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Ecuador: An Overview

Ecuador is a small, ethnically and geographically diverse country of 17.5 million inhabitants located in South America between Colombia and Peru (see **Figure 1**). President Guillermo Lasso of the conservative Creating Opportunities (CREO) party took office for a four-year term in May 2021. He sought to build on the accomplishments of his predecessor, President Lenín Moreno (2017-2021), who implemented liberal political and economic reforms and pursued closer ties with the United States. Like Moreno, Lasso faces resistance from some sectors of the population, including the Indigenous leadership, and a divided legislature. Issues of broad interest to Congress include U.S. trade and investment with Ecuador, counternarcotics and environmental cooperation, and Ecuador's relationship with China.

Political and Economic Background

During a decade in power (2007-2017), leftist populist President Rafael Correa—Moreno's predecessor—brought some stability to Ecuador's previously tumultuous political scene. Correa presided over a public investment-driven economic expansion, with growth averaging 5% annually between 2010 and 2014. Although stronger growth and increased social expenditures helped reduce poverty, Correa's policies left Ecuador with significant debt to China and reinforced Ecuador's dependence on petroleum and other commodity exports. Correa also governed in an increasingly authoritarian manner, constraining freedom of assembly and association, stifling freedom of the press and expression, and restricting judicial independence.

Moreno, of Correa's Alianza País (AP) party, was elected president in 2017. Although he had served as one of Correa's vice presidents, Moreno quickly distanced himself from Correa in style and substance. Moreno sought funding from financial institutions such as the International Monetary Fund (IMF) and made efforts to curb corruption, revive democracy, and liberalize trade, resulting in backlash from his AP party and some sectors of Ecuadoran society. The fallout of the Coronavirus Disease 2019 (COVID-19) pandemic further eroded Moreno's popularity, who left office with an approval rating under 9%.

2021 Election and Current Challenges

In April 2021, Lasso defeated Andrés Arauz, a loyalist of former President Correa, in a second-round presidential runoff. Lasso's CREO party won 12 of 137 seats in the unicameral National Assembly elected in April. Inaugurated in May 2021, Lasso had campaigned on tax reforms intended to promote growth, import duty reduction, and a 2% income tax elimination on small- and medium-sized businesses. He also promised to double oil production and mining concessions.

Lasso inherited a difficult economic situation. A crash in global oil prices and the pandemic drove Ecuador into a deep recession in 2020, when the economy contracted by nearly 8% and the poverty rate climbed to an estimated 33%. The economy began to recover in 2021, with 4.2% growth; the IMF projects it will grow by nearly 3% in 2022.

Figure 1. Ecuador at a Glance



Area: 109,483 square miles, slightly smaller than Nevada

Leadership: President: Guillermo Lasso; Vice President: Alfredo Borrero; Minister of Foreign Relations: Juan Carlos Holguín; Finance Minister: Simón Cueva

Ethnic Makeup: 72% Mestizo (mixed Amerindian and White); 7.4% Montuvio (coastal farmers of mixed race and Indigenous heritage); 7.2% Afro-Ecuadorian; 7% Amerindian; and 6.1% White (2010 census, National Statistics and Census)

Key Trading Partners: United States (23.1%), China (18.6%), and Panama (7.9%) (Trade Data Monitor)

Poverty Rate: 33% (2020, World Bank)

Economy: GDP = \$115.5 billion (current U.S. \$, 2022, IMF est.)

President Lasso has struggled to move his agenda through the divided National Assembly. His CREO party joined the new National Agreement (BAN) pro-government voting bloc, increasing Lasso's legislative support. However, the new legislature is dominated by the leftist opposition coalition, Unity for Hope (UNES), linked to former President Correa (see **Figure 2**). The Pachakutik (PK) party—the political party of the country's main Indigenous organization, the Confederation of Indigenous Nationalities (CONAIE)—is the second-largest party in the 2021-2025 National Assembly.

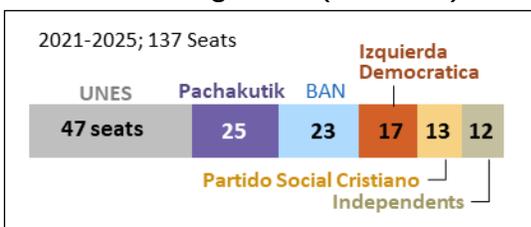
Rising inflation and government-imposed fuel price increases prompted three weeks of social protest in June 2022. The protests, led by CONAIE, prompted the UNES coalition to attempt, unsuccessfully, to impeach President Lasso. The unrest also led to the replacement of the head of the National Assembly, a PK party member who is considered less likely to support the Lasso's agenda. The protests, at times violent, ended when the government conceded to enter into negotiations and reduce fuel prices. The talks reached a preliminary deal in September 2022,

suspending new oil and resource extraction projects in Indigenous territories until a new law on prior consultation is passed, expected within the next 12 months.

Overall, Ecuador has seen a sharp rise in violence in the past two years, which the Lasso government attributes mainly to illicit drug trafficking and organized crime. Homicide rates jumped from 5.7 per 100,000 people in 2018 to 14 per 100,000 in 2021. There have been several high-fatality prison riots, prompting the government to announce reforms to address poor conditions and gang rivalries in prisons. In August 2022, an explosion in Guayaquil, Ecuador's largest city, killed five and injured more than two dozen people in what Ecuadorian authorities labeled a terrorist incident. Since Lasso's May 2021 inauguration, his government has declared four states of exception (states of emergency) to quell violence or restore stability in various provinces.

Under President Lasso, Ecuador has improved its fiscal stability by reducing public spending and improving tax collection. In September 2020, the IMF granted Ecuador a 27-month extended \$6.5 billion loan—conditioned on structural reforms—to address the crisis caused by the pandemic. The Lasso administration is on target to meet its goal of keeping the budget deficit to \$2 billion, or 2% of GDP, in 2022, though Lasso still faces significant legislative hurdles for his fiscal agenda, given the government coalition's limited representation.

Figure 2. Ecuador's Legislature (2021-2025)



Source: CRS, using information from National Congress of Ecuador, accessed March 2022.

Notes: The Congress is composed of members from UNES (Unity for Hope), Pachakutik (Indigenous political party), BAN (National Agreement, a pro-government coalition comprising Lasso's 12-seat CREO [Creating Opportunities] party and some independents), Izquierda Democratica (Democratic Left), Partido Social Cristiano (Social Christian Party), and Independents.

Ecuador continues to contend with the destabilizing economic consequences and public health challenges posed by the COVID-19 pandemic, which had resulted in 35,000 deaths as of September 2022. Ecuador suffered one of the earliest and most severe outbreaks of the disease in the region but by August 2022 had attained a full vaccination rate of nearly 80%, up from 4% in May 2021.

U.S.-Ecuadoran Relations

Although the United States traditionally had close relations with Ecuador, former President Correa's populist style and policies, which he called "anti-imperialist," increased frictions. Among other actions, Correa shut down U.S. counterdrug operations at Manta Air Force Base in 2009 and expelled the U.S. ambassador in 2011. However, closer bilateral relations resumed under former President Moreno

and have continued under President Lasso. Lasso has expressed interest in strengthening security and economic ties with the United States. In June 2022, he announced that he would propose a "Plan Ecuador" to advance the countries' cooperation in the fight against drug trafficking. In August 2022, the U.S. Agency for International Development (USAID) announced an additional \$19.8 million for democracy and governance projects in Ecuador, for a total of \$36.7 million since 2020.

For FY2022, the State Department allocated \$45.6 million in bilateral foreign assistance for Ecuador. The Biden Administration's FY2023 Congressional Budget Justification, released in March 2022, proposed \$35.3 million in foreign assistance for Ecuador, with the largest portion for Development Assistance (\$16 million), followed by \$13 million for International Narcotics Control and Law Enforcement programs. The United States donated 2 million doses of COVID-19 vaccine in July 2021, and USAID has provided approximately \$51.8 million to support Ecuador's pandemic response since FY2020. The United States also has provided more than \$221 million since 2017 to help Ecuador address the humanitarian needs of some 500,000 Venezuelan migrants and their host communities.

Ecuador's largest trade partner is the United States. The top U.S. import from Ecuador is petroleum, followed by seafood, including shellfish, and fruits, including bananas. Ecuador's top imports from the United States are refined petroleum and machinery. The Lasso government hopes to increase bilateral trade with the United States by expanding on a first-phase limited trade agreement that entered into force in August 2021. In January 2022, Ecuador began the process of becoming a full member of the regional free-trade bloc known as the Pacific Alliance.

President Lasso has expressed interest in a free trade agreement with the United States. The U.S. International Development Finance Corporation provided \$188 million to support small and female-owned enterprises in Ecuador in 2021 and considers financial backing to Ecuador to be among its most effective in the region. For some Members of Congress, China's economic engagement with Ecuador has raised concern. In early 2022, Ecuador announced the start of negotiations for a free-trade agreement with China, which are expected to be finalized by year's end.

Congress may seek to influence the Biden Administration's policy toward Ecuador through tools such as the appropriations process and oversight hearings. In March 2022, the Senate Foreign Relations Committee reported a bill, S. 3591, to advance U.S.-Ecuadorian relations (a related bill, H.R. 8711, was introduced in the House in August). Some Members of Congress have expressed support for a free-trade agreement with Ecuador. Others have focused their attention on the Lasso government's performance in policing and security; its counternarcotics and environmental policies, such as marine protection for the Galapagos; its relationship with China; and its handling of the plight of Venezuelans residing in Ecuador.

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