

SPECIAL REPORT

Ecuador 2013-2017: towards new economic and political challenges

Quito, April 2013

d+i LLORENTE & CUENCA

1. INTRODUCTION
2. RAFAEL CORREA, TOWARDS A DECADE IN POWER
3. THE RADICALIZATION OF THE CITIZENS' REVOLUTION
4. A CONSTITUTION THAT WILL NOT LAST 300 YEARS
5. ALIANZA PAIS ALSO SWEEPED THE POLLS IN THE LEGISLATIVE ELECTIONS
6. NEXT STEPS
7. REGARDING ECONOMY... CHANGES IN THE PRODUCTION MATRIX ARE COMING
8. FISCAL RESOURCES
9. LOOKING FOR MORE PETRODOLARS
10. MORE TAX CHANGES?
11. GENERATING ADDED VALUE
12. CONCLUSIONS

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1. INTRODUCTION

On 17 February 2013, 4.918.482 Ecuadorians elected Rafael Correa for another four years (2013-2017). This implies that the chief executive will sit in the presidential chair for ten years and will consolidate his position as the President who stayed in office for the longest period of time. Nevertheless, in January 2013 he already achieved a historical record: being President for a continuous period of six years.

However, having once again the confidence of Ecuadorian citizens implies several things. Firstly, it implies making new government challenges aimed at establishing a leadership able to find a substitute for Correa, in relation to the incoming 2017 elections. Secondly, it means making constitutional reforms, focusing on legal reforms and transfer of competences to the local governments. Thirdly, it implies changing the production matrix to develop industries such as the steel and petrochemical industries. Finally, it means generating added value for raw materials.

d+i LLORENTE & CUENCA proposes an analysis of the electoral results of 2013. These results have allowed the ruling government to show once again its political power both at an executive and legislative level. The results have also shown the weakening of the opposition parties, which are more fragmented now than ever before. We will also discuss the economic plans for the country for the next four years which aim to transform the extraction economic model and redistribute wealth.

2. RAFAEL CORREA, TOWARDS A DECADE IN POWER

Rafael Correa obtained outstanding results in the previous elections and won 57.17 % of the votes (4,918,482), winning for the third consecutive time the presidential elections and, for the second time, without needing a runoff. The President is getting ready to stay in office for a total of 10 years (January 2007 - May 2017).

The Constitution of Montecristi approved in 2008 allowed two consecutive four-year terms, which was something unprecedented in Ecuador. As a consequence, Rafael Correa will begin his third term in office (2013-2017) on May 24. We will now expose the main challenges and promises that the work team of the Head of State will have to face in the next four years:

- **Make** the private sector provide more jobs.
- **Diversify** production to become less dependent on oil.

- **Define** and apply a comprehensive security policy.
- **Review** the tax system, especially the Tax on the Remittance of Currencies (5 %).
- **Define** the changes needed to do large-scale mining.
- **Separate** the role of public media from the role of government media.
- **Establish** international alliances to improve the commercial relations with private companies and between countries.
- **Consolidate** the extraction policy to achieve the goal of wealth redistribution without depending on bonuses and subsidies.

After six years in office, it seems that Rafael Correa is one of the few Ecuadorian Presidents who has had this amount of power. He has placed people close to him in the main institutions responsible for the control and regulation of the State (the Citizen Participation Council, the National Electoral Council, the Attorney General Office and the Judiciary Council). In theory, these institutions must be independent from the Executive.

Due to this particular measure, the President was criticized. Such critics were similar to those made against the former President of the Republic, León Febres Cordero, who was labeled “the owner of the country” due to his interference in state functions.

Rafael Correa celebrating his reelection together with the Vice-president Jorge Glas, in the Government Palace



“35 proposals from PAIS which led Correa to power: It is our duty to eradicate hunger and poverty. While there is a single injustice in our homeland, we will remain there, with love and tenderness, with a listening ear to the requests and the voice of the humblest and helpless”

Extract from the government plan 2013-2017 of Alianza PAIS, list 35

Several factors have contributed to make Rafael Correa such a powerful leading figure: an unprecedented economic boom in the history of the country, the old discourses and obsolete practices of the traditional parties, fragmented opposition parties who follow individual political agendas, a government discourse very well thought out, able to reach people and widely diffused in government media; and finally a proposal many Ecuadorians approved (21st century socialism, following the same line of former Venezuelan President Hugo Chávez).

In addition to this, political experts consider that Rafael Correa has been immune to wear and to disillusionment because part of his electorate is grateful to him and see in the candidate-president a sign of hope, not only because he did a great work, but also thanks to the way he speaks about the past (and no one wants to go back to the past): “corrupt bankers”, “pelucones” (the bourgeoisie), and about the present, a present everybody wants: “the country moves forward”.

3. THE RADICALIZATION OF THE CITIZENS’ REVOLUTION

Rafael Correa and Alianza PAIS, the political movement that took

him to power once again, exposed during a 45 days campaign 35 proposals aimed at achieving the “Good-Living Socialism”. This plan became the roadmap of his term of office, with the strategic objective of making a cultural, economic, social and political transformation, thanks to an efficient and stable government structure, and through several measures such as the following:

- **Change the production matrix via four main axes:** selective replacement of imports, creation of an energy surplus, export diversification and productive reconversion.
- **Create a democratic “good-living” State.** This includes de-concentration and decentralization processes, aimed at giving power to the territories in order to give an answer to the needs of the population where these needs arise.
- **Strengthening society.** Society is considered the guiding axe of the other main social institutions. The objective is to bring people the opportunity to discuss the distribution, assignation and use of resources.

The previous six years of Rafael Correa’s government allowed him to obtain the general public’s confidence thanks to investments in education, health and infrastructure. It must be taken into account that this government has enjoyed the longest oil boom in history. This

Since January 2007, when Correa took office, until August 2012...

1,365 national television and radio stations

11,793 minutes on air

Rafael Correa: “We will review the Constitution and make the reforms we have to”

Stated after announcing a new package of constitutional reforms after obtaining an absolute majority in the Assembly

has allowed it to finance social programs, as well as expensive and periodical advertising campaigns that inform people about the progress of the government management and contribute to strengthen the President’s image.

Meanwhile, during the next four years, the current government chosen by the Ecuadorians will focus on the development of the extraction economy model in order to achieve the redistribution of wealth and maintain the flow of investment in social issues and current expenditure.

In essence, the challenges for 2017 are geared towards continuing the development of sectors such as poverty reduction, energy, transport and education; and focus more on basic services, housing, health and trade.

In order to achieve these goals, the ruling government Alianza PAIS exposed in its 35 proposals campaign several offers such as: having two hospital beds for each 1.000 inhabitants, provide priority legal advice to disadvantaged groups (children, woman, the poor...), encourage the relations between science, technologies, arts and ancestral knowledge, among others.

According to experts from different areas, these changes will be reflected in the following milestones:

- **Deepen** the territorial de-concentration and decentralization processes, giving the local authorities

the power they need to make decisions about the needs of each population.

- **Increase** public investment in science and technology and develop five strategic industries steel, petrochemical, copper metallurgy, shipbuilding and refinery.
- **Diversify** the production matrix. Make a selective replacement of imports, focus on export diversification and develop key activities.
- **Understand** the State as the main banking and financial regulator. It will continue fixing interest rates and fee income from services and it will force the banking industry to lend more money for productive activities.
- **Create** a land register for rural areas and redistribute the land. Land will be redistributed on the basis of its quality and not on the basis of its extension, meaning those that can be used because they are productive.
- **Encourage** large-scale mining. Investments of around USD 5,000 million are expected as well as the creation of 7,000 jobs.
- **Consolidate** the decent living wage model (a salary that allows a family to live “with dignity”. The calculation is made by adding all the income a worker receives during a year, not only the basic unified salary, and dividing it into twelve months). No businessman will be able to

●●● CONSTITUTION 2008
Let's leave the past behind



Official publication of the National Assembly

“If these unethical media keep bothering me, I will stand for re-election. They better be quiet”

Rafael Correa

declare the profits as long as he does not pay all his workers the living wage of USD 368.05 (amount in 2012).

- **Ensure** that natural resources are processed in the country in order to give them more added value, which implies the industrialization of raw materials. A few examples are the transformation of oil through the petrochemical industry in order to produce fuel, and the transformation of copper to produce chips.
- **Encourage** small and micro producers. 30% of the budget of public procurements will be used for the development of these organizations.
- **The Cultural Revolution** arises thanks to the democratization of communication through the Ecuadorian Communication Law. This allows creating new rules, for instance, for the granting of frequencies of the radio spectrum.

4. A CONSTITUTION THAT WILL NOT LAST 300 YEARS

One of the main political objectives of Rafael Correa in his first political campaign was the creation of a new Constitution. He achieved this goal through the Constituent Assembly of Montecristi in 2008, which created the most guarantee-based Constitution the country has ever seen.

However, in 2011, Rafael Correa promoted the first change of

the Magna Carta through a referendum, despite having always said that the Constitution made in Montecristi will last at least 300 years. Thanks to this referendum, several reforms concerning legal aspects such as the following were made:

- **Prevent** the expiration of the pretrial detention time limit when it has been caused by the defendant, and punish the judges and prosecutors who allow the expiration.
- **Establish** that precautionary measures as an alternative to pretrial detention are applied according to the Law and not as a general rule.
- **Replace** the Judiciary Council of that time, through the creation in a non-renewable period of 18 months (expired in January 2013) of a Transition Judiciary Council in order to restructure the Ecuadorian judiciary

In addition to this, more modifications were made regarding the prohibition of making shows that cause the violent death of animals (in bullfights, for instance, killing the animal is forbidden). It is also prohibited to play games of chance in public places such as casinos (they were all closed) throughout the country.

Nowadays, with a view to his new term of office, Rafael Correa has announced a new change in the Magna Carta containing 444 articles. Some believe that indefinite reelection will be one

“Built from scratch we have become the second political force in Ecuador”

Guillermo Lasso, former presidential candidate

of the changes made. However, the Head of State has clearly stated that he will not seek to be reelected and that he plans to retire from active politics.

Nevertheless, when the President heard the criticism of the national press days after being reelected he stated that “if these unethical media keep bothering me, I will stand for re-election. They better be quiet”.

After winning the elections, Correa spoke once again about making new constitutional reforms in his new term of office because he believes that the Magna Carta adopted in 2008 is rather extensive and has inconsistencies.

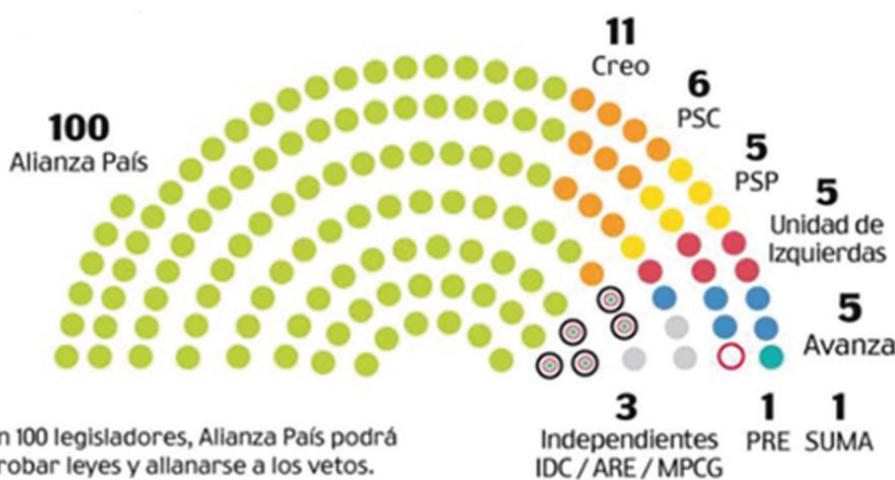
In this regard, the Head of State pointed out that “we review the Constitution and make the reforms we have to”. The subjects on the table regarding these changes are the following:

- **Modifying** the current administrative and implementing powers regarding education and health between the central government and the decentralized autonomous governments.
- **Changing the meaning of protection proceedings** which allow judges to suspend a government measure based on a citizens demand.
- **Re-orientating the aim** of declaring the country “free of transgenic crops and seeds” and gear it towards the strengthening of food safety.

5. ALIANZA PAIS ALSO SWEEPED THE POLLS IN THE LEGISLATIVE ELECTIONS

The first time ALIANZA PAIS nominated candidates to run for a legislative position was during the creation of the Constituent Assembly of Montecristi, in which they obtained 81 seats. On a second occasion, for the National Assembly, it reduced its members to 59 out of 124. However, on 17 February 2013, against all odds and thanks to a strategic campaign with the slogan “Vota todo, todito 35”, the ruling party obtained 100 seats.

Thanks to these results, the ruling government has more than two-thirds of the Assembly. An Assembly that will be composed of 137 legislators, meaning Alianza PAIS has absolute majority to pass laws and/or use the presidential veto, which will require a minimum of 69 votes.



The correlation between political forces in the 24 provinces

● Alianza País ● Creo ● PSC ● PSP ● Unidad de Izquierdas ● Avanza ● Independiente

PAIS greatly outnumbers that figure. These results also occurred thanks to the combination of two methods of calculation for the appointment of seats: the D'Hondt method, used to elect the members of the provincial assemblies and the Webster method, used to elect the members of the national parliament. What was the result? The ruling government swept the polls despite winning only 55 % of the votes.

Thus, the legislative agenda which will determine how the ruling government will act for the next four years might have a free hand to proceed. In addition to this, the new legislators of PAIS have clearly announced that their objectives for this term of office will be to finish enacting the laws determined by the Constitution: the laws regarding Water Resources, Culture and Communication (the processing of these laws is in suspension since 2010); the reforms of the Penal Code; the law on Securities Market which still has not reach the Assembly since 2010, despite the announcements made; and the tax reforms and the mining law needed in order to develop this sector.

May 14 will be the day in which the 137 delegates will take office. However, they will have to work extremely hard both at a legislative and fiscal level. This particular aspect gives rise to greater doubts because in the last four years, 15 impeachment requests have been made regarding government officials and only two of them have been executed. Coincidentally, those two were requested by

Alianza PAIS (against the full Judiciary Council which ended its duties in 2011 and against the former Superintendent of Banks and Insurance).

All of this happened despite many corruption scandals in several public institutions. Among the most famous examples are the following: the overpriced purchase of ambulances of the Ministry of Public Health; the Ministry of Sports received bribes in return for awarding contracts for works affected; contracts were concluded between the State and Fabricio Correa's companies, the brother of the President; the Constitutional Court allegedly received a one million-dollar check in exchange for a favorable opinion in the national brewery case; and the drugs sent to Italy in a diplomatic pouch in 2012.

Nevertheless, the first task of the legislative power will be to choose its new authorities: a President, two Vice-presidents and four directors who will constitute the Legislative Administration Council, an institution which makes key decisions regarding the Congress management. Alianza PAIS will have at least five members in this Council.

In this context, there are some candidates who could take the seat of Fernando Cordero, who until now was President of the legislative power and right-hand man of Rafael Correa on the political front due to his undeniable skills to impose the will of the ruling government. The candidates would presumably be

Gabriela Rivadeneira, who was the leading candidate of Alianza PAIS in the elections for the National Assembly; Rossana Alvarado, who was the leading candidate for the province of Azuay; Marcela Aguiñaga, former environment minister, and the elected member of the Assembly Juan Carlos Cassinelli (now Vice-president).

6. NEXT STEPS

The last elections ratified what has been happening since Rafael Correa took office: there is a fragmented opposition unable to make sacrifices for the greater good and as a result, it never has been able to make an adequate Agenda. Furthermore, it has emphasized its division, which has been positive for Alianza PAIS.

The consequence of all of this is that the parties labeled by Rafael Correa as “partocracy” have almost disappeared: Patriotic Society Party (PSP), Social Christian Party (PSC), Ecuadorian Roldosist Party (PRE), Institutional Renewal Party of National Action (PRIAN) and the democratic left. The first three have a limited representation at the Assembly and the last two did not even obtain a seat.

Under the current electoral procedure, if political organizations

obtain less than 4% of the votes in two consecutive pluripersonal elections, they are forced to disappear. However, there are still loopholes regarding this rule, and they must be clarified by the electoral authorities. Be that as it may, on a preliminary basis this particular aspect is one of the challenges for the parties and political movements that had a limited representation in the previous elections, why? Because from the last trimester of 2013, Ecuador will prepare for a new electoral process in February 2014: appointment of mayors (municipalities), prefects (provinces) and Parish Board Presidents.

Having said that, a question arises: could the traditional parties revive, and the new political organizations which appeared in the last elections survive? The ruling government also asks itself other questions, especially after Rafael Correa stated that he will not run for re-election: who will be his successor? Can Alianza PAIS have another leader similar or better than Correa?

It is clear that Alianza PAIS needs a new leader. However, until now, it seems that this is not a priority for the affiliates, because for the moment there are no candidates strong enough to stand as a candidate for the 2017 elections. Nonetheless, on the opposition side, new political organizations have emerged and they present themselves as a new alternative to the ruling government. An example of this is the Creating Opportunities movement (CREO), led by the former banker and

CANDIDATE	POLITICAL ORGANIZATION	% OF VOTES	HISTORY
Rafael Correa	35 PAIS	57.17%	Exists since 2006
Guillermo Lasso	21 CREO	22.68%	Created in 2012
Lucio Gutiérrez	3 Patriotic Society	6.73%	Exists since 2001
Mauricio Rodas	23 SUMA	3.90%	Created in 2012

presidential candidate Guillermo Lasso, who unlike other political movements obtained good results in the elections.

7. REGARDING ECONOMY... CHANGES IN THE PRODUCTION MATRIX ARE COMING

The government's plan for the next four years regarding the economy is "to make the next step in the production matrix", as stated by the Vice-president Jorge Glas, who was Minister of Coordination of the Strategic Sectors until last February's elections. His appointment will undeniably change the social profile the Vice-presidency of the Republic had during the last six years into an economic profile. In fact, the task conferred to Glas is to achieve the Citizen's revolution objective of changing the current economic model, which is based on an extraction primary economy and on an agricultural production without added value, and transform it into a diversified industrial model with added value.

How will he do that? It is not clear yet. The only thing known is that the bidding to begin the exploration of 13 new oil fields has been opened and that a process of negotiation regarding large-scale mining contracts is taking place, which will deepen even more the extraction model. However, according to the governments' plan, the four milestones will be:

- **Create new industries** (petrochemical, refinery, shipbuilding, metallurgy and steel).
- **Replace imports.**
- **Improve the exportable supply** by diversifying the manufacturing export products.
- **Strengthen public infrastructures** (roads, hydroelectric, power stations...).

However, the achievement of these goals will depend on the resources of the government and the response of the private sector. The resources issue is a key factor, because without liquidity it will be difficult for the government to finish the infrastructure projects that are planned. A few examples are the hydroelectric power station of Coca Codo Sinclair which requires a total investment of USD 2,205 million; the Pacific Refinery which needs USD 10,000 million but still does not have a funding source, despite that theoretically it should have been finished in 2013; an annual Plan for Roads regarding bridge

The government announced that in this new term it will encourage a change in the productive capacity thanks to the development of five industries in a first phase: petrochemical, refinery, shipbuilding, metallurgy and steel.



replacements that will require USD 3,986 million; among others.

In addition to this, the current expenditures of the government have greatly increased during the previous years, especially with regard to the payment of salaries for public servants. In 2013, the amount of this payment will increase to USD 5,129 million. Moreover, the Human Development Voucher increased this year to USD 50, meaning it went from USD 750 million of tax sacrifices in 2012, to USD 1,096 million this year. This measure is given to people living below the poverty line that earn a monthly income of less than USD 69.10.

The response of the private sector is also a key issue because the private industry is growing, which means it provides jobs and invests in order to develop local production. This is true if it has the trading, normative, tax, financial and legal conditions it needs. These conditions can only be obtained if “we work together and listen to each other”, according to

Pablo Dávila, head of the Chamber of Industry and Production, who stated this in a meeting with the government in the context of the elections. In that sense, the changes made by the government within this framework will have effects.

8. FISCAL RESOURCES

According to the four-year program (2013-2016) of the general state budget, in the next four years the government expects to have an income of USD 98,928 million, of which USD 18,051 million would be funded with debt, and the remaining USD 80,227 million would be funded with permanent income derived, in most cases, from taxes and oil exports. A large amount of this will be destined to pay the salaries of government officials (USD 36,448 million) and subsidies. The total value of subsidies is not detailed in the Pro-reform, but it will be high. For instance, fuel subsidies amounted to USD 272.4 million in January 2013, an amount that will represent more than USD 3,300 million in 12 months, but it might double due to the interruptions the Esmeraldas refinery will experience. This refinery is the largest in the country and began its last phase of retrofitting.

The government has accepted that the works or projects planned on the Annual Investment Plan will need to be funded with debt. According to the four-year program, loans ranging between USD 4,100 million and USD 4,900 million will be needed each year. These resources will come from

RESOURCES OF THE STATE*	2013	2014	2015	2016
TOTAL INCOME/FUNDING	23,716	24,341	25,065	25,806
Total amount of income	18,746	19,341	20,509	21,631
Total amount of funding	4,971	4,350	4,556	4,174
TOTAL EXPENDITURES, AMORTIZATIONS AND OTHERS	23,716	24,341	25,065	25,806
Total amount of expenditures	21,418	21,965	22,407	23,697
Amortizations	1,949	2,376	2,658	2,109
Other	349	0	0	0
ANNUAL INVESTMENT PLAN	4,750	4,525	4,300	4,425

*In million dollar

friendly countries such as China and from alternative multilateral bodies. The government has chosen this strategy instead of following a more traditional strategy and turning to the International Monetary Fund. According to the last report of the Ecuadorian Central Bank, Ecuador does not owe any debt to the IMF.

Data reveal that the external public debt is overall concentrated in alternative bodies such as the Inter-American Development Bank (USD 2,500 million) and the Andean Development Corporation (USD 2,528 million), whereas USD 3,867 million came from loans of friendly countries such as China.

However, pro forma data might change, because new measures will be approved as a result of the new government term. In that sense, significant variances in the financing requirement can be expected, because the budgetary implementations of the previous five years presented large differences between what was expected and the incomes earned.

It is worth stressing that during the previous five-year period

(2008-2012), tax revenues exceeded USD 108,986 million (see chart). Moreover, USD 8,000 million corresponds to loans. If we look at the official statistics, overall public debt (both external and internal) greatly increased during that period of time: it went from USD 13,734 million to USD 18,652.3 in December 2012. In January of this year, the overall public debt was USD 18,773.6 million.

Fiscal liquidity has not been a problem for the government, until now. Tax collection increased significantly, exceeding oil revenues. This was due to the 10 tax reforms made in the previous six years. Thanks to the reforms, six new taxes were created, such as the green tax which tax vehicles pollution. In addition to this, other tax changes were made, increasing and reducing the tax rate. Considering that the funding sources of the general state budget depend on taxes, oil and debt, it would be naive to think that there will be no changes in these areas.

9. LOOKING FOR MORE PETRODOLLARS

In the area of hydrocarbons, the government's intention is clear: maintain this source of income. This explains the invitation to the XI Oil Bidding Round, in which 16 blocks were put up for tender in order to begin the exploration. All of this, together with the development of large-scale mining, proves the government wants to make

REVENUES AND TAX EXPENDITURES DURING THE LAST HALF-DECADE

YEARS	INCOME EARNED*	EXPENDITURES
2008	18,488	16,986
2009	17,224	16,480
2010	19,964	19,126
2011	24,348	22,926
2012	28,962	27,417

*In million dollar

Source: Four-year budgeting plan 2013-2016

sure it obtains a large quantity of economic resources.

Regarding mining aspirations, there are three main projects. Firstly, the Mirador project that seeks to exploit around 11,000 million of pounds of copper. The contract for this project was signed in January 2012 with the Chinese company EcuCorriente. Secondly, the Fruta del Norte project aims to exploit the largest gold deposit in Ecuador, with gold reserves estimated at 6.8 million ounces of gold. The contract for this project is being negotiated with the Canadian firm Kinross. Thirdly, the Quimsacocha project is also related to gold deposits and the contract is being negotiated with the Canadian mining company IAMGOLD.

Despite the fact that large-scale mining contracts will bear fruit four or five years after the beginning of the operations (when the exportation of metals begins), the government has made sure it will obtain profits in the meantime thanks to the imposition of advance royalty fees to the mining companies. For instance, Mirador's contract establishes a payment of USD 100 million for the advance royalty fees. The first payment of USD 40 million was made in the beginning of 2013 and a payment of USD 30 million will be made once the company obtains all the permits from the Ministry of Environment. Finally, the last USD 30 million will be paid once both supply of power and interconnections become reality.

If the government does not conclude the mining and oil contracts, its economic aspirations

would be further complicated, and the situation could get even worse if international oil price drops. According to the experts, it is a possibility that could become reality if the recession in Europe continues or if it is exacerbated.

In this context, the only steady source of income for the government is taxes. However, the level of tax collection also depends on the financial situation of the private sector, which pays a higher amount of taxes only if it sells, invests or produces more. For instance, the level of tax collection regarding the Income Tax amounted to USD 3,391 million in the previous year whereas in 2011 the amount was USD 3,112 million.

10. MORE TAX CHANGES?

Despite the government apparently did not have to make reforms, it is possible that new tariff changes geared towards achieving the goal of imports replacement are made, as it is one of the priorities of the government for this new term.

However, tariff restrictions or protectionism measures such as the ones made by the government regarding the imposition of quotas for vehicles and cell phones imports, may be counterproductive, because the local industry cannot meet the demand. This has two consequences: an increase in smuggling and an increase in the prices of the goods with limited access to the country.



“Ecuador will probably remain a country closed to the outside world due to its discourse regarding the defense of the sovereignty, intellectual property and public procurement, among others”

This increase in the prices has already become evident in Ecuador. Vehicle prices rocketed and one of the causes of the rocketing was the increase of the Tax on the Remittance of Currencies: it went from 2 % to 5 %. The same thing happened with the value of smartphones.

The private sector criticizes that instead of promoting local industry, these measures have an impact on the most important economic activity in Ecuador which is commercial activity, according to the last economic census carried out in 2010. The census identified a total of 572,335 economic establishments in the country, of which 53 % stated that their activities are mainly commercial.

In this context and according to the experts, the protectionist measures can only have positive effects if they are complemented by the strengthening of the private sector.

11. GENERATING ADDED VALUE

In order to transform the extraction model and make Ecuador an industrial producer in various branches (chocolate, plastics, steel, petrochemical and biofuel, among others), the private sector must have a certain number of conditions. One of the most important is to have an open economy, meaning having commercial treaties that grant access to foreign markets.

However, the policy of this government has been to not sign

free trade agreements and instead, encouraging trade agreements for development which deal with issues other than trade in areas such as human rights, environment and technology transfer among others. In this context, Ecuador will probably remain a country closed to the outside world due to its discourse regarding the defense of the sovereignty, intellectual property and public procurement, among others. These items have been red lines that have led the government to not conclude agreements with the European Union unlike what other neighboring countries such as Peru and Colombia (main competitors of Ecuador) have done.

Another factor that helps the private sector to invest in other economic areas, provide more jobs and improve its production is the legal certainty, which contributes to create an adequate environment for the development of businesses. This refers, for instance, to the regulatory stability regarding investments and taxes. However, the government has played an essential role in this matter by putting pressure on the private sector, imposing more taxes and restricting some areas such as business freedom to invest in different business lines. In that sense, more changes could be expected, aimed at imposing the type of industry the government considers relevant for the development of the country. The objective here is not necessarily to suit the business interests of the private capital, but to suit the interests of the plan designed to change the production matrix.

“The diversification of the production matrix will be one of the most important challenges for the next four years”

Santiago León: former Coordinating Minister for Production, Employment and Competitiveness

Another key factor that encourages the private sector to invest is to have well defined rules. However, key issues for the business sector such as the use of water and land are not yet defined in some laws that depend on the National Assembly. In fact, the government has announced that the production matrix change plan includes 44 new laws or legal reforms, such as the Public Purchases Law. In this context, the private sector will probably interrupt the investments until it knows what to expect.

- **The opposition** must take advantage of its limited representation in the Parliament and create laws that reach people and, thanks to this, make sure it will still be represented after the 2014 elections. As a result, the opposition will ensure its permanence in the political arena of the country.
- **The economic plan** of the government will depend on the success of the mining contracts, on the XI Oil Bidding Round and on the increase in tax revenue.

12. CONCLUSIONS

- **February 17 elections fulfilled** almost all predictions made before the elections because, as it was expected, Rafael Correa won more than 50 % of the votes in a single round. The only surprise was that Alianza PAIS swept the polls in the legislative elections as no one expected that it would obtain an absolute majority.
- **The National Assembly faces a challenge:** to show its autonomy regarding inspection and legislation despite having a majority favorable to the government. Moreover, another great challenge is processing all laws brought upon by the Constitution in force since 2008.
- **Economic stability** will depend to a large extent on oil prices. They will have to remain between USD 80 and USD 100, as in the previous two years. However, regarding this issue, the European crisis plays a determinant role.
- **The diversification of the production matrix** will be one of the most important challenges for the next four years but it will depend on the response of the private sector regarding the adoption -or not- of the industrialization model planned by the government and the government measures aimed at encouraging the development of the private sector.



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CONSULTORES DE COMUNICACIÓN

Leading Communications Consultancy in Spain, Portugal and Latin America

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It currently has offices in **Argentina, Brazil, Colombia, Chile, Ecuador, Spain, Mexico, Panama, Peru, Portugal and the Dominican Republic**. It also offers its services through affiliates in the **United States, Bolivia, Paraguay, Uruguay and Venezuela**.

Its international development has meant that in 2014 LLORENTE & CUENCA is 55th in the Global ranking of **the most important communication companies in the world**, as reflected in the annual Ranking published by The Holmes Report.

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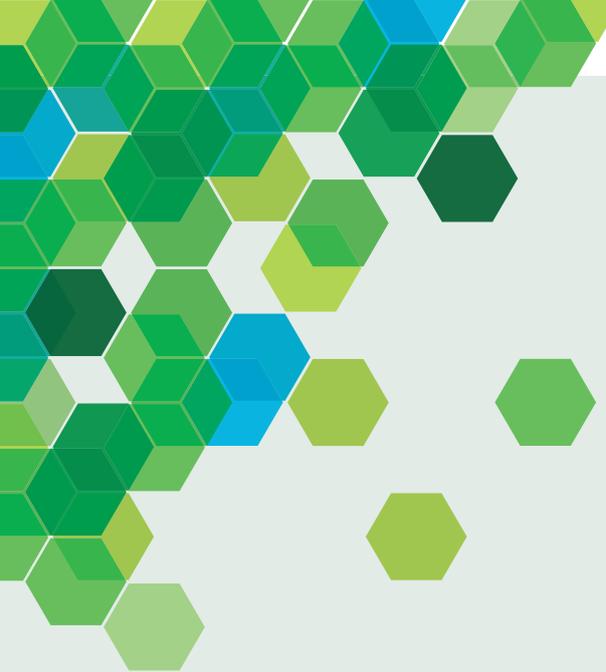
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