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“Commercial relations Ecuador Japan during the period 2005-2011”

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DEDICATION

Firstly, I dedicate this thesis work to God who gave me the strength, patience and perseverance to successfully overcome this for the development of my college career.

Second, it is also dedicated to my family, to my parents who have been my support in every way, and the support during this formative process and important stage of my life, besides being the support of my life in the personal and emotional aspect.

To my son Juan Martin, who is the reason for my life. He is the strength that allows me to fight every day for a better tomorrow filled with love and tenderness.

GRATITUDE

I thank God first for allowing me to be a person with goals and objectives to achieve to fight for, and for giving me the health to make those goals a reality.

To my teachers who have accompanied me in this difficult but rewarding path of continuous struggle during these years of college. They are the architects of what I am today, a person with knowledge and values.

And of course thanks to my advisor, economist Luis Tonón, who besides conveying valuable knowledge and being my guide in the preparation of this work, has managed to squander a quality that is very admirable: patience. Patience to understand, to teach, and to correct. He has made it possible for one of my biggest dreams becomes a reality.

ABSTRACT

This paper analyzes the relationship and business opportunities between two countries of huge contrasts which thanks to the effects of globalization have established market integration and seek to approach more closely to demand satisfaction; the paper will be developed through a depth study which will show as a result a reality in economic, political, cultural and social relations between two countries of different potential in which Ecuador is not considered a major player in world exports. It also takes advantage of the quality of the products that are exported especially commodities that Ecuador exported in large amounts.

CONTENTS AND ATTACHMENTS

DEDICATION.....	ii
GRATITUDE.....	iii
ABSTRACT.....	iv
INTRODUCTION.....	1
CHAPTER 1.....	2
1.1 Introduction.....	2
1.2 Economic situation and trade management.....	4
1.3 International Policy Management.....	14
1.4 Japanese consumer analysis.....	17
1.4.1 Society, consumer and market.....	17
1.4.2 Norms of pre negotiation protocol.....	18
1.5 Negotiation strategies based on cultural values.....	20
CHAPTER 2.....	26
2.1 Introduction.....	26
2.2 Commercial agreements.....	30
2.3 Trade balance.....	33
2.4 Main exports and imports products.....	38
CHAPTER 3.....	51
3.1 Introduction.....	51
3.2 Commercial opportunities.....	52
3.4 Export products from Ecuador to Japan.....	54
CONCLUSION AND RECOMMENDATION.....	64
APPENDIX.....	68
APPENDIX 1: Cooperation agreements made between Ecuador and Japan.....	68

APPENDIX 2: Phitosanitary requirements for entering food to Japan.....72

INDEX OF CHARTS

Chart 1: Political map of Japan.....	2
Chart 2: Composition of GDP in Japan.....	11
Chart 3: Japan's trade balance (2011).....	13
Chart 4: Ecuador- Japan trade balance (2005-2011).....	34
Chart5: Export and import increase.....	35
Chart 6: Food security.....	53

TABLES

Table 1: Japan exports and imports.....	12
Table 2: Ecuador- Japan trade balance.....	33
Table 3: Subheadings of Ecuadorian exports.....	38
Table 4: Total exports from Ecuador to Japan in the period 2005-2011.....	39
Table 5: Major Export Products from Ecuador to Japan.....	41
Table 6: Star Products.....	43
Table 7: Lost Opportunities.....	43
Table 8: Sub items and description of goods imported by Ecuador from Japan.....	45
Table 9: Imports by Ecuador from Japan in the period 2005-2011.....	46
Table 10: Level of Self-Sufficiency of organic products in Japan.....	54
Table 11: Imports from Japan in thousands USD.....	55

Table 12: Potential products that are exported to the market of Japan.....56

Table 13: Main products imported from Japan to Ecuador.....62

INTRODUCTION

Today, Japan represents to Ecuador the most important market in Asia because of its population of 127 million people with high purchasing power, as well as being the second largest economy in the world¹, representing a great business opportunity.

Because of this, the present study analyzes the relationship and business opportunities between two countries of contrasts which thanks to the effects of globalization have established a market integration and are looking for approach more closely to demand satisfaction.

In the XXI century there are many opportunities to compete in a global market, and it is very important to note that the country of “the rising sun” represents for Ecuador the most important commercial place because this country is one of the largest importers of food commodities in the world², which is a great opportunity for a food-exporting country like Ecuador.

It is very important to focus on issues such as the fact that Japan has become the "largest net importer of agricultural products in the world" as well as being an oil importer; and why are these points mentioned above important?, the answer is that Ecuador is an exporter of both food and oil, hence the importance of the analysis of new business opportunities.

Today, we know that great products could not be positioned in the market simply by poor negotiating attitude; for this, I provide the analysis with the intention of showing the importance of the economic, political, cultural and social aspects, because it has a direct impact on business conduct and the final results of a negotiation, so the purpose of this paper is to analyze and disseminate the main aspects to be considered for the management of a professionalized negotiation to be complete with a host of knowledge which encompasses the economic, cultural, political and social aspects.

¹ COMMERCIAL OFFICE OF ECUADOR IN JAPAN. Business Intelligence Unit 2010. "Japan's commercial Guide," (accessed on May 17, 2012. Available at: <http://www.proecuador.gob.ec/wp-content/uploads/2011/04/PROEC-GC2010-JAPÓN.pdf>.

² Ibidem

CHAPTER 1

1.1 Introduction

Japan's General Information

This paper will focus on the analysis of the business relationship and opportunities between two countries of contrasts which thanks to the effects of globalization have established market integration and are looking to approach more closely to demand satisfaction, I mean Japan and Ecuador.

This chapter will talk about issues related to basic information about Japan referring to their culture, economics, politics and basic data.

Japan is an island of high seismic activity which limits are the Pacific Ocean and the Sea of Japan; its surface reaches 377.737 km² and has four main islands in which most of its population concentrates; these islands are called Hokkaido, Honshu, Shikoku and Kishu³. Its currency is the Yen, and its capital is Tokyo.

Figure 1: Japan's political map



Source: www.blogitravel.com

³ COMMERCIAL OFFICE OF ECUADOR IN JAPAN. Business Intelligence Unit. 2010. "Japan's Commercial Guide," (accessed on May 17, 2012). Available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2011/04/PROEC-GC2010-JAPON.pdf>

The weather is very diverse: very cold winters and cool summers are influenced by its proximity to Asia and ocean currents.⁴

In 2009 the population was 127.560 million of inhabitants according to the World Bank, and taking into account that in a period from 2005 to 2009 the population growth in urban areas was 66.27%. It is estimated that the growth by 2035 will increase by 75%, which represents for the analysis of business opportunities in Ecuador a large consumer market in future years, which is why these statistics are important.⁵

The government of Japan is organized by a monarchy with three state functions: Legislative, Executive and Public; it is necessary to notice that the Executive function is in charge of the Prime Minister who runs the State. The Legislative function has as main responsibilities to approve treaties, laws and the budget of the State. Finally, the Public function is represented by the State, and its representatives are approximately 8,000 public officials who have the responsibility of managing the 47 provinces of Japan, it means, this function looks for a decentralization of the central power.⁶

The current Prime Minister of Japan is Yoshihico Nicoda who rules since August 30, 2011.⁷

Once this important data has been analyzed, an economic, political, cultural and social analysis will be done to show the reality of Japan and also to open the way for the use of strategies to increase the participation of Ecuador in the Japanese market and vice versa.

1.2 ECONOMIC AND TRADE MANAGEMENT

Japan is a country that represents an industrial power in the world that has managed its economy through a major process of growth and evolution divided into several stages and two well-marked historical processes:

⁴ COMMERCIAL OFFICE OF ECUADOR IN JAPAN. Business Intelligence Unit. 2010. "Japan's Commercial Guide," (accessed May 17, 2012). Available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2011/04/PROEC-GC2010-JAPON.pdf>

⁵ Ibidem

⁶ Ibidem

⁷ Ibidem

The first period of the Meiji era. It was named like this because of the Emperor Meiji Mutsu-Hito who made important changes such as removing the land from the feudal lords, abolishing serfdom, establishing obligatory conscription, among others⁸. In this era, the Japanese government increased an state policy designed to rapidly industrialize the country and get closer to the prosperity of western countries, to this state policy is also added the initiative to start the process of exchange of students and teachers to the United States in order to learn new skills in technology, foreign languages and investment. During this time, the government helped private companies so that they could create their industries and grow. The called "Zaibatsu" were created to referring to industrial conglomerates that controlled Japan's economy; these clusters allowed Japan to resist the negative effects created by the Second World War where it lost much of its infrastructure.⁹

A second historical period is called "lost time" due to the decrease of the economy by the collapse of the Tokyo Stock Exchange.¹⁰

The different economic models used throughout the years are the following: import substitution model that was abandoned in the era of the sixties and replaced by manufacturing exports and foreign investment and that has led to success in Japan today,¹¹ however, this same model, which includes foreign investment, has been criticized in less developed countries such as Ecuador, so it is important to ask: Why an economic model that has led to Japan to become the third world economy after the United States and China, has failed to meet its goal of overcoming crisis and increasing economies in an underdeveloped country like ours?

The answer to the question cited above is simple; Japan is a country that managed its economy so perfectly that if while much capital was invested in foreign companies, Japan did not abandon its domestic market, it means, Japan moved towards a model of

⁸ Jeffrey Sachs. Professor of Economics at Columbia University. JapanEconomicStructure. 2010, (accessed on May 17, 2012). Available at: http://www.economywatch.com/world_economy/japan/structure-of-economy.html

⁹ Jeffrey Sachs. Professor of Economics at Columbia University. JapanEconomicStructure. 2010, (accessed on May 17, 2012). Available at: http://www.economywatch.com/world_economy/japan/structure-of-economy.html

¹⁰ Ibidem

¹¹ ERAZO Jose Edmundo. Universidad Andina Simón Bolívar. "Economic cooperation between Japan and Ecuador." 2000, (accessed on 17 May 2012). Available at: <http://repositorio.uasb.edu.ec/bitstream/10644/2551/1/T0005-MDE-Erazo-Dise%20c3%20b1o.pdf>

industrialization based on skills, industrial skills and capabilities of its own people who were the responsible for the production on its own territory with foreign capital obtained from the commercial treaties with developed countries.

Following the revision of Japan's economy, it is important to notice that the seventies were of great importance to Japan because of the strategies used. Precisely at this time a crisis lashed to several Asian countries. This crisis induced Japan to move its industrial production toward more competitive centers.¹²

Japan used three strategies for the movement of production: trade, technology transfer and direct investment, three strategies that would have been impossible to carry out without the integration and trade cooperation that is the basis of trade relations to be achieved in the future between Ecuador and Japan.¹³

For technology transfer we refer to the fact that in earlier times underdeveloped countries of Asia and commodity producers sold to Japan the commodities with the intention of Japan with its developed industry and foreign capital investment will turned the commodities into processed products and returned it to the producer countries; with technology transfer and integration Japan looks to get together with undeveloped countries, so here comes another question: Why does a developed country like Japan seek a partnership with raw material producing countries without industry and therefore unstable economies?

The answer to this question is the following; most underdeveloped countries producing raw materials are also characterized by high levels of labor that Japan would use in order to obtain specialized and cheap labor which is not its source. In return, Japan would provide to these countries with less technology: investment incentives and therefore an escape to the underdeveloped economies of countries such as Taiwan, Hong Kong, Korea and Singapore.

¹² ERAZO Jose Edmundo. Universidad Andina Simón Bolívar. "Economic cooperation between Japan and Ecuador." 2000, (accessed 17 May 2012). Available at: <http://repositorio.uasb.edu.ec/bitstream/10644/2551/1/T0005-MDE-Erazo-Dise%20c3%20b1o.pdf>

¹³ ERAZO Jose Edmundo. Universidad Andina Simón Bolívar. "Economic cooperation between Japan and Ecuador." 2000, (accessed 17 May 2012). Available at: <http://repositorio.uasb.edu.ec/bitstream/10644/2551/1/T0005-MDE-Erazo-Dise%20c3%20b1o.pdf>

The integration developed by Japan and other Asian countries showed us at this time the benefits of it, because in the space of not more than ten years, these same countries that depend on economic aid from Japan, will grow up showing an accelerated development and become the called "Asian Tigers" which will also create integrations with countries worldwide . As a consequence, a shockwave of industrial growth arises including Latin America and even our country Ecuador.

From these aspects could be said that the Japanese economy is based on the following assumptions:

- Free market economies.
- Foreign trade and global trade integration.
- Openness to trade and investment.
- Emphasis on education and infrastructure.
- Releasing of trade, eliminating internal and external barriers.¹⁴

Easily we can see that commercial opportunities in an economy of these characteristics is feasible because there is no obstacle against integration, which provides an opportunity for a country like Ecuador that is within the group of countries of raw materials producers with a little industry.

We can summarize Japan´s economy in the following:

Economic cooperation: it refers to the use of competitive capacity of each country, but not to the used of aid from developed countries to developing countries as it was previously handled.

Successive approximation: it represents the diversity of each country to create an interconnected space of tolerance and respect perfect integration.

¹⁴ ERAZO Jose Edmundo. Universidad Andina Simón Bolívar. "Economic cooperation between Japan and Ecuador." 2000, (accessed 17 May 2012). Available at: <http://repositorio.uasb.edu.ec/bitstream/10644/2551/1/T0005-MDE-Erazo-Dise% c3% b1o.pdf>

Open regionalism: it is based on the principle of "non-discrimination and full market opening."¹⁵

Before moving toward the statistics and economic data it should be taken into account two aspects to the understanding of economic analysis: Nowadays Japan has one of the world's most advanced economies, however, Japan also has the largest public debt above 225% of GDP; on the other hand, and before analyzing the main statistics of the Japanese economy, I should mention the earthquake and tsunami of 2011 because they marked a milestone in the Japanese economy and destabilized it for a total of 310 billion in damage, that is the reason why the Bank of Japan has had to inject 325 billion of yens to stabilize the financial market.¹⁶

Industry sectors:

Japan's economy was stopped for more than two decades as we have mentioned above, however, the Japanese industry keeps being one of the most innovative in the world in areas such as manufacture of cars, and electronic industries in which it is a leader in global production.

It is because of this background that the main sector of the economy in Japan is the industry that in 2010 produced 23% of Japan's GDP; these industries are distributed as follows:¹⁷

-Motor Vehicles (Second place in the production of vehicles in the world behind China). Japan's production is so important because their companies engaged in the production of these areas are the most advanced in terms of technology in the world.

We can mention some of the Japanese companies dedicated to the production of vehicles recognized worldwide such as Toyota, Renault, Honda, Suzuki Mazda, and Mitsubishi.¹⁸

¹⁵ ERAZO Jose Edmundo. Universidad Andina Simón Bolívar. "Economic cooperation between Japan and Ecuador." 2000, (accessed 17 May 2012). Available at: [http://repositorio.uasb.edu.ec/bitstream/10644/2551/1/T0005-MDE-Erazo-Dise% c3% b1o.pdf](http://repositorio.uasb.edu.ec/bitstream/10644/2551/1/T0005-MDE-Erazo-Dise%20c3%20blo.pdf)

¹⁶ Jeffrey Sachs. Professor of Economics at Columbia University. JapanEconomicStructure. 2010, (accessed on May 17, 2012). Available at: http://www.economywatch.com/world_economy/japan/structure-of-economy.html

¹⁷ COMMERCIAL OFFICE OF ECUADOR IN JAPAN. Business Intelligence Unit. 2010. "Japan's commercial guide," (accessed on May 21, 2012). Available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2011/04/PROEC-GC2010-JAPON.pdf>

Electronic Equipment: Japan is also the largest electronics manufacturer worldwide. It has companies such as Sony, Casio, Panasonic, Canon, Yamaha which have shown their high quality that is the main characteristic of most Japanese products.

-Services: It is an important sector of the economy because it contributes to 75.9% of GDP according to statistics in the year 2010; services include banking, transportation and telecommunications trade.

-Agriculture: the contribution of agriculture in the economy requires a special mention because it is the sector in which Ecuador mostly could start its trade with Japan because Ecuador is a producer of agricultural commodities.

The agriculture is poorly developed in Japan, so its contribution to the economy is small compared to the industry; for example, in 2010 agriculture represents only 1.1% of GDP.

Agriculture in Japan is subsidized; only 15% of the land is arable and despite of that agriculture represents a small sector of the economy, Japan is self-sufficient in rice production and fish sector in which it reaches 15% of the world production, however, Japan depends in a huge percentage of food imports such as wheat, corn, among others .From these examples, Japan imports a total of 60% of corn and a 100% meat.¹⁹

It is especially important to note that until now most agricultural products imported from Japan are from the United States which has become the third largest market for imports.

Ecuador has to become one of the most important markets for imports of agricultural products, understanding that if Japan imports such products from an industrialized country like the United States which is specialized in the production of agricultural products; the

¹⁸ COMMERCIAL OFFICE OF ECUADOR IN JAPAN. Business Intelligence Unit. 2010. "Business Guide to Japan," (accessed on May 21, 2012). Available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2011/04/PROEC-GC2010-JAPON.pdf>

¹⁹ Ibidem

commercial opportunity for Ecuador is extremely high due to the diversity of agricultural production.

Summarizing, thanks to their industries Japan has the highest rate of industrial growth and it was the eighth largest economy in the world by 2010. Besides Japan is part of the G20 (the world's richest countries).

We can now take a look at the formation of the GDP in 2011 according to their contribution in the industry that includes: vehicles and services such as transportation, telecommunications trade, and agriculture.

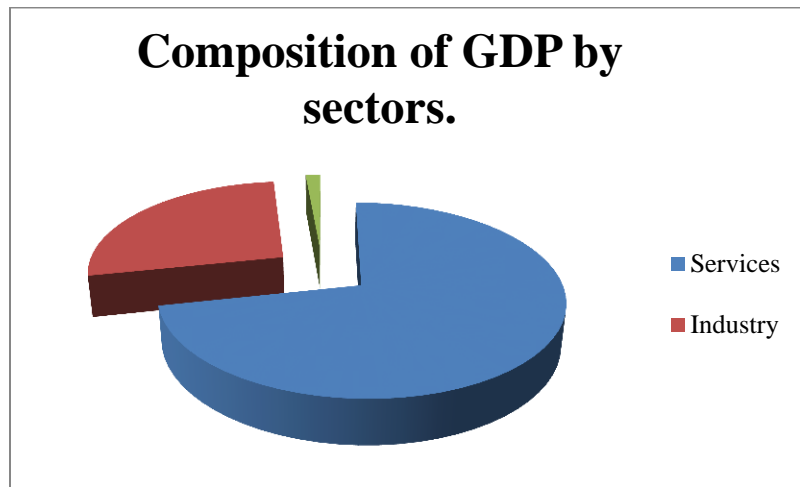
Gross Domestic Product (GDP): USD 4.31 billion that includes the following:

-Service-sector: represents the 71.7% of GDP.

-The primary and secondary sectors have less influence on the economy, especially the first one with 1.4% and 26.9% respectively (including mining, construction, electricity and water) of Japanese GDP.²⁰

²⁰ International Monetary Fund. Accessed July 20, Japan's economic structure 2012. Commercial Office in Tokyo.

Figure 2: Japan's GDP composition by sectors in 2011.



Economic sectors	Percentaje
Services	71,7
Industry	26,9
Agriculture	1,4

Source: Commercial Office of Ecuador in Japan. Pro Ecuador.

Accessed on: May 21, 2012

Made by: Daniela Jaramillo Hermida.

From this figure we can see that the GDP is composed mainly by services, while agriculture is almost nonexistent which shows the market opportunity for Ecuador.

Finally, it is necessary to refer to foreign trade handled in Japan, which is very important for the objective of this work.

Japan maintains a good commercial relationship with the United States and the European Union, and there is almost a nonexistent relationship with Latin America.

Commercial trade in Japan for the period 2006-2010:

Table 1: Exports-Imports of Japan through 2011 in Billions of U.S. dollars.

Year	Exports	Imports
2006	550.500	451.100
2007	678.000	573.000
2008	746.500	708.300
2009	516.300	490.600
2010	735.800	636.800
2011	800,800	854.626

Source: <https://www.trademap.com> Updated February 2010

Accessed on: May 20, 2012

Made by: Daniela Jaramillo Hermida.

According to Trademap in 2010 Japan ranked No. 5 in world exports with a total of 735.8 billion U.S. dollars having as best commercial customers countries such as China (exports a total of 18.8% of the total of exports , and United States (16.4%). The main products are transport products, vehicles, machinery, chemicals.²¹

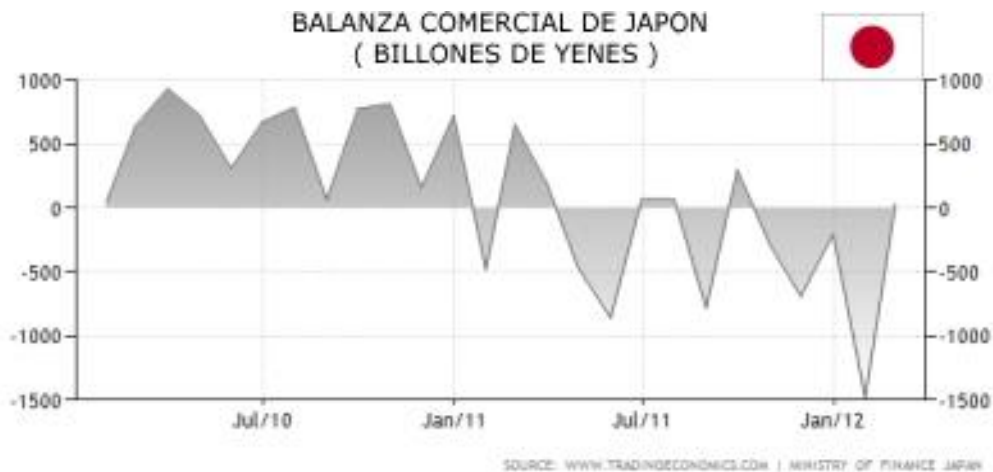
In imports, Japan is fifth in the world imports. Japan imports products from China (22.2%),and United States (10.96%). Japan imports fuels, foodstuffs and raw materials.²²

Here we can observe the behavior of the Japanese commercial balance in the last period for 2011.

²¹ EXPORT INSTITUTE VALENCIANO. Japan Report 2011. (accessed on May 21, 2012). Available at: www.ivex.es/dms/studies/...pais/JAPONWeb.../JAPONINFORME.

²² Ibidem

Figure 3: Japan's Commercial Balance in 2011.



Source: Ministry of Finance of Japan.

Consultation Date: May 21, 2012.

It is important to analyze the commercial balance for the period stated in the chart above because as we can see it is the first time that Japan closed its commercial balance with red numbers; this situation was wrong because Japan had presented in a period of 31 years a surplus. In this situation there are two factors to be analyzed; the first refers to the natural disasters that Japan has had to overcome in recent times and that resulted in a nuclear crisis of major proportions which in turn increased the cost of imports in oil and gas that were necessary for the production of electricity, and because Japan is a major importer of crude.

The second refers to the manufacturing industry was very affected by the earthquake that in the disaster year had as a result the exports fell by 3.7% and imports increase by 11.6% which results in a negative commercial balance.²³

²³ EMBASSY OF JAPAN IN ECUADOR. Japan's foreign policy. (accessed on May 21, 2012). Available at: http://www.cr.embjapan.go.jp/sobre_japon/politica_exterior/politica_exterior.

Finally it is especially important to note that this increase in imports is linked to the purchase of crude oil as mentioned above, but also the import of agricultural products which increased by a significant 15%.²⁴

1.3 INTERNATIONAL POLICY MANAGEMENT

Japan is a country with a political system based on a democratic government with a constitution that is a statement of renunciation of war, popular sovereignty, and respect for human rights. Its government system is handled through a constitutional monarchy run by the Emperor who has not played more than a decorative role because his functions are limited to religious or political participation. The Emperor has the obligation to let other government figures to perform the function of president of the government.²⁵

This democratic system was introduced in Japan after World War II when it adopted a constitution and set as its main objective to become a world economic power. The new constitution established new principles in which we can highlight that in the past the Emperor was the center of politics, however, with the creation of the new supreme law or constitution of Japan the Emperor has no powers in relation to the tasks of the government.

Thus, the control of the country is a responsibility of the central government which is the principal organ of government followed by the local governments. In turn, the central government consists of a bicameral parliament called: the Diet and the House of Representatives.²⁶

The Diet concede the executive function to a cabinet; it means, that the Japanese do not choose their president through voting process; the president is chosen from among the members of the Diet who are elected by the people and is composed by two cameras; The House of Representatives which is the lower house and the House of Councilors which is

²⁴ EXPORT INSTITUTE VALENCIANO. Japan Report 2011. (accessed on May 21, 2012). Available at: www.ivex.es/dms/studies/...pais/JAPONWeb.../JAPONINFORME.pdf.

²⁵ EMBASSY OF JAPAN IN ECUADOR. Japan's foreign policy. (accessed on May 21, 2012). Available at: http://www.cr.embjapan.go.jp/sobre_japon/politica_exterior/politica_exterior.

²⁶ Ibidem

the upper house. The House of Representatives consists of 480 representatives elected by universal suffrage; they exercise the legislative power and the judicial power exercised by courts; until now, the division of powers does not exhibit any characteristics different from countries such as ours except for the figure of the emperor, however, the difference is the bureaucracy charge that is in the government, understanding for bureaucracy the excessive influence of officials in public affairs according to the Royal Spanish Academy.²⁷

In Japan, the bureaucrats are everywhere and they are the ones who put into practice or not what the government enacted, which is curious because they are who design reforms or laws because they handle almost every function of the Japanese State, and the question is: Why do I refer to this group of Japanese society, the answer is simple and it is that bureaucrats are a group with huge power that is required of anyone that is trying to influence in one way or another in the Japanese market to keep this group happy in all possible areas, because many times the government ends its period of and retires, but this influential group continues in the power.²⁸

Whether bureaucrats are present in Japan's economy or not, Japan is a country that in recent decades has grown so much economically that has become one of the world powers. It has been precisely its democratic model along with political stability which have strengthened the growth of this country that has been a great example for other Asian countries seeking to continue this arduous path set by Japan.

The growth of many Asian countries that have been guided in their political and economic construction by Japan, has reached an optimal level of economic stability that in certain way has destabilized Japan's role as the leader of the region, and forced Japan strengthen its policies with the main objective of taking advantage of the prosperity of these countries.²⁹

²⁷ DICTIONARY OF THE SPANISH ROYAL ACADEMY. (accessed on May 21, 2012). Available at: http://buscon.rae.es/draeI/SrvltConsulta?TIPO_BUS=3&LEMA=burocracia

²⁸ EMBASSY OF JAPAN IN ECUADOR. Japan's foreign policy. (accessed on May 21, 2012). Available at: http://www.cr.embjapan.go.jp/sobre_japon/politica_exterior/politica_exterior.

²⁹ University of Salamanca. Contemporary Japan. 2000. (accessed on May 23, 2012). Available at: <http://www.florentinorodao.com/academico/aca98a.htm>

It is curious that Japan, being an economic power; has failed in the same way political leadership. The reason for this phenomenon is basically due to two facts of great importance: the first is focused on certain problems of image and the second factor caused by the alliance with the United States since World War II.

For image problems in this analysis I refer to the fact that Japan is a country that depends heavily on international criticism or the opinion of the international community, for example, the atrocities committed by Japanese soldiers during the Pacific War are memories that have been impregnated in the minds of the Japanese and several countries of the international community, which take advantage of certain data obtained in times of war at the time of negotiations with the aim of obtaining better results attempting against Japanese memory and making them responsible for compensations of war or concessions in negotiations.

As a second factor I mentioned above the alliance with the United States that was created because of the wishes of Japan to revive its economy and westernize its nation, and the fervent desire of United States to obtain the strategic leadership in the Asian region. This alliance that was based on the principle known as the "Yoshida" to refer to the achievement of an economic recovery faithfully following U.S. policy, had a larger economic success for Japan than for Nippon country; it was not necessary to become the protagonists of their own policies; besides, the desire of the United States to show leadership and determination meshed perfectly with the disinterest of the Japanese to appear as managers of their own economic recovery due to past wars and crimes committed by Japanese armies.³⁰

As Japan's economy grows, the government's vision changes due to the distrust generated by its main friend: the U.S., confidence that has been lost due to the inordinate desires of the United States to control the region and the fear to losing and leaving the U.S. the economic wealth. It is because of this reason that Japan decided to enable autonomous initiatives and multilateral treaties, and an open foreign policy and diplomacy.

This integration proposed by Japan has to overcome several obstacles, political, economic and cultural ones, because Japan's neighbors with which the integration is necessary to be

³⁰ University of Salamanca. Contemporary Japan. 2000. (accessed on May 23, 2012). Available at: <http://www.florentinorodao.com/academico/aca98a.htm>

achieved in order to delimit its strong ties with the United States are mostly incompatible; for example, Russia who is Asian and European, Arab countries that have a very distinct cultural identity, turn the progress of integration and leadership of Japan very difficult.

We can say that the difficulties in Japan to find a framework by which exercise political leadership are great, but for this same reason it is necessary to highlight the importance of multilateral initiatives to promote and create a third way to allow more cooperation between the West and Asia led by Japan.

1.4 JAPANESE CONSUMER ANALYSIS

1.4.1 Society , market and consumer

There is no doubt that Japan is a different country, for several centuries its relationship with the world has been through one few countries in the region, in addition, its insularity has favored to its cultural isolation and has forged it to create a socioeconomic reality very peculiar.

In addition to their national pride, it is important to emphasize that Japan is a country that is more westernized every day and therefore, if we refer to the main objective of this work that is to look for new business opportunities between Ecuador and Japan, we can say that any producer who can offer something competitively could access to the Japanese market but must overcome certain difficulties.

Japanese society is homogeneous, it means, one country, one race, culture, language and history, resulting in a market in which its inhabitants have similar purchasing power so to sell to the Japanese market can be targeted to a large market with similar characteristics of their consumers.

Japan is one of the most developed societies with a population that has a very high educational level, which can be checked by watching their illiteracy rates that are very low (1% in the population aged 15 or younger).³¹

³¹ COMMERCIAL OFFICE OF ECUADOR IN JAPAN. Business Intelligence Unit. 2010. "Business Guide to Japan," (accessed on May 21, 2012). Available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2011/04/PROEC-GC2010-JAPON.pdf>

The main challenge of the Japanese society is compatible with Western influence their ancient traditions, without diminishing the importance of Western influence that along with the discipline, and ingenuity have managed to turn Japan into a third world economy in recent five decades because Japan has grown from a traditional economy to become a modern economy. Despite of its limited land area and being a natural resource-poor country, it has managed to achieve a GDP that is behind only to the United States and the European Union.

Within the term ancient culture that I mentioned above, I refer to a society in which while maintaining many of their customs, it has built a society characterized by young people alone and dual-income couples without children, characteristics that require an analysis of the Japanese market in which, it should be created or delivered an appropriate product for this new segment of consumers.

1.4.2 Norms of pre negotiation protocol

After analyzing in short lines the Japanese market and its society of American influence, I will make known a few protocol rules that are necessary to reach to this awaited Japanese consumer market. I stress in this protocol rules because in Japan, any negotiation passes first through a friendship relationship or colleagues relationship that is forged and is constructed out of business, within households which is the place to relax preferred by Japanese negotiators. As protocol standards within this society, we can cite the act of dialogue or conversation that according to the objectives of this work is interesting. At the moment of dialogue you should avoid talking about yourself because you must bear in mind that the Japanese give greater importance to the group than the individual; the topics that should be avoided are all referenced to the Second World War and problems or bankruptcy of the financial sector, this because of the events Japan has had to a world power today.

Instead, they will welcome any question regarding Japan's ancient culture, art, and customs.

Moreover, at the time of it dinner, if it is a business dinner, it is recommended to go to a karaoke bar; upon arrival, it is advisable to allow them to invite first. The food that is going to be served are several dishes which should be tested one at a time, alternating soup with

rice that are companions throughout the meal and therefore should not be terminated until the other dishes will be served. While people are eating many toasts are made, which must correspond with another toast. When drinking alcohol you should serve first to the others and wait to be served.

Being invited to a Japanese home is an honor, that is why it is necessary to remove your shoes when entering the house and put on a more comfortable shoes. It is also important to take into account, in the case of being invited, to wear dark suits, white shirts and all kinds of clothing with little drawings, it means, nothing flashy.

These protocol standards cannot be overlooked if the goal is to fit in such cultures called or known as "high-context cultures" which refers to those in which information is handled in a vague and imprecise way. The attitudes and circumstances in which the protocol is done are more important than their own expressions. Communication focuses on the person and their feelings.

Also, this culture has what it is known as the "power distance" to refer to the fact that members of an organization accept the fact that there are other more powerful members and therefore submit to them in varying degrees. In a way or another there is great organization and discipline as base values which conjugate with strong state involvement, cooperation between the state and business, an aggressive marketing policy, self-discipline at work, and use of technology and have led to the "Japanese miracle".³²

It is very important to refer to the technology in order to understand this complex Japanese society because it is the base point for the development of Japan. Japanese companies attach great importance to the research and production of new technologies. As Japan exported not only technical innovation but is at the forefront of industrial application, the use of these technologies has led to the increased use of automation and computer control in the manufacturing process in the Japanese companies symbol of successful enterprises like Sony, Toshiba or Hitachi.³³

³² PELLINI CLAUDIO. Editorial Sedna . Japan a highly populous and urbanized country. (Accessed on May 28, 2012). Available at: http://www.portalplanetasedna.com.ar/paises_menu2.htm

³³ Ibidem

The companies described above show an example of how far the process of innovation and quality of this society has gone and what kind of parameters should be taken into account in a negotiation plan with Japan. If the case is that, you should consider the factor technology, art and high quality to begin, in addition, the protocol quotes cited above.

1.5 NEGOTIATION STRATEGIES BASED ON CULTURAL VALUES

Before analyzing the Japanese culture and its influence at the moment of doing business we must remember that "we are all products of our culture."

International negotiation has had a huge diffusion in which it is accepted that a deep knowledge about the cultural aspects of the countries with which we aim to create trade relations can achieve success or failure in future negotiations, for this reason, it is very important to keep in mind the behaviors and habits as well as the scale of values that define certain cultures as this directly affects business. Today we know that great products cannot fit in the markets just because of cultural ignorance and poor negotiating position.

Therefore, the study of the cultural part it will be done with the objective of highlighting and disseminating the main aspects to be considered for the management of the negotiation that goes hand in hand with the cultural background. This knowledge will become our partner and thereby it will optimize communication.

The term culture refers to cultivate human knowledge and the intellectual exercise. It can also be understood as the way people act and think about themselves, others and the world ignoring the difference in age, class, gender.³⁴

In Japan everything is around honor, obligation and duty. The people are multifaceted due to mixing between ancient and much Western influence which the Japanese have shown great curiosity to explore. Also, as expressed above, the Japanese are a homogeneous culture because its population has lived for centuries under the rule of centralized governments that regulated their lives. Another important feature is known as "Japanization" which refers to the fact that the Japanese have transformed foreign elements into something that now belongs to their own culture; another characteristic feature is its

³⁴Global Marketing Strategies. Asia Pacific. (Accessed on May 28, 2012). Page 11.

pragmatism, it means, that they put more emphasis on specific realities, not universal realities. We cannot neglect within culture the religion which is the Buddhism that handles certain important aspects of their lives.³⁵

Once listed certain characteristics of their culture, it is necessary to consider what is the degree of influence of them or the impact they have when negotiating, not forgetting that within Japanese society it is possible to make use of certain tools to achieve better adaptation and understanding. These tools are gestures and intonation, which could be great allies to establish optimal communication. It means, this study implies set a goal to get the respect for others and a deep regard for values, and customs that maybe seem as the craziest in our view, but can be of great concern to the counterparty.

Negotiation based on cultural and protocol standards. - The first requirement for creating an optimal environment for negotiation in Japan no matter who your partner is, is to know the idiosyncrasies in Japan, their customs, and their way of doing business which require infinite patience and trust that is the foundation of their business relationships.

An important feature of the Japanese as homogeneous culture is the demand for quality; for them quality means meeting deadlines, responding to requests from the importer, and keep in touch very often. If these characteristics are not done at the time in which the product or service enters Japan, the reputation of the participating company will be in danger of being considered weak and therefore unfit to negotiate.

The second aspect to consider is the personal relationship, the contact. Several studies have shown negative results in negotiations with Japanese companies in Latin America due to the use of strategies based on the use of email or fax, which in Japanese culture is seen as impersonal. The choice is, especially if what you are going to negotiate is an important volume, get a face to face contact through a third person that could be the embassy of the country or a meeting with the person involved directly in order to consolidate a friendship and then continue with the negotiation.

In the middle of this process, it is important to emphasize the values before analyzing more cultural traits. We can easily summarize this culture with the word respect; I mean respect

³⁵ Ibidem

to their customs, beliefs, values and more. For example, we could not make an effective negotiation if we neglect dressing codes and do not respect their beliefs; as having studied this culture, we know that the Japanese are sober in their choices, and do not share extravagances, so, a good option would be to wear dark colors and not to wear use flashy or valuable jewelry.

Moreover, by the word respect I mean all aspects that make up the culture, and I will refer mainly to the time as essential in the life of a Japanese; punctuality is the main sign of respect for a Japanese. It is not possible to arrive late for an appointment, it will damage the image of the company forever.

It is recommended to get to appointments five minutes early because this gesture demonstrates the seriousness of the company.

To understand Japanese culture it is necessary to check the values which composed it. I already mentioned as a primary point the respect, but there are other important aspects that define them as people and professionals:

The Japanese manage a culture where work and responsibility play an important role, this is why it would not be unusual to find a Japanese working after hours, and even using his vacation to advance accumulated work, it means, that a Japanese has few hours of rest, so it is easy to deduce that a Japanese has a high valuation of work and little of the fun and relaxation that come from Confucian ethics.

The Japanese have a great compulsion for carry out their duties in social and professional issues.

The Japanese are serious and they work with a long time horizon. They are conservative, but very strong when negotiating; negotiation takes its time to make a decision.

Having analyzed the main features of their culture, I will continue with the negotiation process itself.

The greeting is first. The traditional form of greeting in Japan is the reverence, which is not usual in our American society, reason why it will be difficult to do it by the Latin American

negotiator, however, it is recommended to observe what the Japanese do to repeat their actions.

The business card is a very important custom in Japan. After performing the greeting, it will be necessary for the Latin American businessman to carry his business card because if the card is not delivered it gives the impression that as a businessman, he is not willing to make a commitment which immediately causes suspicion. The presentation cards are delivered standing up, and at the moment of receiving it you must hold them with both hands and examine them for a few minutes because this action denotes great interest. It is important to remember that once the presentation card is received, do not bend them or play with them during the negotiation round.

On the other hand, to begin the negotiation, it is extremely important to excuse yourself because you do not speak Japanese (in the case which the negotiator does not speak it) making comments about how hard it is for you the language but the great interest shown to learn it. An important recommendation in this point is to get a translator.

Another general rule is about gifts, at this point we recommend bringing small gifts for Japanese contacts; they may be pens, lighters, diaries with your company logo. This action will show to its Japanese counterpart that you not only seek to establish trade relations with them but also to establish cordial relations. When giving or receiving gifts it is important not to open it in the presence of the person who offers.³⁶

In the meetings the ones discussed are the issues that have been agreed on the agenda days before. It does not exist the improvisation and flexibility in the topics; we must remember that the Japanese are organized and therefore follow a pattern of behavior for each action performed.

The written material to be used for presentations in the round of negotiation, are slides, catalogs, brochures which must be flawless in terms of content and spelling, remembering that they must be translated into Japanese, and in the case that they have not been translated to Japanese, it should be done at least into English. Within this it point is recommended that a good strategy is to keep a copy for each member of the Japanese negotiating team. This

³⁶ Global Marketing Strategies. Asia Pacific. (Accessed on May 28, 2012). Page 12.

action will help to make the decision making process faster, that in the case of a Japanese counterpart the negotiation takes a lot of time.

The presentations that are going to be performed should be generous in terms of information of facts, figures; it means, they must be presented in detail in order to avoid many questions or comments by the counterparty, who in case of errors will detect them immediately.

Once the presentation is finished, it is time for the observations by the Japanese during, in which you must be very careful not to interrupt and pay attention to them with patience until they finish.

If the reaction of the Japanese counterpart is not be very favorable, a good option is to stop the business round and continue the meeting in a restaurant or somewhere to relax. This option is recommended because the philosophy of the Japanese that says "first become friends, then do business," with which will be achieved a deeper understanding of the person not in the professional but personal aspect, and at the same time contributing to the realization of an optimal trading.

An important aspect in the negotiation that is necessary to know even in a low percentage is the language, because many times what we understand has a different meaning for them. For example, a "yes" to Japanese means that you only hear and understand the answer, but it does not mean acceptance to the proposal.³⁷

On the other hand, the Japanese never say no, but give suggestions using explanations that something is not possible. Questions should be always open to prevent answers in monosyllables. The counterparty should not be frightened if a Japanese is in silent, this technique will be repeated many times during the negotiations, not to express a negative but it is the time for reflection that must be respected.

In final decisions, the Japanese used a popular technique known by the name of "Ringi" which means that decisions are made by consensus that is discussed by everyone involved

³⁷ Global Marketing Strategies. Asia Pacific. (Accessed on May 28, 2012). Page 12.

in the project in order to create a group spirit. The ultimate responsible for the decision will not say an answer until all participants.³⁸

The hierarchy is related to age, in most round of negotiations it is a team member who should take the lead, usually it must be a person of middle age who knows very well the market and competitors, for this reason it is recommended that prior to the negotiation a friendship should be developed.

It is essential to remember that the Japanese seek a global agreement rather than approval point by point, and the objectives will be raised in the long term, at least five years.³⁹

Once the negotiation is finished, and in the case that it has resulted in a positive decision, you should be careful with the problems that may arise with regard to trade relations of the first order. In this case, it is important to solve the problem quickly and effectively, because the reliability is measured by the Japanese through the capacity for solving problems.

Finally, it is recommended that you sign a contract with the Japanese counterpart because they are in favor of doing everything by legal means. Even among the Japanese, it is very common to close agreements with a verbal contract, in international negotiations they prefer writing contracts to avoid misunderstandings .

In case of disputes, the Japanese are culturally reluctant to discuss them and prefer to solve their problems before, so the level of litigation in courts are low.

All these points discussed, lead us to the conclusion that intercultural negotiation implies a respect for others and consideration for their values and customs to reach a consensus that satisfies both parties.

³⁸ Global Marketing Strategies. Asia Pacific. (Accessed on May 28, 2012). Page 13.

³⁹ Ibidem

CHAPTER 2

Trade relations between Ecuador and Japan

2.1 Introduction

This chapter pretends to be a pattern to search and identify of the realities in trade between Ecuador and Japan on the basis of the study about the importance of cultural influence and knowledge of Japanese society and its consumers.

When analyzing trade relations between Japan and Ecuador respectively, it will be necessary to analyze the relationship between the regions to which they both belong to, these are: Asia Pacific and Latin America that are separated by the great Pacific Ocean, as a consequence, there are few contacts and exchanges because of the distance.

The beginning of this analysis goes back to the time of the Second World War. Once it was overcome both regions were devoted to rebuilding their economic structures and infrastructure, reason why the efforts to establish any link between the regions were not priorities.

It is only during the 80s when a timid trade was created through the technology and the maritime transport basically, the exchanges were introduced by Japan with the intention of placing their products in the American market, but unfortunately it could not be well received for Latin America because at that moment they were facing a process of democratization that followed economic crises, which generated a great destabilization of the economy.⁴⁰

During the 90s, thanks to the globalization process that was handled in all regions of the world, there was a boost with the intention of linking the two regions commercially, but this time it was the Asia Pacific region which suffered a crisis during the years 1997 and 1998 that resulted in a pause in international relations.⁴¹

⁴⁰ Seun Lee Chun. Japanese Ambassador in Ecuador. "Relations between Asia Pacific and Latin America." Accessed on July 25, 2012.

⁴¹ Ibidem

As noted in this short review, the business relationship between the two regions has presented several obstacles to overcome and has not made an easy connection, although both regions have enormous potential for growth and diversity to exploit, so for example, according to reports of the ECLAC (Economic Commission for Latin America and the Caribbean), and the Asian Development Bank in the Asia Pacific, the Asia Pacific region during the period 2010-2011 shows a growth of 6.6%, while the region of Latin America has a growth of 4.3%.⁴²

Ecuador is in Latin America, and Japan in the Asia Pacific region, so it is necessary to refer to the international organizations that in a certain way allow a business relationship. The relation is not direct between the countries, but it is between the two regions. The countries of Latin America and the Asia Pacific members belong to the WTO (World Trade Organization), which has promoted economic flows in recent years.⁴³

This type of integration at regional level has favored the increase of exports from both regions, so for example, in the 80s, the integration was not a visible reality, the amounts of exports of Asia Pacific to Latin America as a whole did not exceed 35 billion dollars, while in the immediate time of integration the amounts increased to 55 billion soon. In turn, Latin American exports to Asia during the same periods discussed in this paragraph, went from 18 billion dollars to 36 billion dollars, so we can clearly identify that trade has doubled since integration.⁴⁴

It is necessary to note that since the integration the volume of exchanges is higher, but, in relative terms these exchange still maintains a low level taking into account the export supply of both regions.

⁴² Trade Relations: Asia Pacific and Latin America. Period 2010-2011. Accessed on July 25, 2012. Available at: www.eclac.org/estadisticas/

⁴³ Ibidem

⁴⁴ Ibidem

For the integration between the two regions some years ago several mechanisms for dialogue and cooperation that link governmental actors and civil society, were created among these:

The Economic Council Pacific: it is a nongovernmental organization with little representation in Latin America: Mexico, Peru, Chile, Ecuador and Colombia. It serves as a forum in order to discuss matters of commercial nature.⁴⁵

Economic Council for cooperation in the Pacific: it is an association formed by prominent personalities from business, government, and academia in order to promote trade, finance and social progress, science and technology in the Pacific community.⁴⁶

APEC Asia Pacific Economic Cooperation: It is a Government-wide mechanism that works through summits between the presidents and heads of state of all member countries.⁴⁷

As we can see, in this brief review of the institutions of dialogue and cooperation in the area, it is really clear the lack of participation of Latin America, which is represented by only five countries. This situation raised the need for Chile to propose the creation of the Forum of Cooperation Latin America - East Asia which has the intention of more cooperation in the future, but it has not shown the results that were required for a true partnership until now.

Without an effective business relationship between the two regions, there is no way we could talk about a direct commercial relationship between Ecuador and Japan, so this is basis of this study: to show that there are opportunities to be exploited, given that both countries have a lot to offer.

⁴⁵ Trade Relations: Asia Pacific and Latin America. Period 2010-2011. Accessed on July 25, 2012. Available at: www.eclac.org/estadisticas/

⁴⁶ Ibidem

⁴⁷ Ibidem

As I mentioned above, the agreements made between Ecuador and Japan are not commercial but rather of cooperation and donation, and if we go back to the history we can see that Japan started its cooperation and integration with Latin American countries by various reasons, not just economic, but rather humanitarian. In the 70's Japan diversified sectors of assistance in areas of basic human needs guided by two fundamental aspects. The first one is based on moral and humanitarian aspects because after several analysis has shown that people living in developing countries or underdeveloped countries need a greater assistance regarding humanitarian efforts to help stop poverty, disease, violence, unemployment, hunger ; it is for these reasons that Japan as a developed country in terms of technology and infrastructure cannot pass unnoticed this fact and be indifferent to this reality, so this is the first reason for the integration of Japan to Latin America.

The second aspect deals with the recognition of interdependence, which is governed to a Japanese philosophy that is based on the principle that "we all live in an era of mutual dependence"; it means, that developed and developing countries are closely related because without the stability and progress of developing countries, developed countries may not seek their prosperity. That is why Japan developed as an example of international cooperation the Official Development Assistance (ODA) that has donated millions of dollars to several countries in the world, however, it is extremely important to refer to the marginal that Latin America has been as a recipient of this aid from Japan mainly because the countries of Latin America maintain a growing external debt. This example of poor cooperation with Japan also extends to business processes in which Latin America and Ecuador do not specifically show large developments which help to stabilize the Ecuadorian economy and especially because there are several unexploited sectors such as agricultural products.

After reviewing the history between the two countries, we notice the main shortcoming, which is based on the fact that they do not have commercial agreements, but their relationship is based on humanitarian agreements in which Ecuador has generally been benefited in 90 %. (See Annex 1).

2.2 COMMERCIAL AGREEMENTS

Japan's trade policy is based on a 90% in trade openness which does business through Strategic Partnership Agreements (EPA). These agreements include tariff reductions and they are formulated in a way that they cover intellectual property issues that in the Japanese market are of great importance because the Japanese created several internationally renowned brands, highly regarded. This situation has led the policies such as intellectual property rights are tightly regulated and controlled in the commercial transactions processes.

Japan is an economically developed country that belongs to groups such as the G20, G8, and it is an active member of the WTO (World Trade Organization), besides, it has signed numerous free trade agreements (FTAs) with countries like Mexico, Australia, India, Malaysia, Singapore, South Korea, and on representation of South America to Chile⁴⁸. Thus we must be aware that Ecuador as an underdeveloped country must offer products of great renown and innovation to achieve that economic cooperation, because the named countries are developing countries with diversified economies and even some of them belonging to those named in the course of this work as the "Asian Tigers", which are generally countries with a developing economy and a growing industry for achieving cooperation with countries like Japan.

According to this, we can clearly see that the way forward for Ecuador is not easy, but not impossible. It is then necessary to show that we are a country with potential, open to innovation and change and trade liberalization as a first principle in our economy.

Trade relations between Ecuador and Japan have been made within the following features. Japan represents for Ecuador the largest market in Asia after China, because this country has a population of approximately 127, 000,000 inhabitants characterized by a high

⁴⁸ CORPEI. Export and Investment Corporation of Ecuador. Report on Ecuador-Japan trade relations. September 2011 (Accessed on June 15, 2012). Academic Journal "The Latin American Observatory of Japan's Economy and Society" Publisher EUMED University of Málaga.

purchasing power which is represented by an average of USD 30,000 dollars a year, also accompanied of the great demands on quality standards.⁴⁹

A data of great importance is the fact that Japan is one of the largest food importers in the world, a curiosity that results from an investigation conducted by the Leisure Development Center of Japan reveals that one of the pastimes of the Japanese consists on eating dinner outside their home which stimulates the purchase of buying and therefore the trade of food products imported from different countries around the world. Among the most imported food items are fruits, vegetables , seafood and fish (what is presumed as a huge potential market for products of Ecuadorian exportable offer).⁵⁰

Ecuador and Japan have performed a bilateral trade since 1960 that is characterized by economic character projects (almost nonexistent), cultural, and currently a commerce dedicated to the Pymes; for example, the agreement drafted earlier in the year of 2005, said the following: The resources that come of the grant agreement subscribed by Ecuador and Japan in August 2005 financed the projects of the Pymes through credits reimbursable and no reimbursable , reason why the business relationship with this oriental country are really important for a small country that has its industry developing and that see their small and medium enterprises grow everyday.

It should be emphasized that for the almost nonexistent exchange in economic terms, the relationship takes place within the General System of Preferences (GSP) which results in the preferences granted by Japan to Ecuador to enter Ecuadorian products to the Japanese market duty free.

⁴⁹ CORPEI. Export and Investment Corporation of Ecuador. Report on Ecuador-Japan trade relations. September 2011 (Accessed on June 15, 2012). Academic Journal "The Latin American Observatory of Japan's Economy and Society" Publisher EUMED University of Málaga.

⁵⁰ Ibidem

Within the agreement, after several investigations we can note that the results have been limited because of a larger universe of 200 tariff lines and 16 chapters that are included within the Japanese GSP, Ecuador uses 3% of preferences.⁵¹

For the analysis of this agreement it is necessary to take into account that many of the products exported to Japan are made through a process of elaboration that does not fit into products with tariff preferences, so we can clearly see that a change in the process of Ecuadorian exportable products could create more openness in the Japanese market.

To better understand there is an example: it is not possible to export unprocessed fruits due to sanitary restrictions, but if you attach a value through processing canning for example, the opportunity to enter the Japanese market is huge.

To begin this section we refer to the fact that Japan belongs to the agreement: promoting international cooperation for developing countries called ODA; for this reason, and because Ecuador is regarded as a developing country, it has taken the benefits of this agreement. However, there are problems that have not allowed Ecuador to obtain a 100% benefit. For example, distance and low purchasing power of South America.

We can analyze as a central point the high cost of transportation, for which a solution of great potential is in Manta that is the most salient point of South America. For this it would be important to organize internally as a country and take advantage of the project of Manta-Manaus corridor that would transfer a large ship at the same time increasing the transport capacity. It would be a great incentive and attractive to Asian companies. Despite this opportunity, I see necessary the creation and establishment of direct links between Ecuador and Asia to decrease the problem of transport costs.

For future agreements, Ecuador must place in the market agribusiness and agricultural production, and also include fisheries, that are markets in which Japan is undersupplied or

⁵¹ Universidad Tecnológica Equinoccial. Prospects for trade relations between Ecuador and Japan. February 2008. (Accessed on June 15, 2012). Available at: www.ute.edu.ec

as we review presents an agriculture almost nonexistent, but we must remember that the export of these products in their natural state is currently being devalued, not for its content but rather by the number of competitors who have an exportable offer that delights the Japanese eyes, then the solution is to create products with added value.

Moreover, as I noted earlier, Ecuador is a diverse country, reason why I can clearly see that the agreements on tourism should continue promoting. Results of several studies show that hundreds of new Asian tourists will be incorporated in subsequent years to various destinations in the world, then Ecuador that has the great advantage of its biodiversity can become an important tourist destination for Asian countries for which we should work as a country in terms of creation of adequate infrastructure, reliable services, moderate costs and especially security, which is a problem of our recent past.

2.3 TRADE BALANCE

The following is an analysis of exports and imports made by Ecuador to and from Japan over the last six years which are represented in millions of dollars. Statistical tables and graphs have been developed, which have the purpose of proving a much more clear evolution.

Table 2: Ecuador-Japan Trade Balance 2005-2011

(In thousands of U.S. dollars)

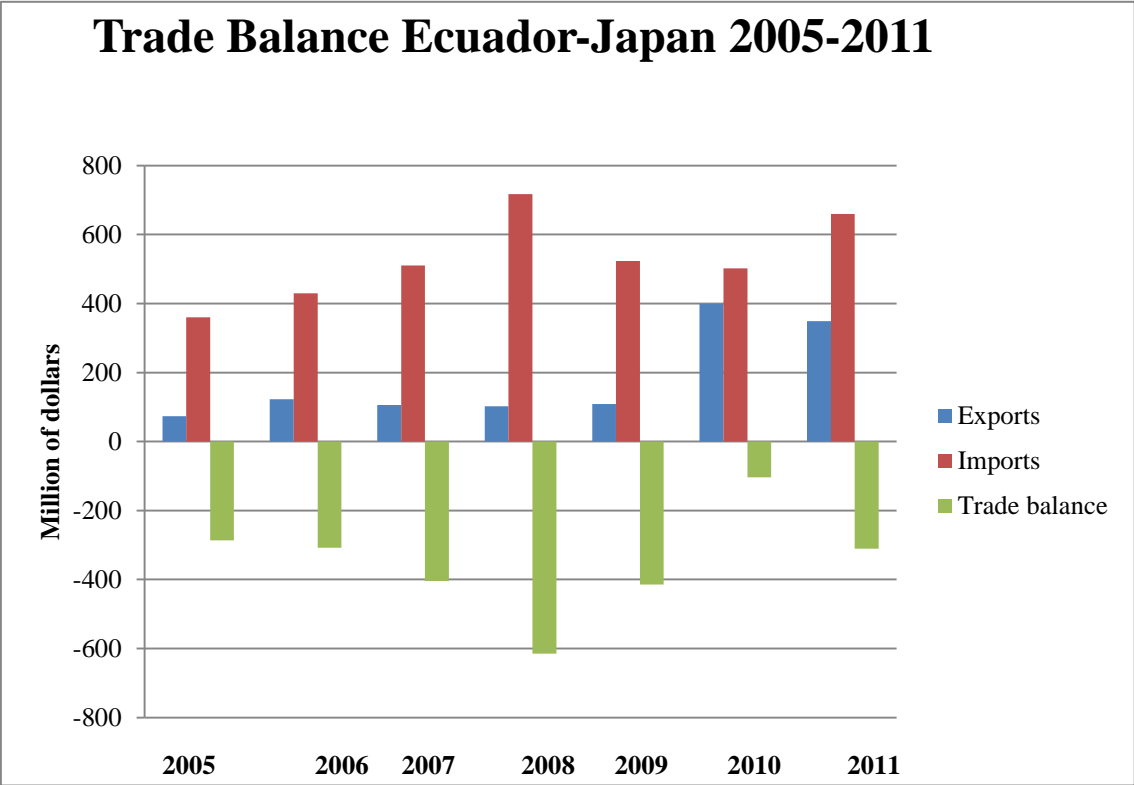
	2005	2006	2007	2008	2009	2010	2011
Exports	73,08	122,513	106,282	102,126	109,056	398,572	349
Imports	359,87	429,925	510,607	716,748	523,16	502,313	660
TOTAL	-286,79	-307,412	-404,104	-614,622	-414,104	-103,741	-311

Source: Central Bank of Ecuador

Accessed on: August 1, 2012

Author: Daniela Jaramillo Hermida

Figure 4: Trade Balance Ecuador-Japan 2005-2011.

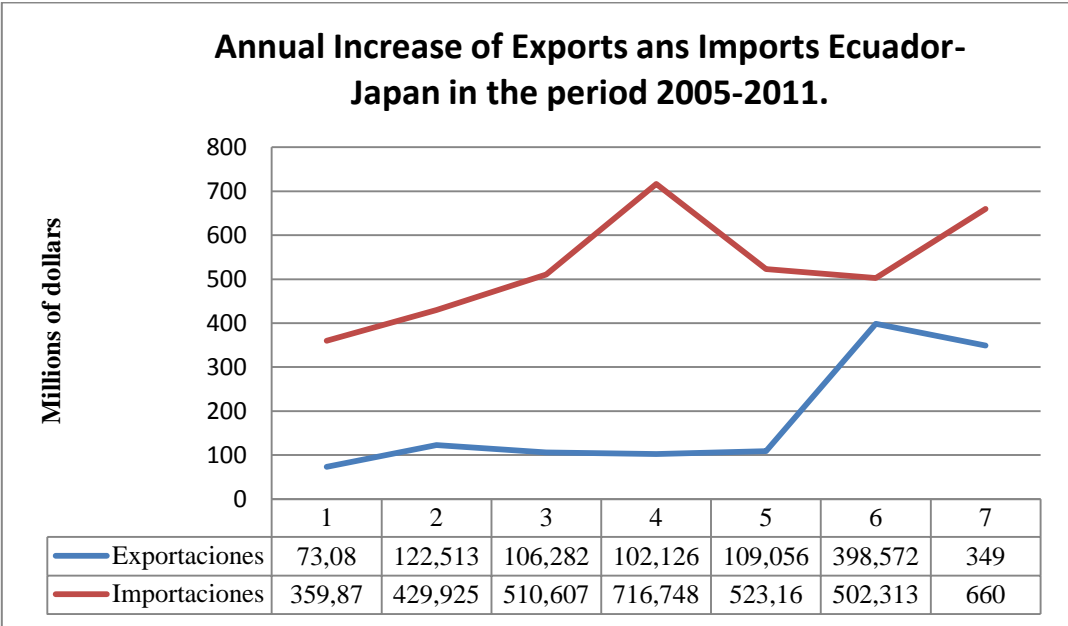


Source: ECB (Banco Central del Ecuador)

Accessed on: June 17, 2012

Author: Daniela Hermida Jaramillo.

Figure 5: Annual Increase Exports and Imports Ecuador-Japan in the period 2005-2011.



	1= 2005	2=2006	3=2007	4=2008	5=2009	6=2010	7=2011
Exports	73,08	122,513	106,282	102,126	109,056	398,572	349
Imports	359,87	429,925	510,607	716,748	523,16	502,313	660

Source: Central Bank of Ecuador

Accessed on: July 30, 2012

Author: Daniela Hermida Jaramillo.

The trend that has followed the bilateral trade balance for the last six years has been quite irregular. As shown in the table above, exports have remained constant, however, we can see a rise in 2010, while imports have had significant changes resulting in a variable balance but without being positive for Ecuador.

Year 2008 was the least productive in terms of trade balance which was USD-661, 5 million, imbalance that exists due to the increase in the import of vehicles.⁵²

⁵² Japanese Embassy in Ecuador. Trade relations between Ecuador and Japan. (Accessed on June 17, 2012). Available at: http://www.ecuador-embassy.or.jp/s/ecuador/so_ecuador.html

Ecuadorian exports to this market experienced a moderate growth from 2005 to 2009, but an increase in 2010 compared to the year 2009 that goes from \$ 109.2 million USD to USD \$ 398.572 million.

Furthermore, Ecuadorian imports from Japan in 2010 were U.S. \$ 502.313 million, representing a decrease compared to 2009, but we note in the chart that was in 2008 where Ecuador bought more strongly reaching an amount of U.S. \$ 716.6 million.

Ecuadorian exports to Japan have declined in the period January-October 2011 compared with the same period of the previous last year, having as results in 2010 exports valued at USD 398.572 million dollars and for 2011: USD 349 million dollars as seen in figure 5 below.

It should be noted that in 2005, exports had a downward trend because the export of the main product of Ecuador, bananas, had reduced their sales, by contrast, the imports had increased by 19.1 percent %, which shows that from this time the increasing in importing products from Japan, so that from 954 items that were imported in previous years, in 2005 Ecuador imported 1090.⁵³

In 2006, exports increased with reference to the year 2005 due to the export of crude oil which in this year was placed again in the Japanese market, becoming one of the most exported products after bananas and fish flour. The imports during this year also increased, importing agricultural products such as bananas, cocoa, and fruits like mango and coffee.⁵⁴

In 2007 we can see in the chart that exports decreased compared to 2006, primarily due to the decline in banana exports by 7.36% compared to 2006 because in this year there was an increase in the price per kilo of 0.02 USD. On the other hand, imports grew compared to 2006 because Ecuador in recent years developed a market of consumers who were increasingly related to technology and innovation, therefore, the demand for technology

⁵³ Central Bank of Ecuador. Foreign Trade. Balance of Payments. Period 2005-2011. (Accessed on June 17, 2011). Available at: www.bce.fin.ec/

⁵⁴ Ibidem

products and automobiles is grew because the market demanded more. As Ecuador did not produce technology or neither had its own industry of cars, Ecuador imported it from Japan, as a consequence, the import amounts since 2006 grew.⁵⁵

In 2008 there was a great deficit in the commercial balance where we could see that there is a large commercial deficit and imports increased significantly; however, we noted that the deficit occurs due to the higher prices in the import of vehicles that Ecuador imported in large percentages of Japan.

In 2009 Ecuador exported more with reference to 2008, Ecuador exported a variety of 135 tariff lines. During this year, according to the Central Bank of Ecuador, there were more than 2,500 Ecuadorian exporters, of which 9% stocked the Japanese market with their products. As for imports, in 2009 were reduced compared to 2008 as seen in figure 5, in 2008 the exports showed a total of USD 102.126 million dollars, while in 2009 showed a total of U.S. \$ 109.056 million dollars.⁵⁶

In 2010 we see a decrease in the commercial deficit that is mainly based on oil exports totaling 113 million, while imports continue the trend of previous years which is quite irregular, resulting in a balance equally variable but without being positive for Ecuador.

Finally, in 2011, it is important to emphasize that the phenomenon of the earthquake at this year, affected trade relations between both countries, resulting in a decrease of Ecuador's exports to Japan, mainly because the country of the rising sun had a debt totaling USD310 billion in damage, and therefore its budget for the trade was limited. As for imports, they increased with reference to the year 2010.⁵⁷

The analyzed values indicate that in the last six years we have had a negative trade balance with Japan.

⁵⁵ Central Bank of Ecuador. Foreign Trade. Balance of Payments. Period 2005-2011. (Accessed on June 17, 2011). Available at: www.bce.fin.ec/

⁵⁶ Ibidem

⁵⁷ Ibidem

The trade balance is favorable to Japan in a ratio of 4-1 although the Asian country is a major potential market for Ecuador.

2.4 MAIN EXPORTS AND IMPORTS PRODUCTS

The main products exported from Ecuador to Japan during the period 2005-2011 are: crude petroleum oils, flours, fish or crustaceans, molluscs or other aquatic invertebrates, bananas, fresh or dried bananas, cacao beans, cauliflower, broccoli,(fresh or chilled). Products that have shown higher growth during this period were crude oil, and yellow fin tuna.⁵⁸

The following table presents the tariff and the description of the products mentioned.

Table 3: Sub headings and description of the top 20 export products of Ecuador to Japan.

Number	Sub headings	Description
1	0803001200	Cavendish Bananas valery, fresh.
2	2301201000	Flours, meals and pellets, unfit for human consumption.
3	2709000000	Crude oils or material bituminous.
4	0306139000	Shrimp and other decapod prawns, shrimps of the genus except <i>Penaeus</i> , frozen.
5	0704100000	Cauliflower and broccoli (broccoli), fresh or Refrigerated.
6	1801001900	Other, raw cocoa
7	2101110000	Extracts, essences and concentrates of coffee.
8	5305210000	Abaca fiber, raw.
9	0603900000	Flowers and flower buds for bouquets or ornaments, dried, dyed, bleached, impregnated or otherwise prepared.
10	0803001900	Other bananas, except cavendishvalery tiposplantain

⁵⁸ <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2011/04/PROEC-GC2010-JAPON.pdf> (accessed on 20 june 2012).

		and refreshment.
11	0603104000	Cut roses for bouquets or for ornamental.
12	0603109000	Other flowers and flower buds.
13	3203001500	Vegetable dyestuff.
14	0303410000	Ibacore or albacore (<i>Thunnus alalunga</i>), frozen, excluding fish fillets and other fish meat of heading 03.04, livers and roes.
15	1803100000	Cocoa paste, not defatted.
16	2008999000	Other fruit, nuts and parts edible plants, prepared or otherwise preserved, even with added sugar or other sweetening alcohol (except nuts, in pineapples, citrus, pear, apricot, cherry).
17	0603109090	Other flowers and flower buds.
18	2008993000	Mangoes, prepared or preserved. Otherwise, even with added sugar or other sweetening matter or spirit.
19	0901110000	Other, unroasted coffee, without decaffeinated.
20	9606301000	Plastic or tagua (vegetable ivory).

Source: Central Bank of Ecuador

Accessed on: June 19, 2012

Prepared by: Daniela Jaramillo Hermida.

The following amounts and the table show the figures obtained during the period 2005-2011 according to the Central Bank of Ecuador and Customs of Japan:

Table 4: Total exports from Ecuador to Japan in the period 2005-2011 (million USD)

Period 2005: 134 million USD
Period 2006: 154,56 million USD
Period 2007: 133,4 million USD
Period 2008: 147,96 million USD

Period 2009: 158,55 million USD
Period 2010: 379,44 million USD
Period 2011: 311,101 million USD

Source: Central Bank of Ecuador

Accessed on: June 20, 2012

Author: Daniela Jaramillo Hermida

These figures can be seen in the following table:

Table 5: Major Export Products from Ecuador to Japan.

Subheading tariff	Product	2005	2006	2007	2008
803001200	Cavendish Bananas valery, fresh.	50,57	56,87	31,58	31,23
2301201000	Flours, meals and pellets, unfit for human consumption.	16,65	31,18	34,47	41,64
303410000	Ibacore or albacore (Thunnus alalunga), frozen, excluding fish fillets and other fish meat of heading 03.04, livers and roes.	9,84	8,44	7,1	14,06
704100000	Cauliflower and broccoli (broccoli), fresh or Refrigerated.	10,39	11,54	12,36	13,07
603900000	Flowers and flower buds for bouquets or ornaments, dried, dyed, bleached, impregnated or otherwise prepared.	7,95	8,86	9,18	10,82
603104000	Cut roses for bouquets or for ornamental.				
1801001900	Other, raw cocoa	12,9	14,84	14,46	6,8
5305210000	Abaca fiber, raw.	2,32	2,18	2,04	3,6
2008999000	Other fruit, nuts and parts edible plants, prepared or otherwise preserved, even with added sugar or other sweetening alcohol (except nuts, in pineapples, citrus, pear, apricot, cherry).	1,04	1,55	1,58	3,43
2008993000	Mangoes, prepared or preserved. Otherwise, even with added sugar or other sweetening matter or spirit.				
440724	Wood chips	16,54	12,56	13,62	15,99
	Several food	5,82	6,54	7,01	7,32
2709000000	Crude oils or material bituminous.	.....	.....	.....	.....
30341	Extracts, essences and concentrates of coffee.	.....	.....	.....	.....
3034200	Yellowfin tuna.	.....	.....	.....	.....
TOTAL		134,02	154,56	288,58	147,96

Source: Central Bank of Ecuador, ECB
Accesed on: July 26, 2012
Author: Daniela Jaramillo Hermida

In the table above we can analyze the following aspects:

During the period of 2005-2011 Ecuador has exported a total of USD 1,557,054,000, with few diversifications of Ecuadorian exports to Japan, and based mainly on food products among which the most important are bananas, cocoa, fish meal, crude oils and others.

Ecuador's export supply to Japan has been very limited although we have the mentioned GSP (Generalized System of Preferences); for example in the study period, the exports, even when they have kept the same number of products , except for the year 2011 which changes in a small percentage the variation of exported products, the exports have decreased in certain products such as bananas that for 2005 began with an export that generated a sum of USD 50 , 57 billions to finish in 2011 with a total of USD 12, 8 billion. On the other hand, as it was already mentioned, there are products that have greatly increased their sales; it is the particular case of fishmeal that in 2005 recorded a total of \$ 16 millions to finish in 2011 with a total of \$ 38.2 millions.

According to Table 5 of the exportable products from Ecuador to Japan we can see that there are products that have been incorporated in recent years and have had significant growth as in the case of crude petroleum oils and a species of fish known as albacore and yellowfin that ultimately are generating important items for exports and that went unnoticed in previous years.

As shown in Table 5 the total of exports have varied , beginning in 2005 with a total of USD 134.02 million dollars and ending in 2010 with a total of USD 371.752 and in 2011 with a total of USD 301.632 . This comparison between the years analyzed shows a strong growth in export, but it should be noted that although this increase is significant, it falls mainly on the sale of petroleum crude oils during the years 2010 and 2011, which shows that our exports are not diversified and depend mostly on one or two products, which were

previously the cocoa, and bananas, but today is the crude oil; but the situation is the same, the continuous dependence. We must try to change that considering that for most products entering Japan it will be necessary for Ecuador to fulfill the main requirement of quality in them.

Table 6: Star Products:

Tariff	Description	Percentage with reference to total exports.
030341	Albacore	10,42%
270900	Crude oils	34,3%
230120	Fishmeals	16,4%

Source: Trademap ITC (International Trade Centre)

Accesed on: July 22, 212

Development: Business Intelligence Unit / PRO ECUADOR

Table 7: Lost Opportunities:

Tariffs	Description	Percentage with reference to total exports.
180310	Cocoa beans, whole broken, raw or roasted.	5,6%
030341	Extracts, essences and concentrates of coffee.	0,7%
060390	Bananas, fresh or dried.	17,4%

Source: Trademap ITC (International Trade Centre)

Accesed on: July 22, 2012

Development: Business Intelligence Unit / PRO ECUADOR

From this table, we can analyze that the total of cocoa exports represent a very small percentage compared to the total exports during the period 2005-2011, taking into account that cocoa is one of our export products per excellence like bananas and coffee, and it is precisely for this reason that these products are positioned within this table, because instead of using the global recognition because of its quality and good taste, in the bilateral relationship with Japan these products are almost unnoticed such as cocoa and coffee extract essence. For bananas is different, because the primary reason why bananas are within the table is because of the loss of business opportunities due to the decrease in the sale of this product.

It is important to note that 92.05% of exports to Japan is concentrated in the top 15 exporters, among which are:

- Noboa Banana Exporting S.A.

-Business-Industrial Real S.A.

-Expoforestal S.A.

From which we can note that there is little diversification of exports and nearly 100% of total exports is concentrated in only three exporters. Although, we can see that the number of exporters have increased over the years, it's still the same story of the products leaving the country that have not increased, that is, that there is growing exporters but not selling the same quantities, which clearly shows that there is a lack of interest in each company to increase its exports.

The main products import by Ecuador from Japan during the period 2005-2011 are products for the automotive industry: among which are:

-Vehicles with engine-piston.

- Vehicles ignition.
- Vehicles to transport people.
- Vehicles of a cylinder capacity exceeding 1500 to 3 3000.

The products that have shown a higher growth are: other vehicles for the transport of goods, with plunger or piston engine, compression ignition (diesel or semi) of maximum weight exceeding 20 t. with an AAGR of 54.49%, followed by other motor vehicles with a reciprocating piston, ignition, for the transport of persons, of a cylinder capacity exceeding 1 500 cm³ but not exceeding 3000 cm³, which reached an AAGR of 31.99 % reciprocating piston engine or rotary for the propulsion, outboard type with an AAGR of 25.57%.⁵⁹

This table presents the tariff and the description of the products mentioned:

Table 8: Sub items and description of goods imported by Ecuador from Japan.

Number	Sub heading	Description
1	8704220090	Other (motor vehicles freight).
2	8704310010	The other motor vehicles for transport of goods with piston engine ignition spark in CKD.
3	8703230010	CKD
4	8703230090	Other motor vehicles cylinder capacity exceeding 1500 cm ³ but exceeding 3000 cm ³ , designed for the transport of persons (other than those of heading 87.02), including.
5	8704210010	CKD
6	8703240090	Other motor vehicles cylinder capacity exceeding 3000 cm ³ , principally designed for transport of

⁵⁹ <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2011/04/PROEC-GC2010-JAPON.pdf>.

		persons (other than heading 87.02), including the type family and racing.
7	8706009019	- Other. Vehicle chassis vehicles of heading 8701 to 8705, fitted with engines. Except chassis of motor vehicles the maximum load heading 87.02 exceeding 5 tonnes, and CKD.
8	8703220090	Other motor vehicles cylinder capacity exceeding 1000 cm ³ but exceeding 1500 cm ³ , designed for the transport of persons (other than those of heading 87.02), including.
9	8704230090	- Other. Vehicles with engine plunger, total weight less than 5 t maximum. Except in CKD.
10	8429520000	Machines whose superstructure rotated 360 °.
11	4011100000	Of a type used on motor of cars (including the type family).
12	9804310000	From total weight lower maximum. exceeding 5 t.
13	9803230000	Of a cylinder capacity exceeding 1 500 cm ³ but less than 3,000 cm ³ .
14	8407210000	Outboard motors.

Source: Central Bank of Ecuador

Accessed on: July 23, 2012

Author:: Daniela Hermida Jaramillo.

The following table shows the data on imports by Ecuador from Japan in the period 2005-2011:

Table 9: Imports by Ecuador from Japan in the period 2005-2011 (Millions of dollars).

Subpartida arancelaria	Producto	2005	2006	2007	2008	2009	2010	2011
8704310010	Other motor vehicles for the transport of goods	230,02	299,62	357,85	498,08	347,55	164,776	43,69
8703230010	In CKD.						47,005	20,321
8703230090	Other vehicles of a cylinder capacity exceeding 1 500 cm3 but not exceeding 3000 cm3, principally designed for the transport of persons (other than those of heading 87.02)						31,227	77,077
8706009019	Other chassis for motor vehicles of heading 8701 to 8705 fitted with engines. Except chassis vehicles of heading 87.02 with maximum load over 5t and CKD.						19,375	36,776
4011100000	Of a kind used on motor cars including the family type.						20,386	24,624
8,407E+09	Outboard motors.						26,364	187,55
8429520000	Machines whose superstructure can rotate 360 °	63,9	84,72	112,32	126,98	86,28	3,161	25,584
7210	Iron and steel (rolled products)	5,97	3,95	9,81	18,23	16,36	21,474	44,057
40014017	Rubber (tires)	9,79	8,18	14,22	14,22	8,75	8,393	10,961
854370	Electrical Machinery	5,52	7,51	8,14	6,2	7,02	303,81	232,51
271019	Minerals	0,01	0	0	1,3	5,03	200,64	91,3
37059000	Photos	3,92	3,46	2,99	2,49	2,18	810,205	287,92
	TOTAL	319,13	407,44	505,33	667,5	473,17	1656,816	1082,37

Source: Central Bank of Ecuador.

Accessed on: July 28, 2012

Author: Daniela Hermida Jaramillo.

Japan is currently the eighth provider of Ecuador, surpassed even by the United States. Japan import products such as vehicles, tractors and transport equipment, machinery and parts, appliances and electrical equipment and parts, rubber and articles thereof; aluminium and articles thereof , iron and steel, etc., which are basically the ones that generated an important item, especially for the year 2010 in which the total imports reached USD 1,656,816,000 dollars, being the year most imported.

It is interesting to know that over 99% of imports refer to industrial products and industrial raw materials, a situation totally different from the composition of Ecuadorian exports, in which predominate primary products.

From the table given above we can analyze that most imports are focused on the purchase of passenger cars totaling USD 498 million in 2008 as the highest figure achieved during the period.

The import amounts have varied over the years, beginning in 2005 with a total amount of USD 319.13 million dollars to end in 2011 with an amount of USD 1,082,370,000 dollars.

It is important to know that during the five years analyzed, the Ecuadorian imports from Japan are grouped mostly in Chapter 87 that includes vehicles, tractors, parts and accessories representing 61% of total purchases.⁶⁰ We should also note that in recent periods for 2010 and 2011 there are certain products with which Ecuador has increased its sales, that is the case of photographic products and plastics that in recent periods listed in sales with amounts in millions relatively low, while in 2010 and 2011 imports greatly increased.

For this analysis, it is important to know the reasons of the negative trade balance during all the years of trade relations between Ecuador and Japan. Knowing that Japan is a major importer of food products per excellence and raw materials in the international market does

⁶⁰ Pro Ecuador Ecuadorian Institute of Export and Investment. Intelligence Directorate trade and investment. Bulletin number 38 foreign trade (accessed on July 3, 2012.). Available at: <http://www.proecuador.gob.ec/wpcontent/uploads/downloads/2012/08PROEC-FC2012-JAPON.pdf>.

not represent an important item (in terms of cost), or what is the same, considering that, in total, what Ecuador would receive as export income from selling these products is much less than the cost it would spend to buy items as detailed in Chapter 87 which are of a high cost; it is easy to deduce the negative balance between these two countries.

Another aspect to consider is that if we look at the detailed table above, Ecuador exported to Japan mostly food, but the exported products do not exceed the number of six, based in broccoli, cauliflower, canned fruits, bananas, cocoa and fish, however, given that Ecuador is a diverse country with endless resources to offer, clearly I conclude that our exports are limited to five or six well-defined products.

Based on this, the question is: how to change the situation of the balance?

The answer is, that the importance of Japan as a food importer, it would be helpful for Ecuador to develop an export diversification in food items in products such as:

Vegetables, fruit, grains, onions, pumpkins, cabbages, carrots, asparagus, broccoli, soy, ginger, potatoes, beans, peas, green beans, corn, spinach, melons, oranges, grapefruit, lemon, pineapple, lime, coconut, apple, fish, crabs, flowers like carnations, roses, etc.

However, the difficulty and the reason why these exports have not been done before is because of two specific reasons: the first refers to the fact that there is no support for small farmers in Ecuador to carry out their work, and the second which is external to our country is that to export these products to Japan it must be taken into account considerations which must be met as origin requirements, packaging, etc.. (See Appendix 2).

Ecuador has used to enter with products to the United States which represents a 42.62% of our exports and being beneficiaries of agreements that promote the easy input of various products without a high added value, therefore, the exporters are limited to fulfill this

market and not to more demanding markets as the Japanese one, which is a reality that we must change in order to transform this.⁶¹

⁶¹ Pro Ecuador Ecuadorian Institute of Export and Investment. Intelligence Directorate trade and investment. Bulletin number 38 foreign trade (accessed July 3, 2012.). Available at: <http://www.proecuador.gob.ec/wpcontent/uploads/downloads/2012/08PROEC-FC2012-JAPON.pdf>.

CHAPTER 3

3.1 INTRODUCTION

Given the importance of food exports from Ecuador to Japan, the commercial opportunities will be basically centered on the food market.

For the analysis of this market, it will be necessary to identify how food is managed in Japan, which accounts for 15% of the world economy and 25% for high-tech products. It is also the second largest economy in the world.

There are a total of 127 million consumers⁶² who in average are 42 years old who have a per capita income of \$ 30,000.⁶³ As we can see there is a relatively high income, with a large set of consumers willing to pay a good price for a good product; aspect that would benefit Ecuador a lot in the case as an exporter.

It's important to mention that the Japanese spend around 27-30% of their income on food, and much of this spending is done on meals outside the house⁶⁴, especially on breakfast. Within this 30%, the expenditure on fruit and vegetables is 7-8%⁶⁵, representing a high percentage and showing that the Japanese are among the largest consumers of fresh vegetables in the world.

A survey by the Tokyo metropolitan authorities gives the following results: organic

⁶² Pro Ecuador Ecuadorian Institute of Export and Investment. Address of Business Intelligence and Investments. Japan's trade tab. available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2012/08/PROEC-FC2012-JAPON.pdf>. Accessed: August 30, 2012.

⁶³ Ibidem

⁶⁴ Ibidem

⁶⁵ Pro Ecuador Ecuadorian Institute of Export and Investment. Address of Business Intelligence and Investments. Japan's trade tab. available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2012/08/PROEC-FC2012-JAPON.pdf>. Accessed: August 30, 2012.

products most frequently consumed by the Japanese in order are onions, potatoes, carrots, cabbage, radish, onions, and lettuce; the survey also showed that the household expenses are distributed as follows:

-56% of houses buy fruits and vegetables every two or three days

-18% buy daily

-14% buy once a week

-11% when they need them

Furthermore, according to the same survey consumers want their providers to offer regarding fruit and vegetables:

-Freshness 41%

-Diversity 41%

-Package 27%

That's saying that basically what the consumer is looking for is freshness when buying because of its cultural concern for cleanliness, and the high level of consumption of these products with reference to other countries.

3.2 COMMERCIAL OPPORTUNITIES

Japanese consumers are increasingly interested in consuming products of foreign origin which is a great incentive for Ecuador to make improvements to their products so that they can have a better and faster acceptance by the Japanese consumer.

This consumer has basically two characteristics.

The first refers to diet and while this is being westernized and diversified, it is necessary to note that the traditional food from seafood and vegetables still dominates. The second characteristic refers to the preference for fresh products, good looking items and carefully packaged, factors that make these products expensive.

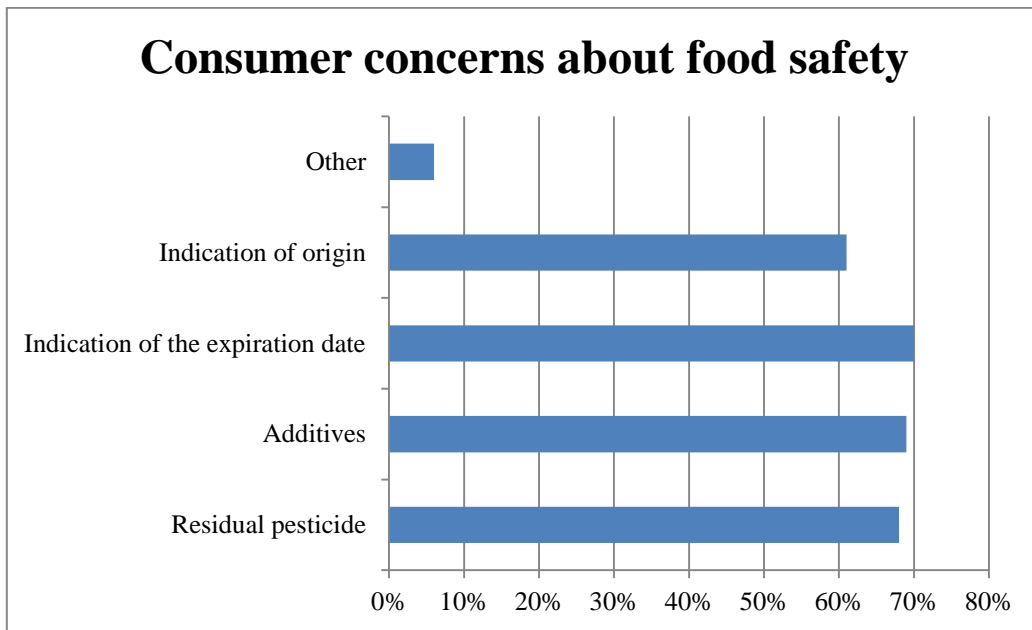
As I mentioned earlier, the base for commercial opportunities is food, and this is because of certain characteristics that have transformed the Japanese market such as the following:

- environmental awareness and eco products
- high income consumers (these new consumers are cautious on the issue of food security)
- healthy product market
- greater interest in food safety at convenience
- new consumer philosophies based on "freshness and safety"

In the next graphic we can see how to follow these features in Japanese consumers:

Graph 6: Consumer concerns about food safety

Consumer concerns about food safety



Source: Ministry of Agriculture and Agricultural Japan

Author: Hermida Jaramillo Maria Daniela

Date: August 28, 2012

Making reference to these characteristics and taking into account the concerns reviewed in the previous graph of Japanese consumers, we may infer that the introduction of organic products from Ecuador is possible.

If we look at the domestic market of food through the following tables, we can see that their level of self-sufficiency with the exception of products like rice is not satisfactory.

So for example:

Table 10: Level of Self-Sufficiency of organic products in Japan

Rice for human consumption	100%	Starch	9%	Beef	43%
Wheat	11%	Soy	6%	Pork	55%
Barley	7%	Other beans	22%	Chicken meat	73%
Rye	85%	Vegetables	83%	Other meat	12%
Various cereals	0%	Fruits	41%	Chicken eggs	96%
Sweet potato	94%	Mandarin	10%	Milk and dairy	71%
Potato	73%	Apple	58%	Sea food for human consumption	62%

Source: Ministry of Agriculture and Agricultural Japan

Author: Hermida Jaramillo Maria Daniela

Date: August 28, 2012

In this way we could say that export opportunities are mainly opened to Japan for fresh fruit and vegetables.

3.3 EXPORT PRODUCTS FROM ECUADOR TO JAPAN

In 2011 Ecuador presented 0.04% of the basket of imports from Japan in relation to what the world demands, which can be displayed in the following table.

Table 11: Imports from Japan in thousands USD

Imports from Japan in thousands USD					
	2007	2008	2009	2010	2011
World	622,243,336	762,533,921	551,984,751	692,620,567	854,626,361
Ecuador	106,281	107,116	109,244	401,977	348,854
Participation %	0,02%	0,01%	0,02%	0,06%	0,04%

Source: BCE, Central Bank of Ecuador Elaboration: PRO ECUADOR, Address of Business Intelligence and Investments

Author: Hermida Jaramillo Maria Daniela

Date: August 30, 2012

From the table presented above we can see that with respect to imports by Japan from different countries of the world, Ecuador's participation is minimal with a percentage not exceeding 11% in any of the years analyzed; it is for this reason that we show that it is necessary to review the export supply of Ecuador to Japan and consider strategies.

The Central Bank of Ecuador analyzed the most promising products for exporting to Japan through developing a matrix with four quadrants that indicate its competitive position.

1 Optimal situation: In terms of the defined indicators, the positioning is favorable and the efficiency is high.

2 Lost opportunities: In this case, while positioning is favorable, the efficiency is classified as low. (it is necessary to invest promotional events).

3 Vulnerability: This is a situation in which the imports of a product by the investigation have not grown at the same rate as total imports, but the Ecuadorian products, have managed to maintain or increase their participation in them, displacing competitors.

4 Withdrawal: In this situation, the importable goods consumption grows less than the total and at the same time, Ecuadorian products are displaced by the products of other countries.⁶⁶

Within these four quadrants, it is a classification that includes the following categories:

Stars: to indicate a product which is located in an optimum or good position.

Dilemmas: to indicate a product which is considered as an opportunity that is being lost.

Cows: to define products that present certain vulnerabilities.

Port weight: to indicate products that should be moved.

From this matrix, the results showed the following:

Table 12: Potential products that are exported to the market of Japan.

Potencial products that are exported to the market of Japan.		
Subheading	Description	Valuation
030379	Other fish, frozen, excluding fillets, livers	Dilemmas
051191	Other products of fish or crustaceans	Dilemmas
060390	Flowers and flower buds for bouquets or for dry ornaments	Dilemmas
210111	Extracts, essences and concentrates of coffee base	Dilemmas
320300	Dyestuffs of vegetable or animal	Dilemmas
030342	Frozen yellowfin tunas	Stars
030344	Big eye or bid eye	Stars
030613	Shrimp, prawns	Stars

⁶⁶ Pro Ecuador Ecuadorian Institute of Export and Investment. Address of Business Intelligence and Investments. Japan's trade tab. available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2012/08/PROEC-FC2012-JAPON.pdf>

060491	Parts of plants without flowers or buds for bouquets or dry	Stars
071080	Other vegetables	Stars
160419	Preparations and Other fish preserved whole or in pieces	Stars
180310	Cocoa paste not defatted	Stars
200799	Other compotes, jams, jellies, purees and fruit pastes	Stars
200899	Other prepared fruits or canned, fresh or in syrup	Stars
200980	Flour, and pellets of fish, crustaceans or mollusks Stars	Stars
420291	Other suitcases and trunks of leather	Stars
440122	Other woods in chips or particles	Stars
440839	Other sheets for veneer and plywood tropical	Stars
442010	Statues and other wood ornaments	Stars
481910	Paper boxes or corrugated cardboard	Stars
611011	Wool sweaters	Stars
650200	Helmets, hats	Stars
650400	Hats and other headgear, plaited or made by assembling strips (straw shawl)	Stars
650590	Other hats and point headgear, lace, felt	Stars
760200	Aluminum, Waste and scrap	Stars
960630	Button molds and other parts of buttons	Stars

Source: Center of International Commerce Trademap

Elaboration: PROECUADOR Address of the Business Intelligence and Investments

Date: August 31, 2012

After analyzing this table we can clearly deduce that products will form part of the new exportable Ecuador and we can see those who have a greater potential of being sold to Japan. All those products marked as "star", are those that currently have great potential and in which much attention should be paid in addition to the implementation of strategies to increase their export.

On the other hand, there are products in the category "dilemmas" because these are products that were once stars but for certain circumstances, such as the lack of diversification of Ecuadorian export products, have moved to a lower category, which indicates that they are losing their opportunity to increase the level of sales and are therefore vulnerable products upon which strategies should be worked to reinsert them into the Japanese market.

Of all the analyzed, I would say that the export supply from Ecuador to Japan is basically fresh fruits and vegetables, dried or processed with low added value, as well as aquaculture products, especially shrimp and organic products of animal origin.

Given the importance of Japan as a food importer, it would be beneficial for Ecuador to diversify its exports, taking into consideration that the Generalized System of Preferences of Japan has been extended from March 2010, for an additional ten-year period. Some of the items that have been detected that have possibilities of being placed in the market are: vegetables and grains, onions, cabbage, carrots, asparagus, broccoli, soybeans, beans, garlic, mushrooms, among others.

Among the frozen products are: potatoes, sweet soy bean, beans, snow peas, green beans, sweet corn, spinach, asparagus, cauliflower, broccoli, and carrots.

Fruits: principally melon, watermelon and mangoes; also fruit juices and beverages: orange, grapefruit, lemon, pineapple, lime, coconut, apple and tropical fruit blends. In addition, dried fruits.

Fish and Seafood: shrimp, tuna/bonito, salmon/trout, crab, eel, squid, billfish, shark fin, jellyfish, clams, etc.⁶⁷

⁶⁷ Report on Ecuador-Japan trade relations Iberoamerican Observatory of the economy and society of Japan. Vol 1, N. 0 (September 2007). Entered on: August 28, 2012

Certain textiles and footwear products.⁶⁸

The efforts to introduce these products have been developed through systems and programs like:

Program to promote organic food industry in South America-JETRO.: This program has the support of JETRO (Japanese External Trade Organization) that seeks to promote South American imports of organic products to Japan.⁶⁹

The program is to present South American products to importers and Japanese distributors; provide market information to exporters and find South American trading partners.⁷⁰

Generalized System of Preferences of Japan: The primary preferential mechanism which can use Ecuadorian products in the Japanese market is called the Generalized System of Preferences (GSP). This mechanism, originally driven by UNCTAD, aims to contribute to the economic growth and development of the exports of developing countries.⁷¹

Ecuador, as a beneficiary of the GSP scheme of Japan, is entitled to tariff reductions, including duty-free treatment for products covered under this scheme. The list of included products is limited, generally including industrial products, agricultural, and fishery, and is subject to annual review. On the other hand, there are a number of limits for different products or groups of products considered sensitive, so that their import doesn't threaten domestic production.⁷²

In general terms, the criteria Japan applies for the inclusion of countries in its GSP scheme,

⁶⁸ Report on Ecuador-Japan trade relations Iberoamerican Observatory of the economy and society of Japan. Vol 1, N. 0 (September 2007). Entered on: August 28, 2012.

⁶⁹ Report on Ecuador-Japan trade relations Iberoamerican Observatory of the economy and society of Japan. Vol. 1, N. 0 (September 2007). Entered on: August 28, 2012

⁷⁰ Ibidem

⁷¹ Ibidem

⁷² Ibidem

are as follows:

- The economy of the country should be under development
- The country should be a member of UNCTAD
- It should have its own tariff and organized system of foreign trade
- It should request to qualify for a special benefit, such as exemption from customs taxes.
- It should demonstrate the ability to provide items for the Japanese market from its territory.

It is important to mention that on December 13, 2000, the Board of Tariffs in Japan, after reviewing the Generalized System of Preferences (GSP) (Japanese), which expired on March 31, 2001, reported on the need to extend the period of application of Japanese GSP for an additional ten-year period, as well as to expand the list of products with special treatment for the least developed countries (FAQ's), of which Ecuador is part of.⁷³

Among the reasons argued for renewal are:

- (1) The Japanese GSP has contributed to the promotion of exports as well as it has increased export earnings of developing countries;
- (2) There is a general advice from the international community in the sense that GSP should be maintained, and;
- (3) The betterment of market access for LDC's is one of the common issues that should be discussed and addressed by the developed countries, including Japan.

⁷³ Report on Ecuador-Japan trade relations Iberoamerican Observatory of the economy and society of Japan. Vol. 1, N. 0 (September 2007). Entered on: August 28, 2012.

Extension of the period of effectiveness of the Japanese GSP

The period of effectiveness of the Japanese GSP has been extended for 10 more years, until March 31, 2011. It is necessary to saturate a larger universe than 200 items and sub items and 16 chapters of products that fall within the Japanese GSP, Ecuador uses only 3% of total preferences granted.⁷⁴

It should be noted that many of the products hosting the GSP are products that Ecuador exports but with different processing, therefore do not fall within the tariff headings of the preferences. A change in the processing of Ecuadorian products could open the Japanese market.

However, access to this market will not be easy because countless requirements and duties must be paid. Among these are (see appendix).

3.4 EXPORTABLE PRODUCTS FROM JAPAN TO ECUADOR

Among the products that Ecuador buys from Japan, we have 10 main products imported from Japan up to May 2012 and their respective percentage of participation. The main imported products from Japan are mostly of vehicles, all kinds of features and laminates.⁷⁵

⁷⁴ Pro Ecuador Ecuadorian Institute of Export and Investment. Address of Business Intelligence and Investments. . Japan's trade tab. available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2012/08/PROEC-FC2012-JAPON.pdf>. Accessed August 31, 2012.

⁷⁵ Pro Ecuador Ecuadorian Institute of Export and Investment. Address of Business Intelligence and Investments. Japan's trade tab. available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2012/08/PROEC-FC2012-JAPON.pdf>. Accessed August 31, 2012.

Table 13: Main products imported from Japan to Ecuador.

In thousands of dollars FOB			
Subheading	Description	2012	Participation
8703239080	Camper Tourism Vehicles	42,578	15,07%
704211080	In CKD Motor Vehicles for the transport of tourists.	25,741	9,11%
8706009290	Chassis for vehicles with weight above 6.2 ton	15,111	5,35%
8704229090	Others Motor Vehicles for the transport of goods	14,045	4,97%
8704230090	Others - Motor vehicles for the transport of good with weight above 6.2	13,664	4,84%
8704219090	Others in CDK - Motor Vehicles for the transport of goods.	11,512	4,07%
8703900091	Others - Tourism vehicles and others	11,313	4,03%
8704222090	Superior to 6,2 tons – Vehicles for the transport of goods.	10,258	3,63%
8703231080	In CKD – Vehicles for tourism and others.	10,155	3,59%
7208399900	Other - Flat-rolled products of iron or steel.	9,032	3,20%
	Other subheadings	119,068	42%
	TOTAL	282,537	100%

Source: Central Bank of Ecuador, www.bce.fin.ec

Elaboration: PRO ECUADOR, address of Business Intelligence and Investments

Date: September 11, 2012.

As we can see in the table above, most of the products that Ecuador buys from Japan are tourism vehicles and vehicles for the transport of goods, representing high percentages in terms of imports by Ecuador. If these items are higher than the items shown on the revenues of imports by Ecuador from Japan, it is the reason for a negative balance in this business relationship.

So far, Ecuador has not signed any free trade agreement with Japan and for this reason the Ecuadorian products only benefit in Japan by the clause of the Most Favored Nation.⁷⁶ It invites us to think where our path should go, if we should isolate ourselves or throw ourselves into the globalized world full of high-level trade expectations for a resource-rich country like ours.

⁷⁶ Pro Ecuador Ecuadorian Institute of Export and Investment. Address of Business Intelligence and Investments. . Japan's trade tab. available at: <http://www.proecuador.gob.ec/wp-content/uploads/downloads/2012/08/PROEC-FC2012-JAPON.pdf>. Accessed August 31, 2012.

CONCLUSIONS AND RECOMMENDATIONS

Japan is one of the leading importers of goods and raw materials; it represents for Ecuador the most important commercial place in Asia.

In Japan only 15% of land is arable, which could become an opportunity for an agricultural country like ours.

Japan exports 60% of agricultural products such as potato, corn, potato, and a 100% in meat, products that are made in Ecuador.

Japan exports more than 50% in raw material especially from China.

The actual business relationship between Ecuador and Japan is almost nonexistent, due to the fact that no commercial treaty has been signed between the two countries.

They maintain the relationship that exists only because both are members of the WTO in a way which has allowed some relationship.

In 2005, Ecuador exported to Japan a total of USD 73.08 million dollars, ending in 2011 with an amount of USD 349 million.

The export of marine products has been increased such as yellow fin tuna and fish meal that are the products that have become stars.

In 2011 Ecuador closed the cycle with a total of USD 660 million in imports, which implies a negative balance of USD-311 million, Japan has a trade surplus in a ratio of 4-1.

In total items, the income Ecuador would receive from selling these products is much less than the cost it would spend to buy items as detailed in Chapter 87, those are very costly, as they are basically technology.

Exported food products do not exceed the number of six: broccoli, cauliflower, canned fruits, bananas, cocoa, and fish.

Ecuadorian exporters are limited to supply the domestic market and barely enter primary products to the United States representing 42% of our exports.

The Ecuador-Japan trade balance during the reporting period has always been negative.

Fishmeal, and yellowfin tuna have become the star products into the Ecuadorian export supply for the period 2005-2011.

Banana and cocoa have become the call missed opportunities in the period analyzed, due to lack of support for the small farmers in Ecuador, and the natural phenomena arising in Japan, the tsunami. It resulted in budgets that reduced exports of these products.

RECOMMENDATIONS

Become part of the elite business group where Japan purchase from through the signing of a Free Trade Agreement.

Enter to the Japanese market in which China and the U.S. belong as Japan's major trading partners through the promotion of value-added products.

Training new Ecuadorian entrepreneurs with the necessary foundation to negotiate in Japan considering its cultural and trading strategies, as well as respecting and considering of their values and customs.

Develop a strong business relationship based on the exchange of labor and raw materials from that country lacks, and which it would be desirable for its lower cost, with technology and incentives for investment in developing countries as our country.

Strengthen the export of products as bananas(for 2005 begins with an export that generates an amount of USD 50.57 million dollars to end in 2011 with a total of USD 12.8 million; showing a decline in sales).

Increase the number of subheadings that are exported, it means diversify the Ecuadorian exports.

Maximize the General System of Preferences granted by Japan to Ecuador in order to obtain the 150 tariff benefit because Ecuador has to obtain a 3% increase to at least 25% by 2012.

Putting more emphasis on the export of products such as yellowfin tuna or fish meal for the year 2011 totaled USD 12.8 million and USD 2.54 million in U.S. dollars respectively and its derivatives push both had in the last period of analysis and that meant for Ecuadorian

exports in recent periods analyzed a total of 10.42% and 16.4% in relation to total exports made by Ecuador.

Eliminate the call missed opportunities such as cocoa and bananas through the use of the clause of the most favored nation and GSP.

ANNEX

ANNEX 1: COOPERATION AGREEMENTS MADE BETWEEN ECUADOR AND JAPAN

1- *Cooperation Agreement for demining, energy, culture and works*. Joined March 17, 2010 between the governments of Ecuador and Japan respectively in order to introduce a clean energy generation system of solar electricity in the amount of 9.5 million dollars. This agreement was very important because it was directed mainly at the removal of mines in the border area of the country.⁷⁷

In these types of cooperation agreements, which are the main agreements between Japan and Ecuador, Japan was the country to donate and Ecuador the beneficiary; so for example, in this signed treaty, Japan has donated from the date of subscription to this day a total of 20 million dollars that were used for activities directed towards the removal of explosive mines on the border between Ecuador and Peru, because the mines have been the cause of injury, terrible accidents, mutilations and even loss of life of Ecuadorians and Peruvians.

2- *Grant Cooperation Agreement*, signed August 29, 2005, with the aim of contributing to the promotion of the effort adjust to the structural economy of Ecuador and international debt..⁷⁸

3- *Cooperation Agreement for the Agricultural Sector*, signed August 2007, with the objective of donating to the Republic of Ecuador 6,500 tons of fertilizer worth \$ 3.7 million for the benefit of small Ecuadorian farms.

⁷⁷ ECUACIER. Regional Energy Integration Commission. Article in the newspaper El Expreso. Japan and Ecuador agree to demining cooperation. (Accessed June 15, 2012). Available at: <http://ns1.ecuacier.org/index.php?option=11598:Japon-y-Ecuador-acuerdan-cooperacion-para-desminado-energia-cultura-y-obras&catid=72:noticiasnacional&Itemid=119>

⁷⁸ Article from the Universidad Tecnológica Equinoccial. Prospects for trade relations between Ecuador and Japan. February 2008. (Accessed June 15, 2012). Available at: www.ute.edu.ec

The agreements for the benefit of SME's have been several:

4-Donation Agreement for 500 million yen invested for the purchase of raw materials in the year 2006. Within this agreement it was determined that the maximum amount of donation by individual project will be \$ 50,000, while the maximum amount of donation by collective project will be \$ 200,000. Eighty percent of these funds should be earmarked for promotion and development projects, while the remaining 20% is used for social development projects for the benefit of SME's.⁷⁹

As we can see Japan's investment in this sector has been positive, but in current years, specifically since 2007, this investment has come down in the year 2007 with a total of 0.

On the other hand, it is necessary to note that Japan is a country that prioritizes investments in populations with high rates of poverty and unmet basic needs in the areas of drinking water and basic infrastructure; it is for this reason that one of the cooperation agreements signed with Ecuador was the Water and Sanitation Project in the city of Azogues with approximately U.S. \$ 8 million.⁸⁰

5- Within the cultural and educational aspects, Ecuador and Japan have signed a cooperation agreement based on providing benefits to students seeking access to international study through 246 scholarships granted by Japan, through Japan International Cooperation Agency for development (JIAC). These scholarships were awarded to students interested in studying agriculture with zero emission and environmental systems for the rural area.⁸¹

⁷⁹ Article from the Universidad Tecnológica Equinoccial. Prospects for trade relations between Ecuador and Japan. February 2008. (Accessed June 15, 2012). Available at: www.ute.edu.ec

⁸⁰ Ibidem

⁸¹ Article from the Universidad Tecnológica Equinoccial.. Prospects for trade relations between Ecuador and Japan. February 2008. (Accessed June 15, 2012). Available at: www.ute.edu.ec

6- *In the field of sports.* An Agreement was signed between the governments of Japan and Ecuador with the objective of providing sports equipment for the province of Pichincha in August 2003.⁸²

7- *Education Agreements:* Ecuador's government performed several steps in the Japan International Cooperation Agency for viable research projects in coordination with Ecuadorian universities with the aim of having Japanese teachers integrate into Ecuadorian universities through cooperation agreements. This effort was made in the year 2007 and it is currently being managed by Japan.

8- *Grant Agreement for the agricultural sector:* signed March 15, 2007, Japan donated to Ecuador the sum of 450 million yen that are used for the performance of food production projects, the same will be implemented by farmers of limited economic resources.

Such agreements within the agricultural sector are particularly important because these resources can be used to implement better technology in agricultural production processes which would help Ecuador to improve the quality of their products and their possession in market; bearing in mind that Japan is a producer of advanced technology in terms of computer electronic equipment, machinery, vehicles, the government of Ecuador should point to create agreements or conventions that include donations such as machinery to improve production processes, and computer equipment to improve both primary and secondary education.

9- *Cooperation Agreements for Tourism:* Japan contributed to financing the construction of an international bridge Macara, bordering with Peru, in the amount of 10 million dollars, which was signed in the year 2007 with the objective of creating a more active trade zone with Peru, thus ensuring a bi-national integration.⁸³

⁸² Ibidem

⁸³ Article from the Universidad Tecnológica Equinoccial.. Prospects for trade relations between Ecuador and Japan. February 2008. (Accessed June 15, 2012). Available at: www.ute.edu.ec

To make the actions described above a reality that can be felt, it will be required the coordination of institutions such as the Ministry of Foreign Affairs and Foreign Trade, SMEs, and many others. In addition to all Ecuadorians, in order to deploy representatives throughout Asia that serves as liaisons for any business opportunity that may arise and help our country to grow and become known internationally.

ANNEX 2: PHYTOSANITARY REQUIREMENTS FOR FOODS TO ENTER JAPAN

Japan, still considered one of the most demanding markets in terms of the regulations to ensure certification, standards and safety of imported products it has different bodies and agencies that regulate, oversee, and execute compliance.

Ministry of Agriculture, fishing and forestry:

It is committed to the management of the affairs relationships with agriculture, forestry and fishery products, covering the production and importation of these products and even their consumption.

Ministry of Agriculture, fishing and forestry:

It is responsible for developing policies that provide safety and activity to people's daily life.

Ministry of Labor, Health and Welfare Committee for Food Safety:

Organization carrying out the assessment of the food consumed in Japanese territory, and is independent of the risk management organizations, such as the Ministry of Agriculture, Forestry and Fisheries, the Ministry of Health, and Labor and Welfare.

General Requirements for the Exportation of Food:

Import procedures under the Food Sanitation Law:

To ensure the health of imported foods, and related products, Article 27 of Law Degrees Food Sanitation requires importers to submit notification prior to import. According to the article, "Those who wish to import food additives, food, equipment, or containers / packages for sale or for use in food business, should notify the Ministry of Labor, Health or Welfare on each occasion." This law also indicates that these products could not be

subsequently for sale if they have not had this import notification. First, you must download a Notification Form for food imports (see the model in Annex 1). The same as, once filled out, must be sent to a Quarantine Station of the Ministry of Health, Labor and Welfare, in which food sanitation inspectors will examine it, along with the other documents, to verify compliance with the law.

Import notification must be submitted before the end of the clearance procedures. If a load were to be submitted without import notification, it could not be subsequently used in any way for commercial or professional ends.

The process of Import notification

- 1.** Download the notification form for food imports, to give notice of importation.
- 2.** Fill out the Notification Form for Importation of Foods, providing all required information. It should be noted that the importation of certain foods requires a counting with sanitary and phytosanitary certificates.
- 3.** Send the filled out notification form to the responsible Quarantine Station at the port of import. This import notification can be sent in writing or through the email, in which case the importers are required to pre-register their computer terminal with the necessary information on the Ministry of Health, Labor and Welfare.
- 4.** After submission of the notification, the products are examined by food health inspectors in quarantine station, in order determine if they comply with the specified laws. During the examination of documents, the inspector validates the following elements, based on the information reported in the notification form (also based on other data like the country, imported products, the manufacturer, place of manufacture, ingredients, and additives and manufacturing methods):
If imported food meets manufacturing standards.

If the use of additives complaints.

If it contains any toxic or poisonous substances

If the manufacturer or the place of manufacturing has a history of health problems in the past.

5. When the inspectors of the load determine that it must be inspected, they give the respective orders to carry out a final inspection of order to confirm its compliance with the Food Sanitation Law.

6. If the examination of documents and cargo inspection determined that the load is in accordance with the law, a "certificate of service" will be sent to the importer by the Quarantine Station of the Ministry of Health, Labor and Welfare, where service was initially presented, and the import will continue its course.

7. If the load does not pass inspection, the merchandise may not be imported into Japan. Quarantine Station of the Ministry will inform that the load violates the Food Sanitation Law and the importer will take the necessary measures, as directed by the station.

Health and phytosanitary requirements

JAS Certification (Japanese Agricultural Standards)

All foods, non alcoholic drinks and forestry products from foreign territories should be JAS certified to entry Japanese territories. This certification, complies with Japanese quality and production process standards. It has been created by the Ministry of Agriculture, Fisheries and Forestry of that country, the same as its standard compliance.

This is required of all products, regardless, even if they have certificates from other countries, ensuring the Japanese consumers of their quality, and helps them to make their choice.

To obtain and adhere to the JAS mark of their packages or labels, companies must be certified in their countries of origin, by a certification body accredited by the Japanese government.

The JAS Certification can be grouped in the following manner:

- 1- JAS general certification, that guarantees the quality of the products, referring to its content, composition or performance.
- 2- Specific JAS certification, that standard production processes, such as organic food or chickens are naturally developed.

The basic and most important aspects to consider in the design of packaging for fresh produce exported to Japan can be summarized in the following points:

- Prevention deformations, cracks and whatever other damage that the product could suffer.
- Protection against microorganisms that could affect the quality or level of maturation.
- Delivery information relevant to the consumer and facility of use (traceability and universality).
- Adequate design highlighting product attributes.
- Respect for the environment, avoiding the squandering of natural resources and providing facilities for the recycling of packaging.

Labeling

Japan requires that imported products meet the requirements of the Food Sanitation Law, the JAS and the Weights and Measures Act. The inclusion of these rules and standards on product labels is intended not only to provide a guarantee of quality, but also help protect

the consumer, because labels must clearly show the composition of the products, thus, providing the necessary information to shop safely.

In order to include the JAS logo on labels such certification must be obtained. The green JAS logo is organic food. In essence, JAS standards, including standards for the product and its production, are determined by the Japanese government experts and representatives of society. If a product meets the standards, it is given the certification. JAS applies to food (fishing, agriculture) and wood products, as well as their derivatives.

The label must be printed so that the ink used in the letters contrast with the color of the label. The size of the letters must be at least 8 point type and be gothic. Food additives should be printed on a separate line. When the company that labeled the product differs from the manufacturer, the label must demonstrate the name of the company selling the product and the label of the product. For imported products, the label must show the name and address of the importer. For example, the labels for spaghetti must include the ingredients (including seasonings and food additives).

Products of this type should also include preparation instructions. The label itself can give brief instructions or can direct the user to instructions included on another part of the package. Since generally the labels must be prepared in advance, it may be difficult to have a sufficient number of tags for a given manufacturing date. Thus, it allows manufacturers to put a stamp on the package with the deadline suggested to consume the product. The label should indicate where you can find the "suggested date within which the product should be consumed" on the package. The label must include the name of the manufacturer or importer.

The label for imported products of this type must also include the name of the country of origin. The Minister of Agriculture, Fishing and Forestry specifies the minimal information the label must contain, and any addition is at the discretion of the manufacturer. Thus, for example, the importer may want to include a description of the company that fabricated the product abroad or the products uses.

In addition, the label must be in Japanese and should be accurate, comprehensive and easily visible without opening the container. However, food container with a total area of less than 30 cm² can skip the label. However, food containers with a total area of less than 30 cm² can skip the label. For products, fresh, the information on the product label must include:

- Designation of product
- Weight of the contents (in grams)
- Minimum expiration date
- Name and address of the importer/distributor
- country of origin
- Method of preservation (for preserved products)
- Information about product consumption
- Ingredients
- Method of storage

Fishery products are also subject to labeling including the following information:

- The products that were previously frozen and subsequently thawed must use the word “unfrozen”
- The products that were deliberately cultivated must use the word “cultivated”

Food Additives

The Food Sanitation Law in this first chapter defines the substances used as additives in the food manufacturing process or with transformation purposes of food preservation. These include, therefore, those substances that remain in the final food products as colorants and preservatives, and substances which do not remain in the final products, such as the infiltration of support agents .

In actuality, there is a list of 345 additives designated as approved by the Ministry of Labor,

Health and Welfare, under Article 10 of Food Safety.

Regardless of the designation process described above, the ministry has decided to begin evaluating certain food additives with the intention of authorize them, despite failing to submit any request to use. These additives are those that meet any of the following rules:

- Those who have gone through safety assessments that have been completed by JECFA (Joint FAO / WHO Food Additives experts) and whose safety has been confirmed at a certain level..
- Those that are widely used in the U.S. and EU countries and the need for which is considered high.

This decision was taken within the framework of international harmonization of substances that have been internationally proven as safe and widely used in the world. This action was based on the fact that in recent years the global food distribution has increased and imports account for about 60% of the food distributed in the Japanese market.

Based on the fact that, generally, people consume food additives throughout life, in Japan it is considered that they should be subject to strict regulations. All designated chemicals, with some exceptions, and some natural additives or already existing are currently covered by these specifications and / or standards, including specifications regarding the chemical and physical characteristics, standards for manufacturing, storage and use. These standards, together with the label and storage, are published in an official collection of food additives, entitled "Specifications and standards for use of food additives in Japan."

Canned Food

In this area, as in the levels of additives and chemicals permitted, developed in this paper. It is the Contract Research Foundation for chemicals of food in Japan, the agency responsible for issuing the standards to be met by food entering and marketed in that country. They can be designed in such a way that copper, lead or alloys contain no other contaminants.

- Content of lead allowed in tin metal can: less than 5%
- Content of metals that can be used for manufacture packages of canned food:
 - Lead: less than 10%
 - antimony: less than 10%
- Welding to use for the manufacture or repair of encases and packaging:
 - Lead: less than 20%, but when applied to the outside of cans, 98%

Maximum permitted levels of chemicals and contaminants

The Minister of Labor, Health and Welfare, through the Department of Food Safety, introduced in 2006 a system of positive lists of remaining agricultural chemical residues in foods. Agricultural chemical residues include pesticides, food additives and veterinary drugs.

It provides the following:

A certain limit which should not pose adverse health effects, hereinafter called "the uniform limit".

To designate substances that carries no adverse health effects, hereinafter as "prohibited substances".

Maximum levels of chemical substances that can remain in the food in order to protect public health and the proper application of positive list system.

Maximum Residue Limits (MRL) The Foundation for the Investigation of Chemical Products in Japan provides a complete list of waste chemicals that are currently allowed, classifying them according to the following types of foods that may be contained:

- Crops
- Animals, including fish
- Processed foods

-Mineral waters

Sanitary Requirements and phytosanitary specifics for agricultural and agro-industrial products:

Fresh Products - In actuality, Japanese authority prohibits the import of those plants that, if they enter the country and are disseminated, would cause serious damage to local agricultural products. Also included plants that host diseases and pests that have not yet occurred in Japan and whose presence would hardly be detected by an import inspection.

It also prohibits the importation of plants from areas affected by outbreaks of such diseases and pests and the plants that cover these regions. The main diseases and pests that lead to the ban on the import from Peru: Mediterranean fruit fly; the apple moth; the cystic potato nematode, the white cystic nematode and the rice stem nematode.

As mentioned above, the vegetable product import process starts with the filing out of an application for import inspection, that must be accompanied by a vegetable inspection certification (Phytosanitary Certificate) issued by the government of the exporting country, or a copy of the certificate. The certificate must contain the results of inspections by the government of the exporting country, in specifying that the plants are not affected by disease or pests.

Since it is not possible to obtain a phytosanitary certificate in those exporting countries that have no governmental plant quarantine facilities, the products of these countries will be subject to an especially careful inspection.

There is also a list of pests that may be contained in some plants, which should be subject to growth control in exporting countries to be allowed admission to Japan. In the case of Peru, these pests are sugar beet nematode, false root-knot nematode, nematode of bananas and Stewart's wilt bacterium.

Products that must be quarantined They are subject to quarantine all plants and plant products, saplings, ornamental plants, cut flowers, bulbs, seeds, fruits, vegetables, grains, beans, plants or plant products for use as animal fodder, crops of spices, herbs, among others.

However, not be subject to quarantine are elaborate items, such as:

Wood products, preserved wood, bamboo products and manufactured goods such as furniture and Ratan utensils and cork bags of jute, cotton, pumpkin, paper, textiles such as lace and nets, raw materials for textiles, with inclusion of raw cotton and previous articles if they are not used as packaging for plants.

Processed tea, dried hop flowers, bamboo shoots, fermented vanilla beans.
Plants preserved in sulfurous acid, alcohol, acetic acid, sugar and salt, apricots, figs, kiwis, plums, pears, dates, pineapple, banana, papaya, grapes, mangoes, peaches and dehydrated American raspberries.

Granulated coconut
Dehydrated American Spices in hermetically sealed packages for retail sale.

Import Inspections The inspection will be carried out at a designated site by the plant quarantine officer with authority at the airport or seaport, through which the shipment entered Japan. Inspection of plants entering the country by mail takes place in those post offices that implement custom procedures. As the seeds and saplings may be contaminated with viruses that cannot be detected during normal import inspection, they are sent to a government isolation nursery, after the inspection at the time of importation. In such installations, plants are allowed to grow for a fixed period, during which they are subject to a thorough inspection. Imported plants that are affected by diseases or pests will be disinfected, either at the time of the import inspection or during the isolation period. If there is no method available to completely destroy the disease or pest, the plant will be set aside and considered for re-exportation.

Organic Foods

Although many of the organic food products in South America are certified bodies of Europe, the United States or their own countries, to sell organic foods in Japan have to again obtain the certification of this country, according to their appropriate certification. In effect, in order to make an export of organic food to Japan, it is necessary to attach the JAS organic food brand of the country of origin (exporting country). To attach this brand, the two companies, both foreign and Japan, must obtain certification for organic food JAS. It is important to note at this point that while organic certification permits marketing of the product as such, in order to be granted, the croplands are analyzed, not the processing plant or the product itself.

Regarding the U.S., EU countries and Australia, other options exist for export, since the Ministry of Agriculture, Fisheries and Forestry considers them as countries whose regimens are equivalent to JAS standards.⁸⁴

Japanese Customs (Japanese Customs) are considered the gateway to the external trade of Japan. The main function is to collect customs duties, consumption and other taxes on imported goods, in addition to facilitating and promoting international harmony.

The rest of Japan estimates that the amount collected through its management is 10% of the annual revenue from Japan, raising nearly 5 trillion yen. There are 68 Customs offices across the country as of July 2009, providing customs services in remote areas in each of the jurisdictions between the host Customs office, sub-branches and guard post.

The customs checkpoints or guard, monitor and control the entrance of ships, the cargo delivery and receipt. Nationally, there are 10 checkpoints and 117 sub-branches from as of July 2009. Japanese Customs designed the harmonized classification according to the Customs Tariff Law, establishing a temporary rate and a general tariff for certain products.

⁸⁴ Article from the Universidad Tecnológica Equinoccial. Prospects for trade relations between Ecuador and Japan. February 2008. (Accessed June 15, 2012). Available at: www.ute.edu.ec

Thus, when the rate of the WTO Customs or Economic Partnership Agreement (EPA) is less, they apply the rate indicated before the General Tariff Customs of Japan.

The customs rate applied in Japan is the lowest of the WTO for selected developing countries. The Customs Tariff Act and the Temporary Tariff Measures Law also provides the Prime Rate (GSP) for developing countries and the Rate of the Most Favored Nation (MFN), for all member countries of the WTO, is applied to certain products.

Most fees are assessed ad valorem taxes, which apply to the customs value of imported goods.

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