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# **Ecuador Extractive Imperative and the ITT Initiative**

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## **Abstract**

In Ecuador, following the late 2000's commodity boom, a populist government invested increased oil revenues into social spending, reducing inequality, and gaining a rare period of political stability. The Yasuní National Park has been the focal point of this dynamic since 2006 when the government endorsed a groundbreaking plan to protect the park called the Yasuni ITT initiative. The initiative's demise in 2013 raises the question: what explains the government's initial support of, and then rejection of the ITT initiative? Upon combining the theories of extractive imperative and limited access order, this paper's thesis is that, given Ecuador's choice to fund public services through extractive industry rents, reducing extractive industry rents through constraining extractive industries is too painful politically. These theories help to structure a narrative, producing insights into the political dynamic impacting the ITT initiative and its eventual collapse. This thesis pursues its investigation through a case study of Yasuní National Park.

## Introduction

Under President Rafael Correa's administration from 2006 to 2016, booming oil prices brought Ecuador into a rare period of political stability and economic prosperity ("What to Expect", 2017, para. 1). Yet, despite this stability and the government's dominant political position, Ecuador did not adopt policies to convert the natural resource wealth into long term sustainability. In fact, even more fields were opened for oil exploitation under Correa, and Ecuador's economy became even more dependent on oil. At the same time, Correa adopted the ideals and rhetoric of environmentalism. This contradiction is most apparent in the IIT initiative. Correa's government endorsed an environmental initiative called the Yasuni-IIT initiative, which sought international funds in exchange for Ecuador leaving a large oil field unexploited (Amazon Watch, 2010, para. 2). This paper argues that the IIT initiative was driven by contradictory goals of promoting national development and protecting the environment.

This paper examines the IIT initiative in Ecuador through the perspective of the natural resource curse in economic and political theory, meaning that countries with poor governance and lots of natural resources are caught in a paradoxical trap where natural resource wealth can produce worse economic and political outcomes in the long term. An iteration of the natural resource curse is the extractive imperative theory, which argues that countries depending on natural resources to fund social services are forced to increase extractives (Arsel, Hogenboom, & Pellegrini, 2016, p. 880).

Venezuela, Boliva, and Ecuador are especially effected by this imperative: countries funding public services with resource rents turn to extractives as the response to any and all challenges. However, the extractive imperative theory lacks a mechanism for translating these countries' political and economic dynamics into a need for increased extractivism, meaning the process of expanding and relying on primary resource industries is increased. The limited access order theory helps fill this gap by explaining why countries with poor institutional development are trapped in a dilemma: a failure to develop natural resources, regardless of long term sustainability, threatens violence and a regime collapse (North, 2007).

Douglas North's 2007 theory of limited access order argues that because regime stability is based on distributing rents to key followers, these regimes cannot afford to limit the amount of rents from natural resources without risking endangering political stability (p. 5). In Ecuador, the failure of the IIT initiative can be explained in part by Ecuador's regime relationships in economics and politics. Take economics, for example. Because

Correa's initiative came at a time of rising oil prices, it became increasingly costly for the government to refrain from tapping the park's oil reserves. Committing to a deal priced at \$45 (US) a barrel will look increasingly foolhardy if the price of oil reaches \$100 (US) dollars a barrel (Interview participant, personal communication, May 9, 2017). At the same time, to fulfill his election promise to end neoliberal economic policies, Correa sharply raised government spending by providing social services, building roads, and expanding the state's role in the economy ("What to Expect," 2017, para. 5). Correa had defaulted on Ecuador's loans in 2006 and needed another source of international funds (Weisbrot, 2009, Para. 7).

In politics, the broad based coalition that swept Correa into power in 2006 included indigenous groups and civil society (Interview participant, personal communication, May 17, 2017). Civil society here meaning the aggregate of social organizations in the public sphere. He needed these groups' support to gain and consolidate power, and this alliance is reflected in the government's early stance on environment issues. In 2008, Ecuador became the first country in the world to create a constitution that recognized the legal rights of nature (Arsel, 2012, p. 157). The constitution also strengthened Correa politically, empowering the executive branch and allowing him to seek a second term. The ITT initiative was a product of this political alliance. Once Correa was safely in power, he needed these groups less and less, and clashing priorities became harder to ignore. Contradictions between Correa's extraction based development model, and environmentally friendly rhetoric contributed to the ITT initiative's collapse.

### **Review of the literature: Natural Resources and Governance**

The *Left Turn* is a major movement that scholars identify in Latin American politics, in which a backlash against neoliberal politics reverberated across the region, agitating in part against neoliberal environmental policies (Castaneda, 2006). Countries that were impacted included Argentina, Bolivia, Brazil, Chile, Ecuador, Guatemala, Nicaragua, Paraguay, Peru, El Salvador, Uruguay, and Venezuela. This is what has been described as the emergence of the "New Left". These administrations sought to construct a new approach to development policy and to constrain the negative effects of neoliberal capitalism through an expanded state (Arsel, 2012, p. 150). As a result, these governments made large investments into social services and infrastructure development.

Administrations in three countries, Ecuador, Venezuela, and Bolivia, sought to revolutionize politics through policies associated with "21<sup>st</sup> Century Socialism". These

administrations had more support for pledges to reduce inequality and eliminate poverty. But in order to finance social policies to follow through on these pledges, the countries turned to the natural resource sector to extract more resources; thus creating an extractive imperative (Arsel, 2016, p. 883). Countries trapped by this imperative risk derailing developmental gains, and politicians risk electoral defeat if they fail to advance methods for faster extraction.

Countries responding to this imperative view extraction as necessary for economic structural transformation. Arsel et al. (2016) explained, “according to this imperative, extraction needs to continue and expand regardless of prevailing circumstances, with the state playing a leading role and capturing a large share of the ensuing revenues” (p. 880). State participation is the other essential component of this imperative. Natural resource extraction is linked to populist projects, funded with the extra revenues from resources (Davidov, 2013, p. 487).

When a country is rich in natural resources, like oil and minerals, but is not as well off as its resource poor neighbor, it presents a fascinating contradiction. Hausman and Rigobon (2002) identified a consensus in empirical studies and in policy discussions of the detrimental effects of natural resource wealth.

The academic literature on causes of the resource curse can be grouped into two main strands. The first explanation arises out of economic scholarship, emphasising the relationship between dependence on natural resource and economic stagnation (Van der Ploeg, 2011). Such dependence leads to what economists identify as macro-economic vice: the increase of welfare expenditures, creation of narrow niches of the economy, limited spillover effects, volatility of prices, environmental destruction, conflict and corruption, and the crowding out of productive investment by rent seeking activities (Papyrakis & Gerlagh, 2004, p. 182). Additionally, extracting resource for consumption internationally often entails little processing or economic activity for the local area (Acosta, 2011, p. 74).

The second strand originates from political science, arguing that abundance and reliance on primary natural resources degrades institutions. Privileges of resource extraction create opportunities for corruption and for rent seeking (Kruger, 1974, p. 301). In a widely-cited study, Xavier-Sala-i-Martin & Subramanian (2003) found that the Nigerian experience conforms with the natural resource curse theory: they argued that oil waste and corruption contribute to poor long run economic malaise. Collier and Hoeffler (2004) identified natural resource dependence with weak states, and Collier and Hoeffler

(2005) demonstrated through quantitative analysis that the presence of natural resource wealth increases chance of civil conflicts. The easy availability of revenues from natural resource sector creates winners who carefully protect their advantage by resisting calls for reform and reducing accountability for governance.

Interestingly, a group of countries seem to have escaped from the detrimental effects of the resource curse. Take Australia, for example. Australia has not had a recession for 25 years despite being dependent on natural resource that are prone to booms and busts. Norway, one of the richest countries in the world, has managed its North Sea oil famously responsibly. Canada has also maintained a natural resource sector without the negative effects predicted by the natural resource curse. “Lessons from resource-rich countries such as Australia, Canada, Norway or the United States prove that the relationship between natural resources and development is not deterministic: resource abundance is not an irrevocable curse, but rather a challenge to policymaking” (Hujó, 2012, p. 7).

What explains this difference? Institutional differences account for much of this discrepancy (Collier & Hoeffler, 2005; Krueger, 1974; Mehlum & Torvik, 2006). Institutions are defined by Nobel Prize Winning Economist Douglas North (1990) as rules of the game, incorporating monitoring arrangements, enforcement mechanisms, clarifying role expectations, and structuring relations in society. Institutions can be characterised as inclusive or extractive (Acemoglu & Robinson, 2012). Inclusive institutions benefit most of the population and entrench equal treatment of all people. The opposite of these are extractive institutions. Extractive institutions concentrate wealth and economic power to a small group of elites, skewing the rules in favor of those in power and marginalizing the interests of poor people (p. 22, 23).

The systematic contrast between extractive and inclusive institutions is elaborated by Douglas North (2007) in his theory of limited access orders. Societies that maintain inclusive institutions are called open access orders because they promote social order by including all groups in society in political and economic systems. Open access orders include most countries with developed economies in the high-income grouping. Competition is allowed and encouraged in open access orders, and citizens have low barriers to forming organizations in both economies and politics. By allowing open access in economics, these societies stimulate economic growth, and by allowing open access to politics, open access orders reduce risk of policies that benefit only a small portion of society (p. 4).

Limited access orders by contrast maintain institutions that maintain stability by rewarding a small group with privileged access to economics and politics. Exclusive institutions create barriers of access to prevent the majority of society from organizing in economics and politics. The elites in society maintain their privilege with these exclusive barriers. When limited access orders restrict who can enter economics and politics, rents are created (North, 2007, p. 3).

Rents here are the extra revenues accruing to an economic activity in excess of normal profits from that activity in a competitive market. These rents are a core feature of limited access orders and act as an adhesive that holds together social order. Limited access orders maintain a system that differentiates between those who receive privileges—the elites—and everyone else in society. Because these societies differentiate between members on the basis of social identity, these societies are personalized systems, which means identities matter. And the most important identity differentiation belongs to the ruling group of elites.

Extractive institutions channel the lion's share of rents to those running a society, making up the dominant coalition. According to North (2007), the dominant coalition is composed of a group of elites cooperating to maintain the flow of rents and keep the rest of society from gaining power. Stable dominant coalitions must balance the distribution of rents, and ensure that all actors with significant power are incorporated in the coalition. These coalitions are constantly shifting in response to shifts in the balance of power. Violence can result when some elites feel excluded or disadvantaged by the dominant coalition. In these types of societies, elites are the ones capable of mobilizing supporters and equipping them with weapons, meaning that these societies have violence potential (p. 8, 10).

Because violence is always possible between elites, limited access orders are very concerned about stability. This overarching concern for stability can explain much of the behavior of repressive governments. For instance, many governments repress labor unions or other politically motivated bodies, not out of any evil intent towards workers, but out of fear of instability and the violence that it brings. These regimes must make sure that the ruling coalition keeps each group happy, especially those most capable of violence. They do this by allocating rents to these groups in order to maintain stability.

Latin America is no stranger to both centralization of power in small groups of elites and a pervasive decentralization of violence potential. This is seen in prolific violent protests and insurgencies. Many of these countries are also blessed—or *cursed*—with

plentiful natural resources. Political discourse in Latin America often concerns how policies will impact the concentration of economic and political power. From a limited access order perspective, the past paradigm of neoliberal economics endangered social stability by failing to incorporate demands of large segments of the population.

### **Methodology**

This paper will use a qualitative theoretical approach to develop a link between the extractive imperative theory and limited access order theory, through a case study of Ecuador and the IIT initiative. The paper will then analyse how aspects of Ecuador's political and economic systems leave Ecuador susceptible to the extractive imperative.

Ecuador was chosen as a case study to highlight the link between the two theories for several reasons. It's reliance on oil exports and historical reliance on primary commodity exports mean that Ecuador is vulnerable to the natural resource curse. This can be seen in changes Correa made from his neoliberal predecessors in increasing the size of the state and increasing the role of Ecuador's oil reserves in funding state expenditures. These developments have brought Ecuador into the same category as Bolivia and Venezuela for extractive imperative theorists (Arsel et al., 2016, p. 880). Further, the IIT initiative is significant in its originality. The initiative hinged upon the ability of Ecuador's government to make reliable long-term commitments, its collapse demonstrated a lack of trust in Correa's government's commitment. The government's pattern of contradictory behavior in relation to the initiative offers insight into motivations and rationale of the state.

This paper is based on an extensive review of published and unpublished literature concerning extractive industries in Ecuador and environmental governance. Supplementing this desk study are interviews conducted during a field mission to Ecuador from April to May 2017. The author conducted interviews with a range of individuals with extensive experience in issues of environmental governance in Ecuador. Key informants include former government ministers, academics, non-governmental organization staff, and international activists. In total, the primary source data was collected from eleven semi-structured interviews in Ecuador.

### **The Yasuni-ITT initiative Timeline**

- 1979 – United Nations Educational, Scientific and Cultural Organization (UNESCO) declares Yasuni-ITT an ecological reserve of biosphere (Finer, Moncel, & Jenkins, 2010, p. 64).
- 1999 – A section of the Yasuni park was declared an “Intangible Zone” to protect two indigenous groups that remain uncontacted by modern society (Finer et al., 2010, p. 64).
- January 2007 – Rafael Correa sworn in as president.
- June 2007 – Ecuador official launches ITT campaign (Finer, Vijay, Ponce, Jenkins, & Kahn, 2009, p. 4)
- June 2008 – Alberto Accosta leaves government, signaling a split between environmentalists and Correa’s agenda (Denvir, 2009, para. 9).
- September 2008 – Approval for new constitution (Finer et al., 2009, p. 5).
- April 2009 – Correa re-elected as president (“Revolution! Please Give Generously,” 2009, para. 1).
- August 2010 – Yasuni-ITT trust fund is established (United Nations Development Group, 2010).
- May 2013 – \$337 million (US) committed to the ITT initiative (“Trees or oil,” 2009, para. 5-7).
- August 2013 – Correa declares the ITT Initiative a failure (Pellegrini, Arse, Falconi, & Muradian, 2014, p. 3).
- February 2013 – Correa re-elected as president for a third term (“The man with the Mighty Microphone,” 2013, para. 1).

The idea of the ITT Initiative originated with a grassroots civil society campaign that was seeking global support for Yasuni park by buying barrels of oil priced at \$5 (US) a barrel on the internet, which, in theory, would be left in the ground. The ITT initiative sought to protect oil reserves in Ecuador’s second biggest oil field. The oil is buried underneath a national park that was declared an ecological reserve of biosphere by the United Nations in 1979. It has added importance because of the uncontacted indigenous people living within the park (Arsel, 2012, p. 153). Adapted as a national plan in Ecuador and unveiled in 2007, the Yasuni ITT initiative offered to abstain from exploiting Yasuni park if the international community would compensate Ecuador for lost revenues. Compensation was set at \$350 million (US) a year for ten consecutive years and



represented half of the 846 million barrels in potential revenues (“Hard to be Green,” 2013, para. 1).

From a policy perspective, the Yasuni-ITT park presented an initial puzzle because of its oil reserves and its national park status. Because the park was certified by the United Nations, and protected by Article 407 of the constitution, Correa required permission from the legislature to extract in the area. The article forbade extraction “in protected areas and in areas declared intangible assets, including forestry production. Exceptionally, these resources can be tapped at the substantiated request of the President of the Republic and after a declaration of national interest issued by the National Assembly,” (Ecuadorian Constitution, 2008, Art. 407). The Yasuni-ITT initiative represented an opportunity to benefit from the reserves under the soil without facing opposition from environmentalist that oil exploitation would likely provoke (Interview participant, personal communication, May 10, 2017).

Correa adopted the ITT proposal as a central component of his government’s environmental agenda, linking environmental protection to his main priority—social development. Correa outlined his approach to the ITT initiative in a lecture to the London School of Economics:

In the Yasuní, we have 850 million barrels of heavy oil, which is the largest reserve in Ecuador, with a value of US \$ 720 million a year. Previous governments did not know how to use money to the benefit of the country. This money is needed for schools, hospitals, hydroelectric dams, but these 850 million barrels—if they were extracted—would generate 410 million tons of carbon dioxide (in other words, huge pollution). The value of these emissions, if this was carried out in Europe, and carbon permits had to be purchased to pollute legally... would be € 5 billion or US \$ 6 billion. In other words, we are avoiding pollution in that figure (The New School, 2011).

What was needed was to convince the international community to commit to the deal. To that end, in conjunction with United Nations support, a trust fund was established to accept contributions for governments, private entities, and non-governmental organizations. The government pledged to compensate donors if the government broke their pledge by exploiting the park (United Nations Development Group, 2013).

The proposal was initially received warmly by the international community for its novel approach to conservation. Endorsements by intergovernmental organizations, the

United Nations, and several European nations highlighted the buzz around the initiative. However, concerns were raised about the long-term viability, including Ecuador's willingness and ability to guarantee preservation ("Trees or Oil," 2009, para. 5-7).

Weaknesses in the plan were apparent from the start. One was that oil exploitation in the rest of the Amazon region, excluding Yasuni, was intensifying during negotiations over the Yasuni-ITT initiative (Arsel, 2012, p. 160). Another sticky point was the fate of a second, adjacent zone of the Amazon that was left open for extraction, while Yasuni was designated for protection. Critics say that by signalling Yasuni ITT for protection, yet leaving similarly biodiverse Block 31 open for exploitation, the plan presents contradictions and makes little ecological sense (Arsel, 2012, p. 161).

A further tension arose out of a lack of trust between the international community and Correa's government. Information asymmetries were high between the two parties: the international community who was putting up the money on the one hand and Correa's government on the other. Because the value of the oil underground was likely to increase while the value of the contributions was likely to stay the same, trust was low for contributors (Bucaram, Fernández, & Grijalva, 2016, p. 3). And because the contributors would have to invest in the long run, investors needed to consider political turnover in Ecuador; if Correa left office, would the deal be honored by his predecessor?

The plan suffered a drastic change when, in 2010, Correa denounced a potential deal with the United Nations Development Program. An issue was a perceived violation of Ecuador's sovereignty presented by the United Nations seeking management of the funds. Correa's main objection was that the trust body administering the trust funds left Ecuador without majority control (Martin, 2010, para. 14).

Blaming the international community for the agreement's collapse, Correa initiated oil extraction in the park. He framed his decision as a black and white choice between being poor and taking care of the environment or being rich and continuing extractivism. He argued that the extraction would be done with minimal impact on the environment. At his urging, parliament approved extraction and also approved extraction elsewhere in the park, all while Spanish Repsol and two Chinese oil companies extracted tens of thousands of barrels a day in other parts of the park. The ITT field was awarded to a state oil company Petroecuador, in conjunction with a group of Chinese companies (Guardian, 2016, para. 7).

The split between Correa and civil society went from bad to worse following the collapse of the ITT initiative. “With the Yasuní-ITT initiative... the Ecuadorian state has effectively begun to colonize not only the role of the civil society as the defender of nature but its societal space as well” (Arsel et al., 2012, p. 221). The pushback from civil society came in 2014, when a grassroots campaign of environmentalists mobilized almost 800,000 signatures in order to trigger a referendum on oil drilling in the ITT. The government refused to call a referendum even though polling showed that 73% of Ecuadorians want the referendum to take place (Hance, 2014, para. 1).

## Reasons for the Collapse

### I. The Extractive Imperative: Ecuador’s Environmental Policy

Arsel et al. (2016) argued that Bolivia, Venezuela, and Ecuador are emblematic of two features of the extractive imperative: a prominent role of the state in economic development and intensification of natural resource extraction (p. 880). This perspective of natural resources as primary sources of financing for social policy expenditures can be seen in the environmental policies of Ecuador. Ecuador both increased the state’s role in natural resource extraction and adopted environmental rhetoric of civil society. This perspective would bring the state into conflict with civil society (Arsel, 2012, p. 161).

Civil society became a powerful actor in the decade preceding Correa, exploiting the weakness of traditional political parties. The indigenous movement demonstrated its strength in the period of political instability (1997 to 2005) where their ability to mobilize protesters and block roads contributed to the collapse of three elected presidents. Environmental non-governmental organizations also gained strength from the global environmental movement (Interview participant, personal communication, May 11, 2017). Civil society developed a theoretical framework linking Ecuador’s social problems and underdevelopment to problems of the resource curse. The prominent intellectual Alberto Acosta was a leader of initiative. His invitation into Correa’s government as Minister of Mines and Energy demonstrated the political alliance formed between civil society and Correa’s political movement (Arsel & Angel, 2012, p. 214). The 2008 constitution arose out of this alliance between environmental and indigenous organizations and the Ecuadorian state under Correa (Pellegrini et al., 2014, p. 4).

On the normative side, the constitution was written in the language of environmental activism. The constitution invoked concepts from Ecuador’s indigenous communities such as *Pacha Mama*, translated as Mother Earth, and *sumac Kawsay*, the notion

of good life, representing a shift to an indigenous conception of nature (Gudynas, 2009, p. 169). This conceived of a new relationship between the state and nature, setting harmonious coexistence of nature and society as a national goal. The constitution was the first ever to adopt explicit constitutional rights for nature: “Nature, or Pacha Mama, where life is reproduced and occurs, has the right to integral respect for its existence and for the maintenance and regeneration of its life cycles, structure, functions and evolutionary processes” (Ecuadorian Constitution, 2008, Art. 71).

The environmental policy of Correa’s government is contradictory. On the one hand, the government defines itself as “bio-socialist”, which is meant to connote a political model that combines environmental protection with socialism. However, the government has projects in environmentally degrading sectors such as open pit mining and oil extraction (Bertelsmann Stiftung, 2016, p. 25). The distance between rhetorical and normative aspirations in the constitution and the government’s actions in environmental governance became increasingly apparent as civil society was sidelined in the administration.

These contradictions were brought into sharp focus in the ITT initiative. On the state’s side, the Correa government introduced changes to environmental governance. The national government was empowered over designated national strategic sectors including “energy in all its forms, telecommunications, nonrenewable natural resources, oil and gas transport and refining, biodiversity and genetic heritage, the radio spectrum, water and others as established by law” (Ecuadorian Constitution, 2008, Art. 313). The state also increased its role in the oil sector through state owned corporations and direct regulation. Correa raised corporate taxes on extractive industries nine times between 2007, the year he took office, and 2013, and oil firms were forced to repeatedly renegotiate contracts with the state (Caselli, 2017, para. 4). This new role was justified on the basis of nationalistic pledges to revitalize society through funding ambitious social programs to reduce poverty and inequality (Pellegrini et al., 2014, p. 6).

A compromise was reached between the two groups. Correa’s administration, who adopted the rhetoric of the environmentalists and civil society in the constitution, and civil society, who supported Correa’s changes in natural resource governance. Meanwhile, the government remained uncommitted in action: a seeming contradiction arising out of Correa’s administration depending on extractive revenue and the allied civil society movements prioritising ecological sustainability (Arsel & Angel, 2012, p. 203).

Arsel and Angel (2012) argued that the clash between the state's mission to provide socioeconomic development and preserve nature resulted in the state sidelining civil society. In the process of implementing Correa's vision, civil society has cooled on supporting Correa. Some accused Correa of prioritising state power over nature and society (Caselli, 2011 para. 37).

## **II. Ecuador as a Limited Access Order**

Casual observers of Latin American politics remember Ecuador in a perpetual state of political crisis from 1997 to 2006. During this period, eight presidents were in office, three of which were overthrown in military Coups, and the US dollar replaced Ecuador's national currency (Caseli, 2013, para. 7). The crisis had its roots in systematic weakness in Ecuador's political arrangements and was exacerbated by external crisis. The political landscape was fragmented, featuring oscillating political alliances, and few political parties enjoyed national support. New actors organized protests, demonstrating shifting influence within Ecuadorian society. For instance, the indigenous movement organized the 1990 indigenous uprising, a widespread protest movement that shut down roads across Ecuador. These systematic causes of instability compounded a series of external shocks. Falling oil prices worldwide led to declining revenues for many Latin American countries with oil as their dominant exports. This coincided with coastal storms and flooding brought by the El Nino weather system. By 2006, the country was ready to throw their ruling class out of power, and Correa arrived on the stage of Ecuadorian politics offering a message of radical change (Interview participant, personal communication, May 10, 2017).

The limited access order framework highlights meaningful aspects of political and economic arrangements shaping a government's response to challenges. From a limited access order perspective, abundant revenues from high oil prices enabled the government to invest in infrastructure and to redistribute wealth to a large dominant coalition. World Bank data (2016) concludes that, from the year Correa took power in 2007, to 2015, national poverty was reduced from 37.5% in 2006 to 23.3% in 2015 (para. 1). Politically, the dominant coalition that supported Correa included a large component of civil society groups (Arsel & Angel, 2012, p. 204). After excluding these civil society groups from the dominant coalition, Correa feared their violence potential and sought to neutralize them through a generalized restriction of access to political and economic institutions.

**Oil as rents in Ecuador.** Oil has been Ecuador's primary export since the 1960's. Because of this dominant position of the oil sector, economic policies primarily concern

the oil industry. Neoliberal reforms emphasised an increased role of the private sector (Interview participant, personal communication, May 23, 2017). Privatization, coupled with less public spending, contributed to increasing inequality and entrenched poverty; 35% of Ecuadorians lived in poverty in 1994 (World Bank, 1996, p. 3).

The economic dimension of Correa's movement for 21<sup>st</sup> Century socialism arose as a response to economic neoliberal policies. The major goal was to reduce inequality and poverty (Cori & Monni, 2017). According to 21<sup>st</sup> Century Socialism, this could only be done through a strong state, wielding its powers to "shield Ecuadorians from the negative effects of neoliberal capitalism" and to "finance stronger social security mechanisms, but also the construction of classic imprints of modern development, including schools, hospitals, bridges and power plants" (Arsel, 2012, p. 161).

Social spending doubled as a share of GDP between 2006 and 2012, reaching a peak of 43% of Gross Domestic Product, GDP in 2014 ("What to Expect," 2017, para. 5-7). The Ecuadorian Institute of Social Security increased public health services and pensions. Ecuador's minimum wage was raised by around 250% since Correa's election (Arsel & Angel, 2012, p. 208). This brought the poverty rate down from around 40% in 2006 to less than 23% in 2015, achieving what the Overseas Development Institute a think tank, described as the world's most inclusive economic growth (Ordonez, Samman, & Mariotti, 2015, para. 1).

**Political arrangements.** Correa, arriving in office in 2007, proposed a political revolution. He presented a progressive agenda to confront increasing neoliberalization, corruption, and inequality of the previous few decades (Interview participant, personal communication, May 17, 2017). Correa's administration has carried through radical reforms of the political and economic structure. The dominant ideology in Ecuador is "now marked by a challenge to both liberal democracy and the market economy" (Bertelsmann Stiftung, 2016, p. 2).

To do this, Correa needed to revolutionize the design of Ecuador's political system to eliminate opposition from the old elite. His party was a minority in legislature and was unable to support Correa's reform agenda. In his first year in office, Correa ousted 57 lawmakers who resisted his plans for a referendum on a new constitution ("Ecuador's Power," 2007, para. 1).

Passing Ecuador's 20<sup>th</sup> constitution in 2008 cleared Correa's path to deliver on the political revolution he promised. Supported by 64% of Ecuadorians, passage of the

constitution delivered a blow to traditional elites and strengthened Correa's executive powers. It also removed the constitutional one-term limit in office, clearing the way for him to remain in office until 2017 (Ecuadorian Constitution, 2008, para. 1). Enhanced executive powers allowed Correa to bypass the legislature and write laws directly ("The Man," 2013, para. 3).

The primary internal contradiction in this coalition was between those who opposed extractive industries and those in favor. Environmentalists and indigenous groups were bitterly against extractive industries; Correa's working-class support wanted extractive rents to pay for tangible developmental rewards: social spending, public investment in infrastructure projects, better public education and health services. Correa could only pay for this spending by expanding—not contracting—the extraction of oil, which made up the biggest source of government revenues (Pellegrini et al., 2014, p. 5).

**Violence potential.** This internal contradiction led to a widening gap within the coalition and eventually outright conflict between civil society and Correa's governing agenda. In this way, the same civil society groups that had empowered Correa also represented a potential threat. Early signs of this threat appeared in September 2009 when a strike by teachers and Maoists coincided with a "national uprising" by highland indigenous groups ("Revolution!", 2009 para. 2).

In 2010, Correa faced the biggest challenge of his presidency when Ecuador's police force took to the streets in Quito and Guayaquil protesting cuts in public benefits (Romero, 2010, para. 8). Correa was personally endangered when he attempted to negotiate with rebellious police leaders. He was showered with tear gas and shoved around on national television during his negotiation attempt. Correa had to be rescued from the rebellious policemen by pro-government armed forces. The government declared a state of emergency when members of the air force joined the protests and blocked flights from the international airport. International observers feared that Ecuador would be thrown into even more political chaos, demonstrating the violence potential held by groups in society (Carroll, 2010, para. 9).

Correa responded to these political threats with growing authoritarianism, targeting media freedom, independence of the courts, and non-governmental organizations. Correa described indigenous and environmental movements as the biggest threat to his political agenda. Correa's crackdown primarily targeted civil society: for instance, in 2017, the state attempted to shut down the environmental organization *Accion Ecologica* (Hill, 2017, para. 3). And in 2016, the largest teachers' union was dissolved by

decree (Human Rights Watch, 2017, para. 14). These actions are part of a trend identified by Human Rights Watch (2017) in their report on Ecuador: “President Rafael Correa has expanded state control over media and civil society and continues to harass, intimidate, and punish critics” (para. 1).

Correa also led a rigorous crackdown on independent media in Ecuador. A communications law passed in 2013 was seen as a significant blow to free press in Ecuador. A government body created the law in 2013 called The Superintendency of Information and Communications (SUPERCOM), which has ordered dozens of journalists to correct or retract reports (Human Rights Watch, 2017, para. 6). In 2014, Correa launched a successful libel lawsuit against a national newspaper *El Universal*. The paper’s directors were sentenced to three years in jail, and the newspaper was fined \$40 million (US) (“Ecuador’s President Wins”, 2011, para. 1-2).

Correa’s crackdown sought to turn the judicial system into a shield, providing cover for his regimes actions. He put forward a judicial reform that filled the courts with his political supporters. It seems to have been effective in sheltering his regime from legal attention: in fact, only a handful of the 1,000 corruption investigations launched since 2007 have resulted in convictions (“The Man”, 2013, para. 5).

### **III. Limited Access Order and the Extractive Imperative in Ecuador**

It is evident that the government’s oscillating environmental policy was governed by the logic of the extractive imperative. It lay behind internal contradictions between the government’s need for resource revenues and rhetorical commitment to environmental protection, leading to a reluctance by the international community to trust the government (Pellegrini et al., 2014, p. 5).

Three areas in Ecuador’s limited access order arrangement left it vulnerable to the extractive imperative. First, its economic arrangement: funding social projects with rents from oil exports left it dependent on continued oil extraction.

Second, the administration’s dominant coalition included groups with differing objectives, who came into conflict. This political coalition included civil society and indigenous groups who prioritize environmental issues. The support of these groups was essential to Correa gaining power. However, these groups came in to conflict with other key constituencies, like the urban poor who depended on increased social spending.



Correa choose to push civil society out of the ruling coalition, making the government less responsive on environmental issues (Arsel, 2012, p. 160).

Third, as a limited access order, Ecuador has a long history of political violence. During the decade of instability, the groups that were able to mobilize protesters and rioters held power. These groups—indigenous federations, civil society organizations, and unions—played a role in deposing three presidents (Interview participant, personal communication, May 17, 2017). While these same organizations supported Correa initially, they maintained their violence potential. Correa sought to limit the influence of civil society over his agenda, and suppress their organizing abilities, preempting violent unrest. Correa also had to keep up the flow of rents to the urban poor and working class to maintain political stability. All these factors contributed to the extractive imperative: the cost of reducing extractive activity and reducing the flow of public rents was too high of a risk for Correa's administration. Therefore, the costs of ITT initiative outweighed the benefits.

## **Conclusion**

Under the Correa administration (2006 to 2017), Ecuador adopted ideals and rhetoric of environmental activism. The outstanding demonstration of this was the Yasuni-ITT initiative, an innovative proposal that sought international compensation for abstaining from exploiting Ecuador's second largest oil field in Yasuni park. The initiative collapsed because the government was not able to convince potential donors of the sincerity of its commitment. The government continued expanding the state's role in natural resource extraction to finance increased provision of social services, while at the same time as committing rhetorically to solving environmental issues.

The theory of the limited access order frames the institutional context of the extractive imperative in Ecuador in political and economic dimensions. Start with the political dimension. The limited access order theory frames political discussions in term of the dominant coalition of elites in society. The makeup of Ecuador's dominant coalition fluctuated as groups became more or less influential in determining government policy. At first, Correa broadened his ruling coalition, including environmentalists and non-governmental organizations as key partners. This partnership with civil society succeeded in bringing Correa to power and consolidating that power by rewriting the constitution in 2008.

However, Correa's core political consistency demanded fulfillment of his pledges to reduce inequality and poverty through action of the state. This objective clashed with those promoted by civil society. Once Correa had less need for civil society's support, he aligned his policies with a new mass of supporters. Tension between interests of civil and this core constituency eventually led to a political split between civil society and Correa, contributing to the collapse of the ITT initiative.

Next, comes economics. In the limited access order theory, the political stability is maintained through allocating economic rents to powerful individuals or segments of society. In Ecuador's case, this meant spending resource rents on social services such as building roads, hospitals, and schools. Without a steady flow of resource rents, the government risked social unrest. Moreover, several factors outside of Ecuador's control threatened this flow of rents. The 2007 global economic crisis hit Ecuador's exports hard, and because of defaulting on a loan in 2006, Ecuador was locked out of traditional financial markets. The ITT initiative therefore presented a potential source of foreign money.

Ecuador fits with the situation described by the extractive imperative theory, where countries that fund social services through extractive activities are faced with an imperative to continue extraction. The limited access order theory illustrates that a consequence of declining extraction could be violent social unrest as a shrinking pie of resources mean fewer rents to divvy up to essential supporters. This hazard could be seen in the decade of political instability immediately preceding Correa's movement. The ITT initiative failed, in part, because the government could not escape the extractive imperative, and it clashed with civil society over extractivism.

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