

DOLLARIZATION OF ECUADOR: SOUND POLICY DICTATES U.S. ASSISTANCE TO THIS ECONOMIC GUINEA PIG OF LATIN AMERICA

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I.	INTRODUCTION	79
II.	DOLLARIZATION	81
III.	THE DOLLARIZATION PROCESS IN ECUADOR	84
IV.	ECONOMIC TRANSFORMATION LAW	91
V.	POLICY ARGUMENTS IN SUPPORT OF DOLLARIZATION IN ECUADOR	93
	A. <i>Potential Disadvantages of Dollarization for Ecuador</i> . . .	93
	1. <i>Seigniorage</i>	93
	2. <i>Central Bank as Lender of Last Resort</i>	94
	3. <i>Exchange Rate Flexibility and Economic Sovereignty</i>	95
	4. <i>Social Costs</i>	98
	5. <i>Ancillary Costs</i>	99
	B. <i>Advantages of Dollarization for Ecuador</i>	100
	C. <i>Effects of Ecuador's Dollarization for the United States</i> .	102
VI.	JUSTIFICATIONS FOR U.S. PARTICIPATION IN THE DOLLARIZATION OF ECUADOR	106
	A. <i>Dollarization Presents Advantages For Ecuador and the United States and Concords with the Concept of Free Trade</i>	106
	B. <i>The Existing Legal Mechanisms In Ecuador Are Insufficient</i>	108
	C. <i>Dollarization Would Help With the Euro-Dollar Rivalry</i> .	110
	D. <i>Ecuador is the "Economic Guinea Pig of Latin America"</i>	112
VII.	CONCLUSION	113

I. INTRODUCTION

It was not supposed to turn out this way[T]he
abandonment of the interventionist and populist state in

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Latin America more than a decade ago [was] supposed to usher in a period of unparalleled prosperity. The invisible and efficient hand of the market, now made more powerful through globalization, would succeed where the incompetent and often bloody hand of government had failed. But more than a decade after the annunciation of this 'end of history,' country after country among the new emerging-market economies has fallen into financial crisis¹

As evidenced by this quotation, despite high expectations, the majority of the economies in Latin America, including Ecuador's, have incurred significant problems in recent years. Solutions to overcoming this volatility have been diverse, each implemented with varying degrees of success. Ecuador, a country characterized by extreme political and economic instability, recently became the first Latin American country in nearly a century to introduce "dollarization." In addition to replacing the Ecuadorian national currency (the *sucre*) with the U.S. dollar, dollarization entails significant alterations to the political, social and economic structures existing in Ecuador. Due to this country's links with the United States, Ecuador's adoption of the dollar may generate serious repercussions in the United States, both positive and negative. As a result, the United States, perhaps more than any other country, is strictly scrutinizing this economic transformation process. According to high-ranking government officials, "[i]t is possible that there are more people in Washington concerned about dollarization of the economy than there are in Ecuador"² As with any polemic issue, opinions regarding the appropriate strategy to be utilized by the United States under the circumstances are diametrically opposed. Based on the information available on this topic, it appears that the only thing on which the experts agree is that they will continue to disagree: "[T]he debate has quickly become polarized: Both sides seem to accept that there can be no middle ground, no half-way arrangement"³

This article advocates limited U.S. participation in the dollarization of Ecuador and begins by briefly explaining the concept of dollarization in its many forms. Section two analyzes the dollarization process in Ecuador and provides a concise history of the general economic difficulties experienced in the country, as well as details of the tumultuous situation in recent years that served as an impetus to dollarization amid considerable controversy. Section three focuses on the *Ley Fundamental para la Transformación*

1. Ricardo Hausmann, *Should There Be Five Currencies or One Hundred and Five?* FOREIGN POL'Y, Fall 1999, at 65.

2. *Ecuador Hopes to Sign Two Billion IMF Standby Credit Next Week*, AFX NEWS LIMITED, Mar. 21, 2000, LEXIS, Nexis Library. This comment was made by Ecuador's Foreign Minister, Heinz Moeller. *See id.*

3. Hausmann, *supra* note 1, at 66.

Económica del Ecuador ("Economic Transformation Law"), the legislation recently promulgated by the Ecuadorian congress designed to facilitate the dollarization process in its entirety, including all relevant banking, financial, tax, commercial, contractual and labor regulations. Section four presents the policy arguments in support of dollarization from the perspective of both Ecuador and the United States. The fifth section suggests that assistance from the United States in the dollarization process is logical and, in effect, inevitable due to policy justifications and key instruments used to implement dollarization (the Economic Transformation Law and the Ecuadorian legal system). In other words, far from being merely another imperialistic intervention or hegemonic maneuver under the guise of international altruism, this article concludes that participation by the United States in the dollarization of Ecuador constitutes sound policy favorable to both nations.⁴

II. DOLLARIZATION

Until recently, the concept of dollarization has received minimal attention because, according to the traditional view, it was a "political impossibility."⁵ In recent years several factors have created an interest in dollarization, including: (1) in Europe, the introduction of the common currency (the *euro*) and the possibility of the entrance into the monetary union by the Eastern European countries; (2) in Latin America, Argentina's relatively successful experience with the use of the dollar and the currency-board type system implemented in 1991; and (3) worldwide, the repercussions generated by the financial crises in Mexico (1994-1995), East Asia (1997-1998), Russia (1998) and Brazil (1998-1999).⁶

In broad terms, dollarization can be divided into three main categories. First, unofficial dollarization occurs when residents of a country, in the

4. See FONTANA DICTIONARY OF MODERN THOUGHT (1999). The concept of "hegemony" is defined as "political and economic control by a dominant class, and its success in projecting its own way of seeing the world, human and social relationships as 'common sense' and part of the natural order by those who are, in fact, subordinated to it." See also AMERICAN HERITAGE COLLEGE DICTIONARY 629 (3rd ed. 1997). (defining the term "hegemony" as "[t]he predominant influence of one state over others.") Restricted U.S. assistance to Ecuador in implementing dollarization would not constitute a hegemonic maneuver for the following reasons: (1) While U.S. participation would benefit Ecuador, the principal motive for such action would be to safeguard U.S. domestic interests; (2) Ecuador unilaterally decided to dollarize, without any discussions or pressure from the United States; (3) Ecuador has explicitly solicited assistance both from the United States and international financial organizations; and (4) any renunciation of economic control by Ecuador was done voluntarily. Information on the topic of U.S. hegemony in Latin America abounds. See e.g. G. Pope Atkins, LATIN AMERICA IN THE INTERNATIONAL POLITICAL SYSTEM 40-41 (3d ed. 1995).

5. See generally STAFF OF JOINT ECON. COMM., REPORT ON BASICS OF DOLLARIZATION (prepared by Kurt Schuler) (Jan. 2000), available at <http://www.senate.gov-jec.basicshtml>.

6. See Zeljko Bogetic, *Official or "Full" Dollarization: Current Experiences and Issues* (June 9, 1999), available at <http://users.erols.com/kurrency/bogdlr.html>.

absence of formal government approval of the practice, retain a large share of financial wealth in assets denominated in foreign currency. This currency retention comes in a variety of forms such as: (1) foreign currency bonds or other noncash assets; (2) foreign currency cash; (3) foreign currency deposits in domestic banks; and (4) foreign currency deposits in foreign banks. Despite attempts by some governments to conceal such information, unofficial dollarization is significant in many developing countries. According to a study conducted by the International Monetary Fund (IMF), in 1995 over thirty percent of these countries registered "high" levels of dollarization.⁷ Such incidence of unofficial dollarization does not occur instantly; rather, it is the result of a three-step process.⁸ Unofficial dollarization is ordinarily a gradual progression that may be accelerated by an increase in economic instability of a nation as "the probability of devaluation rises . . . more citizens shun the national currency in favor of the historically more stable U.S. dollar."⁹

The second category is known as semi-official dollarization, which is another name for a bi-monetary system where two distinct currencies are legally recognized and circulate simultaneously. Presently, more than a dozen countries have adopted this financial structure.¹⁰ In these nations, the dollar is considered legal tender and may dominate bank deposits, yet remains subordinate to the domestic currency in terms of paying wages, taxes and everyday expenses. Like countries with unofficial dollarization, these nations retain their central banks and, therefore, are able to conduct their own monetary policy.

The third category, official dollarization, contemplates an absolute monetary union between at least two nations. In such cases, the imported foreign currency (*i.e.*, the dollar) is converted into full legal tender and the

7. STAFF OF JOINT ECON. COMM., REPORT ON BASICS OF DOLLARIZATION (prepared by Kurt Schuler) (Jan. 2000), available at <http://www.senate.gov-jec.basicshtm>. The Federal Reserve System estimates that foreigners hold between 55% and 70% (approximately 300 billion) of all dollars currently in circulation. *Id.*

8. *See id.* During the first stage, "asset substitution," residents hold foreign bonds and deposits abroad as stores of value to protect against losing wealth through inflation in domestic currency or outright confiscations. *See id.* "Currency substitution," the second stage, entails residents holding large amounts of foreign currency in domestic banks, if legally permitted. *Id.* During this period, while everyday expenses (wages, taxes, groceries, bills, etc.) are still paid in domestic currency, major items are handled in foreign currency. In the final stage, residents actually begin to think in terms of the foreign currency and local prices become indexed to the exchange rate. *See id.*

9. Atlanta Fed's Latin America Research Group, *Responding to Global Crises: Dollarization in Latin America*, 1 ECONSOUTH 2 (2nd Quarter 1999), available at http://www.frbatlanta.org/publica/econ_south/1999/q2/es_vln2_4.html.

10. *See* Bogetic, *supra* note 6. Among those nations with bi-monetary systems are the Bahamas, Bhutan, Bosnia, Cambodia, Haiti, Isle of Man, Lao, Lesotho, Liberia, Luxembourg, Namibia, and Tajikistan. *See id.*

former domestic currency, if any, is relegated to a subordinate role.¹¹ To date, approximately 30 nations comprised of nearly 10.5 million persons have adopted this economic structure.¹² The most famous of these is Panama, a country that formally sanctioned the use of the dollar in 1903 and has served as a prototype for many emerging nations.¹³ If a country is truly dollarized, in addition to replacing its domestic currency, its central bank is essentially abolished. Consequently, the nation's independent monetary policy is also eliminated.¹⁴ Notwithstanding this apparent loss of economic autonomy, according to experts, countries that adopt official dollarization and allow full participation by foreign financial institutions become tightly integrated into large financial markets.¹⁵ Moreover, those nations that are officially dollarized become part of a unified currency zone where prices of

11. See Economic Transformation Law, ch. 1, art. (2000), *Ley para la Transformación Económica del Ecuador*, published in the Official Registry Supplement No.24, Mar. 13, 2000. Due to the need to "specify the parameters and content of various provisions," shortly after its promulgation, this law was augmented by the *Ley Reformativa a la Ley para la Transformación Económica*, published in the Official Registry Supplement No.48, March 31, 2000. In this article, they are referred to collectively as the Economic Transformation Law.. In Ecuador, although the dollar will be used as the principal currency, the *sucre*s in coin form will continue to be acceptable for use in small purchases.

12. STAFF OF JOINT ECON. COMM., REPORT ON BASICS OF DOLLARIZATION (prepared by Kurt Schuler) (Jan. 2000), available at <http://www.senate.gov-jec.basics.html>. The nations which have Officially Dollarized include Andorra, Caicos Island, Cocos Islands, Cook Islands, Cyprus, Greenland, Guam, Kiribati, Liechtenstein, Marshall Islands, Micronesia, Monaco, Nauru, Niue, Norfolk Islands, Northern Mariana Islands, Palau, Panama, Pitcairn Island, Puerto Rico, Saint Helena, Samoa, San Marino, Tokelau, Turks Island, Tuvalu, Vatican City, and the Virgin Islands. See *id.*

13. STAFF OF JOINT ECON. COMM., ENCOURAGING OFFICIAL DOLLARIZATION IN EMERGING MARKETS (prepared by Kurt Schuler) (Apr. 2000), available at <http://www.senate.gov-jec.basics.html>. Since 1903, Panama has been officially dollarized, and no central bank or centralized foreign reserves exist. The national currency (the *balboa*) continues to circulate as coins. According to the author, as a result of dollarization, "[d]espite large inflows and outflows of capital, Panama has avoided the booms and busts that have resulted from such flows in other Latin American countries." *Id.* In addition, the inflation rate between 1971 and 1997 averaged just 3.5%, which is lower than the rate in the United States or in any other Latin American nation. *Id.*

14. See *id.* The concept of an "independent monetary policy" means that a country has a domestic central bank which, among other things, issues domestic currency. Some economic theories suggest that an independent monetary policy allows a country to control interest rates, money supply and exchange rates with the goal of avoiding drastic fluctuations. See also Jeff Frieden, *Currency Politics: Dollarization and Other Dilemmas*, DRCLAS NEWS (Fall 1999), at <http://fas-www.harvard.edu/~drclas/publications/newsletter/fall99/frieden.html>.

15. See STAFF OF JOINT ECON. COMM., REPORT ON BASICS OF DOLLARIZATION (prepared by Kurt Schuler) (Jan. 2000), available at <http://www.senate.gov-jec.basics.html>. In the opinion of Senator Connie Mack, former Chairman of the Senate Joint Economic Committee, "[t]he ability to switch dollar funds without currency risk between the domestic economy and the rest of the world tends to minimize the booms and busts that often arise in countries having independent monetary policies and financial systems not well-integrated into the world system." *Id.*

similar goods originating in either country are kept within a narrow range. Despite this relative price stability, the officially dollarized country loses the ability to respond to economic shocks by altering the exchange rate of its currency and is obligated to adopt alternative methods to mitigate unexpected financial changes, including: (1) fostering flows of capital into or out of the country to offset the shock; (2) reducing the government budget; and (3) increasing prices and lowering wages.¹⁶

Ecuador has been unofficially dollarized to a large extent for several decades, due to the historic economic instability of this nation and the resulting distrust of its citizens of the *sucre*. Recently, as a consequence of the extreme precariousness of this nation's economy, Ecuador has opted to become the first Latin American country in nearly a century to formally adopt the dollar. While the official dollarization of Ecuador may prove beneficial in the long term, introducing such a drastic change during this stage of political instability, legal inadequacy, and economic uncertainty necessitates assistance from outside sources, including the United States.

III. THE DOLLARIZATION PROCESS IN ECUADOR

Ecuador, a country located between Colombia and Peru with a population of approximately thirteen million, has experienced economic hardships in the last decade. From 1992 to 1996, the Sixto Duran Ballen administration managed to introduce a sound macroeconomic program that generated a balanced budget and low levels of inflation. This stability, however, was later sabotaged by several events, including a territorial dispute with Peru entailing military intervention, a corruption scandal involving the vice president, and extended periods of electricity rationing. As a result of such events, Ecuador experienced soaring interest rates and the failure of various financial institutions. Under the subsequent president, Abdala Bucaram (who served from August 1996 - February 1997), interest rates rose yet higher and foreign investment significantly decreased. Amid a major corruption scandal, Bucaram was removed from office on the basis of "mental incompetency" after serving less than one year. Like his predecessors, the interim president, Fabian Alarcon (who served from February 1997 - August 1998), was unable to overcome diminishing oil prices, destruction to crops and infrastructure caused by the El Niño tropical storms, and complications associated with privatizing several state-owned enterprises. His successor, Jamil Mahuad (who served from August 1998 - March 2000), proposed to, among other things, reduce the fiscal deficit, increase foreign investment, privatize government entities, and reconstruct

16. See *id.* Senator Connie Mack acknowledges that absorbing economic shocks without the traditional instrument of choice in Latin America (exchange-rate modifications) is difficult. See *id.* According to Mack, "[a] country experiencing 'real' economic shock ultimately has to adjust by experiencing 'real' pain or gain." *Id.*

the country's infrastructure.¹⁷ Despite these lofty campaign goals, Mahuad was neither able to stabilize the Ecuadorian economy nor to overcome the poverty that has plagued the country, and the region, for decades.¹⁸

In the last few years, Ecuador has experienced one of the worst social and economic crises in its history, a situation characterized by a heavily indebted economy, a rapidly devaluating currency, and an inflation level that has recently risen to nearly 90%—the highest in the region.¹⁹ In October, 1999, Ecuador gained the “dubious distinction” of becoming the first nation to default on its Brady Bonds.²⁰ Soon thereafter, despite negotiations with the IMF to obtain a \$250 million loan designed to stabilize the economy, the general public became increasingly anxious about the precarious state of Ecuador's economy and began ridding themselves of local currency as quickly as possible.²¹

17. See U.S. DEP'T OF ST., 1998 COUNTRY REP. ON ECON. POL'Y AND TRADE PRACTICES: ECUADOR (submitted on Jan. 31, 1999), available at http://state.gov/www/issues/economic/trade_reports/wha98.html.

18. See Hausmann, *supra* note 1, at 66. According to experts, notwithstanding the abundance of natural resources that many Latin American nations (including Ecuador) have, there are two primary explanations for the pervasive poverty throughout the region. The first theory, moral hazard, is defined as “the increase in recklessness that takes place when people are somehow protected against the consequences of risky behavior.” *Id.* For example, statistics show that persons with car insurance tend to take more risks (e.g., drive faster, park in questionable areas, etc.) than those without insurance. Likewise, the readiness of governments and international institutions to provide bailouts in times of financial crises make investors less vigilant about weighing all the risks involved. The second theory, original sin, is premised on the idea that Ecuador, like the majority of Latin American markets that are volatile and prone to crisis, have three characteristics: (1) good economic prospects; (2) a certain degree of oneness to international capital flows; and (3) a national currency that cannot be used by local firms or the government to borrow abroad and cannot be used, even at home, for long-term borrowing. See *id.* at 67. This is, in the words of experts, a “sin.” *Id.* In these conditions, the problem is as follows: “If the nation is economically promising and reasonably open, then people want to invest.” *Id.* “If, however, its currency cannot be used as described above, then investors must opt for borrowing foreign currency or borrowing short-term.” *Id.* “This scenario, it is argued, is a recipe for financial fragility.” *Id.*

19. *Ecuador Inflation on the Rise*, WASH. POST, Apr. 28, 2000, available at http://www.washingtonpost.com/wp-srv/aponline/20000428/aponline184445_000.html. In April of 2000, consumer prices rose 10.2%, thereby increasing Ecuador's annual inflation rate to 88.9%. *Id.*

20. Heather Bourbeau, *Ecuador Opts for the Dollar*, THESTREET.COM, Jan. 11, 2000, LEXIS, Nexis Library, TheStreet.com File.

21. *Mahuad Defaults on Brady Bonds*, NOTISUR, Oct. 1, 1999, at http://www.americas.org/news/nir/19991003_mahuad_defaults_on_brady_bonds.asp. When it failed to pay \$96 million of interest due on September 28, 1999, Ecuador became the first country to default on Brady bonds. *Id.* Nicholas Brady, who served in President George Bush's administration from 1989-1993, created these bonds backed by the U.S. Treasury to restructure the defaulted commercial bank debt of developing nations. See *id.*

Consequently, bank officials and President Mahuad met to address the "near panic that . . . hit Ecuador's currency market."²² Based on previous investigations and the conclusions reached at this political meeting, the President decided that dollarization, or a variation thereof, was the only feasible solution to stabilize the plummeting Ecuadorian economy.²³ In his words, "dollarizing [was] the only way out that we have and it is the road that we must travel."²⁴ Accordingly, on January 9, 2000, Mahuad formally announced his intention of dollarizing the economy. During a speech aimed at justifying his actions to the public, Mahuad recognized his previous indecision as an error, but assured the public that he "had his foot on the accelerator."²⁵

Despite this and similar presidential rhetoric, critics predicted the imminent removal of Mahuad from the presidency—an event they considered a condition precedent to economic recovery in the country. One expert expressed:

[w]ith no political consensus . . . a weak banking system and little popular support for the president, Mahuad's belief in his ability to overcome this downward spiral appears little more than a temporary delusion on his part. The sooner he exits the political stage, the sooner Ecuador can begin its soul-searching and recover.²⁶

In addition to negative comments, the dollarization decision generated strong reactions from diverse groups. For instance, indigenous protestors, trade unions and other social sectors threatened to protest until Mahuad

22. *Ecuador Currency Plunges, Trade Halted*, AGENCE FRANCE PRESSE, Mar. 3, 1999, LEXIS, Nexis Library, Agence France Presse File.

23. See Jane Bussey, *Latin American Finance Community Debates Adopting Dollar*, THE MIAMI HERALD, Mar. 19, 1999. At the annual meeting of the Inter-American Development Bank, representatives from Latin America discussed the newest idea for reviving the region's economies, i.e., "doing away with the weak local currencies and replacing them with the mighty greenback." According to a former World Bank official, policymakers from Latin America are attracted to the idea of dollarization because it would eliminate the "Achilles's heel" of the region's economies: "weak currencies that no one, including their own citizens, trust." *Id.* See also Gustavo Oviedo, *Ecuador Defends Switch to U.S. Dollar*, NAT'L POST, Jan. 11, 2000, at C15. To justify the president's decision, Ecuador's Finance Minister said "[t]his is an economic model which is much more autonomous than before. The other depended on help by the [International Monetary] Fund. But it is in the interest of the country to maintain good relations with international organizations." *Id.*

24. Monte Hayes, *Ecuador President Pegs Currency to U.S. Dollars*, AP WORLDSTREAM, Jan. 10, 2000, LEXIS, Nexis Library.

25. Bourbeau, *supra* note 20. According to critics, "Mahuad is speeding along . . . toward economic ruin, not recovery. While the adoption of the dollars could stem raging inflation, it is not a cure for the deep economic troubles." *Id.*

26. *Id.*

resigned; congress dissolved, and members of the supreme court were removed. These protestors felt that their actions were warranted, explaining that "[n]one of the powers of the state — the executive branch, congress and the judiciary — are trusted at this time by the people."²⁷ As a protective measure, the President declared a state-of-emergency and deployed troops to control the street demonstrations.²⁸ As an additional step, Mahuad gave a public discourse designed to placate the masses focusing on the difficulty of governing a nation lacking uniformity and of making decisions based on the interests of the entire country.²⁹

In order to legally implement dollarization, the key legislative instrument, the proposed Economic Transformation Law, was presented to the Banco Central del Ecuador ("Central Bank") for its review in February 2000. Under fierce pressure from the President, the text was approved at this level and submitted to Congress.³⁰ The promulgation of such legislation did not come without casualties, in fact, the Central Bank's three highest ranked officials resigned in protest of what they considered an irrational change of policy.³¹ While proponents labeled Mahuad's determination to

27. Kintto Lucas, *Ecuador: Mass Protests Over Dollarization Plan*, INTER PRESS SERVICE, Jan. 11, 2000, LEXIS, Nexis Library.

28. See Gustavo Oviedo, *Ecuador bajo protestas contra dolarización*, REUTERS, Jan. 12, 2000, LEXIS, Nexis Library. According to the government, more than 10,000 police officers were assigned to control the public demonstrations during the "state of emergency." *Id.*

29. See *President Mahuad Announces Dollarization, Cabinet Resignation*, BBC SUMMARY OF WORLD BROADCASTS, Jan. 11, 2000, LEXIS, Nexis Library. In a speech delivered shortly after the decision to dollarize, Mahuad emphasized the need for all Ecuadorians to unite and his duty to act on behalf of the nation as a whole. See *id.* In the words of former president Mahuad,

[i]t is terribly difficult to govern a country like this with so many divisions, with some many group interest involved. It is difficult to govern a country in which there is no unity, no national objectives. It is difficult to speak in Ecuador about Ecuador when so many people speak about their province, their region, their economic sector, the labor movement, yet they do not stop to see Ecuador's overall interests. I must ensure everyone's interest. I represent the national interests. I must end up deciding projects on such as theses which are the ones that benefit the economy as a whole. Of course, with every decision, there are sectors that gain and sectors that are adversely affected, but the idea is to benefit the majority and the future of Ecuador. These are historic, far-reaching decisions that are necessary.

Id.

30. See Larry Rohter, *Three Top Central Bankers Quit Over Dollarization*, N.Y. TIMES, Jan. 12, 2000, at C4. The Economic Transformation Law was passed only after Mahuad threatened to convoke a special session of congress to remove any Central Bank official who opposed the measure. See *id.*

31. See *id.* See also *Ecuador's Central Bank Officials Resign Over Dollarization*, AGENCE FRANCE PRESSE, Jan. 11, 2000, LEXIS, Nexis Library. In addition to the resignation of Central Bank officers, amid tremendous pressure on the president to stabilize the "nation's plummeting currency," all fifteen members of the presidential cabinet renounced their positions. Hayes, *supra* note 24.

dollarize "a bold move"³² and a "good gamble,"³³ those opposed to dollarization have called it "a desperate move to save his presidency," a "Hail Mary pass,"³⁴ a "last-ditch effort to stabilize South America's shakiest economy,"³⁵ and an "inadequate remedy of economic deterioration."³⁶

According to experts, time was of the essence after the announcement of the proposed Economic Transformation Law due to the drastic nature of dollarization. In the opinion of one analyst, "[t]his country has lived in permanent uncertainty . . . The dollar announcement had a very strong impact, but it is not going to last longer than two weeks. If the president does not make some dramatic announcement [soon] the confidence and expectations that were created will disappear."³⁷ True to this and other similar predictions, based in large part on his decision to dollarize and the ensuing uncertainty, Mahuad was removed from presidency vis-a-vis a military coup.³⁸ For a brief period of time, power was assumed by a three-man military junta. Due to pressures from the international community, however, the military leaders renounced their leadership and dissolved the military junta almost immediately.³⁹ As a replacement, Gustavo Noboa, the

32. *Ecuadorian President Faces Strong Protest*, XINHUA NEWS SERVICE, Jan. 15, 2000, LEXIS, Nexis Library.

33. Nathaniel Harrison, *Ousted Ecuadorian President Gambled and Lost on Dollarization*, AGENCE FRANCE PRESSE, Jan. 22, 2000, LEXIS, Nexis Library. According to Guillermo Calvo, director of the Center for International Economics at the University of Maryland, Mahuad's decision was nearly correct. *See id.* "It was a good gamble, but he made a mistake by over devaluing. The sucre was set at 25,000 to the dollar and that was excessive." *Id.*

34. Anthony DePalma, *The Yankee Dollar: Latin America Decides, If You Can't Beat 'Em, Join 'Em*, N.Y. TIMES, Jan. 23, 2000, at 4. From the perspective of Steve Hanke, economics professor at Johns Hopkins University, Mahuad's decision was made as a last resort. *See id.* The key to dollarizing, claims Hanke, is not simply adopting the dollar. *See id.* Rather, the elimination of the central banks is pivotal. *See id.* "The only way to extinguish the frequency and reduce the magnitude of recurring currency crises is to put these little half-baked central banks out of business," explained the professor. *Id.*

35. *State Sales Seen Sparking Ecuador Economy*, REUTERS, Apr. 13, 2000, LEXIS, Nexis Library. In the opinion of one opponent, "[t]he medicine is worse than the disease." *Id.*

36. Rohter, *supra* note 30.

37. Jane Bussey, *Ecuador Waiting For President's Plans on Switching to Dollars*, THE MIAMI HERALD, Jan. 15, 2000. This comment was made by Simon Pachano, a political analyst and professor at FLACSO, the Latin American School of Social Sciences. *See id.*

38. *See* Carlos Hamann, *Ecuadorian Congress Accepts Noboa as New President*, AGENCE FRANCE PRESSE, Jan. 22, 2000, LEXIS, Nexis Library. The congress ruled that Mahuad "abandoned" his office when, aware of the imminent danger, he sought asylum in the Chilean embassy. *Id.* Mahuad, on the other hand, argued that he was ousted by a military coup. *See id.*

39. *See* Tod Robberson, *VP at Helm In Ecuador After Coup - US Presses Military to Dissolve Junta*, DALLAS MORNING NEWS, Jan. 23, 2000, at A1, LEXIS, Nexis Library. Washington threatened to isolate Ecuador if the military leaders did not step down and dissolve the military junta. *See id.* "[T]he coup added an apparently unacceptable new element of instability to a region already teetering on the brink of a military crisis," maintains the author.

former vice president, assumed control of the country on January 22, 2000. In spite of his pledges to significantly alter the economic and political policy reigning in Ecuador, once he became president, Noboa continued to utilize the same economic policies (*i.e.*, dollarization) that instigated the military coup that placed him in power.⁴⁰ The new president and other authorities believed that the precariousness of the situation merited drastic actions such as adopting the foreign currency.⁴¹

Just as Mahuad had done, Noboa warned the public of the future hardships that dollarization would entail. According to the new leader, "[n]o sacrifice so far can be compared to the sacrifice that awaits us in the future."⁴² Not surprisingly, the dollarization initiative soon gave rise to the same public reaction. In the beginning of February, 2000, public demonstrations dominated the streets as the people demanded economic stability⁴³ and revenge for Noboa's alleged lack of forthrightness during his rise to power.⁴⁴ The situation was so extreme that some experts began to consider Ecuador a veritable anarchy.⁴⁵ In light of these major obstacles, the Ecuadorian leaders realized that outside help was desirable, if not outright necessary. According to Miguel Davila, president of Ecuador's Central Bank, the country desired assistance from the United States in terms of

Id. See also *President of Ecuadorian Congress Supports His Government's Economic Policy*, ORGANIZATION OF AMERICAN STATES (Apr. 12, 2000), at <http://www/oas.org/america/viva/press200/083.html>. The president of the national congress of Ecuador, Juan José Pons, suggested that the real cause of the failure of the coup was a lack of popular support, not external pressures. See *id.* The coup was unfruitful, according to Pons, "due to the institutional fortuity and the widespread rejection of its citizens." *Id.*

40. See William Neuman, *Ecuador Fears New Prez May Be Coup-Coup*, N.Y. POST, Jan. 24, 2000, at 16, LEXIS, Nexis Library.

41. See John Otis, *Fragile Ecuador Debates Swap of Sucre for U.S. Greenback*, THE HOUSTON CHRONICLE, Jan. 30, 2000, at A31, LEXIS, Nexis Library. As one expert explains, "[t]o understand how authorities here view the sucre, Ecuador's ailing currency, it helps to remember a local proverb: To cure rabies, kill the dog. Ecuadorian leaders want to put the sucre out of its misery." *Id.*

42. Santiago Piedra, *Gustavo Noboa Sworn In As Ecuadorian President*, AGENCE FRANCE PRESSE, Jan. 26, 2000, LEXIS, Nexis Library.

43. See *New Demonstrations Called in Ecuador*, XINHUA GENERAL NEWS SERVICE, Jan. 30, 2000, LEXIS, Nexis Library. "[W]hat is happening in Ecuador is the same mange on a different dog. The policy has not changed after Mahuad's downfall," said Luis Villacis, president of Patriotic Front, an opposition group. *Id.*

44. See Steven Dudley, *Secrets and Lies: After a Failed Uprising, Ecuador's Indigenous Groups Warn a Civil War Could Ensnare*, IN THESE TIMES, Mar. 6, 2000, at 6, LEXIS, Nexis Library. Indigenous protesters explained their resentment toward Noboa in the following manner: "They betrayed us . . . [a]nd in our culture, when someone betrays you, you cut off his head." *Id.*

45. See Tim McGirk, *Still on a Precipice: Ecuador's New President Has to Solve Some Nasty Problems, and Do It Fast*, TIME, Feb. 7, 2000, at 13, LEXIS, Nexis Library. Based on all the recent problems, experts begin to ask the question: "Is Ecuador ungovernable?" *Id.*

implementing dollarization, but it was prepared to proceed alone if necessary.⁴⁶

Amid allegations that it was, at least in part, one of the causes of the economic chaos in Ecuador, the IMF sent a group of experts to provide technical assistance in designing a plan to dollarize.⁴⁷ Later, on March 9, 2000, four international financial institutions - the IMF, World Bank, Inter-American Development Bank (IDB) and Corporación Andina de Fomento (CAF) --- announced that they planned to provide approximately \$2 billion in loans to Ecuador over the next three years to support the new dollarization plan.⁴⁸ These institutions warned Ecuadorian leaders though that such economic assistance alone is not enough to successfully implement dollarization. According to representatives, continued success presents "major challenges," including: (1) structural reforms to allow the economy to withstand external shocks; (2) strengthening of public finances to reduce pressures that will accompany new budgetary needs; and (3) improvements in bank supervision and regulation.⁴⁹ Cognizant of these challenges, Ecuadorian officials have announced their plans of austerity and economic

46. See *Ecuador Dollarization Advances*, CORPORATE FINANCE, Mar. 2000, at 49-50, LEXIS, Nexis Library. The bank official summarized Ecuador's determination in the following manner: "[I]f we are not granted permission, obviously dollarization must go forward." *Id.*

47. See *IMF Says Ready to Help Ecuador on Dollarization*, XINHUA NEWS SERVICE, Jan. 10, 2000, LEXIS, Nexis Library. By way of press release, the IMF announced that "[i]n light of the announcement yesterday by the government of Ecuador of its intention to move the economy to full dollarization, the IMF is prepared to send a fact-finding mission to Quito to provide technical assistance" *Id.* See also Samantha Newport, *Did the IMF Drop the Ball in Ecuador?*, BUSINESS WEEK, Jan. 24, 2000, at 20. In October 1999, the IMF did not intervene when Ecuador defaulted on \$5.9 billion in Brady bonds. *Id.* By its inaction, experts say that the IMF intended to send a clear message: "No more bailouts for private creditors who take risky bets on economic basket cases. By holding back, the IMF hoped to compel bondholders and the Ecuadorian government to hammer out a restructuring deal." *Id.* The irony is that due in part to this attitude, the author argues, the IMF was forced to intervene later. See *id.* See also Peter Hakim, *Ecuador's Desperation*, THE CHRISTIAN SCIENCE MONITOR, Jan. 27, 2000, at 11. The idea that the IMF was a partial catalyst for the economic catastrophe enjoyed support by others. See *id.* One expert stated, for instance,

[i]t was clear for some time that democratic politics in Ecuador were jeopardized by economic adversity. Yet, the [IMF], in exchange for financial support, set economic conditions that the weakened Mahuad government, facing an unruly legislature, could not meet. In a vicious circle, these continuing demands, coupled with lengthy and humiliating negotiations, further debilitated the government, making it less able to make critical economic decisions.

Id.

48. *Multilateral Lenders Prepared to Support Ecuador*, XINHUA GENERAL NEWS SERVICE, March 9, 2000, LEXIS, Nexis Library. See also Inter-American Development Bank, *IMF, World Bank, IDB and CAF Prepared to Support Ecuador*, Press Release NR-34/00, (Mar. 9, 2000), at <http://www.iadb.org/exr/PRENSA/2000/cp3400e.html>.

49. See Press Release No. 00/32, International Monetary Fund, *IMF Approves Stand-By Credit for Ecuador* (April 19, 2000), at <http://www.imf.org/external/np/sec/pr/2000/PR0032.htm>.

responsibility, which can be achieved only by eliminating the Central Bank's ability to create currency. In the words of Foreign Minister Heinz Moeller, Ecuador is prepared to be absolutely disciplined: "We are going to sink those damned money printing machines in the Pacific."⁵⁰

Despite continued opposition to the initiative, the government claims that dollarization is the only way to control inflation, reverse the economy's rapid decline, and restore confidence to the nation. This plan, opines one Ecuadorian expert, is tantamount to zealous dieting, since "[d]ollarization is like trying to lose weight by wiring your jaw shut."⁵¹ Notwithstanding implicit promises of rapid improvement made by various government officials, Ecuadorians now realize that dollarization is no quick fix, and their enthusiasm for the measure is waning. In fact, recent public opinion polls indicate that support for the measure has dropped to thirty-eight percent. In the words of one unidentified economist for international monetary institution, "people are realizing that this is not going to be a quick cure as some advocates of dollarization have promised."⁵²

IV. ECONOMIC TRANSFORMATION LAW

Promulgated March 13, 2000, the Economic Transformation Law constitutes the principal mechanism to be used in implementing

50. WORLD BANK, ECUADOR ANXIOUS FOR IMF CASH TO BACK DOLLARIZATION, in DEVELOPMENT NEWS (Mar. 22, 2000), at <http://www.wblm0018.worldbank.org/news/devnews.nsf/la3be.../9fo98e0a30le7908852568aa004ff61>.

51. Jane Bussey, *Ecuador Embraces U.S. Dollar As Its National Currency*, MIAMI HERALD, Mar. 10, 2000, LEXIS, Nexis Library.

52. Anthony Faiola, *Putting Faith in the Dollar; Ecuador Hopes Greenback Will Rescue Economy*, WASH. POST, Apr. 9, 2000, at A1. Experts claim that "[t]he idea was definitely oversold, and people in Ecuador are now realizing that." *Id.* The transition period is hard for Ecuadorians, the majority of whom have limited experience with international currencies. See Samantha Newport, *Dollar Spoken Here—Sort Of*, BUSINESS WEEK, Apr. 24, 2000, at 32. According to a recent poll, only 19% of the population had previously handled dollars and only 4% believed that they could recognize a counterfeit bill. *Id.* Although the Ecuadorian government expects dollarization to save the economy, experts warn that "it could end up triggering more waves of unrest." *Id.* As a condition to receiving aid from the international financial institutions, the government is phasing out government subsidies, which has led to a substantial increase in the costs of public transportation, home cooking fuel, gasoline, and other items. See *Ecuadorians Protest Dollar Economy*, WASH. POST, Apr. 26, 2000, available at http://www.washingtonpost.com/wp-srv/aponline/20000426/aponline200634_000.html. Angered by such increases, hundreds of demonstrators threw rocks at police and sequestered public buses. See *id.* Implementation of dollarization has proven to be "a formidable task in an economy where most people get their milk, bread, vegetable[s] and meat in street markets from poorly educated vendors." Carlos Cisternas, *Ecuador's Switch to Dollar Rolling*, WASH. POST, Apr. 26, 2000, available at http://www.washingtonpost.com/wp-srv/aponline/20000426/aponline124317_000.html. To mitigate the public anxiety, the government introduced a six-month public education campaign. See *id.* The success of such plan, though, is yet to manifest itself.

dollarization.⁵³ According to the Constitution of Ecuador, the government is obligated to establish an economic system that assures all citizens a dignified existence, as well as equal rights of access to employment, goods, and property.⁵⁴ To fulfill this constitutional mandate, the Economic Transformation Law recognizes the need for immediate change, stating that "it is indispensable to adopt radical measures that will permit us to overcome the economic crisis affecting the country."⁵⁵ One such radical step is the dollarization of the national economy, which has been labeled "the only scheme that [lends] itself to the necessities of the national economy."⁵⁶

With respect to financial reforms, Article 1 stipulates that the monetary regime, which is to be executed by the Central Bank, is premised on the theory of full circulation and transferability of foreign currency. This Article establishes, in addition, that the Central Bank will exchange the *sucres* presently in circulation at a fixed rate of 25,000 *sucres* for each U.S. dollar, thereby gradually removing virtually all *sucres* from circulation. Due to the fact that the complete elimination of the *sucre* would require a constitutional amendment, the Economic Transformation Law explicitly provides for the continual use of *sucres* for minor transactions, if desired. Specifically, Article 4 provides that while all financial operations conducted by or through the Ecuadorian financial system shall be expressed in dollars, such operations "may be executed in national currency or dollars in accordance with the exchange rate set forth in Article 1."⁵⁷ Notwithstanding the option to use *sucres* for minor purchases, the Economic Transformation Law aims to fully implement dollarization within six months. According to Article 18, the transition period during which the Central Bank will exchange *sucres* in circulation for dollars extends 180 days. This period, though, may be extended an additional 180 days, if necessary.

In addition to adopting the dollar within this time frame, the Economic Transformation Law mandates the privatization of several state-owned entities in various sectors, including: (1) oil - private companies are permitted to build and operate pipelines and the construction of a new oil

53. *Ley para la Transformación Económica del Ecuador*, published in the Official Registry Supplement No.24, Mar. 13, 2000. Due to the need to "specify the parameters and content of various provisions," shortly after its promulgation, this law was augmented by the *Ley Reformatoria a la Ley para la Transformación Económica*, published in the Official Registry Supplement No.48, March 31, 2000. In this article, they are referred to collectively as the Economic Transformation Law.

54. CONSTITUCIÓN POLÍTICA DEL REPÚBLICA DEL ECUADOR [Constitution] art. 242 (Ecuador).

55. Economic Transformation Law, Recitals (2000).

56. *Id.*

57. *Id.* art. 15. This provision stipulates that "[e]ach obligation in *sucres* that arises from the application of contracts, treaties or pacts —be these financial, commercial, labor or of any type— that are executed from January 1, 2000 shall be paid in dollars or in *sucres*, in the amount necessary to acquire the same quantity of dollars at a rate of 25,000 *sucres* per dollar." *Id.*

pipeline in the year 2000 is facilitated; (2) electricity - the privatization of six state electricity companies and eighteen electricity distribution companies is arranged; and (3) telecommunications - the privatization of two state-owned companies is established. As a result of such privatizations, the government expects to generate nearly \$300 million in net revenue.⁵⁸

As explained subsequently, the Economic Transformation Law facilitates dollarization but has been criticized for its deficiencies. Such legal shortcomings, in conjunction with other factors, lend support to the argument in favor of foreign participation in the dollarization process.

V. POLICY ARGUMENTS IN SUPPORT OF DOLLARIZATION IN ECUADOR

A. *Potential Disadvantages of Dollarization for Ecuador*

While this article advocates dollarization in Ecuador based on, *inter alia*, the benefits to be provided to this nation, effects to the contrary do exist. In the words of one expert, although dollarization "seems almost too good to be true . . . there are several hitches,"⁵⁹ which are addressed below. In the case of Ecuador, however, these "hitches" appear negligible.

1. *Seigniorage*

The concept of seigniorage may be defined as the revenue that a country derives from issuing its currency, i.e., the difference between the cost of putting money into circulation and the value of the goods such money will buy. For instance, in the United States, a one dollar bill costs approximately three cents to print, yet the government can only use it to buy one dollar's worth of goods. Thus, if the bill circulates indefinitely, the seigniorage is ninety-seven cents. In addition to this initial economic gain, when persons hold dollars, they create seigniorage for the U.S. government in the sense that the U.S. government is not obligated to pay interest to the holder as it would with a government bond or other interest-bearing instrument. Possessing dollar bills, therefore, is functionally equivalent to granting the U.S. government an interest-free loan.⁶⁰

58. Letter from Jorge Guzman, Minister of Finance and Public Credit, and Modesto Correa, President of the Board Central Bank of Ecuador to Stanley Fischer, Acting Managing Director International Monetary Fund (describing the intent of Ecuador's government) (Apr. 4, 2000), at http://www.bce.fin.ec/avisos/intent_fmi.html. [*hereinafter Government of Ecuador*].

59. Ricardo Hausmann, *Should There Be Five Currencies or One Hundred and Five?*, FOREIGN POL'Y, Fall 1999, at 76, LEXIS, Nexis Library.

60. See STAFF OF JOINT ECON. COMM., ENCOURAGING OFFICIAL DOLLARIZATION IN EMERGING MARKETS (prepared by Kurt Schuler) (Jan. 2000), available at <http://www.senate.gov-jec/dollarization.html>. The Federal Reserve Board estimates that foreigners now hold between fifty-five and seventy percent of the total dollars, thereby providing the U.S. government approximately \$15 billion per year in seigniorage. *Id.*

In the case of Ecuador, the cost of introducing dollars can be viewed in one of two ways. On one hand, the expense of initially obtaining the dollar notes and coins necessary to replace the *sucre* in circulation may be considered a one-time "stock cost." On the other hand, this expense could be characterized as a "flow cost," or a continual loss of seigniorage each year. Irrespective of its categorization, according to some experts, the seigniorage issue should not constitute a significant obstacle to dollarization in Ecuador for two main reasons. First, with a population of merely thirteen million people and a currency that is not accepted in most international transactions, the revenue that the Ecuadorian government may lose by not printing currency is minimal. As one economist puts it, "this is not a huge amount, and the benefits of adopting a supranational currency may well exceed the costs."⁶¹ Second, any loss of seigniorage incurred by Ecuador could be mitigated by a bilateral treaty with the United States, whereby Ecuador would receive rebates of up to eighty-five percent of the seigniorage. Though not currently in effect, treaties of this nature would be feasible under the International Monetary Stability Act of 1999.⁶²

2. *Central Bank as Lender of Last Resort*

Historically, in times of extreme financial pressures, the Central Bank in Ecuador and banks throughout Latin America have attempted to meet the liquidity demands of local banks and other institutions by providing loans predicated on the printing of additional currency. As explained previously, true dollarization entails the eradication of the Central Bank, which, in turn, eliminates the option to create new currency in times of need. It is arguable that abolishing the Central Bank as the lender-of-last-resort should not prove troublesome for Ecuador because the country may simply convert certain assets in order to accumulate the reserves necessary to accommodate dollarization. Also, Ecuador could arrange appropriate lines of credit with foreign banks. According to some experts, these lines of credit would be readily accessible by Ecuador. It is claimed that even if the United States attempted to restrict Ecuador's access to the Federal Reserve system, foreign banks would "line up" to furnish the needed funding, provided that they

61. Hausmann, *supra* note 59, at 76. Statistics indicate that seigniorage in most countries accounts for only five percent of the Gross Domestic Product. *Id.*

62. See STAFF OF JOINT ECON. COMM., REPORT ON BASICS OF DOLLARIZATION (prepared by Kurt Schuler) (January 2000), available at <http://www.senate.gov-jec.basicshtml>. The International Monetary Stability Act was introduced in November 1999 due to the fact that the seigniorage constituted both a political and economic impediment to dollarization. See *id.* Under this Act, the U.S. Secretary of the Treasury is allowed to certify officially dollarized countries as eligible to obtain rebates of up to eighty-five percent of the seigniorage. *Id.* To foster equity, the remaining fifteen percent would be distributed to countries that have already dollarized. *Id.*

could secure adequate collateral.⁶³ However, in its letter of intent recently submitted to the IMF, the government acknowledged that dollarization imposes a strict limitation on the Central Bank's ability to provide liquidity assistance to the banking system during this period of substantial vulnerability. To resolve this issue, the government has identified several potential sources of liquidity, namely: (1) the Central Bank's free disposable international reserves in excess of those needed to cover the monetary base and existing stabilization bonds; (2) the reallocation of public entities' financial assets held abroad to the central bank; (3) external borrowing; and (4) foreign exchange that could be raised in the local market by offering dollar-denominated bonds.⁶⁴

3. *Exchange Rate Flexibility and Economic Sovereignty*

In theory, countries benefit from having their own monetary policy because they can address local economic conditions, thereby preparing the economy for shocks (internal and external) and leveling long-term trends in economic growth and unemployment.⁶⁵ In the majority of Latin American countries, the key weapon in the monetary arsenal has been a flexible exchange rate between the national currency and the dollar, which functions to counteract fluctuations in the economies of distinct countries.⁶⁶ In spite of the untamed economic volatility in the region, some experts argue that "[d]ollarization is an extreme solution to market instability, applicable in only the most extreme cases. The opposite approach—a flexible exchange rate between the national currency and the dollar—is much more prudent for most developing countries, including those hardest hit by recent crises."⁶⁷

63. Ricardo Hausmann, et al., *Financial Turmoil and the Choice of Exchange Rate Regime*, INTER-AMERICAN DEVELOPMENT BANK, No. 400, 1999. The author maintains that dollarization, among other things, is likely to increase the assets that could be utilized as collateral. *See id.* For instance, in a dollarized system, Ecuadorian real estate could be used as collateral, although presently it is not used as such in international business transactions due to the exchange rate and convertibility risks. *See id.*

64. *See* Government of Ecuador, *supra* note 58.

65. *See* STAFF OF JOINT ECON. COMM., ISSUES REGARDING DOLLARIZATION (prepared by Robert Stein) (July 1999), available at <http://www.senate.gov/~jec/bankingdollar.html>.

66. *See* Jeffrey Sachs & Felipe Larrain, *Why Dollarization is More Straitjacket Than Salvation*, FOREIGN POLICY, Fall 1999, at 80. The use of a flexible exchange rate as a tool to protect the local economy from intense fluctuations is demonstrated in the following example. *See id.* An oil exporter faces declining prices that will lead to less demand for various domestic goods and services, an overall slowing of economy, and a rise in unemployment. *See id.* Under a flexible exchange rate system, the Ecuadorian government would allow the *sucre* to depreciate, thereby making exports less expensive for foreign buyers. *See id.* Accordingly, the resulting increase in demand for non-oil goods would compensate the loss of oil earnings and the shock would be absorbed. *See id.*

67. *Id.* at 80.

Notwithstanding such endorsements, many authorities adopt the opposite stance, pointing out that the flexible regimes have repeatedly failed throughout Latin America.⁶⁸ In particular, it is argued that recent experiences in the region indicate that the popularity of floating rates may constitute merely "another form of charming naivete" because such rates: (1) have failed to provide autonomy in the determination of interest rates; (2) have not facilitated more stabilizing monetary policies; and (3) have not increased the countries' ability to absorb shocks.⁶⁹ In the case of Ecuador, in an attempt to conserve its foreign reserves, the government in February, 1999, allowed the *sucre* to float, a maneuver that encountered significant difficulties. During the following year, the Ecuadorian currency lost more than seventy percent of its value against the dollar. Based on this performance, criticisms of the floating exchange policy were commonplace. One economist expressed it as "the *sucre* hasn't floated on a sea of tranquility."⁷⁰

Apart from the unsatisfactory results of the flexible policy, dollarization in Ecuador is advocated for two additional reasons. First, elimination of the flexibility in monetary policy may actually benefit Ecuador. While some economists argue that central banks are necessary to control inflation, lower interest rates in times of recession, finance government deficit spending, and temporarily support financially troubled institutions; others vehemently reject this argument. Case in point, one expert maintains that the central banks are actually the "Achilles' heel of these countries," historically obstructing true economic advancement.⁷¹ Such

68. See STAFF OF JOINT ECON. COMM., ISSUES REGARDING DOLLARIZATION (prepared by Robert Stein) (July 1999), available at <http://www.senate.gov-jec/bankingdollar.html>. In the opinion of one expert, "Many emerging market countries may still be better off without the supposed safety valve of an independent monetary policy . . . Rather than counteracting economic shocks, independent monetary policies have actually been pro-cyclical, exacerbating the ups and downs of the business cycle." *Id.* See also George Grayson, *Ecuador, the Dollar, and the Coup d'Etat*, JOURNAL OF COMMERCE, Jan. 26, 2000, at 9. Opponents of dollarization make three principal arguments. They are against: (1) "the symbolism of forsaking a traditional currency for Uncle Sam's legal tender"; (2) losing control of the monetary policy; and (3) forsaking seigniorage. *Id.* Nevertheless, the author says that dollarization may be necessary in Ecuador because "the erratic monetary policies pursued by local officials also give heartburn to astute observers." *Id.*

69. See Hausmann, *supra* note 59, at 72. The author claims that past experiences in Chile, Mexico, Peru and Venezuela demonstrate that in reality the exchange rate was not allowed to move adequately during pivotal economic moments. *Id.* Instead, he argues, they "react by raising interest rates, thereby dramatically worsening the domestic downturn." *Id.*

70. Steve H. Hanke, *The Beauty of a Parallel Currency*, WALL ST.J., Jan. 11, 2000, at A27. See also "Dolarización oficial en Ecuador," REVISTA JUDICIAL, Mar. 1-7, 2000. Local legal experts claim that dollarization is necessary because, *inter alia*, the performance of the Central Bank in terms of controlling monetary policy and adjusting exchange rates has historically been "poor." *Id.*

71. Dale Keiger, *The Way According to Hanke*, JOHN HOPKINS MAGAZINE 2, Sept. 1999,

ineptitude, it is argued, is so apparent that virtually all persons, irrespective of their particular knowledge of economics, realize that the central banks are detrimental.⁷² Other advocates of dollarization discredit the argument that such process is unfeasible in the larger economies of Latin America because of the need for swift adjustments. They argue that all of the states in the United States are dollarized, notwithstanding the distinct resources and disparate economic cycles of each.⁷³

Second, in spite of contrary arguments espoused by Latin American political leaders, adopting the dollar is not equivalent to a surrender of national sovereignty. Historically, a national currency has been a symbol of a country, thus eradicating it would be tantamount to renouncing a portion of national autonomy. This perspective, though, is suspect in the opinion of dollarization advocates. For example, one Ecuadorian proponent flatly denies the existence of a relationship between the two factors stating that "[t]he currency of a country has nothing to do with its sovereignty."⁷⁴ In support of this assertion, the expert lists a number of countries that already use a foreign currency, emphasizing that they are, in fact, still countries.⁷⁵ According to this expert, the essence of sovereignty is free-will of a country's citizens, not that of the government.⁷⁶ Likewise, another

available at <http://www.jhu.edu/~jhumag/0999web/hanke.html>. In the opinion of Steve Hanke, "the banks' record makes clear that they cannot be trusted to make prudent decisions, that they are susceptible to political pressures and poor judgment and tend to do more harm than good. Put them in a straitjacket... or abolish them altogether." *Id.* at 2.

72. *See id.* at 10. Hanke argues that people already know that the central banks are deficient and, thus, choose to dollarize unofficially. *See id.* at 10. Hanke points out, for instance, "[y]ou go to Mexico or Russia and you find that everybody is [sic] using greenbacks. They don't need some damned economist or pedagogue explaining the problem with central banks." *Id.*

73. *See* Steve Hanke, *Dollarize Now*, FORBES, May 3, 1999, at 208, available at LEXIS, Forbes File. Rejecting the argument that a nation's size is an impediment to dollarization, the author makes the following comparison: "There is less to this argument than meets the eye. All 50 states within the US are officially dollarized, and some have very large economies. Indeed, California's economy is larger than Brazil's, which accounts for almost 45% of Latin America's total economic activity. I have yet to hear calls to establish a Central Bank of California." *Id.*

74. José Luis Cordeiro, *La Segunda Muerte de Sucre . . . y el Renacer del Ecuador*, INSTITUTO ECUATORIANO DE ECONOMÍA POLÍTICA [IEEP] (1999).

75. *See* INSTITUTO ECUATORIANO DE ECONOMÍA POLÍTICA, *DOLARIZACIÓN OFICIAL EN ECUADOR*, (Jan. 12, 2000). The author explains that a Central Bank is not necessary for national sovereignty since, for instance, Ecuador was already a nation prior to the establishment of this institution. He contends, furthermore, that the importance of a national currency to project a national identity is overrated since Panama, a country that implemented dollarization nearly a century ago, still enjoys a strong national identity. *See id.*

76. *See* Cordeiro, *supra* note 74. The author claims that "[s]overeignty does not reside in the currency, rather in the well-being of the citizens. Accordingly, the only ones at risk of losing their 'sovereignty' with dollarization are 'the corrupt politicians that print inorganic money in order to pay their own salaries.'" *Id.* The remainder of the population, maintains this

Ecuadorian expert postulates that sovereignty, as properly defined, focuses on the autonomy of consumers in selecting the most advantageous currency instead of on the freedom of the government to set monetary policy. In this sense, dollarization actually increases monetary sovereignty for Ecuador. For others, the issue lacks major importance due to the global trend toward overall economic stability.⁷⁷ Therefore, despite the nationalistic ideals so profoundly inculcated in the region, some argue that now many countries are "coming to the conclusion that the cost of maintaining a national currency – no matter how satisfying to their emotions – has simply become too high to bear."⁷⁸

4. Social Costs

It has been argued that dollarization would have tremendous social costs because, when a government is deprived of its ability to use protective measures such as devaluating the local currency, the public in general, and the working class in particular, will be the repository of nearly all negative ramifications. According to one expert, "[a]dopting a common currency such as the US dollar or a newly minted one with the face of Columbus –or for that matter Ricky Martin– without ensuring the necessary changes in its institutional and economic structure, including the free movement of labor into the United States, may easily end up hindering . . . economic development."⁷⁹ On this same note, it is argued that, irrespective of

author, would be more sovereign upon having a better quality of life linked to the strongest currency in the world. *See id.*

77. *See* Hausmann, *supra* note 59. The author suggests that this issue is probably less important than it appears. *See id.* The last 20 years have been characterized by the increasing independence of monetary authorities and a narrowing of the objectives to focus almost entirely on the achievement of price stability. *See id.* at 77-78. In the end, the author reasons, "the monetary authorities' autonomy and accountability are much more important than their national origins." *Id.* at 78.

78. Jonathan Peterson, *Latin America Ponders Dollars As Currency of the Realm*, DETROIT NEWS, Apr. 3, 1999, available at <http://detnews.com/1999/biz/9904/03/04030073.htm>. The author suggests that throughout the region attitudes toward dollarization and the idea of sovereignty are rapidly changing. *See id.* Now, claims the author, Latin American opinion leaders are openly discussing that which earlier was considered unspeakable, i.e., "linking their economies, indeed their financial destinies, to the very symbol of Yankee capitalism, the dollar." *Id.* This author argues that, in essence, the global marketplace is already dollarized and the tension begins only when countries see national identity as being linked to sovereignty. *See* David J. Rothkopf, *In Ecuador and Elsewhere, It's Change For a Dollar*, WASH. POST, Jan. 30, 2000, at B2. Whether the countries allow their currencies to float freely in the market or peg them to an existing currency such as the dollar, the author claims that "they have to face a new reality of the global marketplace. Their local currencies are a kind of figment of their national imaginations that dissolves once you cross their borders. Any transaction outside the country must be made in another currency." *Id.*

79. Juan Carlos Moreno Brid, *Dollarization in Latin America: Is it Desirable?*, DRCLAS NEWS, Fall 1999, available at <http://fas-www.harvard.edu/~drclas/publications/>

implementation of the dollar, developing economies like Ecuador will inevitably experience external shocks that require macroeconomic adjustment programs. Due to the fact that the option to modify the exchange rate is abolished under dollarization, the shocks will most likely be absorbed by reducing domestic wages and raising prices. As a result of the "monopolistic competition and rigidity of labor laws in the region," such changes would generate political and social instability.⁸⁰ Under dollarization, then, it is argued that the burden of macroeconomic adjustments will disproportionately impact the working class and the underemployed.⁸¹

This concern notwithstanding, Ecuadorian dollarization will more likely lead to a more equitable distribution of benefits. In a country such as Ecuador with a weak national currency, the financially sophisticated are able to preserve and even expand their wealth during periods of high inflation. The poor and those less economically astute, in contrast, tend to suffer during these phases. Therefore, the long-term stabilizing effects of dollarization would facilitate a more equitable distribution of wealth in Ecuador, particularly during periods of high inflation. The Ecuadorian government, in conjunction with dollarization, has already taken measures to institute a more balanced distribution of the assets. In an official document to the IMF, the government announced that public expenditure would be focused on "the poorest segments of the population, protecting them from the worst effects of the adjustment process and improving their human capital and earning capacity over the medium term."⁸² The key elements to this plan include: (1) improving the distribution of the *bono solidario* (the government cash subsidy granted to the poorest 1.5 million Ecuadorians); (2) providing nutritional and medical support for young children and pregnant women; and (3) developing a fund to accelerate the social and economic development of the indigenous communities.

5. *Ancillary Costs*

Finally, apart from the potential disadvantages listed previously, dollarization involves two additional costs. First, Ecuador must bear the expense of making all prices, computer programs, cash registers, and vending machines compatible with the dollar. Second, both individuals and the government will bear legal and transaction costs associated with revising contracts or refinancing. Such conversion costs, though, are

somewhat mitigated since the amount may be amortized over a long period due to the virtual irreversibility of dollarization.⁸³

B. Advantages of Dollarization for Ecuador

Notwithstanding the potentially detrimental aspects of dollarization, this economic transformation will undoubtedly benefit Ecuador in numerous ways. First, adopting the dollar reduces the risk of a sporadic currency devaluation which makes the country more appealing to foreign investors. Experts argue that the credibility of Latin American currencies, especially the minor ones, is limited. This is evidenced by the fact that none of these countries has created long-term debt markets denominated in local currency. The result is that firms find themselves at a pivotal juncture with two options that are equally unappealing: (1) borrow in dollars and be exposed to exchange rate mismatches or (2) borrow in local currencies and risk maturity mismatches and liquidity crises.⁸⁴ A second benefit of dollarization is that it also allows Ecuador to decrease its reserves. The existence of a national currency, in effect, segregates payments in national currency from those made in other currencies. Coupled with financial integration, dollarization will diminish this segregation, thereby transforming the Ecuadorian financial system into part of the worldwide pool of dollar liquidity. Third, a reduction in inflation is a byproduct of dollarization. In comparison to advanced economies, inflation in Latin America has been one hundred times more volatile—this phenomena is largely attributable to unstable economic policies.⁸⁵ Upon dollarizing, this rampant inflation so notorious throughout the region and in Ecuador will be stabilized. Similarly, as a fourth benefit, dollarization will lead to a reduction in interest rates

83. See Catherine Mann, *Dollarization as Diet*, INST. FOR INT'L ECON., Apr. 22, 1999, available at <http://207.238.152.36/TESTIMONY/dolariz2.htm>. The author argues that dollarization should not be transformed into a fad diet, but a change of long-term lifestyle. See *id.* She explains, in particular, that "[p]olicy-initiated dollarization is like wiring your mouth shut to lose weight. It is effective in the short-run, but unless you undertake life-style changes (eating habits, exercise) you are not a healthier individual, just a thinner one. Moreover, once you have achieved your desired new weight, you'll want to take off the braces and eat something besides a liquid diet. Unwiring your mouth, de-dollarizing is very difficult since you can't be sure . . . that you won't go back to the old habits. Similarly, once dollarized by policy, changing the regime to regain monetary autonomy simply may not be possible—in order to get the benefits, even if over-rated, you have to forswear ever changing." *Id.* (emphasis added).

84. See Peter Bate, *Dollars for Everyone?*, IDBAMÉRICA, INTER-AMERICAN DEVELOPMENT BANK, Jan.-Feb. 2000, available at <http://www.iadb.org/extr/IDB/stories/2000/eng/cont.htm>. This records the comments of IDB chief economist, Ricardo Hausmann, during a seminar titled "New Initiatives to Tackle International Financial Turmoil." *Id.*

85. See Stein, *supra* note 65, at 2. From 1970 to 1998, consumer price inflation averaged as follows: Argentina (158%); Brazil (143%); Chile (51%); Mexico (34%); Peru (108%); and Venezuela (25%). *Id.*

since these usually contain a premium for anticipated inflation or devaluation. With these economic fluctuations eliminated or significantly decreased, the interest rate will also enjoy increased stability.⁸⁶ Fifth, as discussed in the previous section, dollarization will encourage a more equitable distribution of benefits in Ecuador. Sixth, as a member of a unified currency zone in which the sometimes onerous step of currency conversion is absent, Ecuador and American businesses alike will enjoy lower transaction costs. The seventh beneficial aspect is the increased transparency with which the Ecuadorian government and its financial institutions will function. As the first Latin American country to introduce dollarization in nearly a century, Ecuador is being closely scrutinized by experts on a global level. This degree of vigilance will undoubtedly improve the efficacy of the government, which has historically been criticized for its inefficiency and susceptibility to corruption.⁸⁷ Aware of this debility, in conjunction with the loans from the IMF, the government has announced a plan to improve the supervision of the banking industry.⁸⁸ Eighth, the stability generated by dollarization will continue to facilitate Ecuador's exports to the United States and other destinations. A significant percentage of Ecuador's revenue is derived from exports. For instance, petroleum sales constitute nearly ten percent of the country's entire Gross Domestic Product, and this nation is also one of the leading banana exporters in the world, selling \$1.3 billion worth of this fruit per year. With an economy so reliant

86. See C. Fred Bergsten, *Dollarization in Emerging-Market Economies and Its Policy Implications for the United States*, INST. FOR INT'L ECONOMICS, Apr. 22, 1999, available at <http://www.iie.com/TESTIMONY/dollariz.htm>. Dollarization offers three main benefits to Ecuador: (1) it provides greater credibility to a nation's commitment to eternally forgo the option to devalue; (2) it assures that the nation will import stable prices and lower interest rates from the United States; and (3) it lowers transaction costs, which, in turn, promotes further long-term integration with the United States economy. See *id.*

87. See INSTITUTO ECUATORIANO DE ECONOMÍA POLÍTICA, *supra* note 75. Ecuadorian academicians describe the situation in the following manner:

Ecuador is rich in resources but poor in financial institutions that function well. Dollarization will end the economic problems and create a permanent structure to focus and resolve other problems in a rational manner. The current monetary policy wastes Ecuador's potential, scaring off production and financial supervision. Ecuador has no reason to continue facing its current problems. Dollarization is a first step of crucial importance to resolve them.

Id.

88. See Government of Ecuador, *supra* note 58, at 1. The government also claims that the Superintendency of Banks will improve its supervision and enforcement of banking regulations, with penalties being imposed on a "systematic and nondiscretionary basis." *Id.* at 9. Strengthening bank supervision will include: (1) identifying 'at risk' banks for intensive monitoring; (2) reorganizing the structure to improve regional and departmental coordination; (3) instituting a training program for supervisory staff; (4) executing bilateral agreements with relevant foreign supervisors to share information; and (5) testing and adapting the provisions of the Economic Transformation Law to the existing manuals used during inspections. See *id.* at 9-10.

on sales to external markets, the stability associated with dollarization seems fundamental to continued success, particularly in terms of trade with the United States.⁸⁹ Finally, dollarization is advantageous for Ecuador because it recognizes the free-will of the public, allowing it to utilize its currency of choice.⁹⁰

C. *Effects of Ecuador's Dollarization for the United States*

Due to the expanded use of the dollar abroad, dollarization in Ecuador will undoubtedly have repercussions for the United States, positive and negative alike. In terms of potential adverse consequences, some experts have described dollarization as a "mixed blessing" for the United States for two main reasons.⁹¹ First, some argue that officially condoning Ecuador's use of the dollar will make it more difficult for the Federal Reserve to conduct monetary policy favorable to U.S. national interests. These analysts argue, in particular, that with dollarization "the Federal Reserve Board, in effect, becomes responsible not only for the U.S. economy but the economies and monetary policies of dollarized nations, with all the political risks that entails."⁹² This assertion has been rejected by other experts who, in contrast, maintain that the mandate of the Federal Reserve always has been and will continue to be domestic, irrespective of dollarization in Ecuador.⁹³

89. See U.S. DEP'T OF STATE, COUNTRY COMMERCIAL GUIDES: ECUADOR (1999), available at http://www.state.gov/www/about_state/business/com_guides/1999/wha/ecuador99_01.html. The United States is Ecuador's largest trading partner, purchasing approximately thirty-nine percent of its total exports. *Id.*

90. See Stein, *supra* note 65 (citing Mario I. Blejer and Marko Skreb, BALANCE OF PAYMENTS, EXCHANGE RATES AND COMPETITIVENESS IN TRANSITION ECONOMICS (1999); and Kurt Schuler, SHOULD DEVELOPING COUNTRIES HAVE CENTRAL BANKS? MONETARY SYSTEMS AND CURRENCY QUALITY IN 155 COUNTRIES (1996)). An "optimum currency area" may be defined as "a region in which it is economically preferable to have a single official currency rather than multiple official currencies." *Id.* The criteria to form an optimum currency area with the United States include: (1) the extent to which country may be similarly affected by the economic shocks that hit the United States; (2) the general closeness with which the business cycle is synchronized with the United States; (3) the reduction in inflation the country would enjoy by getting monetary policy set by the Federal Reserve; (4) its oneness to trade and the amount of trade with the United States; (5) the diversification of its economy; and (6) the efficiency gains from eliminating exchange-rate risks. *See id.* Just because a country does not meet enough of these factors, though, does not mean it cannot be part of optimum currency area. *See id.* In fact, one theory dictates that the determination should not be made on abstract economic theory; rather, the behavior of the people should govern. *See id.* "[I]f people in a country show a preference for holding dollars rather than another currency, then that country is part of an optimum currency area with the United States." *Id.*

91. Dale McFeatters, *The Almighty U.S.-Ecuadorian Dollar*, SCRIPPS HOWARD NEWS SERVICE, Jan. 19, 2000.

92. *Id.*

93. See *Responding to Global Crises: Dollarization in Latin America*, 1 ECONSOUTH 2

In order to clarify the intentions of the United States in spite of dollarization, some suggest that an explicit disclaimer could prevent subsequent recriminations from Ecuador. Accordingly, Alan Greenspan, chairman of the Federal Reserve, recently warned candidates for dollarization that they should do so at their own risk: "We would never put ourselves in a position where we envisioned actions that we would take would be of assistance to the rest of the world but to the detriment of the United States."⁹⁴ This statement was accurately interpreted by the Latin American countries to mean that (1) the U.S. government is unwilling to extend the safety net of the Federal Reserve system to dollarized countries that incur economic trouble and (2) the Fed will not determine monetary policy to account for the cyclical differences between the United States and Latin America.⁹⁵

The second main reason for labeling dollarization a "mixed blessing" for the United States is, despite the express disclaimers of liability issued by Greenspan, the process may still tarnish the U.S. image abroad. Specifically, experts speculate that, while dollarization would undoubtedly strengthen economic and other ties, there exists the risk that in difficult times the loss of monetary sovereignty will fuel resentment and encourage policymakers to attribute problems to the United States.⁹⁶ In view of the

(1999), available at http://www.frbatlanta.org/publica/econ_south/1999/q2/index.html. Jack Guynn, president and CEO of the Federal Reserve Bank of Atlanta, discussing the role of the Federal Open Market Committee (FOMC), the policy-making section of the Federal Reserve explained that "[t]he mandate of the FOMC is chiefly domestic. We're charged with delivering the best economic conditions we can as defined by, among other things, the inflation rate, the GDP growth, the unemployment rate and the safety and soundness of the banking system in the United States." *Id.* Mr. Guynn did acknowledge, though, that even such domestic-based decisions inevitably produce ramifications on a global level. *See id.*

But the policy environment in which we attempt to achieve this mandate is global. No economic condition in any part of the world can be considered exogenous. And any action intended to produce a strictly domestic result is almost instantly transmitted around the globe and may or may not be countervailed by a concomitant charge in international economic conditions.

Id. *See also* Steven Beckner, Greenspan: Dollarization Unlikely to Create Problems for Fed, MARKET NEWS INT'L, Apr. 22, 2000, available at http://www.economeister.com/news/1999_04/22/141800mo.htm. Greenspan clarified that the Fed would not alter its policy to benefit dollarized countries. *See id.* Although U.S. monetary policy has historically taken into account the situation in the rest of the world, explained Greenspan, the Fed would "not focus on the wellbeing of the world as a whole versus the wellbeing of the United States." *Id.* Greenspan announced, moreover, that external pressures subsequent to dollarization would have minimal impact on U.S. policy, thereby making the issue essentially moot: "As a practical matter, I really don't think that's a big issue." *Id.*

94. Larry Rohter, *Using the Dollar to Hold the Line: U.S. Currency Becomes Ecuador's*, N.Y. TIMES, Jan. 18, 2000, at C1, available at LEXIS, New York Times File.

95. *See id.*

96. *See* U.S. DEP'T OF TREASURY, COMMENTS BEFORE SENATE BANKING COMM.-SUBCOMM. ON ECON. POL'Y AND SUBCOMM. ON INT'L TRADE & FIN. (Apr. 22, 1999).

region's history of political and economic instability, the Clinton administration has acknowledged its concern that the relationship would become too close. According to U.S. Treasury Secretary, Lawrence H. Summers, "given the political dynamics that play out in those societies at times of economic frustration [resentment] could be vented at us."⁹⁷ Notwithstanding these arguments, high-ranking U.S. officials contend that the dollarization of Ecuador will not have a significant effect on the U.S. economy.⁹⁸ Moreover, other experts argue that, even if dollarization forces the United States to adjust its political and monetary policy based on conditions reigning in other countries, such a practice would not constitute a novelty.⁹⁹

In terms of positive aspects of Ecuador's dollarization for the United States, attention focuses on two areas. First, dollarization would fortify the U.S.-Ecuador trade relationship, thereby increasing the amount of U.S. products sold in this Latin American nation. Currently, consumer demand in Ecuador for U.S. products is quite high. Official government studies reveal that "Ecuador's 12 million inhabitants . . . like American products and often prefer them to national and European brands, making the United States Ecuador's leading supplier."¹⁰⁰ Based on this popularity, in 1997 the United States exported approximately \$1.5 billion worth of goods and services to Ecuador, which constituted 30.6% of Ecuador's total imports.¹⁰¹ Statistics aside, official sources indicate that exporting to Ecuador is lucrative for those U.S. companies involved. In fact, according to a recent assessment by the U.S. Department of State, "[m]any U.S. firms find that

97. Rohter, *supra* note 94.

98. See generally Steven K. Beckner, *Greenspan: Dollarization Unlikely to Create Problems for Fed*, MARKET NEWS INT'L, available at http://www.economeister.com/news/1999_04/22/141800mo.htm. According to Greenspan,

[t]here is already a very large amount of U.S. currency in circulation outside the borders of the United States. We've been able to adjust our monetary policy to recognize that, and there have been no particular problems that have occurred as a consequence of that. So in a technical sense, there should be no particular problems if additional countries were to dollarize as far as our mechanical abilities to implement the appropriate monetary policy in the United States is concerned.

Id.

99. See generally Ricardo Hausmann, et al., *Financial Turmoil and the Choice of Exchange Rate Regime*, INTER-AMERICAN DEVELOPMENT BANK 1, 20 (1999). According to the author, the Fed will want to maintain total independence due to its fear that markets will presume that it will consider the economic conditions of Latin America when setting policy. See *id.* This fear, suggests the author, is a reality in today's world. See *id.* "Was it not the economic conditions of emerging markets and their impact on the U.S. financial system that prompted the interest rate cuts of October and November 1998?" *Id.*

100. U.S. DEP'T STATE, COUNTRY COMMERCIAL GUIDES: ECUADOR (1999), available at http://www.state.gov/www/about_state/business/com_guides/1999/wha/ecuador99_01.html.

101. *Id.*

selling into the Ecuadorian market is profitable, with fewer competitors, a general preference for U.S. brands, and many niche markets."¹⁰² This profitability, argues the report, is likely to increase in the near future.¹⁰³ This positive historical performance notwithstanding, analysts predict that dollarization would allow U.S. exports to surpass former achievements, both in terms of quantity and profitability, for several reasons. The Ecuadorian markets for U.S. goods would become less volatile because, upon dollarization, Ecuador would be unable to make "competitive devaluations" designed to impede U.S. exports. This inability to devalue would, in addition, foster a more harmonious U.S.-Ecuador trade relationship by reducing incidents of alleged "dumping," which tends to arise when there are large unexpected devaluations that suddenly make the goods considerably less expensive. In short, dumping allegations are not derived from technological advantage; rather, they are a byproduct of "capricious exchange rate policies."¹⁰⁴ Moreover, by encouraging dollarization, experts argue that "the U.S. has an opportunity to share with other countries a key factor responsible for our own economic success . . . price stability."¹⁰⁵ Finally, the lack of inflation afforded by dollarization would generate greater levels of consumption.¹⁰⁶

In addition to improving exports to Ecuador, dollarization would also benefit U.S. investments already present in the country. Currently, U.S. companies have significant investments in selected industries, including \$730 million in petroleum, \$193 million in manufacturing, \$67 million in wholesale trade, \$1 million in banking, \$23 million in insurance and real estate, and \$3 million in services.¹⁰⁷ The stabilizing effect of dollarization and its ability to stimulate economic growth would, therefore, serve to protect U.S. investments in Ecuador, current and future alike.

102. *Id.*

103. *See id.* "As a major importer with a limited, but growing, manufacturing base, Ecuador will continue to seek suppliers of consumer, agricultural and industrial products and services." *Id.*

104. STAFF OF JOINT ECON. COMM., 106TH CONG., REPORT ON BASICS OF DOLLARIZATION (prepared by Kurt Schuler), available at <http://www.senate.gov-jec.basics.htm>.

105. Connie Mack, *A Fist Full of Dollarization*, INVESTOR'S BUSINESS DAILY, May 12, 1999, at 4, available at LEXIS, Investor's Business Daily File.

106. *See generally Responding to Global Crises: Dollarization in Latin America*, 1 FED. RESERVE ECONOSOUTH BANK OF ATLANTA, at 4. (1999), available at http://www.frbatlanta.org/publica/exon_south/1999/q2/indiv.html. The author explains that dollarization should "lead to faster rates of economic growth . . . ;[t]he stronger consumption and increased sales this growth would spark could improve the performance of U.S. businesses that export to the dollarized markets." *Id.*

107. *See generally* U.S. DEP'T OF STATE, 1998 COUNTRY REPORT ON ECON. POL'Y & TRADE PRACTICES: ECUADOR (Jan. 31, 1999), available at http://www.state.gov/www/issues/economic/trade_reports/wha98/ecuador98.html. Overall, U.S. investments in Ecuador are approximately \$1175 billion. *Id.*

VI. JUSTIFICATIONS FOR US PARTICIPATION IN THE DOLLARIZATION OF ECUADOR

Due to the fact that Ecuador, even within Latin America, has never been regarded as an economic leader, politicians and analysts worldwide are closely scrutinizing this nation's dollarization effort. In terms of U.S. interests, sources claim that "both the Clinton administration and its trading partners from Canada to Chile will be watching the experiment here intently—and with a healthy dose of skepticism."¹⁰⁸ Notwithstanding this overt curiosity, U.S. participation to date has been labeled "agnostic," an ambivalence caused in part by the Clinton administration's concern about the mechanics of the process and the potential added burden.¹⁰⁹ In light of the circumstances, this lethargy is an erroneous strategy that should be replaced by active involvement by the United States, to the extent solicited and necessary, in the dollarization of Ecuador. As suggested previously, though, this participation should not be categorized as simply another example of hegemonic tendencies.¹¹⁰ Rather, U.S. involvement seems inherently logically based on the following arguments.

A. *Dollarization Presents Advantages For Ecuador and the United States and Concords with the Concept of Free Trade*

First, as amply demonstrated above, notwithstanding the arguments to the contrary, dollarization produces numerous benefits for both Ecuador and the United States. Second, the concept of dollarization concords with the U.S. policy of hemispheric integration so adamantly promoted by this nation during the last decade. Pursuant to the original timetable, by 2005 the Free Trade Area of the Americas (FTAA) should stretch from Alaska to the Tierra del Fuego, thereby facilitating free trade between thirty-four countries located in the Western Hemisphere, comprised of over 755 million people. In addition to the FTAA, the United States has spearheaded or openly

108. Rohter, *supra* note 94. See also David J. Rothkopf, *In Ecuador and Elsewhere, It's Change For a Dollar*, WASH. POST, Jan. 30, 2000, at B2, available at LEXIS, Washington Post File. The author contends that Ecuador's decision to dollarize was premature. See *id.* "Under the circumstances, dollarization is something of an act of desperation. It is like buying smaller clothes before you've begun to diet. At best, it's constraining [and] at worst, it's an invitation for disaster." *Id.*

109. Rohter, *supra* note 94. See also *EEUU apoya la dolarización en Ecuador*, EL DÍA, Jan. 12, 2000. In her capacity as the U.S. Ambassador to Ecuador, Gwen Clare expressed U.S. approval of dollarization in general, but she emphasized the need to pass the laws and regulations necessary to properly carry out the process. See *id.*

110. See generally Rothkopf, *supra* note 108. Some authors, explicitly or implicitly, have provided hegemonic rationales for dollarizing Ecuador. The writer of this article, for instance, states that upon dollarization the United States "can withhold cooperation from countries that adopt political or social policies with which we don't agree." *Id.*

condoned numerous multilateral trade initiatives, such as the North American Free Trade Agreement (NAFTA).¹¹¹ On the basis of this integration theory, there are compelling reasons to consider dollarization. In fact, according to one economist, in addition to facilitating the dollarization of Ecuador, the United States should begin to encourage dollarization throughout the entire region, using Mexico as a natural point of entry.¹¹²

It is argued, furthermore, that in light of the current conditions, the United States is effectively obligated to take a stance in order to preserve its position as a global forerunner. One expert suggests, in particular, that a "neutral position has strong negative implications for the U.S. with regard to global economic leadership."¹¹³ This expert maintains that, parting from the premise that a stable monetary order is the foundation for a hemispheric free trade agreement, the United States finds itself in a quandary: how to propagate dollarization without creating the erroneous impression of imperialism.¹¹⁴ To demonstrate that U.S. interest in dollarization should be increased for reasons other than self-interest, the author argues that chaos in the international monetary system is the nemesis of a "global marketplace dedicated to free trade."¹¹⁵ As drastic exchange rate changes provoke accusations of dumping and unfair competition, governments tend to utilize protectionist measures that prejudice international trade and investment relations. Thus, as stated earlier, although the United States did not

111. North American Free Trade Agreement (NAFTA), Dec. 17, 1992, United States, Mexico, Canada, 32 I.L.M. 605 (1993), available at <http://www.tech.mit.edu/Bulletins/nafta.html>. The amount of information on U.S. trade policy is overwhelming. See, e.g. Karen Roberts & Mark Wilson, POLICY CHOICES: FREE TRADE AMONG NAFTA NATIONS (1995); See also Richard Fisher, *The FTAA: A Commitment to Fair and Open Trade*, USIA ECONOMIC PERSPECTIVES, Mar. 1998, available at <http://www.usia.gov/usis.html>. (explaining the impact of various trade agreements on open markets).

112. See generally Judy Shelton, *Dollarization as Destiny?*, Feb. 18, 1999, available at <http://www.intellectualcapital.com/issues/issue170/item891.asp>. The author explains that Mexico is the gateway to Latin America and will play a key role in establishing a common monetary foundation to support expanded trade. See *id.* Accordingly, the author suggests that the United States send "both an urgent message and a gracious invitation to Mexico: We need to talk." *Id.*

113. *Hearing on Official Dollarization in Emerging-Market Countries Before the Subcomm. on Int'l Trade and Finance, Senate Banking, Housing and Urban Affairs Committee*, 106th Cong. (1999) (statement of Judy Shelton, member of the board, Empower America). According to Shelton, "[i]t would be a mistake for the United States to be so cowed by the potential for diplomatic clashes that it avoids encouraging movements toward dollarization in Mexico and Canada." *Id.* At this juncture, contends Shelton, it is necessary to emphasize "the positive implications of stable monetary relations among vital trade partners." *Id.*

114. See *id.* The author presents the following issue: "[H]ow do we send a message of encouragement that neither seeks to entice nations toward dollarization with superficial rewards nor obligates the United States to compromise its own perceived economic interests?" *Id.*

115. *Id.*

participate in Ecuador's initial decision to dollarize, under the present circumstances, it is essentially obligated to react: "Dollarization has arisen as a spontaneous movement within our hemisphere; this puts the ball in our court. If the United States neglects to play it, we lose the chance to win a decisive victory for free trade and free markets."¹¹⁶

B. The Existing Legal Mechanisms In Ecuador Are Insufficient

Next, outside participation is necessary due to the fact that the key instruments in the implementation of dollarization, the Economic Transformation Law and the judiciary system assigned to enforce it, are suspect.¹¹⁷ In order to obtain the full benefit of dollarization, instead of merely replacing the *sucres*, Ecuador must also: (1) remove the power of the Central Bank to act in the monetary sphere and eviscerate its power to act as a pseudo-lender of last resort; (2) accomplish international financial integration by establishing elements to facilitate interaction with global markets; and (3) provide for a rule of law.¹¹⁸ The situation in Ecuador, it is claimed, is only partially corrected by the Economic Transformation Law because it provides for privatizing only fifty-one percent of many government entities.¹¹⁹ Although affirmative steps are being taken to

116. *Id.*

117. See generally Ricardo Hausman & Andrew Powell, *Dollarization: Issues of Implementation*, INTER-AMERICAN DEVELOPMENT BANK (1999). The authors suggest that "[s]upport from Congress, the business community, the financial sector, labor organizations and civil society is bound to be needed in order to put in place the necessary laws, regulations and reforms and in order to reap the full potential benefits of the new monetary regime." *Id.* at 2. (emphasis added). In the case of Ecuador, these pre-conditions for a successful dollarization are absent or deficient. See *id.*

118. See Steve H. Hanke, *Ecuador Needs More Than a Dollars-for-Sucres Exchange*, WALL ST. J., Mar. 31, 2000, at A19. A 1999 study by Political Risk Services that analyzed factors such as amount of bureaucracy, corruption, likelihood of governmental repudiation of contracts, and risks of expropriation, ranked Ecuador as one of the worst countries in terms of "rule of law." *Id.*

119. *Id.* The author contends that the Economic Transformation Law is simply incomplete and that "[t]he government's retention of a minority interest in privatized enterprises is an invitation for political mischief and corruption. The law should be amended to require full privatization." See also Mary Anastasia O'Grady, *Ecuador Staggers Toward a Dollar Economy*, WALL ST. J., Mar. 3, 2000, at A19. Likewise, this author opines that the Economic Transformation Law is an improvement, albeit an underdeveloped one. She states, in particular, that "[i]t's hard to see how growth-hungry capital, with its many suitors, will come screaming into Ecuador under these conditions. Nor is it clear how Ecuador plans to attract international banks for the financial integration that dollarization requires." *Id.* See also *FMI Dice Ecuador Debe Profundizar Reformas*, REUTERS, Mar. 27, 2000, available at LEXIS, Reuters File. Jeffrey Franks, FMI representative in Quito, acknowledged that approving the Economic Transformation Law was a significant step toward dollarization but emphasized that there are still a series of reforms that must be implemented. From Franks' perspective, a solid legal foundation will eliminate volatility, a prerequisite to advancement. Franks explains: "It is

facilitate this privatization process, its effectiveness is undermined by the limitations set forth in the Economic Transformation Law.¹²⁰ While the promulgation of this law is unquestionably a positive effort, to truly implement dollarization and thereby stabilize the economy some claim that serious additional measures need to be taken: "Ecuador is clearly on the right track. To reach the station, it must sweep out all vestiges of central banking, ensure financial integration and establish the rule of law without waiting for an overhaul of its own courts."¹²¹ Other experts concur, arguing that governmental monetary institutions must be eradicated because Ecuadorians endure "profound economic suffering at the hands of the perniciously politicized Ecuadorian central bank."¹²² In sum, while the promulgation of the new Economic Transformation Law is a positive first step, it may constitute mere hope because the key problem, the discretionary powers of the Central Bank, remains.¹²³

In addition to amending the Economic Transformation Law, Ecuador must implement judicial reform, thereby creating a system capable of enforcing such legislation. Recently, the World Bank loaned Ecuador approximately \$10 million to implement reform in the judicial sector. Prior to doing so, though, this financial institution analyzed the current state of the judicial system in Ecuador and concluded that such a loan "would provide the basis for creating an effective and efficient judicial system which is required for economic development, public reliance and confidence in laws and their enforcement."¹²⁴ This study also indicated that the objective of this

difficult to imagine foreign investors coming to Ecuador if an environment of economic stability does not exist." *Id.*

120. See generally Press Release No. 99/140, Brigid Janssen, International Finance Corporation, No. 99/140 (May 6, 1999), available at <http://www.worldbank.org/ifc/pressroom/Archive/1999/99140/99140.html>. Ecuador signed an agreement with the International Finance Corporation in May 1999 to advise the government on restructuring and privatizing state-owned entities, including electricity, telecommunications, hydrocarbons, airports, postal services and the sanitation sector. See *id.*

121. Hanke, *supra* note 118.

122. O'Grady, *supra* note 119.

123. See *id.* This author suggests that this legislation "grossly perverts" the term dollarization when it grants discretionary powers to the central bank such as setting reserve requirements and interest rates. Abolition of the central bank in its entirety, she argues, is a prerequisite to true advancement:

The central bankers, it would seem, harbor a deep-seated desire to manipulate monetary outcomes even in the absence of a domestic currency system. This is absurd, but it is also illustrative in that it dramatically defines the core problems of the country: The central bankers, along with this country's other privileged elite, are dug in so hard that nonsense becomes law at their behest. Prying their hands off the economy and moving toward liberalization will mean a long, hard fight, well beyond the simple dollar-for-sucres exchange.

Id.

124. WORLD BANK, STAFF APPRAISAL REPORT - ECUADOR: JUDICIAL REFORM PROJECT (Sept. 1994), available at <http://www.worldbank.org/pics/sar/15385>.

reform is to improve judicial administration by: (1) reducing case backlog; (2) increasing access to justice by ensuring that the poor have adequate representation; (3) improving legal training for judges, lawyers and students; and (4) modernizing judicial infrastructure.¹²⁵

According to the World Bank, a judicial system should provide efficient and rational outcomes and remedies, yet this "is not the case in the Ecuadorian judicial system, and so the public lacks confidence in the system."¹²⁶ Irrespective of the changes to the constitution implemented in 1992 to improve this situation, government officials, the judiciary, and the private sector recognize that additional reforms are necessary to modernize the legal system.¹²⁷ Furthermore, the Ecuadorian government has realized that economic and social progress requires improved governance, a key element of which is the development of an effective judicial system. In a recent document submitted to the IMF, the government acknowledged that the widespread distrust and inefficiency of the judicial system is detrimental to foreign and domestic investment. The government, therefore, has committed itself to working with the supreme court to reform the judicial system "to ensure rapid and impartial decisions based on accepted international standards and principles and Ecuadorian law."¹²⁸

C. *Dollarization Would Help With the Euro-Dollar Rivalry*

Third, theorists claim that a decrease in the amount of usable currencies is a foregone conclusion, arguing that, like Ecuador, eventually all nations will be driven to adopt one of only a few supranational currencies.¹²⁹ Due to this current global trend of currency reduction, experts argue that dollarization is necessary to confront the potency of the euro, the

125. *See id.* The judicial system in Ecuador has been plagued by insufficient financial resources, administrative inefficiencies, and a sizable case backlog. *See id.*

126. WORLD BANK, SECTOR REPORT NO. 12777 - ECUADOR: JUDICIAL SECTOR ASSESSMENT (Aug. 19, 1994), available at <http://www.worldbank.org/pics/pid/ec36056.txt>.

127. *See id.* *See also* John Otis, *Law & Order*, LATIN TRADE, June 1, 1997, available at <http://www.latintrade.com/content/archives/index.cfm?StoryID=838>. This article argues that judicial reform is necessary in Ecuador and throughout the region because, among other things, the courts and judges move at "snail's speed," the rulings are "neither fair nor just," corruption is prevalent, and the separation-of-powers concept is ignored. *Id.* These factors, suggests the author, produce one principal effect: "widespread mistrust of Latin America's judiciary." *Id.* This generalized lack of confidence in the legal system significantly undermines the efforts toward economic modernization and foreign investment. *See id.* In the words of one local expert, allowing the legal system to deteriorate to such extremes is tantamount to "retooling a factory with state-of-the-art machinery, then forgetting to hire the security guards." *Id.*

128. Government of Ecuador, *supra* note 58.

129. *See generally* Rothkopf, *supra* note 108. This author states that "Ecuador may have turned to dollarization out of desperation. But when it did, it became part of an irreversible trend that is a century in the making." *Id.*

first "true rival" of the dollar in decades.¹³⁰ This widespread phenomena of eliminating weaker currencies has, according to analysts, created a sense of urgency in Latin American countries to attempt to create their own regional arrangements or, alternatively, to join the existing dollar or euro blocks.¹³¹ Similarly, it is argued that, in light of the inevitability of a global currency competition, the United States is effectively obligated to take swift measures to facilitate dollarization in Ecuador and throughout the region.¹³² To the contrary, after fierce competition, these nations may adopt the euro.¹³³ In the words of one expert, "the region, particularly in the southernmost portions, might become a battleground between the euro and the dollar."¹³⁴ In this perhaps unavoidable battle, Ecuador plays a pivotal role because increasing the circulation of the dollar, even in a country comprised of some thirteen million people, may lead to the adoption of the dollar by other Latin American countries with larger economies that have manifested a sincere interest in the possibility.¹³⁵ From one expert's perspective, the propagation

130. STAFF OF JOINT ECON. COMM., REPORT ON BASICS OF DOLLARIZATION (written by Senator Connie Mack), available at <http://www.senate.gov-jec.basicshtm>. The author explains that since the First World War, the number of currencies with independent monetary policies has risen in proportion to the number of independent countries. See *id.* However, the author states, a period of currency consolidation has commenced that will again divide the world into two or three large currency blocks.

See *id.*

131. See *id.*

132. See generally Mark Falcoff, Latin American Outlook - American Enterprise Institute for Public Policy Research, *Dollarization for Argentina? For Latin America?*, Apr. 1999, available at <http://www.aei.org/lao/lao10297.htm>. The author explains that many economists believe that the world is moving toward the use of two currencies: the euro and the dollar. Thus, "[i]f the United States refuses to assume the leadership to create a dollar area, some Latin American countries may feel obliged to adopt the euro." *Id.*

133. See Alonso R. Trujillo, *MERCOSUR: Trade Negotiations with EU*, 7 INTER-AMERICAN TRADE REPORT (May 22, 2000). In April, 2000, preliminary negotiations were held in Argentina between representatives of the European Union (EU) and MERCOSUR in order to identify the structure and delegates for the forthcoming bilateral negotiations, which are designed to facilitate the creation of a free trade area between these two blocks. Such heightened relations in terms of trade, investment and capital movements could lead to the eventual adoption of the euro. See *id.*

134. Falcoff, *supra* note 132.

135. See generally Zeljko Bogetic, *Official or Full Dollarization: Current Experiences and Issues*, INT'L MONETARY FUND, June 9, 1999, available at <http://users.erols.com/kurrency/bogdllr.htm>. The author suggests that numerous Latin American nations are serious prospects for official dollarization, yet the progress in each country is distinct: (1) Argentina - Prompted by doubts about the credibility of the Convertibility Plan of 1991 that established a currency-board type system, in January 1999 President Carlos Menem announced that the government was studying the possibility of full official dollarization; (2) El Salvador - In 1995, the government divulged its intention to fully dollarize the country, a proposal that was discarded based on studies by international financial institutions that indicated that Ecuador's economy and financial situation were "not healthy enough" for dollarization. In 1999, however, this initiative was reintroduced by the president,

of the dollar in Latin America "would help the dollar remain the premier international currency, a status that the euro is now challenging."¹³⁶

*D. Ecuador is the "Economic Guinea Pig of Latin America"*¹³⁷

Finally, U.S. participation in the dollarization of Ecuador is justified due to the symbolic importance of this country. In other words, under the circumstances, the risk is created that "if the experiment here fails, it will damage the concept's credibility elsewhere in the region."¹³⁸ Due to the advanced stage of unofficial dollarization in the country anyway, experts contend that it is logical that the United States take an active role in facilitating dollarization in Ecuador, provided that the bureaucracy does not impede nimble decision-making.¹³⁹ Ecuador's abrupt decision to dollarize, according to some sources, is tantamount to the decision made by the Spanish conquistador Hernan Cortés upon reaching America to burn his ships entirely. From both incidents the same message is derived: "There is no turning back."¹⁴⁰ Ecuador now constitutes a test case which, if successful

Armando Calderón Sol; (3) Mexico--Since the economic crisis in 1994 and ensuing "tequila effect," dollarization of this nation has been debated. Despite government opposition to the measure, many Mexican business leaders and trade associations have manifested support for dollarization; and (4) Peru - with considerable unofficial dollarization already (approximately 65% percent of the money supply is held in dollars) and recurring hyperinflation, Peru has shown interest in dollarizing. *See also Dollarization: Fad or Future of Latin America*, INT'L MONETARY FUND (June 24, 1999), available at <http://www.imf.org/external/np/tr/1999/TR990624.htm>. (explaining the potential for dollarization) *See also* Ian Katz, *Greenback Magic?*, BUSINESS WEEK, Mar. 13, 2000, at 36. The author claims that Ecuador's plan to dollarize has renewed this debate in other Latin American countries. Unlike other nations in the region that are seriously considering this possibility, Chile and Brazil "have not warmed to the idea of trading in their currencies for the greenback." *Id.* In these countries, argues the author, an economic cataclysm would necessarily occur to create an interest in dollarization. *See id.*

136. STAFF OF JOINT ECON. COMM., ENCOURAGING OFFICIAL DOLLARIZATION IN EMERGING MARKETS (prepared by Kurt Schuler) (Apr. 2000), available at <http://www.senate.gov-jec.basics.html>.

137. Jane Bussey, *Ecuador's Dollarization Seen As the Test Case for Controversial Measure*, MIAMI HERALD, Jan. 20, 2000, available at LEXIS, Miami Herald File.

138. *See* Rohter, *supra* note 94. According to U.S. Treasury Department officials, describing Ecuador's decision to dollarize as untimely would be a gross understatement: "Not only is the country's economy in terrible shape, but the decision to dollarize was taken hastily and unilaterally, for reasons more political than economic, catching Washington and international lending agencies completely by surprise." *Id.* Accordingly, implementing dollarization in Ecuador, if successful, will serve as a paradigm for other nations in the region.

139. *See* Hanke, *supra* note 73. This article claims that "[t]he unofficial dollarization train left the station long ago. If the wags in Washington don't get in the way, it all could be made official and serve as the linchpin of a new global financial architecture, one that would eliminate currency crises, lower interest rates and stimulate growth." *Id.*

140. Nathaniel Harrison, *Ousted Ecuadorian President Gambled and Lost on Dollarization*, AGENCE FRANCE PRESSE, Jan. 22, 2000, available at LEXIS, Agence France

in these conditions, will serve as an invaluable instrument for the propagation of dollarization throughout the region. Evidence of this potential is found in the recent announcements by other Latin American countries expressly interested in adopting the dollar.¹⁴¹ According to economists at the Inter-American Development Bank, the importance of dollarization in Ecuador cannot be underestimated: "If this fails, there aren't too many lessons because it is such a difficult case. But if it succeeds, even in Ecuador, it can make it anywhere."¹⁴²

VII. CONCLUSION

As demonstrated above, the economic and legal situation prevalent in Ecuador in recent history has been turbulent. The extent of this financial precariousness was recently evidenced when, faced with pervasive social unrest and intense political pressures, dollarization was abruptly introduced as a desperate measure. To implement this initiative, the government promulgated the Economic Transformation Law, a piece of legislation heavily criticized for its inadequacy in terms of facilitating full dollarization. While dollarization may generate some negative side effects, as clearly illustrated throughout this article, this process could undoubtedly prove beneficial to both the United States and Ecuador. To obtain the benefits, however, dollarization must be implemented swiftly and without obstacles which, if not eliminated, could become insurmountable.

Ecuador's decision to dollarize was made unilaterally, yet the need for external assistance has become exceedingly apparent since the inception of the program. In terms of financial support, several international institutions (e.g. the IMF, the World Bank, and the IDB) have committed billions of dollars to the effort and have designated representatives to assist with the actual planning and implementation of the plan. The United States, on the other hand, has been hesitant to intervene, notwithstanding the effects that dollarization will inevitably have on the country. This reticence ignores the benefits to be derived from dollarization for both the United States and Ecuador, is incongruent with the U.S. policy of free trade so widely disseminated by the current presidential administration, fails to support

Presse File.

141. See *Dollarization Looks Good to Guatemala*, EMERGING MARKETS WEEK, Apr. 3, 2000, at 6, available at LEXIS, Emerging Markets Week File. Some Central American countries have recently been increasingly interested in dollarization: Guatemala and Nicaragua. According to the general director of the Nicaraguan Exportation Bank, Adolfo Arguello, "I wish [dollarization] would happen tomorrow." *Id.* See also Katz, *supra* note 135. According to the author, "[i]n the short term, only small and weak economies, such as Ecuador's, will switch to the dollar. But calls for adopting the greenback could grow stronger in coming years as trade links between Latin countries and with the U.S. multiply." *Id.*

142. Bussey, *supra* note 137. This opinion was expressed by Ricardo Hausmann, chief economist of the Inter-American Development Bank. See *id.*

judicial reform initiatives in emerging-market countries such as Ecuador, disfavors the dollar in its unavoidable rivalry with supranational currencies, and underestimates the importance of Ecuador as the "economic guinea pig of Latin America."

Unlike prior interventions in Latin America, participation by the United States in the dollarization of Ecuador should not be considered an imperialistic imposition or hegemonic strategy. Rather, based on the treacherous situation currently confronting Ecuador and the arguments supporting the need for external assistance in the dollarization process, limited U.S. involvement represents sensible policy.