

# The Heritage Foundation **Backgrounder**

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## ECUADOR'S BOLD EXPERIMENT DESERVES U.S. HELP

(Updating Backgrounder No. 479, "Ecuador as a Model for Latin American Development," January 10, 1986.)

Without prompt U.S. aid, Ecuador's bold free market experiment in economic revitalization may never have the chance to prove its value as a model for Latin American development. Ecuadorean President Leon Febres Cordero's strategy to reduce his country's debt and rejuvenate its economy through market-oriented growth is now threatened by falling oil prices, a leftist-dominated Ecuadorean Congress, and a growing communist insurgency. Failure of the free market model in Ecuador would inflict a major defeat on the Reagan Administration's Latin American policy.

Following his inauguration in August 1984, Febres Cordero began reversing years of economic statism, mismanagement, and corruption with sweeping structural reforms based on the free market. Controls on prices and foreign exchange were abolished, state-owned enterprises sold, and the bureaucracy streamlined. Foreign investors were welcomed back, while the government made impressive gains in reducing Ecuador's \$6.85 billion foreign debt through its own version of the "Baker Plan" more than a year before U.S. Treasury Secretary James Baker unveiled his innovative solution for Third World debt. Alone among Latin American leaders, Febres Cordero has demonstrated support for the Reagan Central American policy by breaking diplomatic relations with Nicaragua and denouncing consistently its communist Sandinista government.

Though he is only halfway through the single four-year term allowed by the Ecuadorean constitution, Febres Cordero's free market initiative is now imperiled. Although a program to lessen Ecuador's dependence on oil revenues by diversifying exports has been underway, petroleum remains the country's economic lifeblood. This spring's dramatic decline in oil prices therefore jolted the Ecuadorean economy, forcing cutbacks in government development programs and threatening the carefully structured debt reduction plan.

The fall in world oil prices coincided with an attempted coup d'etat by a rightist Air Force general--a move tellingly supported by leftist militants who unceasingly have opposed Febres Cordero's attempts to replace Ecuador's socialist-oriented economy with a free market system. Loss of export earnings, moreover, prompted spending cuts for housing for the poor and infrastructure development, leading to social unrest. Public impatience with the government's efforts to restore economic health helped Febres Cordero's political opponents in the June 1 congressional elections when center-left and Marxist candidates won control of Ecuador's congress. These hostile forces are expected to use every legislative device at their disposal to block the free market program. The resulting paralysis of the government, meanwhile, would lead to more terrorism and subversion by Alfaro Vive Carajo (AVC) guerrillas, communist revolutionaries with strong ties to Nicaragua and Libya.

If Febres Cordero's economic strategy is stalled before it can demonstrate its effectiveness, the free market approach to solving Latin America's problems would suffer a serious setback. Leftist economic strategies are largely discredited, but for free market alternatives to win popular backing, they have to be given a chance to succeed.

Ecuador needs immediate U.S. economic assistance to help reduce the budget shortfall caused by falling oil prices. Although a \$150 million short-term bridge loan made by the U.S. Treasury in May has lifted some pressure off the country's finances, it cannot provide the long-term fiscal strength needed to maintain political stability and assure the success of Febres Cordero's reforms. Another \$150 million should be made available with credit terms tailored to Ecuador's special situation.

The security of Latin America depends on economic as well as military assistance. Recognizing this, Congress voted \$300 million for Central American economic aid when it approved the \$100 million military-economic aid package for Nicaragua's Freedom Fighters. Ecuador's role in the long-term stability of the Western Hemisphere cannot be underestimated. It is truly a model for the type of economic and political system that, if given the chance, will provide a major deterrent to the advance of communism.

Ecuador has broken its decades-old cycle of stagnation and inertia and moved decisively into the modern era. The Febres Cordero administration's belief in individual enterprise and smaller, more efficient government offers a sharp contradiction to the myth of Latin sloth and statism. Even in an era of Washington budget-cutting, no price should be put on supporting an ally whose policies offer hope not only for Latin America but for all the developing world. The U.S. must not miss its chance for a major foreign policy success story in Ecuador.

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