# Effects of dollarization in ecuador

Eight years have passed since Ecuador left behind its national currency to take over a foreign one; an effort to solve the worst economic crisis that the country had ever faced. Since January 11th 2000, the “ Sucre” was replaced with the U. S. dollar as Ecuador’s national currency. But why would a country put at risk the loss of its own monetary independence? Some economic experts have much to say about the subject, and have mixed views about the results that dollarization have had in the country.

Like many other countries in Latin America, Ecuador’s raw products and exportations are fundamental for the well being of the country’s economy. Ecuador’s main raw materials and exports include: bananas, cacao, coffee, shrimp, flowers and oil (discovered in the 1970s). The 1998-1999 economic crisis had a tremendous effect on the country’s economy. It had two primary factors: low prices in the oil market and El Niño weather phenomenon that severely damaged most of the country’s agriculture and production of export materials.

As a result, Ecuador’s economy fell into hyperinflation, causing the country’s currency to worth even less in the world market. Many people rushed to banks in order to empty out their accounts and exchange them for a safer currency. (At the time 1$ U. S. = 25. 000 Sucres). The economic crisis grew when banks began to go bankrupt due to the amount of money that people all over the country were withdrawing. The government, led by former President Jamil Mahuad launched numerous actions in attempts to save the economy. The government took over the banks and froze accounts; making it impossible for people to withdraw their own money.

In a final attempt to save the economy, the Mahuad administration proposed officially replacing the country's currency with the U. S. dollar. This decision was not supported by the majority of people in the country. It led to a large amount of protests throughout the entire country. Ultimately, the president was forced out of office ten days after proposal of changing the national currency. The Vice-President Gustavo Noboa took over the presidency, but he supported Mahuad's decision to change the national currency.

Present-day no Ecuadorian president has been able to complete a full 4-year term in office. Current President Rafael Correa has confirmed that he will maintain dollarization in the country. This is because Ecuador's new constitution grants the Presidnet increasing absolute powers. President Correa has stated that ending dollarization at this point will have chaotic effects in the country's recovering economy, but seeks to move back to a national currency.

Pablo Lucio Paredes, an economic analyst, agrees with the theory that dollarization has aided the recovery of Ecuador's economy. "" The bank was closed and was a consequence of the '99 crisis. Without a doubt, dollarization restrained the deterioration of the confidence in the system, and the substantial recovery of the banks has been an important element in the stabilization of the economy." Paredes refers to the crisis in 1999 that led to several banks entering bankruptcy. Since dollarization came to the country, people and businesses began reinvesting in banks, which helped to restore steadiness to the economy.

There are other analysts who hold oppositions to Paredes. Analyst Eduardo Valencia, Director, Institute of Economic Investment, Catholic University of Ecuador holds a nationalist approach to the subject of dollarization. He believes that the nation's reliability in the dollar caused the crisis in the first place. The key to restoring the country's economy lies in its production and exports. " In a globalized world, it is important to gather the most important contributions of the economists of all history. And all of them have said that production should be made stronger. We must return to a model where production returns to be the protagonist.... That is obtained by radically changing the development model…First, returning to an own currency, and, second, recovering the importance of the Central Bank. Printing a currency with one-to-one parity."

In my opinion, Pablo Paredes' identification of dollarization as the lead factor in stabilizing Ecuador's economy is most suitable. The dollar gave a new direction to the country; it turned the country's economic emphasis from depending in its raw materials and exports, to an economy where the spending power of Ecuadorians was transferred to imported goods and services. Even corporations and businesses were more willing to invest in Ecuador after its usage of U. S. dollars; they created more jobs and attracted emigration from neighboring countries.

I feel as though Eduardo Valencia's ideology of returning to a national currency, separate from dollarization, would be disastrous. If Ecuador returns to its dependence of raw materials and exports, it would become vulnerable again to all the factors that launched the country into the crisis of 1999.

It is true that by the country going this transition, there will be a portion of business that won't benefit and will oppose dollarization. The agricultural sector and small industries are unable compete in the market, since they made their profits in exporting the raw materials to under countries. " In only three years, the contribution of the agricultural, cattle, forestry and fishing sectors of internal production fell from 10. 6 percent to 8. 8 percent."

Based on the ideas put in this paper, it is clear that dollarization Ecuador has had diverse effects in different parts of Ecuador economy. It has strengthened the country's commerce and drastically stabilized a hyper inflating economy. The cost of doing so, it decreased the development of the producing sector and switching the emphasis of exports and raw materials directed economy to one where the investment of corporations and large business leads the country to an economy that depends on imports; which results in only few people benefiting from the change, while others continue to have the same problems as before the dollarization came along.

Ecuador's dollarization is just another example on how globalization has affected the 21th century. If a country's own currency has become overwhelmingly inflated due to problems with its economy, a drastic solution would be to switch to a foreign currency that has more value in the world market at the time. Showing that the whole is interconnected no matter what currency a nation uses. Furthermore the fact that eight years have passed since dollarization became legalized in Ecuador and the country economy has only recovered a small percentage, it is proof that there is no fast solution for a economy that has being undergoing problems throughout the years. I think that long term solution must be created to raise the country's economy, and this plan needs to be aided by the creation of more dynamic markets between the importers and exporters sectors of the country and an insurance of political stability in the nation.