquismo, a populist movement that lasted from the 1930s until the early 1970s, was headed by José María Velasco Ibarra, five-time president of Ecuador. The movement was characterized by his relationship with a growing number of formerly excluded social actors (especially in urban sectors) and by his changing relationships with liberals, conservatives, and socialists.<sup>1</sup> Velasquismo also started the integration into political society of what some have called the “urban sub-proletariat”<sup>2</sup> or, more simply, “a politics of the masses.”<sup>3</sup>

The new economic model was based on state development programs that intervened in strategic sectors of the national economy. The model aimed to change the power structure of the highland landowning elites through land reform and to offset their influence and that of the agro-exporting oligarchy of the coast through industrialization policies that sought to generate a modern middle class. Industrialization was seen as a means for improving Ecuador’s relative position in international markets, and the strategy of import-substitution via industrialization gradually gave way to an implicit consensus for social modernization shared by businessmen, workers, and politicians, and “strictly speaking, it came to constitute the first state policy in [Ecuador’s] independent history.”<sup>4</sup>

These transformations were led by the business sector, new professionals, and intellectuals. They fostered the introduction of technical expertise in the management of government programs and of stronger public planning instruments. The nationalist line of the reformist contingent of the military later added support for the new model. The military governments of 1963–1966 and 1972–1976 placed major emphasis on social reform and on policies designed to achieve nationwide industrialization. Accordingly, even though the reformist policies did not spread economic wealth to all levels of society (thus sowing the seeds of social exclusion), a capitalist development model with direct state participation was consolidated in the mid-1960s.<sup>5</sup>

The trends toward socioeconomic modernization were not accompanied by corresponding political changes. Although the state gradually replaced the oligarchical mechanisms of political management, the democratization process was weakened because the executive branch continued to bolster its authoritarian ties with society, and the traditional power groups maintained enough maneuvering room to control the process of modernization. Thus the 1960s ushered in a long period of political instability, marked by a series of acting presidents named by assemblies of notables, a series of military coups in 1963, 1970 (Velasco’s *autogolpe* or self-coup), and 1972; and a return to democracy in 1979.



### *Oil, Dictatorship, and Developmentalism*

In the 1970s, encouraged by the oil boom, the military reformists who sought to deepen the statist developmental model prevailed. The search for greater state autonomy from the traditional elites and more open demands of excluded social groups could be seen with the resumption of land reform policies and the expansion of social policies.<sup>6</sup>

Oil provoked an important change in the structural relations of state and society. The economic surplus produced by oil exports financed increased government expenditures, up 12 percent annually, and more public investment, which saw 8.4 percent annual growth. The state-owned enterprises grew significantly, as did the public sector as a whole. The government's share of domestic product climbed from 9.5 percent in 1965 to 22.5 percent in 1980. Similarly, public-sector employment as a percentage of total employment grew from 2.8 percent in 1965 to 8.1 percent in 1980. Moreover, the state's appropriation of approximately 80 percent of export revenues made it a preponderant economic actor.<sup>7</sup> The patterns of economic growth were enhanced through incentives and subsidies to strategic industries, abundant and cheap credit to the private sector, protection from foreign competition, and a controlled exchange rate.

The traditional agricultural exporters and landowners, affected by those reforms, generated strong opposition to the regime. They not only succeeded in limiting the scope of the reforms but also gained access to decisionmakers in order to reorient the reform agenda. As a result, the military government's development strategy failed in truly transforming the economy and society.

Although by 1974 Ecuador's industrial sector had expanded significantly and gross domestic product (GDP) had grown at more than 7 percent, this economic growth did not benefit all sectors and generated a compelling protectionist logic. As concluded by Catherine Conaghan, the industrialization process not only failed in integrating the excluded sectors but also sponsored the growth of an industrial sector that had low productivity but was extremely expensive in terms of absorbing foreign exchange.<sup>8</sup> Despite the expansion of the public education and health systems, Ecuador continued to be one of the most unequal countries in Latin America. So the "nationalist and revolutionary" military government in place from 1972 to 1976 fell short in terms of building a more inclusionary model of modernization.

### *The Democratic Transition*

With a new military government in place in 1976, Ecuador embarked on a period of democratic transition amid marked differences on how to manage the process. The elites and traditional political parties pressured for a business-oriented formula, whereas the military triumvirate proposed appointing repre-

representatives from the various political parties and from the main social and business organizations to draw up a new constitution and rewrite electoral procedures and political party laws. The government formula prevailed, but at the cost of alienating the country's corporate elites from the new democratic regime.<sup>9</sup>

The new constitution was ratified in 1979. It sought to strengthen the presidential system, it centralized public policy planning, and it endorsed a model of development focused on state intervention in strategic areas such as oil, telecommunications, and public services. Important new political rights were established, including affording the (mostly indigenous) illiterate the right to vote, as well as the right to new services such as education, health, and housing.

The 1979 constitution also called for important political reforms. It dissolved the senate and, in an effort to establish a more inclusive method of representation, a system of national deputies was introduced. The granting of constitutional review powers to the new legislature was a novel development. The Congress now also had greater powers to amend executive proposals, and its principal functions included control, oversight, legislation, and constitutional interpretation.<sup>10</sup> Under the new constitution, the party system was strengthened and modernized. It included a law requiring political parties to define an ideology, a program, and a national organizational structure and to have a minimum number of members representing at least 5 percent of the votes cast. This allowed the political parties to assume a leading role in politics, and the political system came to revolve around them.

### *The Decline of Developmentalism*

The slate of Jaime Roldós and Oswaldo Hurtado triumphed in the 1979 elections and ushered in a new democratic period. The new leaders continued to pursue the developmentalist agenda, but they emphasized rural and urban-marginal grassroots organizing, encouraged communal property, and expanded participation in public decisionmaking. The political opposition from the right and more conservative factions of the president's party in Congress, however, blocked the new government's agenda. This began a pattern of persistent clashes between the main branches of government.

Roldós died in 1981 in an airplane crash, the facts of which have not been clarified to this day. Hurtado then assumed the presidency, just as the oil boom ended and the foreign debt crisis began. Accordingly, the new president reoriented his agenda toward a stabilization program aimed at cutting public spending, controlling inflation, and improving the balance of payments. This government turnabout exacerbated the opposition by the business associations and the right-wing parties and even set in motion mobilizing efforts among the poor. The regime's legitimacy nose-dived.

The government sought to adopt policies to redistribute wealth, but the business associations prevailed in obtaining a series of measures favorable to their interests, such as the “sucretization” of the private external debt, whereby private debtors were allowed to pay in domestic currency—sucres at the time—their outstanding obligations originally acquired in dollars in international lending institutions.<sup>11</sup> This and the other measures adopted by the government did not alleviate the sharp conflict between the economic groups, the social groups, and the executive, and Hurtado’s term ended with a major social and economic crisis. It became clear that the developmentalist project, begun three decades earlier, had run its course.

### *Instability and Vulnerability of the New Model*

Like many of its Latin American neighbors, Ecuador struggled during the 1980s with a host of economic and social problems. During this time, a variety of political and economic experiments was attempted in Ecuador. Both left- and right-wing parties and presidents promised political reform and a return to economic growth, but few delivered. In sum, when taking stock of the 1980s, one finds poor results in terms of economic growth and a very high degree of vulnerability vis-à-vis the international economy. Growth of GDP remained close to 3 percent, lower than the population growth rate, so per capita income in 1994, measured in constant dollars, was less than it had been in 1981.<sup>12</sup> Domestic investment continued to be limited, and foreign investment was practically stagnant: in the period from 1983 to 1992, the rates of investment—evaluated in 1975 sucres—averaged 14.8 percent of GDP, significantly lower than the 21.5 percent average for the period from 1965 to 1982, whereas foreign investment was almost always less than 1 percent of GDP. Moreover, although the volume of exports increased, export revenues declined owing to deteriorating prices in the world market—especially for cacao, coffee, and oil. It is estimated that the terms of trade fell 36 percent from 1980 to 1993.<sup>13</sup>

Even though in the 1970s there were gains in economic development, real wages, and quality and expansion of state services, trends in these areas in the 1980s were regressive. The devaluation of the currency and persistent inflation had devastating impacts on personal income as poverty increased in the course of the decade, and people saw expectations for better days dashed.

### **Adjustment, Social Conflict, and Democratic Fragility in the 1990s**

The 1990s were marked by the continuation of structural reforms in a context of social conflict and fragile democratic institutions. Only one of the administrations elected completed its term. The rest were removed or driven out by

various circumstances. In addition, major cases of corruption were uncovered. This political instability represented an attack on the viability of the reformist agenda, for as the decade drew to a close there was a clear increase in social inequality, poverty, and exclusion in the Ecuadorian population.<sup>14</sup>

Sixto Durán Ballén triumphed in the 1992 elections over his Social Christian opponent Jaime Nebot. Durán created—just for the elections—the Party of Republican Unity (Partido de Unidad Republicana), made up of right-wing groups from the highlands and some Social Christian Party (Partido Social Cristiano, PSC) dissidents from the coast. His ideological orientation was represented by the vice president, Alberto Dahik, a prestigious neoliberal economist.

Once again, the vote had a clear regional component. Durán triumphed in the highlands and his adversary won on the coast; the right was divided along regional lines, despite the government's attempt to neutralize this difference by incorporating Dahik. The effect was counterproductive because the PSC saw in Dahik a potential competitor and not a bridge to the government. The country's political-regional divide was so profound that it cut across program and ideological affinities.

Durán quickly adopted a package of economic measures that included a 35 percent devaluation of the real exchange rate, the gradual reduction of bank reserve requirements, a hike in energy prices, a price increase for oil derivatives (especially gasoline), austerity in public spending, and the establishment of a special 2 percent tax on business assets.<sup>15</sup> This agenda was part of the letter of intent negotiated with the International Monetary Fund (IMF) to pave the way for the renegotiation of Ecuador's external debt, which came to nearly \$13 billion.<sup>16</sup> During the first six months of his term, Durán proposed Ecuador's withdrawal from the Organization of Petroleum Exporting Countries (OPEC), liberalized the sale of foreign exchange brought in by exporters, and submitted to the legislature the Law on Modernization, which was to give impetus to the process of privatizing state enterprises.<sup>17</sup> The government thus made explicit its objectives to place the country on the path of neoliberal modernization, but with those measures it limited its room for political maneuver and dealt a blow to its social legitimacy.

Despite its ideological affinity with the strong parties in Congress, the administration was never able to organize a solid majority. The parliamentary conflicts with the PSC began to undermine the entire political system.<sup>18</sup> The social response came more quickly. The Confederation of Indigenous Nationalities of Ecuador (Confederación de Nacionalidades Indígenas del Ecuador, CONAIE) and the trade unions called a national strike that led to an intense wave of mobilizations. CONAIE articulated the protest against the administration with a campaign commemorating 500 years of indigenous and popular resistance to oppression and colonization, arguing that "the struggle by indigenous communities will not stop because colonization has not ended."<sup>19</sup>

The power of the indigenous movement had shifted the political landscape. In the face of a weakened trade union movement, CONAIE appeared

to be strong and had its own political project. "Henceforth it was to bear the responsibility of advocating, stating its opinions, and positioning itself, and at times even taking on conflicts that had not been generated or set in motion by its own dynamics," Luis Macas, president of CONAIE, stated.<sup>20</sup> The main points of contention with the government were over guaranteeing and expanding social security (especially for the peasantry), rejecting the privatizations, and opposing the increased costs of basic resources, such as natural gas, gasoline, and electricity. In this process CONAIE found firmer and closer allies with public-sector unions, leftist parties, environmentalists, urban movements, and Christian associations, and it built a political axis that would challenge the application of the neoliberal model.

The sharpest confrontation with the government came in 1994 over a regressive agrarian law that would end the reform process begun in the mid-1970s. During a large-scale mobilization in the Ecuadorian highlands, nine provinces were completely paralyzed and 40,000 indigenous people demonstrated in Riobamba, the provincial capital. The protests forced the president to embark on a process of negotiations, with the Catholic Church acting as mediator. By then, the indigenous movement played a key role in the process, and no political actor could avoid addressing its agenda to some degree.

Despite the protests, the first results of the government's economic policies were positive. Up until 1994, inflation was reduced to 25.4 percent, the fiscal balance had a surplus of 1.2 percent of GDP, and Ecuador attained a strong external position, as the foreign exchange reserves were in excess of \$1.7 billion. Even economic growth appeared to recover.<sup>21</sup> Nevertheless, by the mid-1990s, Ecuador remained mired in a protracted economic slump, suggesting the country's economic problems had become systemic. The next ten years have largely reinforced this notion.

## **Democratic Illegitimacy, Presidential Overthrows, and Dollarization**

From 1997 to 2000, five administrations followed in quick succession, including one indigenous-military junta. Two presidents were overthrown and fled the country to avoid trials on corruption charges. In the wake of the political turmoil came Ecuador's deepest socioeconomic crisis in fifty years. Its denouement was a hasty change in the economic model based on dollarization of the economy, with uneven and highly criticized results.

### *The First Presidential Overthrow*

In 1996, Abdalá Bucaram, a populist leader from Guayaquil, was elected president. He won with a combination of specific political alliances, networks in

his party (the Ecuadorian Roldosist Party [Partido Roldosista Ecuatoriano, PRE]), his charisma, and his ability to polarize the electorate with a campaign based on pitting the “oligarchs of always” against “the poor masses.” Those elections were the first in which the New Country Pachakutik Movement of Plurinational Unity (Movimiento de Unidad Plurinacional Pachakutik Nuevo País, MUPP) participated, a political movement that came to provide electoral representation for the indigenous movement and all other social sectors associated with resistance to the neoliberal reforms.<sup>22</sup>

The coming to power of the Roldosistas (PRE) was received with great uncertainty by political and economic actors inside and outside the country. Was Bucaram going to transform his populist rhetoric into the central element of his government program? The mystery ended when the government’s proposed economic policy was unveiled. The plan included a wide-ranging set of economic reforms, at the core of which was the establishment of a monetary system featuring Argentine-style convertibility—tying the currency to the U.S. dollar.<sup>23</sup> It also included a series of measures that furthered Durán’s policies, centered on cutting fiscal subsidies and increasing prices, an aggressive program of privatizations, reform of the social security system, and changes in the oil sector. Although that plan eased the concerns of private business and the international financial agencies, Bucaram opened up two fronts of political contention: first, with the traditional economic power groups who stood to lose money in the privatization process; second, with consolidated indigenous and social organizations that opposed the reforms.

Under these pressures, the regime suffered important setbacks. Its authoritarian style made few political friends, especially when it tried to deal a blow to the finances of groups close to the PSC, and it was evident that there were problems of corruption in government offices accompanied by inefficiency in the ministries. All this isolated Bucaram in less than six months. By early 1997, practically all sectors opposed the government, which clearly lacked the political context to push the reforms forward. Some of Bucaram’s allies were abandoning the legislative majority, and calls for his removal from office proliferated. On February 3, 1997, former presidents of the republic, presidential candidates, and leaders of most of the country’s political and social forces held an unprecedented meeting during which they decided to seek an acceptable form of constitutional succession.<sup>24</sup>

Citizen mobilizations throughout the country, concomitant with a renewed offensive by the indigenous movement, made clear the country’s unanimous rejection of the president. On February 5, 6, and 7, an estimated three million people mobilized in a historic protest by indigenous peoples, students, trade unions, and thousands of citizens with no organizational point of reference. Some compared these developments with the impeachment of Fernando Collor de Mello in Brazil a few years earlier. Finally, just six months after his election, Bucaram was removed by Congress, and the former

president went into exile in Panama to avoid prosecution. Bowing to the real balance of power, the elected vice president ceded succession of the interim presidency to the speaker of the Congress, Fabián Alarcón.

The armed forces played a key role in these events. At the moments of greatest crisis, they made fundamental decisions: they would not repress the mobilizations, and they would withdraw their support for Bucaram while refusing to assume direct control of the state, which meant respecting the decision of the National Congress. Thus their role of safeguarding the country's institutions extended to defining how the conflict would be resolved.<sup>25</sup>

### *Interim Government and the National Constituent Assembly*

Fabián Alarcón embodied many of the characteristics of the "old political class." He did not represent any special interests and was seen as a neutral solution to the crisis. With little legislative support for his presidency, he made no effort to give any direction whatsoever to national politics. The relative calm during his regime came only because the main political forces were busy making arrangements for early elections in 1998. The economy's weak performance was largely associated with Alarcón's unwillingness to maintain an austere fiscal policy and to ensure orderly economic management. In 1997, inflation reached 30.7 percent, there was a downward trend in international reserves and an increase in the net domestic debt of the public sector, and the fiscal deficit reached 2.4 percent of GDP.<sup>26</sup>

The most significant event during Alarcón's interim government was the convening—as a result of the citizen demands that led to Bucaram's downfall—of a national constituent assembly to amend the constitution. Two main factions surfaced in the assembly. A center-right alliance, which revolved around the PSC, sought to resolve the problems of the existing constitution, especially the obstacles to privatizing the strategic sectors. This alliance sought to increase presidential powers through reforms that would limit the powers of the other branches of government, particularly the Congress. The indigenous movement, along with practically all the social organizations, opposed this approach and proposed instead the expansion of citizen rights. The 1998 constitution incorporated aspects of each of the opposing proposals, legitimizing the reformist agenda while at the same time addressing the indigenous and social concerns. Ecuador's new constitution thus institutionalized a "neoliberalism with a social face" that did not resolve the political conflicts, and furthermore embodied a series of paradoxes.<sup>27</sup> Once again, the political class missed the opportunity to lay the groundwork for a long-term pact or a national consensus.

The alliance that led the assembly—the PSC and the Popular Democracy party (Democracia Popular, DP)—continued moderate political programs and presented itself as the winning coalition that could break the stalemate

between the two political camps and implement a modern neoliberal program.<sup>28</sup> Those were the conditions in which Jamil Mahuad, of the DP, secured his victory in the 1998 elections.

### *Dollarization and the Second Presidential Overthrow*

In August 1998, Jamil Mahuad was sworn in as president. His first months in government were devoted to negotiating the border boundary with Peru, whereas solving the basic problems—especially the budget deficit—continued to be put off. The proposed solutions actually relied on accounting subterfuges, expanding credit by printing more money, and taking on greater indebtedness. The result was a deteriorating balance of payments, a volatile exchange rate, and high interest rates.<sup>29</sup>

In early 1999, Mahuad, who had gained popularity for resolving the Peru border dispute, began to show direction in his economic policy. With the backing of the IMF, the government focused on two fundamental economic problems: the systemic fragility of the financial sector and the government's weak budget position. But that focus implied liberal government aid to banks with financial problems.<sup>30</sup> There was little concern that the net domestic credit to the financial system—which required the Central Bank to print more money and the Ministry of Finance to issue more commercial paper—was expanded in unprecedented fashion. As of August 1999, the resources channeled to the banks totaled over \$1.4 billion. The bank rescues are estimated to have cost the country the equivalent of 24 percent of GDP.<sup>31</sup>

The government's bank rescue plan in effect made it possible for the newly created Deposit Guarantee Agency (Agencia de Garantía de Depósitos, AGD) to manage the banks that went into bankruptcy owing to their improper use of citizens' deposits. Thus the AGD became a public mechanism of "illegal" bank management. The scam was based on issuing credit with no financial backing whatsoever to companies that belonged to the same economic groups that owned the banks, maintaining delinquent portfolios, and using other illegal management procedures. The lax rules, along with the incapacity and complicity of the financial regulators, compounded the crisis and engulfed an ever-growing number of institutions.<sup>32</sup> In March 1999, the crisis reached a climax. Mahuad decreed a bank holiday and froze bank deposits, but only one-fifth was returned to the depositors.<sup>33</sup> The Central Bank continued its policy of issuing large sums of money to forestall a collapse of the financial system.<sup>34</sup> The state apparatus thus became the central player in the recovery of the bankrupt financial sectors, which required processing a new set of reforms aimed at revitalizing the sector.

The national government assumed that the general reduction in economic activity, the standstill in investment, and the partial or total shutdown of companies resulting in a sharp rise in unemployment could be handled as lesser evils. As it had throughout the adjustment process, the government gave pri-



ority to stabilizing the banking sector over stimulating economic growth. If the 1980s was the "lost" decade for most of Latin America, the economic malaise carried over to the 1990s in Ecuador, with the economy averaging an annual growth rate of zero percent for the decade as a whole. The country's enormous vulnerability and its weak productive capacity are illustrated by the fact that per capita economic output in 1999 fell to levels similar to those of twenty-three years earlier.<sup>35</sup>

Against this backdrop, the Ecuadorian government announced the suspension of payment of its \$50 million Brady bond debt, a grave decision at a time when the IMF continued postponement of the signing of its letter of intent with Ecuador and the government resorted to the ceaseless printing of money.<sup>36</sup> These decisions resulted in the total lack of confidence on the part of economic actors, accelerated the conditions for a devastating devaluation, and led to the complete loss of political support for the government. Months later, one of the few bankers to go on trial, Fernando Aspiazu, said that the \$3.1 million that he had donated to the president's election campaign had been improperly used by government officials, revealing the motives for the government to prop up the banks. Mahuad "was a hostage of the financiers of his campaign . . . and they were at the helm until the last day of his term."<sup>37</sup> These events revealed how the political institutions had been manipulated and corrupted to allow the elites to pillage the financial resources of a majority of the citizens. It became a system of highly organized "oligarchic-mafioso" agreements that forced the state and the population as a whole to assume the costs of the recurrent crises.<sup>38</sup>

The contradiction is clear. Although the budget for the social sector was cut and the government was focused on diminishing the fiscal deficit, the systematic support for the private sector had the perverse effect of increasing the government deficit, contrary to neoclassical economic postulates. Thus, in Ecuador, the imbalance of the private sector and its resource requirements explains the deficit and indebtedness of the public sector and, therefore, the need to continue adopting fiscal adjustment measures. This process is known as a "bail-out."<sup>39</sup>

The political parties have had limited participation in defining public policies. Their marginalization, seen in their exclusion when cabinets were formed, contributed to the subordinate role of the Congress in government affairs. Thus the political parties were left only with the option of playing the role of permanent opposition. In this perverse relationship where the president controls reforms, one finds the explanation, in part, for the scant legitimacy of the reformist agendas.

### *January 21, 2000: Indians, Armed Forces, and Democracy*

January 2000 began with an out-of-control economic situation and the total undoing of Mahuad's legitimacy. Dollarization emerged more as a political

lifesaver for Mahuad than as a technical resolution to the crisis. A few days before announcing dollarization, the president himself characterized the measure as “a leap into the void.”<sup>40</sup> But the indigenous movement and other social activists had already announced a new uprising. So, without any planning and against the advice of many Central Bank officers and experts, Mahuad adopted the measure.

The dollarization of the economy had the political effect of coalescing the business and financial sectors and uniting the center-right and right-wing parties around the presidential proposal.<sup>41</sup> What was not achieved during the Christian Democratic government through consensus-building did happen as an unintentional consequence of the sudden decision to dollarize the economy: finding a mechanism to keep Mahuad in power.

Although dollarization succeeded in improving Mahuad’s image, the indigenous protest led to the convoking of the so-called People’s Parliaments in each province of the country. Simultaneously, the indigenous leadership held meetings with the high military command in which they proposed the dissolution of the government. The indigenous forces marched to Quito and by the evening of Thursday, January 20, 2000, some 9,000 people had surrounded the Congress and the Supreme Court. The following morning, army troops entered the National Congress. The overthrow of the president was completed that night when the powerful elites withdrew their support for Mahuad and the armed forces supervised his departure. A triumvirate composed of Colonel Lucio Gutiérrez, CONAIE president Antonio Vargas, and Guayaquil judge Carlos Solórzano overthrew Mahuad and assumed power for several hours. After a series of events that to this day are not entirely clear, the military high command turned power over to Vice President Gustavo Noboa.

What most surprised the citizens of Ecuador about the coup of January 2000 was the sudden participation of the armed forces. The rapprochement between the army (but not the other branches of the armed forces) and the social movements, especially the indigenous sector and leftist parties, had been evolving, however, since the mid-1990s. Antireformist sentiment and the strong presence of the military in rural development brought them closer to the indigenous movement, laying the groundwork for what later would be a coordination between indigenous movements and mid-level army officers.<sup>42</sup> Both groups shared a rejection of neoliberal policies, a sense of defending and rescuing all that is considered traditionally Ecuadorian, a certain level of support for the statist developmentalism of the 1970s, and repudiation of the deteriorating living conditions of the middle and lower classes. Added to this was an ethical component that condemned the political system for its corrupt practices. These allies encouraged other sectors of the population to approve the insurrectionists.

The fall of Mahuad involved a different kind of political coup than those of the 1960s and 1970s. The latter were the initiative of military leaders who

often worked with civilian political forces behind the scenes, but as a scholar in Ecuador noted, the more recent coups “appeared as a response to the popular cry expressed in crowded mobilizations and in the context of the total isolation of the president in question. . . . Bucaram was deposed amidst a mass protest. The pressure of the organized indigenous movement was crucial in the case of Mahuad.”<sup>43</sup>

The events of January 2000 sent alarming messages to supporters of democracy in Ecuador and abroad. The social movements, a powerful democratizing force throughout the 1990s, had become involved in a coup adventure with the armed forces. Their strategy of building popular support appeared to vanish in favor of an alliance with military actors who, although enjoying a high level of legitimacy, did not represent a democratic political force.<sup>44</sup> The coup leaders upheld democracy in Ecuador not because it had been institutionalized or because broad sectors of the population had defended it, but because dictatorships are frowned upon in the contemporary international system.<sup>45</sup> Thus in the final moments of the coup, a split within the armed forces ended when the high command overruled the colonels who headed up the revolt. The precarious future of Ecuadorian democracy lay in the hands of the military as the ultimate arbiters of any conflict between the branches of government or any institutional vacuum that might arise.<sup>46</sup> Indeed, Gustavo Noboa’s swearing-in ceremony took place before military authorities and not before the National Congress, in a telling image of the uncertain institutional context of Ecuadorian democracy at the start of the twenty-first century.

### *A Brief Assessment of Dollarization*

With no party in Congress, renewed popular protests, and only sporadic support from the PSC and the DP, the Noboa administration sought to stabilize the economy in the short term through dollarization and the promotion of foreign investment in the oil sector. On all other issues, Noboa failed to develop any program to speak of, and his weak political position undercut proposals for privatization and left him cornered as he waited for the next president to be elected and take office.

Although at the end of Noboa’s term networks of corruption were found once again in the Ministry of Finance and the customs sector, the economic scenario began to improve as the first effects of dollarization were felt. The rise in oil prices beginning in mid-1999 was a contributing factor. Another important factor was the steady flow of remittances sent home by Ecuadorian workers who had emigrated to industrialized countries, mainly Spain, the United States, and Italy. Remittances are the second leading source of foreign exchange for Ecuador after oil exports—it is estimated that the amount sent home by Ecuadorian migrants approaches \$1.5 billion a year.<sup>47</sup> Another boon was the 2001 start of construction of a new pipeline to carry heavy crude oil;

the financing of this pipeline became the single largest foreign investment in Ecuador since the 1970s.<sup>48</sup> The exchange rate at which dollarization was adopted, moreover, made possible very favorable relative prices for exports in 2000, when the real exchange rate reached undervalued levels unprecedented in recent decades.

Dollarization, however, has its down side. The imbalance in relative prices when dollarization was instituted, the capacity of the oligopolies and other economic actors to raise prices, and reduced government subsidies resulted in high inflation despite the government's decision to stop printing money. Inflation reached 91 percent in 2000, then dropped to 22.4 percent in 2001, and remained above 10 percent in 2002. The persistence and magnitude of inflation have not only eliminated the temporary advantages in the real exchange rate enjoyed by the export sector in the months following dollarization but have turned the situation around, with a serious impact on Ecuador's international competitiveness. The real exchange rate index dropped from 207 in January 2000 to 90.5 in October 2002, the lowest level in ten years.<sup>49</sup>

The progressive loss of competitiveness for local production thus appears to be the Achilles' heel of dollarization. The balance of trade deteriorated, swinging from a surplus of \$1.5 billion in 2000 to a deficit of \$447 million in 2001.<sup>50</sup> Ultimately, exports have not been stimulated by dollarization, and the main non-oil exports are beset by serious problems. Furthermore, the oil sector, once the anchor of the recovery, began experiencing difficulties stemming from limited reserves, their low quality, the changing demand of the international system, and the limited share of the surplus earmarked for the state.

With dollarization, the Ecuadorian economy's considerable dependency on oil revenues poses risks of illiquidity, deflation, and recession. With limits on issuing money nationally, exports have become the main source of supplying currency, even for local transactions. So dollarization prevents responding to the diminished competitiveness of local producers with instruments such as devaluation, a mechanism that is available to the neighboring economies. Moreover, dollarization did not equalize local interest rates with international rates, nor did it guarantee access to the international financial markets. The productive base of the national market, as it was throughout the past decade, will continue to be dismantled as Ecuador's main trading partners gain advantages.<sup>51</sup>

The trends in the population's living conditions are also mixed. From May 2000 to December 2001, poverty declined to approximately 46 percent (from 65 percent in 1999), and open unemployment fell to 8 percent (from 17 percent in 1999). Per capita income declined by 9 percent in 1999 (compared to a decline of 1 percent in 1998); in 2000 there was a slight recovery of under 1 percent, and it was not until 2001 that the recovery accelerated, with a 3.7 percent increase for that year and an estimated increase of 1.6 percent in 2002, when wages regained almost all of their initial value. In 2002, however, a

deceleration in the recovery process became evident, giving way to a new scenario with characteristics different from those of the precrisis era. Open unemployment rose to 10 percent, and the levels of poverty and indigence began to level out, while the recovery in real wages continued until reaching 1998 levels. In 2003, Ecuador experienced 3.5 percent average growth of GDP, yet unemployment reached its highest level of 12.1 percent in April 2004.<sup>52</sup> It is important to note that this overall outlook is not uniform; rather, it differs from one region and city to the next.<sup>53</sup>

In sum, Ecuador's future is still uncertain. The country's recovery is tied to massive emigration abroad, which has alleviated the oversupply of labor, helped wages recover, and brought an inflow of foreign exchange. With rather modest levels of economic growth, the capacity to improve the living conditions of the population will depend on what the state does in the way of redistributive social policies. The current scenario seems unfavorable, especially as the new administration for 2003–2007 appears to be relying on market mechanisms to distribute the fruits of growth, a method that at least in Ecuador has proven to be insufficient in redistributing wealth and attaining equality.

### **Lucio Gutiérrez's Rise to Power and the Indigenous Movement**

The surprising victory of Colonel Lucio Gutiérrez in the first round of the 2002 elections, in an alliance with Pachakutik and with just 20.64 percent of the eligible votes cast, reflected more than anything the country's profound political segmentation. The forty-five-year-old former military officer had launched his campaign with only 7 percent support in the polls.<sup>54</sup> This victory was notable for a novice politician, who rose up from the lower middle class and ran a campaign with little money and without the support of the major political parties. With his national and international recognition stemming only from having participated in the indigenous-military uprising of 2000 (after which he was sent to military prison for six months), Gutiérrez was elected president over banana magnate Alvaro Noboa—whose platform centered on turning Ecuador into a free trade zone—in large part owing to the split in the center-left and the fragmentation of the votes, especially in the coastal region.<sup>55</sup>

After spending time in a military prison, Gutiérrez founded his own political movement, the Patriotic Society Party of January 21 (Partido Sociedad Patriótica 21 de enero, PSP).<sup>56</sup> From the outset, he ran his campaign with the collaboration of family members and old Army comrades. This patrimonial management style, coupled with his lack of ideological definition and of ties to the leftist forces, made his relationship with other progressive organizations and the indigenous movement courteous but distant.

Gutiérrez presented only a vaguely defined platform during his electoral campaign. He rejected the traditional party system with its neoliberal policies, and he advocated an end to dollarization.<sup>57</sup> He supported the anticorruption effort, poverty reduction, increased public investment in health and education, and the depoliticization of the justice system. He promoted what he termed the five “securities”—social security, citizen security, juridical security, environmental security, and food security—and supported increasing competitiveness to create more employment.<sup>58</sup> The key points of his international platform were defending national sovereignty, seeking Ecuador’s withdrawal from involvement in the Colombian conflict, and insulating Ecuador from what he saw as the dangers of a Free Trade Area of the Americas (FTAA).

The alliance between the PSP and the indigenous movement came about only after tense negotiations and as a result of the failure of the center-left to establish a broad political front and its decision instead to field its own candidate. The alliance was a culmination of the movement’s intense political activity throughout the 1990s and ultimately triumphed, not only by getting Gutiérrez elected president for the 2003–2007 term but also by doubling the number of Pachakutik deputies in the National Congress.<sup>59</sup> Nonetheless, the coalition’s victory was unexpected, and the challenges of governing made evident the coalition’s still undefined agenda. Thus the transition from an electoral campaign alliance to a governing alliance posed great uncertainties.

President Gutiérrez moved quickly to assuage any doubts or fears that arose in various political and international circles during his campaign. He traveled to the United States, met with officials from the IMF and other lending and security institutions, and presented himself as the “best possible ally” of the U.S. government. He appointed Mauricio Pozo, an orthodox neoliberal economist very much identified with the banking and industrial groups of the highlands, to be minister of economy and finance, and he organized a cabinet with only a limited number of ministers from Pachakutik.

The formation of Gutiérrez’s cabinet left the indigenous movement with a clearly secondary role, immediately upsetting the stability of his alliance. He chose persons close to his military circle and from the banking sector for some of the most important ministries, such as economy, interior (government), and social welfare, and he appointed Nina Pacari, a long-time leader of the indigenous movement and a member of Pachakutik, as foreign minister. From the outset, the institutional structure of the coalition government appeared ill defined.

Contradictions in foreign policy also damaged the cohesiveness of Gutiérrez’s governing alliance. His policies have ranged from close alignment with the United States—the “best ally” rhetoric—in its antidrug policy and Ecuador’s involvement in Plan Colombia (explained later in this chapter), to opposition to the war in Iraq by sending the foreign minister to the summit of the Non-Aligned Movement (NAM) member countries held in Malaysia in

February 2003, where Ecuador spoke out for a peaceful, negotiated, and multilateral solution to the Iraqi problem. Those splits and programmatic differences with the United States have not been resolved. Gutiérrez's November 2003 agreement allowing the United States to construct three \$250,000 "logistical sites" to aid victims of natural disasters angered indigenous groups and leftist sectors who want U.S. troops removed from Ecuador altogether.

Gutiérrez's about-face on economic policy drove the nail into his coalition's coffin. He dropped opposition to dollarization and implemented an IMF-supported austerity package much like those he had campaigned against. Much of the president's newfound fiscal austerity is due to the reality that Ecuador's financial situation gives him little wiggle room.<sup>60</sup> In Gutiérrez's own words: "When I came to power I found deep economic crisis, arrears of more than \$700m. And I had to pay them straight away, because most were salaries . . . and I couldn't wait for more time. So I had to change strategy, temporarily."<sup>61</sup> As of early 2004, he faced a budget deficit of 6 percent of GDP, and repayment of an external debt of \$11.37 billion consumed 42 percent of the annual budget.<sup>62</sup> For the social bases of the movement, for large sectors of the population, and for the centrist parties, this agenda meant it was no longer possible to put together a "post-Washington Consensus agenda"—consisting of significant reform of public institutions in order to promote social welfare—to address the excluded sectors' enormous "social debt."

Gutiérrez's reforms have restored Ecuador's credibility after its 1999 default. In 2003, the Gutiérrez administration reached a stand-by agreement with the IMF of \$205 million; only \$84 million was received, however, owing to failure to meet the requirement of privatizing the electricity and telecommunications sectors. The government continued to seek a further agreement in 2004 as it made efforts to reform the energy sector, improve financial controls, and pass reforms to increase transparency.<sup>63</sup> The Inter-American Development Bank (IDB) granted in May 2004 \$682 million in loans to be used for projects over the course of the following two years that strengthen competitiveness and productivity and that promote social development.<sup>64</sup>

Attempts at reining in spending sparked massive protests, particularly among public-sector union workers. Gutiérrez's popularity sank in 2003, and in September of that year CONAIE, feeling betrayed, withdrew its support. The move resulted in the resignation of two cabinet members and desertion of several congressional members in the governing coalition. The defections pitted Gutiérrez against a strong center-left opposition, and with his own party holding only six seats, he was forced to forge an alliance with the Social Christian Party, associated with the very economic elite he had campaigned against.

Gutiérrez lost much of his support as his administration became wracked with corruption scandals after his virulent anticorruption platform. In late November 2003, a newspaper reported that former governor César Fernández,

charged with cocaine trafficking in October, had contributed \$30,000 to Gutiérrez's campaign. Soon after the president denied ever having met Fernández, a picture of the two together was published. The constitution requires the removal of any public official elected with drug money, and an investigation began. The scandal caused Gutiérrez's approval rating to drop to 15 percent, and five of his cabinet members resigned on November 24, 2003.<sup>65</sup> In late May 2004, he was forced to fire Welfare Minister Patricio Acosta, one of his closest confidants, when Acosta was placed on a U.S. list of foreign officials suspected of corruption.<sup>66</sup> Around the same time, Congress decided to consider the impeachment of Finance Minister Pozo for allegations brought by Pachakutik of raiding the social security fund to finance the fiscal deficit.<sup>67</sup>

Gutiérrez has attempted, unsuccessfully, to pacify his defectors. During his State of the Nation address, marking the end of his first year in office on January 17, 2004, Gutiérrez stated that he swore before God to correct his mistakes.<sup>68</sup> A few months later, by means of executive decree, he made "the eradication of poverty and the implementation of a process of consensus a primary objective and state policy" and set his secretary-general and the economy and government ministers to this as yet undefined task.<sup>69</sup> Nevertheless, CONAIE persists in demanding Gutiérrez's resignation, staging demonstrations and strikes, and blocking highways.

The National Amazonic Confederation of Ecuador (Confederación Nacional Amazónica de Ecuador, COFENAE), the second largest indigenous organization, withdrew its support from Gutiérrez because of his failure to deliver \$24 million for agreed-upon projects, the amount of money diverted to paying the foreign debt, and the militarization of the Sarayku indigenous community's territory for the protection of oil fields.<sup>70</sup> COFENAE has stated that although it has withdrawn support for the president, it will not endorse an indigenous uprising.<sup>71</sup> Gutiérrez insists that "Ecuador will not see a repeat of the unrest in Bolivia," yet indigenous groups have removed two democratically elected presidents since 1996 primarily due to their economic policies. There are few indications that they would not, in one way or another, do so again if Gutiérrez continues along his reformist path without significant social sector gains.

### **Security: New Scenarios and Tensions in the Government**

In the context of a country facing significant institutional and social challenges, the fight against drug trafficking, the increased national security problems associated with the handling of Ecuador's northern border, and the high levels of urban violence have become the main headaches for Ecuador's local authorities, government, and society in recent years. In addition, Ecuador's



steadily increasing involvement in Plan Colombia and a fluctuating bilateral relationship with the United States create an uncertain situation for the country in the medium term.

The U.S. approach to drug trafficking has over the years been inspired by a regional perspective that seeks to bring about cooperation from Andean countries relative to the U.S. security agenda. Initially, the fight against drug trafficking fell exclusively under the jurisdiction of the police forces and the judicial systems, as established in the 1989 Andean Initiative launched by President George H.W. Bush. This initiative was a five-year plan with a budget of \$2.2 billion to dismantle drug trafficking organizations, isolate the main regions where coca was cultivated, destroy the laboratories used for processing drugs, and block the deliveries of chemical inputs for drug production, mostly through assistance and economic aid to Bolivia, Peru, and Colombia.<sup>72</sup> The plan also included legal reforms and heavier criminal sanctions for the crime of drug trafficking in the Andean countries. In the present day, however, the fight against drugs has become increasingly complex, as the need to establish bilateral implementation mechanisms with the United States has resulted in the fragmentation of antidrug policy implementation in each country.<sup>73</sup>

For Ecuador and the other Andean countries, participating in Plan Colombia has brought forth a series of foreign policy challenges posed by U.S. national security interests in the region. Plan Colombia consists largely of U.S. economic assistance aimed at antinarcotics efforts in Colombia and the Andean region. Nearly 75 percent of the plan's funds are earmarked for military and police operations, not only in Colombia but also in neighboring nations, including Ecuador. Under this plan, \$180 million in aid goes to countries neighboring Colombia, and an additional approximately \$277 million—managed directly by the U.S. Department of State—is aimed at improving the regional air control system set up by the U.S. Southern Command and composed of so-called forward operating locations (FOLs)—namely, the Manta air base in Ecuador and those in the Caribbean islands of Aruba and Curacao—and intelligence programs.<sup>74</sup> The central challenges faced by the Andean countries stem from the fact that the policies pushed forward by U.S. security interests often involve a *reactive* and immediate response, with results that may not be desirable for the Andean countries from the standpoint of democracy, society, or democratic institutions.

For Ecuador, fighting drug trafficking has various dimensions:

- The presence of clandestine networks involved in the trade in precursor chemicals, weapons, munitions, and explosives for the various armed actors in Colombia
- Changes in the administration of justice in relation to drug trafficking, which has provoked tensions and distortions in the legislative arena
- The strengthening of certain police agencies, such as the Intervention and Rescue Group (Grupo de Intervención y Rescate, GIR), the Spe-

cial Operations Group (Grupo de Operaciones Especiales, GOE), and the Special Mobile Antinarcotics Group (Grupo Especial Móvil Antinarcóticos, GEMA), and their interdiction capacities in different areas of society, with a marked trend toward the militarization of these police agencies

- Money-laundering, which has not been possible to quantify with any certainty, especially because Ecuador has a dollarized economy and a financial system that is deregulated and marked by corruption
- The increased involvement of the Ecuadorian armed forces in the fight against drug trafficking, extending to matters beyond strictly fighting drugs, such as confronting violence coming from Colombia and the actions carried out by guerrilla, criminal, and paramilitary groups in Ecuadorian territory
- The challenges of fully enforcing and implementing the human rights system in the border regions affected by Plan Colombia
- Ecuador's participation in Plan Colombia and the political actions unleashed by the agreement on the use of the Manta air base as an FOL by U.S. military and intelligence personnel
- The lack of accountability and transparency of the Ecuadorian institutions dealing with drug trafficking and security
- The fruitless efforts to halt corruption in both the government and private sectors that in one way or another are related to drug trafficking, especially in the judiciary

For these and other reasons, the armed forces and several government agencies are increasingly involved in the fight against drugs under the rubric of national security. As the Colombian government has stepped up its offensive against insurgents, the violence has increasingly spilled across the border, creating "hot spots" in northern Ecuador. Coca eradication is outpacing replanting in Colombia, prompting increased cultivation in Ecuador. Though it is difficult to gauge the degree of the so-called balloon effect (forcing coca out of one area only to have it appear in another), a 2003 presidential decree admitted that Ecuador had become a center for drug trafficking and money laundering.<sup>75</sup> As a result, Ecuador is channeling more of its financial and military resources toward that end. This has led to a major national debate about the pertinence of committing such substantial domestic resources to the antidrug effort, as well as to strong criticism by various political and social sectors about the consequences of Ecuador's involvement in Plan Colombia and the delays in the delivery of promised U.S. funds for the program.

Many critics see the use of the Manta air base as involving Ecuador in the U.S. antidrug effort too directly. In addition to monitoring crops and information regarding the operations of drug trafficking networks, it is a center of operations that borders the theater where the "anti-narcoguerrilla" war is being waged. Resources allocated by the State Department's Bureau for Inter-

national Narcotics and Law Enforcement Affairs to Ecuador came to \$12 million in 2000, \$22 million in 2001, \$25 million in 2002, and \$37 million in 2003.<sup>76</sup> These figures are a general indicator of Ecuador's more cooperative involvement in the drug war. The information, air intelligence, and logistical support that the Manta base provides makes Ecuador responsible for actions deployed from there. Ecuador's involvement has resulted in a series of political mobilizations aimed at canceling the agreement allowing use of the Manta base, and there is mounting concern over the issue. Some political parties, social movements, and organized sectors of society call into question Ecuador's role in Plan Colombia because of potential negative effects for the population in the northern border areas, including mounting crime and threats to personal rights and public safety.

These critics also question the performance of state institutions in the fight against drugs—the armed forces, the Ministry of Foreign Affairs, the National Police, and the executive branch generally. Given the complexity of drug trafficking, there is little ability to coordinate policies, plans, and actions among the various institutions. As a result, there is a trend toward militarizing all antidrug efforts, rather than resorting to public policy in the areas of health, prevention, border development, migration, and human security.

This also raises questions about the initiatives of the Ministry of Foreign Affairs in Ecuador's bilateral policy with the United States. First, Ecuador's foreign policy is weak and vulnerable and has seen many moments of instability in the face of the pressures brought to bear by the antidrug agenda. In the academic community there is a perception that drug trafficking cannot be addressed through foreign policy or through the Ecuadorian authorities because it is a global problem, one that requires global policies rather than simply proposing an approach consistent with the practices of the U.S. State Department's antidrug strategy focused on interdiction, control, and limited development aid. Many critics argue that such a strategy to combat drug trafficking cannot be effective because it assumes the Ecuadorian state has capacities it in fact lacks, in addition to affecting personal liberties and the everyday life of its citizens. In sum, critics contend that the militarization of current antidrug policy exacerbates the situation both politically and socially. In an attempt to rebuff allegations of involvement in Colombia's drug war and amid much criticism, in January 2004 the government announced that it would launch Plan Ecuador in order to counter the repercussions of Plan Colombia.<sup>77</sup>

## Conclusions

In recent decades, Ecuador has undergone a prolonged but steady process of de-institutionalization of the government's redistributive and regulatory functions. In addition, it has had to bear the cumulative effects of many economic

and political mistakes that have brought about a decline in living conditions, social integration, and well-being of the majority of its citizens. Given that background, in the early years of the twenty-first century the Ecuadorian economy appears incapable of resolving the broad range of economic problems it faces, from unemployment to foreign debt, that need to be addressed in order to attain adequate levels of human development in more competitive and volatile international markets. Indeed, the application of the neoliberal model and the process of dollarization in the special case of Ecuador, as analyzed above, cannot alone ensure stability and growth.

The political system, in turn, has not been stabilized by a democratically-sanctioned institutional framework. It has been altered regularly by political actors—interest groups, corporate entities, and others—with political pressure, financial strength, and negotiating skills. The political system has mostly been effective in sustaining and benefiting the interests of specific economic groups—protecting the banking elites to the detriment of the medium and small depositors during the country's financial bankruptcy in 1999 is just one example.

The deterioration of political rights occurring at this time is thus an intrinsic aspect of the decisionmaking processes within the political system. The lack of government autonomy from certain dominant classes and groups suggests that the scant yield of the country's economic policy cannot be explained solely in relation to macroeconomic instability; rather, now that sufficient time has elapsed since implementation of the first cycle of structural reforms, to understand it one must also look to the political obstacles that were apparently exacerbated in the course of the reforms.

The regional, economic, and ethnic divisions among the politically active classes and the intense social conflict among the power groups have further weakened the state when it comes to coordinating national policies with a basic consensus. Hence the discontinuity in the reformist agenda, which has contributed to weakness in the framework of democracy, as expressed in uncertain rules of the political game. What is clear is that Ecuador continues to lack the political and economic institutions needed to put an end to the seemingly endless rounds of political instability, economic setbacks, and public apathy.

### **Chronology of Important Recent Events in Ecuador**

*1990.* During the administration of Rodrigo Borja Cevallos, an indigenous mobilization and takeover of the city of Quito takes place. The Labor Code is amended to curtail the activities of the trade union federations.

*1992.* Structural reforms of the state begin to be implemented. In the span of several years, the legal framework to reduce the size of the state appara-

tus is adopted and several reforms take shape through the Law on Modernization of the State, the Law on Institutions of the National Financial System, and the Law on Reorganizing Public Finances.

1995. Military conflict between Ecuador and Peru breaks out.
1997. The administration of Abdalá Bucaram is deposed; the president goes into exile in Panama, accused of numerous crimes of corruption. An interim government takes over under the leadership of Fabián Alarcón Rivera.
1998. Ecuador and Peru sign bilateral peace accords during Jamil Mahuad's administration. Ecuador suffers a national financial crisis, and the government issues an executive decree on the "mobilization of capital" (freezing it). The AGD is established.
1999. The government declares a bank holiday, and the country suffers a financial collapse. Banks are closed, resulting in an "organized robbery" of the depositors by the financial institutions. The first efforts to privatize the telephone companies fail. One of the periods of greatest corruption begins. Mahuad issues an executive decree adopting the dollar as the national currency.
2000. An indigenous-military movement results in the overthrow of the Mahuad administration. Vice President Gustavo Noboa becomes president. Alejandro Peñafiel, president of the Banco de Préstamos S.A., is detained. He and Fernando Aspiazú, former president of the Banco del Progreso—since shut down—are the only private bankers deprived of their liberty because of the bank frauds.
2002. The coalition of military officers and indigenous forces that forced Mahuad to step down elects Colonel Lucio Gutiérrez as president of Ecuador. There are numerous mobilizations by social and indigenous groups against the FTAA.
2003. In January-February, the government signs an agreement with the International Monetary Fund. Lucio Gutiérrez, the new president, declares Ecuador's alignment with U.S. policy. In September, CONAIE withdraws its support from Gutiérrez's governing coalition, and Gutiérrez forges an alliance with the Social Christian Party. In November, Gutiérrez's administration is wracked with corruption scandals.
2004. In January, the government announces it will launch Plan Ecuador to counter the repercussions of Plan Colombia. Indigenous groups continue to stage road blockades, strikes, and protests, demanding Gutiérrez's resignation.

## Notes

1. For more on velasquismo, see Agustín Cueva, *Las democracias restringidas de*

*América Latina: Elementos para una reflexión crítica* (Quito: Planeta, 1989); Felipe Burbano de Lara, "A modo de introducción: El impertinente populismo," in *El fantasma del populismo: Aproximación a un tema (siempre) actual*, edited by Felipe Burbano de Lara (Quito: ILDIS/FLACSO/Nueva Sociedad, 1998), 9–25; Carlos de la Torre, "Populismo, cultura política y vida cotidiana en Ecuador," in *El fantasma del populismo: Aproximación a un tema (siempre) actual*, edited by Felipe Burbano de Lara (Quito: ILDIS/FLACSO/Nueva Sociedad, 1998), 135.

2. Cueva, *Las democracias restringidas*, 112.

3. De la Torre, "Populismo," 134–135.

4. Alfredo Mancero, "Transición a la democracia ecuatoriana," in *La ruta de la gobernabilidad*, by Corporación de Estudios para el Desarrollo (CORDES) (Quito: CORDES, 1999), 327.

5. During that decade, GDP increased at an average annual rate of 9 percent.

6. César Montúfar, *La reconstrucción neoliberal: Febres Cordero o la estatización del neoliberalismo en el Ecuador, 1984–1988* (Quito: Abya Yala, Universidad Andina Simón Bolívar, 2000).

7. *Ibid.*

8. Catherine Conaghan, *Restructuring Domination: Industrialists and the State in Ecuador* (Pittsburgh: University of Pittsburgh Press, 1988), 112–119.

9. Agustín Cueva, *El proceso de dominación política en el Ecuador* (Quito: Planeta Letraviva, 1988).

10. Montúfar, *La reconstrucción neoliberal*.

11. The Central Bank assumed responsibility for the total credit amount and for the exchange rate risk as stipulated in the measure. See Alberto Acosta, "El entorno mágico de las expectativas," *Ecuador Debate*, no. 24 (Centro Andino de Acción Popular, Quito) (December 1991).

12. Carlos Larrea, "Ajuste estructural, distribución del ingreso y empleo en el Ecuador," *Economía y Humanismo* 2, no. 2 (Instituto de Investigaciones Económicas, Pontificia Universidad Católica del Ecuador, Quito) (1997): 35–86.

13. *Ibid.*

14. In 1990, household per capita income of the richest decile was 19.7 times greater than that of the poorest decile; in 2000 it was 41.2 times greater. Poverty and economic exclusion increased in tandem with wealth concentration in the late 1990s. See Ecuador's Integrated System of Social Indicators (Sistema Integrado de Indicadores Sociales del Ecuador, SIISE 3.0) figures, for 1999, 2000, and 2001, Quito, [www.siiise.gov.ec](http://www.siiise.gov.ec).

15. Augusto Barrera, *Acción colectiva y crisis política: El movimiento indígena ecuatoriano en los noventa* (Quito: CLACSO/CIUDAD/ABYA YALA, 2001).

16. All dollar amounts are in U.S. dollars unless otherwise noted. Raymond Colitt, "Survey of Latin American Finance," *Financial Times*, April 11, 1994, 3.

17. Gary Kleiman, "Ecuador's Tentative Recovery," *Journal of Commerce*, February 5, 1993, 6A.

18. Barrera, *Acción colectiva*.

19. Luis Macas, president of CONAIE, October 12, 1992, as quoted in *ibid.*, 34.

20. *Ibid.*

21. María Claridad Araujo, "Crisis y políticas de ajuste," in *La ruta de la gobernabilidad*, by Corporación de Estudios para el Desarrollo (CORDES) (Quito: CORDES, 1999), 388–389.

22. The MUPP supported, in a conflictive alliance with the Democratic Left and the Socialist Party, the presidential candidacy of a white-mestizo journalist; the alliance obtained nearly 18 percent of the votes and came in third place. The MUPP

also succeeded in obtaining eight legislative seats on its own as well as a good number of local electoral posts.

23. Such a monetary policy would be one that “indissolubly ties, through legal means, the monetary supply with the availability of the currency in the international monetary reserves, establishing the corresponding parity (usually one-to-one) between the new currency and the U.S. currency; a bimonetary system would, in conclusion, be established in the country.” Marco Romero, “Coyuntura nacional: Se profundiza la recesión y la incertidumbre,” *Ecuador Debate*, no. 47 (Quito) (August 1999), 12.

24. Barrera, *Acción colectiva*, 226–230.

25. Fredy Rivera, “Fantasmas castrenses y democracia minimalista en Ecuador contemporáneo,” in *Las Fuerzas Armadas en la región andina*, by Comisión Andina de Juristas (Lima: Embassy of Finland, 2001).

26. Araujo, “Crisis y políticas de ajuste.”

27. For example, although the constitution increased the means for social participation, it limited the means for political participation, and even though it expanded economic and social rights, it reduced the state’s resources needed to guarantee them. See Alejandro Moreano, Julio César Trujillo, Zonia Palan, Augusto Barrera, Fernando Buendía, Gina Chávez, and Manuel Martínez, *La nueva constitución: Escenarios, actores, derechos* (Quito: CIUDAD, 1998).

28. The PSC-DP rapprochement was evident in the following areas: (1) the DP’s move from the center left to the right; (2) moderation of the political discourse and the oligarchic image of the PSC; and (3) a fortunate complementarity in regional, social, and thematic aspects between the two parties in areas such as privatization, openness, reduction of the state’s role, governability, technocratic rationale, and economic liberalization. These elements strengthened the continuity of the neoliberal agenda. See Barrera, *Acción colectiva*.

29. Abelardo Pachano, “Experiencia y ejecución de la dolarización en el Ecuador,” in *Los desafíos de la dolarización para el Ecuador*, by Corporación de Estudios para el Desarrollo (CORDES) (Quito: CORDES/CAF, 2002), 167–201.

30. It is worth noting that other governments since the early 1990s had followed similar policies: in 1996, for example, the government spent billions of sucres to try to save the Banco Continental, whose owners fled in exile to Miami. See Romero, “Coyuntura nacional.”

31. See *ibid.*

32. Franklin Ramírez Gallegos, “Equateur: La crise de l’Etat et du model neoliberal de développement,” *Problèmes d’Amérique Latine* (Paris) 36 (January–March 2000): 77–88.

33. Manuel Salgado, *¿Guerra sucia en Ecuador? Los documentos secretos de Manta* (Quito: Ediciones La Tierra, 2000).

34. Meanwhile, in the National Congress, the PSC—Mahuad’s legislative partner—succeeded in eliminating the AGD’s right to intervene in the assets and companies linked to bankers and blocked the granting of immunity to the control authorities to try those bankers who broke the law. See *Revista Vistazo* 779 (February 2000).

35. SIISE, 1999, [www.siise.gov.ec](http://www.siise.gov.ec).

36. Brady bonds are a financial instrument created in the late 1980s during an attempt to resolve the Latin American debt crisis. According to the *Revista Gestión*, no. 67 (January 2000), the annual growth rate of money printing in 2000 was 152 percent, higher than that of November 1999 (143 percent) despite the fact that the authorities had promised the IMF to keep it lower than 110 percent.

37. Patricia Estupiñán, “El juicio de la historia,” *Revista Vistazo* 779 (February 2000), [www.vistazo.com](http://www.vistazo.com).

38. Ramírez Gallegos, "Equateur," 79.

39. René Ramírez, "Desarrollo, desigualdad y exclusión: Los problemas nutricionales en el Ecuador, 1999–2000," in *Versiones y aversiones del desarrollo*, edited by Franklin Ramírez Gallegos (Quito: CIUDAD, 2002).

40. Larry Rohter, "Dollar May Buy a Reprieve in Ecuador," *New York Times*, January 16, 2000, 6.

41. Just two days after announcing the dollarization measure, Mahuad's image improved; in addition, the PSC, the PRE, and the DP government coalition announced its legislative support for the proposal, making it politically viable. See *Revista Gestión*, no. 67 (January 2000) and *Revista Vistazo* 779 (February 2000).

42. In the period from 1992 to 1996, joint agreements were reached in certain executive committees of strategic public enterprises, in which the military has a strong presence, in opposition to the privatization projects pushed forward by the government of Durán. See Franklin Ramírez Gallegos, "¿Hegemonías emergentes? Golpismo, política y resignificación democrática: Un contrapunto ecuatoriano-venezolano," in *Las Fuerzas Armadas en la región andina*, Comisión Andina de Juristas (Lima: Embassy of Finland, 2001).

43. Bertha García, "El 21 de enero de la democracia ecuatoriana: El asalto al poder" (mimeo, Pontificia Universidad Católica del Ecuador, Quito, 2000), 2.

44. Several polls indicated that at the national level the armed forces and the church are the only two groups within the Ecuadorian leadership elites that enjoy high prestige. See José Sánchez Parga, "Fuerzas Armadas, opinión pública y sociedad civil," in *Fuerzas Armadas, Desarrollo y Democracia*, edited by José Sánchez Parga and others (Quito: CELA/ILDIS, 1996).

45. General Mendoza confirmed that he withdrew his support of the uprising after speaking with various U.S. officials, including the head of the U.S. Southern Command and the assistant secretary for Western Hemisphere affairs of the Department of State. They all explained the isolation Ecuador would find itself in should the triumvirate prevail. See *Revista Vistazo* 779 (February 2000).

46. Successive military participation in the removal of officials in high political office (1996, 1997, 2000)—in the face of weak civil control mechanisms—made it clear that they rely on a series of pressure mechanisms that were institutionalized in the heat of the political turbulence since the mid-1990s and that point to keeping incumbent governments under constant pressure. See García, "El 21 de enero," 3.

47. Central Bank of Ecuador, "Información Estadística Mensual," 2001 issues.

48. Carlos Larrea, "Pobreza, dolarización y crisis en el Ecuador," *Informe de avance de investigación* (Quito: CLACSO/IEE, November 2002).

49. *Ibid.*

50. *Revista Gestión*, no. 100 (October 2002).

51. *Ibid.*

52. Xinhua General News Service, "IDB to Grant 682 Million Dollars in Loans to Ecuador," May 6, 2004; "Ecuador: April Unemployment Rises to 12.1 pct.," *Forbes*, [www.forbes.com/personalfinance/funds/newswire/2004/06/03/rtr1394203.html](http://www.forbes.com/personalfinance/funds/newswire/2004/06/03/rtr1394203.html) (accessed June 2004).

53. Larrea, "Pobreza."

54. In the end, he won over the multimillionaire banana planter Alvaro Noboa (17.4 percent), the independent socialist León Roldós (15.4 percent), ex-president Rodrigo Borja (13.9 percent), the Social Christian Xavier Neira (12.1 percent), and the populist Adolfo Bucaram (11.9 percent), brother of ex-president Abdalá Bucaram.

55. There were four candidates from the coastal region of Guayaquil: Noboa, Roldós, Neira, and Bucaram, of whom at least three had populist and/or antiparty plat-



forms like Gutiérrez's. For more on Gutiérrez, see Marc Saint-Upéry, "Ecuador: El coronel tiene quien le escuche," *Revista Nueva Sociedad* (Caracas), no. 182 (November/December 2002).

56. The post-January 21 sanctions were not severe: no indigenous leader was apprehended, and the military officials who were detained benefited from a general amnesty.

57. Russell Crandall and Akilah Jenga, "New Complications in the Andes," *2003–2004 Strategic Survey* (London: International Institute of Strategic Studies, 2004), 84–99.

58. The possible sources to finance his proposal were fighting corruption (it was estimated that \$2 billion were lost to corruption), recovery of the money taken by bankers (\$5 billion), reducing tax evasion (which reached \$1.7 billion), an increase in oil production through private investment, raising taxes to the rich, and an "adequate renegotiation of the external debt" with international lenders. "Los planes presidenciales," *El Universo* (Guayaquil), April 10, 2002, 3.

59. Since 1996, when Pachakutik (MUPP) won six congressional seats for the first time, its presence steadily advanced in the highlands and Amazon regions. In the twenty-seven municipalities that it controlled in 2003, the MUPP practiced participatory, multicultural democracy that earned it national and international recognition. The indigenous population of Ecuador has thus succeeded in combining its social struggle with institutional practices as a fundamental part of its political strategy.

60. Crandall and Jenga, "New Complications in the Andes."

61. Elliot Gotkine, "Ecuador's Economic Hopes," *BBC News*, January 21, 2004.

62. Crandall and Jenga, "New Complications in the Andes"; "Ecuador's Foreign Debt Reaches 11.37bn US Dollars," *BBC Monitoring International Reports*, May 6, 2004.

63. "Ecuador: IMF Delegation Begins Work," *LatinNews Daily*, May 18, 2004; Kate Joynes, "IMF Team Assesses Ecuador's Structural Reform," *World Markets Analysis*, May 18, 2004; Juliette Kerr, "President and Ministers Discuss Ecuadorian Electricity Reform," *World Markets Analysis*, May 18, 2004.

64. Xinhua General News Service, "IDB to Grant 682 Million Dollars in Loans to Ecuador," May 6, 2004.

65. Crandall and Jenga, "New Complications in the Andes."

66. Monte Hayes, "Ecuador Indians Protest Against President as OAS General Assembly Opens," *San Diego Tribune*, June 7, 2004.

67. "Ecuador: Decision Time for Pozo," *LatinNews Daily*, May 25, 2004.

68. Crandall and Jenga, "New Complications in the Andes."

69. "Ecuadorian President Makes Eradication of Poverty a Priority," *BBC Monitoring International Reports*, May 9, 2004.

70. "Ecuador: Amazonian Peoples Break with Gutiérrez," *Latin American Weekly Report*, May 11, 2004; "Ecuador: COFENAE Pulls Support from Gutiérrez," *LatinNews Daily*, May 11, 2004; "Ecuador: Amazon Indians' Leader Refuses to Support Indigenous Uprising," *BBC Monitoring International Reports*, May 12, 2004.

71. "Ecuador: Amazon Indians' Leader Refuses."

72. Coletta Youngers and Peter Zirnite, "Their Own Worst Enemy: Washington's War on Drugs in Latin America," in *Democracies Under Fire: Drugs and Power in Latin America*, edited by Martin Jelsma and Theo Roncken (Montevideo: Transnational Institute, Ediciones Brecha, and Acción Andina, 1998), 60.

73. Adrián Bonilla, "Alcances de la autonomía y la hegemonía en la política exterior ecuatoriana," in *Orfeo en el infierno: Una agenda de política exterior ecuatoriana*

(Quito: FLACSO-Ecuador, Corporación Andina de Fomento, and Academia Diplomática del Ministerio de Relaciones Exteriores, 2002).

74. An FOL is a base or airport that is part of an agreement whereby permission is given for its use by U.S. aircraft on antidrug missions to detect and monitor drug crops. These facilities are operated by the host countries, and they house members of the U.S. military forces, the Drug Enforcement Administration (DEA), the Coast Guard, and customs staff to support and coordinate the communications and intelligence of these flights. See Adam Isacson, *La Asistencia Estadounidense a la Seguridad en los Países de la Región Andina, 2000–2001* (Bogotá: Centro de Estudios Internacionales, Universidad de los Andes, 2001).

75. Crandall and Jenga, "New Complications in the Andes."

76. Note that \$20 million should be added to the amount for 2001, from a supplementary fund for Plan Colombia. Bureau for International Narcotics and Law Enforcement Affairs, "International Narcotics and Law Enforcement Budget Justification, Fiscal Year 2003," U.S. Department of State, Washington, DC, May 2002.

77. Crandall and Jenga, "New Complications in the Andes."