



ARTICLE

# Lassoing Ecuador Back In: A New Era for Ecuador

Ecuador is facing a new political landscape after the presidential inauguration of Guillermo Lasso on May 24, 2021. These elections marked an end to a 15-year government regime led by the *correismo* movement. The election of Lasso represents a new political and economic era for Ecuador, but the policy shift will not be as seismic as some may think thanks to the prior presidency of Lenin Moreno.

On May 24 Guillermo Lasso from the Creando Oportunidades (CREO) political party assumed the presidency of Ecuador. His election represents a new political and economic era for the country as it is the first time in 15 years that a right-wing conservative candidate

will hold the presidential office. Prior to Lasso's election, Rafael Correa from the socialist and populist party, Alianza País (AP), served as president of Ecuador for 10 years (2007-2017).<sup>1</sup>

In 2017, Correa endorsed his vice-president, Lenin Moreno, to run in the 2017 presidential elections. Moreno was elected to the presidency and it appeared that the *correismo* regime would continue to dominate Ecuadorean politics.<sup>2</sup>

Nevertheless, the policies implemented during Moreno's term in office differed markedly from those of Correa. Moreno changed the direction of policy by removing authoritarian and populist measures implemented by the previous administration. For example, and importantly for the economy, he issued a decree which eliminated subsidies on premium gasoline and diesel to improve the

<sup>1</sup> <https://www.bbc.com/mundo/noticias-america-latina-38980926>

<sup>2</sup> [https://elpais.com/internacional/2017/04/01/actualidad/1491081329\\_699004.html](https://elpais.com/internacional/2017/04/01/actualidad/1491081329_699004.html)

national debt.<sup>3</sup> Moreover, he commenced negotiations with the International Monetary Fund (IMF) and achieved external debt relief for Ecuador.<sup>4</sup> Moreno's government implemented steps towards recovering Ecuador's economy and employing pro-business policies. These policy and legislative changes show that, even though Lasso represents a political shift in Ecuador, Moreno's administration had already started to turn the *pink tide*. Overall, there appears to be a definite trend in Ecuador away from populist socialism towards a pro-business stance. Lasso's victory in 2021 reinforces the emergence of this mercantile friendly change.

Now, the question arises, what does Lasso's election mean for Ecuador's commercial future?

### Business Environment and Economic Opportunities

Lasso's election has provided optimism for the local and international business communities who now view Ecuador's government as a pro-business administration that is open to international trade and foreign direct investment. During his inauguration speech, Lasso stated that: *"Today, Ecuador opens its doors to world trade. To the Pacific Alliance. To free trade agreements with our greatest allies. We will insert ourselves fully into the world to seek free and fair trade."*<sup>5</sup>

In the early days of his administration, Lasso has sought to foster international trade with Ecuador's main trade allies by pursuing free trade agreements (FTA). In addition, Lasso has openly stated that he would not increase taxes and that he will pursue additional reforms that will make Ecuador more competitive for foreign investors. In December 2020, the United States and Ecuador signed a first-phase trade agreement; a step that makes clear that one of Lasso's priorities on international trade is implementing a fully executed FTA with the United States.<sup>6</sup>

Furthermore, Lasso stated that he wants Ecuador to join the regional trade bloc, the Pacific Alliance, which currently consists of Chile, Colombia, Mexico and Peru. This signifies that, in addition to improving trade and investment relations with the United States, Ecuador's new government is seeking to improve economic relations with like-minded countries in the Latin American region.<sup>7</sup>



Furthermore, Lasso has openly stated that he would not increase taxes and that he will pursue additional reforms that will make Ecuador more competitive for winning foreign investment. Lasso has proposed eliminating the Tax on the Exit of Foreign Currency (ISD), the possibility of the eliminating of the Value Added Tax (VAT) on four holidays per year, and eliminating the 2% tax on the income of micro-enterprises.<sup>8</sup>

### Political challenges

Even though Lasso's election should provide optimism for foreign business investment, and this is without a doubt a good news story in a COVID-19 ravaged region, the new president faces several potential challenges in implementing his economic proposals. First and foremost, Lasso's main political challenge involves gathering sufficient congressional support for his legislative agenda. The new congress in Ecuador, which was inaugurated on

<sup>3</sup> <https://www.elmundo.es/internacional/2019/10/09/5d9cd3a4fdddf97378b4570.html>

<sup>4</sup> <https://elpais.com/economia/2020-08-03/ecuador-logra-un-alivio-de-su-deuda-externa-de-1540-millones-de-dolares-y-cinco-anos-de-gracia.html>

<sup>5</sup> <https://www.semana.com/mundo/articulo/esto-dijo-guillermo-lasso-en-su-primer-discurso-como-presidente-de-ecuador/202134/>

<sup>6</sup> <https://www.primicias.ec/noticias/economia/acuerdos-marcan-agenda-comercio-lasso/>

<sup>7</sup> <https://www.eluniverso.com/noticias/politica/ingreso-ecuador-alianza-pacifico-requiere-suscripcion-acuerdo-comercial-mexico-nota/>

<sup>8</sup> <https://www.primicias.ec/noticias/politica/agenda-legislativa-lasso-cuatro-proyectos/>

May 14, is made up of 137 members and it is currently comprised of five main political blocs. The partisan bloc which holds the most sway is the *Correista* bloc which has 49 seats. The next bloc is led by the indigenous party, Pachakutik, which has 27 seats. Then follows the Izquierda Democratica party with 18 seats, the Partido Social Cristiano with 17 seats and lastly, CREO, Lasso's party, only has 12 seats in congress.<sup>9</sup>

Since Lasso's party represents a clear minority, the most obvious risk in Ecuador is that Lasso's pro-investment, pro-free trade and neoliberal economic policies may not pass into legislation as they simply will not receive the required support in congress. In order for Lasso's policies and associated legislation to be enacted over the next four years, Lasso will have to robustly negotiate and find a middle ground with the other diverse blocs in congress.

The second political challenge that Lasso faces is related to possible political protests and social unrest. Ecuador in October of 2019 faced widespread protests after former president Moreno signed off austerity measures that eliminated the gasoline and diesel subsidy. Following this move, taxi and bus drivers, student groups, and thousands of indigenous people, led by the Confederation of Indigenous Nationalities of Ecuador (*Confederación de Nacionalidades Indígenas del Ecuador*- CONAIE), staged days of protest. On October 3, the government declared a state of emergency and mobilized military forces.<sup>10</sup> The subsequent violence is still being formally investigated.

In addition, Ecuador's socio-political landscape may be affected by the ongoing protests that started in neighboring Colombia in May 2021. The protests were sparked by a tax reform presented by the government of President Ivan Duque to address underlying taxation system concerns and the economic malaise caused by the COVID-19 pandemic. The reform intended to raise the tax

burden to finance subsidies for the poorest families by lowering the income tax threshold and raising VAT. Nevertheless, this reform was met with angry opposition from both the Colombian congress and general population.<sup>11</sup>

In combination with potential reactions to the recent razor-thin Peruvian electoral result, there may be a regional domino effect whereby Colombia and Peruvian protests could influence and lead to eventual protests in Ecuador against the Lasso government. Even though the majority of the population in Ecuador elected Lasso, there is still widespread support for Correa and his left-wing agenda. Moreover, Lasso is being compared by some to Colombia's president Duque, as they are both right-wing leaders in the Andean region.<sup>12</sup> This comparison to the unpopular Duque is being used by the opposition to fuel dissent against Lasso. Considering Ecuador's history with political protests and social unrest, combined with the current situation in the region, one of the major political risks Ecuador faces is possible new protests throughout the country. At the same time, the fear of these protests emerging and destabilizing his government may dissuade Lasso from implementing the difficult austerity measures necessary to save Ecuador from its post-COVID indebtedness.

Ecuador was the first country in Latin America to experience a significant viral outbreak during the global COVID-19 pandemic.<sup>13</sup> According to the Ministry of Health in Ecuador, by June 8, 2021, Ecuador registered more than 432,000 cases of COVID-19 and more than 20,000 deaths. This ranks Ecuador as the country with the sixth highest number of cases in Latin America.<sup>14</sup> Beyond affecting the health of Ecuador's population, the pandemic has also affected the health of Ecuador's economy. The pandemic caused a recession that resulted in an increase in poverty

<sup>9</sup> <https://www.france24.com/es/minuto-a-minuto/20210514-nuevo-congreso-de-ecuador-se-instala-y-busca-definir-autoridades>

<sup>10</sup> <https://www.hrw.org/news/2020/04/06/ecuador-lessons-2019-protests>

<sup>11</sup> <https://www.lavanguardia.com/internacional/20210510/7442330/colombia-2021-chile-2019-protetas-cali-medellin.html>

<sup>12</sup> <https://www.semana.com/semana-tv/vicky-en-semana/articulo/escenario-de-ecuador-tras-la-victoria-de-guillermo-lasso-se-puede-comparar-con-la-carrera-presidencial-en-colombia/202109/>

<sup>13</sup> <https://www.forbes.com/sites/nathanielparishflannery/2020/09/21/political-risk-analysis-whats-ahead-for-ecuadors-economy-in-2021/?sh=465b4ad05445>

<sup>14</sup> <https://www.worldometers.info/coronavirus/>

indicators in Ecuador (from 7.6% to 12.8% during 2019 to 2020).<sup>15</sup>

In order to recover, Lasso has promised high (and likely unachievable) levels of vaccination in the first months of his presidency. Not only will the promised vaccines be hard to source internationally, but the logistics of dissemination and injection will be challenging in a nation as geographically and socio-economically heterogeneous as Ecuador. On top of this, Lasso must pass tax reform in Ecuador during his first period as president. However, to successfully achieve this tax reform and avoid what happened in Colombia, he will need the support from congress and the Ecuadorian population who have suffered during COVID-19 and will not likely be in the mood for austerity measures, especially when the populist Left is promising “bread and circus” alternatives

Overall, Lasso faces major challenges as he assumes the presidency of Ecuador. His policies and proposed legislative agenda promise a pro-business environment, yet his challenges are those of stark political pragmatism. Lasso will need to harness his famous negotiation skills to politically unify disparate stakeholders in order to gather congressional support. If successful, he will rejuvenate the country’s economy and bring Ecuador fully back into the international business fold. If he fails, he will open the door of political opportunity for the *Correistas* eagerly waiting on the sidelines for their next chance of power.



<sup>15</sup> <https://www.bbc.com/mundo/noticias-57165791>

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