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Postneoliberalism in the Andes: The Ecuadorian Management of its External Debt

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Keywords:

Postneoliberalism, Latin America, Ecuador, external debt, China, IMF, World Bank, Structural Adjustment, Washington Consensus, new left, loans, default, conditionality
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List of Abbreviations

(ALBA) Bolivarian Alliance for the Americas

(CAF) Bank of Latin America

(CELAC) Community of Latin American and Caribbean States

(CDB) Development Bank of China

(CNPC) China National Petroleum Corporation

(ECB) Ecuadorian Central Bank

(ECLAC) Economic Commission for Latin America and the Caribbean

(FEIREP) Stabilization and Investment Fund for Petroleum Resources

(FLAR) Latin American Reserves Fund

(IADB) Inter-American Development Bank

(IFI) International Financial Institution

(IMF) International Monetary Fund

(LFO) Loan for Oil

(NGO) Non-governmental Organisation

(NOC) National Oil Companies

(SOE) State-owned Enterprise

(SAP) Structural Adjustment Programmes

(UNASUR) South-American Nations Union

(VAT) Value Added Tax

(WC) Washington Consensus

(WB) World Bank
Introduction

The management of debt has probably been the key space of interrelations in order to understand the logic of neoliberal policies in the second half of the past century. After the end of the Bretton Woods system of fixed exchange rates in 1971 and the liberalisation of financial capital, the developing countries found easy access to private credit and resources. However, as the crisis in the early 1980s exploded, the International Financial Institutions – the IMF and the World Bank – have been the guardians of private debt payments, rather than the supporters of its indebted member states. Then, the structural reforms and the so-called Washington Consensus “recommendations” were crucial and coercive policy tools imposed on the global south until nowadays through conditionality. In this context, Latin American states and particularly Ecuador have been involved in several processes of debt default and restructuring, trapped in a way-out strategy.

The central argument of this research sheds lights on the fact that the Ecuadorian government, under Rafael Correa’s administration, took a postneoliberal policy towards external debt due declaration of the 2008 default; and the disengagement in order to apply the orthodox debt policies – traditionally known as conditionality – suggested by traditional International Financial Institutions (IFIs hereafter). Therefore, the relevance upon this hypothesis relies on two basic facts: a) a more autonomous and sovereign decision-making in order to formulate a national strategy of development and, b) the appearance of alternative sources of credit such as China, overlapping the traditional role of the IFIs in Ecuador and among other states in the region.

There is a significant amount of literature on postneoliberalism as well as debt management and the role of China in Latin America. In relation to postneoliberalism we can find two main perspectives seeking to understand it, the first which will be named as a “moderate perspective”, based primarily on how far the Latin American governments have gotten away from neoliberalism, its improvements and setbacks; whilst the second one is a critical perspective, dealing with how this new juncture could surpass the neoliberal capitalist phase of accumulation. Both outlooks maintain that the crucial elements of postneoliberalism are linked to a stronger presence – or the return – of the state, driving not just economic but mainly social development, thus this is an unfinished project configured by a diversity of national projects and at least the momentary impossibility to talk about the “death of
neoliberalism”. In addition to this, very little has been said about the increasing role of China as a relevant supporter of the postneoliberal models. In this sense, this work represents an original contribution in an effort to fill the gap of the external actors and how they ‘help’ to configure the mentioned model.

In general expressions, the relevance of this study in the field of International Relations is tightened with the enrichment of postneoliberal literature, due to summary of the two main points of view about it and also the inclusion of emergent and non-hemispherical major powers as key players. Meanwhile, the contributions for Latin American studies and more specifically to the Ecuadorian ones can be defined in terms of postneoliberal debt management and the heterodox policies formulated. Until today, no academic work has developed this quite important difference, and also, the few documents talking about postneoliberalism in the Andean country have been centred in the explanation in terms of international trade, ecological economy, democracy as well as social movements and the formulation of new development conceptions.

Having said that, the methodological framework used in the present research is embedded in the qualitative method of secondary data analysis, mainly bibliography related with the topics. The first step was to collect data: mainly academic analysis, and official reports both by national governments and also by multilateral agencies and news. After that, all the contents were analysed centered in the study case of Ecuador, providing the possible outcomes in order to prove our hypothesis.

The structure of this paper research goes as follows: the first chapter contains all the literature review about postneoliberalism and its main features. Then, an examination of the influence of the IFIs over external debt management in Latin America focused in the Ecuadorian case is developed in section two. The third chapter deals with the rise of the new left in the region and the context in which the Ecuadorian current government appeared are described in chapter three. After that, the fourth section proposes the analysis in-depth of the postneoliberal features of debt management for the period 2007-2013 with an epilogue of the last actions suggesting the return to the international financial markets. Finally, the conclusions will be settled.
Chapter 1

1. Postneoliberalism: A Theoretical Debate
The discussion about postneoliberalism has generally been related to the ‘erosion’ of the current neoliberal model in the last global financial crisis on 2008 (Harvey, 2009; Peck, et al., 2009). Nevertheless, some authors go further and point out that a different debate of the postneoliberal epoch takes us in some cases to the Asian financial crisis or the rise of the left-leaning governments in Latin America in the past decade. Whatever is the historical background in which this alternative analytical category is posed, the common point of view among several authors relies on the fact that the rising of a postneoliberal epoch is due to the failure of neoliberalism to accomplish its outcomes. Already, some authors have identified three stages during the post-neoliberal epoch, the first and second being emergence and consolidation respectively; meanwhile the third one is quite interesting because it expresses the main features of a) failures in the model, and/or, b) an orientation to its “radicalisation”.
(Arenas García, 2012, p. 26)

But, is neoliberalism “dead”? What is the possibility that represents a real departure point from its predecessor model? And can the world have a political model that is entirely postneoliberal? What is the role of the state in this phase? This section describes the three main assumptions arising from the existing literature about postneoliberalism. First, neoliberalism, both in its political understanding and practice, is still active rather than dead; nevertheless, this does not mean that it is the global economic, political and social model to follow or that it has the discursive strength of the Reagan and Thatcher eras in the 1980s and the Washington Consensus ‘decalogue’ in the 1990s. Second, as an analytical category of knowledge, postneoliberalism is still under construction, which means that at the moment it is difficult to find an homogeneous definition of it, and; third, the renewed performance of the state as a more important actor and not just a night watchman, trying to get away at least from the policies, both rhetorically and in the praxis.

The first aspect is that the mentioned rise of alternative models of development confronting neoliberalism has not diminished its presence in political decision-making. Almost all scholars agree that when we are talking about postneoliberalism, indeed we are not thinking of a past phenomenon; even more, this period does not mean we have surpassed neoliberalism (Macdonald & Ruckert, 2009; Grugel & Riggirozzi, 2009) or, as Springer has
argued, “Neoliberalism is not a path from which states can reject or declare ‘independence’ of.” (Springer, 2014, p. 6). In fact, taking up the questions about how to solve the last financial crisis or what the outcomes will be, we can say that at least in most industrialised nations such as the United States, as well as in economic integrated regions like the European Union, the answers to these questions have surrounded the neoliberal policies –for instance pro-cyclic measures, huge bailouts benefiting the financial capitalism, among others.

The second key aspect is that it is an unfinished project. Departing from the criteria that there is no a single definition of what we call postneoliberalism, this is a category in construction as Atilio Boron (2003) has defined, and is configured by many postneoliberalisms (Sekler, 2009; Peck, et al., 2009). In a similar fashion, an interesting vision argues that neoliberalism is not to be understood as a single, homogeneous block (Peck, et al., 2009, p. 111). Therefore, these two main aspects show that in part, this category of knowledge is tied to the governmental leaning and in broader terms of the political cycle built in some regions of the world, giving special attention to the Latin American juncture. On the other hand, there is no single ‘recipe’ to build a postneoliberal regime. Whether some states go further in the application of heterodox policies, confronting the likes of the Washington Consensus will depend of their range of action, and also by their particular domestic configuration of the political scenario.

If there is no simple postneoliberal project, there is also no single approach to its understanding; hence at least two analytical perspectives can be found in the current written literature about postneoliberalism: the first one relies on the fact of how near or far can be located the postneoliberal state (Macdonald & Ruckert, 2009; Grugel & Riggirozzi, 2012; Ramírez Gallegos, 2010) and the second one eminently critical Marxist view, pointing towards the overcoming of the present capitalist stage (Sader, 2009; Ceceña, 2009). However, these perspectives are not at odds, but the main difference comes about its emphasis to understand the new political outcomes.

The more nuanced perspective asserts that even if we have seen the emergence of left-wing governments with a heavy accentuated anti-neoliberal rhetoric, these administrations are still “moving” in and out of the capitalist and neoliberal boundaries (Grugel, et al., 2008). Moreover, the crucial idea here relies on the fact that the main change is the return of the state as the principal designer and manager of any development agenda, contrasting the neoliberal reductionism of the state over the self-regulating hand of markets. Nevertheless,
these authors (Macdonald & Ruckert, 2009; Grugel & Riggirozzi, 2012) put emphasis in postneoliberalism as a space in which the state as the main actor can implement heterodox policies, rather than simply admitting that the neoliberal phase has gone. Lastly, the robustness of the state is directed to seek a more fair distribution of the national income, benefiting a larger portion of their national societies.

In a Marxist critical view, Emir Sader argues that postneoliberalism is a result of the neoliberal phase of capitalist accumulation, mainly driven by the financial capital and its impracticality to reproduce ‘long cycles of economic growth’ (2009, p. 174). Moreover, in contrast to other perspectives, this one presupposes the neglecting of the prescriptions given in the current model at the time it looks forward. After analysing the juncture and postneoliberal practices, other authors find interesting steps towards a new ‘socialism era’, but recognising that there is not a truly anti-capitalist reality:

“[…] however, these initiatives do not in themselves indicate guidelines for an anti-capitalist endeavour, but for the moment, they open up a space of greater independence with regard to the world economy, which is more propitious for the building of socialism” (Ceceña, 2009, p. 40)

The third relevant aspect within postneoliberalism is the role of the state in order to reconfigure the political, social and economic relations. In this sense, the basic difference with its predecessor is that the postneoliberal state has recovered its central character through ‘progressive policy alternatives’ (Macdonald & Ruckert, 2009, p. 6). A general view of what is understood by postneoliberalism has been pointed out as:

“The breakdown with the neoliberal agenda will be characterised by the return of the state and management of the economic activity, the redistribution of wealth and the political level of participation of Organisations of the Civil Society” (Ramírez Gallegos, 2007, p. 52).

In economic terms, the postneoliberal states have redefined the relations of property in two basic ways: 1) recovering the SOEs, which were privatised, and 2) imposing heavy public investment strategies in social and infrastructure areas. Although, according to authors such as Moreno-Brid and Paunovic (2008, p. 82) the set of economic policies registered in these states is in fact a mixing ‘orthodox and heterodox elements’. Therefore, critics to these models can argue about contradictions or authoritarian decisions undermining the private initiative and the absence of liberties.
Also, another area in which postneoliberalism has a direct influence is the political form of organisation and debate. If one of the major arguments from social movements and actors towards the failure of neoliberalism was the lack of ‘democratic accountability and deliberation’ (Beasley-Murray, et al., 2009, p. 320), the challenge to this perspective is linked to the circumscription of a broader participation, rather than a technocratic decision-making or, even worse, a rising authoritarian model. Furthermore, some authors such as Diana Tussie (Tussie, 2009; Grugel & Riggirozzi, 2012) argue that this period is a request for a ‘new social contact’ in the rise of a ‘pragmatic belief’ in the action of the state as a coordinator agent, being understood not just in political terms, but also in economic and social ones, for example, “delivering rights to its citizens” (Grugel & Riggirozzi, 2012, pp. 2-3).

In counter-argument to the rise of a postneoliberal perspective, some scholars have showed pessimistic about the overcome of the neoliberal epoch. Indeed, the main questions to the rise of the new left in Latin America have relied on the fact that those self-proclaimed socialist governments are not anti-capitalist and even anti-neoliberal (Dávalos, 2011; Zibechi, 2011). Furthermore, these public actors have strengthened the internal logic of the capitalist system, opening their countries to metropolitan capitalism contrasting the repression towards social movements through power and violence (in a Foucaultian perspective), even if they recognise certain social policies towards the poor.

Perhaps, the major contribution from this piece of work, deals with how the emergent powers such as China have been included in the postneoliberal equation. Some authors (Grugel & Riggirozzi, 2012) have identified that the persistent export-led growth model of some Latin American economies are tied to primary recourses. Others make some criticism of the process based on environmental claims –mostly the extractive model in the periphery that benefits the central accumulation of capital (Dávalos, 2011; Gudynas, 2012).

The presence or absence of China in the region could mean the gap and the paradox between the neoliberal and the postneoliberal epoch. One thing is true: China has not replaced the U.S. as the major cooperation partner in the region, but it has established itself as a true alternative to the declining U.S. hegemony in the region. Certainly, the importance of China has been reflected in analysis like that of the ECLAC (2010), which argues that the Asian state has become the first or second major destiny of the biggest economies in the South Cone – Brazil (1st) Chile (1st), Argentina (2nd), Latin American exports in the last decade (this discussion will be taken up again in chapter 4).
Our particular focus in Ecuador has been fruitful to extend the debate about postneoliberalism in Latin America, due to the fact that the Asian giant has been turned not just into one of the most recurrent world markets eager for commodities and, in general terms, an important trade partner; but also as a lender of last resort for infrastructure and to cover national deficit budgets, as in the case of Venezuela, Argentina and Ecuador. In this sense, China is becoming a key geopolitical player, which sustains the several necessities of some postneoliberal states in the region. Lastly, despite the critics or the encouraging arguments around the Chinese presence in the region, one thing is certain: it has raised its profile in the bilateral and regional international relations, and it has become a sort of “backbone” supporter of the diversity of postneoliberal governments.
Chapter 2

2. External Debt and International Financial Institutions in Latin America

Prologue
Debt has persisted in our societies for ages, resulting from war funding between kingdoms and more recently in the international system to aid developing nation-states. In this chapter I will explain how the management of external debt was closely related to the action and conditionality of the Bretton Woods International Financial Institutions (IFIs hereafter) such as the International Monetary Fund (IMF) and the World Bank (WB) in the last two decades of the twentieth-first century; as well as its ties with the neoliberal policies. Another aim in this chapter is to understand how this set of policies were applied in the heyday of neoliberalism in Latin America and Ecuador in particular.

Prior to this it is necessary to understand how debt is structured within a nation-state, resumed in the next figure:

Figure 2.1 Configuration of Debt

Source: (Toussaint & Millet, 2010)
The figure above presents the total debt of a country is formed by internal or domestic and external debt, whereas the first one is contracted inside the country and the second one outside. Then, the external debt can be public, which means that is contracted by the state and the private by this sector. Also, the sources of external public debt can be multilateral, bilateral and private. The multilateral debt is contracted with multilateral institutions such as the Bretton Woods ones meanwhile the bilateral one obeys to the criteria of an interstate obligation and the private one which is related with private financial institutions or actors around the globe.

2.1. The Role of the International Financial Institutions and the application of Neoliberalism in the Management of Debt

The performance of IFIs in the management of debt in the 1980s and the application of a core of neoliberal principles and its respective agenda (Gamble, 2001) can be traced back in two ways, identified in figure 2:

Figure 2.2 Types of Influence of International Financial Institutions in the management of Debt

In the topics of aid and debt, conditionality has been one of the main considerations. In general terms, it means that the borrower country has to accomplish certain conditions in order to obtain loans from both IFIs. These requirements are mainly linked to the domestic macroeconomic policy of indebted developing states. According to Ariel Buira, the conditionality appeared as a part of the institutional agreement in the IMF in 1952. Nevertheless, in the two decades after the debt crisis it increased its spectrum of influence from monetary and exchange policies to the size of the state and other sorts of policies, seeing them as ‘intrusive’ at best (Buira, 2003, p. 4). The problematic split here deals with the fact that beyond the macroeconomic prudence, the conditionality has seriously threatened sectorial policies such as trade, privatisation of State-Owned Enterprises (SOEs) and even governance in the global south. Therefore, the direct influence from IFIs through
conditionality is heavily linked to the Washington Consensus (WC) regime and with neoliberal ideology itself.

The second aspect of direct influence is the changing role assumed by the IFIs, in which the institution tried to keep the interest of the great capital rather than to help solving macroeconomic difficulties of their members. One of the most appellant criticisms of the IMF and its switch from being a lender of last resort, balancing macroeconomic disequilibrium – global stabiliser – to being the first guarantor of private creditors; or as some scholars have called ‘”the seal of approval” (Brohman, 1996; Acosta, 2006) between indebted states and the financial capitalist markets. This is just the opposite of the 1970s, when the private financial capitals were seen as “intermediaries” to canalise financial sources (Reinhart & Rogoff, 2009). The relevance is dialectic, first due to the importance in following the IMF’s guidelines, in order to get loans for paying the creditors’, and to keep its credibility in the international capital markets for future credits.

In relation to the indirect aspects, the first one to analyse is the institutional rights of IFIs to the great financial capital. In this case, both the IMF and the WB were not just the guarantors of developing countries honouring their debts, but their main executives and other top positions in IFIs were occupied by former top U.S. politicians and major bankers. For example-Allan Clausen, who was the president of the Bank of America in 1981, was named Executive Director of the WB – replacing former Defence Minister Robert McNamara a year later. (Toussaint & Millet, 2010, p. 82). Therefore, the interest of private banks in order to be paid by debtor countries was at least taken into account with the support of IFIs.

Finally, within IFIs, there are two ways in which ideas can be traced. First, a large composition of the top officials and staff is directly nominated by the U.S. Indeed, the Executive Director will not be appointed without the approval of Washington, the same as other top key positions (Woods, 2003, p. 109). Additionally, the majority of the staff had been educated or trained in U.S. academia, reproducing the knowledge, mainly neoclassical economics, proper of the neoliberal creed. Furthermore, a minority of foreign professionals who handled an alternative epistemic perspective were being absorbed by the structure, or what Robert W. Cox has called “Trasformismo” (1993, p. 63).
2.2. The Debt Crisis and the Lost Decade: A background

The general vision of the context in which the debt crisis emerged had a strong relation with the excess of cheap credit generated over the recycling process of petrodollars, allocated by the western major banks mainly in developing countries through financial loans. In addition, the U.S. Federal Reserves announced a unilateral rise of the interest rates. Nevertheless, this simplistic conception misses other capital aspects that triggered the crisis, such as the unilateral end of the dollar standard in 1971 which provoked a proliferating financial environment of U.S. dollars mainly from the major European economies (Acosta, 1998; Dávalos, 2005); and the subsequent support and confidence of IFIs in the same decade to the expansion of transferring loans in the developing world by the private financial capitalism.

In this scenario, Mexico declared a default over its debt obligations in 1982, and this was the starting point for what months later turned into a major political economy crisis for developing states such as Brazil, Argentina, Venezuela, Turkey, Nigeria, and the Philippines. Some facts give us a broader picture. For instance, the crippling debt of the global south increased from $73 billion in 1970 to $610 billion in 1980, $1.458 billion in 1990 and finally $2.492 billion in 2000 (Hanlon, 2006, p. 118). Besides this, the prices of commodities fell in the decade of 1980s, especially for the oil-producing countries in the region such as Venezuela, Brazil, Colombia and Ecuador; due to this, the per capita income decreased by 9% in the first 5 years in the 1980s across Latin America (MacEwan, 1986). Therefore, the Structural Adjustment Programme (SAP hereafter) strategy took off.

One of the main assumptions of SAP designers was that adjustment could eventually bring economic growth to the indebted countries through depreciation of exchange rates. According to Serven and Solimano (1993, p. 137) even if you have “austerity and liberalisation consolidated” this does not automatically ensure recovery and economic growth. Indeed, policies such as reduced public investment, rising interest rates, price stability (Serra, et al., 2008) were taken into account by most Latin American governments in crisis, showing that in some cases they did not achieve the expected outcomes. Worse yet, the crisis deepened.

When the SAP strategy started to show its shortcomings, the “Baker Plan” was created in 1985, basically containing the same features as the former debt management. Two years later, the former U.S. Treasury Secretary Nicholas Brady came up with a plan that was later called the “Brady Plan” in order to change the negative scenario and as a ‘debt reduction or relief initiative’. The main features of the Brady Plan were the insertion of new actors trading with
sovereign debt, such as institutional investor firms, mutual and hedge funds. The crucial difference in technical terms with the debt handling given was not to eliminate interest payment, but to reschedule main capital payments into packages in several stages for a longer period of time.

Moreover, the further introduction of the “market menu approach” in 1987, which was a set of choices presented from debtors to creditors, in essence configured the open door for debt to international bonds market by delineating alternative financial instruments, i.e.: trade and project loans, debt-exchange bonds, swaps, buybacks or “limited capitalisation of payments” (Devlin, 1990, p. 11). As such, one of the key features of the marketization of debt was its conversion from loans into ’securities’ (Griffith-Jones, 1994).

This led to a changing composition of actors participating in external debt processes, making the scenario more complex for borrower countries. On one hand, before the debt crisis epoch, the main creditors were public (governments of major industrialised countries) or private (transnational banks), but this pattern changed and by the end of the decade, the official lenders were the traditional G7 countries joined in the Paris Club, contrasting with the private sphere full of bond holders such as banks but also capital investment companies, pension funds, credit rating agencies, etc. Indeed, the relevance of these new actors can be traced in the words of the former WB and IMF official, Anne Krueger (2003), who highlights the fact that more in the first 5 years of the 1980s, approximately 66% of the Latin American debt was in the hands of official lenders, and around 20% in private creditors. Two decades later the opposite was true: the participation of the latter rose to two-thirds, contrasting with a 28% debt in the hands of formal multilateral organisations.

2.3. Restructuring the Ecuadorian Debt under IFIs Supervision: From the Structural Adjustment Programme to Brady and Global Bonds

In the 1980s Ecuador, as with other Latin American states, took its first steps towards the application of SAP, that being the conversion of its private debt into public. This process was known as “Sucretización”, one of the most controversial policy measures. According to Acosta (2006, pp. 168-76), from 1982 to 1992, the Andean country did not renegotiate its debt at the time the executive power accepted the typical SAP policy terms and conditions. In this sense, the main political measures were the new taxes and shrinking subsidies. It also meant that the State-owned companies (SOE hereafter) assumed the private debt. Finally, the
preferred coercive instrument used by the traditional IFIs was the ‘Letter of Intent’ (LOI) which basically was the previous agreement to accomplish policy goals in order to receive each disbursement of the entire loan. By the mid-1990s, ten countries in Latin America were involved in the Brady Plan, including Mexico, Argentina, Brazil, Venezuela, Costa Rica, Uruguay, Ecuador, Peru, Panama and the Dominican Republic. The total amount of bonds issued in the region started in 1990 with $2.76 billion and rose to $54.37 billion in 1997 (Bustillo & Velloso, 2000, p. 18).

However, just 5 years later, Ecuador defaulted on its Brady bonds. The common wisdom for this default (1999) suggests that there were some short-term conditions that hardly affected the national economy and therefore the Andean nation debt management (Buchheit, 2000, p. 17). Nevertheless, this affirmation has been denied recently, mainly by due to the fact that the Ecuadorian government could buy back its bonds obligations interest; because of its availability to face the mentioned payment (Comisión para la Auditoría Integral del Crédito Público, 2008). Moreover, the renegotiated bonds, called thereafter “global bonds”, implied a higher interest charge and signified more capital than the bonds itself. In sum, the Ecuadorian case is paradigmatic; due to the fact the rising interest in order to renegotiate enable other countries to take a different policy towards bonds, with buybacks and exchanges as the most preferred mechanisms.

Direct and Indirect Influence of IFIs and Washington Consensus Policies
In broader terms, the influence of the IMF becomes evident once more in the Brady/Global Bond restructuring debt in Ecuador. Indeed, according to Lisa North (1999), the Andean nation had to sign a Letter of Intention in 2000 before receiving $400 million in financial help. Among other things, the conditions for that time were mainly further reductions in public spending, the reinsertion and an increase in income, and Value Added Tax (VAT). The most relevant link with this analysis is perhaps that the mentioned credit was divided into 4 stages, and to accomplish each of them, the national governments had to achieve all the policy goals issued a priori.

The summary presented in the next table (2.1.) shows in praxis the application of market-friendly policies, ones of liberalisation and privatisation, over the influence of IFIs and the Washington Consensus ‘doctrine’:

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1 Such as the collapse of the domestic banking system and the meteorological phenomenon of “El Niño”
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Table 2.1 Qualitative and Quantitative Indicators for the registered Impact of the Structural Reform and Washington Consensus Policies in Ecuador compared to Latin America (1995)

<table>
<thead>
<tr>
<th>Structural Reform/Washington Consensus Policy</th>
<th>National and LA Index and Key Features</th>
</tr>
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<tbody>
<tr>
<td>Commercial Liberalisation</td>
<td>ECU: 0.953 LATAM: 0.946 (max 1.00)</td>
</tr>
<tr>
<td>Financial Deregulation</td>
<td>ECU: 0.980 LATAM: 0.927 (max 1.00)</td>
</tr>
<tr>
<td></td>
<td>ECU - Financial System general Bill (1994)</td>
</tr>
<tr>
<td>Openness to Capital Accounts</td>
<td>ECU: 0.860 LATAM: 0.848 (max 1.00)</td>
</tr>
<tr>
<td></td>
<td>ECU - FDI same treatment as national ones (1993)</td>
</tr>
<tr>
<td>Privatisations</td>
<td>ECU: 0.663 LATAM: 0.782 (max 1.00)</td>
</tr>
<tr>
<td></td>
<td>ECU - Elimination of a dozen of SOEs (1998)</td>
</tr>
<tr>
<td>Tax Reforms</td>
<td>ECU: 0.551 LATAM: 0.573 (max 1.00)</td>
</tr>
<tr>
<td></td>
<td>ECU - Elimination of price controls (1982)</td>
</tr>
<tr>
<td></td>
<td>- Rise of public services costs</td>
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<td></td>
<td>- Elimination of income tax</td>
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<tr>
<td></td>
<td>- Rise of VAT from 10-14% (2001)</td>
</tr>
<tr>
<td>Exchange and Monetary Policy Reforms</td>
<td>ECU - Continuous devaluations (since 1982)</td>
</tr>
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<td>- Exchange rate anchor regime</td>
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<td>- Managed floating exchange rate</td>
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<td>- Free floating exchange rate</td>
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<td>- Pro-cyclical policies</td>
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<td></td>
<td>- Dollarization</td>
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<tr>
<td>Debt Service</td>
<td>ECU - Paris Club Negotiations (7 times)</td>
</tr>
<tr>
<td></td>
<td>- IMF Stand-by credits (8 times, but only 2 conceded)</td>
</tr>
</tbody>
</table>

Source: (Morley, et al., 1999; Acosta, 2006)

The table above show us that Ecuador was by far one of the best alumni of IFIs to put in practice the Structural Reform and Washington Consensus policies in the mid-1990s. For instance, the Andean state was more liberalised in commercial terms than the regional average, a pattern repeated in areas such as financial regulation and capital account liberalisation. Paradoxically, it keeps the record below the line in subjects like privatisations and tax reforms. This does not mean that the country did not experienced major changes over the mentioned variables. As we can see, a massive wave of privatisations came just one year before the Ecuadorian default on Brady Bonds. Finally, significant shifts in the exchange and monetary policy happened for the first time since the 1980s.

If we consider these changes as part of the goals to accomplish by any country in Latin America during the 1980s and 1990s, and its link with the management of external debt, then we can also conclude that the Ecuadorian defaults and their respective restructuring programmes were directly influenced by IFIs. In order to act like the lender of last resort, the IMF ensured at least the formal application of the receipt. That is why scholars refer to this process as the ‘debt trap’.
Chapter 3

3. The Rise of the “New Left” in Latin America and Postneoliberalism in Ecuador

3.1. One or Two Left Debate? The Diversity of Left Regimes

The false promises of neoliberal policies, such as the short-term losses and long-run gains offered by IFIs (Cortés, 2009), the rejection of ‘market democracy’ (Grugel, 2009) and in general terms its poor record (Arnson, 2007; Tzeiman, 2013) since the end of the 1980s, have been seen as the major impulse to what is commonly known as “the rise of new left” in Latin America. It started with the election of the Venezuelan presidential runner, Hugo Chavez, in 1998 and continued with the successful presidential election of Luiz Inácio Lula da Silva and Nestor Kirchner in Brazil and Argentina respectively, both in 2003. In addition to the turn to the left were the three biggest economies of the south cone: the governments of Evo Morales (2006) in Bolivia, Michelle Bachelet (2006) in Chile, Rafael Correa (2007) in Ecuador and José Mujica (2010) in Uruguay. But how can this political and social phenomenon be explained? Had these governmental administrations become completely postneoliberal? What about the ‘excluded’ states of this ‘new left’ turn?

One of the most recurrent approaches to the rise of the new left has been the divergence between what was called the ‘good’ and the ‘bad’ left (Castañeda, 2006), in which the first one is rational, prudent and ‘right’, meanwhile the second one is completely the opposite and ‘wrong’. Others have divided it two sorts of left: social democrats, and national populist believers in the 21st century socialism (Arnson, 2007). Alternatively to the orthodox premises of right leaning thinkers, the critical perspective focuses its explanation on the diversity of leftist governments in the region through the stake of social rights taken by the neoliberal era, and also the configuration of a supranational integration framework opposed to the open or free-trade model (Sader, 2009, p. 179). Moreover, another critique of the conservative point of view relies on the fact of its normative ontology. (Rovira Kaltwasser, 2011; Grugel & Riggiorozzi, 2009; Ramfrez Gallegos, 2006)

To move beyond the normative dichotomy of ‘good’ and ‘bad’ left in Latin America, authors such as Maxwell Cameron (2009) have summed up this diversity as the “leaders, parties and movements” that pursue the reduction of inequality, the promotion of social insertion – both “bottom up mobilisation or top down policy guidelines”; basically to enlarge the capacity of
the state in order to handle the outcomes generated by markets and “challenging the structures of domination” (Cameron, 2009, p. 333) through a plural participation or a classes’ coalition. Then, the normative divergence of new lefts in the region is the preferred way in which neoliberal guardians – from scholars to politicians – seek to hide the poor record of the last two decades of its application.

Furthermore, one of the main pillars in the new left practices – linked to postneoliberalism – is the return of the state as an important actor in politics and economics to achieve social welfare. In this sense, the relevance of economic policies taken in the last decade by this wave of governments has been significant in general terms. As it was mentioned above, the implementation of heterodox policies change depending the domestic juncture; nevertheless, there are some common approaches in the region employed in order to tackle the reduction of inequalities. For instance, the reduction of public external debt is seen by the ‘new-left’ governments as a policy tool to enlarge their macroeconomic margin of manoeuvre. There are other policies that are also relevant, such as the renegotiation in commodities’ exploitation, increased taxes and the range of contributors, counter-cyclical policies to deal with economic crisis, an increase of poorer classes’ incomes (Bolsa Familia, BDH) and the boost of regional integration projects (Moreno-Brid, 2006).

Even if there is a high level consensus about the new left governmental actions in Latin America, there are still some criticism and debate about its performance. Indeed, for some scholars, the current political juncture in Latin America and the emergence of the new leaders, that rhetorically are defined as counter-hegemonic or moving away from neoliberalism, are nothing but ‘pragmatists’ building ‘soft versions of neoliberalism’ (Perreault & Martin, 2005, p. 192). In a similar fashion, some others argue that the so-called ‘new left’ does not refer to the reluctance or neglect of capitalism itself. Moreover, some of the ‘Washington Consensus principles’ are still put in practice. (Rovira Kaltwasser, 2011, p. 231). Meanwhile others have emphasized that the “the new left” path is based on ‘market-friendly policies with social inclusion’ (Panizza, 2005, p. 97).

With almost 60% of the entire Latin American population under left-leaning regimes (Arnson, 2007), the major challenge for these governments is circumscribed into the democratic inclusion of social actors in the decision-making process, and to deepen the redistribution of income, instead of reinforcing the national capitalist elites. Perhaps one of the most interesting features of the new left is that they have been more pragmatic rather than
ideological in the application of some policies. This is directly related to the critics of postneoliberalism. For instance, indigenous movements in Bolivia and Ecuador have fiercely opposed to the expansion of mining and oil drilling frontiers into its boundaries. However, it is also known that the “democracy” discourse can be used by the national and regional opposition in order to create points of conflict.

3.2. Ecuador and its “Citizen’s Revolution”
In 2007, after a decade of political instability, Rafael Correa was elected president of Ecuador. His rhetoric was openly anti-neoliberal at the time. He heavily identified with the poorer sectors of the country and, in a broader picture, with the “new left” development strategy. Under his first mandate he took an effective leadership, accomplishing some of the hardest tasks in office, such as reducing poverty; a large package of social investment in sensitive areas such as education, health, housing, transfer income to low income citizens, stabilise and increase tax policy base, mounted a huge infrastructure strategy, among others. His foreign policy did not differ from the domestic one, breaking up the international security cooperation agreement with the U.S. to occupy a military base in Manta, and also creating with other South American presidents’ regional blocks such as UNASUR and ALBA. Due to the main aim of this study, this section will concentrate in the set of reforms made in three basic sectors: macroeconomics and finance, foreign affairs, and energy.

To sustain the basic principles of the “citizen’s revolution”, the current Ecuadorian government has displayed three basic policies in the field of macroeconomics and finance: 1) the renegotiation of the oil contracts, 2) a reform in tax policy to get an increase in revenues and 3) the default over part of the Ecuadorian external commercial debt. The latter, which will be analysed in the next section, has been one of the major achievements for the government, mainly to the relief over debt service, which allowed promoting a more aggressive public investment in social areas. Indeed, the result of this decision was a fiscal surplus in relation of the Ecuadorian external debt/PIB, which was reduced from 49% in 2000-2006 compared to 25% in 2007-2009 (Ramírez Gallegos, 2010, p. 180). Finally, it has been established within Ecuadorian legal framework, such as the Organic Code of Public Finances and Planning, that the state cannot exceed the fixed 40% debt/GDP ceiling, in order to avoid unmanageable public deficits.

Truly interconnected with these decisions, one of the pillars in Ecuadorian foreign policy was registered in 2007 when President Rafael Correa suspended formal relations with the main
IFIs: the World Bank and the IMF. In the case of the former institution, the postneoliberal left government asked the representative of the Bank to leave the country, and in the case of the IMF, its representative and offices were cancelled in the national Central Bank building, at the time the institution quitted the annual evaluation since that year in the Andean country. The President has been severely critical of the performance of both entities during the debt crisis and the so-called Washington Consensus application policies period in the 1990s. Simultaneously, as a part of the regional integration policy, Ecuador decidedly supported the creation of an alternative new regional financial architecture with the creation of institutions such as the “Banco del Sur” (Páez Pérez, 2009-10) as equitable and alternative source finance for the developing countries in the South Cone; however, its official launch has been expected over the last 5 years, due to the complexity to commonly agree the voting procedure and the legislative ratification process of each country.

No less important is the government’s energy policy. When he was the Ministry of Finance in 2005, Rafael Correa fiercely opposed to the Stabilization and Investment Fund for Petroleum resources (FEIREP), which came from the rising price of oil, in order to service external debt payments. This action – contrary to the IMF and World Bank strategy – has been considered a significant component of Correa’s successful run for President. Once in office, he initiated the significant renegotiation of the contracts with oil foreign companies. Until 2010, the redistribution of oil revenues under the exploitation agreements signed in the mid-1990s was rooted in these terms:

“The state took 17-27% of the first $15-$17 in revenue for each barrel sold. The companies kept the remainder and any proceeds above the $15-$17 cut off, a highly favourable agreement for them” (The Economist, 2010)

In this scenario, the oil sector reform aimed directly to change this favourable system for international companies into fixed service contracts, in which the Ecuadorian state increased its income to 70-80% of normal revenues.

3.3. Ecuadorian Selective Default: Breaking with Neoliberalism
The context in which Ecuador decided to default over parts of its external debt is rooted in both “Alianza País” presidential campaign offer, but also as a petition of various sectors of civil society, from indigenous movements to NGOs such as Jubilee 2000. In this scenario, the Ecuadorian President signed the creation of the Internal Auditing Commission for Public

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2 Ruling party in Ecuador, from which emerged Ec. Rafael Correa presidential run in 2006.
Credit of Ecuador on July 9th 2007 through Executive Decree No 472. The Commission was composed by national and well known international experts in the topic of debt, and on November 2008 it presented the final report. One month later the government, headed by Correa, declared a unilateral moratorium on part of the commercial external debt. This converted into the main instrument for further decisions in declaring some parts of the commercial debt as “illegitimate”.

The results founded in the Audition established responsibilities over national governments but mainly over private creditors and multilateral institutions as guardians of the obligations of the Andean country with the private creditors (See also section 2.3). Therefore, the most relevant aspects related to commercial and multilateral debt are summed up in the next figure:

**Figure 3.1 Conclusions of the Ecuadorian Debt Audition in 2008**

<table>
<thead>
<tr>
<th>Commercial Debt</th>
<th>Multilateral Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Illegal and illicit procedures in multiple negotiations with private banks</td>
<td>• Loans established conditions provoking a weak state structure</td>
</tr>
<tr>
<td>• Interference in national sovereignty by the multilateral institutions such as the IMF and the WB to restructure debt with private banks (conditionality)</td>
<td>• Multilateral loans from the WB and the IDB were used to purchase collateral guarantees for Brady Plan, instead for their original purposes</td>
</tr>
<tr>
<td>• Transfer from private debt to the State (a process called Securtization)</td>
<td>• Institutions such as the IMF, WB and IDB have changed their mission, promoting debt systems that were disloyal to member countries</td>
</tr>
<tr>
<td>• The unilateral waiver of the Ecuadorian government to the lapse of external commercial debt, named Tolling Agreement in 1992</td>
<td>• Unilateral increase of interest rates, altering original contract rules and violating national law</td>
</tr>
<tr>
<td>• Unilateral increase of interest rates, altering original contract rules and violating national law</td>
<td>• The Brady Plan signified the exchange of an already lapsed debt which was worth around 25% on the secondary market, for bonds with capitalization of interest charges, implying the payment of compounded interest</td>
</tr>
<tr>
<td>• The Brady Plan signified the exchange of an already lapsed debt which was worth around 25% on the secondary market, for bonds with capitalization of interest charges, implying the payment of compounded interest</td>
<td>• Global bonds showed serious indications of illegality. They were por prepayment, the collateral was used for other purposes, and it was not recorded in the national financial organisms</td>
</tr>
</tbody>
</table>

**Source:** (Comisión para la Auditoría Integral del Crédito Público, 2008)

Consequently, the government decided to default on the 2012 and 2030 Global Bonds, but maintained those of 2015 in relation to commercial debt, as well as the official multilateral and bilateral agreements. From there, the Ecuadorian strategy was simple: they purchased bonds both directly buyback – offering 30-35 cents on the dollar – and indirectly through the secondary market. Keeping this in mind, the Correa’s government collected $3 billion issued bonds with $900 million in cash payments (Porzecanski, 2010).

In terms of the national development strategy, the default over commercial external debt implied the sign and increase of new debt obligations with other actors in other financial sources such as bilateral – heavily relied in Chinese loans since the Correa’s administration in power – and multilateral – being the Inter-American Development Bank (IDB) and the Bank
of Latin America (CAF) the main creditors but also the Latin American Reserves Fund (FLAR). Likewise, within the institutional framework, the reactions to the Ecuadorian default were heterogeneous. For instance, the IMF held a neutral position understanding that its members’ decision was based on legal legitimacy dispute rather than macroeconomic hardships (International Monetary Fund, 2008).

This aggressive debt policy against creditors has been criticised principally by capital investment funds officials (Segal, 2007; Porzecanski, 2010) mainly due to the relative good macroeconomic environment in the Andean country, and threatening the future private sector credit overseas. Nevertheless, a possible postneoliberal answer will rely on the fact that on one hand the national administration wanted to relieve its debt service to support the social and infrastructure policy, and on the other hand it was a self-contention economic policy to diminish the effects of the global financial crisis, especially when Ecuador used U.S. dollars, restraining the ability to use the monetary policy tools available when issuing currency.
4. The Postneoliberal Strategy of External Debt

4.1. China as the Alternative Creditor

China has become a major player financing Latin American development in the last decade. One important consideration is that unlike other bilateral or multilateral loans, Chinese loans are focused to invest in infrastructure projects and to a lesser extent to fix deficit budget, basically through (Provaggi, 2013; Hilton, 2013) the “three policy banks”. At the same time, Chinese government has been continuously supporting the expansion of Chinese companies – also known as the Chinese “Going Out” Policy – and also this pattern has helped the Chinese diplomatic strategy to isolate Taiwan (Hearn & León-Manríquez, 2011; Jenkins, 2012; Hilton, 2013).

The expanding policy of China has not been reduced to make bilateral agreements as the ones we have seen in table (4.1). Indeed, the Asian giant has also sought different multilateral spaces across the region to boost both its Foreign Direct Investment (FDI) and the rising Latin American infrastructure projects. For instance, according to Jenkins and Dussel Peters (2009) China joined the IDB as a full member in 2008. In fact, the Asian state and the multilateral institution signed a co-fund administrated by the latter for about $2 billion in 2013 (Inter-American Development Bank, 2013).

The biggest economies in the south cone such as Brazil, Argentina and Venezuela have strong ties with the Asian giant. In fact, according to the Inter-American Dialogue (2014) Chinese agreed loans with the region accounted $37 billion in 2010, surpassing the obligations signed by the World Bank, the Inter-American Development Bank and the U.S. Export-Import Bank together. Although, is relevant to point out that even if China has increased its role in the region, this does not mean that the Latin American partners have forgotten or step aside the traditional creditors and IFIs from Washington. Furthermore, China has intensified its geopolitical strategy in Latin America with 2 basic facts: a fund of $35 billion dollars to the regional block (CELAC) mainly to infrastructure projects, and also has offered the $100 co-fund in the new BRICS Bank of Development.

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The Chinese Development Bank (CDB), China’s biggest lender; the Export-Import Bank of China (Ex-Im Bank) and the Agricultural Development bank of China. Nevertheless, this definition was given in 1994 when the CDB and the Ex-Im Bank were created and designed as the conduits for Chinese internal and external policy goals. See: (Gallagher, et al., 2012)
In this scenario, the total number of loans and amount is summed up in the table below:

**Table 4.1. Chinese Loans by Number of and Recipient Country 2005-2013**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Number of Loans</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Venezuela</td>
<td>13</td>
<td>$50.6 Billion</td>
</tr>
<tr>
<td>2</td>
<td>Argentina</td>
<td>8</td>
<td>$14.1 Billion</td>
</tr>
<tr>
<td>3</td>
<td>Brazil</td>
<td>7</td>
<td>$13.4 Billion</td>
</tr>
<tr>
<td>4</td>
<td>Ecuador</td>
<td>10</td>
<td>$9.9 Billion</td>
</tr>
<tr>
<td>5</td>
<td>Bahamas</td>
<td>3</td>
<td>$2.5 Billion</td>
</tr>
<tr>
<td>6</td>
<td>Mexico</td>
<td>3</td>
<td>$2.4 Billion</td>
</tr>
<tr>
<td>7</td>
<td>Peru</td>
<td>4</td>
<td>$2.3 Billion</td>
</tr>
<tr>
<td>8</td>
<td>Jamaica</td>
<td>8</td>
<td>$1.4 Billion</td>
</tr>
<tr>
<td>9</td>
<td>Costa Rica</td>
<td>3</td>
<td>$798 Million</td>
</tr>
<tr>
<td>10</td>
<td>Bolivia</td>
<td>3</td>
<td>$611 Million</td>
</tr>
<tr>
<td>11</td>
<td>Chile</td>
<td>1</td>
<td>$150 Million</td>
</tr>
<tr>
<td>12</td>
<td>Guyana</td>
<td>1</td>
<td>$130 Million</td>
</tr>
<tr>
<td>13</td>
<td>Colombia</td>
<td>1</td>
<td>$75 Million</td>
</tr>
<tr>
<td>14</td>
<td>Uruguay</td>
<td>1</td>
<td>$10 Million</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>66</td>
<td>98.4 Billion</td>
</tr>
</tbody>
</table>

*Source: (Inter-American Dialogue, 2014)*

In the context pointed out in the figure above, states such as Venezuela, Argentina and Ecuador, which have maintained a high-level rhetoric against the traditional creditors and also the diverse actors within the international financial markets, are also the ones that appeal to the credit lines offered by China. At the same time, the Andean countries of Venezuela and Ecuador have asked the majority of loans accounting twenty three. Contrasting with these facts, the members part of “The Pacific Alliance” of a neoliberal orientation have been less involved in these external financing processes. Lastly, Chinese loans are heavily concentrated on the main 4 borrowers (Venezuela, Argentina, Brazil and Ecuador) accounting for 89% of the total amount.

In this sense, Latin America and the Caribbean (LAC) debtor countries have used 55% of loans emitted in 2005-2013 in infrastructure, around 27% in the energy sector, and 5% in the mining sector, in which the Asian country is the major consumer of copper, accounting for 1/3 of global total output (Hearn & León-Manríquez, 2011). In addition to this, the main lenders have been the CDB and the Ex-Im Bank with $78.3 and $10.2 Billion respectively (Inter-American Dialogue, 2014).

**China as the Main Ecuadorian creditor**

The sovereign default that occurred in 2008 deteriorated the perception of the Andean country in the international financial markets (Downs, 2012; Gallagher, *et al.*, 2012) and

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4 Including Mexico, Colombia, Peru and Chile.
China appeared as an attractive option for external indebtedness. Moreover, in the wake of the financial crisis China, converted into its principal source of lending. In 2005-2011 the Chinese source of credit rose to 71% of the total contracted external debt. Contrasting these facts, the World Bank conceded credits to Ecuador for $153 million which implied a 2% of the total share. Meanwhile its minor partner, the Inter-American Development Bank, reflected about 27%. In other words, China represented the “Ecuadorian lender of last resort” in the later years. Therefore, loans made by China to Ecuador represented more than 10% of the Andean state GDP in 2013 (Foster, 2014)

In this context, the table below identifies as a summary of the features of the Chinese loans made to Ecuador in the 5 years after the 2008 default:

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrower</th>
<th>Lender</th>
<th>Amount (Million)</th>
<th>Interest Rate</th>
<th>Length</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2009</td>
<td>PetroEcuador</td>
<td>PetroChina</td>
<td>1.000</td>
<td>7.25%</td>
<td>2 years</td>
<td>Advance for PetroEcuador Oil (loan-for-oil)</td>
</tr>
<tr>
<td>June 2010</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>1.682,7</td>
<td>6.9%</td>
<td>15 years</td>
<td>Hydroelectric Dam Coca-Codo Sinclair</td>
</tr>
<tr>
<td>July 2010</td>
<td>PetroEcuador</td>
<td>CDB</td>
<td>1.000</td>
<td>6%</td>
<td>4 years</td>
<td>80% discretionary 20% oil-related</td>
</tr>
<tr>
<td>December 2010</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>571</td>
<td>6.35%</td>
<td>15 years</td>
<td>Sopladora Hydroelectric Dam</td>
</tr>
<tr>
<td>February 2011</td>
<td>PetroEcuador</td>
<td>PetroChina</td>
<td>1.000</td>
<td>---</td>
<td>2 years</td>
<td>Advance for PetroEcuador Oil (loan-for-oil)</td>
</tr>
<tr>
<td>July 2011</td>
<td>Government</td>
<td>CDB</td>
<td>2.000</td>
<td>6.9%</td>
<td>8 years</td>
<td>70% discretionary 30% oil-related</td>
</tr>
<tr>
<td>September 2012</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>80</td>
<td>---</td>
<td>---</td>
<td>Road to Quito Airport</td>
</tr>
<tr>
<td>December 2012</td>
<td>Government</td>
<td>CDB</td>
<td>2.000</td>
<td>7%</td>
<td>8 years</td>
<td>Finance 2013 Deficit Budget</td>
</tr>
<tr>
<td>April 2013</td>
<td>Government</td>
<td>Ex-Im Bank</td>
<td>312</td>
<td>---</td>
<td>---</td>
<td>Minas-San Francisco Hydroelectric Dam</td>
</tr>
<tr>
<td>July 2013</td>
<td>Government</td>
<td>Bank of China</td>
<td>299</td>
<td>---</td>
<td>---</td>
<td>Cañar and Naranjal Hydroelectric Dams</td>
</tr>
</tbody>
</table>

Source: The ones highlighted in red has been paid. (Gallagher, et al., 2012; IHLO, 2013; Inter-American Dialogue, 2014)

Perhaps the most important innovation in external debt in LAC is the loans-for-oil (LFO hereafter), in which the mechanism basically involves the governmental energy-related and national banking institutions and their counterparts involving transactions with oil barrels quoted at market prices as part of the payment (Gallagher, et al., 2012). As we have seen in the table above, Ecuador has signed 4 agreements of this type, while 5 loans are infrastructure-related (4 hydroelectric dams and a highway) and only one is planned to cover the Ecuadorian fiscal deficit budget for the fiscal year 2013. Similarly, the main Chinese actors involved in these transactions have been the CDB, the Ex-Im Bank and PetroChina. Only one loan has engaged a Chinese commercial bank like the Bank of China.
Apart from the fact that Chinese loans have helped Ecuador to surpass the absence of international financial sources, another idea is the complementarity between the goals of the Asian funding with the Andean country development objectives. In other words, the huge infrastructure projects carried out by Correa’s government such as the switch in the energy matrix, combining both the Ecuadorian domestic policy in the form of renewable energy industrialisation, and social development; with the foreign policy goals formulated by China as the international cooperation with the region as a whole, and focused in financial, investment, infrastructure, resources and energy cooperation (Chinese Goverment, 2008).

Despite the positive terms mentioned by participant governments, this new phase of Ecuadorian debt has not escaped the critics, principally the national mainstream media, some energy analysts, as well as the political opposition. This is in part due to the lack of information and transparency about the terms of the mentioned contracts. The main concerns surrounding the agreements had to deal with fixed prices below its market value (El Universo, 2013), contractual disagreements in respect to the legal basis of the signed documents (El Comercio, 2012), the process to carry out the Chinese crude oil as part of the payment, and the illegal origins of intermediaries (Villavicencio, 2014).

4.2. The Postneoliberal Jump in Ecuadorian Debt Management: An Analysis

In order to analyse the postneoliberal steps taken by Ecuador in relation to its debt management, this section will target 7 basic arguments: 1) Ecuador’s accordance to its national development strategy, 2) correlation with the global financial crisis, 3) actors’ ontology, 4) signs of conditionality, 5) loans by destination, 6) financial aspects of given loans, and, 7) benefits to the involved actors.

As section (3.2) captures, the Ecuadorian government strategy has been both rhetorically and in praxis grounded in a rupture with the neoliberal debt policies of the 1990s. The first action taken by Correa’s government, apart from expelling the representatives of the IFIs in the country and denying its annual evaluations, was to boost the public expenditure in the social sphere. Likewise, the national policy of heavy investment in infrastructure projects to achieve the development strategy seems to be one of the main political tools. But the most relevant fact about a [act in the…?] postneoliberal development strategy in relation to debt was to denounce the illegitimacy of some of its parts.

The second major aspect relies in the relation of the Ecuadorian debt and the global financial crisis. Differing from the traditional receipt given by the IMF and the WB to seek for fiscal
prudence and austerity – measures applied in most industrialised countries affected by the crisis – the government fostered a package of counter-cyclical policies, such as restrictions and rising taxes to luxury goods and others, such as the ones mentioned in the paragraph above. In this sense, the default made in the wake of the crisis in late 2008 gave some relief to the fiscal budget in order to accomplish the macroeconomic and social goals.

In reference to the ontology of the actors involved in the mentioned postneoliberal debt process, it is convenient to highlight that in contrast with the neoliberal epoch (1990s) is primarily bilateral, and carried out by the national government bodies such as the Ministry of Finance, the Ecuadorian NOC PetroEcuador, and its counterparts such as the CDB and PetroChina. This is relevant due to the fact that the former debt agreements in the 1990s were also managed by the Ecuadorian government but with the “seal of approval” of the IMF in order to fulfil the payments and the wishes of transnational actors such as major U.S. banks, other big European financial entities, credit rating agencies and capital or hedge funds. It is true that after the 2008 default, the doors of private international capital markets were closed to Ecuador, and the doors had closed; nevertheless, the elimination of intermediaries and other actors has been a successful approach.

In relation with conditionality, the Chinese loans contrast directly to those of the IFIs. The Beijing policy banks demanded that debtor countries in Latin America pay back with oil (LFO). In some cases, the demand was for debtors to purchase value-added goods or to contract Chinese national companies, especially in infrastructure-related projects. The collected evidence suggests that governments of the region, particularly the Ecuadorian one, found this a better solution rather than changing its domestic policies, which were basically redirected to the debt payment and against social welfare, in order to receive loans. Perhaps this is the heaviest argument, and one of the key factors for the Andean country to seek for an alternative source of finance, according to its national interest and the sovereign of each nation, and a decisive factor of this analysis.

Another fact is the orientation of loans. As the table in the last section illustrated, a vast majority of the contracted debt by Ecuador has been assigned to infrastructure and, to a lesser extent, to commodities’ extracting activities. According to the national development strategy, Ecuador will switch its energy matrix by 2016 from fossil fuels – mainly gas for domestic and industrial use – to electricity. That is why 4/10 loans agreed in 2009-2013 dealt with construction of hydroelectric dams. Moreover, these projects are considered short-term and
high-rate return investments, allowing the Andean state not only to achieve hydroelectric and renewable energy self-sufficiency, but also to export this sort of energy to its South American partners. In other words, this means a rupture with the neoliberal debt contracted to repay debt.

One of the main points of disagreement and discussion about China as an alternative source of finance is the incentives and better conditions given in loans. During the crisis, the main critics of the Ecuadorian government denounced the poor and counter-productive conditions of loans, mainly signed with higher interest rates that the ones offered by the traditional IFIs. As the table (3.2) showed, the interest rates in Chinese loans to Ecuador have been in a band of 6-7%, basically 4 or 5 points above the interest rate level of the IMF during the financial crisis. However, in order to solve this controversy, Gallagher et al (2012) have highlighted a key empirical finding about it. In accordance with the JP Morgan report (2011) “sovereign (private) lenders could charge Ecuador 8.45 percent interest above Treasury yields”. In other words, this fact demystifies the thesis of the Chinese higher interest rate in comparison with market value. If it is true that Chinese rates are less attractive than the ones of the IMF in times of crisis, the key point underlined in this research analysis is the lack of conditionality of the Asian nation, and that is precisely why the Ecuadorian government moved towards the Chinese funding.

Finally, the most recurring question to the sort of finance Ecuadorian development strategy through debt is, who benefits most? There are some scholars and decision-makers arguing that in the model (LFO) there is a win-win game for both the South American and the Asian nation, and others that prevent the cheating and unfavourable conditions to Latin American countries (Chinese Goverment, 2008). Despite these opposite positions, the Ecuadorian government benefits for the following: a) no conditionality in domestic policies, b) lower interest rates in comparison with international capital markets, c) consistency to maintain the public spending strategy, and d) alternative partnership with a major power. Meanwhile, China reinforces its oil security at the time they secure part of the payment with a commodity and the participation of goods, capitals and domestic investments overseas.

4.3. Epilogue: Is There an Ecuadorian Return to the Neoliberal Path of External Debt?

In the first semester of 2014, three different but correlated events for our analysis have brought into question the postneoliberal path recorded by the Ecuadorian government in
relation to external debt. The first is the Ecuadorian swap agreement with Goldman Sachs for about half of its gold reserves to earn a profit of $16-20 million in 3 years. The second is Ecuador’s re-emergence into the international financial markets, issuing $2 billion new Ecuadorian bonds. Finally, after 6 years, the IMF was allowed to return to the country to prepare its annual evaluation, and the World Bank has conceded an extension of the national credit line from $500 to $1 billion from the WB with a LIBOR+1 percent rate in 30 years with a 15 year grace period. In this scenario, the main question arising is that due to these facts, can we consider an Ecuadorian return to the neoliberal path?

Probably most important for our study is the approval that the IMF received in order to make the annual evaluation in the Andean nation, a process that has been stopped since 2008. In the final report, the fund have described the good health of Ecuadorian macroeconomics, sustained economic growth and the reduction of poverty, due to public spending heavily related with high oil prices. However, the IFI warns Ecuador about its increasing public deficit and external imbalances. In order to avoid these setbacks, the Washington-based institution has recommended a revision of fuel and gas subsidies, taking into account the protection of low-income class, the creation of a special fund to cover deficits with oil revenues, the fiscal prudence and the labour market flexibility (International Monetary Fund, 2014).

The second feature is the Ecuadorian $2 billion in 10-year bonds sold last May with a 7.95% yield. According to the mainstream financial magazines (Wall Street Journal, 2014) the national government received an offer of $5 billion, as a restore of confidence of the international capital markets. At the same time, credit rating agencies such as Standard & Poor’s have increased the Andean nation’s credit rating from B to B+ “with a stable outlook” (Financial Times, 2014). In this sense, the return of the IMF is heavily connected with the newly-issued bonds owing to the confidence of international financial markets is ‘commonly reinforced’ by the presence of the former institution in a country.

The third fact showing a possible return of neoliberal actors is the Ecuadorian Central Bank (ECB) agreement with Goldman Sachs, which has described the reached swap agreement as:

“a profitable financial operation for the ECB, easing that an international bank such as Goldman Sachs assume the Ecuadorian sovereign risk and grant a credit, without political conditionalities and lesser financial costs to the country” (Banco Central del Ecuador, 2014).
Meanwhile, both domestic and international critics have debated the reputation of the U.S. financial investment firm, which was related to the Greek financial crisis; and even more, questioning their own financial operation profitability – some have argued this was used as collateral, despite the authorities’ denial in exchange of $400 million loan received by the government.

At first glance it is inevitable not to consider this as a return to the neoliberal institutions and financial capitalism, in which IFIs and major banks, capital funds and credit rating agencies have been systematically coercive with ‘the black sheep of the international financial system’. Therefore, the key aspect here is that even if the institution has not changed its orthodoxy and its policy recommendations, this time could be different because the IMF does not possess a coercive a tool as debt financing in order to impose conditionality on the current Ecuadorian government. Indeed, official sources such as the Ministry of Finance have announced “no change in the national economic policy” (El Comercio, 2014), despite the recommendations made by the IMF evaluation published in on August 2014. In relation to the issued bonds and the gold swap, several interpretations can be made. Common wisdom has declared these events a governmental strategy to recover from the absence of liquidity within the domestic economy; meanwhile the government assures that is basically for the fiscal pressure that Ecuador will face in the next 2 years. Even if these are practices carried out in the international financial markets, we cannot assure that this is a neoliberal turn.

Perhaps the most important fact is that Ecuador has not abandoned Chinese government and its public enterprises in order to finance its increasing deficit budget and to continue the mega-infrastructure projects. For instance, the Andean nation required to its Asian counterpart to concede a credit line of $1.5 billion dollars to finance its 2015 budget (Jaramillo & Gill, 2014). Similarly, Ecuador expects to build the “Pacific Refinery” for which last May a deal with the Chinese financial sector agreed a loan of $7 billion dollars. Moreover, as a joint venture, PetroEcuador will take 51% of the package, meanwhile Petróleos de Venezuela (PDVSA) will share 19% and the strategic partner will be China National Petroleum Corp (CNPC) with the 31% remaining (Alvaro, 2014). The total cost of the project is between $10 to $12 billion dollars. According to this, it seems that the Ecuadorian political economy is far from left China as its main ‘postneoliberal creditor’.
Conclusions

Concluding Remarks

If debt is considered a tool used by IFIs to impose an economic perspective and its policies, the Ecuadorian management of external debt in 2007-2013 can be assumed as postneoliberal. This is due to the presence of a strong state which has redefined an autonomous development strategy focused on the national interest. The main components of this strategy are: a heterodox macroeconomic program, a sovereign debt policy and a firm social investment policy. As a whole, this meant a broader margin of action at the domestic level, and an expansion of the foreign creditors giving primacy to the bilateral model of agreements at the international level.

A second conclusion is that China has been and will be Ecuador’s main strategic partner in infrastructure projects as well as its main creditor. Even if there are some signs of the return to international financial markets by the Andean country, the fact is that Chinese loans in 2014 will boost China’s mentioned position. This aspect reinforces our contribution to the postneoliberal thesis of the Asian nation as a big and key player not just for Ecuador, but its footprint for other new left and other governments in the region. In this line of argument, financial cooperation will stand and accelerate in the upcoming years, bilaterally and multilaterally between regional blocks in the axis (BRICS-CELAC) and the nascent BRICS Bank of Development.

Aside from that, the Asian giant, eager for raw materials, has pushed to achieve its foreign policy goals, and is building a set of geopolitical alliances within the region as well as ensuring the increasing need of natural resources. In an era in which the region represents a low-priority geopolitical space in the foreign policy agenda of the United States – still considered by top officials as its backyard – one of the possible outcomes is that China is in some way replacing the declining hegemon absence, due to the massive investment in infrastructure. However, this scenario could imply a major struggle in the future bilateral relation between these major powers. In any case, China has hit the nail on the head of the U.S., getting impressive benefits from it. A comparison between the period of 1982-2005 period and that of 2007-2013 reflects the fact that in the former, the Andean country was severely conditioned by both the private creditors and the multilateral institutions, in order not to invest in the social sector, but to receive loans and to remain trapped in debt.
restructuration. Contrasting this, the latter term showed us that it is possible to get away from conditionality, even in dealing with critical conditions such as a foreign currency, a global financial crisis and a scarcity of credit sources in the international financial market. In this sense, the absence of conditionality is probably the most crucial indicator to reinforce the idea of a postneoliberal epoch.

In theoretical terms, when we talk about postneoliberalism in this research, we are not necessarily referencing the advent of a post capitalist stage. Indeed, the basic idea of this analytical category as addressed here is to present how contradictory can be the state behaviour. For instance, some of the new left states across Latin America including Ecuador have registered a mixture of applied policies, with progress in some areas and at the same time the persistent neoliberal heritage policies in others. Opponents of postneoliberalism have argued that the new left governments are taking advantage of the same primary extractive model and transferring profits from the periphery. Nevertheless this has reduced inequality and redistributed income cannot wait an entire breakdown of the financial capitalist epoch we face, especially in the global south.

In order to exceed the normative debate of the two lefts, we have to understand the heterogeneity in the political, social and cultural background in Latin America. The neoliberal political practices proved disappointing despite the ‘common sacrifice’ for the long-run gains that never reached. In Ecuador, one of the worst outcomes of this set of conditions was the reform made to the financial bill in 1994, which allowed the deregulation of the domestic banking sector. This was undoubtedly-one of the main causes for its collapse 5 years later, or the “Caracazo” in Venezuela in 1989, or the 2001 financial crisis in Argentina. Hence, these processes could give more radical political changing regimes in some countries, but nuanced in others.

As the recent global financial crisis demonstrated, the IFIs have not changed their economic orthodox thinking. In the post crisis period, the package of recommendations made by the IMF to its members has kept the basic principles of the structural reform and most of the Washington Consensus policies. That of the World Bank is similar case. Moreover, prescriptions such as austerity have trapped some industrialised states in Europe – with Spain and Greece as good examples – into a wave of liberalisation policies and privatisations. Ecuador is the best last example, after 6 years of ceased ties, the IMF returned to Ecuador to make its annual evaluation and despite the fact that its report has recognised the progress in
the economic fields, its recommendations are still the same: fiscal prudence, oil extraordinary revenues fund and cut off subsidies. The only difference with the 1990s is that the IFI does not have as coercive a tool as before.

Lastly, in relation to default, it is necessary to argue that even if the Ecuadorian strategy of using the public audit as a sovereign mechanism to denounce “illegitimate debt” was successful, it does not mean that it could turn into a path to be implemented by other economies with the same results. In fact, the recent Argentinian case has put in evidence the threat of unilateral actions taken by the private actors and speculators within the international financial market, possibly because is “too big to fail” and not to pay.
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