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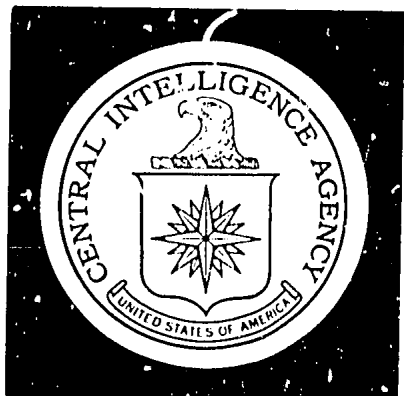
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DIRECTORATE OF
INTELLIGENCE



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Intelligence Memorandum

The Political Situation in Ecuador



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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
22 November 1971

INTELLIGENCE MEMORANDUM

The Political Situation in Ecuador

Summary

President Jose Maria Velasco has set in motion the machinery necessary for general elections next June, but he is reluctant to allow the opposition, such as it is, much latitude. As a result, the most popular civilian opposition leader remains in exile and other politicians spend a day or two in jail if their sentiments become too openly or strongly antigovernment. Velasco may not relax these controls enough to hold a free election; [redacted] although he cannot legally serve two consecutive terms, he may decide to prolong his tenure.

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One factor that could complicate Velasco's election plans is the economic situation. If it deteriorates badly, the military may feel obliged to step in, either directly or through a civilian figurehead. [redacted]

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The recent spate of seizures of US tuna boats operating within Ecuador's claimed 200-mile territorial waters limit has given the government a useful propaganda issue. Even so, some military officers are discontented because the seizures have caused a continued suspension of US military sales.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated within CIA.

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Background

1. Ecuador's principal political problem has always been the lack of a broad electorate with enough sophistication to want and to recognize national political leadership dedicated to improving the well-being of the country. In the absence of this leadership, the populace turns to the dema-

gogic strong man who promises some semblance of change. As a result of Velasco's charisma, he has been able to maintain his popular appeal for more than 35 years, continuing to cut across social and economic lines

"Ecuador is a very difficult country to govern."



President Jose Maria Velasco Ibarra
 1934 35 (ousted)
 1944 47 (ousted)
 1952 56 (completed term)
 1960 61 (ousted)
 1968 70 (assumed dictatorial powers)
 1970-?

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2. Ecuador's geography has exacerbated its political problems, because the country is divided into three distinct regions (plus the Galapagos Islands, some 600 nautical miles to the west). The hot coastal area where the commercial center, Guayaquil, is located, has little in common with the Andean region with its large Indian population and the capital city, Quito. In the east is Amazonian jungle that is only now, with the discovery of large oil reserves,

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beginning to enter the modern world. Regional rivalries are so intense that Ecuador's oldest political parties, the Liberals and Conservatives, are based primarily in the coast and the highlands, respectively. In addition, the historic struggle for dominance between the legislature and the executive has prevented development of a government strong enough to resist determined military opposition.

3. One manifestation of the basic insecurity of Ecuadorean political life occurs in foreign affairs. Much of the territory governed from Quito in colonial times now is controlled by Peru, Colombia, and Brazil, and Ecuadorean leaders are defensive about their lack of influence in world affairs. As a result, they cling to national grudges; the anniversary of the ending of a war with Peru in 1941 only recently ceased to be a pretext for demonstrations and jingoistic speeches.

4. A more serious matter has arisen in connection with Ecuador's claim of a 200-mile territorial waters limit. During the first three months of 1971 the government picked up 26 American fishing boats that were operating within this area and collected some \$1 million in fines. As a result, provisions of the Foreign Military Sales Act suspending sales to Ecuador came into effect. Ecuador then expelled the US Military Group. Ecuador also took the fishing issue before the Organization of American States, but a compromise was worked out that avoided condemnation of the US for economic coercion.

5. Last month, however, Foreign Minister Garcia informed the US ambassador that Ecuador planned strict enforcement of its licensing requirements during the current tuna season. He indicated that Ecuador would raise the issue not only in the OAS but also in the UN and any other forum available. On 10 November Ecuador began seizing boats, picking up 15 in five days. This automatically extended the military sales suspension, which runs for one year

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from the date of the most recent seizure, so the issue can be expected to perturb US-Ecuadorean relations for some time to come.

Velasco and the Military

6. The armed forces, now as always the ultimate arbiters of politics in Ecuador, backed Velasco when he assumed dictatorial powers in June 1970. This step was taken because of student disorders and an unfavorable decision by the Supreme Court



Soldiers of the Ecuadorean Army

on the constitutionality of tax decrees that Velasco deemed necessary to deal with the economic situation. Congress, which had not distinguished itself during the previous two years of its term, has not been reopened. With no constitutional restraints, Velasco has taken increasingly repressive measures against the opposition.

7. The most serious threat to Velasco's position occurred earlier this year, when he was forced to remove his nephew as minister of defense. This crisis, which exemplifies the many strains in the Ecuadorean political situation, began on 26

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March, when Defense Minister Acosta Velasco, attempting to solidify his own position, tried to fire the commandant of the war college, General Luis Jacome Chavez. Jacome in turn demanded that Acosta and the commanding general of the army resign, and several significant army units supported this stand. Not enough units joined them, however, and Jacome eventually surrendered.

8. Velasco at this point apparently overestimated the extent of his military support and ordered the arrest of a number of officers who had supported Jacome. The military reacted by detaining the President and his nephew until these prisoners were released. Acosta himself then resigned, and a compromise was worked out; when Jacome eventually agreed to exile in Venezuela, his departure occasioned little reaction in the armed forces.

9. Velasco emerged from these events in a significantly weaker position. Although senior military officers continue to prefer the Velasco government, a known quantity, to the hazards of direct military rule, some junior officers reportedly still are dissatisfied. In addition, there is some sentiment in the armed forces for instituting a reformist military government.

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Economic Conditions

11. The economy is a source of great problems for the Velasco government. The government's budget

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situation has deteriorated sharply and a large deficit is in prospect for 1971, repeating 1970's fiscal performance. Balance-of-payments pressures are increasing, and unless the government receives external financial assistance, it faces the choice of allowing international reserves to fall to a critically low level or imposing import controls and foreign exchange restrictions. Either of these options could be hazardous politically, especially if an election campaign takes place next year.

12. President Velasco's assumption of dictatorial powers in June 1970 was followed in two months by a 28-percent devaluation of the sucre. In addition, the government imposed important tax reforms and drastically restructured the exchange system. By year's end, these measures had markedly alleviated fiscal problems and balance of payments pressures. The relief is proving to be only temporary, however. Under pressure from domestic economic interests, the government reduced some emergency taxes imposed in 1970, thus losing important revenues, while budget expenditures have accelerated sharply.

13. Because of these problems, the government's budget deficit has zoomed; in the first quarter of 1971 it was almost double the deficit registered in the same period of 1970, despite an impressive 26-percent growth of revenues from the new tax measures. Most of this deficit has been financed through the Central Bank, thereby adding inflationary pressures. The balance of payments is also coming under strain again. Net international reserves fell during the third quarter of 1971 and have suffered a total drop of 49 percent since 1 January, standing at \$29.7 million at the end of September.

14. Despite fiscal and balance-of-payments problems, the economic growth rate accelerated to about 8.7 percent in 1970, in real terms, compared with an annual average rate of about five percent in the 1960s. Last year's growth was spurred by a 26-percent rise in the value of exports and a

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considerable increase in private investment, primarily related to petroleum production. Inflation in 1970 was about 11 percent, but it is expected to be somewhat lower this year.

15. The government has pinned a great deal of hope on the development of relatively large petroleum reserves in the eastern jungle. The Texaco-Gulf consortium has found oil in a high percentage of the wells it has drilled; one financial commentator called it "one of the most remarkable oil-finding sprees in history." Production is scheduled to begin late next year and is expected to reach 250,000 barrels a day in 1973. In addition, construction is well ahead of schedule on a 318-mile Trans-Ecuadorean pipeline, which will cost \$150 million and will climb 13,000 feet above sea level over the Andes to the port of Esmeraldas. Texaco-Gulf is building a deepwater export terminal there that will be able to load 100,000-ton tankers, and some oil probably will be shipped down the Amazon to Brazilian refineries.

16. This oil wealth is likely to prove to be a mixed blessing. It clearly will alleviate financing problems and provide the government with a golden opportunity to undertake some of the development projects the country so desperately needs. Unless the government begins early to plan how to use this money, however, it may find itself unable to put the revenues to their best advantage. There are indications that the armed forces already are planning extensive arms purchases. In addition, the large increase in foreign, primarily US, investment will provide extreme nationalists of both the left and the right with a tempting target.

17. On 27 September Velasco signed a law regulating the petroleum industry. Because of suggestions from oil company representatives, the provisions with respect to taxes are not retroactive for existing concessions, although Texaco-Gulf may have to renegotiate its concession. In addition, the armed forces are given an expanded role in policy-making with respect to the petroleum industry. The

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military reportedly played a key role in the recent assignment of a contract for a state oil refinery, and the army is sending junior officers abroad for training in petroleum matters. Seven are currently training in France, Spain, Brazil, and Argentina.

Politicians and Elections

18. Under the plan announced last June, elections will be held for president, vice president, and congress in June 1972. At the same time, voters will choose between the 1946 constitution, and a new constitution to be written by the incoming congress. President Velasco favors the 1946 document, because it was drafted under his direction during the second of his four earlier terms and gives



National Elections in Ecuador

the chief executive substantial authority. He had intended to hold a plebiscite on the constitutional question, but changed his mind because of fear his document would be defeated. By coupling the constitutional question directly with the elections, the President has defused a potentially disruptive issue. Politicians opposed to the constitutional plan will

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be unwilling to abstain from the elections because of the offices being filled at the same time. The campaign is supposed to begin in January 1972 and the new administration elected in June would take office on 31 August.

19. There are already has been difficulty with the machinery, however. On 9 September Velasco swore in the seven members of the Supreme Electoral Tribunal to supervise the elections. At that time the President said that his government would make no attempt to impose an official candidate and pledged "complete freedom of election." When the Supreme Tribunal appointed the members of the provincial boards, however, it chose primarily Velasquistas. As a result, the traditional parties boycotted the process. President Velasco eventually agreed to the inclusion of representatives of the major parties.

20. This type of controversy is anathema to Velasco, who sees himself as the guardian of Ecuador's destiny. This unwillingness to tolerate the strains of the open democratic process could cause him to cancel the elections. Doubt is also cast on his commitment to elections by his treatment of a key figure in the opposition. Assad Bucaram, now in exile in Panama, has been mayor of Guayaquil and prefect of Guayas Province and is an archrival of President Velasco. Bucaram probably is best described as a nationalist and a populist, and he appears to be more honest than most Ecuadorean politicians. The long-standing antagonism between him and Velasco is exacerbated by Velasco's recognition that neither he nor any of his proteges could be assured of beating Bucaram in a free election. The oligarchy fears Bucaram's reformist sentiments, and the army commander recently told a friend that the army would step in if Bucaram were to win.

21. Bucaram, exiled in September 1970 after he criticized Velasco's assumption of dictatorial powers, returned to Ecuador clandestinely last April and managed to remain for two months before

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being apprehended and once again sent out of the country.

[redacted]

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The government also claims to have "definitive proof" that Bucaram is not an Ecuadorean citizen by birth and therefore is disqualified from becoming president.

22. There are indications that Velasco's aversion to Bucaram is so intense that he is considering postponing his departure from the presidency so as to deny that office to Bucaram.

[redacted]

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[redacted] Velasco already has begun to hint that the government might extend its term of office. On 18 October he said: "Democracy can be an infamy if it converts itself into the destruction of the country, and dictatorship can be a healthy thing if it saves the dignity and honor of the people and the republic."

Communists and Other Extremists

23. The Communist movement in Ecuador historically has been small, weak, and divided. In an attempt to refurbish this image and cash in on recent events in Chile and Uruguay, the Communists in June 1971 formed the Popular Unity Front. This group, which so far exists almost exclusively on paper, includes the Communists, the Socialists, an organization that has been a Communist electoral front, and a small new group called UNIR, the Spanish word for "to unite." The Popular Unity Front may run some candidates next year, hoping to benefit from the precedent set by the Allende victory in Chile and any gains made by the Frente Amplio in Uruguay.

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24. The main force of the extreme left in Ecuador is the Communist Party, led by Pedro Saad. It has been weakened by splits through the years but still plays an important role in the labor and student movements. The party has about 250 activists and 3,000 sympathizers. Through Saad, the Communists maintain contact with the Soviet Embassy in Quito--a connection that in July led to the expulsion of two Soviet officials for allegedly interfering in labor activities. Another Soviet was prevented from returning to the country, and later a fourth was expelled.

25. Although the Communists continue to exert influence in the labor movement, the failure of the general strike called last July eroded this strength somewhat. The Communist labor confederation and a Christian Democratic labor group called the strike, but they were unable to muster support even among their own members. In addition, the government imposed a decree permitting employers to dismiss employees who refused to work during the strike. Although this decree was quickly repealed, in part because of abuse by some employers, it was an effective weapon at the time.

26. There has been virtually no urban or rural guerrilla activity in Ecuador, although groups from time to time have thrown a bomb or two. Student demonstrations were a vital factor in the overthrow of the military junta in 1966, but Velasco's dictatorial rule has effectively silenced the students. Although Ecuadorean leftists travel widely, assiduously seeking funds from abroad, disorganization so far has overcome the best of intentions.

Conclusions

27. The 78-year-old Velasco, assuming he remains in good health, seems to have an even chance of completing his term, which ends on 31 August 1972. Should he try to remain in office after that, using the possibility of the election of Assad Bucaram as an excuse, his prospects would be less bright. The

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administration's determined enforcement of its fishing regulations, however, has provided a useful propaganda issue. It could serve as a distraction, should Velasco decide to postpone or cancel the elections.

28. Some military officers, including the commanders of the army and navy, are pleased with Ecuador's defiance of the US. Others are dismayed at the prospect of another extension of the suspension of military sales. Alternate sources of supply are available, however. Several tuna seiners were captured by the navy's newly acquired patrol boats, built in Germany.

29. Revenues when the oil fields come into production could go a long way toward coping with the chronic financial problems of the government and accelerating the country's economic and social progress. If they are not used efficiently, however, the net result could be nothing more than increased inflation and corruption.

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