

Ecuador

Status Index (Democracy: 3.4 / Market economy: 2.7)		6.1	Management Index		4.6
System of government	Presidential democracy		Population	12.6 mill.	
Voter turnout	71.12 % (Presidential and Parliamentary election 2002)		GDP p. c. (\$, PPP)	3,280	
Women in Parliament	16 %		Unemployment rate	14 % (2000)	
Population growth	2.3 %		HDI	0.731	
Largest ethnic minority	25 %		UN Education Index	0.85	
			Gini Index	43.7 (1995)	
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

The period of this report largely covers two governments: The first is that of Jamil Mahuad, who was elected in ahead-of-schedule parliamentary and presidential elections in 1998 and was then overthrown in the wake of massive social protests in January 2000 long before the end of his actual term. The second is that of his successor and former vice president, Gustavo Noboa. In January 2003, Noboa relinquished his office to Lucio Gutiérrez, who was elected president in November 2002.

This report on the status of democratic and market-economic transformation during the last five years (1998–2003) draws the conclusion that there has been stagnation in development regarding the absolute realization of goals. In view of the economic circumstances—which were, to some extent, extremely difficult—under which the relevant actors had to further consolidate the transformation, however, the process should be considered overall to be a management success because a return to authoritarian tendencies has been prevented to date.

Although consolidation of some performance criteria was achieved, particularly in the area of the participation of wide strata of the population in political decision-making processes, some deficiencies persist, above all in the areas of the rule of law; the stabilization of patterns of democratic representation and attitudes among the citizens; and securing sustainable economic development. Social exclusion of broad strata of the population and social inequality are central factors for political instability. Overcoming these factors will be a primary emphasis of the consolidation process in the future.

2. History and characteristics of transformation

By 1979, Ecuador's transition from a military dictatorship to a democratic system of government had already taken place. Ecuador is therefore one of the countries that was caught up in the third wave of democratization in Latin America at the end of 1970s. Since then, regimes legitimized by general elections have governed. Nevertheless, no lasting democratic stability has been achieved so far, and efforts at consolidating the democratic fundamentals of the system were the focus of transformation. The Ecuadorean transition process took place on the basis of an agreement between civil reformers and sectors within the military intent upon greater openness. The problem with the transition was that powerful sectors of the society from both conservative and liberal camps, and also from other parts of society, opposed it and were thereby excluded from the subsequent management of policies.

The political alliances that formed the civilian governments in the aftermath were therefore too weak to be able to integrate the opponents of transition into the new political regime. Opponents of transition, who had excluded themselves from the democratization process, continued to possess considerable influence, however, and even managed to obtain the presidency five years after the start of the transition process. From there they attempted to undermine one of the vital agreements of transition, namely political participation via parties, by constitutionally anchoring the political participation of so-called *Independientes* (independents).

On the whole, wide approval was lacking within political elites about the democratization process and its rules, which a portion of the political actors did not recognize as their own. As a result, the transition reached no overall consensus about the mechanisms of allocation and distribution of political power, thereby impairing the consolidation, legitimacy and permanence of the democratic model in the long term. Since the transition, a contradiction has developed between political participation and representation. Although the parties had a monopoly on political participation, they were unable to anchor themselves socially in such a way that they could do justice to their representative function. As a result, they quickly forfeited legitimacy.

The Ecuadorean democratization process took place against a backdrop of a sustained and far-reaching economic crisis in which the impoverishment of wide strata of the population was accelerated rather than alleviated. The consequence of the crisis was a delegitimizing of the democratic model that, in the perception of large parts of the population, was not in a position to solve the most urgent economic problems. The economic crisis led to a substantial reduction in not only material resources and human resources, but also power resources, which were increasingly slipping out of the state's control.

In addition, with the economic crisis, international financial organizations were emerging as political actors on the national political scene. They took part in political events under specific conditions, and there was practically no opportunity to discuss or question their conditions and decisions. This did not strengthen the legitimacy of the democratic model by any means. Twenty-three years after the formal transition to democracy, illusion has given way to distrust among the population about the democratic system.

As in most other South American countries, Ecuador's transformation to a market economy signified the departure from the outmoded development model of import-substituting industrialization, which had been the typical model of development since the 1930s. This means that by the time of the transition to democracy market structures were existent, but the internal market was relatively isolated and regulated and the public sector widely spread. Among other reasons, in Ecuador this was also the result of the petroleum boom, which started in the 1970s but was not used by the military government for consistent and sustainable economic policies. Instead, the unrealistic development plans of the military provided for growing macroeconomic imbalances in Ecuador, especially growing fiscal deficits and an exploding public and private debt.

The debt crisis in the early 1980s showed the fragility of this development model. In the following ten years, the Hurtado, Febres Cordero and Borja governments tried to stabilize the Ecuadorian economy, with changing but all in all little success. Since then, the IMF adjustment directives began to dominate more and more the governments' economic policies. In the course of the 1990s the in part chaotic governments did not manage to achieve basic stabilization. In 1998, that is with the beginning of the period under investigation, Ecuador headed up to a new fundamental crisis. It put to the test not only the management of the political elites, but also the democratic political system as a whole.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

Ecuador has made progress in the transformation of the political regime in several of the evaluated areas. There continue to be transformation deficits in the areas of political representation and the rule of law. There have been negative developments in individual indicators for democratic stability. Especially in situations of crisis democratic rules are not applied, as the destitution of president Bucaram or the coup against president Mahuad have shown. However, a level that endangers the system has not been reached yet.

3.1.1 Political regime

(1) *Stateness*: There is clarity about national state identity, and power structures are sufficiently differentiated and established. There is practically no impairment to the state's monopoly on the use of force. Only in the region bordering Colombia in the northern part of the country has the state's monopoly on the use of force functioned somewhat incompletely in the last few years due to the cross-border effects of Colombia's internal conflict. *Stateness*, however, is not severely threatened thereby. Instead, state presence has grown in the last years by strengthening the state security forces in the region. However, radical segments of the indigenous movement are challenging the state in its present form.

Additionally, the discussion about decentralization and regionalization of the country has led to a reasoning about a change of the political system. Otherwise the state has a fundamental presence in terms of infrastructure throughout the national territory. This infrastructure is, however, often inefficient. Inefficiency affects administrative institutions in particular, but to some extent affects even jurisprudence and the enforcement of political decisions as well. In the meantime, all citizens formally possess the same civil rights, and a predominant percentage of the population fundamentally recognizes the national constitution. Ecuador's indigenous population, however, was discriminated against on an ethnic basis during Spanish colonial times, as well as afterward, and was excluded from any political decision-making. Only through massive migration from the country to the city and through ethnic "mixing" has this model of an ethnic hierarchy become obsolete. Nevertheless, latent vestiges of ethnic discrimination still exist in access to government resources. Church and state are separate, and religious dogma has no appreciable influence on politics and law.

(2) *Political participation*: The population chooses its representatives and has other political freedoms. There are no restrictions whatsoever on free and fair elections. Elected representatives have full power to govern. Political enclaves in the hands of military have ceased to exist since the transition. There are no restrictions on the freedom of assembly and freedom of association, i.e., independent political and/or civic groups are allowed to freely form and assemble. Ethnic mobilization can be spoken of inasmuch as the indigenous population of Ecuador, which is making use of ethnic discourse, has increasingly gained in significance as a political actor over the last few years and has established itself in the political landscape permanently. There are no restrictions on the freedom of speech and freedom of the press. Citizens, organizations and the media can freely express their views.

(3) *Rule of law*: The formally independent system of checks and balances is largely guaranteed, and there are hardly any restrictions on the separation of powers and their basic functions. Nevertheless, deficiencies are apparent. For example, the relationship between the legislative and executive is permanently

strained, i.e., there is a latent, structurally induced political conflict between Congress and the executive branch. This leads repeatedly to the blocking of the executive by the legislative branch. Even the independence of the judiciary is subject to the “informal” exertion of influence by the legislative branch at times, particularly in connection with legal proceedings that have been brought against politicians. For their part, the executive branch and political parties frequently attempt to exert influence on the judiciary in connection with the appointment of judges. Though the judiciary is well-differentiated professionally and operates in a relatively independent manner, it is limited to some extent in its ability to function by corruption and the exertion of political influence.

Additionally, the citizens’ ethnic and socio-economic status may influence their treatment by the judicial system. However, this has not led to a general suspension of judicial control and review functions. The population rates political and bureaucratic corruption as enormously high, and combating it is generally considered one of the most urgent problems. Nevertheless corruption remains to be in practice in all parts of society. As a rule, corruption is criminally prosecuted, but corrupt officeholders also encounter political, legal and procedural loopholes. There are no limitations in connection with civil rights.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Democratic institutions function stably at their core, but there are obstacles in interaction between institutions from time to time. Majorities in the government and Congress that mutually block each other limit institutional efficiency. The officeholders’ permanent intentions to reform the Constitution and to instrumentalize the democratic institutions result in a negative perception of these institutions among the citizenry. However, the relevant political and social actors view the democratic institutions as legitimate in principle.

(2) *Political and social integration*: The party system shows evidence of a high degree of organizational instability and a relatively high degree of fragmentation. Since the transition in 1979 no completely stable, socially anchored party system has evolved. The low ability to form party platforms, strong tendencies to focus on personalities and patronage, and the somewhat regional orientation of the parties also contribute to the parties’ relatively poor social anchoring on a national level and their latent instability. The briefness and fragility of political alliances was therefore on every administration’s agenda since the political transition and also continues to be characteristic of Ecuador’s political landscape. Voter volatility also continues to be relatively high.

Ecuador’s landscape of interest groups is relatively undifferentiated, and only certain social groups possess functional representation of their interests. Among

these are primarily business associations, while trade unions have forfeited much influence and are still only of subordinate significance. As a result, important social interests are underrepresented, and relatively few actors dominate the system of interest groups. Just in the last few years wider social interests have also been represented and are gaining ground in the political system. Thus, from the mid-1990s on, underrepresented segments of civil society have increasingly been anchored within the political system with functional representations of their interests (e.g., central indigenous interest groups but also organized social movements).

At the same time, these organizations have made steady gains in social recognition and influence. Overall, there is a heterogeneous network of autonomous, self-organized groups. Despite the positive development with respect to civic organizations over the last few years and the associated broadening of democratic attitudes within Ecuadorean society, the citizens' satisfaction with democracy and citizens' confidence have rather diminished and lie in the middle range of 50 % to 70 %. Interpersonal confidence is also relatively low according to *Latinobarómetro*.

3.2 Market economy

The change to a market economy coincided with Ecuador's transition to a democracy. However, Ecuador experienced its worst economic crisis of the 20th century in the years from 1998 to 2000. It was triggered by the combination of the Ecuadorean economy's crisis-prone starting conditions in the mid-1990s, economic missteps and negative external influences. These included floods at the end of 1997 that were caused by the weather phenomenon El Niño, which especially affected agriculture in the coastal region; the retreat of investors and lenders during the Asian, Russian and Brazilian economic crises of 1998–1999; and a great drop in petroleum prices in the world market in 1998, which led to a drop in export revenues. Additionally, the liberalization of Ecuador's financial market has since the mid-1990s led to an enduring financial crisis.

The dependence on exporting primary goods and, in particular, on a few products with volatile prices makes Ecuador especially susceptible to outside influences. The Ecuadorean economy experienced a reduction in the GDP of 7.5 % by the end of 1999, but was able to rebound again in the following years.

3.2.1 Level of socioeconomic development

The key indicators show a relatively low level of development. The development level as measured by HDI does not come close to enabling all citizens to gain sufficient access to fundamental resources. Social exclusions due to poverty,

education, or ethnic or gender-based affiliations are very pronounced quantitatively and qualitatively and are reinforced structurally to some extent. A high poverty rate and, to some extent, extreme social disparities and inequalities in the distribution of income characterize Ecuador's social reality. The extreme economic crisis that defined development in the course of the underlying time frame (primarily between 1998 and 2000), as well as measures for structural adjustment and the change to the dollar as legal tender in 2000, also intensified social disparities.

3.2.2 Market structures and competition

The fundamentals of free-market competition are guaranteed. However, the control of the formation of monopolies and oligopolies is not completely consistent. The existing anticartel legislation is not always applied evenhandedly or impartially. Foreign trade has been deregulated to the widest possible extent, and the government does not fundamentally intervene in free trade. However, the banking system and the capital market are less well-differentiated and less competitive, and they also suffer from inadequate regulation. The problems in the banking system were the most visible sign of the severe economic crisis at the end of the 1990s, when the number of bank failures rose enormously. After an initial phase of unsuccessful bank reorganizations via the central bank's granting of additional loans to endangered private banks, at the end of 1998, the executive and legislative branch agreed upon a universal deposit guarantee and the establishment of a deposit protection agency.

3.2.3 Stability of currency and prices

In January 2000, President Jamil Mahuad announced plans to "dollarize" Ecuador, and within the next six months the US dollar became the only legal tender in the country. On September 10, 2000, the US dollar replaced the *sucre* as the national currency. The Mahuad government felt that this was the only way to prevent the threat of hyperinflation. The expansion of the financial and banking crisis to a general economic crisis was the central dimension of the threat of hyperinflation, which led to dollarization in Ecuador. The "dollarization" in turn led to a considerable rise in prices, thus destabilizing the internal market, rising production costs, and thereby damaging the competitiveness of the Ecuadorian economy as a whole.

Though controls on inflation and an appropriate exchange rate policy are recognized economic goals, they have not been consistent over the course of time and are not adequately provided for institutionally. Despite various adjustment and debt-restructuring programs, external national debt during the entire 1990s remained at a constantly high level. Ecuador's external debt amounted to 77 % of

GDP and 250 % of exports at the beginning of 1998. Excessive borrowing in dollars without calculating the corresponding risks turned out to be increasingly problematic in the course of the crisis. Inadequate regulation of the financial system, combined with simultaneously increased integration into the international financial markets, is one problem area. Thus, continuous government stabilization policies can only be established to a limited extent, and there are considerable performance problems.

3.2.4 Private property

Property rights and the acquisition of property are adequately defined. Nevertheless, there are problems in constitutional enforcement caused by the weaknesses of the rule of law, especially the inefficiency and the lack of transparency in the judicial system and corruption. Private businesses are the backbone of the economy, but state-owned companies continue to exist alongside them to a small degree.

3.2.5 Welfare regime

Welfare and social policies are nearly inexistent in Ecuador. Because of the lack of resources the different governments engaged in short term social programs, but failed to construct a system of welfare policies. Social safety nets are well-developed to some extent, but do not cover all risks for all strata of the population; the risk of poverty still exists for significant parts of the population. The society is very heterogeneous socially, ethnically and regionally. There are no government institutions to make up for gross social discrepancies.

On the other hand, the incorporation of individuals and groups into social and ethnic networks based upon common backgrounds functions as an important element of social security, especially in the poorer and indigenous segments of society. The development of a state social security system in the areas of health, the elderly and unemployment would certainly be necessary and desirable. There are no *de facto* employment-policy measures to integrate workers who have lost their jobs. Women are at a disadvantage in accessing education and public agencies.

3.2.6 Strength of the economy

Per capita GDP growth is extraordinarily low and goes hand in hand with additional negative macroeconomic indicators, the control of which does not appear to be well-assured overall. The employment rate is also consistently low, even though the situation has eased somewhat in the past few years due to

massive international migration of the Ecuadorean population. Despite dollarization and the associated expected price stability and economic revitalization, the effects of the currency reform were rather counterproductive. Price stability continues to remain low, the budget balance is unfavorable, there is no budgetary equilibrium, and debt is on the rise. Imports have largely squeezed out domestic products, and high international risk premiums are imported along with the dollar, resulting in an extreme increase in the price of business loans. Domestic companies are filing bankruptcy by the dozens, and unemployment is rising.

3.2.7 Sustainability

There is only sporadic consideration for ecologically compatible growth, and ecological compatibility is hardly anchored institutionally. Negative ecological effects are enormous, particularly in the Amazonian lowlands, where petroleum extraction has played a significant role in Ecuador's economic development since the beginning of the 1970s. Environmental awareness has increased in the last few years due above all to the circumstances in the Amazonian lowlands.

Though institutions for education, training, and research and development exist in significant segments, they are very heterogeneous, and clear deficiencies can be noted in research and development. Investment in education and training as well as in research and development must be rated rather low in quantitative and qualitative terms. Consequently, there are also no mechanisms whatsoever for the advancement of women, the handicapped and weaker members of society.

4. Trend

(1) *Democracy*: Since transition, stateness, political participation and the rule of law have held fast at their existing levels. The degree of democratic consolidation has not changed appreciably. However, during the reporting period, the criteria of public safety and order, state monopoly on the use of force, a capable administrative system, and the functionality of the courts were in part very unfavorable. In particular, the overthrow attempt by members of the midlevel military ranks along with representatives of the indigenous peasant movement in January 2000, as an interim culmination point of a long-lasting political and economic crisis, has called the stability of the democratic system into question.

While the mutual checks and balances among the government, Congress and the judiciary continue to function with slight deficits, there are no restrictions in terms of civil rights and freedom of speech. Only very few if any advances have been made so far in combating corruption. Along with the development of the economic crisis, corruption—which a majority of the Ecuadorean population

perceives as extreme within the political class—remains a major factor for political destabilization.

Survey results indicate increasing dissatisfaction with the political system for the period covered by the report. The Ecuadorean party system is distinguished in the meantime by a very wide spectrum in which all directions are represented. The development of political and social integration measures by established parties is regressive, however. The party ties of top candidates continue to be weak (as is traditional in Ecuador), just like the party political roots of the population. On the other hand, new political actors from the civil society—who represent social and ethnic segments of the society that have so far been underprivileged—gained more and more in influence during the period of the report. Thus, with the beginning of Lucio Gutiérrez's presidency in January 2003, the recently established indigenous political party *Pachakutic* was included in government responsibility for the first time.

(2) *Market economy*: The level of development in the country has not changed significantly during the last five years. On the other hand, the macroeconomic data were in part subject to considerable fluctuations. The Gini index shows unchanged high disparities in income.

The institutional conditions have not changed significantly. Ecuador's poor economic performance in 1998 can be attributed to unbalanced economic policies as well as to external and climatic shocks. The overall economic development within the period covered by the report has rebounded somewhat in quantitative and qualitative terms in 2001 and 2002 since the extreme crisis (1999 and 2000). After a decline in the GDP of 7.5 % in 1999, clear increases were again achieved in 2000 and 2001. Nevertheless, the dollarization tended to worsen the domestic economic situation again.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP Index	UN Education Index	GDP per capita (\$, PPP)
1998	0.722	0.701	0.57	0.85	1,520
2001	0.731	0.716	0.58	0.85	3,280

Sources: UNDP, Human Development Report, 2000, 2002, <<http://undp.org/hdr2000.english/FAQs.html>>, <<http://undp.org/reports/global/2002>> [accessed 04/03/2003].

Table: Development of macroeconomic fundamentals (1998–2002)

	1998	1999	2000	2001	2002 (2/4)
Growth of GDP in %	0.6	-7.5	2.0	5.6	2.0
Exports in billions of US\$	1.3	5.2	5.8	4.4	4.5
Imports in billions of US\$	2.2	4.0	4.6	4.2	4.4
Inflation in % (CPI)	7.7	60.7	91.0	22.4	10.4
Unemployment in %	n/a	n/a	14	10.4	8.7
Budget deficit in % of GDP	n/a	n/a	2.5	n/a	-8.4
Current account balance in billion US\$	-2.2	1.0	1.4	-0.9	-0.7

Sources: Lateinamerika-Jahrbuch (2002) [Latin American Yearbook (2002)], key economic data; Banco Central del Ecuador [Central Bank of Ecuador] <<http://www.bce.fin.ec/>> [accessed 04/03/2003]; Dresdner Bank Lateinamerika [Dresdner Bank of Latin America] http://www.dbla.com/_meta/_pub_download/_publikationen/spotlight_02_12.pdf [accessed 04/03/2003]

5. Transformation management

5.1 Level of difficulty

The level of difficulty for transformation or consolidation during the period under consideration must be rated as relatively high. A relatively low level of economic and social development, as well as social and ethnic conflicts, and an inefficient state administration produced poor conditions for continuing democratic and market-economy consolidation during a great portion of the period in question.

Political, economic and social development deteriorated dramatically, especially during 1999 and 2000. The processes of political decision-making are very difficult because of the diversity of social actors. The divergence of political parties and movements – reflecting the variety of political identities in the country – complicates the building of majorities in parliament. A fundamental consensus about democracy and the basic democratic “rules of the game” was already in existence before the assessment period. However, reinforcement of the democratic consolidation process was not achieved, because it was hampered considerably by the economic developments, which were sometimes catastrophic.

5.2 Reliable pursuit of goals

The Mahuad and Noboa governments, which were in office during the period under consideration, pursued long-term goals in addition to politically managing current problems. However, these goals frequently took a back seat to considerations of short-term political gain. Thus the government’s actions were

above all guided by the intention to contain the economic and financial chaos resulting from the collapse of the banking system, and was thus more reactive than active.

As a result, the primary focus in 1998 was the effort to put democracy on a more solid basis by formulating a new constitution and holding ahead-of-schedule presidential and parliamentary elections (after Fabian Alarcon served only provisionally as interim president following the scandalous resignation of former President Bucaram). Finding a definitive solution for the border conflict with Peru was also an important priority. A constituent assembly decided to strengthen the presidential system and set up the party political cohesion in Congress in a more attractive way in order to improve the governability of the country as a whole.

The year 1999 was marked largely by political debate related to economic policy (especially monetary policy) between President Mahuad and the Congress. The Mahuad government's targeted focus, therefore, was mainly on containing the desolate economic situation and the extremely explosive social climate. This situation also continued in 2000 and inevitably determined the goal orientation of governmental policies, which thus became more focused on the short term. Although dollarization was supposed to contribute to long-term economic stabilization, this goal has not yet been achieved. In terms of reform policies, both governments tackled in particular economic structural adjustments and political administrative decentralization.

Since its democratic transition in 1979, Ecuador's governmental policies in general guarantee a fundamental reliability of expectations for life, the law and the economy. However, they are susceptible to surprising turns and changes in course. This was shown in particular during the extreme economic crisis between the end of 1998 and 2000 that was brought about mainly by external influences, but was also intensified by natural catastrophes (El Niño, volcanic eruptions). Social and economic actors must therefore be prepared for politically induced uncertainty.

5.3 Effective use of resources

The government does not always use available personnel and organizational resources efficiently. It realizes only a portion of announced reform projects, however, and frequently cannot adhere to its own plans. State resources are often misdirected by the officials' corruption as well as by the distribution to different social sectors to keep up their political support. The public services provided by the government facilitate only partial advances in development.

The utilization of resources gained from privatization processes in the oil, telecommunications and service sectors still continues to be largely unclear. In line with past experience, however, efficient and reliable use of these resources

can hardly be expected. Some mechanisms to guarantee integrity are effective, but others do not function. Neither government made, during the period under consideration, particular efforts to create needed mechanisms, in order to guarantee integrity. The political elite does not adequately include the cultural heritage and ethnic differentiation of the country in political communication and in the definition of its reform policies. Reforms often threaten to fail due to ethnic/cultural antagonisms or contradictions.

5.4 Governance capability

Although the leading political actors react to setbacks and policy failures with changes, these changes tend to be so marginal that the actors' policies remain rooted in customary routines. Learning processes do not influence the basis of knowledge or the cognitive framework of the policies. The government only has the political authority necessary to initiate or implement required reforms to some extent. Although the government takes the allocative effects of its policies into consideration, it hardly ever makes an effort to improve the allocative efficiency of the markets. Thus, the economic orientation and the management of economic transformation during the period in question were neither prudent nor sensible.

Economic decisions by the government weakened the country in 1999, forcing it to endure a contraction of the GDP of 7.5 %, inflation of more than 60 % and a depreciation of the Ecuadorean currency of approximately 200 %. Even though the political actors recognize their own scope for action, they do not utilize chances for development that arise. Once in a while the actors do indeed recognize their chances for development, but they overestimate their scope for action to such a degree that reform policies are blocked within a short time as a result of political resistance. The ever-changing majority constellations in Congress, the resistance to consensus-building and corruption scandals within the political class considerably restrict the government's organizational capability for domestic-policy reform.

5.5 Consensus-building

The important political actors essentially agree on the two goals: a market economy and democracy. Controversies refer mainly to the degree of market economy regulation. Additionally, some actors disagree with a "classical" liberal democracy but refer to a sort of participatory democracy emphasizing welfare aspects. The executive branch cannot control all vetoing actors, but it is at least able to limit the use of the stalemating power. The military in particular is still considered one of the most important vetoing powers in Ecuadorean society, but opposition parties in Congress have *de facto* power to block reform processes.

A constitution revised by a constituent assembly took effect in August 1998 at the beginning of Jamil Mahuad's tenure in office. This resulted in the strengthening of the presidency in individual aspects, e.g., via formally restricting the possibility of a vote of no confidence against ministers. However, the electoral system used to elect the Congress again produced splintered party representation. Even though the government can prevent the escalation of structurally induced conflicts, it cannot reduce existing antagonisms. The government is attempting to promote the willingness for solidarity, but it is not able to maintain or strengthen it due to its incoherent policies.

Ecuador's great crisis, which began at the end of the 1990s, had its roots not just in institutional regulations and economic conditions, but also in the lack of willingness to build a consensus to solve conflicts. Particularistic and regional interests prevent consensus-building. Even though Ecuador's political elite recognizes the necessity of confronting historical injustice—above all against the indigenous rural population—no explicit reconciliation process has been put into motion.

5.6 International cooperation

Although the political actors are working with international donors, they do not in general utilize international support to improve their policies. The newly elected Gutiérrez government is attempting to present itself as a calculable partner, but its trustworthiness within the international community must still be put to the test. The Gutierrez government's agreement with the IMF and its ties to the US administration can be considered as important steps into this direction. On the whole, political actors are making active and successful efforts to expand and intensify as many international cooperative relationships as possible.

The crisis strategy of the two governments relevant to the period, Mahuad's and Noboa's, were based on closely coordinating their policies with the International Monetary Fund (IMF), the World Bank and the Inter-American Development Bank. Still, the country had problems to achieve agreements with international organizations. The results of negotiations with the IMF and other international creditors were extremely unsatisfactory in 1999 and 2000. Nevertheless, cooperation with external actors is currently very intensive, above all due to the unstable economic situation and continued high external debt.

International partners of cooperation include, in addition to the ones already cited, the European Union and the Andean Development Corporation. Ecuador is one of Germany's—and Europe's—most important partners in development cooperation with Latin America. The border conflict with Peru, which was settled in 1997, had long been a source of tension in bilateral relations between these two neighboring countries. During the period under study, relations with Peru have largely

normalized. In addition, the effects of “Plan Colombia,” which were already palpable in the past two years in Ecuador, have appreciably intensified the situation in the region bordering Colombia. Increasing numbers of refugees from southern Colombia, the increasing willingness of paramilitary units to use force and the militarization of the region on the Ecuadorean side continue to dominate the scene. Public discussion in Ecuador is defined by this topic to a significant degree.

6. Overall evaluation

This report reaches the following conclusions with respect to the originating conditions, current status and evolution as well as political managerial achievement by the actors:

(1) *Originating conditions*: The originating conditions for efforts to consolidate the democratic and market-based system were in part very complicated. Only deficiently functional market-based structures existed before and during the period of the report.

The extremely high national debt, inflation and expansion of the negative balance of payments led to an economic crisis situation, which to some extent also caused attempts at political stabilization to falter. As a result, the processes surrounding the impeachment of extreme populist Abdalá Bucaram, who was elected president in 1996, and the January 2000 attempt to overthrow Jamil Mahuad, who was elected in 1998, document above all the continued, latent instability of the democratic system even after 20 years of (re)democratization.

The efforts at consolidation were carried out during the assessment period as a combination of attempts to broaden the democratic basis with economic crisis management. The influence of the military and the United States as external actors on political events continues to be rated as considerable.

(2) *Current status and evolution*: The evolution of the democratic transformation that has occurred so far is relatively long. However, the degree of consolidation of the democratic political system since the transition to democracy in 1979 has not changed appreciably, i.e., political decision-makers have not been successful in consolidating the democratic transformation qualitatively, and overall consolidation has thus stagnated. Even though the above-mentioned impeachment of former President Bucaram and the attempted *coup d'état* by the middle ranks of the military along with civic actors in January 2000 did not pose an internal threat to democracy, they clearly showed the political instability and the latent possibility of a regression.

The evolution of the market-economy transformation that has occurred is also relatively long. Decision-makers have not been successful in stabilizing macroeconomic development, however. An improvement of the ambient structures of the market-based system was not achieved, due above all to the extreme economic crisis at the end of the 1990s, when it was only possible to avert hyperinflation by dollarizing the national currency, and when the banking system stood at the brink of collapse. Rather regressive tendencies can be noted in connection with developing a stable market-economy transformation and Ecuador's integration into the world market.

(3) *Management*: The balance sheet for the relative managerial achievement of political decision-makers and actors turns out to be predominantly negative. The process of economic transformation during the period covered by the report was by no means constant. During the last two years, it gained slightly again in terms of reliability in achieving goals. However, the Ecuadorean economy as a whole is susceptible to crisis and extremely unstable; therefore the chances for success of a stable market-economy transformation remain relatively low.

In light of Ecuador's process of (re)democratization, which lasted more than 20 years, management strategies with respect to a wide pro-democratic consensus can be described as successful overall even if they have so far not led to any lasting stability with respect to the political system. The redefinition of relations with Peru can also be rated as positive. This stands in contrast to weak management achievement in the area of domestic policies (combating corruption, decentralization, party system, integration of different ethnic segments) as well as macroeconomic reforms.

7. Outlook

All in all the picture of Ecuadorean transformation must be described as ambiguous. Even though formal framework conditions for a democratic system are a given, the most important political actors do not yet possess the representative and integrative power that would be desirable and necessary for a democratic system. Social cleavages continue to run along ethnic lines to some extent, and violent social conflicts sometimes cause the precarious stability of the political system to falter.

The November 2002 elections in Ecuador reflected the population's dissatisfaction with established parties and their leadership. Populist outsiders Gutiérrez and Noboa emerged as victors from the first round of voting. Surveys before the elections showed that the Ecuadorean population wanted its new president to possess above all integrity, decisiveness, and the wherewithal to end long years of political and economic crisis in the country. After all, Ecuador has

had four presidents during the last six years, not exactly a sign of political stability.

The significance of the ethnic component in Ecuador's political landscape continues to increase and was confirmed by the election of Gutiérrez, who, after the *coup d'état* in January 2000, formed the governing junta along with the then president of the *Confederación de Nacionalidades Indígenas de Ecuador* (CONAIE), Antonio Vargas. His group, *Partido Sociedad Patriótica 21 de Enero* (PSP), whose name recalls the *coup d'état*, had massive support from the indigenous movement and the organized social movements, *Coordinadora de Movimientos Sociales* (CMS), which may ultimately have been the decisive factor in the election victory. The new president is admittedly faced with a difficult economic and social situation, which is characterized above all by long-term structural problems, and is illustrated by an extremely high percentage of the poor population with no access whatsoever to education, health care and other resources, as well as enormous income disparities.

Despite all efforts and great investment in building an oil pipeline, it was not possible to solidify the recovery of the Ecuadorean economy in the course of 2001 and in 2002. At the same time, the negative balance of payments also worsened. On the other hand, both the inflation rate and the unemployment rate improved. The new government, which assumed power in January 2003, must first be successful in solving the most urgent problems with the support of Congress and the organized civil society. It must adopt a consolidated national budget, as well as successfully negotiate debt restructuring and a new agreement with the IMF, and finally reactivate the economy with foreign loans.

Moreover, the political elite also has to overcome representation deficiencies in the political parties. Finally, the immense migration process especially to the United States and Europe has to be taken into consideration. On the one side it has led to an enormous loss of skilled workers. On the other side, however, it has become an important economic factor in Ecuador, for remittances from migrants to their families at home have reached significant dimensions.