ANTI-DOLLAR ALLIANCE:

RUSSIA, CHINA & ECUADOR ADVANCE AGAINST THE GLOBAL DOMINANCE OF THE U.S. DOLLAR

JOSEPH M. HUMIRE - FERNANDO MENÉNDEZ - JUAN CORDERO*

** Juan Cordero is a pseudonym for an economic analyst and an expert on money laundering. Enea Gjoza and SFS International Fellow Evgueni Novikov contributed to this report.*

October 2015

AN ANTI DOLLAR ALLIANCE

It was a cool autumn afternoon in mid-June 2014 on the eastern plains of Bolivia, when several high-ranking delegations from around the world touched down at Viru Viru International Airport in Santa Cruz de la Sierra. These foreign delegations took part in the 50th anniversary of the United Nations Group of 77 and China (G77+China) summit under the theme "Towards a New World Order to Live Well." Not formally part of the G77, Russia was personally invited by Bolivian President Evo Morales to join the summit and subsequently the group itself.[1] At the summit in Santa Cruz, several heads of state railed against the U.S. and Europe for its recent economic sanctions against Russia and made provocative declarations against the international financial system.[2]

One of the loudest voices came from Ecuadorean President Rafael Correa who held several conversations with his Chinese counterparts to affirm the need to reform the international financial architecture. These points are reflected in the final declaration adopted by the heads of state at the G77+China Summit in *Santa Cruz*. Points 131 through 144 of the declaration specifically reference reforming the global financial architecture and credit rating system, a direct reference to the 1944 Bretton Woods agreement that pioneered the modern monetary and financial system, giving birth to the International Monetary Fund (IMF) and the World Bank.[3] The G77 declared:

> *"We affirm the need for reform of the international financial architecture so that we have a financial and monetary system that reflects the realities of the twentyfirst century … efforts to reform the international financial architecture should therefore be seriously strengthened, be internationally coordinated, and should lead to the full participation of developing countries in international financial and economic decision-making and norm setting."*

- Excerpts of point 131 and 140 of the Declaration of the Summit of Heads of State and Government of the Group of 77 in Santa Cruz de la Sierra, Bolivia , 7th of July, 2014

Russia and China have long been looking for ways to carry out [international monetary] reform and a preferred method seems to be diminishing the dollar's role in international trade and currency reserves.

Russia and China have long been looking for ways to carry out such reform and a preferred method seems to be diminishing the dollar's role in international trade and currency reserves.[4] For China, this is a significant question as 65 percent or two-thirds of its reserves are in U.S. dollars, meaning there is substantial vulnerability to fluctuations in the exchange rate lowering the value of its reserves.[5] Moreover, China's great fear is that the U.S. will devalue its currency through inflation and destroy the value of these Chinese holding of U.S. debt. For Russia, the question is more urgent as the country's financial sector has been repeatedly sanctioned by the United States and the European Union over the conflict in Ukraine.

Russia—China Strategic Partnership

The intellectual architect of Russia's anti-dollar strategy is Sergey Glazyev, a former Cabinet minister and one of the top economic advisors to President Vladimir Putin. Glazyev argues that by holding U.S. Treasuries and other debt obligations, the rest of the world is effectively subsidizing U.S. military aggression and its global hegemony. In Russia's sphere of influence, according to Glazyev, the U.S. sponsors so-called Ukrainian "Nazis," seeking to integrate their nation with Western Europe, and establish an anti-Russian regime.[6] From Glazyev's point of view Russian aggression in Ukraine is justified as a defensive strategy against what it regularly refers to as "fascist" forces. For Glazyev the preferred weapon of choice is economic warfare for a war he believes is already underway:

> *"The truth is that we are already in a state of war, unleashed by the United States. This is a hybrid war. It does not imply the use of armored columns or weapons of mass destruction. It relies on a large arsenal of other techniques: information, financial. Financial war against us is waged in full."*

- Sergey Glazyev in an interview with Russian magazine "Culture" on December 14, 2014

In Glazyev's worldview, the most serious blow to U.S. hegemony would be avoiding the use of the dollar as the world's reserve currency.[7] He is part of a small yet powerful club taking proactive steps within the Kremlin to revive old Soviet strength through outworn Marxist economic categories. In a June 2014 article in *Argumenty Nedeli*, a Russian magazine, Glazyev outlined a plan for undermining the economic strength of the U.S. including a "broad anti-dollar alliance" of countries willing to drop the dollar from international trade and avoid dollar-denominated financial instruments within their currency reserves.[8]

This is the crux of modern "eurasianism," an old concept with new life that has become a pillar of Putin's foreign policy agenda.[9] The notion has been put on the spotlight again with the launch of the Eurasian Economic Union (EEU), an ambitious economic association among some of the Commonwealth of Independent States and Russia.[10] President Putin's strategic partnership with China, however, has become the centerpiece of Russia's "eurasian" strategy. Once communist adversaries during the Cold War, the two nations are increasingly acting in concert with one another. Striving for a multi-polar world order, the Sino-Russian paradigm includes enhanced intelligence cooperation, as well as increased collaboration in nuclear proliferation and cyber warfare among other areas. Arguably, to advance in all these areas China and Russia must find (or create) an alternative to the global financial system.

After almost ten years of negotiations, China and Russia signed a massive 30-year natural gas deal valued at over $400 billion with payments denominated in their domestic currencies

On May 21, 2014, after almost ten years of negotiations, both countries took a major step toward undercutting the U.S. dollar when Russia signed a massive 30-year natural gas deal with China valued at over $400 billion.

A day before this historic energy agreement, the biggest in the history of the natural-gas industry, Russia's second largest financial institution VTB signed a deal with the Central Bank of China to bypass the dollar and pay each other in domestic currencies.[11] Moreover, Russia's largest bank, the state-owned Sberbank, has begun issuing letters of credit for its corporate clients in China's yuan currency.

While trade deals and corporate credit are steps in bypassing the dollar, perhaps the most ambitious initiative pursued by Russia and China to date are attempts to build a viable alternative to the Brussels-based Society for Worldwide Interbank Financial Telecommunication (SWIFT) system, which affords over 10,000 financial entities from 210 countries around the world a secure, standardized and reliable payment system.

Challenging the SWIFT system, Beijing is expected to launch the China International Payments System (CIPS) later this year, as a way to process cross-border yuan transactions.[12] Similarly, the Central Bank of Russia recently launched a domestic SWIFT-like payment system for Visa and MasterCard transactions so that the West will not be able to block the cards of Russians through financial sanctions.[13]

The focus on creating alternative payment systems is a priority Sergey Glazyev has emphasized for several years, as have several other Russian elites in Vladimir Putin's inner circle. The threat of possibly getting cut-off from the global interbank SWIFT system by the U.S. and E.U. in 2014 sped up the process. For these elites breaking away from the SWIFT system would mean some months of inconvenience, but positive effects that would last for years. In order to move in this direction, the Russian elites have convinced Vladimir Putin to push for new centers of geopolitical influence, namely within the BRICS bloc, consisting of four of the ten largest economies in the world: China (second largest economy), Brazil (sixth), Russia (ninth), India (tenth), and South Africa.

BRICS and Mortar

At the 6th BRICS Summit in Fortaleza, Brazil on July 14-16, 2014, member nations signed the Contingent Reserve Arrangement (CRA) with an initial investment of $100 billion. China committed the most resources

($41 billion), while Russia, Brazil and India each put in $18 billion a piece.[14] South Africa rounded out the rest with $5 billion.

Alongside this new currency agreement came the announcement of the New Development Bank (NDB or colloquially known as the BRICS bank), headquartered in Shanghai, to offer financing for various projects in the developing world.

Some have considered the rise of the BRICS as an emerging alternative to Western financial institutions. Each member country, however, has varying economic models. Brazil and Russia, for instance, have benefitted from a boom in commodities and raw materials. India, China and South Africa, on the other hand, have gained from export-oriented production combined with open markets encouraging foreign and domestic investment. Russia's highly monopolistic economy has allowed little competition and created rampant corruption through state-conceded privileges for favored interests. This has weakened Russia's voting share in the World Bank and the IMF, increasing their appetite to find alternatives. Vladimir Putin might argue that the NDB is not an alternative to the IMF and World Bank, yet his rhetoric at the BRICS summit in Brazil demonstrates otherwise.[15]

> *"It is the common intention to reform the international monetary and financial system. In the present form it is unjust to the BRICS countries and to new economies in general. We should take a more active part in the IMF and the World Bank's decision-making system. The international monetary system itself depends a lot on the U.S. dollar, or, to be precise, on the monetary and financial policy of the U.S. authorities. The BRICS want to change this."*
>
> - Vladimir Putin in an interview with ITAR-TASS on eve of BRICS Summit in Brazil on July 15, 2014

Alternatives to the dollar have existed for decades, but their success was based on maintaining an open capital account and easy convertibility into dollars. What the BRICS are suggesting is an entirely new payment system and currency that would not necessarily be convertible into dollars and could actually make the dollar irrelevant in participating countries. This point was emphasized after the formal BRICS summit in Fortaleza, in a separate joint summit in Brasilia between the BRICS and the Union of South American Nations (UNASUR), a 12-member political-economic bloc headquartered in Quito, Ecuador.

In Brasilia, Putin would reconvene with his most important Latin American ally for Russia's anti-dollar efforts—President Rafael Correa of Ecuador. During the first joint summit of its kind, Rafael Correa made his presence heard in Brasilia by emphasizing that UNASUR will follow the BRICS lead and continue to consolidate toward a unified financial architecture. Particular emphasis was placed on investment and infrastructure projects across Latin America and enhanced oil cooperation.[16] While the BRICS nations have varying views on the dollar as a reserve currency, they do appear united, albeit with varying degrees of passion, to see the global hegemony of the U.S. dollar diminished. At a more malign level, Russia, China and Ecuador have begun to coordinate an anti-dollar strategy in Latin America led by Correa's assault on his country's monetary system.

ECUADOR'S ECONOMIC WARFARE

With a population of 16 million, Ecuador is one of the smallest countries in South America but the largest country outside the U.S. territory using the American dollar as its official currency. Since 2000, after years of monetary and fiscal mismanagement triggered a financial crisis, the U.S. dollar was officially adopted as Ecuador's currency. During this crisis more than two million Ecuadoreans emigrated between 1999 and 2000 throughout the Americas and Europe, escaping poverty and lack of opportunity. Postcrisis, economic instability turned to political turmoil with six presidents holding office over the same amount of years, none serving a full term in office.[17]

When Rafael Correa assumed the presidency in Ecuador in January 2007, it was widely hoped his administration would use its mandate to end a decade of debilitating political and economic turmoil. Correa instead ushered in an era of class warfare, political polarization and authoritarian rule, following in the footsteps of his Venezuelan contemporary Hugo Chávez.[18] Unlike Chávez, however, Correa was not a seasoned military strategist but rather a U.S. and European trained economist and political novice. With the untimely death of Hugo Chávez in 2013, after a year-long battle with cancer, the Latin American left turned to Correa to take leadership of the region.

While Chávez focused on armed non-state actors as the defenders of his self-proclaimed Bolivarian Revolution, Correa uses bankers, lawyers and economists to carry out his Citizens' Revolution.

In late July 2012, Correa made an unscheduled trip to Cuba, ostensibly to visit the ailing Chávez who had returned to Havana for chemotherapy. Ecuadorean sources, however, reported that this trip was intended to receive the blessing of the Castros to lead the next phase of *la revolución*.[19] This next phase includes the use of economic instruments to further integrate Latin America, while offsetting U.S. influence and courting extra-regional actors, such as Russia, Iran and China. While Chávez focused on armed non-state actors as the defenders of his self-proclaimed Bolivarian Revolution, Correa uses bankers, lawyers and economists to carry out his Citizens' Revolution, a moniker given for his own political power project.

From a Bolivarian to a Citizens' Revolution

The Bolivarian Revolution in Venezuela and the Citizens' Revolution in Ecuador differ in their ways and means, however, they are united by their objectives. Both favor a model of centralized political power where the judiciary, legislature and local governments are subordinate to the executive. Both allow elections but systematically muzzle all independent media, persecute the opposition and steadily undermine civil society. Both seek a controlled economy progressively making people dependent on the government for their income, employment and the distribution of goods and services.[20] But more importantly both are working to undermine U.S. hegemony in the hemisphere, a strategy shared, to a lesser or greater degree, by China, Russia and Iran.

As a member of the Cuban and Venezuelan founded Bolivarian Alliance for the Americas (ALBA), Rafael Correa's Citizens' Revolution remains committed to a radical shift in the balance of power in Latin America but prefers to use economic warfare over the military strategy favored by the late Hugo Chávez.[21] As an economist, Rafael Correa understands how certain financial schemes and monetary tools favor a centralized state, and prefers to use economics as a way to gain regional influence to offset the United States.

In the post-Chávez era, Correa has continued to advance regional integration through legitimizing the Community of Latin America and Caribbean States (CELAC), a newly created political soapbox where he serves as president *pro tempore*. CELAC includes all the nations in the Western Hemisphere, with the exception of the United

States and Canada. He has also recently inaugurated the new UNASUR headquarters in Quito, as well as consolidated the Costa Rica-based Inter-American Court of Human Rights (IACHR) in his favor.[22] Perhaps his most ambitious initiative, however, is to strengthen the regional trade system known as the SUCRE, discussed later in this report.

All these efforts are aimed at strengthening "21st century socialism," a term meant to distinguish this form of collectivism from the catastrophe of the former socialist countries of the 20th century.[23] Unlike the former Soviet Union and Cuba, 21st century socialism focuses less on wholesale state ownership of industries and more on state control of the economy, with enough government spending and easy money to maintain full employment. This has been the defining characteristic of the ALBA bloc, fueled by the global commodities boom over the last decade.

For ALBA leaders, revenues from commodity exports have been used to promote massive government spending on politically motivated social programs. The commodities boom has also led to widespread borrowing, deficit financing, public spending and printing paper money. In Venezuela, these policies have led to runaway inflation, among the highest in the world, with shortages of basic necessities and the introduction of rationing. In Ecuador, the effects have been similar yet less visible.

Since Rafael Correa came to power in 2007, Ecuador's growth has been based largely on public spending fueled by oil prices and increased tax collection. The outsized magnitude of public spending effectively crowded out much private consumption and investment. As a result, today Ecuador has the lowest rate of foreign direct investment in the Americas.[24]

According to the U.S. State Department 2013 Investment Climate Statement – Ecuador:[25]

> *Although some sizable one-time investments have been made in recent years, foreign direct investment (FDI) in general remains modest. In 2011 there was a net inflow of FDI into Ecuador of $640 million (0.8 percent of GDP), down from a high of $1 billion in 2008. The FDI/GDP ratio over the period 2006-2011 has hovered between 0.2 and 1.7 percentage points, far below Latin American standards.*

Further complicating matters, while it has used revenues from oil exports for public spending, the use of the U.S. dollar as Ecuador's currency means the Correa government and its central bank do not have the monetary tools to inflate the currency. Politically, more than 80 percent of Ecuadoreans favor the dollar as it makes the currency's purchasing power independent of the arbitrary ambitions of presidents, political parties and pressure groups.[26] This fundamentally constrains the government's ability to control economic activities and achieve its larger political goals.

In September 2014, Rafael Correa signed a series of laws and regulations whose goals are to allow the government to make use of existing banking system deposits and control the country's liquidity.

Ideally, Correa prefers a malleable domestic currency responding to the government's priorities and policies. One where the central bank increases the quantity of money and achieves a gradual and automatic lowering of real wages, effectively lowering the purchasing power of the monetary unit and promoting public sector employment.[27] Such an approach is politically more palatable meeting with less resistance than an outright attempt to revise money wages downward. Moving from ideas to action, Correa began the restructuring of Ecuador's monetary system through controversial reforms implemented last year.

A New Monetary Junta

In September 2014, Rafael Correa signed a series of laws and regulations whose goals are to allow the government to make use of existing banking system deposits and control the country's liquidity. The agenda calls for the creation of a national committee overseeing and deciding where private banks should allocate their credit, along with the consolidation of paper and electronic bills within the central bank. This will allow the government to use assets and funds to promote political projects and continue spending until the next elections.

This new monetary junta, known as the Board for Monetary and Financial Policy and Regulation, has unprecedented powers over the Ecuadorean economy. Made up of four ministers and a delegate appointed by Correa, this new board has the power to formulate and implement policy, as well as supervise, sanction and regulate the financial sector.[28] Most importantly, the new monetary board can allocate credit and adjust the monetary policy in accordance with the government's priorities.

Introduced as the Organic Monetary and Financial Code,[29] Correa presented the original 516-page proposal of reforms before the legislature on June 24, 2014. Declaring this an "urgent matter," he afforded Ecuadorean parliamentarians a mere 30 days to discuss the bill and decide on whether to approve it.[30] Such a landmark change to Ecuador's monetary system deserved more rigorous analysis and public discussion, nevertheless, exactly a month later, on July 24th, the Ecuadorean National Assembly passed the new monetary code with 91 votes in favor (out of 116 members present).[31] Described by opposing Ecuadorean parliamentarians as "irresponsible" and "concerning," Correa calls his new code one that "finally puts the banks at the service of society, unlike now when society is at the service of banks. This is 21st Century Socialism."[32]

Banks in Ecuador have faced increasingly tougher and inconsistent regulations since Correa took office in 2007. A 2011 referendum, for instance, restricted the administrators of financial institutions from doing business outside the financial sector, forcing them to divest or liquidate their stakes in non-financial services, such as insurance companies, trust funds and brokerage firms.[33] Moreover, the new monetary junta has strengthened requirements, through bylaws, forcing private banks to keep their assets and investments in Ecuador. The result is the fall of the net profits of all private banks operating in Ecuador by 15 percent in one year (from 2012 to 2013), while the return on equity dropped from 19 percent in 2011 to just over 10 percent in 2013.[34]

Aside from controlling the private banking sector, this new code centralizes once separate state functions such as the country's Banking Board, Central Bank, Insurance Corporation, Fund of Private Insurance and the Liquidity Fund—into a single monetary board. Eliminating any checks and balances to the country's monetary and financial decisions, this board also has a say on decisions of private banks, namely credit operations and allocation. This allows the government to divert private funds to Correa's political priorities.

Combined these reforms grant Correa super economic powers helping his government control the country's cash flow at a time when dollar revenue from oil exports is declining due to a drop in prices of this commodity.

Combined these reforms grant Correa super economic powers helping his government control the country's cash flow at a time when dollar revenue from oil exports is declining due to drop in prices of this commodity. Any surplus in government programs will be liquidated for political purposes, harming the overall economy. A sentiment expressed by Julio Clavijo, a public policy advisor at the National Congress in Quito, who explains:[35]

> *"The main problem is that by 'investing' this surplus [what would normally be held for safekeeping], the liquidity's expansion will then accelerate and create more surplus, and therefore, a vicious circle that generally ends up in financial bubbles that cause economic crises."*
>
> - Julio Clavijo in an interview with Pan Am Post on July 7, 2014

The discretional powers granted to Rafael Correa and his government through this new monetary code creates an opaque economic environment and an institutional framework completely dependent on the executive branch. Ignoring best practices and standards established by the Switzerland-based Financial Stability Board, an international body monitoring and making recommendations about the global financial system, the new monetary junta has centralized the management of money, credit and cash, with little to no oversight or controls from entities outside of Correa's inner circle. This is an unprecedented step in controlling the Ecuadorean economy and monopolizing the issuance of alternative currencies and payment systems.

A Phony Bitcoin

The first decentralized digital currency in the world—Bitcoin—gained international attention after the Cypriot financial crisis in late 2012. Enthusiasts of this cryptocurrency paid attention to recent developments in Ecuador, initially creating a buzz within the Bitcoin blogosphere about the new monetary code. Many within this community thought these reforms might open the Central Bank of Ecuador to decentralized digital currencies, given the rumors the government was developing its own. The global crypto community quickly learned, however, that Correa has no interest in currency competition.

Following the governments of Bolivia, and later Russia, the Ecuadorean government prohibited the "emission, production, initiation, falsification, or any other type of [digital currency] simulation and its circulation through any channel or way of representation," as stated in article 96 of the new monetary code. Effectively banning the increasingly popular Bitcoin or any other decentralized digital currency not mandated by the Ecuadorean government. Ecuador's small Bitcoin community sent a statement of concern[36] to the government prior to passage of this new monetary code, only to be shut out of the debate and eventually shut down altogether.[37]

In an effort to increase the money supply and facilitate its spending, the new monetary code establishes a top-down, state-run digital currency *(Sistema Dinero Electronico—SDE)*. This new state-run digital currency allows the government to "mint" unlimited additional units and pay its expenditures and other obligations.[38] Instead of issuing a fixed amount of currency and allowing demand for the currency to set its value, the government will set the value arbitrarily. The idea is to create fiat currency cheaply and engage in deficit spending. Unlike the decentralized Bitcoin, created to prevent central bank manipulation of the currency, the software for creating the new state-run digital currency is limited to key government officials.[39] Given its insatiable desire to spend, the Ecuadorean government now has every incentive to issue unlimited quantities of this new e-currency.

While designed to support the existing dollar-based monetary system in Ecuador, the decision to create a new form of electronic money rather than adopt a mobile payment system raises suspicion that Correa's real aim is to upend the U.S. dollar.

This, however, is not Ecuador's first experiment with virtual payment systems. In 2011, local communities began issuing Solidarity Exchange Units *(Unidades de Intercambio Solidario—UDIS)* in the provinces of Azuay and Cotopaxi.[40] Similar to the M-pesa mobile payment system used in Kenya, this short-lived digital currency was used by local farmers and merchants who did not have, or chose not to have, access to the formal banking system in Ecuador. Although originally applauded by Rafael Correa, the UDIS was not recognized by the Central Bank of Ecuador and as a consequence was run out of commission.[41]

Around the same time (between 2010 and 2011) Ecuador's government experimented with a regional payment system known as the Unified System for Regional Compensation *(Sistema Unitario de Compensación Regional—SUCRE)*. Modeled after the Euro, the SUCRE was launched in 2010 as a virtual accounting unit to denominate trade between ALBA nations, namely Venezuela and Ecuador. All transactions would pass through a clearinghouse that derived the value of a sucre from a basket of currencies from the member countries, weighted according to the relative size of the participating economies.[42] The SUCRE is in essence a trading system where importers and exporters make and receive payments in their local currencies. While championed by the late Hugo Chávez, Rafael Correa handled the SUCRE's implementation.

Having experimented with digital currencies on the local and regional level, the Ecuadorean government kicked off the implementation of their new national state-run digital currency (SDE) in December 2014, allowing qualified users to set up accounts and begin using this e-currency as a real means of transaction.[43] While designed to support the existing dollar-based monetary system in Ecuador, the decision to create a new form of electronic money rather than adopt a mobile payment system has prompted some analysts to suspect that Correa's real aim is to upend the U.S. dollar.

Introduced in phases, the new state-run digital currency is being forced or coerced upon industry and the people of Ecuador. The government initially expected to have 500,000 people voluntarily adopt this new electronic payment system throughout 2015. By August, they barely registered 47,456 accounts.[44] The government then began signing preferential deals with public service organizations (such as the taxi association) and eventually mandated the private banking sector to adopt the new state-run digital currency. The directive issued on May 25, 2015, mandates that Ecuadorean banks with over $1 billion in assets integrate with this new e-currency within 120 days, while the rest of the private banking sector has between six months to a year.[45]

Political analyst Ezequiel Vázquez-Ger argues this new directive could be the beginning of the end for the U.S. dollar as the official currency of Ecuador. Vázquez-Ger suggests the Ecuadorean government will use the new state-run digital currency to solicit hard cash into the Central Bank to cover its ongoing fiscal deficit.[46] The arbitrary increase in the money supply would result in inflation, and the eventual adoption of a bimonetary system that aligns Ecuador to the currency of other extra-regional financial backers.

> ***The IMF and World Bank, and other traditional investors, have been evicted from Ecuador in favor of non-traditional, extra-regional partners with no previous economic ties to the Andean nation.***

The Quito Consensus

For several years Latin America has railed against "neoliberal" reforms implemented throughout the 1990's by Washington D.C.-based multilateral institutions, namely the International Monetary Fund (IMF) and the World Bank. Dubbed the "Washington Consensus" this term has come to be used widely throughout the region as a rejection of market-based approaches to economic reforms.[47] Instead, state-based approaches have become the norm in Ecuador creating a state of conflict between Rafael Correa and International Financial Institutions (IFIs).

The first clash was the expulsion of World Bank representative Eduardo Somensato from Ecuador in April 2007, a few months after Correa came to power.[48] After suspending relations with the World Bank, another confrontation came in October 2011 when Correa withdrew from the 21st Ibero-American Summit in Paraguay in protest over the speech of Pamela Cox, World Bank Vice President for Latin America. In Correa's words, he felt Ms. Cox should at least "start by apologizing for the damage done to Latin America and the countries of the world [by the World Bank]."[49]

The "interference in national sovereignty" argument is one used by many populist governments in Latin America, particularly those in the ALBA bloc. Ecuador has used this argument to justify breaking away from traditional sources of international financing and investment, such as the IMF and World Bank. Amendments to Ecuador's new 2008 constitution further complicate access to conventional international financing. This contempt for traditional sources of international financing excludes the Inter-American Development Bank (IADB) and the Andean Development Corporation (CAF), two leading multilateral lending institutions in Latin America, from which Ecuador continues to receive loans and credit. But the IMF and World Bank, and other traditional investors, have been evicted from Ecuador in favor of non-traditional, extra-regional partners with no previous commercial or financial ties to the Andean nation, namely China, Iran, Belorussia and Russia.

Iran, for instance, signed several lines of credit with Ecuador's central bank in 2008 despite international sanctions placed on the Islamic Republic for its nuclear program, violation of human rights and support of international terrorism. Belorussia has become the newest international economic partner in Ecuador's growing list of nonaligned nations, creating an economic cooperation commission and recently opening embassies in each country.[50] By 2014 China, Ecuador's principal financial backer, owned $11 billion of the country's total debt.[51]

In 2008, a strategic alliance was formed with Beijing through various energy agreements. China was operating in Ecuador prior to 2008, before Correa came to power, however, the Andean nation began to borrow massive amounts of money from its Asian partner that year. Overall, the credit flow from China is equivalent to approximately 13.6 percent of Ecuador's GDP as of 2013, covering 61 percent of the government's $6.2 billion in financing needs that year. In return, China receives an ever-larger percentage of the country's oil production, amounting to as much as 90 percent of Ecuador's oil exports. Because it can be sold anywhere by middle men, much of that oil currently ends up in refineries in California, including some operated by Chevron—the target of a $9.5 billion class-action lawsuit for its alleged contamination of Amazon lands and communities.[52]

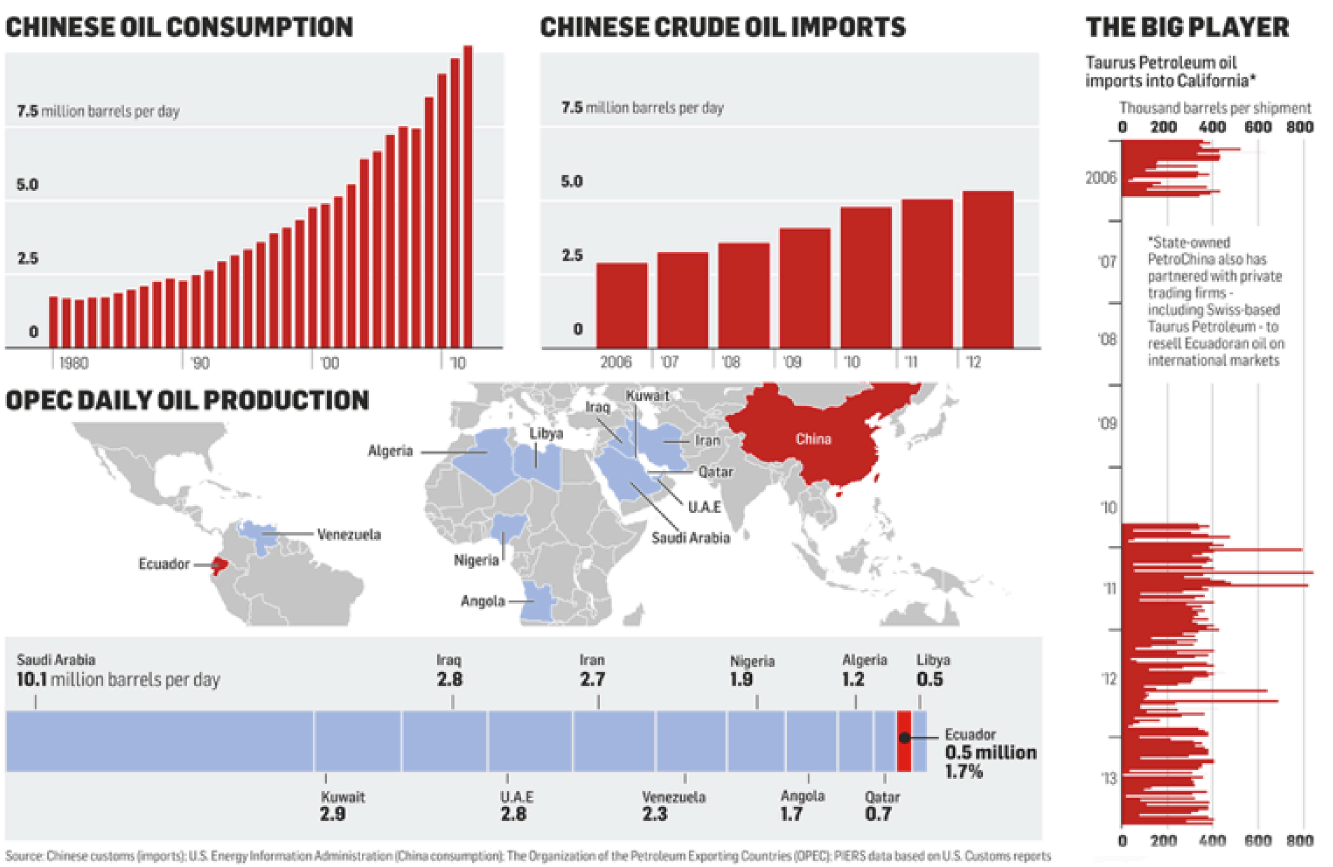
From establishing a new monetary framework to digitizing currency, a consistent strategy of economic warfare can be discerned as Correa works to break Ecuador's ties to the U.S.

In _Ecuador Made in China_, author Fernando Villavicencio outlines a strategic alliance with China enabling several oil-for-cash schemes between Quito and Beijing. Ecuador pumps an estimated 550,000 barrels per day (bpd), of which approximately half is supposedly shipped to China but less than 15,000 bpd actually hits the mainland. Most of this oil ends up in the United States. Once the Ecuadorean oil is sold at a discount to China, the Chinese turn around and resell the oil at market prices in the U.S., pocketing the difference.[53]

According to Villavicencio, PetroChina, the world's second-largest publicly traded oil firm, resells Ecuadorean crude in the U.S. market using a system of double billing: the first bill of sale, at a discount, is executed between PetroEcuador, the state oil company, and PetroChina. The second bill of sale is undertaken by subsidiaries of these state-owned enterprises, Taurus or Castor Petroleum, with the end consumer at market prices. An exchange or swap takes place (Ecuadorean petroleum is sold and in compensation volumes of crude are acquired from nearby producers, especially Iranian suppliers for Chinese refineries).[54] At the financial level, a circulatory mechanism is generated through various accounts and banks in the U.S., Panama and other financial centers. This oil-for-cash scheme, beneficial for China, is vulnerable to a variety of money laundering and corruption schemes given the surplus of the resold oil is off the books.

Despite his strongly anti-imperialist rhetoric, the indisputable evidence shows Correa's policies involve selling a larger portion of Ecuador's non-renewable economic resources to extra-regional partners for credit, cash and loans.[55] The sale of large swaths of land, mineral and exploration rights to Chinese petroleum companies, for instance, has met with growing resistance from both environmental and indigenous groups chased off their traditional homesteads.[56] Chinese domination of the Ecuadorean economy has grown steadily through loans, direct investments – signifying control of property inside the country and hence greater penetration and increasing control over foreign trade.

With economic domination comes political influence. From establishing a new monetary framework to digitizing currency, a consistent strategy of economic warfare can be discerned as Correa works to break Ecuador's ties to the U.S. and other Western powers, and to align with the political agenda of extra-regional partners, namely China and Russia. Correa's policies place Ecuador into the mix of an ongoing currency war, making the country more compatible with the economies of these authoritarian regimes and their disregard for the rule of law and human rigths. Attacks on the U.S., Western institutions, and especially the constraints posed by a dollarized economy are intended to move Ecuador into the geopolitical orbit of nations sharing a common disregard for democratic norms and a shared ambition of diminishing U.S. hegemony worldwide.



Source: Based on graphic in the Business section of the Irish Independent newspaper on Nov. 23, 2013.

AN ECONOMIC HOUSE OF CARDS

In the 1970s, Ecuador experienced a similar boom in oil prices to the one over the last decade. Government policies of fiscal deficits and expansionary monetary policy, combined with external shocks such as drops in oil prices, led to devastating economic crises.[57] Confidence in the state to allocate resources from increased oil revenue proved a delusion. When coming to power in 2007, Rafael Correa pledged "this time will be different."

Instead, benefitting from high prices for its chief export, the Correa government engaged in similar state-directed economic expansion based on easy credit. Today, Ecuador's government subsidizes everything from gasoline, transportation, housing to income support to the poor. The state's largess has reached roughly 50 percent of GDP, but as the recent drop in oil prices reveals this is not sustainable.

With an estimated 41 percent of government revenue coming from petroleum earnings, the recent drop in oil prices has had a sudden negative effect on the Ecuadorean economy.

As a resource-exporting nation, Ecuador is extremely dependent on global markets. A significant drop in the price of a primary export (e.g. petroleum) generates a fiscal crisis within the country. With an estimated 41 percent of government revenue coming from petroleum earnings, the recent drop in oil prices has had a sudden negative effect on the Ecuadorean economy.[58] Considering the government largely crowded out the private sector over the last several years, public sector spending has been the catalyst of the country's dire economic situation.

A Spending Addiction

Correa's economic program prefers state over private spending on infrastructure and industry. In this program, if the amount of money needed to promote rapid economic growth is lacking, then the government borrows and spends. When economic activity slows down, another dose of spending is required. In Ecuador's case, the Correa government is borrowing heavily on the global markets (i.e. bonds yielding over 10 percent), with total public debt soon surpassing $40 billion by the end of the year. This exceeds the legal limit of 40 percent of GDP.[59]

Among the more important spending priorities of the Correa government were the public construction projects to build new airports in the cities of Santa Rosa and Tena. Costing close to $90 million, the low frequency of flights in these airports hardly justify the high cost. Moreover, several political and financial setbacks at the massive Pacific Refinery have severely delayed this $13 billion project, the largest in Ecuador's history.[60] Perhaps most symbolic is a futile attempt to erect a South American Silicon Valley at Yachay University in this new "city of knowledge."[61] Unfortunately, underwhelming enrollment numbers at this new university inaugurated in September 2014 strain the $1.04 billion allocated into this ambitious project.[62]

Added to this are the multiple subsidies, the salary increases for government employees, and the overall doubling of the public sector, from approximately 350,000 in 2006 to 600,000 in 2014.[63] In the end, there are hundreds of billions of dollars invested in government projects that show little, if any, return on investment.

When capital is used to create two factories where once only one stood, both the country invested in and the country investing benefit. The increases in productivity and output create the wherewithal to pay back loans and credits, compensate investments, and purchase imports. This is a positive sum game. However, if the capital is made available for political actors to spend two dollars when they should have only spent one then the result is a zero-sum game, in which the politicians benefit at the expense of future generations. Unfortunately, the inefficiency of the latter has characterized the Correa government in Ecuador.

The combined factors of a drop in oil revenues and the inability to print additional dollars places the Correa government in a quandary. Therefore, Correa must rig up another set of measures to insure spending continues through the next electoral cycle. One measure is a redirection of available credit to politically popular and job generating projects, such as housing and construction. The government's housing regulations are a political deviation of resources towards housing construction and home ownership, generating an asset bubble similar to those that prompted the 2008 housing crisis in the United States.[64] Ostensibly, the new monetary junta now overseeing credit operations of private banks is pushing credit and capital into the Ecuadorean housing sector.

This new monetary junta is currently negotiating with the private banking industry in Ecuador to offer subsidies of $65,000 to expand the number of social housing units by the end of the year from 15,000 to 30,000. Moreover, the government created a stateowned enterprise for housing to consolidate this public-private "partnership." Like other public spending projects the new housing is intended to buy the votes of those receiving the subsidized units. Because the spending is determined by political considerations, and not economic factors, the possibility of a housing bubble is already on the horizon.

In order to survive the current economic climate, Correa has erected an economic house of cards, with an increase in spending as well as the money supply. As the quantity of money increases and is directed towards targeted sectors of the economy, e.g. housing, a prevailing tendency will exist for prices to increase, creating additional bubbles. The artificial boom in housing prices, for instance, cannot last forever. Paper money, bank deposits or virtual payment systems are not proper substitutes for non-existing capital goods.

As the Ecuadorean economy inevitably begins to collapse, the government will deny its own policies are causing the crises. Instead, the Correa government will argue that the true causes lie in the country's dollarization.

The Crisis around the Corner

The Ecuadorean economy is running into multiple bottlenecks as a consequence of its own expansionist spending policies. Currency devaluation is not an option, but exchange and import controls, additional protectionist measures, and a growing shortage of goods are in sight. The ongoing fiscal deficit has worsened mainly as a result of on overreach in government subsidies, while the total debt has reached record levels.

As the economic house of cards inevitably begins to collapse, the government will deny that its own fiscal policies are causing the crises. Instead, the Correa government will argue that the true causes of any economic crises lie in the inherent shortcomings of dollarization (described as a "straitjacket") and the capitalist mode of production.[65] According to this argument, efforts to preserve the dollar, or capitalism, will only lead to economic catastrophe. If the Ecuadorean people want security and economic growth, they will be told, they must first de-dollarize and ultimately turn to the government.

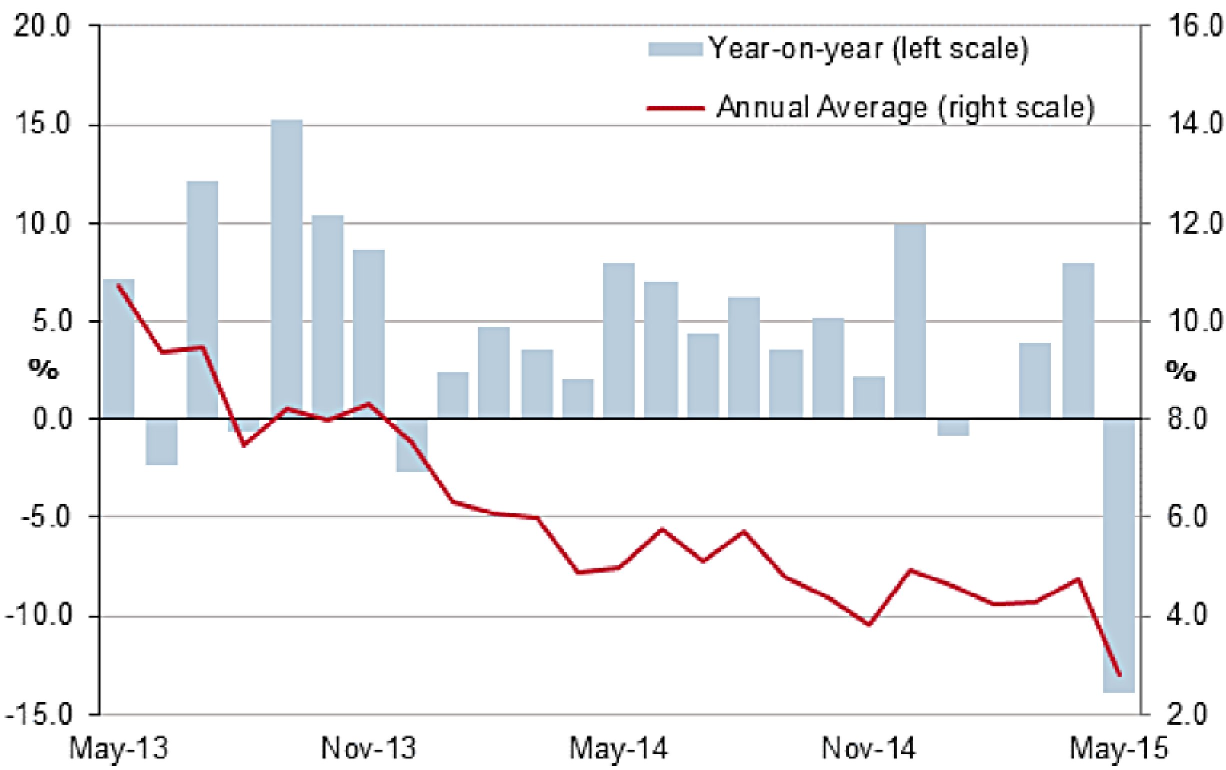
According to economist Steve Hanke, who advised the Ecuadorean government to dollarize its currency in 2000, the net effects of de-dollarization would be catastrophic. Alluding to Correa's analogy that the dollar is a "straitjacket" on Ecuador's economy, Hanke argues that, "if you go off, the fiscal deficit gets bigger, the level of debt gets bigger, inflation goes up and economic growth goes down. All the economic indicators just go south."[66]

Hanke's forecast is backed by several economic indicators that are already heading south. The last couple years underscore the overall health of the Ecuadorean economy. According to the World Bank, public sector expenses and investments increased from 21 percent of GDP in 2006 (before Correa's presidency) to 44 percent in 2013. Despite accelerated growth, largely dependent on public spending, growth has decelerated for three years in a row with rates of 5.2 percent in 2012, 4.6 percent in 2013, and 3.8 percent last year. [67] Economists in Ecuador expect the GDP to grow 2.5 percent in 2015. Simultaneously, the public debt as a percentage of GDP grew steadily from 19.2 percent (2010), 18.4 percent (2011), 21.3 percent (2012), 24.2 percent (2013) and 30 percent (2014).[68]

Overall, economic activity has been on the decline, while the government continues to spend. 2015 has so far shown the slowest pace of economic activity since 2010 as illustrated in figure 1.[69] Desperate for liquidity, the Correa government is currently raiding Ecuador's pensions. In May of 2015, as part of the new monetary structure, Rafael Correa announced the central government would stop its partial funding (40 percent) to the nationalized pension system, while social security officials are proposing a 20 percent increase in the payroll tax to make the system sustainable.[70] Meanwhile, as previously discussed, the government is promoting a massive housing plan for first time homebuyers. The plan would be financed with funds from the "excess" of the social security system.[71] The use of capital funds, described as the "excess" from the social security system, for immediate expenditures is quintessential to a process of capital consumption.

The strategy is geared to win support for the next presidential elections in February 2017. But it is not clear that this strategy will work, given government measures to seize and spend dollars for political purposes (i.e. pensions and housing law) could unleash a wave of citizens seeking to hold dollars outside of Ecuador. As Ecuadoreans become increasingly concerned about their country's economic health, and lack confidence in its

Figure 1: Ecuador Economic Outlook (May 2013 - May 2015)



Source: Ecuador Central Bank and Focus Economics calculations financial system—they may seek to either hold their deposits or make them in foreign banks. The dollar's current strength provides an additional incentive to withdraw and hold dollars given the government's intentions are not immediately transparent.

More fundamentally, a structural weakness, exemplified by the anemic inflows of FDI, is combining with a potential financial crisis and critical factors are already discernible. Capital flight is already evident, while depositors are increasingly anxious to hold dollars outside the formal banking system.[72] This is most worrisome to Correa's economic planners, because a run on deposits means fewer dollars in circulation.

Some evidence suggests this process is already underway in Ecuador. Between December 2014 and February 2015 there has been an approximate aggregate $1 billion reduction in deposits within the country's financial sector.[73] The year prior there was a 7.9 percent increase in deposits, leading one to conclude that the latest reduction is a reaction to the government's recent restructuring of the monetary system. The second fiscal quarter (Q2) of 2015 was especially worrisome for the Correa government, where a sudden run of deposits accelerated due to the perception that dollar savings are uninsured.[74]

Between December 2014 and February 2015 there was an aggregate $1 billion reduction in deposits within Ecuador's financial sector. Another sudden run of deposits accelerated in May 2015 due to the perception that dollar savings are uninsured.

By mid-2015, mass demonstrations against the Correa government in key cities such as Quito and Guayaquil were on the rise. These protests met with pro-government rallies and counter-demonstrations, further polarizing the political situation. The latest anti-government demonstrations reflect growing popular concern that the regime is solving its monetary and fiscal problems by seizing and redistributing wealth from private citizens to pay for the public sector. The search for revenue creates a perverse incentive for the government to ignore or look the other way at the source of that revenue even if it comes from illicit sources.

A Global Money Laundering Hub

Until recently, Ecuador was the primary Latin American country identified by the Paris-based intergovernmental Financial Action Task Force (FATF) as having strategic deficiencies in its anti-money laundering and combatting the financing of terrorism (AML/CFT) efforts. Appointed by the Financial Stability Board, the FATF is a global standard setting body for anti-money laundering and counter-terror finance actions that protect the international financial system. Since 2010, the FATF listed Ecuador as a "high-risk and non-cooperative" jurisdiction, making them Latin America's new capital of financial crime.[75] Coupled with the rise of drug trafficking, homicides and other criminal activity in Ecuador, the Andean country has become, what one official from the Drug Enforcement Administration has called, a veritable "United Nations" of organized crime.[76]

Ecuador's military and police have reported foreign drug trafficking organizations present throughout the country for years. This includes regional cartels from Colombia and Mexico as well as extra-regional organized crime syndicates from Russia and China.[77] The rise of transnational organized crime in Ecuador has paved the way for an increase in both white collar and street crime, prompting a response from the government. This past June, Ecuador made sufficient progress on improving its AML/CFT compliance to avoid the risk of being further downgraded by the FATF, to a level currently shared by only Iran and North Korea as "particularly problematic, noncooperating countries."[78] Although it is now listed by the FATF as being in an "on-going process" to improve its compliance standards, Ecuador has yet to address concerns over state-sanctioned money laundering schemes.

The Correa government is implicated in a variety of these schemes, particularly through the SUCRE trade system adopted by ALBA nations in 2010. Internal documents from Ecuador's tax collection agency and customs officials show a vast number of fictitious trade transactions between Ecuador and Venezuela via the SUCRE system. Most notable was a 2012 case where an Ecuadorean company exported "black pepper" in excess of $10 million to a Venezuelan company through several supposed multi-ton shipments. Ecuadorean customs officials, however, reported that less than one ton had actually been shipped.[79] This led authorities to deem over five percent of SUCRE transactions were suspicious in 2013. Two years later, this appears to be a modest estimate as an additional $135 million or more in suspicious SUCRE transactions to Venezuela are currently under investigation.[80] Given the virtual nature of the SUCRE it has proven to be a preferred method for trade-based money laundering in Ecuador through mis-invoicing, a common tactic used to wash and legitimize illicit funds.

The heightened scrutiny of the SUCRE system comes as law-enforcement officials and policy makers around the world pay more attention to the risks posed by proliferation of virtual currencies. As discussed previously, Ecuador now has a national digital payment system to match its regional one, e.g. SUCRE, allowing domestic currency to pair up with international money launderers through a virtual financial network that is connected to domestic and offshore banks. While the Correa government has shown some improvement this year on addressing money laundering concerns, the FATF still must perform an on-site visit to confirm that Ecuador is complying with their action plan in addressing AML/CFT deficiencies previously identified. This onsite visit is expected to take place prior to the next FATF meeting.[81]

Meanwhile, the increasingly opaque economic environment in Ecuador makes it particularly attractive for international money launderers taking advantage of the general opacity in the global financial system. The rise of illicit financial outflows in Ecuador is officially registered at $1.9 billion in 2012, according to a Global Financial Integrity (GFI) report, while net inflows of FDI were only $585 million that same year.[82] That means that for every investment dollar coming into Ecuador in 2012, close to four dollars flowed out through illegal means. This is almost twice the global average of illicit outflows for developing countries.

In this same GFI report, the international watchdog lists China atop the charts in illicit financial outflows contributing an average of $125 billion in illicit financial flows over the last decade. With nearly $11 billion lent to Ecuador during that same period, its probable that these Chinese loans and investments were plagued with funds from illicit sources. Second to China in illicit financial outflows is Russia at a little short of $100 billion, on average, flowing out of the Federation in the last ten years through gray and black markets.[83] But unlike China, whose high-profile trade relationship with Ecuador is widely reported, little attention is paid to Russia's growing bilateral relationship with Ecuador.

RUSSIA: THE EMPIRE STRIKES BACK

In February 2014, Russian Defense Minister Sergei Shoigu announced that the Federation was talking with Nicaragua, Cuba and Venezuela about establishing military outposts in these nations for re-supplying Russian warships and potentially for refueling Russian long-range bombers. That same month a Russian signals intelligence ship was spotted off the coast of Cuba. This rhetoric and action prompted many observers to comment on Russia's resurgence in Latin America, including General John Kelly, the head of U.S. Southern Command, who noted that Russia's new military presence in the region was greater than anything seen in three decades.[84]

Other high-ranking Russian defense officials have visited these three nations to enhance their military-to-military relationship. According to security scholar, Dr. R. Evan Ellis from the U.S. Army War College, Russia's expanded engagement in Latin America began in earnest in 2008 in response to U.S. deploying naval forces to the Black Sea during the 2008 conflict in the former Soviet Republic of Georgia. Russia responded with a series of diplomatic and military overtures throughout Latin America, including the deployment of nuclear-capable bombers and multi-ship naval flotillas to the Caribbean. Since then Russia has steadily increased its military presence in the southern hemisphere, highlighted in March 2013 with the visit to Nicaragua by Russian Armed Forces Chief of Staff, Valery Gerasimov, to announce the construction of a major new counter-narcotics center in Managua.[85]

Similar to its reaction to the 2008 Georgia conflict, the 2014 conflict in Ukraine prompted several high-ranking Russian officials to bolster a flurry of provocative declarations regarding the reactivation of military bases in Latin America. These statements were matched by populist leaders in the region, such as Argentine President Cristina Fernández de Kirchner, who publicly defended Russia's annexation of Crimea and its aggression in Ukraine through both traditional and social media. In return, President Putin pledged to help Argentina develop an additional nuclear reactor and potentially build bases for its satellite system in the southern region of Patagonia. He then declared Argentina a "principal strategic partner in Latin America."[86]

Argentina is just one of several countries in Latin America that Russia has re-engaged. This reengagement is focused on rebuilding relations with former Soviet-era allies, such as Cuba, Nicaragua and Peru, while bolstering its trade with the region, expanding almost six-fold over the last decade from $3.3 billion in 2003 to $18.8 billion by the end of 2013.[87] Arms and military sales have been a significant percentage of this trade, particularly with Venezuela buying $11b of the $14.5 billion, or 75 percent, of Russian military goods sold to the region over the last ten years.[88] Russia's more traditional commercial relationship, however, has been dominated by Brazil and Mexico, which combined account for close to half of Russia's total trade in Latin America. However, voluminous military sales and large commercial contracts have overshadowed another prominent trade and strategic partner for Russia in Latin America: the Republic of Ecuador.

Russia's fifth largest trade partner in Latin America is Ecuador with close to $1 billion total trade in 2014. When adjusted for population, at only 16 million inhabitants, Ecuador's trade per capita with Russia is the largest in the region.

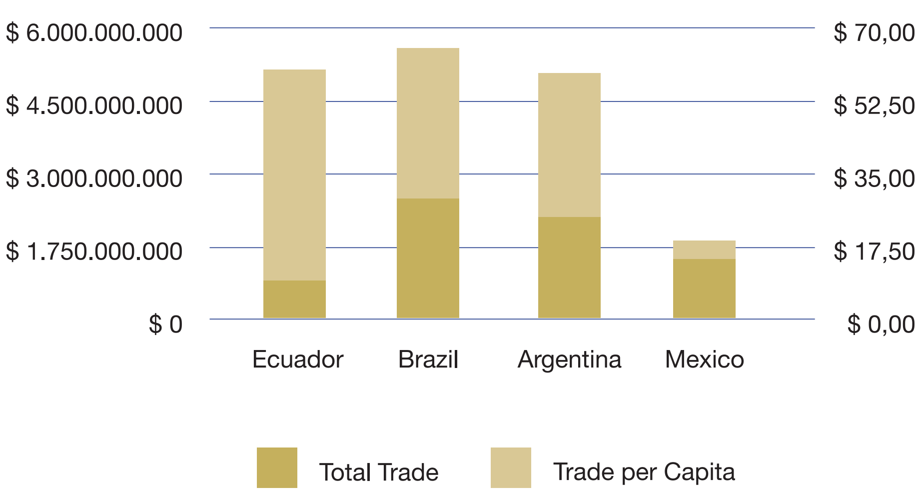
The Russian Bear courts the Ecuadorean Condor

When the U.S. and Europe imposed sanctions on Russia for its aggressive actions in Ukraine, Putin responded by suspending purchases of European agricultural goods. A year-long embargo on food imports from the countries participating in the sanctions, opened the door for South American exporters of foodstuffs. Russia quickly became the world's largest importer of Brazilian meat.[89] Argentina began increasing its milk exports to the Federation. Many South American nations lined up to sell meat, dairy, fruits, vegetables and fish to Russia, once the Federation eased its strict phytosanitary import requirements.[90] Among those nations was Ecuador, having already positioned itself as one of Russia's top trade partners in Latin America.

According to the United Nations Commodity Trade Statistics Database, Brazil is Russia's top trade partner in Latin America with $6.7 billion total trade in 2014. Argentina is a distant second with $2 billion, while Mexico is third with close to $1.8 billion. This is not surprising given these are the three largest countries in Latin America in terms of GDP and population and often the top trade partners for most countries coming from the east. Fourth on the list is Venezuela with $1.5 billion, largely comprised of military arms sales as previously mentioned. Rounding out the top five is Ecuador, a much smaller country with close to $1 billion in total trade with Russia, punching well above its weight. When adjusted for population, at only 16 million inhabitants, Ecuador's trade per capita with Russia is the largest in the region as depicted in figure 2 below.

Total trade distribution among the 16 million people in Ecuador is higher than Russia's other top trade partners in Latin America, making the Correa government a strategic partner for the Russian Federation. This strategic alliance is underscored by the fact that Russia's only transoceanic shipping line to South America sails directly between St. Petersburg to Guayaquil, passing through the Panama Canal. On March 22, 2010 the ECUBEX (Ecuador Baltic Sea Express) opened the first direct freight traffic liner route between Russia and South America.[91] Operated by the world's largest shipping company, the Maersk Line, the Danish company set up this direct service between Ecuador and Russia to operate once a week, cutting the transit time between the two countries by 10 days. The Maersk Line initially attempted to merge this new ECUBEX service with its Central America and Caribbean Express (CRX) in 2011, only to once again split the respective services into separate rotations in 2012.[92] The creation of this direct route between Ecuador and Russia opened new markets for Ecuadorean exporters, namely of tropical fruits and fresh flowers. As the undisputed leader in Russia's banana market, with a share of over 90 percent, Ecuadorean banana exports broke new records in 2014 with a quarter of these exports going to Russia.[93]

Figure 2: Total trade vs. Trade per capita w/ Russia in 2013

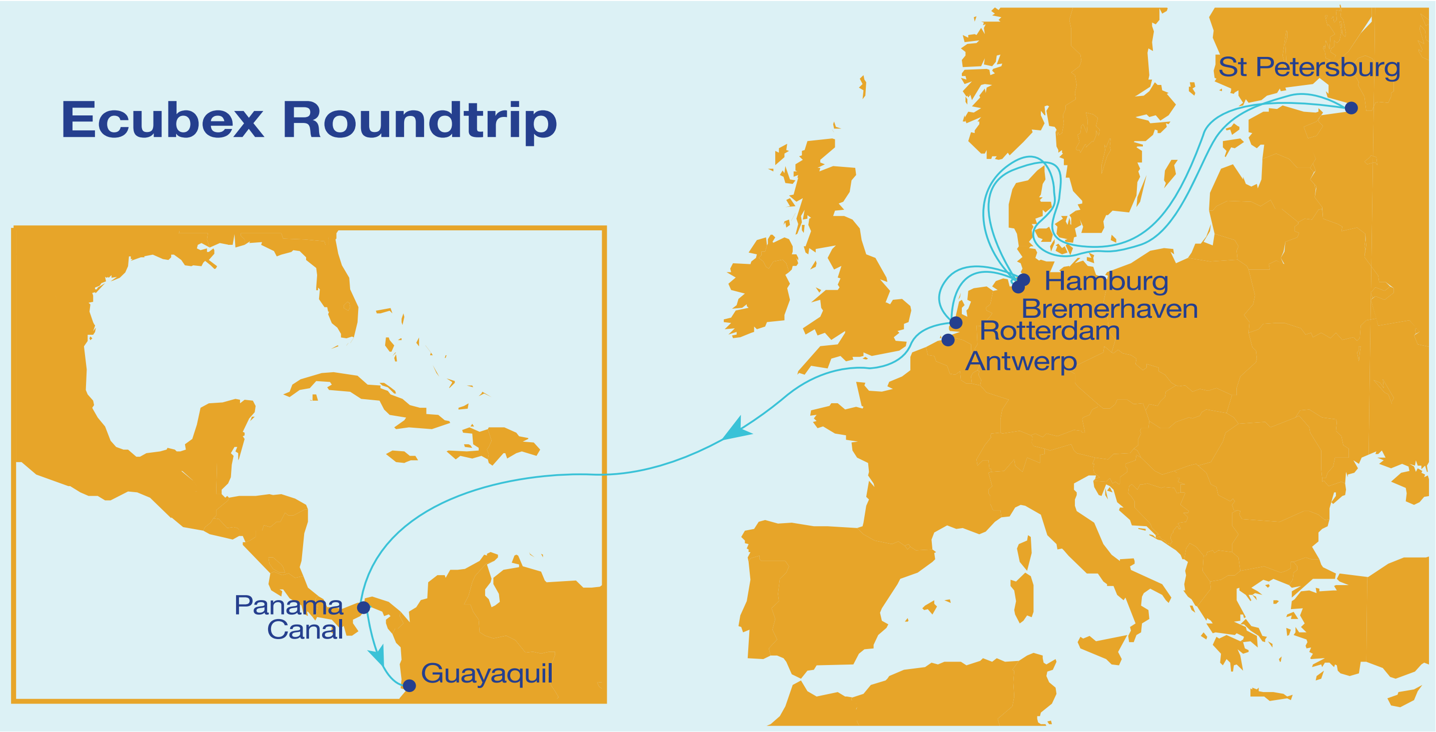


Source: United Nations Commodity Trade Statistics Database

Ecuador's strategic alliance with Russia has catalyzed the two countries to revise all bilateral agreements from the past 20 years "in order to work more actively on the most important contracts and abandon the unnecessary ones," according to the new Ecuadorean ambassador to Russia, Julio César Prado Espinosa.[94]

"We are the second-largest country in Latin America in terms of selling products to Russia after Brazil. This is very significant for such a small country like Ecuador… This means that Russia has an important space for Ecuador and recognizes Ecuador as an important strategic partner."

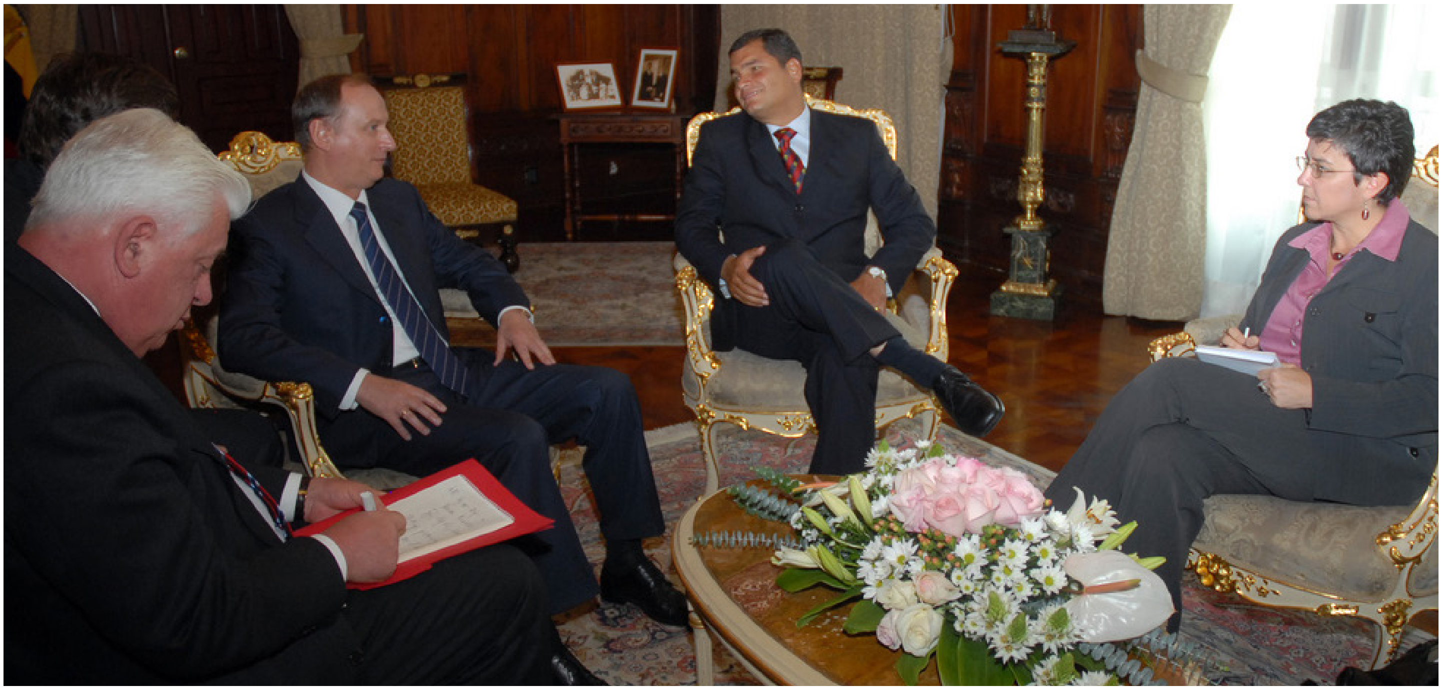
- Amb. Julio César Prado Espinosa in an interview with Sputnik News on May 12, 2015.



It is unusual that one of the smallest countries in Latin America, with an underperforming economy, is a top regional trade partner for one of the largest countries in the world. Many analysts, however, suspect that this emerging relationship is less about trade and more about geopolitical posturing. The dominance of geopolitics emerges quite strongly in Russian foreign policy extending to Latin America. Russia scholar and American Foreign Policy Council Senior Fellow, Dr. Stephen Blank, argues that Russia's interests in Latin America are "fundamentally geostrategic, not economic, and no Latin [American] economy save perhaps Brazil can offer much tangible benefit to Russia."[95] Dr. Blank's point has merit when examining the offset of Russia's newfound relationship with Ecuador.

A year before President Correa took his first trip to Moscow in October 2009 (the first time an Ecuadorean leader had ever done so), Putin sent Nikolai Patrushev, the head of the Russian Security Council, to Quito in order to initiate intelligence and security cooperation.[96] Patrushev was the former head of the Russian Federal Security Service (FSB) and a long-time crony of Vladimir Putin. A recipient of many military honors, including the title 'Hero of the Russian Federation' for his part in the Second Chechen War, Patrushev is a key player in Russia's military-security establishment known as the *siloviki* and one of the most powerful men in the Federation.[97] Patrushev's presence in Quito in October 2008 was the beginning of enhanced intelligence cooperation between Russia and Ecuador extending to technical-military cooperation and even nuclear cooperation in the years that followed. A 2009 energy agreement between the two countries and subsequent visit to Ecuador by the Russian atomic energy agency Rosatom, further fanned speculation that the Kremlin was strategically inserting itself into Ecuador.

In 2013, Rafael Correa returned for a second trip to Russia to discuss an estimated $1.5 billion in collaborative projects,[98] but as Patrushev told Ecuador's government in Quito back in 2008, these projects are part of a larger strategy "to expand Moscow's influence in Latin America." Today, Russia under the leadership of Vladimir Putin and guidance of Nikolai Patrushev, are formulating a new 15-year economic security strategy that guides its foreign policy.[99] Given that Latin America is "one of the priority regions in Russia's



Nikolai Patrushev (center left), head of the Russian Security Council, seated next to Ecuadorean President Rafael Correa (center right) in Quito in 2009.

foreign policy,"[100] this strategy will undoubtedly include advancing an anti-dollar agenda with its allies in the region.

An Alliance Underway

The conflict in Ukraine served to solidify the Kremlin's commitment to a policy of overturning the U.S. dollar as the world's premier reserve currency. In its effort to reduce the influence of the dollar in its near abroad, Russia created the Eurasian Economic Union (EEU), a five member economic bloc of former Soviet satellite states. Consisting of Belarus, Kazakhstan, Armenia and most recently Kyrgyzstan, these Central Asian republics have played with the idea of adopting a common currency. While the Russian ruble is in no position to replace the dollar in international reserves, it could become a regional reserve and trade currency for Russian and Central Asian gas suppliers and Eastern European gas customers, dislodging the dollar to that extent at least.[101] In order to do so, the EEU will need to find additional trade partners to build the union's international reputation and legitimacy abroad.

In a 2014 interview with Cuba's state-owned Prensa Latina and Russia's Itar- Tass news agency, Vladimir Putin emphasized cooperation with Latin America as key to Russia's foreign policy. Putin particularly singled out the CELAC currently led by Rafael Correa of Ecuador and also mentioned that Russia is open to "substantive interaction" with all economic blocs in the region. Of particular importance is the integration of UNASUR to the EEU.[102] Russia discussed this integration at the last UNASUR regional meeting in Quito in December 2014 and subsequently signed a memorandum of cooperation. The Federation is currently working to increase cooperation between the EEU and Mercosur, a separate but similar economic bloc in South America. Shortly after, Ecuador announced they are studying the feasibility of a trade agreement with the EEU via Belarus, currently hosting this Eurasian union. As mentioned earlier, Ecuador is the common denominator in all regional political and economic blocs in South America and is leading the charge in developing a new regional bank.

Under the mantra of regional economic integration UNASUR is revitalizing a once failed concept of the Bank of the South or Bancosur. Initiated in 2007 and ratified in 2009, the Bank of the South struggled to materialize for several years until last December. At the most recent UNASUR meeting in Quito, member states agreed to initiate the Bank of the South. Holding an initial capital of $20 billion with funds contributed by Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela, the new regional bank is expected to finance infrastructure projects in the region. In order to facilitate the payments for these projects the Bank of the South is proposing to use the SUCRE trade system actively promoted by Ecuador.[103] Considered crucial to the implementation of a new regional financial architecture, this alternative payment system bypasses the monopoly of the SWIFT system.

Alternative payment systems have become Ecuador's comparative advantage to this new global anti-dollar alliance, as emphasized by the former Ecuadorean Ambassador to Russia, Alberto Chávez Zavala:[104]

> *"It is important for our countries to create new mechanisms of financial compensation, which would help us depend less on the purchase of the dollar in trade. Russia and Ecuador must seek to establish a system of payments in national currencies."*

- Amb. Alberto Chavez Zavala in an interview with Sputnik News on May 12, 2015.

A crisis in Ecuador works to the advantage of a Russia committed to an attack on the U.S. dollar. The drop in the price of oil is the first symptom in Ecuador's difficult future. Fiscal imbalances cannot be remedied by taking a path of inflation, and the Correa government cannot use the central bank to finance the deficit. This opens up the road to removing the constraint of dollarization and the reintroduction of a virtual domestic currency. This virtual currency, however, would have to be backed by an alternative to the dollar, which presents potential for China's yuan or renminbi to gain strength in Ecuador.

Combined, Latin American countries have already conducted a total of over 300 billion RMB in currency swaps with China, illustrating the internationalization of the renminbi and the potential for a RMB trade bloc in Latin America.

Rise of the Renminbi

Russia began calling for an end to the dollar as recent as March 2009, looking for an alternative reserve currency. That same year, China began signing bilateral currency swap agreements with various countries around the world in hopes of internationalizing its national currency, the yuan or renminbi (RMB). Since then Beijing has signed non-dollar denominated trade agreements with at least ten countries and has conducted 24 bilateral currency swap agreements (BSAs), including three in Latin America.

In Argentina, China signed a three-year currency swap agreement in 2009,totaling 70 billion RMB or $10.2 billion. This initial agreement expired in 2012 but was renewed in July 2014. Chile's currency swap with China is of more recent vintage. Easing the exchange of up to 2.2 trillion pesos (approximately $3.6 billion), the People's Bank of China named China Construction Bank Co. as the renminbi-clearing bank in Chile, allocating an addition 50 billion RMB ($8.1 billion) in Renminbi Qualified Foreign Institutional Investor quotas.

Brazil, however, holds the largest currency swap in Latin America with China worth 190 billion RMB or 60 billion reais. Given the size of their trade relationship, it seems very likely that within the next five years or so much of China-Brazil trade will be paid for in RMB rather than dollars. Both countries have already occasionally used their own currencies in bilateral trade transactions. Combined, Latin American countries have already conducted a total of over 300 billion RMB in currency swaps with China, which illustrates the internationalization of the renminbi and could be the beginning of a RMB trade bloc in Latin America.

According to a study by the Peterson Institute of International Economics, the RMB is already taking on an international role as a unit of account or as a reference point for other currencies, especially among emerging economies. The Chinese have requested that the IMF anoint the RMB as a reserve currency, among the elite basket of currencies that comprise the fund's lending reserves. In the meantime, however, the Chinese are aggressively diversifying their cash reserve positions away from dollar-denominated instruments of any kind. This does not involve dumping and reinvesting by China, but simply deploying its new reserves in new directions. The Chinese earn several hundred billion dollars each year from their trade surplus. This is a massive amount of new money that needs to be invested alongside the reserves they already have. While existing reserves may remain mostly in U.S. Treasury debt, new reserves can be used in any way that makes sense to the Chinese.

The slow appreciation of the renminbi, its gradual internationalization and its eventual convertibility are all factors in the creation of a trade bloc that, whether it displaces the U.S. dollar or not, could undermine its predominance in key regions. Ecuador, along with several Latin American countries, no longer wish to avail themselves to IMF assistance and have increasingly relied on China's vast foreign currency reserves and its ability to make loans and give aid both of which have increased dramatically.

More importantly, in the long run, as RMB-denominated trade blocs grow, pressure could accumulate to replace dollar positions by key central banks with the alternative currency. As an ally of Russia, Ecuador might then be in a better position to pursue de-dollarization by swapping dollars for renminbi or some other alternative currency.

On August 11, 2015, China began a devaluation of its currency the yuan (or renminbi). The current devaluation, while underscoring the slowdown of China's economy, might also prove beneficial to a country like Ecuador in the short run. Denominating its exports in a devaluated currency, as opposed to a strong dollar, would make these exports cheaper and more attractive. Paying its debts in a likewise devalued currency, while detrimental to debt holders would make repayment easier on Ecuador.

Three days after China's recent currency devaluation, the value of the yuan dropped 4 percent against the U.S. dollar. In subsequent days, however, the yuan stabilized as the People's Bank of China (PBoC) effectively liquidated over $106 (or more) billion in foreign exchange reserves. This comes after a reported $107 billion in U.S. Treasury's have been sold by China since the start of 2015. This means China has sold as many Treasuries in two weeks as it sold in the entire first half of the year.[105]

According to a Citi letter cited by the *Financial Times'* David Keohane, the need for large foreign reserves by China is decreasing. "Put simple," the letter argued, "once a country can print a currency which is internationally accepted as a store of value, then its need for precautionary holdings of other countries' reserve currencies will fall."[106] The events of August 2015, namely the Chinese currency devaluation and stock market bust have moved several pieces of the chessboard to potentially negatively affect the dollar.

A NEW BATTLEFIELD

The U.S. dollar, serving as the world's premier reserve currency, faces innumerable challenges especially from the emerging economic giants of the BRIC. While a weaker dollar makes U.S. exports more competitive, a stronger dollar makes borrowing costs higher, among other effects. More importantly, the effect of macroeconomic policy decisions in Washington or elsewhere may have a negative effect beyond the control of emerging economies (e.g. quantitative easing affecting China's holdings of dollar denominated debt negatively). By 2011, for instance, emerging countries held an estimated 67 percent of currency reserves, roughly $6.8 trillion in reserve currency. These countries have long advocated for special drawing rights, while others have called for an alternative monetary system reflective of their relative rise.

Russia, China and Ecuador answer the call for this alternative monetary system through three mutually reinforcing pillars.

1. The first pillar is the creation of alternative development banks. In Latin America, the newly revitalized Bank of the South is complemented at the international level by the introduction of the New Development Bank, i.e. BRICS bank. Both institutions seek to displace the World Bank and IMF in serving as a lender of last resort.

2. The second pillar is to establish alternative payment systems that bypass the conventional SWIFT system. China expects to launch its own international payment system this year to next, while Russia has already implemented a domestic version. Ecuador has advanced a virtual system through its national sistema dinero electronico and a regional SUCRE trade system, plagued with money laundering concerns.

3. The final pillar is to develop new common reserve funds to include reserve pooling, currency swaps and a way to insure their domestic currencies. A role for commodities as the basis for a new reserve currency is often discussed in this refrain. Both China and Russia are increasingly accumulating physical gold, as Ecuador depletes its gold reserves.[107]

For some analysts, the creation of an alternative monetary system is primarily a political and economic matter. Control of a global monetary supply allows regional and global allocation of resources. An alternative fund might contribute to bolstering state-owned enterprises, subsidizing unprofitable infant industries and bailing out command economies that meet political criteria while failing the test of a global market. Oligarchic, monopolistic and protected industries might gain a competitive advantage through currency manipulation, in effect a subsidy from a central bank. Undermining a sound currency such as the dollar or the euro, allows trade and investments to be governed by a predominantly political mechanism.

While correct these analysts fail to consider the geopolitical implications of such an alternative system. In the bestselling book *Currency Wars*, author James Rickards make a strong case for how U.S. adversaries employ economics as a means of war.[108] Quoting from an essay of another 1999 book, Rickards provides one of the clearest descriptions of Chinese strategy on economic warfare:

> *"Financial warfare has now officially come to war's center stage – a stage that for thousands of years has been occupied only by soldiers and weapons.... We believe that before long "financial warfare" will undoubtedly be an entry in the ... dictionaries of official military jargon. Moreover, when people revise the history books of twentieth-century warfare ... the section on financial warfare will command the reader's utmost attention.... Today, when nuclear weapons have already become frightening mantelpiece decorations that are losing their real operational value ... financial war has become a "hyper-*

strategic" weapon that is attracting the attention of the world. This is because financial warfare is easily manipulated and allows for concealed action, and is also highly destructive."[109]

- Pg. 160 of Currency Wars: The Making of the Next Global Crisis by James Rickards

Authored by two Colonels from the People's Liberation Army (PLA), this excerpt from the book *Unrestricted Warfare* provides a glimpse into modern day Chinese thinking on warfare. The root causes of modern warfare, whether military or economic, lie in the trend toward government control of business. According to the economist Ludwig von Mises:[110]

"A nation's policy forms an integral whole. Foreign policy and domestic policy are closely linked together; they are but one system; they condition each other. Economic nationalism is the corollary to the present day domestic policies of interference with business and of national planning, as free trade is the complement to domestic economic freedom."[111]

- Pg. 3 of Omnipotent Government: The Rise of the Total State and Total War by Ludwig von Mises

The intersection of domestic economic policy and foreign policy should be a national security priority for the United States. The Chinese and Russian economic downturn coupled with their foreign policy posture in Latin America is a phenomenon the U.S. must properly understand. Ecuador's monetary manipulation combined with their strategic reliance on China and Russia presents a new nexus in economic warfare. While the U.S. military detects Russian bombers patrolling the Caribbean, and policymakers fret over the proposed Chinese construction of an alternative Nicaraguan canal. The growing ability to control anti-US regimes economically in Latin America is at the heart of the rising Russian and Chinese influence in the region. Advancing an antidollar alliance provides Moscow and Beijing with the capability to achieve their strategic and military objectives. Establishing a strategic partnership with Ecuador permits the staging of a new economic battlefield in the Western Hemisphere.

NOTES

1 Marcelo Hernandez. “Bolivia Invites Russia to G77.” TASS Russian News 1 Agency. June 6, 2014.

2 An author attended the G77+China summit in Santa Cruz, Bolivia on June 14-15, 2014 as a representative of an independent NGO/Media organization.

3 U.N General Assembly, 68th Session. “Report of the Economic and Social Council” Annexes, Official Record. New York, 2014. You can read the letter from the Permanent Representative of the Plurinational State of Bolivia to the UN as well as the Annex with the G77 Declaration here: http://www.g77.org/doc/ A-68-948(E).pdf

4 For more see Schoen, Douglas, and Melik Kaylan. Chapter 6, “The Economic Contest: America on the Sidelines.” The Russia-China Axis: The New Cold War and America’s Crisis of Leadership. New York, New York: Encounter Books, 2014.

5 Another 26% of China’s foreign exchange reserves are in Euros, about 5% in sterling and 3% in Yen, although this remains a closely guarded secret of the People’s Republic.

6 Durden, Tyler. “Financial Warfare: Russia’s “Anti-Dollar Alliance” to Halt US Aggression. Top Putin Advisor.” Global Research Newsletter. June 18, 2015.

7 Ibid.

8 Speech by Sergey Glazyev at the Russian Academy of Sciences and the National Academy of Sciences of Ukraine on June 10, 2014. “Why America Square.” No. 21 (413). Partially covered in an interview with Dimitri K. Simes of The National Interest on March 24, 2014. http://nationalinterest.org/commentary/interview-sergey-glazyev-10106

9 The concept of “eurasianism” appeared more than a hundred years ago in the 19th century as a compromise among nationalists to create a positive Russian identity relative to the advanced western world.

10 Bussières, Pierre-Olivier. “Sergey Glazyev and the Eurasian Backup.” Republic of the East. February 24, 2015.

11 Michael Pizzi. “Russia, China Sign Deal to Bypass US Dollar.” Aljazeera America. May 20, 2014.

12 Michelle Chen, and Koh Gui Qing. “China’s International Payments System Ready, Could Launch by End-2015.” Reuters. Thomson Reuters, 09 Mar. 2015. Web.

13 “’Anti-Sanctions’ National Payment Card System Introduced in Russia.” Russia Insider. April 3, 2015.

14 “BRICS Contingent Reserve Arrangement Treaty Comes into Force.” Russia & India Report. July 30, 2015.

15 “Interview given to Russian News Agency ITAR-TASS.” Kremlin. July 15, 2014.

16 Rafael Correa. “Crecimiento Inclusivo: Soluciones Sostenibles.” Lecture, La VI Cumbre Del BRICS, Brasilia, July 16, 2014.

17 For more information refer to the book: Paul Beckerman, Andres Solimano, and Luc Christiansen. Crisis and Dollarization in Ecuador Stability, Growth, and Social Equity. Washington, D.C.: World Bank, 2002

18 Douglas Farah, and Glenn Simpson. Ecuador at Risk: Drugs, Thugs, Guerrillas and the Citizens Revolution. International Assessment and Strategy Center (Washington D.C.). Published by Inter-American Institute for Democracy, Democracy Papers No. 3. (Miami, FL). May 2010.

19 Jon Perdue. “As Chavez Goes Silent, Correa Prepares to Lead Latin American Left.” Fox News Latino. April 1, 2012.

20 Osvaldo Hurtado. 21st Century Dictatorships: The Ecuadorian Case. 3rd ed. Miami, Florida: Inter- American Institute for Democracy, 2013.

21 Joseph Humire. “Changing of the Guard in Latin America.” The Huffington Post. May 7, 2013.

22 Andrés Paez. “Ecuador’s Rafael Correa Tries to Control the Courts throughout Latin America.” Fox News Latino. April 6, 2015.

23 Paul Beckerman, Andres Solimano, and Luc Christiansen. Crisis and Dollarization in Ecuador Stability, Growth, and Social Equity. Washington, D.C.: World Bank, 2002.

24 U.S. Department of State. “2014 Investment Climate Statement June 2014”. Accessed at: http://www.state.gov/documents/organization/228171.pdf

25 U.S Department of State. Bureau of Economic and Business Affairs. “2013 Investment Climate Statement February 2013.” Accessed at: http://www.state.gov/e/eb/rls/othr/ics/2013/204634.htm

26 “15 Años Después, El Dólar Tiene Un 85% De Popularidad En El

País." El Comercio (Quito, Ecuador).
January 8, 2015.

27 Nathan Gill. "Ecuador's Dollar Reliance Worsens Impact of Oil, Correa Says." Bloomberg. January 29, 2015.

28 "Correa Defiende a La 'Superjunta' Monetaria." El Universo (Guayaquil, Ecuador). July 12, 2014.

29 Read the entire Organic Monetary and Financial Code here: http://www.asambleanacional.gob.ec/es/ system/files/ro_codigo_organico_monetario_y_financiero.pdf

30 "Rafael Correa Lays Out Comprehensive Banking Reform." PanAm Post. June 26, 2014.

31 "Correa Will Meet with Bankers Due to "concern" about the New Monetary and Financial Code." Andes.com. August 16, 2014.

32 Marcela Estrada. "Correa Seeks 'Super' Board to Rule Ecuador's Banks." PanAm Post. July 7, 2014.

33 Nathan Gill. "Correa Proposes Referendum Vote on Banks' Holdings." Bloomberg. January 8, 2011.

34 Data taken from Association of Private Banks in Quito, Ecuador and Mercedes Alvaro. "Ecuador's Banks Face Tougher Regulations." The Wall Street Journal. January 24, 2014.

35 Marcela Estrada. "Correa Seeks 'Super' Board to Rule Ecuador's Banks." PanAm Post. July 7, 2014.

36 To read the letter from the Bitcoin Community of Ecuador to Rafael Correa, President of the Republic of
Ecuador, dated August 6, 2014, see here: http://www.bitcoinecuador.org/medios.html#documentos

37 Stan Higgins. "Ecuador Bans Bitcoin, Plans Own Digital Money." CoinDesk RSS. July 25, 2014.

38 Mary O'Grady. "Ecuador's Phony Bitcoin Ploy." The Wall Street Journal. August 24, 2014.

39 "Money From Nothing?" The Economist, September 3, 2014.

40 "Moneda Social UDIS Genera Debate Sobre Su Legalidad Y Otra Propuesta." El Universo (Guayaquil,
Ecuador). May 4, 2011.

41 "UDIS Salieron De Circulación, Tras Cuestionamiento." El Diario Ecuador. April 22, 2011.

42 Mercedes Alvaro, and Jeffrey Lewis. "Who Needs Bitcoin? Venezuela Has Its 'Sucre'" The Wall Street
Journal. January 2, 2014.

43 John Dennehy. "Ecuador Launches New Digital Currency – but Most Residents Know Little about It." The Guardian. February 26, 2015.

44 Jim Wyss. "Ecuador's New Virtual Currency Is a Source of Pride, Worry." The Miami Herald. August 12,
2015.

45 Belen Marty. "Ecuadorian Banks Must Adopt Official Electronic Currency or Else." PanAm Post. May 31, 2015.

46 Ezequiel Vazquez-Ger. "The End Of Dollarization In Ecuador: The Crisis Has Begun." Investor's Business Daily. June 24, 2015.

47 John Williamson."A Short History of the Washington Consensus." Institute for International Economics, 2004. Accessed July 1, 2015. http://www.iie.com/publications/papers/williamson0904-2.pdf.

48 "Ecuador 'expels World Bank envoy.'" BBC News. April 26, 2007.

49 "Ecuador Leader Exits World Bank Summit." Macau Daily Times. October 30, 2011.

50 "Vicepresidente Bielorruso Irá a Reunión De Comercio Y Cooperación En Ecuador." El Comercio (Quito, Ecuador). February 10, 2015.

51 Fernando Menendez. "Does China Own Ecuador?" China-US Focus. October 6, 2014.

52 Joshua Schneyer, and Nicolas Mora Perez. "A Look at the Traders behind the China-Ecuador-U.S. Oil Triangle." Reuters. November 26, 2013.

53 Fernando Villavicencio. Ecuador Made in China. Spanish ed. Quito, Ecuador: Interamerican Institute for
Democracy, 2013.
54 Ibid.

55 Andrew Ross. "Why Is Ecuador Selling Its Economic and Environmental Future to China?" The Nation, 2014.

56 Clifford Krauss, and Keith Bradsher. "China's Global Ambitions, With Loans and Strings Attached." The New York Times, July 24, 2015.

57 Juan Fernando Egas. Ecuador Fragmentado: Selección De

Ensayos Acerca De Una Sociedad Que No Se Organiza. 1.st ed. Quito: Planeta, 2001.

58 Grijalva, D. 2014 “El fin del super cilo de los commodities y su impacto en América Latina” Koyuntura
No. 48 Instituto de Economía, USFQ.

59 “Deuda De Ecuador Creció En $18.000 Millones.” El Universo (Guayaquil, Ecuador). April 12, 2015.

60 “Correa: Ecuador Expects China to Fully Finance Pacific Refinery.” Latin American Herald Tribune. Accessed August 30, 2015.

61Gabriela Lizarzaburo. “Yachay, La Universidad Que Proyecta Formar a La élite Científica De Ecuador, Abre Sus Puertas.” Andes Ecuador. March 30, 2014.

62 Jim Wyss. “Ecuador Is Betting $1 Billion That a Dream City Can Make It a High-tech Leader.” The Miami Herald, July 12, 2014, Americas sec.

63 Carol Jara Alba & Sebastián Umpierrez de Reguero. “Evolución del Sector Publico Ecuatoriano desde 1998 a 2013”. Revista Enfoques. Vol. XII, No. 21, 2014, pg. 131-148. December 29, 2014

64 Author interviews with economists and bankers in Quito, Ecuador on February 2015.

65 Nathan Gill. “Ecuador Weighs Escape From Dollar ‘Straitjacket’” Bloomberg. July 24, 2014

66 Nathan Gill. ”Ecuador’s Dollarization Architect Doubts Correa’s Pledge.” Bloomberg. September 16, 2014.

67 Robert Hill. “Ecuador: Growth in Economic Activity Doubles in April” Focus Economics. June 11, 2015.

68 Pedro Romero. “Estudio de la situación monetaria y financiera de Ecuador.” Quito, Ecuador. April 2015.

69 “Growth in Economic Activity Plummets in May.” Focus Economics. July 10, 2015. Accessed August 1,
2015: http://www.focus-economics.com/news/ecuador/economic-activity/growth-economic-activityplummets-may

70 “ECUADOR: Pension raid to compensate for plunging oil prices.” latinnews.com. Weekly Report (WR-15-20). May 21, 2015.

71 Ibid.

72 Author interviews with several businessman in Guayaquil, Ecuador on November 2014 as represented in this blog: http://www.ecuadorliving.com/2011/03/10/avoid-the-2-ecuador-transfer-tax.html

73 Romero, op cit.

74 “Ecuador Orders Banks to Red Flag Cash Withdrawals over US$5,000.” PanAm Post. June 5, 2015.

75 A review of public statements on the website of the Financial Action Task Force (www.fatf-gatfi.org) was conducted in July 2015.

76 Elyssa Pachico. “Security Forces Warn Organized Crime May Overwhelm Ecuador.” Insight Crime. March 8, 2012.

77 James Dorsey. “Ecuador Emerges as Hub for International Crime | Americas.” DW.COM. February 2,
2010.
78 Financial Action Task Force (FATF) Public Statement. Brisbane, Australia. June 26, 2015.

79 Ezequiel Vazquez-Ger. “Laundering Venezuela’s Dirty Money.” The Miami Herald. July 1, 2013.

80 Loren Riesenfeld. “Ecuador Investigates $135 Mn in Latest ALBA Export Scam.” Insight Crime. May 15, 2015.

81 Author interviews with money laundering experts in Ecuador and Panama on November 2014 and February 2015.

82 Dev Kar, and Joseph Spanjers. “Illicit Financial Flows from Developing Countries: 2003-2012.” Global Financial Integrity (Washington D.C.). December 16, 2014.

83 Dexter Roberts. “China Tops Other Countries In Illicit Financial Outflows.” Bloomberg. December 17, 2014.

84 R. Evan Ellis. “Russian Engagement in Latin America and the Caribbean: Return of the ‘Strategic Game’ in a Complex-Interdependent Post-Cold War World?” Strategic Studies Institute, U.S. Army War College (Carlyle, Pennsylvania). April 24, 2015.

85 Ilan Berman. “The Russian Beachhead in Nicaragua Keeps Growing.” The Wall Street Journal, July 8, 2013, Commentary sec.

86 Douglas Farah, and Liana Reyes. “Russia in Latin America: The Strategic Challenge.” University of Miami Center for Hemispheric Policy. Perspective on the Americas, 2015.

87 R. Evan Ellis. “The new Russian engagement with Latin America: Strategic position, commerce, and dreams of the past.” United States Army War College Press, 2015.

88 Ibid.

89 Carl Meacham. "What Does the Russian Food Import Ban Mean for Latin America?" Center for Strategic and International Studies (Washington D.C.). September 23, 2014.

90 Ibid.

91 "Danish Shipper Maersk Opens South America-Russia Line." Bloomberg Business Week. March 22, 2010.

92 "Maersk Line to Drop Baltic Leg of 'CRX' for the Winter Season." Linervision. September 18, 2013.

93 "In 2014 Ecuador Will Exceed the exports record of 280 Million Boxes of Bananas." Andes.info.ec. October 15, 2014.

94 "Ecuador to Revise All Agreements Signed With Russia in Past 20 Years." Sputnik News. May 12, 2015.

95 Steven Blank, and Younkyoo Kim. "Russia and Latin America: The New Frontier for Geopolitics, Arms Sales and Energy." Problems of Post Communism 62, no. 3 (2015).

96 "Russia: Patrushev's Visit to Latin America," stratfor.com. October 16, 2008.

97 Shane Croucher. "Nikolai Patrushev: The Siloviki Spook Rumoured to Have Ousted Vladimir Putin in Kremlin Coup." International Business Times, March 16, 2015.

98 "Ecuador, Russia Proclaim New Stage in Relations." Latin American Herald Tribune. Accessed September 1, 2015.

99 "Nikolai Patrushev: We Need to Work out a Russian Economic Security Strategy." St. Petersburg International Economic Forum. March 7, 2015.

100 As quoted by Russia's Foreign Ministry spokesman Alexander Lukashevich on April 24, 2015 in TASS News Agency. Accessed July 2015: http://tass.ru/en/russia/791577

101 Alexander Kim. "Common Currency for the Eurasian Economic Union: Testing the Ground?" The Jamestown Foundation 12, no. 57 (2015).

102 "Russia interested in integration of Latin American associations' into the Eurasian Economic Union (EEU)." Emerging Equity. March 25, 2015.

103 Liz Sherffius. "Plans Underway for South American Regional Currency." TeleSur Tv. December 8, 2014.

104 "Russia, Ecuador Should Seek Greater Independence From Dollar." Sputnik News. January 22, 2015.

105 The composition of China's reserves is similar to the IMF's COFER (Composition of Foreign Exchange Reserves) data: two-thirds US, one-fifth EUR and 5 percent each GBP and JPY. Last year, the euro and the Japanese yen's depreciations negatively affected the RMB's nominal effective exchange rate (NEER) the most, meaning that China may not limit its intervention to only selling USD-denominated assets.

106 David Keohane. "In Search of China's Local Debt Gap." FT Alphaville. September 1, 2015.

107 Russia's central bank has been an active buyer in the gold market for the past decade, which currently comprises ten percent of the country's total reserves. China has tripled its gold holdings in recent years to become second only to the U.S. in gold reserves.

108 James Rickards, (2011, 2012). Currency Wars: The Making of the Next Global Crisis (London: Penguin Books).

109 The actual quote is from: Col. Qiao Liang and Col. Wang Xiangsui, Unrestricted Warfare, Panama City: Pan American Publishing, 2002.

110 Paraphrasing from Clausewitz's famous dictum in On War, Mises pointed out: "it is only the continuation of domestic policy by other means, it is domestic class war shifted to the sphere of international relations" (Omnipotent Government, pg. 6).

111 Ludwig von Mises (1944, 1974). Omnipotent Government: The Rose of the Total State and Total War.
Indianapolis, IN: Liberty Fund.

Author Biographies:

Joseph M. Humire is the executive director of the Center for a Secure Free Society (SFS), and co-editor of the book *Iran's Strategic Penetration of Latin America* (Lexington Books, 2014). As an expert on asymmetric warfare, his work focuses on examining transnational threats permeating throughout the Western Hemisphere.

Fernando D. Menéndez is a senior fellow at the Center for a Secure Free Society (SFS), a principal of Cordoba Group International LLC, and a regular contributor to China-US Focus. As an economist and expert on political and economic affairs in Latin America, his work focuses on Cuba, China and emerging economies in the region.

Juan Cordero is a pseudonym for an economic analyst and expert in money-laundering in Ecuador. For reasons of personal safety his identity is not revealed given the Ecuadorean government recently criminalized certain economic or financial analysis of the country via article 307 and 322 of the penal code. The new provisions of the penal code state that if the government believes a certain analysis to be false and creates panic in the country the punishment is up to five to seven years in prison.

About the Center for a Secure Free Society

Established in 2012, the Center for a Secure Free Society (SFS) is an independent, non-partisan, non-profit global research and educational center advancing security and freedom around the world. Through identifying, training and connecting an international network of scholars focusing on the nexus of security, defense and freedom, we provide creative and effective policy solutions to a variety of security challenges worldwide.

SFS publishes a series of policy studies committed to advancing freedom and security worldwide through rigorous evidence-based research and multi-dimensional analysis of global security issues. SFS does not take institutional positions on policy issues. The views expressed in this policy report are those of the authors and do not reflect the views of SFS or attempt to aid or hinder the passage of any specific piece of legislation in either Ecuador or the United States (or elsewhere).

This paper, in its entirety, can be found at www.securefreesociety.org

TEL: +1 (703) 628-6988
EMAIL: info@securefreesociety.org
WEBSITE: www.securefreesociety.org
TWITTER: Follow us @securefreesoc
FACEBOOK: Like us /securefreesociety

509 C Street, Northeast
Washington D.C. 20002