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DEPARTMENT OF ECONOMICS WORKING PAPER SERIES

**The Indigenous Movement and the Economic Trajectory of Ecuador**

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Working Paper No: 2008-05

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# **The Indigenous Movement and the Economic Trajectory of Ecuador**

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## **Abstract**

On many measures, the indigenous movement in Ecuador has been the most successful in Latin America. This is particularly the case in political terms where they were key players until leaving the Gutiérrez cabinet. Their influence on the direction of economic policy has been minimal, however, and the rapid economic changes undertaken by the Correa administration since 2007 may marginalize them further. This paper examines Ecuador's checkered economic performance in the Washington Consensus period and the notable changes undertaken by Pres. Correa. These changes are then set in the context of the economic programs of the indigenous movement, specifically of CONAIE (Confederación de Nacionalidades Indígenas del Ecuador). This allows us to isolate several significant areas of overlap where the interests of the indigenous movement and of the Correa administration coincide and where collaboration on economic policy may be feasible.

**Keywords:** Ecuador, Indigenous movement, Pres. Correa, Policy Space

**JEL Classification:** E65, O54, P40, Z13

## **I. Introduction**

On many measures, the indigenous movement in Ecuador has been the most successful in Latin America. This is particularly the case in political terms. They were instrumental in removing Presidents Bucarám in 1997 and Mahuad in 2000. They continued as key players until leaving the Gutiérrez cabinet in 2003. Their influence on the direction of economic policy has been minimal however. Currently the movement is regrouping, just at a moment when the issues of national political and economic direction are going to be addressed head-on by the Constituent Assembly that is supposed to begin working on a new Constitution on October 31, 2007.

Stewart (2007) has noted the complexity of assessments of the success of new movements such as Ecuador's indigenous movement. She quotes Hellman (1995) who suggests three types of outcomes. The first is "the transformation of the consciousness of movement participants." On this the Ecuadorian experience has been highly successful. Second, is the ability to extract concrete concessions from the power structure. As we will see below, the success, particularly in the economic realm, has varied dramatically over the last twenty years; but there certainly have been successes. Finally, the third is to contribute to democratization. This is the main concern of this paper, whether the indigenous movement has the ability to effect policies that foster economic democracy. The question must be examined against the backdrop of the Correa administration, whose policy direction is congruent in many ways.

The paper will first set a context for looking at the economic policy trajectory in Ecuador, by recalling the recent history of economic policy in the country. Next it will examine the importance of the current economic policy debate as the central component

of the current challenge of governance faced by the Correa regime. The primary underlying economic goal for Correa is the restoration of policy space to the central government, after it had been ceded and restricted over the previous fifteen years. This in many ways conflicts with the goals of the indigenous who wish to limit central government policy space by gaining greater control over their own economic destiny. The paper then examines the nature and evolution of the economic program of the indigenous movement since 1994. Specifically, it examines whether it will be forced to move from simple opposition to the Free Trade Agreement of the Americas and from extracting policy promises to a proactive program designed to move the economy away from Neo-liberalism and toward an economic path consonant with the ideals of the indigenous movement. This would move the country toward economic democracy, an ideal of the indigenous movement. This remains an open question, and section V suggests alternative trajectories for the economy and the indigenous economic program. Section VI concludes.

## **II. In Dispute: The Economic and Political Trajectory of Ecuador**

Since the onset of the debt crisis in Latin America in 1982, Ecuador has had 11 Presidents, as well as interim Presidents, National Salvation Juntas etc.<sup>1</sup> The last President to serve a full term was Sixto Durán Ballén (1992-96). Ecuador is a poster child for the issues of “governance” that have become the mantra of the World Bank and IMF, in their attempt to explain the continuing problems faced by virtually all Latin American countries, despite following their mandates for the last twenty-five years.

One recent World Bank compilation of governance statistics ranks Ecuador number 63 out of 145 countries, between Cuba and Venezuela. It ranks particularly poorly on “government effectiveness” in the most recent calculations (IBRD 2007), falling in the 14<sup>th</sup> percentile among the 213 countries. The average for Latin America is 20<sup>th</sup> percentile. Ecuador is below the Latin American average on each of the six governance indicators. In each case except “control of corruption,” its percentile ranking has declined since 1998.<sup>2</sup> This suggests that the political trajectory of the country is far from settled and that there are fundamental underlying issues that the society must address.

Even if we do not accept governance as the central focus, such a degree of political instability should be reflected in macro economic problems. Economic policy and performance bear the expectation out, for Ecuador’s range of both was among the widest in the Hemisphere. Policy included steps such as sucretization in 1982 under Hurtado, i.e. the conversion of dollar accounts to sucre accounts, to dollarization under Mahuad in 2000, the substitution of the dollar for the sucre as national currency. Bank accounts were frozen, large portions of the banking system became insolvent, unemployment rose, GDP fell, and at times inflation was in the 90 percent range. Foreign capital flows were unstable, with the interest rate risk spread on Ecuadorian debt often the highest in Latin America; and there were almost continual negotiations with the IMF for stabilization support.

Tables 1 presents Ecuador’s cross decadal economic performance along with the Latin American average. On virtually every indicator after the 1970s, Ecuador trails the

Latin American average. The only major exception was its inflation rate. The 1970s were better because of the discovery and export of oil in the 1970s.

Table 2 presents the more recent performance. The same pattern of below average performance is apparent through 2000 when dollarization was implemented. After that point, the comparative record is less uniform, though Ecuador still lagged Latin American performance. On the other hand, the domestic economy clearly improved, with inflation and unemployment coming down, growth improving and the government budget moving toward balance. So the constraint that dollarization enforced on domestic policy, particularly monetary policy, did improve macroeconomic performance. However, the instability in the capital account and the continued current account deficit suggest that international capital is less than sanguine about the country's economy. As evidence, the election of Rafael Correa in 2006 pushed the interest rate spread to one of the highest in the world.

During these roller coaster times there were two general tendencies that provided the starting point for the Rafael Correa presidency in 2007. The first was the acquiescence to the major governance reforms espoused by the international system and the adjustment of the Ecuadorian government institutions toward conformity with the second generation reforms espoused by the Bank and the IMF. The Central Bank gained greater independence, electoral processes were improved, the fight against corruption at least became a publicly accepted element of government policy, and priority was increasingly given to the private sector as the government sector atrophied. Conflicts between market and government were increasingly settled in favor of the market.

The second was the acceptance of ever greater constraints on economic policy, with ever increasing guarantees to international capital. This is best captured as a loss of “policy space” available to the government, i.e. increasing constraints on discretionary government policy.<sup>3</sup> Dollarization in 2000 was the most notable juncture in this movement. The process of narrowing its policy space in the case of Ecuador culminated in the agreement on a free trade package with the United States at the end of the Palacio presidency in 2006.

Despite the general trend, there were disputes and vacillation. For example, the short-lived Bucarám administration (1996-7) was both populist and disdainful of transparency in government. Lucio Gutiérrez ran a populist campaign that became quite orthodox in economics once in power, but with a strong dose of family and military based corruption. And the Palacio government was willing to confront Occidental Petroleum over the fulfillment of its contractual obligations to Ecuador despite a general pro-market orientation.

Nonetheless, Correa came to power in a context in which the World Bank’s construct of governance, which is quite constraining to government, was dominant in the political discourse. At the same time, the private sector had become the dominant player in the economic sphere, with government having neither the resources nor the expertise to successfully challenge their power.

Correa has mounted a challenge to the economic and political trajectory that had been followed during the last 15 years. So the future trajectory of the polity and the economy in the country is in dispute, and the outcome is unclear at this juncture. The important issue is that this may be an inflection point in Ecuador, one which has



similarities to Venezuela or Bolivia, but which is essentially Ecuadorian. The unique history of Ecuador and the configuration of power in the country will determine the outcome. In the case of Ecuador, the final outcome will reflect the centrality of the indigenous movement, whose role is exceptional among the Latin American countries, even if the process was initiated by the election of Rafael Correa.

Let us first examine the dimensions of the challenge that Correa has presented to the existing political and economic powers of the country.

### **III. From Governance to Policy Space**

Col. Lucio Gutiérrez became President of Ecuador in 2003 after running on a populist, anti-globalization platform. As a consequence, he had the active support of the indigenous movement. Shortly after taking office he went to Washington, D.C. and declared himself the U.S.'s "best ally and friend" in the hemisphere. The indigenous broke with him and exited his government within the year. His was not the first such conversion, e.g. Fujimori in Peru in the early 1990s. A kind interpretation would ascribe these changes to the simple realization that the constraints on policy had become so stringent that efforts to resist them would be counter-productive. The well-known "Washington Consensus" left little to choice.

Unfortunately for Gutiérrez, he was out of step with the then current implementation of the neo-liberal program. In the first place, he undercut his support by appearing to be completely subservient to the wishes of the U.S., which were transmitted by the Ambassador, Kristie Kenney.<sup>4</sup> More importantly, he ignored the priority on "governance" that international agencies were urging on Latin American governments.

His effort to “restructure” the Supreme Court by removing 27 of 31 judges, apparently to facilitate the return of Abdalá Bucarám, provoked domestic middle class outrage, particularly in Quito. And it made it impossible for his external allies to rescue him.

Interestingly, the overthrow of Gutiérrez accurately reflects how dominant the governance issue had become. Concern with governance grew out of a growing sense of frustration with the poor economic performance from implementing the market privileging set of policies of the Washington Consensus. In searching for an explanation, the Bank had belatedly realized that the institutions that implemented reforms could have a tremendous effect on the outcomes. This was used to justify the less than stellar results, ascribing them to a failure of “second generation reforms,” reforms to institutions and to governance.<sup>5</sup>

Examination of the meaning and measure of “governance” suggests that the term is largely shorthand for constraining the independence and power of central governments. Some elements of governance, such as the independence of the Central Bank, do have basis in economic theory, i.e. such independence can give credibility to monetary policy decisions. However, most of the measures of governance that are used by the World Bank come from “perceptions” surveys, primarily of international business actors, such as the “Business Enterprise Environment Survey” or “Business Conditions and Risk.” Respondents in such surveys can be expected to reject government interference in the economy. So the indicators of governance are most likely inversely related to the efforts of government to affect the economy and to limit the market.

The government of Alfredo Palacio did not make the same mistake as Gutiérrez. Although there were initial efforts to reassert the role of government, they were feeble

and were soon reversed. For the most part, Palacio did little to reverse the diminished role of government and to reassert its leading economic role. The main exceptions occurred when Rafael Correa was Finance Minister. His assertion of activist government policies led to his quick ouster. Three subsequent Finance Ministers were unable to establish a clear economic direction. Palacio had promised political change through a Constituent Assembly, but he quickly abandoned that promise. So there was little sense of direction to economic policy by the end of the Palacio government.

Enter President Rafael Correa in January 2007. His electoral success was greeted by a dramatic increase in Ecuador's country risk premium, pushing its spread higher than Lebanon's or Argentina's.<sup>6</sup> Correa had run on a coherent program, whose underlying rationale can be described as recreating policy space for the Ecuadorian government. In doing so, he was proposing confrontation with many elements of the domestic and international political economy landscape.<sup>7</sup> Among those elements that were in his sights were:

- Owners of Ecuadorian sovereign debt who were told that he planned to halve the share of GDP going to debt repayment to between 2 and 3%;
- The World Bank and IMF, who were not only creditors but were also major influences on domestic economic policy and bearers of the Governance/Consensus torch;
- The private sector, foreign and domestic, that controlled the levers of the economy through the oil sector and the financial sector;
- Regional economic interests, particularly those centered in Guayaquil who dominated much of the export economy, including the main port;

- Supporters of further steps to limit the field of action of the government, be they the exponents of the Free Trade Agreement with the U.S. (the TLC-Tratado de Libre Comercio) or advocates for the continuing U.S. military presence in the base at Manta in Manabí:
- The Congress, which Correa saw as corrupt and beholden to these same economic interests.

Seven months into his term, Correa has had mixed success in creating the policy space he desires. His greatest success was in the referendum on whether to seat a Constituent Assembly to write a new constitution. The effort was resisted by the Congress, creating a crisis of governance. Correa successfully replaced 57 congressmen and women, so preventing Congress from obstructing the referendum—which passed with 81% of the popular vote. This was a clear indication of the popular desire to change the course of the country. He asked the World Bank representative to leave the country and has resisted creating a working relation with the IMF. Ecuador has refused to sign the already negotiated TLC, even though Colombia and Peru have gone ahead. This has jeopardized the Andean preferences that Ecuador has been receiving from the U.S. and has aroused the hostility of the exporter class. It is now clear that the U.S. base at Manta will close down in 2009, and will probably be moved to Colombia.

There have been a number of confrontations with the private sector whose outcomes are not as yet clear. Energy Minister, Alberto Acosta, has directly confronted the energy powers, accusing them of decapitalizing Petroecuador and rushing to despoil the Amazon region by developing a promising new field at ITT. His speech

commemorating the first oil production in Ecuador's Amazon was a paean to sustainable development and a direct contradiction of the natural resource based development frenzy that characterizes most oil producing countries. He also enlisted the military to interdict contraband oil gasoline exports, a step which may in the long run reduce the civilian government's policy space.

In some of his initial efforts, Correa has been stymied. He supported creating a new province to the west of Guayaquil with Santa Elena at its center. The Congress rejected the proposal, which would have diminished the political muscle of Guayaquil. He has ongoing disputes over the control of the port of Guayaquil and the potential growth of Manta as a port. And while he was successful in preventing Congress from derailing the constituent assembly, it is not clear that his proposal to close the Congress when the Assembly convenes will succeed.

Finally, he has apparently failed in one of his major initiatives. When the first payment on the existing international debt came due on February 15, his government paid the \$135 million due with very little protest, despite the loss of domestic credibility. The spread had increased to more than 1000 basis points in January. Apparently the calculation was that the ability of international capital markets to punish Ecuador was greater than anything that would have been gained by defaulting.

Correa has undertaken a series of other initiatives to provide added policy space to the government. He has attempted to divert funds from the Deposit Guarantee Agency (AGD) to spend on a number of social sector initiatives. He has declared "emergencies" in the health, education and transportation sectors, designed to facilitate resource transfers into those areas. As yet, the funds have not followed the rhetoric. He has also

attempted to restrict a set of transfers to provinces, municipalities, and private entities that represent claims on tax revenues and diminish central government control. Again Congress prevented this effort. He has also proposed reforming the financial sector both domestically and internationally.<sup>8</sup> Domestically, controls would be placed on interest rates and there would be credit allocations to particular sectors. Internationally, Ecuador would become a central member of a regional bank, Banco del Sur, which would settle currency imbalances and could eventually create a regional money.

Let me summarize. The Correa administration program is an attempt to take Ecuador in a direction different from that followed since the late 1980s. At one level, it takes the issues of governance and of institutions very seriously and is attempting to establish a new institutional structure appropriate for the country at this point in time. A strong central government is the centerpiece of the strategy, with the ability to regulate and to set the parameters for markets, rather than the opposite. Constitutive of this institutional realm is ample policy space for the government, a recovery of the space that has been ceded to the private sector and to the international agencies and markets. Whether the program can be implemented domestically will depend heavily upon the outcome of the Constituent Assembly that should begin operating in October.

Let us turn now to assess the role of the indigenous and their organizations in both the past trajectory and the current and future directions of the country's economy.

#### **IV. The Indigenous Movement's Projection into Economic Policy**

As noted in the Introduction, Ecuador's indigenous movement has certainly been among the most successful in Latin America. The reasons are complex, a combination of

economic success that generated increased autonomy from traditional powers along with innovative programmatic and organizational initiatives (Meisch 2002; Selverston-Scher 2001). Notable in the first were the merchants and musicians of Otavalo, who by the 1990s had become equally at ease in the US or Europe as in Otavalo. Notable elements of the second sort were the bilingual education law, the political strategy of blocking roads to assert political power, and the formation in 1986 of CONAIE (Confederación de Nacionalidades Indígenas del Ecuador).

CONAIE was not only instrumental in transforming indigenous consciousness. It also provided a mechanism for the indigenous movement to project itself into the economic policy debates. Until Gutiérrez succeeded in splitting the movement in 2003-2004, CONAIE generally provided a unified voice for the indigenous. It articulated positions that were agreed upon in participative assemblies, through dialogue, and were then expressed in the arena of public debate. Several of these positions can give a flavor of the indigenous stance toward economic policy, the concern of this paper.

One major document was issued in 1994, entitled “Proyecto Politico de la CONAIE” (CONAIE 1994). A slightly modified version was approved in 2001 (CONAIE 2001b). Its extensive section on Economics added up to a manifesto calling for a complete economic restructuring to establish a “New Economic Model for the Plurinational State: A Ecologically Planned Communitarian Economy”(p. 29). In 2001 this became “A Plurinational Economic Development Model.” The starting point was a rejection of neo-liberalism, i.e. the Washington Consensus, and structuralism, i.e. the UN-ECLA/Prebisch model. Specific mention was made of privatization, the foreign debt, and “modernization,” which was the portmanteau term for Durán Ballén’s policy

framework. However, the level of abstraction was quite high as befits an initial manifesto and consciousness raising document. However, the 2001 version grew out of the inability of the movement to extract concessions from the government despite its role in removing the Mahuad administration in 2000.

The proyecto focused on seven general areas of concern for the Indigenous Movement: the agrarian reform, industrial development, commerce, artesanía, tourism, transportation-infrastructure-communication, and electricity-water. Each topic was introduced, followed by the specifics that the movement committed itself to fight for, and then a projection of the effect of implementing the policies.

Summarizing the extensive economic program would be very difficult. However, they contain an interesting parallel with the Durán Ballén policies: both attack the existing state and call for the devolution of state power and resources.<sup>9</sup> Durán was moving to favor the private sector over the state; CONAIE was pressing to have indigenous communities and organizations take control of the policies and resources that had been reserved to the central state. As a result, by the turn of the millennium, the government of Ecuador could quite aptly be seen to preside over a “failed state”(Jameson and Wiessner 2006). And the political role of the indigenous movement in challenging the state was quite significant in the late 1990s.<sup>10</sup> They were central players in the flight of Bucarám; and Antonio Vargas, the President of CONAIE in 2000, joined Col. Lucio Gutiérrez and the jurist Carlos Solórzano as a members of the “National Salvation Junta” that ousted Jamil Mahuad in January 2000.

This brush with responsibility focused the movement much more on specific policies that would affect their constituency. The National Salvation Junta lasted less than



a day, but it gave the indigenous movement an undeniable claim to be heard in the councils of government and to move to the second level of success, gaining concessions from the government. The form that would take was unclear, reflecting the general procedural chaos that followed Mahuad's ouster. A semblance of continuity was maintained when Gustavo Noboa ascended from the Vice-presidency to the Presidency to serve out the remainder of Mahuad's term. There was also significant policy continuity, e.g. the continuation of the hastily declared dollarization and reduction in the role of the state. So Noboa was not about to institute an Ecologically Planned Communitarian Economy. Quite the contrary. And any expectation that he would change course was dashed when the government signed a letter of intent with the IMF in April, 2000. Agreed on price increases, increases in the IVA, and financial and tax reforms were just continuations of the Washington Consensus policies that had not gained Mahuad any popularity.

By September, the indigenous and other movements had collected over a million signatures calling for a referendum on dollarization, the Manta Base and foreign debt payments (Notisur 2000). President Noboa defended himself saying "We're willing to build schools, roads, and make infrastructure improvements, especially in Indian areas, but they have to work with us." He meant that they would have to support limits on state action, directly counter to the earlier agreement.

At this point, the indigenous were able to extract concessions from the government. The mechanism used to concede to indigenous demands was an accord signed by the government, CONAIE, and the Coordinator of Social Movements on September 20, 2000 (CONAIE 2000). The concessions were quite specific, e.g. that the

price of domestic gas would be frozen for five years, that the value added tax would be fixed for one year, or that the government would declare the Manta base agreement null.

In a too familiar scenario, Noboa announced further liberalization policies on December 27, 2000, setting off demonstrations around the country (Notisur 2001a). As the demonstrations grew, along with police repression, another agreement between the government, CONAIE and several popular organizations was reached on February 7, 2001 (CONAIE 2001). It repeated many elements of the earlier agreement, e.g. reduction in the price of domestic gas, but also committed the government to a series of other steps that would benefit the indigenous such as capitalizing the National Development Bank, increasing the budget for indigenous organizations, decentralization and dialogue over indigenous proposals. Little of substance actually resulted from the agreement.

So from 1994, CONAIE had moved from issuing grandiose manifestos to being a player at the national level, negotiating on both specific concessions that would tangibly affect the economic welfare of the indigenous. The growth in power and credibility had been accompanied by a loss of focus on broader economic directions. It was hard to find the elements of the “Ecologically Planned Communitarian Economy” amidst the partisan and sectarian demands that were urged on the government. The indigenous movement and CONAIE had become one among many very powerful special interests competing for the diminishing resources of the Ecuadorian state. But this carried significant risk, particularly when the concessions by the government were almost immediately withdrawn. Recognition of this risk and of the meager success as an interest group led to a reiteration of the “Proyecto Político” in October, 2001.

Antonio Vargas was the head of CONAIE. He had played a central role in moving the movement to engage the government through formal written agreements after their role in removing Mahuad. Vargas came to embody the contradictions when he declared himself a candidate for President in the 2002 elections, despite CONAIE's decision to form a coalition supporting Gutiérrez. Vargas split the indigenous movement, particularly along religious lines, since his main support came from the Federacion Ecuatoriana de Indigenas Evangelicos (FEINE). Nonetheless, the Gutiérrez-CONAIE/Pachakutik coalition was victorious.

This seemed to elevate the success of the indigenous movement to the third level, decision-making power in a more open, democratic context. Two indigenous became cabinet ministers: Nina Pacari, Foreign Minister, and Luis Macas, Minister of Agriculture. Rosa Maria Torres, affiliated with Pachakutik, was named Minister of Education. They saw this as a step to including the marginalized and to changing economic direction. Macas sounded the democratization theme: "Ushay is a Kichwa word that means power, which is to perfect living conditions and the capacity to develop ourselves collectively, based on contributions in the various areas of decision making. The government can be another instance of continuing to build ushay" (Notisur 2003a).

Possession of decision-making power at the ministerial level opened new possibilities for the indigenous movement. For example, in the case of agriculture, Macas had available the "Agenda Agraria de las Organizaciones del Campo del Ecuador" that had been developed by CONAIE and several other organizations, with support from a series of international NGOs (CONAIE, CONFEUNASSC, Y FENOCIN 2003). While there was no mention of "A Ecologically Planned Communitarian Economy," both the

process of developing the plan and many of its elements returned to a radical vision of a new agriculture. The Agenda grew out of a series of consultations and workshops throughout the country. The general direction was toward restoring “soberanía alimentaria,” food security. All of the themes, policies, and steps were oriented toward this goal and constituted an integrated program, with elements such as sustainable development, credit, commercialization, and training. They were set against the international influences of globalization that challenged Ecuador’s food security and the role of the indigenous in agriculture. It provided a cogent justification for their long-standing opposition to the Free Trade Agreement of the Americas and to its successor, the bi-lateral US-Ecuador Free Trade Agreement.

The indigenous brush with power was to be short-lived, however. Gutiérrez’s euphorically friendly visit to Washington and March 2003 stand-by agreement with the IMF renounced his campaign platform. By May Pachakutik had declared that they were politically independent of the coalition and on June 17, 2003, CONAIE presented the President a list of 82 changes required for their continued support in “Mandato de la I Cumbre de Las Nacionalidades, Pueblos y Autoridades Alternativas (CONAIE 2003; Notisur 2003b). By July, the dialogue was over and the Ministers linked to the indigenous movement were resigning or being removed (Notisur 2003c). So the most ambitious effort to project the indigenous movement into democratizing the economic policy direction of the country was finally frustrated. Of course this was not the first time that the indigenous had been “sold out” by their mestizo allies.

The experience left the indigenous movement in a weakened position. Gutiérrez took advantage of the split with the Protestant federation, FEINE, to undermine

indigenous unity. And the movement lost credibility for its role in bringing him to power. The strongest indication of these problems was CONAIE's decision to sit out the January 21, 2004 demonstrations that ignited the process that removed Gutiérrez in April (Notisur 2004). CONAIE needed to shore up its base, refine its focus, and reassess its strategies if it were to be a player in setting the economic policy of the country.

The administration of Alfredo Palacio (2004-2006) brought a new twist to both economic policy and to the indigenous role in its formulation. This was embodied in Palacio's Economy Minister, Rafael Correa, whose policies were nationalistic and antagonistic to external international influences such as the World Bank, the IMF, and the major international oil companies. His stance was quite consonant with positions that had been taken by the indigenous movement, especially at the strategic level. Correa spoke favorably about the role of the indigenous and their economic position. In point of fact, his own economic program had developed independently, primarily as a member of the "Foro Económico," a group of Quito based economists and intellectuals that had been working over a number of years to develop a stance critical of the dominant orthodoxy and a set of policies that could restore policy space to the country. In addition to a number of steps to improve Ecuador's position vis-a-vis the oil companies, Correa warmed to Hugo Chavez of Venezuela, seeing that link as a means of gaining greater resources for the country. There were growing economic initiatives between members of the government from the Foro and indigenous leaders.<sup>11</sup> However, Correa was forced to resign on August 4, 2005, which became his launching pad for a successful bid for the presidency in 2006. In any case, that window into policy was closed to the indigenous movement (Notisur 2005).

In early polls in 2006, Correa was far behind the early leader, León Roldós, though in third place (Notisur 2006). A split indigenous movement supported Luís Macas, running under the Pachakutik banner, no longer trusting coalition partners to follow agreements. Correa actually finished second in the initial round of voting with 23.2% of the vote. Macas received 2.2% and finished sixth, indicating a greatly diminished electoral power. Correa's success in the second round was aided mainly by support from Roldos' Democratic Left Party, though he had a strong showing in indigenous areas (Notisur 2006b). Pachakutik's seven seats made them the fifth largest bloc in the Congress(Notisur 2006c).

While many of Correa's economic policies are quite consistent with the past platforms of the indigenous movement, the indigenous have not been included in any central way in the government. For example, the Government Plan (Alianza Pais 2006) listed hundreds of individual and organizational collaborators, virtually none of whom came from the indigenous movement. Correa did not appoint indigenous representatives to his cabinet. And Pachakutik's congress members voted in favor of censuring Correa's Finance Minister, Ricardo Patiño, because of his actions surrounding international debt payments made in February, 2007.

So the question of the potential influence of the indigenous movement on the economic direction of the country remains open. Twenty years after the formation of CONAIE, the ability to push policy toward economic democracy remains in question. And it is not even obvious that the movement can gain concessions from the government. These are issues of great importance at this moment in Ecuador, for the campaign for representatives to the Constituent Assembly is about to begin. The Assembly has been a

demand of the indigenous movement from its earliest days and it received its greatest support in indigenous areas. For example, Cotopaxi province approved the referendum with 86.7% of votes in favor, leading to the conclusion that “in provinces with a high percentage of indigenous the yes tendency was even higher” (El Comercio 2007).

We can only speculate on the influence of the indigenous movement on the country’s economic direction. To that we now turn.

## **V. Alternative Economic Trajectories**

The “Washington Consensus” was a radical program that restructured the economies of Latin America beginning in the 1980s, continuing until the current decade. Growing inequality, increasing imbalances between the Asian creditors/exporters and the U.S. importer/debtor, and sheer loss of momentum as seen in the Doha Round has stopped this process. The electoral success of “pink” governments has opened the possibilities for alternative directions. This is true in Ecuador where Correa has already had some successes and has bet on further radical possibilities coming out of the Constituent Assembly. The exceptionally strong support for the Assembly in most of the indigenous provinces does not necessarily imply their success in the elections for the Assembly nor in influencing the policy direction of the country.<sup>12</sup> On the other hand, I would like to suggest that there is an opportunity for success in policy change when the programs of Correa’s Alianza Pais and of the indigenous movement overlap. Both espouse a radical economic restructuring of the country. CONAIE’s “Proyecto Político” and Correa’s “Plan de Gobierno” both contain outlines of a radically different approach to the economy. Let us see where they are in consonance, suggesting that in those areas there

are very real possibilities for adoption of the policies that the indigenous movement has been working toward since the 1990s.

The stance of both is nationalistic, e.g. against free trade agreements and for limits on foreign debt payments. Correa has already moved in these areas, killing the free trade agreement with the U.S. Since the Congress has also held up the agreements with Colombia, Panama and Peru, this step may have not been as radical as initially thought. Correa wanted to limit debt payments, making them no larger than social or military expenditures. CONAIE wants “a definitive solution to external debt problems.” However, after roiling debt markets and raising the interest rate spread, the Correa administration made their first large debt payment within the time limit in February, at least partly because Venezuela is a large creditor. The mechanism is a commission that will examine each debt instrument and assess its validity. So this is a game that is still to be played.

The next major overlap is in the agrarian area where both call for agrarian reform and a model of agriculture based less on industrial approaches that use large amounts of chemicals and more on sustainable approaches more in tune with the natural environment. Correa’s point of departure is more “environmental,” CONAIE’s more a vindication of indigenous rights and identity. Nonetheless, the programs map into each other quite well: redistribution of major landholdings, recognition of indigenous territorial claims, new commercial mechanisms, provision of technical aid and credit, and a greater concordance with nature. Both espouse “food security,” *soberanía alimentaria*. So this may be one area where radical steps could be taken to change the nature of agricultural production. Though not addressed specifically, I doubt that either would undertake confrontation with major powers in the banana, shrimp, and cut flower



industries which are larger earners of foreign exchange. Their targets would be domestic landholdings oriented to the domestic market or to land speculation. In any case, implementing the policies will be a very challenging process, and this has not been a policy area that the Correa government has pursued actively to date. The results of the Assembly will affect actual policy.

These are the areas of specific congruence. In other areas, the resemblance is only at the most general level. Both programs are nationalistic, e.g. espousing reliance on domestic production over foreign, privileging small and medium enterprises, and orienting tourism to sustainable levels that are ecologically sound.

As noted above, there have already been areas where the Correa administration and Pachakutik have been at odds. This has occurred at the grassroots level as well where peasant communities have undertaken mobilizations against mining concessions and oil operations and in favor of land rights. These mobilizations have been criticized by Correa. Nonetheless, he has been forced to respond and has generally acquiesced to their demands. There is some correspondence in that Correa appears to be examining the various oil concessions and declaring some of them void when the firms have not discharged their obligations. The indigenous are forcing an examination of mining concessions in the same fashion, particularly in evaluating their environmental effects. So the relation is quite fluid and the actual insertion of the indigenous movement into the economic policy of the country appears likely to be significant but not completely definable at this point. What certainly is true is that they will play a significant role, one whose outlines will be clearer after the elections for the constituent assembly are completed.<sup>13</sup>

## **VI. Conclusions**

The Ecuadorian indigenous movement embodied in CONAIE has been in the forefront of indigenous movements in Latin America. Yet there is very little to show for twenty years of political/economic activity. The consciousness of the indigenous has undoubtedly grown tremendously and this has forced governments to ignore the indigenous only at great peril. There have also been experiences of extracting concessions from the government and even of taking important decision-making positions in different administrations. But the Washington Consensus and neo-liberal thrust to policy has dominated to date. The state has grown progressively weaker as its policy space has diminished. And its ability to actual deliver meaningful economic concessions has been outrun by the limits on its power.

Ultimately, significant advance toward the broad economic goals of the indigenous movement will depend on both an expansion of the policy space available to the central government and the power of the indigenous movement to carve out concessions for its constituents. So the success of the Correa government's underlying program will be important to the indigenous movement. Then it s further success will depend on the movement itself. We can see that there is still a long road to travel before attaining "A Plurinational Economic Development Model."

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**TABLE 1**  
**ECONOMIC PERFORMANCE IN ECUADOR AND LATIN AMERICA IN**  
**RECENT DECADES**

	<b>LATIN AMERICA/CARIB.</b>			<b>ECUADOR</b>		
	<b><u>71-80</u></b>	<b><u>81-90</u></b>	<b><u>91-97</u></b>	<b><u>71-80</u></b>	<b><u>81-90</u></b>	<b><u>91-97</u></b>
Per Capita GDP Growth	3.3	-0.4	1.6	6.3	-0.6	1.5
Per Capita GDP (US\$) <sup>b</sup>	2900	2653	3025	1378	1264	1392
Average Inflation	46.7	192.1	268.0	13.8	36.6	34.9
Gr. Dom. Invest. Growth	7.6	-1.7	5.9	10.7	-5.1	2.3
Gov't Exp.( % of GDP)	19	22.5	23	14.2	15.6	18.5
Govt Deficit(% of GDP)	2.2	1.7	1.5	-1.4	-2	-1.3
Curr. Acct Bal(mill\$)	-28329	-1514	-63427	-642	-360	-743

**TABLE 2**  
**RECENT ECONOMIC PERFORMANCE: LATIN AMERICA AND ECUADOR**

**LATIN AMERICA/CAR.**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
Per Capita GDP Growth(%)	3.7	0.9	-1.1	2.4	-1.2	-2.3	0.5	4.4	1.4
Average Inflation(%)	10.7	10.0	9.7	9.0	6.1	12.2	8.5	7.3	8.5
Govt Deficit(% of GDP)	-1.1	-2.2	-3.0	-2.6	-3.2	-3.1	-2.6	-1.6	-2.3
Urban									
Unemployment(%)	8.9	10.0	10.7	10.1	10.0	10.7	10.7	10	10.1
Current Acct.									
Balance(\$billions)	-64.4	-88.2	-54.9	-46.6	-51.4	-13.5	7.9	18	-36.6
Capital Acct. Balance(\$billions)	89.2	63.4	42.6	61.2	34.2	-12.1	3.2	-5.6	41.2
Net Resource Transfers	32559	27837	-1594	-113	-3396	-41567	-36229	-63678	-10772.6
Foreign Investment(\$ millions)	57599	63677	79345	68876	65110	41429	31739	43937	56464.0
Change in Reserves(=Incr.)									
(\$billions)	-15.8	9.1	6.2	-6.9	1.0	3.2	-29.5	-21.1	-6.7

**ECUADOR**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
Per Capita GDP Growth(%)	2.4	0.6	-7.6	1.3	3.6	1.9	1.2	5.4	1.1
Average Inflation(%)	30.6	43.4	60.7	91.0	22.4	9.3	6.1	1.9	33.2
Govt Deficit(% of GDP)	-1.2	-4.1	-2.9	0.1	-1.1	-0.8	-0.4	-1.1	-1.4
Urban									
Unemployment(%)	9.3	11.5	15.1	14.1	10.4	8.6	9.8	11	11.2
Current Acct.									
Balance(\$billions)	-427	-2001	877	921	-599	-1398	-472	-166	-408.1
Capital Acct. Balance(\$billions)	745	1378	-1485	-950		1275	591	447	90.8
Net Resource Transfers	-316	467	-2715	-2020	-776	28	-841	-1050	-906.4
Foreign Investment(\$ millions)	724	870	648	720	1330	1275	1555	1160	875.9
Change in Reserves(=Incr.)									
(\$billions)	-251	460	492	-307	106	66	-152	-277	8.9

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\*The paper was first presented at the Latin American Studies Association meeting in September, 2007. My thanks to the panel members and the attendees for their comments.

<sup>1</sup> Much of the material contained in the next two sections is well known to those who follow Ecuador and is readily available in popular sources. So it will not be extensively documented. A reader who would like added information might go to Hoy (2007).

<sup>2</sup> The six indicators are “voice and accountability,” “political stability/no violence,” “government effectiveness,” “regulatory quality,” “rule of law,” and “control of corruption.” These indicators have their own problems, the primary one being their reliance on perceptions, and mainly perceptions of businesses, who are inherently skeptical of government activity.

<sup>3</sup> See Kumar and Gallagher (2007) for an analysis of the effect of multilateral trade agreements on national governments’ policy space.

<sup>4</sup> It was not coincidence that Kenney and the other major figures in the U.S. Embassy rotated out of the country shortly after Gutiérrez’s fall from power. She was later confirmed as Ambassador to the Philippines.

<sup>5</sup> Jameson (2006) places this debate within the long-running tension between neo-classical and institutionalist economics and suggests that the complexity of the development process appears to vindicate the institutionalist approach in its new forms.

<sup>6</sup> Correa, like Morales in Bolivia and several others, has been tagged by a variety of reductionist terms: pink tide, leftist, Chavista, neo-populist. None capture the central elements of his program and their implications don’t do justice to the Correa program (Birns and Birns 2007). I offer the description below in an effort to situate the program more coherently.

<sup>7</sup> The 77 page “Plan de Gobierno del Movimiento PAIS, 2007-2011” issued in December 2006 covered virtually all the political, social, ethical, and economic bases. This was reflected in the three page list of persons and organizations consulted for input into the document. Nonetheless, the general thrust of the document can usefully be characterized as an attempt to widen the policy space available to the government.

<sup>8</sup> The most extensive treatment of the financial plan is in Paez (2007). The actual proposal was modified by Congress, vetoed by Correa in late June 2007, and passed over his veto in July.

<sup>9</sup> The Noboa administration followed similar policies but with much less coherence and decision.

<sup>10</sup> Engagement with the formal political process had also advanced with the formation of the “Pachakutik Movement for Pluri-national Unity” in 1996. Representation in the Congress and the need to make political compromises led to tactical questions that caused tensions in the indigenous movement. For example, the indigenous leaders of the insurrection against Mahuad wanted to dissolve the Congress; the Pachakutik representatives disagreed.

<sup>11</sup> Secretary of Production, Luis Maldonado Lince, was working with Luis Macas and CONAIE on a major irrigation initiative while he and Correa were in the cabinet. (Personal communication).

<sup>12</sup> The largest party in the current Congress is PRIAN, the party of Correa’s presidential opponent. Since they were elected during the first round of voting, won by Noboa, and since Correa’s popularity remains high, though declining, the likelihood of a major change in economic direction seems relatively high.

<sup>13</sup> Some personal communications to me indicate that there may be a series of local and regional indigenous candidates to the Assembly who will take positions that have a very different emphasis from the “proyecto politico” and thus may affect the indigenous influence on the direction of economic policy.