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The Impact of Dollarization in Ecuador, El Salvador, Panama and Argentina

**Introduction**

Dollarization is the process of adapting the foreign currency of the choice of region in parallel or can be instead of the domestic currency. There is a history of planning and development of the Latin countries including El Salvador, Panama and Argentina who have recently adapted the dollarization and due to which the course of the country’s development is certainly changed (Ajide, 398). The paper is based on the secondary data collection and the research method being used for the data collection was the qualitative research method (Gonzalez, 107). The damage was irreversible and there were possibilities that if the current economic situation of the country could not be improved than the overall region, and it’s connected economies would be disturbed and permanently disconnected. The entire plan was very precisely followed and it is observed that it was impossible without the help of the public. The currency is somehow presenting the economy of the country but on the other side if it becomes a burden than it is always advised to perform the dollarization. The central bank is eliminated as an issuing authority and the financial assets were transferred to the other bodies. The Latin countries adaptation of the dollarization is one of the most advantaged move for the research oriented communities to study and enhance the understanding of the difference of non-dollarization regions with the dollarization focused communities (Ozsoz, Emre, and Erick). There are some important social and economic factors which are important to be discussed while discussing the dollarization and the change in the economy of the country.

Thesis Statement

The main aim of the paper is to enhance the understanding on the impact of Dollarization in the developing countries of the Latin continent including Ecuador, El Salvador, Panama and Argentina.

Research Question

What is the impact of Dollarization in economy and overall economic structure of the regions of Ecuador, El Salvador, Panama and Argentina?

**Literature Review**

Dollarization

Dollarization is the process of adapting the foreign currency of the choice of region in parallel or can be instead of the domestic currency. For example in the past, Ecuador have focused on adaption of the United States Dollar as their own currency. Dollarization is not observed to involve the dollar as a currency but any currency adaptation (Rostowski, Jacek and Robert). There is a history of planning and development of the Latin countries including El Salvador, Panama and Argentina who have recently adapted the dollarization and due to which the course of the country’s development is certainly changed (Ajide, 398). Ecuador, El Salvador, Panama and Argentina are some of the most important countries and regional sectors which have recently used the dollarization to uplift their economies successfully. This helped in the maintaining of a number of perks that involve the reduction of hyperinflation as well as the fiscal and budgetary discipline.

According to one of the most important research on the dollarization being discussed as a concept which was certainly being considered a factor of globalization for the world and acapted by the Latin countries (Gonzalez, 107). This have helped to resolve a number of problems that involved the handling of economy internally as well as maintaining the international relations with respect to economic, and trade related concerns. The Latin countries adaptation of the dollarization is one of the most advantaged move for the research oriented communities to study and enhance the understanding of the difference of non-dollarization regions with the dollarization focused communities (Yepes). The dollarization was based on the availability and accuracy of the opportunity at the time of tough times of inflation, internal crises and many more external issues.

The Socioeconomic Implications of Dollarization

There are several number of issues regarding the management of the socioeconomic implications in the Latin world due to which the dollarization was highly preferred. According to the political structure of the region, the damage to the social, legal, and overall economic environment of the country was massive. The damage was irreversible and there were possibilities that if the current economic situation of the country could not be improved than the overall region, and it’s connected economies would be disturbed and permanently disconnected. This would result in the country’s isolation from the entire world and due to which the economic system would never be completely solved. The Latin world could be considered as the same as the Palestine, Kashmir, and Somalia in which the population is neither economically stable, nor socially. The countries don’t have any certain and reliable connections with the entire world which is causing an unreliable living standards and highly uncertain future.

In regards of the Latin world where the countries like Ecuador, El Salvador, Panama and Argentina, didn’t had a certain future in the near past, there was civil war, instable economic and financial institutes, the inflation was irreversible and massive, the countries were mostly in the civil war, there was no possibility of development and progress in the overall region, as well as the corruption was also not confined and limited. Due to all of these factors the dollarization was expected to be the only solution in which the country preferred the international currency to improve its internal problems concerned to social, economic, and financial development of the overall Latin region. It is observed that the severe external pressure on the governments with respect to the management of the economy of the region was concerned to be one of the main reason of the dollarization and after a short period of practice, this solution of dollarization is observed to be highly profitable, stable, and well preferred for the entire region of the Latin countries.

Impacts of Dollarization

There are several reasons of dollarization for a particular region. The country leaders have to make several important considerations to conclude if the region should adopt to the dollarization process or should maintain the struggles. There are several impacts on dollarization and it is observed that according to the economic details most of the past incidents of dollarization in the past concerning to the conversion of local economy on the foreign currency are observed to provide a highly positive impact.

One of the most important impact of dollarization is the handling of the high inflation through which the population of the region could be beneficed through the exchange rate targeting which is on the other words known as the fixation of the system. The macroeconomic volatility is considered as one of the highly considerable and major systematic impact of dollarization. In this factor, the evolution of external imbalances in the cross sectional relationships between the Latin world and the external world on the broader scale could be studied and understood. The fear of the floating exchange rate induced by the gap in positions is also important to be observed in which the overall economy is mentioned to be as at a marginal risk and the uncertainty could also be massive. Another most important impact of dollarization is the economy damage which is the Credit risk undervaluation by unhedged borrowers.

Ecuador

In the year of 1990s, the economy of Ecuador was underwent a troublesome time. The external debts were observed to be increased from the amount of 77% and the poverty was also increasing. The GDP was decreased and the poverty’s widespread were some of the causes of the dollarization. The labor market has experienced a low mobility during that time and the tax system was also not properly regulated as well as there was no or very rare transparency (Gonzalez, 107). The banking system was observed to be weakened and the recovery chances were lacking due to poor or unseen supervision (Epstein, Hernán, and Salvador). Another most important reason of instability of the country was the over dependency on the oil which was responsible in making the country more vulnerable to the fluctuations in the world’s oil prices (Rostowski, Jacek and Robert). The inflation was also increased due to the lack of trust in the economic system, the currency and the banking system. The non-performing loans were increasing and reached almost 45%, GDP as 22%, and 16 financial institutes were suspected to either being shut down or put under government control.

El Salvador

The reason for dollarization of El Salvador is quite unique as the region had a twelve years long civil war which was ended and peace agreement was signed in 1992 (Ozsoz, Emre, and Erick). The living conditions were started to improve but the inflation was observed to be increased due to the reopening of several different financial institutes and functionalities that include the lowering of tariffs, privatization of sectors, and pension to retired and disables (Gonzalez, 90). The country remained stable in 1990s but the inflation was disturbing the economy of the country and was an enhancing factor in decreasing of the trust among the local population (Gonzalez, 107). According to the economic experts, the main reasons of the dollarization was the lowering of the interest rates and an increase in foreign investment (Rostowski, Jacek, and Robert, 37). The overall data analysis explains that almost 50% of the problems were solved through dollarization and the rest of the 50% were expected to be solved by handling the basic economic instability issues.

Panama

Panama is one of the world’s most important country is known for its panama canal which is an economic corridor for the passing of the ships and boats from one ocean to the other. The country was observed to be facing serious debts and a number of other issues due to which the dollarization was performed. Due to the advantages observed in the countries of Ecuador and El Salvador, the government of Panama also preferred the dollarization for the handling of uncertain inflation and several other internal issues. The switch of the local currency to the dollarization was one of the best move as per explained by the economic research experts. They mention it as a correct achievement at the right time. The key indicators of panama dollarization are real economy, fiscal and credit as well as the nonfinancial public sector debts. It is observed that the gross domestic product of the country in the international dollar rate is $22,788, according to the Washington Times. Now panama have an amazing benefit of doing business freely with the connected American regions. The immigration laws are quite friendly. The international banking center is stabilized and connected. The easy remittances, connected economy, and solid connectivity to the entire world are some of the highly considerable benefits of the dollarization. The Panama Canal is important and deals are required to be made so that the country would be prosperous. There was an expectation that after globalization almost 60% of the issues of dealing could be resolved and it was true.

Argentina

The dollarization in Argentina was an important economic change for the region as it was the devaluation of the Brazilian real and it was prompted by the President Carlos Menem of Argentine. The Peso is officially replaced by the United States Dollar “$”. The central bank is eliminated as an issuing authority and the financial assets were transferred to the other bodies (Rostowski, Jacek, and Robert, 37). He advocated the dollarization of the region for the betterment, stability, improvement, balance, and sustainability of the economy and economic factors. There are some important social and economic factors which are important to be discussed while discussing the dollarization and the change in the economy of the country (Rostowski, Jacek and Robert). It is observed that many economists of the region were having a severe shock of the news of abandoning the local currency on the sudden basis and dollarization the entire nation in a limited period of time (Epstein, Hernán, and Salvador). It was expected that even if the move is well structured and well corporate by the internal as well as external private and government level institutes, still it is impossible if a single incident would happen abnormal. The entire plan was very precisely followed and it is observed that it was impossible without the help of the public. Surprisingly, the public which was very highly volatile and vulnerable to the civil war was accepting all the terms and followed the rules which resulted in the successful processing of the dollarization. It was observed that in the past few decades almost more than half of the countries participated in the dollarization process but now this percentage is declining smoothly.

**Methodology**

The paper is based on the secondary data collection and the research method being used for the data collection was the qualitative research method. This is one of the most popular and diversified data collection method in which there is no involvement of the numeric data and only theoretical concepts are being involved. That’s why the qualitative research method is the collection and gathering of the non-numeric data (Miles, 331). There are certainly an outnumbered ways of handling the information collection which includes the research from the internet involving the research journals, economic forums, detailed analysis, and many more for the collection and understanding as well as discussion of the reasons, opinions, and motivations. There are many types of qualitative research methods that involve the ethnography, narrative, grounded theory, case study, and Phenomenological way of handling and collecting data (Gonzalez, 107). It is observed that many economists of the region were having a severe shock of the news of abandoning the local currency on the sudden basis and dollarization the entire nation in a limited period of time. All of these ways are best with respect to their needs but for particularly this paper, the grounded theory research method and the narrative would be helpful because of two main reasons.

The grounded theory would help in the addition of the economic discussion maintained on the base of the theories and the structure of the discussion, interconnection of the theories, and the argumentation would be maintained (Ozsoz, Emre, and Erick). The narrative would help in the collection of facts from different sources and composing a generous argumentation or narration for the research paper (Epstein, Hernán, and Salvador). There are some important social and economic factors which are important to be discussed while discussing the dollarization and the change in the economy of the country (Rostowski, Jacek and Robert). These factors are very important and would be help in the understanding and the maintaining of the region based discussion restricted to the regions of Ecuador, El Salvador, Panama and Argentina. The literature review includes the discussion of the facts, argumentation, and theoretical background of the study as well as several other factors. The discussion and recommendation would include the future prediction and a good personal opinion which would help in finalizing that either a country should perform the dollarization or not in a particular region of the world.

**Discussion and Recommendations**

There are many countries which are struggling with their economies and are considered to be highly vulnerable to the external factors and the internal disturbances (Miles, 320-331). The region is rich with production, minerals, economic development, and social stability but the inflation, depreciation costs, and the instability of the system are some of the most important factors which are causing a severe problem for them (Yepes). The currency is somehow presenting the economy of the country but on the other side if it becomes a burden than it is always advised to perform the dollarization (Ajide, 409). There are very less countries which are not globally intact and usually the local community prefers to deal with international global economies for the good profit rates but there are several problems related to currency and exchange rates which are becoming a problem (Epstein, Hernán, and Salvador). There are certainly an outnumbered ways of handling the information collection which includes the research from the internet involving the research journals, economic forums, detailed analysis, and many more for the collection and understanding as well as discussion of the reasons, opinions, and motivations. Due to the advantages observed in the countries of Ecuador and El Salvador, the government of Panama also preferred the dollarization for the handling of uncertain inflation and several other internal issues. The inflation was also increased due to the lack of trust in the economic system, the currency and the banking system. The fear of the floating exchange rate induced by the gap in positions is also important to be observed in which the overall economy is mentioned to be as at a marginal risk and the uncertainty could also be massive. The macroeconomic volatility is considered as one of the highly considerable and major systematic impact of dollarization.

**Conclusion**

In a nutshell it can be explained that the dollarization is only purposed for the stability of the economy of the country as well as maintaining the living standards of the country (Ozsoz, Emre, and Erick). In Ecuador, the non-performing loans were increasing and reached almost 45%, GDP as 22%, and 16 financial institutes were suspected to either being shut down or put under government control. In El Salvador, the main reasons of the dollarization was the lowering of the interest rates and an increase in foreign investment (Gonzalez, 107). The fear of the floating exchange rate induced by the gap in positions is also important to be observed in which the overall economy is mentioned to be as at a marginal risk and the uncertainty could also be massive. There are certainly an outnumbered ways of handling the information collection which includes the research from the internet involving the research journals, economic forums, detailed analysis, and many more for the collection and understanding as well as discussion of the reasons, opinions, and motivations. Similarly some other countries are also being discussed which involved the importance of dollarization and the impact stopped on the social and economic status of the country. There are some important social and economic factors which are important to be discussed while discussing the dollarization and the change in the economy of the country.

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