Ecuador, Taking Big Steps With Tiny Feet

Becky Sparks

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With A Commentary by a Gringa

Becky Sparks
April 25, 2000
Leaving

May 17, 1999 8:20am

We just drove past the Golden Gallon I visited as a high school senior, when my head was confused and my identity uncertain. The drive is about 45 minutes from my house and the trip I took three years ago is an example of my efforts to relieve stress at that point in my life. Ah, the stress of youth. The stress of youth? I wonder how far I have come from that place. In some ways I feel that nothing has changed. As my dad drives the car down the road we always took as a family, when we were still a family, to visit our relatives in Marietta, Georgia, I try to recount changes. In time and in age I am three years from that Golden Gallon. In life I am much further. It’s funny how we measure life. I suppose you could say I am a divorce, a marriage, a college experience, more than a couple of good times, a dislocated finger, several influential and inspiring people, a couple of bottles of wine, hundreds of valuable experiences, and more than my share of mistakes away from that place. I know I must be somewhere between Jams and Capri pants because I’m en route to a South American country to a city filled with 2 million Spanish-speaking inhabitants, very far away from my Brentwood bubble. I’ve relinquished several childhood habits, but I’ve certainly not yet accepted all the responsibilities of adulthood. I am just somewhere between that Golden Gallon and another.

“What lies behind and what lies before us are tiny matters compared to what lies within us.”-Oliver Wendell Holmes
In the summer of 1999, in the Atlanta airport at about 1:00 in the afternoon, Erin Sutton and I kissed our parents goodbye, bravely boarded our South-bound plane, and ordered two screwdrivers. We knew exactly what we were doing. Well, not exactly. We knew we wanted to learn Spanish to the point of proficiency, get a Latin American experience, try something new, and challenge ourselves, all on a limited budget. We thought we could do that in Ecuador. We investigated lots of options, lots of other South American Andean nations, but nothing seemed to offer us what Ecuador promised. Those promises included a private communications college, a population with a clean accent, a family to house us, and most importantly, affordability. No one we knew expected us to go through with our plans when we were making them during the spring. "Great idea," they would say, "how much fun, so cool, really....you'll never go through with it." Our parents and professors warned us again and again of the dangers we faced, the risks we were taking, and advised us of the precautions we must take. I'm not sure they even imagined we'd do it. Then there's Will Carver. He knew I'd go. More than that, he knew I needed to go. We were best friends at the time and he knew me better than anyone. I constantly communicated with family and friends while in Ecuador, via email. But my emails to Will were incredibly honest, they were my true thoughts, and they were just about all my thoughts. Those emails serve as a record of that experience from my perspective as I tried to paint for him a picture of this tiny South American nation. Some of those emails link this paper. They serve as a pseudo-commentary on the issues my paper addresses. This paper strives to provide an analysis of the impact of the recently approved dollarization initiative on the modernization of Ecuador. But my hope is that it does much more. Hope you find the analysis complete, and simply enjoy the read.
The Flight

May 17, 1999 3:05pm

Take-offs are fun, but the landings are tough. I suppose it depends on so many things. 'It' being the quality of the landing. 'So many things' being the external influences- the quality of the runway, the weather, the clarity of the vision of the guy in the tower, and also the internal processes of the captain's mind. As a passenger I view the landings with a certain degree of criticism. Take-offs have the glory of being fast, breathtaking, exciting, and well, they're first. The perception of the landing may always be slightly jaded by the quality of the flight up to that point. Landings are hard to maneuver, nerve-racking for the passenger, and really they're downright scary.

I am reminded of how easy it is to get caught up in an exciting idea or a vision, but never accept the responsibility of the frightening challenges or obstacles one must face and overcome to succeed and carry it through. I think Erin and I are pioneers. Everyone told us how brave we were before we left, warned us of all the risks we were taking about a dozen times. Oh, we're nervous now. Perhaps it's the turbulence we've experienced during the flight. Perhaps it's our insecurities surfacing because we are setting out to do exactly what we planned to do. Yeah I think that's it, 'cause not everyone makes it to this point. We should be nervous; after all, we're landing.

To put it simply, for a while Ecuador has been in dire straits. *Los ninos estan muriendo de hambre*. The children are starving. They've been starving for more than a while, but lately the situation, economically and politically, has worsened for Ecuador.

There are several reasons why Ecuador has historically struggled for economic affluence.
Ecuador has proved itself a poor manager of its rich natural resources. A poor manager not only of natural resources but of people, too. The population is well mixed, and the social classes are well divided. Their views differ on how to improve the condition of their state. The government and the business leaders want development, modernization, and privatization. The indigenous people want virtuous politicians. Other Latin American countries have been striving to develop for years, to rid themselves of crooked politicians, to modernize their state, and to stabilize their currency. Some have been successful for different reasons. Ecuador hopes to make significant strides in the coming years by adopting a new monetary policy, modernizing the state, and restructuring their financial system.

In these attempts, dollarization of Ecuador's economy has been proposed. Dollarization isn't the solution to all Ecuador's problems. It is, however, a very strong beginning. It's a great idea. It has plenty of potential to improve the quality of life of Ecuadoreans, eventually. The process is long, challenging, and scary. Adopting the dollar will give Ecuador a chance to recover and become a player in this increasingly popular game of globalization. Success in its adoption will allow it the opportunity to experience economic prosperity and to be led by honest leaders, to finally see an absence of political corruption.

Dollarizing alongside its attempts to modernize the state, Ecuador puts itself in a unique position. With the dollar as the currency, foreign investors will be ever more apt to take part in the bidding for the presently state-run companies the government will be selling off as part of modernization. The benefits of dollarizing run the gamut from eliminating transaction costs to reducing inflation. These companies, as they are passed
from the hands of the state to the hands of private investors, can be more efficiently run
and will more quickly create jobs making way for economic prosperity in Ecuador.

The issue of dollarization has important implications for Ecuador and other
LDC's (Less Developed Countries) considering it, and for the United States. If Ecuador
does successfully dollarize its economy, it could provide a test case for the rest of the
region and give other nations the incentive and encouragement to dollarize. The
possibility exists that ultimately the U.S. dollar could become the Western Hemisphere's
version of the Euro.

Dollarization is desirable, but there are important considerations. Is Ecuador
prepared for globalization? Are Ecuador's people patient enough? Are they willing to
suffer in the short run for prosperity in the long run?

Children are starving. That won't change overnight. But for the situation to
improve it is imperative that Ecuador find the means and the courage to finish what they
have begun.

May 18, 1999

Dear Will,

I made it here. Planes are fun, but they're a little scarier in foreign countries, especially
3rd world countries. Don't worry- I'll be fine. My Mom was relieved to hear my voice. I called
her as soon as we arrived and learned quickly of the disrepair of the phone lines. Couldn't hear
a thing. Suppose I won't be prone to use voice communication. Got email at least. Our new
adoptive dad kissed us both right after we stepped off the plane and made it through
immigration. Knew it was gonna happen, read about it in the "Customs and Manners"
chapter of the Let's Go travel guide Dad bought me, but just wasn't prepared for it. I'm honestly
not sure I'll ever get used to it. Quickly I've learned that people stare here and have no respect whatsoever for personal space.

Erin and I share a room and a closet- that'll be interesting. Our family has a dog, named Crunch, and our adoptive mom makes him wear sweaters. It's hilarious.

Adjusting in Ecuador,

Becky

About the size of Colorado, Ecuador (Spanish for equator), lies on the western coast of South America squeezed between their neighbors to the north, Colombia, and to the south, Peru. The country is home to a diverse assortment of habitats for quite a range of plants and animals, and boasts an equally diverse topography.\(^1\) The nation's capital Quito lies in the incredible Andes, while the nation's largest and most commercial city, Guayaquil (home to 2 million of Ecuador's 12 million inhabitants) lies along the Pacific coast. There's the equatorial rain forest to the east of the Andes, and the fertile highlands in the south. The rain forest has been sparsely populated for most of Ecuador's history, but it is presently booming with the oil, timber, and agricultural industries. The Galapagos Islands, an environmental marvel, lie in the Pacific about 300 miles off the coast of Ecuador. This small nation contains dramatic geographical and biological diversity with rich economic potential.

Ecuador also claims a diverse racial, ethnic, and cultural population. A small black population, descendants of slaves that arrived in Ecuador during the 17th and 18th centuries, living in remote areas have to an extent created their own version of an "Africanized" Spanish dialect. The white residents usually live a comfortable urban
lifestyle, mainly in one of the two largest cities. *Mestizos*, mixture of the indigenous people and the Spanish, make up the majority of the urban population while the ancestors of the indigenous people, or the *indigena*, inhabit rural areas.¹

The large indigenous populace regards the preservation of Ecuadorean history as especially important, and often wear the clothes their ancestors wore. Ecuador’s history is common to many other South American nations. The Incas moved in during the 15th century, but pre-Hispanic civilizations had thrived there long before they arrived. The Incas controlled Ecuador for about 50 years, leaving a tremendous mark, before the Spanish conquest got underway in 1532. Ecuador was tightly held by the Spanish crown until it joined the independence movement sweeping Spanish America in the 18th century. With the help of the now honored and celebrated hero, Simon Bolivar, Ecuador achieved the independence it sought and eventually became a republic in 1830.¹ Ecuador’s more recent history has been closely tied to the United States and its development has been contingent on that relationship many times.

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May 19, 1999

Dear Will,

I am still amazed at the kindness of the people here. Today we had two free ambassadors to show us the city, our friends Sylvia and Juan Alberto. Juan Alberto must have told me tranquil, calm down, at least a hundred times. Can't hide the fact I'm on edge. I'm nervous. It's evident the city has had its share of problems. So many poor people, an unstable economy, bureaucracy, and a striking absence of order. In my opinion privatization is badly needed, regulation too. God I know something is badly needed. Of course though, I'm an
Since Ecuador led the way for Latin America's return to democracy in 1979, the U.S. has supported Ecuadorean efforts to strengthen the country's democratic institutions and improve governance. Ecuador and the U.S. enjoy an excellent relationship based on shared democratic and economic interests. The U.S. played an important mediating role in resolving the border conflict between Ecuador and Peru until the end of 1998.2

Ecuador's economic reforms have helped further expand trade and investment ties, and they have received support from the U.S. However, the failure of the Ecuadorean government to comply with some of its WTO accession commitments and provide fair treatment to certain U.S. investors has led to occasional friction in the bilateral commercial relationship.2 Ecuador has previously found trouble when its government has not been able to follow through with international agreements creating tension. The good news is Ecuador supports open trade and is involved in several trade talks with various Central and South American countries to increase trade. The tiny nation can see the opportunities of globalization, but it is a big step, and Ecuador is fearful of exploitation by the larger more prosperous developed nations. The government could use the strong relationship with the U.S. to negotiate, but Ecuador will have to prepare itself and its infrastructure within its government, and economy.
May 20, 1999

Dear Will,

We have new friends, Pedro and Darwin. Okay, so what? But these guys work at the TV station and they are not of the high class like our other friends. They work hard and are not rewarded properly for it. They live in real fear that at any moment their jobs will disappear and their families will starve. But they adore Erin and I, and they would do anything for us.

Despite their financial situation they insist on paying for our movie tickets. “It’s the culture,” they say. You know, I’m sick of hearing that. That doesn’t make it right- it just isn’t rational. I have a problem with it, and that’s why Erin and I are such a good pair ‘cause she just tells me to ‘let it go.’

Anyway, it’s like a big deal for them to be seen with two gringas- it’s like a status symbol. They took us downtown, but the tour was different than the one we got the other day. We took a different route and watched the Guayaquileno version of Shakespeare in the Park.

Pedro told us it’s like the movies for the poor people.

I think I can taste the smell of the city in the comida. Pretty gross really, but I don’t dare admit to disliking anything- our adoptive mom, Sonia, would not have it. By the way we live in an absolute paradise in a very comfortable home. So strange that in one day we’ve visited the poorest parts of the city and the richest- they’re such extremes. The huge socioeconomic gap is so obvious. You’re either rich or your poor. You have it or you don’t. So discouraging.

Unmasking Ecuador,

Becky
The social classes of Ecuador are clearly divided. The classifications run from elite to peasant. A middle class exists, but not a large one. Businessmen, professionals, clerical employees, mid-level bureaucrats and managers, army officers, and teachers comprise the middle levels of society.¹ They constitute a diverse group, often poorly defined in terms of both self-identity and criteria for membership. The upper echelons of the middle class frequently identify with and emulate the elite. By contrast, the lower levels of the middle class often identify with the working class. The cleavage between these two groups—a prosperous, uppermiddle class and a less economically secure lower group is reflected in lifestyle and political affiliations. In addition to the economic division, an ethnic component emerges in the ranking of the various levels of the middle class. In general, individuals are more "white" and less obviously mestizo farther up the social ladder. This huge socioeconomic gap has played a major role in their inability to develop successfully. The poor are extremely poor and the rich are very, very rich. The problems are deeply rooted. For example, Ecuador's large indigenous population, about 35% of the population, comprised of several different groups (40 to be exact), feels more loyalty to their ethnicity than to the Ecuadorean state.¹ They protest on Columbus Day and resent the government's efforts to unite the country. They see their efforts as indigenous assimilation attempts and would prefer support of their heritage. If they don't make their home in the rural areas, they live in the wobbly shacks in the hills on the outskirts of the cities. The white population controls the state and they constitute the elite class. They are the presidents of the banks, the owners of most of the land, financiers, and industrialists, and are politically powerful. Their tendency towards kinship and marriage
contributes to cohesion and further excludes those at the bottom of the social pyramid, preventing them from advancing.

May 22, 1999

Dear Will,

Today, after class, we ate lunch at one of the nicest restaurants in Guayaquil with Leticia. Man does she smoke. Everyone here smokes. I had the shrimp, it is so fresh here and they export it by the tons. She told us about one of the presidents they recently kicked out of office and was living in exile in Panama. They apparently called him "El Loco" because they really think he was mentally unstable. Holy cow. From what I've learned so far it's like some sort of sick trend, political idiocy - presidents kicking each other out of office, drunk mayors delivering speeches to throngs of angry people... truly amazing. It's strange to eat in such a wonderful restaurant and immediately afterwards, en route to the car, have several poor, dirty children beg me for change. They sell roses in the street- they sell anything in the street.

Did I tell you what happened yesterday when we went to the U.S. Embassy? Besides the fact that it was just absolutely terrifying to be there because it's in el centro, downtown, a dirty, and probably hungry child attached herself to my leg begging me for money. The worst part is it was more than likely her mother who put her up to it. Los pobres, they're desperate.

The students we've met so far are well aware of the crisis with their country's economy. The school has more night classes to accommodate those students who need to work during the day. The situation has been mentioned to us everyday since we arrived. Juan Alberto says the problem is with the banks, but I couldn't fully understand all he said. I knew that Latin
American countries are characterized by political instability and high changeovers in governmental leaders. Ecuador proves to be no different.

Besos para ti,
Becky

As a young nation Ecuador struggled with rivalries causing divisive hostilities between politicians, visionaries, and regions. That beginning is characteristic of what Ecuador has experienced politically for decades—chaos. Ecuador is a democracy that is almost entirely free of the type of extreme political violence that afflicts many of its neighbors. But overthrows and ousts from office have been frequent, and to the present day they are not uncommon. Passing from corrupt hands of conservatism to corrupt hands of liberalism often, and usually abruptly, a series of coups throughout its history has made for an increasingly weak leadership and a strengthened military.¹

Catholicism was the declared the state religion by a charter conjured by the president in 1861 hoping that religious order, hierarchy and discipline would unify his nation's population. But religion could not improve the serious burdens of the economy. Economic problems have plagued the country under all regimes creating general social discontent and increased distrust in the government. Ecuador has seen a devaluation of its currency throughout history, hyperinflation, and high unemployment rates. Many citizens point towards the government and the faltering financial system as the main culprits causing economic hardship.

The only time Ecuador has experienced political stability was during the banana boom from 1948 to 1960. The economic prosperity seemed to be the fuel Ecuador needed
for political stability. The unprecedented time period didn't last long. What followed was two decades of political instability and reformist military rule through the 1970's, until civilian government was re-instituted in Ecuador in 1979. Unfortunately for the Ecuadorean people, when the oil boom during the 1970's offered Ecuador economic prosperity, the military regime in power priced the oil well above the world market prices. Subsequently, exports fell and the economic situation only worsened.¹

Since 1979, the country has enjoyed six consecutive free elections and mostly peaceful transfers of power. Perhaps Ecuador's most interesting political periods came with the election of Abdala Bucaram in 1996. Bucaram, referred to as El Loco, won the election on a campaign promising to "Put the Poor First." One of his first political moves was to devalue the sucre leading to devastating economic results. Needless to say his popularity was not enduring. The economic crisis worsened, and by 1997 Bucaram found himself despised by those who had elected him. Violent protests and an indigenous strike against the government led to an unprecedented act by Congress. They voted to oust him because he was considered to be mentally unfit. After barricading himself in the presidential palace he fled to Panama seeking political asylum.¹

Disguised corruption is not necessarily avertable, and Ecuador has laws and regulations to combat official corruption. The only problem is that they are rarely enforced. Illicit payments for official favors and theft of public funds take place frequently in Ecuador. Bribery is a common tool in compromises with the government as well as with autonomous agencies. Dispute settlement procedures are made more difficult by a lack of transparency in the court system and the openness of many judges to bribery.²
Presently the state financial system consists of the autonomous Central Bank, which is charged with issuing currency and managing interest and exchange rates. There are four other banks of the state to finance and manage various affairs such as private sector development projects, municipal projects and to offer agricultural credit. Private banks, financial companies, and insurance firms are regulated by the Superintendent of Banks. The banking crisis, which originated in 1998 and worsened in 1999, brought about a reduction in the number of Ecuadorean banks. There are now 32 private banks operating in Ecuador, down from a total of 41 that existed in 1998, a considerable number given the size of the economy. The five largest banks, with over half the assets of the banking system are: Filanbanco, Banco del Progreso (currently closed), Banco del Pichincha, Banco del Pacifico, and Banco Poular. Most banks and finance companies are tied to family business groups, the majority of which have been reluctant to give up control through mergers. Keeping it in the family has not made for a very efficient, disciplined, or corruption-free financial system.

May 25, 1999

Dear Will,

Yes, I know you are wondering if I am still alive. I am. Life here is different. I guess I expected it to be. Expectations can be nothing more than thieves of the truth. Maybe they just
distract us from the truth. Regardless, they’re dangerous. Expect the best, expect the worst, either way you’re wrong. The people are exceptionally nice here. Especially our adoptive parents. Our new dad calls me Rebecca just like my real dad. People are so eager show us the way of life here, feed us everything, show us the city twice. So far, in one week we’ve attended class, been to the beach, partied with Ecuadoreanos twice, eaten at local restaurants, taken two tours of the city, shot two rolls of film and lots of tequila, and went on a picnic.

This city is dirty and the smell is some terrible mixture of gasoline and urine. What I love though is that I just ate a Gus’s sandwich and a dessert from the Golden Roast for less than two dollars. Very nice… for me. The economy here seems to be improving, but I seriously worry about the banks. More later. I miss you. Oh, I ate a cherimoya for breakfast, it’s this sweet fruit you can only find here- heaven.

Exploring in Ecuador,
Becky

On Monday, March 20, 2000 a U.S. Coast Guard cutter turned 234 Ecuadoreans over to national authorities after intercepting their boat as they tried to make their way for the United States. A spokeswoman for the U.S. Coast Guard of San Francisco said a growing number of Ecuadoreans are using high seas routes to Central America to illegally reach the United States. "We’ve noticed a rapidly growing trend of Ecuadoreans boarding these vessels and heading for other ports with the ultimate destination being the United States," she commented. Last year some 320,000 citizens legally emigrated from the country.
In late September 1999, with its banking system in tatters and a plummeting sucre, Ecuador became the first country to default on Brady debt. The brainchild of former U.S. Treasury Secretary Nicholas Brady, securities were supposed to give Latin American countries a way out of their debt crisis of the 1980's, but Ecuador remains mired in severe economic straits. The inflation rate topped 90% over the past 12 months, and one in six people are unemployed. On October 22, 1999 Ecuador set another precedent when it announced that it would not make the $27 million coupon payment due on its $500 million eurobond debt making it the first sovereign nation to default on eurobond debt. As other Latin American nations, namely Argentina, Brazil and Chile, rebound and head for success, Ecuador has yet to emerge from its worst economic crisis since the 1930's.5

During the Mahaud administration political feuding has undermined plans to modernize an economy hit hard by weak commodity prices and losses from bad weather. The banking crisis of 1999 forced the government to take control of 70% of the country's banking sector and to freeze deposits. Government efforts to bail out the stricken banking system have contributed to rising inflation. Consumer prices increased 60.7% in 1999 in spite of the economic slowdown. Basically it became a nation paralyzed under what seemed like a constant state of emergency.6 Since December 1998, the sucre has lost 74% of its value against the dollar and on Thursday January 6, 2000 the sucre fell to an incredible low value of 29,000 to the U.S. dollar.7

History recounts Ecuador's recurring problems with debt and economic stability. From 1800 through 1995 it defaulted four times for an astonishing 115 cumulative years of default. Ecuador became a self-perpetuated victim of the world economy, too. In late 1997, the Asian economic crisis cut off capital to the emerging markets like Ecuador.
Commodity prices collapsed, especially for oil, Ecuador’s chief income source. By the time Russia defaulted in July 1998, capital markets were all but closed to the barely emerged countries. Ecuador’s government only contributed to the detriment as past presidents have driven the economy into the ground by their corruption. Mother Nature hasn’t been too kind either as El Niño obliterated crops, property and infrastructure, costing one-fifth of the country’s annual output.⁸

Clearly Ecuadoreans’ living standards have been devastated by disasters, natural and financial. Efforts to stabilize the economy were not helped by the IMF, which first encouraged Ecuador to default on some of its debt, then dawdled over coming to its aid.⁹ Regardless of natural setbacks and the lack of international support, Ecuador’s problems mainly lie in the incompetence at the finance ministry and the central bank. The first step towards fixing the problem to the extent that it doesn’t happen again is the proposed currency switch from the sucre to the dollar, or the dollarization of the economy.

May 29, 1999

Dear Will,

Hope you appreciated my last email. Erin and I have discovered the convenience and speed of a cyber café so I have a feeling I will be spending too much money here. Since I’m on the clock, I’ll be brief. There are a few things I’m not used to yet: the guards with guns outside every business, on every corner, the maid who brings us breakfast every morning (can you believe it?), the smell, the social class differences, kissing everyone hello, the toilets, and the inefficiency. You know it’s testing my patience—nothing starts on time, nothing functions properly, and people wanna chat, not do business. People stare all the time, but by now I’m used to that.
Very interesting to be here now, during this crisis. Very interesting to be here, period.

We have friends from school, from the TV station, friends who work at the school- sometimes it feels like I jump from two different worlds. There is no middle class whatsoever. They do have one thing in common- they all love to dance. We go dancing a lot.

I have to go to the bank a lot and the lines are always long. We take taxis everywhere, they only cost a buck fifty and they are the best form of transportation for two gringas. I think I am honestly surprised when we arrive at our final destination safely. Anything goes on the streets of Guayaquil.

I am sick. Just lots of coughing. I think this city is in my lungs. I am learning my way around this great metropolis. Sometimes I feel at home, other times I wish I was home. The newspapers report lots of U.S. news and I am amazed at their interest in the Littleton episode and the other one.

Dancing in Ecuador,

Becky

Dollarization occurs when residents of a country extensively use the U.S. dollar or another foreign currency alongside or instead of the domestic currency. Dollarization can occur unofficially, without formal legal approval, or it can be official as when a country ceases to use a domestic currency and uses only foreign currency. Unofficial dollarization occurs when individuals hold foreign-currency bank deposits or notes (paper money) to protect against high inflation in the domestic currency. Official dollarization occurs when a government adopts foreign currency as the predominant or exclusive legal tender.¹⁰
Ecuador officially dollarizing would completely eliminate the sucre from circulation. If Ecuador did not seek a treaty from the U.S., it would be considered to be unilaterally dollarizing. Steve Hanke, a professor of applied economics at John Hopkins University and leading proponent of dollarization, makes the case for unilateral dollarization remarking that "...it would bring down interest rates quickly and does not require the approval of the U.S. government or the involvement of the Federal Reserve system as source of liquidity."\(^{11}\)

**June 3, 1999**

*Dear Will,*

_The street next to our la lavanderia, the place where get our clothes washed, is closed today because students are protesting. Guess I'll have to wait to get my laundry. Ricardo, the most recent caller, says it's pretty common. Ricardo? Yeah he's nice and he's not as short as most of these Ecuadoreans boys._

*More later,*

*Becky*

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*June 6, 1999*

*Dear Will,*

_Have you ever read Atlas Shrugged? I imagine you haven't. You should. It's by Ayn Rand and as of this summer she has a new big fan. I sit in the hammock on our back porch a lot and read. Capitalism- I love it. Privatization- it works. Democracy- God Bless America.*
Many Latin American countries heavily rely on the dollar in one way or another. At the checkout counters of supermarkets in Peru the bills given to shoppers are calculated both in dollars and Peruvian soles. Customers pay in either currency.\textsuperscript{11} The dollar is undoubtedly popular. Amazingly enough \textit{most} U.S. dollars can be found in other countries. The Federal Reserve estimates that of the $580 billion in circulation globally, two-thirds are outside of the United States.\textsuperscript{12} Hanke commented, "Indeed, the dollar is king of the currencies and will remain so for the foreseeable future. One side of 90\% of all the world's interbank transactions is in dollars, and about 90\% of all the world's trade in commodities is in dollars."\textsuperscript{11}

Dollarization has widespread application in developing countries because few have currencies that have performed as well as the U.S. dollar. By replacing their domestically issued currency with the dollar these nations could experience higher-quality currencies. The dollar consistently passes the currency quality test and has remained very popular in world markets, which means it can be readily found in the hands of foreigners across the globe. Unofficial dollarization exists to a large degree in the Caribbean and Latin America, especially in Argentina, Bolivia, Mexico, and Peru.\textsuperscript{10} Mexico and Argentina have tossed around the idea of official dollarization recently. Argentina has

\begin{quote}
\textit{With sucres in my pocket I feel more and more like a citizen here. Everyday the value of that thing changes. Somedays it's worse, somedays it's not worse. But it is never better.}

\textit{Vendors' faces light up when I pay in dollars- suppose they're glad to see something stable.}

\textit{Learning in Ecuador,}

\textit{Becky}
\end{quote}
already adopted mechanisms that tie the exchange rate of their pesos to the dollar and have made the two currencies fully convertible at that fixed rate. A World Bank official, commenting on the costs of dollarizing an economy, said, "In a country like Argentina, a lot of the costs of dollarization have already been incurred, so the step to full dollarization would not be that great." In both countries, Mexico and Argentina, there is a significant amount of support for adopting the dollar from political and business leaders. Liberia in Africa and a few tiny island nations in the Pacific have embraced dollarization, while Hong Kong has followed an approach similar to that of Argentina and its currency board since 1983. El Salvador, Costa Rica, and Guatemala have all expressed interest in officially dollarizing but have faced various barriers.

Admittedly, dollarizing countries can expect to sacrifice some versatility in domestic policy issues, but the increase in investment and capital flows makes it worth the sacrifice. Since Argentina got its new currency and adopted a hard monetary policy in 1991, decades of monetary decline has been reversed. The policy introduced was the Convertibility Law which established fixed parity with the dollar, recognized the dollar as legal tender, and backed the country's currency 100% with dollar reserves. Hard money provided cover for urgent reforms such as privatization, restructuring of the public sector and elimination of subsidies. Argentinean productivity was shrinking drastically in the 1980’s, but since the monetary reforms were introduced, it has experienced substantial growth.

The only country in Latin America that uses the dollar as its currency, Panama, has been unable to lead the way for other countries to do the same because it as always been viewed as a unique case. In the past you could hear Latin American political,
economic, and business leaders claiming, "Panama is small. Panama is closely linked to the United States. Panama traded national sovereignty for stability. That won't work here," making Panama seem to be a somewhat unattractive example to follow. Lately, however, the trend towards regional trading blocs has forced some economists and politicians to take another look. The looming possibility of forming a Free Trade Area of the Americas as soon as 2005, as well as the success of the euro has made the notion of a single currency for the Western Hemisphere more plausible and attractive. "Joining the euro group has been a more secure arrangement for Spain and Portugal, with lower inflation rates and rapid growth," said Ricardo Hausmann, chief economist of the Inter-American Development Bank. "If a monetary treaty can be negotiated, it could be attractive for Latin America." Before dollarization can be so widespread, however, economic integration of the Western Hemisphere must be widespread first. The euro came at the end of a long process of economic integration in Europe, and dollarization would more than likely emerge after such a process. Ecuador could find itself in a unique position if it could stabilize its economy under this monetary policy and encourage an economic integration of the Western Hemisphere leading to dollarization of more countries.

If Ecuador were to light the path for other nations to be more willing to adopt the dollar those first, daring nations would more than likely be those of Central America, which already conduct the bulk of their trade with the United States. It would be more beneficial for Ecuador if its neighboring Latin American countries would dollarize also so they could eliminate exchange rate risk, but the concept will have to prove successful in Ecuador before the idea can become contagious.
June 12, 1999

Dear Will

That's it. We're coming home. Erin was robbed at gunpoint today. We've been so careful, Will. She wasn't alone, she was with one of our friends from the school. It was broad daylight, Will. I know this can happen anywhere, in any city, but these people are becoming exceedingly desperate and it makes me all that more nervous.

Things are bad. We read the paper everyday to see the exchange rate. Our lunch usually costs about $2.50 according to a good exchange rate. Lately it costs about $1.50. I hope things don't get worse. Sonia is optimistic.

Our friend Jose was trying to explain to me that the people here don't save their money, really they can't save their money. They don't know if it's worth more today or tomorrow. Besides they have to use whatever they have to live from day to day- buy food, whatever.

Dreadful.

School got canceled for today and tomorrow and I don't know if we're in a state of emergency or not- it seems no one really knows for sure.

Uncertain in Ecuador,

Becky

Everything comes with a price, and Ecuador and other Latin American countries have to consider the costs that would come with dollarization.

The most substantial cost is losing the significant revenue source of seignorage. Seignorage is the profit a government makes from printing money. Instead of earning
seignorage for themselves, the United States would receive that profit. For example, it costs only pennies to manufacture bills, but they are sold at face value to the dollarized countries so it results in a substantial profit for the American Treasury. Treaties are completely negotiable with the United States in terms of splitting the profit or allowing the country to receive the entire seignorage.\textsuperscript{10}

There is also the one time cost of converting prices, computer programs, cash registers, and vending machines from domestic currency to foreign currency and this varies across countries. Argentina is an example of a country in which no repricing would be necessary because their peso is worth one dollar. In a country like Ecuador, which has experienced high inflation, there may even be a net benefit rather than a cost from less frequent need to revise prices and more efficient economic calculation.\textsuperscript{10} As it is now it is hard to predict what the sucre will be worth next month, even next week.

Frequently the argument is made that there is a cost to losing a domestic central bank as a lender of last resort, however, developing countries without a central bank have consistently outperformed those with a central bank. Countries like Ecuador that have suffered severe system-wide banking problems would actually benefit by not having a central bank. As long as they arrange for lines of credit from foreign banks, perhaps modeling after Argentina's currency board system, losing a central bank is really no cost at all.\textsuperscript{10}

Dollarizing countries also lose flexibility in monetary policy. In a dollarized monetary system the national government cannot devalue the currency or finance budget deficits by creating inflation because it does not issue the currency.
Ecuador and any dollarizing country expects to receive substantial benefits for adopting a new monetary policy, especially when it comes with the described costs. What is there to offset those costs? The benefits flow from using a currency that is seemingly better than a central bank-provided domestic currency. Chief Economist at Bear, Stearns & Co. Inc., Dr. Wayne Angell commented in a testimony before a Senate committee that, "Never before have countries in the America's been free to choose one single policy step-dollarization- that would do so much to increase the well being of their people."14

One benefit is lower transaction costs, or the costs of exchanging one currency for another. Ecuador dollarizing would make it increasingly easier for trade to occur with the United States. Dollarization also would eliminate transaction costs with other countries in a unified currency zone.10 This could exponentially benefit countries that decided to enter into a trading bloc agreement and use the dollar as the currency.

A significant result that has several benefits is lower inflation, now, and lower risk of future inflation. Considering Ecuador's high inflation, using the dollar means keeping inflation in the single digits levels as any officially dollarized country assures itself of a rate of inflation close to that of the issuing country. Also, because there is confidence that inflation in the dollar will continue to be low, they have low and relatively steady interest rates. "Full dollarization eliminates devaluation risk, and, consequently, will likely result in interest rates which are both lower and less sensitive to crisis in other countries," remarked Guillermo Calvo, director of the Center for International Economics at the University of Maryland.15

Benefits of low inflation include increasing the security of private property and encouraging saving and long-term lending. Once again Panama serves as an example of
being the only Latin American country to achieve a certain status. 30-year fixed-rate mortgages are available without government subsidies because it is the only country that has not suffered high inflation and currency devaluation in the last 15 years. Low inflation also helps retirees, people on fixed incomes, and people too poor to have bank accounts by assuring that their savings retain value.\textsuperscript{10}

Another benefit is greater economic openness and transparency, especially on the part of the government. Official dollarization eliminates the problem so many developing countries face of balance-of-payment crises. By eliminating the government's ability to create inflation, official dollarization fosters budgetary discipline. Of course even dollarized countries are going to face debt situations, but it ensures that the deficits will be financed through transparent methods of higher taxes or more debt instead of through printing more money.\textsuperscript{10}

In addition to these benefits, countries that dollarized would attract increased U.S. investment, which would help them become wealthier. Subsequently this would create huge new markets for American producers and more jobs for the workers of those countries. Growth of U.S. exports would be encouraged since the risk of devaluations would be eliminated.\textsuperscript{16}

\textit{June 16, 1999}

\textit{Dear Will,}

\begin{quote}
I read the newspaper today while I waited for Erin to get her hair highlighted. I learned a lot about the economic situation here and the battle between the banana suppliers and exporters. I know why the students were protesting—their teachers weren't getting paid. It seems no one is getting paid. If you work for the government, they have nothing to pay you with.
\end{quote}
Being the citizen of Guayaquil I pretend to be I have realized so much. I can't tell if this country took the wrong path towards modernization or if they just skipped several important steps. Everyday I see the wealth of this country exploited. Street vendors (with or without permits) sell everything from fruit to live monkeys, and the price is always negotiable. The result of a people without leadership, without a government that does what is should, without regulations and protection- it's scary. Disorder reigns. Poverty abounds. The shoeless, filthy children that beg on the street make about $20 a day giving them no motivation to seek work or education. I want to do something for them, but I don't know what. I refuse to pity them, put money in their pocket, and reinforce that vicious cycle and contribute to the degradation of their self-esteem. I can't do anything for them because I have no idea how it feels to be that poor. It's hard to put yourself in the shoes of those who have none. Somebody said that once I think- it surely applies here.

Erin says she is going to start a business making button down shirts for Latino men without the top button- she'll make a fortune. The men here are way to impressed with their chest hair, and, by the way they dress, think everyone else should be as equally impressed. Oh, and the hair gel- how we keep from laughing always amazes me. The emphasis on appearance is overwhelming.

Becky (people have the hardest time pronouncing my name and I have slowly become Vicky)

Certain countries are more apt and more prepared to dollarize than others. There are several factors to consider when deciding if a country is a likely candidate for dollarization. The chief economic consideration that makes a country ripe for dollarization is a history of poor monetary performance that impairs the credibility of its
currency. Ecuador’s currency, the sucre, depreciated 74% against the dollar in 1999, and its value dropped markedly during the first month of 2000. More recently the country has seen inflation rise to 90%, the highest in Latin America.

Another important factor that makes a country a likely candidate is a close economic link between a country and the United States. Trade between the U.S. and Ecuador is substantial. The U.S. is Ecuador's major market for exports with 39% of its total exports, worth 1.6 billion, and provides 31% of Ecuador's imports. During 1998, the U.S. maintained its position as both the primary market for Ecuadorean exports and the key supplier of Ecuador's import needs. The U.S. provides markets for 43% of Ecuador's crude oil exports, 57% of its shrimp, 36% of its bananas, 52% of its coffee, and 62% of its cut flowers.

Also, dollarization makes sense for a small country that is dependent on the world economy, like Hong Kong, as its economy doesn't succeed with constant exchange-rate fluctuations. To summarize, Ecuador is a likely candidate for dollarization because it meets the following criteria: a very small and open economy that has no real autonomy over its exchange rate anyway, a desperate desire to overcome a legacy of hyperinflation, and a deep integration with the U.S.

June 23, 1999

Dear Will,

How unprofitable, unproductive, inefficient, and corrupt is bureaucracy. It is really incredible- it reeks of disaster. This country is constantly fighting a war with itself- and an even greater one with the unforgiving force of nature. I suppose I am really feeling the culture now. I am no longer sensitive to the filth that floods the city and is visible in a form of black dust on my
clothes. I think Erin and I just live here now, it isn't a trip, we feel this place. I don't think I
even have anything interesting to say- it's just life.

My Spanish is improving so much. And of course we are still dancing. I am impressed and
thankful for the gaps bridged by music and film- oh, the international language of art.

For as long as I live here I will never understand two things:

#1. The obsession with astrology. They ask your sign almost before they ask your name and
then quickly run it through their mystic database in their head of all their friends and family so
they can let you know who else has your same sign.

#2. The ease with which they inquire about your personal life, and the ease with which they
volunteer information about their own.

Am I homesick? Only for good TV and milk.

I am praying this whole Ricky Martin trend will be over when I return to the U.S..

Living in Ecuador,

Becky

Although Ecuador is appropriately positioned to dollarize, dollarization is not
even enough to achieve and maintain stability. Critics of dollarization insist that it could never
work in the big economies of Latin America because such complex economies need the
fine-tuning capacity of a central bank to stabilize their economies. But when comparing
the states of the U.S. that have very complex economies (California's economy is larger
than Brazil's which accounts for almost over 45% of Latin America's total economic
activity) it is illustrated that a central bank is not necessary to experience economic
success as a dollarized economy.
international banks to buy them.\textsuperscript{10} Financial integration plus dollarization using a leading international currency like the dollar allows a country to be part of a large international pool of funds, which helps in stabilizing the economy and improving the quality of the financial system. Also, foreign financial institutions can lend to domestic institutions when they lack liquidity offering a substitute for the central bank function of a lender of last resort.\textsuperscript{10}

In dollarizing, Ecuador should include provisions to integrate its financial system with the world financial markets and part of that is addressing a weak rule of law. International investors rank Ecuador as one of the world's worst performers in the "rule of law" category. In ranking Ecuador the investors took into consideration quality of bureaucracy, political corruption, the likelihood of government repudiation of contracts and risk expropriation.\textsuperscript{6} Evidently foreign investors regard Ecuador as a risk. The government has not proved to be stable or dependable. Investors are willing to take risks, but they like predictable investments, and nothing is certain in Ecuador.

Official dollarization has the potential. It could very well be the key player in developing a new international, financial architecture that would eliminate currency crisis, reduce interest rates, and stimulate growth. For Ecuador to fully benefit, it must dollarize for the right reasons, and in the right ways. For the U.S. to fully benefit from dollarization it must encourage countries considering dollarization to do it for the right reasons, and in the appropriate ways.

\textit{July 4, 1999}

\textit{Dear Will,}
Nothing is more depressing than spending the 4th of July with people who have no concept of its significance. All day I have tried to imagine the parties, celebrations, activities of my homeland, of which I would always actively participate. The only American flag we saw was an advertisement for Sears. We tried to celebrate the 4th with some typical food of the good ole USA—hamburgers and beer, but it didn't taste the same, nothing is the same.

Drink a Bud Light for me.

Sticking it out in Ecuador,

Becky (oh yeah, my Spanish name is Rosa now)

For the United States, dollarization means foreigners, in this case Ecuadorians, would demand even more dollars than the large amounts they use now. The U.S. would have to print more money but the U.S. would benefit from the seignorage fees and make a substantial profit. But the attitude of the U.S. tends to be somewhat indifferent and even a bit skeptical. The U.S. sees potential advantages and opportunities to extend American interests and influence, but just as clearly the U.S. can see flaws in the process of dollarizing and potential burdens it might create. The U.S. is not willing to extend the safety net of the Federal Reserve system to any dollarized countries that get into economic trouble, so Ecuador could not expect to be rescued or supervised by the U.S.. At this time it is appropriate for the U.S. to perhaps lend a cautious helping hand for smaller individual countries that might want to dollarize in the near future to promote their domestic economic stability. The U.S. should encourage countries that desire dollarization for all the right reasons to do so.

The United States is not in the business of doing anything to benefit other countries in the absence of justifiable gains. And the U.S. stands to benefit from
allowing, perhaps even encouraging dollarization. With a currency switch in Ecuador and other key U.S. markets, the U.S. economy would grow faster due to the reduction of exchange rate risk. The implied increase in financial stability in a dollarized region would also be positive for the United States. If the proposed Latin American trade bloc became a reality, the benefits to the U.S. in terms of seignorage fees and trade could be exponential.14

July 13, 1999

Dear Will,

I just turned 22- I feel old, no that’s not it. I just feel like I’m getting further away from something. For my birthday they had a party for me at the school and then that night we danced at Gilberto’s until 8am.

This country is in turmoil- serious strikes occur with regularity now.

Yesterday, this city felt like one in the U.S.- big, fun, by, important. Yesterday, I cheered the Chilean soccer team onto victory over Colombia over dinner in a great Italian restaurant with very pleasant company. Today, this city feels impoverished, dirty, desperate, and completely frustrated. Today, I watched on the news the striking and protesting while I FIXED MY OWN BREAKFAST because our maid couldn’t get transportation to make it to work. If the strikes and protests make the news in the U.S. you are probably worried- don’t be.

Our part of the city is pretty much unaffected.

Erin and I are very by with our school work so I have to go- just wanted to let you know we are surviving and taking things day by day.

Surviving in Ecuador,

Becky (people here are just now getting around to calling me Sparky)
Official dollarization can be an important option in making the international monetary system more solid and less prone to crises. It has benefits that make it worthy of consideration in developing countries, such as establishing fiscal and monetary credibility, holding down inflation and probably lowering interest rates. Ecuador desperately needs these kinds of reforms, especially as they are currently attempting to modernize their nation. Dollarization would be a big step forward in that endeavor and to a large degree would determine the success of its other modernization initiatives.

Until the 1970's, Ecuador was an agrarian country dependent on commodity exports. Starting in 1972, oil development in the Amazon basin fueled a decade of rapid growth that financed expanded public services, state enterprises, and infrastructure. When oil prices fell in the early 1980's, Ecuador failed to reduce inefficient state involvement in the economy. Consequently the 1980's were a decade of stagnation under the burdens of debt, inflation, and volatile international oil prices. During the 1990's, Ecuador began to make structural reforms, but falling oil prices, El Nino storm damage, and the international financial crisis in the late 1990's hampered economic growth. The public sector remains grossly inefficient, and these privatization initiatives are badly needed in the telecommunications, electricity, and petroleum sectors to attract the private capital needed to modernize these sectors.

The government has turned their attention to privatization and modernization, especially in the telecommunications sector. Basic telecommunications have always been reserved for the state. Nevertheless, two private groups with foreign participation were granted concessions in 1993 to develop cellular telephone systems. At one point there
was one state telephone enterprise, Emetel, but it has been split off into two corporations, Andinatel and Pacifitel. The state attempted partial privatization of the companies twice, once in 1997, and then again in 1998. Privatization would have a better chance at successful implementation under the conditions dollarization would create.²

While telecommunications has improved over the last few years, the basic telephone services are still poor with a telephone line density of 7-8 lines per 100 people, one of the lowest in Latin America. The demand for telephone lines is over 1.9 million, while there are only close to one million currently in service to serve a population of 12 million people. Adinatel and Pacifitel provide basic telephone services, while the two private companies, Bell South and Concel, provide cellular telephone services.²

Privatization of the state telecommunications and electricity sectors offers U.S. firms opportunities to invest and supply equipment. The privatization of the state-owned telecommunications companies, Andiatel and Pacifitel, likely for the year 2000, would give U.S. firms the opportunity to invest overall USD 1-2 billion and manage one of the two national telephone companies and to supply network, cellular, and public telephone equipment and services to a market in which only 6 out of every 100 people have telephones.² The country's financial problems have interrupted previous attempts to privatize. Many U.S. firms already established Ecuadorian markets find that selling into the market is profitable, with few competitors, a general preference for U.S. brands, and many niche markets. Consumers are knowledgeable about U.S. products due to the U.S. programs viewed by Ecuadoreans on daily TV.²

Ecuador has the demand for telecommunications services and equipment (see chart A). The question is do foreign companies have the willingness to invest, and do
American companies want to be the suppliers of that service and equipment. It's risky. But with high risk comes the potential of high gains. Dollarization would have a positive impact on these initiatives to privatize telecommunications and modernize the state. It would make it easier to trade, easier to finance projects, and hopefully easier to work with the government.

**Chart A**

<table>
<thead>
<tr>
<th>Telecommunications Equipment, Data Table (Millions of USD dollars)</th>
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</thead>
<tbody>
<tr>
<td><strong>$ USD</strong></td>
</tr>
<tr>
<td>300</td>
</tr>
<tr>
<td>1997</td>
</tr>
<tr>
<td>Total Market Share</td>
</tr>
<tr>
<td>279</td>
</tr>
<tr>
<td>15</td>
</tr>
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</table>

The trend of modernization in telecommunications is not unique to Ecuador. Venezuela is expecting a revolution in telecommunications when national telephone company CANTV loses in November its 9-year monopoly on basic phone services. Multinationals and local firms hungry to gain a foothold in the virgin market already are lining up for service contracts. In a nation paralyzed by its own political turmoil and economic uncertainty, telecommunications has become a hot target for direct investment as interested parties turn a blind eye to general country risk. This could be indicative of what is in store for Ecuador as a result of modernization efforts.
The market is set up for U.S. investment. But for its success, Ecuador must take
the appropriate steps and initiate these modernization programs through the right
channels. How they do it is as important as the fact that they’re doing it.

July 22, 1999

Dear Will,

We worked hard today. I am tired. Tired of a lot of things. Mainly I’m tired of inefficiency.
Welcome to the 90’s right? I mean come on and get it together is what I really want to say.
They have a long way to go and I doubt they have the patience for it.

Anyway I am tired too from striving so hard everyday to understand this language I still
regard as foreign. I can’t believe I’ve been here for 2 months. I have no concept of time here.
Erin and I are constantly entertained by something- our walks through the streets we are
slowly starting to call our own, our adventures in getting lost and locked out of our apartment,
or getting caught up in each others faces when we try new foods. I think I always thought time
had to be filled up with something meaningful- I think I still do (hello I’m the queen of
efficiency). But I am realizing here that those meaningful times don’t have to be planned,
scheduled, or rehearsed, they just have to be recognized.

Unconditionally falling in love with Ecuador,

Becky

Ecuador has begun the process of implementing their modernization efforts, but
the process is difficult and complicated. The National Council for the Modernization of
the State (CONAM) is an administrative body run out of the President's office with the
purpose to promote the decentralization, efficiency, and simplification of state
institutions. They're trying to make governmental services more responsible and accountable. The council was instituted in 1994 under the Modernization Law enacted in 1993, for the purpose of directing, coordinating and supervising the modernization process of the Ecuadorean State. It is the governmental agency responsible for defining the strategies, rules, and procedures to be followed in the implementation of the modernization and privatization programs in Ecuador.

The council has pledged to carry out the modernization of the state with the goal of improving the quality of life of Ecuadoreans. The major areas CONAM targets are: reform of the state, infrastructure, and public enterprises. Within public enterprises CONAM claims their main focus is the reform of telecommunications. The privatization of public enterprises department has been designed to coordinate modernization programs of the most important sectors of the state, mainly telecommunications. The telecommunications market is going through a transitional phase. A number of technical problems need to be solved and certain restrictions must be removed to allow for private sector participation. Growing demand and the inadequacy of services at competitive prices, as well as the need to simplify the regulatory framework, have made it necessary to propose new legal reforms. The objectives of modernization as established by CONAM are stated to be the following: to have the state become a market regulator instead of a service supplier, to encourage private investment in the provision of the service, and to develop a competitive telecommunications market. The goals are outlined in the following charts (see charts B, C, D).
July 27, 1999

Dear Will,

If I ever am fortunate enough to return to Ecuador to live for a substantial amount of time, I will live in Quito, the nation’s capital. Ecuadoreans say it is preciosa, which means it is beautiful. They aren’t kidding. I spent the past weekend there with Erin and some of our friends. It is a lot cleaner, nicer, and better kept than Guayquil. People are calmer. I’d guess it’s always been that way because Quito is way up high in these mountains and it really wears you out to even walk. So I’m guessing that has kept generations calm. We both had headaches when we arrived from the pressure. Anyway seeing this place makes me realize the truth behind all that the guayaquilenos told us about the disparities between the capital city and the commercial one on the coast. I think I’d resent Quito too if I had lived in Guayaquil all my life the money, the taxes are clearly spent in Quito.

We don’t have much time left, but we are making the most of it. Yeah- still dancing.

Feeling like a guayaquilena,

Becky

Ecuador will face serious barriers in their attempts to modernize their state and privatize telecommunications. To a large degree, the government is to blame. The delegate to CONAM from Guayquil recently resigned due to his frustration in dealing with the government. He claimed they did not offer sufficient support of the efforts.

Ecuadorean politics has long been riveted by regionalism, with Guayaquil and the coast against Quito, the capital, and the Andean highlands. For many years resentment
has been building in Guayquil, the commercial center, due to what it sees as the squandering of its wealth by metropolitan bureaucrats. It goes even deeper as the country's deep regional cleavages exacerbate the fragmentation of its party system, denying its presidents reliable legislative majorities, and blocking all efforts at economic reform.21

This sets up a barrier for the modernization of Ecuador and for privatization but it is not the only setback the country will face in this process.

August 3, 1999

Dear Will,

Bought two posters of Guayasamin paintings today. Guayasamin was one of Ecuador's most famous artists of the 20th century, an indigenist. That means his work depicts scenes of oppression from the indigenous struggle. They're really beautiful. His signature is a pair of large, gnarled hands— they're the main focus of the painting and signal to the viewer what's most important to notice. When we were in Quito we visited the Otavalo market. Wow, I mean wow. I wish you could have seen the way these people were dressed. Apparently it's traditional indigena garb—so cool. The indigenous presence is so strong and in the market some of the vendors were speaking a different language— they seem to be in a world all their own.

Got a picture of the dog, Crunch, wearing a sweater— really, really funny.

Experiencing it all,

Becky

An additional setback to modernization is the population. Many Ecuadorians are uneducated and do not understand why the country must repay its foreign creditors or adopt new economic reforms and monetary policies. Some indigenous peasants fear that
free market policies may pose a threat to their economic and cultural survival. They can’t see the potential benefits of privatization such as the jobs it would create, the tax money it would free up for other initiatives, the improvement in the quality of the service when it is provided by businesses and not by the government, or the economic prosperity it could bring.

The regionalism and the resistant population are not the only issues standing in the way of the success of dollarization and modernization. Others are linked to both these issues, and include political corruption, lack of proper infrastructure, a crumbling banking system, a bad reputation among foreign investors, and a government unprepared for the challenges on the road to economic wealth.22

August 12, 1999

Dear Will,

Things are pretty incredible- I leave in a week and I feel like I am leaving a home, a life, definitely part of me here. I have friends who know me so well, professors who encourage me, places where people know my face and make a pretty good attempt at my name, bars where I drink- yeah, part of me will always be here. I am ready in a way to get back home- ready to see my dad, friends, Hawkeye’s back porch.

Becky

Indeed Ecuador has earned a bad reputation among foreign investors. Companies such as BellSouth Corp., Texaco Inc., and Alliance Capital Management have found it frustrating and costly to do business in Ecuador. Yes, Ecuador, due to the lack of legal security, an indifferent attitude by government officials, widespread corruption, and ever-
changing rules has won the title of "one of the worst places for foreign investment in the Americas."\(^2\)

Ecuador also lacks the proper infrastructure that could aid its modernization attempts. It is a nation still struggling to educate its population, and to find a medium of communication they all receive and understand. This creates a major barrier for modernization and dollarization as the people would not understand the government's plans and the slow pace with which those plans bring visible benefits.

Despite the severity of the economic crisis and the setbacks to modernization, there remains a general consensus among most mainstream political leaders and the business elite on the need for economic modernization and policies that will encourage private sector participation in the state enterprises.

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**August 20, 1999**

Dear Will,

I made it home. Survived. Thought you'd want to know. Knew you'd worry. When we landed in Atlanta Erin turned to me and said, "We're no longer worshipped." No more attention, no longer the only 2 blondes around, no more dancing... yeah the realization slowly set in that we were back.

From your emails it sounds like your well. I'm so accustomed to kissing everyone hello that I've actually stood up to meet people with that intention. So crazy how much we (Americans) love our space. I think time away made me forget that.

A couple times when I've walked out onto the street here in Nashville I've caught a breath of exhaust-filled air. I think the smell will always remind me of Guayaquil, yeah I think it will always take me right back to the long walks we used to take to school- damn the pollution there. Really they are in a tough spot- choose economic development and you damage the environment, maybe
Ecuador needs change, fast. But I seriously wonder if they'll ever find the leadership with the initiative to do it. Damn, no one man (and note please I write 'man' with resentment but have no reason to write otherwise at this point) is in office long enough to really do anything, and God knows Mahaud can't decide to tie his shoes fast enough, even when he can see they're completely untied. No, he has to trip all over himself before he finally makes the decision, and by then its too late. Too late.

Wow, timing is everything- from finding a parking space at the grocery store, to enacting crucial economic policies.

I'll call you when I get up to Knoxville tomorrow. Should be there about 3, but who knows now that I'm a guayquilena -punctuality isn't something I'm used to.

See you tomorrow.

Becky

Ecuador announced its plans to officially dollarize on January 9, 2000. Mr. Mahaud, a Harvard-educated centrist, upon enacting the policy, declared a state of national emergency for the fourth time since taking office in August 1998. He remarked, "I recognize that I have been slow to act, but I have my foot on the accelerator now." Jamil Mahaud was deposed shortly after announcing his radical plan for dollarization, fixing the sucre at 25,000 to the dollar. The typical political pandemonium immediately set in. Thousands of indigenous protestors seized parliament after a week of escalating protests over the continuing economic crisis. A military coup took control, President Mahaud was forced to leave parliament and took refuge in the Chilean Embassy. The militaristic leadership ended shortly after it had formed and allowed vice president Gustavo Noboa to
be appointed president. Mahaud remarked, "If this is how governments can be removed in this country, how long will the next one last? Three hours?" One indigenous man, reluctantly packing up his blanket and preparing to return home, admired the desk lamp he had stolen from the parliament during the indigenous occupation. "I didn't really want this," he said, acknowledging that his isolated community lacked electricity. "I really wanted the whole national situation to change." 17

Ultimately, it will take years of sustained growth for the country's economic prospects to improve. And there is little doubt that Mr. Noboa will face the same problems of governability as his predecessor. Further progress on structural reforms is needed, but rapid advances on this front are not expected, as the political system remains highly fragmented.

The indigenous people who ousted Mahaud have declared the new government to be temporary. History says they are probably right. President Noboa definitely has a huge challenge in front of him to advance Ecuador's economic liberalisation while addressing the needs of its majority indigenous population. The indigenous people seem to have a louder voice these days in the political arena. Their demonstrations are getting more attention and so are their claims that the government is corrupt and has mismanaged the economy to the detriment of the poor. 17

Under Noboa, Ecuador's new leadership sent a bundle of economic reforms, including electricity and telecommunication privatization and dollarization, to Congress on February 14, 2000 signaling his interest in continuing the plan commenced by his predecessor, and maybe even at a faster pace. 25 Mr. Noboa will have to act fast. Speed is key to maintain confidence and the dollarization plan. For certain, dollarization is
unlikely to be successful unless accompanied by further reforms such as privatization, needed to generate cash and confidence. Fifteen days after its proposal, Ecuador's Congress approved that wide-ranging law to introduce dollarization and the other proposed economic reforms. The indigenous coordinating body, Conaie (Ecuadorean Confederation of Indigenous Nationalities), made it clear immediately that they were firmly opposed to the dollarization plan and to privatization plans. "We are sick of corrupt bankers and politicians," said Conaie's leader, Antonio Vargas.26

The trials of Ecuador's democracy, and the dollarization plan, are far from over. The indigenous people have a strong relationship with the military as is illustrated by the recent coup. The armed forces see themselves in a parental role and they strive to maintain social well-being. They are at odds with a government they see as representing business groups, and not the Ecuadorean people. They have refused to put down eight peaceful Indian uprisings staged since 1990. Elimination of political corruption begins with openness. Noboa's administration will need to establish a strong relationship with the military to foster that openness as they have ties to the indigenous people. At the same time successful implementation of privatization and modernization is contingent on cooperation on behalf of the government with the private sector.

Ecuador is proposing privatization of 51% of many state-owned enterprises, and it should take further strides in this area if they are going to be able to eliminate political mischief and corruption in regards to these enterprises.6 The dollarization plan will probably not be successful without a significant amount of foreign direct investment to help cover a fiscal deficit, a financial crisis, and government debt of $15 billion. Certainly, the political crisis that has transpired in the recent months doesn't do anything
to appease the fears of anxious businessmen and diplomats. Foreign investors are unlikely to do what they do best under these conditions. Investors are simply hesitant to invest in an wobbly economy with an unstable government. With the recent debacle of Mahuad's administration and the coup that followed, many businessmen and diplomats fear that another military uprising could occur.

Nothing about the way or the reasons Ecuador has dollarized makes it a model for other nations. (In terms of the way and the reasons why Ecuador has dollarized it is not a model- nations needn't follow their lead in the way or reasoning, but should understand the potential benefits dollarizing provides) Ecuador's economy is in a deep recession and the Mahuad administration defaulted on about half of Ecuador's $13 billion in foreign debt. In addition to a shaky economy, the decision to dollarize was rather hasty and completely surprised Washington and international lending agencies. Mahaud has a history of being slow to make decisions, and even slower to act. His hurried announcement to adopt a new monetary policy, and a drastic one at that, raises the question as to whether the decision was intended for political gain as he probably saw the inevitable premature end of his administration in sight. It would do the concept of dollarization no good at all if the experiment were to fail in Ecuador for all the wrong reasons. The notion would lose credibility. Already timid countries would become even more uncertain about dollarizing. If Ecuador is triumphant, and with the right leadership the odds are good, it could prove to be quite a testament to the concept as initiated by the government as previously dollarization has seemed to be a political impossibility. Ecuador can lead the move towards a trade bloc, towards Latin American unity, but it won't be easy.
No one, from the economists to the business leaders, is denying it will be a long haul. Ecuadoreans will suffer first, prosper later. They will be confused. They will have to ask their fellow citizens what their fistfuls of dollars are worth as they cluster around a dollar-only-spitting ATM. There are government employees who have not been paid in 3 months. It will be a while until they are. It will be a while before the government will be able to free up funds to spend on tangible, visible improvements, such as roads. It will be a while before the steadiness of the dollar will bring lower inflation and lower interest rates. It will be a while before the average Ecuadorean will be able to accurately predict what his salary will be for the next month. But, it will happen, with time and effort on part of the people, the government, and other nations. Ecuadoreans will have to become good at something they typically haven’t been—patience. The government will have to take strides to prepare for the challenges ahead, and the international players will have to help this tiny nation take its big step toward increased involvement in globalization.

Dollarization alongside modernization has its promises of sunshine after the rain. From here, it looks good. Ecuador is taking off on a vision of the prosperity that privatization and modernization can bring. Let’s just hope they have the courage to land.
Works Cited


