

This is the full report by Ecuador-based analyst Justin Perry, excerpts of which appeared on the blog post published on Expat Chronicles: [Ecuador Says 'Chau' to Rafael Correa](#). Follow Justin on Twitter at [twitter.com/gringomochilero](#).

To understand the current political situation in Ecuador, you have to understand one cryptic, mysterious, enigmatic politician. No, not Lenin Moreno—but rather Gustavo Larrea. He's a longtime confidant and political ally of Moreno, and they both hail from the MIR - [Movimiento de Izquierdista Radical](#). Like Moreno, Larrea used to be tight with Correa, and even helped him orchestrate one of the most savage silent coups in the history of Ecuador, which is referred to as "[los diputados de los manteles](#)". Afterwards, Correa and he split (ostensibly over the discovery of links between the FARC and Larrea, although this was clearly a pretext). Now he is close to Moreno, and even taking a more public role as a politician than he has in previous years (billboards for his party Democracia Sí feature his portrait).

Understanding Larrea is important because it illuminates the palace intrigues that have been enthraling much of the Ecuadorian political and business class, who have been just as surprised as anyone at Lenin's political moves since assuming office. He's been playing a very patient game of chess, while Correa has been on the defensive consistently since day one of Moreno's inauguration. One has to conclude that either one of three things are true (or maybe a combination thereof): Correa might have been so blindsided by Moreno's turning against him, and couldn't muster an effective riposte. Correa's strategic prowess may have been completely overrated, and he's been exposed as being weak (leading to a self-reinforcing momentum change where people jump ship). Or, Correa simply consolidated so much power in a hyper-presidential system that any moves he made on the outside were futile. I personally think the latter is the strongest argument. Ecuador has a long history of weak institutions and non-existent checks & balances. But those weak institutions and lethargic bureaucracy have acted in themselves as a type of check on the concentration power.

But that dynamic changed in the last administration. The executive branch under Correa practically ruled over the judicial branch in a very direct manner; the secretario jurídico Alexis Mera would call judges personally to dictate sentences and even pre-wrote rulings. Correa's control over the legislative branch was more indirect, consisting of stacking key oversight bodies (particularly the CAL - Consejo de Administración Legislativa) with loyal acolytes and using the disproportionate power of those bodies to block any potential fiscalización. This was how Jorge Glas was able to avoid impeachment—no matter how much proof came out (e.g. actual recordings of him soliciting bribes from Jose Santos of Odebrecht were released by O Globo in Brasil), the CAL would simply vote down any motions to debate votes on impeachment proceedings. The Comisión de Fiscalización y Control Político still refuses to even forward a recommendation on the case even after Glas was convicted of illicit association in Ecuadorian courts, which is a national embarrassment. Ostensibly, they refuse to make any recommendations on impeachment proceedings because Glas is not VP anymore, so María José Carrión argues that it would undermine the juridical order of the legislative body for them to move forward with impeachment (I'm not kidding, this was literally her argument, the cynicism is pretty astounding). Correa also stacked the Consejo de Participación Ciudadana y Control Social (CPCCS) with loyalists, effectively preventing

Moreno's government from appointing a more aggressive attorneys general (fiscal and procurador). They only managed to gain control of the comptroller/state auditor because the nominal head of that agency, Carlos Polit, has fled to the US due to overwhelming evidence of corruption, particularly in the Odebrecht case.

It's important to understand the institutional context surrounding the consulta popular, because it will become important for understanding the importance of [question 3](#).

It's worth starting with asking whether or not these are genuine changes or just a feint to throw off and divide the opposition. The more pessimistic observers call Moreno's moves a "[tongo](#)". Remember Luisa Ortega Diaz, the exiled former AG of Venezuela? She was a die-hard Chavista, and collaborated with the regime for years. But then she defied Maduro and denounced his government, and all of a sudden she became a hero among the opposition, who seemed to forget her turbid past. Moreno could be using the same tactic here, using the seething hatred that people in the Ecuadorian opposition have for Correa and his policies to co-opt the opposition and re-direct its energy towards burying Correa.

The question then becomes whether or not Moreno's efforts to reach across the aisle are genuine, or merely tactical. If you abandon all wishful thinking and just look at the available clues, there is overwhelming evidence in support the view that it is mere political maneuvering: Glas is really the only major figure from Correa's government to go down for corruption charges, and he received a slap on the wrist compared to what he would've gotten in the USA or Europe for all of the body of evidence against him (recordings, money transfers, documents, the simple fact that he was the politician directly responsible for the strategic sectors and by extension the negotiations with Odebrecht).

The economic program of Moreno also lends credence to the idea that he hasn't really renounced Correismo—just Correa. He has raised taxes, increased deficit spending (the national debt has ballooned \$7.5bn under his rule if I'm not mistaken), and done little to nothing to eliminate the rampant corruption, bureaucracy and red-tape that have strangled commerce and entrepreneurship in the country. In other words, the country hasn't really changed, but rather "se cambió de dueño". It's hard not to conclude that Moreno's about-face from Correismo is just a veneer.

If it is just a series of political maneuvers, Moreno has played this beautifully. He's managed to pick off the opposition that hated Correa but also weren't particularly sympathetic to the conservative opposition led by Guillermo Lasso and CREO, all while retaining the fairly strong base among the left that used to swear allegiance to Correa but now serve a new master. In terms of the consulta popular, he even had the conservative opposition lining up to support the Sí. It was all-hands-on-deck to bury Correa politically. This means he's gone from around 39-51% supporting (judging by the results of the primera and segunda vuelta of the 2017 election, respectively) to about a ~70% support, although that number will certainly shrink as he starts to actually flesh out a true path forward (up until now, he and Larrea have very deftly bought time politically by forcing people to rally around Lenin based on the available hints of anti-Correismo that he offered, and the relentless optimism that led people to think that he

actually might steer towards a more centrist, ideologically neutral and pragmatic platform). As such, he's basically had the best of all worlds.

In Moreno's defense, he has dedicated a lot more effort towards presenting himself as a moderate than was ever typical under the government of Correa, where moderation was tantamount to weakness. Nonetheless, in the decisions that truly mattered, he has continued Correa's hard-left line. For instance, in selecting a new Vice President, he chose a former Correa disciple, María Vicuña. Someone who hails from the militant leftist party of ABA—one of those political parties where everyone fancies themselves a modern-day Che Guevara—and who has unabashedly lavished praise on Maduro and Castro. A surprising decision to make just a month before a consulta popular where he needed to at least appear to court the conservatives and moderates in order to shore up support for burying Correa and blocking his ascent back into power ever again. One could argue that Moreno had a more pressing concern—to appease his leftist base, who otherwise might have staged a revolt at a critical moment had he chosen a VP with more moderate or center-right appeal. They might have abandoned him and left him out in the cold since he hasn't really endeared himself to any of the conservative CREO, which is really the only other party that could give him a formidable support to be able to govern effectively (the other opposition parties are smaller, although some, as in the case of the social democrats, are disciplined—but still not numerous enough to give Moreno a majority without retaining at least some of this Alianza País support). But I think that the decision runs deeper than that, based on ideological lines. Let's return briefly to Larrea. He used to rub elbows with Chavez, Kirchner, and Morales. My main political consultant recounted to me that Gustavo Larrea's brother, Marcelo Larrea, has advocated Che Guevara-style executions of political opponents of the "revolution". Larrea is no fool, he's very astute. He and Moreno both know they need to find a release valve to disrupt the opposition. They've been using those strong emotions to their benefit in the populist sphere, while appearing to make the right overtures in private meetings and arrangements. If you read the tea leaves, it becomes clear that Moreno merely wants to continue the Correismo, just without Correa.

Now that the consulta popular is over, with an overwhelming victory for the Sí, Ecuadorians are all wondering who really is in power right now. Up until now, one can explain any of Moreno's actions that seemed like concessions to the opposition(s) as mere political expediency. But now he has a solid power base and mandate. The Question 3 gives him broad powers to appoint the members of the CPCCS, which is the institution that appoints all of the key positions in government—fiscal general, procurador, contralor, superintendent of antitrust (superintendente de poder de mercado), etc. He can shape the government to his will with a lot more freedom than he could before, assuming that he can avoid any groundswell of support for impeachment in the Asamblea Nacional. I hate to admit Correa is correct in any way, but he had some validity when he said that the consulta would give Moreno unprecedented powers. It's true. Many political analysts are cognizant of the unfettered power that he now has, particularly via the power to appoint the CPCCS. Control over this institution will allow him to appoint loyalists in many of the key positions.

As for question #2 (indefinite reelection), I don't actually think it's got any teeth. There are several ways that Correa, for instance, could circumvent the new restriction on reelection. As an example: he never

was elected to the Vice Presidency. He could recruit a puppet to run for President, with Correa as his VP running mate. The electorate votes for the binomio with the understanding that Correa will assume the presidency. They assume office, the nominal president resigns, Correa becomes president. That is one of a few loopholes I could imagine for getting around the second question in the consulta popular. (The other loopholes regard legally challenging whether or not the prohibition on “reelection” is retroactive, or dissecting the actual wording of the question and its applicability to Correa’s reelection bid, but those questions would be decided by the Constitutional Court, an institution over which Moreno will exercise considerable influence via the CPCCS).

The sleeper question, the one that no one has really paid much attention to but which I think could be the most significant, is the first question (“muerte civil” for any person convicted of corruption, barring them from holding office ever again). In a country with a strong, independent judiciary this would have fairly straightforward implications. In Ecuador, however, it will easily create the opportunity for selective prosecutions to eliminate opposition candidates from challenging the ruling party. Tantamount to what is happening in Venezuela, where Rafael Ramirez was singled out in an “anti-corruption” campaign that was really just a thinly veiled purge of the more disloyal members of the government. The same could happen in Ecuador with the first question of the plebiscite as a basis for excluding potential political competition and enforcing party discipline by discouraging anyone from doing anything but toeing the party line.

If I had to bet, I would say that Ecuador is about to veer sharply to the left. Alianza País will solidify its position as a PRI-type monopoly, where with the removal of Correa from the picture there is a clearer path for succession within the party (sine qua non for a PRI type party, since before it was always unclear who would succeed Correa and how, even Moreno was supposed to just be a placeholder and scapegoat until a glorious 2021 return by Correa in a play reminiscent of Putin-Medvedev).

The most pressing issue now—and the litmus test for what kind of government Moreno will actually be pursuing—is how the government will continue to pay its bills. Simply put, the level of government spending is unsustainable. The bureaucracy is bloated after years of using oil rents to buy political loyalty through conferring positions in the serpentine, overlapping labyrinth of ministries, superintendencies, and secretariats técnicas. The state-owned enterprises (empresas públicas) are woefully inefficient and have also been used for patronage. They’ve also been used to camouflage much of the debt acquired through the Correa years by keeping it off the central government’s balance sheet, particularly in the state-run oil companies, through opaque “pre-ventas”, contracts made with Thai and Chinese buyers that were de facto debt but did not enter into the official accounting as such. The Ecuadorian pension system is underfunded and analysts predict will be insolvent in 10 years; it was used as a petty cash box for the government to cover any shortcomings in liquidity (it’s not the only government institution that played such a role, e.g. the gold reserves of the central bank and many other funds, such as \$300m for earthquake reconstruction, were used similarly). Moreno has floated around \$7.5bn in bonds since he assumed office, \*before\* the consulta popular. He wouldn’t have done that if it weren’t absolutely crucial just to keep the lights on. It appears going deeper into debt was necessary just to keep the fiesta going through some desperate fiscal policy (remember Ecuador is

dollarized so it has no independent monetary policy), but eventually the music will stop. It's like drinking coffee to try and stay awake. I can keep pumping my body full of caffeine in spite of the sleep deprival, but eventually I will crash (and likely feel much worse than if I had just taken the time to lie down and catch some shuteye).

In my opinion, the government is facing a very simple, fundamental choice: either reduce government spending (austerity) or create a parallel currency (search “dinero electronico ecuador”) and use that to pay the bills. Neither choice will be politically popular. The latter option will effectively create a dual-currency situation with some important parallels to that of Venezuela (although the DICOM is for foreign exchange markets, but the effects—value imbalances, currency controls, arbitrage—will be very reminiscent). De-dollarisation would allow Ecuador to start conducting monetary policy and would effectively mean a currency devaluation. Theoretically that's not terrible since the USD is probably overvalued for Ecuador's economy, hurting its export-base. But the huge problem in practice is that the Ecuadorian central bank has no political independence, and pretty much explicitly operates as an extension of the executive branch. As a result, if Ecuador asserts control over its own currency, we will almost certainly be looking at hyperinflation. Also, the economic evidence is that trade policy and other structural issues are much more important for determining the success of a country's export-base rather than currency over- or under-valuation. If Moreno goes the route of austerity and tightens government spending, he will have played into Correa's characterization of him as having embraced a right-wing platform of introducing a “paquetazo” (austerity measures). Then again, with his victory in the consulta, it might not matter much if he ends up validating Correa's criticism, since he's consolidated his own political position. He's got the freedom to chart his own course. How he deals with the question of government spending is, in my opinion, the foremost indicator of what course he will actually be charting.

This is just rumor and innuendo, but I am also hearing rumblings from my sources in the various ministries involved in making economic policy (MIPRO, Ministerio de Economia y Finanzas) that there may also be a partial default on the government debt...if so, that would be a dual default-devaluation, which has been devastating in almost every case (e.g. Russia in the 90's). It's hard to imagine that Moreno would be foolish enough to embark on this course, but if you look at his economic team, it becomes clear that they are way out of their depth. So it's not inconceivable.

Politically, the next move for Moreno is to consolidate his legislative majority in the Asamblea Nacional in order to fortify his position. There'll be a party re-alignment as Correa forms a new political party and joins the ranks of the opposition. Now that the consulta popular is over, you can bet that the conservative opposition (mainly, CREO) will be gunning for Moreno as well. The key factor here is that, unlike the US, in Ecuador the executive branch has the power of the purse. The legislators are much more beholden to the executive branch as a result, since they can use those purse strings to enforce loyalty. So there's a huge disincentive for any left-leaning asambleístas to defect to join the ranks of Correa, particularly since he's been pretty soundly defeated in the consulta.



Politically, whatever choice Moreno takes in terms of economic policy, the consulta popular has given him some very effective insulation from political pressure. It would be very difficult to thwart his plans, and opposition forces would either have to use popular pressure (marches), impeachment by the assembly, or an extrajudicial coup—in any scenario except for the coup, the next-in-line successor would be the VP Vicuña, who is potentially even more radically left-wing than Moreno. So it's really a defining moment for Ecuador right now, and Moreno is firmly in power and running the show.

I would love to be pleasantly surprised, but I'm not optimistic.