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ECUADOR: The Febres-Cordero Administration and Its Challenges

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Summary

During his first one and a half years in office, President Leon Febres-Cordero has demonstrated forceful, often controversial, leadership in implementing conservative policies that frequently have been closely aligned with US interests. He has been especially vigorous in his efforts to reorient and revive the economy. His market-oriented strategies achieved early positive results in both the external accounts and domestic recovery, but the rapid decline in world market prices for oil--Ecuador's chief foreign exchange earner--now threatens to reverse many of the gains. Febres-Cordero has also launched a dedicated and successful drug enforcement campaign. He has had frequent battles with the legislature over his efforts to expand presidential powers--resulting in charges that he has dictatorial tendencies--and a recent military mutiny tainted his administration with accusations of corruption. His efforts to counter the terrorist activities of the fledgling guerrilla organization, Alfaro Vive Carajo, have lately met with some success due to police penetrations, but he faces growing opposition from leftist political groups likely to win seats in the 1 June Congressional elections.

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 the South America Division, Office of African and Latin American  
Analysis. It was coordinated with the Directorate of Operations. Information as of 23 April  
1986 was used in the preparation of this paper. Questions and comments may be directed to  
the Chief, South America Division, ALA,

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
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## The Economy

Immediately upon taking office, Febres-Cordero began implementing a strategy aimed at reestablishing the private sector as the principal engine of economic growth. In order to promote greater use of the market and private initiative, the US Embassy reports that the administration has taken important strides in dismantling Ecuador's extensive regime of economic regulations and controls. Price controls have been sharply reduced in scope; direct and indirect subsidies on many products have been eliminated or reduced; government-imposed ceilings on interest rates have been relaxed or eliminated; tariffs and administrative restrictions on imports have been reduced; regulations on foreign direct investment have been liberalized; and plans have been laid to privatize certain non-oil, state-owned enterprises. 


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The administration also moved vigorously to restore discipline to the nation's finances. Restraints imposed on government expenditures produced a budgetary surplus in 1985--an important factor in holding inflation to 25 percent. Ecuador's international financial accounts were rationalized by the rescheduling of some \$4.8 billion in debt to foreign bank and Paris Club creditors. To restore discipline to outlays on merchandise imports and travel abroad, the overvaluation of the domestic currency (Sucre) was corrected by a series of devaluations culminating in a recent unification of the official exchange rates. 

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Economic performance last year, Febres-Cordero's first full year in office, was encouraging. Economic activity (GDP) increased by 3.2 percent, including a modest revival of the manufacturing sector, and the current account of the balance of payments registered a deficit easily covered by capital inflows. Embassy and press reports indicate that such performance and the structural reform measures undertaken by Febres-Cordero have earned Ecuador plaudits from the IMF, money-center lenders, and potential foreign investors. Nevertheless, the President was subjected to harsh domestic criticism because of his market-oriented philosophy, reductions in key consumer subsidies, and his close relationships with the IMF and the United States. 

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The economy's prospects in 1986 are bleak. The sudden collapse of the average price of Ecuador's oil exports to about \$10/bbl from last year's \$25/bbl will translate into an export receipt shortfall of about \$700 million this year, according to the IMF. Because Ecuador has meager foreign exchange reserves, Febres-Cordero has dispatched his emissaries to world financial centers to secure loans to cover a deficit in the current account of the 1986 balance of payments that may exceed \$1.0 billion. Although lenders--the IMF, the World Bank, the Inter-American Development Bank and money-center banks--are likely to respond, the additional assistance is unlikely to fully cover the oil revenue shortfall. In this event, the government would have no option but to cut the foreign exchange allocations for imports, including those for many industrial inputs. Because such inputs are critical, the economy will probably decline at least 2 percent this year. We believe that the economic crisis that is threatened by the oil revenue decline could sharply escalate Febres-Cordero's domestic political problems, perhaps provoking a constitutional confrontation with the Congress in the short term and increasing the likelihood of a return to statist economic policies in the long term. 

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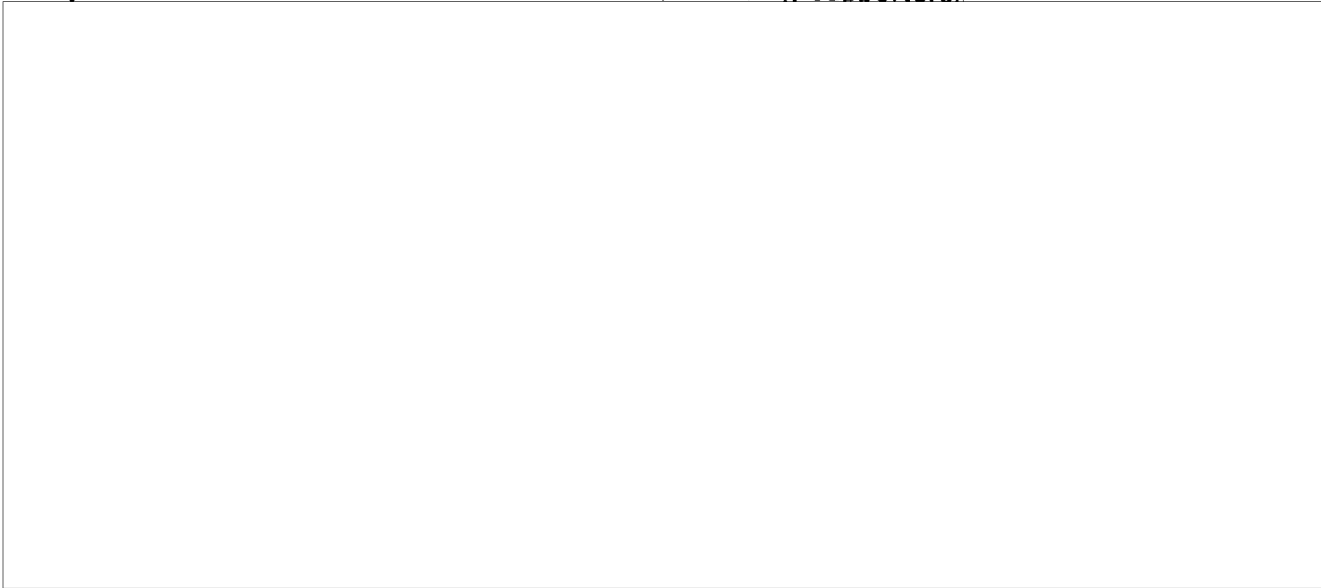




**The Guerrilla Threat**

One of the major problems facing the administration is the threat from leftist guerrillas. Relatively tranquil until the beginning of 1984, Quito has had to come to grips with a growing subversive threat. The most active terrorist group is the Alvaro Vive Carajo (AVC) whose campaign since 1984--including bank robberies, bombings of the US Embassy in May of that year and again in May 1985, seizures of radio stations, attacks on prisons and police barracks, and kidnappings--has intensified. The group--apparently led by present and former student activists--is estimated at 300 to 1500 members, including supporters.

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Despite its considerable growth, however, the AVC's aspirations--to destabilize the government and lead a radical revolution--outstrip its present capabilities. It has not attracted widespread popular support and all recognized political parties shun direct association with the terrorist tactics of this group. Furthermore, within the last five months, the Ecuadorean security services have dealt the AVC a series of significant blows--the breakup of the 10 November national conference, raids on several safehouses, the capture of Alejandra Jarrin, sister of the AVC national leader, and the January death of Fausto Basantes Borja, alleged chief of the group's action wing in a well coordinated operation. Combined with losses in the America Battalion, these blows have forced the group to stand down on planned operations and rethink its plans. Nevertheless, the AVC is still a major threat and can, in our opinion, reassert itself if Quito fails to press its current advantage and cannot improve the capabilities of its security forces or reform an unwieldy legal system ill-suited to counterinsurgency efforts.

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**Narcotics Enforcement**

For years, Ecuadorean officials did not regard growing regional drug trafficking as a serious threat to the country's basic institutions. However, increasing violence--particularly the assassination of the Colombian Justice Minister; and a growing awareness that traffickers were using Ecuador as a refuge; the possibility that they could link up with terrorist groups; and mounting domestic drug abuse has sensitized the Ecuadoreans. Since coming into office in August 1984, Febres-Cordero has made an antinarcotics campaign a priority of his administration. [redacted]

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Coca has been grown in Ecuador for at least the past four years but recent discoveries of widespread cultivation--in the remote jungle regions centering in Napo Province and running along the border with Colombia--have caused DEA to rank it as a major producer. Nonetheless, Quito has implemented an energetic drug eradication program. The US Embassy reports that Febres-Cordero appointed an active duty Army colonel as his personal representative to supervise all narcotics enforcement activity. Quito has been conducting a nationwide drug abuse prevention program--targeting high school students--and has carried out several drug eradication sweeps along the Colombian border, destroying over 500 hectares of coca plants. Last July, it held a joint operation with Bogota, staging the first combined operation by any two Latin American countries along a common border, and there have been discussions with Lima about conducting similar actions. [redacted]

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These eradication efforts, expanded interdiction operations, and generally increased vigilance by custom officials lead the US Embassy to conclude that the Ecuadorean program will succeed in keeping the problem manageable. Quito, however, must remain steadfast in its determination to attack this growing problem to keep it from reaching the proportions that exist in neighboring states. The Ecuadoreans have already asked for more US assistance to bolster their anti-drug program. [redacted]

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**Febres-Cordero and Other Power Centers**

[redacted] Febres-Cordero's efforts to quickly and forcefully change Ecuador's economic and political course and his aggressive leadership style have provoked some opposition in Congress, labor, and the parties. The President's relations with the military have been strained by the March mutiny of Air Force General Frank Vargas Pazzos and its aftermath. During his four-day powerplay, Vargas--who charged the Defense Minister and Army Commander [redacted] [redacted] exposed embarrassing and major rifts in the armed forces, subsequently aggravated by the direct confrontation between Army and Air Force units. [redacted]

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High-level military moves in the aftermath of the Vargas mutiny appear to be consolidating the authority of Army Commander Lt. General Jorge Asanza--who is also Armed Forces Chief of Staff--and may help eliminate divisions exposed and aggravated in the rebellion. Strongly backed by President Leon Febres-Cordero, Asanza has begun to rid the military high command of allies of Vargas and the deposed Defense Minister and Army chief, replacing them with his own men. Asanza has also moved units--favored by the former

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[redacted]

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leadership--to areas under his direct command and where they can more effectively contribute to counterinsurgency efforts. Moreover, the newly appointed Defense Minister Medrano Salazar and many Armed Forces commanders, [redacted] are either figureheads or owe personal allegiance to Asanza. [redacted]

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Asanza has become--in the space of a month--the dominant figure in the Ecuadorean military. His rise, however, will lead to opposition from those effectively cut out and to charges that he seeks to personally control the armed forces. Moreover, Asanza--who has previously expressed his belief that the military should concentrate on the internal subversion--may seek to redirect the armed forces towards this mission. If he moves in this direction, he will face the strong opposition of more traditionally minded military men--who still see the defense of the Peruvian border as the armed services' one essential mission--raising the potential for divisions far greater than any which presently plague the military. Press reports already indicate that this opposition is mounting as the head of the Army Corps of Engineers has charged Asanza with conspiring against the President. These divisions could become a serious problem for Febres-Cordero and his agenda. [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. 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. [redacted]

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Mounting leftist opposition will probably end Febres-Cordero's narrow control of Congress in June. Opponents of the government are already blaming the administration's policies for the economic downturn--underscoring the President's failure to alleviate unemployment and housing shortages. The precipitous decline of oil prices has sharpened their criticism while Vargas' charges have given them more useful ammunition to use. All of this points to significant leftist gains in June's congressional elections and suggests that the new Congress will be more confrontational in its relationship with the administration. [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 significantly affected economic activity. Labor's rank-and-file, however, is growing more frustrated over declining living standards and the government's failure to produce jobs and housing, according to Embassy reporting. [redacted]

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

Ecuador has not traditionally played a major role in the region. Primarily concerned with Peru and unresolved territorial issues, Quito had placed secondary importance on participation in international organizations, regional issues, or even, major bilateral initiatives. Under the present administration, however, Ecuadorean foreign policy has taken some dramatic new directions. [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--who tried to tone down publicity--reportedly believes he succeeded in both regards, he seems unaware that the visit of one of the region's most conservative and pro-US politicians provided Castro with a rare media event. . 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. The April visit has, however, apparently led to increased bilateral economic contacts. [redacted] Cuban interest in Ecuadorean technical, oil industry, and agricultural assistance, although no official programs or agreements have been implemented so far. Congressional President Averroes Bucaram, however, travelled to Cuba on January 9, according to US Embassy sources, and it is possible that Havana will press their requests through him. [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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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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**Prospects**

After having made significant headway against major problems during his first year and a half in office, Febres-Cordero still faces important issues and challenges to his administration. His chief near-term problems will be the decline of oil prices--with the interrelated economic difficulties--and the potential for political gains by the opposition in June. Moreover, the terrorist threat is likely to reemerge and there are underlying problems affecting the military. Nonetheless, in our opinion, Febres-Cordero does not face a threat to the stability of his government. If he can maintain the military's loyalty and find some means

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to bridge the economic problems he now faces, the President should be able to handle the leftist opposition. Although the road may be rocky, we believe that Ecuadorean democracy is relatively safe. [Redacted]

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