

Latin America Report N°22 7 August 2007

EXECUTIVE SUMMARY

Ecuador has been Latin America's most unstable democracy for a decade. Starting with the ousting of President Abdalá Bucaram by Congress and street protests in 1997, weak, temporary governments have been the rule. In 2000, Jamil Mahuad was toppled by a civilian-military coup, and in 2005 protests brought down Lucio Gutiérrez, who had helped oust Mahuad. The government of Rafael Correa of the Alianza País (AP) movement, who took office in January and enjoys record-high approval ratings, is applying "shock therapy" to overwhelm the discredited opposition and pave the way for a constituent assembly (CA) intended to produce "profound, radical and fast change". This triggered one of the sharpest clashes between branches of government since the return to democracy in 1979, including the Electoral Court's firing of 57 opposition members of Congress in March, accompanied by street violence. To restore stability to the troubled country, Correa will need to pay more attention to upholding the rule of law, ensuring a level CA playing field and building consensus for fundamental reforms.

Chronic instability has been linked to progressive undermining of the rule of law. Veto power of powerful economic groups and the parties in Congress and the judiciary has been strengthened, as has the street power of social movements, in particular indigenous organisations, but lately also sectors of the middle and upper-middle class in large cities, especially Quito. The military retains its behind-the-scenes influence but may be more reluctant to intervene directly than in the past unless collapse of public order is imminent. While the economic and banking crisis of the late 1990s, central to Mahuad's fall, was patched over by introducing the dollar as the official currency in 2000, and economic growth is steady, there are sustainability questions. If oil prices fall, the uncertain investment environment and declining production of state-owned PetroEcuador could bring back economic stagnation. Correa is focused on fighting the opposition and making the CA happen. It is uncertain whether he could build the necessary consensus to steer Ecuador out of crisis, especially in the face of hostility from the elites.

Instability's roots trace back to the institutional framework established during the return to democracy and the foreign debt accumulated at the start of the oil boom in the 1970s. Since then, lack of stable congressional majorities and the exclusion of important segments of society, in particular the indigenous, have prevented long-term planning and an effective attack on corruption, patronage politics and rent-seeking attitudes fostered by oil wealth. In 1997-1998, interim President Fabián Alarcón tried to restore governability with a new constitution. He failed, and it is at least questionable whether Correa's plan to introduce

sweeping reforms by a new constitution will fare better. History shows Ecuador's problems cannot be solved solely by constitutional engineering and that the intransigent elites and traditional parties will do everything in their power to protect their privileges.

If he is to succeed, Correa will need to:

- uphold the rule of law and guarantee the separation of powers;
- prepare the CA election with full transparency and guarantees for the opposition;
- seek consensus with the opposition on key points of the new constitutional framework to be elaborated by the CA, including economic reforms;
- advance institutionalisation and democratisation of Alianza País and the social and political movements; and
- elaborate, with broad citizen participation, an economically viable National Development Plan 2007-2011.

Bogotá/Brussels, 6 August 2007

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