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American Enterprise Institute (2015)

Stable URL: <http://www.jstor.com/stable/resrep03226>

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Ecuador: Is there a future beyond Correa?

By Roger F. Noriega

October 2015

KEY POINTS

- *Elected president in 2007 as a maverick outsider, Rafael Correa has centralized economic and political power in his hands, outmaneuvered potential rivals, and bullied the independent media.*
- *Correa benefited from unsustainable social spending and artificial economic growth, buoyed by the oil and commodity boom, but internal opposition is growing as he is forced to reduce spending and raise taxes.*
- *As he considers an unprecedented fourth term, it remains to be seen whether Correa will resort to authoritarian tactics to manage the economic downturn and burgeoning opposition.*

Since taking office as a maverick outsider nearly nine years ago, Ecuadorian President Rafael Correa has transformed the country by centralizing economic and political power under his authority and suppressing potential opponents in the private sector, media, and civil society. He has implemented a costly populist agenda, which has bolstered his popularity—initially tapping increased oil revenue but gradually becoming more dependent on Chinese loans and investments.¹ The steep decline in the price of oil and other commodities has forced Correa to cut spending and to propose tax increases. As a result, popular unrest has intensified in the last year, testing his popularity just as he decides whether to seek an unprecedented fourth term.

Mercurial and belligerent, Correa took power by railing against his country's old political order—much like Hugo Chávez in Venezuela. Mimicking Chávez, Correa has waged a controversial battle

with independent media and civil society, drawing increasing criticism from the international community for cracking down on freedom of expression; an editorial in the *Washington Post* in January 2012 branded him “Ecuador’s bully.”² Yet, in spite of his irascible behavior and numerous corruption scandals involving members of his family and political inner circle, Correa’s fragmented opposition has yet to coalesce around a significant rival.³

Recent polls show that Correa’s approval remains at more than 60 percent.⁴ Analysts attribute his resilient popularity to the windfall from oil prices earlier in his term, significant growth in the public-sector payroll, and cash transfers to well over one million low-income Ecuadorians. A slowing economy and fiscal deficit will curtail Correa’s ability to shore up support through social spending, so only the depth of Ecuador’s economic crisis will determine his political fate.

The Economy

Throughout most of his time in office, Correa's import substitution policies and high protective tariffs have benefited the country's powerful private sector, and generous social programs have helped Ecuador's poor. Economic growth was respectable until this year. However, in the face of declining petroleum and commodity prices, Correa imposed strict import and banking controls and proposed new capital gains and inheritance taxes, which alienated a growing segment of the private sector.

From 2009 to 2014, his administration has doubled public spending, reaching a record 44 percent of gross domestic product (GDP). Coupled with a poor record on debt repayment, his economic and fiscal policies have discouraged investment and private-sector growth and weakened the country's international competitiveness significantly. Foreign direct investment in Ecuador made up just 0.6 percent of GDP in 2014, one of South America's lowest rates.⁵

A recent report from Fitch Ratings found that "economic growth is heavily dependent on fiscal stimulus. Government intervention, real exchange appreciation, and a weak business environment weigh on private investment, economic diversification, and the development of oil reserves." The dollarization of Ecuador's economy 15 years ago has limited excessive government manipulation and has generally been a source of economic stability.⁶ However, Correa has complained that dollarization limits his government's ability to mitigate the effects of an economic crisis, and he may be tempted to scuttle this policy to stimulate growth.⁷

Until recently, substantial oil revenues and favorable trade and investment with China have sustained economic growth and mitigated the impact of Correa's statist policies. Today, Ecuador is heavily dependent on the sale of oil and other commodities. Primary products made up 77 percent of Ecuador's total exports in 2014, with oil alone representing 28 percent of public revenue.⁸

China's large-scale construction projects and loans in Ecuador's energy sector, including building dams and an oil refinery, have raised

expectations for the state-dominated oil sector, but these Chinese investments are not without controversy. The Coca Codo Sinclair hydroelectric power plant provides a snapshot of the typical complaints that arise from such projects, including criticism about low wages, the project's energy output, and unsafe work conditions. The latter was highlighted by a tragic flooding accident on the hydropower plant's worksite in December 2014, which killed 14 workers.⁹ Another complaint is that Ecuador is awarding contracts to China with overly favorable and unsustainable terms.

As with many oil-rich countries, Ecuador has been hit hard by the drop in commodity prices. The country's oil revenue is expected to decline by as much as 48 percent in 2015, dramatically affecting the government's budget and the broader economy. So far in 2015, Ecuador has announced cuts to public spending totaling \$2.2 billion.¹⁰ Ecuador's annual growth rate—which averaged 5 percent from 2010 to 2014—also has decelerated significantly, with Fitch recently revising its growth forecast for 2015 to just 0.4 percent.¹¹ Financial analysts also have noted dropping consumer confidence, a 14.4 percent decline in cash deposits in the nation's banks, and doubts about Correa's ability to navigate the economic crisis.¹²

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As a US-trained economist, Correa is certainly aware that he cannot sustain current spending and economic policies. In the wake of the commodity bust, he has realized he must embark on a new campaign to attract much-needed foreign direct investment. For example, the Correa administration imposed prohibitive taxes of 50 percent or more on the mining sector; the mining giant Kinross Gold Corporation

abandoned a billion-dollar investment in Ecuador in 2013 after Ecuador demanded a 70 percent windfall tax. Now, Correa's government hopes to entice \$2 billion in mining investment over the next two years by offering access to gold and copper reserves.¹³ However, given his past disregard for the interests of the private sector, investors may be wary that Correa will revert to his profligate spending and shortsighted policies once the economy recovers.

Perhaps nothing symbolizes Correa's misguided public-sector investment strategy better than the hundreds of millions of dollars spent developing Yachay Tech University, located north of Quito, to replicate Silicon Valley in Ecuador. In 2015 the university's rector, Fernando Albericio, resigned, charging widespread corruption, mismanagement, and political favoritism. Afterward, Albericio reported receiving death threats. To date, the university has produced no graduates and no new private investment, becoming a significant international embarrassment for Correa and his party.¹⁴

Correa never employed the kind of draconian economic measures that Chávez used to bring most of Venezuela's private sector under state control. Until his proposed tax hikes, most of Ecuador's private sector rarely felt threatened by Correa's policies. In the end, however, Correa's economic mismanagement and lack of fiscal discipline during the commodity and oil boom may make it harder for Ecuador to withstand and rebound from the ongoing downturn. He also squandered the opportunity to retool the economy to prepare for the challenges of the 21st century.

The Political Situation

Correa's commanding position in Ecuadorian politics is no accident. Using the momentum of his first election, he tapped into popular dissatisfaction with traditional political parties and institutions to rewrite the constitution in 2008 to bolster the power of the presidency and undermine the independence of other branches of government. The leftist firebrand has not been shy about bullying his political opponents and media critics.

He also has neutralized US influence by routinely insulting the United States, terminating US foreign aid programs and antidrug cooperation, and expelling a US ambassador. He has whipped up popular paranoia against the meddling of foreign governments, multinational companies, and international agencies, including the International Monetary Fund and the Inter-American Commission on Human Rights.

Moreover, his adroit talent for tapping popular discontent, combined with heavy-handed tactics, has left the opposition occupying very little space on the national stage. In a recent interview with *Forbes*, Correa bragged that even if he chose not to seek another term, the "opposition is so fragmented, without any leadership, that I think another candidate from our party could win the election."¹⁵

For years, Correa had employed a strategy of essentially buying popularity by greatly expanding social programs; providing large subsidies to the private sector and middle class; and constructing new roads, schools, and hospitals. With oil revenue down sharply, he is now particularly vulnerable because he is compelled to cut back programs and raise taxes to tame fiscal deficits. Indeed, opposition groups that had been marginalized and suppressed have grown more active and organized in the last year.

In the summer of 2015, massive protests over proposed tax increases rocked Quito, Ecuador's capital city.¹⁶ Protesters from diverse sectors of Ecuadorian society, including private-sector leaders, indigenous groups, and environmental activists, rallied behind the call "Ecuador is not Venezuela"—manifesting widespread dissatisfaction and concern that Correa might adopt the socialist and authoritarian policies of the late Hugo Chávez.

Like most populist leaders in Latin America, Correa is openly hostile to independent media, recently stating that "the press in Latin America is among the worst in the world."¹⁷ In addition to hurling insults, Correa has deployed the state's full power and financial resources to systematically stifle criticism, limit free speech, and silence dissenting voices.

Watchdog organizations have condemned the Ecuadorian government's treatment of the media.

In its *Freedom of the Press 2015* report, Freedom House rated Ecuador's press as "Not Free," citing, "more intrusive regulation of the media continued to threaten freedom of expression and added to a hostile environment characterized by self-censorship, intimidation, and legal sanctions." The report also found that "the frequency of intimidation, harassment, and attacks on journalists and media outlets rose sharply in 2014."

Over the years, Correa has used his control of the judiciary to win multimillion-dollar judgments against columnists and publishers that questioned his leadership.¹⁸ He often uses his Twitter account and television broadcasts to launch personal attacks against individual journalists and news outlets critical of his policies.

Many news outlets have reduced or terminated their operations or resorted to self-censorship because of the government's restrictions and harassment. In 2014, the Ecuadorian newspaper *La Hora* ceased its print operations and moved to an online-only format.¹⁹ The daily newspaper *Hoy* was forced to shut down its operations completely in the summer of 2014.²⁰ In both cases, the newspaper publishers blamed the government for creating a legal and financial environment that made it impossible for them to operate freely.²¹

Even when media organizations continue to operate, many have adjusted their reporting to avoid government sanction. In its 2015 report on media rights, Freedom House lamented this disturbing trend, saying, "The threat of legal and administrative actions has resulted in rising self-censorship by the media."²² Self-censorship typically manifests itself when organizations decide to not run stories critical of the government or even dismiss journalists who draw Correa's ire. In a recent example, the Ecuadorian newspaper *El Comercio* fired journalist Martín Pallares for using his personal Twitter account to criticize Correa. Pallares had previously been the target of criticism by the president over a column about a proposed inheritance tax.²³

Investigations and leaks have also uncovered multiple government campaigns aimed at silencing free speech. Recently leaked documents revealed that the government signed a \$4.7

million contract with a company to remove online videos critical of Correa, including a documentary and speeches from Ecuador's opposition.²⁴ At this point, Correa's government has been so successful in intimidating and controlling the national media that stories of major corruption and other abuses that garner international attention receive little to no coverage in Ecuador.

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In September, Correa's government took its battle with freedom of expression to a new level when it initiated a process to shut down Fundamedios, a nongovernmental organization that monitors and reports abuses against journalists and free speech. The government justified its actions by claiming that the organization had "disseminated messages, alerts, and essays with indisputable political overtones."

The move to silence Fundamedios was met with a barrage of criticism from the international community. Human Rights Watch denounced the threatened action, calling it, "an egregious abuse of power and a clear example of this government's authoritarian practices."²⁵ The United Nations and the Inter-American Commission on Human Rights even issued an unprecedented joint statement, saying, "We urge the Ecuadorian authorities to halt the dissolution process of Fundamedios, and more generally, ensure the realization of the rights to freedom of expression and of association in the country."²⁶ In this one instance, thus far, international pressure led the government to halt its planned shutdown of Fundamedios, instead issuing the organization a warning.

Correa's efforts to sanction and silence criticism are not limited to the media. Over the summer of 2015, Correa's government came under fire when leaked documents showed that Ecuadorian security services were ordered to spy on the government's political opponents, journalists, and advocacy groups. In one case, documents suggest that Ecuador's National Intelligence Secretariat (SENIAN) was gathering personal information on environmental activists opposed to oil exploration in Ecuador's Yasuni National Park. Other documents suggest that SENAIN sent agents to infiltrate political events held by opposition groups.²⁷ These revelations appear to substantiate long-standing complaints from Correa's political opponents claiming to have had their communications hacked and monitored by the government. However, as with most stories that show the Correa administration in a bad light, this scandal received scant coverage within Ecuador.

These authoritarian tactics have made it difficult for the president's opponents to communicate with the Ecuadorian public and mobilize an effective political movement that could challenge his regime. Among Correa's possible rivals is Jaime Nebot, the able mayor of the coastal city of Guayaquil, who has focused on his public duties rather than presenting himself as a challenger to Correa. Other opposition leaders include Mauricio Rodas, the mayor of Quito; Paúl Carrasco, the prefect of Azuay; former presidential candidate Guillermo Lasso; and Andrés Páez, a congressman who Correa recently challenged to a fistfight. Although several of these men would have significant support and resources to wage a presidential campaign, each is likely waiting to see if Correa will have the option of seeking reelection.

In the meantime, Correa is pushing yet another set of constitutional amendments that would allow indefinite presidential reelection and further centralize power. Another measure would designate communications—including the mass media—as a public service, giving the government the authority to regulate it even more heavily.²⁸

Correa's PAIS party has a two-thirds majority in the National Assembly, so his proposed amendments are likely to encounter little resistance when they are put to a vote in

December. These constitutional measures have been a source of great concern for the opposition, because they will strengthen Correa and his party, further weaken freedom of expression, and make it even more difficult for the political opposition to resist his radical agenda.

Conclusion

Years of unrivaled political power in Ecuador have allowed Correa to consolidate his control over government institutions and to all but silence critical voices throughout the country. His government's exorbitant public spending, supported initially by abundant oil revenue, has boosted his popularity and quieted criticism of his erratic personality and authoritarian methods.

As oil revenues slump, Correa is hoping that his solid political base, control over state institutions, and domination of the public discourse will get him through a period of economic stagnation and fiscal austerity. It is likely that, 15 months before the next presidential election, potential opposition candidates are still considering whether to challenge Correa rather than leave Ecuador's future in his hands.

About the Author

Roger F. Noriega, a former US ambassador to the Organization of American States and assistant secretary of state for Western Hemisphere affairs (2001–05), is a visiting fellow at AEI and managing director of Visión Américas LLC, a Washington, DC–based firm with US and foreign clients. Andrés Martínez-Fernández contributed invaluable research to this paper.

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