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Central Intelligence Agency

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**DIRECTORATE OF INTELLIGENCE**

18 December 1985

**ECUADOR: The Febres-Cordero Administration After One Year**

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**Summary**

President Leon Febres-Cordero's state visit to Washington in January comes at the one-and-a-half year point in his four-year term and at a time when he has made some significant progress on several fronts. In particular, he has made great strides in setting the country on the road to a slow but steady economic recovery by adopting market-oriented strategies to promote entrepreneurial activity, stimulate investment, and revive growth. His economic and financial moves, some of them politically difficult, are already producing positive results in both external accounts and domestic recovery. The chief threat to this economic revival is the weakness of the world market for oil, Ecuador's chief foreign exchange earner. Febres-Cordero also has launched a vigorous and successful drug enforcement campaign, with Ecuador accounting for 25 percent of the cocaine hydrochloride seized in South America in the first half of 1985. Despite his highly publicized and divisive legislative battles--often leading to charges that he has dictatorial tendencies--the President has consolidated his power base by gaining control of Congress and is close to attaining a majority in the Supreme Court. His principal shortcomings to date--failure to control the fledgling guerrilla organization Alvaro Vive, Carajo--is largely attributable to the military's inability and unwillingness to develop an effective counterinsurgency capability.

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During his scheduled meeting with President Reagan, Febres-Cordero is likely to request substantial increases in US assistance, particularly for counterinsurgency

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This memorandum was requested by Jacqueline Tillman, National Security Council. It was prepared by [Redacted] South America Division, Office of African and Latin American Analysis, and [Redacted] Office of Central Reference. It was coordinated with the Directorate of Operations. Information as of December 1985 was used in the preparation of this paper. Questions and comments may be directed to the Chief, South America Division, ALA, [Redacted]

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training, and added training and funding for drug enforcement efforts. He probably will argue that, as a strong proponent of democracy and free enterprise and because of his vigorous efforts to combat Communism, drug trafficking and terrorism, the United States should be more forthcoming with aid to what he sees as Washington's staunchest ally in South America. [Redacted]

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**Febres-Cordero: His Record and His Challenges**

Febres-Cordero's inauguration in August 1984 marked Ecuador's first transition from one democratically elected government to another in a quarter of a century. As a politician schooled in the rough-and-tumble world of Ecuadorean politics, Febres-Cordero has proved to be a shrewd tactician who has taken advantage of an immature political system grown rusty under years of military rule to outmaneuver his opponents and capitalize on Ecuador's tradition of a strong presidency [Redacted]. Although Congress, rather than the judicial bodies, serves as the final arbiter on constitutional questions, the President is responsible for enforcing the constitution. Febres-Cordero's track record to date shows he has exploited this and has maneuvered within the highly partisan political environment by playing one side against the other without making entangling commitments. Despite the fluctuating nature of domestic political alliances, Febres-Cordero has maintained stability in his cabinet and among his senior advisers. [Redacted]

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**The Economy**

Febres-Cordero's success in implementing free market reforms to revitalize the economy, raise living standards, and strengthen economic ties with the West has been well documented in the press and in US Embassy reporting. Domestically, he has raised interest rates to stimulate domestic savings and decontrolled some agricultural and fuel prices to spur increased production. He has also ordered cuts in subsidies, improved tax collection, limited wage increases, and reined in Central Bank lending. Externally, Febres-Cordero has promoted exports by devaluing the sucre and unifying its multiple official exchange rates, although the official exchange rate is still below the free rate. Further, he has removed some tariffs and lifted the ban on most manufactured imports that has shielded Ecuador's inefficient industries. [Redacted]

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Since Febres-Cordero took office, Ecuador has openly welcomed foreign investors, becoming the first Andean country since 1971 to sign an insurance agreement with the US Overseas Private Investment Corporation (see Annex II). Oil exploration was opened to foreign bidders, and the US Embassy reports that new contracts have been signed with US firms. Press and US Embassy reporting indicates Quito has been a moderate in the Cartagena group of Latin debtors, favoring individual country talks with creditors rather than confrontation through a debtor's cartel. [Redacted]

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These reform policies have boosted business confidence and stimulated investment. Price decontrol is easing shortages of consumer goods according to the US Embassy, and higher interest rates are diminishing speculative financial activity. Restrictive monetary policies have helped contain inflation, which dropped to 26 percent for the 12 months through October 1985 and which the Central Bank believes--perhaps optimistically--could be down to 15 percent in 1986. Government statistics show that as of November 1985, agricultural production is running 25 percent over 1984 levels and non-petroleum exports are up 29 percent. These statistics also indicate that investment approvals in 1985 have grown 60 percent over 1984, which saw a 50 percent jump over depressed 1983 levels. Nevertheless, the US Embassy reports that private construction has not yet revived, the government's low-cost housing program has hardly begun, and agriculture--providing 4 of every 10 jobs--needs better equipment and more credits. [redacted]

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Our tracking of the economic situation in Ecuador shows that the country's foreign payments position for 1985 has brightened considerably. According to partial export and import data, we project the trade surplus to increase in 1985 to \$960 million from \$910 million in 1984. Since service and transfer accounts are likely to remain in deficit by about \$1.2 billion. This means an overall current account deficit of \$240 million. The US Embassy has also reported that Quito also recently reached a new \$100 million standby agreement with the IMF and won a multi-year Paris Club rescheduling. As a result of the IMF accord, commercial bankers are negotiating the rescheduling of \$4.6 billion of debt falling due during 1985-89 and have provided \$200 million in new loans, which will reduce Ecuador's debt service burden from a projected 60 percent of exports to 33 percent this year. [redacted]

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Despite these impressive achievements, we believe that several areas of the economy could pose trouble for Febres-Cordero in coming months. The principal challenge, in our view, will be meeting IMF targets--such as the obligation to post a public-sector surplus equal to 3.4 percent of GDP, reduce inflation to 20 percent, and bring the foreign payments position into balance--in the face of uncertain external economic conditions. Quito's chief external vulnerability is weak world oil prices; crude oil accounts for 60 percent of government revenues and 70 percent of export earnings. [redacted] Ecuador's oil became overpriced in world markets at the end of 1984, and half the state oil company's contracts were cancelled, forcing Quito to sell on the spot market at lower prices. Sales have recovered under a new price formula and production has reached 290,000 barrels per day, but [redacted] technical factors limit Ecuador's ability to respond to recent price drops with production increases. Given oil's importance both as a source of government revenue and as an export earner, any drop in oil prices will greatly complicate Quito's ability to stay in compliance with IMF's balance of payments and government deficit targets. [redacted]

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### Narcotics Enforcement

The President's drug enforcement program has been very successful, accounting for 25 percent of the refined cocaine seized in South America in the first half of 1985, according to the US Embassy. The Embassy reports that Febres-Cordero has appointed an active duty Army colonel to supervise, at the presidential level, all narcotics enforcement activity carried

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out by various government agencies, and that the government is conducting a nationwide drug abuse prevention program targeting high school students. To date, four coca eradication operations have been conducted along the Colombian border, and in July 1985, the Ecuadorean and Colombian governments staged the first combined coca eradication operation by any two Latin American countries along a common border. [Redacted]

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These operations showed us that Ecuador is no longer simply a transit point for drugs from other South American countries, but is facing serious problems from Colombian coca producers and traffickers who have moved into Ecuador. The recent eradication operations, increased road interdiction efforts, and vigilance by customs officials, however, lead the US Embassy to conclude that Ecuador's drug control program will enjoy record success in 1985. If this trend continues, we believe it would allow Quito to bring its coca trafficking and cultivation problem under control before it reaches the proportions that exist in Colombia and Peru. [Redacted]

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**The Guerrilla Threat**

The greatest challenge the administration faces, in our view, is internal security, particularly the growing threat from leftist guerrillas. The most active group is Alfaro Vive, Carajo (AVC), a leftist guerrilla organization formed in the early 1980s. The AVC--which we estimate at 300 to 500 members--has become skilled in the past year in mounting operations against both military and civilian targets. According to State department reporting, major AVC actions to date include a raid on a Quito police warehouse in which nearly 800 weapons were stolen, an attack on a jail in which four AVC members were freed, and an attack on a Navy base. [Redacted]

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AVC has developed rapidly, in our view, because of its connections with the Colombian 19th of April Movement (M-19). [Redacted]

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[Redacted] In the most violent confrontation with the government to date, all of the guerrillas involved were either killed or captured when security forces, directed personally by Febres-Cordero, stormed the building where the hostage was being held. The M-19 later publicly admitted that it participated in the kidnaping. [Redacted]

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The government's ability to contain the growing terrorist threat is limited, according to the US Embassy, but Febres-Cordero has made counterterrorism a matter of the highest priority and is working closely with the United States. The 36,000-man Ecuadorean Army is hampered by weak and uncoordinated intelligence, poor command and control, an inferior transportation network, poorly educated recruits, and rapid turnover of personnel. Until recently, the burden of counterinsurgency operations fell on a 1,300-man Special Forces Brigade, an engineer battalion, a mechanized cavalry group, and the elite, well-trained, and highly secretive PUMA unit--the military's strike force for rapid deployment in counterterrorist and SWAT operations. [redacted] and

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is forming two new units: a 300-man counterinsurgency battalion, to be deployed in Esmeraldas Province, the AVC's rural stronghold, and an 84-man counterterrorist unit to be modeled after the US "Delta Force" and equipped with the most modern weapons. [redacted] will still be able to combat only a low-level and relatively unsophisticated insurgency. We agree that any serious escalation of combat would overwhelm the capabilities of the country's armed forces. [redacted]

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#### Febres-Cordero and Other Power Centers

[redacted] Febres-Cordero's effort quickly and forcefully to change Ecuador's economic and political course has provoked some opposition in Congress, labor, and the parties, while his aggressive leadership style has raised the possibility of future opposition from the armed forces. After relinquishing power in 1979 and abiding two left-of-center presidents, the military publicly welcomed Febres-Cordero's conservative ideology, pro-US foreign policy, and strong stance against terrorists. Moreover, the President has courted senior officers. Nevertheless, according to the US Embassy, Febres-Cordero has described his relationship with the military as his most difficult. This is primarily because of his effort to remold the armed forces to eliminate inefficiencies, cut back its privileges, and bring it fully under civilian control. So far these efforts have not provoked organized military opposition to the administration, but we believe the potential is there. [redacted]

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Ever since his inauguration, the US Embassy has reported that Febres-Cordero's relations with Congress have been soured by his aggressive and confrontational style, by ideological differences and by longstanding personal and political enmities. Particularly strained have been relations between Febres-Cordero and Rodrigo Borja, his primary opponent in the presidential election and leader of the opposition Democratic Left party, which until last summer controlled the majority opposition bloc within Congress. In fact, the US Embassy reports that these differences were the main reason for a legislative deadlock during the first few months of the administration. A major breakthrough was achieved last June, however, when Febres-Cordero gained a working majority in Congress by inducing a number of politicians from the Progressive Bloc to join his coalition. Control of the Congress then enabled him to name his allies to the Supreme Electoral Tribunal, a key body that convokes and supervises elections and rules on intraparty disputes. Following this, the President turned his sights on realigning the Supreme Court by having Congress pack it with justices who are more inclined to interpret legal matters his way, an effort we believe will succeed. [redacted]

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The Ecuadorean labor movement has long been opposed to Febres-Cordero because of his business background and his free market orientation. Because of his administration's hard line on wage demands, government-decreed gasoline price increases, and reduced subsidies on foodstuffs, most labor leaders are convinced that the government is actively threatening their political and economic interests, according to the US Embassy. They have staged three general strikes, but these have drawn only lukewarm popular support and have not been able to cripple economic activity. Labor's rank-and-file is growing more frustrated over declining living standards and the government's failure to produce jobs and housing, according to Embassy reporting, but the unions are still unable to channel this dissatisfaction into effective opposition. [Redacted]

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The staunchly anti-Communist Febres-Cordero also faces growing leftist party opposition, particularly from the radical Socialist Revolutionary Party of Ecuador (PSRE). The PSRE has reunited with a legally certified party, assumed key provincial leadership positions, and is actively recruiting young new members. [Redacted] these recent changes have given Ecuadorean socialism new prestige, enhanced its relations with other leftist groups, and improved its international contacts. The PSRE has had ties with Cuba and Nicaragua for some time [Redacted]

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**Foreign Policy and Relations With the United States**

Febres-Cordero's primary foreign policy goal has been to maintain cordial relations with the United States, which he views as Quito's strongest ally. According to the US Embassy, Ecuador's political and economic policies, its counterterrorist efforts, and its strong actions in drug eradication and interdiction demonstrate open sympathy with and support for most features of US foreign policy. [redacted]

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The two most dramatic foreign relations initiatives--both of which we believe are indicative of the President's personality and operating style--have been his visit to Cuba last April and the recent breaking of diplomatic relations with Nicaragua. US Embassy and other reporting indicates that Febres Cordero went to Cuba to deflect criticism from leftists at home and to warn Fidel Castro not to interfere in Ecuadorean internal affairs. Although the President reportedly believes he succeeded in both regards he seems unaware that he provided Castro with a rare media event--the visit of one of the region's most conservative and pro-US politicians. Because it is unlikely that he had any impact on Cuban plans for meddling in Latin America, the US Embassy remains skeptical that the visit served US or Ecuadorean interests. [redacted]

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Quito severed diplomatic relations with Nicaragua on 11 October following a sharp media exchange over Ecuador's possible participation in the Contadora support group. Febres-Cordero claimed that statements by Nicaragua's Daniel Ortega, accusing Febres-Cordero of being a "tool of the US" and lacking moral authority were an insult to Ecuador's national dignity, although it is likely that Managua's action simply provided the President with a pretext for the move. [redacted]

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**Prospects**

Ecuadorean democracy is still a fledgling institution, and we believe that it will continue to experience growing pains throughout this decade. Despite Febres-Cordero's recent successes, the longer term prospects for political harmony are uncertain. The Embassy reports that much of the opposition wants the government to fail and dreams of seeking revenge in a few years, perhaps after the next presidential election in 1988. Fortunately, for Febres-Cordero, the political left is badly fragmented and is unlikely to pose a serious challenge to his administration over the near term. The Embassy believes the formal consolidation of the democratic system--through a constitutional transfer of power in 1988--is likely, but the prospect is for continuing political polarization and confrontation as democracy matures in Ecuador. [redacted]

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Nevertheless, we foresee no serious political problems for Febres-Cordero over the next year. His chief vulnerabilities will be the continuing terrorist threat and the danger that the slack oil market will undermine his economic program. We believe he will have continuing but probably less strident altercations with Congress, particularly if he maintains a majority in that body--the current flap with Averroes Bucaram over the mayorship of Guayaquil notwithstanding--and the opposition Progressive Bloc remains fragmented. We believe Febres-Cordero will continue employing his bulldozer tactics to push legislation through

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Congress after much wrangling and accusations of constitutional impropriety. Although the road may be rocky, we believe there is little chance that Febres-Cordero himself poses any threat to democracy or that the armed forces will turn against him. [REDACTED]

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We believe that that Leftist opposition, spearheaded by the AVC and the PSRE, will strengthen over the short term--as Febres-Cordero's conservative ideology and policies continue to provide a rallying point for radicals--but will not threaten the stability of the government. Nevertheless, in light of lax security measures, particularly in the major cities and the lack of an effective counterinsurgency force within the military, the AVC will probably become more dangerous as its skills grow through contact with the M-19. US assistance to the Ecuadorean armed forces should enhance their ability to counter the AVC over the long term, but we do not expect any immediate improvement in security force effectiveness. Essentially, we expect a race between the military and the AVC to see who can draw best on domestic and foreign resources to gain the upper hand in the relatively new game of Ecuadorean terrorism. [REDACTED]

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Narcotics eradication and interdiction probably will continue in Napo Province as Febres-Cordero remains committed to combatting this problem. By identifying the problem at a relatively early stage and initiating vigorous enforcement procedures, Ecuador may be able to stem the tide of the drug flow before it becomes the pervasive problem that plagues neighboring countries. [REDACTED]

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Annex II: Foreign Investment

New foreign investment in Ecuador fell in the early 1980's but recovered somewhat in 1984, according to press reports:

1981	\$73.7 million
1982	\$58.5 million
1983	\$48.8 million
1984	\$65.5 million

Foreign investment for 1985, as reported by the Central Bank, is up 82 percent in the first eight months. At this rate, 1985 foreign investment would total \$118 million.

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US investments in Ecuador totalled \$630 million at the end of 1984, according to information available to the State Department. The Commerce Department reports that non-oil companies with investments in Ecuador include Bristol Myers, Phelps-Dodge, Continental Can, General Tire, Del Monte, Ralston Purina, Sidney Ross, Norland Corporation, Xerox, IBM, Union Carbide, Crown Cork, Philip Morris, and there are numerous small investments such as aquaculture shrimp production.

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Most foreign investment is in the oil and mining area, which Febres-Cordero has recently opened to foreign activity, according to press and Embassy reports. Texaco, the only US oil company with a longstanding role in Ecuador has investments in the hundreds of millions of dollars. Ecuador has recently signed oil exploration contracts with other US oil firms, according to US Embassy reports.

- Occidental is drilling in the Amazon Basin. The deal requires Occidental to spend \$50 million over four years, plus an annual training investment of \$500,000. If Occidental finds oil, it must invest at least \$200 million over 20 years on the development and production stage.
- Exxon is conducting seismic studies under contract conditions similar to those for Occidental.
- Conoco was scheduled to sign risk (exploration) contracts in October, although we have no confirmation that these were actually signed.

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Aside from the oil area, information on specific US investment is sparse:

- Seven out of 65 shrimp operators are mixed ventures, mostly with US companies, according to information available to the Commerce Department.
- Of 16 projects presented by Ecuador's investment mission in seven US cities in May 1985, 12 are being considered for investment by US firms, according to press

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reports. The 16 projects would total \$107 million and include agricultural production, oil pipe manufacturing, cement, petrochemicals, furniture, ceramic minerals, hides, shrimp, fishmeal, and seafood. [Redacted]

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